

## Inflation (an unwelcome guest) joins the party

The strong development in global stocks came to an abrupt halt towards the end of the quarter. Higher energy prices, a tight labour market, and continued supply bottlenecks increased the likelihood of longer lasting inflation pressure. As mentioned in previous reports, we have adjusted the SKAGEN Vekst portfolio towards companies that would not suffer in an environment with higher inflation. This strategy served the fund well last quarter, leading to a decent absolute and relative return for clients.

### Contributors and detractors

Our best performer was the Danish pharma company Novo Nordisk. Following the exceptionally strong launch of its new obesity drug Wegovy in the US, the market is finally starting to realise the huge potential of Novo's innovative obesity business. Another strong performer was the Norwegian renewable company Bonheur. As power prices continue to climb, the company stands to benefit on several fronts. In the short term, higher energy prices boost earnings in its renewable energy business. The ongoing mini energy crisis has also highlighted the need for additional green energy investment, which should benefit the company's wind service business in the long term. Our exposure to the natural gas market through Russian Gazprom also continued to pay off. The stock was helped by ever higher gas prices as buyers are scrambling to replenish historically low inventory levels before the onset of winter. With Gazprom's improved dividend policy, investors can look forward to the higher earnings translating into a significantly higher dividend.

The continued turmoil in the Chinese market took its toll on our Chinese holdings this quarter, with Alibaba and Ping An Insurance being the two biggest detractors to the fund's absolute return. While Alibaba has found itself in the eye of the regulatory storm, Ping An has suffered from lower-than-expected growth due to an unexpected fall in agent numbers. Developments throughout the year have been fundamentally negative for both stocks, but we see the drop in share prices as an overreaction. We

therefore used the weakness to increase our exposure to Chinese-related stocks in general, and Ping An Insurance in particular.

### Portfolio activity

We added the Danish pharma company Lundbeck to the portfolio during the quarter. The company focuses on therapies for disorders of the central nervous system such as depression and schizophrenia. The stock has been very weak this year, following disappointing pipeline news along with lower-than-expected growth for its newly launched products during the COVID pandemic. At the current share price level, the market does not place any value on its pipeline of potential new products. We think this is overly pessimistic and see the completion of the Rexulti trial for the treatment of agitation in relation to Alzheimer's next year as a significant trigger. We also expect a re-acceleration of Lundbeck's core products as COVID restrictions ease. If anything, we think the market for mental illnesses has grown after a challenging and stressful pandemic.

Another new position is the Chinese oil company CNOOC. At the current share price, we get a direct dividend yield of 10%. As the company is entering a period of production growth, combined with lower investment intensity, we expect both earnings and dividends to increase meaningfully from current levels. We also used the weakness in Chinese-related stocks to add to our position in CK Asset Holdings. The company has spent the past few years adding exposure to more stable infrastructure investments outside China and Hong Kong.

We also added to our position in Aker BP at the beginning of September as the stock had fallen back despite strong energy prices. We think that the market underestimates the company's meaningful exposure to the current high gas prices.



Photo: Unsplash

### Key sells

To fund these new positions, we exited the Swedish forest industry company Holmen as the stock reached our target price following strong performance. The fund received shares in the e-commerce company Zalando as Kinnevik distributed its 21% stake to its shareholders. Since we believe the Zalando stock is fully valued, we sold this position.



Photo: Shutterstock

### Outlook

It is important to remember that the strong performance in stocks over the past 10 years has been very unevenly distributed. This has resulted in a situation where quality growth stocks trade at historically high valuations, while more capital-intensive industries often trade at more reasonable valuations. An important driver behind this development is the dramatic fall in long-term interest rates we have seen in the period. While we do not claim to predict the future, we think the odds of sustainably higher inflation and higher interest rates have risen significantly this year. As current valuations across the stock market still reflect an almost 100% belief in permanently low interest rates, we are very comfortable with our current exposure towards companies that do well in an environment with higher inflation and interest rates – such as financial and energy related companies. When interest rates started moving up in September, SKAGEN Vekst beat the overall benchmark by almost 5% in the month, highlighting the current extreme positioning in the market towards permanently low interest rates.

SKAGEN Vekst invests in companies that are attractively priced relative to expected profitability and growth. The majority of the fund is invested in the Nordic region and the remainder worldwide. The objective is to provide the best possible risk adjusted return. The fund is suitable for those with at least a five year investment horizon.

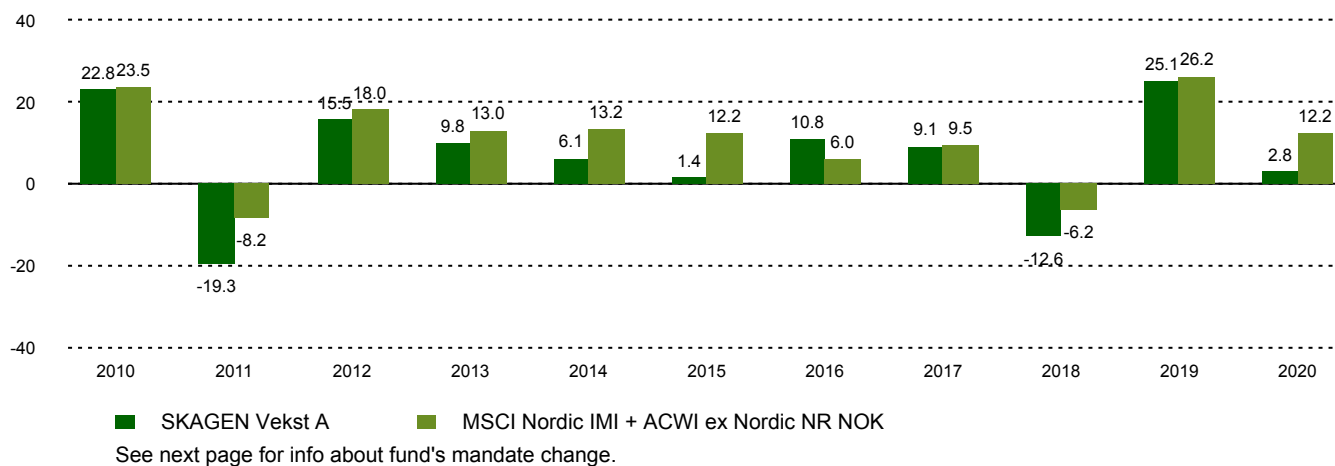
## Historical performance (net of fees)

Period	SKAGEN Vekst A	Benchmark index
Last month	1.3%	-3.3%
Quarter to date	2.9%	1.5%
Year to date	24.4%	18.0%
Last year	46.2%	29.8%
Last 3 years	10.9%	13.5%
Last 5 years	10.4%	12.6%
Last 10 years	9.5%	13.1%
Since start	12.9%	10.2%

## Fund Facts

Type	Equity
Domicile	Norway
Launch date	01.12.1993
Morningstar category	Global Large-Cap Blend Equity
ISIN	NO0008000445
NAV	348.66 EUR
Fixed management fee	1.00%
Total expense ratio (2020)	1.25%
Benchmark index	MSCI Nordic IMI + ACWI ex Nordic NR NOK
AUM (mill.)	861.37 EUR
Number of holdings	51
Portfolio manager	Søren Christensen

## Performance last ten years



## Contributors in the quarter



### Largest contributors

Holding	Weight (%)	Contribution (%)
Novo Nordisk	8.46	1.31
Bonheur ASA	4.24	0.91
Gazprom PJSC	2.33	0.77
FLEX LNG Ltd	2.05	0.53
Nordea Bank Abp	3.02	0.50



### Largest detractors

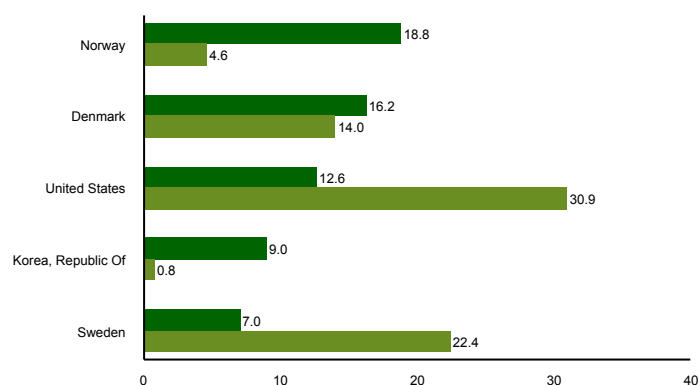
Holding	Weight (%)	Contribution (%)
Alibaba Group Holding	1.65	-0.67
Ping An Insurance Group	2.10	-0.66
Hyundai Motor Co	1.69	-0.36
Samsung Electronics Co	3.79	-0.34
CK Hutchison Holdings	2.42	-0.30

Absolute contribution based on NOK returns at fund level

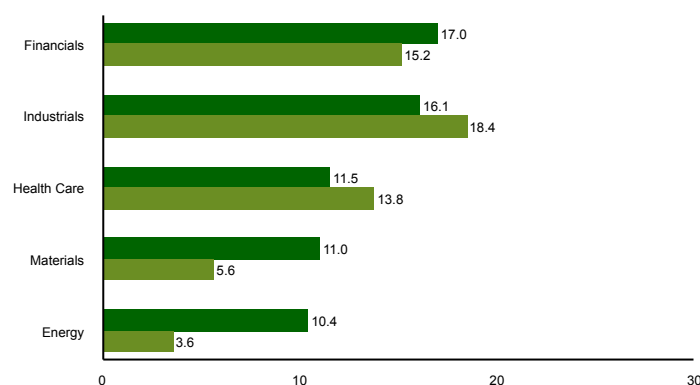
## Top ten investments

Holding	Sector	Country	%
Novo Nordisk A/S	Health Care	Denmark	8.4
Bonheur ASA	Industrials	Norway	4.3
Yara International ASA	Materials	Brazil	3.9
Samsung Electronics Co Ltd	Information Technology	Korea, Republic Of	3.6
Citigroup Inc	Financials	United States	3.4
Nordea Bank Abp	Financials	Finland	3.3
Telenor ASA	Communication Services	Norway	3.0
Essity AB	Consumer Staples	Sweden	2.8
Sberbank of Russia PJSC	Financials	Russian Federation	2.7
Broadcom Inc	Information Technology	United States	2.6
Combined weight of top 10 holdings			38.1

## Country exposure (top five)



## Sector exposure (top five)



■ SKAGEN Vekst A ■ MSCI Nordic IMI + ACWI ex Nordic NR NOK ■ SKAGEN Vekst A ■ MSCI Nordic IMI + ACWI ex Nordic NR NOK

## Contact



+47 51 80 37 09



contact@skagenfunds.com



SKAGEN AS, Post Box 160, 4001, Stavanger, Norway

## Important information

This report is intended for investment professionals only. The content is not to be viewed by or used with retail investors. Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as of the end of the previous month. Except otherwise stated, the source of all information is SKAGEN AS. Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skills, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. You can download more information including subscription/redemption forms, full prospectus, Key Investor Information Documents (KIID), General Commercial Terms, Annual Reports and Monthly Reports from our local websites or our local representatives. Statements reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. This report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN AS does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this report. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this report or are part of a fund's portfolio. CACEIS Ireland Limited, One Custom House Plaza, International Financial Services Centre, Dublin is the Paying Agent in Ireland.

Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its funds in Norway to investing a minimum of 50% of its funds in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than they are today. Prior to 1/1/2014, the benchmark index was an evenly composed benchmark index consisting of the Oslo Stock Exchange Benchmark Index (OSEBX) and the MSCI All Country World. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX).