SKAGEN Focus LUX B EUR

Q2 2024 Quarterly Report

All data in EUR as of 30/06/2024 unless otherwise stated

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SKAGEN

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INVESTMENT OBECTIVE

SKAGEN Focus is a high conviction equity fund that seeks to generate long-term capital growth by investing in a portfolio of global companies with a bias towards small and mid-cap companies.

The Luxembourg SICAV was launched in 2019.

FUND INFORMATION

Start date	27/09/2019
Benchmark	MSCI ACWI
ISIN	LU1932704841
Morningstar Category	Global Flex-Cap Equity
Fixed Fee	0.60%
SFDR Category	Article 8
Portfolio Managers	Jonas Edholm David Harris

Jonas Edholm & David Harris

- Jonas Edholm joined SKAGEN in January 2015
- Previously Founder and Portfolio Manager, Labrusca Family Office, Stockholm, Sweden
- David Harris joined SKAGEN in January 2015
- Previously Analyst, Labrusca Family Office

INVESTMENT COMMENTARY

SKAGEN Focus lagged the market-cap weighted global benchmark in the quarter. There are several factors which, combined, are creating the current quite extreme market environment. The equity market's obsession with the AI theme is the driving force behind the narrow and concentrated equity rally in global equity indices. Only a handful of mega-cap stocks are being propelled higher, mainly by momentum and passive index flows, which is reflected in the lack of market breadth. Valuations look especially elevated in these pockets of the global equity markets. At the other end of the spectrum, such as in large pockets of the small and mid-cap area, the recessionary environment is being severely felt and the expectation of an eventual cyclical recovery has been pushed out to 2025. The central banks' unwillingness to commit to rate cuts in the face of inflation volatility is a contributing factor.

This has given rise to an investment environment not been seen for many decades. For instance, the Russell 2000 Index in relation to Nasdaq 100 is trading at levels not seen since 1985. The global value index gave back all gains (since 2020) versus the global growth index in just the last few weeks of the quarter. Global small and mid-caps are trading at a 40% discount to large and mega caps measured on price-to-book, and a 20% discount on price-to-earnings – levels not seen since the inception of these time-series. We believe the recent headwinds for both value and small/mid-cap stocks create an interesting investment opportunity in the medium term. The narrow focus of interest leaves a large part of the global equity market ignored, which creates interesting opportunities for contrarian and price-driven investors like us.

One of the strongest contributors to fund performance during the quarter was precious metals producer Fortuna Mining. The company is finally being discovered by the market, following strong delivery in the new Segula gold asset and the generally strong performance of underlying gold and silver prices. Another strong contributor was Greek-domiciled container shipping operator Danos, which re-rated sharply towards our price target amid higher time-charter rates and speculation of a buy-out offer from its founder. On the negative side, shares of our North American lumber producer Interfor traded lower amid continued depressed lumber prices in the region, affecting its short-term profitability. We do however see a significant mean-reversion opportunity towards historical margins and substantial asset-backing from duty payments. Another weak performer was investment holding company Peugeot Invest, one of the main owners of car manufacturer Stellantis, which currently offers a historically high discount of more than 60% to its underlying NAV. Shares traded lower in the quarter mainly driven by the broad selloff in French equities, reflecting uncertainly following the call for a snap election. We see strong potential for a reduced discount cap and underlying drivers that could support a rerating.

Following a strong re-rating towards price target, Greek shipping operator Danaos, Italian truck producer Iveco and French cable manufacturer Nexans have now left the fund. We also closed our positions in car-rental company SIXT and Fortuna Mining following strong performance, as we were closing in on price target and see better risk reward elsewhere. We also sold our final shares in South Korean specialty chemicals producer Lotte Fine Chemical, as the position reached its duration limit and the investment case related catalysts did not cause the shares to rerate as anticipated. Amidst the exceptional market conditions, we continue to apply our price driven and contrarian investment process. During the quarter we initiated four new core positions and started to incubate two more. Two of the most recent additions are US specialty insurer Old Republic and Spanish listed stainless-steel producer Acerinox. Both, we believe, are below most investors' radars and trade at unwarranted discounts to fair value and peers. Old Republic is built upon several subsidiaries with expert knowledge in niche insurance markets and is also continuously adding new concepts and business lines to its corporate structure. The company's general insurance business has consistently delivered a combined ratio of around 90-91%, reflecting the above average underwriting skill and capacity. We see substantial probability for mean reversion in the title insurance business, where income has been sharply reduced as the housing market has been essentially frozen in the US since interest rates started to move higher. In the case of stainless-steel producer Acerinox, this is an investment situation anchored by a confusing stock listing in Spain, but the vast majority of the business is primarily in the US. US specialty and stainless-steel producers trade at roughly double the multiple of our recently established position. A cyclically depressed outlook in general for stainless steel and a temporary strike allowed us to enter the investment case at the appropriate price point, with the potential for the equity to double in price over the next 2-3 years.

We continue to see a substantial probability that the gap between small and mid-cap stocks and large/mega cap stocks will at least partially close, and we anticipate a similar situation for value versus growth assets over the next two to three years. The extreme investment environment outlined above, combined with the addition of new positions, has resulted in an elevated fund upside of 74% to our weighted price targets for the 49 positions in the portfolio at quarter end. 84% of the fund is currently invested in small and mid-cap stocks. The top ten holdings account for 32% of the fund and 35% of investment cases were initiated less than one year ago

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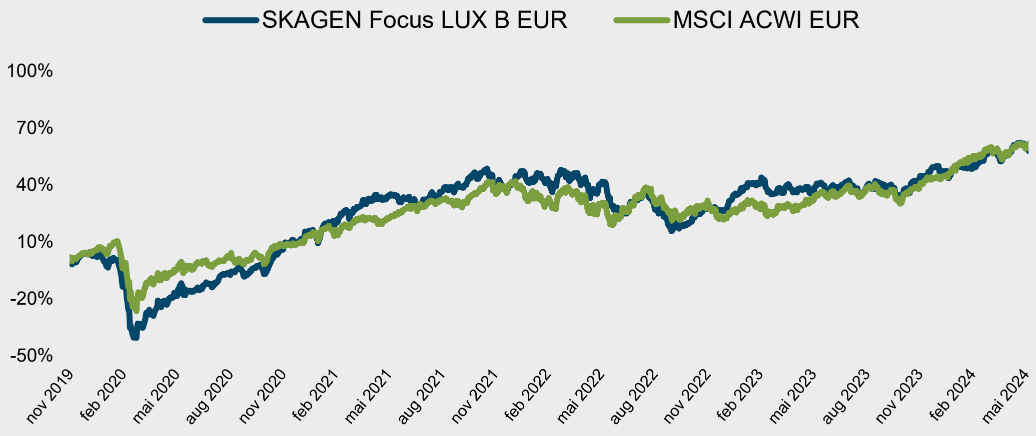
FUND PERFORMANCE

	Q2 2024	YTD	1-Year	3-Year	Since Start
SKAGEN Focus LUX B EUR	-1.4%	4.1%	12.6%	5.7%	10.1%
MSCI ACWI	3.7%	14.7%	21.5%	9.0%	11.4%
Relative Return	-5.1%	-10.7%	-8.9%	-3.4%	-1.4%



As at 30/06/2024 in EUR, net of fees
Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and management fees. The return may become negative as a result of negative price developments. There is a risk associated with investing in the fund due to market movements, currency developments, interest rate levels, economic, sector and company-specific conditions.

RISK PROFILE

We have classified this product as 5 out of 7, which is a medium-high risk class. This rates the potential losses from future performance at a medium-high level. Other risks not included in the summary risk indicator but materially relevant: Event risk, liquidity risk, operational risk, counterparty risk, derivatives risk. Be aware of currency risk. You will receive payments in a different currency, so the final return you will get depends on the exchange rate between the two currencies. This risk is not considered in the indicator shown above. This product does not include any protection from future market performance so you could lose some or all of your investment.

PORTFOLIO STATISTICS

No. of holdings	**42**
Top 10 weighting	32.2%
Active Share	100%
Turnover ratio	77%
Investment horizon[1]	2-3 years

PERFORMANCE ATTRIBUTION[2]

Largest contributors ▲

Holding	Weight	Contribution
Japan Post Holdings Co Ltd	4.2%	0.7%
Iveco Group NV	2.0%	1.9%
KB Financial Group Inc	2.9%	1.2%
Phinia Inc	4.0%	1.2%
China Comms Services Corp	2.8%	1.0%

Largest detractors ▼

Holding	Weight	Contribution
Interfor Corp	2.5%	-0.9%
Cascades Inc	2.7%	-0.8%
Nickel Asia Corp	1.4%	-0.6%
Nexity SA	0.7%	-0.6%
LOTTE Fine Chemical	1.0%	-0.5%

PORTFOLIO INFORMATION

COUNTRY EXPOSURE

	Fund	Benchmark
South Korea	18.0%	1.2%
United States	13.6%	63.5%
Canada	12.3%	2.7%
Japan	9.5%	5.1%
Germany	8.5%	1.9%
France	5.5%	2.5%
United Kingdom	5.1%	3.3%
China	3.2%	2.3%
Italy	2.8%	0.5%
Mexico	2.1%	0.2%

SECTOR EXPOSURE

	Fund	Benchmark
Materials	27.0%	4.0%
Financials	21.9%	15.6%
Industrials	18.4%	10.3%
Consumer Discretionary	15.3%	10.4%
Consumer Staples	6.8%	6.2%
Information Technology	4.5%	25.9%
Real Estate	2.5%	2.0%
Comm Services	1.1%	7.9%
Energy	0.0%	4.4%
Health Care	0.0%	10.9%

TOP 10 HOLDINGS

Phinia Inc Com	4.3%
Methanex Corp Com	3.8%
Japan Post Hold Co NPV	3.8%
Hyundai Mobis	3.5%
China Comm Service	3.2%
K + S AG -REG.SHS- SHS	2.9%
Kb Financial Group	2.9%
Cascades Inc Com Npv	2.6%
Old Republic International	2.6%
First Horizon Corp Com	2.6%
Combined Weight	*32.2%*

[1] For guidance purposes only [2] Contribution to absolute return year-to-date

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