



# SKAGEN Vekst Status Report – March 2016

The art of common sense

## Summary – March 2016 and First Quarter

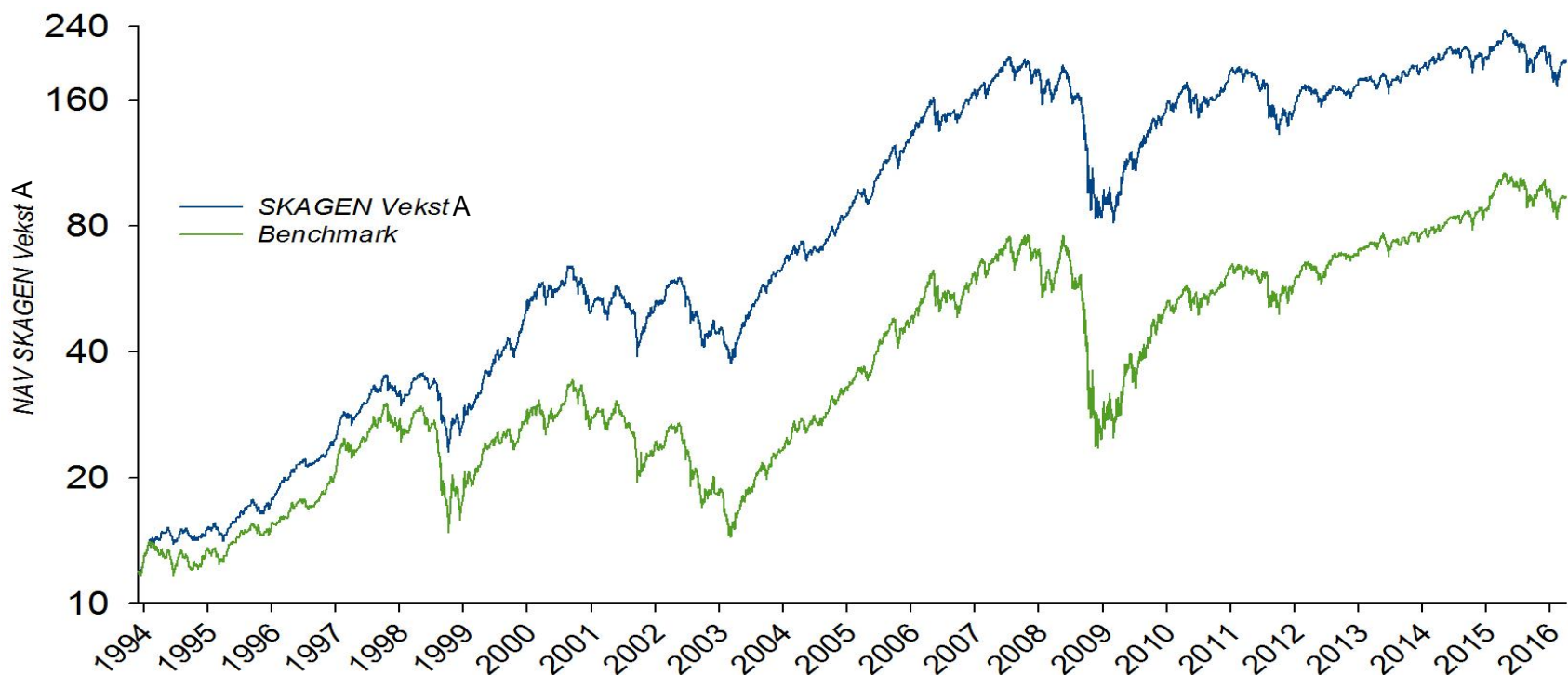
- We ventured into 2016 with cautious optimism only for this to be quickly dampened by fears of global deflation. As the quarter progressed markets stabilised and we have over the last month seen an increased focus on company fundamentals and less on movements driven by speculation and rumour.
- In the quarter SKAGEN Vekst\* delivered a negative return of -3.5% which was 1.2% better than the index. In March SKAGEN Vekst delivered a real return of 5.2% which was 2.9% better than the index.
- Measured in NOK, the largest contributors in February were Samsung Electronics, Continental and Oriflame. The largest detractors were Roche, H Lundbeck and Cal-Maine Foods.
- In March we saw a more balanced approach to global equity markets and an increased appetite for assets that could offer a real return for investors. Developing markets were once again on the radar for global investors while perceived safe havens like pharmaceuticals in developed markets had a tough month. SKAGEN Vekst sold out of two positions (B&O and Localiza) in the month and initiated one new position in the e-trading company eBay.
- SKAGEN Vekst is an active investment fund with solid foundations in SKAGEN's value based investing philosophy. We continue to buy companies we believe are undervalued and will over time provide excess returns. Currently the top 35 positions in the fund trade at a 12x P/E versus the index at 16x.

*Unless otherwise stated, all performance data in this report is in EUR, for class A units and is net of fees.*

*\* SKAGEN Vekst benchmark index is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World*

# Results, March 2016

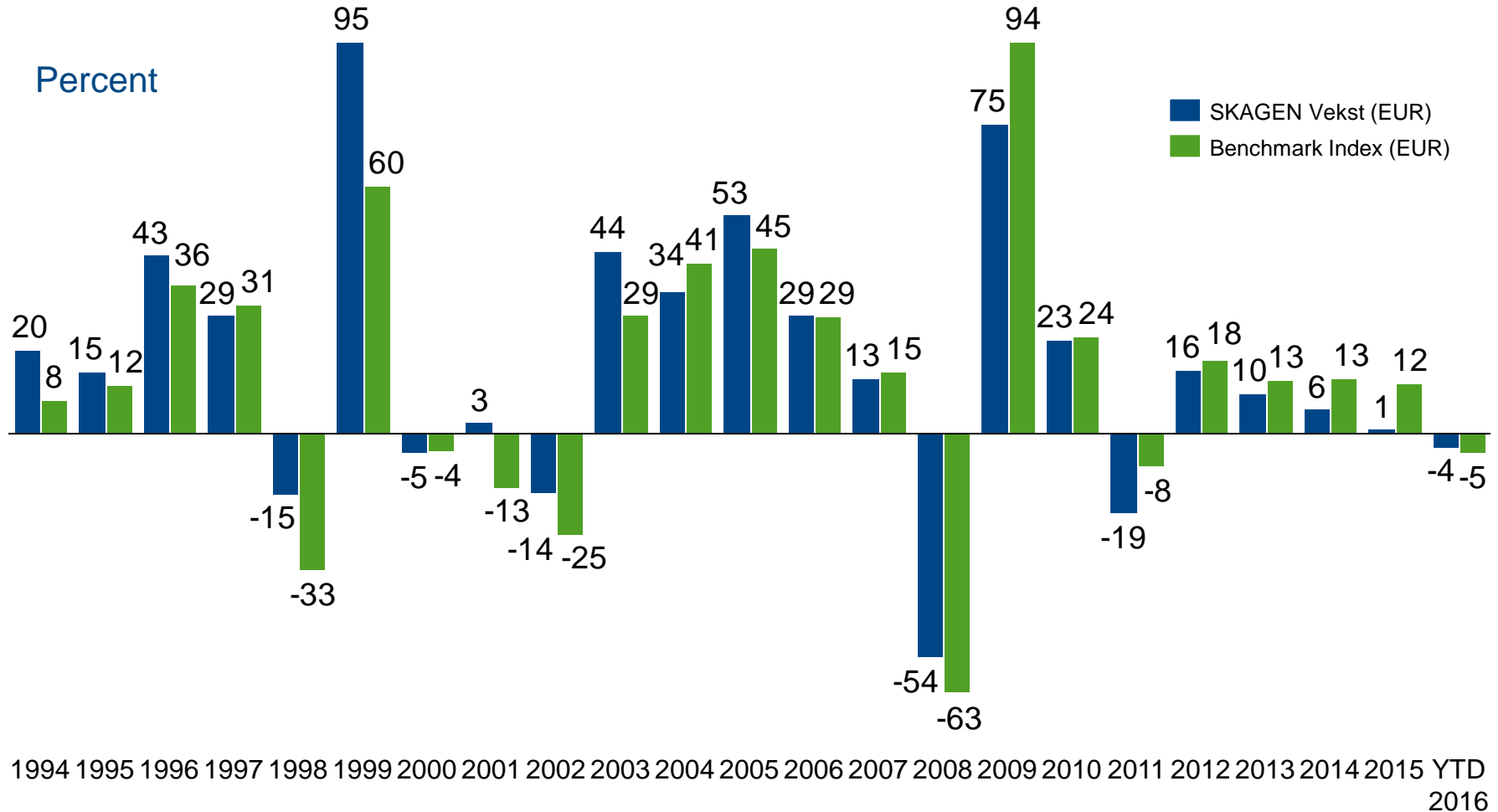
EUR, net of fees



	March	QTD	2015	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Vekst A	5,2%	-3,5%	1,4%	-10,5%	3,7%	1,2%	2,8%	13,4%
Benchmark index*	2,2%	-4,7%	12,2%	-9,2%	8,5%	8,2%	5,1%	9,6%
Excess return	2,9%	1,2%	-10,8%	-1,3%	-4,8%	-7,0%	-2,3%	3,8%

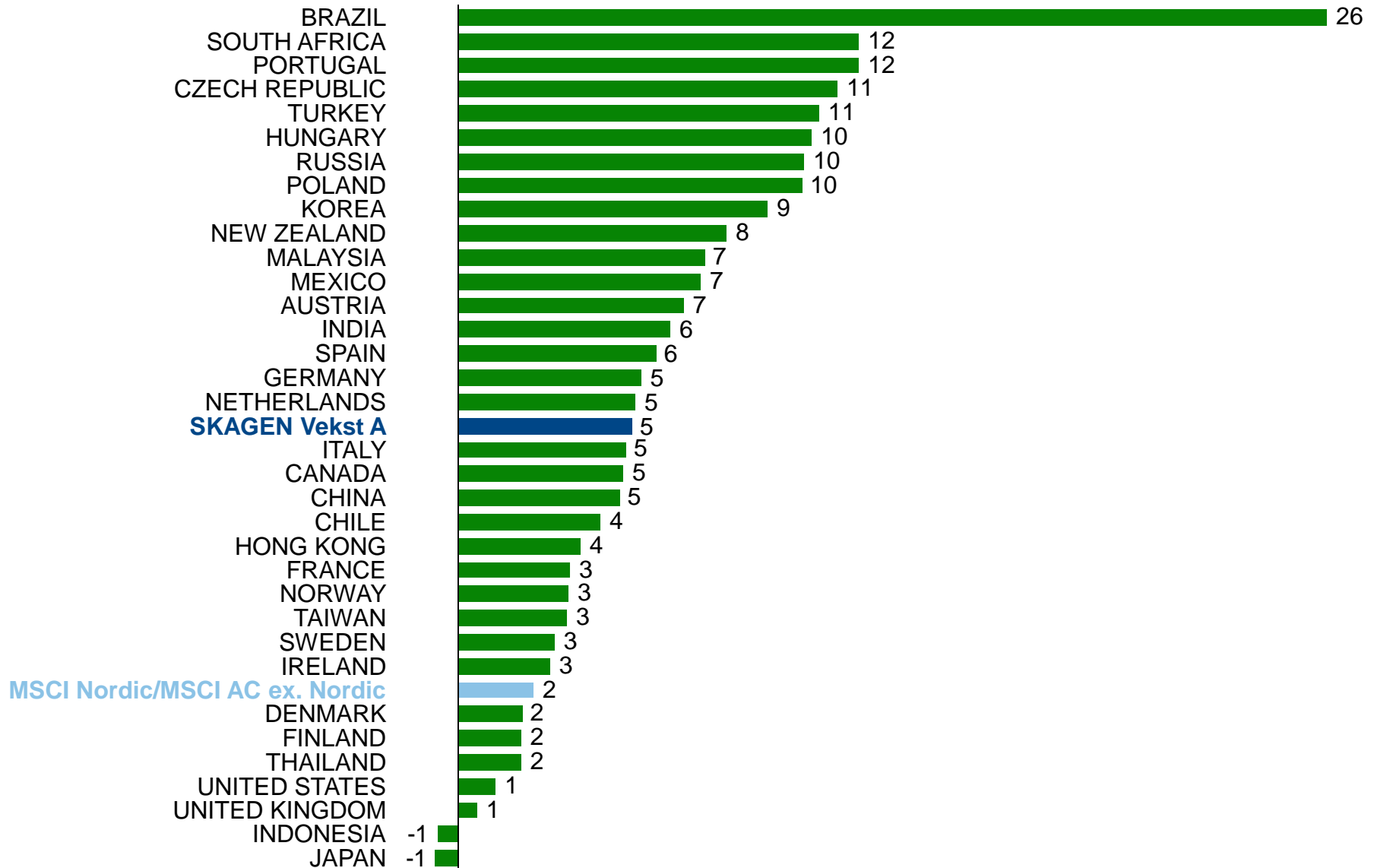
Note: All returns for periods exceeding 12 months are annualised. Inception date: 1 December 1993. Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its assets in Norway to investing a minimum of 50% of its assets in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than exist today. The Fund's benchmark index prior to 1/1/2014 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). Today the benchmark is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World

# Annual performance since inception

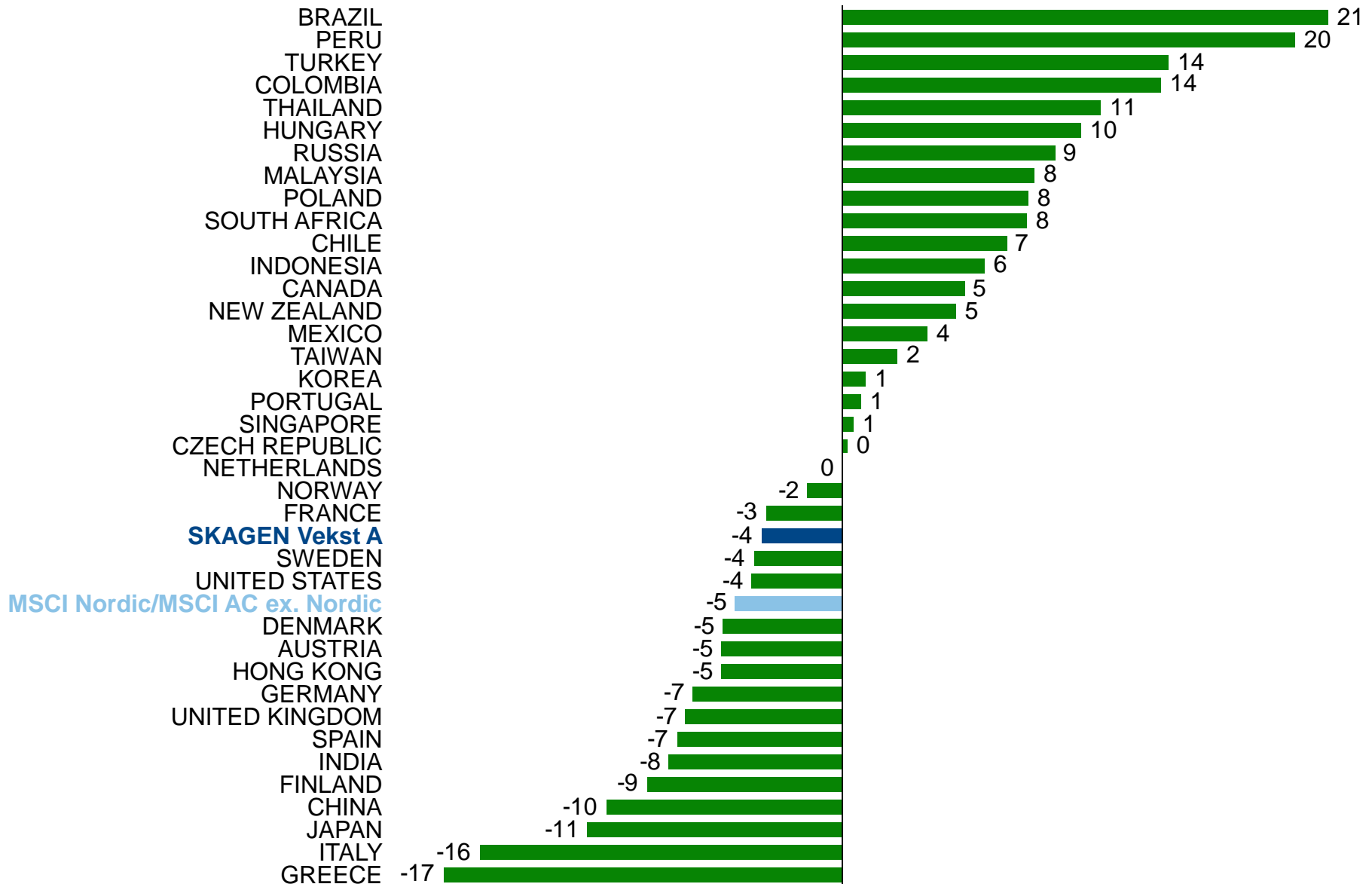


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# Markets in March in 2016 in EUR (%)



# Markets YTD 2016 in EUR (%)



# Largest holdings SKAGEN Vekst, end of March 2015

SKAGEN Vekst has 56% of its portfolio invested in the Nordic countries.



	Weight in portfolio	Price Column2	P/E 2016e	P/E 2017e	P/E 2018e	P/B trailing	Target price
Samsung Electronics	7,4 %	1 107 000	8,1	7,7	7,4	0,9	1 300 000
Continental AG	6,6 %	200	11,6	10,3	9,7	3,1	275
Norsk Hydro	5,6 %	34	13,6	9,7	11,4	0,9	45
Carlsberg	5,5 %	624	20,1	15,6	14,5	2,2	822
SAP	5,0 %	71	20,3	16,3	15,1	3,7	92
Norwegian Air Shuttle	4,5 %	312	8,2	6,2	5,7	3,8	500
Citigroup	4,1 %	42	8,2	7,5	6,6	0,6	78
Philips	4,0 %	25	17,9	14,5	12,8	1,9	30
TeliaSonera	3,9 %	42	12,0	11,7	11,7	1,8	45
Ericsson	3,5 %	81	15,9	14,0	13,3	1,8	130
Weighted top 10	50,1 %		11,8	10,1	9,6	1,47	36 %
Weighted top 35	91,2 %		11,5	9,0	8,0	1,05	48 %
Reference index			15,9	14,5	13,2	2,12	

Earnings estimates are based on net cash earnings when meaningful.  
Multiples are calculated using the same method as the index.

# Main contributors March 2016

## Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
Samsung Electronics Co Ltd	80
Continental AG	41
Oriflame Cosmetics AG	29
Norwegian Air Shuttle AS	27
Casino Guichard Perrachon SA	23
Carlsberg A/S	23
Teliasonera AB	21
Koninklijke Philips NV	21
Investment AB Kinnevik	21
Wilh Wilhelmsen Holding ASA	17

## Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Roche Holding AG	-14
H Lundbeck A/S	-12
Cal-Maine Foods Inc	-9
Norsk Hydro ASA	-7
Sodastream International Ltd	-5
Frontline Ltd	-3
Medistim ASA	-3
Nippon Seiki Co Ltd	-3
Hennes & Mauritz AB	-2
PhotoCure ASA	-2

**Value Creation MTD (NOK MM): 353**

*NB: Contribution to absolute return*



# Main contributors in first quarter 2016

## Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
Volvo AB	21
Oriflame Cosmetics AG	20
Lundin Petroleum AB	20
Casino Guichard Perrachon SA	18
Wilh Wilhelmsen Holding ASA	17
Catena AB	14
Norsk Hydro ASA	14
Koninklijke Philips NV	13
Sberbank of Russia	5
SKF AB	5

## Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Citigroup Inc	-99
Credit Suisse Group AG	-92
Continental AG	-71
Roche Holding AG	-32
Frontline Ltd	-28
Investment AB Kinnevik	-22
SAP SE	-20
Kia Motors Corporation	-20
Nippon Seiki Co Ltd	-17
Samsung Electronics Co Ltd	-16

**Value Creation YTD (NOK MM):**

**-411**

*NB: Contribution to absolute return*

# Most important changes Q1 2016

## Holdings increased

Q1

Hennes & Mauritz AB	(New)
eBay Inc	(New)
Catena AB	(New)
Golden Ocean Group Ltd	
Investment AB Kinnevik	
Roche Holding AG	
Ericsson LM-B SHS	

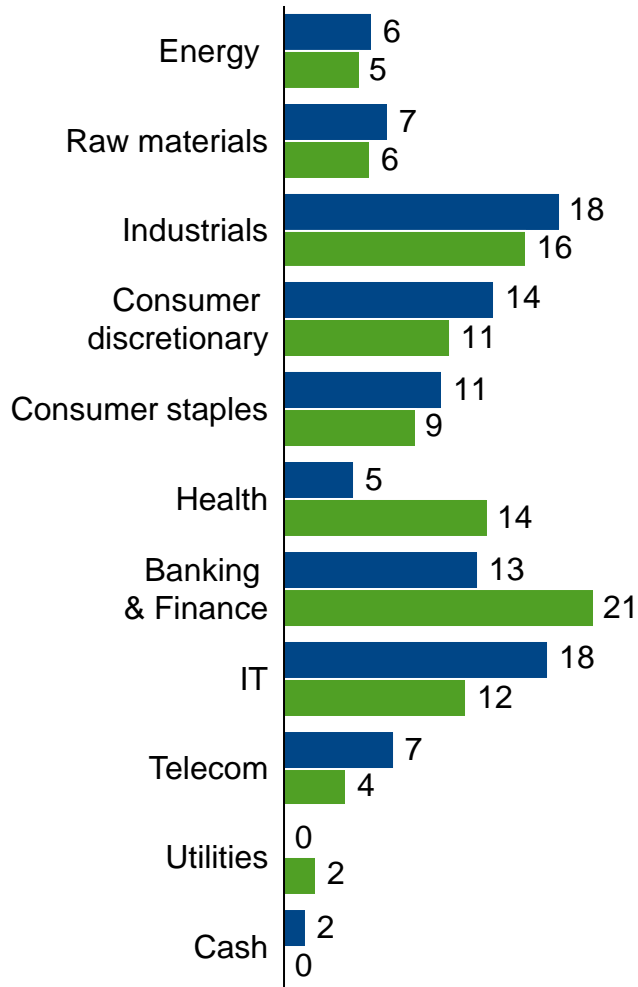
Q1

## Holdings reduced

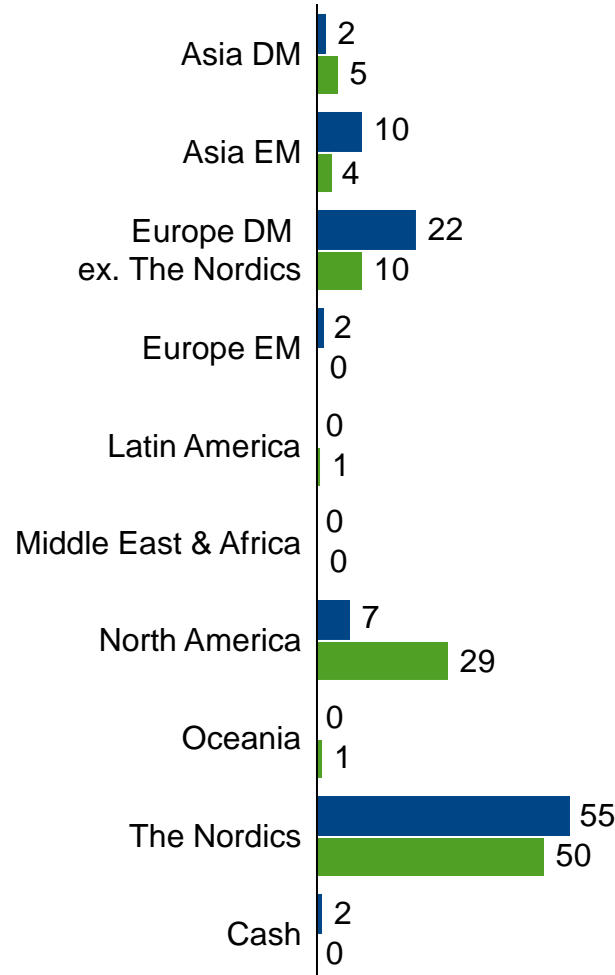
FLSmidth & Co A/S	(Out)
Localiza Rent a Car SA	(Out)
Bang & Olufsen A/S	(Out)
YIT Oyj	(Out)
Tribona AB	(Out)
Casino Guichard Perrachon SA	
ABB Ltd	
Lundin Petroleum AB	
Norsk Hydro ASA	
Carlsberg A/S	
Samsung Electronics Co Ltd	
Koninklijke Philips NV	
Teliasonera AB	

# Sector and geographical distribution vs. index (percent)

## Sector distribution

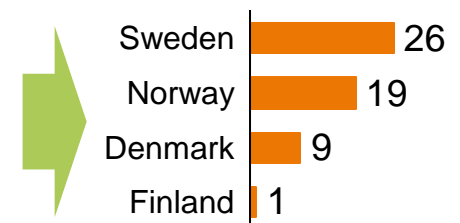


## Geographical distribution



■ Fund  
■ Index

## Nordics in SKAGEN Vekst



# Key buy and sell, February 2016

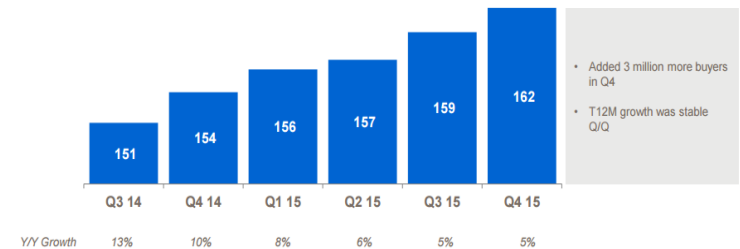
## Key buy

### Ebay

- SKAGEN Vekst bought into the US-based e-trade company eBay in March. Today the company has over 160m users and offers both buyers and sellers a gigantic global marketplace.
- The company has become increasingly unpopular due to fears of competition in the future, even though it can show a high rate of profitability and cash-flow.
- We believe the market fails to see the increasing competitive advantage of the established market place and discounts any value from their other offerings as online classified.

## TRAILING 12-MONTH ACTIVE BUYERS

(millions)



## Key sell

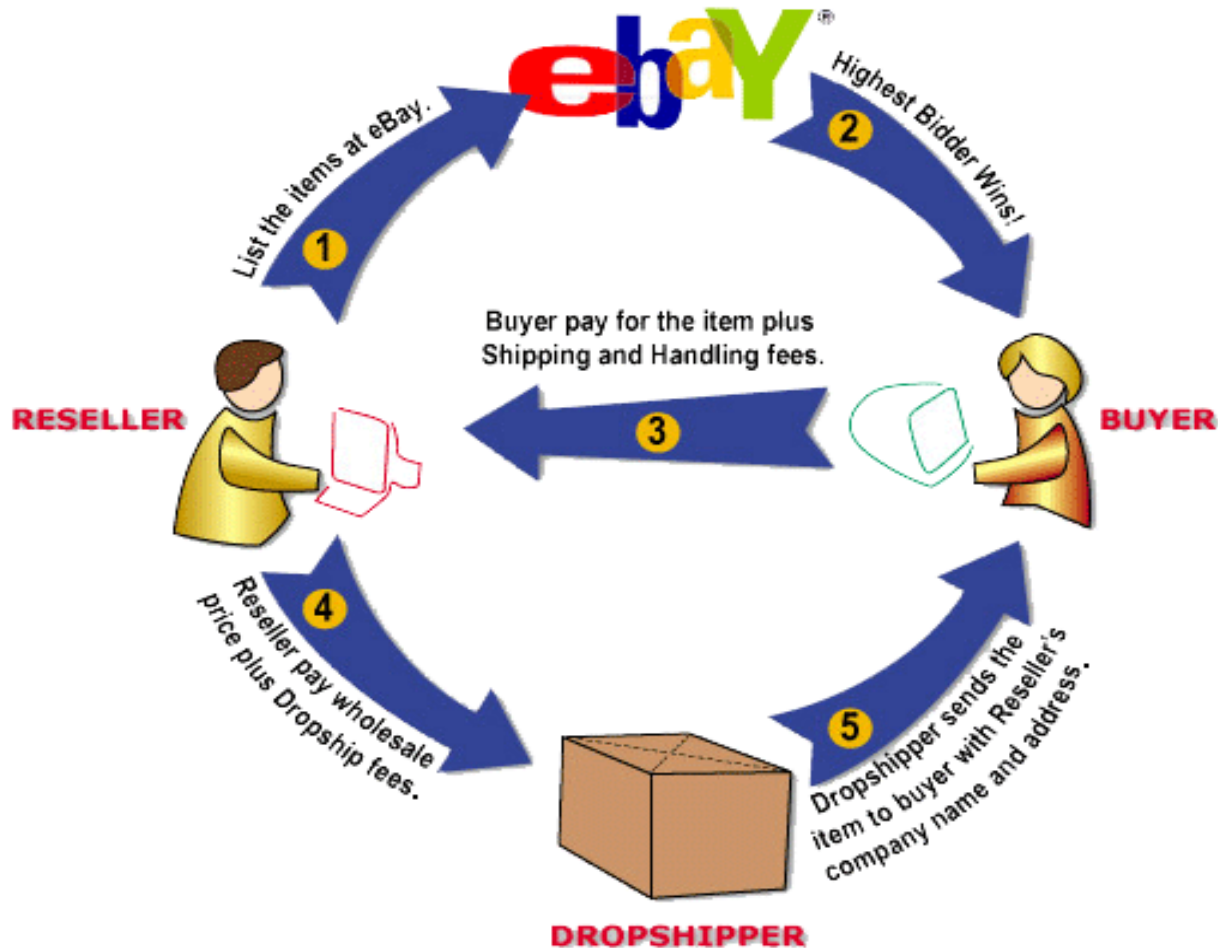
### Bang & Olufsen A/S

- The Danish high-end audio system and designer consumer goods producer was sold out of the portfolio in the month.
- Over the last couple of months there have been several rumours surrounding the company and its future.
- The company announced a potential suitor and the share price stabilised at around DKK 70.
- We took advantage of this and the initial price increase (before Christmas) to exit our position at an acceptable price.



epo@y

# eBay: A strong brand with a smart business model



- With 162m “active buyers” it is the world’s leading consumer to consumer (C2C) market place.
- Company uses consumer base to attract sellers from whom it charges a fee of approx. 8% per transaction.
- Operations only require investments in computer power and business model is highly cash generative.
- eBay also owns StubHub (leading ticker vendor) and eBay classifieds which operates worldwide.



# Seen in light of the SKAGEN investment philosophy

## Unpopular

- Low growth past has generated questions about the business model
- Technical issues have not helped popularity
- Two thirds of analysts have the stock on Hold/Sell.

- Seen as Amazon competitor. Should rather be seen as complementary
- Opportunity beyond market place is overlooked: StubHub and eBay classifieds. Sum of the parts justifies USD 40/share.

## Under-researched

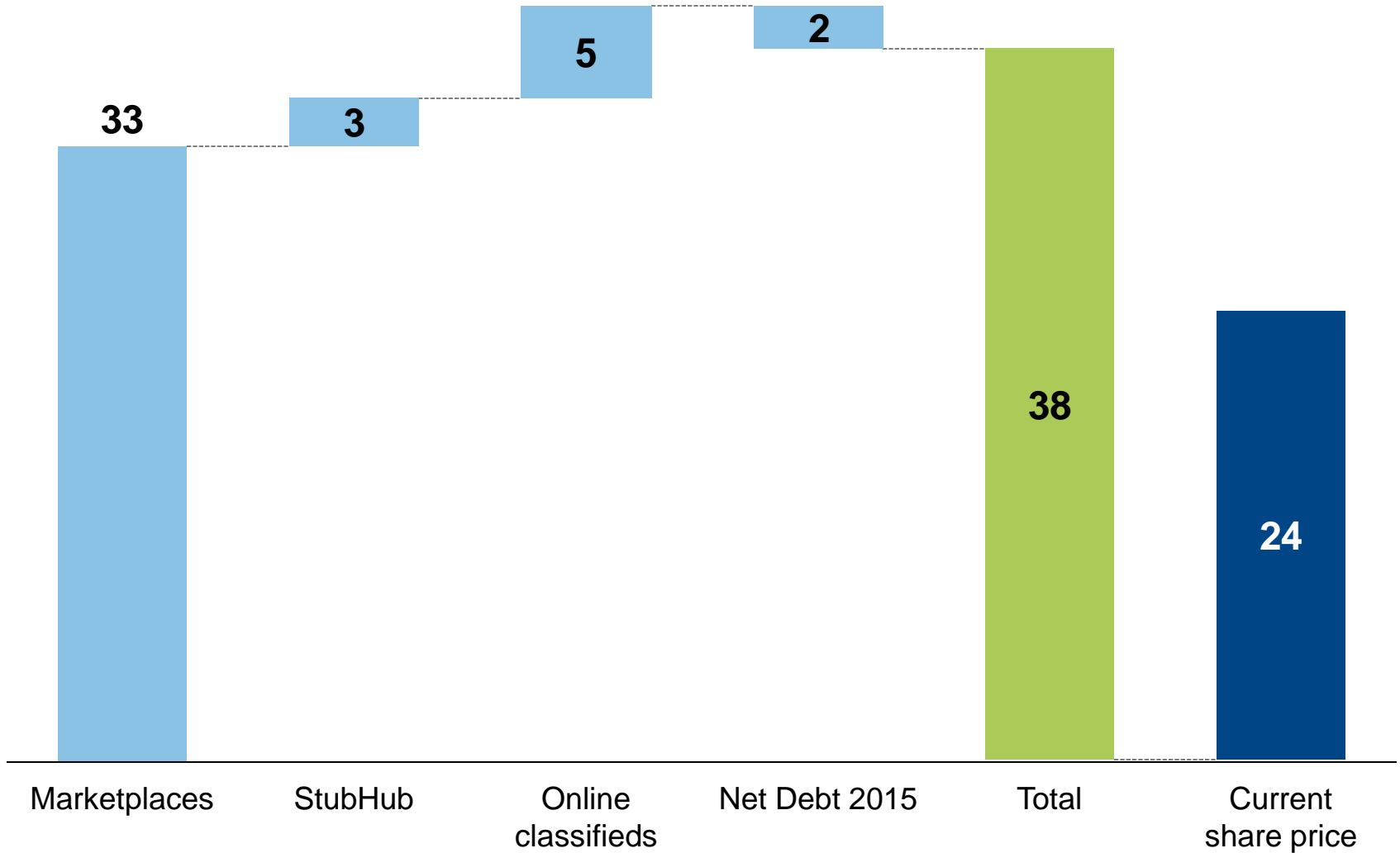
## Under-valued

- Trades at 11x 2016e cash earnings and the share price discounts dismal growth going forward, something that implies attractive risk reward.
- See more than 50 % chance that this company could make USD 2.5/share within a few years which justifies USD 40/share.

## Catalysts

- |            |  |
|------------|--|
| Short term | – 2016 guidance appears conservative and thus we see more than 50% chance of positive surprise next 12 months. |
| Mid term   | – Technical issues being addressed, results to be seen within 18-24 months. - More resilient growth 5-10% p.a. |
| Long term  | – Continues to be leading online market place. StubHub and online classified spin-offs highlight hidden value. |

## Nice upside in sum of the parts – in US dollars per share





# Key earnings releases and corporate news, March 2016

**Continental**  
**(6.6%)**

**FY2015 better than guidance given in mid-January.**

## **Investment case update**

The technology company Continental generated free cash flow of EUR 2.7bn in 2015, versus guidance of EUR 2.4bn. Cash conversion at 99%. They are expected to generate organic growth of 5% in 2016 meaning FY2016 revenue of EUR 41bn. Given the Automotive Group order backlog of EUR 30bn, this will give expected 2019 sales of EUR 30bn compared with 2015 revenue of EUR 23.6 (order book translates into sales within 4-5 years). Rubber Group (2015 revenue of EUR 15.7bn) will grow revenue into EUR 20bn, giving a EUR 50bn revenue company with an EBIT margin at 11%. EV/EBIT of 11x gives us target EUR 275 within 2-3 years, close to 40% upside.

## **3U Update**

**Unpopular:** not exactly, but 52% sell/hold is not a crowded fan club

**Under-researched:** no, wide coverage

**Undervalued:** yes, but not as much as it used to be. 35-40% upside to target EUR 275

## **Fact**

Continental reported FY 2015 revenue of EUR 39.2bn and EBIT of EUR 4.2bn. EPS at EUR 13.64 and dividend hiked to EUR 3.75 per share. ROCE increased to 20.9% from 20% YoY.

# Key earnings releases and corporate news, March 2016 (cont.)

**Carlsberg**  
(5.6%)

## Presentation of new strategic plan Sail'22

### Investment case implications

Neutral, no real hard goals were presented and share reaction was somewhat muted due to expectation build-up. In our view it is a sound plan focusing on premium products over volume growth. Sticking to plan could give a boost to dividend

### Summary

Sail'22 presented with main points:

- Gradual steering towards better profitability. 50% payout and higher ROIC. The 1000 target could eventually occur, but at a pace of 15% per year it would be a 2020 event (of which DKK 80 is dividends). Net debt to EBITDA max 2.0x => at 1.8x Carlsberg will have DKK 4-5bn firepower.
- 10% of top 60 leaders have been shifted in past 8 months.
- Regional focus to continue – Europe 53% of OP, Asia 28% and East Europe 19%
- Sail and crew will drive us safely towards the 2022 goal.
- Leverage strongholds – streamline portfolios. Russia transformation – efficiency and many market opportunities.
- Execution – quality, marketing impact and manage complexity to be smarter (digital consumer interface)
- Grow big cities and Asia as well as increase share in categories.

### 3U update

**Unpopular:** Few domestic institutions hold it and it is perceived as 'Danish Ministry of Beer'. Majority of sell-siders are at hold/sell.

**Under-researched:** 35 analysts and it is a beer company most people know. However, focus is on the poor historical track record and they don't buy into the better future profitability. We think it is misanalysed in terms of timing and potential profitability perspective.

**Undervalued:** Net earnings are likely to grow 15-20% next few years and stock trades at 16x earnings – in line with overall market, which has 7% growth. It is a well-known business model (make good beer and sell it) so execution risk going forward should be limited. Carlsberg has net debt of DKK 31bn (most of it from 2007 acquisition of Baltika in Russia), they pay DKK 1.4bn in dividend, so it will take them 4-5 years to become debt free (which would again lift net cash earnings by DKK 1bn per year), so good upside leverage.

# Key earnings releases and corporate news, March 2016 (cont.)

Roche  
(2.8%)

## Roche to initiate testing for Zika virus at US blood centres

### Investment case implications

Neutral. This announcement has no meaningful financial impact, but it is a minor positive for sentiment by serving as a reminder that Roche is a go-to shop for seeking solutions to the world's most challenging healthcare emergencies. We are not surprised to learn that Roche has been selected for this task. The strong R&D backbone at Roche is a vital part of our long-term investment case.

### Summary

Roche has received approval from the US Food and Drug Administration (FDA) to initiate collection and testing of blood samples for screening with the cobas® Zika test under an Investigational New Drug Application (IND) protocol. The cobas® Zika test for use with the cobas® 6800/8800 Systems is a qualitative in vitro nucleic acid screening test for the direct detection of Zika virus RNA in plasma specimens from individual human blood donors.

### 3U update

**Unpopular.** No. Popular on sell-side with 90% Buys, but stock price down 20% in 15 months so buy-side is not charmed.

**Under-researched.** Probably not, but there are many moving parts distracting a lot of people from focusing on the road ahead. Sub-par communication from the company lowers transparency.

**Undervalued.** Yes, after de-rating on FY1 P/E from 18.3x to 14.6x in the past 12 months this medical powerhouse now trades at almost a 10% discount to the market.

# Key earnings releases and corporate news, March 2016 (cont.)

Lundbeck  
(0.9%)

## FDA negative to extended use of Brintellix

### Investment case update

Negative. European authorities have already allowed data on improvement in cognitive function to be added to the drug's label, and we had expected the FDA to do the same. Hence, a lost opportunity for Lundbeck in what could have been an important differentiation point for Brintellix in a market dominated by cheap generics. The extended use of Brintellix could be approved at a later stage, but we don't expect total sale of Brintellix to reach DKK 5-6bn in 2018, more likely DKK 3-4bn.

### 3U Update

**Unpopular:** Mixed. 50% Hold/Sell. Locals (Nordics) negative and international analysts positive.

**Under-researched:** No, coverage has increased significantly over the last couple of months.

**Undervalued:** On current numbers Lundbeck looks expensive. We expect to see more high efficiency anti depression drugs materialise from their pipeline.

### Fact

In August 2015, Lundbeck and Takeda made a supplemental new drug application for the antidepressant Brintellix, seeking to add clinical data to the drug's label on its effect on cognitive dysfunction in adults with major depressive disorder. Despite the Advisory Committee voting 8:2 in favor of a label extension, the FDA decided against the recommendation.

# The largest companies in SKAGEN Vekst

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Samsung Electronics, the Korean electronics group, has enjoyed very solid growth in consumer electronics, especially smartphones. Pole position in global semiconductor market. Cash generation is very strong and the company has historically wisely invested in new business areas – solar power and healthcare are on the roadmap for the future.

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Continental AG produces tyres for cars and trucks and makes auto technology such as power trains, safety systems and automated drive systems. The replacement cycle for tyres is becoming stretched in some markets, so near-term earnings look promising. In the longer-term Continental's pole position in global auto technology provides a good backdrop for substantial growth.

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Norsk Hydro ASA is a Norwegian aluminium and renewable energy company headquartered in Oslo. Norsk Hydro is one of the largest aluminium companies worldwide. It has operations in some 50 countries around the world and is active on all continents. The Norwegian state holds a 34.3% ownership interest in the company, which employs approximately 13,000 people.

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Carlsberg A/S is an international brewing company. The company produces branded beers and regional brands. Carlsberg makes most of its beer outside of Denmark and it is sold in markets around the world. The company also markets and produces soft drinks, water and wine.

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SAP SE is a German multinational software corporation that makes enterprise software to manage business operations and customer relations. SAP is headquartered in Walldorf, Baden-Württemberg, with regional offices in 130 countries.

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# The largest companies in SKAGEN Vekst (continued)

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Norwegian Air Shuttle is the leading Nordic-based low cost airline, which in 2015 flew over 26m passengers. The fleet of airliners and the route network are growing rapidly proving the concept of Norwegian local low cost airline, to Nordic, to European and to Global reach.

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Citigroup Inc. or Citi is an American multinational banking and financial services corporation headquartered in Manhattan, New York City. Citigroup was formed from one of the world's largest mergers in history by combining the banking giant Citicorp and financial conglomerate Travelers Group in October 1998.

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Koninklijke Philips N.V. is a Dutch diversified technology company headquartered in Amsterdam with primary divisions focused in the areas of electronics, healthcare and lighting. In 2016 it is expected to list their lighting division in a separate company.

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Swedish/Finnish incumbent telecom operator offering services primarily in the Nordic region. History goes back to 1853 as the Royal Swedish Electrical Telegraph. The company is Europe's fifth largest telecom operator and offers services across Eurasia, including stakes in mobile phone operators in Turkey and Russia.

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Ericsson is a Swedish multi-national corporation that provides communication technology and services. Founded in 1876 and has today a revenue of 227bn SEK. Ericsson had 33% market share in the 2G/3G/4G mobile network infrastructure market in 2014.

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Unless otherwise stated, all performance data in this report relates to class A units and is 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 subscription and management fees. The return may become negative as a result of negative price developments.

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