



SKAGEN Vekst Status Report – August 2016

The art of common sense

Summary – August 2016

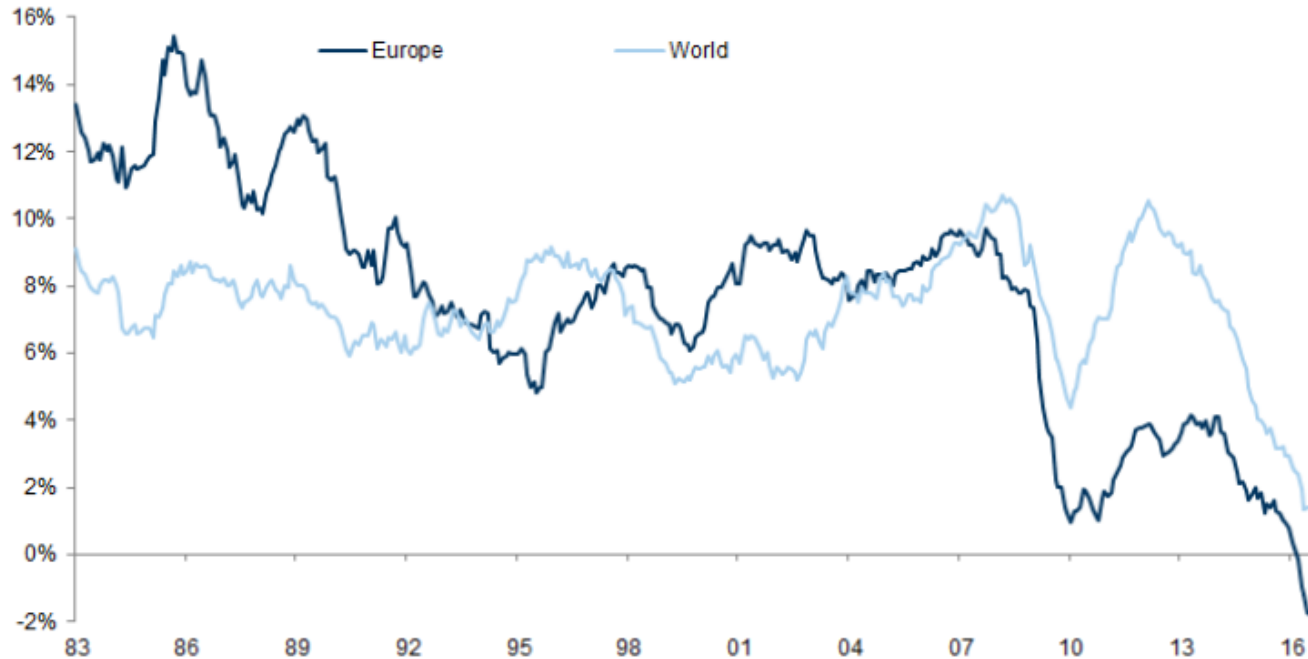
- It was a fairly calm month for the Vekst portfolio. The first half 2016 reports confirmed that the companies are in good shape and moving in the right direction. Market expectations had been adjusted downward prior to the reports being published, so the market reaction was in many cases positive. The focus now has shifted towards the US election in November 2016. At this point in time the surveys are weighing in Mrs Clinton's favour, but we are aware that volatility can occur if Mr Trump takes the lead.
- As the Nordic markets returned from their summer break, the rest of the North-Western hemisphere went to the beach. SKAGEN Vekst* returned 2.5% in relative quiet summer market, while the combined index** was up 0.7%. For the year the fund is up 2.7%, which is 1.9% better than the index which is up 0.8%.
- Measured in NOK, the largest contributors in August were the Swedish cosmetics company Oriflame, the US financial institution Citigroup and the Dutch medtech company Philips. The fund's largest detractors were Carlsberg, Ericsson and Kinnevik AB.
- SKAGEN Vekst consists of 53 positions with 91% of the fund invested in the 35 largest positions. During the month no major changes were made to the portfolio; we continued to add to some of our newer investments and reduced those approaching their price targets.
- SKAGEN Vekst continues to be an active investment fund with solid foundations in SKAGEN's value based investment philosophy. We continue to buy companies we believe are undervalued and which will over time provide excess returns. Currently the 35 largest positions in the fund trade at 12x P/E for this year versus the index at over 17x.

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

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

Growth and expectations have come down – while valuation is reaching an all time high – markets are continuing to search for yield and return on capital

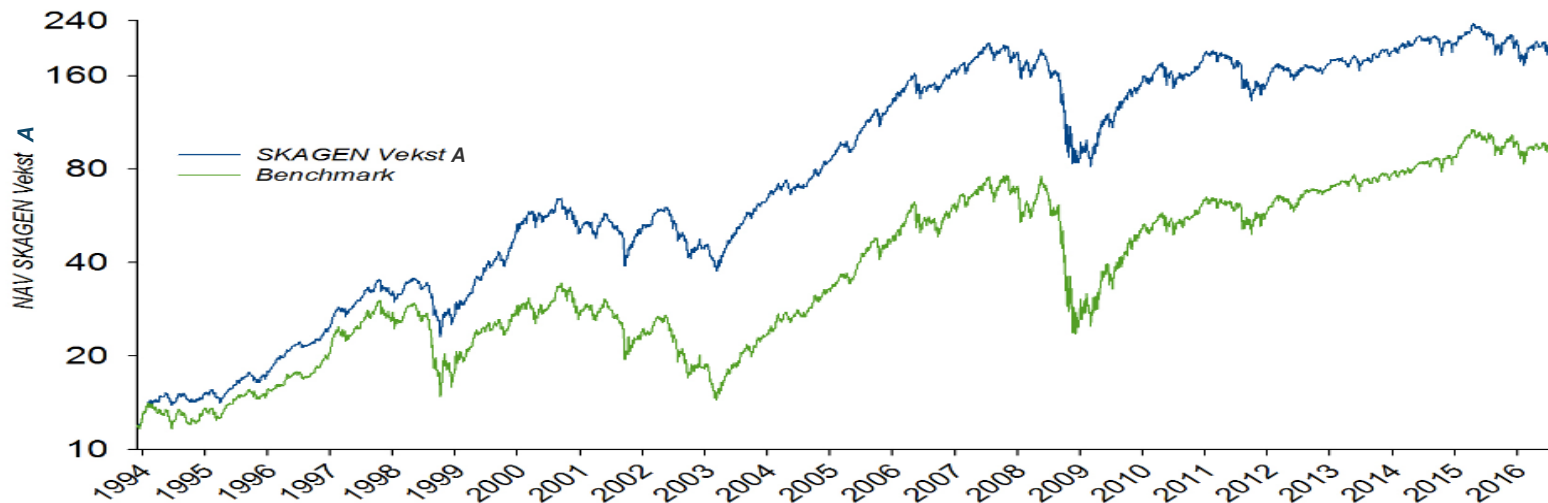
Exhibit 2: Rolling 10-year compounded annual growth of EPS (nominal)



Source: Datastream, Goldman Sachs Global Investment Research

Results, August 2016

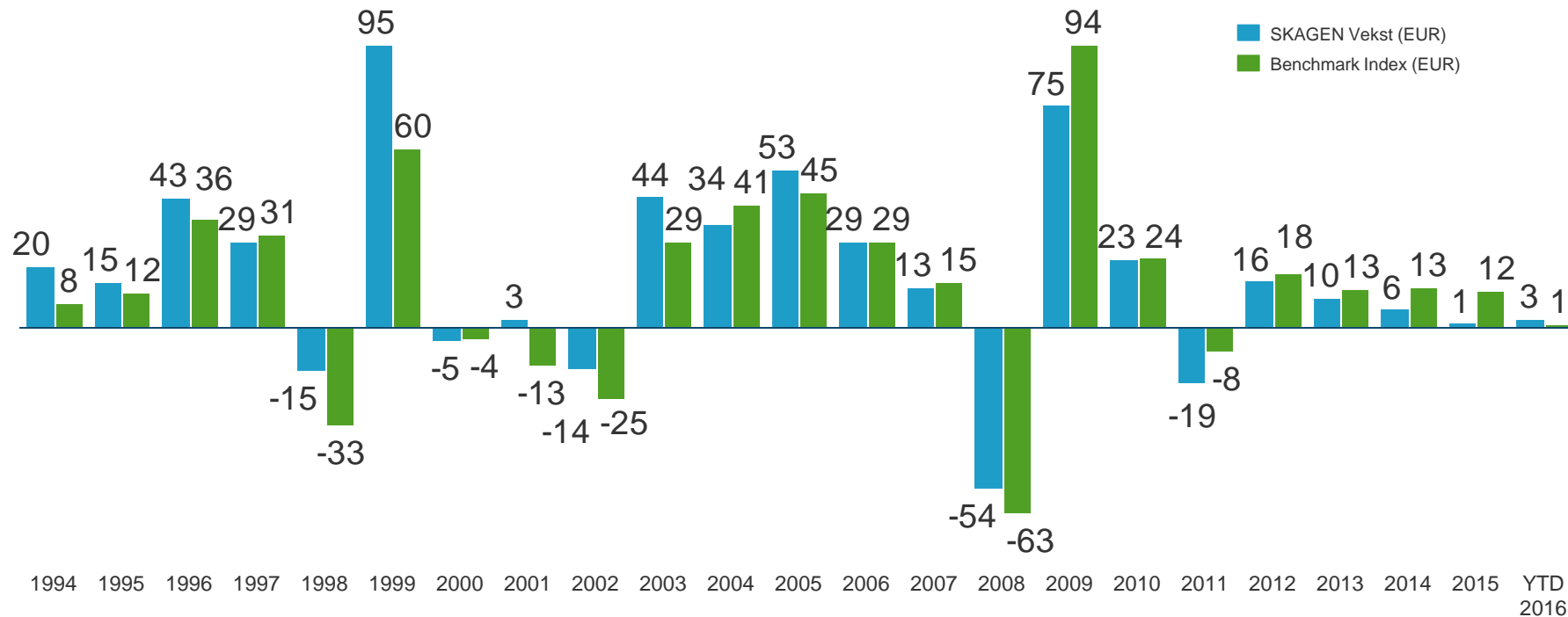
EUR, net of fees



	August	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Vekst A	2,5%	9,1%	2,7%	7,8%	6,1%	6,5%	3,6%	13,5%
Benchmark index*	0,7%	4,8%	0,8%	5,7%	11,2%	12,2%	6,2%	9,7%
Excess return	1,8%	4,3%	1,9%	2,1%	-5,1%	-5,8%	-2,7%	3,7%

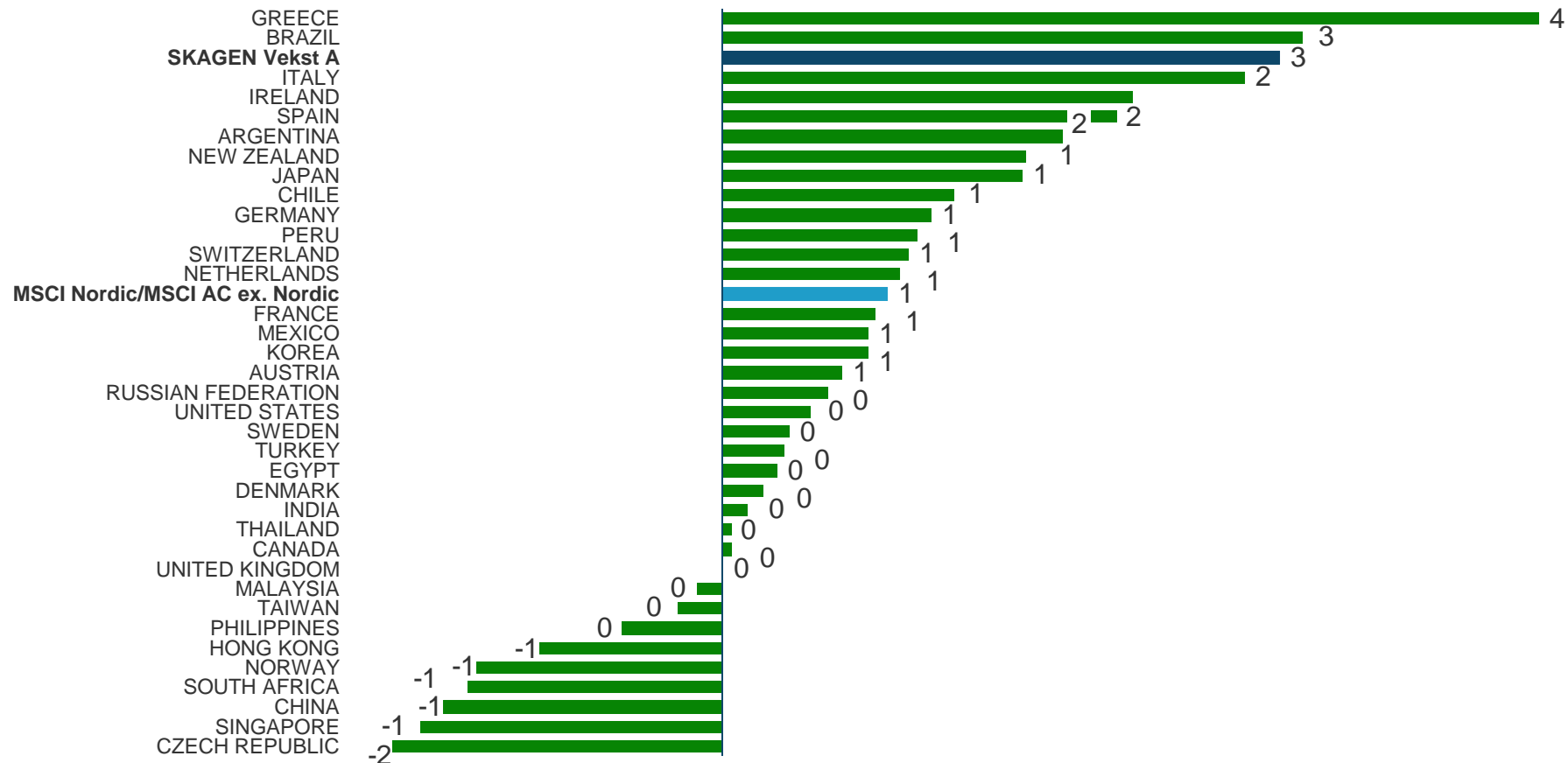
Note: All returns for periods exceeding 12 months are annualised. Inception date: 1 December 1993. Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its assets in Norway to investing a minimum of 50% of its assets in the Nordic countries. This means that returns 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 (%)*



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

Markets in August 2016, EUR (%)



Largest holdings SKAGEN Vekst, end of August 2016



SKAGEN Vekst has 52% of its portfolio invested in the Nordic countries.

	Weight in portfolio	Price	P/E 2016e	P/E 2017e	P/E 2018e	P/B trailing	Target price
Samsung Electronics Co Ltd Pref	7,5 %	1 324 000	9,1	9,1	8,9	1,1	1 500 000
Continental AG	6,0 %	188	12,9	10,8	9,7	2,9	275
SAP SE	5,1 %	79	20,5	18,6	16,9	4,2	99
Citigroup Inc	5,1 %	48	9,4	8,5	7,6	0,7	65
Carlsberg AS-B	4,6 %	626	18,1	16,0	13,9	2,2	830
Norwegian Air Shuttle ASA	4,4 %	303	9,5	6,1	5,5	3,9	500
Kinnevik AB-B	4,0 %	211	105,4	35,1	32,9	0,8	295
Norsk Hydro ASA	3,8 %	35	14,2	10,7	10,1	0,9	45
Ericsson LM-B SHS	3,4 %	61	18,1	13,9	11,2	1,5	88
ABB Ltd	3,2 %	186	23,2	17,7	15,6	3,3	220
Weighted top 10	47,0 %		13,7	11,3	10,3	1,43	34 %
Weighted top 35	90,3 %		12,4	10,2	9,2	1,18	45 %
Reference index			17,3	15,4	13,8	2,14	

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

Main contributors MTD 2016

Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
Oriflame Cosmetics AG	37
Citigroup Inc	27
Koninklijke Philips NV	17
Samsung Electronics Co Ltd	15
Danske Bank A/S	12
Sodastream International Ltd	10
Credit Suisse Group AG	8
Golden Ocean Group Ltd	8
SBI Holdings Inc	7
Cal-Maine Foods Inc	7

Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Carlsberg A/S	-24
Ericsson LM-B SHS	-13
Investment AB Kinnevik	-12
Roche Holding AG	-12
HitecVision AS	-10
Rec Silicon ASA	-8
TTS Group ASA	-5
Telia Co AB	-5
Kemira OYJ	-5
Norsk Hydro ASA	-5

Value Creation MTD (NOK MM): 60

NB: Contribution to absolute return

Main contributors QTD 2016

Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
Samsung Electronics Co Ltd	77
SAP SE	64
Norsk Hydro ASA	62
eBay Inc	49
Continental AG	47
Citigroup Inc	47
Oriflame Cosmetics AG	43
Koninklijke Philips NV	40
ABB Ltd	33
Danske Bank A/S	20

Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Roche Holding AG	-16
Ericsson LM-B SHS	-14
Swatch Group AG	-12
Bonheur ASA	-11
HitecVision AS	-10
Telia Co AB	-6
Rec Silicon ASA	-6
TTS Group ASA	-5
Carlsberg A/S	-2
Goodtech AS	-2

Value Creation QTD (NOK MM): 621

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Oriflame Cosmetics AG	112
Samsung Electronics Co Ltd	95
eBay Inc	46
Norsk Hydro ASA	42
Sberbank of Russia	38
Volvo AB	30
ABB Ltd	30
Lundin Petroleum AB	28
Sodastream International Ltd	27
Koninklijke Philips NV	24

Largest negative contributors

Company	NOK Millions
Credit Suisse Group AG	-102
Continental AG	-101
Ericsson LM-B SHS	-83
Citigroup Inc	-49
Kia Motors Corporation	-37
Roche Holding AG	-33
Frontline Ltd	-30
Investment AB Kinnevik	-28
Telia Co AB	-25
Swatch Group AG	-19

Value Creation YTD (NOK MM): -55

NB: Contribution to absolute return

Most important changes H1 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

Q2

Swatch Group AG (New)
Philips Lightning NV (New)
Shire PLC (New)
Nirvana Asia Ltd (New)
CF Industries (New)
Ericsson LM-B SHS
eBay Inc
Kemira OYJ

Q3

Investment AB Kinnevik
Hennes & Mauritz AB
Shire Plc-ADR
Danske Bank A/S
CF Industries Holdings Inc

Holdings reduced

Q1

FLSmith & 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

Q2

Casino Guichard Perrachon SA (Out)
DOF ASA (Out)
Eidesvik Offshore ASA (Out)
Sevan Drilling AS

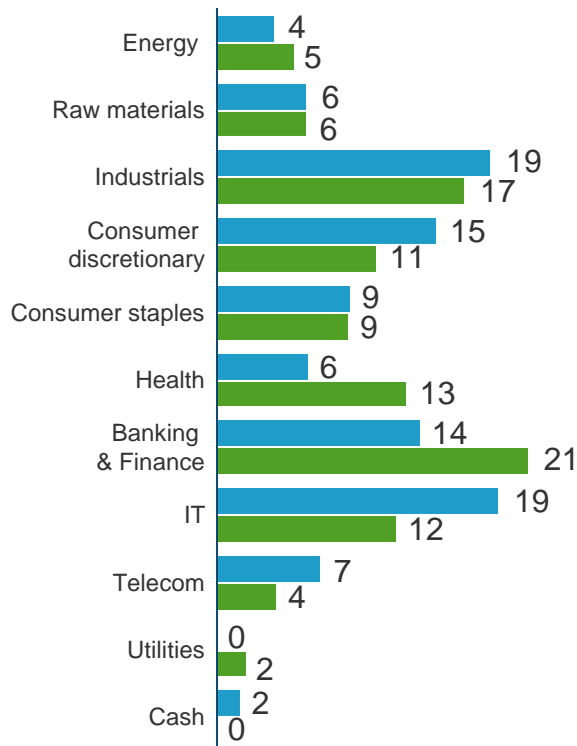
(Out)

Q3

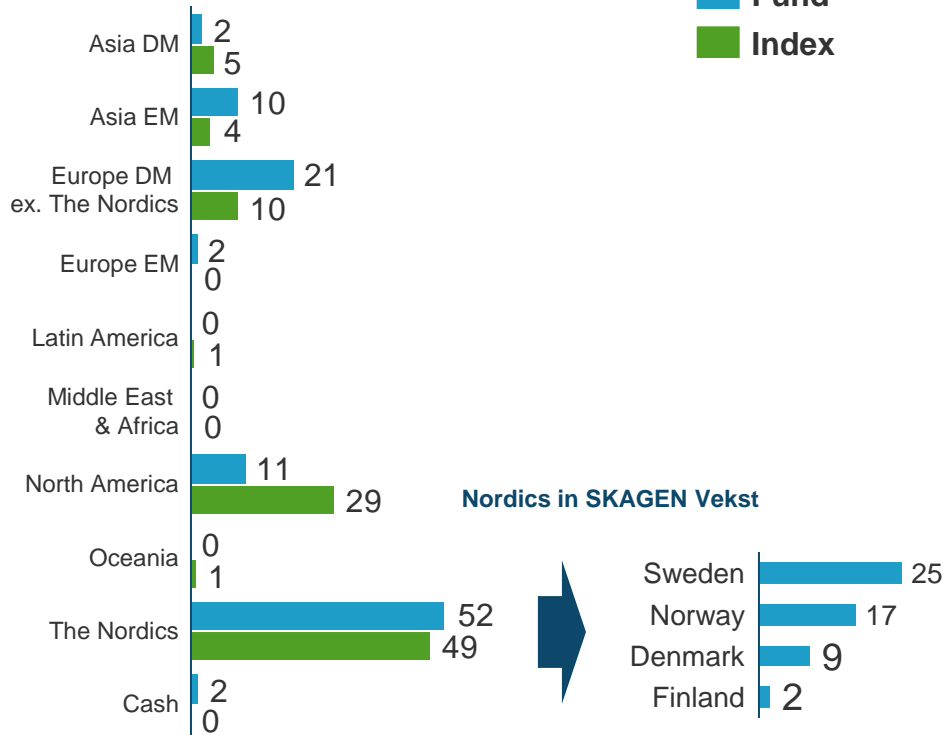
Norsk Hydro ASA
Samsung Electronics Co Ltd
Oriflame Cosmetics AG
Koninklijke Philips NV

SKAGEN Vekst sector and geographical distribution

Sector distribution



Geographical distribution



Key buys and sells in August 2016

Key buys

Kinnevik AB-B

- We increased our holding in the Swedish investment company Kinnevik. Over the years the management has shown an extraordinary ability to develop and manage companies in developing and old industries.
- After focusing on returning cash to shareholders, the share price reached a level which was an attractive point for Vekst to increase the holding weight.
- Key to the investment case is the continued development of portfolio companies and focus on shareholders. Zalando is now the single largest investment and several interesting new marketing ideas in the EU and Africa have the potential to become great successes.

Key Sells

Norsk Hydro

- Still a top holding in the fund, though after a strong second half of the summer we have reduced the weight and taken down our risk exposure to aluminum.
- The company still has a strong balance sheet and is a world leader in their activities throughout the value chain.
- Next triggers are a clarification around their JV of Sapa and continued stability of aluminum prices.

Key earnings releases and corporate news, August 2016

Carlsberg
(4.65%)



Moving in the right direction. Short-term expectations had run ahead of reality.

Investment thesis update

The core of our investment case in the Danish brewer, Carlsberg, is that it is a low growth stable earner with sub-par profitability to peers and is on track to improve profitability beyond current market expectations.

1H 2016 performance showed a 4% revenue decline in DKK to DKK 31.2bn. The decline was mainly due to currency weakening as volumes fell 2% and the currency-adjusted average selling price was up 5%. Profitability improved 8% to DKK 3.4bn.

Guidance for 2016 maintained. The action plans for 2017 are in progress, but no financial impact communicated.

Since our last internal update in June the consensus estimates for EBIT had moved up by 21% and the stock up 17%, so some short-term hype was built into the stock. The decline of 4% on the reporting day is not a big surprise, but a good illustration of how short-term market fads and sell side/hedge fund etc. create volatility.

On a separate note: Carlsberg Malawi was sold to Castel in the previous week. Approximately 1% of EBIT. Castel will produce Carlsberg on license in Malawi going forward.

3U update

Unpopular: it is a beer so liked at festivals and football events. When we entered the investment it was shorted and local investors didn't own it. 1.5 years later and stock is up 40% from late 2014 lows (50% in NOK and benchmark is up 15%) and sentiment is increasingly positive. Several good investors have loaded up in the stock and in recent months the hedge fund traffic is up too. Sell-siders are 69% sell/hold so that camp is still behind the curve.

Under-researched: it is a well-known beer company and 33 analysts follow it. However, the focus is on the poor historical track record and sell side and big investors don't buy into better future profitability before they can see it. The gap in forward estimates from sell-side is quite wide. We do our own conservative forward thinking analysis.

Undervalued: Sales are expected to grow moderately, but profitability to improve via a much better price/mix of the brand portfolio as well as better utilisation of production and logistics infrastructure. EPS is likely to grow from DKK 30 in 2015 to above DKK 50 in 2019/20. Good cash conversion will take net debt to zero. Return requirement for a stable business with low leverage, good cash conversion and disciplined use of cash (still not 100% sure on that one) is 6% or P/E 16.6x. That implies a target price of DKK 830 by the end of 2018. Sell side has DKK 617 on 12 months.

The largest companies in SKAGEN Vekst



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.



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. Longer term, Continental's pole position in global auto technology provides a good backdrop for substantial growth.



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



Citigroup Inc. or Citi is a US multinational banking and financial services corporation headquartered in Manhattan, New York. 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.



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.

The largest companies in SKAGEN Vekst (continued)



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.



Kinnevik AB is a Swedish investment company that was founded in 1936 by the Stenbeck, Klingspor and von Horn families. Kinnevik is an active and long-term owner and its investments are made primarily in technology-based services aimed at consumers.



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.



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



ABB (ASEA Brown Boveri) is a Swedish-Swiss multinational corporation headquartered in Zurich, Switzerland, operating mainly in robotics and the power and automation technology areas. ABB is one of the largest engineering companies as well as one of the largest conglomerates in the world. ABB has operations in around 100 countries, with approximately 135,000 employees in December 2015 and reported global revenue of USD 35.5 billion for 2015.

For more information please visit:

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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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