

Strong first quarter performance

The fund continued to deliver solid absolute and relative performance in the first quarter, following a strong end to 2020. The global investment environment has increasingly become more supportive for value assets. There are several tailwinds for value, including record monetary and fiscal stimulus, the vaccine roll-out and substantial earnings growth for several value areas. In addition, the bond markets are gradually pricing in the growing probability of higher inflation and accelerating global economic activity. This is especially visible in the steepening yield curve in the US, but the same pattern can be observed in global bond markets. Still, the financial markets seem quite complacent as to the risk (or opportunity) of higher inflation, despite the broad increase in commodities, oil prices and other input costs across many industries.

Solid contribution from banks and insurance

One of the fund's best performers in Q1 was technology company Avaya Holdings, which increased more than 40% in the period. The market is gradually discovering and re-pricing the discounted software and services communications provider, still plagued by inaccurate perceptions from its past as a hardware provider with financial issues. Hitachi gained 25% in the quarter, is on a solid trajectory in its restructuring process and still trades at a discount to fair value. Hitachi is gradually moving towards becoming a technology company following the acquisition of GlobalLogic at the end of Q1. US life insurer Lincoln National, a winner in the higher interest rate environment, re-rated strongly and was another strong contributor. Our Japanese regional bank Resona Holdings increased by 30% in Q1 and we added to the position. We believe the ignored bank is a key beneficiary of the reflationary environment and an important player in the potential consolidation of the Japanese regional bank industry. We also increased our position in the Austrian bank Raiffeisen which trades at a steep discount even when considering a quite severe scenario for the potential litigation impact from the Polish loan portfolio. Our total exposure to financial companies is 25% of the portfolio at quarter end.

We trimmed our position in German joint engineering supplier Norma following a doubling of the equity since inception in early 2020. We sold out of SAF Holland and Toyota Industries as both companies reached our price targets. Dow Inc. also left the portfolio following a solid re-rating since inception.

Our gold miner Roxgold fell back in the quarter as gold prices decreased modestly, but the company continues to make solid progress in developing its asset base and still trades at very attractive multiples. Copper miner Ivanhoe Mines gave back some of the gains from last year but appears to be on track with its first copper production in mid-2021 and still trades at a substantial discount to fair value and peers.

A rare value opportunity uncovered in IT

The recent de-rating of the technology sector uncovered a rare value opportunity to acquire shares in video game producer Ubisoft. The de-rating of the shares followed a series of disappointments and we now observe price points not seen since 2017. We believe the shares have been liquidated by momentum chasing technology funds and now represent very interesting value, especially if we look beyond the current heavy investment cycle into new games. The free cash flow generation is lower in the next two years, but we see a very attractive free cash flow yield in the medium term.

We established a position in Italian based white cement leader Cementir. The company has a robust market position in white cement with a solid balance sheet and an increasing net cash position. We believe the lower free float and possibly its Italian listing have produced a discount which will not persist, as the shares seem to be trading at around three times its mid-term cash flow potential. We think the company has the potential to increase shareholder returns through increased dividends and the opportunity to increase its margin in the next few years.



Photo: Unsplash

US regional bank

We identified another interesting value opportunity in US regional bank First Horizon. The bank has gone through a transformational journey, following two acquisitions, and the business is clearly more diversified and robust than the market is willing to price in. The return on equity is meaningfully higher than peers which would justify a substantially higher valuation in the mid-term.



Photo: Unsplash

Outlook

We believe there is still huge potential for a continued rotation into value assets from the growth/mega cap space in global equity markets. The stars are aligning for value with increasing tailwinds, while the mega-cap technology space is facing several headwinds such as a more difficult regulatory environment and the anticipation of slowing growth rates. At the end of Q1 there are 42 positions in the portfolio, 85% of which are in the micro, small and mid-cap segment. Despite recent solid gains in the fund, we observe a substantial upside to our price targets across the portfolio of more than 40%, as many portfolio winners have been recycled into new positions. More than 50% of the positions were initiated less than one year ago.

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.

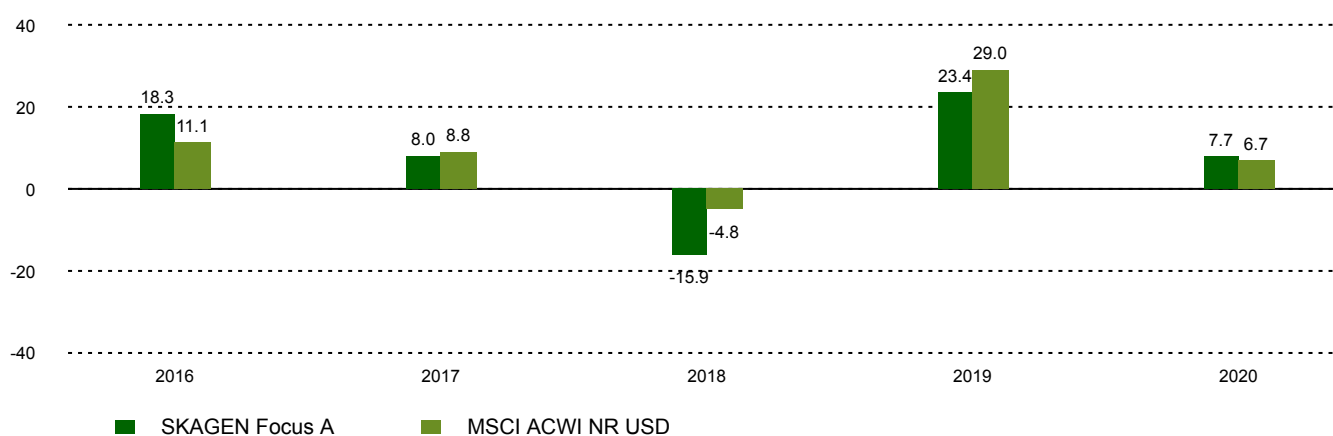
Historical performance (net of fees)

Period	SKAGEN Focus A	Benchmark index
Last month	6.5%	5.9%
Quarter to date	12.4%	9.1%
Year to date	12.4%	9.1%
Last year	85.4%	44.0%
Last 3 years	9.4%	14.5%
Last 5 years	11.2%	12.5%
Last 10 years	n/a	n/a
Since start	5.3%	8.4%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	26.05.2015
Morningstar category	Global Flex-Cap Equity
ISIN	NO0010735129
NAV	16.09 EUR
Fixed management fee	1.60%
Total expense ratio (2020)	1.72%
Benchmark index	MSCI ACWI NR USD
AUM (mill.)	130.25 EUR
Number of holdings	42
Portfolio manager	Jonas Edholm

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Avaya Holdings Corp	2.70	0.98
KB Financial Group Inc	4.09	0.90
Lincoln National Corp	3.69	0.85
Parex Resources Inc	3.29	0.83
Hitachi Ltd	5.38	0.78



Largest detractors

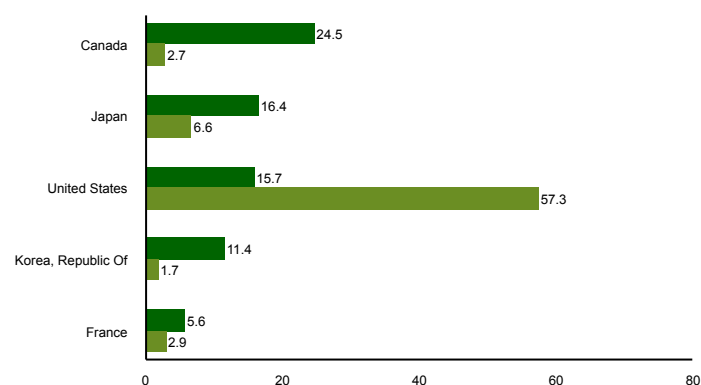
Holding	Weight (%)	Contribution (%)
Pasona Group Inc	2.26	-0.40
MagForce AG	2.34	-0.39
Ontex Group NV	1.01	-0.28
Ivanhoe Mines Ltd	6.65	-0.19
Argonaut Gold Inc	1.37	-0.17

Absolute contribution based on NOK returns at fund level

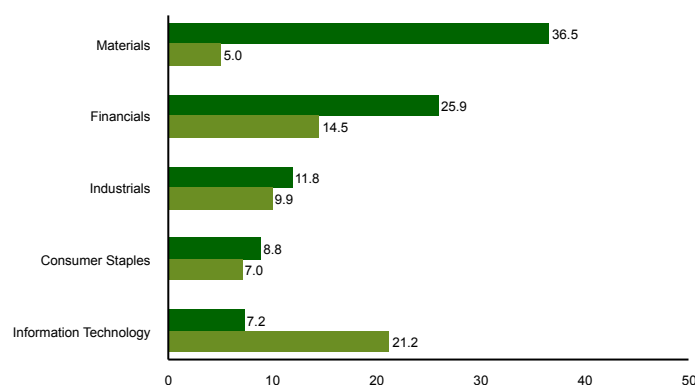
Top ten investments

Holding	Sector	Country	%
Ivanhoe Mines Ltd	Materials	Canada	6.1
Roxgold Inc	Materials	Canada	4.9
West Fraser Timber Co Ltd	Materials	Canada	4.6
KB Financial Group Inc	Financials	Korea, Republic Of	4.6
Hitachi Ltd	Information Technology	Japan	4.6
Lincoln National Corp	Financials	United States	4.1
Korean Reinsurance Co	Financials	Korea, Republic Of	3.4
Parex Resources Inc	Energy	Canada	3.3
Albertsons Cos Inc	Consumer Staples	United States	3.0
UPM-Kymmene Oyj	Materials	Finland	3.0
Combined weight of top 10 holdings			41.7

Country exposure (top five)



Sector exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR USD

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Contact



+47 51 80 37 09



contact@skagenfunds.com



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

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