

Solid returns to unitholders in the quarter

The fund delivered a strong return in the second quarter following solid performance since early 2020. The rotation into value assets continued early in the quarter, but these tendencies reversed sharply at the end of the period, as central banks forced longer bond yields lower once again and indicated an only temporary inflationary environment. We believe the cyclical rebound in asset prices has more or less come to an end and the fund has reduced its exposure to early cyclicals markedly while increasing positions in significantly undervalued travel-related positions and discounted financial stocks.

Buyout offers drive portfolio returns

We added several new positions in the second quarter. French car mobility service company Europcar was added at a price of around EUR 0.28 per share. The company was overleveraged heading into the crisis and was forced to execute a debt-to-equity swap. As a result, its balance sheet is now solid and the company has only marginal net debt. Europcar still has a significant market share in Europe and is trading at a substantial discount to normalised earnings power. Indeed, this was confirmed as early as late June when the company received an offer from a Volkswagen-led consortium to buy them out at EUR 0.44/share. While the offer compares well with the share price at our inception point, is still seems low relative to our price target of EUR 0.60/share and was rejected by the owners. Europcar was one of the strongest contributors in the quarter.

Roxgold was another strong position in the quarter following an offer from Fortuna Silver to buy out the company. We initiated our position in Roxgold in early 2019 at a share price of around CAD 0.80. As part of the offer, Fortuna agrees to acquire all Roxgold shares through a combination of stock and cash. The implied price for Roxgold at inception point was CAD 2.73/share, representing a more than 40% premium to last close.



Photo: Unsplash

We also added a position in China Communication Services which essentially provides infrastructure services and network maintenance to the big three telecom companies in China. The company structure is improving and the stock is trading even below the net cash level recorded in the balance sheet. New holders of the company are vastly improving the company's growth prospects in new segments and geographies.

We reduced the position in the quarter as the equity approached our price target but it remains a top-10 position in the fund. We believe the combined unit at current levels trade at a vast discount to fair value at about two times core cash flow generation from a medium-term perspective.

Early cyclicals replaced by travel-related exposure

We sold out of several companies that have reached our price targets. The fund has exited the highly profitable position in lumber producer West Fraser Timber. Earlier in the quarter we exited Norma after the equity more than doubled since inception in 2020. In addition, we sold out of Japanese industrial Hitachi Construction Machinery and reduced our position in copper miner Ivanhoe Mines. Weaker positions in the quarter were Spanish pulp producer Ence, which has been sold out of the portfolio, and Sumitomo Osaka Cement, following a weaker than anticipated guidance for the current year.

We initiated a position in German mobility service company SIXT in the period. The company is emerging as a winner following the pandemic crisis for the car-rental industry and has been able to improve its market position by acquiring failing assets primarily in the US. We have bought the preference share which trades at a huge discount of about 40% to the ordinary share, providing the fund with a very attractive discount-on-discount investment situation.

The fund also opened a position in UK bus operator Stagecoach. The company is active both in London buses as well in the regional bus segment in the UK. We believe the shares are trading at a significant discount to fair value relative to the normalised earnings power of the company which we think is attainable from a medium-term perspective.



Photo: Unsplash

Outlook

We continue to find very attractive contrarian value areas for investment, as evidenced by our new positions. The incrementally positive vaccine developments support a recovery in many value areas. Currently 85% of the fund is positioned in the small and mid-cap segment. At the end of the quarter we have 42 substantially undervalued positions with strong equity upside from a medium-term investment perspective.

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.

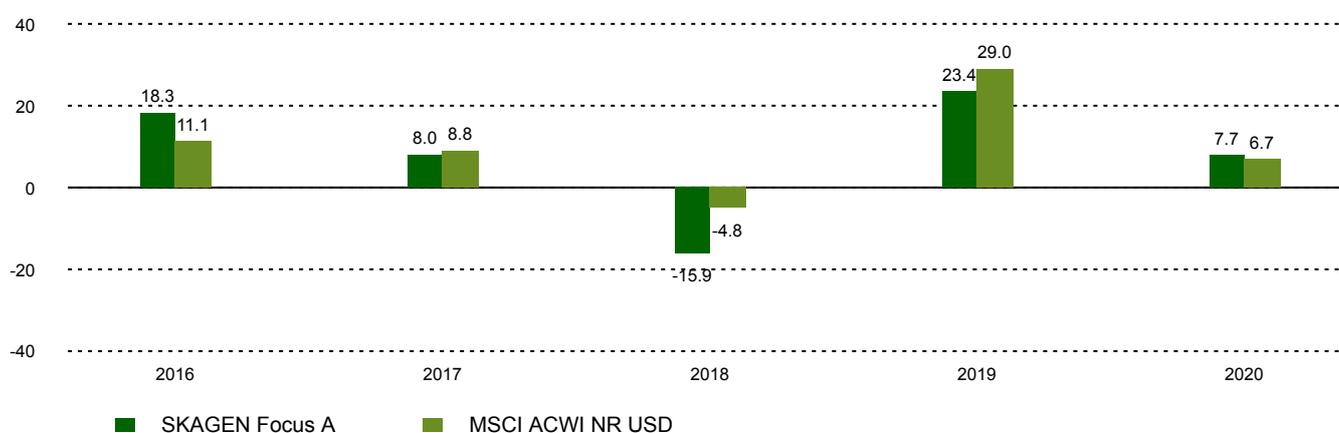
Historical performance (net of fees)

Period	SKAGEN Focus A	Benchmark index
Last month	-1.1%	4.5%
Quarter to date	5.2%	6.2%
Year to date	18.2%	15.9%
Last year	55.5%	32.8%
Last 3 years	9.5%	13.8%
Last 5 years	11.1%	13.3%
Last 10 years	n/a	n/a
Since start	6.0%	9.1%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	26.05.2015
Morningstar category	Global Flex-Cap Equity
ISIN	NO0010735129
NAV	16.92 EUR
Fixed management fee	1.60%
Total expense ratio (2020)	1.70%
Benchmark index	MSCI ACWI NR USD
AUM (mill.)	170.62 EUR
Number of holdings	42
Portfolio manager	Jonas Edholm

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Ivanhoe Mines	5.12	2.32
Roxgold Inc	5.26	1.57
Hitachi Ltd	3.55	0.86
Europcar Mobility Group	0.92	0.64
Korean Reinsurance Co	3.29	0.55



Largest detractors

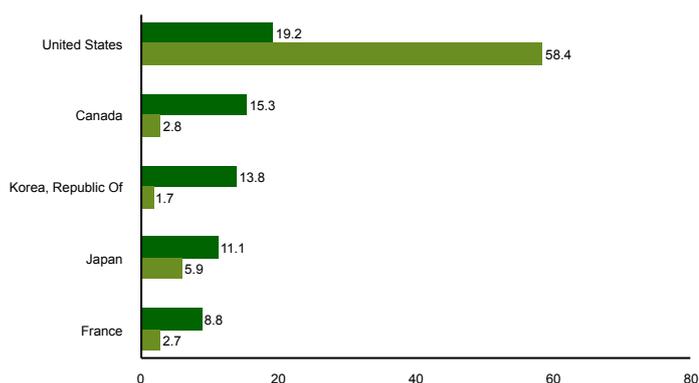
Holding	Weight (%)	Contribution (%)
Ence Energia y Celulosa	1.34	-0.35
MagForce AG	1.62	-0.27
Sumitomo Osaka Cement	1.60	-0.26
Canfor Pulp Products	2.40	-0.25
Resona Holdings	2.69	-0.23

Absolute contribution based on NOK returns at fund level

Top ten investments

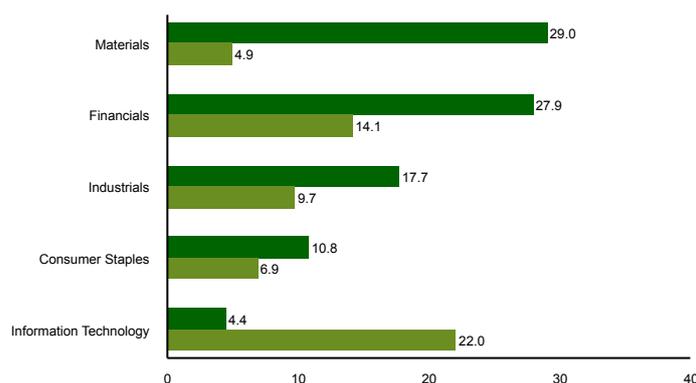
Holding	Sector	Country	%
KB Financial Group Inc	Financials	Korea, Republic Of	4.4
Albertsons Cos Inc	Consumer Staples	United States	4.1
Ivanhoe Mines Ltd	Materials	Canada	3.9
Sixt SE	Industrials	Germany	3.9
Korean Reinsurance Co	Financials	Korea, Republic Of	3.4
Ubisoft Entertainment SA	Communication Services	France	3.4
Wienerberger AG	Materials	Austria	3.4
Argonaut Gold Inc	Materials	United States	3.2
Cascades Inc	Materials	Canada	3.2
Roxgold Inc	Materials	Canada	3.1
Combined weight of top 10 holdings			35.9

Country exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR USD

Sector exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR USD

Contact



+47 51 80 37 09



contact@skagenfunds.com



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

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