

**IMPORTANT INFORMATION:** This is marketing communication. The report should not be perceived as a recommendation to buy or sell fund units. Prior to subscription, we encourage you to read the fund's prospectus and key investor information document which are available at [www.skagenfunds.com](http://www.skagenfunds.com), from our local representatives and from our distributors.

## Recession fears dominate the quarter

The portfolio delivered a negative return in the second quarter and ended the period on a weak note as recession fears broadly reduced valuations in basic material and financial stocks globally. Longer maturity interest rates began to fall at the end of the quarter as financial markets started to anticipate a peaking inflation environment and broad economic slowdown. A scenario in which central banks are forced to retrench and possibly also reverse interest rates hikes as early as next year should not be excluded. At this point, the markets' focus will turn back to economic expansion which again would spur a rotation into early cyclical exposures. During the recent correction, the fund's cheapness, i.e. the overall distance to portfolio price targets across the portfolio, increased and is now at levels not seen since the pandemic low in early 2020.

### Performance drivers

The best performing positions in the period consist of a diversified set of stocks. First, our Japanese regional bank Shiga Bank rose more than 25 percent as the company raised its dividend and an activist investor suggested that the capital allocation policies need to be improved to remove the hefty discount in the bank's equity. Ubisoft, the French video-game producer, benefited from talk of the company potentially being a target for private equity. Ubisoft is trading at a substantial discount to our estimate of fair value. The company is in the midst of launching several new games following a heavy investment period.

The weakest performer in the quarter was copper producer Ivanhoe Mines, which lost almost 30 percent in the period. From a fundamental perspective, the miner is doing all the right things to deliver shareholder value, and the execution of the copper production ramp-up has been flawless. The equity's weaker performance was directly related to the fall in the underlying commodity. We have earlier in the year taken profit in the position, but now again see substantial upside to our price target. Following a weaker than anticipated earnings report for the first quarter, our Canadian packaging company Cascades was also a negative contributor. We believe the weakness is mainly due to temporary factors

such as regional supply chain disruptions which have the potential to normalise in the short term.

The Japanese elevator producer Fujitec ended the quarter on a strong note following a battle between the company's management and activist investor Oasis, which demanded that the company's CEO step down. We have supported this action as governance issues have surfaced, and this could also open up for improvements in the company's governance and capital allocation discipline.

### Portfolio activity

We closed our position in Indonesian nickel producer Vale Indonesia as the stock hit our price target early in the quarter. This position has been replaced by Nickel Asia Corp, based in the Philippines. The company supplies primarily Asian clients with nickel ore which is used for the production of nickel used in stainless steel and EV batteries. Following Indonesia's export ban, the company is effectively enjoying a monopoly on nickel ore exports to China.

We established a position in US food retailer Albertsons, which seems to offer very good value and is undergoing a strategic review to optimise its capital structure. We also added a position in Viscofan, a Spanish producer of casings for meat products, which we believe is trading substantially below fair value and is below the radar of most investors. We exited our position in US life insurer Lincoln National as the stock hit our holding duration limit. Unfortunately, our catalysts for revaluation failed to materialise.

We continue to find very interesting value propositions in Japan and added the Japanese IT-conglomerate Kyocera in the period. The company is currently restructuring its main operations and its core earnings power is valued very conservatively if we remove the company's vast stake in telecom operator KDDI.



Photo: Shutterstock

We increased our position in German powertrain producer Vitesco as the stock suffered from temporary supply chain issues and uncertainty over global auto parts production. There has been substantial insider buying and the company's main owner, the Schaeffler family, recently increased its stake. A merger between Vitesco and Schaeffler may indeed be the end game and would produce substantial synergies.



Photo: Shutterstock

### Outlook

We believe the financial markets are in a painful normalisation phase for interest rates and valuation multiples. The main concern now is that central banks will trigger a major recession, which has pushed down valuations even in otherwise structurally strong basic material stocks and substantially discounted financials. Importantly, there is a substantial upside to our weighted price targets in the fund, in line with the upside seen at the pandemic low in early 2020. The heavy correction in technology and consumer-related company valuations will bring interesting opportunities for the fund going forward. We hold 48 positions in the portfolio at the end of quarter, of which 79 percent in the small and midcap segment.

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 the majority of exposure invested in small and mid-cap companies. Subscriptions are made in fund units and not directly in stocks or other securities. The fund has risk profile 6. The benchmark reflects the fund's investment mandate. Since the fund is actively managed, the portfolio will deviate from the composition of the benchmark.

## Historical performance (net of fees)

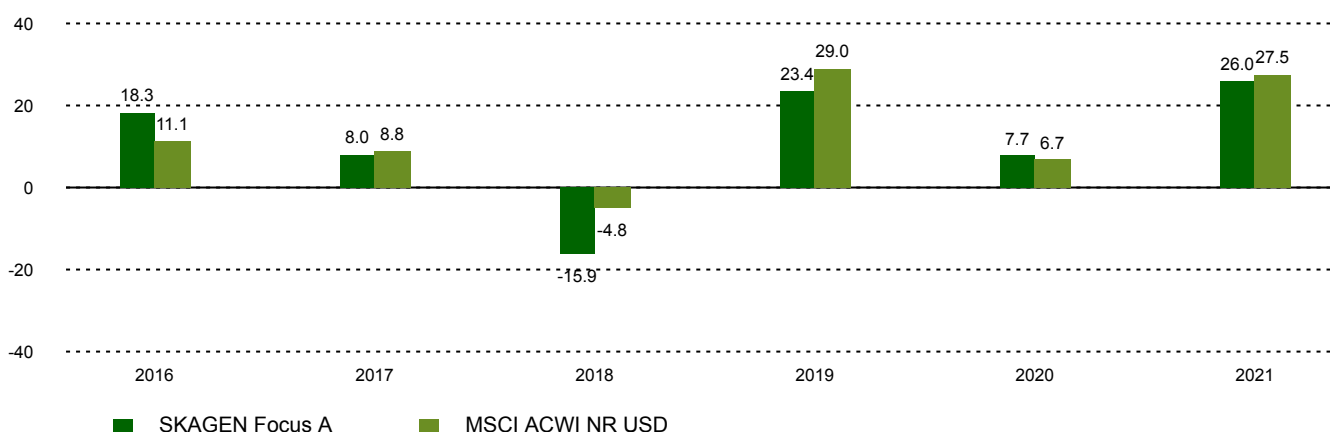
Period	SKAGEN Focus A	Benchmark index
Last month	-10.6%	-6.2%
Quarter to date	-13.4%	-10.2%
Year to date	-12.2%	-13.2%
Last 12 months	-6.4%	-4.4%
Last 3 years	8.6%	9.4%
Last 5 years	5.6%	8.9%
Last 10 years	n/a	n/a
Since start	4.1%	7.1%

## Fund Facts

Type	Equity
Domicile	Norway
Launch date	26.05.2015
Morningstar category	Global Flex-Cap Equity
ISIN	NO0010735129
NAV	15.83 EUR
Fixed management fee	1.60% + performance fee*
Total expense ratio (2021)	1.40%
Benchmark index	MSCI ACWI NR USD
AUM (mill.)	223.22 EUR
Number of holdings	49
Portfolio manager	Jonas Edholm

\*10.00% performance fee calculated daily and charged annually if the fund's value development is better than the benchmark index. The total management fee charged represents a maximum of 3.20% p.a. and a minimum of 0.80% p.a. The performance fee may be charged even if the fund's units have depreciated in value if the value development is better than the benchmark index.

## Performance last ten years



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.

All data in EUR as of 30/06/2022 unless otherwise stated.

## Contributors in the quarter



### Largest contributors

Holding	Weight (%)	Contribution (%)
Shiga Bank Ltd	1.84	0.42
Ubisoft Entertainment SA	3.07	0.37
China Comms Services	3.02	0.27
K+S AG	0.51	0.27
Ence Energia y Celulosa	1.89	0.17



### Largest detractors

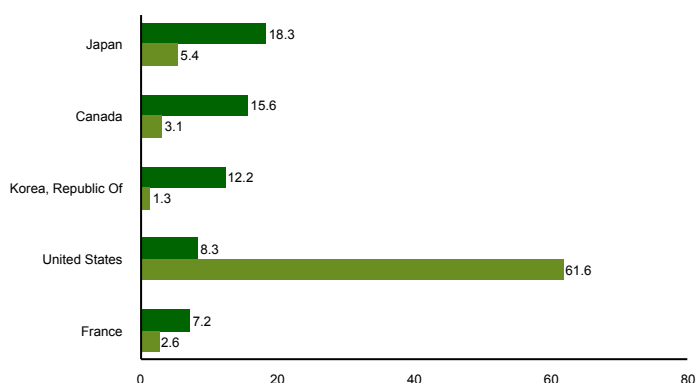
Holding	Weight (%)	Contribution (%)
Ivanhoe Mines Ltd	3.22	-1.07
Cascades Inc	4.03	-0.65
Stelco Holdings Inc	1.70	-0.63
Methanex Corp	2.81	-0.59
Textainer Group Holdings	2.87	-0.56

Weights shown are the average for the period. Absolute contribution based on NOK returns at fund level.

## Top ten investments

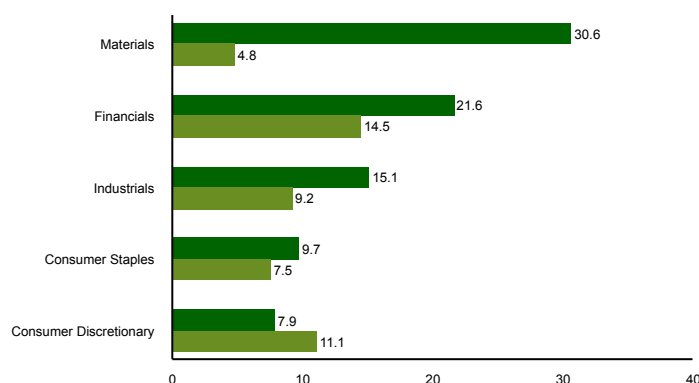
Holding	Sector	Country	%
Ubisoft Entertainment SA	Communication Services	France	3.4
China Communications Services Corp Ltd	Industrials	China	3.3
Marcus Corp/The	Communication Services	United States	3.2
KB Financial Group Inc	Financials	Korea, Republic Of	3.0
Cascades Inc	Materials	Canada	2.9
Kyocera Corp	Information Technology	Japan	2.8
Textainer Group Holdings Ltd	Industrials	China	2.7
Panasonic Corp	Consumer Discretionary	Japan	2.7
Korean Reinsurance Co	Financials	Korea, Republic Of	2.7
Ivanhoe Mines Ltd	Materials	Canada	2.6
Combined weight of top 10 holdings			29.2

## Country exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR USD

## Sector exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR USD

## Important information

This report is intended for investment professionals only. All information is based on the most up-to-date data available. Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as per the end of the previous month. Except otherwise stated, the source of all information is SKAGEN AS. SKAGEN AS does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this report. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this report or are part of a fund's portfolio.



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