

Volatile second quarter

The global equity markets continued to be volatile in the second quarter (Q2). The threat of trade wars and tariffs dominated newspaper headlines and investor debates. Developed markets outperformed emerging markets, several of which saw significant currency depreciations due to an unfavourable economic backdrop.

Key contributors

The fund's three strongest performers measured by absolute return during the quarter were Microsoft, Capgemini and Intercontinental Exchange (ICE).

The US technology giant Microsoft has been in the fund over seven years and outperformed the index during that timeframe. The company continues to benefit from the cloud expansion and still trades at a discount to intrinsic value based on our analysis. The French technology services company Capgemini is a beneficiary of the global digitalisation wave and solid execution has propelled the stock higher in recent quarters. The US stock exchange operator ICE generates vast quantities of proprietary data that is highly attractive to a wide variety of actors in the financial markets. The data content provides ICE with a certain degree of pricing power and contributes to making its business model more robust. It is one of the fund's core holdings and the long-term equity story looks very compelling given the undervalued stock price.

The fund's three largest detractors in the quarter were IRSA, 3M and Samsung Electronics.

The Argentinian conglomerate IRSA fell in sympathy with the local market as the ailing economy in Argentina forced the country to apply for a USD 50 billion financing agreement from the International Monetary Fund (IMF). The American blue-chip 3M pulled back due to worries about global trade. 3M guided down full-year revenue expectations in Q1, but management has since indicated that business is now progressing in-line with expectations. The South Korea electronics company Samsung

Electronics also receded as investors took profit after a strong run in the memory space, but the name remains a key holding in the fund.

Portfolio Activity

We entered four new positions in Q2, namely Mastercard, Moody's, Tyson Foods and UPM-Kymmene.

We see the US technology and payment company Mastercard benefitting from the global structural shift from cash to electronic payment, an irresistible force driven by universal factors such as consumer convenience, government tax collection and trade efficiency. Mastercard's position remains underappreciated, particularly in the B2B market that is just in its infancy.

The credit-rating agency Moody's operates in an oligopolistic market and we consider the long-term opportunity from maturing emerging markets undervalued. As economies mature, companies typically switch from bank loans to bond financing. This trend will drive strong demand for independent bond ratings for many years to come and therefore aligns well with our long-term investment horizon.

Tyson Foods, the premier chicken producer in the US and a former holding in SKAGEN Global, has seen a fall in share price due to short-term noise. However, we think the stock price movement has been excessive as the structural protein trend remains intact and we took advantage of the wobble to initiate a position at attractive levels.

Finally, we added a contrarian position by re-engaging in the Finnish forest-based bio-industry leader UPM-Kymmene. While graphic paper is certainly in secular decline, UPM is transforming itself into a different animal under a highly skilled management team and a prudent board characterised by superior capital allocation skills. Our base case valuation implies over 35% upside.



We see the US technology and payment company Mastercard benefitting from the global structural shift from cash to electronic payment. Photo: Bloomberg



The US technology giant Microsoft has been in the fund over seven years and outperformed the index during that timeframe. Photo: Bloomberg

Portfolio activity

We sold three positions during the quarter where the share price has performed well and we no longer consider the names to be significantly undervalued. These are namely the Danish brewer Carlsberg and the Dutch companies DSM and Philips. We also shifted some capital from CK Hutchison Holdings to CK Asset Holdings, both of which are well-run conglomerates controlled by the Li family. CK Hutchison Holdings remains a good absolute return story, but more attractively valued candidates have emerged from our pipeline and since SKAGEN Global is run as an uncompromising meritocracy, we offloaded the remaining shares of CK Hutchison. The fund also exited the US real estate investment trust Columbia Property Trust after a 3-year holding period since we see underwhelming cash flow back to shareholders. Finally, we stepped away from the Korean automotive manufacturer Hyundai Motor and the German industrial conglomerate thyssenkrupp where it is no longer apparent to us that shareholder value creation is a top priority.

Outlook

Although the risk of escalating trade wars makes the near-term unpredictable for equity markets, we still consider stocks appealing for long-term investors. Based on our recent discussions with portfolio companies and observations from various independent sources across the globe, we believe the fundamental economic backdrop remains reasonably healthy. SKAGEN Global has an unconstrained investment mandate that enables us to seek out and buy stocks in undervalued companies virtually anywhere in the world. Applying our multi-year investment horizon, we analyse long-term bottom-up fundamentals rather than short-term trading noise. SKAGEN Global's portfolio is attractively valued with the weighted average of the top-10 positions trading at 14.1x forward earnings and offering 29% upside.

The fund selects undervalued companies from around the world, including emerging markets, with attractive risk-reward for long-term investors.

The objective is to provide the best possible risk adjusted return.

The fund is suitable for those with at least a five year investment horizon.

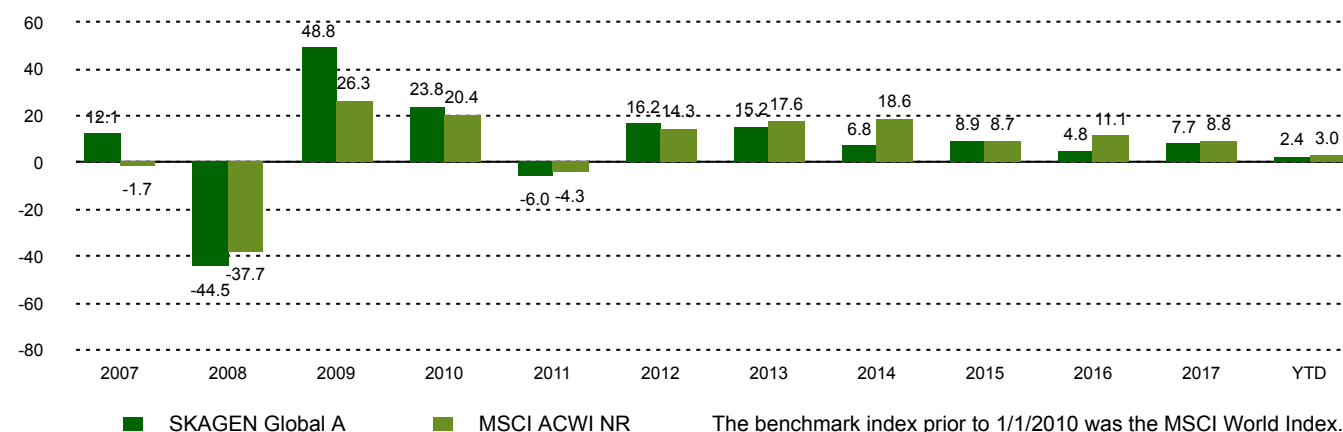
Historical performance (net of fees)

Period	SKAGEN Global A	Benchmark index
Last month	0.2%	-0.4%
Quarter to date	7.7%	8.1%
Year to date	2.4%	3.0%
Last year	6.0%	8.7%
Last 3 years	4.5%	6.6%
Last 5 years	8.0%	11.8%
Last 10 years	7.1%	8.9%
Since start	13.6%	4.6%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	07.08.1997
Morningstar category	Global Large-Cap Blend Equity
ISIN	NO0008004009
NAV	176.11 EUR
Fixed management fee	1.00%
Total expense ratio (2017)	1.00%
Benchmark index	MSCI ACWI NR
AUM (mill.)	2700.36 EUR
Number of holdings	43
Lead manager	Knut Gezelius

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Microsoft Corp	6.40	0.98
Capgemini SE	3.48	0.50
Intercontinental Exchange Inc	4.71	0.38
SAP SE	2.09	0.34
Alphabet Inc	2.10	0.33



Largest detractors

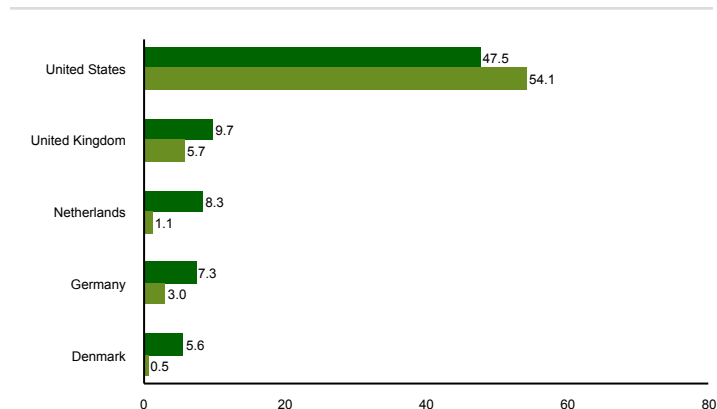
Holding	Weight (%)	Contribution (%)
IRSA Inversiones y Representac	0.91	-0.20
3M Co	4.35	-0.16
Samsung Electronics Co Ltd	3.44	-0.15
Mayr Melnhof Karton AG	1.70	-0.09
Carlsberg A/S	1.12	-0.09

Absolute contribution based on NOK returns at fund level

Top ten investments

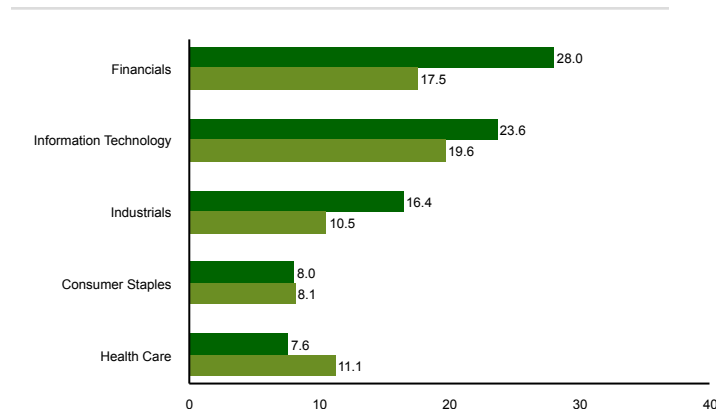
Holding	Sector	Country	%
Microsoft	Information Technology	United States	6.8
Intercontinental Exchange Inc	Financials	United States	4.9
Unilever CVA	Consumer Staples	Netherlands	4.6
Hiscox	Financials	United Kingdom	4.4
3M	Industrials	United States	4.3
Beazley PLC	Financials	United Kingdom	4.1
Citigroup	Financials	United States	3.8
Cap Gemini	Information Technology	France	3.6
Marsh & McLennan	Financials	United States	3.3
Samsung Electronics	Information Technology	Korea, Republic Of	3.2
Combined weight of top 10 holdings			43.0

Country exposure (top five)



■ SKAGEN Global A ■ MSCI ACWI NR

Sector exposure (top five)



■ SKAGEN Global A ■ MSCI ACWI NR

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