# SKAGEN Kon-Tiki A

All data in EUR as of 31.03.2018 unless otherwise stated.

## EM equities catch-up continues

After stunning performance in 2017, EM equities delivered negative return in European currencies in Q118 but continued to outperform developed markets. EM equities bottomed out on a relative basis during 1H16 after a longer period of weak performance relative to developed markets. This coincided with a recovery in earnings and led to a resumption of inflow into EM equity funds after significant outflow during 2013-2015. The earnings recovery has continued and earnings growth for the EM universe stands at 20% in the past year. Combined with attractive relative valuation, this has continued to fuel inflow into EM equities.

EM economic recovery continues, fuelled by solid growth in India and China as well as recovering economies in the two BRICs, Brazil and Russia. Inflation is contained, except in Turkey. Contrary to developed countries, this provides room for further real rate compression, which will stimulate equity valuation.

**Key contributors**

Larger temporary losses in State Bank of India and Hyundai Motor detracted from the fund's relative performance, but there were also star performers.

Banrisul gained 40%. The bank demonstrated clear improvement in asset quality and announced a potential IPO of its high growth merchant acquiring and credit card business. China Shineway Pharmaceutical came onto sell-side radars as sales growth resumes after being hurt by pricing pressure from centralisation of procurement. The investment thesis for the leading Chinese air-conditioning maker, GREE Electric Appliances, has played out well since we invested in September. We realised a meaningful part of the holding during the quarter.

High non-performing loans and administrative challenges in collateral recoveries plague the Indian banking sector. State Bank of India experienced the largest temporary loss in the portfolio, as they demonstrated that the asset base still needs provisioning. We are excited about the secular growth opportunity in India and SBIN has a strong deposit franchise. While high provisions might continue for some quarters, a P/BV of 1x is near a multi-year trough. Hyundai Motor, the fund's largest position, continued to perform poorly amid weak 4Q17 results. Recent activist engagement and signs of earnings recovery should, hopefully, result in revaluation from a P/E of 5x with better capital management, a key to unlocking values.

CBD/GPA, our Brazilian food retailer, reported light 4Q17 results with headwinds from current negative food inflation. The return of food inflation, cost optimisation and sale of non-core assets are catalysts for revaluation from 0.3x sales and EV/EBITDA of 4.5x which are around half of EM sector valuation. We have benefited from investing in industry leaders in a fragmented sector before in Russia. Consolidation was one of the reasons why we invested in GPA and this theme continues to provide long-term tailwinds to the investment case.

**Key buys**

We invested in four new companies, namely Russian airline Aeroflot, Chinese logistics group Sinotrans, Bank of China as well as Chinese water treatment operator, Beijing Enterprise Water. All are cheap on an absolute and relative basis with solid yield support of 3-7%.

Contrary to popular belief, Aeroflot has one of the freshest aircraft fleets in the industry with an average age of four years, which contributes to low costs. Valuation is below all peers at EV/EBITDA of 3x, with strong free cash flow yield of close to 30% providing solid dividend support. We see Aeroflot as a doubling candidate. Sinotrans provides freight forward services, specialised logistics and operates storage and terminals. The past few years' share price weakness is partly due to asset-injection risk, now put behind it. Valuation is at less than half of peers on most metrics with synergies from integration and upside from sale of non-core assets as catalysts. We see 50% upside to P/E of 10x, which would still put Sinotrans at a material discount to global peers. Bank of China is one of the "big four" government controlled banks. Trading at P/TBV of 0.7x, it is cheapest of the four and trades at 50% discount to EM sector average. We expect re-rating to continue as investors become more comfortable with the Chinese macro backdrop. Yield is 6% and we see a 40% upside based on discounted dividend model. The sewage treatment sector in China is fragmented with the top eight players only commanding 30% of market. However, consolidation is ongoing and we believe Beijing Enterprise Water, as the leading player and an SoE, will continue to gain market share. Based on near-term earnings growth of 20%, we find a P/E of 8x attractive and see a +50% upside based on DCF.

Banrisul gained 40%. The bank demonstrated clear improvement in asset quality. Photo: Bloomberg


China Shineway Pharmaceutical came onto sell-side radars as sales growth resumes after being hurt by pricing pressure. Photo: Bloomberg

**Key sells**

We exited two companies due to full valuation. We sold out of the Turkish holding company Eczacibasi ILAC as excess cash is distributed and the share price reflects underlying values after doubling in the past two years. We exited JSE, the South African stock exchange, as valuation reached a ten-year high. The change in presidency created strong optimism around the fight against corruption and fuelled the stock market index to an all-time-high.

**Outlook**

We continue to apply a consolidated approach focused on the best ideas. Our portfolio consists of 46 companies with the top 35 holdings representing 91% of assets. With a weighted valuation of P/E of 9x and P/BV of 1.1x, valuation merits to the EM universe is still evident. Growth and value have their periods of relative return. After a longer than usual period of underperformance for value, we have seen signs of value returning to favour with relative underperformance for high-multiple Chinese Internet stocks and Asian technology companies.

Quarterly Report

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The fund selects low-priced, high-quality companies, mainly in emerging economies.

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.

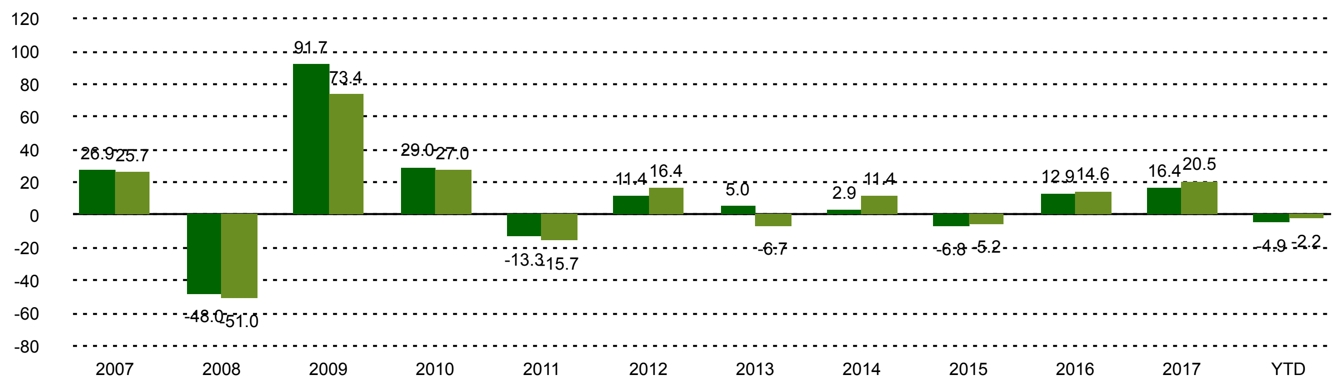
## Historical performance (net of fees)

| Period | SKAGEN Kon-Tiki A | Benchmark index |
|---|---|---|
| Last month | -4.0% | -4.0% |
| Quarter to date | -4.9% | -2.2% |
| Year to date | -4.9% | -2.2% |
| Last year | -0.9% | 7.1% |
| Last 3 years | 1.5% | 3.5% |
| Last 5 years | 3.9% | 5.6% |
| Last 10 years | 6.4% | 5.5% |
| Since start | 12.7% | 8.0% |

## Fund Facts

| | |
|---|---|
| Type | Equity |
| Domicile | Norway |
| Launch date | 05.04.2002 |
| Morningstar category | Global Emerging Markets Equity |
| ISIN | NO0010140502 |
| NAV | 88.96 EUR |
| Fixed management fee | 2.00% |
| Total expense ratio (2017) | 1.59% |
| Benchmark index | MSCI EM NR |
| AUM (mill.) | 2744.00 EUR |
| Number of holdings | 46 |
| Lead manager | Knut Harald Nilsson |

## Performance last ten years




SKAGEN Kon-Tiki A     MSCI EM NR     Please see benchmark disclaimer at bottom of next page

## Contributors in the quarter

### Largest contributors

| Holding | Weight (%) | Contribution (%) |
|---|---|---|
| Banrisul | 3.11 | 0.95 |
| SHINEWAY PHARM | 1.38 | 0.61 |
| GREE | 2.77 | 0.35 |
| Borr Drilling Ltd | 2.80 | 0.32 |
| JSE Ltd | 0.85 | 0.31 |

### Largest detractors

| Holding | Weight (%) | Contribution (%) |
|---|---|---|
| State Bank of India | 2.51 | -0.70 |
| Hyundai Motor Co | 6.61 | -0.67 |
| Cia Brasileira de Distribuicao | 2.96 | -0.67 |
| Haci Omer Sabanci Holding AS | 4.02 | -0.63 |
| Naspers Ltd | 4.80 | -0.61 |

Absolute contribution based on NOK returns at fund level

Quarterly Report

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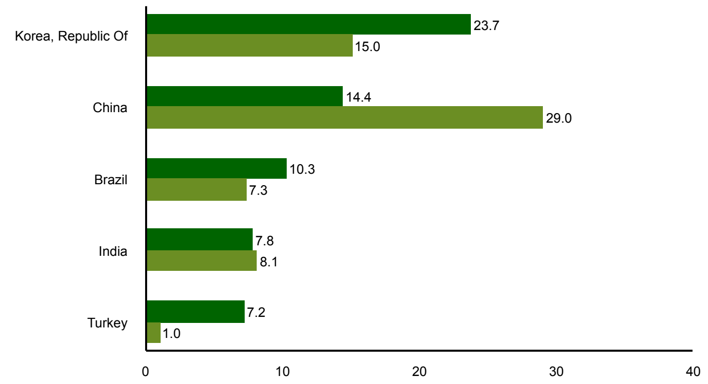
## Top ten investments

| Holding | Sector | Country | % |
|---|---|---|---|
| Hyundai Motor | Consumer Discretionary | Korea, Republic Of | 6.9 |
| Samsung Electronics | Information Technology | Korea, Republic Of | 6.7 |
| Naspers | Consumer Discretionary | South Africa | 4.6 |
| Mahindra & Mahindra | Consumer Discretionary | India | 4.3 |
| Haci Omer Sabanci Holding | Financials | Turkey | 3.9 |
| LG Electronics | Consumer Discretionary | Korea, Republic Of | 3.7 |
| Golar LNG | Industrials | United States | 3.5 |
| Borr Drilling | Energy | Norway | 3.4 |
| Banrisul | Financials | Brazil | 3.0 |
| Cia Brasileira de Distribuicao | Consumer Staples | Brazil | 2.9 |
| Combined weight of top 10 holdings | | | 42.8 |

## Country exposure (top five)

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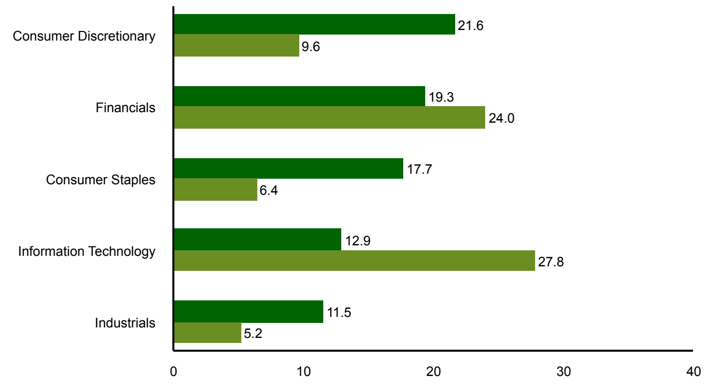
## Sector exposure (top five)

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## Important information

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The benchmark index is the MSCI EM Index (net total return), this index did not exist at the inception of the fund and consequently the benchmark index prior to 1/1/2004 was the MSCI World AC Index. This is not reflected in the table/graph above which shows the MSCI EM Index since the funds inception.