SKAGEN Kon-Tiki A

All data in EUR as of 31/09/2018 unless otherwise stated.

Attractive backdrop for active managers

The third quarter was marked by an elevated degree of volatility at country, sector and stock-specific level. As has been the case for much of the year, EM equities trailed their DM (and especially US-listed) peers as the rhetoric around a US-China trade war and a slowing Chinese economy escalated and weighed on risk sentiment. EM assets were also negatively impacted by continued USD strengthening, partly on the back of rising interest rates, and heightened sensitivity to political and monetary conditions. This was particularly evident in Turkey, which suffered a material devaluation during the quarter. At sector level, Energy and Materials registered strong gains due to higher oil and cement prices while the Consumer sector was weighed down by weak Autos and Chinese Internet returns. As we have argued on numerous occasions, we believe that the heterogeneous nature of emerging markets and wide range of valuations make for an attractive backdrop for active managers.

Key contributors

Our active approach is reflected in our key contributors during the quarter. Swedish telecom equipment producer Ericsson continued to perform strongly on the back of further evidence of management's turnaround plan bearing fruit. Cost delivery was strong, resulting in higher gross and operating margins, and the company appears to be increasingly well positioned for the inevitable 5G investment cycle ahead.

It was also a strong quarter for Korean battery manufacturer Samsung SDI, which delivered operating results well ahead of expectations. This was primarily driven by faster growth and reduced ramp-up losses for large batteries (e.g. for electric vehicles), which is a core element of our long-term investment thesis. We believe that Samsung SDI is well positioned for the continued electrification of transport and energy storage, which is also increasingly recognised by other market participants.

Another portfolio company receiving increased attention is land-based salmon farmer Atlantic Sapphire, which performed strongly during the period. Following the successful capital raise in Q2, we believe that the investment case has been de-risked and we received a positive operational update last month. As a result, our conviction in the long-term upside potential remains firm.

Unlike the very company-specific drivers behind our key contributors, the main detractors in the quarter were very much influenced by top down forces. Similar to Q2, our performance was checked by weakness in Turkey, primarily due to our exposure to conglomerates Sabanci and Anadolu Grubu. Although operating results in subsidiary companies continued to track market expectations, deteriorating financial conditions and rapidly rising inflation led to a significant devaluation of the Turkish lira. With nearly half of its underlying value tied to Akbank, Sabanci has proved especially vulnerable whilst Anadolu Grubu's significant non-lira borrowings have also become a significantly larger part of the capital structure. Our company visits during the period confirmed these challenges and we managed the fund's exposure accordingly.

Naspers was also weak during the quarter despite announcing plans to separate its pay-TV operations. We believe that the Group's conglomerate structure and high weight in the South African market are part of the explanation for the shares' material discount to underlying values. We therefore view this as a positive development, albeit overshadowed by Tencent's weak performance during the quarter on the back of heightened regulatory pressure in China.

Our active approach is reflected in our key contributors during the quarter. Photo: Ericsson

Following the successful capital raise in Q2, Atlantic Sapphire performed strongly during the quarter. Photo: Atlanticsapphire

Portfolio activity

We built four new positions in Q3; Ivanhoe Mines, Mexchem, Ping An and Euronav. The Canadian-listed miner Ivanhoe controls some of the most significant copper discoveries in recent times. We initiated the position as the company announced a private placement to CITIC Metal that provided the capital required to move towards the first stages of production at its South African and DRC assets. Interestingly, the private placement was done at a material premium to the prevailing share price, reflecting its strategic nature, and closed in September. We also added Mexchem, a Mexican petrochemical company, which looks set to benefit from both higher commodity prices and increasing value-added products to its mix.

Our new position in Ping An was driven by recent share price weakness, which we believe is unwarranted. This gave us an opportunity to enter China's premier financial services and FinTech group at a very attractive valuation. We expect the Group's core life insurance business to benefit from rising penetration of protection products while its portfolio of FinTech investments provides opportunities for cross-selling as well as potential for monetisation of stakes.

Finally, we welcomed shipping company Euronav back into the portfolio. Euronav was a Kon-Tiki holding from 2015 to 2017 and has taken advantage of the industry downturn by investing counter-cyclically while maintaining a healthy balance sheet. With the industry cycle at or near its bottom, we therefore see significant earnings potential ahead.

When the current team took over responsibility for the portfolio in Q2, we communicated that sell discipline would increase. As highlighted above, the risk/reward proposition of some of our Turkish holdings has materially changed and, as a result, we decided to exit our position in Sabanci. Whilst there is no evidence to date that operating performance has deteriorated materially, we see limited triggers for a reduction in Sabanci's conglomerate discount.

Outlook

The team spent the summer months updating financial projections and valuation expectations and this has invariably led to some adjustments to portfolio weightings to reflect current conviction levels. The portfolio currently consists of 46 companies with a weighted 2019 P/E ratio of less than 9x and trailing P/BV of 1x, a discount of 20% and 35% respectively. We therefore continue to see a significant positive upside skew to the portfolio.

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.

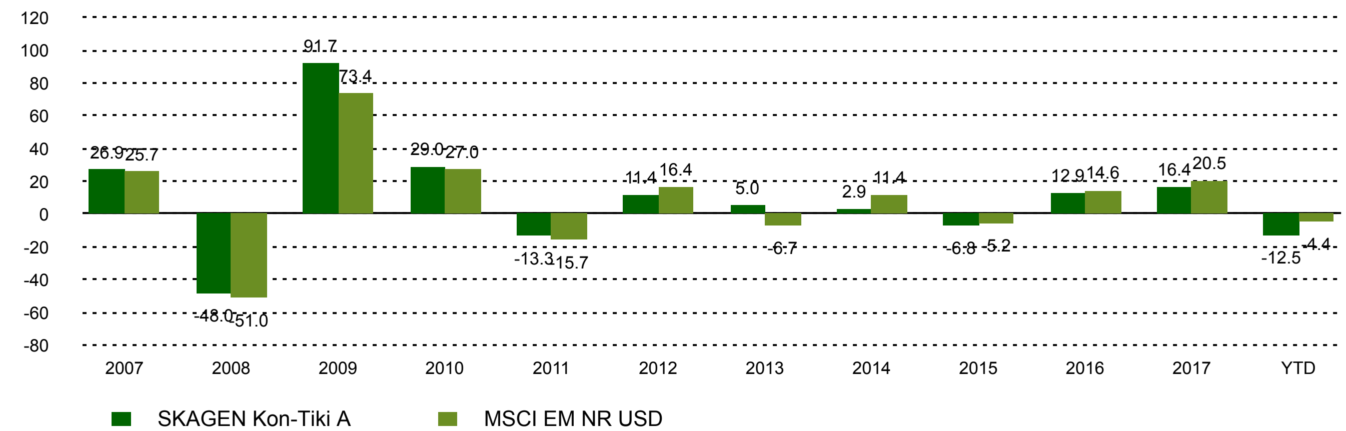
Historical performance (net of fees)

Period	SKAGEN Kon-Tiki A	Benchmark index
Last month	0.8%	-0.2%
Quarter to date	-6.0%	-0.5%
Year to date	-12.5%	-4.4%
Last year	-7.0%	0.9%
Last 3 years	6.4%	10.9%
Last 5 years	2.9%	6.8%
Last 10 years	7.0%	7.5%
Since start	11.8%	7.6%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	81.86 EUR
Fixed management fee	2.00%
Total expense ratio (2017)	1.59%
Benchmark index	MSCI EM NR USD
AUM (mill.)	2038.44 EUR
Number of holdings	47
Portfolio manager	Cathrine Gether Fredrik Bjelland

Performance last ten years



Please see benchmark disclaimer at bottom of next page

Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Ericsson	3.17	0.48
Samsung SDI Co Ltd	2.13	0.40
Atlantic Sapphire AS	1.38	0.36
Bangkok Bank PCL	2.29	0.23
Cia Cervecerias Unidas SA	2.16	0.21

Largest detractors

Holding	Weight (%)	Contribution (%)
Haci Omer Sabanci Holding AS	2.12	-1.56
Naspers Ltd	5.42	-0.77
AG Anadolu Grubu Holding AS	1.44	-0.72
SHINEWAY PHARM	1.40	-0.51
Sinotrans Ltd	1.90	-0.49

Absolute contribution based on NOK returns at fund level

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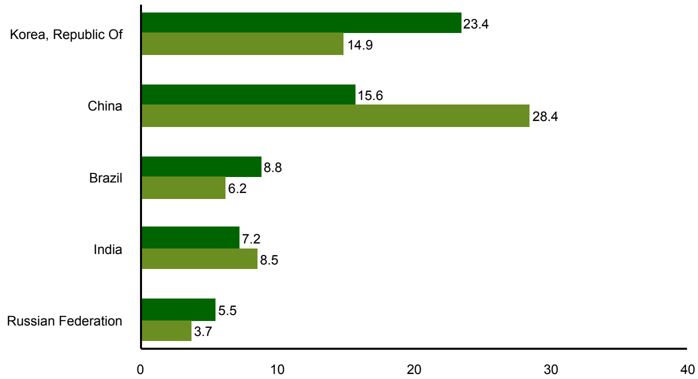
Top ten investments

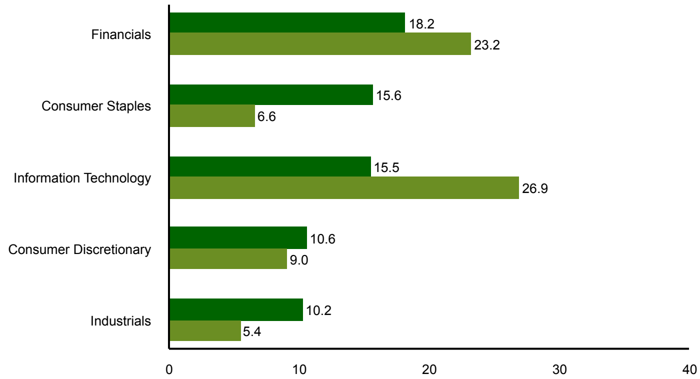
Holding	Sector	Country	%
Samsung Electronics	Information Technology	Korea, Republic Of	7.8
Naspers	Telecommunication Services	South Africa	5.1
Hyundai Motor	Consumer Discretionary	Korea, Republic Of	4.4
Borr Drilling	Energy	Norway	3.5
LG Electronics	Consumer Discretionary	Korea, Republic Of	3.3
Ericsson	Information Technology	Sweden	3.1
X5 Retail Group	Consumer Staples	Russian Federation	2.9
China Unicom Hong Kong Ltd	Telecommunication Services	China	2.9
State Bank of India	Financials	India	2.7
Bank of China	Financials	China	2.7
Combined weight of top 10 holdings			38.4

Country exposure (top five)



SKAGEN Kon-Tiki A MSCI EM NR USD

Sector exposure (top five)



SKAGEN Kon-Tiki A MSCI EM NR USD

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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.