

Strong start to the year

2019 got off to a strong start as global equity markets rebounded from last year's weak finish. While macro-economic data has, on the whole, been weaker than expected so far this year, risk appetite has resurfaced as the US interest rate trajectory has been lowered and there appears to be some progress being made towards a solution in US-China trade relations.

The vast majority of markets across our investment universe have therefore delivered positive returns in local currency year to date. The strongest performers have generally been those that fared less well in 2018 such as China, Hong Kong and Greece. Chinese A-shares, in particular, have benefitted from a combination of easing domestic liquidity and large foreign inflows on the back of index adjustments. This same trend is reflected in sector performance, as Consumer Discretionary, Real Estate and Information Technology have led returns so far this year.

As we had gradually increased our exposure to some of these areas in the second half of 2018, the fund has also enjoyed a strong start to the year, comfortably ahead of our benchmark. Since the change of lead manager in 2018, the team has focused on increased idea generation and a disciplined approach to portfolio and risk management. The analytical capacity of the team has been further strengthened by the addition of two dedicated investment analysts, in addition to our access to wider SKAGEN resources. We therefore believe that the fund is well placed for 2019 and beyond.



Photo: Bloomberg

Contributors and detractors

Ping An, which entered the portfolio in the third quarter last year, also delivered strong gains on the back of solid FY18 results and the commencement of a share buyback programme. Meanwhile, long-term holding Samsung Electronics surged on expectations that the memory cycle may be nearing a bottom. On the negative side, our automotive holdings Mahindra & Mahindra and Hyundai Motor suffered from weak demand and higher investment requirements as well as some currency weakness. FX also impacted our holding in Ghana Commercial Bank, despite reporting good FY18 results after the end of the quarter.

Key buys

During the first quarter, we welcomed back two previous holdings as well as receiving shares in African pay-TV operator Multichoice Group, which spun out of long-term holding Naspers. Shangri-La is a Hong Kong listed luxury hotel operator with operations mainly across Asia with substantial asset backing that we sold out of in 2012. With the shares having fallen significantly on fears of a Chinese slowdown, we have been able to revisit this quality franchise at a substantial discount to our estimate of underlying values and see significant upside potential from higher room revenues. We also revisited UK-listed household goods and personal care company PZ Cussons after a three-year absence from the portfolio. The company has struggled with falling profitability in its Nigerian operations that have been hit by both macro headwinds and operational issues. We believe that these are transitory and that management's long record of operating in challenging markets and likely restructuring efforts will eventually bear fruit.

Key sells

Given the strong start to the year, we exited three of our Chinese holdings as they reached our respective target prices, namely Great Wall Motor, Wuliangye and Hangzhou Robam. Wuliangye, in particular, was a brief but very profitable investment as the shares entered the portfolio last quarter and have risen by more than 80% year to date.



Photo: Bloomberg

Outlook

While we have enjoyed a strong start to the year, we remain positive on both the near and longer term outlook for emerging markets equities. On the whole, valuations are in line with historical averages while the heterogeneous nature of our investment universe means that there are significant opportunities for active managers. With an active share of 90% and a consistently applied value philosophy, SKAGEN Kon-Tiki continues to uncover undervalued opportunities with a positively skewed risk/reward proposition. As at the end of the first quarter of 2019, the portfolio consists of 49 robust EM exposed companies trading at a weighted average of just 8.3x 2020 earnings and 1.0x trailing price to book, representing a discount in excess of 25% compared with the MSCI EM index.

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.

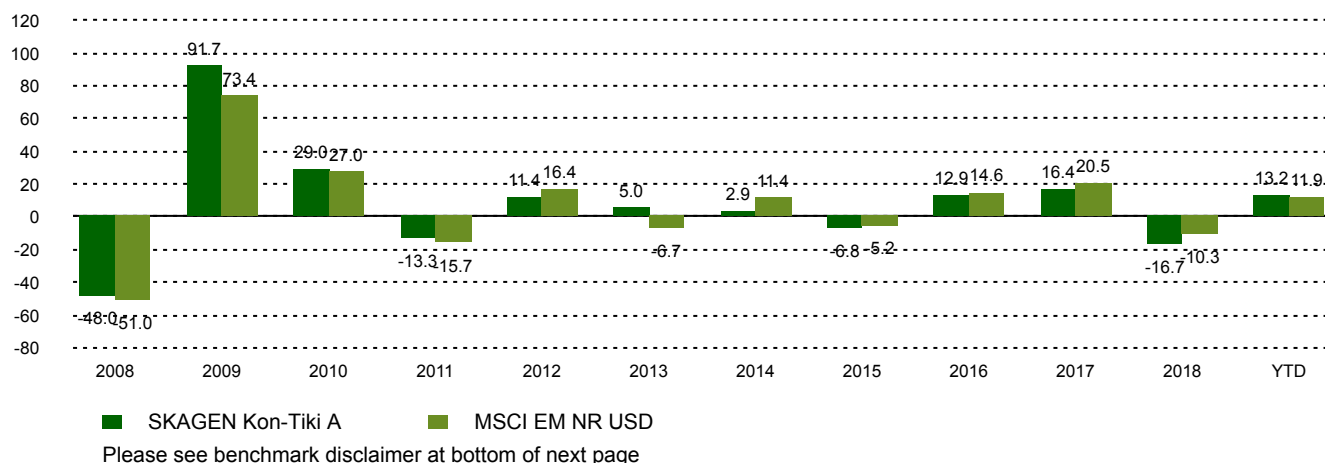
Historical performance (net of fees)

Period	SKAGEN Kon-Tiki A	Benchmark index
Last month	2.0%	2.0%
Quarter to date	13.2%	11.9%
Year to date	13.2%	11.9%
Last year	-0.8%	2.6%
Last 3 years	8.0%	11.2%
Last 5 years	3.8%	8.0%
Last 10 years	10.8%	10.8%
Since start	11.9%	7.7%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	88.25 EUR
Fixed management fee	2.00%
Total expense ratio (2018)	1.16%
Benchmark index	MSCI EM NR USD
AUM (mill.)	1966.19 EUR
Number of holdings	51
Portfolio manager	Cathrine Gether Fredrik Bjelland

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
PING AN	4.48	1.42
Wuliangye Yibin Co Ltd	1.25	0.83
Samsung Electronics Co Ltd	7.59	0.79
Naspers Ltd	5.21	0.78
Cosan Ltd	1.98	0.72



Largest detractors

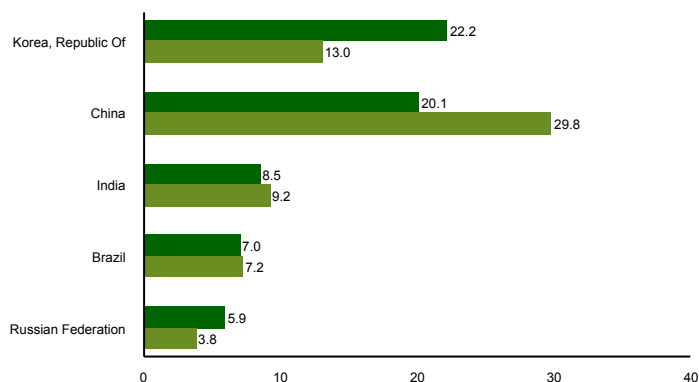
Holding	Weight (%)	Contribution (%)
Mahindra & Mahindra Ltd	2.21	-0.42
Ghana Commercial Bank Ltd	0.61	-0.18
Hyundai Motor Co	4.26	-0.15
Enka Insaat ve Sanayi AS	1.17	-0.07
Dragon Capital - Vietnam Enter	1.38	-0.06

Absolute contribution based on NOK returns at fund level

Top ten investments

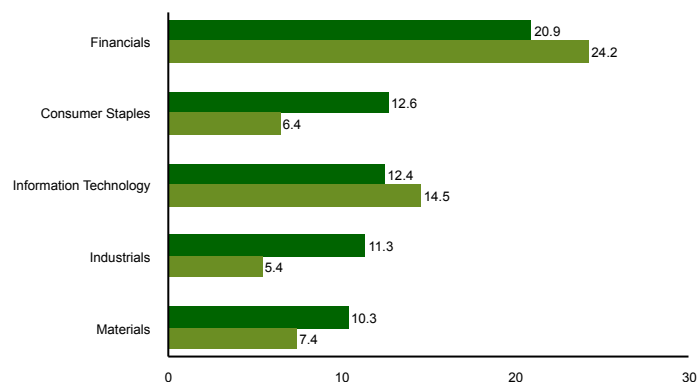
Holding	Sector	Country	%
Samsung Electronics	Information Technology	Korea, Republic Of	7.6
Naspers	Communication Services	South Africa	5.1
Hyundai Motor	Consumer Discretionary	Korea, Republic Of	4.0
Bank of China	Financials	China	3.5
State Bank of India	Financials	India	3.4
LG Electronics	Consumer Discretionary	Korea, Republic Of	3.3
China Unicom Hong Kong Ltd	Communication Services	China	3.3
X5 Retail Group	Consumer Staples	Russian Federation	3.2
PING AN	Financials	China	3.0
UPL	Materials	India	2.9
Combined weight of top 10 holdings			39.1

Country exposure (top five)



■ SKAGEN Kon-Tiki A ■ MSCI EM NR USD

Sector exposure (top five)



■ SKAGEN Kon-Tiki A ■ MSCI EM NR USD

Contact



+47 51 80 37 09



contact@skagenfunds.com



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

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.