SKAGEN Kon-Tiki A

All data in EUR as of 30/09/2019 unless otherwise stated.

Heightened macro and geopolitical concerns

The third quarter was a disappointing one for SKAGEN Kon-Tiki as heightened macro and geopolitical concerns weighed on global equities and emerging markets in particular. The most important change in investor perceptions was brought about by the significant reversal in US interest rate expectations since the start of the year. As the negative effects of the slowdown in global trade on the back of souring US-China relations have become increasingly tangible, the US Federal Reserve countered with two rate cuts over the summer months. While supportive in isolation, the first rate cuts in 11 years suggest that the post financial crisis economic expansion may have run out of steam, at least temporarily. We also saw broad-based monetary policy responses across emerging markets with India also announcing a well-received corporate tax cut.

A more cautious economic backdrop is particularly pronounced in export-sensitive economies such as Germany, which reported a material drop in manufacturing and export activity. The spillover to emerging markets has been significant, with investors again seeking safe(r) havens, which has weighed on cyclical industries in particular.

This has also affected SKAGEN Kon-Tiki, which lagged the benchmark index by more than 4% during the quarter. The most significant negative contributors were our holdings in the energy and commodities sectors where falling commodity prices and generally higher levels of financial gearing weighed on equity returns. At company level, we suffered a significant drawdown in Canada-listed Turquoise Hill Resources whose Mongolian copper mine expansion at Oyu Tolgoi in Mongolia has run into delays and cost overruns. While the company has sufficient liquidity to continue the expansion until 2021, our recent site visit confirmed that additional financing and local political support will be required to complete the project. While Borr Drilling secured additional financing at the end of Q2, a weaker oil price and lack of new contract wins at higher day rates have put the timing of a drill market recovery into question. Despite the corporate tax rate cut, State Bank of India was weak as asset quality concerns resurfaced during the period.

We have, however, seen tentative signs of stabilisation and recovery in the memory market, which drove our largest holding Samsung Electronics higher during the period. With Q2 earnings likely having marked a bottom, we expect investor focus to turn towards the company's strong competitive position and potential for accelerating shareholder returns in 2020/21. We also enjoyed strong returns from company-specific events in some of our Brazilian holdings. Rail operator Rumo continued to deliver solid operating results and may be a potential beneficiary of a US-China trade war. Holding company Cosan performed strongly on the back of the simplification of its structure and a tender offer to buy back some of its shares, in which we participated. Marfrig rose strongly as it called off its unfavourable merger plans with BRF and announced a plant-based protein joint venture with Archer-Daniels. We eventually exited the position as the shares went beyond our target price.

Portfolio activity
In addition to Marfrig, we also exited our positions in CCU and the recent Naspers spin-off Multi-Choice Group as they reached our target prices. We also sold our recently initiated holdings in pulp producer Suzano and hotel operator Shangri-La as our initial investment theses proved more challenging than previously assumed. This was due to greater cyclical concerns and a re-assessment of the companies' ability to manage these.

Photo: Bloomberg

Fed Chairman Jerome Powell. Photo: Bloomberg

We received another Naspers spin-off in the form of Amsterdam-listed Prosus, which is an investment vehicle containing Naspers' non-African assets. The realisation of the value in Nasper's constituent parts has been a core part of our investment thesis and one that continues to play out. We also added Royal Dutch Shell, which we believe offers a highly attractive and predictable risk/reward proposition, to the portfolio. With approximately 60% of upstream assets in emerging markets and a growing Asian gas exposure, Shell is a good example of attractive and discounted emerging markets exposure through developed markets listings, which is a core part of our investment universe. We are attracted by the strict capital allocation discipline of the company, its focus on managing the energy transition and the stock's defensive characteristics from a strong balance sheet and sustainable 6% dividend yield.

Outlook
In aggregate, the SKAGEN Kon-Tiki portfolio remains attractively valued and true to the team's value-based investment philosophy. As of September 2019, the portfolio consists of 47 companies trading on 10x 2019 P/E and 1x P/B. This compares with the MSCI EM index on 13x and 1.5x respectively. As a result, we see material upside to our portfolio, which we expect to be crystallised over the next 18-24 months.

Quarterly Report

SKAGEN Kon-Tiki A

All data in EUR as of 30/09/2019 unless otherwise stated.

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.

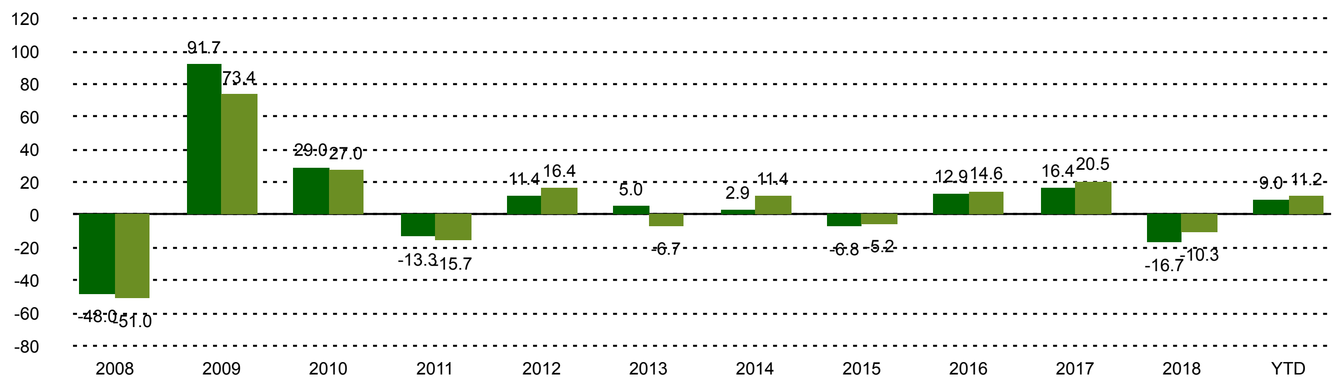
Historical performance (net of fees)

Period	SKAGEN Kon-Tiki A	Benchmark index
Last month	3.4%	3.4%
Quarter to date	-4.4%	0.0%
Year to date	9.0%	11.2%
Last year	3.8%	4.4%
Last 3 years	3.3%	7.0%
Last 5 years	1.9%	5.4%
Last 10 years	5.3%	6.4%
Since start	11.3%	7.4%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	84.98 EUR
Fixed management fee	2.00%
Total expense ratio (2018)	1.16%
Benchmark index	MSCI EM NR USD
AUM (mill.)	1771.53 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 (%)
Samsung Electronics Co	8.62	0.60
Cosan Ltd	1.68	0.29
Dragon Capital - Vietnam Enterprise	1.51	0.27
Atlantic Sapphire AS	2.96	0.26
X5 Retail Group NV	2.72	0.24

Largest detractors

Holding	Weight (%)	Contribution (%)
Turquoise Hill Resources	0.64	-0.74
State Bank of India	2.73	-0.69
Borr Drilling Ltd	1.22	-0.67
LG Electronics Inc	3.21	-0.54
Golar LNG Ltd	1.73	-0.53

Absolute contribution based on NOK returns at fund level

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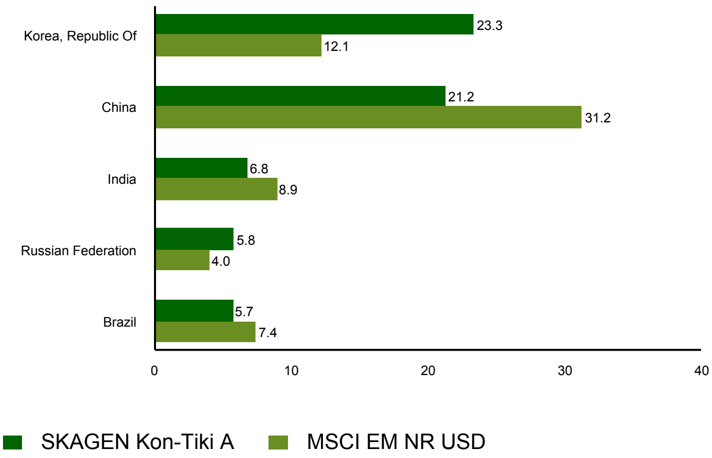
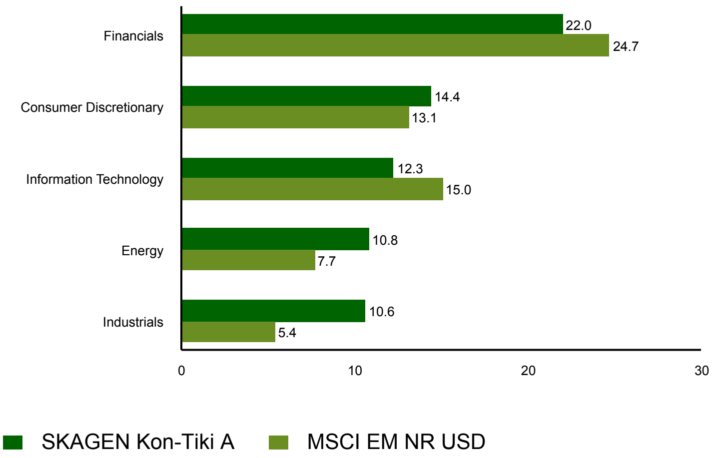
Top ten investments

Holding	Sector	Country	%
Samsung Electronics Co Ltd	Information Technology	Korea, Republic Of	8.7
Ping An Insurance Group Co of China Ltd	Financials	China	6.1
Hyundai Motor Co	Consumer Discretionary	Korea, Republic Of	4.6
Bank Of China Ltd	Financials	China	3.9
LG Electronics Inc	Consumer Discretionary	Korea, Republic Of	3.3
China Unicom Hong Kong Ltd	Communication Services	China	3.1
Naspers Ltd	Consumer Discretionary	South Africa	3.1
Atlantic Sapphire AS	Consumer Staples	Norway	3.0
X5 Retail Group NV	Consumer Staples	Russian Federation	2.8
Euronav NV	Energy	Belgium	2.7
Combined weight of top 10 holdings			41.2

Country exposure (top five)



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.