

Energy and commodities pull up

Global equity markets enjoyed a fantastic start to 2019, in stark contrast to the disappointing end of 2018. With many market commentators having forecast a poor start to the year, the market once again showed its unpredictable nature and global equity and commodity markets bounced back in Q1.

SKAGEN Vekst followed the global rally and has generated strong absolute returns for its unitholders year to date.

Despite challenging macro-economic data and a still unclear global political outlook, the equity market rallied from its December lows and as volatility has ebbed, market participants have pegged their hopes on fewer trade disruptions and continued global growth in 2019.

Despite global equity markets having had one of its strongest quarters since 2010, the Federal Reserve's dovish stance on further interest rate hikes pushed developed market yields down on both sides of the Atlantic. With the market increasingly expecting the major interest rates to remain low and stable for longer, the fear of rising inflation and increased meddling from central banks seems to have blown over for now.

Both energy and commodities had a strong quarter, which encouraged investors to once again look to investments within the sectors. During the quarter, Venezuela was banned from exporting oil to the global energy market. This had the effect of pushing up oil prices, particularly for North Sea oil, which is now closing in on USD 70 per barrel after the strongest rebound in ten years.

Top contributors and detractors

There are several energy-linked names among SKAGEN Vekst's strongest performers in the quarter, including our long-term holding in Swedish-listed Lundin Petroleum. On their capital markets day in

February, Lundin announced a new shareholder-friendly dividend policy and an optimistic outlook for continued production growth in the Norwegian part of the North Sea. This is in line with our investment thesis. By the end of 2019, we should see the cash flow in Lundin start to materialise as Johan Sverdrup, the fifth largest oil field in Norway, in which Lundin has a 22% interest, starts producing.

Other strong contributors within the energy and commodity space include Boliden and Anglo American, both of which bounced back along with the recovery in metal prices. We exited Anglo American after the company generated a strong return for the fund (+60% in 18 months), as the market has started to price in lower risk in its South African operations. Although Anglo American has sold the majority of its coal assets over the last couple of years, the continuous recovery within the segment has increased the company's dependency on this troublesome asset.

The strongest contributor to performance was the largest holding in the fund, Novo Nordisk, which also is the largest Nordic company. With its concentrated drug portfolio focused around diabetes and lifestyle-related illnesses, the company has continued to deploy resources on new ways to combat the increasing risk of illnesses related to the global obesity epidemic. Over the last couple of years, the company has been under scrutiny for high prices in its largest markets. We do not see this as a major threat, however, as its new drugs are more focused on preventing lifestyle illnesses and obesity.

Our worst performers in the quarter were Norsk Hydro and Golden Ocean, on the back of major disruptions to the mining industry in Brazil. The recovery for both companies will likely take somewhat longer than originally anticipated, though both companies have solid main owners that could prove beneficial in the return to profitability.



Photo: Bloomberg

Portfolio activity

Over the quarter we increased our holdings in Norwegian listed drilling companies Borr Drilling and Northern Drilling as we saw the discount to underlying values substantially increase. We anticipate a continued recovery in the offshore energy industry and expect the companies to continue to deliver positive news throughout 2019, as both have started the year with encouraging news on new contracts. We also took advantage of the market's weakened risk appetite in the quarter to increase our emerging market exposure in the Korean reinsurer, Korea Re and Chinese hotel operator Shangri-La. Both have delivered worse than anticipated results, but with sound asset backing, both should see clearer skies ahead with better margins.



Photo: Bloomberg

Outlook

In the second quarter, we will again see politics play a vital role in global equity markets and discussions around global growth and trade will most likely be on the agenda. In SKAGEN Vekst we currently have 47 positions that are priced considerably lower than the combined index and should provide some shelter in an uncertain political environment. At the time of writing, US-China trade talks are ongoing and, together with a clearer picture on Brexit and the EU's role ahead, this should bring relief to the market and potentially continue the positive movements we saw last quarter. Closer to home, we are in the run-up to the Danish elections and we expect this to be positive for our Nordic investments.

The fund selects low-priced, high-quality companies in the Nordic region and from around the world.

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.

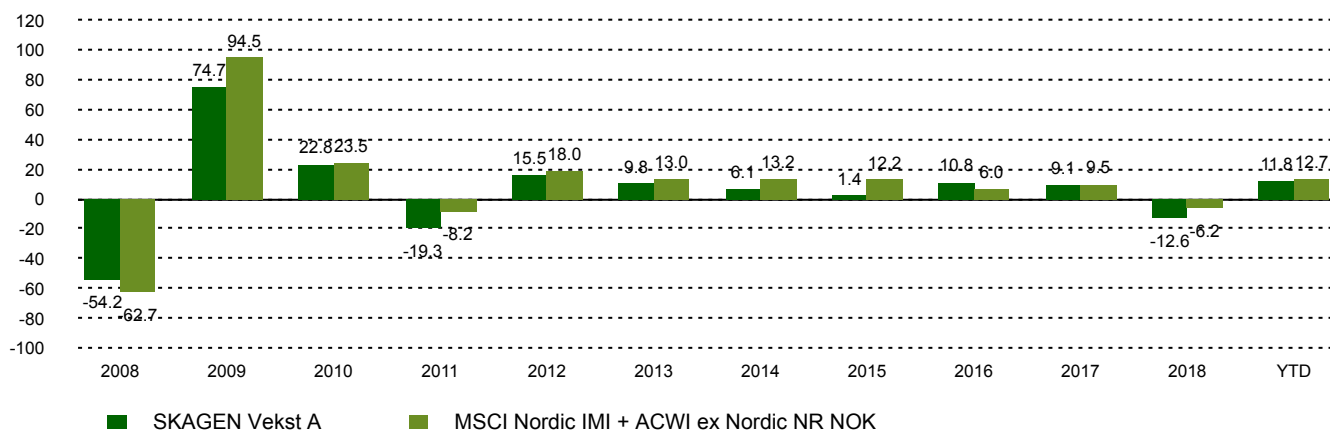
Historical performance (net of fees)

Period	SKAGEN Vekst A	Benchmark index
Last month	3.0%	2.1%
Quarter to date	11.8%	12.7%
Year to date	11.8%	12.7%
Last year	4.0%	10.3%
Last 3 years	7.0%	8.8%
Last 5 years	3.6%	8.7%
Last 10 years	10.4%	15.3%
Since start	12.6%	9.5%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	01.12.1993
Morningstar category	Global Flex-Cap Equity
ISIN	NO0008000445
NAV	243.79 EUR
Fixed management fee	1.00%
Total expense ratio (2018)	1.00%
Benchmark index	MSCI Nordic IMI + ACWI ex Nordic NR NOK
AUM (mill.)	719.49 EUR
Number of holdings	46
Portfolio manager	Søren Christensen

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Novo Nordisk A/S	6.88	1.05
Bonheur ASA	3.10	0.98
DSV A/S	3.58	0.85
Citigroup Inc	4.54	0.85
Carlsberg A/S	3.70	0.67



Largest detractors

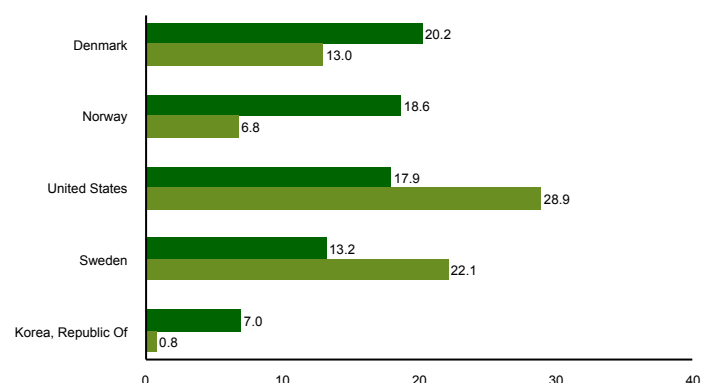
Holding	Weight (%)	Contribution (%)
Golden Ocean Group Ltd	1.56	-0.37
Norsk Hydro ASA	2.12	-0.26
FLEX LNG Ltd	2.24	-0.24
Telia Co AB	3.04	-0.18
Danske Bank A/S	1.16	-0.13

Absolute contribution based on NOK returns at fund level

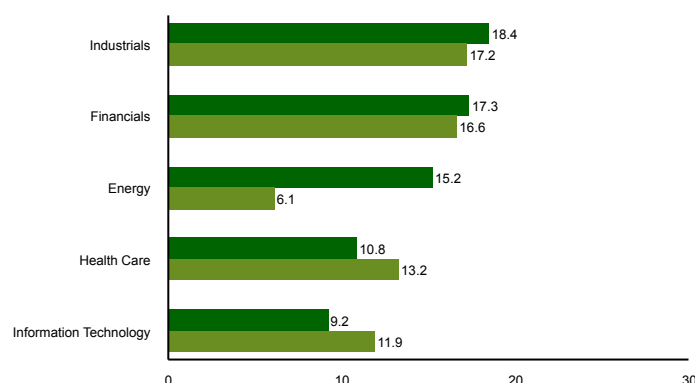
Top ten investments

Holding	Sector	Country	%
Novo Nordisk	Health Care	Denmark	7.0
Citigroup	Financials	United States	4.5
Samsung Electronics	Information Technology	Korea, Republic Of	4.0
Royal Dutch Shell PLC	Energy	Netherlands	3.6
CK Hutchison Holdings	Industrials	Hong Kong	3.6
DSV	Industrials	Denmark	3.4
Bonheur	Energy	Norway	3.3
Yara International ASA	Materials	Norway	3.2
Vestas Wind Systems	Industrials	Denmark	3.2
Carlsberg	Consumer Staples	Denmark	3.1
Combined weight of top 10 holdings			38.9

Country exposure (top five)



Sector exposure (top five)



■ SKAGEN Vekst A
 ■ MSCI Nordic IMI + ACWI ex Nordic NR NOK
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Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its funds in Norway to investing a minimum of 50% of its funds in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than they are today. Prior to 1/1/2014, the benchmark index was an evenly composed benchmark index consisting of the Oslo Stock Exchange Benchmark Index (OSEBX) and the MSCI All Country World. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX).