

IMPORTANT INFORMATION: This is marketing communication. The report should not be perceived as a recommendation to buy or sell fund units. Prior to subscription, we encourage you to read the fund's prospectus and key investor information document which are available at www.skagenfunds.com, from our local representatives and from our distributors.

Roller-coaster ride continues

Global equity markets continued their roller-coaster ride in the third quarter. After a strong rebound in July as lower commodity prices raised hopes that inflation was peaking, stocks fell sharply in the latter part of the quarter due to continued fears over higher interest rates and lower economic growth. The absolute return of SKAGEN Vekst was also impacted by the more challenging outlook. From a relative perspective, the fund lagged the return of the benchmark due to a much lower exposure to US equities that benefitted from a very strong dollar.

Contributors

The world's largest cellular operator, China Mobile, was among the biggest positive contributors to the fund's absolute return. The company reported very strong numbers for the second quarter with accelerating top line growth combined with improving margins. The company also raised its interim dividend by 35%. At the current share price, net cash accounts for close to 50% of the market value, and the stock pays an annual dividend yield of close to 10%. As we expect both earnings and the pay-out ratio to increase in the coming years, we continue to see significant upside in both the dividend and the share price of China Mobile.

Another strong performer was the Finnish company UPM as the market is finally acknowledging the company's attractive position in the current energy environment. It has large energy (hydro and nuclear power) assets in Finland combined with long-term potential in hydrogen and synthetic fuel production. With its large new mill in Uruguay coming into production early next year, we expect to see an inflection point in free cash flow generation. Given its already strong balance sheet, this should lead to an improved dividend and share price.

Detractors

The Norwegian telecom company Telenor was among the largest detractors to the fund's absolute return in the quarter. After the forced sale of Myanmar, negative COVID effects in Thailand, and now high energy prices, the market is increasingly questioning the sustainability of the company's current dividend. While the fundamental development has

been softer than we initially anticipated, we still expect the company to be able to cover their dividends within the next three years – making the current 9% dividend yield look very attractive. Specifically, we see improvements from: (i) cost savings from the copper decommissioning in Norway, (ii) merger synergies in Malaysia and Thailand, and (iii) normalisation in capital expenditures.

Ping An Insurance also had a difficult quarter, as continued lockdowns in China are impacting the company's ability to generate sales. While we agree that the short-term outlook remains challenging, we have not changed our long-term investment thesis. The company provides good exposure to a structurally growing life insurance market in China. We are buying this exposure through a well-managed company trading at an extremely depressed valuation.

Portfolio activity

Following the sell-off in technology-related companies, we initiated a new position in Alphabet, Google's parent company. Given its current valuation, combined with a stronger commitment to paying out its massive annual free cash flow, we now see a much smaller risk of a continued de-rating of the stock. With solid earnings growth from its core search business, combined with a shrinking number of shares, we expect EPS growth to translate into an attractive total return. While the company has not been immune to the sector-wide slow-down, we have gained more confidence in its ability to withstand competition – unlike what we have seen from Meta (Facebook) and Snap.

Following company meetings in Korea, we decided to increase our stake in KB Financial. The meeting gave us more confidence in the quality of the bank's loan book, and management's willingness to continue increasing its dividends and buying back shares. We also increased our position in Ping An insurance as discussed above. Finally, we added to the logistic provider DSV following a weak share price development.



Photo: Shutterstock

Key sells

In order to fund these investments, we reduced several positions where the fundamental upside has narrowed following strong share price performance. We therefore reduced our positions in the pharma company Novo Nordisk, the shipping company Flex LNG, the aluminium company Norsk Hydro, and the oil and gas company Vår Energy.

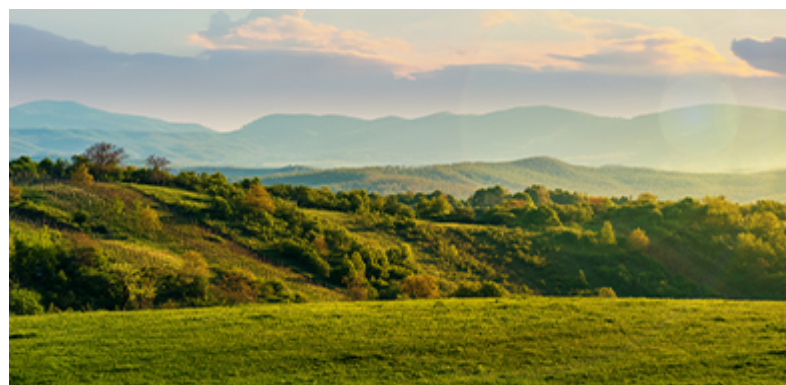


Photo: Shutterstock

Outlook

It is important to remember that the strong performance in stocks over the past decade has been very unevenly distributed. Even after the latest correction, quality growth stocks generally continue to trade at an elevated valuation, while more capital-intensive industries trade at more reasonable prices. We think the odds of sustainably higher inflation and higher interest rates have risen significantly over the past 12 months. While sanctions against Russia have increased the short-term pressure on commodities, we also see long-term second order effects through a reversal of the globalisation we have become accustomed to. We are therefore comfortable with our current exposure towards companies that do well in an environment with higher inflation and interest rates – such as financial and energy-related companies. We also see several emerging market stocks trading at very attractive levels following ten years of underperformance. This is particularly compelling as many EM countries have not yet benefitted from a reopening of their economy.

SKAGEN Vekst invests in companies that are attractively priced relative to expected profitability and growth. The majority of the fund is invested in the Nordic region and the remainder worldwide. The objective is to provide the best possible risk adjusted return. The fund is suitable for those with at least a 5 year investment horizon. Subscriptions are made in fund units and not directly in stocks or other securities. The fund has risk profile 6. The benchmark reflects the fund's investment mandate. Since the fund is actively managed, the portfolio will deviate from the composition of the benchmark.

Historical performance (net of fees)

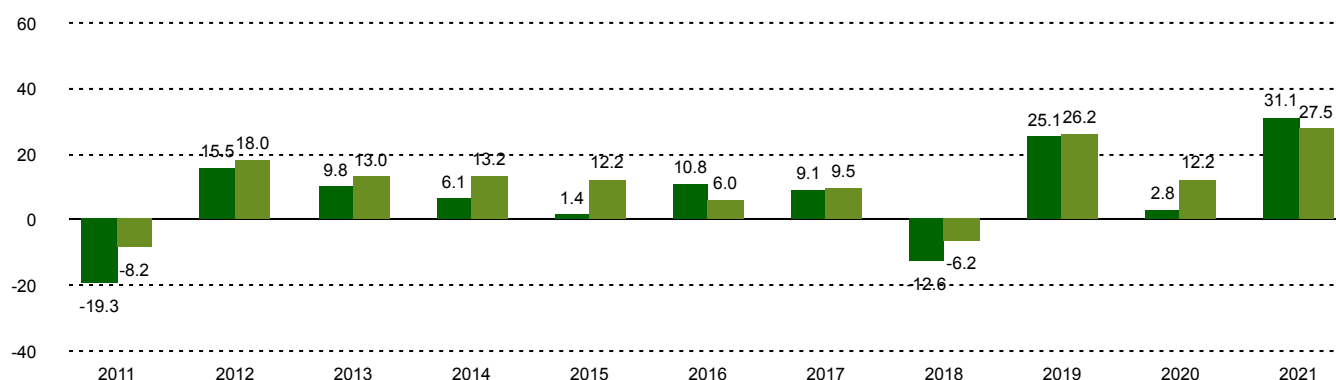
Period	SKAGEN Vekst A	Benchmark index
Last month	-10.1%	-8.4%
Quarter to date	-7.1%	-2.9%
Year to date	-14.9%	-19.4%
Last 12 months	-10.3%	-12.9%
Last 3 years	7.0%	7.3%
Last 5 years	5.1%	6.6%
Last 10 years	6.3%	8.6%
Since start	12.0%	9.3%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	01.12.1993
Morningstar category	Global Large-Cap Blend Equity
ISIN	NO0008000445
NAV	312.67 EUR
Fixed management fee	1.00% + performance fee*
Total expense ratio (2021)	2.80%
Benchmark index	MSCI Nordic IMI + ACWI ex Nordic NR NOK
AUM (mill.)	752.43 EUR
Number of holdings	53
Portfolio manager	Søren Christensen

*10.00% performance fee calculated daily and charged annually if the fund's return exceeds 6% p.a. The unit class has a high watermark. The performance fee may only be charged if the unit value as of 31.12 exceeds the unit value at the previous charge. The performance fee may be charged even if the fund's units have depreciated in value if the value development is better than the benchmark.

Performance last ten years



■ SKAGEN Vekst A ■ MSCI Nordic IMI + ACWI ex Nordic NR NOK Effective 1/1/2014, the fund's investment mandate changed from investing a min. of 50% in Norway to a min. of 50% in the Nordics. Returns prior to this date were therefore achieved under different circumstances than today. Prior to 1/1/2014, the benchmark was an evenly composed index consisting of Oslo Stock Exchange Benchmark Index (OSEBX) and MSCI All Country World. The benchmark prior to 1/1/2010 was OSEBX.

Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and management fees. The return may become negative as a result of negative price developments. There is a risk associated with investing in the fund due to market movements, currency developments, interest rate levels, economic, sector and company-specific conditions.

Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
China Mobile Ltd	3.04	0.48
UPM-Kymmene Oyj	2.81	0.43
Nordea Bank Abp	3.84	0.29
FLEX LNG Ltd	0.94	0.29
Shell PLC	3.26	0.25



Largest detractors

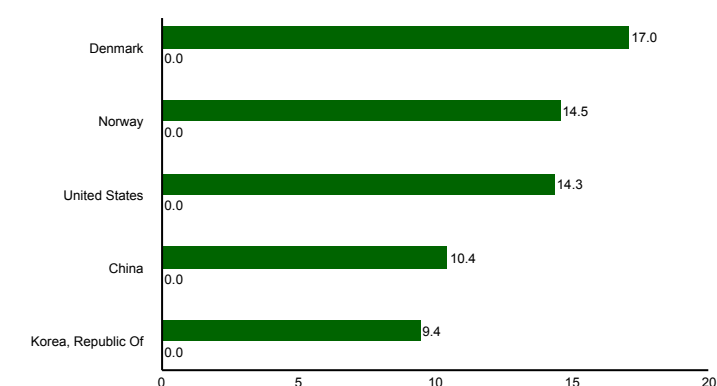
Holding	Weight (%)	Contribution (%)
Telenor ASA	3.08	-0.84
Bonheur ASA	5.17	-0.70
H Lundbeck A/S	2.11	-0.66
Ping An Insurance Group	2.86	-0.61
Essity AB	3.01	-0.51

Weights shown are the average for the period. Absolute contribution based on NOK returns at fund level.

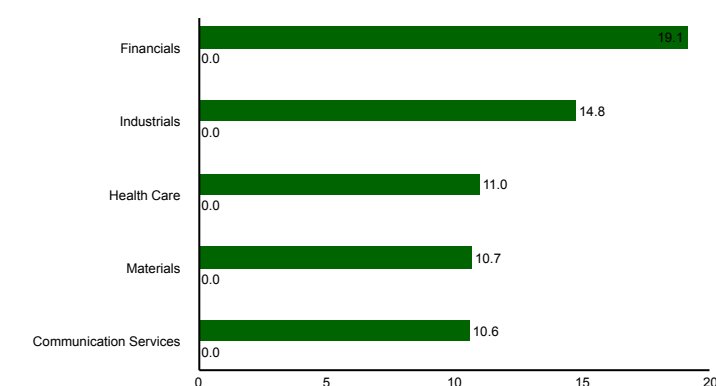
Top ten investments

Holding	Sector	Country	%
Novo Nordisk A/S	Health Care	Denmark	9.2
Bonheur ASA	Industrials	Norway	4.6
Yara International ASA	Materials	Brazil	4.1
Nordea Bank Abp	Financials	Finland	4.1
Shell PLC	Energy	Netherlands	3.7
Broadcom Inc	Information Technology	United States	3.6
China Mobile Ltd	Communication Services	China	3.4
UPM-Kymmene Oyj	Materials	Finland	3.2
Carlsberg AS	Consumer Staples	Denmark	3.2
CK Asset Holdings Ltd	Real Estate	Hong Kong	3.2
Combined weight of top 10 holdings			42.1

Country exposure (top five)



Sector exposure (top five)



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Important information

This report is intended for investment professionals only. All information is based on the most up-to-date data available. Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as per the end of the previous month. Except otherwise stated, the source of all information is SKAGEN AS. SKAGEN AS does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this report. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this report or are part of a fund's portfolio.



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