



2.5. Kopper's dog "Pop", 1898. Detail/ manipulated. By Peder Severin Krøyer, one of the 5 legends in paint 1.5.
This image belongs to the Skagens Museum.

SKAGEN Focus

Status Report June 2016

The art of common sense



Summary – June 2016

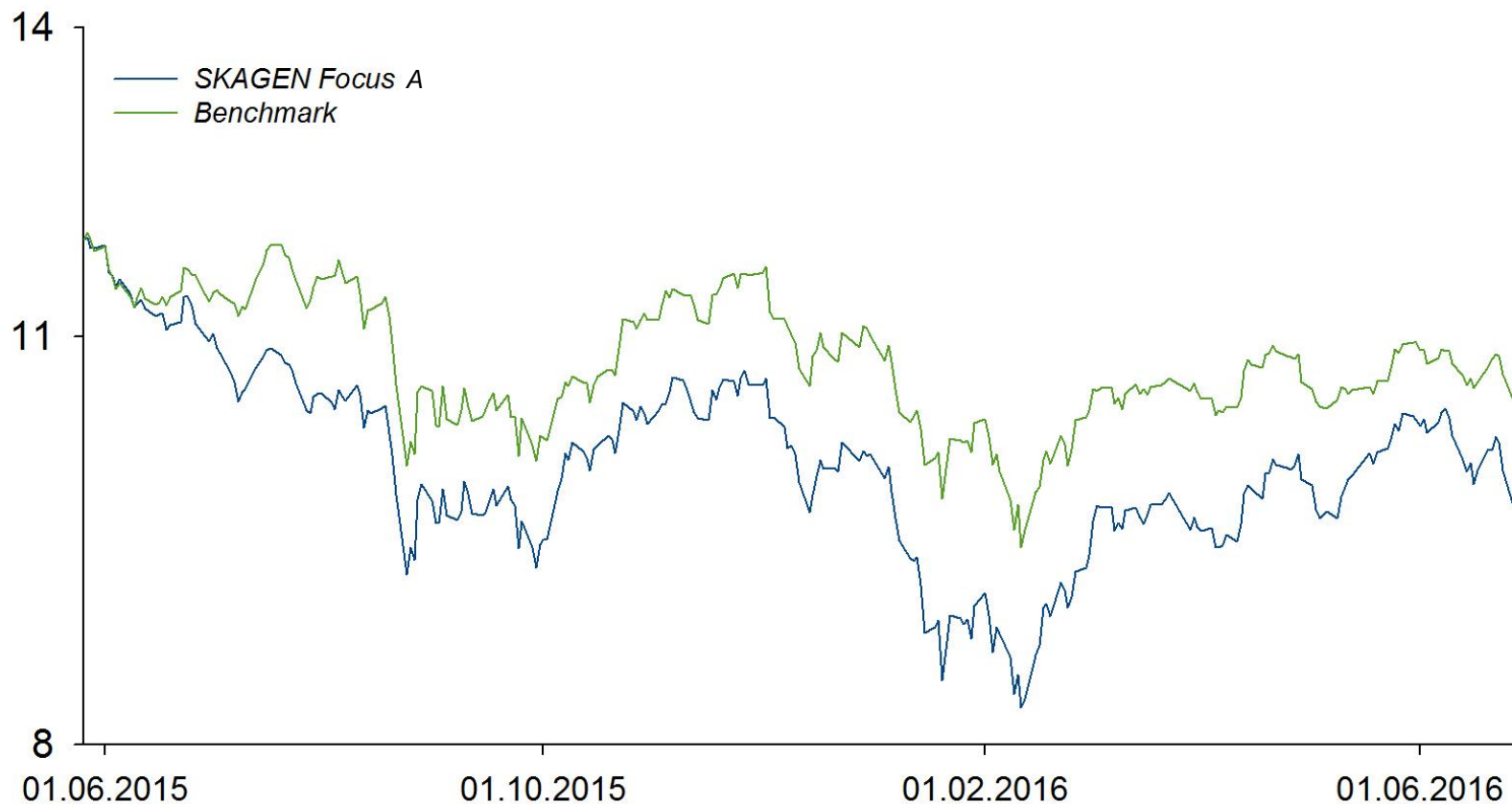
- The fund is a highly concentrated equity fund with a broad all-global mandate. The overall objective is to invest in a few select investments with an exceptional risk/reward profile from an absolute return perspective.
- The target number of positions is 30-35 and the top ten positions should constitute 40-50% of the portfolio. At the end of the month, the fund holds 35 positions, and the top ten positions account for 46% of the portfolio. The cash position is 5%.
- SKAGEN Focus* was down 2.8% in the month (in EUR) while global equity markets (measured as MSCI AC World) were down 1.0% during the month (in EUR). In 2016, the fund is down 0.2% while global equity markets have fallen 1.5%.
- JBS, SK Hynix and AirAsia were the strongest contributors to the fund's performance in June measured as absolute contribution in NOK. AIG, Citizens Financial Group and Schaeffler were the main detractors during the month.
- We established a new position in South Korean discount retailer E-Mart (see attached fact sheet for more information). After a substantial rebound of its share price, we have sold out of AirAsia and reallocated capital to positions with more attractive risk/reward.
- The fund has a broad mandate to invest in all geographies and sectors. The fund is also market capitalisation-agnostic, and currently small-cap** positions constitute 22% of the fund, while mid-cap and large-cap positions account for 39% and 39%, respectively, of the invested portfolio. These figures may vary meaningfully over time.

* Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.

** Small-cap defined as market cap below USD 2bn, Large-cap more than USD 10bn.

Results, June 2016

EUR, net of fees



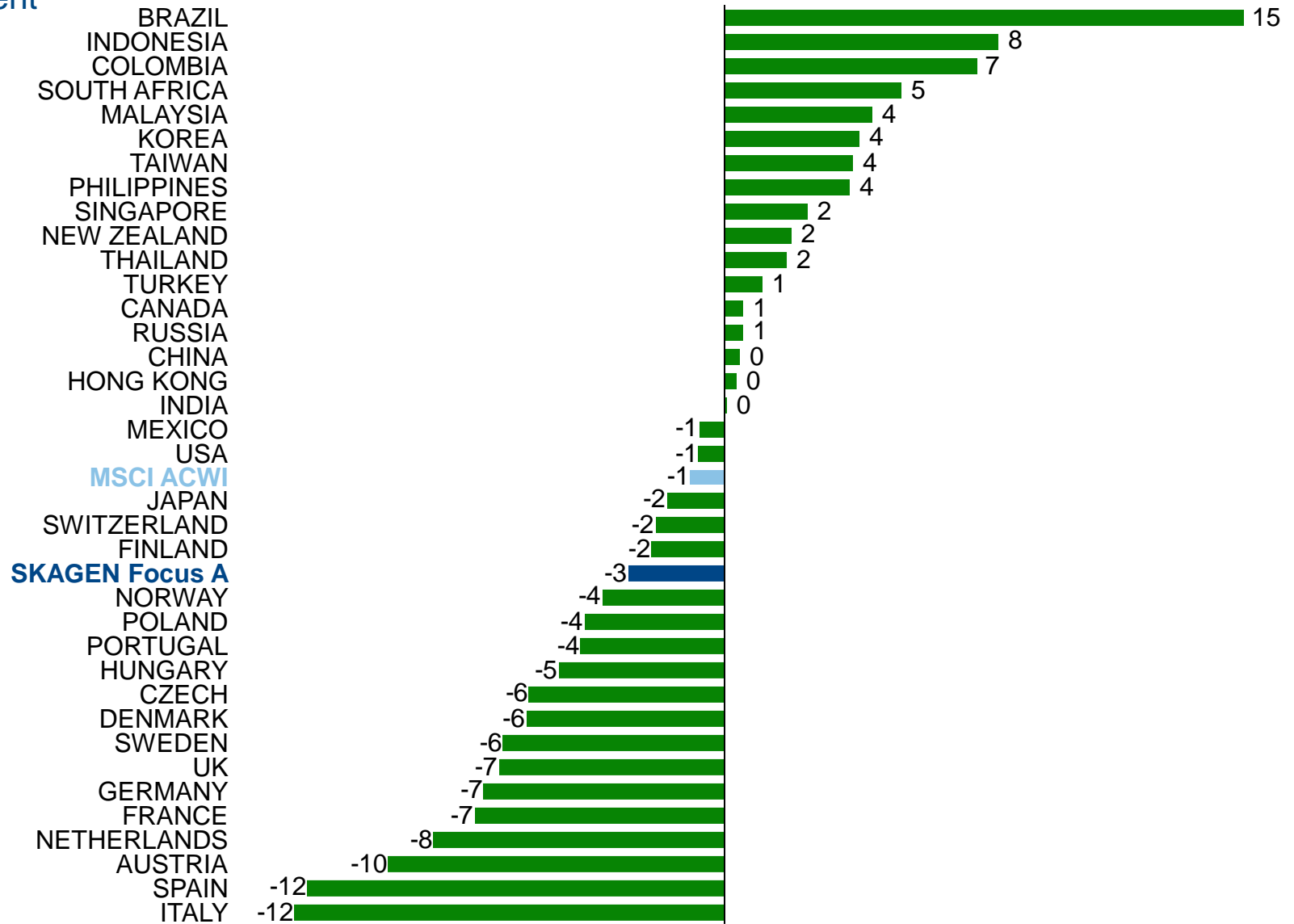
	June	QTD	YTD	Since inception*
SKAGEN Focus A	-2,8%	5,6%	-0,2%	-15,6%
World Index*	-1,0%	2,9%	-1,5%	-8,6%
Excess return	-1,8%	2,7%	1,3%	-7,0%

Note: All returns beyond 12 months are annualised (geometric return)

* Inception date: 31 October 2012

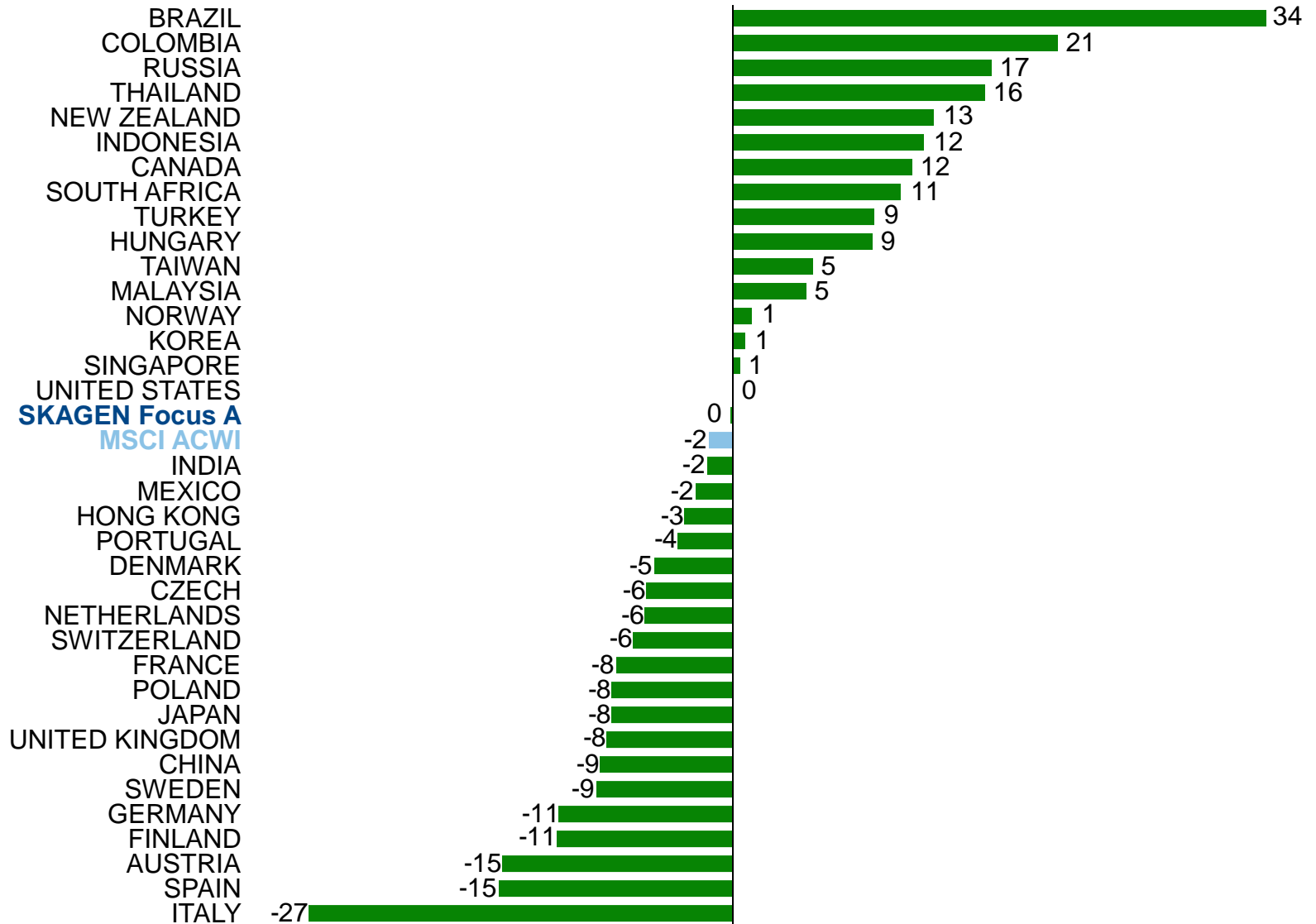
Markets in June 2016 in EUR (%)

Percent



Markets 2016 YTD in EUR (%)

Percent



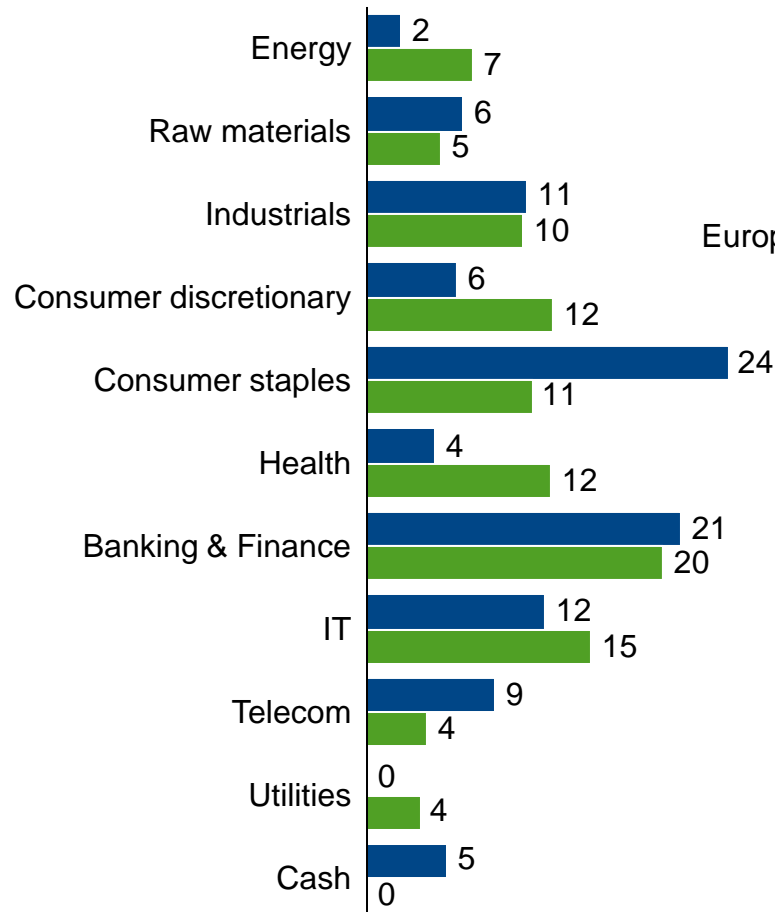
Top 10 positions in SKAGEN Focus

	Price	P/E 2016e	P/E 2017e	P/BV last	Price target	Upside to target %	Holding size, %
American International Group Inc	52,89	13,2	9,5	0,7	90	70 %	6,5%
Jbs SA*	10,00	12,7	5,4	1,2	22	120 %	5,9%
Softbank Group Corp	5 789,00	9,5	9,4	2,5	9 600	66 %	5,3%
Infineon Technologies AG	12,98	18,0	15,8	3,1	20	54 %	5,1%
Omega Protein Corp	19,99	11,6	11,0	1,5	30	50 %	4,2%
SBI Holdings Inc	1 009,00	7,7	7,2	0,6	3 000	197 %	4,2%
Jenoptik AG	14,80	16,9	15,5	1,9	20	35 %	4,0%
SK Hynix Inc	32 400,00	13,3	10,8	1,1	65 000	101 %	3,6%
Carlsberg AS-B	634,50	21,0	18,8	2,3	822	30 %	3,5%
China Telecom Corp Ltd	3,46	14,5	12,5	0,9	8	131 %	3,3%
Top 10 positions		12,7	9,8	1,2		84,9%	45,5%
Total Equity (35 positions)							94,7 %
Cash							5,3 %
Total Portfolio							100,0%

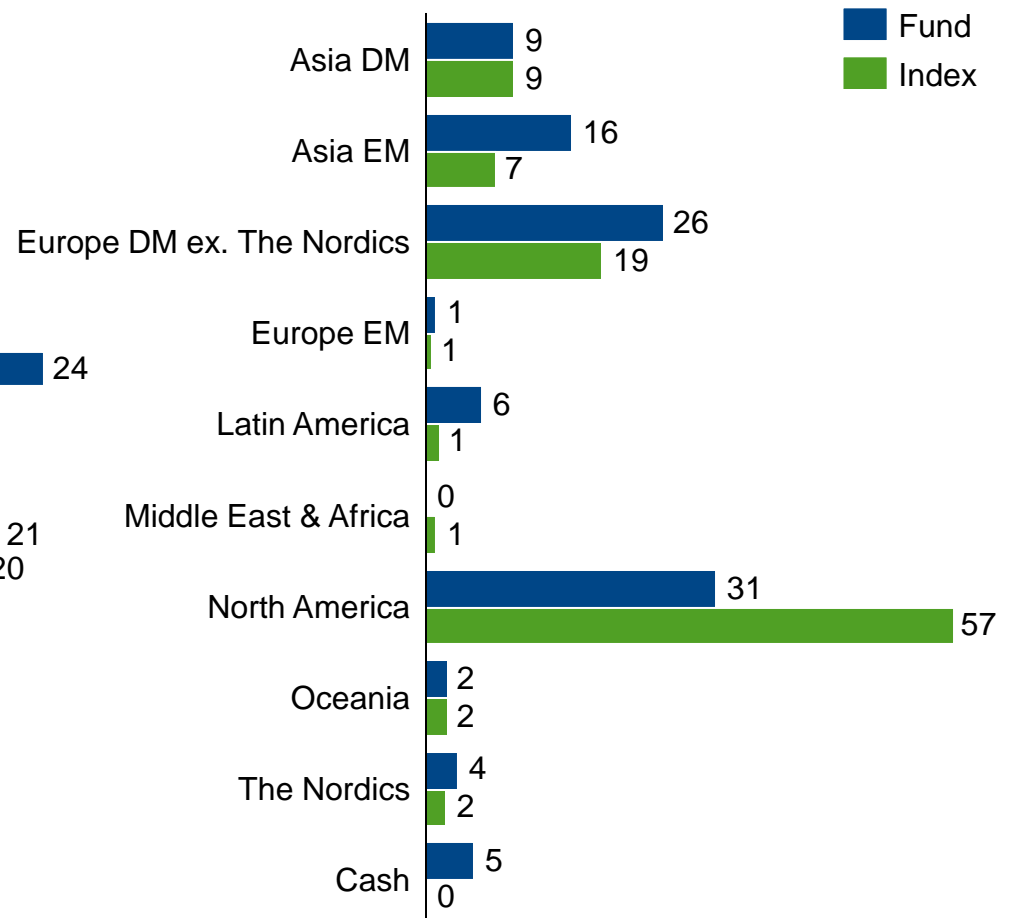
* JBS is the main owner of Pilgrim's Pride, which is a 2.7% position in the fund. These two positions should be viewed as one, with a total weight of 8.6%.

Sector and geographical distribution vs index (June 2016)

Sector distribution



Geographical distribution



Main contributors MTD 2016

Largest positive contributors

<i>Company</i>	<i>NOK (000)</i>
Jbs SA	6 990
SK Hynix Inc	5 447
AirAsia BHD	3 665
Magforce AG	1 832
Jenoptik AG	1 798

Value Creation MTD (NOK MM):

Largest negative contributors

<i>Company</i>	<i>NOK (000)</i>
American International Group I	-8 477
Citizens Financial Group Inc	-6 406
Schaeffler AG	-5 675
Synchrony Financial	-5 269
Aercap Holdings NV	-5 093

-35

NB: Contribution to absolute return

Main contributors QTD 2016

Largest positive contributors

<i>Company</i>	<i>NOK (000)</i>
Haitai Confectionery & Foods Co Ltd	15 971
AirAsia BHD	10 033
Pan American Silver Corp	8 070
Omega Protein Corp	6 674
Jbs SA	6 376

Value Creation QTD (NOK MM):

Largest negative contributors

<i>Company</i>	<i>NOK (000)</i>
China Telecom Corp Ltd	-5 442
GCL-Poly Energy Holdings Ltd	-4 549
Aercap Holdings NV	-4 331
Schaeffler AG	-3 956
Aryzta AG	-3 646

47

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

<i>Company</i>	<i>NOK (000)</i>
Pan American Silver Corp	23 180
AirAsia BHD	20 030
Haitai Confectionery & Foods Co Ltd	15 971
First Quantum Minerals Ltd	9 272
South32 Ltd	8 608

Largest negative contributors

<i>Company</i>	<i>NOK (000)</i>
American International Group I	-18 353
Citizens Financial Group Inc	-13 750
Aryzta AG	-11 023
Aercap Holdings NV	-9 864
Schaeffler AG	-8 118

Value Creation YTD (NOK MM): -27

NB: Contribution to absolute return

Most important changes Q1 2016

Holdings increased

Q1

Pilgrim's Pride Corp	(New)
Alphabet Inc	(New)
Massimo Zanetti Beverage Group SpA	(New)
Samsung SDI Co Ltd	(New)
FFP	(New)
Jbs SA	
Omega Protein Corp	
Infineon Technologies AG	
Aryzta AG	
Stock Spirits Group Plc	
Aercap Holdings NV	
Solazyme Inc	
Schaeffler AG	
AirAsia BHD	
Fourlis Holdings SA	

Q1

Holdings reduced

Sandisk Corp	(Out)
Uniqqa Insurance Group AG	(Out)
Komatsu Ltd	(Out)
Pan American Silver Corp	
Ubiquiti Networks Inc	
Carlsberg A/S	
Fila Korea Ltd	
Aercap Holdings NV	
First Quantum Minerals Ltd	
South32 Ltd	
CIT Group Inc	

Most important changes Q2 2016

Holdings increased

Q2

Philips Lighting NV	(New)
Teva Pharmaceutical Industries	(New)
E-Mart Inc	(New)
Haitai Confectionery & Foods Co	(New)
Softbank Group Corp	
Jbs SA	
Infineon Technologies AG	
Omega Protein Corp	
Schaeffler AG	
FFP	
Rentech Inc	
SK Hynix Inc	
Solazyme Inc	
Pilgrim's Pride Corp	
Aryzta AG	
TerraVia Holdings Inc	
Jenoptik AG	
Fila Korea Ltd	
First Quantum Minerals Ltd	
SBI Holdings Inc	
Massimo Zanetti Beverage Group SpA	

Q2

Holdings reduced

AirAsia BHD	(Out)
Pan American Silver Corp	(Out)
Haitai Confectionery & Foods Co	(Out)
SK Hynix Inc	
Ubiquiti Networks Inc	
Carlsberg A/S	
Jbs SA	
Omega Protein Corp	
Pilgrim's Pride Corp	
Citizens Financial Group Inc	
First Quantum Minerals Ltd	
Schaeffler AG	

Holdings increased and decreased during June 2016

Key buys

- **E-Mart (New)** - we have initiated a new position in the South Korean discount retailer E-Mart. E-mart is a company principally engaged in the hypermarket business. See fact sheet further on for more information.
- **SK Hynix** - we have been increasing our position in Korean memory-producer SK Hynix over the last few weeks. Finally, PC Dram and NAND contract prices seem to have, at least temporarily, stabilised or even increased from depressed levels as a result of the gradually improving supply-demand balance. This situation is in our opinion by no means reflected in the SK Hynix stock, which is trading at a steep discount to our estimate of its fair value.

Key sells

- **AirAsia** - following a substantial rebound of the share price and strong operational metrics, we have sold out of the position as we find better value elsewhere .

Key earnings releases and corporate news, June 2016

Fila Korea
(2.4% weight)

Investment case update

Fila Korea is the owner of the global brand Fila and several other brands. The company holds a 33% equity interest in Acushnet Holdings, the owner of well-established golf brands Titleist and Footjoy, together with private equity. Acushnet sells golf clubs, balls and related clothing and has now filed for an initial public offering in the US (estimated size of offering is USD 100m). The most recent price indication points to an equity valuation of USD 2-3bn or an EV/EBITDA multiple of about 10x 2015 numbers. The stake in Acushnet would then potentially equal 70% of Fila's total market cap which would leave the core Fila franchise dramatically undervalued in our opinion (with current estimated 2016E EBITDA generation of USD 75m). The IPO will be a 100% secondary offering and selling shareholders are primarily private equity.

Stock Spirits
(1.8% weight)

Investment case update

Stock Spirits, a branded spirits (primarily vodka) and liqueurs business focused on Central Europe, mainly Poland, has announced its intention to pay a special dividend (6% of market cap). The company simultaneously stated that the current focus is to turn around its Polish operations and that major M&A activity is unlikely during the remainder of this year. Approximately 100% of free cash flow will subsequently be returned to shareholders in FY16. Interestingly, this announcement comes shortly after the AGM where two independent board members from activist investor Western Gate were voted in.

Key earnings releases and corporate news, June 2016 (cont.)

Aryzta
(2.8% weight)

Investment case update

Swiss bakery company Aryzta released Q316 sales numbers which implied a modestly improving but uninspiring trend. Underlying sales grew by 1% for the group. North America is still the main problematic area and delivered a sales decline in excess of 2%. Management expects it to remain negative in Q416 before trending positive in FY 2017. The European operations are making progress with 4% sales growth. Management reaffirmed the overall earnings guidance and also the free cash flow generation forecast of EUR 200m (on a EUR 3bn market cap) for the year. The company also commented that all outstanding long-term contract renewals have been signed, which should improve revenue visibility going forward. Debt levels are still uncomfortably high at 3.5x net debt/EBITDA also considering its plan to acquire the rest of Picard in the mid-term. The stock is trading at a P/E multiple of 11x and 8x forward EV/EBITDA which is at a 30-40% discount to the overall consumer staples sector.

Fact

Q316 sales numbers were down 1% over last year, driven by weakness in its North American operations.

Philips Lighting
(3.2% weight)

Investment case update

Positive. Philips Lighting is currently responsible for the pitch lighting of more than 65% of stadiums used in major international sporting events. These stadiums currently use conventional lighting but new technology requires more sophisticated lighting of stadiums (there is no point in buying an HDTV if the stadium lighting does not support it). As the international broadcasters constitute a major source of income for big international events (the Olympics, etc.), the market for Philips Lighting should be good over the next couple of years.

The company is facing a technology shift from conventional light bulbs to LED which has spooked the market. However, we see opportunities arising from this shift which will be beneficial to Philips Lighting and we thus see a more than 50% probability that 2018/2019 earnings will exceed EUR 3/share which validates our target price of EUR 30.

Fact

An order for the world's first LED sports pitch lighting system. At the moment stadiums are lit by conventional floodlights. The order represents the first time that an LED sports pitch lighting system has met the requirements laid down by international television broadcasters and sports federations. Supports high definition and super slow-motion replays and enables light shows.

Key earnings releases and corporate news, June 2016 (cont.)

Softbank
(5.3% weight)

Investment case update

Softbank is a Japanese telecom and internet conglomerate with its main assets in the Chinese online giant Alibaba, the US-based telecom operator Sprint and domestic telecom businesses (mainly Softbank Mobile). The announced sale of Alibaba marks the first sale of the stock since its initial investment established in 2000 which has been hugely profitable. Softbank's holding in Alibaba will be reduced from 32% to 28% following the divestment. The proceeds from the sale could be used to take down debt or to finance further investments in the growing e-commerce portfolio in Softbank following deals like Coupang and Snapdeal. The implicit share discount to conservative fair value is still in excess of 40%, and there is very little value attached to the unlisted transport and e-commerce stakes acquired by the company. An important key to the investment case going forward is tangible evidence of progress in the turn-around of Sprint. In our opinion, the market at this point allocates a low probability to such a scenario.

AerCap
(2.7% weight)

Investment case update

AerCap is the largest independent aircraft lessor globally. It is also active within engine leasing, trading and spare part sales/service of aircrafts. The company manages a fleet of 1300 aircrafts with a current order book of an additional 460 aircrafts. The company announced an additional USD 250m share buy-back (3% of market cap) to run through September 30. This is an extension of the USD 400m buy-back announced earlier in the year. Management has previously stated the intention to deploy excess capital of up to USD 800m annually into share-buybacks, and will at this depressed stock valuation prefer to purchase their own fleet at a discount versus purchasing additional new aircrafts. The equity is trading below tangible book value and net liquidation value while delivering a return on equity of 12-13%.

Fact

Aercap's board authorised an additional USD 250m repurchase program.

Key earnings releases and corporate news, June 2016 (cont.)

Citizens Financial

(3.1% weight)

Investment case update

The company is the thirteenth largest regional bank in the US. After suffering from a long period of mismanagement within Royal Bank of Scotland, the company produced returns of roughly half the level of relevant US regional bank competitors; also capital levels are meaningfully higher than its peers. Following the Comprehensive Capital Analysis Review (“CCAR”) by the Fed, the company’s capital plan was approved. The company received a green light to increase its quarterly dividend to USD 0.12/share (2.5% annual yield) and increase its common share repurchases by 38% vs. last year to USD 690m (7% yield). This would result in an estimated 97% payout ratio for 2016 which is higher than our expectation. These better-than expected payout numbers resulted in a favourable stock reaction, although the stock has been weak on an overall basis in 2016. We attribute the weakness to the lowered expectations of Fed rate hikes, which were exacerbated by the Brexit debacle, as the company has one of the more asset-sensitive balance sheets among the US regional banks. The stock is trading at attractive multiples of 0.8x TBV, forward P/E of less than 10x with an overall ROE potential of 8-10% in the mid-term.

The largest companies in SKAGEN Focus



AIG is an international insurance company serving commercial, institutional and individual customers. The company provides property-casualty insurance, life insurance and retirement services. AIG was at the very centre of the financial crisis as the central bank for mortgage insurance – it was bailed out in a USD 180bn bail out. The company has two core insurance holdings: Sun America and Chartis that it intends to keep.



Brazil-based JBS transformed itself from a mid-sized local beef producer to the world's largest animal protein processor in just a few years since its IPO in 2007. It is now the world's #1 beef, #2 poultry and #3 pork producer by sales. The company operates in six main segments: JBS USA Beef (40% of sales, US beef processing), Moy Park (14%, UK-based chicken and foodservice provider), Pilgrim's Pride (14%, 2nd largest chicken producer globally; separately listed in the US; PPC US, JBS ownership 75%), JBS Mercosul (13%, Brazil-based beef processing), JBS USA Pork (10%), JBS Foods (9%, prepared foods and poultry processing).



Japan-based Softbank is a telecom and internet conglomerate. The company's main assets are 1) the Chinese online giant Alibaba Group (32% holding). Alibaba is the leading online commerce platform in China, active both in retail and wholesale; 2) US-based telecom operator Sprint (80% ownership) which provides wireless services in the US and is the third largest wireless network operator after Verizon and AT&T; and 3) domestic telecoms (mainly Softbank Mobile, third largest telco in Japan after KDDI and NTT Docomo).



Infineon Technologies AG designs, manufactures and markets semiconductors. The company's products include power semiconductors, microcontrollers, security controllers, radio frequency products and sensors. Infineon markets its products to the automotive, industrial, communications, consumer and security electronics sectors.



Omega Protein Corporation is a nutritional ingredient company in the United States that markets fish meal and fish oils from menhaden, an oily, virtually inedible fish found in the Gulf of Mexico and in the Atlantic Ocean. The company fishes for its own source of raw material and without their own catch. They are the largest US producer of Omega 3 fish oil and specialty fish meal products. These heart-healthy fish oils have experienced rapid growth as a dietary supplement and the fish meal is finding increasing usage in nutritional food additives.

The largest companies in SKAGEN Focus (cont.)



Japanese company established in 1999 as an online financial services company, incubation arm of Softbank. Acquired E*Trade Securities in 2003, Softbank sold out in 2006. Three main businesses: i) Financial services; ii) Asset management, iii) Biotech Financial services. Building an ecosystem to offer full range of financial services: SBI Securities: Dominant provider of online securities services in Japan, #3 in new tax-saving NISA behind Nomura and Daiwa. SBI Sumishin Net Bank: pure-play internet bank. Also active within insurance (Life & Non-life), Mortgages (through securitisation), trading system and FX trading.



Jenoptik AG is a Germany-based company engaged in the field of optoelectronics. Its main activities are divided into three segments: the Laser & Optical Systems segment, the Metrology segment, the Defence & Civil Systems segment. The Laser & Optical Systems segment encompasses Laser and Material processing division, which is engaged in semiconductor materials and diode lasers. The Metrology Segment is engaged in manufacturing of high precision contact and non-contact metrology systems; and the Traffic Solutions division comprises products and solutions for road safety. The focus areas of the Defence & Civil Systems are military and civil vehicle, rail and aircraft equipment.



SK Hynix Inc. is a Korea-based company engaged in the manufacture of semiconductors. The Company mainly develops and manufactures memory and non-memory semiconductors. Its memory semiconductors include dynamic random access memory (DRAM), multi-chip products (MCPs) and NAND flash memory semiconductors, which are used for cellular phones, PC, digital televisions, digital cameras and other electronic products. The company has the number three market share (in the current oligopoly) in DRAM, behind Samsung and Micron



Carlsberg A/S is an international brewing company. The company produces branded beers and regional brands. Carlsberg makes most of its beer outside of Denmark and it is sold in markets around the world. The company also markets and produces soft drinks, water and wine.



China Telecom is full services integrated information service operator in China. The Company, along with its subsidiaries, is engaged in the provision of basic communications services, including wireline telecommunications services, mobile telecommunications services, value-added services, such as Internet access services, integrated information services and other related services within the service area of the Company. China Mobile, China Telecom and Unicom are the largest and dominant service providers in the country. China Telecom is the growing 2nd player behind China Mobile, in a maturing industry, yet with massive growth in data downloads.

E-Mart (139480 KS) KRW 176000



History, what they do and how case was found

- E-mart is a Korea-based company principally engaged in the hypermarket business.
- Revenue breakdown: E-mart offline 70%, Traders 6%, E-Mart mall/online 5%, Hotel 16%, With Me CVS 1%
- Market share 48% in core discount format in South Korea
- Major subs: Shinsegae Hotel, Shinsegae Food (46%, listed 031440 KS, market cap WON 627b, Starbucks Korea (50%), Shinsegae property (90%)
- Private label sales only 11% of total
- ESG – No major issues identified

Rationale for investment

- The company has been struggling with saturation in its core discount format and increasing competition from new entrants, like Coupang, which has brought the shares to an attractive price point. We believe the shares offer about 50% upside in equity over 2-3 years at the current run-rate of earnings assuming a normalised cap-ex situation.
- The investment case carries two major option values in the form of the company's opportunity to continue to grow its online format E-mart mall, and continued ramp-up in the Traders concept.
- The stock is also supported by asset values in non-core holding Samsung Life (about KRW 1100bn, or 20% of market cap) and property values as 85% of the current stores are owned and current balance sheet probably underestimates its market/replacement values.
- Private label sales going from 11% to 40% of sales in the mid-term, generating higher margins.
- The quite heavy investment period in the online platform and Traders concept is slowing and boosts potential for free cash flow generation in the mid-term.

Potential triggers

- On-line/Traders to become positive earnings contributors – at inflection points
- Continued sell-down of Samsung Life stake
- Action to monetise property values
- Sale of non-core assets (Starbucks Korea, duty free and property subs)
- Loss-making subs either sold or turn-around – wind-down of Chinese business
- Ownership/activist dynamics

Risks

- Increased competition within e-commerce
- Cannibalisation online/offline
- Larger than expected losses from China/ CVS
- Leverage (net debt/EBITDA at 3.5x excl. Samsung Life stake)

Target price

The stock is trading at EV/Sales of 0.5x and EV/EBITDA of about 6x. We set a target price of KR 270000 which equates to EV/Sales of 0.8x and EV/EBITDA 8x.

Key figures:

Market cap	KRW	4906b
Net debt/EBITDA		3.5x
EV/EBITDA		6.0x
EV/Sales		0.5x
P/BV trailing		0.7x
Free float		63%

Owners

Aberdeen 19%, Myung-Hee Lee 18%, Yong-Jin Chung 10%, National pension 8,5%



Team Focus, June 2016

www.emartcompany.com

3U addition



Unpopular

- Investor interest in the stock is low following saturation in its core discount format and falling operating profits three years in a row.
- Analysts are mostly positive to the case, with 25% of analysts on sell/hold.



Under-researched

- Investors may be underestimating the positive impact from the E-mart mall (online operation) and Traders concept in the mid-term.
- Not many believe the company might pursue any activities to optimise its balance sheet.



Under-valued

- Adjusted for the Samsung Life stake, the stock trades at a multiple of 5-6x EV/EBITDA. We set a target price of KRW 270000 at 8x EV/EBITDA based on mid-term earnings power.

For more information please visit:

Our latest [Market report](#)
Information on [SKAGEN Focus A](#) on our web pages

Unless otherwise stated, performance data relates to class A units and is net of fees.

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 subscription and management fees. The return may become negative as a result of negative price developments. KIIDs and Prospectuses for all funds can be found on our website.

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