
Skagen reef's lightship, 1892. Detail. By Carl Locher, one of the Skagen painters. The picture is owned by the Skagens Museum.

SKAGEN Kon-Tiki

Status Report – June 2016

The art of common sense

Highlights – June 2016

- SKAGEN Kon-Tiki* was up 2.2% in June, while the MSCI Emerging Markets Index was up 3.9% measured in EUR. Year to date, the fund is up 1.8% versus a 4.0% gain for the EM index.

- Emerging markets (+3.9%) outperformed developed markets (-0.7%) in June. YTD, the 4.0% gain in EM compares to a negative return of 1.8% for developed markets.

- Brazil was the big winner for the month in EM, up 15%. India, China, Russia and Turkey were all slightly up, but relative detractors in the index.

- Our top three performers in June were Samsung, Cosan and Mahindra. Samsung is up on the back of signs of DRAM supply-demand improvement and NAND price stabilisation, earnings upgrades (looks like the company is talking up analyst estimates again) as well as rumours of Chairman Lee's death (which was later denied but the share price was still up in anticipation of group restructuring). Our Brazilian energy conglomerate Cosan was up with a strong Brazilian market, but also on the back of strong sugar prices. Mahindra, our Indian auto, farm equipment and components manufacturer was up on the back of strong tractor sales following a better monsoon.

- Hyundai and ABB were the main detractors from absolute return during the month. ABB got hit after Brexit as the latter increases uncertainty for large capex projects. Nonetheless, their global exposure should support stable development. Hyundai on the other hand was down despite strong monthly numbers.

- Emerging markets continue to trade at a discount to developed markets, with a 2016e P/E of 12.8x and P/B of 1.5x for EM, compared with 16.6x and 2.1x for DM.

- The top 12 positions now represent more than 50% of the fund (from 45% at the beginning of 2015). In the same period we have reduced the number of positions in the fund from 95 to 64. The portfolio** remains attractively valued at a 2016e P/E of 9.0x and P/B of 1.0x. We now see 49% upside for our portfolio over a 2-year horizon.

** Unless otherwise stated, all performance data in this report relates to class A units and is net of fees. ** Portfolio valuation refers to top 35 positions.*

Will the recent EM outperformance continue?

- Emerging markets (+3.9%) outperformed developed markets (-0.7%) in June. YTD, the 4.0% gain in EM compares to a negative return of 1.8% for developed markets. This follows a long period in which EM has underperformed DM.

- This month the UK voted to leave the EU, which created a great deal of volatility. However, the markets bounced back nicely the week after. We do however expect continued volatility on the back of the uncertainty around Brexit and the potential impact it might have.

- Brexit has exposed Europe to a prolonged period of low interest rates, as well as the likelihood of the Fed pushing rate hikes further out in time. This in itself should be positive for EM.

- If anything, Brexit is likely to impact DM growth more than EM economies.

- We are heading into a period where the relative growth differential is on emerging markets' side:
  - Consensus estimates around 4% GDP growth in EM in 2016, increasing to almost 5% in 2017. DM on the other hand is expected to grow by 1.8% in 2016 and a little below 2% in 2017.

- EM companies are currently at record low margins, and now with a more competitive currency on average.

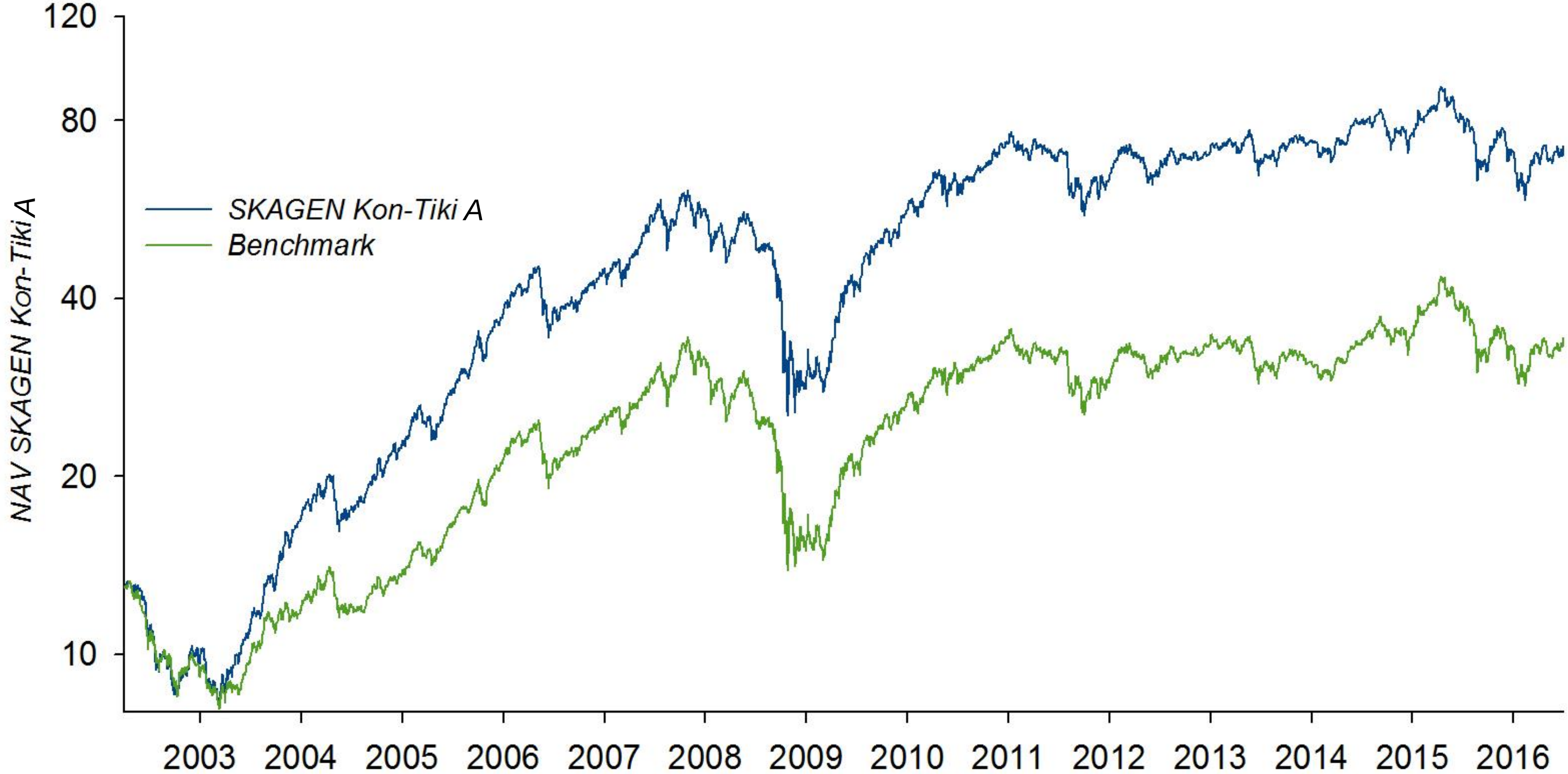
- The EM valuation gap versus developed markets is at a level not seen since the dotcom boom (PB of 1.5x versus 2.1x).

- Brexit might actually be a helping hand for EM versus DM relative outperformance going forward.

- SKAGEN Kon-Tiki has very little direct or indirect exposure to the UK and Brexit in general.

Results, as of 30 June 2016

EUR, net of fees



	June	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Kon Tiki A	2,2%	3,5%	1,8%	-10,4%	1,9%	0,7%	6,6%	12,8%
MSCI EM Index	3,9%	3,0%	4,0%	-11,8%	3,8%	1,5%	5,0%	7,0%
Excess return	-1,6%	0,4%	-2,1%	1,4%	-1,9%	-0,8%	1,6%	5,8%

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

** Inception date: 5 April 2002*

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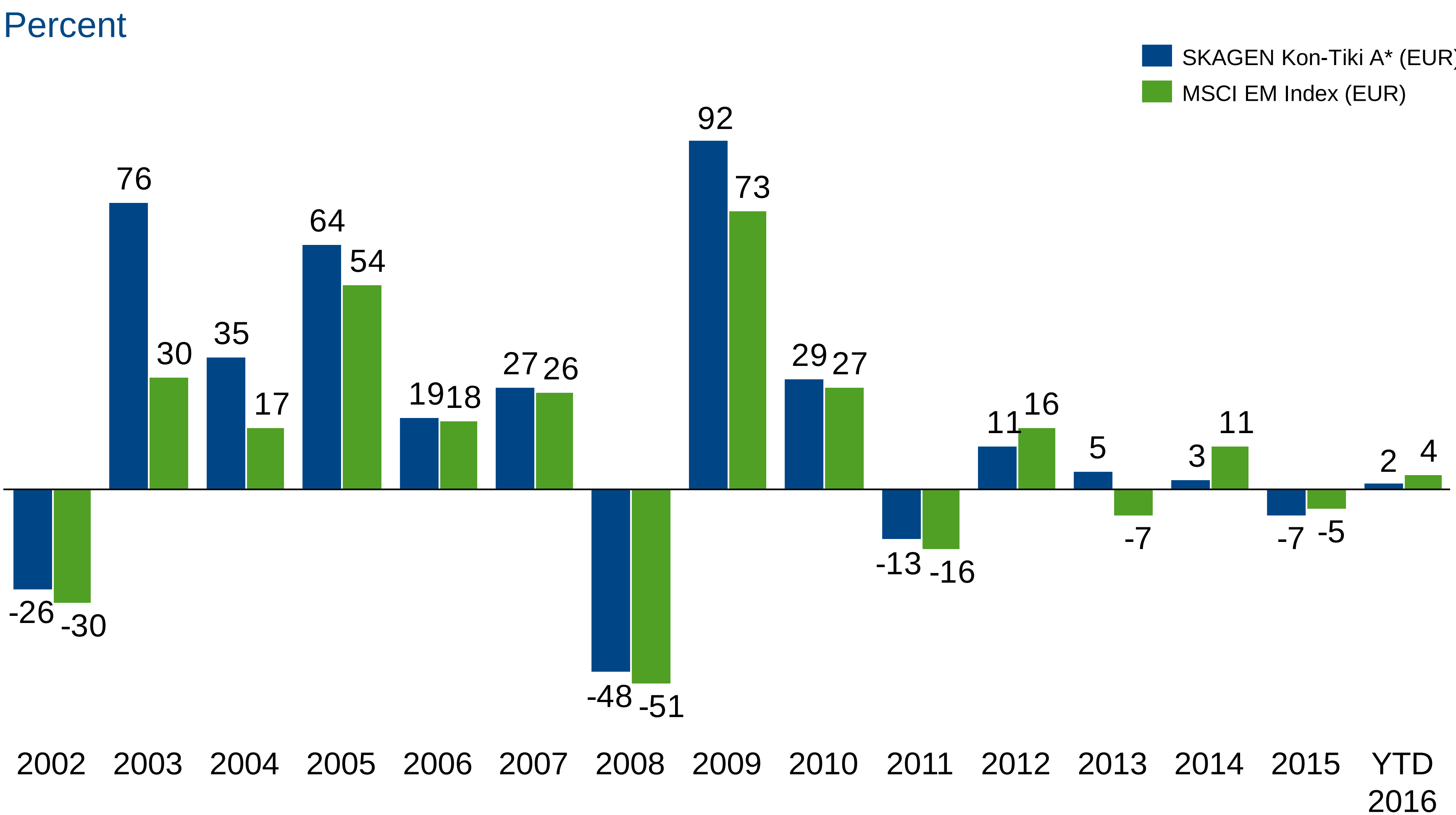
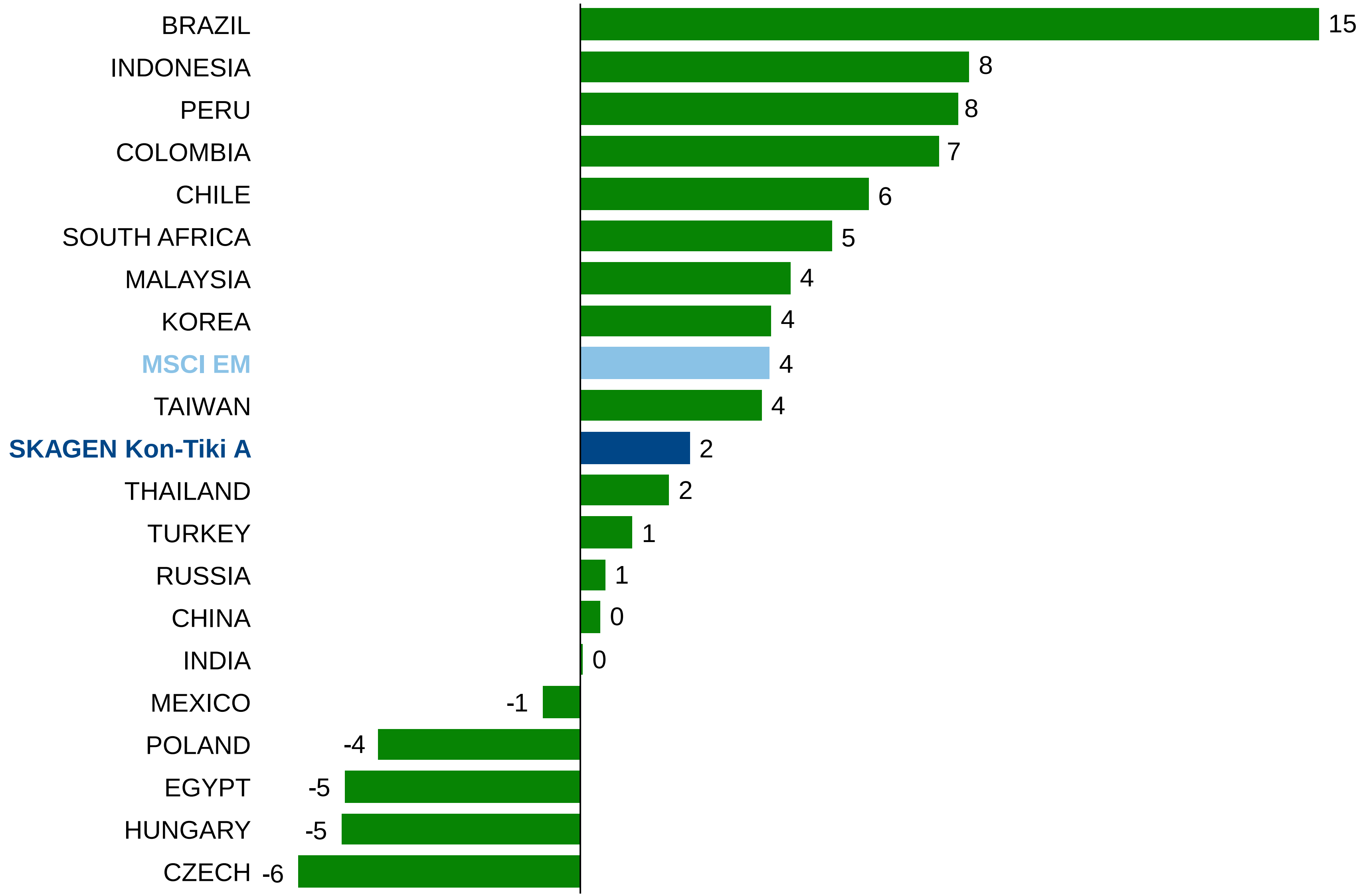
SKAGEN Kon-Tiki has beaten the index in 11/14 calendar years



Note: All figures in EUR, net of fees
** Inception date: 5 April 2002*

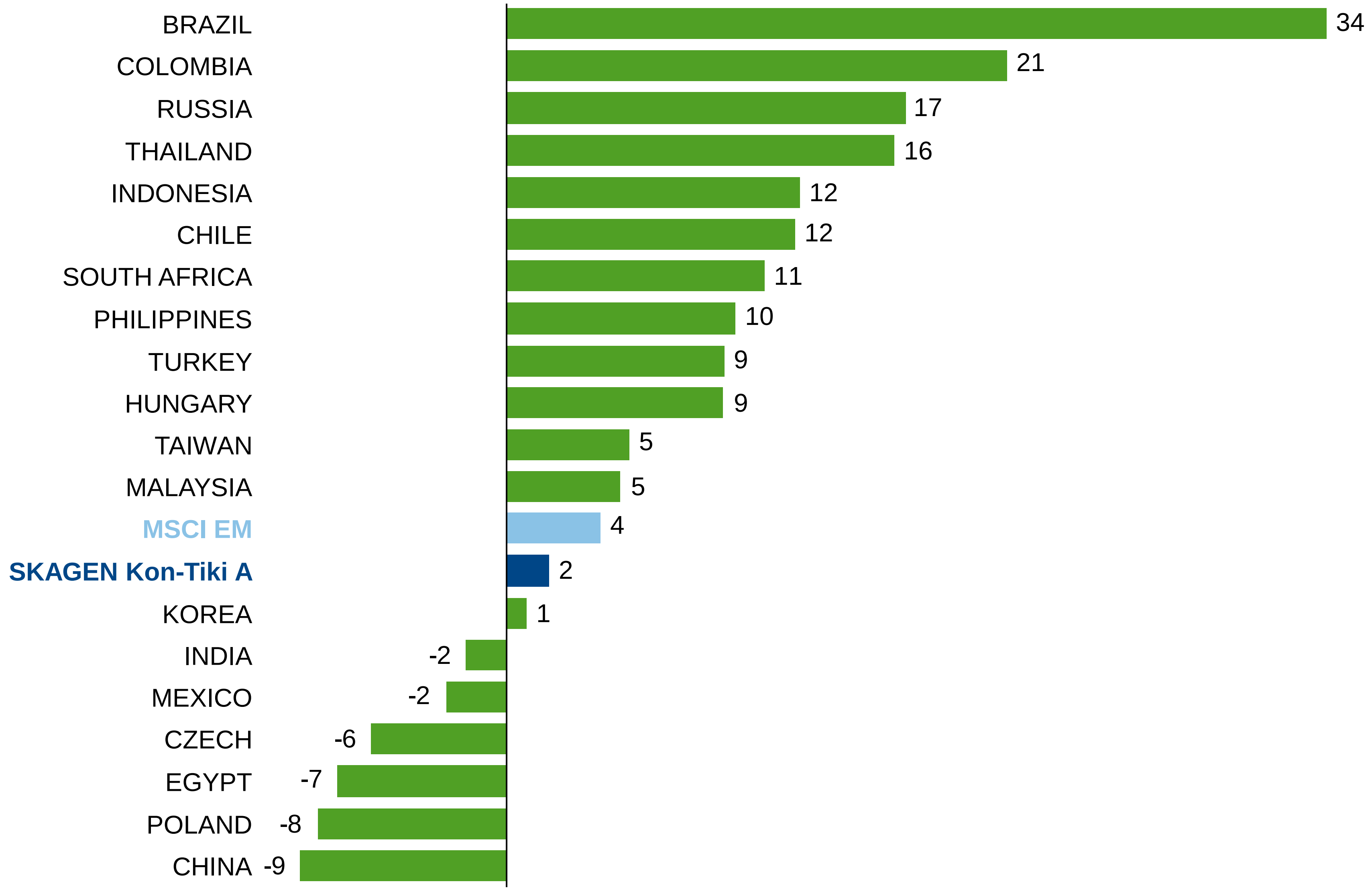
Emerging markets, June 2016 (in EUR)

Percent



Emerging markets, YTD 2016 (in EUR)

Percent



Main contributors MTD 2016

Largest positive contributors

Company	NOK Millions
Samsung Electronics	328
Cosan	136
Mahindra & Mahindra	131
GPA	109
State Bank of India	101
Haci Omer Sabanci	78
JSE	69
Banrisul	66
Naspers	50
Great Wall Motor	37

Largest negative contributors

Company	NOK Millions
Hyundai Motor	-65
ABB	-65
UPL	-41
Tech Mahindra	-40
SBI Holdings	-39
Norwegian Air Shuttle	-38
China Shipping Development	-34
LG Electronics	-30
Rec Silicon	-30
Golar LNG	-27

Value Creation MTD (NOK MM): 735

NB: Contribution to absolute return

Main contributors QTD 2016

Largest positive contributors

Company	NOK Millions
Mahindra & Mahindra	301
Cosan	225
State Bank of India	169
Samsung Electronics	141
Naspers	117
UPL	108
JSE	101
Moscow Exchange	95
Banrisul	90
Tullow Oil	53

Largest negative contributors

Company	NOK Millions
Hyundai Motor	-226
LG Electronics	-83
LG Chem	-69
Korean Reinsurance	-63
GCL-Poly	-62
OCI Co	-61
Lenovo	-60
China Shipping Development	-53
Haci Omer Sabanci	-48
X5 Retail	-44

Value Creation QTD (NOK MM): 885

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Cosan	358
Banrisul	247
JSE	177
Moscow Exchange	160
Haci Omer Sabanci	151
UPL	124
GPA	109
Indosat	88
Mahindra & Mahindra	74
Naspers	70

Largest negative contributors

Company	NOK Millions
Frontline	-374
Hyundai Motor	-307
Great Wall Motor	-249
Lenovo	-171
State Bank of India	-153
Kinnevik	-143
LG Chem	-123
SBI Holdings	-99
Korean Reinsurance	-88
China Shipping Development	-86

Value Creation YTD (NOK MM): -449

NB: Contribution to absolute return

Holdings increased and decreased, June 2016

Key buys during June

Rumo Logistica (New)
Rumo is Brazil's largest independent railroad operator with 4 major rail concessions covering the 3 main corridors of agricultural commodities. Grains are 70% of volumes and sugar 10%, hence this is not a macro call but more driven by the world's increased hunger for carbohydrates (most of the export goes to animal feed). A cheap turnaround story (based on BRL 7 target it trades at 5.5x EV/EBITDA 18e) with good visibility and plenty of catalysts for further upside. (See fact sheet).

Kinnevik
We took advantage of a 10% "Brexit fall" to add to our position given the large discount it is trading at compared to intrinsic value.

Key sells during June

Samsung Electronics
We took advantage of the strong share price (now at an all-time high for our preference share) to prevent the weighting (7.5%) of the position increasing too much.

State Bank of India
We took advantage of the 30% move over the past 5 weeks to reduce the position somewhat.

Mahindra & Mahindra
The 8% share price move for the month led to an all-time high share price also for Mahindra. We took advantage of the strength to reduce the position slightly in order to mitigate the increased portfolio sizing. We still see a 36% upside to our INR 2000 price target.

UPL
Yet another company reaching an all-time high this month, which we took advantage of by reducing the position slightly. We see a 35% upside to the month-end closing level.

Most important changes Q1 2016

Holdings increased

Q1

Toray Industries Inc	(New)

Holdings reduced

Q1

Bidvest Group	(Out)
Pivovarna Lasko	(Out)
Aveng	(Out)
Archer	(Out)
Hyundai Motor	
Bharti Airtel	
Samsung Electronics	
Indosat	
ABB	

Most important changes Q2 2016

Holdings increased

Q2

Rumo Logistica	(New)
Kinnevik	

Holdings reduced

Q2

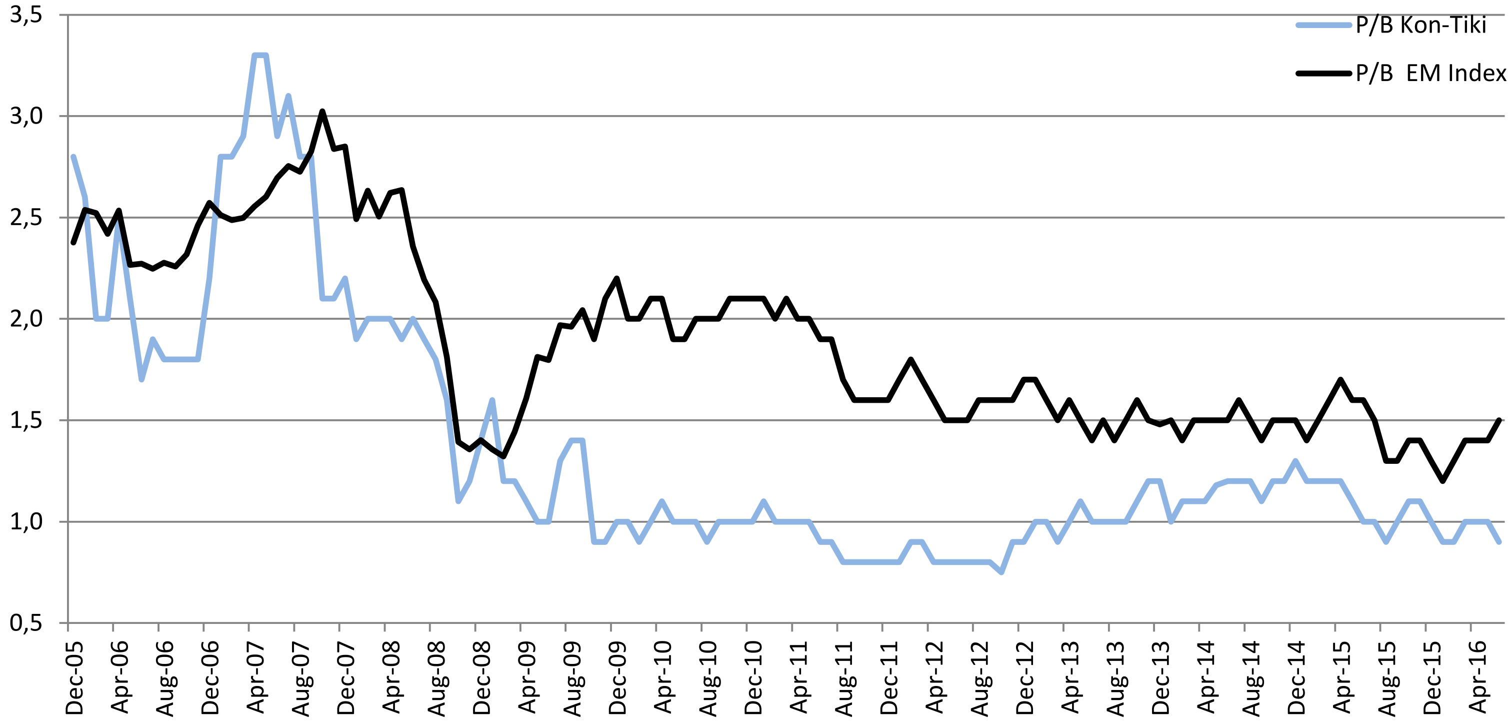
DRDGOLD	(Out)
Trimegah Securities	(Out)
Samsung Electronics	
UPL	
Bharti Airtel	
State Bank of India	
Indosat	
Mahindra & Mahindra	
DIA	
OCI Co	

Largest holdings SKAGEN Kon-Tiki, end of June 2016

	Holding size, %	Price	P/E 2015e	P/E 2016e	P/BV last	Div. yield 15e (%)	Price target	Upside %
Samsung Electronics	7,5	1 183 000	9,2	8,5	0,9	1,8	1 600 000	35
Hyundai Motor	7,4	94 500	3,9	3,9	0,4	4,3	170 000	80
Mahindra & Mahindra	5,6	1 430	26,4	19,1	3,0	0,8	2 000	40
Sabanci Holding	4,9	9	8,6	6,5	0,9	1,6	14	49
Richter Gedeon	4,4	5 583	19,2	18,6	1,7	1,3	7 500	34
State Bank of India	4,2	219	13,7	8,1	0,9	1,2	265	21
Naspers	3,8	2 246	54,1	32,1	11,7	0,2	3 000	34
ABB	3,0	166	16,9	15,8	3,0	3,9	200	20
Cosan Ltd.	2,7	6	10,5	4,3	0,4	0,0	10	55
Bharti Airtel	2,7	367	26,7	20,4	2,2	0,4	400	9
X5 Retail Group	2,6	20	17,8	13,3	3,2	0,0	25	26
LG Electronics	2,0	28 900	42,0	7,2	0,4	1,6	40 000	38
Weighted top 12	**50,8**		**10,5**	**8,3**	**0,9**	**1,4**		**41**
Weighted top 35	**83,4**		**11,8**	**9,0**	**1,0**	**2,2**		**49**
Emerging market index			**13,8**	**12,8**	**1,5**	**2,7**		
Top 35 @ price target			**17,8**	**14,0**	**1,5**	**1,5**		

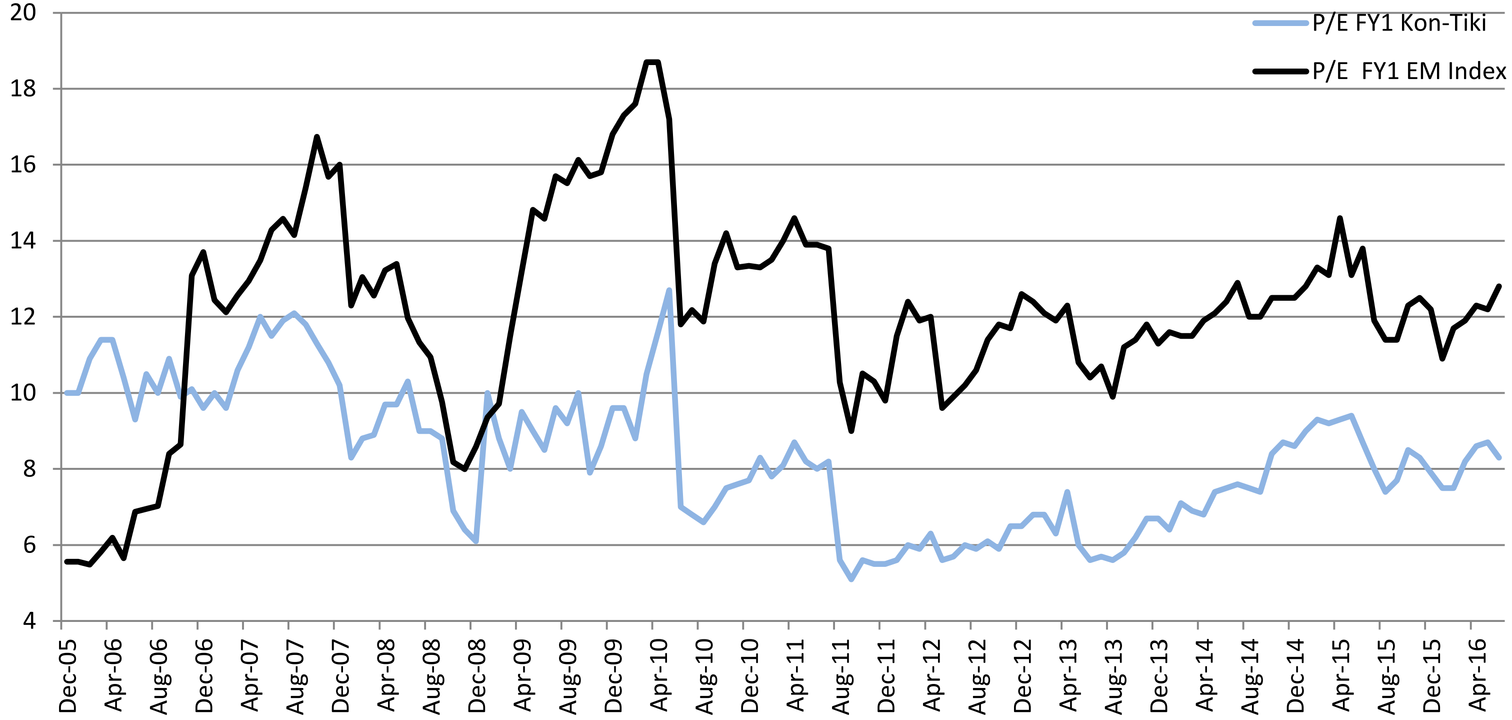
Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates.

P/BV for SKAGEN Kon-Tiki versus emerging markets



Top 12 positions, as of 30 June, 2016

P/E SKAGEN Kon-Tiki versus emerging markets



Top 12 positions, as of 30 June, 2016

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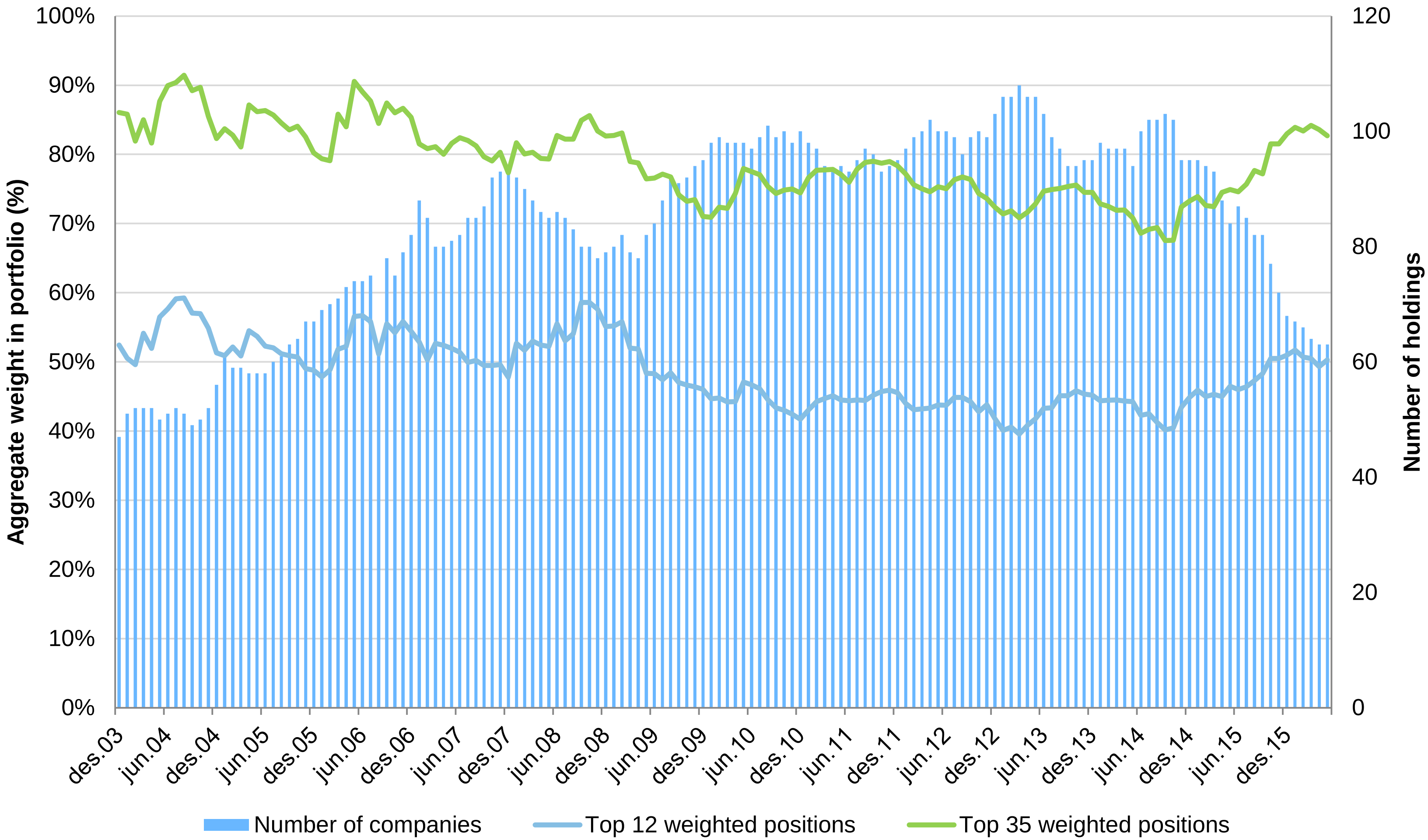
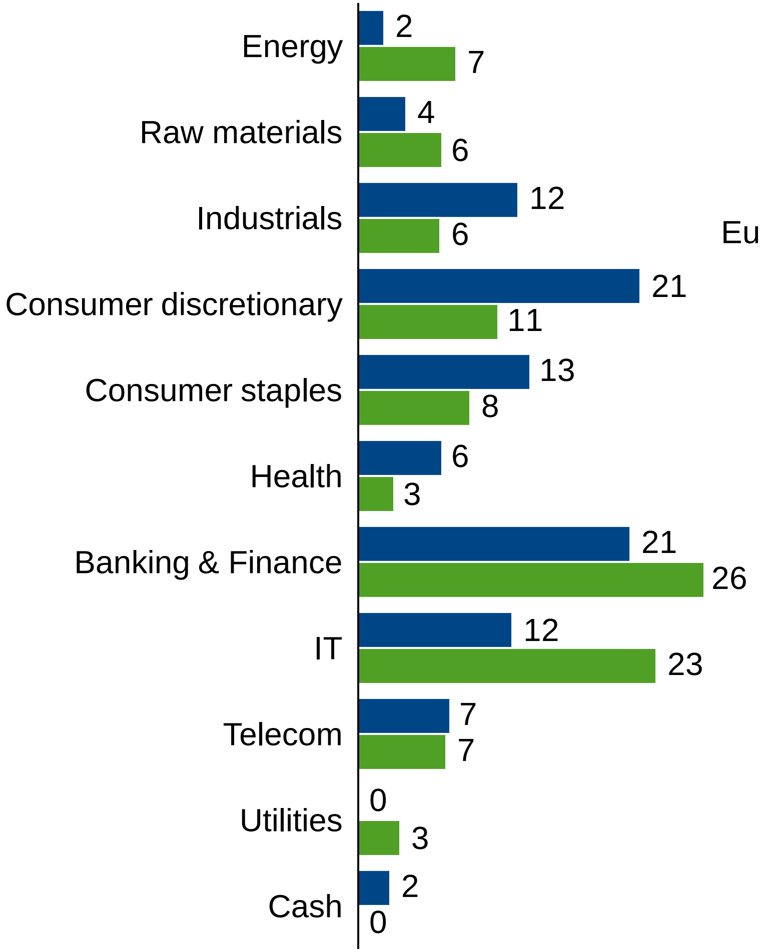
SKAGEN Kon-Tiki portfolio concentration



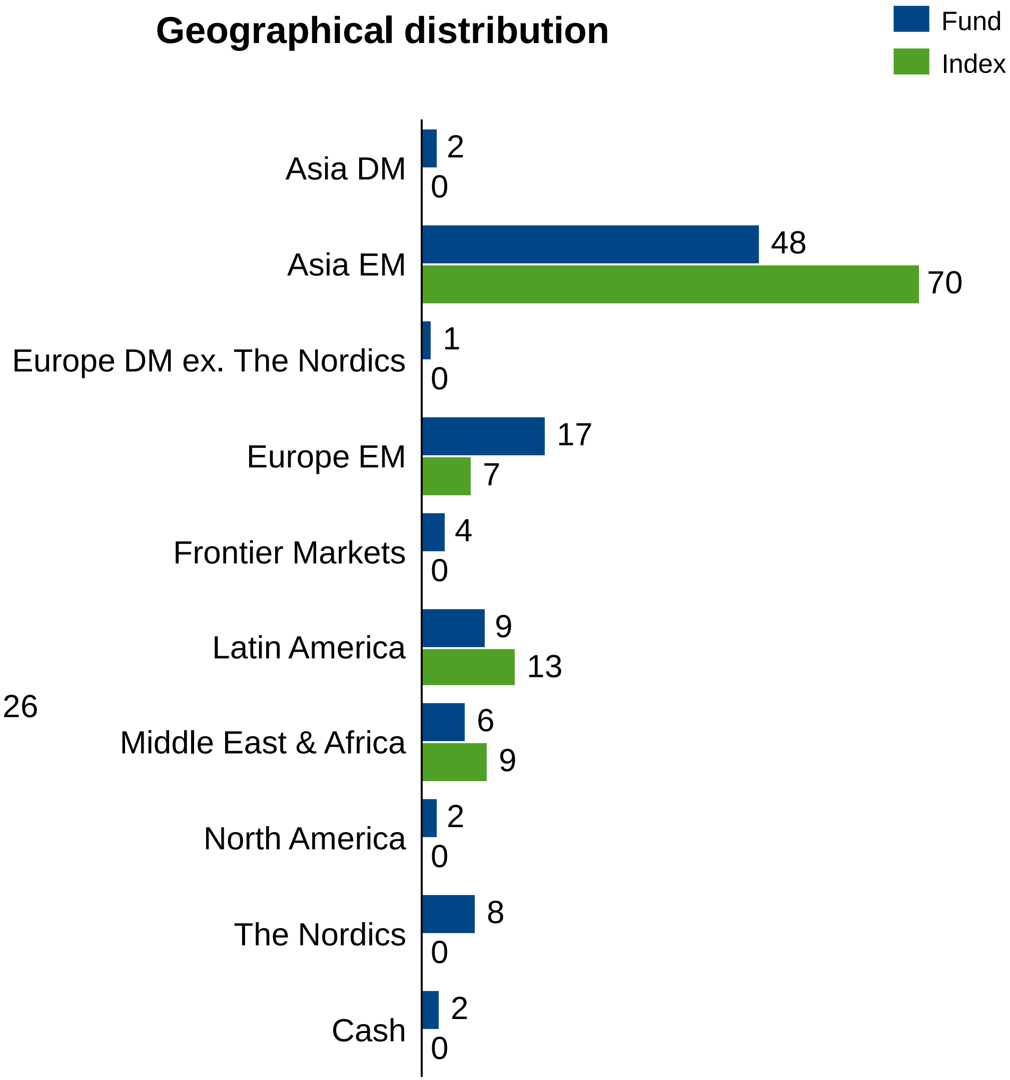
Source: SKAGEN AS as of 30 June 2016

SKAGEN Kon-Tiki sector and geographical distribution

Sector distribution



Geographical distribution



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Key earnings releases and corporate news, June 2016

Mahindra & Mahindra (5.6% weight):

Decent 4Q15 results supportive of investment thesis

Implications for Investment Case: Results confirm company-driven improvement in autos (new models), and a tractor market that is improving slightly. With better rainfall, we expect the rural economy to improve and Mahindra to be a key beneficiary.

June sales numbers were also positive, confirming a strong start to FY17. We are especially encouraged by the strong traction in high-margin tractor sales which should be helped by the outlook of a more normal monsoon after two years with rainfall deficit.

Event summary: 4Q15 sales grew 13% YoY and adj. pre-tax profit was up 11%. Auto volumes grew 14% YoY on the back of long-awaited new model launches, while tractor units grew 12% from a low base last year. ASPs were flattish in autos, but down 4.4% YoY in tractors and thus impacted margins for the latter. Importantly, the new vehicle models helped M&M partly regain lost market share (now at 41% in UVs vs 33% in 2QFY16). In tractors, Mahindra gained 1% of market share YoY to 41%, maintaining its market leadership.

June unit sales for the auto segment of 39,009 units rose 8% YoY (+11% YoY in May and +14% YoY in April) as the impact of new models cooled off. Sales for the important utility vehicle segment of 15,777 units rose 9% YoY (+10% YoY in May and +20% YoY in April). Tractor unit sales of 30,191 were up 20% YoY continuing the strong trend seen in May (+20% YoY) and April (+19% YoY).

Unpopular: 75% buy recommendations, but valuation indicates some conglomerate discount.
Under-researched: Hardly, one of the most well-known and respected Indian companies. 50 analysts cover the stock.
Undervalued: Current share price of INR 1354 implies a 47% upside to our INR 2,000 target price. If we apply a 20% discount to the listed holdings, core operations trade at c. 15x forward P/E. Seems attractive in light of revenue and margin opportunity arising from market tailwinds in tractors and self-improvement in autos.

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

Naspers (3.8% weight):

FY16 results in-line with strong trends from the important Classifieds segment

Implications for Investment Case: Neutral. While Naspers' cash cow Video Entertainment is impacted by a weak macro picture, negative FX and increased competition, the trends from the important Classifieds division are promising. As we are not yet at the monetisation turning point, and while there is concern about Indian Flipkart's burn rate going forward, we don't expect the rump discount to narrow dramatically in the short term. The fact that the decline in core development spend is more material than increased spend on new initiatives like ShowMax and LetGo should be a positive driver for Naspers' rump valuation in 2017. The earnings outlook for their rump business is on a favourable trajectory, but Tencent (34% stake) is still likely to remain the overriding share-price driver until we see this coming through. Other catalysts are 1) renewed focus on exploring disposal or consolidation options 2) increasing signs of classified traction with good progress so far (of 40 classified markets they are now monetising in 10 and leading in another 24 markets) and 3) increased disclosure. We increased our target price to ZAR 300 000 (34% upside potential).

Event summary: Naspers reported FY16 results, a period in which they changed presentation currency from ZAR to USD. Total revenues were down 10% to USD5.9bn (+11% ex currency) and EBITDA of USD 420m, down 23% with falling margins. Tencent (3 month lag) delivered operating profit growth of 37%, while EBITDA growth in Mail.ru increased by 8% only in RUB (or -24% in USD). Development spend (based on an economic interest basis) remained fairly stable at almost USD1bn. Excluding FX effects, E-commerce delivered a trading loss of almost USD 700m. Core headline earnings, which the board regards as the best indicator of sustainable earnings, grew 21% to USD 1.2bn. This was in-line with guidance as well as our expectations. They seem very positive on the Letgo and Wallpop merger in the US. Net debt was down.

Unpopular: Not at all (16 buys, 1 hold, 0 sell)
Under-researched: Not in terms of # of analysts. Also, Tencent (their biggest investment) is covered by almost 30 analysts.
Undervalued: Naspers stake in listed holdings (Tencent and Mail.ru) is worth 110% of Naspers' equity value. That means you get the unlisted internet assets at close to a negative USD 20bn (after stripping out the SA/SSA pay-TV business at peer multiples). That seems extremely harsh. We increased our price target from ZAR 250 000 to ZAR 300 000 (35% upside) on the back of rolling our estimates one year out in our SOP model. This is based on 2.25x EV/sales for the unlisted internet assets (much lower than listed peers), assuming another 10% upside to Tencent's market value (which is likely to be upgraded since they consistently continue to beat estimates) as well as including a 15% holding discount on everything.

These other internet assets include classifieds in 40+ countries with more than 300m active users (including a JV with Schibsted), Flipkart (market leader in India with 28% share), online payment (16 markets) as well as other online services (like the fastest growing online travel agent in India, #1 bus ticketing in India and 70% market share in food delivery in Brazil). They have the #1 e-commerce platforms in Poland, India, the Middle East and Africa. All for a negative price.

Rumo (RUMO3 BZ), BRL 4.3

Rumo is the largest independent railroad operator in Brazil with 4 rail concessions (13k km of rail tracks, 1k locomotives, 27k railcars) covering the 3 main exporting corridors of agricultural commodities. Established in 2008 and merged with ALL in 2015. Recent capital increase paved the way for a refinancing and a big capex program to debottleneck and increase efficiency.

•Volume breakdown: Grains 69%, Sugar 9%, Industrial 5%, Container 5%, Others 11% (Petrobras, Klabin++)

•Turnaround is already yielding results: 1Q16 transported volume +12%, loading volume +16% with yield going from BRL19 to BRL22/ton. Net revenues +22%, EBITDA +43% (margin 38%).

•Investment program: BRL4.6bn investment in 17/18 should increase EBITDA by BRL 1.1bn. Guidance 2016-2020 volume/EBITDA CAGR of 9%/18%.

•ESG: no major issues identified.

Rationale for investment: Rumo is a turnaround case (reduce costs, increase efficiency and unlock capacity through investments in rolling stock and network) with a management team (from 2Q15) that has a strong track record from similar turnaround case. Rumo has a non-replicable business model with 1) huge barriers to entry: only player in the region with the concessions to operate the railway network, 2) presence in the most important grain producing regions in Brazil with client base focused on export, giving a natural hedge against domestic volatility) 3) low demand risk as there is unserved demand and a growing market which should assure strong growth potential (80% of demand is Brazilian agricultural exports which keeps on growing) and 4) it is the most competitive logistics option and should gain market share from trucks through efficiency.

Catalysts: 1)finalising the debt refinancing that depended on the capital raise 2) Paulista & South early concession renewals 3) Deliverance on efficiency improvements 4) Industrial segment performance signs of bottoming 5) Digging into transport of imported products (like fertiliser) on return journeys which go empty at the moment 6) Lower interest rate outlook

Risks: 1) Higher than expected interest rates 2) Execution (turnaround takes longer, no market share gains, less efficiency improvements) 3) Cosan Logistica merger on unfavourable terms (Cosan Log at 30% discount) 4) No Paulista concession renewal 5) Judicial disputes 6) Competition from new truck transport route in the North region.

Price Target: Target BRL 7 implies 5.5x 2018 EV/EBITDA (vs. comps around 7x). 9% volume '15-20 CAGR (as guidance), 17% EBITDA '15-20 CAGR (18% guidance), 47% EBITDA margin in 2020 (from 40% in '15). This is not overly aggressive given visibility from volume lock-ups and guidance which is higher. They were at 50% margin back in 2011 (at that time it was a different company, however).

Key figures:

Market cap:	BRL 5.8bn
	USD 1.8bn
Net debt	BRL 7.3bn

Net debt/EBITDA 3.8x (covenant 5.5x) (debt cost after expected refinancing is 100% of CDI)

No. of shares:	1339m
P/E (16e):	neg
P/E (17e):	18x
EV/EBITDA (16e):	6.1x
EV/EBITDA (18e):	4.4x
P/BV:	0.8x
RoE (16e):	neg
Div. yield:	0%

Shareholding structure: Cosan Logistica 28% (which again is 72% owned by CZZ US), TPG 6.7%, Gavea 1%, BNDESPAR 8% (all members of shareholders agreement), Eminence Capital 14%, free float 45%

Case found through existing holding Cosan which own 28%.

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The largest companies in SKAGEN Kon-Tiki

Samsung Electronics is one of the world's largest producers of consumer electronics, with over 155,000 employees. The company is global #1 in mobile phones and smartphones, the world's largest in TV and a global #1 in memory chips. Samsung also produces appliances, cameras, printers, PCs and air-conditioning units.

Hyundai Motor is the world's 4th largest car maker, including their 39% stake in Kia Motor. Sold 4.9m cars in 2014 and has a c5% global market share. Focus on smaller/less expensive cars. Strong position in several countries and in emerging markets such as India and China.

Mahindra & Mahindra is the largest manufacturer of utility vehicles in India (50% market share) and tractors (40% market share). It has several listed subsidiaries including Tech Mahindra and M&M financial services (largest financier of utility vehicles and tractors in India).

Turkey’s leading and financial conglomerate in sectors including financial services, energy, cement, retail and industrials. The company has 10 companies currently listed on the Istanbul Stock Exchange and operates in 18 countries across Europe, the Middle East, Asia, North Africa and North and South America. Controlled by the Sabanci family.

Hungarian pharmaceutical company established in 1901 with focus on CEE. Transitioning from generic-focused to more specialised through higher margin, innovative products within its women’s health division (Esmya) and nervous system treatments (Cariprazine). Significant upside potential from US marketing approval of Cariprazine and extended usage of Esmya is not reflected in the current valuation at 30-40% discount to peers.

The largest companies in SKAGEN Kon-Tiki (continued)

Largest bank in India with 17% market share (c25% including 5 associate banks). Also presence in life insurance, asset management and investment banking. 15,000 branches, 32,000 ATMs, 130 million customers and over 220,000 employees. Largest Indian overseas bank with 190 offices in 34 countries.

South African listed media and internet holding company incorporated in 1915. They have a strong Pay-TV business in South Africa and Sub-Saharan African countries and a fast growing internet division focused on commerce, communities, content, communication and games. They hold a 34% stake in Chinese Tencent and 29% of Russian Mail.ru.

ABB is a leader in power and automation technologies that enable utility and industrial customers to improve performance while lowering environmental impact. The group operates in around 100 countries and employs 146,000 people. Approximately 50% of sales stem from emerging markets and this share is rapidly increasing.

Cosan is one of the largest Brazilian energy conglomerates with almost 80 years of history. Present within gas distribution, fuel distribution (5800 gas stations), convenience stores (950 stores at gas stations), sugar and ethanol production (24 mills with 68m ton crushing capacity), lubricants, land development and railways/logistics (25% market share of grain transportation for export).

Bharti Airtel is India's largest private integrated telecom company, and it is a leading global player (#4) with operations in 20 countries across Asia and Africa. They had around 287m customers across their operations at the end of June 2014. They separated out towers into a part-owned unit (passive infrastructure). Bharti family and SingTel own 30% each.

For more information please visit:

Our latest Market report

Information about SKAGEN Kon-Tiki A on our web pages

Unless otherwise stated, all performance data in this report 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.

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