SKAGEN Vekst

Status Report – November 2016

The art of common sense

Summary – November 2016

- The big event in November was the outcome of the US presidential election. Surprisingly Mr Trump won the election and the relief rally after the risk event once again demonstrated that perceived risk is more harmful to returns than an actual risk event. For the Nordic markets the month turned out to be a strong one with all companies in positive territory, especially the energy heavy Norwegian market which was pushed higher towards the end of the month after OPEC decided to cut oil exports. SKAGEN Vekst delivered a positive return of 3.1% (in EUR) in November, which was 0.6% better than the combined global/Nordic index which was up 2.5%.*

- For many investors who were willing to take the risk, the famous Christmas rally came early this year. As mentioned in previous monthly updates, the concerns regarding the ongoing political elections have caused heightened political uncertainty in Turkey, Russia, Brazil, Brexit and the Philippines, to name but a few. Experience has shown that in the longer term a well-managed business will continue to prosper despite short-term headwinds. In fact, periods of uncertainty create good and attractive entry points for an active manager such as SKAGEN Vekst.

- Measured in NOK, the largest contributors in November were the US banking group Citigroup, the US based consumer company Sodastream and the Norwegian aluminium producer Norsk Hydro. The fund's largest detractors were Continental, Norwegian and Oriflame after poor Q3 sales figures were reported.

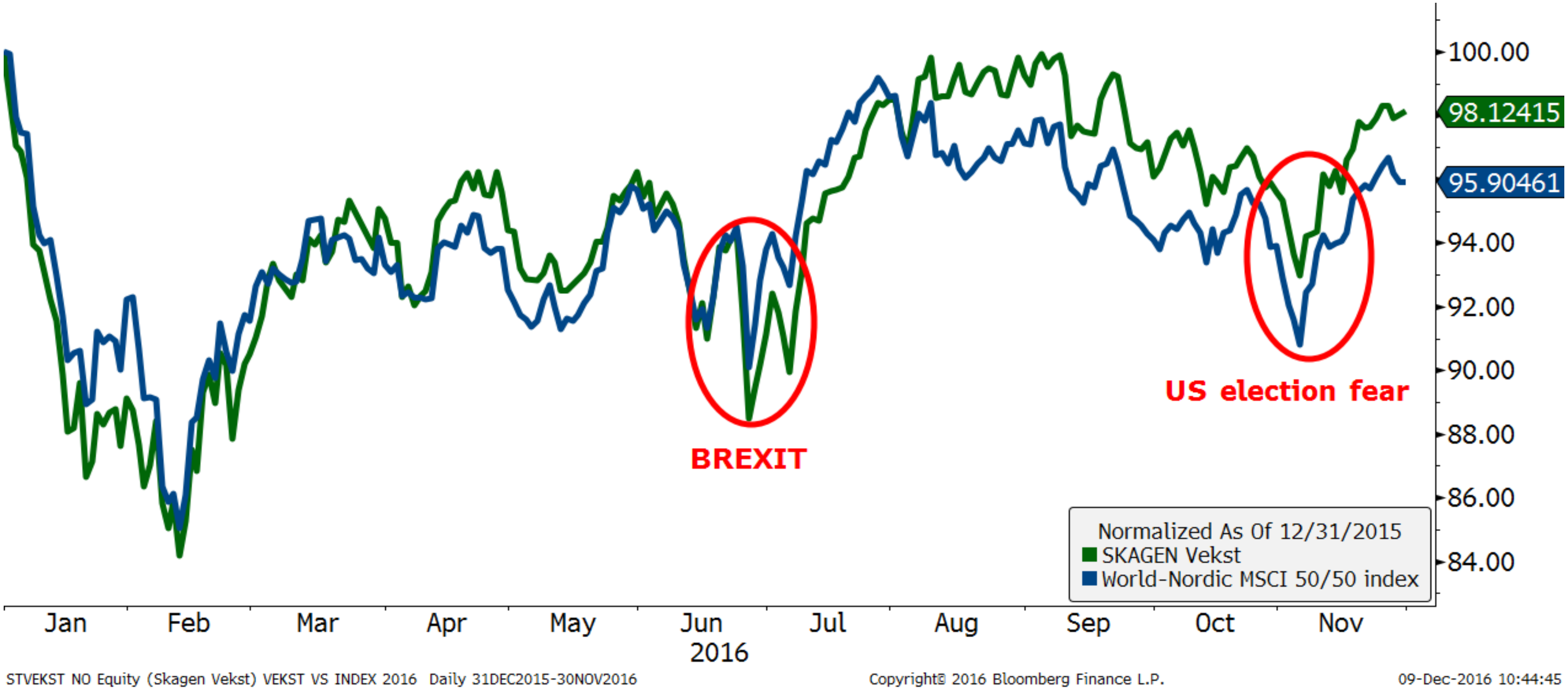
- SKAGEN Vekst consists of 53 positions with 90% of the fund invested in the 35 largest positions. During the month we re-entered the Russian oil/gas producer and gas transporter Gazprom and increased our stake in Golar LNG. We decreased our positions in holdings that have been approaching their price targets. The largest amongst these was Oriflame where we have gradually reduced our ownership on increasing prices and multiples. At the end of November SKAGEN Vekst was valued at 13.7x current year's earnings versus the market at over 17x.

- SKAGEN Vekst continues to be an active investment fund with solid foundations in SKAGEN's value based investment philosophy. We continue to buy companies that we believe are undervalued and which will over time provide excess returns with a focus on the Nordic region.

** Unless otherwise stated, all performance data in this report is in EUR, for class A units and is net of fees.*
SKAGEN Vekst's benchmark index is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World Index

Risk versus reality – markets were more worried about potential outcomes than actual realties. In 2016 we have so far seen a market that is willing to overcome short-term uncertainties caused by political noise.

SKAGEN Vekst and Global/Nordic index rebased for 2016



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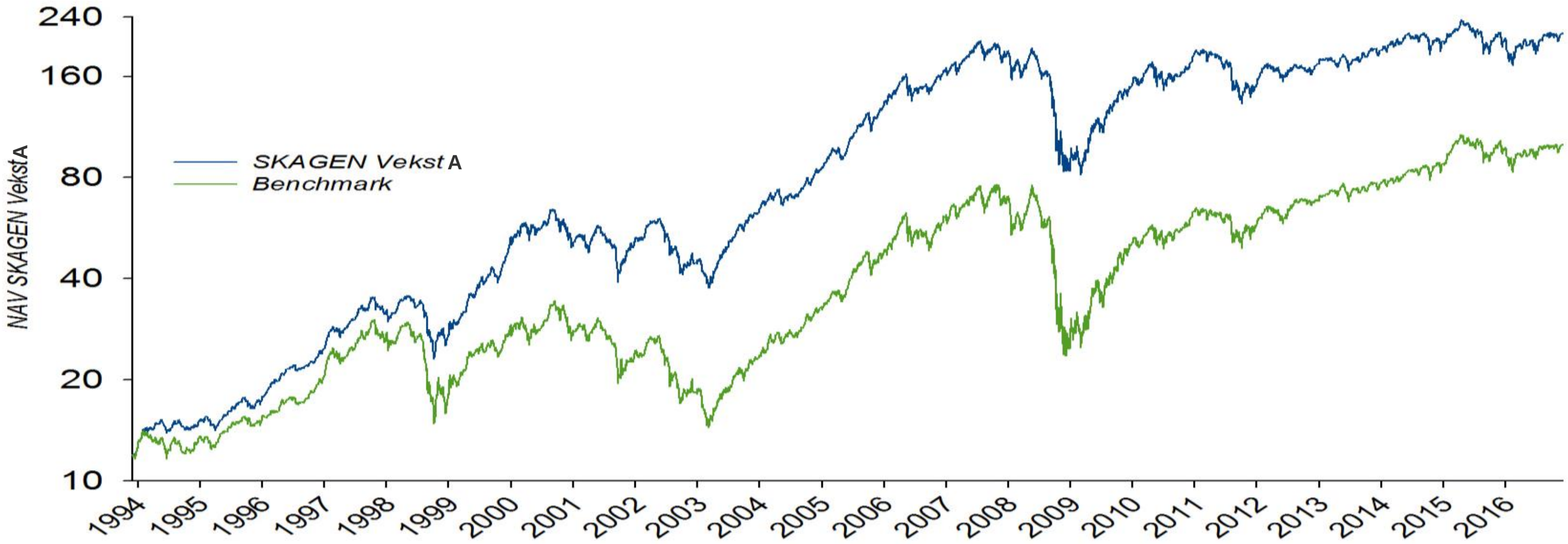
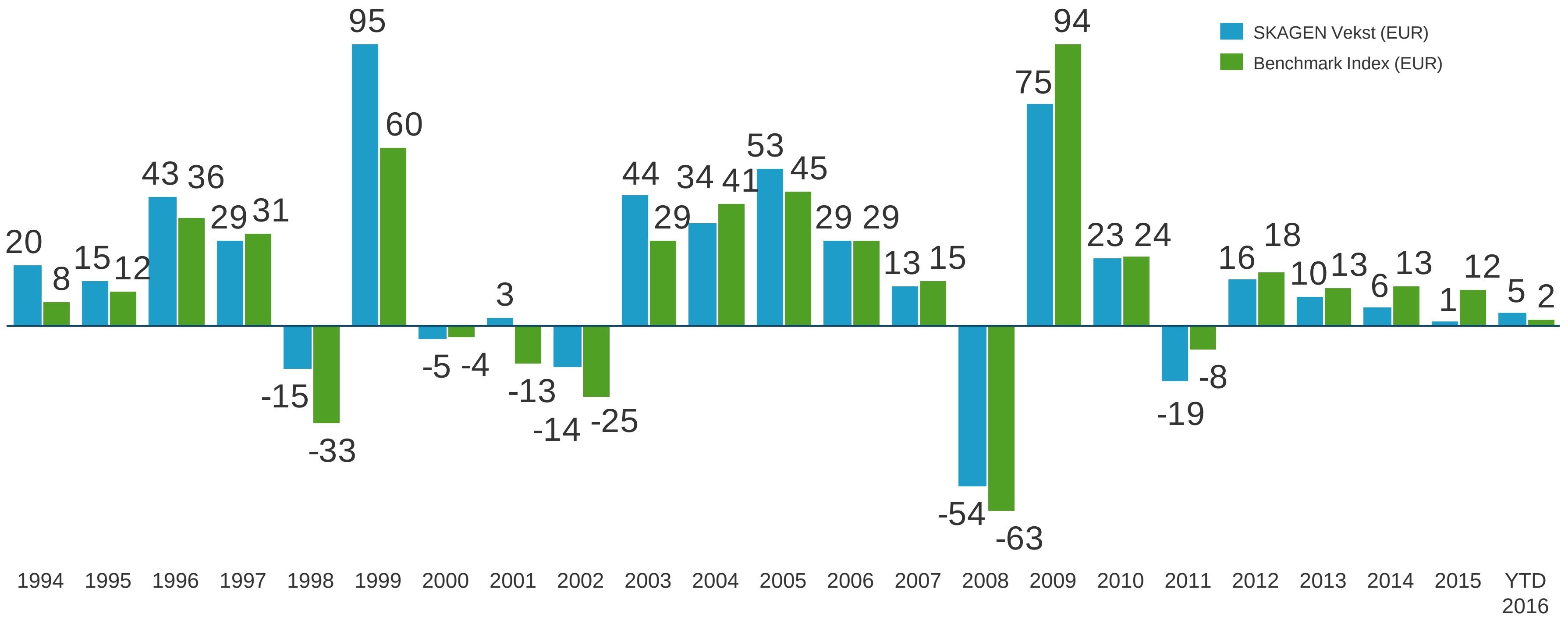
SKAGEN Vekst results, November 2016 (EUR net of fees)



	November	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Vekst A	3,1%	1,5%	4,7%	0,4%	3,7%	7,8%	3,0%	13,4%
Benchmark index*	2,5%	1,7%	2,3%	-1,7%	9,3%	12,2%	5,7%	9,7%
Excess return	0,6%	-0,2%	2,4%	2,1%	-5,6%	-4,4%	-2,7%	3,7%

Note: All returns for periods exceeding 12 months are annualised. Inception date: 1 December 1993. Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its assets in Norway to investing a minimum of 50% of its assets in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than exist today. The Fund's benchmark index prior to 1/1/2014 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). Today the benchmark is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World

Annual performance since inception (%)*



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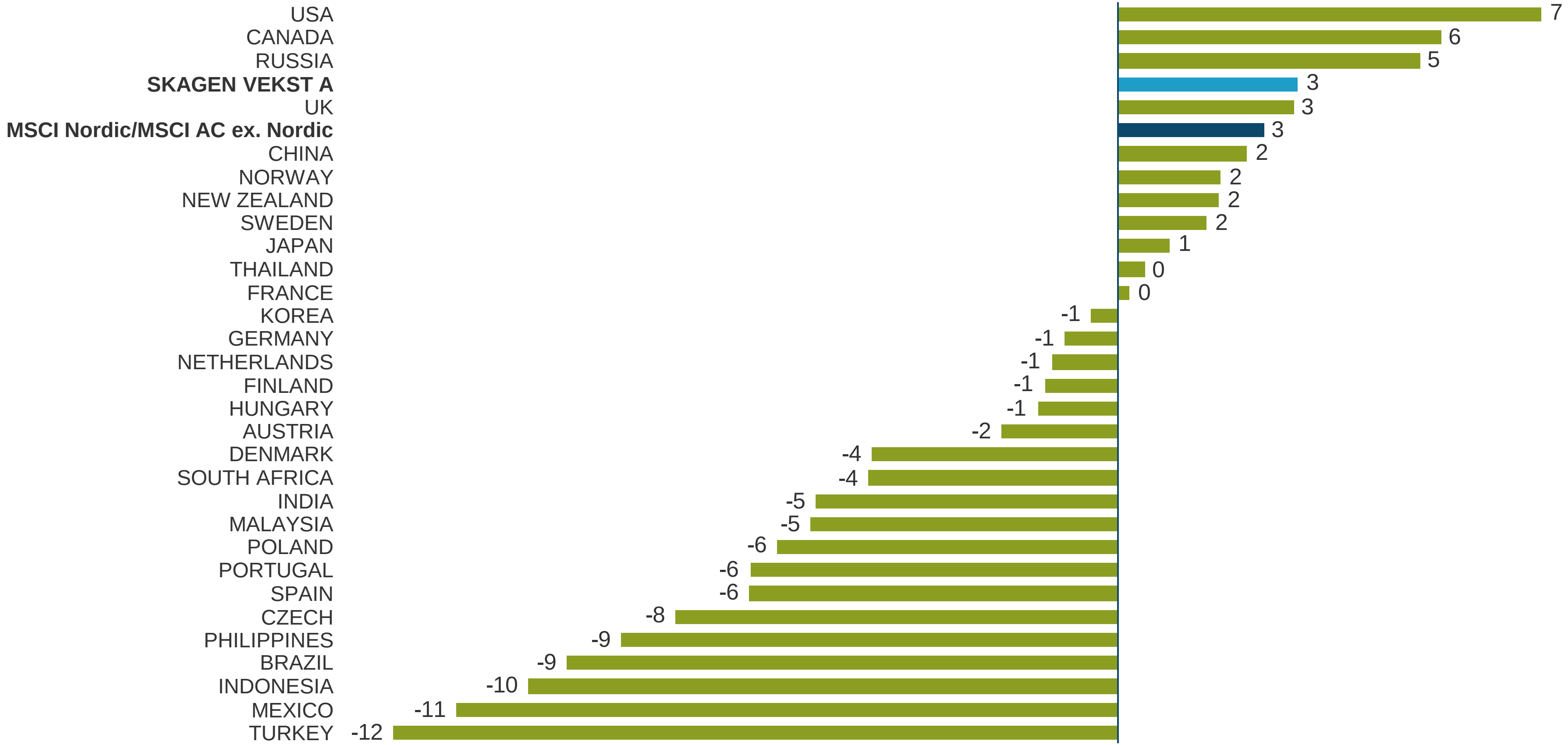
Markets in November 2016, EUR (%)



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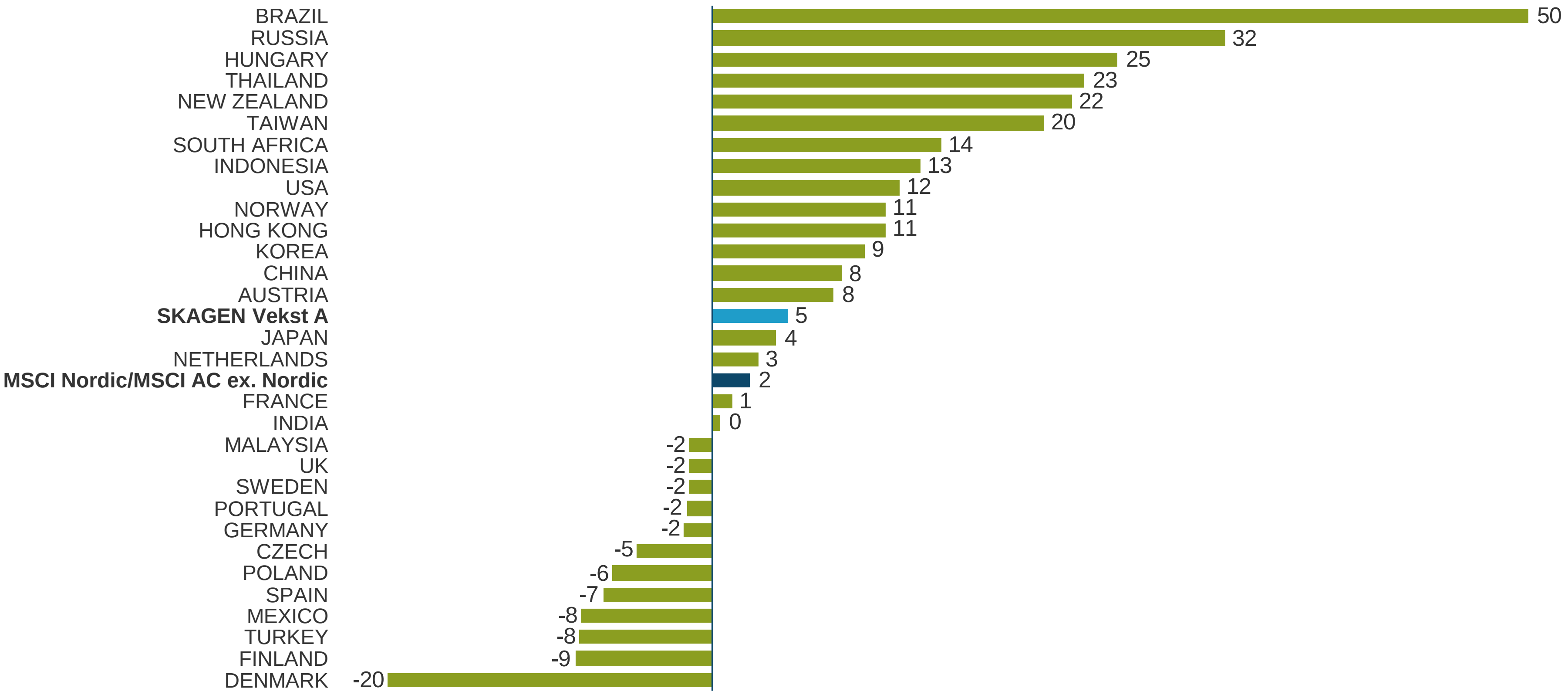
Markets YTD in 2016, EUR (%)



Largest holdings SKAGEN Vekst, end of November 2016

SKAGEN Vekst has 53% of its portfolio invested in the Nordic countries.

	Weight in portfolio	Price	P/E 2016e	P/E 2017e	P/E 2018e	P/B trailing	Target price
Samsung Electronics Co Ltd	6,6 %	1 356 000	9,4	8,0	7,5	1,1	1 680 000
Continental AG	5,4 %	167	12,3	10,3	9,5	2,6	265
SAP SE	5,2 %	79	20,5	18,6	16,9	4,2	102
Citigroup Inc	4,9 %	56	10,6	9,9	8,9	0,8	65
Norwegian Air Shuttle ASA	4,8 %	266	9,2	5,9	4,8	2,7	500
Carlsberg AS-B	4,7 %	597	16,4	14,5	13,1	2,0	847
Norsk Hydro ASA	4,6 %	40	14,9	12,2	11,5	1,1	45
Hennes & Mauritz AB	4,4 %	268	21,4	17,9	15,8	8,2	400
Kinnevik AB-B	4,2 %	226	37,7	37,7	35,3	0,9	295
Roche Holding AG-Genuss	2,9 %	227	15,1	14,2	12,6	9,2	350
Weighted average 10	**47,7 %**		**13,7**	**11,4**	**10,2**	**1,6**	**39 %**
Weighted average 35	**90,4 %**		**12,8**	**10,5**	**9,3**	**1,5**	**42 %**
Reference index			**17,2**	**15,5**	**14,0**	**2,0**	

Earnings estimates are based on net cash earnings when meaningful.
Multiples are calculated using the same method as the index.

Main contributors MTD 2016

Largest positive contributors

Company	NOK Millions
Citigroup	55
Sodastream International	31
Norsk Hydro	26
Hennes & Mauritz AB	18
Golden Ocean Group	18
Samsung Electronics	16
Ericsson	15
H Lundbeck	13
SKF	11
SBI Holdings	10

Largest negative contributors

Company	NOK Millions
Continental	-17
Norwegian Air Shuttle	-15
Oriflame Holding	-12
Kia Motors	-9
Carlsberg	-8
SAP	-7
Telia	-7
HitecVision	-6
Danske Bank	-5
Catena	-4

Value Creation MTD (NOK MM): 187

NB: Contribution to absolute return

Main contributors QTD 2016

Largest positive contributors

Company	NOK Millions
Citigroup	89
Norsk Hydro	46
Sodastream International	31
Hennes & Mauritz AB	26
Samsung Electronics	22
Bonheur	17
Sberbank of Russia	15
SBI Holdings	15
Danske Bank	15
Medistim	14

Largest negative contributors

Company	NOK Millions
Ericsson	-63
Continental	-39
Norwegian Air Shuttle	-32
Carlsberg	-15
eBay	-15
Kia Motors	-15
Telia	-13
Catena	-13
Philips Lighting	-11
Roche Holding	-9

Value Creation QTD (NOK MM): 158

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Oriflame Holding	126
Samsung Electronics	88
Norsk Hydro	80
Sberbank of Russia	56
Sodastream International	51
Wilh Wilhelmsen Holding	34
Lundin Petroleum	33
Volvo	33
Golden Ocean Group	28
eBay	28

Largest negative contributors

Company	NOK Millions
Continental	-161
Ericsson	-157
Credit Suisse Group	-101
Telia	-61
Norwegian Air Shuttle	-61
Kia Motors	-55
Roche Holding	-48
Frontline	-31
Kinnevik	-25
Carlsberg	-20

Value Creation YTD (NOK MM): -129

NB: Contribution to absolute return

Most important changes in 2016

Increased positions

Quarter	Company	Status
Q1	Hennes & Mauritz AB	(New)
	eBay Inc	(New)
	Catena AB	(New)
	Golden Ocean Group Ltd	
	Investment AB Kinnevik	
	Roche Holding AG	
	Ericsson LM-B SHS	
Q2	Swatch Group AG	(New)
	Philips Lightning NV	(New)
	Shire PLC	(New)
	Nirvana Asia Ltd	(New)
	CF Industries	(New)
	Ericsson LM-B SHS	
	eBay Inc	
	Kemira OYJ	
Q3	Investment AB Kinnevik	
	Hennes & Mauritz AB	
	Shire Plc-ADR	
	Danske Bank A/S	
	CF Industries Holdings Inc	
	Norwegian Air Shuttle	
Q4	Novo Nordisk	(New)
	Gazprom	(New)
	Hennes & Mauritz AB	
	Golar LNG	

Reduced positions

Quarter	Company	Status
Q1	FLSmidth & Co A/S	(Out)
	Localiza Rent a Car SA	(Out)
	Bang & Olufsen A/S	(Out)
	YIT Oyj	(Out)
	Tribona AB	(Out)
	Casino Guichard Perrachon SA	
	ABB Ltd	
Q2	Casino Guichard Perrachon SA	(Out)
	DOF ASA	(Out)
	Eidesvik Offshore ASA	(Out)
	Sevan Drilling AS	(Out)
Q3	Norsk Hydro ASA	
	Samsung Electronics Co Ltd	
	Oriflame Cosmetics AG	
	Koninklijke Philips NV	
	Frontline	(Out)
Q4	Oriflame	(Out)
	Philips	
	ABB	

Key buys and sells in November 2016

Key buys

Gazprom

- Pressure on falling gas prices and lack of investor interest made us once again look at the world's largest gas exporter – Gazprom.
- Given its strong (and fairly cheap) resource base, combined with an unparalleled market access and transportation system, we found the valuation of the company to be compelling and bought a small position in the Russian giant.
- Risk is at the forefront of our mind when looking at investments. Nonetheless, given the current political environment and pricing, we see the potential for a significant revaluation within the next 12-24 months.

Key Sells

Oriflame

- The fund has continued to dispose of shares after a very strong development over the autumn.
- SKAGEN Vekst's initial investment came after the company was severely punished by the markets for their businesses in Russia and Asia at a time when these regions were highly unpopular.
- We continue to see good progress in the company's core operations, though after a vey strong development (including harnessing a profit of nearly NOK 126m in 2016 alone), we see better risk/return opportunities elsewhere.

Key earnings releases and corporate news, November 2016

Samsung Electronics (6.6%)

Update from company on strategic update to 'enhance long-term shareholder value'

Investment case implications

Neutral/slightly positive versus expectations, as demonstrated by share price response. It is a step in the right direction, although it does not fulfil all of Elliot's wishes (but this was not expected either). We should add that FCF definition is after M&A. A significant step-up in acquisitions and/or major asset sales will impact shareholder remuneration. Excluding M&A, SEC should generate FCF of KRW c22tr for 2017 which would give shareholder remuneration of KRW 11tr or KRW 79k per share. For our pref. share this equals to 6%. Regarding the cash holding level, we know that the board has debated this for more than a year and discussions have been on the level versus annual CAPEX, i.e. how many years of CAPEX needs to be covered by cash. The backdrop for these discussions is a view by the board that SEC is operating in markets with a large risk of technology changes and needs to have a war chest to invest in new technology. We understand that a band of 2-3y CAPEX has been discussed with the board now settling on c2.5y for now. On the decision to split the holding/operating company, we suspect that the delay in decision is linked to the proposed amendment to the Monopoly Regulation and Fair Trade Act, put forward by the opposition. SEC holds 14.5% of votes and 15.1% of capital (21.1m shares) as treasury shares which excluded the 8.9m bought back and cancelled through the recently completed KRW 11.4tr buy-back program. An approval of the opposition proposal might restrict the voting rights of treasury shares in the creation of a holding company, significantly reducing the (family's) advantage of such a structure.

Event Summary*:*

SEC announced its strategic update following the letter from Elliott. The board committed to the following steps.**1)** Allocate 50% of FCF for 2016 and 2017 to shareholder return (versus 30-50% previously for 2015-2017).**2)** Increase dividend per share by c36% to KRW c28,500 per share for FY16 (KRW c4tr total). 3) Utilise the balance of 50% of FCF for FY16 (KRW c5tr) and unallocated share for FY15 (KRW 0.8tr) for share buy-back starting end-January. The KRW c6tr equals 53% of the 1y program which ended in October of KRW 11.4tr and represents c4m shares or 2.9% of current share count ex. treasury. The shares bought back will be cancelled. 4) Initiate quarterly dividend payments starting 1Q17 at 1/4 of FY16 dividend, i.e. KRW 7,125 per share. 5) Seek to further enhance capital allocation beyond 2017. The company aims to maintain a net cash balance of KRW 65-70tr versus current 70tr through 2017 and will then review this based on "business and economic developments and return excess cash beyond the net cash target to shareholders". At the conference call, management stated that it will review the creation of a holding/operating company structure as suggested by Elliott and that this review might take six months. The board will also review the suggestion of an overseas listing, but were uncertain as to how much value this would add. SEC will furthermore create a new governance committee comprising independent directors to provide feedback on board proposals/decisions linked to shareholder value and committed to elect at least one outside director. The committee will engage with external shareholders.

3U Update

Unpopular: No, but uncertainty around the Note7 created a stampede for the exit. It is still clearly viewed as an 'EM loose canon'.
Under-researched: No, strong following from all local and international analysts.
Undervalued: Yes, but after a strong run this year (pref still up 29%) SKAGEN Vekst has reduced the position by roughly 40%. Still our top holding with clear identified triggers. A conservative sum-of-the-parts still finds ample upside and pricing well within historical range.

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

Golar LNG (1%)

Better things to come than Q316 – 10 months to cash flow?

Investment case implications

Minor positive for the global LNG company although the share jumped 12% on the announcement (combined with OPEC cut). Most of the news was already known as the company had raised USD 176m earlier in the month. This, combined with the contract on the FLNG project announced earlier, as well as the Golar Power and first Ghana payment of the FSRU, make the company less financially demanding and now the focus is back on delivering projects on time and at cost.

Summary:

- EBITDA and Operating Loss in the quarter reported a loss of USD 11.3 million and USD 28.3 million (still ca.140m USD left in cash).
- Golar LNG Limited and Schlumberger formed OneLNG, a joint venture that will offer an integrated upstream and midstream solution for the development of low cost gas reserves to LNG.
- Closed Golar Power transaction with Stonepeak to capitalise on downstream opportunities.
- Shipping market shows positive signs with improving utilisation, rates and the re-appearance of round-trip economics (higher utilisation).

3U update

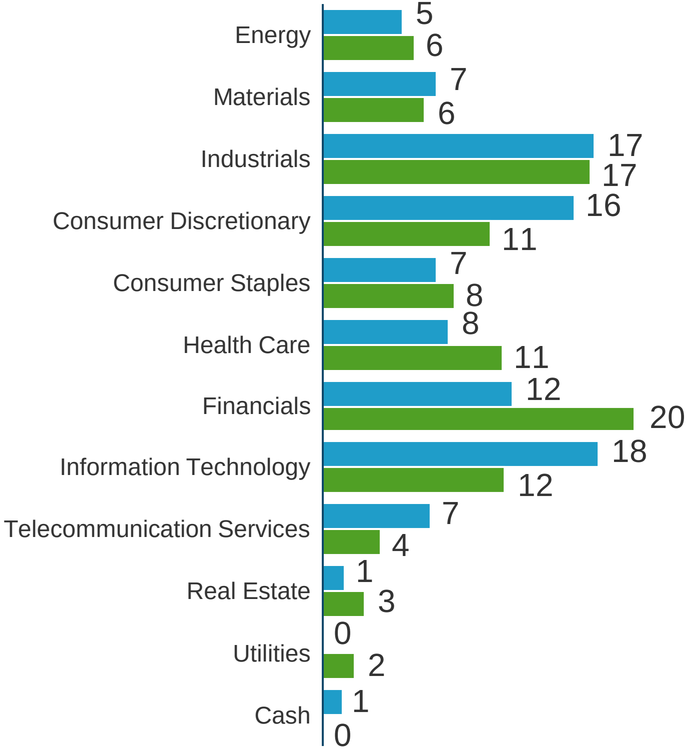
Unpopular: No, 90% Buy and only 1 Sell for a ca. 2.4bn USD company

Under-researched: No, not with 20 analysts covering a company with a fairly small market cap

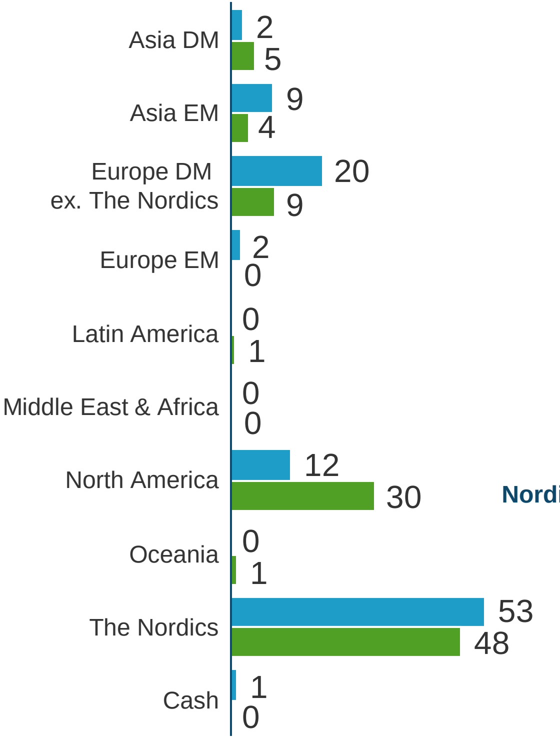
Under-valued: Yes. We estimate fair value of USD 35 per share if more projects are delivered similar to the Schlumberger JV. Our price target (and market's perception) could change dramatically.

SKAGEN Vekst sector and geographical distribution

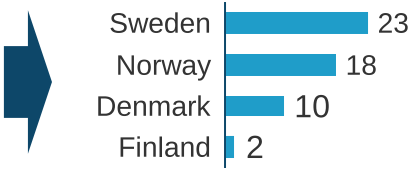
Sector distribution



Geographical distribution



Nordics in SKAGEN Vekst



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The largest companies in SKAGEN Vekst

Samsung Electronics, the Korean electronics group, has enjoyed very solid growth in consumer electronics, especially smartphones. Pole position in global semiconductor market. Cash generation is very strong and the company has historically wisely invested in new business areas – solar power and healthcare are on the roadmap for the future.

Continental AG produces tyres for cars and trucks and makes auto technology such as power trains, safety systems and automated drive systems. The replacement cycle for tyres is becoming stretched in some markets, so near-term earnings look promising. Longer term Continental's pole position in global auto technology provides a good backdrop for substantial growth.

SAP SE is a German multinational software corporation that makes enterprise software to manage business operations and customer relations. SAP is headquartered in Walldorf, BadenWürttemberg, with regional offices in 130 countries.

Citigroup Inc. or Citi is an American multinational banking and financial services corporation headquartered in Manhattan, New York City. Citigroup was formed from one of the world's largest mergers in history by combining the banking giant Citicorp and financial conglomerate Travelers Group in October 1998.

Norwegian Air Shuttle is the leading Nordic-based low cost airline, which in 2015 flew over 26m passengers. The fleet of airliners and the route network are growing rapidly proving the concept of Norwegian local low cost airline, to Nordic, to European and to Global reach.

The largest companies in SKAGEN Vekst (continued)

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.

Norsk Hydro ASA is a Norwegian aluminium and renewable energy company headquartered in Oslo. Norsk Hydro is one of the largest aluminium companies worldwide. It has operations in some 50 countries around the world and is active on all continents. The Norwegian state holds a 34.3% ownership interest in the company, which employs approximately 13,000 people.

H&M (Hennes & Mauritz) is a Swedish multinational clothing-retail company, known for its fast-fashion clothing for men, women, teenagers and children. H&M operates in 62 countries (ranked 2nd in the world) with over 4,000 stores and as of 2015 employed around 132,000 people. The first store was opened on the high street of Västerås, Sweden in 1947.

Kinnevik AB is a Swedish investment company that was founded in 1936 by the Stenbeck, Klingspor and von Horn families. Kinnevik is an active and long-term owner and its investments are made primarily in technology-based services aimed at consumers.

Founded in 1896 by Fritz Hoffmann-La Roche, the company was early on known for producing various vitamin preparations and derivatives. Today it is a Swiss multinational health-care company that operates worldwide under two divisions: Pharmaceuticals and Diagnostics. The company specialise within oncology and is making impressive efforts within the research of new drugs.

For more information please visit:

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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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