SKAGEN funds

Annual Report **2010**

Young markets lead the upturn

The pessimists were wrong. With the younger emerging markets in the driver's seat, global growth was a solid five percent in 2010. Equity fund investors could rejoice over yet another good year, also for those who backed heavily indebted countries like the US.

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Kristoffer Stensrud

Children at the beach. Skagen. 1910. Detail.
By Einer Hein, one of the Skagen painters.
The picture belongs to the Skagens Museum.

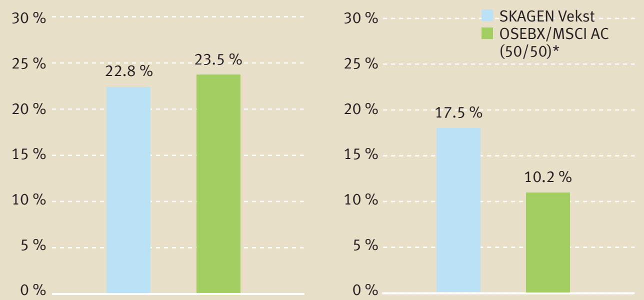
All's well that end's well

Despite turbulent markets in the first half of 2010, most of SKAGEN's funds performed better than their respective benchmark indexes. SKAGEN Vekst ended up slightly behind its benchmark index while the other two equity funds beat their respective indexes. Unit holders in SKAGEN Tellus had good reason to be pleased while SKAGEN Avkastning disappointed.

SKAGEN VEKST

Manager: Beate Bredesen **Start:** 1 December 1993

Return 2010 **Average annual return since start**

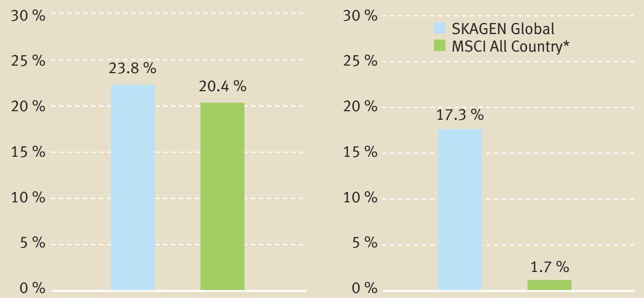


* Before 1.1.2010 the benchmark was Oslo Stock Exchange Benchmark Index

SKAGEN GLOBAL

Manager: Kristian Falnes **Start:** 7 August 1997

Return 2010 **Average annual return since start**

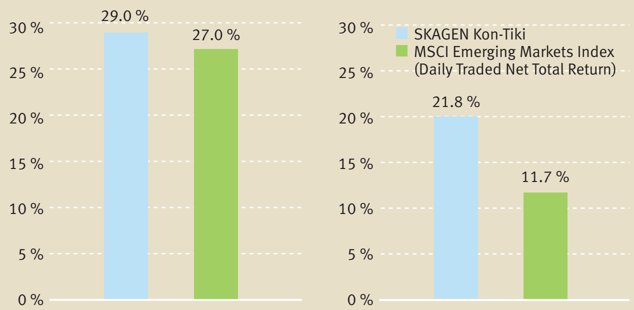


* Before 1.1.2010 the benchmark was MSCI World Index

SKAGEN KON-TIKI

Manager: Kristoffer C. Stensrud **Start:** 5 April 2002

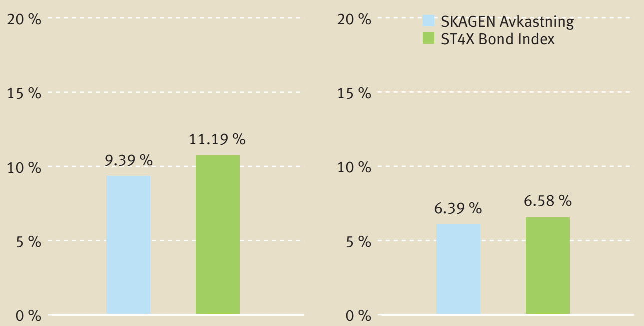
Return 2010 **Average annual return since start**



SKAGEN AVKASTNING

Manager: Jane S. Tvedt **Start:** 16 September 1994

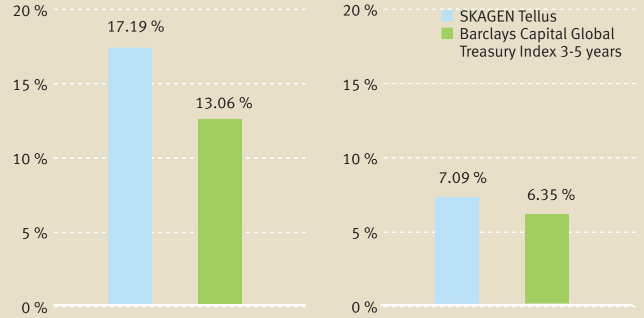
Return 2010 **Average annual return since start**



SKAGEN TELLUS

Manager: Torgeir Høien **Start:** 29 September 2006

Return 2010 **Average annual return since start**



Unless otherwise stated all figures quoted in this report are in euro, except for the Financial Statement and Notes, which are in Norwegian kroner.

SKAGEN Funds only has authorisation to market its money market funds SKAGEN Høyrente and SKAGEN Høyrente Institusjon in Norway and SKAGEN Krona in Sweden. Information regarding these funds is included in the official accounts and audited information hereto. Other information regarding these funds from the Norwegian version of the report has been excluded from this English language publication.

The Annual Report 2010 was originally prepared in Norwegian. This is a translated version that is published with reservations regarding possible errors and omissions as well as erroneous translation. In case of conflict between the Norwegian and the English versions, the Norwegian version shall prevail. The Norwegian version of the Annual Report 2010 is available at www.skagenfondene.no

SKAGEN FUNDS
ANNUAL REPORT 2010

SKAGEN Funds invests in Undervalued, Under-researched and Unpopular companies all over the world. SKAGEN AS was established in Stavanger in 1993 and is one of Norway's leading fund managers.

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Invitation to electoral meeting for the mutual funds managed by SKAGEN

We would like to welcome unit holders in SKAGEN Funds to our electoral meeting which will be held at the Stavanger Concert Hall on Wednesday 2 March, from 6pm to 9pm. Please note that the meeting will be held in Norwegian.

The electoral meeting will be broadcast live on our Norwegian-language website www.skagenfondene.no so that as many people as possible may follow the proceedings.

The agenda for the electoral meeting is as follows:

1. Election of chairperson and two unit holders to sign the minutes
2. Board of directors' annual report
3. Auditors' report
4. Election of one board member to the board of directors of SKAGEN AS (The nomination committee proposes that the current board member Jan Henrik Hatlem be elected as board member, as elected by the shareholders for a term up to 2013).
5. Election of a member of the nomination committee (The board proposes that Mette Lundh Håkestad be elected for a term up to 2014).
6. Questions sent in by unit holders.

At the electoral meeting, one unit represents one vote. Unit holders may vote by proxy. No participant may submit more than one third of all the votes represented at the meeting. An approved power of attorney form can be obtained by contacting customer services on +47 51 21 38 58. Please remember to bring identification and a certificate of incorporation if applicable.

Unit holders may send questions in writing to the Board of Directors of the management company up to one week before the electoral meeting. With the exception of the elections, the electoral meeting may not pass resolutions which constrain the funds or the fund management company in any way.

Funds discussion with Einar Lunde

Once the formal part of the electoral meeting is over, Investment director Kristian Falnes will talk about the outlook going forward. There will then be a discussion about the funds with the portfolio managers and Managing director, Harald Espedal. Unit holders will then have the opportunity to ask questions, either via sms or in person. The funds discussion will be led by Einar Lunde, who has been foreign correspondent and news anchor on the Norwegian NRK news programme for 40 years. He is now associated partner with Oslo-based PR agency, First House.

To register, please contact customer services on +47 51 21 38 58. The deadline for registration is 28 February. Light refreshments will be served and the meeting is open to everyone.

Best regards
The Board of Directors of SKAGEN AS

Martin Gjelsvik
Chairman of the Board of Directors

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Faith and doubt

2010 has been a year of faith and doubt in a decoupled world and also for our unit holders. Despite debt crises and moderate growth in the West, the global economy has grown five percent in total. When history books are written, 2010 will go down as another good year for funds.

Harald Espedal

MANAGING DIRECTOR

In SKAGEN we usually advise clients to diversify their savings. This has been particularly good advice for 2010. The hypothesis we put forward a couple of years ago about a decoupled world was fully borne out this year. Because while the western world has experienced debt crises and moderate growth, the emerging markets have accounted for a substantial part of the returns for our unit holders. Overall, our funds have provided our unit holders with over 1.95 billion euros in returns, a result that we are very satisfied with.

Weak start

2010 got off to a weak start, while the second half of the year was strong. By the end of the year both SKAGEN Global and SKAGEN Kon-Tiki had beaten their respective benchmark indexes, while SKAGEN Vekst came in just behind its benchmark index. SKAGEN Global delivered 23.8 percent returns versus 20.4 percent for the benchmark index. The emerging markets fund SKAGEN Kon-Tiki gained 29 percent versus 27 percent for the emerging markets index. SKAGEN Vekst ended the year just behind its reference point delivering a return of 22.8 percent versus 23.5 percent for the benchmark index.

On the fixed income side, the bond fund SKAGEN Tellus had an excellent year. Unit holders in the fund achieved 17.2 percent returns on their savings versus the benchmark index's 13.1 percent. SKAGEN Avkastning did not create much in the way of excess returns beyond the money market interest rate, delivering 9.4 percent, versus 11.2 percent for the benchmark index.

In March portfolio manager Filip Weintraub chose to leave SKAGEN and start his own fund management company in Stockholm. As a result of the manager change and, in accordance with regulations, the rating agency Standard & Poor's withdrew its top ratings for both SKAGEN Global and SKAGEN Vekst. In the course of the year, SKAGEN Global has been awarded a respectable AA rating, while SKAGEN Vekst is expected to be rated by S&P in March 2011. (Read more on page 9).

The British research company Citywire rates SKAGEN Global as number 8 of 453 funds in its category and SKAGEN Kon-Tiki as number 3 of 80 as of 31 December 2010 based on the fund managers' performance over the past five years. In addition in Citywire's new Euro Stars list SKAGEN Kon-Tiki comes in at second place in the emerging markets category.

A decoupled year

2010 was a poorer year than 2009 due to somewhat weaker return figures than the previous year. Assets under management increased from EUR 11.4 billion to EUR 14.1 billion, an increase of almost 24 percent. EUR 13.1 billion of the assets are invested in our three equity funds and 1 billion in our fixed income funds.

We experienced a decoupling here also: there were net redemptions of EUR 310 million from the funds in the first half of the year. There were two reasons for this: firstly the uncertainty felt by Norwegian institutional clients and the Swedish pensions agency (PPM) advisors following the departure of Filip Weintraub and secondly the market unrest in May and June.

In the second half of the year, the situation was reversed and we ended the year with net subscriptions of EUR 25 million, which was less than in previous years. There were net subscriptions of EUR 44 million in the equity funds, while the fixed income funds had net redemptions of EUR 19 million. If we look at the figures more closely there are several bright spots. The largest contribution of EUR 237 million last year came from the Dutch market, while the home market of Denmark contributed EUR 145 million.

Looked for changes

For the first time there were net redemptions from the Swedish market. This was solely due to the Swedish pensions agency (PPM). With this exception, there was good growth in the Swedish market. Last year we requested that changes be made in the Swedish pension sys-

2010 ended up being a good year for unit holders in SKAGEN. There will always be people who see stormy clouds ahead, but in the meantime the global economy grew 5 percent, led by the emerging markets.

tem to prevent major short-term fluctuations into and out of the funds, so-called mass movements. For some time we had been noticing increasing trade movements involving sums of up to several billions of kroner within PPM. As SKAGEN is geared towards long term savings, short term mass movements have an impact, regardless of whether these are subscriptions or redemptions. The consequences are more administrative tasks which takes time away from the managers' analysis work and higher transaction costs. We have therefore stated that SKAGEN will remove all its funds from the premium pensions system unless they are able to implement measures to prevent the mass fluctuations before 1 June 2011. This will ensure that clients with a long term horizon get the results they expect.

Next stop Amsterdam

As part of our international expansion we opened our first office outside of Scandinavia this year. The official opening of the London office, which is located in the West End, took place in May. At present the office is staffed by three employees whose priority is on existing UK clients. Net assets from the UK amount to more than EUR 1 billion. Read more about the UK office on page 8.

The expansion is set to continue in 2011. During the course of the year we will be opening an office in Amsterdam in order to continue servicing existing and new Dutch clients. Read more about our international strategy on page 6.

Talk to us

One of our most important goals is to provide clients with the best possible service and follow-up. During the year we launched a range of new services which we hope will make investing in our funds easier and information more readily available. One of our most important projects has been the launch of our new web pages for all markets in a number of languages. Our aim is to increase the accessibility of information by giving clients a variety of channels in which to find answers to their questions and a simple way to trade funds. For those of you on the move, we have also developed mobile pages that can be accessed from most mobile phones.

Many people prefer to speak to us directly, either face to face or by phone. We are always very pleased to talk to clients and encourage them either to call us on +47 51 21 38 58 or drop by one of our branches. You can find addresses and maps of our offices on our new web pages.

Remaining optimistic

The horizon for 2011 is not entirely cloudless. The risks of a debt crisis in Southern Europe and the danger of inflation in the emerging markets are still present. Nonetheless we choose to remain optimistic going into 2011. The year has started with the prospect of good global growth and still relatively low interest rates. The valuation of the equity market as a whole is moderate and in our funds we have succeeded in finding equities that are priced at a solid discount to the markets in general.

The advantage of a decoupled world is that the picture is diversified: gloomy prospects in one sector can be offset by a brighter outlook in another. The world is seldom as black and white as pessimists would have us believe.

SKAGEN's International Strategy

"...SKAGEN has gone from small-town Norwegian firm to internationally acclaimed investment house. One of the things I like most about the SKAGEN attitude is the fact that their Europe-wide reputation has grown without an aggressive marketing push..."
Angus Foote, Editor of Citywire Global

The International team in SKAGEN

In May 2010, SKAGEN opened a client-facing office in London's West End. Albermarle House is the tenth SKAGEN office, and marks a cautious strategy of incorporating new market areas that began back in 2004 with the establishment of the Stockholm office in nearby Sweden. What then is the purpose of this international growth? And how far is SKAGEN prepared to spread its client footprint?

The client contribution to "best risk adjusted return"

The defining ambition of SKAGEN AS is to provide our investors with the best possible risk adjusted return – and we too are investors in our funds. This ambition, together with our house investment philosophy of applied value and the broadest possible mandates, has endured, unchanged, since our founding in 1993. And it remains the principal determinant of our approach to new markets and business development.

Since 2001 we have slowly sought to access new markets, and therefore a more diverse client base, in order to stabilise our assets under management. A very limited variety of clients tends to promote volatility in a fund since it is often the case that similar clients 'vote' together, subscribing and redeeming at the same time. A more diverse client base – both geographically and by client segment – tends to reduce such peaks of activity. And this, in turn, helps the portfolio managers to focus on investment decisions; rather than trading in order to manage client transactions.

This strategy has proved fit for purpose. For example most recently, during 2010, our domestic Norwegian client base has seen some modest outflow, as some investors enter periods of decumulation, drawing on their pension investments. While, in contrast, in the Netherlands in particular, we have seen balancing inflow throughout the year. The net effect has been to stabilise assets under management, and thereby create more favourable conditions for the portfolio managers to deliver the best possible risk adjusted return.

Follow the client

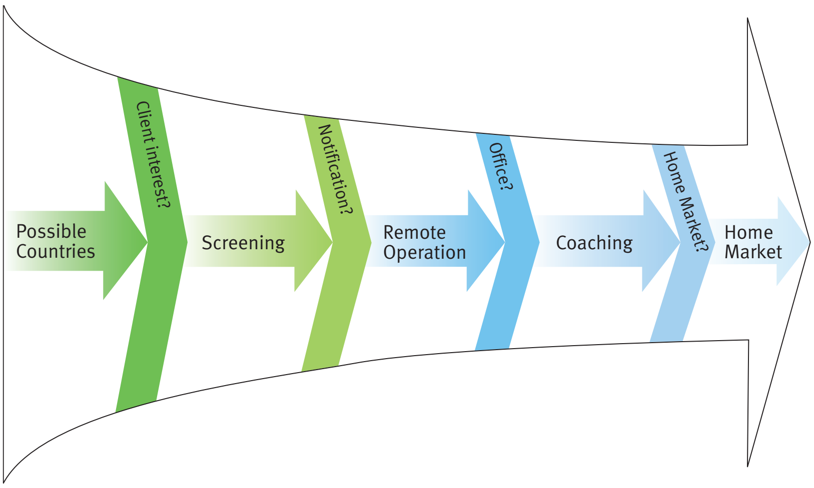
The process by which we select new market areas is far from top down. There is no overarching grand strategy for first European and then Global domination. We are content to be guided by our clients in this matter. With 'hospitality' a founding principle of SKAGEN, we will seek always to respond to client interest, be it from any quarter. And when there is a level of client activity that is significant, or where we are invited or approached by prospective partners, then we will carefully evaluate the case for notification and local marketing permission, and perhaps even a branch office in time.

In addition to sufficient client interest in our funds, there needs to be an appropriate degree of regulation and client protection in any prospective market area. We follow closely the UCITS brand. We are clear that we should not expose our existing clients to unexpected risk through activity in unfamiliar jurisdictions, where the law and regulation governing client activity is unknown to us. We therefore need to fully understand the likely consequences of entering a new market area, and to consider also the more hard to predict unintended consequences.

Currently SKAGEN has an investor base that runs to hundreds of thousands, with clients registered to some 86 countries. Not all of these countries will see us seeking marketing permission. Nor will we necessarily open a branch office in all countries where we obtain marketing permission. We will, however, try always to deliver the best possible service to all clients, both foreign and domestic – a key tenet of our business concept.

The international model

Entry into new market areas is essentially a multi-phase process comprising: screening; notification (marketing permission); remote operation; establishing an office; mentoring; and, home market.



In screening the landscape is mapped out and the case for notification evaluated. There must be client demand, our products must suit the needs of local investors, there should be no barriers to entry such as unequal tax treatment, and there should be appropriate local regulation.

Notification is the process of seeking local marketing permission. Much of the work here is regulatory. Understanding the key law and regulation that governs the fund industry locally, and adjusting our client interaction and practice to best meet both local and our home state requirements.

During remote operation an initial business foothold is made in the new market by the international department. This is conducted from Stavanger through occasional sales and marketing visits. Once an appropriate base of investment has been developed that is sufficient to sustain a local office, a board proposal may be submitted to establish a local branch office. The purpose in so doing is to ensure the best possible client service to the increasing number of local investors.

Once established, the office will endure a period of mentoring by the international department. The culture of SKAGEN – enshrined in our values of cheerfulness, inclusivity, commitment, credibility and uniqueness – will be landed in a new setting. And the local team will develop critical mass and the range of organic capabilities required for a client-facing office.

The final home market phase will see the office released as an independent entity within the SKAGEN organisation.

SKAGEN's UK office is centrally located in London's West End.

Next Steps

If 2010 was the year of the London office, then 2011 will see us launch a Dutch team in Amsterdam. Having gained marketing status in the Netherlands in 2006, we are now on the verge of moving from remote operation to the establishment of a local branch office. The various approvals are in place – both from our home state Norwegian regulator and from the Dutch Financial Services Authority, AFM. We are well along with the hiring process for a local managing director to head up the business. And we have some ideas regarding location – in common with all SKAGEN offices expect to see a focus on quality of life for employees and access for clients. All that remains is to complete the final legal and regulatory documentation, sign the new hires, find the premises, and have a launch party. It is an exciting project.

Further afield we are slowly turning our attention to warmer climes. We have seen interest from as far away as Australia and South Africa. We have started, however, a little closer to home and are in the process of evaluating notification for a range of European nations including Switzerland, Belgium, Italy and Germany. We have strong client interest in all of these countries. They are jurisdictions with a tried and tested investment industry, possessed of sound regulation, and seemingly welcome the kind of old fashioned, straight-forward, and long-term investing that SKAGEN practises. It is important to note, however, that our ambitions in each country are modest. Our funds are not right for everyone; but we are confident that they are exactly right for enough people to justify our commitment to the task.

Here in SKAGEN we continue to believe that a sensible and measured expansion into selected markets represents a worthy and welcome challenge, and one that will benefit our existing clients. No matter the outcome of this ongoing adventure, our focus will long remain the delivery of the best possible risk adjusted returns for all our clients, wherever they may be.

Timothy Warrington

HEAD OF INTERNATIONAL

SKAGEN UK – Plan on track

When SKAGEN's UK branch opened its doors for business in May 2010 the primary focus was on providing UK clients with the world class service that SKAGEN's Scandinavian clients have come to take for granted. Seven months down the line, and this priority remains unchanged.

When Stephen Millar, Managing director of the UK office, was interviewed for our Half Year Report 2010, he explained that each of SKAGEN's UK clients had been assigned their own client advisor, and since then one-to-one meetings have been held with the majority of these clients, to really understand their needs when it comes to servicing, information provision and data. They have also had the opportunity to meet with SKAGEN's portfolio managers when the latter have been travelling through the UK.

Although a lot of time has been spent ensuring that client requirements for information are being met, there has also been a focus on the "softer side" of client servicing, that is getting to know the clients in person and putting faces to names in both formal and informal settings.

For Stephen, the second priority for the UK team has been to raise awareness of SKAGEN generally in the marketplace and start getting SKAGEN's message across. They have already seen some measure of success with two articles having appeared recently in the financial publications the Financial Times' FTfm supplement and the Financial News. Portfolio manager Knut Harald Nilsson was interviewed in the former article and Stephen himself in the latter. There has been a good response to both articles, as SKAGEN's common sense approach and investment philosophy seem to chime well with UK investors.

As a result of the company's profile being raised and increased contact with clients, SKAGEN has started to see a good and steady increase in interest in its strategies over the past six months; the third aim of the UK team. Wealth managers and the private bank sector in particular have been showing an increasing interest in SKAGEN's equity funds.

In sum then, the UK team has gone a long way to achieving their three objectives for the first six months, namely working more closely with existing clients, raising awareness of SKAGEN and increasing interest in our strategies. And these will continue to be the main areas of focus going into 2011. "It has been encouraging to see how much desire there is to work with SKAGEN in the UK. This is not just to do with the quality of the product, but also the straightforwardness of SKAGEN's approach, the investment philosophy and the quality of the investment people," says Stephen.

Keeping ahead of the game

Given the strict regulatory environment in the UK in particular, has Stephen felt there to have been any challenges in this respect when it comes to establishing a branch in the UK? "The regulatory challenges are still to come, as most have yet to be fully defined and codified in law," explains Stephen. He goes on to add that he has been impressed by SKAGEN's involvement in the regulatory landscape, through its membership and active participation in the various trade organisations in Europe, the UK and Scandinavia amongst others, and the proactive nature of the work done to ensure SKAGEN is ready to adapt to legislations when they are adopted. "Having worked at two large organisations previously, with arguably greater resources for this type of work, I am very impressed and reassured by how much more emphasis SKAGEN places on keeping colleagues up-to-date with what is going on externally. It is not an inward-looking organisation."

Adopting best practice

In the interview in our Half Year Report, Stephen mentioned that there were lessons that SKAGEN could learn from the bigger, more mature UK marketplace, and vice versa. What lessons have been learnt so far?

"We have taken on board the innovative approach taken by the home markets of Norway, Sweden and Denmark to get to know clients – by means of everything from annual New Year's Conferences, a Capital Market's Day and regional "inspiration meetings" in Denmark to cite just a few examples – and we will start to put the ideas into practice in the UK in 2011," says Stephen.

As to what they in the UK have been able to give back to the home markets in Scandinavia, Stephen mentions the product and asset class perspective, that is "information on what products clients will be looking for in the future," as well as best practice when it comes to communicating with clients.

Stephen Millar, Managing director of the UK office

Anticipating clients' needs

Going into 2011, Stephen sees much of the same: "continuing to develop in a steady and conservative manner, and not growing the business aggressively". When it comes to recruiting more staff, this will be done "ahead of business growth in order to anticipate clients' needs. As with everything in SKAGEN, it is our clients who define the path ahead."

And on a more personal note, along with the fellow Brit on the team, Timothy Heffer, Stephen has started to take Norwegian lessons and aims to start putting his new-found language skills into practice. Although this, he stresses, is a much more long term goal.

Awards and ratings in 2010

In recognition of consistent and good investment performance, our funds and managers have received a range of awards and ratings in 2010.

SKAGEN recognised by Lipper

Between them, the equity funds SKAGEN Global and SKAGEN Kon-Tiki won a total of 13 Lipper awards at various ceremonies that took place around Europe in 2010. SKAGEN received Lipper Awards in the Nordic countries, Netherlands, at the European ceremony in Luxembourg and in the UK. SKAGEN Global was nominated the best global equity fund in all of the above-mentioned regions for its performance in the past five and ten year periods and SKAGEN Kon-Tiki the best emerging markets equity fund for its performance over the past five years.

Taking the Golden Bull by the horns

In November, our equity fund SKAGEN Kon-Tiki was elected best investment fund by the public at Dutch fund awards ceremony, De Gouden Stier (the Golden Bull). This is the third year in a row that SKAGEN has been nominated and won awards at De Gouden Stier. SKAGEN has been active in the Dutch market since April 2006 and has both retail and HNW clients.

Top in Citywire's new Pan-European ratings

Independent UK research company Citywire has started to rank fund managers whose funds are available across several European markets. The team behind SKAGEN Kon-Tiki is ranked number two in its category.

Citywire ranks SKAGEN Global as number 8 of 453 global funds and SKAGEN Kon-Tiki as 3 of 80 emerging markets funds as of 31 December 2010, based on the fund managers' respective performance over the past five years. (See table below).

New S&P rating for SKAGEN Global team

Following the manager changes in March, two of our equity funds, SKAGEN Vekst and SKAGEN Global, were put under review by rating agencies Standard and Poor's (S&P). S&P have since carried out a thorough assessment of both funds and given the portfolio management team of SKAGEN Global a new AA rating. "We hold Falnes, his track record, the wider SKAGEN team and its consistency of process in high regard, and note the relevant experience of both Eide and Christensen," writes S&P in its first evaluation of the new portfolio management team.

As for SKAGEN Vekst, S&P decided to maintain the TR (Tenure Review) rating for the fund until the portfolio managers have 12 months relevant experience. Consequently, the fund will be reviewed again in March 2011.

Our third equity fund, SKAGEN Kon-Tiki, retained its AAA rating this year. In evaluating the fund, S&P writes that "consistent outperformance has taken this fund to the top of its S&P peer group, with five-year cumulative returns of more than double that of the peer group median".

SKAGEN Kon-Tiki was ranked as number 22 of 563 emerging markets funds at the end of the year in 2010, for its performance over the past five years. SKAGEN Global and SKAGEN Vekst, which are classified as global equity funds by S&P, were ranked as number 59 and 38 of 2925 global equity funds at the end of 2010.

Morningstar qualitative ratings

SKAGEN's equity funds have all been assigned qualitative ratings by international fund ranking provider Morningstar: 'Elite' for SKAGEN Kon-Tiki, 'Superior' for SKAGEN Global and 'Standard' for SKAGEN Vekst. The Morningstar Qualitative Rating represents Morningstar analysts' opinion of a fund's relative investment merit. It is a forward looking measure and identifies analyst conviction in a fund's long-term performance prospects relative to a relevant pan-European & Asian peer group.

You can find links to the Morningstar research reports on each of the funds on our web pages.

Five stars to SKAGEN Tellus

Morningstar also assigns quantitative ratings, primarily based on the fund's return relative to its risk during the past three years. Morningstar awards from one to five stars, where five stars are best. Our international bond fund SKAGEN Tellus has been awarded five stars by Morningstar, putting the fund in the top ten percent of its peer group.

Two of our equity funds, SKAGEN Global and SKAGEN Kon-Tiki, have also been given the top five-star rating by Morningstar, while SKAGEN Vekst has four stars.

Fund rating	SKAGEN Vekst	SKAGEN Global	SKAGEN Kon-Tiki	SKAGEN Avkastning	SKAGEN Tellus
Standard & Poor's (AAA=Best qualitative rating)	TR (Tenure Review)	AA	AAA		
Citywire (5 year performance) Fund manager rating		No. 8 of 453	No. 3 of 80		
Lipper Funds Awards	Nordics 2009: Best fund 10 years Equity Norway	Europe 2010: Best Fund 10 years Equity Global	Europe 2010: Best Fund 5 years Equity Emerging Markets Global		
Morningstar Quantitative Rating (5=Best quantitative rating)	★★★★	★★★★★	★★★★★	★★	★★★★★
Morningstar Qualitative Rating	Standard	Superior	Elite		
Wassum (5=Best rating)		W W W W W	W W W W W		

Updated as of 31 December 2010. Empty field means no rating of fund. Read more about ratings, rating agencies and awards here: www.skagenfunds.com

Inflation as a buffer

Public deficits in many western countries are at their highest levels since the Second World War and national debt has skyrocketed. This increases the risk of inflation.

All recessions make deep inroads into government budgets. What is distinctive this time is that authorities have applied a large dose of so-called Keynesian counter-cyclical policy. Expenditure has been increased considerably to try to curb the effects of the recession. But not all countries have been able to afford this and in some cases the effect of this spending has led to troubled government finances. This may have unpleasant implications for inflation going forward.

Photo: Bloomberg

Public debt in the UK has increased substantially over the past few years. The head of the Bank of England, Mervyn King, has taken the route of permanent low interest rates.

When debt is debt

It is important to distinguish between countries with their own central bank and those that have "outsourced" their monetary policy. When national debt explodes in countries such as Greece and Ireland this has no direct impact on inflation in the Eurozone. These countries' national debt is really foreign currency debt. The choice these countries now face is to turn their government finances around quickly or default on government debt. They do not have their own central bank, and so cannot inflate away the debt problems.

An analogy is a small company which is mainly financed by loans from the local bank. If the company is operating at a loss, there is little equity to bear the brunt of the problems. Instead, it gets into problems servicing the bank loan.

When debt is like equity

Countries with their own central bank have another way out if their national debt runs out of control. They can let the value of money act as a buffer.

Imagine a publicly traded company. Here the share price is primarily hit by losses and concerns about the future. It only becomes possible to renegotiate debt if all equity is about to be lost.

In principle, the value of a country's currency has the same function as the share price of a listed company. If a country's finances are in disarray, the value of its currency can take the strain. Since most national debt is typically nominal, a fall in the value of a currency means that the real value of government debt also falls. In this way the balance between government debt and future budget surplus is reinstated.

When money falls in value, that is of course the same thing as a period of high inflation. And what is special about this form of inflation is that it is not caused by the central bank getting the interest rate wrong. Nor is the inflation caused by too much money. Inflation is rather a result of too much government debt. Economists call this fiscal inflation.

Emerging markets crises

Some emerging markets have previously experienced this type of crisis. The underlying causes have varied, but typically the crisis has materialised as a consequence of failed confidence in national government finances. This has often been associated with times of crisis and bank debt that suddenly became government debt.

This has led to a general flight from the country's public debt and currency, which in turn has pulled up the price level. The combination of a lower exchange rate and higher prices (falling value of money) has then paved the way for healthier state finances and better development in the economy.

While investors often tend to be forward looking, many have been caught by surprise by these crises. What matters most is not the deficit and national debt right now, but what the markets think about the deficit and government debt in the future. Just as when investors evaluate the price of a company's shares.

Powerless central banks

We often take it for granted that central banks can control inflation. But a successful central bank needs to have backing from fiscal policy. There is often very little the central banks can do if the government issues far more debt than investors think they are able to repay.

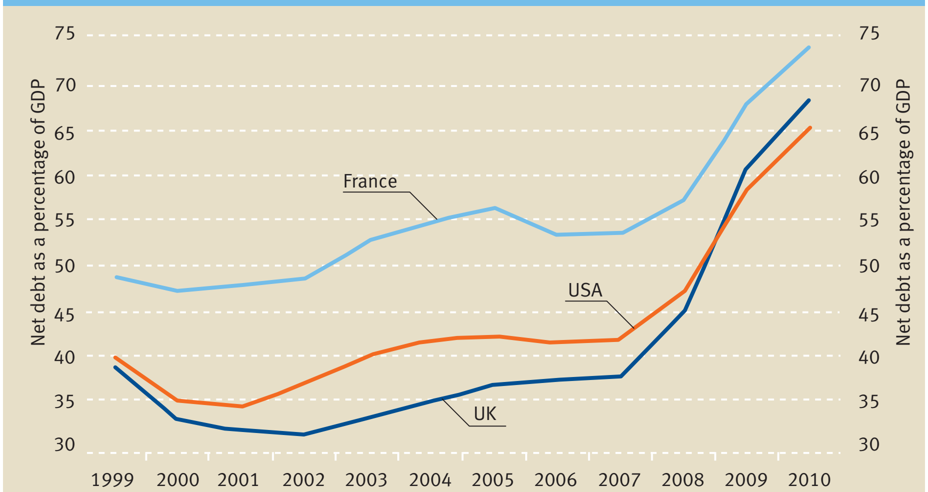
For monetary policy to effectively stop inflation, central banks have to be very quick in raising the policy rate sharply. But note that such a sharp tightening of monetary policy can actually make matters worse for government finances, since a hike in interest rates also means that the government's interest payments increase. So if the market already believes that government finances are fragile, a tough central bank does not always help.

That is why central banks are so concerned about the state's fiscal health. They know that monetary policy can only do the job if there is the necessary room to manoeuvre in terms of fiscal policy.

Photo: Bloomberg

Gary Boone prepares a pile of hundred dollar bill sheets for cutting into separate notes.

NET DEBT AS A PERCENTAGE OF GDP



Source: Reuters EcoWin

The danger may be greatest in the US

The last recession was global, but clearly hit the developed world hardest. It was also in this part of the world that the governments had least flexibility and where the most money was spent in a bid to revive economies.

In most emerging markets countries fiscal policy has been relatively sober. After the Asian crisis at the end of the 1990s, many countries built up financial reserves. We therefore consider the risk of so-called fiscal inflation to generally be greater in developed countries than in emerging economies.

The risk of inflation is seen to be particularly high in the United States. Here, the Federal Reserve has essentially adopted a passive role and the only thing politicians appear to agree on is further increases in government spending. We also know that the costs of state welfare programs will increase sharply in coming years.

Admittedly key figures from the US economy in the past have surprised on the upside. And with higher growth, government revenues are also rising. This could mean that for the next few years deficits may not be as large as feared. This is obviously a good sign, since in addition to control over government expenditure, continued growth in the tax base is the alpha and omega of confidence in government finances.

What about Europe?

In the UK, which is within the EU but has its own currency, the national debt has exploded over the past two years. Although inflation here is already rising, it seems as though the Bank of England has adopted a permanent low interest rate policy. But the new government has launched a drastic kill-or-cure fiscal remedy, so they may manage to stabilise national debt before the currency becomes a buffer.

In the Eurozone the focus has been on individual countries' problems at the same time as the total government debt has exploded. Even the core countries in the Eurozone have had massive budget deficits. This means that although individual countries cannot inflate their way out of problems, we may still see a slump in the value of money if the overall debt situation in the euro countries does not stabilise at a sensible level relative to expected future surpluses.

Even the mighty ECB could therefore be sidelined if the market starts to show concern over the total debt load of the euro countries.

Still a way to go?

Based on Japan's experiences it seems that most developed countries still have a way to go before trust in government finances is restored by means of a fall in the value of money.

After the country slipped into stagnation in the 1990s a feverish deficit policy was followed. In Japan, net public debt increased to around 115 percent of GDP, well above the levels in the US, UK and Eurozone (see illustration). But so far there is no evidence to show that the yen is under pressure. Since the country had deflation, the domestic value of money has actually increased. But there is one important difference between Japan and some of the heavily indebted countries. Japan has a very rich private sector, so there is a lot of leeway with respect to tax increases. Maybe this is what is keeping the markets calm.

It is hopeless to predict exactly when any fiscal inflation may occur. It is like trying to say exactly when a company's shares will plunge in value. Everything depends on news affecting investors' views of future tax revenues and government spending.

However, what is clear is that the higher the government debt is at the outset, the less tolerance the market has for gloomy news about government finances.

Torgeir Høien

PORTFOLIO MANAGER

Inflation – the effect on stock picking

Until recently deflation was a major cause for concern. Now the focus has shifted to rising prices and the impact of inflation on equities. Inflation generates unusual risks as well as opportunities at company level. In this environment, stock picking will be more important than ever.

Photo: Bloomberg

Iron ore being delivered in Shanghai. In times of inflation companies that are able to raise prices are at a competitive advantage. The world's largest iron ore producer, Vale, moved to a quarterly pricing system which had a very favourable effect on the company's earnings.

In 2010 there was strong global liquidity and substantial capital flows into emerging markets on the back of "low for longer" global interest rates, quantitative easing in the US, a stronger risk appetite and a big difference in structural growth rates between developed and emerging markets. As a result, there were signs of portfolio reallocation into these countries; a trend that we believe will continue.

The tendency could eventually create tensions; currency wars and capital controls are currently high on the agenda. It could also lead to the creation of asset bubbles and medium-term inflationary pressure in the emerging markets.

Investors' appetite for risk fluctuated during 2010. Six months ago, the fear was of a double-dip recession coupled with growing concerns over deflation. However, due to improving economies and soaring food prices, concerns are now focused on an acceleration in the general price level. This is particularly evident in emerging markets.

Important part of the analysis

Current inflation rates seem to be under control. This is strongly influenced by the fact that food prices which soared on the back of severe weather conditions are likely to abate. Still the present economic environment is the perfect breeding ground for inflation. As a result, the question of how inflation impacts equities is again creeping up the list of what investors are focusing on for 2011.

Understanding how the potential inflation level will influence a company is a fundamental part of the analysis we carry out before entering into a new investment as well as during the holding period. There are of course other factors taken into account such as analysing the currency risk, a company's financial position and growth prospects. It is usually when things appear uncertain that opportunities arise and stock picking comes into its own.

What happens at company level?

Companies can benefit from inflationary periods to establish new sources of competitive advantage as industry dynamics change.

A more efficient pricing system, sourcing strategies or vertical integration could come in handy. Companies with long term raw material contracts which exclude the possibility to raise prices, lower labour costs than rivals or backward integration leading to less exposure to price hikes should benefit. Companies with higher margins and stronger balance sheets may also be able to delay price increases for a period and hence gain market share at the expense of less prepared companies.

Of all these factors, pricing power is particularly important. Some companies have an easier time raising prices. Higher prices may again translate into higher earnings. Vale, the world's largest iron ore producer and one of SKAGEN Kon-Tiki's largest holdings, demonstrated this in 2010. Iron ore prices used to be negotiated between Vale and its main customers once a year. In the first quarter of 2010 Vale moved to a quarterly pricing system, leading to more rapid price increases on the back of limited supply and strong demand from China in particular. As a result, the 2010 earnings expectations for the company were upgraded by more than 100 percent during the year. On the losing end you could find the steelmakers, which had to pass the price increases onto their customers, which include auto and machinery producers, or take a hit on their margins.

On the subject of automakers, Hyundai, another key SKAGEN Kon-Tiki holding, could theoretically be negatively affected by the higher steel prices. They have, however, been well positioned due to strong demand and new model launches and are able to pass on price increases to the end consumer.

Many companies are not as fortunate and the losers during inflationary times are those with limited pricing power. Take for example a company with a high proportion of long-term sales contracts that cannot be renegotiated in the short term. This means that their pricing will not keep up with inflation. If further combined with spot pricing for raw materials, it is easy to see how they will struggle.

High capital requirements due to high asset intensity, high levels of net working capital or companies with ageing assets and a short remaining lifetime (facing reinvestments at higher prices) can also expose a company to inflation.

Equities do well?

In a simplified world, bonds and equities compete for the same space in investment portfolios. The two will also in theory perform differently in an inflationary environment. For bonds, the real value will decline directly with inflation. This means that the price of bonds will fall as inflation rises. Equities on the other hand should be a better hedge against rising inflation. Research indicates that equities tend to do well, at least in the first stages of an inflationary cycle.

After all, the first signs of inflation are often the consequence of an improving economy with increased employment, wages and demand. There is usually a lag between a pick-up in inflation and the first monetary tightening. In that period equities are usually in a "sweet spot" and real bond yields are depressed.

Stocks are claims against future profits. The underlying assets should therefore not be directly vulnerable to rising inflation. Over time, however, rising inflation is often correlated with falling P/Es (and vice versa).

In the second phase of an inflationary cycle, equities may struggle as central banks raise their discount rates. The increased interest rates hurt the real economy and affect the profitability of companies. Inflation could also make investors more risk-averse, boosting risk premiums and working against the inflation hedge of equities.

Photo: Bloomberg

Hyundai cars from the factory in Ulsan, South Korea are ready for export. The company is gaining market share, despite higher steel prices. Hyundai is in the portfolios of SKAGEN Global and SKAGEN Kon-Tiki.

Each economic cycle is different

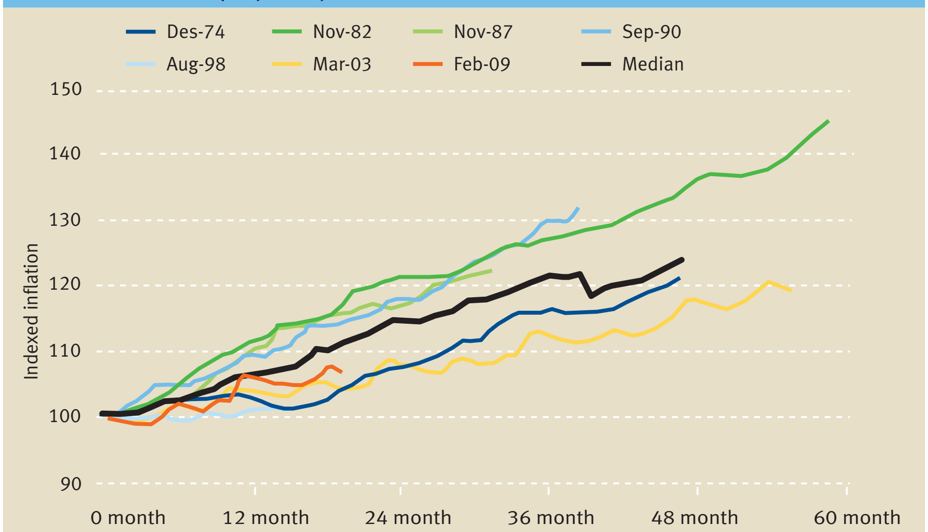
It is hard to clearly define how equities will perform with higher inflation. Each economic cycle is different, depending on its causes and the tools used to tame it. Normally, it is not the inflation itself that is the problem but rather the volatility in the inflation rate which makes life more difficult to predict.

A country's exchange rate regime also plays an important role. Fixed exchange rate countries with no independent monetary policy are likely to behave differently from those with floating rates and independent monetary policies aimed at keeping inflation low and stable. If a country has higher inflation than the rest of the world, it will lose general price competitiveness in international markets, assuming a given exchange rate. If the exchange rate depreciates, this may help to restore some of the lost competitiveness.

The impact of inflation on consumers' behaviour is also different depending on the level of economic development of a country or region. In South East Asia consumers are particularly sensitive to food and fuel prices since these make up a large part of their overall spending. As a result, the discretionary portion of their income becomes much smaller if food inflation increases more than the general wage level.

Last but not least, and partly due to the above-mentioned factors, all companies are unique in the way inflation impacts them. This creates opportunities for stock pickers like SKAGEN.

INFLATION IN ASIA (EX JAPAN) IS BELOW THE HISTORIC AVERAGE



Source: International Monetary Fund, Citi Investment Research and Analysis

Inflation development in the period following the seven previous downturns for the global economy shows that we are now below the median level for these periods. The graph shows indexed development in inflation after the economy has bottomed out.

Good protection

There are no hard and fast rules governing the link between inflation and equity returns. Still, history shows that equities can provide a good level of protection as long as there are no "inflationary shocks" and as long as portfolios are diversified.

Companies will always perform very differently and this is one of the things our investment process should cover. Understanding what impact inflation will have on individual companies is part of the risk and return analysis SKAGEN undertakes before entering into a new investment as well as during the holding period. In other words, the stock picking is more important than ever in an inflationary climate.

Cathrine Gether

PORTFOLIO MANAGER

Why it is possible to beat the market

The fewer people who think, the greater the rewards for those who do

It has long been claimed that it is impossible for active fund managers to beat the stock market in the long term. Critics of active management argue that whilst some fund managers may outperform for a year or two, maybe even three, it is impossible to maintain this outperformance over longer periods of time. Higher costs are cited as the main reason for this.

This assertion may apply to the majority of actively managed funds. Still, there are fund managers who do deliver excess returns over longer periods of time. SKAGEN clearly belongs to this group, provided that critics accept that 17 years of history is a sufficiently long period to prove that results are not purely based on luck.

Put another way, the chance of winning the lottery for so many years in a row is very small. The excess returns SKAGEN has delivered must therefore be attributed to the fact that we have become adept at applying our investment philosophy.

Benefitting from bubbles and busts

In our experience the ability to generate excess returns varies a great deal depending on cycles and periods in the stock markets. We have in general performed best after strong declines in the stock market, such as after the Asian crisis at the end of the 1990s, the 9/11 terrorist attack and the financial crisis in 2008.

Periods when countries or sectors have been clearly overpriced, like at the turn of the century, can also be very attractive for a fund manager looking for undervalued, under-researched and unpopular stocks.

Passively managed funds, also called index funds, are forced to "buy" the index at market price, regardless of whether the shares are expensive or cheap. Thus the passively managed funds are obliged to chase the stock prices all the way to the top and down again.

Index funds are also forced to invest in sectors where the underlying value creation does not justify the valuation, and where there may be bubble tendencies. Recent examples include the financial crisis in 2008 and the IT bubble in 2000. (The graph on page 17 illustrates the bubbles). Index funds got a thrashing when the financial and IT stocks crashed respectively.

Active fund managers can chose to be underweight in sectors, or avoid them altogether if they have a negative view on the sector and the companies.

Can afford to be long term

In a study from 2008 entitled "Best ideas", Randolph Cohen at the Harvard Business School, Christopher Polk at the London School of Economics, and Bernhard Silli from Goldman Sachs concluded that a concentrated stock portfolio provides potentially higher returns.

The authors of the study selected a group of portfolio managers and looked at their favourite stocks. The portfolio managers in the study delivered better returns than the funds' benchmarks. The study also concluded that the US stock market is not efficiently priced. The portfolio managers in the study could have achieved even better results if they had been even more heavily weighted in their best ideas.

According to the study, for a fund management company and its clients, poor performance over short periods of time can be acceptable as long as its peers are also underperforming. Weak results both relative to peers and the benchmark are not acceptable regardless of the time horizon. Job security fears, combined with pressure from consultants and advisors, can therefore often result in active managers converging on the index and performing more in line with the average.

One important success factor for SKAGEN is that the company is owned by a partnership which includes portfolio managers, who all have part of their own wealth invested in the funds. The portfolio managers are not measured by short term profitability, as is the case in some larger financial companies.

Since the central portfolio managers and other key employees in SKAGEN own part of the management company they are able to think and act long term, both in terms of investments and their own employment.

By being an independent fund management company and not an arm of a larger financial company, SKAGEN does not have to align itself with decisions taken elsewhere. It is important that the owners believe in the investment philosophy and can follow it without external interference.

By carrying out thorough analyses, maintaining a long term investment horizon and identifying potential bubbles in the market, we believe that it is possible to provide excess returns as an active manager even after the costs have been taken into account.

HAVE DONE IT SINCE 1993

SKAGEN Vekst was launched in December 1993, and has since beaten its benchmark index 11 out of 16 years. The annual average return for the fund is 17.5 percent, while the benchmark index has yielded 10.2 percent per year in the same period. Last year the fund changed its benchmark index to a combined index of The Oslo Stock Exchange Benchmark Index and the MSCI AC World Index (50/50).

SKAGEN Global was launched in August 1997, and has beaten its benchmark index 13 out of 14 years. The fund's annual average return in the period is 17.3 percent while the fund's benchmark returned 1.7 percent.

SKAGEN Kon-Tiki was launched in April 2002 and has beaten its benchmark index every year since then. The fund's average annual return is 21.8 percent, while the fund's benchmark index gained 11.7 percent.

Some active managers are able to beat the benchmark index over time. SKAGEN's fund managers have succeeded in this since 1993.

Withstanding the pressure

It is challenging to be an active, long term fund manager in a world in which performance is constantly measured and results published. It is great when things are going well, but can be extremely stressful when they are not. In periods of adversity we often see demands for changes, especially from those who do not believe in active management. During times like these it is more important than ever for us to stick to our path and keep faith in the ability of our investment philosophy to continue to create good long term results.

In 2008 SKAGEN Global was beaten by the MSCI World Index for the first time since the fund was launched in 1997. The portfolio managers kept their cool since it was fear in the stock markets and not the company holdings that were the cause of the weaker results. One year later they were repaid handsomely for their resoluteness, as the fear in the markets subsided and the focus returned to the value creation in the companies.

"High" costs

Probably the most important argument against active management is higher costs. This is a good argument. Our cost model is made up of fixed and variable elements. If SKAGEN does not deliver excess returns, the client only pays a fixed fee. The variable fee depends on the performance. We removed subscription and redemption fees a long time ago.

The fact that our historic costs may seem high in some years can be justified by the fact that we also have delivered good excess returns to our clients in those years. Hopefully future costs will be as high as historic ones, since these are based on outperformance which is ultimately to the benefit of unit holders and SKAGEN alike.

Read about the total costs in the funds

SKAGENFUNDS.COM

Åge K. Westbø

DEPUTY MANAGING DIRECTOR

The last shall be first

We are more interested in companies that may be popular in the future, than those that are today. That is why Roche, Microsoft and Citigroup were some of the newcomers in SKAGEN Global in 2010.

A year ago we carried out an analysis of developments in the US equity market 20 years ago, based on sector returns. The pattern that clearly emerged is well known. Sectors which were popular and delivered the best returns from 1990 to 2000 were among the worst in the following decade. And vice versa.

The Biblical prediction that the last shall be first and the first last, is, in other words, quite fitting when it comes to the correlation between popularity and returns at a ten-year sector level. Although the analysis was simple, the results were so intriguing that they formed the basis of a number of new company ideas in SKAGEN Global in 2010.

Good start for a treasure hunt

As stock pickers we are in principle "sector agnostic". For us, it is the valuation of individual companies that counts and not whether a sector is popular or not. Nevertheless, we think that there are three good reasons why unpopular sectors are a good place to begin a treasure hunt:

1. The stock market treats all companies in an unpopular sector very similarly. As a rule, sector-based analysts price companies relative to other companies in the same sector. Consequently, good or different companies in an unpopular sector can end up being shot by association.
2. In the same way as the stock market has a tendency to overestimate the capacity for growth and value creation in popular sectors, the opposite is often the case with unpopular sectors. Being unpopular can bring with it a number of self-fulfilling elements that can result in an overreaction. Scepticism around a sector can quickly turn into irrational pessimism which is reflected in the pricing of companies.
3. The final point worth noting is that companies in unpopular sectors tend to be more poorly researched than companies in popular sectors. Analytical capacity is often a question of supply and demand. Popular sectors generate more money for brokers which in turn employ more and "better" analysts to cover these.

The reverse is true for unpopular sectors. There is in general a dearth of analysts following companies in these sectors. While researching Citigroup last year we were amazed to discover that during the previous six month period seismic company PGS had been the subject of substantially more analyses than Citigroup. This despite the fact that the latter is around 50 times larger measured in market value!

From ecstasy to Prozac

Right up to the start of the 2000s, pharmaceuticals was considered to be a perfect industry. In terms of returns on invested capital, growth and stability, pharmaceuticals had been in a class apart over the previous 30 years. An aging population and increasingly more lifestyle illnesses meant that the backdrop was almost perfect for the development to continue for another 30 years. But then two things occurred that shook the industry to its foundations.

Firstly, the pace of innovation within traditional pharmaceuticals began to wane. When no new revolutionary products came to ensure future high margins and earnings, the business model was threatened. The old cash cows would eventually lose their patents and the generics stood at the ready.

Secondly, manufacturers of generics were becoming increasingly aggressive. Although regulations covering the generic production of drugs whose patent protection has expired were drawn up as far back as 1984, it was not until the 2000s that generics took on a central role in the pharmaceutical industry. Suddenly all drugs whose patents had expired could be copied immediately. This resulted in the price of "original" drugs falling dramatically; in most cases well over 90 percent.

The stock market gradually started to grasp the seriousness of the situation. The fact that a number of pharmaceutical companies felt the effects of the infamous "patent cliff" and lost key patents over a five-year period did nothing to help matters. Pharmaceutical shares went from P/E levels in the high 20s to well below ten. With such gloomy growth prospects the sector went from popular to unpopular in just a few short years.

Found Roche in the midst of the depression

It was in the midst of this predicament that we first started to take an interest in the Swiss company, Roche. Although Roche is a major pharmaceutical company that was also deeply affected by the same phenomenon, a couple of things set the company apart from its peers.

The biggest difference is Roche's focus on biotechnology. This is an area in which the rate of innovation is still high and there is less competitive pressure from generic participants. A strong focus on cancer drugs and vaccines will be important to the company's growth over the next few years.

Roche's patent protection is also significantly better than many of its competitors. This is due to the fact that the company is less dependent on one large product, and it will not start to lose important patents before 2014. Since Roche operates in an unpopular sector, the valuation of the company has come down to a very comfortable level: ten times 2011 earnings. We expect organic earnings growth of almost ten percent and a direct yield of four percent going forward. We can therefore only surmise that the company has much upside.

Microsoft continued to grow

A lot of people would probably be surprised to know that the IT bubble that emerged at the turn of the millennium is the second of its kind. The first took place in the 1970s, when companies such as Xerox and Polaroid were traded at over 90 times expected earnings. At that time

Photo: Bloomberg

Pharmaceutical company Roche focuses on cancer medication and vaccinations. Herceptin is a drug for patients with breast cancer.

Microsoft's Steve Ballmer talks about the new operating system Windows 7 at the CES trade fair in January. Microsoft has good earnings, but in our opinion has a low valuation.

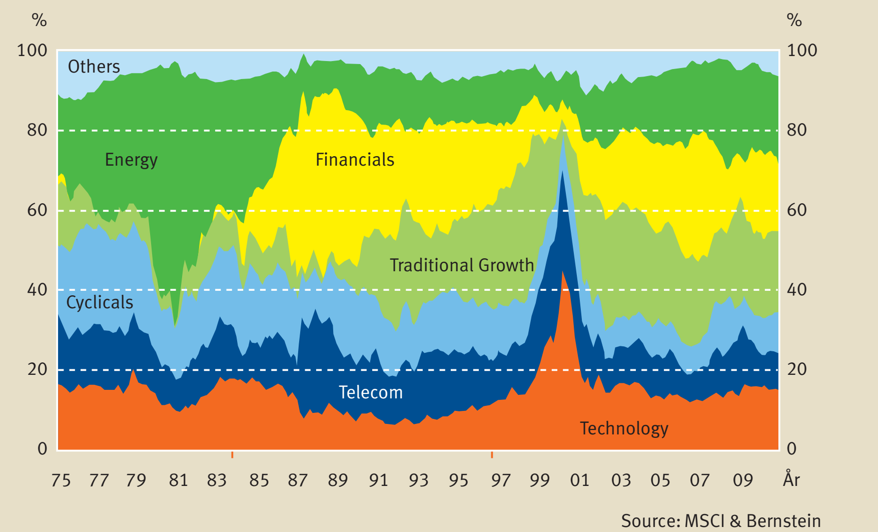
it was copiers and Polaroid cameras that were set to revolutionise the world. When the bubble burst, the IT sector started to migrate to the land of unpopularity and remained there until the 1990s when PCs and the internet created fertile conditions for renewed optimism and popularity.

Again when the IT bubble burst in 2000, the industry suffered a heavy hangover and again became deeply unpopular. Faith in the future of technology shares has never been the same again, despite the fact that large, solid IT companies have continued to grow, earn good money and have a better management and market position than they had in the 1990s.

One of the companies that is earning well is software company Microsoft which actually earns twice as much now as it did ten years ago. The valuation has nevertheless collapsed, from a P/E of 40 to 12.

While investors are concerned about "androids" and "apples", one should not forget that with its Office and Windows products, Microsoft still has a toll booth on the global IT highway. People also seem to largely overlook the fact that the company has a unique and world leading position within ERP (Enterprise Resource Planning). In our opinion, the fact that 20 percent of its own market value is in cash and it has a business model which means that much of the earnings going forward are predictable, justifies a higher pricing than a medium-sized steelworks in the Ruhr valley.

EQUITY BUBBLES COME AND GO



Over the past 35 years we have experienced several periods where individual sectors have been far too popular and priced far higher than can be justified by value creation. In these periods other sectors and companies become Undervalued, Unpopular and Under-researched. This gives good opportunities for active value managers such as ourselves. At the start of 2011 the sector balance among the largest companies in the world index seems to be sensible, but large companies in general are Undervalued and Unpopular.

Financial history repeats itself

In 2002 a well known bank analyst said that on the whole banks go bankrupt every thirty years. You should buy bank shares when authorities are selling them and sell them when your neighbour is buying a new boat on credit.

A quick survey among portfolio managers in New York in November confirmed our hypothesis; US banks are currently extremely unpopular investment objects. Owning bank shares is considered an extreme sport, which could put one's future career in jeopardy. The worst of them all was Citigroup, whose owners still include the US authorities. It caught our interest.

Citigroup's dual identity

The first thing one should understand when buying shares in Citigroup is its dual identity. It has one company under the name of Citi Holdings. All the toxic assets that the company is now working to throw overboard are contained in this "bad bank". The portfolio is shrinking gradually as the loans are sold or paid back.

The other unit is called Citicorp, one of the world's most global banks. Around 60 percent of the activity can be found outside the US borders and loans and other activities within the emerging markets make up the lion's share of this. The company therefore has a growth infrastructure more similar to that of Standard Chartered and HSBC than its US counterparts.

Overcapitalised

While most people still consider western banks to be undercapitalised, the situation in Citicorp is now the reverse; the bank is overcapitalised. As Citi Holdings shrinks, Citigroup is in the unique position of being able to buy back 40 percent of its own shares at the same time as paying dividends. Not bad for a bank that is trading at 10 percent below book equity, and that in 2006 was priced at 2-3 times (inflated) equity.

Ice hockey legend Wayne Gretzky once explained why he was so good at hockey: "I skate to where the puck is going to be, not where it has been".

Moving towards sectors that may be popular in the future, rather than those which are popular today, is probably as good a starting point for succeeding in equity markets. Or to paraphrase Warren Buffett: Price is what you pay for a company. Values are what you get – regardless of popularity or sector.

Torkell Eide
PORTFOLIO MANAGER

Where do the ideas come from?

Our portfolios today include companies from a variety of industries and with a range of business models. Where do we get our ideas from when we buy companies from around the world? There is no simple answer – the main thing is to keep an open mind, even when wandering in the wilderness.

Established truths can always be re-evaluated, and the law of gravity dictates that the market's view on companies will converge over time. This provides scope for generalists like us who are armed with broad mandates and a willingness to take a closer look at things that may be slightly hidden to many others in the market.

Many roads lead to Rome

An easy way of finding ideas is to set up quantitative filters for all the companies in an investment universe based on how much SKAGEN is willing to pay for earnings, cash flow and assets. It is not enough to consider the bare facts and figures alone, however. We must also carry out a more thorough analysis of the company, where the following two criteria are key:

1. Establish whether the numbers that appear on our computers are actually correct.
2. Consider what it will take for the stock market to price these seemingly undervalued companies in line with similar but pricier companies. We need to ensure there are potential triggers which could cause the equity to be revalued within a given timeframe, and these are often dependent on corporate and ownership structure.

Extracting the conglomerate discount

There are still many listed companies which are conglomerates, made up of a number of individual companies operating within different industries. This is especially true in the emerging markets. Many analysts and fund managers with narrow mandates find it hard to evaluate these types of conglomerates. We are generalists with broad mandates and can find many gems hidden away in the complexity of conglomerates by asking ourselves what changes could take place within the group and whether these could trigger revaluations. Many companies are family dominated, and ownership changes or the next generation taking over can often release values.

Below the radar

Most global managers select companies from indexes comprising the largest and most liquid companies. It is just below their radar screens that we find some of the most interesting companies. As these often have remarkably low valuations, it usually doesn't take much for others to discover these "hidden" values, and when enough people do, there is often a hefty revaluation. For companies that are growing, this may occur precisely when they are included in an index.

One recent example from SKAGEN Kon-Tiki's portfolio is the Malaysian plantation company Kulim. In addition to its primary activity, the company is also invested in other businesses, where we believed there is substantial excess value to be found. After we had bought into the company a bid came in for one of the larger investments and investors' attitude toward the stock changed radically. The share price received a significant boost as a result.

One thing is to find companies trading at large discounts, another is to know if and when others will discover the same rebates. Sometimes we spend a long time wandering in the wilderness alone. To keep our wanderings as short as possible it is important to look not only for re-pricing triggers, but also to have an idea about when these triggers are likely to be activated.

An eye for the popular

In our hunt for good ideas it is an advantage that as generalists we can see when entire industries are about to be re-evaluated. Specialists with a focus on streamlined companies and industries are not always aware of what is happening in multi-industrial conglomerates. We keep track of what is about to become popular in the global stock markets, and try to find cheap companies that are not on others' radar screens.

By really getting under the skin of multinational companies we are able to find undervalued companies that have simply been overlooked by investors.

Different prices across borders

Sectors and industries can be evaluated differently across countries and regions. This type of geographical arbitrage was one of most reliable ways SKAGEN achieved good returns in the "good old days". Unfortunately, more analysts now specialise at industry level, whilst fewer players have dedicated geographical areas as their focus and specialty. This means that the opportunities are somewhat more limited now, but we are still able to find ideas that can be nurtured to provide good returns.

All fund managers dream of finding companies where entrance costs are low owing to old sins, incorrect geographic focus, misunderstandings regarding capital structure or simply because investors do not understand what the company is actually doing. Other dream companies are those in a transitional phase and where the stock market has not picked up on this change process. Our largest investment for many years, Samsung Electronics, is one of the best examples of the latter.

From copies to valuable brand

Originally Samsung Electronics produced copies of products, based on global design. With time they have become experts in electronic components and a world leader in memory chips, mobile phones and flat screens. They are now also amongst the market leaders in new product design.

However, investors and analysts alike continue to focus most on the development of gadgets and are less interested in the values that actually form the foundation of a company's global brand. This is why Samsung Electronics is still a significant holding in all three of our equity funds. Samsung has provided good returns since we bought the first shares during the Asian financial crisis in December 1997.

Media is underestimated

One of the best places to look for good ideas is actually in the media, and then in publications not normally considered to be trade press for the companies in question. For example we

It pays to keep an open mind when searching for investment ideas. One of the best sources is in fact the media.

sometimes find interesting information in the English business magazine The Economist, despite the fact that it seems to be primarily occupied with complaining about the rest of the world's refusal to align itself with the Anglo-American business model.

Admittedly, the magazine has trodden on a few editorial landmines; the best known being its 1999 prediction that oil prices would fall to five dollars a barrel. But sometimes the Economist features articles about unique companies in particular market areas and sheds light on companies that we would otherwise have ignored based purely on an evaluation of key figures alone. This could be companies which in time have become giants, such as the clothing chain H&M. Or companies we have in the portfolio, such as South African Shoprite and Naspers. These have unique business models and technical solutions in markets with little competition. This provides good protection against increased local or global competition.

Looking the other way

For many years we have earned a lot of money for our unit holders by focusing on factors which others have neglected. During the Asian crisis we looked to the East, while other investors looked westward and had a special fondness for Silicon Valley. We can now confirm that Silicon Valley, both directly and figuratively, has moved across the Pacific.

Again, it is important to maintain a broad outlook, draw from experience and knowledge from previous investment cases, and be aware of the creative process behind pulling together facts from various sources to produce a hypothesis for an investment idea.

The obvious question to ask oneself is therefore: where do we go next? Time will tell. Luckily we are generalists with broad mandates, and can therefore find new ideas, independent of both industry and country. Our best guide remains the values embedded in our investment philosophy – the search for Undervalued, Under-researched and Unpopular stocks.

Kristoffer Stensrud

PORTFOLIO MANAGER

High quality and good upside

Balancing act

Two years on from the financial crisis and companies' balance sheets are in very good shape. The debt to asset ratio is low, cash holdings are at record levels and dividend payments are ample both in absolute terms and also relative to the interest rate level. 2011 may be a year in which consolidation and greater acquisition activity create good returns for shareholders.

One consequence of the financial crisis – or perhaps rather a "once bitten twice shy" type reaction – was that the companies built up large cash holdings thereby strengthening their financial positions. Businesses were able to adapt to lower sales through cost cuts and storage adjustments at a rate never before seen. At the same time investments in new capacity have been almost absent. Many companies that were originally unviable have gone bankrupt and those with new capital requirements have availed themselves of a gradually well-functioning capital market to bring in money. The result is extremely strong company balance sheets, not unlike in other post-financial crisis times.

Quality not in fashion

As value-oriented equity investors it is hardly news that companies' balance sheets are central to our analysis. Common sense dictates that companies with the greatest visibility and stability have the highest debt ratios and that debt increases in good times and diminishes in bad. The paradox is that we often see the opposite. This inconsistency is something that we in SKAGEN can use to our advantage. We can buy quality companies when quality is not in fashion and wait patiently for repricing.

Balancing act

"It is better to have money than not to have money – Cash is King" was the straightforward message from Herbjørn Hansson, chairman and CEO of Nordic American Tanker, at SKAGEN's New Year's Conference in January 2010. During 2009, while its competitors sat burdened with debts and unable to act, Hansson was busy buying four ships.

A strong balance sheet gives management significant strategic flexibility. But if a company has too much capital, shareholders' returns will be lower. Not having too much of a financial buffer can therefore provide an element of discipline to a company's management.

John Fredriksen and his entourage have created great shareholder values through good operations and particularly good results from carrying out financial transactions. In addition they have been taking good care of shareholders, whereby all surplus capital is paid immediately to the latter, and this has contributed to building trust in the capital market. The Fredriksen system puts this trust to good use by having greater financial flexibility to bring in capital when the company is faced with investment opportunities. Such a business can be run with less equity and thereby a higher return on capital.

It is estimated that US companies currently have more than USD 1000 billion in cash on their balance sheets. This will create increased pressure to put capital to work or to pay money out to shareholders. In addition, funds with transaction motives, such as Private Equity funds, are again full to the brim with cash and ready to be used for opportunistic acquisitions of low valued companies and assets.

Acquisition and consolidation

Dividends are, and always have been, a significant part of a shareholder's total returns. The fact that companies' health is good and that there is willingness to serve equity investors in the form of dividends, can be read directly from the current dividend level, in particular among large companies on the stock exchange.

An important driver of transaction activity is the price of capital and valuation. Currently a company with an investment grade rating (single A rating or better) can borrow 10-years worth of money at around 5 percent while the equity market is priced at an earnings result (inverse P/E) of around 8 percent. This creates incentives for companies to debt finance acquisitions. It is in fact more profitable than has been witnessed in the past quarter of a century. The same argument can also be used for the buy back of a company's own shares.

For many companies with deficient growth prospects, the answer is consolidation to cut cost. Companies' strong balance sheets combined with access to capital at a reasonable price and not least moderate company valuation, creates further motives for acquisition.

The most usual acquisition occurs when companies with high valuations buy companies within their own industry with lower valuation. This fits in well with SKAGEN's investment strategy whereby it is usual for us to find the lowest priced company in a sector. Acquisition triggers are never the only motive for our investments, but as we attempt to find good quality companies that are well positioned in their industry at a low price, an acquisition target will often be the little extra we get with the purchase.

High quality and ample dividends

Previously popular safe companies with high market value and dividends have become cheaper as they were at the start of the 1980s and 90s (see also the December 2010 article

A client looking for a new telephone in an Orange store in Paris. Orange owner, France Telecom, is a relative newcomer in the portfolio.

by Kristian Falnes on our web pages). We also note that industries which are typically characterised by high dividend payment, such as utilities, health and telecommunication, are still among the most unpopular. France Telecom was a newcomer in the SKAGEN Vekst portfolio towards the end of last year. As well as having a low valuation, the company has a sustainable dividend payment of over 8 percent!

Dividends give good protection in a low interest rate climate, better in fact than in any other period over the past 50 years. On the other hand, it is as yet unclear whether the extraordinary monetary policy being managed in large parts of the world is the best trigger for the stock market.

Being selective

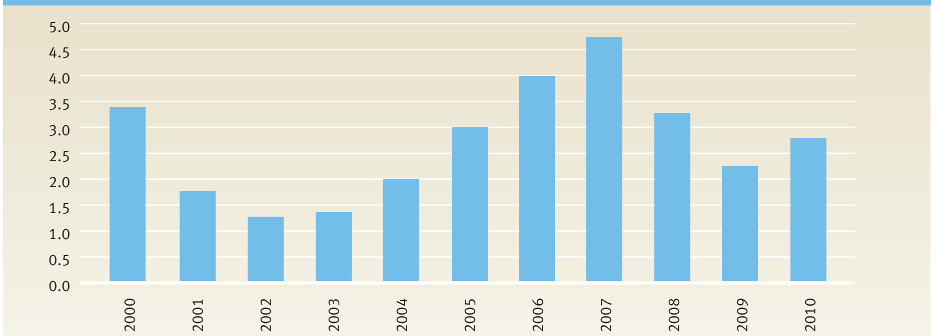
In 2010 equity prices moved more in line with what we are used to, driven largely by macro news. In this type of market it can be challenging to be stock pickers. We believe that the difference in quality between companies will gradually lead to considerable differences in the price of individual stocks. SKAGEN is positioned for this through investments in companies which we believe to be high quality without us having to pay a premium for this. In other words, we say, "yes please" to both high quality and low price.

We have a broad investment universe in which low valuation awakens our curiosity. We note that companies have record high cash reserves, which promote acquisitions, generous buyback programs and dividend payments. The fact that in general equities are only moderately priced relative to their history, low priced relative to the interest rate level and dividend payments as well as having good earnings prospects provides a good backdrop for us as stock pickers.

Beate Bredesen
PORTFOLIO MANAGER

Large companies: golden opportunity or bureaucratic dinosaurs?
SKAGENFUNDS.COM

GLOBAL MERGERS AND ACQUISITIONS VERSUS PREVIOUS PEAKS (TR USD)



Source: Dealogic, Goldman Sachs Research

With significantly better earnings and large cash positions, companies have on a global basis increased dividends, purchase of own shares as well as activity within mergers and acquisitions.

Equity bubbles in the emerging markets

Expansive monetary policy in the US and Europe has resulted in an increasing number of investors seeking returns in the world's emerging markets. This could lead to bubble tendencies. At the start of 2011, however, we see few grounds for concern.

Since the stock markets in the emerging markets bottomed out in November 2008 the emerging markets index is up a full 142 percent, measured in euro. In the same period, 177 billion dollars has found its way into the same markets. In addition, a substantial amount has been invested in listed index funds.

Eleven years after the IT bubble burst in the year 2000, the emerging markets index is up 150 percent. In the same period, the world index has lost 17.5 percent.

It is these types of returns that get people talking about bubbles. It is however important to note that it is not how much a stock or a stock market has gained over a given period that is relevant, but rather the pricing of the companies involved.

In other words it is what you pay for the continuing earnings, cash flow and a company's values as well as its future prospects that count. Based on these price tags, there is still no reason to fear bubble tendencies.

Price record from 1994

A company's price/book ratio (P/B) is a fairly objective valuation measure. When the emerging markets reached their last popularity peak in 1994, companies were priced at 3.5 times book equity. At that time, the pricing was more indicative of the fact that billions of people lived in these markets rather than the underlying values and value creation.

Following the peak in 1994, the emerging markets experienced a long period of weak price development and falling valuations. During the Asian crisis at the end of the 1990s, price/book fell to 0.9. In the same period, developed markets increased from 2.2 to 4.2. At their peak in the spring of 2000 technology shares were valued at 7.5 times book equity.

Still far off old heights

In the years preceding the recent financial crisis, a few local bubbles appeared in the emerging markets. In 2006 the stock market in China was priced at a stiff five times book equity while in India the year after the market was at seven times book equity. Both markets have since fallen to lower levels (see graph).

The emerging markets, illustrated by the emerging markets index, are at the start of 2011 priced at two times book equity; five percent above the average since 1992.

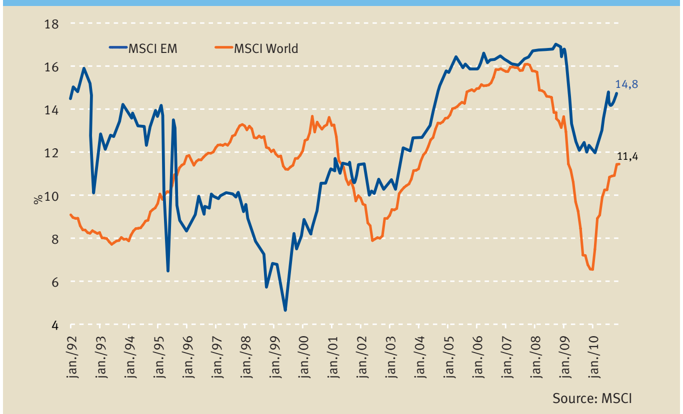
One thing is the valuation of capital, another thing is return on equity (ROE). ROE in the emerging markets is record high. Trailing ROE is at 15 percent, which is almost four percentage points ahead of the developed markets, and not far off the 17 percent from before the financial crisis.

The equity ratio in the emerging markets is also record high and on a level with June 2008. Seen in isolation, a more optimal capital structure may therefore quickly increase return on equity further.

Photo: Bloomberg

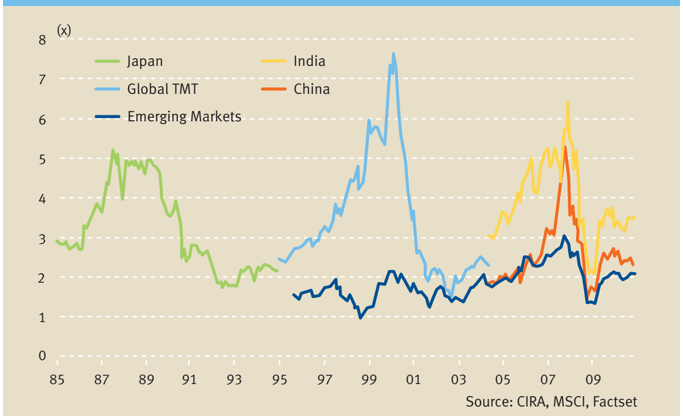
New commercial buildings being constructed in Mumbai, India. While the significance of China is widely discussed today, an increasing number will be discussing India in future.

HIGHER RETURN ON EQUITY



Companies in the emerging markets have a higher return on equity than companies in developed markets, at the same time as the debt ratio is lower.

WELL BELOW BUBBLE LEVELS



Pricing relative to book equity in companies is well under bubble levels for both the general emerging market as well as stock markets in China and India, although the latter is at a stiff price in absolute terms. The graph also illustrates how highly priced technology shares were in 2000.

What about risk?

Although there may appear to be individual local bubble tendencies in the emerging markets, the emerging markets seen as a whole are not expensive. But what about risk?

Historically, the emerging markets have been considered risky due to political risk and weak corporate governance. Much has changed over the last few decades however.

The balance sheets of governments and companies alike have become extremely solid compared with those of their peers in developed countries. This is especially true of the banking sector. In addition companies are becoming increasingly shareholder friendly, introducing dividend policies and better (comprehensible) accounts and results reporting.

The living standards of consumers in the emerging markets are rapidly improving. The average income for a household in Shanghai is on a level with Italy for example. Low private debt, along with a solid banking system, has also created opportunities for increased debt levels.

Russia and South Korea

Political risk continues to be substantial in several areas however. Warning shots were recently fired from North Korea, for example, which illustrated the geopolitical risk for shares in South Korea. On the whole, however, things are developing in the right direction, and the political risk is more than included in the pricing.

Russia has a high political risk premium and was one of the best performing stock markets in 2009 and 2010; both years SKAGEN Kon-Tiki profited nicely from its Russian investments.

Full piggy banks and ample labour supply

Following several decades of acting as manufacturers of cheap consumer goods destined for developed countries, the time has now come for the emerging market countries to put some of the assets they have accumulated to use. And they can afford it. Several countries have favourable demographies and the working population continues to grow.

The situation in India is particularly propitious. China, with its one child policy, is at the other end of the scale. While we hear a lot about the significance of China for the world economy today, the role of India will be the hot topic tomorrow.

Underweight emerging markets

The emerging markets currently account for 14 percent of the MSCI All Country World Index. The index is adjusted for stocks that are not available in the market, including family and state-owned stocks. If these were included, the emerging markets share would double to almost 30 percent.

Although the flow of money into the emerging markets has been substantial this year, global equity funds are still underweight emerging markets. By including the world's pension funds, the picture is even clearer. Institutional investors are underweight emerging markets. They only have 6.5 percent in emerging market shares versus 14 percent in the index.

The universe is growing

As a result of an increasing number of stock-exchange introductions, as well as capital increases in existing companies, the investment universe in the emerging markets is expanding. Both in absolute terms and relative to the developed markets. A good example is the world's largest equity issue in a listed company: Brazilian oil company Petrobras.

Our funds have broad investment mandates which enable us to pick companies regardless of where they are listed. SKAGEN Kon-Tiki can invest up to 50 percent of the fund's assets in companies that are listed outside the emerging markets. This increases opportunities while at the same time reducing risk compared with pure emerging markets funds. It is where companies sell their products and not where they are listed that counts.

Shift in the centre of gravity

Companies in the developed markets have for some time been betting on the emerging economies and sales to these countries increasingly make up the greatest part of their turnover. At the same time, companies in the emerging markets are now increasing their acquisitions in the developed countries in order to gain access to resources and technology, expand their "home market" as well as reduce geographical risk.

The divergence in price development between equities in the developed and growth markets means that the former can find emerging markets exposure cheaply.

Can sell bubbles

Given the flexibility of SKAGEN Kon-Tiki's mandate we are able to sell off substantial shares in the emerging markets if the valuation starts to show bubble tendencies. But let us deal with that problem if and when it arises.

The combination of loose monetary policy in the west and money seeking returns in the emerging markets could, in the long term, result in a bubble in the emerging markets. But before that happens the valuations need to increase substantially, to the gratification of SKAGEN Kon-Tiki's unit holders. There is still substantial return upside and no difficulties finding undervalued companies.

Knut Harald Nilsson

PORTFOLIO MANAGER

What is happening to our money?

The establishment of a universal reserve currency, with the IMF as a super central bank, is for some a tempting thought. Thankfully though, it would be difficult to implement in practice. A re-introduction of the gold standard would be a much better idea, but it would require such radical political measures that it is hardly realistic.

Photo: Bloomberg

The gold standard has been tried previously, without success. We will most likely continue to live with the current currency system, with the turbulence that it at times brings with it.

This means that we will most likely have to continue to live with the current currency system, and with the turbulence that it causes in the interest rate and currency markets from time to time. When it comes to emerging markets countries, China in particular, they will have to choose between stable exchange rates and low domestic inflation. We think that they are backing the latter horse; keeping inflation in check and letting currencies rise in value.

Synthetic currency or gold

With the financial crisis now over many have their doubts regarding the international monetary system. The Chinese were quick to demand a far greater role for the synthetic currency SDR (Special Drawing Rights) – an accounting unit defined by the international monetary fund, the IMF. The World Bank President, Robert Zoellick, recently wrote in the Financial Times that gold should be brought back from history's scrapheap, and that the precious metal should once again play a role in monetary policy. One could hear a pin drop in the central banks' corridors.

It's the cost that counts

With the current monetary system some central banks manage their country's inflation by allowing their currency to float, whilst others peg their currency to the dollar (or a basket of currencies) and do not care as much about domestic inflation. Some believe this leads to some countries ending up with "cheap" currencies, thereby enabling them to increase their exports at the expense of other countries. The world is not that simple however.

World trade is controlled by how much it costs to produce goods and services in each country. And the cost depends on both the price of the currency and what the goods cost measured in this currency. A cheap currency is of little use if the price level is correspondingly high, or if it is rising more rapidly than abroad.

Economic growth in the US is weak while inflation is at record low levels. This means that the policy rate is kept close to zero. The Chinese peg their currency to the dollar, and have so far allowed only a very moderate appreciation of the renminbi. This means that China is, to all intents and purposes, importing US monetary policy. But since China has strong growth, this soft monetary policy results in inflation faster than is the case in the US. This means that, measured in dollars, it costs more than before to import goods from China. That is, although it may be cheaper to buy the renminbi, increasingly more renminbi are needed to buy Chinese goods.

The same phenomenon can also be seen in many other emerging markets countries. These countries must therefore decide whether they want a stable currency or low domestic inflation. We believe both China and other emerging markets countries will choose the latter, and keep inflation in check. This implies stronger currencies in many emerging markets countries.

Possible to create a better monetary system?

A better argument against the current international monetary system is that the sharp movements in exchange rates create uncertainty, inhibit trade and slow down capital flows. Is it possible to create a better system in which these risk factors are reduced?

This was the idea behind the establishment of the IMF at a conference in Bretton Woods, New Hampshire, in 1944. At that time all the member countries' currencies were pegged to the dollar, and the IMF's role was to lend dollars to the central banks when they ran out of reserves. The Americans in turn pegged the dollar to gold.

Photo: Bloomberg

Troubled Greece is bound to the euro mast and is getting no help from a weakened currency, which it would have done if it had had its own currency.

When the Americans funded the major welfare reforms in the 1960s and the war in Vietnam by simply printing more money, this undermined the monetary system. Other countries had to choose between importing US inflation, appreciating their currency, or demanding gold for their dollar reserves. The Germans and the French demanded the latter, and the system quickly collapsed. US President Richard Nixon would not give up the gold reserves and in 1971 threw the last of the gold standard out of the window.

SDR instead of dollars?

So what about the IMF's SDR? Could this synthetic currency take over the role of the dollar in a revitalized international fixed exchange rate system?

One SDR is the total sum of $ 0.66, € 0.42, ¥ 12.1 and GBP 0.11. The IMF currently uses SDR as an accounting unit, beyond this the SDR is of little significance. A few countries peg their currencies to the SDR, and it is used in the occasional private contract. But this could quickly change, if there is the political desire for it.

In this case the first thing one would have to do would be to define all currencies in a given amount of SDR. Using current exchange rates, one Norwegian krone, for example, equals 0.11 SDR. For nostalgic reasons, one could keep the old currency names, but the krone to SDR and the dollar to SDR "exchange rates" would be fixed, just as is the case today in the krone to øre and dollar to cent relationships.

The next step would be for all central banks around the world to give up their independence and become branches of the IMF. The IMF would then determine interest rates worldwide. For commercial banks it would be irrelevant which branch of the IMF they used; the IMF branches would be comparable to the national central banks in the Eurozone.

Finally, and this is perhaps the most difficult point, agreement would have to be reached as to how much debt each state could raise. This is because the value of money is not determined purely by the interest rate; too much nominal government debt can bring an otherwise "hard currency" to its knees.

Bad experience from the Eurozone

Although there is undoubtedly something to be gained by only having a single currency, I think that the Eurozone is a good example of how such a monetary system can quickly start to show cracks.

Firstly, it can be difficult to determine an interest rate that everyone can agree on. It will continue to be the case that, whilst there is good growth and rising price pressures in some parts of the world, other countries may struggle with high unemployment and falling inflation. This is in fact the situation today with the relationship between Germany and France and the peripheral parts of the Eurozone.

Secondly, there is a big question mark regarding whether it is possible to establish limits for budget deficits and government debt. Experience from the Eurozone suggests that vague promises are not enough. The IMF must have the authority to sanction government budgets, which in practice means drastic cuts in each country's sovereignty. These problems make it difficult to imagine that the IMF will ever be able to take over the role of today's central banks.

Can establish "gold money"

So what about the gold standard? Well, as mentioned above this has been tried before and it failed. For the gold standard to work, one would probably have to go to the extreme and establish a fully privatised system, so that government leaders would not be able to do as President Nixon did 40 years ago and suddenly cut the connection to the gold.

One could establish a common monetary unit defined as one gram of pure gold. This would mean that a Norwegian krone, at the current gold price, would be defined as 0.004 grams of gold. Similarly, all the other currencies could be defined as a weight in gold. Central banks would then have to be willing to exchange all notes and bank reserves for gold.

Finally, central banks could close down their activities and leave the commercial banks without any government guarantees. With time the krone, dollar, euro and other currencies would probably disappear from our vocabulary, and we would all end up writing contracts in terms of grams of gold.

In this type of system there would no longer be any policy rate to manage, because currencies would no longer be defined as abstract public accounting units. The system would, for better or worse, govern itself. The price level would be determined by supply and demand for gold. As is the case now. Resource costs would probably not be prohibitive, since the banks could issue their own banknotes which people could use instead of gold coins, as they did in Sweden and Scotland when these countries had free banking. Gold would only be used for net settlement between banks.

Could not inflate away government debt

Although a gold standard would probably work better than many imagine, there is little reason to believe it will become reality. For with such a system, the authorities basically lose the opportunity to inflate away government debt. All government debt would become "foreign currency" debt which would either have to be serviced or defaulted on. With rapidly growing national debt politicians would probably like to keep the loophole which having their own currency provides. The US and UK after all do not want to end up in the same situation as the Greeks and Irish are in.

Should the current monetary and currency system lead to prices running amok, there may of course be a demand for a fundamental reform. But this could not happen until after a new fiscal crisis. And whether the new system would be based on gold or an attempt with SDR, or anything else for that matter, is anyone's guess.

Torgeir Høien

PORTFOLIO MANAGER

Position of trust

Ethical guidelines aim to provide answers to questions about "what is good," "what is right", and "how one should behave." In SKAGEN we believe that the best ethical judgments and decisions on behalf of our clients are made when they are based on an independent analysis process.

SKAGEN's portfolio managers are active managers with a clear objective to achieve the best risk-adjusted returns for our unit holders. Our funds have broad investment mandates and, unlike index funds, are not obliged to make investments in specific countries or regions, according to a predefined sector distribution or weighting. Our managers carry out their own independent analyses and assessments in line with our investment philosophy and select a handful of companies from the funds' global investment universe.

SKAGEN's ethical guidelines are actively implemented in our operations and are an integral part of how we manage our funds. Ethical considerations are integrated in the risk analysis for each of the funds' investments. We do not, however, market ethical funds.

Photo: iStockphoto

The portfolio managers keep a watchful eye out for ethical issues and are conscious of their position of trust with regard to unit holders.

Independent analysis

Over the past few years, clients and others have asked us why SKAGEN does not support the global ethical standards UNPRI and UN Global Compact or follow those ethical evaluations made by the Norwegian Government Pension Fund. Although we do not find fault with these various ethical standards, we believe that our own guidelines are at least as stringent as any others.

SKAGEN will not use a UNPRI stamp or any other to demonstrate that our ethical considerations are approved and clean. We believe that our own internal analysis can stand alone. SKAGEN's ethical guidelines are intentionally brief since it is important for us to be independent and neutral in the analysis process.

Absolute requirements

Our ethical guidelines nevertheless do lay down some absolute requirements:

"*We do not invest in companies that knowingly violate basic human rights or harm the local population, the environment or the chosen form of government in the countries where the company is operating*".

Violations of this principle are under no circumstances acceptable.

Most ethical dilemmas we face have some form of financial price tag attached to them. The relevant ethical guideline states that:

"We do not take unnecessary financial risk by investing in companies whose activities may incur substantial liabilities or losses, damage health or deliberately violate rules and abuse the environment."

In our analysis we aim to uncover any issues that could reduce unit holders' risk-adjusted returns. In order to do this SKAGEN must understand the company's core business and be aware of any important factors that could affect the company's financial position or reputation. We avoid investing in companies that take on significant and undesirable liabilities related to health, the environment or society.

SKAGEN considers as risky those companies whose main activities involve tobacco, pornography or gambling. These companies typically have strong earnings, but are still subject to operational risk because of potential claims for damages. In addition, SKAGEN believes that these are businesses that society will increasingly want to protect itself against and will therefore be subject to stricter statutory regulation.

Tolerance level

The tolerance for risk can vary substantially. We cannot guarantee that SKAGEN will know everything about a company's ethical behaviour. Companies must be evaluated on a case-by-case basis and during the relevant timeframe.

If we encounter a dilemma, we consider the facts and try to uncover all relevant aspects of the case. Another important principle for SKAGEN is that "when assessing companies in terms of ethics the company's intentions and plans will count more than their past record'.

We use all available sources (consultants, organisations and the media) to gather information, but draw conclusions on the basis of our own assessments. New information is thoroughly investigated, discussed and evaluated. No absolute deadlines are set for possible selldowns since each situation is different.

If we discover that the funds have invested in companies that, despite intentions, are violating our ethical guidelines, SKAGEN will sell its holdings, but in such a way that any disposal does not forfeit values for the unit holders.

The overall goal is, of course, to avoid investing in companies that act unethically. Since 1993, there is only one example of a company that we have had to dispose of due to ethical issues.

Portfolio managers keep a watchful eye on ethical issues when investing and are conscious of the position of trust they have towards our clients. We therefore spend the necessary time considering all the relevant information and carrying out thorough analyses to find companies that not only provide good risk-adjusted returns but are also unlikely to forfeit unit holders' values.

Meaningful sponsorship

SKAGEN is an organisation whose value creation is closely linked to employees' knowledge, experience and attitudes. For us it is important to engage with our local community in a way which genuinely involves and motivates our own employees.

"Our job is to prove that we are worthy trustees of our clients' money. Over a number of years SKAGEN has achieved results which are comparable to the best in the world. Managing money on behalf of our clients is a huge responsibility, and it is impossible for us to fulfil this position of trust if we do not have the right attitudes and values at our core," says Managing director Harald Espedal.

Since 2006 SKAGEN has sponsored SOS Children's Villages, Médecins sans Frontières (MSF) and Children at Risk Foundation (CARF). All of these organisations do valuable work and cover a broad spectrum of humanitarian engagement. Our support is earmarked for various geographical areas: SOS Children's Villages in Eastern Europe, MSF in Africa and CARF in Brazil. In 2010 we donated a total of approximately one million euro to these organisations.

We also work closely together with Skagens Museum in Denmark, and relish the challenge of finding good ways to apply the famous Skagen painters' works in a modern era. In addition SKAGEN sponsors a number of other smaller, local initiatives within the fields of sport and youth development for example. Below is a selection of the activities we have been involved in over the past year. You can find more information about our corporate responsibility engagement on our web pages.

Photo: Kolibri

Photo: SOS-barnebyer

Colouring the local community

"In Brazil, the new CARF Hummingbird Eggs have triggered a lot of hope, joy and genuine Brazilian energy for thousands of children, adolescents and their parents. We change the entire community. For us, the support of such a serious partner as SKAGEN provides a strong signal effect. We are totally dependent on private financing and volunteer help from businesses, schools, nurseries, foundations and individuals," says Sigve Fjeldtvedt, Managing Director in CARF.

The new SOS Children's' village in Pskov

"Just before Christmas the first children crossed the threshold of what is literally their new future. Children who have lived with violence, alcohol and drug abuse will finally have a safe home, education and the opportunity to contribute to society as adults. The sponsorship support from SKAGEN not only helps provide a safe home for these children and future generations of children, but also contributes to community development in our neighbouring countries," says Secretary General of SOS Children's Villages, Svein Grønnern. The SOS Children's Village in Pskov will be officially opened in June 2011.

Photo: Jan-Inge Haga

Christian Jessen and Arild Risanger Sunde from SKAGEN Funds on either side of Eli Orre who is General Manager of the Nordsjørittet race 2011.

On your bike for MSF

In addition to our direct sponsorship of MSF's work, in June 2011 SKAGEN's clients and employees will join the 94 km long Nordsjørittet bike race to create awareness about MSF and raise additional funds for the organisation's outstanding work. For each of the approximately one hundred clients and employees who complete the race SKAGEN will donate 200 euro, matching the amount contributed by the participants themselves.

A good result

With a return of 22.8 percent, SKAGEN Vekst performed well in 2010. Our benchmark index, the OSE Benchmark Index/MSCI World AC (50/50), returned 23.5 percent. The Oslo Stock Exchange was up 25.8 percent, while the World Index gained 20.4 percent, measured in euro.

SKAGEN Vekst has a global mandate to pick stocks. Investments will nevertheless be anchored in our home market. At the end of 2010, 58 percent of the fund was invested in Norwegian shares. What we believe to be most important is that we find companies that have the greatest possible potential for repricing, at the smallest possible risk. The company's place of listing is therefore of less significance.

The aim of SKAGEN Vekst is to achieve consistently high returns over time. By means of thorough company analysis and portfolio construction, the fund should demonstrate resilience, whereby value fluctuations should be less than for the equity market generally. The focus will therefore not be solely on the highest possible return potential, but also on risk management.

During the year we increased the weighting in consumer staples, industrials and pharmaceuticals and reduced in commodities, energy and telecommunication. Energy is still the fund's largest sector with a portfolio weighting of 24 percent. The fund's cash position at the end of the year was 0.9 percent.

SKAGEN VEKST 2010 (MILL. NOK)

5 largest positive contributors	
RCCL	173
Kongsberg Gruppen	153
Stolt Nielsen	120
Samsung Electronics	81
Wilh. Wilhelmsen A	72

5 largest negative contributors	
Norwegian Property	-46
Dixons Retail	-39
Sevan Marine	-33
Yara	-30
Transocean	-28

5 largest purchases	
Carnival	206
Gjensidige	193
Teva	162
Morpol	135
Norsk Hydro	113

5 largest sales	
RCCL	326
Telenor	274
Statoil	237
Yara	162
Crew Gold	150

Meagre energy

Seen in light of the upturn in oil prices of over 20 percent measured in euro in 2010, the contribution from the fund's energy sector of 14 percent was meagre. The accident in the Gulf of Mexico left its mark on the pricing of the sector (see the SKAGEN Global report). Two of the stocks that pulled the fund's result down the most came from the energy sector, namely Transocean and Sevan Marine.

Sevan Marine cannot, however, blame the lamentable development of the share price on the accident in the Gulf of Mexico. The company's operations have once again taken longer and cost more than expected. In addition, the company has not been fully financed. At the end of the year it finally looked as though the drilling rig was coming into stable operation and the financing should be secured in 2011. The risk on the other hand is still high, which is why the Sevan holding constitutes only 0.6 percent of the fund.

Out of Statoil and into Petrobras

Out of a wish to concentrate the portfolio, we chose to exit our Statoil position completely and increase our holdings in Petrobras, amongst others. We bought shares in the Brazilian oil company after the company carried out the world's largest share issue, which contributed to pushing the share price down to an attractive level. Our experience is that the greatest value creation for an oil company occurs in the exploration and development phase rather than when it is reaping the rewards. The backdrop for a successful exchange should therefore be in place.

The supply companies DOF and Farstad Shipping both experienced good price development in a sector that is under strain. Both have a high proportion of their fleets on long contracts and are well positioned for increased activity in Brazil.

By selling PGS and buying shares in TGS we also concentrated our ownership within seismology. So far it has been a successful exchange.

Following a strong price development for Prosafe SE, our price target was reached just a few short months after we bought a holding in the company. Although it was only present in the portfolio briefly, the company contributed nicely to the result.

Gold and green forests

Commodities increased 25 percent in value, making it the fund's second best sector, measured in euro. After a doubling in the price of the shares we were allocated following the restructuring of Crew Gold, we sold out of the company completely.

It is particularly gratifying to be able to highlight Norwegian pulp and paper company, Norske Skog, as not only one of the winning shares of the sector, but also a good contributor to the fund's return. Paper prices are on their way up, costs are still being scaled down, structural changes are underway in the sector and the pricing of the share is still at almost bankruptcy level at only 0.3 times book value.

We also earned good money on Northland Resources during the year. Following a nice price lift towards the end of the year, we chose to secure our profit on the money we used to participate in the share issue the company carried out in the autumn. The Norsk Hydro share price was under pressure following the company's acquisition of Vale's aluminium business, and we used the opportunity to buy up in the company. We believe the transaction with Vale to be beneficial, industrially speaking, and the price to be acceptable.

The sector loser, and one of the fund's worst contributors, was Yara International. Throughout the spring and into the summer we were concerned that lower prices for agricultural products would lead to overcapacity in the fertiliser market, and therefore sold our entire holding

Returning 32 percent, the industrial sector was the fund's biggest contributor in euro. Three of the companies from this sector, Kongsberg Gruppen, Wilh. Wilhelmsen and Stolt-Nielsen, were among the fund's five largest contributors in 2010.

in Yara. Extreme weather situations, among other things, led to the opposite being the case, however, and in hindsight we acknowledge that the sale was not a success.

Industrial success

With a return of 32 percent, the industrial sector contributed the most hard cash to the fund's pot. Kongsberg Gruppen, Wilh. Wilhelmsen and Stolt-Nielsen were all among the fund's top five performers.

The fund's largest investment, Kongsberg Gruppen, has continued to show strong incoming orders throughout the year within all divisions, even as they delivered record-high margins. After a period of falling sales, it is particularly gratifying that the maritime division is now clearly in recovery. The company is particularly well positioned to win contracts in all its high-technology niches.

Stolt-Nielsen and Wilh. Wilhelmsen (now Wilh. Wilhelmsen Holding) also performed well in 2010.

Stolt-Nielsen's terminals and tank containers showed results progress, while prospects for the chemical tanker market have improved in line with the global economy. At the same time it appears as though the company was correct to begin its initiative within large gas carriers. The company has a strong balance sheet and serves its shareholders through dividends and buying back own shares. At the same time, Stolt-Nielsen is valued at a discount to book equity.

Despite the reorganisation of the Wilh. Wilhelmsen group, which in our opinion complicates the structure, the company contributed extremely well to the fund's return. The market for maritime car transportation picked up significantly during the year and the share is still attractively priced.

Cruise back on top

Consumer discretionary was up a full 46 percent, with much of the credit for this going to Royal Caribbean Cruises Ltd (RCCL). Having been the second best contributor to the portfolio result in 2009, RCCL took the top position in 2010.

US Carnival, which together with RCCL controls 80 percent of the world's cruise fleet, has experienced nowhere near the same repricing as RCCL since the financial crisis. As a result of a higher return on capital, Carnival has historically been priced at a deserved premium to its competitors. As this premium was almost eliminated by the end of the year, we exchanged two thirds of the RCCL holding with shares in Carnival.

We believe the cruise market will continue to be good in the years to come. New contracting is low and demand increasing. This should vouch for cruise operators being able to further push up ticket prices. Another cruise ship operator that provided positive contributions was Hurtigruten.

At the start of 2010, Rezidor Hotel was extremely unpopular and cheap. We chose to listen to the management which at the start of the year demonstrated a gritty optimism both in terms of the number of hotel visitors and the company's expansion plans. We have been richly rewarded for our confidence as the share rose 68 percent. At the end of the year we chose to take a profit on more than half of our holding.

Lots of good sea food

Our consumer staples shares were up 27 percent. Much of the credit should be attributed to our largest salmon company Cermaq and Thai chicken and shrimp producer Charoen Pokphand. After the share price almost tripled in 12 months, the holding in Charoen Pokphand was sold.

Newcomers to the portfolio were Morpol, Winn-Dixie Stores and Austevoll. Less than five months after being introduced into the portfolio, the latter became the third best contributor in the sector.

Morpol is a Polish company which is primarily involved in processing salmon for sale in continental Europe. The company was listed on the Oslo Stock Exchange in the summer. Concerns related to high salmon prices, the company's primary input factor, together with a short stock market history, meant that the company did not attract much interest and the valuation is, in our view, extremely low. We see great potential for further growth and improvement of margins, and believe that interest among analysts and investors will increase.

The fund's second poorest investment in

Photo: RCCL

Royal Caribbean Cruises has contributed well to the portolio result both in 2009 and 2010. We have now exchanged two thirds of the RCCL holding with shares in Carnival.

2010 was Dixons Retail, which owns electrical retailers Dixons, Currys, and PC World amongst others. Concerns related to the purchasing power of British consumers have overshadowed the company's positive development in Scandinavia. In our opinion, the current valuation barely reflects the value of the Scandinavian activities. In other words, we get the company's leading positions within retail in the UK, Ireland and Southern Europe for free.

Waiting for the drugs to work

Returning only two percent, pharmaceuticals was the fund's second worst performing sector. Pharma shares must now be the most unpopular in the world!

Our investments in Axis-Shield and Clavis Pharma were among the losing shares in both the sector and the fund. The performance of the shares has not been anywhere near as catastrophic as the price development would indicate. Our investment idea is intact and we have therefore chosen to retain the holdings.

In the second half of 2010 we bought shares in Teva Pharmaceutical, the world's largest manufacturer of generic medicine. The company also has a large proportion of drugs they have developed themselves which have demonstrated impressive results over time. High sales growth, good margins and a strong balance sheet combined with low valuation in an unpopular sector is a mix we like.

Banks rocket and property explosion

Banking was up 22 percent. Our largest bank exposure, German Aareal Bank, rose a full 72 percent in price. At the opposite end of the scale is Norwegian Property. In 2009 the company was the fund's third largest contributor; in 2010 its biggest loser. Disappointing sales in the company's hotel business, combined with high investment needs, meant that we did not wish to continue with the company on its journey ahead.

A new investment is Norwegian insurance company Gjensidige Forsikring (see SKAGEN Global report). We replaced Sparebanken 1 SR-Bank with a "cheaper" west Norwegian savings bank, Sparebanken Vest.

Found each other

Information technology was up 26 percent, a sector dominated by Samsung Electronics, both in terms of size and return.

EDB ASA and Ergo Group found each other in the summer of 2010. We increased our holding following the ensuing share issue in the merged company. The company's potential to take out synergies and improve operating margins do not seem to be priced into the current valuation.

Nine percent while waiting

Telecommunications also increased by 26 percent. After two years of fantastic returns for our Telenor shares (approx. 150%) we chose to sell out when the share price came close to our price target. Following the merging of Vimpelcom and Kyvistar, we sold our holding in the former at a very nice profit.

A newcomer to the portfolio was France Telecom, which we believe to be low priced for historic reasons, while we see a fundamental change in the underlying value creation. An extremely attractive dividend yield of eight percent is a pleasant return while we wait for the rest of the market to realise how undervalued the company is.

The fund's smallest sector, utilities, contributed one percent. This was mainly due to Brazilian power company Eletrobras (see the reports for SKAGEN Global and SKAGEN Kon-Tiki).

Backing smaller companies

In contrast to the situation in the global equity markets, medium and small companies on the Oslo Stock Exchange have developed much more poorly than index heavy companies. Our investments in Norway are now concentrated around medium-sized and smaller companies. At the turn of the year, SKAGEN Vekst therefore did not have holdings in any of the seven largest companies on the Oslo Stock Exchange. In the global part of the fund, on the other hand, we have increased our holding of large companies.

During the year we have concentrated the portfolio to include fewer investments in each sector. The focus has also been increased on companies with stable and transparent earnings, though this is not at the expense of what we believe to be the upside potential.

The fund's largest companies were priced at 11.8 times 2010 earnings and 1.1 times book equity at the turn of the year. The corresponding figures for the Oslo Stock Exchange were 15.9 and 1.7, while for the world index these were 15.7 and 1.9.

The world's stock markets are currently moderately priced relative to their own history. Our portfolio companies are trading at large discounts. We are optimistic that 2011 will be a good stock market year, particularly for unit holders in SKAGEN Vekst.

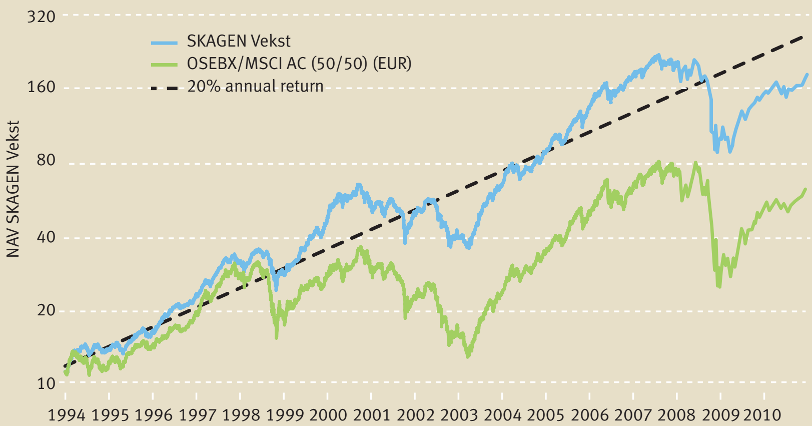
The aim of SKAGEN Vekst is to achieve the best possible risk adjusted returns through an actively managed portfolio of Norwegian and international equities.
This combination allows the fund to take part in value creation in sectors that are not available on the Norwegian market. The fund's aim is to find high quality companies at a low price, which are characterised by being undervalued, under-researched and unpopular.

SKAGEN Vekst is suitable for investors who want a well balanced fund with a broad mandate, which gives large scope for diversification both geographically and across industries.

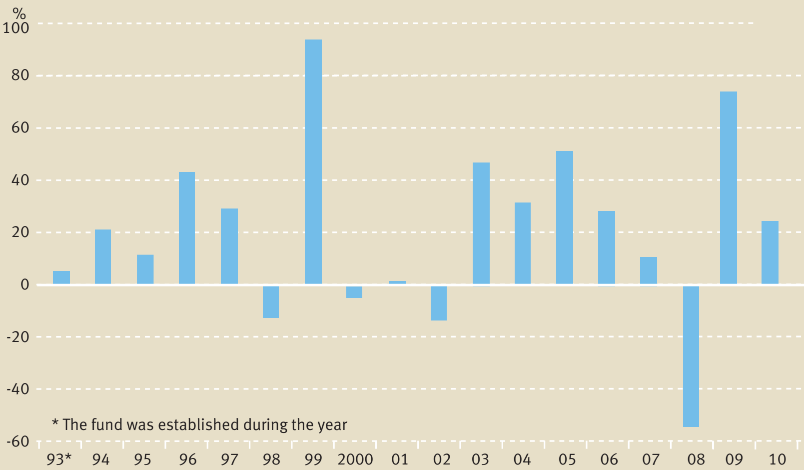
Year	Return on investment %	Benchmark index	AUM *	Number of Unitholders	TER %
2010	22,84%	23,51 %	1309	92978	1,87 %
2009	74,74 %	94,47 %	1249	93807	4,50 %
2008	-54,19 %	-62,65 %	628	88349	1 %
2007	13,31 %	14,96 %	1450	87559	1,26 %
2006	28,58 %	28,53 %	1424	74547	3,36 %
2005	53,02 %	45,09 %	1035	61792	4,50 %
2004	34,29 %	41,11 %	693	51781	3,45 %
2003	44,17 %	28,69 %	505	47334	5,82 %
2002	-14,47 %	-24,52 %	295	46153	0,86 %
2001	2,68 %	-13,18 %	325	46283	1,27 %
2000	-5,01 %	-4,45 %	321	44619	2,18 %
1999	94,67 %	60,09 %	293	38167	7,31 %
1998	-14,73 %	-33,14 %	111	19568	2,46 %
1997	28,57 %	31,17 %	111	13036	3,74 %
1996	43,31 %	36,07 %	59	6873	4,01 %
1995	14,87 %	11,75 %	25	4149	2,95 %
1994	20,16 %	8,05 %	15	1760	1,58 %

* In million euro

HISTORICAL PRICE DEVELOPMENT



ANNUAL RETURN

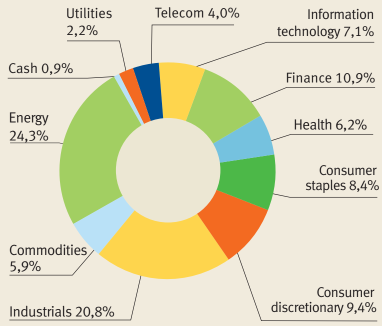


SKAGEN Vekst

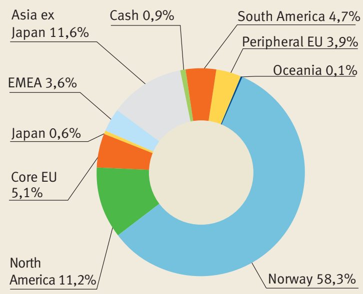
Handpicked for you

Children and young women picking flowers in a field north of Skagen. 1887. Detail.
By Michael Ancher, one of the Skagen painters.
The picture is owned by the Skagens Museum.

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



Fund start date	1 December 1993
Return since start	1467.3%
Average annual return	17.5%
AUM	EUR 1309 million
Number of unitholders	92 978
Management fee	1.0 % p.a + 10 % of the return exceeding 6 % p.a
Minimum subscription amount	One-time subscription EUR 150
Authorised for marketing in	Norway, Sweden, Denmark, the Netherlands, Luxembourg, Finland, Iceland and UK
Benchmark	OSEBX/MSCI AC (50/50)
UCITS fund	Yes
Portfolio Managers	Beate Bredesen Ross Porter

Towards normal

The very fact that the global stock market delivered returns close to what could be considered "normal" meant that 2010 was an abnormal equity year. The fact that SKAGEN Global beat the world index, however, was not abnormal.

With commodities the best impetus and utilities the worst, in 2010 SKAGEN Global returned 23.8 percent measured in euros, 3.4 percentage points ahead of the world index (MSCI All Country).

Since inception in August 1997, the fund has beaten its benchmark index 13 out of 14 years. The annual average return for the fund's unit holders has been 17.3 percent within this timeframe, while the world index has returned 1.7 percent.

Large currency differences

Returns in the global stock market varied greatly last year, depending on the currency they were measured in. While euro investors could rejoice over returns of 20.4 percent, Japanese investors experienced a price drop of 1.8 percent. Dollar investors and Chinese investors ended up somewhere in between with positive returns of 15.9 and 8.8 percent, respectively (the renminbi strengthened gradually against the USD).

Seen in relation to an imagined global currency, however, global equity returns were not far off the theoretically expected returns that equities are "normally" supposed to give over time, i.e. 8-10 percent per annum.

The problem with this normalisation has been that in the past 15 years, we have barely come close to approaching this sort of annual return. As a rule, we have seen either extremely bad years in the equity market, such as 2001-2002 and 2008, or exceptionally good years, such as 1998-1999, 2003 and 2005.

Most returns in the second half

There were periods of turbulence in the global stock markets in 2010. Investors' moods turned particularly sour in the second quarter. Poor macroeconomic key figures heightened fears that the world would enter into a new recession once the effect of the stimulus packages gradually started to wear off.

The positive signals sent out by the real economy in the autumn gradually allayed the fear of recession. With companies also delivering surprisingly good results quarter after quarter, feelings of optimism among stock market participants also started to increase.

As a result, the lion's share of the returns last year, both in the global stock market and SKAGEN Global, came in the second half of the year. As did the three percentage points by which SKAGEN Global beat the world index last year.

Manager change

After Filip Weintraub decided to step down as portfolio manager of SKAGEN Global in March last year, Kristian Falnes left his position as lead manager of SKAGEN Vekst to assume responsibility for SKAGEN Global. At the same time, Søren Milo Christensen was hired as a new portfolio manager for the fund. Together with Torkell Tveitevoll Eide and Chris Tommy Simonsen, we believe that the current portfolio management team have the skills and experience to continue to deliver good risk adjusted returns to unit holders in the years ahead.

Accident in the Gulf of Mexico

One of the most dramatic events of the year took place at the end of April when Transocean's oil rig Deepwater Horizon exploded and sank in the Gulf of Mexico. This tragic accident claimed eleven lives. The share price of both BP and Transocean fell substantially. This had a negative effect on other rig and oil service companies also, particularly those with significant activities in the Gulf of Mexico.

There was a great deal of uncertainty at the time as to what the economic consequences of the accident would be, both for the companies directly involved and for the industry in general.

Although we can see in hindsight that we underestimated the effects of the accident, our assessment that the stock market overreacted in terms of the financial consequences has been sustained. We chose to maintain our positions in both BP and Transocean. Although the share prices of both companies rose over 50 percent in the second half of the year, they ended the year down 25 and 16 percent in dollars, respectively.

Acquired just before the explosion

The second best contributor of the year, Mariner Energy, also had significant activities in the Gulf of Mexico. Only a few weeks before the accident, the Texas-based Apache Corporation made a bid for the company. As the stock price approached the bid price, we chose to gradually exit Mariner Energy, and invest the money in other attractive companies in the energy sector. Newcomers were US oil services company Baker Hughes and rig operator Noble Corp.

Having been out of Petrobras for one year, owing to the poor price development ahead of the company's record-large capital increase

SKAGEN GLOBAL 2010 (MILL. NOK)

5 largest positive contributors	
Samsung Electronics	612
Mariner Energy	315
LG Corp	236
Tyco International	226
Cliffs Natural Resources	212

5 largest negative contributors	
Supervalu	-119
Eletrobras	-109
Bank of America	-97
BP	-95
Transocean	-60

5 largest purchases	
Accenture	782
Citigroup	768
Gjensidige	491
Bank of America	490
Petrobras	489

5 largest sales	
Nestlé	953
Amdocs	776
Mariner Energy	604
Cheung Kong	528
LG Corp	518

Norsk Hydro was brought into the portfolio in connection with the capital increase the company carried out in the summer to finance a strategic and sensible acquisition of access to raw materials from Brazilian Vale. The share price then fell far below what we believe to be the company's underlying values.

we found the valuation attractive again. Less uncertainty surrounding the ambitious investment programme, low valuation relative to earnings and a steadily growing resource base should form a good basis for positive future value development.

Like SKAGEN Kon-Tiki, we brought Russian Gazprom into the portfolio fold. The price development of this company also has been moderate over the past few years. Gazprom has a low valuation relative to current earnings and significant resources in gas and infrastructure.

The energy weighting in the portfolio increased from around eight to 12 percent in the year.

Out of Vale and Grupo Mexico

Within commodities we sold out of Vale and Grupo Mexico, at particularly good profits. After finding it difficult to come up with good arguments as to why Harmony Gold was still undervalued, we sold the company out of the portfolio.

New to the portfolio were Heidelberg Cement, Akzo Nobel and Norsk Hydro. The former two companies have attractive positions in the emerging markets and are in our opinion undervalued by the stock market. Norsk Hydro was acquired in connection with the capital increase the company carried out in the summer to finance a strategic and sensible acquisition of access to raw materials from Brazilian Vale. The share price then fell far below what we believe to be the company's underlying values.

The fund's commodity stocks provided returns of 42 percent measured in euro, making commodities the winning sector in 2010.

Down in capital goods

Headed up by Siemens, LG Corp and Tyco International, the capital goods sector, which returned 28 percent, was also a good contributor to the fund's final result. Once we had sold our holdings in Agco and Kone, as well as almost halving the positions in LG Corp and Baywa, the sector's share of the portfolio came down from 20 to 17 percent. The sales were carried out as a result of the fundamental discount being significantly diminished.

The industrial conglomerate Tyco International still defends its title as one of the fund's largest investments. The company is moderately valued relative to earnings. In addition further cultivation of the company's main activities within safety products and services means there is still good potential.

Gearing up

Within cyclical consumer goods we have geared up our exposure to the auto industry. We substantially increased our holding in Renault and introduced Hyundai Motor to the portfolio. Meanwhile, holdings in Michelin, Reed Elsevier and Metro were sold out. We are particularly satisfied with the latter, which reached its price target once the stock market better appreciated the company's exposure in the emerging markets.

Cable network operators Comcast and Time Warner Cable also experienced good fundamental development, and were decisive to consumer goods providing returns of 26 percent. One of the big disappointments last year was LG Electronics. Low margins within TV and mobile telephony, as well as the postponement of new product launches, led to miserable results and a much needed manager change. As the launch of new smart phones and tablets are expected to turn the development around, the share price fell only moderately.

Newcomer Supervalu was the worst contributor last year. Developments in the company's turnaround process have not been very convincing. We therefore chose to take a loss and sold out of the company entirely.

Tripling on chicken, pigs and prawns

Within consumer goods, the Thai breeder of chicken, pigs, prawn and fish, Charoen Pokphand Foods, was the best contributor last year. Fuelled by rising product prices, the company's share price has more than tripled since we first bought into the company. The market's valuation of Charoen Pokphand Foods' production capacity attained heights that we had difficulty justifying. We therefore sold out of the company entirely.

Nestlé and Kraft Foods were also sold out of the portfolio as a result of high valuations. We added to our holding of Italian dairy company Parmalat. Although the company experienced headwinds as a result of rising milk prices, we still find the valuation to be attractive. Particularly considering that the net bank deposits correspond to 40 percent of the company's stock value.

Ill health

Pharmaceuticals has long been an unpopular sector, and price developments have been generally poor for several years. With returns from our pharmaceuticals sector of a meagre 17 percent, last year was no exception.


Photo: Bloomberg

SKAGEN Global has found an increasing number of undervalued companies in the US. During the year the share of US companies has increased by four percentage points to a total of 29 percent.

Swiss Roche was brought in as a new portfolio company at the expense of Gedeon Richter, Fresenius, Eisai and Kalbe Pharma. With a price tag of ten times expected earnings in 2011, and a direct yield from dividends of five percent, Roche appears to be extremely attractively priced. Not least given that Roche is one of the few large pharmaceuticals companies that is only slightly affected by patents expiring over the next few years. We will get extra upside if the negative news surrounding the company's research portfolio dries up in 2011.

Banking in the US

Returns within banking and finance were in line with the fund's returns. We increased our exposure towards US banks. Bank of America and Citigroup were newcomers to the portfolio while our shares in Bank of New York were sold. Large US banks have significantly greater loan loss provisions than their counterparts in Europe. They are also much more solid in the wake of the financial crisis.

Adjusted for intangible assets, the share price of our US banks is still below book equity. Investors are still negative about the development of the US economy and property market. In such a climate as this we find that our two large banks represent an attractive balance between risk and earnings opportunities.

Norwegian market leader in general insurance, Gjensidige, was brought into the portfolio following its listing at the end of the year. A valuation of only ten times earnings, and a dividend yield of six percent, are low for a solid, well-run company with a strong market position.

After a good price development and reduced conglomerate discount in Cheung Kong we decided the time was ripe to halve our holding in the company. The Hong Kong based company can no longer be found among the fund's top ten investments.

Good contribution from Samsung

Samsung Electronics was the largest contributor within information technology. In local currency the price of our preference shares increased by 24 percent, and contributed over EUR 64 million to the fund's result. We have reduced our position somewhat, but the company is still the fund's largest investment, making up 7.7 percent of the portfolio.

Although we can expect lower earnings from memory chips in 2011 compared to the record year 2010, Samsung Electronics' product portfolio within mobile telephony and tablets should ensure that earnings do not fall in 2011. The preference share is priced at only 6.5 times earnings which we believe to be cheap for a company with an extremely strong balance sheet and world leading market positions within several product areas.

Cheap US technology

Accenture and Microsoft were brought in as new portfolio companies. The valuation of US technology companies' earnings has fallen for many years and has now come down to attractive levels. Our two newcomers generate an impressive cash flow, which leads to greater dividends and repurchases of their own shares. Market expectations about companies' growth are surprisingly low, and we expect these to be adjusted upwards throughout 2011.

To make space for our two US newcomers, Amdocs was sold out of the portfolio, after a period of good price development. Our exposure within information technology increased by around three percentage points to around 15 percent of the portfolio.

Up in unpopular telecoms

We also increased our holdings in the still unpopular telecommunications sector. Vimpelcom, China Mobile and Telecom Italia were newcomers to the portfolio, while Magyar Telekom was sold out. The newcomers are priced cheaply relative to current earnings, and not least given the fact that they all have attractive positions in the emerging markets.

We had a holding in South African mobile company, MTN Group, in 2010 but since our price target was reached during the autumn, we exited the company at a nice profit.

Poor utilities

Contributing just three percent measured in euro, utilities was the poorest sector last year due to the price drop experienced by Brazilian power giant, Eletrobras. The company's imminent flotation has also been a hindrance to the price development. Once this has been carried out in the first quarter 2011, it is likely that the market will again focus on the low valuation of the company's hydropower capacity, which will hopefully result in a positive price development.

Up in the US

Geographically speaking we have increased our exposure to US companies by almost four percentage points during the course of the year, bringing it up to 29 percent of the fund. Our holdings in emerging markets listed companies have been reduced correspondingly. By investing in companies listed in the West, but with considerable activity in the emerging markets, we nevertheless maintain our exposure to the developing economies.

When it comes to risk diversification and portfolio construction our focus is still to emphasise a company's activities, rather than where it is listed or has its head office.

Better than normal

Looking at the valuation of SKAGEN Global's portfolio going into 2011 there are good reasons to be optimistic. The average of the fund's largest investments is priced at just over ten times expected earnings. And if some of our identified triggers are activated, several companies may deliver extraordinarily good returns.

Fundamentally speaking the fund's valuation is considerably lower than that of the global stock market universe. We will undoubtedly see significant mood swings on the part of the world's equity investors in 2011, likewise price fluctuations. But both the development of the global economy and the valuation of the companies indicate that we may experience a year in which the returns in the global stock market will be in line with or better than what is theoretically referred to as the expected equity returns in a "normal year".

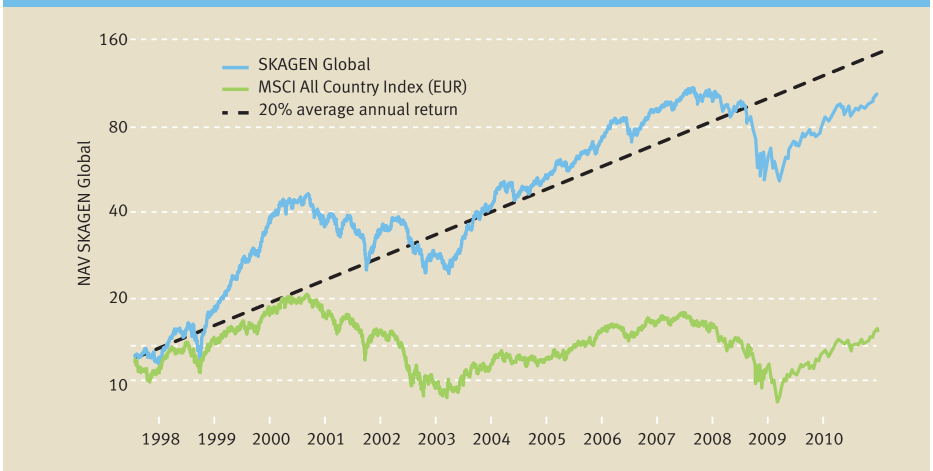
SKAGEN Global has a worldwide investment mandate. The fund's aim is to find high quality companies at a low price, which are characterised by being undervalued, under-researched and unpopular. To reduce risk, the fund seeks to maintain a sensible geographical and sector balance.

SKAGEN Global is suitable for investors who wish to spread investments worldwide and achieve diversification, both geographically and across industries.

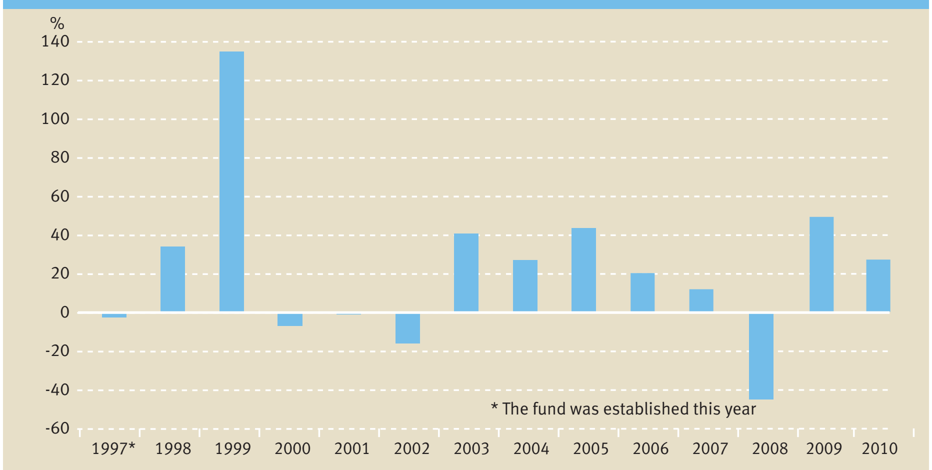
Year	Return on investment %	Benchmark index	AUM *	Number of Unitholders	TER %
2010	23,75 %	20,35 %	4124	94966	1,29 %
2009	48,83 %	26,30 %	3738	96976	2.75 %
2008	-44,50 %	-37,74 %	2075	92046	0,96 %
2007	12,07 %	-1,70 %	3620	93097	2,41 %
2006	20,39 %	7,50 %	2689	77148	2,20 %
2005	43,67 %	25,84 %	1733	52715	2,42 %
2004	27,05 %	6,56 %	845	39971	2,88 %
2003	40,91 %	10,81 %	522	28772	3,49 %
2002	-15,76 %	-31,95 %	299	26465	3,06 %
2001	-0,88 %	-13,13 %	334	24767	2,25 %
2000	-6,90 %	-7,36 %	347	22093	1,74 %
1999	134,59 %	43,88 %	260	9983	5,68 %
1998	34,16 %	15,33 %	27	1017	2,24 %
1997**	-2,48 %	-7,64 %	4	24	3,28 %

* In million euro
** The fund was established during the year

HISTORICAL PRICE DEVELOPMENT



ANNUAL RETURN

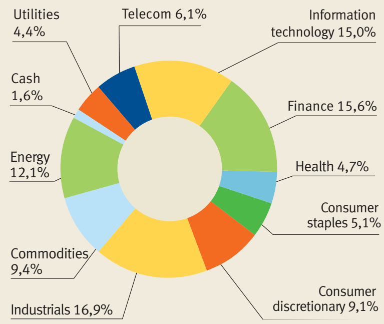


SKAGEN Global

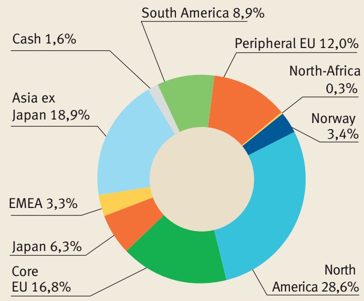
A world of opportunities

From the moor north of Skagen. 1885. Detail.
By P.S. Krøyer, one of the Skagen painters.
The picture is owned by the Skagens Museum.

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



Fund start date	7 August 1997
Return since start	746.4%
Average annual return	17.3%
AUM	EUR 4124 million
Number of unitholders	94 966
Management fee	1.0 % p.a + 10 % of the return exceeding the return of the benchmark
Minimum subscription amount	One-time subscription EUR 150
Authorised for marketing in	Norway, Sweden, Denmark, the Netherlands, Luxembourg, Finland, Iceland and UK
Benchmark	MSCI All Country (in Norwegian kroner)
UCITS fund	Yes
Portfolio Managers	Kristian Falnes Torkell T. Eide Søren M. Christensen

Maintaining the record

With a return of 29 percent, measured in euro, SKAGEN Kon-Tiki beat the emerging markets index for the ninth year in a row in 2010. Investors who have been with the fund since its launch in April 2002 have enjoyed an average annual return of 21.8 percent, versus 11.7 percent for emerging markets.

Substantial assets flowed into the emerging markets in 2010. At the end of the year, SKAGEN Kon-Tiki had six billion euro in assets under management. We note that the fund's excess return, which ended at two percentage points, came in the second half of the year. This is also when the fund was at its largest.

Going into 2011 we see no issues as regards the fund's size, rather opportunities to continue to create good excess returns for our unit holders. Factors which are central to this include:

- Large liquid companies that are unpopular and undervalued.
- The stock market universe in the emerging markets is growing in parallel with the fund.
- SKAGEN Kon-Tiki can increase its investment opportunities by investing in undervalued companies in the developed markets.

Popular consumers

In 2010, investors' main focus was on consumers in the emerging markets. The consumer sector then turned out to be the winning sector. The macro picture was characterised by developments in China and the other BRIC countries. While the Russian and Indian stock markets could be found at the top of the results list last year, China and Brazil ended up at the opposite end – as a result of fears over growing pains and higher inflation.

Large companies generally had a weak year on the stock exchange, and heavyweights such as Petrobras, China Mobile and Gazprom came onto our radar as unpopular and undervalued companies.

As was the case in the developed markets, companies in the emerging markets surprised by delivering better results than expected. Still, despite a good price development in 2010, the pricing of companies at the start of 2011 does not appear to be high. The level relative to market-neutral key figures, such as companies' sales and book equity, are in line with the average for the past decade.

With still good growth in earnings and high return on net capital, we still have a way to go before we can start talking about potential bubbles in the general emerging markets. Prices may however seem stiff within the above-mentioned consumer sector and in individual countries such as India.

An effect of the capital flow into the emerging markets is that several currencies have strengthened, particularly in Asia and Latin America. In the long term we regard this development as favourable and a contributor to better balance in the global economy. Stronger currencies also reduce some of the inflation pressure from rising commodity prices.

Loose money and poor corporate governance

The artificially low interest rates in the West have led to a looser monetary policy than desired in many emerging economies. The problem in 2011 will be whether some of the countries are able to balance economic growth with rising inflation. The previously named China, India and Brazil will be particularly susceptible.

A risk factor that emerging markets have long struggled with is poor corporate governance and a disregard for shareholders' interests. This is something that affected several of our losing shares last year. We note, however, that the emerging markets are making progress in this area also. As the fund has grown larger, we have increased our corporate governance initiatives. We are also trying, to the best of our ability, to encourage companies to become more shareholder friendly.

Good contribution from energy

Although the accident in the Gulf of Mexico set its mark on the entire energy sector, the sector has been a good contributor to the fund. We had a relatively modest exposure to oil producers, which experienced poor price development despite rising oil prices. The biggest contributions came from the oil service companies Baker Hughes and Seadrill. Exploration company OGX Petroleo also provided a good contribution. We sold out of the latter, at a substantial profit.

We raised our stake in Brazilian oil company Petrobras after the company carried out what was the world's largest – though not particularly successful price wise – share issue.

Signs of significantly better corporate governance, and a somewhat better balance in the European gas market, prompted us to go quite heavily into Russian Gazprom. Meanwhile, we trimmed our position in Indonesian coal sup-

SKAGEN KON-TIKI 2010 (MILL. NOK)

5 largest positive contributors	
Huyndai Motor	766
Samsung Electronics	655
Great Wall Motor	482
Banrisul	388
Seadrill	369
5 largest negative contributors	
Hanmi (Holding & Pharma)	-179
Eletrobras	-149
Asya Bank	-84
China Mobile	-67
LG Electronics	-67
5 largest purchases	
Baker Hughes	1717
Hon Hai Precision Industry	1189
China Mobile	1156
Gazprom	982
Petrobras	822
5 largest sales	
OGX Petroleo	648
First Quantum Minerals	458
Sistema	456
Banrisul	417
Efes Breweries International	350

Photo: Bloomberg

Chinese car maker Great Wall Motor shows its models at a car exhibition in Guangzhou in December. Based on central key figures, Kon-Tiki companies Hyundai Motor and Great Wall Motor have a good way to go in terms of stock price increases.

plier Indo Tambangraya following an extremely good price development.

African copper and Asian planes

Our commodity manufacturers had a good year. The price development for African copper producers First Quantum Minerals and Equinox Minerals was particularly good. We sold our holding in First Quantum, but weighted up significantly in Equinox as we think there are still more gains to be had here.

The strengthening of the South African currency resulted in significantly reduced margins and a weak year for precious metal manufacturers DRD Gold and Aquarius Platinum. The companies are nevertheless sitting on valuable resources, and are our insurance premiums against galloping prices for precious metals. Towards the end of the year we substantially increased our weighting in Brazilian Vale.

It was a good year for industry and transport. Good contributors for us were newcomer AP Møller-Maersk and Chinese power equipment company Harbin Power. Our largest investment, ABB, experienced a considerable improvement in its order situation. The fear that public savings measures would limit growth in public investments caused headwinds for our construction firms, Empresas ICA and Strabag.

We exited conglomerates Alarko Holding and Alfa SAB, as well as airline company Thai Air. Investments in air services now consist of low cost airlines AirAsia and Norwegian. Valuations of both are relatively sober, at the same time as organic growth is very strong.

Full speed ahead with Hyundai

Consumer discretionary also experienced spectacular development this year. Our main companies, Hyundai Motor Company and Chinese Great Wall Motor, were the best contributors to the fund.

A combination of a lacklustre view of stock market participants at the start of the year, and an auto market that has developed significantly better than expected, should take some of the credit for this. The main credit for the stock market success must go to the companies themselves however. Both companies successfully launched new models and have an extremely competitive cost position. We look forward to good accounting figures in 2011. Based on central key figures, both Hyundai Motor and Great Wall Motor have a good way to go in terms of stock price increases.

LG Electronics was a big disappointment in 2010. A low valuation and a new product spectrum indicate that 2011 may be a better year. Indian vehicle manufacturer Mahindra & Mahindra continued its good development, and in our view is not yet fully priced.

Following a very strong price development, we sold out of department store operator Mitra Adiperkasa. A newcomer was Malaysian transport conglomerate DRB-Hicom.

On the right side of the table

Our smaller consumer focused companies developed extremely strongly. Good growth and higher margins are a successful combination. We sold the Russian supermarket chain Magnit as well as the Turkish Efes Breweries International, and were able to reap substantial rewards. Royal Unibrew showed a fantastic turnaround, which was well recompensed in the stock market.

Croatian Pivovarna Lasko was one of the losers after it became clear that the company had frittered away its money. We exited Chaoda Modern Agriculture at a smaller loss.

Generally speaking, the consumer sector has become overly popular and over-valued, making it difficult to find good companies at attractive prices here.

Photo: Stada

German pharmacuetical firm Stada Arzneimittel has increasing international focus, and produces both generic drugs and proprietary medicine.

Bad medicine

A substantial loss ensuing from the reorganisation of Korean Hanmi Pharma meant that the pharmaceutical sector, contrary to what has been the norm, contributed negatively to the fund's result.

Despite a significant increase in investments and an already attractive portfolio of future products, our largest investment in the sector, Gedeon Richter, experienced a relatively weak development. The Turkish Eczacibasi companies showed good form, and after a considerable price increase we sold our shares in China Shineway Pharmaceutical Group.

The outlook for 2011 looks more promising, both for our holdings and the pharma sector in general. And although pharma companies in the emerging markets will not be as affected by patent expirations in the years to come – as is the case for many companies in the developed markets – they are still trading at a discount.

Consumer loans and savings products

Although finance is the largest sector in the global emerging markets, its exposure to Southern European government debt and US mortgages is thankfully small. On the other hand, there is significant growth in the profitable areas of consumer financing and savings products.

Our sector winners were Brazilian savings bank Banrisul and Chilean pension fund manager Provida. We took some of the profits in Banrisul, Thai Tisco Financial Group and Provida and used the money to buy shares in Thai Bangkok Bank and Kiatnakin Bank.

As a rule we are careful about taking on too much exposure to state dominated banks, in China in particular. In our experience, the latter often use their resources for purposes that are not necessarily in shareholders' best interests. We therefore keep largely to the privately owned sector.

Belief in tablets

Within information technology, Samsung Electronics had a good year. With its Galaxy Tab and a new line of mobile phones, they have once again proved to have a good grasp of consumers' interests. Following a strong first half year, we are now seeing greater pressure on margins within digital media. The picture is mixed when it comes to the all-important memory products. Expectations for 2011 are therefore not very high which means that positive surprises could quickly result in a good price development for the Samsung share.

Given the number of new products within tablets last year, we bought Taiwanese Hon Hai Precision Industry, which is Apple's main iPhone and iPad supplier. We increased our position in the company during a period in which there was a great deal of bad press concerning employees' poor working conditions. Despite the fact that the market for Hon Hai's products is red hot, the company is trading at a record discount, both in absolute terms and relative to the sector. We believe that concerns over the high costs needed to improve working conditions – by substantially raising wages among other things – are exaggerated.

Fallen Chinese angel

Telecommunication was a relatively weak sector in 2010. The outlook seems better for 2011 when we expect to see the initial results from Indian Bharti Airtel's initiatives in Africa as well as a turnaround for Indosat. Due to strong price developments, we sold out of Kenyan Safaricom and trimmed our holding in Russian Sistema.

Fallen angel China Mobile was a newcomer to the portfolio. The valuation of the company is in our opinion low. Data traffic is increasing, competition is moderate and the company has a sensible foreign exchange exposure with all income in Chinese currency. Both the result and dividend are on their way up.

Within utilities, we have only held onto Eletrobras, which had a relatively weak year. The share was characterised by uncertainty surrounding the political situation in Brazil, as well as the longed-for dividend which fell due at the start of the year. The upcoming share issue in the company, as well as the renewal of power concessions which falls due in 2015 are central to a more positive price development in 2011.

Well balanced going into 2011

SKAGEN Kon-Tiki still has a moderate turnover ratio. At the start of 2011 liquidity was somewhat higher than usual. We have increased our focus on larger companies which are unpopular and appear undervalued. But we are still careful with companies whose seemingly low price tags can to a large extent be explained by company-specific risk factors and a lack of real price triggers.

We still have a well balanced portfolio based on the companies' value creation. Needless to say we follow global trends closely and keep a watchful eye on consumers in the emerging markets. Despite a price increase of 29 percent in 2010, the portfolio's key figures have not changed particularly over the past year. This is due to a combination of positive company developments and the changes we have made in the portfolio.

SKAGEN Kon-Tiki has an international investment mandate, but is required to invest at least 50 percent of the fund's assets in emerging markets, meaning countries or markets that are not included in the MSCI Developed Market Series. The fund's aim is to find high quality companies at a low price, which are characterised by being undervalued, under-researched and unpopular. To reduce risk, the fund seeks to maintain a sensible geographical and sector balance.

SKAGEN Kon-Tiki is suitable for investors who wish to take part in value creation in emerging markets. The fund provides opportunities for exceptional returns through investments in areas with great growth potential. However, the risk is somewhat higher than in a global fund that invests mainly in developed markets.

SKAGEN Kon-Tiki

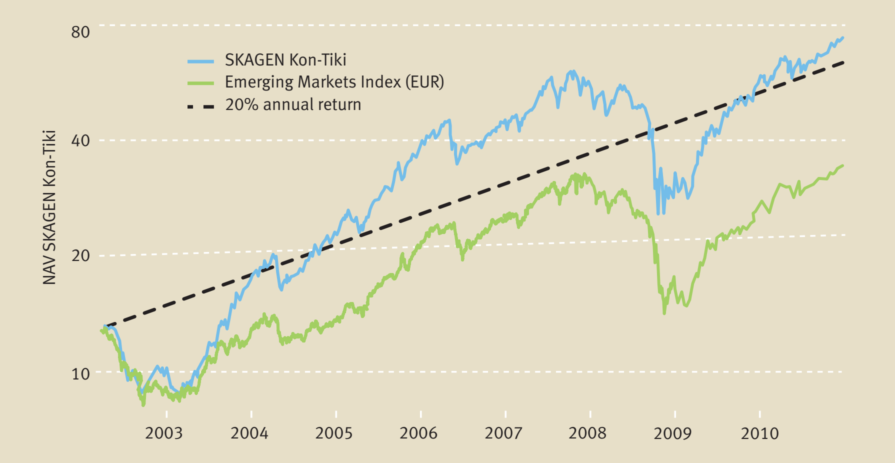
Leading the way in new waters

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

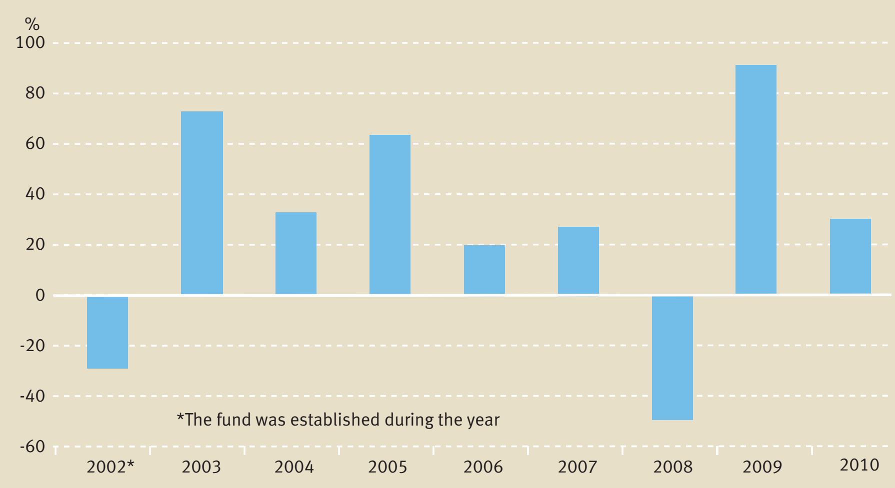
Year	Return on investment %	Benchmark index	AUM *	Number of Unitholders	TER %
2010	29,03 %	26,98 %	6045	82198	2,14 %
2009	91,74 %	73,44 %	3986	74443	3,26 %
2008	-47,96 %	-50,99 %	1245	64799	3,01 %
2007	26,87 %	25,67 %	2516	59770	2,56 %
2006	19,11 %	18,34 %	1693	44692	2,52 %
2005	64,36 %	54,02 %	1097	29553	3,16 %
2004	35,00 %	16,62 %	392	16259	3,95 %
2003	75,63 %	29,72 %	204	9835	3,85 %
2002**	-26,15 %	-29,88 %	34	4190	3,89 %

* In million euro
** The fund was established during the year

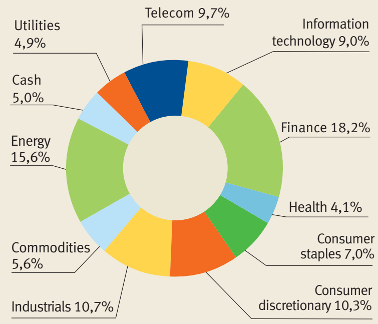
HISTORICAL PRICE DEVELOPMENT



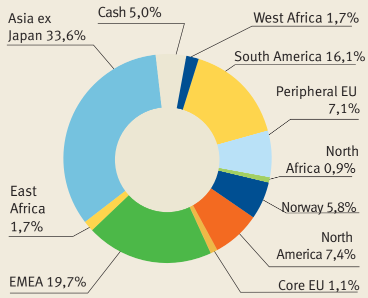
ANNUAL RETURN



SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



Fund start date	5 April 2002
Return since start	459.9%
Average annual return	21.8%
AUM	EUR 6045 million
Number of unitholders	82 198
Management fee	2 % plus/minus variable management fee
Minimum subscription amount	One-time subscription EUR 150
Authorised for marketing in	Norway, Sweden, Denmark, the Netherlands, Luxembourg, Finland, Iceland and UK
Benchmark	MSCI Emerging Markets Index (in Norwegian kroner)
UCITS fund	Yes
Portfolio Managers	J. Kristoffer Stensrud Knut Harald Nilsson Catherine Gether

Underestimated the drop in interest rates

The bond fund SKAGEN Avkastning delivered a return of 9.4 percent, versus 11.2 percent for the benchmark index in 2010. The relative underperformance was primarily due to the fact that we did not foresee the significant drop in Norwegian long term interest rates at the start of the year.

As a result, during the first five months of the year, SKAGEN Avkastning was overtaken by the benchmark index, which consists of Norwegian government bonds with a fixed duration of three years. During this period the interest rate on three-year securities fell by over one percentage point. The fund had a short duration on its Norwegian investments and therefore did not reap the profits from the drop in interest rates.

In the second half of the year, the fund developed somewhat better than the index.

By the start of the summer we had increased the fund's duration which meant that we profited nicely from the falling global long interest rates in July and August. Rising long interest rates during the autumn in the heavily indebted countries in Europe rubbed off on the interest rate level in developing countries and we therefore had to register a loss on our bonds there. At the end of the year we reduced the fund's duration and since there was a relatively large increase in the long bond yields at the end of December, we noted a significantly better return than the index.

Risk premiums on bank securities with over 12 months maturity increased during the year. By the end of the year bank securities in the fund's portfolio had an average maturity of three years. As time to maturity decreases the risk premiums will decline and the fund will gain on these papers. The weighted credit duration for the fund's bank securities is 1.7 years.

Emerging markets and Greece

We believe that stronger growth in the US and several other industrialised countries will lead to higher long term interest rates in these countries in 2011. This means limited possibilities for capital gains on investments in government bonds in mature markets.

We still have confidence in profit opportunities in developing countries with a solid fiscal and monetary policy framework, where both inflation and inflationary expectations are falling. There should also be potential in bonds which in our opinion have too high credit premiums, such as Greek government bonds.

Greece has received an economic aid package from the euro area countries and the International Monetary Fund (IMF) which is sufficient to cover the country's refinancing needs until 2013. We believe it is unlikely that Greece will default on its debt in the intervening period. The credit premiums on government bonds which mature within this timeframe indicate that the market is pricing in a higher probability of debt default than we believe is actually the case.

Norwegian interest rates will increase

With higher interest rates in other industrialised countries, as well as higher growth and real interest rates in Norway, we believe that the Norwegian long term interest rates will increase further. If the Norwegian Central Bank raises the policy rate in 2011, the short interest rates should also rise. The latest monetary policy report from the Norwegian Central Bank indicates that the policy rate should be hiked in the second half of the year, by 0.5 percentage points. Solid growth in the mainland economy pushes for rates to be increased even further, while a strong Norwegian krone may pull in the opposite direction. We believe it is more likely that the Norwegian Central Bank will increase its policy rate beyond the estimated 0.5 percentage points, than that the interest rate increase will be smaller.

Interest rate risk reduced

How have we adjusted the portfolio in line with our market view?

We have reduced the duration of the fund, which means that the fund price development will be less affected by rising long interest rates. The proportion of Norwegian bank securities

New manager Jane Tvedt

On 1 December 2010 Jane Tvedt took over as portfolio manager of SKAGEN Avkastning. Jane joined SKAGEN on 1 March 2010, and before taking on her current role, she worked with Torgeir Høien managing both SKAGEN Avkastning and SKAGEN Tellus. Jane has many years' experience working with macroeconomics and fixed income markets, including at the Norwegian Central Bank and Statoil.

has been increased. These have floating interest rates, which means that higher policy rates will quickly result in higher effective interest rates on our investments.

The fund's foreign exposure has been reduced to around 12 percent of the fund. We believe that there is a strong likelihood of an interest rate drop and capital gains on these bonds. The largest holding is a Greek government bond which at the turn of the year accounted for 4 percent of the fund. The bond matures in March 2012, and has a yield of 11 percent. Given the above-mentioned rescue package from the euro area countries and the IMF, the risk premium appears to be far too high. With just a year to go to maturity, the interest rate risk is relatively low. An increase in the yield will therefore have only a limited effect on the bond price.

Expect 4.5 percent this year

What can unit holders in SKAGEN Avkastning expect in 2011?

Given the development of interest rate and risk premiums, we are taking into account an expected return of around 4.5 percent per annum for the next couple of years. Unit holders should note that the fund price will continue to fluctuate going forward, and that the return may be both low and negative in periods. The source of the price fluctuations is interest rate changes in the international credit markets.

OPPORTUNITIES ABROAD BALANCED AGAINST RISK

SKAGEN Avkastning is a Norwegian bond fund with a mandate to invest parts of the fund in foreign government bonds. The prerequisite for our foreign investments is that they can provide higher returns than investments in Norway, taking into account the risk.

The fund price will fluctuate and we therefore recommend that our unit holders have at least a six-month horizon for their investments. In general the fund hedges all foreign investments so that changes in the krone price do not affect the fund price.

The Norwegian part of the portfolio is invested in government bonds, bank securities issued by solid Norwegian banks, as well as in bank deposits with extremely favourable terms. The fund's return comes from interest coupons, price gains on bonds and interest income from bank deposits.

SKAGEN Avkastning

Active interest rate management

Homecoming fishermen. 1879. Detail.
By Frits Thaulow, one of the Skagen painters.
The picture is owned by the Skagens Museum.

Fund start date	16 September 1994
Return since start	174.1%
Average annual return	6.39%
AUM	EUR 201 million
Number of unitholders	14 326
Subscription/Redemption fee	None
Management fee	0.5 % per year
Minimum subscription amount	One-time subscription EUR 150
Authorised for marketing in	Norway, Sweden, Denmark and Luxembourg
Benchmark	ST4X
UCITS fund	Yes
Portfolio Manager	Jane Tvedt

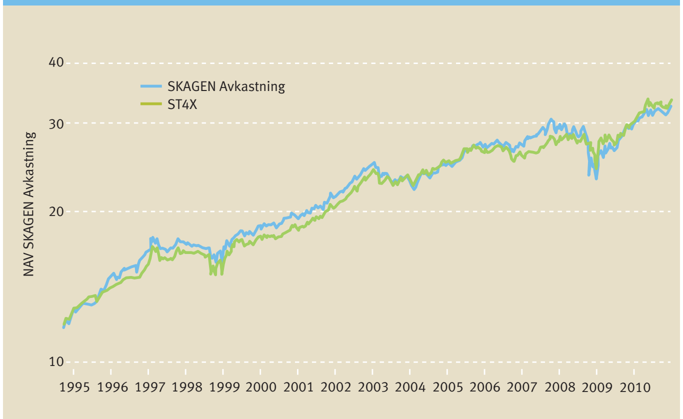
The objective for SKAGEN Avkastning is to provide its unit holders with the best possible risk adjusted return in the fixed income market over a six month period. This is achieved by balancing investments between fixed securities with short and long maturities and by investing in fixed income securities internationally. The fund has a worldwide investment mandate, but primarily invests in notes and bonds issued in Norwegian kroner. The fund only invests in issues with a low credit risk, i.e. government bonds, government guaranteed loans, loans to financial institutions and bank deposits.

SKAGEN Avkastning is a good alternative for investors who do not wish to commit resources to monitoring the interest rate markets and moving investments between interest bearing securities with different maturities.

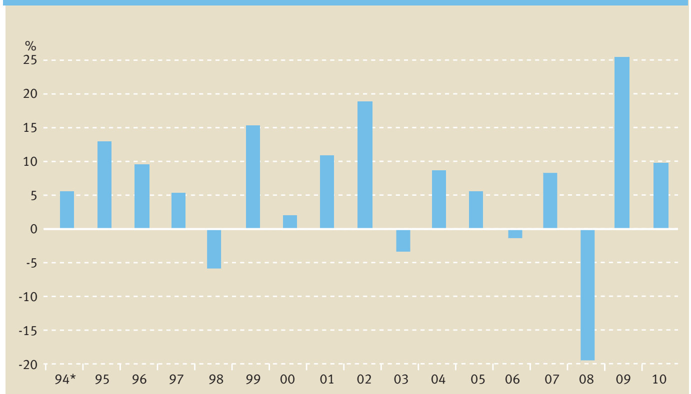
Year	Return on investment %	Benchmark index %	AUM *	Number of unitholders
2010	9,39 %	11,19 %	201	14326
2009	25,98 %	21,78 %	190	14177
2008	-19,95 %	-10,86 %	126	13520
2007	7,18 %	8,27 %	494	15065
2006	-2,08 %	0,79 %	367	12279
2005	5,92 %	9,30 %	354	6385
2004	7,53 %	7,75 %	70	2363
2003	-3,63 %	-7,95 %	17	937
2002	18,18 %	16,91 %	16	568
2001	11,37 %	9,90 %	8	343
2000	2,34 %	3,55 %	5	261
1999	15,36 %	15,09 %	4	194
1998	-6,40 %	-5,53 %	2	154
1997	5,23 %	2,63 %	9	185
1996	9,44 %	10,97 %	7	131
1995	13,28 %	18,95 %	4	54
1994 **	6,30 %	6,48 %	1	18

* In million euro
** The fund was established during the year

HISTORICAL PRICE DEVELOPMENT



ANNUAL RETURN



*The fund was established during the year

A very good year

SKAGEN Tellus posted a return of 17.2 percent for the year and beat its benchmark index by 4.1 percentage points.

Since its inception in September 2006, the fund has delivered an average annual return of 7.1 percent, which is almost one percentage point more than the Barclays Capital Global Treasury Index 3-5 years. The fund has beaten the benchmark four out of five years. At the same time, the risk, measured by standard deviation, has been lower for the fund than it has for the benchmark index; standard deviation has been 7.9 percent for SKAGEN Tellus and 8.8 percent for the index.

A global bond fund has three ways to receive income: interest income, gains on the bonds as a result of a drop in interest rates or currency gains. In 2010, the currency gains contributed 63 percent of the total return of the fund. The interest income and gains on bonds contributed 9 and 28 percent respectively. Over the past two years currency has been an increasing part of the fund's total returns.

Benefiting from volatility

What do we expect from 2011? The philosophy remains the same: we will use our knowledge of economics to seek returns from anticipated interest rate and currency movements. Sometimes this means long term investments. At other times it means being prepared to move the fund's positions around quickly if new information or new analysis indicates a changed outlook for interest rates or currencies.

Our focus is continuously on good risk management. This means that we seek to have a good diversification of the investments in the fund in addition to limits on the total size of each individual holding.

Expect higher rates in the West

In general we expect that the long interest rates in the developed part of the world will increase in the coming year. As far as we can see from the economic data coming out of the US there are signs of rapid growth there. There are also indications of good growth in the large economies within the Eurozone. Together with continued high growth rates in key emerging markets such as China and India, this will most likely pull up the underlying real interest rates. At present these rates are very low.

Whether inflation expectations will also rise is much more uncertain. Expectations are already at quite high levels in the developed countries, if one excludes Japan. At present, everything signals that we should be cautious betting on the long interest rates in these countries. Still, this could change.

There are some countries, though, where we feel that money could be made at the long end of the yield curve. Some emerging markets have a good inflation history without this being reflected in the long interest rates. And there is not enough incentive for keeping government finances in order. This group of countries – which includes Indonesia, Turkey and South Africa – is part of our portfolio at the start of 2011 because we believe that the market will value their bonds more highly in the future.

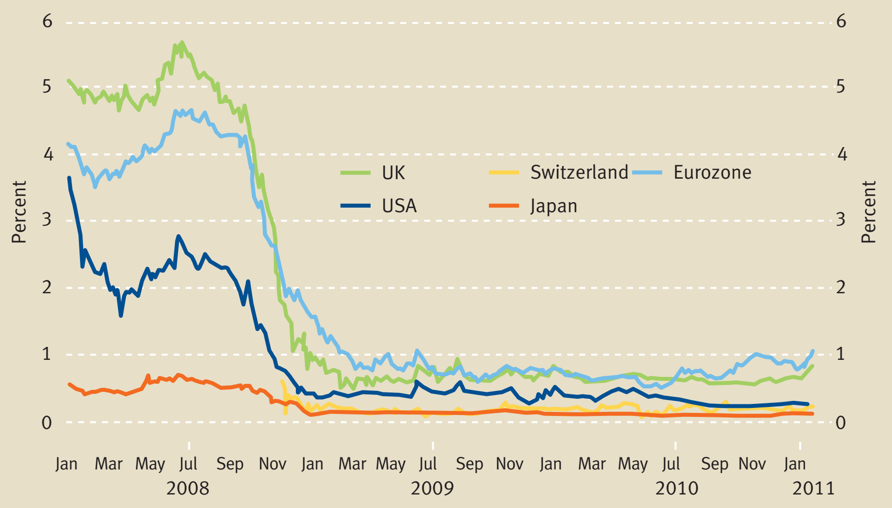
May see short end gains

We also believe that it is possible to gain on bets on shorter interest rates. Just before the end of 2010 we invested in a Greek bond that matures in March 2012. This investment currently yields 10.2 percent. There is little doubt that Greek government finances are dysfunctional and a lot could happen before June 2013 when the country stops being financed by the other Eurozone countries and the IMF. Still, we do not believe they will default on their debt in the coming 13 months. There is also the possibility that other Eurozone bonds will end up being viewed as mispriced in the course of 2011.

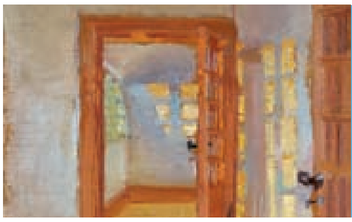
We also believe that we will get good contributions from currency gains. The key here is being early when central banks are set to raise their policy rates, thus strengthening the currency. We currently believe that the market is underestimating the likelihood of interest rate increases, particularly in the US. In addition, we have developed our own tools for evaluating whether a currency looks fundamentally over or undervalued.

That said, we are humbly aware of the challenges posed by the market. We will most certainly make mistakes in some of the evaluations and transactions we carry out in 2011, just as we did in 2010 and previously. Still, by undertaking thorough analysis and remaining alert, in 2011 we should be able to continue to provide unit holders in SKAGEN Tellus with good risk adjusted returns.

EXPECTED AVERAGE OVERNIGHT RATES (ROLLING 12-MONTH PERIOD)



Source: Reuters EcoWin



SKAGEN Tellus

A doorway to global interest rates

Interior. Brøndum's annex. Ca. 1920. Detail.
By Anna Ancher, one of the Skagen painters.
The picture is owned by the Skagens Museum.

Fund start date	29 September 2006
Return since start	33.77%
Average annual return	7.09%
AUM	EUR 100 million
Number of unitholders	2 383
Subscription/Redemption fee	None
Management fee	0.8 % p.a
Minimum subscription amount	One-time subscription EUR 150
Authorised for marketing in	Norway, Sweden, Denmark, the Netherlands, Luxembourg, Finland, Iceland and UK
Benchmark	Barclays Capital Global Treasury Index, 3-5 Years
UCITS fund	Yes
Portfolio Manager	Torgeir Høien

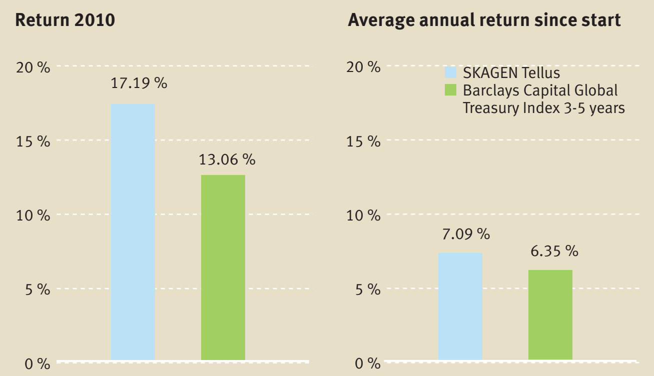
SKAGEN Tellus is a global fixed income fund that aims to provide investors with excess returns through investments in the fixed income market worldwide. The fund invests mainly in government bonds and certificates. The fund's aim is to provide its unit holders with good risk adjusted returns through an actively managed portfolio. SKAGEN Tellus has a risk profile between national fixed income funds and global equity funds.

SKAGEN Tellus is suitable for investors who wish to invest in global bonds and who have an investment horizon of at least 12 months. Investors must be able to tolerate currency exchange rate fluctuations. The fund is well suited as part of a long-term investment portfolio, both for individuals, companies and institutions.

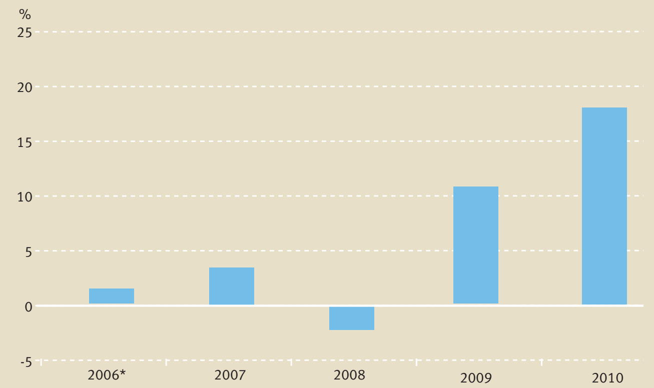
Year	Return on investment %	Benchmark index %	AUM *	Number of unitholders
2010	17,19 %	13,06 %	100	2383
2009	10,92 %	0,63 %	49	1558
2008	-1,97 %	16,27 %	56	1644
2007	3,55 %	0,39 %	108	2353
2006 **	1,37 %	2,18 %	70	2557

* In million euro
** The fund was established during the year

SKAGEN TELLUS RETURNS



ANNUAL RETURNS



* The fund was established this year

Returns

Returns in EUR	Last year	Past 2 years	Past 3 years	Past 5 years	Past 10 years	Since start
SKAGEN Vekst	22,8 %	46,5 %	-0,6 %	7,5 %	14,1 %	17,5 %
OSEBX/MSCI AC Total Return Index	23,5 %	55,0 %	-3,6 %	5,8 %	8,6 %	10,2 %
SKAGEN Global	23,8 %	35,7 %	0,7 %	6,6 %	11,5 %	17,3 %
MSCI AC Total Return Index	20,4 %	23,3 %	-1,8 %	0,0 %	-1,3 %	1,7 %
SKAGEN Kon-Tiki	29,0 %	57,3 %	8,8 %	14,2 %		21,8 %
MSCI Emerging Markets Index	27,0 %	48,4 %	2,6 %	9,9 %		11,7 %
SKAGEN Tellus	17,19 %	14,01 %	8,42 %			7,09 %
Barclays Capital Global Treasury Index 3-5 years	13,06 %	6,66 %	9,77 %			6,35 %
SKAGEN Avkastning	9,39 %	17,39 %	3,32 %	3,78 %	5,36 %	6,39 %
ST4X Bond Index	11,19 %	16,36 %	6,47 %	4,84 %	6,28 %	6,58 %

Risk and performance measurements

MEAN VARIANCE ANALYSIS LAST 5 YEARS	SKAGEN VEKST	SKAGEN GLOBAL	SKAGEN KON-TIKI	SKAGEN AVKASTNING	SKAGEN TELLUS
Standard deviation, fund	24,8 %	19,9 %	24,9 %	10,2 %	
Standard deviation, benchmark index	31,8 %	15,4 %	23,4 %	8,6 %	
Sharpe-ratio, fund	0,19	0,19	0,46	0,10	
Sharpe-ratio, benchmark index	0,09	-0,18	0,31	0,24	
Relative volatility/tracking error	10,9 %	8,6 %	5,5 %	5,7 %	
Information ratio	0,15	0,77	0,79	(0,19)	
Alfa	2,4 %	9,3 %	7,2 %	-1,0 %	
Beta	0,75	1,19	1,04	0,99	
R2	91 %	81 %	94 %	68 %	
Correlation	0,96	0,90	0,97	0,83	
GAIN LOSS ANALYSIS LAST 5 YEARS					
Relative gain	81 %	141 %	110 %	112 %	
Relative loss	76 %	109 %	98 %	125 %	
Relative gain/loss ratio	1,06	1,30	1,11	0,89	
Positive index divergence	14,77	14,33	9,89	5,57	
Negative index divergence	13,34	7,77	6,06	6,62	
Index divergence ratio	1,11	1,84	1,63	0,84	
Percentage positive index divergence	53 %	65 %	62 %	46 %	
Percentage positive index divergence when market is up	20 %	80 %	65 %	50 %	
Percentage positive index divergence when market is down	90 %	50 %	58 %	42 %	
Percentage of number of positive index divergence	43 %	63 %	67 %	52 %	
Percentage of number of positive index divergence when market is up	26 %	69 %	70 %	45 %	
Percentage of number of positive index divergence when market is down	73 %	54 %	61 %	59 %	
VALUE AT RISK LAST 5 YEARS; 2.5 % CONFIDENCE					
Value at risk: observed, NAV	-20,4 %	-15,0 %	-19,0 %	-7,6 %	
Value at risk: observed, Benchmark	-26,9 %	-10,0 %	-16,8 %	-5,5 %	
Relative value at Risk, observed	-5,5 %	-6,4 %	-4,2 %	-6,5 %	
GAIN/LOSS ANALYSIS SINCE INCEPTION					
Relative gain	96 %	163 %	125 %	108 %	100 %
Relative loss	74 %	103 %	100 %	113 %	92 %
Relative gain/loss ratio	1,29	1,59	1,24	0,96	1,08
Positive index divergence	15,93	22,22	14,52	4,33	13,18
Negative index divergence	9,65	8,48	5,96	4,45	12,54
Index divergence ratio	1,65	2,62	2,43	0,97	1,05

GOOD RESULTS ARE NO GUARANTEE FOR FUTURE RETURNS

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.

Explanation of concepts

In SKAGEN Funds we calculate the traditional financial performance and risk measurements by using mean and variance. A lot of financial theory is based on the application and interpretation of these concepts. This can of course be advantageous in terms of communication, but it may also give rise to some limitations.

That is why we also use a number of other measurements which are based on risk analyses used in other industries. We call these gain and loss analyses. These analyses enable us to focus more on what really concerns us as investors, that is to say the risk of losing money in a given period. All measurement calculations are based on monthly observations.

Traditional risk and performance measurements

Standard deviation is a measure of the variation of annual returns. There is approximately a 65 percent probability that annual returns will be in the range of plus/minus one standard deviation. The probability that returns will deviate more than two standard deviations from the expected return is approximately five percent. A high standard deviation may indicate high risk.

The Sharpe Index measures the probability of the fund generating a higher return than the risk-free interest rate. The higher the score, the higher the probability. The higher the probability, the more certain are the chances of achieving excess returns in the equity market. Thus, the value may be used as a long-term measure of risk, but is often used as an absolute measure of risk-adjusted returns.

Relative volatility also called "tracking error" is the standard deviation of the annual excess return relative to the benchmark during the relevant period. Relative volatility measures the manager's ability to create regular excess returns relative to the benchmark, but is often used as a measure of a fund's independence of the benchmark.

Information Ratio indirectly measures the probability of the fund generating a higher return than its benchmark. The higher the score, the higher the probability of achieving excess returns. The information ratio is also used as a measure of risk-adjusted excess returns, where risk is construed as the chance of uneven excess returns. Thus, the information ratio measures the manager's ability to create certain excess returns, whereas relative volatility measures the ability to generate regular excess return.

Alpha is a risk-adjusted measure of the so-called active return on an investment. It is the return in excess of the compensation for the risk borne, and thus commonly used to assess active managers' performance. It can be shown that in an efficient market, the expected value of the alpha coefficient is zero. Therefore the alpha coefficient indicates how an investment has performed after accounting for the risk it involved

An alpha value less than zero means the investment has provided too little return relative to the given risk (or had too high a risk in terms of yield). An alpha value of zero means the investment has earned a return adequate for the risk taken. An alpha value of over zero means the investment has a return in excess of the reward for the assumed risk.

Beta of a stock or portfolio is a number describing the relation of its returns with that of the financial market as a whole. An asset with a beta of 0 means that its price is not at all correlated with the market. A positive beta means that the asset generally follows the market. A negative beta shows that the asset inversely follows the market. If the market goes up, then the asset generally decreases in value and vice versa. SKAGEN applies the fund's benchmark index as a proxy for "the market".

R2 is used in the context of statistical models whose main purpose is the prediction of future outcomes on the basis of other related information. It is the proportion of variability in a data set that is accounted for by the statistical model. It provides a measure of how well future outcomes are likely to be predicted by the model. A high value (close to 100%) indicates a high and good explanatory power.

Correlation is a measure of relationship between a set of two variables or measurements. A high correlation means that one set of variables can be predicted from the other and vice versa. In this case a high correlation (close to 100%) means that the asset or portfolio follows the market closely.

Value at Risk (VaR) is a widely used measure of the risk of loss on a specific portfolio of financial assets. VaR here corresponds to how much you risk losing in a month with 2.5% probability.

The relative VaR is a measure of the risk of underperformance in a month.

Profit and loss analysis

Relative gain/relative loss is a measure of the ability to achieve excess returns in cyclical upturns and downturns. A relative loss of 80 percent means that the fund has suffered a loss corresponding to the loss it would have suffered if it were invested 80 percent in the benchmark and 20 percent in risk-free securities (ST1X). A relative loss of less than 100 percent means that the fund is losing less than the market in a cyclical downturn. A relative gain of more than 100 percent means that the fund is performing better than the market in a cyclical upturn. Compared to a fund's standard deviation these measures may explain why the standard deviation is higher or lower than the benchmark.

Relative gain/relative loss ratio. A value above one means that the fund is getting better paid for the risk assumed relative to the benchmark. When ranking funds investing in the same market, the measure is strongly correlated with the Sharpe Index, but also shows whether the risk-adjusted return is better than the risk-adjusted return of the market. Thus, the measure may be used to compare funds in different markets, as opposed to the Sharpe Index, which may only be used to compare funds investing in the same market.

Positive/negative index divergence shows positive or negative annual divergence during the relevant period. If positive divergences are greater than the negative ones, the fund has achieved a higher return than the benchmark. The total of positive and negative divergences is a measure of the fund's independence from the benchmark.

Index divergence ratio shows the ratio between positive and negative benchmark divergences. This is a measure of the ability to create excess returns by being an active rather than a passive manager. The higher the number, the better you get paid for each negative benchmark divergence. The benchmark divergence ratio interprets risk as the chance of negative index divergences, as opposed to the Information Ratio, which construes the risk as irregular excess returns (not necessarily negative excess returns).

Sum of the numeric positive and negative divergences is a measure of the fund's independence of the benchmark index.

After the last battue. 1905.
By Michael Ancher, one of the Skagen painters.
The picture belongs to the Skagens Museum.

OWNERSHIP STRUCTURE

SKAGEN AS is owned by:

T. D. Veen AS	25.69 %
Solbakken AS	18.40 %
MCM Westbø AS	9.84 %
Månebakken AS	7.29 %
Åge Westbø AS	7.29 %
Harald Espedal AS	8.31 %
Kristian Falnes AS	8.31 %
Stafonds AS	5.07 %
Key SKAGEN employees	9.80 %

NUMBER OF UNITS OWNED BY BOARD MEMBERS AND KEY EMPLOYEES

NAME	NUMBER OF UNITS	POSITION
Martin Gjelsvik	9 225	Chairman of the Board and owner
Tor Dagfinn Veen	799 828	Board member and owner
Barbro Johansson	252	Board member, elected by the shareholders
Yuhong Jin Hermansen	96 115	Deputy director, elected by the unitholders
Jan Henrik Hatlem	1 073	Board member, elected by the unitholders
Ole Søeberg	6 500	Deputy director, elected by the shareholders
Anne Sophie K. Stensrud	1 455	Deputy director and owner
Lars-Erik Forsgårdh	67	Board member, elected by the unitholders
Harald Espedal	435 865	Managing director and owner
Kristian Falnes	1 163 589	Investment director and owner
J. Kristoffer C. Stensrud	2 565 395	Portfolio manager and owner
Åge K. Westbø	1 369 796	Deputy managing director and owner

THE NOMINATION COMMITTEE

The members of the nomination committee are Sigve Erland (Chair), Truls Holte and Nils Martin Petersson. They are charged with proposing candidates to be members of the Board of SKAGEN AS as elected by the unitholders.

An exciting year for unit holders

2010 was another good year for SKAGEN's unit holders. Despite turbulent markets, most of SKAGEN's funds have delivered better returns than their respective indexes. Assets under management passed the 100 billion kroner mark, as a result of good performance and value creation in the funds.

What happened in 2010?

Expectations for 2010 were that the real economy would follow the upturn in the equity markets and see a positive development. The year ended as expected with strong growth in the global economy. Uncertainty around the debt crisis in Europe and the US dominated the summer months, but 2010 ended with accelerating growth in Northern Europe and the US. There was good growth in the emerging markets throughout the year.

The markets stabilised in the autumn and on the whole companies in the equity markets delivered good results, setting the backdrop for renewed optimism. Small companies in particular have had good price development as have equities in the emerging markets.

In the portfolio management team, 2010 was characterised both by change and continuity. Filip Weintraub left SKAGEN in March 2010 to start his own company. Kristian Falnes assumed responsibility for SKAGEN Global after 13 years at the helm of SKAGEN Vekst. In turn, Beate Bredesen took on responsibility for SKAGEN Vekst after six years as portfolio manager in SKAGEN, of which four were spent as co-manager of SKAGEN Vekst. Towards the end of the year, one of the company's fixed income managers, Jane S. Tvedt, took over the reins of SKAGEN Avkastning. Capacity within the portfolio teams has been strengthened somewhat in 2010 in line with the company's growth and ambitions.

SKAGEN Kon-Tiki maintained its AAA rating from Standard & Poor's in 2010, while SKAGEN Global now has a AA rating and SKAGEN Vekst has been put under Tenure Review (TR). The latter two changes come as a result of the manager changes. The Board looks forward to a new assessment by Standard & Poor's in 2011.

What can we expect for 2011?

2011 promises to be a good year for global economic growth, but the picture will still be of a decoupled world. Growth seems to be very good in the emerging markets and moderate in the developed economies. Although the market must prepare itself for rising interest rates, SKAGEN still expects a low interest rate level in 2011. Companies have been surprisingly good at adjusting capacity and costs to the shifting market conditions. Company results are therefore good.

Valuations in the stock market are moderate – especially given the low interest rates. The portfolios in the funds are priced at a significant discount to the markets generally. SKAGEN is therefore optimistic about returns in 2011. The prominent risks in the new year are the extended consequences of the debt crisis in the Southern European government finances and the need to slow growth in the emerging markets due to inflationary dangers.

Assets under management

In 2010, assets under management increased from NOK 94.7 billion (EUR 11.4 billion) to NOK 110.3 billion (EUR 14.1 billion), an increase of NOK 15.6 billion (EUR 2 billion). Net subscriptions in the funds were NOK 191 million (EUR 24.5 million).

There were net redemptions of NOK 4.5 billion (EUR 573 million) following the manager change in SKAGEN Global, and then further net redemptions of just over NOK 3 billion (EUR 376 million) as a result of the market unrest in May and June. During the autumn the situation reversed and there were steady and good subscriptions into the funds towards the end of the year.

SKAGEN has maintained its position as the largest equity fund manager in the Norwegian fund market.

The company has at the same time developed to become an international company. SKAGEN's markets outside Norway were characterised by good growth. The largest contribution to growth in 2010 was subscriptions from unit holders in the Netherlands, Denmark and Switzerland. In Sweden, net subscriptions were negative for the first time following a large redemption via the Swedish pensions agency (PPM). With this exception, activities in Sweden were characterised by good growth.

SKAGEN is one of the ten largest fund managers in the Swedish market and manages around NOK 8.6 billion (EUR 1.1 billion) in pensions for roughly 450 000 savers in the Swedish pensions agency (PPM). SKAGEN has for some time noticed increasing movements of assets within PPM. This is generated by external management providers who carry out transactions on behalf of savers. A higher frequency of large subscriptions and redemptions in the funds increases the probability of a negative impact on the funds' returns. SKAGEN has informed the Swedish authorities that there is a need to regulate management providers associated with PPM to reduce these types of transactions. If the authorities do not carry out satisfactory measures, SKAGEN will withdraw from its cooperation with PPM so that existing unit holders are protected against the consequences of these types of transactions.

The fixed income funds had net redemptions of NOK 151 million (EUR 19.4 million). SKAGEN Tellus has had a good inflow of new assets and strong returns this year. The money market funds have, however, experienced steady redemptions throughout the year as record-low interest rates have incited clients to take more risk to achieve higher returns.

There were no unusually large redemptions in the equity or fixed income funds in 2010.

Returns in the funds

Measured in both absolute and relative returns, 2010 was a very good year for most of our funds.

With a 21.2 percent (29%)* return, SKAGEN Kon-Tiki delivered a very good performance in 2010 versus 19.3 percent (27%) for the Emerging Markets Index. The fund's average annual return since inception is 22.1 percent (21.8%).

The relative performance of SKAGEN Global was also good with 16.3 percent (23.8%) returns versus 13.1 percent (20.4%) for the world index. The fund's average annual return since inception is 16.9 percent (17.3%).

SKAGEN Vekst achieved an absolute return of 15.4 percent (22.8%), versus 16.0 percent (23.5%) for the Oslo Stock Exchange/World Index benchmark index which has a similar composition to the fund. The fund's average annual return since inception has been 17.0 percent (17.5%).

SKAGEN Tellus had a very good year in 2010, and returned 17.2 percent measured in euro. In relative terms the fund did well and beat the benchmark index which delivered a return of 13.1 percent.

2010 was a poor year for SKAGEN Avkastning which returned 2.8 percent (9.4%), versus 4.5 percent (11.2%) for the benchmark.

Measured in Norwegian kroner, SKAGEN Høyrente achieved a return of 2.7 percent versus 2.5 percent for the average 3-month NIBOR for the year and 2.3 percent for the benchmark

* Performance figures are given in Norwegian kroner while figures in brackets show euro figures


Martin Gjelsvik, Chairman of the Board of Directors


Barbro Johansson, board member, elected by the shareholders


Yuhong Jin Hermansen, deputy director, elected by the unitholders


Anne Sophie K. Stensrud, deputy director, elected by the shareholders

index. SKAGEN Høyrente Institusjon achieved a return of 2.8 percent versus 2.3 percent for the benchmark.

In 2010, SKAGEN Krona returned 0.9 percent measured in Swedish kroner, versus 0.3 percent for the benchmark index.

Changes in regulations governing SKAGEN's activities

Due to a general need to update the securities act, the Ministry of Finance has appointed a legislative committee which in 2010 has worked to revise legislation. The securities act is based on the EU directive for mutual funds (UCITS directive) and, in addition to encouraging modernisation, the EU has produced updates that must be implemented in Norwegian law by 1 July 2011. The preliminary draft bill indicates that the law will be more accessible and will protect unit holders' interests by ensuring that they receive understandable, relevant and comparable information, and have greater influence when it comes to amendments to statutes, the merging of funds, and so on. In 2010 SKAGEN has spent a great deal of time influencing the design of laws and regulations, and the law is expected to be adopted during the summer. In 2011, the company will focus on implementing new rules in business.

Following the financial crisis in 2008, money market funds have been a major focus of the self-regulating work carried out by the Securities Funds Association. The Association's standard regarding information about and classification of money market funds and bond funds has been revised, and the changes are broadly related to the fact that somewhat stricter restrictions are being introduced when it comes to classifying money market funds. Furthermore the classifications should make visible the cause of disparities in risk and returns between fixed income funds, and make it easier to compare different funds. The standard was implemented in the summer of 2010, and SKAGEN has carried out minor changes to the articles of association of SKAGEN Høyrente and SKAGEN Høyrente Institusjon to adapt the mandates according to the new group the funds are classified in.

In the summer of 2010 the Norwegian Parliament prepared for the establishment of new regulations regarding remuneration in the financial sector, in line with directives from the EU. During the autumn, the Ministry of Finance drew up regulations regarding compensation in financial institutions, effective from 1 January 2011. In light of the international financial crisis, the Ministry deems it necessary that a system be established for compensation and bonuses which promotes financial stability and counteracts excessive risk-taking and does not incite short-term profit. It is politically understandable that the government wishes to do something about the incentive structure in the global financial sector.

In its 17 years of activity, SKAGEN has always attached importance to having an incentive structure and ownership model that encourages long-term thinking. The income of the management company fluctuates considerably from year to year in line with the financial markets, and having a low fixed cost base has been necessary to be prepared to endure difficult times. In order to be able to recruit and retain the best employees in a global market, the company must be able to pay a good variable salary when the company's results are good.

SKAGEN will make the necessary adaptations to the new regulations.

New opportunities for clients

One of SKAGEN's primary objectives is to provide clients with the best possible service, follow-up and communication. The company wishes to be innovative and different in its customer services and communication.

SKAGEN wishes to communicate with and meet clients in those channels in which they are present. In 2010 the company launched new web pages with the possibility for direct web chat (Norwegian pages only). SKAGEN has also established its own Facebook page and developed a mobile phone application for our website. In addition, the company has reduced the number of market reports from 8 to 4, while the content of these has increased in scope and the focus is now on going into more depth on the specialist issues mentioned.

In 2011, the company will launch a new reporting platform which will give unit holders far better opportunities to get analysis and reports on their own investments in the funds.

Furthermore, the company is focused on making it easier for clients to access SKAGEN. At the end of 2009, the Norwegian internet signature, BankID, was approved as valid identification. SKAGEN has been offering BankID log-in for several years, but the change has made it even simpler to establish client relationships with SKAGEN, carry out transactions, set up savings agreements and purchase gift certificates.

SKAGEN has continued to hold net meetings with fund managers. SKAGEN is grateful to clients for the commitment they show by submitting questions and comments, and participating in client surveys. The turnout to SKAGEN's inspiration meetings, lunch meetings and theme meetings has also been great. In Norway, 156 meetings were held with a total of 7,700 participants and in Sweden there were 119 meetings with 4,700 participants. In 2010 we also conducted 45 inspiration meetings and 30 theme meetings in Denmark, attracting 3,600 participants in total. The Danish office has also participated in 15 meetings with selected partners, attended by a total of 850 participants.

There has also been considerable activity at our newly established office in London. Over 120 client meetings have been held since the office opened in May 2010. SKAGEN is also active in other international markets and the client advisors responsible for these markets spend a total of four months a year travelling to meet existing and potential clients.

Each year SKAGEN conducts a client survey in Norway and Sweden to check whether the company is fulfilling its objective of providing the best possible service and follow-up in regions where we have the most direct retail clients. The June 2010 client survey showed a stable level of satisfaction both in Norway and Sweden compared to the same survey carried out in June 2009.

SKAGEN employees

At the end of 2010 SKAGEN had 152 employees


Jan Henrik Hatlem, board member, elected by the unitholders


Tor Dagfinn Veen, board member, elected by the shareholders


Lars Erik Forsgårdh, board member, elected by the unitholders


Ole Søeberg, deputy director, elected by the shareholders

based in six offices in Norway (Stavanger, Trondheim, Ålesund, Bergen, Oslo and Tønsberg), two offices in Sweden (Stockholm and Gothenburg), one office in Denmark (Copenhagen) and one office in the UK (London). In 2011, an office will be opened in the Netherlands (Amsterdam). In addition, SKAGEN's funds are marketed in Finland, the Netherlands, Luxembourg and Iceland.

SKAGEN has a compensation model that is intended to encourage employees to work together to provide clients with the highest possible risk adjusted returns. The model promotes cooperation between all departments to ensure that clients experience SKAGEN in the best possible way, also with respect to service, competent follow-up and communication. No employees have their salary directly tied to subscription results. Thus, we avoid the negative aspects often associated with such arrangements, including unhealthy internal competition and sales pressure, protection of own expertise and poor utilisation of employee resources.

Employee competency development is a priority for SKAGEN and our clients. At the end of 2010 most of SKAGEN's client representatives are authorised financial advisors. The program has high requirements for theoretical and practical knowledge and employees who deal with clients must sit examinations supervised by an independent committee. In Sweden a similar authorisation scheme was introduced in 2005, and all our Swedish advisors are authorised in accordance with it.

SKAGEN recruits employees with diverse backgrounds, and seeks to achieve a balance between male and female employees. At the end of the year, there were 58 female and 94 male employees. There are equal opportunities for both genders with respect to terms of employment and pay. In 2010, SKAGEN had an absence rate due to illness of 2 percent.

The Board of Directors wishes to thank all employees for a great effort in 2010. Employee competence and conduct are decisive for SKAGEN's performance.

Organisation

SKAGEN AS has authorisation from the Financial Supervisory Authority of Norway to act as a fund management company, and is the business manager for SKAGEN's funds. Handelsbanken is the SKAGEN custodian and The Norwegian Central Securities Depository (VPS) is the registrar for SKAGEN's registry of unit holders.

Financial risk

The funds carry no financial risk, as they only have short-term debt connected with the settlement of securities.

Market risk, credit risk and liquidity risk

Risk in securities funds arise as a consequence of market movements, developments in currency, interest rates, and the economic cycle as well as company specific issues. In 2010 the risk was within expected levels.

In addition to statutory requirements, SKAGEN sets internal requirements for industry balance and liquidity with respect to the securities in which the funds invest. These requirements have been met during the year. SKAGEN has also developed internal routines aimed at reducing the risk of errors that may affect the funds. The spread of the equity portfolios' investments is a result of the SKAGEN investment philosophy, which includes requirements for company valuation, product/market matrix, gearing and the liquidity of the security. The investments of the fixed income funds are also based on an evaluation of the creditworthiness of individual issuers and the general economic conditions in the country in which the issuer resides.

The Board confirms that the premise of the management company as a going concern is still present.

Investment philosophy

SKAGEN adheres to its investment philosophy and business concept. SKAGEN is convinced that the best way to create excess return for clients – now as before – is to have an active investment philosophy whereby portfolio managers seek unpopular, under-researched and undervalued companies. The same principles apply to the managers of SKAGEN's fixed income funds: the funds will be actively managed on the basis of our own analyses of the market, and the individual securities.

In this translated version the return figures are quoted in NOK, while figures in brackets show EUR figures by using the fund's prevailing exchange rate at the time of pricing on a daily basis. Assets under management and net subscriptions are quoted in brackets in EUR by using the fund's prevailing exchange rate at the time of pricing on 31.12.2010.

Allocation of funds' income:

INCOME STATEMENT (All figures in 1,000 NOK)	SKAGEN VEKST	SKAGEN GLOBAL	SKAGEN KON-TIKI	SKAGEN AVKASTNING	SKAGEN HØYRENTE	SKAGEN HØYRENTE INSTITUSJON	SKAGEN TELLUS	SKAGEN KRONA (SEK)
NET INCOME	**1 367 188**	**4 597 708**	**7 412 567**	**42 931**	**106 641**	**46 031**	**35 944**	**2 301**
Allocation of net income								
Transfer to/from retained earnings	1 367 188	4 597 708	7 412 567	42 931	8 759	1 068	-17 147	-1 089
Allocation for distribution to unit holders	-	-	-	-	97 882	44 963	53 091	-
Net distributed to uniholders during the year	-	-	-	-	-	-	-	3 390
Total	**1 367 188**	**4 597 708**	**7 412 567**	**42 931**	**106 641**	**46 031**	**35 944**	**2 301**

STAVANGER 27.01.2011

Martin Gjelsvik | Tor Dagfinn Veen | Lars-Erik Forsgårdh | Yuhong Jin Hermansen | Barbro Johansson | Anne S.K. Stensrud | Ole Søeberg | Jan Henrik Hatlem

Annual Financial Statement 2010

INCOME STATEMENT (all figures in 1,000 NOK)	Noter	SKAGEN Vekst 2010	SKAGEN Vekst 2009	SKAGEN Global 2010	SKAGEN Global 2009	SKAGEN Kon-Tiki 2010	SKAGEN Kon-Tiki 2009	SKAGEN Avkastning 2010	SKAGEN Avkastning 2009
Portfolio revenue and costs									
Interest income and costs		19 676	40 955	-5 483	15 698	29 514	23 439	54 448	38 042
Dividends		209 061	153 361	770 817	572 154	1 006 273	412 629	-	-
Realised capital gain/loss		961 828	-111 451	2 747 124	12 804	2 683 201	416 904	18 172	11 912
Change unrealised gain/loss	8	433 968	3 478 553	1 753 853	6 170 880	4 884 616	9 289 755	-9 778	-2 180
Guarantee commission		1 395	2 158	-	-	1 714	-	-	-
Brokers' fees		-9 043	-2 429	-39 943	-30 613	-38 889	-38 422	-20	-12
Currency gain/loss		-46 902	83 095	-142 965	-14 778	-211 709	22 225	-11 623	37 241
PORTFOLIO RESULT		**1 569 983**	**3 644 242**	**5 083 402**	**6 726 144**	**8 354 719**	**10 126 530**	**51 199**	**85 003**
Management revenue and costs									
Management fee - fixed	9	-99 718	-80 183	-304 296	-238 489	-784 077	-433 108	-8 268	-6 574
Management fee - variable	9	-90 545	-306 672	-93 914	-401 803	-53 506	-200 012	-	-
ASSET MANAGEMENT RESULT		**-190 263**	**-386 855**	**-398 210**	**-640 293**	**-837 583**	**-633 119**	**-8 268**	**-6 574**
RESULT BEFORE TAX		**1 379 720**	**3 257 387**	**4 685 192**	**6 085 851**	**7 517 136**	**9 493 411**	**42 931**	**78 429**
Tax cost	4	-12 533	-8 399	-87 485	-57 610	-104 569	-41 994	-	-
NET INCOME		**1 367 188**	**3 248 988**	**4 597 708**	**6 028 241**	**7 412 567**	**9 451 417**	**42 931**	**78 429**
Allocation of net income									
Transfer to/from retained earnings	10	1 367 188	3 248 988	4 597 708	6 028 241	7 412 567	9 451 417	42 931	78 429
Allocated for distribution to unit holders	10	-	-	-	-	-	-	-	-
Net distributed to unit holders during the year	10	-	-	-	-	-	-	-	-
TOTAL		**1 367 188**	**3 248 988**	**4 597 708**	**6 028 241**	**7 412 567**	**9 451 417**	**42 931**	**78 429**

BALANCE SHEET		31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Assets									
Norwegian securities at cost price	3,8	4 297 675	4 392 260	747 871	328 222	1 583 183	903 093	1 196 715	1 234 022
Foreign securities at cost price	3,8	3 352 926	3 822 862	25 904 844	25 784 496	31 442 804	22 251 605	176 497	285 046
Unrealised capital gain/loss	8	2 461 501	2 027 533	4 969 845	3 215 992	11 745 887	6 861 271	735	10 513
Accrued interest securities	8	2 029	6 921	2 117	-	-	-	8 531	8 945
TOTAL SECURITIES PORTFOLIO		**10 114 131**	**10 249 576**	**31 624 678**	**29 328 710**	**44 771 874**	**30 015 969**	**1 382 477**	**1 538 527**
Dividend receivable		22 885	12 000	159 259	50 636	161 462	86 465	-	-
Accrued interest bank		-	-	-	-	-	-	-	-
TOTAL ACCRUED INCOME		**22 885**	**12 000**	**159 259**	**50 636**	**161 462**	**86 465**	**-**	**-**
Accounts receivable - brokers		37 596	2 833	37 744	-	33 377	167 688	-	-
Accounts receivable - management company		-	-	1	2	1	-	-	-
Tax receivable on dividends		2 705	2 296	35 979	29 563	2 525	1 472	-	-
Other receivables		-	-	-	1 803	-	-	-	-
TOTAL OTHER RECEIVABLES		**40 302**	**5 129**	**73 724**	**31 367**	**35 903**	**169 160**	**-**	**-**
Bank deposits	11	208 509	462 250	605 061	2 259 795	2 866 849	3 345 247	239 663	42 915
TOTAL ASSETS		**10 385 827**	**10 728 956**	**32 462 721**	**31 670 509**	**47 836 087**	**33 616 841**	**1 622 141**	**1 581 441**
Equity Capital									
Unit capital at par value	10	697 727	817 754	3 964 232	4 446 760	8 258 941	7 026 079	1 220 421	1 262 330
Premium	10	-3 061	1 428 079	15 928 441	18 908 370	20 824 090	15 405 164	405 729	417 164
TOTAL PAID-IN EQUITY CAPITAL		**694 666**	**2 245 833**	**19 892 673**	**23 355 130**	**29 083 030**	**22 431 242**	**1 626 149**	**1 679 493**
Retained earnings	10	9 517 342	8 150 154	12 276 219	7 678 511	18 072 132	10 659 565	-56 930	-99 860
Allocated to unitholders for reinvestment in new units		-	-	-	-	-	-	-483	-483
TOTAL EQUITY CAPITAL		**10 212 007**	**10 395 987**	**32 168 892**	**31 033 641**	**47 155 162**	**33 090 807**	**1 568 737**	**1 579 150**
Debt									
Bank overdraft		-	-	-	-	-	-	-	-
Accounts payable - brokers		55 881	121	74 121	67 406	362 634	147 744	51 291	-
Accounts payable - management company		115 264	331 348	171 984	474 058	281 902	346 154	2 129	1 963
Other debt		2 674	1 500	47 725	95 404	36 390	32 136	-16	328
TOTAL OTHER DEBT		**173 819**	**332 969**	**293 829**	**636 868**	**680 926**	**526 034**	**53 404**	**2 291**
TOTAL DEBT AND EQUITY CAPITAL		**10 385 827**	**10 728 956**	**32 462 721**	**31 670 509**	**47 836 087**	**33 616 841**	**1 622 141**	**1 581 441**

Stavanger, 27 January 2011
Board of SKAGEN AS

Martin Gjelsvik | Tor Dagfinn Veen | Lars-Erik Forsgårdh | Yuhong Jin Hermansen | Barbro Johansson | Anne S.K. Stensrud | Ole Søeberg | Jan Henrik Hatlem

INCOME STATEMENT (all figures in 1,000 NOK)	Noter	SKAGEN Høyrente 2010	SKAGEN Høyrente 2009	SKAGEN Høyrente Institusjon 2010	SKAGEN Høyrente Institusjon 2009	SKAGEN Tellus 2010	SKAGEN Tellus 2009	SKAGEN Krona* 2010	SKAGEN Krona* 2009
Portfolio revenue and costs									
Interest income and costs		116 395	169 933	50 573	88 328	24 847	14 440	3 268	7 925
Dividends		-	-	-	-	-	-	-	-
Realised capital gain/loss		1 049	-1 105	2 511	3 033	20 422	15 036	-	-
Change unrealised gain/loss	8	-720	-7 314	-4 424	-1 304	-539	-57 909	-357	-901
Guarantee commission		-	-	-	-	-	-	-	-
Brokers' fees		-158	-14	-109	-10	-70	-37	-45	-37
Currency gain/loss		-	-	-	-	-3 580	-2 873	-	-
PORTFOLIO RESULT		**116 567**	**161 500**	**48 550**	**90 048**	**41 081**	**-31 343**	**2 865**	**6 987**
Management revenue and costs									
Management fee - fixed	9	-9 926	-11 020	-2 519	-3 535	-5 009	-3 312	-564	-845
Management fee - variable	9	-	-	-	-	-	-	-	-
ASSET MANAGEMENT RESULT		**-9 926**	**-11 020**	**-2 519**	**-3 535**	**-5 009**	**-3 312**	**-564**	**-845**
RESULT BEFORE TAX		**106 641**	**150 479**	**46 031**	**86 512**	**36 071**	**-34 655**	**2 301**	**6 142**
Tax cost	4	-	-	-	-	-127	-	-	-
NET INCOME		**106 641**	**150 479**	**46 031**	**86 512**	**35 944**	**-34 655**	**2 301**	**6 142**
Allocation of net income									
Transfer to/from retained earnings	10	8 759	33 532	1 068	16 424	-17 147	-47 682	-1 089	263
Allocated for distribution to unit holders	10	97 882	116 948	44 963	70 089	53 091	13 027	-	-
Net distributed to unit holders during the year	10	-	-	-	-	-	-	3 390	5 879
TOTAL		**106 641**	**150 479**	**46 031**	**86 512**	**35 944**	**-34 655**	**2 301**	**6 142**

BALANCE SHEET		31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Assets									
Norwegian securities at cost price	3,8	2 612 373	2 763 455	1 016 802	1 462 258	-	28 447	-	-
Foreign securities at cost price	3,8	-	-	-	-	634 138	370 400	205 605	305 098
Unrealised capital gain/loss	8	443	1 163	-216	4 208	-809	-271	-268	90
Accrued interest securities	8	14 635	14 080	7 179	7 165	10 806	6 850	1 210	472
TOTAL SECURITIES PORTFOLIO		**2 627 450**	**2 778 698**	**1 023 765**	**1 473 631**	**644 134**	**405 426**	**206 547**	**305 660**
Dividend receivable		-	-	-	-	-	-	-	-
Accrued interest bank		-	-	-	-	-	-	-	-
TOTAL ACCRUED INCOME		**-**	**-**	**-**	**-**		**-**	**-**	**-**
Accounts receivable - brokers		-	-	-	-	-	5 983	-	-
Accounts receivable - management company		-	1	-	-	-	-	-	-
Tax receivable on dividends		-	-	-	-	-	-	-	-
Other receivables		-	-	-	-	363	-	-	-
TOTAL OTHER RECEIVABLES		**-**	**1**	**-**	**-**	**363**	**5 984**	**-**	**-**
Bank deposits		893 531	741 393	495 143	456 133	142 706	1 065	7 548	11 970
TOTAL ASSETS		**3 520 981**	**3 520 093**	**1 518 908**	**1 929 765**	**787 203**	**412 474**	**214 095**	**317 630**
Equity Capital									
Unit capital at par value	10	3 389 023	3 354 990	1 476 567	1 858 232	688 798	380 047	212 774	313 926
Premium	10	31 153	30 767	-2 908	-3 369	49 582	13 014	1 021	1 923
TOTAL PAID-IN EQUITY CAPITAL		**3 420 175**	**3 385 757**	**1 473 658**	**1 854 863**	**738 381**	**393 060**	**213 795**	**315 850**
Retained earnings	10	-69	4 397	-542	3 799	-6 250	-328	-137	1 579
Allocated to unit holders for reinvestment in new units		98 273	116 986	45 201	70 327	53 074	13 015	-	-
TOTAL EQUITY CAPITAL		**3 518 379**	**3 507 140**	**1 518 318**	**1 928 988**	**785 205**	**405 748**	**213 658**	**317 429**
Debt									
Bank overdraft		-	-	-	-	-	-	-	-
Accounts payable - brokers		-	-	-	-	-	5 732	-	-
Accounts payable - management company		2 351	2 479	590	777	1 620	785	129	201
Other debt		251	10 474	-	-	378	210	308	-
TOTAL OTHER DEBT		**2 602**	**12 953**	**590**	**777**	**1 998**	**6 726**	**437**	**201**
TOTAL DEBT AND EQUITY CAPITAL		**3 520 981**	**3 520 093**	**1 518 908**	**1 929 765**	**787 203**	**412 474**	**214 095**	**317 630**

* in 1000 SEK

Stavanger, 27 January 2011
Board of SKAGEN AS

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General notes

NOTE 1: ACCOUNTING PRINCIPLES

All figures in NOK 1,000 unless otherwise stated

Financial instruments:
All financial instruments, such as shares, bonds and certificates, are valued at fair value (market value).

Determination of fair value:
Securities are valued at market prices as of 31.12.2010.

Bonds and notes, for which there are no "marketmaker" prices, are at all times valued against the applicable yield curve.

Unlisted equities are valued according to the latest trading price, value adjustments made by brokers and internal valuations.

Currency exchange rates:
Securities and bank deposit/overdraft in foreign currency are valued at the prevailing exchange rate at the time of pricing 31.12.2010.

Treatment of transaction costs:
Transaction costs in the form of commission to brokers is charged to expenses at the time of the transaction.

Allocated to unitholders for reinvestment:
All distributions to unitholders in fixed income funds are treated as allocations of profit in accordance with the regulation for annual financial statements for securities funds. Distributions from fixed income funds are accounted for by entering reinvestments as new units in the fund in the financial year.

Adjustment of acquisition cost:
For the equity funds, the average acquisition value has been used to arrive at the realised gain/loss on the sale. For the fixed income funds, the FIFO principle has been used to calculate realised gain/loss on the sale.

NOTE 2: FINANCIAL DERIVATIVES

The funds have not held financial derivatives during the year.

NOTE 3: FINANCIAL MARKET RISK

The balance sheet in the annual financial statement for the funds reflects market value on the last stock market day of the year expressed in Norwegian kroner. Through investment in Norwegian and foreign businesses, the equity funds are exposed to share price and currency exchange risks. The fixed income funds are exposed to interest and credit risks and to currency risks in those cases where the funds invest in other currencies than NOK.

NOTE 4: TAX CALCULATION

Equity funds:
Equity funds are, in principle, exempt from tax on gains and do not have the right to deduct loss on realisation of equities when calculating taxable income. Furthermore, dividends received from companies within the EEA are, in principle, tax-exempt.

However, 3 % of realised gains from companies tax domiciled within the EEA and dividend received from the corresponding companies are treated as taxable to Norway.

Dividends received from companies outside the EEA are taxable. The funds may in addition be charged withholding tax on dividends received from all foreign companies.

The tax cost for the years 2010 and 2009 is associated with withholding tax on foreign dividends.

Fixed income funds:
The fixed income funds are taxable with 28% of net realised capital gain on interest-bearing securities, interest income accrued, currency gain/loss, minus tax-deductible costs, which, amongst other things, include management fee. The taxable net profit is in principle distributed among unitholders so that the fund is in a non-taxpaying position.

NOTE 5: CUSTODIAN COST

The funds are only charged transaction related custodian costs.

NOTE 6: TURNOVER RATE

The turnover rate is measured by the size of the trading volume adjusted for subscriptions and redemptions of units.

The turnover rate is calculated as hichever is the smaller amount of either purchases and sales of securities in the portfolio during the year, divided by average assets undet managment during the year.

The funds' turnover rate for the year 2010 was:

SKAGEN Vekst	25,25 %
SKAGEN Global	40,80 %
SKAGEN Kon Tiki	14,99 %
SKAGEN Avkastning	181,66 %
SKAGEN Høyrente	202,56 %
SKAGEN Høyrente Institusjon	134,45 %
SKAGEN Tellus	572,13 %
SKAGEN Krona	430,15 %

NOTE 7: SUBSCRIPTION FEE

No subscription or redemption fee.

NOTE 8:

Refer to pages 54 - 65

SKAGEN Vekst Note 9, 10 & 11

NOTE 9. MANAGEMENT FEE

The fixed management fee constitutes 1 % p.a. of daily asset under management in addition to the variable management fee: 1/10 of the return above 6 % p.a.

NOTE 10. EQUITY RECONCILIATION

	Unit capital	Premium	Retained earnings	Total
EQUITY CAPITAL AS OF 1.1.2010	817 754	1 428 079	8 150 154	10 395 987
Issue of units	137 711	1 669 107		1 806 818
Redemption of units	-257 738	-3 100 247		-3 357 986
Net income			1 367 188	1 367 188
EQUITY CAPITAL AS OF 31.12.2010	**697 727**	**-3 061**	**9 517 342**	**10 212 007**

	31.12.2010	31.12.2009	31.12.2008
Number of units issued	6 977 271	8 177 547	7 186 025
Base price per unit (in NOK)*	1 463,6198	1 268,3147	856,5973

NOTE 11. RISK AMOUNT (in NOK)

RISK amount determined as of 01.01:

1994	1995	1996	1997	1998	1999	2000
-0.35	-0.37	3.28	-0.50	1.73	1.26	3.62

2001	2002	2003	2004	2005	2006
3.77	0.51	2.03	3.06	-7.03	-9.44

SKAGEN Global Note 9 & 10

NOTE 9. MANAGEMENT FEE

The fixed management fee constitutes 1 % p.a. of daily assets under management in addition to the variable management fee: 1/10 of better value development measured in percent in the fund's asset value compared with the referenceindex MSCI All Country World Daily Total return Net $, measured in Norwegian kroner.

NOTE 10. EQUITY RECONCILIATION

	Unit capital	Premium	Retained earnings	Total
EQUITY CAPITAL AS OF 1.1.2010	4 446 760	18 908 370	7 678 511	31 033 641
Issue of units	1 077 098	6 874 304		7 951 402
Redemption of units	-1 559 625	-9 854 233		-11 413 858
Net income			4 597 708	4 597 708
EQUITY CAPITAL AS OF 31.12.2010	**3 964 232**	**15 928 441**	**12 276 219**	**32 168 892**

	31.12.2010	31.12.2009	31.12.2008
Number of units issued	39 642 319	44 467 597	36 749 226
Base price per unit (in NOK)*	811,4809	697,9145	550,3927

SKAGEN Kon-Tiki Note 9, 10 & 11

NOTE 9. MANAGEMENT FEE

The fixed management fee constituted 2.5 % p.a. of daily assets under management until 30 June 2009. As of 1 July 2009, the fixed management fee constitues 2 % p.a. The variable management fee is calculated as follow for the entire period: 1/10 of better value development in percent in the fund's asset value compared with the referenceindex MSCI Emerging Markets Index Daily Traded Net Total Return $, measured in Norwegian kroner. However the total management fee may not exceed 4 % p.a. and may not be lower than 1 % p.a. of average assets under management.

NOTE 10. EQUITY RECONCILIATION

	Unit capital	Premium	Retained earnings	Total
EQUITY CAPITAL AS OF 1.1.2010	7 026 079	15 405 164	10 659 565	33 090 807
Issue of units	3 034 307	12 888 259		15 922 566
Redemption of units	-1 801 445	-7 469 333		-9 270 778
Net income			7 412 567	7 412 567
EQUITY CAPITAL AS OF 31.12.2010	**8 258 941**	**20 824 090**	**18 072 132**	**47 155 162**

	31.12.2010	31.12.2009	31.12.2008
Number of units issued	82 589 405	70 260 786	42 075 710
Base price per unit (in NOK)*	570,9556	470,9718	288,3044

*Base price is set at end of day 31/12 and is based on the best prevailing estimates. Finalised figures are used in the annual financial statement. Consequently minor timing differences may occur.

NOTE 11. RISK AMOUNT (in NOK)

RISK amount determined as of 01.01:

2003	2004	2005	2006
3.26	1.80	-0.11	0.00

SKAGEN Høyrente Note 9 & 10

NOTE 9. MANAGEMENT FEE

The management fee constitutes 0.25 % p.a. of daily assets under management.

NOTE 10. EQUITY RECONCILIATION

	Unit capital	Premium	Retained earnings	Allocated to unitholders for reinvestment	Total
EQUITY CAPITAL AS OF 1.1.2010	3 354 990	30 767	4 397	116 986	3 507 140
Issue of units	5110087	54106	52382		5216575
Redemption of units	-5076054	-53720	-65607		-5195382
Reinvested for unitholders				-116595	-116595
Allocated to unitholders for reinvestment				97882	97882
Net income/loss after distribution to unitholders			8759		8759
EGENKAPITAL PR 31.12.2010	**3389023**	**31153**	**-69**	**98273**	**3518379**

	31.12.2010	31.12.2009	31.12.2008
Number of units issued	33890228	33549896	43266971
Base price per unit (in NOK)*	103,8222	104,5408	107,6860

SKAGEN Høyrente Institusjon Note 9 & 10

NOTE 9. MANAGEMENT FEE

The management fee constitutes 0.15 % p.a. of daily assets under management.

NOTE 10. EQUITY RECONCILIATION

	Unit capital	Premium	Retained earnings	Allocated to unitholders for reinvestment	Total
EQUITY CAPITAL AS OF 1.1.2010	1858232	-3369	3799	70327	1928988
Issue of units	873730	-1527	13108		885310
Redemption of units	-1255395	1988	-18516		-1271923
Reinvested for unitholders				-70089	-70089
Allocated to unitholders for reinvestment				44963	44963
Net income/loss after distribution to unitholders			1068		1068
EQUITY CAPITAL AS OF 31.12.2010	**1476567**	**-2908**	**-542**	**45201**	**1518318**

	31.12.2010	31.12.2009	31.12.2008
Number of units issued	14765667	18582318	25651986
Base price per unit (in NOK)*	102,8252	103,8057	106,5054

SKAGEN Avkastning Note 9, 10, 11 & 12

NOTE 9. MANAGEMENT FEE

The management fee constitutes 0.5 % p.a. of daily assets under management.

NOTE 10. EQUITY RECONCILIATION

	Unit capital	Premium	Retained earnings	Allocated to unitholders for reinvestment	Total
EQUITY CAPITAL AS OF 1.1.2010	1262330	417164	-99860	-483	1579150
Issue of units	639929	175282			815211
Redemption of units	-681838	-186717			-868555
Reinvested for unitholders					-
Allocated to unitholders for distribution					-
Net income/loss after distribution to unitholders			42931		42931
EQUITY CAPITAL AS OF 31.12.2010	**1220421**	**405729**	**-56930**	**-483**	**1568737**

	31.12.2010	31.12.2009	31.12.2008
Number of units issued	12204208	12623296	10427255
Base price per unit (in NOK)*	128,5463	125,0972	117,1930

NOTE 11. CURRENCY RISK

SKAGEN Avkastning does not use currency hedging instruments against Norwegain kroner, but has as of 31.12.2010 overdrafts in EUR, MXN and ZAR bank accounts in order to reduce the currency exposure of the investments.

NOTE 12. DEFERRED TAX CREDIT

SKAGEN Avkastning has a tax loss carry-forward of NOK 55 million as of 31.12.2010. The related deferred tax credit is not recorded in the balance sheet due to uncertainty surrounding the future use of this position.

SKAGEN Tellus Note 9 & 10

NOTE 9. MANAGEMENT FEE

The management fee constitutes 0.8 % p.a. of daily assets under management.

NOTE 10. EQUITY RECONCILIATION

	Unit capital	Premium	Retained earnings	Allocated to unitholders for reinvestment	Total
EQUITY CAPITAL AS OF 1.1.2010	380047	13014	-327	13015	405748
Issue of units	846436	88801	33754		968992
Redemption of units	-537684	-52233	-22531		-612447
Reinvested for unitholders				-13031	-13031
Allocated to unitholders for reinvestment				53091	53091
Net income/loss after distribution to unitholders			-17147		-17147
EQUITY CAPITAL AS OF 31.12.2010	**688798**	**49582**	**-6250**	**53074**	**785205**

	31.12.2010	31.12.2009	31.12.2008
Number of units issued	6887985	3800466	4746160
Base price per unit (in NOK)*	113,9964	106,7901	115,9369

SKAGEN Krona Note 9 & 10 (all figures in 1000 SEK)

NOTE 9. MANAGEMENT FEE

The management fee constitutes 0.2 % p.a. of daily assets under management.

NOTE 10. EQUITY RECONCILIATION

	Unit capital	Premium	Retained earnings	Total
EQUITY CAPITAL AS OF 1.1.2010	313926	1923	1580	317429
Issue of units	205849	2143	785	208777
Redemption of units	-310380	-3057	-1413	-314849
Reinvested for unitholders	3378	12		3390
Net income			-1089	-1089
EQUITY CAPITAL AS OF 31.12.2010	**212774**	**1021**	**-137**	**213658**

	31.12.2010	31.12.2009	31.12.2008
Number of units issued	2127741	3139264	5380851
Base price per unit (in NOK)*	100,4158	101,1153	101,5832

*Base price is set at end of day 31/12 and is based on the best prevailing estimates. Finalised figures are used in the annual financial statement. Consequently minor timing differences may occure.

SKAGEN Vekst

Note 8. Securities portfolio as of 31.12.2010 (in NOK)

Security	Number of shares	Acquisition value NOK	Market price	Currency	Market value NOK	Unrealised gain/loss	Share of fund	Share in company/ share class	Stock exchange
Energy									
Solstad Offshore ASA	2 242 500	108 585 132	116,00	NOK	260 130 000	151 544 868	2,55 %	5,93 %	Oslo Børs
DOF ASA	4 954 800	78 558 737	49,50	NOK	245 262 600	166 703 863	2,40 %	5,44 %	Oslo Børs
Bonheur ASA	1 348 072	99 605 010	178,00	NOK	239 956 816	140 351 806	2,35 %	3,30 %	Oslo Børs
Ganger Rolf ASA	1 395 555	142 844 608	163,00	NOK	227 475 465	84 630 857	2,23 %	4,12 %	Oslo Børs
Pride International Inc	1 093 282	159 864 125	33,00	USD	209 797 153	49 933 028	2,06 %	0,62 %	New York
Petroleo Brasileiro Pref ADR	1 001 815	90 839 260	34,17	USD	199 060 899	108 221 639	1,95 %	0,04 %	New York
Transocean Ltd	346 900	153 446 657	69,51	USD	140 218 411	-13 228 246	1,37 %	0,11 %	New York
TGS Nopec Geophysical Co ASA	970 578	47 170 377	131,50	NOK	127 631 007	80 460 630	1,25 %	0,94 %	Oslo Børs
Farstad Shipping ASA	629 338	44 081 117	175,00	NOK	110 134 150	66 053 033	1,08 %	1,61 %	Oslo Børs
Norwegian Energy CO ASA	5 314 393	83 812 282	18,40	NOK	97 784 831	13 972 549	0,96 %	2,18 %	Oslo Børs
Siem Offshore	8 219 897	69 926 621	10,85	NOK	89 185 882	19 259 262	0,87 %	2,08 %	Oslo Børs
Eidesvik Offshore ASA	1 700 000	64 882 552	38,00	NOK	64 600 000	-282 552	0,63 %	5,64 %	Oslo Børs
Sevan Marine ASA	9 675 000	77 573 340	6,50	NOK	62 935 875	-14 637 465	0,62 %	1,84 %	Oslo Børs
EMGS konv 05/11 9%	4 000 000	26 171 502	232,00	USD	54 213 711	27 792 162	0,53 %	-	Oslo Børs
Superior Energy Services Inc	235 000	30 988 976	34,99	USD	47 815 121	16 826 145	0,47 %	0,30 %	New York
Northern Offshore Ltd	2 940 000	28 386 046	14,95	NOK	43 953 000	15 566 954	0,43 %	1,88 %	Oslo Børs
BP Plc ADR	165 000	52 614 600	44,17	USD	42 380 375	-10 234 225	0,42 %	0,01 %	New York
Seabird Exploration Ltd 07/12 frn call	43 000 000	11 850 000	85,00	NOK	36 936 809	25 086 809	0,36 %	-	Oslo Børs
Marine Accurate Well asa	71 891 376	54 470 669	0,50	NOK	35 945 688	-18 524 981	0,35 %	7,69 %	OTC
Fred Olsen Production ASA	3 000 000	18 734 740	10,30	NOK	30 900 000	12 165 260	0,30 %	2,83 %	Oslo Børs
Minor items[1]		179 743 465			111 271 966	-69 203 258	1,09 %		
Total Energy		**1 624 149 815**			**2 477 589 760**	**852 458 138**	**24,27 %**		
Raw materials									
Norsk Hydro ASA	5 583 010	133 214 492	42,61	NOK	237 892 056	104 677 564	2,33 %	0,34 %	Oslo Børs
Norske Skogindustrier ASA	5 622 000	340 640 123	13,85	NOK	77 864 700	-262 775 423	0,76 %	2,96 %	Oslo Børs
Hindalco Industries Ltd	1 950 673	46 051 668	247,00	INR	62 671 613	16 619 945	0,61 %	0,10 %	Mumbai
KWS Saat AG	44 640	30 191 292	145,35	EUR	50 615 222	20 423 930	0,50 %	0,68 %	Frankfurt
Northland Resources SA	2 359 250	28 897 023	17,80	NOK	41 994 650	13 097 627	0,41 %	1,05 %	Oslo Børs
Minor items[1]		119 043 072			133 564 950	14 517 868	1,31 %		
Total Raw materials		**698 037 670**			**604 603 192**	**-93 438 489**	**5,92 %**		
Industrials									
Kongsberg Gruppen ASA	3 238 100	101 661 239	133,00	NOK	430 667 300	329 006 061	4,22 %	2,70 %	Oslo Børs
Stolt-Nielsen Limited	1 740 996	215 774 364	142,50	NOK	248 091 930	32 317 566	2,43 %	2,71 %	Oslo Børs
Wilh. Wilhelmsen Holding A-aksjer	1 357 250	96 013 665	173,00	NOK	234 804 250	138 790 585	2,30 %	3,92 %	Oslo Børs
Dockwise Ltd	1 032 108	173 044 955	157,00	NOK	162 040 956	-11 003 999	1,59 %	4,08 %	Oslo Børs
Norwegian Air Shuttle ASA	1 324 950	63 560 111	117,50	NOK	155 681 625	92 121 514	1,52 %	3,83 %	Oslo Børs
Odfjell SE-A	2 240 000	99 471 405	54,00	NOK	120 960 000	21 488 595	1,18 %	3,41 %	Oslo Børs
LG Corp	233 515	46 417 748	87 300,00	KRW	105 568 173	59 150 426	1,03 %	0,14 %	Seoul
Aveng Ltd	2 575 700	75 193 395	43,25	ZAR	98 042 282	22 848 887	0,96 %	0,65 %	Johannesburg
Kongsberg Automotive ASA	15 151 251	108 807 125	4,85	NOK	73 483 567	-35 323 558	0,72 %	3,72 %	Oslo Børs
I.M. Skaugen SE	1 679 916	21 062 286	36,90	NOK	61 988 900	40 926 615	0,61 %	6,20 %	Oslo Børs
Kverneland ASA	9 300 000	51 388 357	6,50	NOK	60 450 000	9 061 643	0,59 %	6,03 %	Oslo Børs
Glamox ASA	5 944 034	5 852 347	9,00	NOK	53 496 306	47 643 959	0,52 %	9,01 %	OTC
AP Møller - Maersk A	811	38 032 895	49 140,00	DKK	41 723 617	3 690 722	0,41 %	0,04 %	København
Fairstar Heavy Transport NV	3 770 585	39 094 620	11,00	NOK	41 476 435	2 381 815	0,41 %	4,65 %	Oslo Børs
Trelleborg AB-B	645 000	28 763 207	71,10	SEK	39 694 884	10 931 677	0,39 %	0,27 %	Stockholm
LG Corp Pref	224 482	25 796 379	33 000,00	KRW	38 361 841	12 565 462	0,38 %	6,77 %	Seoul
Minor items[1]		246 621 997			159 352 121	-87 269 876	1,56 %		
Total Industrials		**1 436 556 095**			**2 125 884 189**	**689 328 094**	**20,82 %**		
Consumer discretionary									
Carnival Corp	766 770	196 536 207	46,11	USD	205 595 539	9 059 332	2,01 %	0,13 %	New York
LG Electronics Inc Pref	600 000	144 987 601	43 850,00	KRW	136 246 335	-8 741 266	1,33 %	3,49 %	Seoul
Hurtigruten ASA	26 179 943	88 805 016	4,88	NOK	127 758 122	38 953 106	1,25 %	6,23 %	Oslo Børs
Renault SA	261 054	76 738 433	43,50	EUR	88 585 274	11 846 841	0,87 %	0,09 %	Paris
Dixons Retail Plc	38 800 746	249 906 914	0,23	GBP	80 929 715	-168 977 199	0,79 %	1,07 %	London
Rezidor Hotel Group AB	1 836 744	43 562 448	40,90	SEK	65 024 521	21 462 073	0,64 %	1,22 %	Stockholm
Royal Caribbean Cruises Ltd	228 182	19 953 264	47,00	USD	62 363 818	42 410 553	0,61 %	0,11 %	New York
Mahindra & Mahindra Ltd GDR	586 300	10 111 679	17,60	USD	60 004 803	49 893 124	0,59 %	0,10 %	London Int.
Royal Caribbean Cruises Ltd_	185 330	20 535 885	276,30	NOK	51 206 679	30 670 794	0,50 %	0,09 %	Oslo Børs
Hankook Tire Co Ltd	297 931	27 633 534	31 750,00	KRW	48 985 033	21 351 499	0,48 %	0,20 %	Seoul
Fjord Line AS	2 850 000	28 500 000	16,00	NOK	45 600 000	17 100 000	0,45 %	5,63 %	OTC
Minor items[1]		73 910 745			65 760 931	-9 074 472	0,64 %		
Total Consumer discretionary		**981 181 726**			**1 038 060 771**	**55 954 385**	**10,17 %**		

Note 8. Securities portfolio as of 31.12.2010 (in NOK)

Security	Number of shares	Acquisition value NOK	Market price	Currency	Market value NOK	Unrealised gain/loss	Share of fund	Share in company/ share class	Stock exchange
Consumer staples									
Cermaq ASA	1 792 433	71 266 682	90,00	NOK	161 318 970	90 052 288	1,58 %	1,94 %	Oslo Børs
Morpol ASA	6 292 983	130 156 851	21,50	NOK	135 299 134	5 142 284	1,33 %	3,75 %	Oslo Børs
Chiquita Brands Intl	1 373 518	112 828 672	14,02	USD	111 978 803	-849 869	1,10 %	3,04 %	New York
Winn-Dixie Stores Inc	1 948 628	81 244 782	7,18	USD	81 359 231	114 449	0,80 %	3,51 %	NASDAQ
Austevoll Seafood ASA	1 360 600	47 750 407	49,60	NOK	67 485 760	19 735 353	0,66 %	0,67 %	Oslo Børs
Yazicilar Holding AS	750 000	25 622 446	13,45	TRY	38 108 759	12 486 313	0,37 %	0,47 %	Istanbul
People's Food Holding Ltd	9 364 000	24 106 991	0,76	SGD	32 523 541	8 416 550	0,32 %	0,83 %	Singapore
Minor items[1]		196 103 700			142 936 374	-53 256 701	1,40 %		
Total Consumer staples		**689 080 531**			**771 010 573**	**81 840 667**	**7,55 %**		
Health care									
Teva Pharmaceutical-sp ADR	533 851	161 043 492	52,13	USD	161 830 821	787 330	1,59 %	0,06 %	NASDAQ
Pfizer Inc	800 000	104 175 020	17,51	USD	81 457 220	-22 717 799	0,80 %	0,01 %	New York
Axis-Shield Plc GBP	2 809 221	82 551 381	2,70	GBP	69 024 456	-13 526 924	0,68 %	5,65 %	London
Clavis Pharma ASA	1 710 477	56 464 764	40,20	NOK	68 761 175	12 296 412	0,67 %	5,63 %	Oslo Børs
Photocure ASA	1 114 401	44 889 736	45,80	NOK	51 039 566	6 149 830	0,50 %	5,04 %	Oslo Børs
Medi-Stim ASA	1 710 000	21 366 512	25,00	NOK	42 750 000	21 383 488	0,42 %	9,07 %	Oslo Børs
Algeta ASA	250 000	24 236 900	136,00	NOK	34 000 000	9 763 100	0,33 %	0,63 %	Oslo Børs
Axis-Shield Plc	1 017 998	25 837 665	25,30	NOK	25 755 349	-82 315	0,25 %	8,89 %	Oslo Børs
Minor items[1]		83 294 562			95 431 113	12 136 551	0,93 %		
Total Health care		**603 860 030**			**630 049 702**	**26 189 673**	**6,17 %**		
Financials									
Gjensidige Forsikring ASA	3 300 203	194 711 977	58,50	NOK	193 061 875	-1 650 101	1,89 %	0,66 %	Oslo Børs
Olav Thon Eiendomsselskap ASA_	180 000	33 812 469	910,00	NOK	163 800 000	129 987 531	1,60 %	1,69 %	Oslo Børs
Hannover Rueckversicherung AG	435 000	87 663 487	40,13	EUR	136 192 895	48 529 407	1,33 %	0,36 %	Frankfurt
Aareal Bank AG	433 273	64 610 591	22,80	EUR	77 061 667	12 451 076	0,75 %	1,01 %	Frankfurt
Sparebanken Øst	1 500 000	26 585 912	39,50	NOK	59 250 000	32 664 088	0,58 %	7,24 %	Oslo Børs
Imarex ASA	1 026 100	65 708 552	57,00	NOK	58 487 700	-7 220 852	0,57 %	6,80 %	Oslo Børs
Korean Reinsurance Co	952 093	11 484 642	11 800,00	KRW	58 178 880	46 694 238	0,57 %	0,82 %	Seoul
Northern Logistic Property AS	2 195 485	68 216 067	24,00	NOK	52 691 640	-15 524 427	0,52 %	6,20 %	Oslo Børs
Sparebanken Vest	995 506	45 056 270	47,00	NOK	46 788 782	1 732 512	0,46 %	4,61 %	Oslo Børs
Haci Omer Sabanci Holding AS	1 501 444	23 339 370	7,20	TRY	40 839 733	17 500 363	0,40 %	0,07 %	Istanbul
Hitecvision AS	762 746	5 183 496	53,00	NOK	40 425 538	35 242 042	0,40 %	4,14 %	OTC
Irsa SA ADR	397 502	31 351 260	16,09	USD	37 191 939	5 840 679	0,36 %	0,69 %	New York
Norwegian Property ASA	3 513 058	32 583 639	10,35	NOK	36 360 150	3 776 511	0,36 %	0,70 %	Oslo Børs
ABG Sundal Collier Holding ASA	3 106 000	15 848 384	8,60	NOK	26 711 600	10 863 216	0,26 %	0,80 %	Oslo Børs
Norwegian Finans Holding ASA	14 900 000	29 215 000	1,75	NOK	26 075 000	-3 140 000	0,26 %	8,76 %	OTC
Minor items[1]		48 598 877			54 294 724	5 666 421	0,53 %		
Total Financials		**783 969 994**			**1 107 412 124**	**323 412 704**	**10,85 %**		
Information technology									
Samsung Electronics Co Ltd Pref GDR	135 832	107 711 829	287,50	USD	227 087 588	119 375 759	2,22 %	0,30 %	London Int.
Samsung Electronics Co Ltd GDR	50 000	19 712 300	421,90	USD	122 668 480	102 956 180	1,20 %	0,02 %	London Int.
Eltek ASA	19 000 000	102 369 562	3,29	NOK	62 510 000	-39 859 562	0,61 %	5,77 %	Oslo Børs
Q-free ASA	2 900 000	39 742 052	17,30	NOK	50 170 000	10 427 948	0,49 %	4,81 %	Oslo Børs
Samsung SDI Co Ltd	51 320	21 573 100	168 000,00	KRW	44 647 784	23 074 684	0,44 %	0,11 %	Seoul
Proact IT Group AB	468 000	15 542 932	108,00	SEK	43 749 675	28 206 744	0,43 %	5,01 %	Stockholm
EDB Ergogroup ASA	2 734 240	33 268 403	15,90	NOK	43 474 416	10 206 013	0,43 %	1,02 %	Oslo Børs
Kyocera Corp	63 565	45 929 843	8 290,00	JPY	37 772 052	-8 157 791	0,37 %	0,03 %	Tokyo
Minor items[1]		120 904 951			87 206 322	-33 698 629	0,85 %		
Total Information technology		**506 754 972**			**719 286 317**	**212 531 346**	**7,05 %**		
Telecom									
France Telecom SA	699 803	92 677 925	15,59	EUR	85 134 013	-7 543 912	0,83 %	0,03 %	Paris
Sistema Jsfc GDR	563 707	17 770 999	24,93	USD	81 720 151	63 949 151	0,80 %	0,12 %	London Int.
Mobile Telesystems ADR	645 000	41 050 762	20,87	USD	78 277 260	37 226 498	0,77 %	0,06 %	New York
Total Access Telecommunication PLC_	8 560 000	7 587 439	42,00	THB	69 674 976	62 087 537	0,68 %	0,36 %	Singapore
Telekomunikasi Indonesia Tbk ADR	290 000	16 154 144	35,64	USD	60 110 463	43 956 319	0,59 %	0,06 %	New York
Indosat Tbk Pt ADR	200 000	33 264 730	29,12	USD	33 866 851	602 122	0,33 %	0,18 %	New York
Minor items[1]		7 842 206			2 659 804	-5 182 402	0,03 %		
Total Telecom		**216 348 204**			**411 443 518**	**195 095 313**	**4,03 %**		
Utilities									
Centrais Eletricas Brasileiras SA Pref	2 234 800	90 179 609	26,75	BRL	209 322 821	119 143 213	2,05 %	0,84 %	Sao Paulo
Minor items[1]		20 482 543			19 468 340	-1 014 203	0,19 %		
Total Utilities		**110 662 151**			**228 791 162**	**118 129 010**	**2,24 %**		
TOTAL EQUITY PORTFOLIO[2]		**7 650 601 191**			**10 114 131 307**	**2 461 500 841**	**99,07 %**		

[1] Please contact SKAGEN AS for a list of companies included in this post. The list will be sent by email.
[2] For liquidity in the portfolio as of 31.12.2010, please refer to the balance sheet.

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Note 8. Securities portfolio as of 31.12.2010 (in NOK)

Security	Number of shares	Acquisition value NOK	Market price	Currency	Market value NOK	Unrealised gain/loss	Share of fund	Share in company/ share class	Stock exchange
Energy									
Pride International Inc	5 064 981	838 032 209	33,00	USD	971 952 886	133 920 677	3,02 %	2,88 %	New York
Petroleo Brasileiro Pref Adr	2 713 304	489 134 979	34,17	USD	539 134 206	49 999 227	1,68 %	0,10 %	New York
Baker Hughes Inc	1 369 227	377 282 863	57,17	USD	455 194 598	77 911 735	1,42 %	0,32 %	New York
Noble Corp	1 648 569	372 380 051	35,77	USD	342 909 504	-29 470 547	1,07 %	0,65 %	New York
Kazmunaigas Exploration -GDR	2 853 374	390 519 950	19,83	USD	329 029 522	-61 490 427	1,02 %	0,68 %	London Int.
Nabors Industries Ltd	2 362 679	374 445 170	23,46	USD	322 319 204	-52 125 966	1,00 %	0,83 %	New York
Transocean Ltd	766 100	370 211 174	69,51	USD	309 660 780	-60 550 394	0,96 %	0,24 %	New York
Gazprom Oao Adr	2 056 348	305 362 687	25,25	USD	301 933 602	-3 429 085	0,94 %	0,03 %	London Int.
BP Plc	4 392 428	225 857 506	4,66	GBP	186 090 544	-39 766 962	0,58 %	0,02 %	London
BP Plc ADR	564 260	176 229 847	44,17	USD	144 930 609	-31 299 238	0,45 %	0,02 %	New York
Total Energy		**3 919 456 437**			**3 903 155 456**	**-16 300 980**	**12,14 %**		
Raw materials									
Svenska Cellulosa AB-B	6 664 418	524 516 663	106,20	SEK	612 638 087	88 121 425	1,91 %	1,10 %	Stockholm
Cliffs Natural Resources Inc	1 069 875	211 701 164	78,01	USD	485 329 590	273 628 425	1,51 %	0,79 %	New York
Heidelbergcement AG	1 137 483	363 322 378	46,90	EUR	416 159 376	52 836 998	1,29 %	0,61 %	Xetra
Ternium SA ADR	1 665 820	253 856 861	42,41	USD	410 818 316	156 961 454	1,28 %	0,83 %	New York
Norsk Hydro ASA	8 271 604	241 031 494	42,61	NOK	352 453 046	111 421 553	1,10 %	0,51 %	Oslo Børs
Mayr-Melnhof Karton AG	463 854	208 146 930	87,06	EUR	315 022 733	106 875 802	0,98 %	2,32 %	Wien
Akzo Nobel	537 072	178 800 741	46,48	EUR	194 754 397	15 953 657	0,61 %	0,23 %	Amsterdam
Kws Saat AG	122 592	80 407 015	145,35	EUR	139 001 374	58 594 359	0,43 %	1,86 %	Frankfurt
Fibria Celulose SA ADR	880 813	89 971 290	16,00	USD	81 951 546	-8 019 744	0,25 %	0,19 %	New York
Asia Pulp & Paper Co Ltd ADR	86 600	4 565 292	0,01	USD	5 036	-4 560 256	0,00 %	0,03 %	OTC
Total Raw materials		**2 156 319 828**			**3 008 133 501**	**851 813 673**	**9,36 %**		
Industrials									
Tyco International Ltd	6 190 352	1 249 317 042	41,44	USD	1 491 724 232	242 407 190	4,64 %	1,26 %	New York
Bunge Ltd	2 903 515	943 647 321	65,52	USD	1 106 245 242	162 597 921	3,44 %	2,00 %	New York
LG Corp	1 505 947	322 361 219	87 300,00	KRW	680 813 113	358 451 894	2,12 %	0,87 %	Seoul
Siemens AG	894 319	522 346 767	92,70	EUR	646 716 762	124 369 995	2,01 %	0,10 %	Frankfurt
Randstad Holding NV	1 220 116	306 131 234	39,50	EUR	375 958 704	69 827 470	1,17 %	0,72 %	Amsterdam
Tyco Electronics Ltd	1 797 319	279 506 328	35,40	USD	369 983 095	90 476 766	1,15 %	0,41 %	New York
Stolt-Nielsen Limited	1 730 217	319 311 036	142,50	NOK	246 555 922	-72 755 114	0,77 %	2,70 %	Oslo Børs
Baywa-Bayerische Warenvermit AG	828 582	248 696 906	35,04	EUR	226 486 081	-22 210 824	0,70 %	2,52 %	Frankfurt
Finnair OYJ	4 952 377	268 974 302	5,04	EUR	194 709 060	-74 265 242	0,61 %	3,86 %	Helsinki
Air France-KLM konv 04/15 4.97%	513 152	54 597 628	1 638,10	EUR	67 335 817	10 975 872	0,21 %	-	Paris
Cmb Cie Maritime Belge SA	199 476	11 233 696	23,05	EUR	35 867 698	24 634 002	0,11 %	0,57 %	Brussel
Total Industrials		**4 526 123 479**			**5 442 395 727**	**914 509 930**	**16,93 %**		
Consumer discretionary									
Renault SA	2 669 417	755 443 992	43,50	EUR	905 831 887	150 387 895	2,82 %	0,90 %	Paris
Toyota Industries Corp	2 452 564	408 159 602	2 521,00	JPY	443 191 264	35 031 662	1,38 %	0,75 %	Tokyo
Comcast Corp	3 397 331	310 633 815	20,81	USD	411 115 069	100 481 253	1,28 %	0,48 %	NASDAQ
Time Warner Cable	670 772	178 968 417	66,03	USD	257 554 816	78 586 400	0,80 %	0,19 %	New York
LG Electronics Inc Pref	916 588	251 942 344	43 850,00	KRW	208 136 260	-43 806 084	0,65 %	5,33 %	Seoul
Television Broadcasts Ltd	5 866 571	142 014 821	42,00	HKD	184 267 235	42 252 414	0,57 %	1,34 %	Hong Kong
Yamaha Motor Co Ltd	1 896 311	153 944 483	1 323,00	JPY	179 832 178	25 887 695	0,56 %	0,54 %	Tokyo
Hyundai Motor Pref (2pb)	515 808	142 845 218	63 500,00	KRW	169 615 595	26 770 376	0,53 %	1,37 %	Seoul
Shangri-la Asia Ltd	6 193 490	54 597 039	21,10	HKD	97 731 012	43 133 973	0,30 %	0,20 %	Hong Kong
Mahindra & Mahindra Ltd GDR	464 981	8 239 439	17,58	USD	47 534 347	39 294 908	0,15 %	0,08 %	London Int.
Mahindra & Mahindra Ltd	134 000	5 776 564	778,20	INR	13 563 928	7 787 364	0,04 %	0,02 %	National India
Danubius Hotels and Spa Plc	52 543	6 231 277	4 500,00	HUF	6 631 058	399 781	0,02 %	0,63 %	Budapest
Hyundai Motor Pref (1p)	19 440	4 986 955	59 000,00	KRW	5 939 532	952 577	0,02 %	0,08 %	Seoul
Total Consumer discretionary		**2 423 783 966**			**2 930 944 181**	**507 160 215**	**9,12 %**		
Consumer staples									
Parmalat Spa	68 156 464	1 083 015 316	2,05	EUR	1 089 940 619	6 925 304	3,39 %	3,93 %	Borsa Italiana
Yazicilar Holding AS	3 965 257	95 714 287	13,45	TRY	201 481 366	105 767 079	0,63 %	2,48 %	Istanbul
United Intl Enterprises	173 474	25 625 272	600,00	DKK	108 976 367	83 351 095	0,34 %	3,37 %	København
Royal Unibrew A/S	185 890	39 944 444	332,00	DKK	64 616 108	24 671 664	0,20 %	1,66 %	København
Chiquita Brands Intl	671 103	53 198 821	14,02	USD	54 713 015	1 514 194	0,17 %	1,49 %	New York
Raisio Plc	2 287 300	43 100 781	2,81	EUR	50 138 504	7 037 723	0,16 %	1,75 %	Helsinki
Chaoda Modern Agriculture	11 367 298	72 611 820	5,83	HKD	49 561 027	-23 050 793	0,15 %	0,34 %	Hong Kong
Lannen Tehtaat OYJ	214 350	23 744 846	17,50	EUR	29 261 963	5 517 118	0,09 %	3,39 %	Helsinki
Total Consumer staples		**1 436 955 587**			**1 648 688 969**	**211 733 382**	**5,13 %**		

Note 8. Securities portfolio as of 31.12.2010 (in NOK)

Security	Number of shares	Acquisition value NOK	Market price	Currency	Market value NOK	Unrealised gain/loss	Share of fund	Share in company/ share class	Stock exchange
Health care									
Pfizer Inc	10 695 621	1 254 986 661	17,51	USD	1 089 044 446	-165 942 215	3,39 %	0,13 %	New York
Roche Holding Ag-Genusschein	461 900	402 243 056	137,00	CHF	394 413 454	-7 829 602	1,23 %	0,07 %	Zürich
Neurosearch A/S	202 142	33 888 595	95,00	DKK	20 106 054	-13 782 541	0,06 %	0,82 %	København
Total Health care		**1 691 118 312**			**1 503 563 954**	**-187 554 358**	**4,68 %**		
Financials									
Citigroup Inc	29 147 220	768 313 998	4,73	USD	801 699 722	33 385 724	2,49 %	0,10 %	New York
Gjensidige Forsikring ASA	8 337 000	491 883 000	58,50	NOK	487 714 500	-4 168 500	1,52 %	1,67 %	Oslo Børs
Banco Do Estado Rio Grande Do Sul Pref	7 768 877	126 242 315	17,65	BRL	480 128 058	353 885 743	1,49 %	3,88 %	Sao Paulo
Cheung Kong Holdings Ltd	4 988 254	374 421 252	119,90	HKD	447 282 844	72 861 592	1,39 %	0,22 %	Hong Kong
Hannover Rueckversicherung AG	1 416 101	285 504 307	40,13	EUR	443 362 975	157 858 668	1,38 %	1,17 %	Frankfurt
Bank of America Corp	5 064 030	490 515 565	13,34	USD	392 830 819	-97 684 745	1,22 %	0,05 %	New York
Osaka Securities Exchange Co	9 170	174 610 188	409 500,00	JPY	269 166 643	94 556 455	0,84 %	3,40 %	Tokyo
Kinnevik Investment AB-B	1 969 910	92 277 140	137,00	SEK	233 606 111	141 328 971	0,73 %	0,86 %	Stockholm
Haci Omer Sabanci Holding AS	7 997 588	136 129 311	7,20	TRY	217 536 825	81 407 514	0,68 %	0,39 %	Istanbul
Aberdeen Asset Management Plc	10 396 015	87 231 205	2,03	GBP	191 956 255	104 725 050	0,60 %	0,91 %	London
Albaraka Turk Katilim Bankasi AS	18 297 225	212 023 668	2,70	TRY	186 633 781	-25 389 887	0,58 %	3,39 %	Istanbul
Japan Securities Finance Co	4 077 075	239 480 227	596,00	JPY	174 177 863	-65 302 364	0,54 %	4,35 %	Tokyo
Irsa SA ADR	1 815 671	151 638 394	16,09	USD	169 881 722	18 243 327	0,53 %	3,14 %	New York
Asya Katilim Bankasi AS	14 775 168	133 716 802	2,84	TRY	158 522 907	24 806 105	0,49 %	1,64 %	Istanbul
Mizuho Financial Group Inc	12 930 000	125 502 865	153,00	JPY	141 803 827	16 300 962	0,44 %	0,06 %	Tokyo
Efg-Hermes Holding SAE	2 628 101	88 339 185	33,92	EGP	89 305 647	966 462	0,28 %	0,69 %	Cairo
Tag Tegernsee Immobilien ag	1 504 903	96 983 281	6,36	EUR	74 651 624	-22 331 657	0,23 %	2,57 %	Frankfurt
Societe Fonciere, Financiere et de participations (ffp)	62 761	28 135 289	51,30	EUR	25 115 923	-3 019 366	0,08 %	0,25 %	Paris
Aberdeen Asset Aanagement Plc Pref	557	6 648 625	2 160,00	GBP	10 948 693	4 300 068	0,03 %	0,74 %	London
Tag Immo AG konv 05/15 6.375%	1 123 100	8 803 981	109,80	EUR	9 974 732	815 745	0,03 %	-	Xetra
Total Financials		**4 118 400 599**			**5 006 301 470**	**887 545 867**	**15,57 %**		
Information technology									
Samsung Electronics Co Ltd Pref	596 996	1 336 849 370	649 000,00	KRW	2 006 411 917	669 562 547	6,24 %	2,61 %	Seoul
Accenture Plc	3 201 763	782 279 183	48,49	USD	902 806 794	120 527 611	2,81 %	0,50 %	New York
Kyocera Corp	1 323 268	695 567 239	8 290,00	JPY	786 321 838	90 754 599	2,45 %	0,69 %	Tokyo
Microsoft Corp	3 290 126	487 240 661	27,91	USD	533 981 019	46 740 358	1,66 %	0,04 %	NASDAQ
Samsung Electronics Co Ltd Pref GDR	146 978	148 488 210	287,50	USD	245 721 770	97 233 560	0,76 %	0,32 %	London Int.
Samsung Electronics Co Ltd GDR	84 630	72 041 778	421,90	USD	207 628 669	135 586 891	0,65 %	0,03 %	London Int.
Oracle Corp	493 000	72 161 010	31,30	USD	89 731 455	17 570 445	0,28 %	0,01 %	NASDAQ
Kyocera Corp ADR	52 153	38 412 462	102,18	USD	30 988 364	-7 424 098	0,10 %	0,03 %	New York
Proact It Group AB	178 970	6 928 583	108,00	SEK	16 730 975	9 802 391	0,05 %	1,92 %	Stockholm
Total Information technology		**3 639 968 496**			**4 820 322 801**	**1 180 354 305**	**15,00 %**		
Telecom									
Vimpelcom Ltd-Spon ADR	4 895 355	428 390 841	15,04	USD	428 139 681	-251 161	1,33 %	0,38 %	New York
Bharti Airtel Ltd	9 032 031	380 240 923	358,80	INR	421 528 850	41 287 927	1,31 %	0,24 %	National India
Total Access Telecommunication Plc_	47 428 100	146 600 574	42,00	THB	386 045 763	239 445 189	1,20 %	2,00 %	Bangkok
China Mobile Ltd	5 293 700	312 946 041	77,20	HKD	305 626 582	-7 319 460	0,95 %	0,03 %	Hong Kong
Telecom Italia Spa	25 292 086	170 514 938	0,81	EUR	160 207 412	-10 307 526	0,50 %	0,42 %	Borsa Italiana
Indosat Tbk Pt ADR	751 319	111 288 800	29,12	USD	127 224 044	15 935 244	0,40 %	0,69 %	New York
Total Access Telecommunication Nvdr Plc	9 729 540	77 307 284	42,00	THB	79 194 564	1 887 280	0,25 %	0,41 %	Bangkok
China Mobile Ltd Adr	106 650	31 372 281	49,62	USD	30 773 088	-599 194	0,10 %	0,00 %	New York
Indosat Tbk Pt	5 083 543	16 342 292	5 400,00	IDR	17 751 275	1 408 983	0,06 %	0,09 %	Indonesia
Total Telecom		**1 675 003 974**			**1 956 491 257**	**281 487 283**	**6,09 %**		
Utilities									
Centrais Eletricas Brasileiras SA Pref	9 644 702	541 051 832	26,75	BRL	903 372 219	362 320 387	2,81 %	3,63 %	Sao Paulo
Centrais Eletricas Brasileiras SA	3 531 782	316 712 587	22,24	BRL	275 031 731	-41 680 855	0,86 %	0,32 %	Sao Paulo
Calpine Corp	2 916 955	207 820 561	13,34	USD	226 276 270	18 455 710	0,70 %	0,66 %	New York
Total Utilities		**1 065 584 979**			**1 404 680 221**	**339 095 242**	**4,37 %**		
TOTAL EQUITY PORTFOLIO[1)]		**26 652 715 657**			**31 624 677 539**	**4 969 844 559**	**98,38 %**		

[1)] For liquidity in the portfolio as of 31.12.2010, please refer to the balance sheet.

SKAGEN Kon-Tiki

Note 8. Securities portfolio as of 31.12.2010 (in NOK)

Security	Number of shares	Acquisition value NOK	Market price	Currency	Market value NOK	Unrealised gain/loss	Share of fund	Share in company/ share class	Stock exchange
Energy									
Baker Hughes Inc	6 162 261	1 721 193 970	57,17	USD	2 048 621 537	327 427 567	4,35 %	1,43 %	New York
Pride International Inc	7 465 000	1 281 535 761	33	USD	1 432 508 492	150 972 730	3,04 %	4,25 %	New York
Petroleo Brasileiro Pref ADR	5 559 100	971 537 094	34,17	USD	1 104 594 606	133 057 513	2,34 %	0,20 %	New York
Gazprom Oao ADR	7 250 284	982 068 237	25,25	USD	1 064 559 290	82 491 052	2,26 %	0,12 %	London Int.
Seadrill Ltd	5 100 000	449 279 818	197,2	NOK	1 005 720 000	556 440 182	2,13 %	1,15 %	Oslo Børs
Tullow Oil Plc	2 194 900	133 809 120	12,61	GBP	251 873 889	118 064 769	0,53 %	0,25 %	London
Deep Sea Supply Plc	11 096 000	109 900 200	12	NOK	133 152 000	23 251 800	0,28 %	8,75 %	Oslo Børs
Seawell Ltd	2 481 269	47 068 896	37,5	NOK	93 047 587	45 978 692	0,20 %	1,10 %	Oslo Børs
Golar LNG Energy Ltd	6 890 130	78 607 558	12,5	NOK	86 126 625	7 519 067	0,18 %	2,90 %	Oslo Børs
Coal of Africa Ltd	7 377 265	88 146 675	0,98	GBP	65 624 419	-22 522 256	0,14 %	1,39 %	London Int.
Indo Tambangraya Megah PT	1 740 000	24 957 994	50750	IDR	57 102 428	32 144 435	0,12 %	0,15 %	Jakarta
Total Energy		**5 888 105 322**			**7 342 930 874**	**1 454 825 552**	**15,58 %**		
Raw materials									
Vale SA Spons ADR	6 752 364	623 440 278	30,22	USD	1 186 598 401	563 158 124	2,52 %	0,32 %	New York
Equinox Minerals Ltd	16 956 300	435 633 111	6,11	CAD	606 445 299	170 812 189	1,29 %	2,02 %	Toronto
Vale SA-Pref A	1 231 900	210 807 094	48,5	BRL	209 204 646	-1 602 448	0,44 %	0,06 %	Sao Paulo
Asia Cement China Holdings	46 742 500	172 551 676	3,8	HKD	132 834 239	-39 717 437	0,28 %	3,00 %	Hong Kong
First Quantum Minerals Ltd	208 600	80 209 850	108	CAD	131 873 457	51 663 607	0,28 %	0,24 %	Toronto
DRDGOLD Ltd ADR	3 724 701	206 449 868	4,87	USD	105 480 901	-100 968 967	0,22 %	9,68 %	NASDAQ
Aquarius Platinum Limited	2 595 119	43 521 063	3,52	GBP	83 129 136	39 608 072	0,18 %	0,56 %	London
Northland Resources SA	3 294 669	65 304 228	17,8	NOK	58 645 108	-6 659 120	0,12 %	1,47 %	Oslo Børs
Pt Indah Kiat Pulp & Paper	51 504 500	50 406 871	1640	IDR	54 620 831	4 213 961	0,12 %	0,94 %	Jakarta
Norske Skogindustrier ASA	3 509 610	33 325 062	13,85	NOK	48 608 098	15 283 036	0,10 %	1,85 %	Oslo Børs
Total Raw materials		**1 921 649 099**			**2 617 440 117**	**695 791 017**	**5,55 %**		
Industrials									
ABB Ltd	6 800 391	747 984 548	151,6	SEK	892 381 037	144 396 489	1,89 %	0,29 %	Stockholm
Aveng Ltd	16 487 710	479 852 621	43,25	ZAR	627 593 552	147 740 931	1,33 %	4,16 %	Johannesburg
Empresas ICA S.a.b	39 000 000	576 268 258	31,63	MXN	581 258 184	4 989 926	1,23 %	6,07 %	Mexico
A P Møller - Maersk A	10 000	456 235 277	49140	DKK	514 495 800	58 260 523	1,09 %	0,46 %	København
Harbin Power Equipment Co Ltd	51 000 000	507 183 796	12,26	HKD	467 600 691	-39 583 105	0,99 %	7,55 %	Hong Kong
Airasia Bhd	62 078 300	145 080 274	2,53	MYR	298 402 535	153 322 261	0,63 %	2,24 %	Kuala Lumpur
Strabag SE	1 625 310	235 502 298	20,61	EUR	261 310 057	25 807 759	0,55 %	1,43 %	Wien
Nordic American Tanker Shipping Ltc	1 722 600	299 544 279	26,02	USD	260 642 473	-38 901 805	0,55 %	3,67 %	New York
Barloworld Ltd	3 626 000	181 674 463	67	ZAR	213 813 254	32 138 791	0,45 %	1,57 %	Johannesburg
Enka Insaat Ve Sanayi AS	9 166 665	107 998 892	5,76	TRY	199 468 860	91 469 968	0,42 %	0,42 %	Istanbul
Norwegian Air Shuttle ASA	1 661 481	121 718 023	117,5	NOK	195 224 017	73 505 995	0,41 %	4,81 %	Oslo Børs
Tekfen Holding AS	7 521 955	113 250 674	6,46	TRY	183 571 185	70 320 511	0,39 %	2,03 %	Istanbul
LG Corp Pref	808 430	118 266 161	33000	KRW	138 153 007	19 886 846	0,29 %	24,39 %	Seoul
A P Møller - Maersk B	1 766	92 959 325	50510	DKK	93 393 091	433 766	0,20 %	0,08 %	København
Freeworld Coatings Ltd	8 624 708	61 414 054	11,85	ZAR	89 948 675	28 534 621	0,19 %	4,23 %	Johannesburg
Kumho Industrial Co Ltd-Pfd	548 862	42 527 442	8260	KRW	23 477 258	-19 050 184	0,05 %	26,83 %	Seoul
Qingling Motors Co	8 664 000	14 749 615	2,33	HKD	15 096 938	347 323	0,03 %	0,70 %	Hong Kong
Kuribayashi Steamship Co Ltd	300 000	6 010 011	191	JPY	4 107 264	-1 902 747	0,01 %	2,35 %	Tokyo
Mariupol Heavy Machinebuilding Plant GDR	422 695	16 806 476	1,36	USD	3 355 160	-13 451 317	0,01 %	2,75 %	Frankfurt
Total Industrials		**4 325 026 488**			**5 063 293 038**	**738 266 550**	**10,74 %**		
Consumer discretionary									
Hyundai Motor Pref (2pb)	3 589 600	570 521 507	63500	KRW	1 180 385 219	609 863 712	2,50 %	9,54 %	Seoul
Hyundai Motor Pref (1p)	3 248 610	517 371 803	59000	KRW	992 552 686	475 180 883	2,11 %	12,94 %	Seoul
Great Wall Motor Co Ltd	44 900 000	169 123 601	24	HKD	805 883 160	636 759 559	1,71 %	10,86 %	Hong Kong
Mahindra & Mahindra Ltd Gdr	7 634 388	137 004 826	17,6	USD	781 340 523	644 335 697	1,66 %	1,28 %	London Int.
LG Electronics Inc Pref	3 150 000	850 969 171	43850	KRW	715 293 259	-135 675 912	1,52 %	18,33 %	Seoul
Shangri-la Asia Ltd	14 800 812	126 234 081	21,1	HKD	233 551 411	107 317 330	0,50 %	0,47 %	Hong Kong
DRB-HICOM BHD	31 073 600	112 337 498	1,94	MYR	114 534 276	2 196 778	0,24 %	1,61 %	Kuala Lumpur
China Ting Group Hldgs Ltd	18 374 000	37 757 487	1,28	HKD	17 588 475	-20 169 012	0,04 %	0,88 %	Hong Kong
Total Consumer discretionary		**2 521 319 974**			**4 841 129 008**	**2 319 809 034**	**10,27 %**		
Consumer staples									
Cosan Ltd-Class A Shares	8 400 000	422 007 332	13,62	USD	665 288 240	243 280 908	1,41 %	4,82 %	New York
Shoprite Holdings Ltd	5 600 226	232 445 203	99,65	ZAR	491 150 825	258 705 621	1,04 %	1,03 %	Johannesburg
Yazicilar Holding AS	9 654 470	239 353 575	13,45	TRY	490 559 830	251 206 256	1,04 %	6,03 %	Istanbul
Marine Harvest ASA	70 000 000	268 105 748	6,17	NOK	431 900 000	163 794 252	0,92 %	1,96 %	Oslo Børs
Kulim Malaysia Berhad	16 875 100	213 083 213	12,74	MYR	408 467 921	195 384 709	0,87 %	5,30 %	Kuala Lumpur
Pz Cussons Plc	8 730 032	146 456 571	4,01	GBP	318 338 013	171 881 443	0,68 %	2,04 %	London
Royal Unibrew A/S	489 758	82 208 417	332	DKK	170 241 840	88 033 423	0,36 %	4,37 %	København
Podravka Prehrambena Ind DD	406 584	111 935 175	302,68	HRK	130 027 836	18 092 661	0,28 %	7,50 %	Zagreb
East African Breweries Ltd	5 107 746	54 303 946	201	KES	74 021 966	19 718 020	0,16 %	0,65 %	Nairobi
Pivovarna Lasko	499 286	138 711 783	15,98	EUR	62 259 260	-76 452 523	0,13 %	5,80 %	Ljubljana
United Intl Enterprises	68 500	12 938 797	600	DKK	43 031 700	30 092 903	0,09 %	1,33 %	København
Total Consumer staples		**1 921 549 759**			**3 285 287 431**	**1 363 737 672**	**6,97 %**		

Note 8. Securities portfolio as of 31.12.2010 (in NOK)

Security	Number of shares	Acquisition value NOK	Market price	Currency	Market value NOK	Unrealised gain/loss	Share of fund	Share in company/ share class	Stock exchange
Health care									
Richter Gedeon Nyrt	594 804	617 783 423	42550	HUF	709 788 387	92 004 964	1,51 %	3,19 %	Budapest
Stada Arznemittel AG	2 597 658	383 691 150	25,38	EUR	514 298 806	130 607 656	1,09 %	4,41 %	Frankfurt
Hanmi Pharm Co Ltd	724 500	315 456 018	88800	KRW	333 161 905	17 705 887	0,71 %	9,64 %	Seoul
EIS Eczacibasi Ilac Ve Sanayi	20 482 690	139 445 762	2,5	TRY	193 449 790	54 004 027	0,41 %	3,74 %	Istanbul
Supermax Corp Bhd	9 566 600	82 054 157	3,98	MYR	72 340 725	-9 713 431	0,15 %	2,81 %	Kuala Lumpur
Eczacibasi Yatirim Holding	3 436 363	39 761 197	5,1	TRY	66 208 000	26 446 804	0,14 %	4,91 %	Istanbul
Hanmi Holdings Co Ltd	241 500	105 152 006	37100	KRW	46 397 548	-58 754 458	0,10 %	2,55 %	Seoul
Yuyu Pharma Incorporated	302070	37 810 734	7130	KRW	11 153 241	-26 657 492	0,02 %	5,18 %	Seoul
Total health care		**1 721 154 447**			**1 946 798 402**	**225 643 955**	**4,13 %**		
Financials									
Standard Chartered Plc	8 325 000	965 167 813	17,25	GBP	1 307 231 575	342 063 762	2,77 %	0,35 %	London
Banco Do Estado Rio Grande Do Sul Pref	19 969 229	390 163 729	17,65	BRL	1 234 127 808	843 964 079	2,62 %	9,97 %	Sao Paulo
Haci Omer Sabanci Holding AS	34 444 045	656 930 241	7,2	TRY	936 888 495	279 958 253	1,99 %	1,69 %	Istanbul
VTB Bank Ojsc GDR	15 931 536	478 796 289	6,59	USD	610 515 250	131 718 962	1,30 %	0,30 %	London Int.
Gjensidige Forsikring ASA	6 947 000	409 873 000	58,5	NOK	406 399 500	-3 473 500	0,86 %	1,39 %	Oslo Børs
EFG-Hermes Holding Sae	11 959 505	353 506 516	33,92	EGP	406 396 609	52 890 093	0,86 %	3,12 %	Cairo
JSE Limited	5 694 251	214 587 788	79	ZAR	395 909 314	181 321 526	0,84 %	6,69 %	Johannesburg
Kiwoom Securities Co Ltd	1 225 720	224 002 532	58100	KRW	368 783 418	144 780 886	0,78 %	5,55 %	Seoul
Asya Katilim Bankasi AS	31 004 245	319 850 823	2,84	TRY	332 644 817	12 793 994	0,71 %	3,44 %	Istanbul
Ishares Ftse China 25 Index Fund	1 200 000	262 007 339	43,09	USD	300 684 605	38 677 267	0,64 %	0,64 %	AMEX
Korean Reinsurance Co	4 671 633	181 790 536	11800	KRW	285 466 208	103 675 672	0,61 %	4,03 %	Seoul
A.F.P. Provida SA ADR	597 838	118 914 637	79,71	USD	277 108 456	158 193 819	0,59 %	2,71 %	New York
Ghana Commercial Bank Ltd	17 697 904	85 032 404	2,7	GHS	186 547 677	101 515 273	0,40 %	6,68 %	Ghana
Bangkok Bank Public Co-Nvdr	6 530 000	161 251 317	147	THB	186 030 558	24 779 241	0,39 %	0,34 %	Bangkok
Kim Eng Holdings Ltd	14 707 000	108 191 988	2,45	SGD	163 593 168	55 401 180	0,35 %	2,45 %	Singapore
Aberdeen Asset Management Plc	8 169 291	78 521 076	2,03	GBP	150 841 116	72 320 040	0,32 %	0,71 %	London
Nordnet AB	7 034 191	97 675 138	23,3	SEK	141 868 940	44 193 803	0,30 %	4,02 %	Stockholm
Polaris Securities Co Ltd	35 096 641	83 936 887	19	TWD	133 033 818	49 096 930	0,28 %	1,64 %	Taipei
Tisco Financial Group-Foreign	16 668 600	62 098 061	40,75	THB	131 637 768	69 539 707	0,28 %	2,29 %	Bangkok
Kiatnakin Bank Pcl	15 543 300	102 576 904	39	THB	117 479 370	14 902 466	0,25 %	2,45 %	Bangkok
KGI Securities Co Ltd	35 000 000	84 755 262	16,65	TWD	116 258 625	31 503 363	0,25 %	1,09 %	Taipei
Kiatnakin Bank Pcl-Nvdr	14 271 500	110 175 969	39	THB	107 866 851	-2 309 118	0,23 %	2,25 %	Bangkok
MBK Development Plc	4 040 100	43 871 544	104	THB	81 429 024	37 557 480	0,17 %	2,14 %	Bangkok
Tisco Financial Group - Foreign	8 500 000	32 230 911	40,75	THB	67 127 475	34 896 564	0,14 %	1,17 %	Bangkok
Aksigorta AS	4 994 663	18 447 437	2,29	TRY	43 209 867	24 762 430	0,09 %	1,63 %	Istanbul
Diamond Bank Plc	102 216 700	33 971 720	7,5	NGN	29 285 085	-4 686 636	0,06 %	0,71 %	Lagos
Trimegah Securities Tbk Pt	350 000 000	50 389 802	110	IDR	24 896 025	-25 493 777	0,05 %	9,58 %	Jakarta
Aberdeen Asset Management Plc Pref	939	11 208 364	2160	GBP	18 457 491	7 249 127	0,04 %	1,25 %	London
EFG-Hermes Holding GDR	127 243	6 972 311	11,9	USD	8 805 100	1 832 790	0,02 %	0,07 %	London Int.
Yapi Ve Kredi Bankasi AS	347 708	3 874 957	4,86	TRY	6 383 990	2 509 033	0,01 %	0,01 %	Istanbul
Total Financials		**5 750 773 294**			**8 576 908 004**	**2 826 134 710**	**18,20 %**		
Information technology									
Samsung Electronics Co Ltd Pref	565 556	1 397 250 508	649000	KRW	1 900 746 903	503 496 395	4,03 %	2,48 %	Seoul
Hon Hai Precision Industry	49 591 680	1 188 770 278	117,5	TWD	1 162 490 969	-26 279 309	2,47 %	0,51 %	Taipei
Samsung Electronics Co Ltd Pref GDR	509038	500 004 840	287,5	USD	851 023 408	351 018 569	1,81 %	1,11 %	London Int.
Naspers Ltd	686999	161 812 282	387,95	ZAR	234 565 363	72 753 081	0,50 %	0,17 %	Johannesburg
Satyam Computer Services Ltd	4 500 000	199 639 269	66,15	INR	38719685	-160 919 584	0,08 %	0,38 %	Mumbai
Ericsson Nikola Tesla	24 603	28 293 831	1361	HRK	35 379 241	7 085 411	0,08 %	1,85 %	Zagreb
Total Information technology		**3 475 771 007**			**4 222 925 569**	**747 154 562**	**8,96 %**		
Telecom									
Sistema Jsfc GDR	11 352 000	888 595 292	24,93	USD	1 645 690 318	757 095 026	3,49 %	2,35 %	London Int.
China Mobile Ltd ADR	3 762 281	1 155 979 368	49,62	USD	1 085 579 022	-70 400 346	2,30 %	0,09 %	New York
Bharti Airtel Ltd	19 324 305	885 063 727	358,8	INR	901 873 794	16 810 067	1,91 %	0,51 %	Mumbai
Indosat Tbk Pt ADR	4 154 595	708 198 696	29,12	USD	703 515 253	-4 683 443	1,49 %	3,82 %	New York
Total Access Telecommunication Plc_	15 933 600	36 013 612	42	THB	129 693 131	93 679 519	0,28 %	0,67 %	Bangkok
Total Access Telecommunication Nvdr Plc	12 160 900	62 762 858	42	THB	98 984 862	36 222 004	0,21 %	0,51 %	Bangkok
Total Telecom		**3 736 613 552**			**4 565 336 379**	**828 722 827**	**9,69 %**		
Telecom									
Centrais Eletricas Brasileiras SA Pref	23 666 100	1 671 821 081	26,75	BRL	2 216 688 216	544 867 135	4,70 %	8,92 %	Sao Paulo
Centrais Eletricas Brasileiras SA	1 196 000	92 202 797	22,24	BRL	93 136 539	933 741	0,20 %	0,11 %	Sao Paulo
Total Telecom		**1 764 023 879**			**2 309 824 755**	**545 800 876**	**4,90 %**		
TOTAL EQUITY PORTFOLIO [1]		**33 025 986 821**			**44 771 873 577**	**11 745 886 757**	**94,99 %**		

[1] For liquidity in the portfolio as of 31.12.2010, please refer to the balance sheet.

SKAGEN Høyrente

Note 8. Securities portfolio as 31.12.2010 (in NOK)

Security	Maturity	Coupon	Interest adjustment point	Face value	Cost price	Yield[3]	Duration[2]	Market price	Accrued interest	Market value	Market value incl. accrued interest	Unrealised gain/loss	Share of fund	Risk class[4]
FLOATING RATE SECURITIES														
Financial bonds														
Sparebank 1 SMN	18.09.2013	3,47	16.03.2011	174 000 000	174 248 160	3,44	0,2	100,36	268 347	174 629 532	174 897 879	381 372	4,97%	5
Skandinaviska Enskilda Banken AB	16.01.2012	3,12	17.01.2011	95 000 000	95 130 050	3,03	0,04	100,2	633 967	95 194 750	95 828 717	64 700	2,72%	5
Kredittforeningen for Sparebanker	28.10.2013	3,59	28.01.2011	80 000 000	80 083 000	3,52	0,07	100,38	510 578	80 303 360	80 813 938	220 360	2,30%	5
Pareto Bank ASA	20.04.2011	2,96	24.01.2011	80 000 000	79 960 000	2,92	0,05	100,02	460 444	80 018 000	80 478 444	58 000	2,29%	5
Sparebanken Sogn og Fjordane	14.06.2011	2,96	14.03.2011	65 000 000	65 116 400	2,7	0,19	100,16	96 200	65 100 945	65 197 145	-15 455	1,85%	5
Sparebanken Sør	04.06.2012	3,22	04.03.2011	50 000 000	50 225 000	2,92	0,17	100,52	111 806	50 259 950	50 371 756	34 950	1,43%	5
Sparebanken Pluss	03.05.2013	3,21	03.02.2011	50 000 000	49 976 000	3,24	0,09	100,09	258 583	50 046 050	50 304 633	70 050	1,43%	5
Sparebank 1 Søre Sunnmøre	21.10.2011	2,76	21.01.2011	50 000 000	50 000 000	2,82	0,06	100	272 167	49 999 300	50 271 467	-700	1,43%	5
Kredittforeningen for Sparebanker	09.03.2011	2,64	09.03.2011	43 000 000	42 979 790	2,69	0,18	100	69 373	43 001 161	43 070 534	21 371	1,22%	5
DnB NOR Bank ASA	04.04.2011	3,35	04.01.2011	32 000 000	32 154 560	2,69	0,01	100,18	262 044	32 059 040	32 321 084	-95 520	0,92%	5
Kredittforeningen for Sparebanker	03.10.2011	2,76	03.01.2011	32 000 000	31 992 960	2,87	0,01	99,98	223 253	31 992 416	32 215 669	-544	0,92%	5
Nøtterø Sparebank	06.05.2011	2,49	07.02.2011	30 000 000	30 000 000	2,71	0,1	100,02	108 468	30 006 120	30 114 588	6 120	0,86%	5
BN Bank	21.03.2012	2,72	16.03.2011	30 000 000	29 847 000	3,09	0,21	99,7	36 267	29 910 900	29 947 167	63 900	0,85%	5
Helgeland Sparebank	10.05.2013	2,94	10.02.2011	25 000 000	24 833 750	3,25	0,11	99,51	104 125	24 877 850	24 981 975	44 100	0,71%	5
Sparebanken Sogn og Fjordane	05.08.2011	2,61	07.02.2011	24 000 000	23 990 900	2,63	0,1	100,02	97 440	24 004 680	24 102 120	13 780	0,69%	5
Pareto Bank ASA	17.08.2012	3,61	17.02.2011	20 000 000	19 988 000	3,81	0,13	99,86	88 244	19 971 720	20 059 964	-16 280	0,57%	5
Pareto Bank ASA	22.11.2011	3,18	22.02.2011	20 000 000	19 990 000	3,32	0,14	99,91	67 956	19 981 260	20 049 216	-8 740	0,57%	5
Sparebanken Sogn og Fjordane	07.06.2013	3,07	07.03.2011	16 000 000	15 892 160	3,33	0,17	99,61	32 747	15 938 144	15 970 891	45 984	0,45%	5
Sparebanken Pluss	15.01.2013	2,97	17.01.2011	15 000 000	14 937 150	3,23	0,04	99,65	95 287	14 947 170	15 042 457	10 020	0,43%	5
Sparebanken Sogn og Fjordane	13.10.2011	3,4	13.01.2011	10 000 000	10 063 300	2,72	0,03	100,59	74 611	10 058 860	10 133 471	-4 440	0,29%	5
Helgeland Sparebank	21.03.2012	3,37	16.03.2011	10 000 000	10 065 000	2,91	0,21	100,7	14 978	10 069 620	10 084 598	4 620	0,29%	5
Industrial bonds														
Volvo Treasury	18.03.2011	4,81	18.03.2011	100 000 000	100 935 000	3	0,2	100,39	146 972	100 394 900	100 541 872	-540 100	2,86%	6
Schibsted	16.12.2013	4,11	16.03.2011	50 000 000	50 000 000	4,22	0,2	100,04	85 625	50 021 050	50 106 675	21 050	1,42%	6
Olav Thon Eiendomsselskap ASA	04.02.2011	2,8	04.02.2011	40 000 000	40 000 000	2,76	0,09	100,01	177 333	40 004 200	40 181 533	4 200	1,14%	6
Telenor ASA	07.07.2011	2,79	10.01.2011	19 000 000	19 011 970	2,81	0,02	100,01	119 272	19 002 375	19 121 647	-9 595	0,54%	6
Industry notes														
Olav Thon Eiendomsselskap ASA	03.06.2011	2,9	03.03.2011	60 000 000	59 972 000	2,86	0,16	100,04	135 333	60 026 340	60 161 673	54 340	1,71%	6
Entra Eiendom AS	10.03.2011	2,91	10.03.2011	50 000 000	50 028 700	2,75	0,18	100,05	84 875	50 023 450	50 108 325	-5 250	1,42%	6
Financial certificates														
BN Bank	04.03.2011	2,83	04.03.2011	100 000 000	99 970 000	2,71	0,17	100,03	196 528	100 032 100	100 228 628	62 100	2,85%	5
Gjensidige Bank ASA	29.04.2011	2,73	31.01.2011	60 000 000	59 994 000	2,69	0,08	100,03	286 650	60 020 160	60 306 810	26 160	1,71%	5
Kredittforeningen for Sparebanker	01.06.2011	2,77	01.03.2011	60 000 000	60 000 000	2,68	0,16	100,06	138 500	60 034 500	60 173 000	34 500	1,71%	5
Gjensidige Bank ASA	12.10.2011	2,81	12.01.2011	50 000 000	50 000 000	2,88	0,03	100	312 222	49 999 000	50 311 222	-1 000	1,43%	5
Sparebank 1 SMN	24.01.2011	2,84	24.01.2011	20 000 000	20 035 600	2,57	0,06	100,02	105 711	20 004 360	20 110 071	-31 240	0,57%	5
Power generation certificates														
BKK	03.05.2011	2,74	03.02.2011	100 000 000	99 989 900	2,68	0,09	100,04	441 444	100 037 900	100 479 344	48 000	2,86%	6
Lyse Energi AS	02.12.2011	2,77	02.03.2011	25 000 000	25 000 000	2,85	0,16	100,01	55 785	25 001 800	25 057 585	1 800	0,71%	6
Power generation bonds														
Statkraft AS	15.06.2011	3,12	16.03.2011	154 000 000	154 420 280	2,8	0,2	100,19	213 547	154 293 986	154 507 533	-126 294	4,39%	6
BKK	02.11.2011	2,73	02.02.2011	125 000 000	124 987 500	2,79	0,09	99,98	559 271	124 981 000	125 540 271	-6 500	3,57%	6
Agder Energi AS	02.11.2012	3,59	02.02.2011	73 000 000	73 766 460	3,05	0,09	101,04	429 504	73 756 353	74 185 857	-10 107	2,11%	6
Agder Energi AS	30.03.2011	3,97	30.03.2011	45 000 000	45 280 350	2,77	0,24	100,31	456 550	45 138 825	45 595 375	-141 525	1,30%	6
Hafslund ASA	12.09.2013	4,07	14.03.2011	30 000 000	30 471 000	3,36	0,19	102,04	61 050	30 610 920	30 671 970	139 920	0,87%	6
Agder Energi AS	12.08.2013	2,95	14.02.2011	22 000 000	21 830 600	3,28	0,12	99,37	88 336	21 862 434	21 950 770	31 834	0,62%	6
BKK	07.09.2012	3,5	07.03.2011	20 000 000	20 086 000	3,35	0,17	100,34	223 611	20 068 900	20 292 511	-17 100	0,58%	6

Note 8. Securities portfolio as 31.12.2010 (in NOK)

Security	Maturity	Coupon	Interest adjustment point	Facevalue	Costprice	Yield[3]	Duration[2]	Market price	Accrued interest	Market value	Marketvalue incl. accrued interest	Unrealised gain/loss	Share offund	Risk class[4]
FIXED RATE SECURITIES														
Industrial certificates														
Norgesgruppen ASA	26.05.2011	3,05		60000000	59986200	2,92	0,39	100,04	1098000	60023940	61121940	37740	1,74%	6
Norgesgruppen ASA	28.01.2011	3,14		50000000	50000000	2,66	0,07	100,03	1445260	50016850	51462110	16850	1,46%	6
Norgesgruppen ASA	18.02.2011	2,96		50000000	49995700	2,7	0,13	100,03	920438	50016100	50936538	20400	1,45%	6
Norgesgruppen ASA	22.09.2011	3,18		50000000	49975350	3,09	0,7	100,05	435616	50025450	50461066	50100	1,43%	6
Entra Eiendom AS	10.08.2011	2,7		30000000	29993850	3,05	0,59	99,8	113178	29939280	30052458	-54570	0,85%	6
Norgesgruppen ASA	28.03.2011	3,07		25000000	25000000	2,79	0,23	100,06	330130	25016250	25346380	16250	0,72%	6
Power generation certificates														
BKK	16.08.2011	3,19		75000000	75097500	2,99	0,61	100,11	898007	75083025	75981032	-14475	2,16%	6
Statkraft AS	08.04.2011	3,1		35000000	35000000	2,78	0,26	100,08	523178	35028665	35551843	28665	1,01%	6
Lyse Energi AS	22.06.2011	3,34		30000000	30085425	2,99	0,46	100,15	527079	30045300	30572379	-40125	0,87%	6
Hafslund ASA	03.06.2011	2,83		30000000	30000000	2,98	0,41	99,94	65129	29983290	30048419	-16710	0,85%	6
Lyse Energi AS	15.11.2011	2,93		20000000	19986340	3,21	0,85	99,76	73852	19952060	20025912	-34280	0,57%	6
TOTAL EQUITY PORTFOLIO[5]					**2612372905**				**14634875**	**2612815591**	**2627450466**	**442686**	**74,68%**	

Portfolio key figures

Yield	3,03%
Yield to clients[1]	2,78%
Duration[2]	0,14%

[1] Yield adjusted for management fee.

[2] Duration is a simplified expression of how much the price of the security will change if the interest rate changes by one percentage point.

[3] Yield is the average annual return of an interest bearing security until maturity.

[4] Securities are divided into six risk classes according to their credit risk. Class 1 has the lowest and class 6 the highest credit risk.

Risk class 1: Supranational organisations
Risk class 2: Government, and government guaranteed within the EEA
Risk class 3: Government, and government guaranteed outside the EEA
Risk class 4: County and local government
Risk class 5: Bank and financial institutions
Risk class 6: Industry

[5] For liquidity in the portfolio as of 31.12.10, please refer to the balance sheet.

All securities are traded in the Norwegian market.

Unit price as of 31.12.10 103,8222

NOK 97.881.757,- is allocated for distribution to unitholders. This will result in a reduction in the unit price equal to the distribution per unit at the time of distribution.

SKAGEN Høyrente Institusjon

Note 8. Securities portfolio as of 31.12.2010 (in NOK)

Security	Maturity	Coupon	Interest adjustment point	Face value	Cost price	Yield[3]	Duration[2]	Market price	Accrued interest	Market value	Market value incl. accrued interest	Unrealised gain/loss	Share of fund	Risk class[4]
FLOATING RATE SECURITIES														
Financial bonds														
Rygge Vaaler Sparebank	26.03.2013	4,22	28.03.2011	60 000 000	61 609 800	3,45	0,23	101,83	28 133	61 096 860	61 124 993	-512 940	4,03 %	5
Sparebank 1 SMN	18.09.2013	3,47	16.03.2011	50 000 000	50 082 500	3,44	0,2	100,36	77 111	50 180 900	50 258 011	98 400	3,31 %	5
Skandinaviska Enskilda Banken AB	28.02.2011	3,01	28.02.2011	50 000 000	50 130 000	2,63	0,16	100,08	133 778	50 038 400	50 172 178	-91 600	3,30 %	5
Pareto Bank ASA	18.03.2013	3,81	18.03.2011	45 000 000	45 000 000	4,05	0,2	99,71	52 387	44 868 915	44 921 302	-131 085	2,96 %	5
Nøtterø Sparebank	06.05.2011	2,49	07.02.2011	40 000 000	40 000 000	2,71	0,1	100,02	144 625	40 008 160	40 152 785	8 160	2,64 %	5
Sparebanken Pluss	15.01.2013	2,97	17.01.2011	35 000 000	34 727 000	3,23	0,04	99,65	222 337	34 876 730	35 099 067	149 730	2,31 %	5
Kredittforeningen for Sparebanker	09.03.2011	2,64	09.03.2011	35 000 000	34 963 250	2,69	0,18	100	56 467	35 000 945	35 057 412	37 695	2,31 %	5
Kredittforeningen for Sparebanker	30.06.2011	3,42	30.03.2011	30 000 000	30 153 800	2,78	0,24	100,35	2 850	30 105 090	30 107 940	-48 710	1,98 %	5
Bamble og Langesund Sparebank	03.06.2011	2,82	03.03.2011	30 000 000	29 991 000	2,91	0,16	99,99	65 800	29 996 910	30 062 710	5 910	1,98 %	5
Sparebanken Pluss	11.03.2011	2,93	11.03.2011	27 500 000	27 431 500	2,66	0,19	100,07	40 287	27 518 645	27 558 932	87 145	1,82 %	5
Sparebanken Telemark	08.04.2011	3,44	10.01.2011	25 000 000	25 171 000	2,65	0,03	100,21	200 667	25 052 175	25 252 842	-118 825	1,66 %	5
Kredittforeningen for Sparebanker	03.10.2011	2,76	03.01.2011	25 000 000	24 993 250	2,87	0,01	99,98	174 417	24 994 075	25 168 492	825	1,66 %	5
Sparebanken Narvik	03.05.2013	3,26	03.02.2011	25 000 000	24 906 500	3,5	0,09	99,64	131 306	24 910 150	25 041 456	3 650	1,65 %	5
Sparebanken Sogn og Fjordane	07.06.2013	3,07	07.03.2011	25 000 000	24 700 000	3,33	0,17	99,61	51 167	24 903 350	24 954 517	203 350	1,64 %	5
Pareto Bank ASA	20.04.2011	2,96	24.01.2011	20 000 000	19 990 000	2,92	0,05	100,02	115 111	20 004 500	20 119 611	14 500	1,33 %	5
Pareto Bank ASA	17.08.2012	3,61	17.02.2011	20 000 000	19 988 000	3,81	0,13	99,86	88 244	19 971 720	20 059 964	-16 280	1,32 %	5
Pareto Bank ASA	22.11.2011	3,18	22.02.2011	20 000 000	19 990 000	3,32	0,14	99,91	67 956	19 981 260	20 049 216	-8 740	1,32 %	5
Aurskog Sparebank	15.01.2013	3,07	17.01.2011	20 000 000	19 872 000	3,48	0,04	99,37	131 328	19 874 760	20 006 088	2 760	1,32 %	5
Sparebanken Sogn og Fjordane	04.02.2013	2,64	03.02.2011	20 000 000	19 718 000	3,19	0,09	99,06	85 067	19 811 580	19 896 647	93 580	1,31 %	5
Sparebanken Narvik	03.10.2012	4,3	03.01.2011	15 000 000	15 357 000	3,33	0,01	101,74	157 667	15 261 585	15 419 252	-95 415	1,02 %	5
Sparebanken Bien AS	01.04.2011	3,13	03.01.2011	15 000 000	14 910 000	2,74	0,01	100,11	118 679	15 016 530	15 135 209	106 530	1,00 %	5
Sparebanken Sogn og Fjordane	16.10.2012	3,08	17.01.2011	15 000 000	14 968 500	3,16	0,04	100,04	94 967	15 006 480	15 101 447	37 980	0,99 %	5
Pareto Bank ASA	14.09.2011	3,58	14.03.2011	15 000 000	14 970 000	3,21	0,19	100,32	25 358	15 047 550	15 072 908	77 550	0,99 %	5
Helgeland Sparebank	10.05.2013	2,94	10.02.2011	15 000 000	14 900 250	3,25	0,11	99,51	62 475	14 926 710	14 989 185	26 460	0,99 %	5
Hønefoss Sparebank	02.03.2011	3,25	02.03.2011	12 000 000	11 976 000	2,71	0,16	100,11	31 417	12 012 696	12 044 113	36 696	0,79 %	5
Sparebank 1 Nordvest	24.04.2013	4,08	24.01.2011	11 000 000	11 161 700	3,41	0,06	101,62	83 527	11 177 958	11 261 485	16 258	0,74 %	5
Sparebank 1 Buskerud-Vestfold	21.01.2011	2,82	21.01.2011	11 000 000	11 027 960	2,57	0,06	100,02	61 178	11 001 969	11 063 147	-25 991	0,73 %	5
Kredittforeningen for Sparebanker	08.03.2013	3,36	09.03.2011	10 000 000	10 008 000	3,39	0,18	100,12	20 533	10 011 750	10 032 283	3 750	0,66 %	5
Sparebank 1 Buskerud-Vestfold	21.02.2011	2,66	21.02.2011	5 000 000	5 004 000	2,62	0,14	100,01	14 408	5 000 685	5 015 093	-3 315	0,33 %	5
Financial certificates														
Gjensidige Bank ASA	29.04.2011	2,73	31.01.2011	40 000 000	39 996 000	2,69	0,08	100,03	191 100	40 013 440	40 204 540	17 440	2,65 %	5
FIXED RATE SECURITIES														
Financial bonds														
Sparebank 1 SMN	07.02.2011	5,55		30 000 000	30 469 230	2,58	0,1	100,3	1 491 658	30 089 430	31 581 088	-379 800	2,08 %	5
Kredittforeningen for Sparebanker	09.03.2011	4,45		13 500 000	13 603 400	2,69	0,18	100,31	488 829	13 542 444	14 031 273	-60 956	0,92 %	5
Financial certificates														
BN Bank	08.09.2011	3,17		60 000 000	60 055 080	2,9	0,67	100,17	594 049	60 102 660	60 696 709	47 580	4,00 %	5
SpareBank 1 Gruppen	15.09.2011	3,27		60 000 000	60 030 000	2,97	0,69	100,2	575 162	60 117 660	60 692 822	87 660	4,00 %	5
Gjensidige Bank ASA	29.03.2011	3		35 000 000	34 974 625	2,73	0,23	100,06	532 192	35 021 595	35 553 787	46 970	2,34 %	5
Askim Sparebank	16.03.2011	3,15		20 000 000	20 000 000	2,73	0,2	100,08	341 753	20 016 380	20 358 133	16 380	1,34 %	5
Grong Sparebank	07.09.2011	3,2		20 000 000	19 990 000	3,02	0,66	100,11	201 644	20 021 600	20 223 244	31 600	1,33 %	5
Sparebank 1 Ringerike Hadeland	23.03.2011	2,88		10 000 000	9 983 100	2,75	0,22	100,02	223 299	10 002 250	10 225 549	19 150	0,67 %	5
TOTAL EQUITY PORTFOLIO[5]					**1 016 802 445**				**7 178 933**	**1 016 586 497**	**1 023 765 430**	**-215 948**	**67,43 %**	

Portfolio key figures

Yield	3,07 %
Yield to clients[1]	2,92 %
Duration[2]	0,14

[1] Yield adjusted for management fee.

[2] Duration is a simplified expression of how much the price of the security will change if the interest rate changes by one percentage point.

[3] Yield is the average annual return of an interest bearing security until maturity.

[4] Securities are divided into six risk classes according to their credit risk. Class 1 has the lowest and class 6 the highest credit risk.

Risk class 1: Supranational organisations
Risk class 2: Government, and government guaranteed within the EEA
Risk class 3: Government, and government guaranteed outside the EEA
Risk class 4: County and local government
Risk class 5: Bank and financial institutions
Risk class 6: Industry

[5] For liquidity in the portfolio as of 31.12.10, please refer to the balance sheet.

All securities are traded in the Norwegian market.

Unit price as of 31.12.2010 102,8252

NOK 44.962.934,- is allocated for distribution to unitholders. This will result in a reduction in the unit price equal to the distribution per unit at the time of distribution.

SKAGEN Avkastning

Note 8. Securities portfolio as of 31.12.2010 (in NOK)

Security	Maturity	Coupon	Currency	Interest adjustment point	Facevalue NOK	Costprice NOK	Yield[3]	Duration[2]	Market price NOK	Accrued interest NOK	Market value NOK	Marketvalue incl.accrued interest NOK	Unrealised gain/loss NOK	Share of fund	Risk class[4]
FLOATING RATE SECURITIES															
Financial bonds															
Sparebanken Sør	04.06.2012	3,22	NOK	04.03.2011	82500000	82831500	2,92	0,17	100,52	184479	82928917	83113397	97417	5,30%	5
Sparebank 1 SMN	12.12.2013	4,12	NOK	14.03.2011	60000000	62028000	3,48	0,19	102,05	123600	61227420	61351020	-800580	3,91%	5
Kredittforeningen for Sparebanker	29.06.2012	3,87	NOK	30.03.2011	60000000	60458000	3,23	0,23	101,12	6450	60673200	60679650	215200	3,87%	5
Skandinaviska Enskilda Banken AB	16.01.2012	3,12	NOK	17.01.2011	50000000	50000000	3,03	0,04	100,2	333667	50102500	50436167	102500	3,22%	5
Kredittforeningen for Sparebanker	08.03.2013	3,36	NOK	09.03.2011	50000000	50050800	3,39	0,18	100,12	102667	50058750	50161417	7950	3,20%	5
Bolig- og Næringskreditt ASA	15.06.2011	2,73	NOK	16.03.2011	50000000	49938000	2,71	0,2	100,06	60667	50027900	50088567	89900	3,19%	5
Sparebank 1 SMN	05.08.2014	3,46	NOK	07.02.2011	40000000	40150000	3,52	0,1	100,07	215289	40029440	40244729	-120560	2,57%	5
Helgeland Sparebank	10.05.2013	2,94	NOK	10.02.2011	40000000	39740000	3,25	0,11	99,51	166600	39804560	39971160	64560	2,55%	5
Sparebank 1 Buskerud-Vestfold	04.11.2013	3,07	NOK	02.02.2011	40000000	39970000	3,4	0,09	99,42	201256	39766440	39967696	-203560	2,55%	5
Sparebanken Sogn og Fjordane	16.10.2012	3,08	NOK	17.01.2011	38000000	38016600	3,16	0,04	100,04	240582	38016416	38256998	-184	2,44%	5
Sparebank 1 Søre Sunnmøre	12.12.2011	3,32	NOK	11.03.2011	30000000	30255000	2,84	0,19	100,52	49800	30157020	30206820	-97980	1,93%	5
Sparebanken Pluss	15.01.2013	2,97	NOK	17.01.2011	30000000	29898000	3,23	0,04	99,65	190575	29894340	30084915	-3660	1,92%	5
Sparebanken Narvik	03.05.2013	3,26	NOK	03.02.2011	30000000	29719500	3,5	0,09	99,64	157567	29892180	30049747	172680	1,92%	5
Aurskog Sparebank	15.01.2013	3,07	NOK	17.01.2011	30000000	29760000	3,48	0,04	99,37	196992	29812140	30009132	52140	1,91%	5
Sparebanken Sogn og Fjordane	28.01.2014	3,04	NOK	28.01.2011	30000000	29643000	3,48	0,07	98,99	162133	29695770	29857903	52770	1,90%	5
Sparebanken Møre	26.08.2011	3,29	NOK	26.08.2011	25000000	25223750	2,67	0,16	100,47	79965	25118125	25198090	-105625	1,61%	5
Sparebank 1 SR-Bank	25.01.2012	2,88	NOK	25.01.2011	25000000	25007250	2,8	0,07	100,15	134000	25036500	25170500	29250	1,60%	5
Bank 1 Oslo	03.10.2011	2,7	NOK	03.01.2011	25000000	24655000	2,75	0,01	100	165000	25001250	25166250	346250	1,60%	5
Totens Sparebank	27.11.2013	3,03	NOK	28.02.2011	25000000	24729000	3,59	0,15	98,86	67333	24715850	24783183	-13150	1,58%	5
ABG Sundal Collier Norge ASA	15.11.2011	3,34	NOK	15.02.2011	25000000	25000000	5,19	0,12	98,56	106694	24640450	24747144	-359550	1,58%	5
Sparebanken Sør	17.02.2014	4,66	NOK	17.02.2011	20000000	20775500	3,41	0,13	103,84	113911	20767140	20881051	-8360	1,33%	5
Sparebanken Sogn og Fjordane	27.02.2012	3,88	NOK	28.02.2011	20000000	20432000	2,8	0,16	101,34	68978	20267920	20336898	-164080	1,30%	5
Helgeland Sparebank	21.03.2012	3,37	NOK	16.03.2011	20000000	20196000	2,91	0,21	100,7	29956	20139240	20169196	-56760	1,29%	5
Pareto Bank ASA	14.09.2011	3,58	NOK	14.03.2011	20000000	19960000	3,21	0,19	100,32	33811	20063400	20097211	103400	1,28%	5
Skandinaviska Enskilda Banken AB	28.02.2011	3,01	NOK	28.02.2011	20000000	20000000	2,63	0,16	100,08	53511	20015360	20068871	15360	1,28%	5
Pareto Bank ASA	17.08.2012	3,61	NOK	17.02.2011	20000000	19988000	3,81	0,13	99,86	88244	19971720	20059964	-16280	1,28%	5
Pareto Bank ASA	22.11.2011	3,18	NOK	22.02.2011	20000000	19990000	3,32	0,14	99,91	67956	19981260	20049216	-8740	1,28%	5
Aurskog Sparebank	27.06.2011	2,87	NOK	28.03.2011	20000000	20004000	2,83	0,23	100,05	6378	20010320	20016698	6320	1,28%	5
Flekkefjord Sparebank	21.09.2012	3,21	NOK	21.03.2011	20000000	19990000	3,37	0,21	99,86	17833	19972400	19990233	-17600	1,27%	5
Sparebank 1 Buskerud-Vestfold	21.01.2011	2,82	NOK	21.01.2011	18000000	18040500	2,57	0,06	100,02	100110	18003222	18103332	-37278	1,15%	5
Sparebank 1 SMN	18.09.2013	3,47	NOK	16.03.2011	15000000	15055350	3,44	0,2	100,36	23133	15054270	15077403	-1080	0,96%	5
Sparebanken Pluss	11.03.2011	2,93	NOK	11.03.2011	15000000	15042000	2,66	0,19	100,07	21975	15010170	15032145	-31830	0,96%	5
Financial certificates															
Sparebank 1 Nordvest	02.09.2013	3,53	NOK	02.03.2011	40000000	40204000	3,46	0,16	100,45	113744	40179920	40293664	-24080	2,57%	5
Sparebank 1 Nord-Norge	04.12.2012	3,15	NOK	04.03.2011	30000000	30027000	3,15	0,17	100,16	65625	30046710	30112335	19710	1,92%	5
Landkreditt Bank AS	23.05.2011	2,59	NOK	23.02.2011	30000000	29993100	2,61	0,14	100,01	82017	30003750	30085767	10650	1,92%	5
Sparebanken Sogn og Fjordane	10.08.2012	2,66	NOK	10.02.2011	30000000	29799000	2,97	0,11	99,64	113050	29892210	30005260	93210	1,91%	5
FIXED RATE SECURITIES															
Foreign goverment bond															
Gresk stat	20.03.2012	4,3	EUR		8500000	65121103	10,74	1,06	715,1	2234099	60783833	63017932	-4337270	4,02%	2
Mexikansk stat	20.11.2036	10	MXN		105000000	56538656	8,1	10,01	58,62	96203	61553092	61649295	5014435	3,93%	3
Sør-Afrikansk stat	31.03.2036	6,25	ZAR		80000000	54837022	8,43	10,44	69,35	1109167	55481504	56590671	644482	3,61%	3
Norwegian goverment bond															
Norsk Stat	25.05.2021	3,75	NOK		50000000	50145000	3,06	8,7	100,3	1145548	50150000	51295548	5000	3,20%	2
TOTAL EQUITY PORTFOLIO[5]						**1373211632**				**8530566**	**1373946609**	**1382477175**	**734977**	**88,05%**	

Portfolio key figures

Yield	3,77%
Yield to clients[1]	3,27%
Duration[2]	1,19

[1] Yield adjusted for management fee.

[2] Duration is a simplified expression of how much the price of the security will change if the interest rate changes by one percentage point.

[3] Yield is the average annual return of an interest bearing security until maturity.

[4] Securities are divided into six risk classes according to their credit risk. Class 1 has the lowest and class 6 the highest credit risk.

Risk class 1: Supranational organisations
Risk class 2: Government, and government guaranteed within the EEA
Risk class 3: Government, and government guaranteed outside the EEA
Risk class 4: County and local government
Risk class 5: Bank and financial institutions
Risk class 6: Industry

[5] For liquidity in the portfolio as of 31.12.10, please refer to the balance sheet.

All securities are traded in the Norwegian market.

Unit price as of 31.12.2010 128,5463

NOK 0,- is allocated for distribution to unitholders.

SKAGEN Tellus

Note 8. Securities portfolio as of31.12.2010 (in NOK)

Security	Maturity	Coupon	Currency	Facevalue NOK	Costprice NOK	Yield[3]	Duration[2]	Market price NOK	Accrued interest NOK	Market value NOK	Marketvalue inclaccrued interestNOK	Unrealised gain/lossNOK	Share of fund	Risk class[4]
FIXED RATE SECURITIES														
Foreign government bonds														
Danskstat	15.11.2011	6	DKK	82750000	93659128	0,78	0,87	109,56	656011	90659080	91315091	-3000048	11,64%	2
Sveitsiskstat	11.02.2013	4	CHF	10000000	64493936	0,4	2	670,9	2212070	67090212	69302283	2596276	8,83%	3
USAstat	31.07.2011	1	USD	11500000	69440254	0,2	0,58	586,73	279273	67473772	67753045	-1966483	8,63%	3
UKstat	07.03.2011	4,25	GBP	5000000	48342310	0,37	0,18	911,17	611069	45558464	46169533	-2783846	5,88%	2
HongKongstat	07.12.2011	0	HKD	50000000	38626646	0,31	0,93	74,92	-	37459744	37459744	-1166902	4,77%	3
Greskstat	20.03.2012	4,3	EUR	5000000	36008110	10,74	1,06	715,87	1316594	35793616	37110210	-214494	4,73%	2
Sør-Afrikanskstat	31.03.2036	6,25	ZAR	49000000	32150249	8,43	10,44	69,37	679558	33992074	34671632	1841825	4,42%	3
Malaysiastat	28.04.2011	3,76	MYR	17900000	33118930	2,64	0,31	191,21	225404	34227289	34452693	1108359	4,39%	3
Brasilianskstat	10.01.2028	10,25	BRL	9000000	31344092	9,91	7,46	363,34	1541982	32700307	34242289	1356215	4,36%	3
Tyrkiskstat	15.01.2020	10,5	TRY	7400000	33903890	8,59	5,51	428,46	1247787	31705672	32953459	-2198218	4,20%	3
Peruanskstat	12.08.2037	6,9	PEN	13950000	32247916	6,92	11,45	212,33	784798	29620509	30405308	-2627406	3,87%	3
Mexikanskstat	20.11.2036	10	MXN	52000000	28286168	8,1	10,01	58,32	47654	30328155	30375809	2041987	3,87%	3
Taiwanskstat	10.02.2012	0,21	TWD	150000000	28375728	0,17	1,11	20,01	56702	30008898	30065600	1633170	3,83%	3
European Bank Recon & Dev	17.06.2015	0,5	CNY	31300000	28361932	-0,29	4,42	90,86	74762	28437776	28512538	75844	3,63%	3
Chilenskstat	05.08.2020	5,5	CLP	1870000000	24364091	5,16	7,09	1,28	520704	23951093	24471797	-412998	3,12%	3
Indonesiske stat	15.07.2027	9,22	IDR	20000000000	11414606	8,17	8,17	0,07	551336	14321907	14873243	2907301	1,90%	3
TOTAL EQUITY PORTFOLIO[5]					**634137986**				**10805704**	**633328569**	**644134273**	**-809416**	**82,08%**	

Portfolio key figures	
Yield	2,95%
Yieldtoclients[1]	2,15%
Duration[2]	2,88

[1] Yield adjusted for management fee.

[2] Duration is a simplified expression of how much the price of the security will change if the interest rate changes by one percentage point.

[3] Yield is the average annual return of an interest bearing security until maturity.

[4] Securities are divided into six risk classes according to their credit risk. Class 1 has the lowest and class 6 the highest credit risk.

Risk class 1: Supranational organisations
Risk class 2: Government, and government guaranteed within the EEA
Risk class 3: Government, and government guaranteed outside the EEA
Risk class 4: County and local government
Risk class 5: Bank and financial institutions
Risk class 6: Industry

[5] For liquidity in the portfolio as of 31.12.10, please refer to the balance sheet.

All securities are traded in the Norwegian market.

Unit price as of 31.12.2010 113,9964

NOK 53.090.520,- is allocated for distribution to unitholders. This will result in a reduction in the unit price equal to the distribution per unit at the time of distribution.

SKAGEN Krona

Note 8. Securities portfolio as of 31.12.2010 (in SEK)

Security	Maturity	Coupon	Interest adjustment point	Face value	Cost price	Yield[3]	Duration[2]	Market price	Market value	Total accrued interest and unrealised gain/loss	Share of fund	Risk class[4]
FLOATING RATE SECURITIES												
Financial bonds												
SBAB	17.08.2011	2,53	17.02.2011	8 000 000	8 061 280	1,9	0,13	100,44	8 035 080	-1 433	3,77 %	5
Industrial bonds												
SKF	21.04.2011	2,06	21.01.2011	8 000 000	8 031 440	1,78	0,06	100,11	8 008 440	-23 000	3,76 %	6
Industrial certificates												
Arla Foods Amba	07.02.2011	0		20 000 000	19 888 883	1,97	0,1	99,8	19 959 500	70 617	9,34 %	6
Peab Finans	23.03.2011	0		12 000 000	11 901 091	2,31	0,22	99,49	11 938 560	37 469	5,59 %	6
Castellum	11.01.2011	0		10 000 000	9 970 173	1,95	0,03	99,94	9 994 190	24 017	4,68 %	6
SCA Capital NV	26.01.2011	0		10 000 000	9 974 132	1,8	0,07	99,87	9 987 330	13 198	4,68 %	6
Securitas	26.01.2011	0		10 000 000	9 951 603	1,8	0,07	99,87	9 987 330	35 727	4,68 %	6
Vattenfall AB	02.02.2011	0		10 000 000	9 960 723	1,63	0,09	99,85	9 985 370	24 647	4,67 %	6
Fortum Oyj	07.02.2011	0		10 000 000	9 959 173	1,81	0,1	99,81	9 981 300	22 127	4,67 %	6
Lunds Energi	14.02.2011	0		10 000 000	9 958 966	1,82	0,12	99,78	9 977 830	18 864	4,67 %	6
Jernhusen AB	24.02.2011	0		10 000 000	9 956 743	1,94	0,15	99,71	9 971 080	14 336	4,67 %	6
Volkswagen Finans Sverige	21.02.2011	0		10 000 000	9 954 953	2,07	0,14	99,71	9 970 830	15 877	4,67 %	6
Vasakronan AB	28.02.2011	0		8 000 000	7 963 342	1,97	0,16	99,69	7 974 832	11 490	3,73 %	6
Trelleborg Treasury AB	08.02.2011	0		7 000 000	6 963 026	1,97	0,1	99,79	6 985 398	22 372	3,27 %	6
Assa Abloy Financial Services AB	17.03.2011	0		7 000 000	6 964 256	2,13	0,2	99,56	6 969 396	5 140	3,26 %	6
Industrivarden	18.02.2011	0		6 000 000	5 977 954	1,95	0,13	99,74	5 984 484	6 530	2,80 %	6
Holmen AB	09.03.2011	0		6 000 000	5 971 379	2,18	0,18	99,6	5 975 934	4 555	2,80 %	6
Trelleborg Treasury AB	09.02.2011	0		5 000 000	4 977 353	1,91	0,11	99,79	4 989 640	12 287	2,34 %	6
Financial certificates												
Ikano bank	22.02.2011	0		5 000 000	4 976 093	1,88	0,14	99,73	4 986 530	10 437	2,33 %	5
Ikano bank	10.02.2011	0		3 000 000	2 989 690	1,74	0,11	99,81	2 994 210	4 520	1,40 %	5
Ikano bank	17.02.2011	0		1 000 000	996 135	1,79	0,13	99,77	997 672	1 537	0,47 %	5
FIXED RATE SECURITIES												
Financial bonds												
Skandinaviska Enskilda Banken AB	26.08.2011	2,9		8 000 000	8 017 620	2,58	0,64	100,21	8 016 416	78 707	3,79 %	5
Industrial bonds												
Volvo Treasury	23.03.2011	3,75		18 000 000	18 221 862	2,27	0,22	100,34	18 061 668	359 181	8,70 %	6
Electrolux AB	25.02.2011	4,25		4 000 000	4 016 660	2,05	0,15	100,33	4 013 012	140 380	1,95 %	6
TOTAL EQUITY PORTFOLIO[5]					**205 604 529**				**205 746 032**	**942 086**	**96,70 %**	

Portfolio key figures	
Yield	2.01 %
Yield to clients[1]	1.81 %
Duration[2]	0.14 %

[1] Yield adjusted for management fee.

[2] Duration is a simplified expression of how much the price of the security will change if the interest rate changes by one percentage point.

[3] Yield is the average annual return of an interest bearing security until maturity.

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Risk class 5: Bank and financial institutions
Risk class 6: Industry

All securities are traded in the Norwegian market.

Unit price as of 31.12.2010 100,4158

SEK 3.379.974,- is allocated for distribution to unitholders.

This will result in a reduction in the unit price equal to the distribution per unit at the time of distribution.

PricewaterhouseCoopers AS
Forus Atrium
Postboks 8017
NO-4068 Stavanger
Telefon 02316

To the Board of Directors in SKAGEN AS

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of the mutual funds, which comprise the balance sheets as at December 31, 2010, the income statements for the year then ended and a summary of significant accounting policies and other explanatory information. The income statements are showing the following results for the year ended at December 31, 2010:

SKAGEN Vekst	NOK	1 367 187 806
SKAGEN Global	NOK	4 597 707 654
SKAGEN Kon-Tiki	NOK	7 412 566 938
SKAGEN Avkastning	NOK	42 930 703
SKAGEN Høyrente	NOK	106 640 703
SKAGEN Høyrente Institusjon	NOK	46 031 148
SKAGEN Tellus	NOK	35 943 998
SKAGEN Krona	SEK	2 301 038

The Fund Management Company's Board of Directors Responsibility for the Financial Statements

The Fund Management Company's Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with Norwegian accounting act and accounting standards and practices generally accepted in Norway, and for such internal control as The Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the mutual funds as at December 31, 2010, and of its financial performance for the year then ended in accordance with the Norwegian accounting act and accounting standards and practices generally accepted in Norway.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption, and the proposal for the allocation of the profit in each mutual fund is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that the Fund Management Company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the mutual fund's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, January 27, 2011
PricewaterhouseCoopers AS

Gunstein Hadland
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

How we create results

SKAGEN's sole objective is to provide our clients with the best possible risk-adjusted return by pursuing an applied value-based investment philosophy with broad mandates – a philosophy which is based on common sense.

SKAGEN Global

Kristian Falnes

Torkell Eide

Søren Milo Christensen

Chris-Tommy Simonsen

SKAGEN Kon-Tiki

Kristoffer Stensrud

Knut Harald Nilsson

Cathrine Gether

SKAGEN Vekst

Beate Bredesen

Ross Porter

SKAGEN Avkastning

Jane Sirevåg Tvedt

SKAGEN Tellus

Torgeir Høien

SKAGEN Høyrente and SKAGEN Høyrente Institusjon

Ola Sjöstrand

Elisabeth A. Gausel

Shared ideas, individual decisions

The portfolio managers are all located in the same office space in Stavanger, and share ideas and communicate in a continuous ad hoc manner. Although there is a common research platform, individual managers are responsible for taking individual decisions for their fund.

Portfolio managers are rewarded not only based on the excess returns and performance of the funds but also according to other criteria, such as commitment to the firm and ability to share investment ideas. Many portfolio managers invest a considerable share of their personal wealth in their funds, thereby aligning their interests closely with those of the clients.

The ideal investment

We search for companies that are priced significantly lower than our estimation of the value of the underlying operations. Our ideal investment is therefore a company which is Undervalued, Under-researched and Unpopular – companies where we have identified potential triggers which could make hidden values invisible and therefore create excess returns for our unit holders.

Value-based management

Central to the management is the valuation of company shares through our own analysis and understanding of how values are created and looked after. We prefer well proven business models that generate good cash flow, and do not shy away from something because it is unpopular or under-researched.

Head Office

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Skagen 3, Torgterrassen
Tel. +47 51 21 38 58
Fax +47 51 86 37 00
www. skagenfunds.com

Company registration number:
867 462 732

UK Office

Albemarle House
1 Albemarle Street
London W1S 4HA
United Kingdom
Tel. +44 207 408 2500
www.skagenfunds.co.uk

FSA Firm No.: SKAGEN AS 469697
Company No: FC029835
UK establishment No: BR014818

Circulation: 2,000
Design: Kaland Marketing and Printting Produksjon as
Graphs: Meze Design and Printting Produksjon as
Print: Printting Produksjon as

Customer Services is open from Monday to Friday from 9 am to 5 pm (CET). Please visit us at our office, send an e-mail or call us and we will do our best to help you.