SKAGEN Focus

Status Report December 2015

Kunsten å bruke sunn fornuft

SKAGEN

Summary – December 2015

- The fund is a highly concentrated equity fund with a broad all-global mandate. The overall objective is to invest in a few select investments with an exceptional risk/reward profile from an absolute return perspective.

- The target number of positions is 30 - 35 and top ten positions should equal 40 - 50% of the portfolio. At the end of the month, the fund holds 32 positions, and top ten positions constitute 48%.

- Global equity markets were down during the month (measured in EUR). SKAGEN Focus was down 5.3% in the month and has lost 15.4% since inception on 26 May 2015 as measured in EUR.

- Stocks Spirits, Carlsberg and Aryzta were the strongest contributors to the fund's performance in December measured as absolute contribution in NOK. Whiting Petroleum, Omega Protein and Solazyme were the main detractors during the month.

- The fund has a broad mandate to invest in all geographies and sectors. The fund is also market capitalisation-agnostic, and currently small-cap** positions constitute 24% of the fund, while mid-cap and large-cap positions account for 31% and 45%, respectively, of the invested portfolio. These figures may vary meaningfully over time.

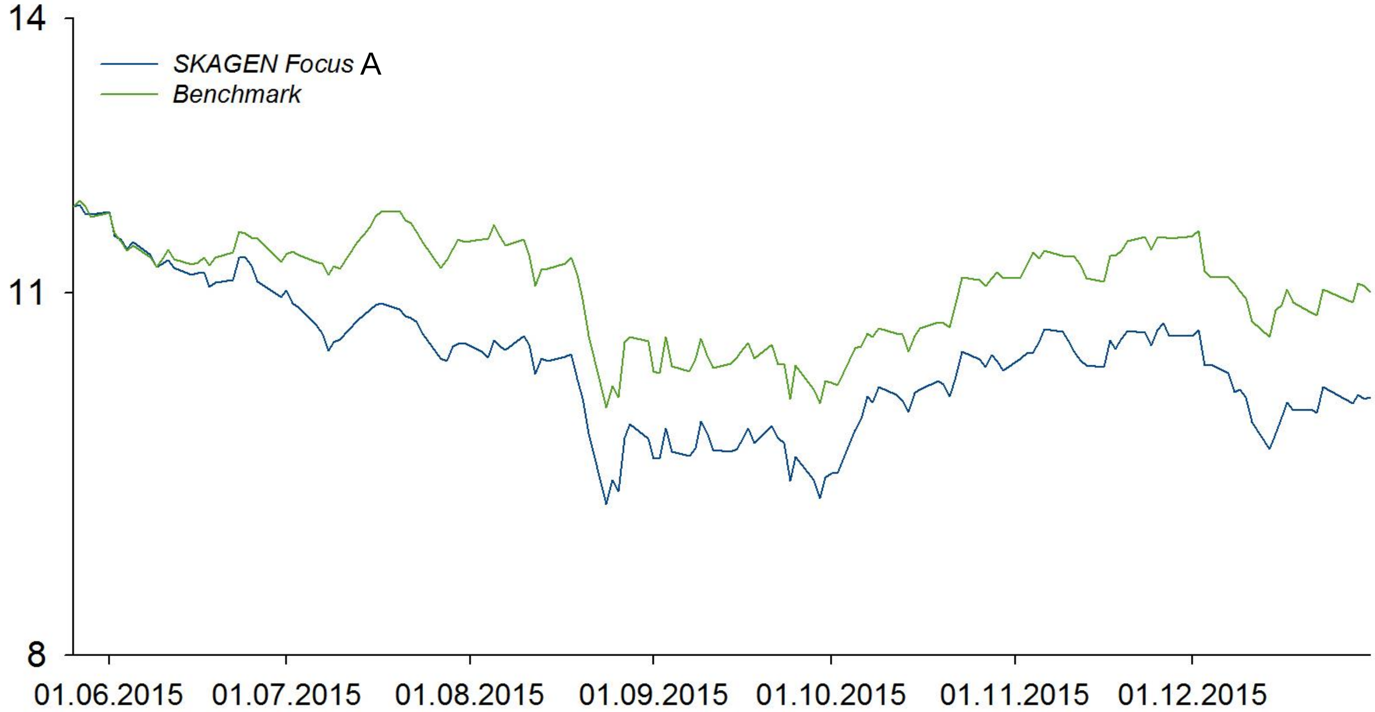
- Following substantial subscriptions in the fund in December, the AUM of the fund increased to over EUR 100m during the month.

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

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

SKAGEN Focus A results, December 2015

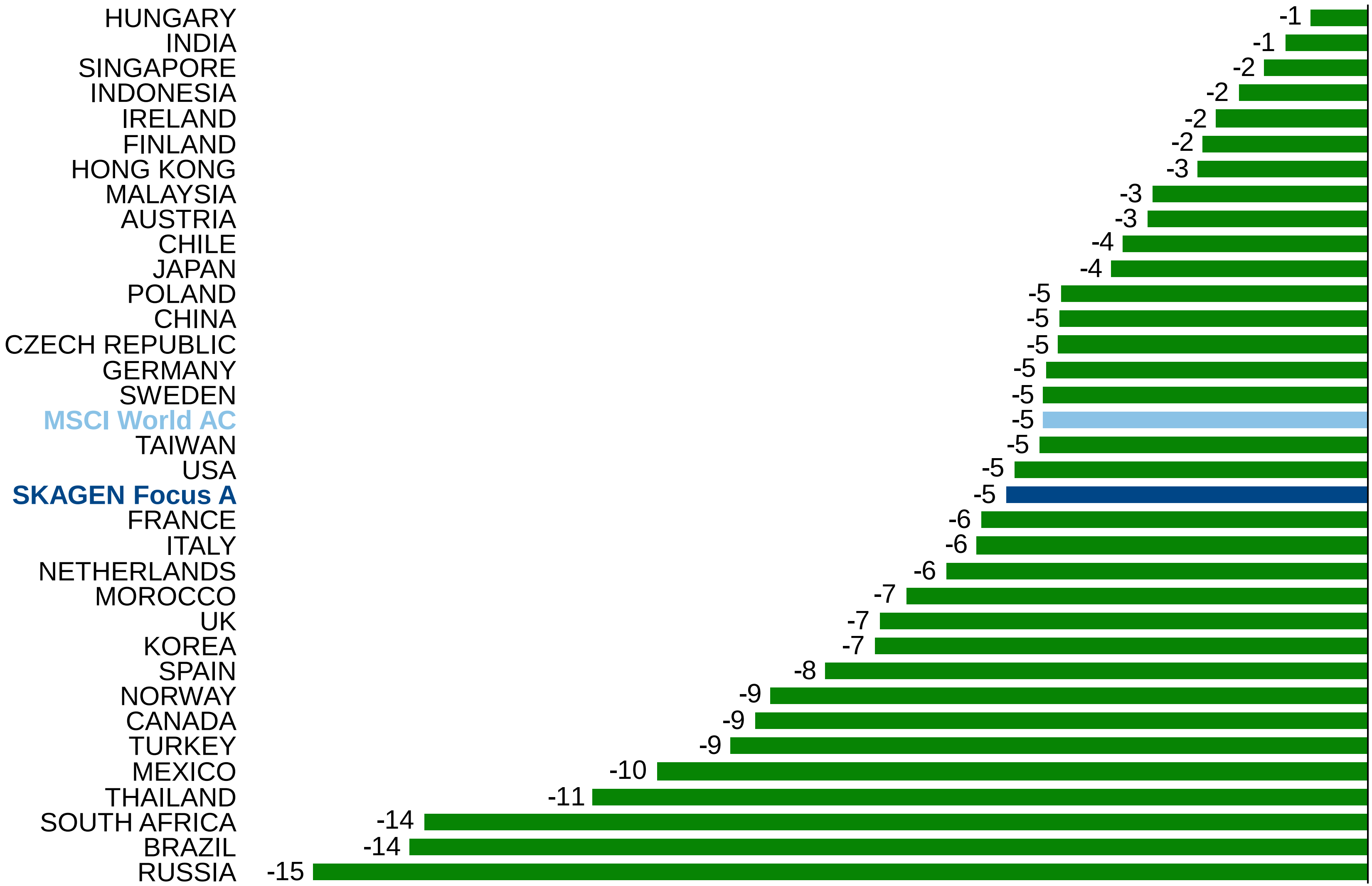
EUR, net of fees



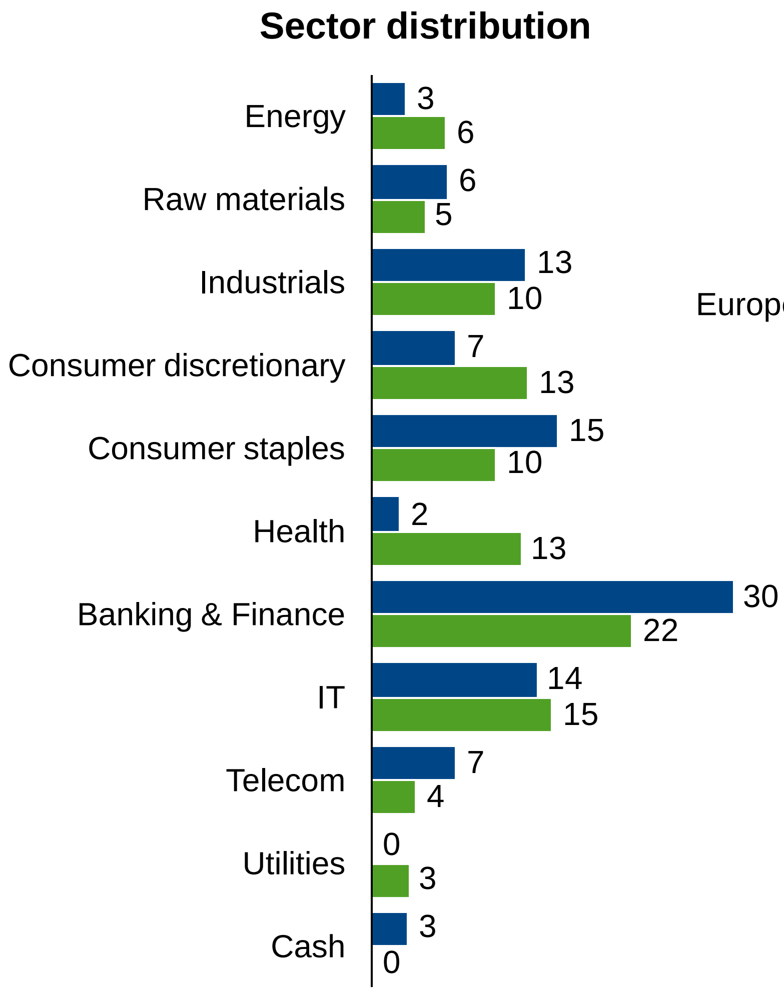
	December	4Q	Since inception*
SKAGEN Focus A	-5,3%	7,3%	-15,4%
MSCI AC World Index	-4,8%	8,1%	-7,2%
Excess return	-0,5%	-0,8%	-8,2%

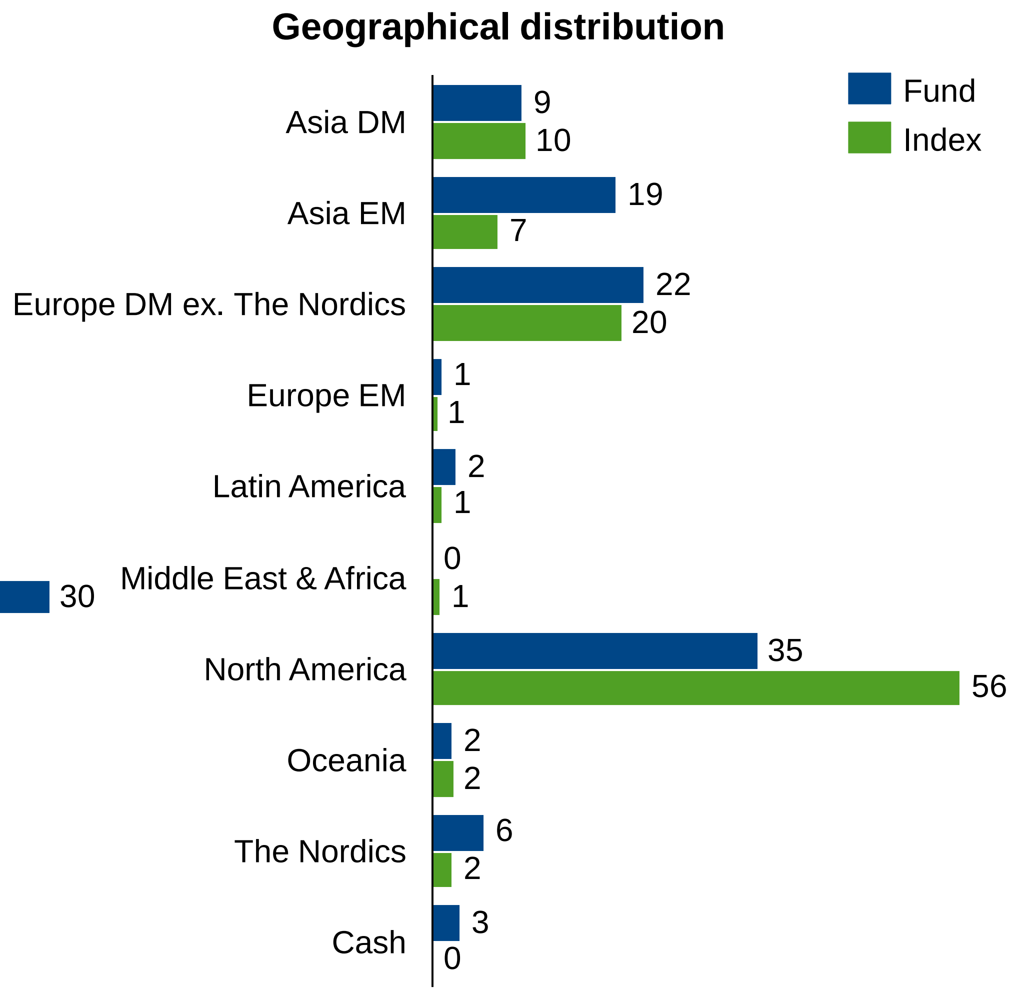
Note: All returns beyond 12 months are annualised (geometric return)
* Inception date: 26 May 2015

Markets in December in EUR (%)



Sector and geographical distribution vs index (Dec. 2015)





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Top 10 positions in SKAGEN Focus

	Price	P/E 2015e	P/E 2016e	P/BV last	Price target	Upside to target %	Holding size, %
American International Group Inc	62,00	14,5	12,1	0,8	90	45%	8,8%
Carlsberg AS-B	612,50	20,5	18,8	2,1	822	34%	5,6%
SK Hynix Inc	30 750,00	5,1	6,3	1,1	65 000	111%	5,5%
SBI Holdings Inc	1 321,00	10,3	9,1	0,8	3 000	127%	5,1%
Citizens Financial Group Inc	26,20	16,6	13,8	0,7	35	34%	4,9%
China Telecom Corp Ltd	3,60	15,2	14,3	1,0	8	120%	3,9%
Jenoptik AG	14,40	17,2	15,9	2,0	20	39%	3,9%
Aercap Holdings NV	43,20	6,9	7,0	1,1	70	62%	3,8%
Aryzta AG	51,00	13,7	12,2	1,4	90	76%	3,2%
Pan American Silver Corp	6,50	-15,6	-18,7	0,7	12	85%	3,1%
Top 10 positions		**12,5**	**12,0**	**1,0**			**47,7%**
Total Equity (32 positions)							**97,0 %**
Cash							**3,0 %**
Total Portfolio							**100,0%**

Main contributors MTD 2015

Largest positive contributors

Company	NOK (000)
Stock Spirits Group Plc	4 946
Carlsberg A/S	3 659
Aryzta AG	2 869
Magforce AG	2 357
Rentech Inc	2 296

Largest negative contributors

Company	NOK (000)
Whiting Petroleum Corp	-4 845
Omega Protein Corp	-3 491
Solazyme Inc	-3 049
GCL-Poly Energy Holdings Ltd	-2 973
South32 Ltd	-1 947

Value Creation MTD (NOK MM): -1

NB: Contribution to absolute return

Main contributors QTD 2015

Largest positive contributors

Company	NOK (000)
Omega Protein Corp	15 912
American International Group I	9 013
Carlsberg A/S	8 952
Sandisk Corp	8 926
Citizens Financial Group Inc	5 682

Largest negative contributors

Company	NOK (000)
Stock Spirits Group Plc	-6 290
Rentech Inc	-4 950
South32 Ltd	-4 095
Whiting Petroleum Corp	-3 778
GCL-Poly Energy Holdings Ltd	-2 911

Value Creation QTD (NOK MM): 64

NB: Contribution to absolute return

Main contributors YTD 2015

Largest positive contributors

Company	*NOK (000)*
Omega Protein Corp	28 664
Jenoptik AG	12 243
American International Group I	11 864
Sandisk Corp	5 617
Infineon Technologies AG	5 503

Largest negative contributors

Company	*NOK (000)*
South32 Ltd	-20 136
Whiting Petroleum Corp	-14 756
Rentech Inc	-14 046
SK Hynix Inc	-13 878
AirAsia BHD	-9 554

Value Creation YTD (NOK MM): -23

NB: Contribution to absolute return

Holdings increased and decreased during December 2015

Key buys in December

- **JBS (new)**: The fund made its first investment in Latin America, initiating a position in Brazil-based meat producer JBS (fact sheet attached later in the report).

- **First Quantum:** We added to the Canada-based copper producer First Quantum in the month after a period of weakness.

Key sells in December

Most important changes Q4 2015

Holdings increased

Q4

Jbs SA	(New)
Schaeffler AG	(New)
First Quantum Minerals Ltd	(New)
Synchrony Financial	(New)

Holdings reduced

Q4

Omega Protein Corp
Komatsu Ltd
Jenoptik AG
Sandisk Corp
Softbank Group Corp
Citizens Financial Group Inc
Hyundai Motor Co

Key earnings releases and corporate news, December 2015

Aryzta

(3.2% weight)

Investment case update: Swiss bakery company Aryzta released Q116 sales numbers implying emerging signs of stabilisation within its operations. Sales grew by 6.1% to EUR 995m, mainly driven by currency effects. Organic growth came in slightly negative (-0.4%), burdened by the US segment (-5.6%) which is still suffering from the recent SKU rationalisation and lagging supply chain renewals. Most importantly, the company reiterated their guidance for the full fiscal year, which was well received by the market after recent downgrades. Aryzta is expecting to grow organically 3%, in line with the industry, of which the US segment will start contributing positively during H216. The balance sheet still poses a risk to the investment case with net debt / EBITDA at just below 4x (mid-term target 3x). Indeed, 50% of the newly revised management remuneration program is based on cash flow targets and is probably a necessity given the high level of indebtedness. Management stated that they remain confident regarding the upcoming covenant test in H1. FCF generation is guided at around 200m in 2016 next year supported by lower capex spending. The stock is trading at a P/E multiple of 11x and 8x forward EV/EBITDA which is at 30-40% discount to the overall consumer staples sector.
Fact: Company released total sales for Q116. Sales grew by 6.1% during the quarter to EUR 995m. Underlying organic growth was negative, at -0.4%, while acquisitions added 0.7% and currency effects 5.8%. The company also reiterated their guidance for underlying fully diluted EPS in the range of EUR 3.65 – 3.85 FY2016.

Uniqa Insurance

(2.0% weight)

Investment case update: The company is a leading insurance group in Austria and Eastern Europe (CEE) with business activities in life, property and casualty insurance as well as reinsurance. The group has historically had a close relationship with Austrian bank Raiffeisen which still owns 31% of the company and Uniqa also partly distributes its products through the bank's network. Uniqa's net profit increased 9.7% the first 9 months compared to last year driven by 8% premium growth and a significant increase in the profitability of the international business. Combined ratio improved to 98% from 99% last year but showed deterioration in the third quarter hit by hail storms in Austria. The company continues to face challenges in the low rate environment as investment yields have compressed and net investment income weakened in the third quarter. The company is in the midst of a restructuring program, Uniqa 2.0, and these results overall confirm that the company is on track to reach its guidance for the year at EUR 425-450m in pre-tax net profit for the year. The stock is trading a discount to book value with a current ROE generation of about 10%. Tangible re-valuation catalysts for the investment case would be the upcoming capital markets day, where the outlook towards 2020 will be presented and an update of capital returns to shareholders. We think the company has the capacity to generate a ROE in excess of the current target of 10% in the mid-term.
Summary: Premiums written rose 9% from last year in Q1-Q315. The combined ratio fell from 99% to 98%. Net income rose 9,7% to EUR 302m from last year. The company maintained full year guidance of pretax profit of EUR 425-450m.

Key earnings releases and corporate news, December 2015 (cont.)

GCL Poly

(2.1% weight)

Investment case update: The company was established in 2004 in Hong Kong to provide power/energy solutions in China. The solar material operation accounts for 60% of sales where the company is world leader with 20% market share in polysilicon and wafers. The power business is 40% of sales, which mainly includes 35 cogeneration power plants and 4 solar power farms. The group has been heavily indebted and also faces a high exposure to RMB depreciation as a large part of its debt (about 28%) is in USD. Of the announced total rights issue of around HKD 3.5bn, just below 50% of the raised capital will go to participation in the closely held GCL New Energy's (62% owned GNE, the solar plan operation and consolidated) rights issue. The remaining amount will be used to de-lever at the holding company. GNE will also reduce debt, but will also use some proceeds to grow their solar farm pipeline (+2-2.5 GW next year). We believe the stock offers good value trading at less than 6x 2016/2017E earnings estimates. They have a competitive position with a lower cost structure than peers. Most of the overcapacity in the solar industry has been shut down and industry concentration is increasing. We expect both pricing and unit recoveries in the coming year.

Pan America Silver

(3.1% weight)

Investment case update: The company is operating seven mines in Mexico, Peru, Bolivia and Argentina. The aggregated output in base metal terms is: Silver 65%, Gold 20% and other base metals (zinc, lead and copper) at 15%. Given the current depressed silver and gold prices, the company is struggling to generate cash flow and is still trying to maintain a dividend. The company has been working on a transitional plan and as a last step in this process the company announced a new CEO after Geoff Burns (who has been in place 12 years) effective 1 Jan 2016. The new CEO, Michael Steinmann, has been recruited internally and has led the company's geology and exploration activities after joining in 2004. Apparently, he also played a large part in initiating the early stage development of the silver project in Navidad. The project has so far not been finalised due to Argentinian business conditions but could act as a potential catalyst for the investment case upon completion, which could happen if the new President of Argentina fulfils his election promises. Overall we think the stock is discounting that these depressed levels of silver prices will last for a prolonged period, and not giving any credit to coming reductions in the silver supply in the mid-term or the structurally increased industrial use of silver. We would however expect that the company will cut its dividend sooner rather than later, to preserve cash balances.

Key earnings releases and corporate news, December 2015 (cont.)

Stocks Spirits

(1.7% weight)

Investment case update: Stock Spirits is a branded spirits and liqueurs business focused on Central Europe, mainly Poland, the Czech Republic and Italy. The company was listed in the UK in 2013. The investment case is built upon a normalisation of market share, a more rational pricing picture, in the Polish market in particular, and the fact that earlier given guidance was sufficiently conservative. The reduction in guidance of about 20% on EBITDA level suggests several factors have turned for the worse and that several orders that were expected have been pushed out highlighting an increased volatility in ordering patterns. The shift towards the discounter channel, where Stock is weaker, compared to the traditional channel has intensified and more operators are joining the movement, including Pernod Ricard. The main competitor Roust has launched aggressive promotional products in the market and the number 3 player, Marie Brizard relaunched a brand at a lower price point.

The chairman of Eurocash (EUR PW), one of the largest wholesale cash and carry operators in Poland, has disclosed an 8% ownership in the company. He is also the main owner of Eurocash with a 43% stake in the discounter. Interestingly, he is known for a fairly successful turnaround in Eurocash over the last few years. Stock Spirits has a low presence in the growing discounter channel while being strong in the traditional trade channel. If the new owner starts to influence business strategy this could mark a shift in direction for the company, with an increasing presence in the discounter channel as a result. Margins are obviously lower in the discounter channel but could be offset by higher volumes and operating leverage. The company is even after the earlier guidance reduction generating a healthy amount of cash, at EUR 30-40m in 2015 (current market cap of EUR 300m), and the balance sheet is strong with the company turning into a net cash position next year. The stock trades at a discount of 30-40% versus the global beverage peer group.

Hyundai Motor

(2.9% weight)

Summary: Press reports that HMC and Fubon Financial Group are close to acquiring the 43.3% stake in Hyundai Capital Services (HCS) owned by GE, which aims to dramatically scale down its finance operation. HMC is said to take a 23% stake, increasing its ownership to 80%. This deal has been surfacing for a year or so, following the expiry of the 10y agreement end-2014. The mentioned price of KRW 1.3-1.4tr for 43% is lower than the KRW 1.5-2tr mentioned a year ago. With KRW 14.0tr of net cash within the auto segment, funding is not an issue for HMC's potential 23% share of KRW 695-800bn, representing c1% of equity and 2% of market cap.

HCS is the finance arm of Hyundai Motor in Korea. It finances about 80% of all new Hyundai and Kia vehicles sold in Korea. Trailing net profit LTM is KRW 324bn and equity is KRW 3,609bn, which give an RoE of 9%. This is down from 15% in FY12, due to margin pressure amid tougher competition and low rates. At mid-point KRW 1.35tr, implied market cap is KRW 3.12tr which equals P/BV of 0.86x and P/E of 9.6x. Implied return for Hyundai is therefore 10.4%.

Investment case update: This is expected and discussions have been ongoing for at least a year. Based on the price range, it is a decent deal and given excess cash the in auto business, yielding c1.5%, it would enhance EPS by c1%. And, it is definitely better cash deployment than spending KRW 5tr on a Seoul land bank.

The largest companies in SKAGEN Focus

AIG is an international insurance company serving commercial, institutional and individual customers. The company provides property-casualty insurance, life insurance and retirement services. AIG was at the very centre of the financial crisis as the central bank for mortgage insurance – it was bailed out in a USD 180bn bail out. The company has two core insurance holdings: Sun America and Chartis that it intends to keep. The company has set a target to achieve 10% ROE by 2015.

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

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

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

The company is one of the oldest financial firms in the US, with headquarters in Providence, Rhode Island, with its roots going back to 1828. It is today the 13th largest retail bank in the US with a footprint in New England, the Mid West and the Mid Atlantic, with over 1200 branches in 11 states. The company was listed in September 2014 after being spun off from the UK-based bank Royal Bank of Scotland (RBS).

The largest companies in SKAGEN Focus (cont.)

中国电信 CHINA TELECOM

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

JENOPTIK

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

AERCAP Aviation Solutions

US based AerCap is the largest independent aircraft lessor globally. It is also active within engine leasing, trading and spare part sales/service of aircrafts. In December 2013 the company transformed itself by acquiring IFLC, previously the largest aircraft lessor, from American International Group (AIG). Current ambition is to grow the book at a 5% annual rate going forward. AerCap benefits from growth in travel which doubles every 15 years, without the risk of operating an airline.

ARYZTA Passion for good food

The company operates an international food business and is a leading supplier of bakery products (bread, muffins, cookies etc.) with relationships with quick-serve restaurants and large retail chains (supplier to McDonald's in the US and Lidl in Europe). Aryzta is present in 25 countries where it operates 60 bakeries. The company holds a strong position in the fragmented specialty bakery market on a global basis. Its competitive advantages include its ability to scale operations and integration of customers' supply chain, leading to high barriers to entry.

Pan American SILVER CORP.

Founded in 1994, with ambitions to become the largest silver company globally. Challenging industry as the silver price has dropped more than 50% during recent years. The company currently operates seven mines in Mexico (3 mines), Peru (2), Bolivia (1) and Argentina (1). The aggregated production profile from a geographical perspective: Mexico 48%, Peru 23%, Bolivia 15% and Argentina 14% in 2014. The aggregated output in base metal terms: Silver 65%, Gold 20%, and other base metals (zinc, lead and copper) 15%.

JBS SA (JBSS3 BZ) BRL 12

History, what they do and how case was found

Brazil-based JBS has transformed itself from a mid-sized local beef producer to the world's largest animal protein processor in just a few years since its IPO in 2007. It is now the world's #1 beef, #2 poultry and #3 pork producer by sales. The company operates in 6 main segments: JBS USA Beef (40% of sales, US beef processing), Moy Park (14%, UK-based chicken and foodservice provider), Pilgrim's Pride (14%, 2nd largest chicken producer globally; separately listed in the US; PPC US, JBS ownership 75%), JBS Mercosul (13%, Brazil-based beef processing), JBS USA Pork (10%), JBS Foods (9%, prepared foods and poultry processing).

85% of revenues are derived from outside of Brazil.

ESG: No major issues identified.

Rationale for investment

- In the transformation process over the last few years the company has gained market leadership and scale which allows for optimisation of production and reduction of fixed costs.
- Successful acquisition history – after the IPO in 2007 the company has acquired and integrated Swift, Smithfield Beef, Five Rivers, Tasman Group, Pilgrim's Pride (75%), Bertin, XL Foods, Seara and most recently Moy Park.
- Accelerating revenue shift towards prepared foods which should gradually be rewarded with a higher valuation.

Potential triggers

- Normalised margins in JBS USA Beef and JBS Mercosul as cattle availability increases.
- Worries related to the substantial hedging position in BRL to protect its USD-denominated debt are most likely overblown.
- Further accretive and strategic acquisitions, likely in prepared foods-related operations.
- De-levering of its balance sheet (current net debt/ EBITDA at 2.5x with next major refi 2020); release of substantial free cash flow and acceleration of capital returns to shareholders in the mid-term.

Risks

- A stronger BRL is a risk as 85% of revenues come from outside Brazil and the company carries a substantial hedging position in BRL/USD.
- Introduction of trade barriers with Brazil.
- Feed/cattle cost inflation.
- Relationship with state-related owner BNDES.

Target price

The stock is trading at 6x forward P/E multiple and 5x EV/EBITDA. We set a target price of BRL 22 which is 11x P/E, or 8x EV/EBITDA based on mid-term earnings power..

Key figures:

Market cap	BRL	34.3bn
P/E 2015		6-2x
P/E 2016E		6.3x
EV/EBITDA 2015E		5.0x
Net debt/EBITDA		2.5x
Dividend yield		1.4%
Price/Sales		0.2x

Owners:

FB Participacoes (Batista) 42%, BNDES (state-owned) 24%, Caixa 10%

Team Focus, December 2015
www.jbsglobal.com

3U addition to fact sheet

Unpopular

- The stock has come under pressure from a general weak Brazilian FX/stock market. Worries over its hedge position in BRL/USD and relationship with state-related owner BNDES have also contributed to weakness. Analysts are in general positive on the name.

Under-researched

- 19 analysts are following the stock. Investors however seem to be overly focused on potential shorter term issues, such as the hedge position, and ignoring the long-term favourable outlook.

Under-valued

- The stock is trading at 6x P/E and 5x EV/EBITDA which is a distinct discount to its absolute fair value and its global peers. We set a target price of BRL 22 which is 11x P/E and 8x EV/EBITDA on mid-term earnings power.

For more information please visit:

Our latest Market report
Information on SKAGEN Focus A on our web pages

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

Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. KIIDs and Prospectuses for all funds can be found on our website.

The art of common sense

SKAGEN