



Skagen reef's lightskip, 1897. Detail. By Carl Lochner, one of the Skagen painters. The picture is owned by the Skagens Museum.

SKAGEN Kon-Tiki

Status Report – October 2015

The art of common sense



Highlights – October 2015

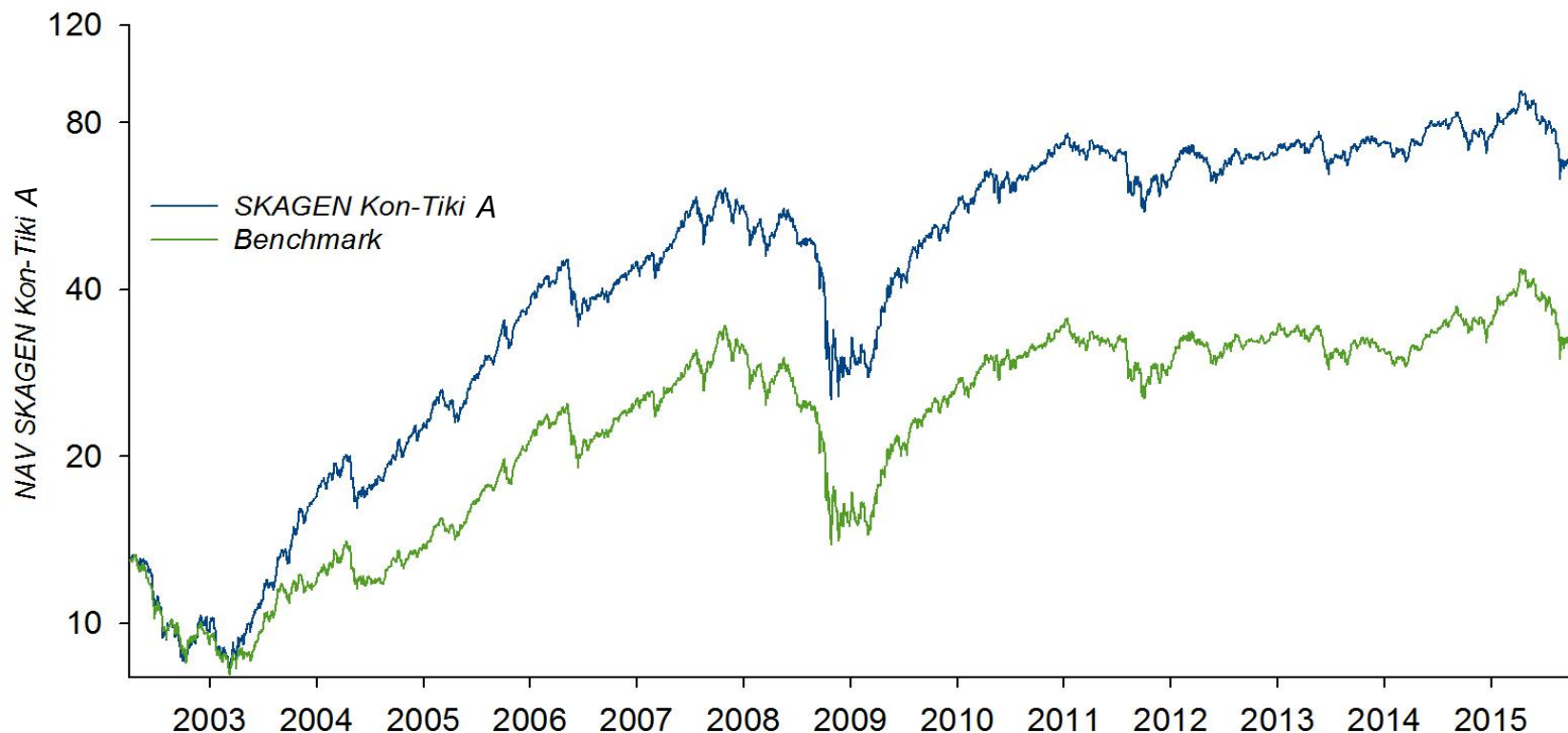
- SKAGEN Kon-Tiki* was up 8.7% in October, while the MSCI Emerging Markets index was up by 8.2% measured in EUR. So far this year SKAGEN Kon-Tiki is down 3.4% while the index is down 0.8%. After a difficult start to the year, SKAGEN Kon-Tiki has now outperformed the index over the past 6 months.
- Our top three performers in October were Samsung Electronics, Naspers and X5. Samsung Electronics delivered good 3Q15 results but more importantly they announced a shareholder remuneration plan which was very good news (particularly for us as preference share owners, see page 19 for more info). Naspers has been strong on the back of the strength of Tencent (34% ownership stake is worth more than Naspers' market cap). X5 continued its strong performance from previous months as other investors are now also starting to believe in a successful turnaround while discovering their strong discount format positioning in a difficult Russian grocery market environment.
- At the bottom of the performance list for October were our Indian carmaker Mahindra & Mahindra, Indian filmmaker and distributor Eros International and dry bulk shipping company Golden Ocean Group. Mahindra has been weak on sluggish sales volumes but we see signs that sales are starting to turn around in both the auto and tractor segment. Eros is down following an anonymous twitter user claiming accounting tricks and fraudulent activity. Golden Ocean has been weak as the expected 4Q rate rally has so far failed to materialise.
- We added no new positions in October. We continued to sell out of positions where we see less conviction. Hitachi was sold as we got increasingly concerned about their cyclical exposure. Conglomerate Kulim Malaysia was also sold during the month after a nice journey, being up 33% since the end of July. We sold out of the Chinese watch retailer Hengdeli, which has been an unfortunate value trap after Chinese authorities clamped down on bribes. Our investment in Raiffeisen Bank has not gone according to expectations and was subsequently sold during the month.
- Emerging markets continue to trade at a discount to developed markets, with a 2015e P/E of 12.3 and P/B of 1.4x for EM, compared with 17.4x and 2.2x for DM.
- The top 12 positions now represent almost 49% of the fund (from 45% at the beginning of the year). In the same period we have reduced the positions in the fund from 95 to 78. The fund's portfolio remains attractively valued at a 2015e P/E of 8.8x and P/B of 1.0x. Based on a 2 year view we now see 55% upside for our portfolio.

Highlights – markets October 2015

- Global markets rebounded by 9% in October (in EUR), the best month since the euro crisis in 2011. EM participated in the relief rally as it rebounded by 8%, but it continued to underperform developed markets.
- Brazil, Turkey, Korea, China and Indonesia were up more than 10% while India was up “only” 5%.
- EM currencies strengthened versus the USD (especially in the first half of the month), with the Indonesian rupiah, Korean won and Turkish lira up by 4-7% for the period while the Mexican peso, Russian rouble and Brazilian real were up around 2.5%.
- What has been driving the relief rally in the equity markets? Expectations of the US Fed rate hike were pushed forward again. China seems to have stabilised for now with 3Q15 GDP slightly higher than expected (at 6.9%) with a continued transition from export towards a “service economy” and continued talk about policy easing. The ECB said it would consider bolstering its bond-buying program and cut its deposit rate should the slowdown in EM threaten the Eurozone’s economic recovery.
- Commodities were up slightly for the month after showing good strength in the first half but coming back a little towards the end of the month. This coincided with dollar strengthening in the latter half of the month as the probability of the Fed raising rates in December rose again.
- We are now well into the 3Q earnings season, which has been mixed so far. US has been strong with the trend showing EPS better than expected despite a general miss on the top-line. Europe has been less positive but with the same trend that EPS has been relatively better than the top-line, compared to expectations. In EM so far we’ve seen another aggregate net income and sales miss compared to expectations, driven by large misses in Korea and Latin America.
- There are signs that the focus is shifting to individual company attributes as we have seen stock correlations go down. We have also seen that companies reporting better than expected earnings are being rewarded while companies reporting poor earnings are being punished more severely than over the past few quarters. That is good news for stock-pickers like us.

Results, October 2015

EUR, net of fees



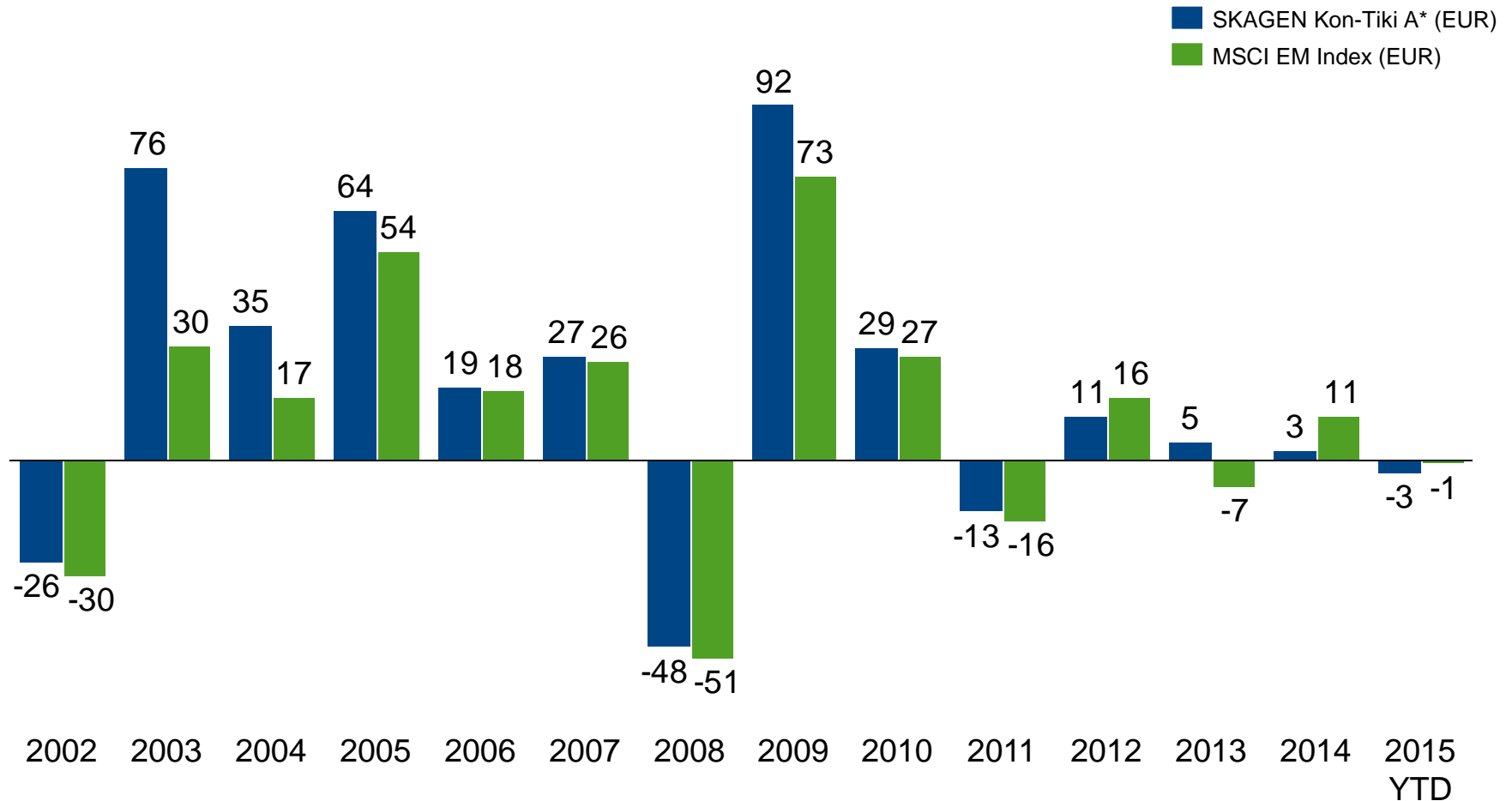
	October	QTD	YTD	1 Year	3 years	5 years	10 Years	Since inception*
SKAGEN Kon Tiki A	8,7%	8,7%	-3,3%	-4,7%	2,1%	1,8%	8,5%	13,6%
MSCI EM Index	8,2%	8,2%	-0,8%	-2,9%	2,4%	1,8%	6,6%	7,4%
Excess return	0,6%	0,6%	-2,5%	-1,8%	-0,3%	0,0%	2,0%	6,2%

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

* Inception date: 5 April 2002

SKAGEN Kon-Tiki has beaten the index in 11/13 calendar years

Percent

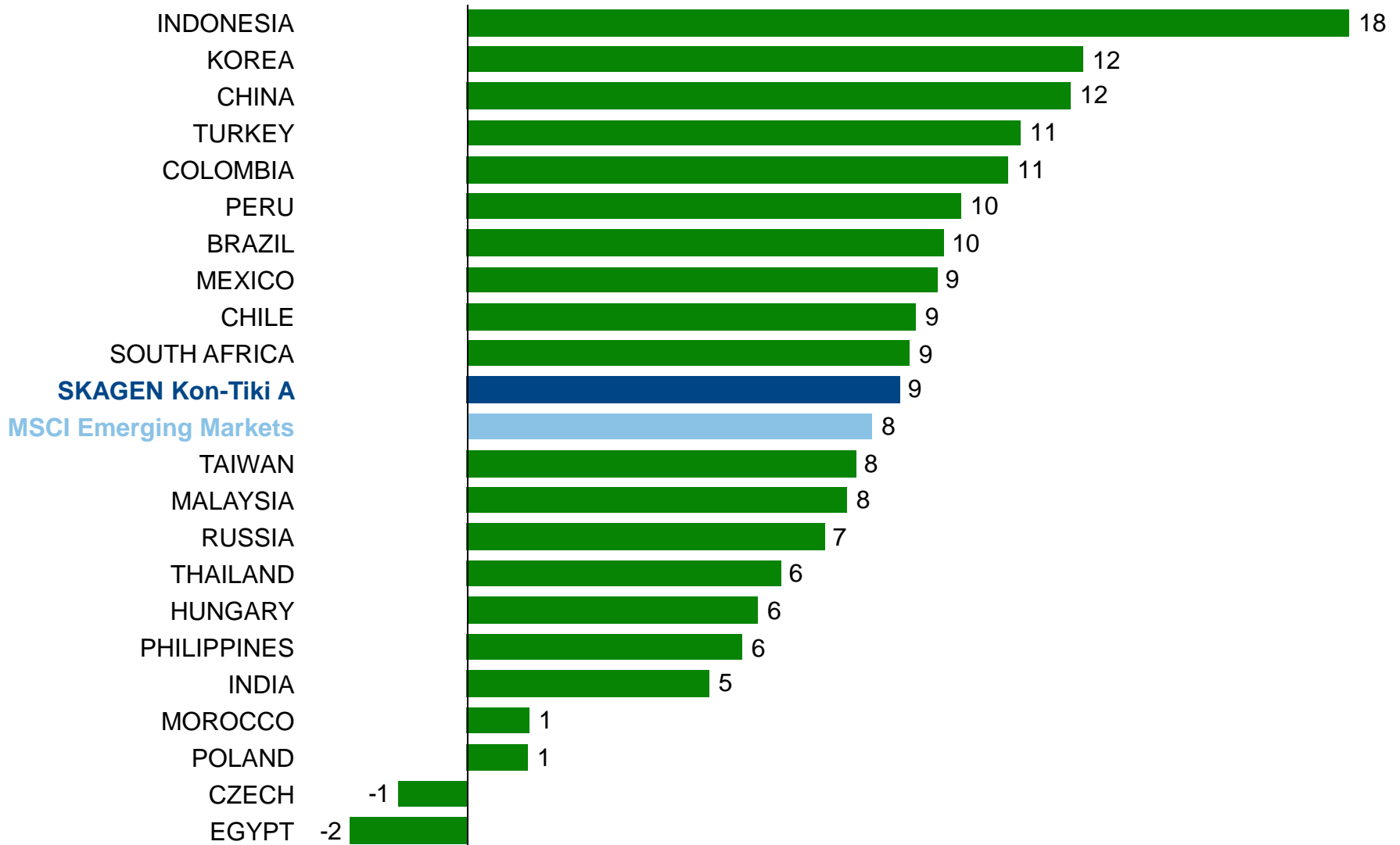


Note: All figures in EUR, net of fees

* Inception date: 5 April 2002

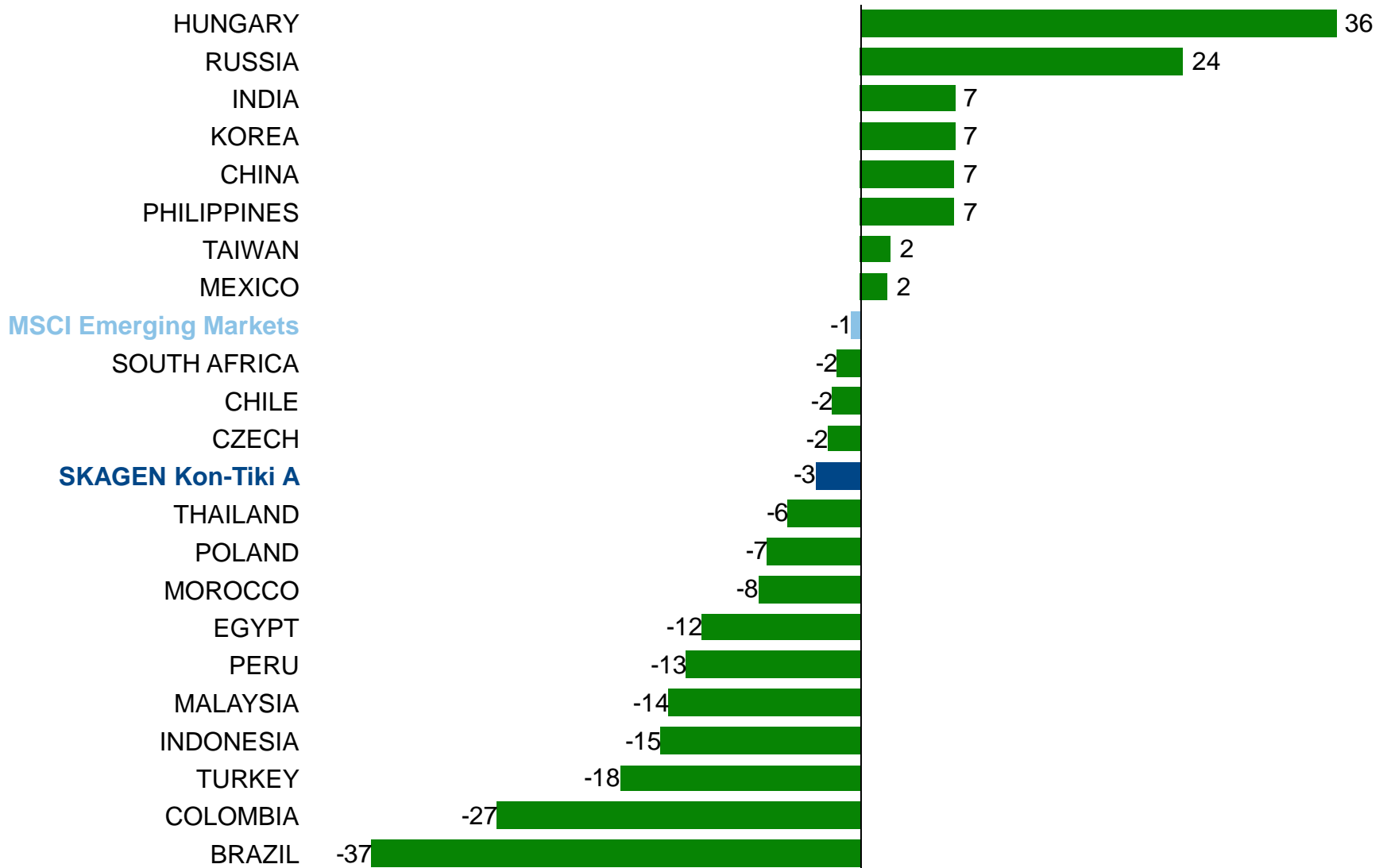
Emerging markets, October 2015 (in EUR)

Percent



Emerging markets, YTD 2015 (in EUR)

Percent



Main contributors MTD and QTD 2015

Largest positive contributors

Company	NOK Millions
Samsung Electronics Co Ltd	1 046
Naspers Ltd	168
X5 Retail Group NV	134
Haci Omer Sabanci Holding AS	111
Hyundai Motor Co	93
Frontline 2012 Ltd	91
Indosat Tbk PT	84
Moscow Exchange MICEX-RTS OAO	83
Investment AB Kinnevik	79
Great Wall Motor Co Ltd	73

Largest negative contributors

Company	NOK Millions
Mahindra & Mahindra Ltd	-125
Eros International Media Ltd	-92
Golden Ocean Group Ltd	-44
Diamond Bank PLC	-25
Tech Mahindra Ltd	-22
Marfrig Global Foods SA	-18
Norwegian Air Shuttle AS	-17
Apollo Tyres Ltd	-16
KULIM MALAYSIA BHD	-12
Korean Reinsurance Co	-8

Value Creation MTD (NOK MM):

2637

NB: Contribution to absolute return

Main contributors YTD 2015

Largest positive contributors

Company	NOK Millions
Samsung Electronics Co Ltd	820
X5 Retail Group NV	418
Frontline 2012 Ltd	388
Richter Gedeon Nyrt	372
Moscow Exchange MICEX-RTS OAO	271
Naspers Ltd	268
Shiseido Co Ltd	264
Bharti Airtel Ltd	209
KIWOOM Securities Co Ltd	207
UPL Ltd	199

Largest negative contributors

Company	NOK Millions
Banrisul	-596
AirAsia BHD	-433
Cosan Ltd	-391
Vale SA	-356
Hyundai Motor Co	-330
State Bank of India	-324
Haci Omer Sabanci Holding AS	-259
Hindalco Industries Ltd	-229
Aveng Ltd	-193
Tullow Oil PLC	-189

Value Creation YTD (NOK MM): 832

NB: Contribution to absolute return

Holdings increased and decreased, October 2015

Key buys during October

Cia Brasileira de Distribuicao

We took advantage of price weakness to increase the holding slightly.

Yazicilar

We took advantage of price weakness to increase the holding slightly.

Key sells during October

Kulim Malaysia (Out)

The stock has been among the better performers in the portfolio during the past 5 years, approaching target price.

Raiffeisen Bank (Out)

The stock rallied 23% in October and we used the strength to exit the position. We see limited upside given the risk in key markets and weakening capital position in the near term.

Hitachi (Out)

Exited the position due to changed risk assessment in the current climate.

Hengdeli (Out)

Sold out of the position as we anticipate weakening Chinese consumer spending and signs of watch market saturation.

Most important changes Q1 2015

Holdings increased

Q1	Petroleo Brasileiro SA	(New)
	Cia Brasileira de Distribuicao	(New)
	Hitachi Ltd	

Holdings reduced

Q1	Heineken NV	(Out)
	OCI NV	(Out)
	Rocket Internet AG	(Out)
	United International Enterpris	(Out)
	Afren PLC	(Out)
	Great Wall Motor Co Ltd	
	Bharti Airtel Ltd	
	Distribuidora Internacional de	
	Casino Guichard Perrachon SA	
	KIWOOM Securities Co Ltd	
	AP Moeller - Maersk A/S	
	Familymart Co Ltd	
	Tech Mahindra Ltd	

Most important changes Q2 2015

Holdings increased

Q2

China Shipping Development	(New)
Sberbank of Russia	(New)
Eros International Media Ltd	(New)
Haci Omer Sabanci Holding AS	
Golden Ocean Group Ltd	

Holdings reduced

Q2

Harbin Electric Co Ltd	(Out)
Value Partners Group Ltd	(Out)
Skyworth Digital Holdings Ltd	(Out)
MRV Engenharia	(Out)
KIWOOM Securities Co Ltd	(Out)
Yingli Green Energy Holding Co	(Out)
Exxaro Resources Ltd	(Out)
Siem Offshore Inc	(Out)
Avance Gas Holding Ltd	(Out)
AP Moeller - Maersk A/S	
Great Wall Motor Co Ltd	
Lenovo Group Ltd	
Shiseido Co Ltd	
Raiffeisen Bank International AG	
Samsung Electronics Co Ltd	
Casino Guichard Perrachon SA	
Hengdeli Holdings Ltd	
Kerry Logistics Network Ltd	

Most important changes Q3 2015

Holdings increased

Q3

Samsung SDI Co Ltd	(New)
China Shipping Development	
Cosan Ltd	

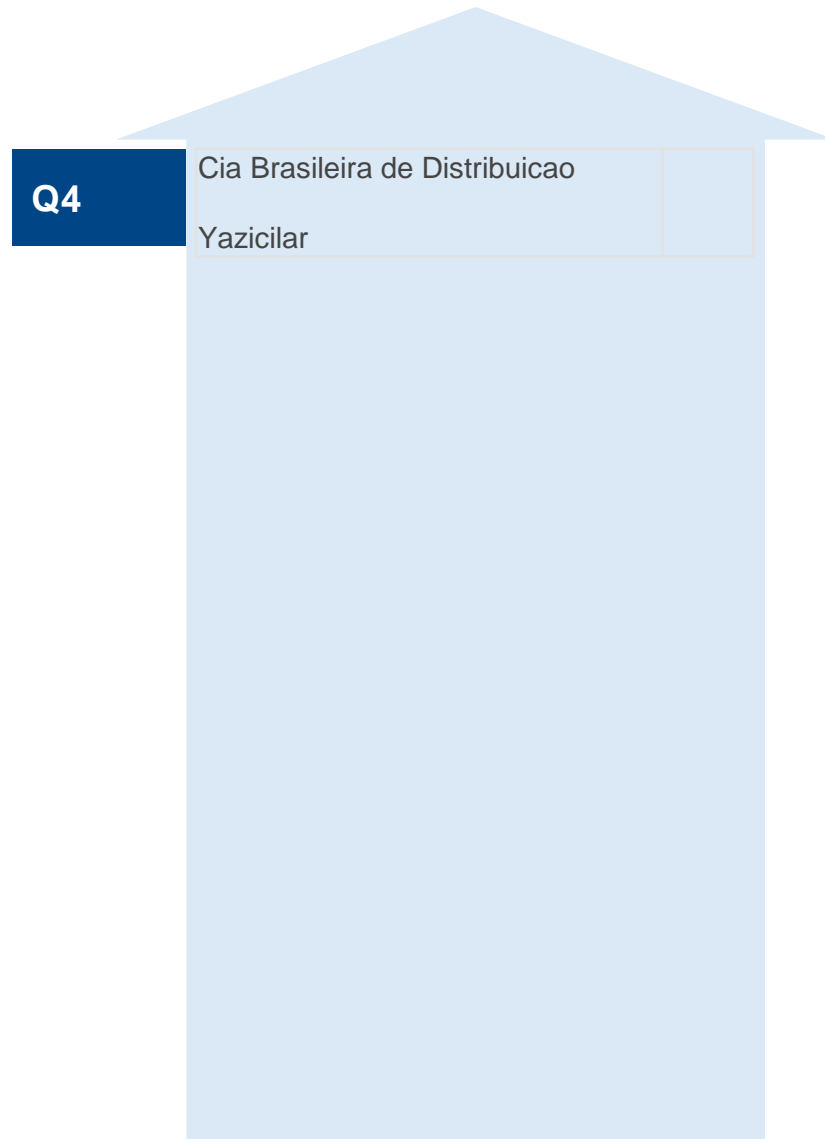
Holdings reduced

Q3

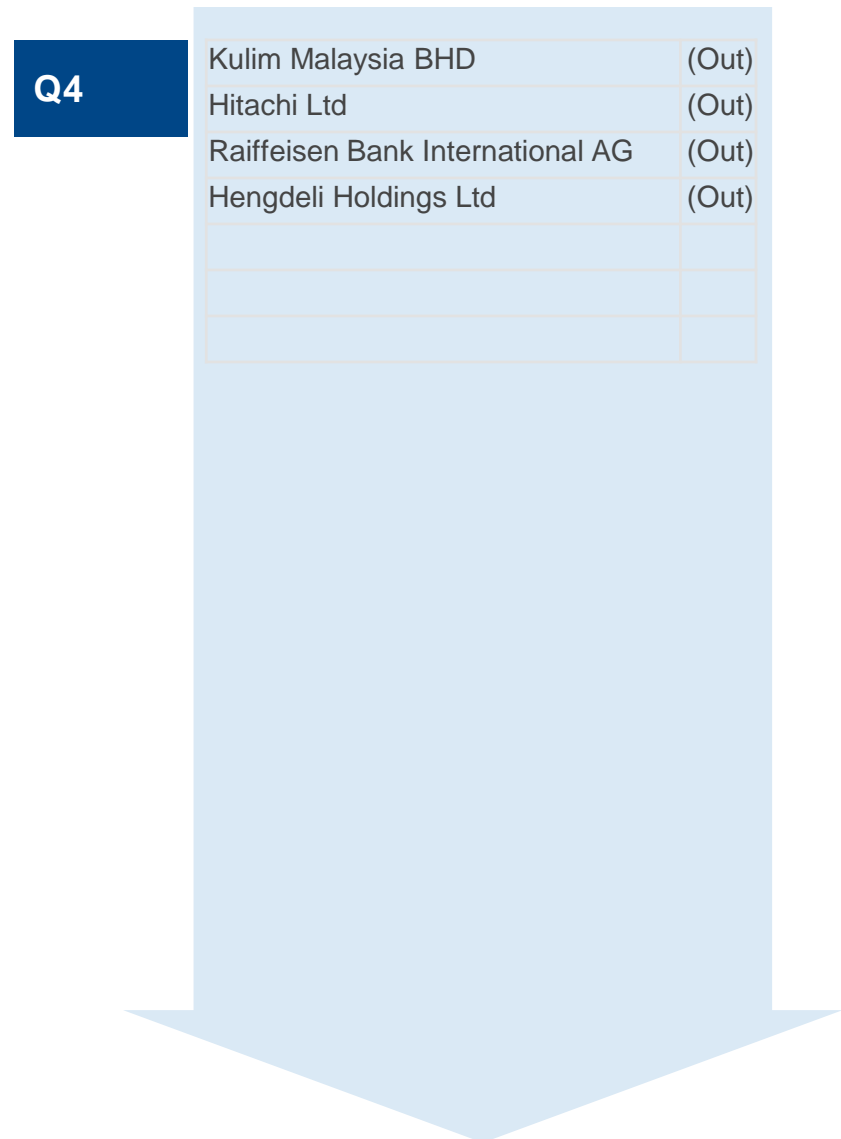
Familymart Co Ltd	(Out)
AP Moeller - Maersk A/S	(Out)
AirAsia BHD	(Out)
Casino Guichard Perrachon SA	(Out)
Shiseido Co Ltd	(Out)
Kerry Logistics Network Ltd	(Out)
Empresas ICA	(Out)
Hitachi Ltd	
Hyundai Motor Co	
ABB Ltd	
Samsung Electronics Co Ltd	

Most important changes Q4 2015

Holdings increased



Holdings reduced

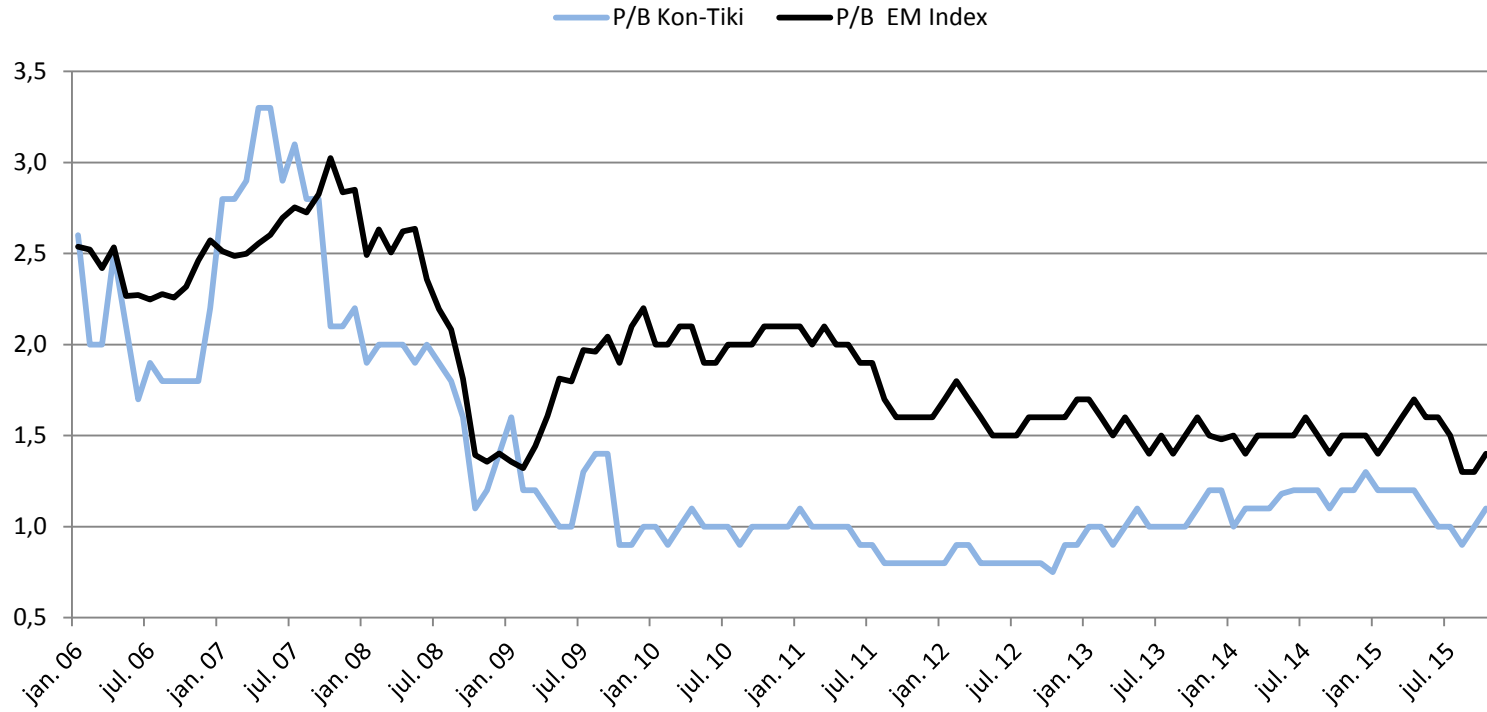


Largest holdings SKAGEN Kon-Tiki, end of October 2015

	Holding size, %	Price	P/E 2015e	P/E 2016e	P/BV last	Div. yield 15e (%)	Price target	Upside %
Samsung Electronics	9,4	1 195 000	7,2	7,2	1,0	2,1	1 600 000	34
Hyundai Motor	8,4	110 000	4,2	4,2	0,4	3,7	200 000	82
State Bank of India	4,3	237	7,2	6,8	1,1	1,9	450	90
Mahindra & Mahindra	4,3	1 184	15,8	12,5	2,7	1,2	2 000	69
Sabancı Holding	3,8	9,3	7,7	6,4	0,9	1,1	14	51
Bharti Airtel	3,4	349	17,5	11,6	2,2	0,7	400	15
Richter Gedeon	3,2	4 725	17,2	15,8	1,4	1,4	7 500	59
Naspers	3,0	2 027	40,5	27,0	10,5	0,3	2 500	23
ABB	2,9	160	16,0	13,4	2,8	3,4	250	56
X5 Retail Group	2,2	20,7	15,9	13,8	3,5	0,0	30	45
Great Wall Motor	2,1	9,5	7,5	7,5	2,1	3,9	13	41
Frontline 2012	1,9	60,0	12,0	12,0	2,3	8,3	80	33
Weighted top 12	48,8		8,3	7,8	1,1	2,3		53
Weighted top 35	77,8		8,8	8,2	1,0	2,4		55
Emerging market index			12,5	11,2	1,4	2,9		
Top 35 @ price target			13,9	12,8	1,7	1,5		

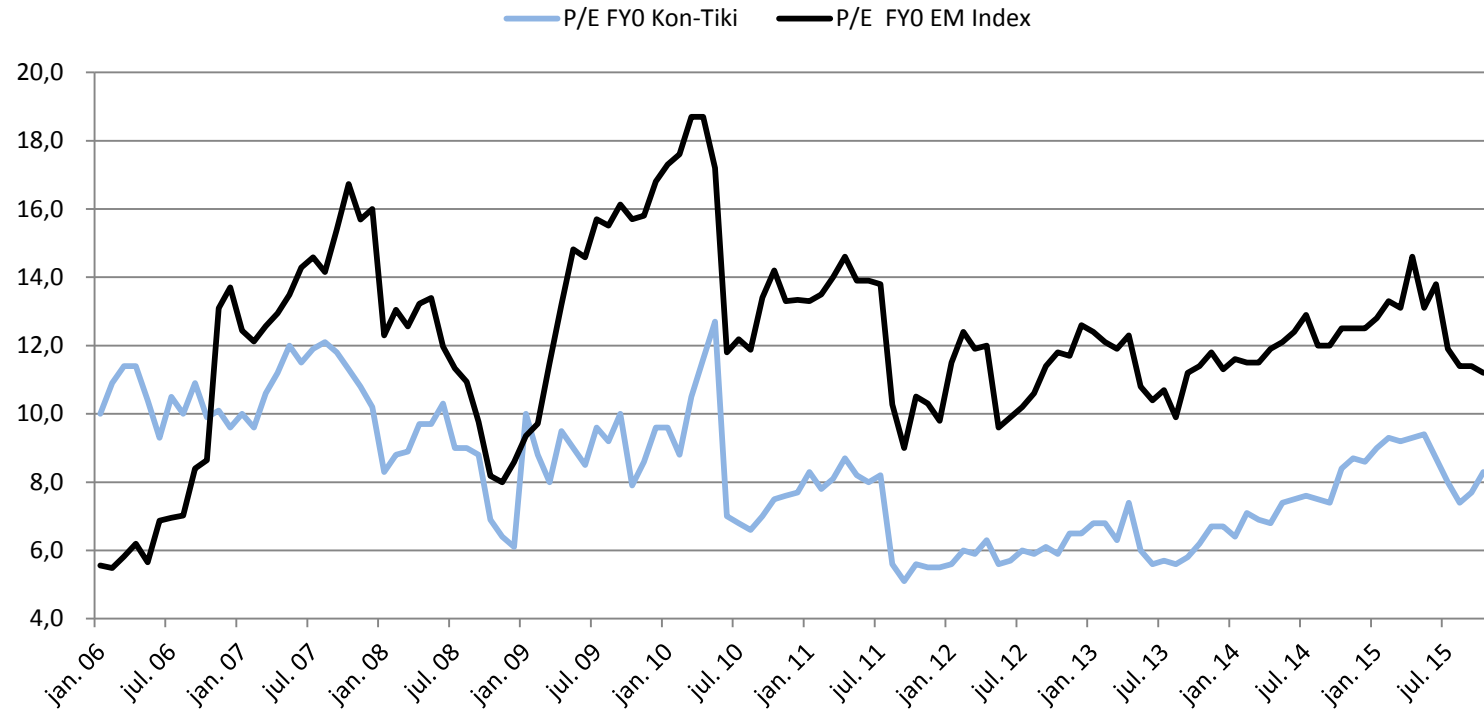
Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates.

P/BV for SKAGEN Kon-Tiki versus emerging markets



As of October 31, 2015

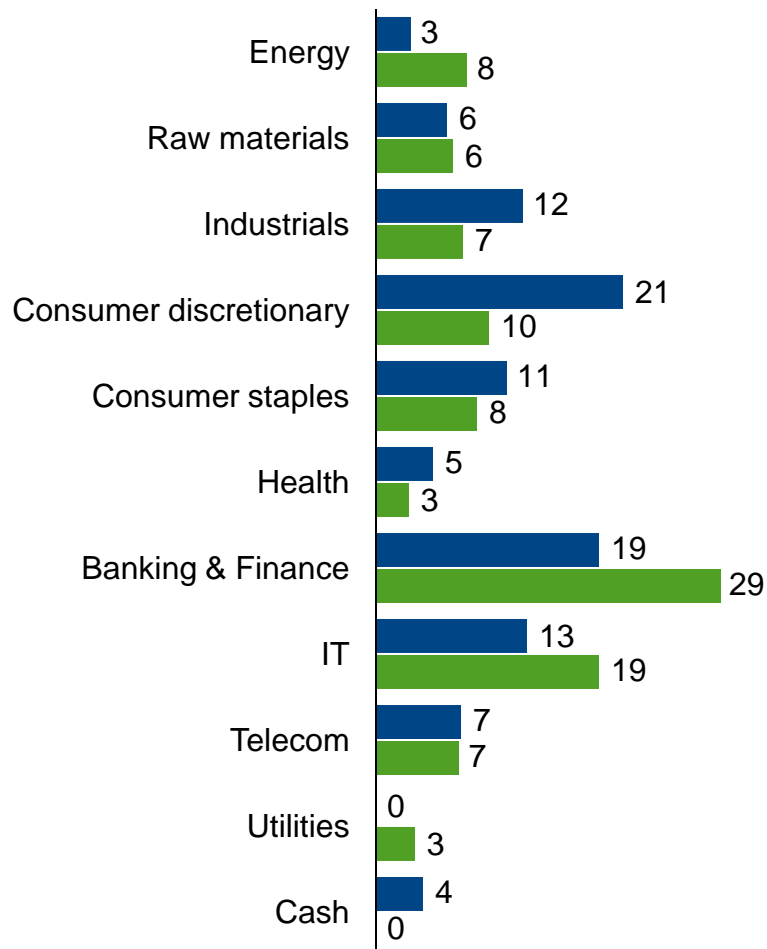
P/E SKAGEN Kon-Tiki versus emerging markets



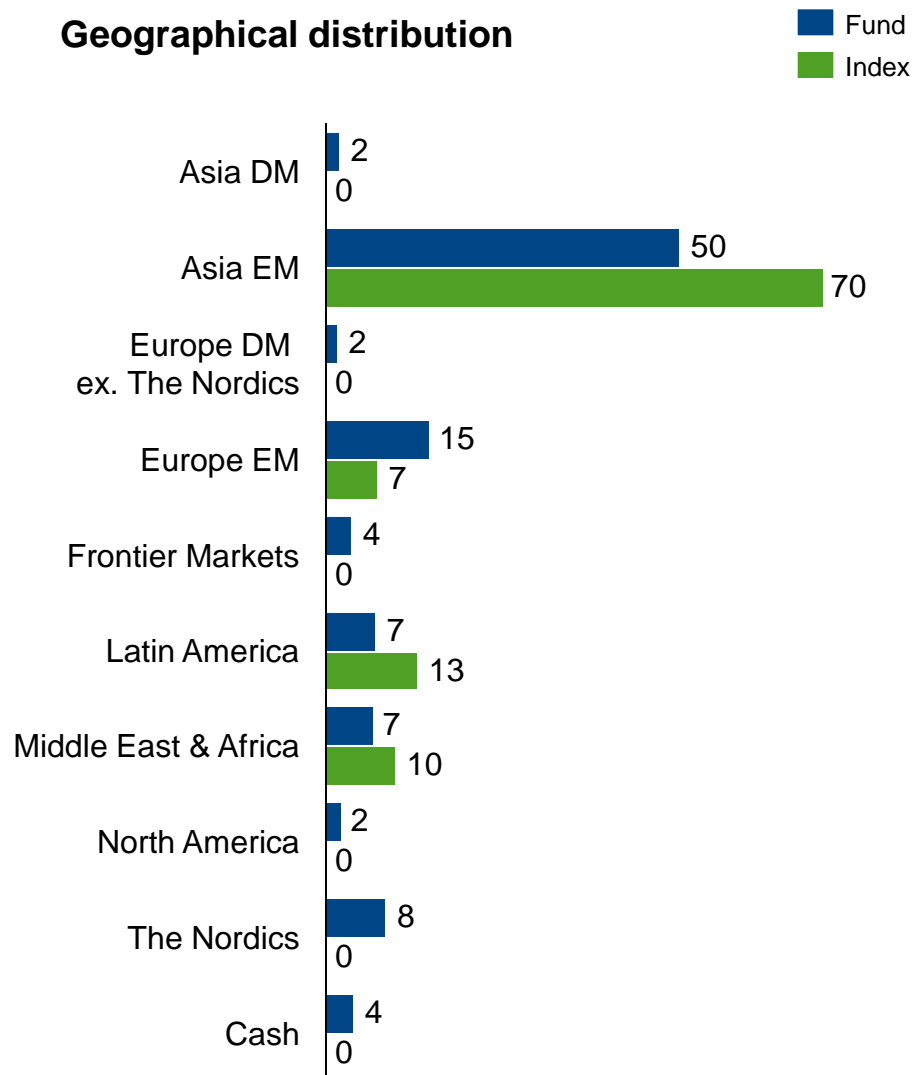
As of October 31, 2015

SKAGEN Kon-Tiki sector and geographical distribution

Sector distribution



Geographical distribution



Key earnings releases and corporate news, October 2015

**Naspers
(3.0% weight):**

Naspers (3.0% weight): Acquisition of majority stake in Avito is an attractive addition

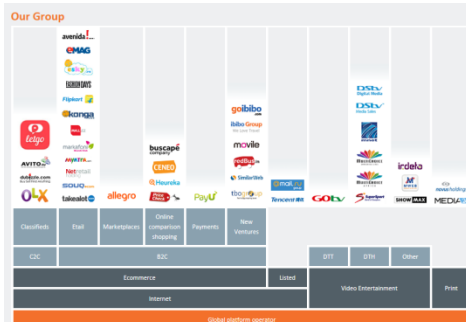
Implications for Investment Thesis: Slight positive – this is one of few examples where both the seller (Kinnevik) and the buyer see a positive share price reaction to a deal. The price seems fair (despite Kinnevik’s 15x return on investment) at a 10% premium to the implied value from Vostok New Ventures market cap, valuing 100% of Avito at USD 2.7bn. The assets will probably be better developed in Naspers’ hands given their existing leading online classifieds platform holdings. Avito has a solid outlook despite Russia’s weak economy. They are still in the very early stages of monetisation and the professional service fees create an additional optionality as this is still in the roll-out stage. Naspers now has controlling ownership of dominant operators in all large-scale emerging markets for online classifieds outside of China. Naspers’ classifieds segment is the key driver to ecommerce turnaround, with ZAR 5.2bn losses in 03/15.

Unpopular: Not at all (16 buys, 1 hold, 1 sell)

Under-researched: Not in terms of # of analysts but more so in terms of little attention to rump potential. Most analysts don’t attach much value to it despite the big investments that have been done and the positive trends we are seeing. Also, an average 15-20% holding discount is applied to SOP analysis which we find increasingly difficult to justify given their track record as well as collaborative way of working.

Undervalued: Naspers’ stake in listed holdings (Tencent and Mail.ru) is worth the same as Naspers’ equity value. That means you get the rest of the assets for free! These other assets represented 62% of sales in FY15 but only 19% of EBITDA, therein the potential. Based on a sum-of-the-parts valuation we see 25% upside to the share price without including much option value to the exciting opportunities presented by their various EM ecommerce plays.

Event summary: Naspers announced they are increasing their stake from 17.4% to 67.9% in Avito (USD1.2bn transaction), the leading Russian online classifieds platform. The transaction is subject to approval by anti-trust authorities and the South African Reserve Bank.



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

Samsung Electronics (9.2% weight):

Samsung Electronics (9.2% weight): A big early Christmas gift from Samsung to SKAGEN's unit holders

Implications for Investment Thesis: Very positive. Samsung announced that it intends to distribute 30-50% of FCF through dividend and share buybacks for 2015-2017. The magnitude was well above market expectations of c20% of FCF including buyback. Initial expectation is for the company to buy back 5% of ordinary shares and 17% of preference shares.

The most important takeaway from this announcement is an implicit read that the family does not need to increase its control in Samsung Electronics (as they are being rational and buying back over-proportionate amounts of the "cheap" non-voting pref. share and cancelling shares acquired). This should reduce the perceived governance risk and allow for a repricing towards our fair value.

Unpopular: No, with 86% buy, but in a Korean context this is not extremely popular. Buy-side seems to be on the sidelines amid corporate governance, risk for DRAM overcapacity and low conviction in a sustainable recovery for handset division.

Under-researched: No, but all 55 analysts use a P/E and P/BV approach versus historic valuation, failing to capture value of strong low-yielding cash position. Now starting to get employed.

Undervalued: Yes. Our pref. share price target of KRW 1.5tr is based on a 10% discount to sum-of-parts or a 10% pref. share discount.

Key catalysts are 1) implementation of sustainable dividend policy and share buy-back program for cancellation, 2) further earnings surprises and 3) recovery of handset margins with new more consolidated product line up. Longer term, when chaebol restructuring is completed, we see an ADR listing by reissuing treasury shares as an opportunity. A split of the products (handset, TV, etc.) and components (semiconductor, display screens etc.) would be major catalysts, but are less likely, at least in the short term.

Key risks are 1) excessive industry CAPEX growth in semiconductor, 2) further margin erosion in handset division. We have removed "no governance change" as a key risk factor.



The largest companies in SKAGEN Kon-Tiki



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



Hyundai Motor is the world's 4th largest car maker, including their 39% stake in Kia Motor. Sold 4.7m cars in 2013 and has a ca. 5% global market share. Focus on smaller/less expensive cars. Strong position in several countries and in emerging markets such as India and China.



Largest bank in India with 17% market share (ca. 25% including 5 associate banks). Also presence in life insurance, asset management and investment banking. 15,000 branches, 32,000 ATMs, 130 million customers and over 220,000 employees. Largest Indian overseas bank with 190 offices in 34 countries.



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



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

The largest companies in SKAGEN Kon-Tiki (continued)



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



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



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

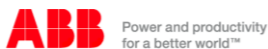


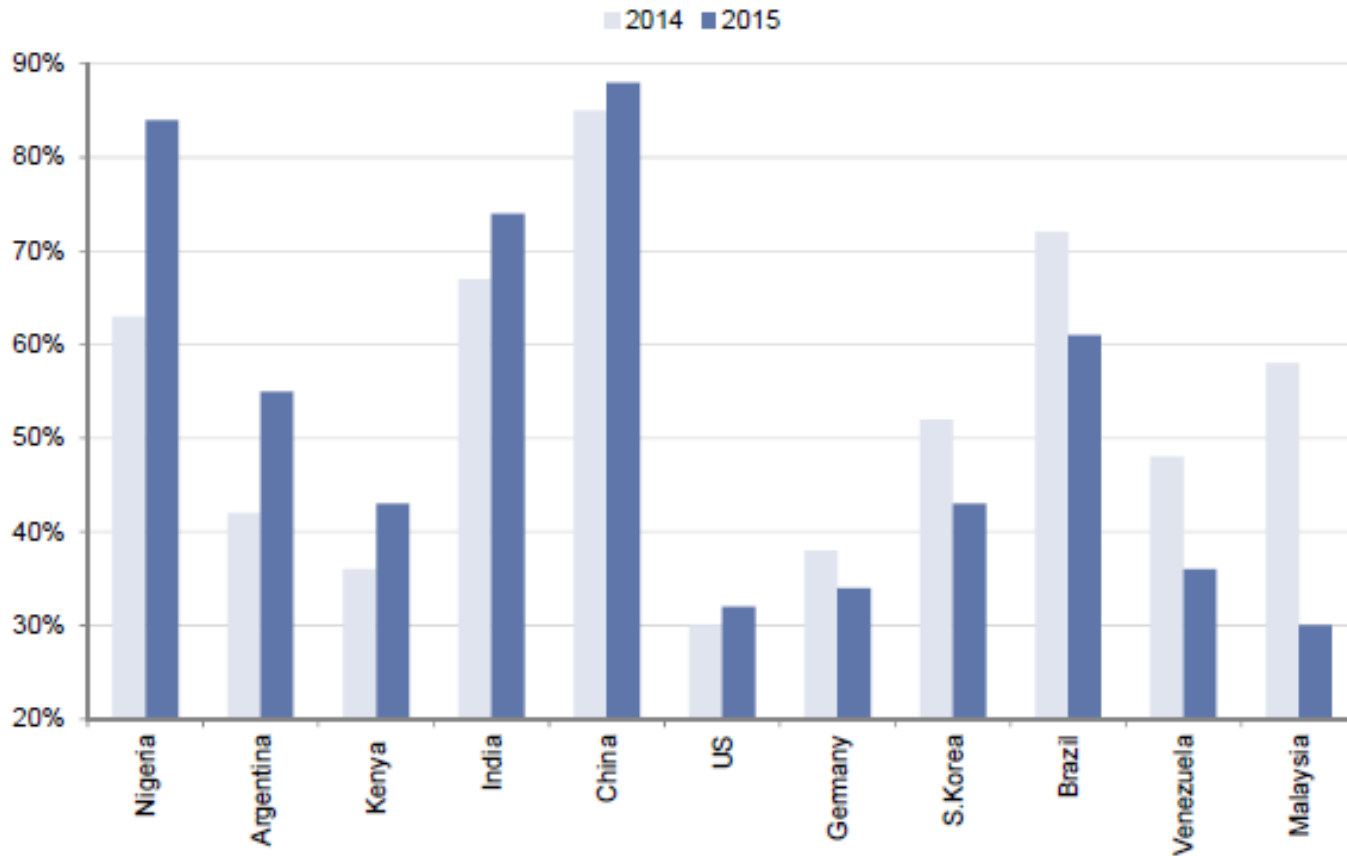
ABB is a leader in power and automation technologies that enable utility and industrial customers to improve performance while lowering environmental impact. The group operates in around 100 countries and employs 146,000 people. Approximately 50% of sales stem from emerging markets and this share is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



X5 is a leading Russian food retailer, operating through several retail formats: discount stores under the Pyaterochka brand, supermarket chain under the Perekrestok brand, hypermarket chain under the Karusel brand and convenience stores under different brands. Modern retail is gaining share in the Russian retail market, and X5 is well positioned with their formats in the current difficult trading environment.

Additional information

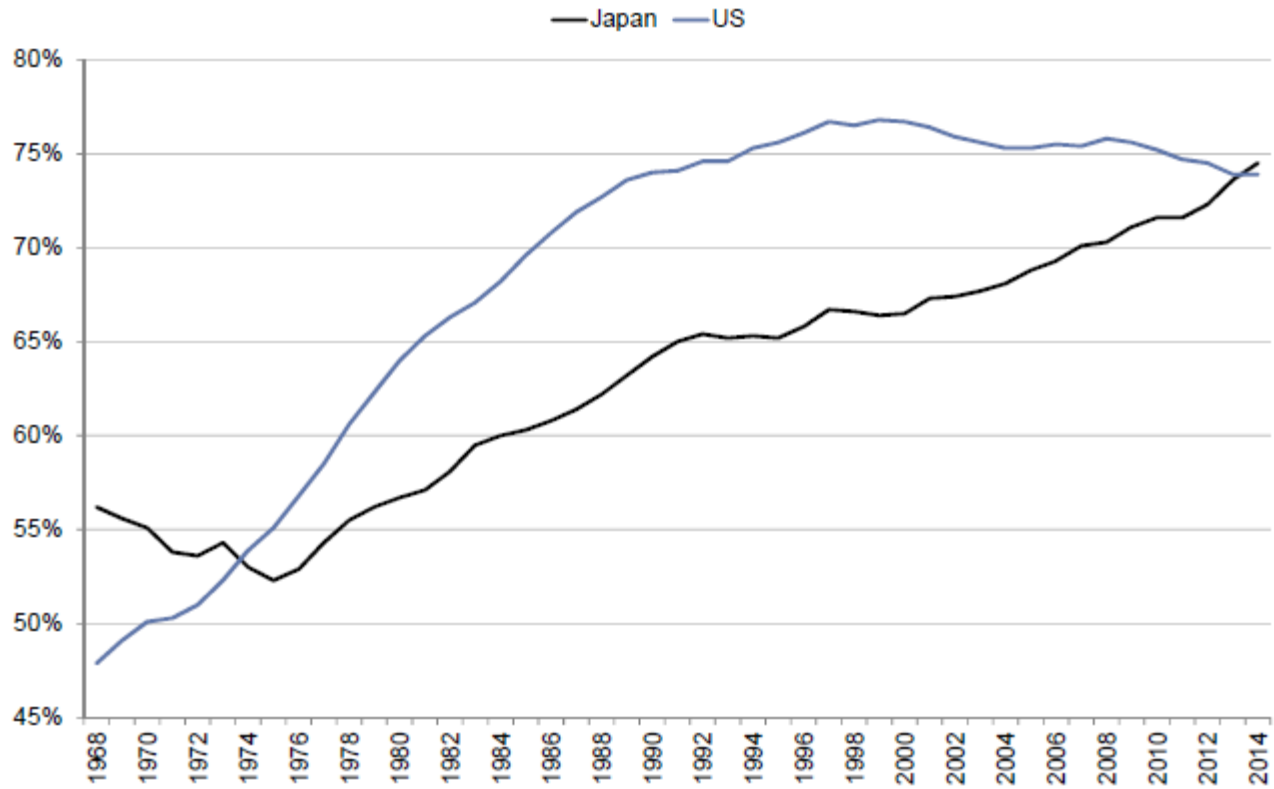
Where children, when they grow up, will be financially better off than their parents



Source: Respondents in each country conducted by Pew World Research.

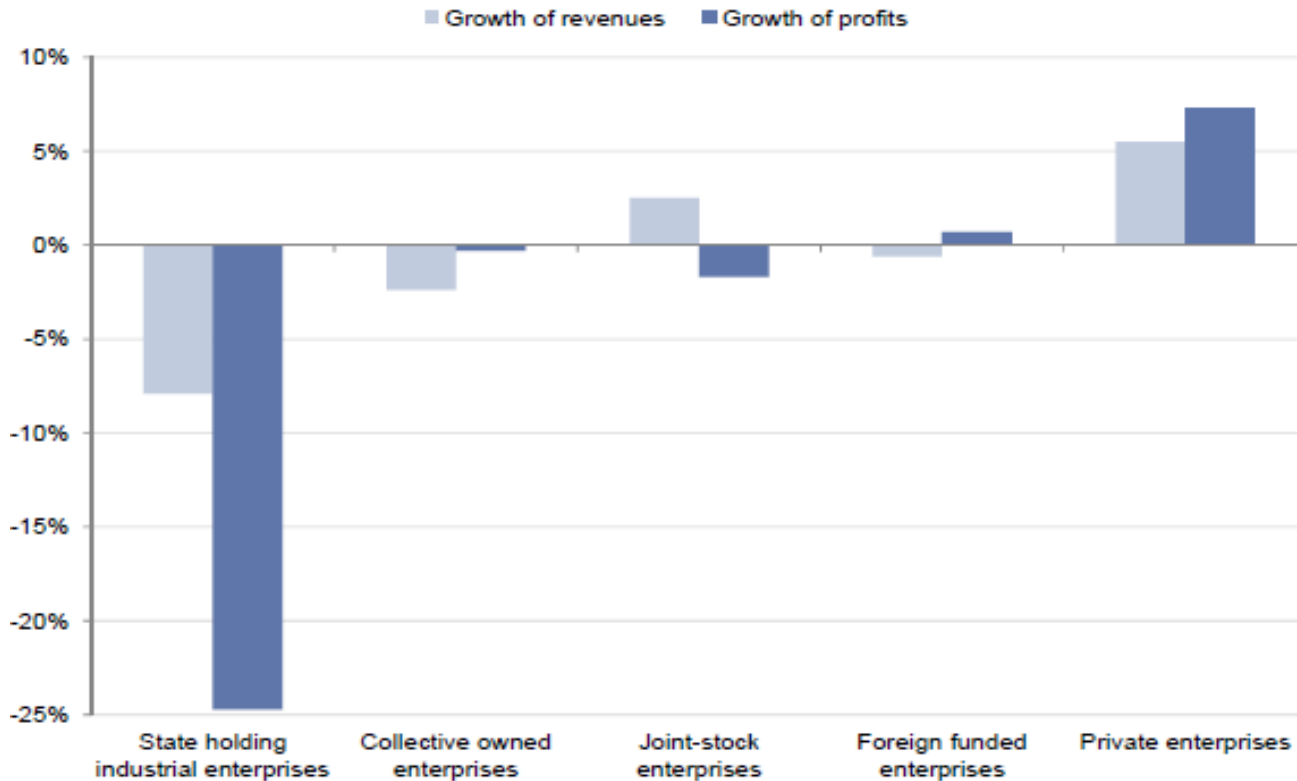
Female labour force participation rate 25-54 year olds

1968-2014



Growth rate of revenue and profits across enterprises in China

YTD 2015 through August



Source: NBS, Goldman Sachs Research.

For more information please visit:

Our latest [Market report](#)

Information about [SKAGEN Kon-Tiki A](#) on our web pages

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

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

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