



SKAGEN Vekst

Status Report – September 2016

The art of common sense

Summary – September 2016

- September was another calm month for SKAGEN Vekst and marked the end of a strong third quarter for the fund. In September SKAGEN Vekst was up 0.4% versus a drop of 0.3% for the index. In the third quarter, SKAGEN Vekst gained 9.6% versus a 4.5% increase for the combined index – this is an outperformance of more than 5%. Year-to-date the fund is up 3.1% versus 0.5% for the index.
- In general the Nordic markets had a fairly strong third quarter, although Denmark experienced slightly harsher market conditions. The European market also seems to have shaken off the worst of the Brexit fears and delivered a decent return for the period. A great deal of the concern has now moved across the Atlantic to the ongoing presidential campaign. We expect this to cause some turmoil in the run-up to November. We also see the potential that this uncertainty may spread to other countries that have upcoming elections.
- Measured in NOK, the largest contributors in September were the Swedish cosmetics company Oriflame, which continued its strong performance, the Norwegian shipping company Wilh. Whilhelmsen Holding and Swedish truck company Volvo. The fund's largest detractors were Samsung Electronics, H&M and Continental.
- SKAGEN Vekst consists of 52 positions with 91% of the fund invested in the 35 largest positions. During the month we continued to add to some of our investments including the Swedish clothing company H&M as well as the Swedish investment company Kinnevik. We trimmed holdings that have been approaching their price targets, largest amongst these were Samsung Electronics and Philips.
- SKAGEN Vekst continues to be an active investment fund with solid foundations in SKAGEN's value-based investment philosophy. We continue to buy companies that we believe are undervalued and which will over time provide excess returns. Currently the 35 largest positions in the fund trade at 13x P/E for this year versus the index at over 17x.

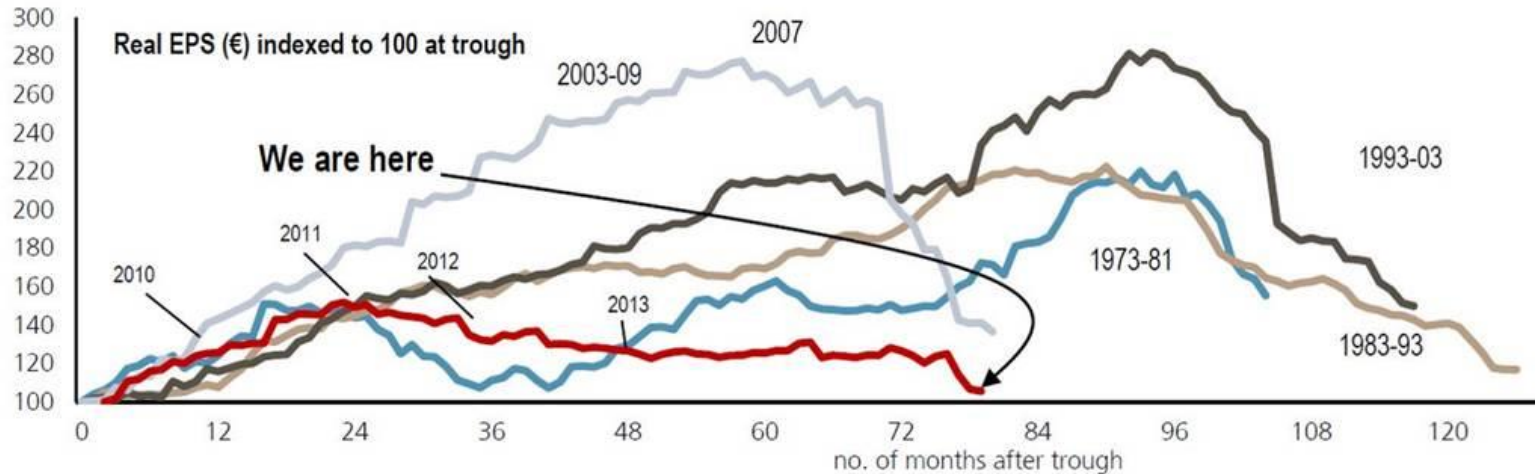
Unless otherwise stated, all performance data in this report is in EUR, for class A units and is net of fees.

** SKAGEN Vekst's benchmark index is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World Index*

Seeing the trough of the earnings cycle – better European numbers to come?

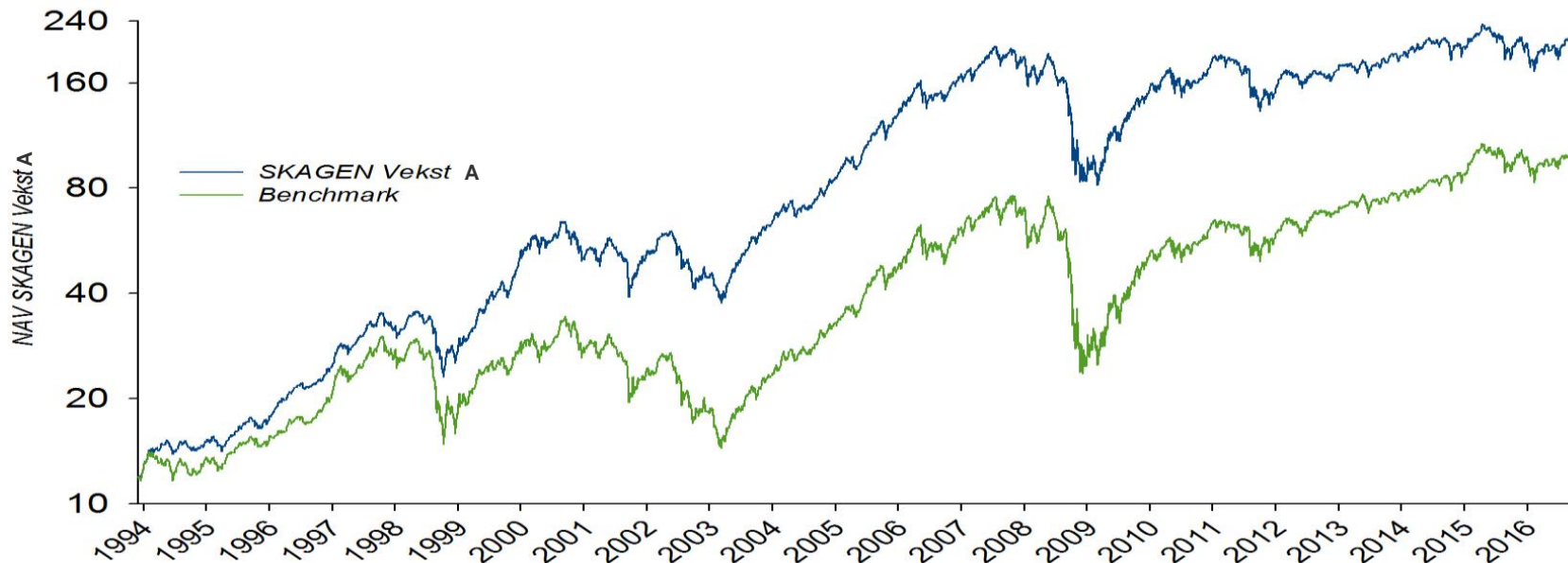
- Companies have re-based their activity and cost base for 2017 and into 2018
- Large currency fluctuations have had a transitory effect (a weaker euro should be positive for Europe)
- Valuations in Europe provide a buffer for potential negative surprises

Figure 25: Profit cycle: slowest in 50 years. Each cycle is rebased to 100 at trough of the last cycle (MSCI Europe, real)



Source: Datastream, MSCI, UBS European Equity Strategy.

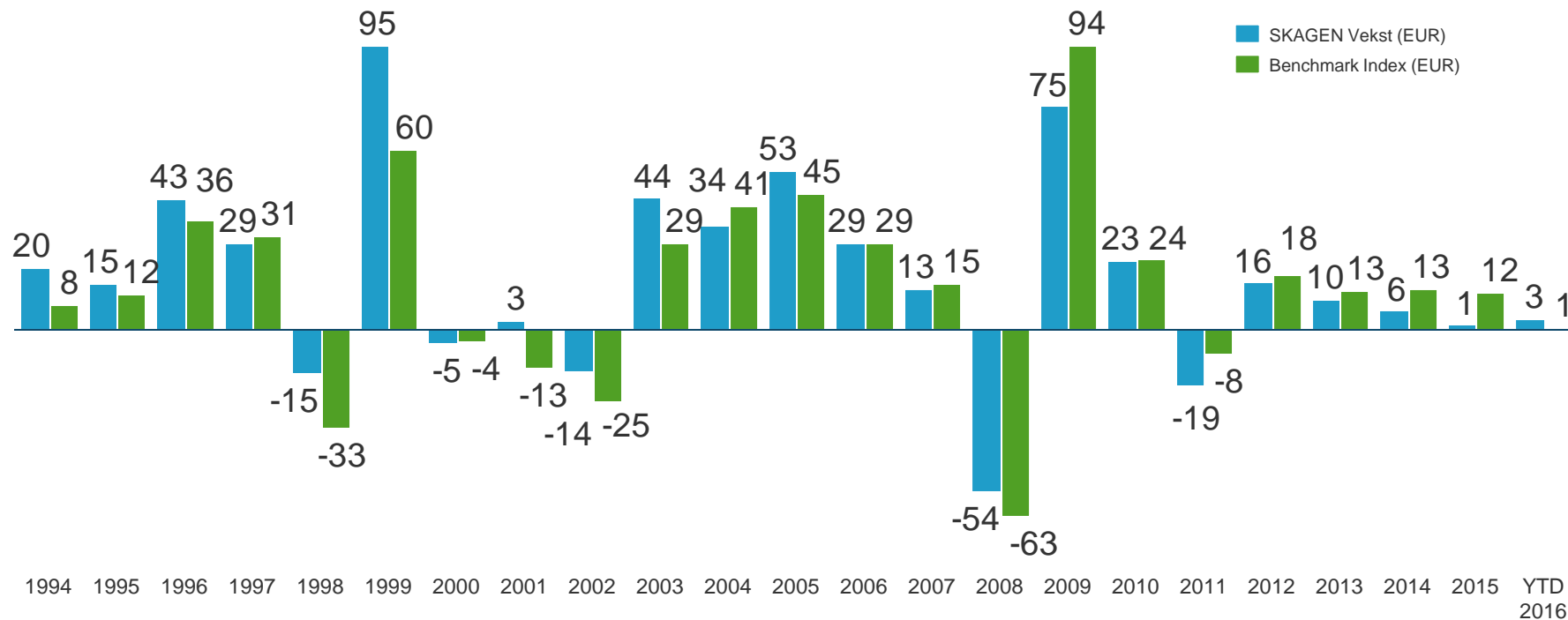
SKAGEN Vekst results, September 2016 (EUR net of fees)



	September	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Vekst A	0,4%	9,6%	3,1%	11,1%	5,3%	8,7%	3,7%	13,4%
Benchmark index*	-0,3%	4,5%	0,5%	9,0%	10,6%	13,6%	6,8%	9,7%
Excess return	0,7%	5,0%	2,6%	2,1%	-5,3%	-4,9%	-3,0%	3,8%

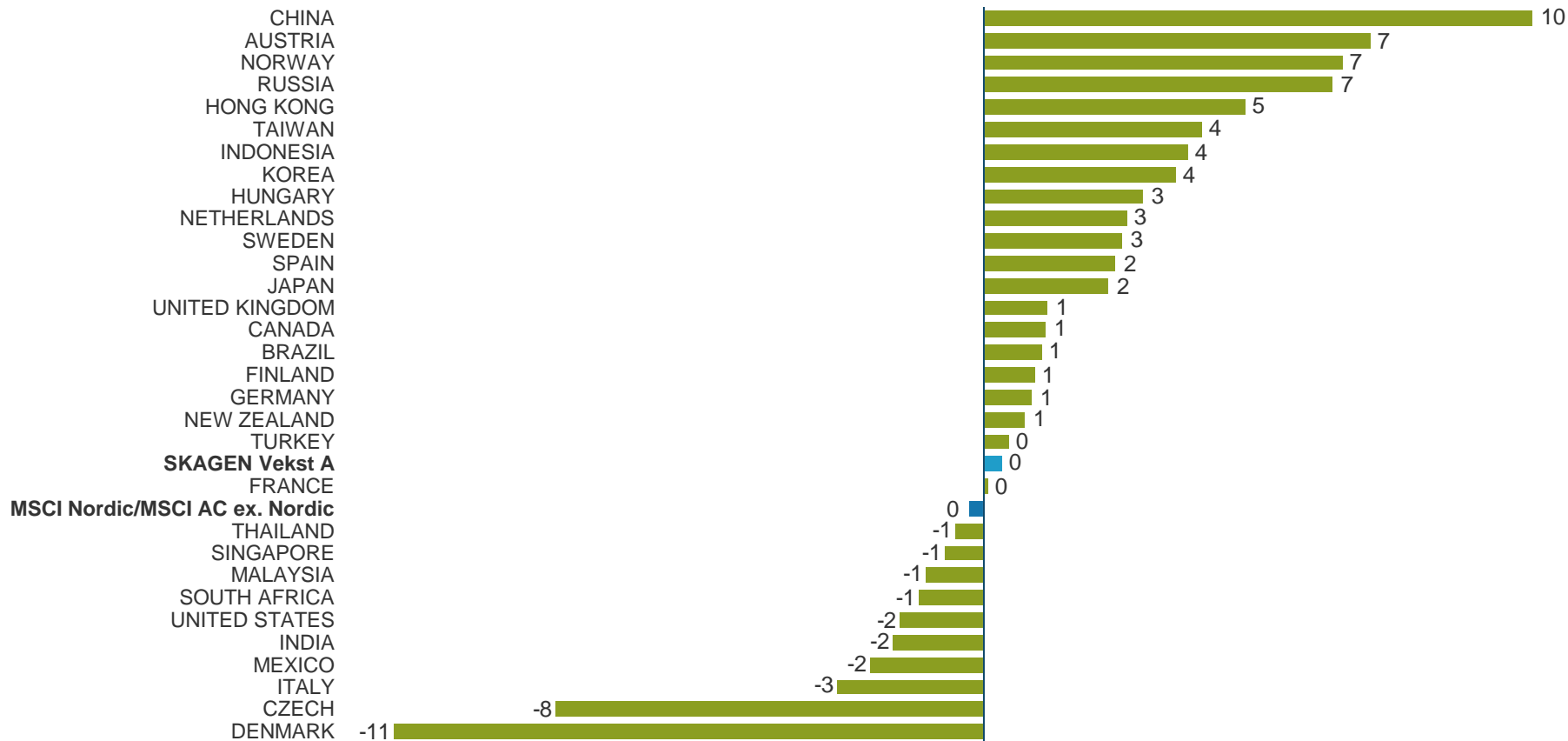
Note: All returns for periods exceeding 12 months are annualised. Inception date: 1 December 1993. Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its assets in Norway to investing a minimum of 50% of its assets in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than exist today. The Fund's benchmark index prior to 1/1/2014 was an evenly composed benchmark index consisting of the Oslo Stock Exchange Benchmark Index (OSEBX) and the MSCI All Country World. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX). Today the benchmark is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World

Annual performance since inception (%)*



Note: All returns for periods exceeding 12 months are annualised. Inception date: 1 December 1993. Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its assets in Norway to investing a minimum of 50% of its assets in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than exist today. The Fund's benchmark index prior to 1/1/2014 was an evenly composed benchmark index consisting of the Oslo Stock Exchange Benchmark Index (OSEBX) and the MSCI All Country World. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX). Today the benchmark is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World

Markets in September 2016, EUR (%)



Largest holdings SKAGEN Vekst, end of September 2016



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

	Weight in portfolio	Price	P/E 2016e	P/E 2017e	P/E 2017e	P/B trailing	Target price
Samsung Electronics	6,6 %	1 290 000	8,6	7,6	7,2	1,0	1 500 000
Continental AG	5,9 %	187	12,8	10,7	9,7	2,9	275
SAP SE	5,2 %	81	21,1	19,1	17,3	4,3	99
Citigroup Inc	5,0 %	47	9,4	8,3	7,5	0,6	65
Norwegian Air Shuttle	4,9 %	293	9,1	5,9	5,3	3,8	500
Carlsberg AS-B	4,7 %	632	18,4	16,2	14,4	2,2	830
Kinnevik AB-B	4,1 %	219	109,4	36,5	34,2	0,8	295
Norsk Hydro ASA	3,9 %	34	13,8	10,4	9,8	0,9	45
Ericsson LM-B SHS	3,7 %	62	18,8	13,8	11,9	1,5	88
Hennes & Mauritz AB	3,5 %	242	19,4	16,1	14,2	8,1	400
Weighted average 10	47,5 %		13,6	10,8	9,9	1,4	39 %
Weighted average 35	91,4 %		12,7	10,3	9,2	1,5	41 %
Reference index			17,3	15,4	13,9	2,1	

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

Main contributors MTD 2016

Largest positive contributors

Company	NOK Millions
Oriflame Holding	22
Golden Ocean Group	9
Wilh Wilhelmsen Holding	8
Swatch Group	4
Volvo	4
Sberbank of Russia	3
Nordic Mining	1
Kemira	0
Philips Lighting	0

Largest negative contributors

Company	NOK Millions
Samsung Electronics	- 29
Hennes & Mauritz AB	- 26
Citigroup	- 25
Continental	- 21
H Lundbeck	- 15
Telia	- 13
Cal-Maine Foods	- 13
Norwegian Air Shuttle	- 12
Ericsson	- 10
Danske Bank	- 10

Value Creation MTD (NOK MM): - 232

NB: Contribution to absolute return

Main contributors QTD 2016

Largest positive contributors

Company	NOK Millions
Oriflame Holding	65
SAP	57
Norsk Hydro	54
Samsung Electronics	48
eBay	45
Philips	34
ABB	30
Continental	26
Volvo	23
Citigroup	22

Largest negative contributors

Company	NOK Millions
Ericsson	-24
Roche Holding	-22
Hennes & Mauritz AB	-20
Telia	-19
Bonheur	-12
H Lundbeck	-11
Carlsberg	-11
HitecVision	-10
Cal-Maine Foods	-10
Rec Silicon	-7

Value Creation QTD (NOK MM): 385

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Oriflame Holding	134
Samsung Electronics	66
eBay	42
Sberbank of Russia	41
Norsk Hydro	34
Volvo	34
Lundin Petroleum	27
ABB	27
Wilh Wilhelmsen Holding	25
Sodastream International	20

Largest negative contributors

Company	NOK Millions
Continental	-122
Credit Suisse Group	-106
Ericsson	-94
Citigroup	-74
Telia	-48
Kia Motors	-40
Roche Holding	-39
Hennes & Mauritz AB	-38
Kinnevik	-32
Frontline	-31

Value Creation YTD (NOK MM): -286

NB: Contribution to absolute return

Most important changes Q3 2016

Holdings increased

Q3

Hennes & Mauritz AB
Kinnevik
Shire
Norwegian Air Shuttle
Danske Bank
CF Industries Holdings
SKF
Ericsson
Philips Lighting
Roche Holding
Swatch Group

Holdings reduced

Q3

Frontline (Out)
Norsk Hydro
Samsung Electronics
Oriflame Holding
Philips
Carlsberg
SAP
Volvo
Credit Suisse Group
ABB
Catena
Solar

Key buys and sells in September 2016

Key buys

H&M

- During the third quarter we almost doubled our holding in the Swedish-based multinational clothing-retail company H&M after the share price took another beating on the back of fears that growth may not continue.
- Key to the investment case is the continued and measured development of the business. We find many internal triggers that could potentially stabilise and smooth out the gross margins. The current multiyear low was an attractive point for Vekst to increase the holding weight for a long-term investor.

Key Sells

Samsung Electronics

- Continues to be the largest holding in the fund, but towards the end of the summer we trimmed the holding somewhat following strong share price performance.
- Most of the trimming was done before the announcement regarding the company's challenges with Note 7.
- We continue to see strong development in the company's core operations and combined with signs of better and more shareholder friendly corporate governance, we maintain our large position.

Key earnings releases and corporate news, September 2016

H&M
(3.5%)

Another weak report from HM; short-term risk of more markdowns due to warm autumn

Investment case update

H&M continues its expansion as planned - 425 new stores will be opened this year (214 will be opened in Q4), and they still see store expansion at 10-15% for the coming years. The big investments in IT and development of new brands have weighed down profitability for years, but these have been necessary to create a solid base for sustainable and profitable growth. H&M's sales per store have been reduced by 7% over the past 5 years, and as can now be seen in China, the rapid expansion has led to internal cannibalism causing negative like-for-like figures. However, gross margins (54%) seem to have stabilised somewhat, and the latest fall in share price is very much due to markdowns (cold weather in the spring and a warm August) and currencies. We believe the improved outlook, reduced capex and stabilising gross margins indicate that H&M is on track to deliver profitable growth and further expansion.

3U Update

Unpopular: yes, above 60% sell/hold as the H&M earnings growth case has been increasingly questioned as of late

Under-researched: No, "everyone" covers H&M

Undervalued: yes, as long as they can continue to grow more than 10% per year and gross margins stop falling, we can see above 50% upside within 2-3 years. Continued and considerable insider buying also a strong sign of faith in strategy.

Fact

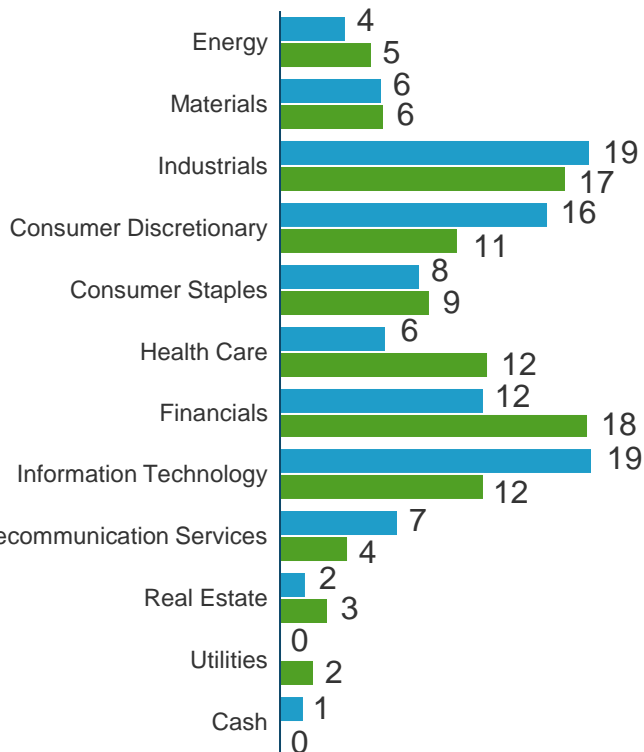
Sales in Q3 amounted to SEK 49bn (ex VAT) and profit before tax came in at SEK 6.3bn. Sales increased by 8% in local currency (6% in SEK). Sales were good in most markets up until mid-August. Thereafter sales were negatively affected by unseasonably hot weather which continued well into September. The sales performance in Q3 and increased markdowns had a negative impact on profit development. In addition, profits continued to be negatively affected by the strong USD effect on purchasing costs.

Jobs By
H&M

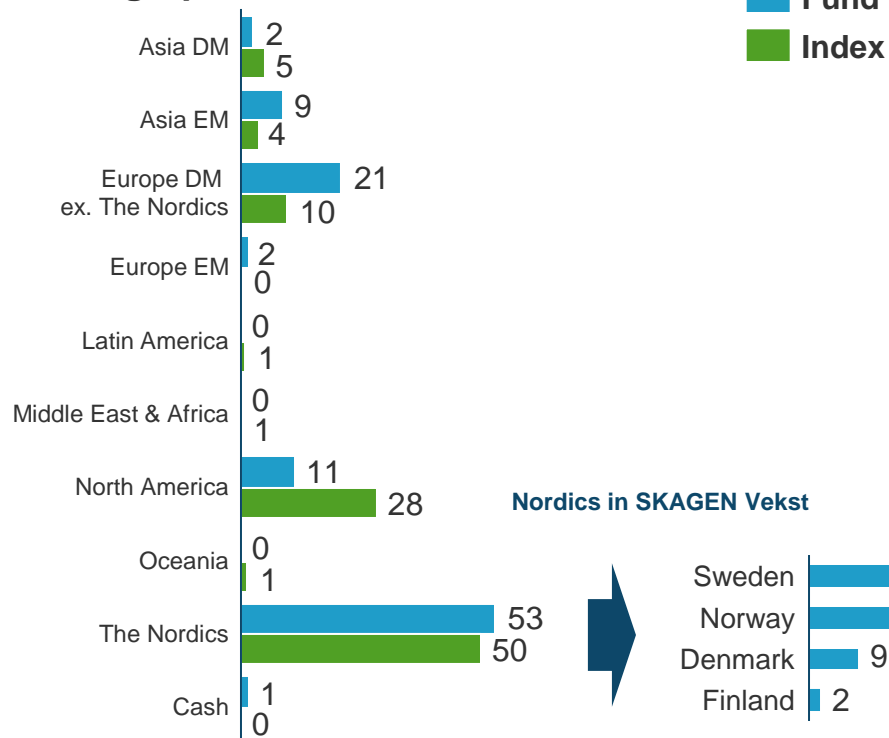


SKAGEN Vekst sector and geographical distribution

Sector distribution



Geographical distribution



The largest companies in SKAGEN Vekst



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



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



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



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



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

The largest companies in SKAGEN Vekst (continued)



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



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



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



Ericsson is a Swedish multi-national corporation that provides communication technology and services. The company was founded in 1876 and currently has a revenue of SEK 227bn. Ericsson had 33% market share in the 2G/3G/4G mobile network infrastructure market in 2014.



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

For more information please visit:

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

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

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