

## An unpredictable start to the year

The global equity markets displayed a notable increase in volatility in the first quarter of the year. The higher volatility was mainly driven by the unpredictable outcome of the Trump-initiated global trade wars and the subsequent fear of higher inflation and interest rates. The fund's performance was ahead of underlying global equity markets in the period.

The South Korean based apparel maker Fila Korea, was one of the better performers. The company reported solid numbers driven by Acushnet and a continued domestic turnaround. All segments turned profitable and the company's stake in Acushnet alone is worth almost as much as the entire market cap of Fila Korea.

Another strong performer was SBI Securities, which announced strong financial performance in the quarter as profit increased in excess of 25 percent over last year as trading activity in the Japanese equity market picked up. The market is currently discovering the value potential in the company's asset base, especially in the exposure related to Ripple, its transaction network and the currency XRP. IPOs are expected for the biotech unit and SBI Insurance in the coming year.

Telecom Italia came back to life after activist Elliot challenged the controlling shareholder Vivendi, and company board reshuffling is underway, with Elliot nominating a slate of new directors. The activist's

agenda includes a full separation of the fixed network, reduction of debt levels and the introduction of a dividend. The stock valuation is highly attractive with an almost 10 percent free cash flow yield and the share trades at a 40-50 percent discount to peers on a sum-of-the parts basis.

The French auto-maker Renault catapulted higher following speculation that a full merger with Nissan is drawing closer. The company has announced solid unit sales and is benefiting from a continued emerging markets recovery. The company extended CEO Carlos Ghosn's contract by four years with an aim to solidifying their relationship with Nissan.

A weaker position in the quarter was AIG which recently announced the acquisition of reinsurer Validus, and reported yet another weak quarter with poor fundamental trends. The equity valuation remains attractive and there is substantial potential for higher mid-term return on equity.

Hanil Cement, the market leader in Korean cement, was weak in the quarter following a strong last year. The company announced a plan to separate the company into a holding company and an operating company later this year. The stock continues to trade at a significant discount to global cement peers while we see several catalysts for change. We closed our position in Swiss baker Aryzta, as the investment case's fundamental backdrop has materially changed for the worse.



Renault has announced solid unit sales and is benefiting from a continued emerging markets recovery. Photo: Bloomberg

### Key buys

Fund activity continued to be brisk with a total of five new positions added in the quarter. Some of the new positions include US Media Company Viacom, US Communications Company Avaya Holdings and Hawaiian Holdings, the owner of Hawaiian Airlines.

As energy prices have climbed meaningfully over the past six months, so have input costs for many industries, especially airlines. This situation uncovered an opportunity for us to establish a position in Hawaiian Holdings, owner of Hawaiian Airlines, during the quarter at an unusually attractive valuation level as a number of factors have put excessive pressure on the stock. Hawaiian Holdings also adds a negative energy price exposure as the company fundamentally benefits from lower energy prices, which reduces the fund's overall exposure to energy prices at an aggregated portfolio level. Hawaiian Airlines is the tenth largest domestic airline in the US. Since its beginning in 1929, Hawaiian Airlines has provided domestic flight services but has also expanded into mainland US/Asia routes to the islands. In our view, the market is overly focused on the company's competition, while underestimating their competitive advantage, local infrastructure and growth potential in Asia.



The South Korean based apparel maker Fila Korea, was one of the better performers. Photo: Bloomberg.

### Key sells

We exited Japanese cement producer Taiheiyō Cement, UK beverage company Stock Spirits and US refiner Andeavor following a re-rating towards our price targets. Our exposure to the Japanese equity market remains high, constituting more than 20 percent of the fund's assets.

### Outlook

At the end of the quarter, SKAGEN Focus holds 35 positions where more than half of the fund's assets are invested in small and mid-cap positions. The top ten positions currently account for 45% of the fund's assets. We believe these positions are substantially undervalued and have the company-specific potential to re-rate towards our price targets over our mid-term perspective of two to three years.

The fund is a concentrated global equity fund with a mandate to invest in all cap-sizes, geographies and sectors globally. With our concentrated portfolio of 30-35 core positions, we aim to generate absolute returns at a controlled level of absolute risk.

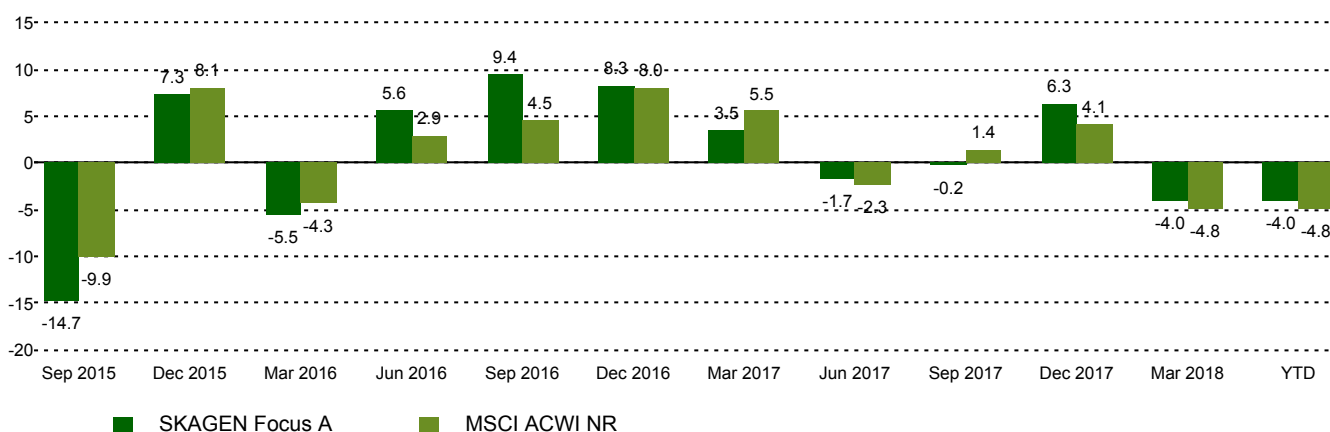
## Historical performance (net of fees)

Period	SKAGEN Focus A	Benchmark index
Last month	-3.6%	-5.4%
Quarter to date	-4.0%	-4.8%
Year to date	-4.0%	-4.8%
Last year	0.1%	-1.8%
Last 3 years	n/a	n/a
Last 5 years	n/a	n/a
Last 10 years	n/a	n/a
Since start	1.3%	2.3%

## Fund Facts

Type	Equity
Domicile	Norway
Launch date	26.05.2015
Morningstar category	Global Flex-Cap Equity
ISIN	NO0010735129
NAV	12.30 EUR
Fixed management fee	1.60%
Total expense ratio (2017)	1.48%
Benchmark index	MSCI ACWI NR
AUM (mill.)	257.52 EUR
Number of holdings	37
Lead manager	Filip Weintraub

## Quarterly Performance



## Contributors in the quarter



### Largest contributors

Holding	Weight (%)	Contribution (%)
Fila Korea Ltd	3.73	0.90
SBI Holdings Inc/Japan	7.29	0.74
Whiting Petroleum Corp	2.76	0.45
Telecom Italia SpA/Milano	5.61	0.32
Renault SA	3.08	0.20



### Largest detractors

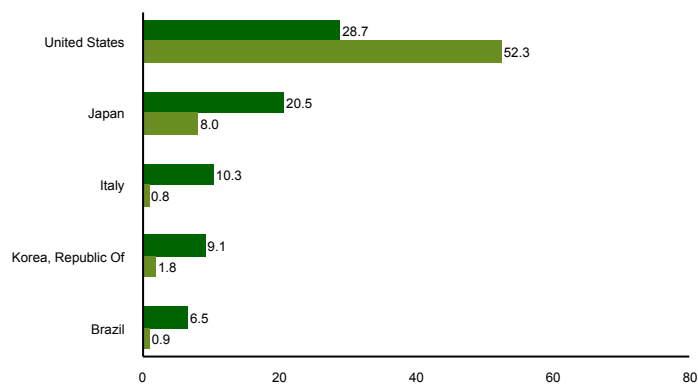
Holding	Weight (%)	Contribution (%)
Aryzta AG	1.41	-1.03
American International Group I	5.69	-0.81
Hanil Cement Co Ltd	2.14	-0.71
China Telecom Corp Ltd	3.75	-0.57
Schaeffler AG	2.76	-0.54

Absolute contribution based on NOK returns at fund level

## Top ten investments

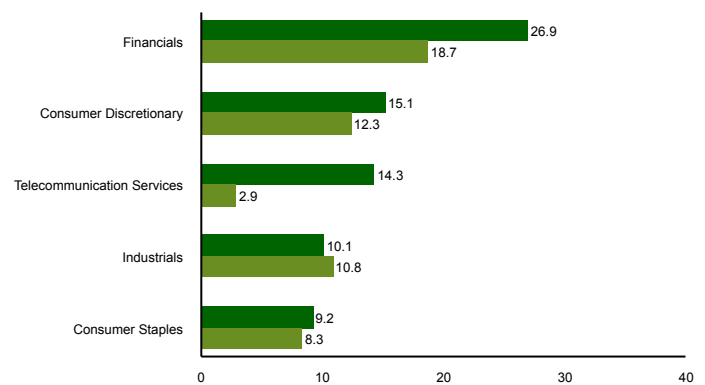
Holding	Sector	Country	%
SBI Holdings	Financials	Japan	7.8
Telecom Italia Spa	Telecommunication Services	Italy	6.4
AIG	Financials	United States	5.3
Softbank Group	Telecommunication Services	Japan	4.2
Gold Fields Ltd	Materials	South Africa	3.7
China Telecom	Telecommunication Services	China	3.6
Bank of Kyoto	Financials	Japan	3.6
Renault SA	Consumer Discretionary	France	3.5
Jbs	Consumer Staples	Brazil	3.5
Whiting Petroleum	Energy	United States	3.4
Combined weight of top 10 holdings			45.1

## Country exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR

## Sector exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR

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