

## Great contrarian opportunities in a divergent world

The fund produced a solid absolute return in the quarter, as our Japanese positions in particular performed strongly. US equity markets continued to outperform the rest of the world, driven mainly by large cap technology and select industrial companies. This has led to a rather extreme divergence year to date, both in terms of valuation and performance. Importantly, this uncovers major opportunities for a contrarian and price-driven investor.

### Japanese positions on the leader board

Shares of IT conglomerate Softbank rose in excess of 40% in the quarter, making Softbank the top contributor in the fund. The market is gradually closing the valuation discount to its net asset base, which includes a myriad of listed and unlisted IT companies worldwide. Softbank is also about to launch its IPO of Softbank Mobile which could serve as a catalyst for further re-rating. Japanese financial conglomerate SBI Holdings also contributed solidly as the market awaits the listing of SBI Insurance and gradually starts to discount a more realistic share value. Our fairly recent investment in Hawaiian Holdings was one of our better positions in the period, as the company reported higher than expected earnings and the anticipated entrance of low-price carrier Southwest was delayed.

Among the weakest positions were South African Gold Fields following an announcement to restructure its sole South African asset, South Deep. Telecom Italia suffered from the political turmoil in Italy and the continued struggle between the two largest shareholders of the company. Catalysts unfolding in Metro

Our increased position in German food retailer Metro is markedly up since summer lows. The company was split into two entities in early 2017 and the shares of Metro, which includes the wholesale food operations and hypermarket chain Real, have been under pressure mainly due to shrinking margins in the Russian business. The shares rallied sharply as EPGC, an Eastern European investment company, announced the acquisition of 22.5% of the company from the former main owner Haniel. EPGC-related vehicles also confirmed an acquisition of the Ceconomy stake which could potentially force a full take-over of the company. It also became clear that the company has finally started a divestment process for the struggling Real hypermarket unit.



Our increased position in German food retailer Metro is markedly up since summer lows. Photo: METRO

### Pilgrim's Pride – “No time to chicken out”

We established a position in US-listed chicken producer Pilgrim's Pride, which de-rated substantially to levels we view as attractive. Due to worries over price collusion probes and the sustainability of operating margins, the stock has almost halved in value since the peak in November 2017. Pilgrim's Pride claims to be the world's largest poultry company with the bulk of sales generated in North America. At current valuation, with a substantial free cash flow yield and a very low multiple on already cyclically adjusted earnings power, we deem the shares to be deeply undervalued.

### Turkish delight and below-the-radar copper

The political turmoil and currency fluctuations that have plagued the Turkish market uncovered an opportunity to increase our position in Turkish best-in-class capital allocator Koc Holding. The company is the holding company of the Koc Group in Turkey and is the largest conglomerate in the country. The shares are trading at a substantial discount to net asset value and at a level that has not been seen since the financial crisis 2008-2009 when Koc Holding came out of a de-levering process following a heavy investment cycle. We believe currency risk has been priced excessively into the share price as a large part of the portfolio is benefitting from currency weakness.

We used the unwarranted weakness in the commodity complex to add to our position in the vastly undervalued copper miner Ivanhoe Mining. The company has some of the most attractive undeveloped copper assets globally and there is therefore significant upside through the commercialisation of these assets. We believe that the market places an unduly high discount on the value of Ivanhoe's pre-production assets. Financing from Chinese CITIC Metal was confirmed in the quarter, further enhancing Ivanhoe's risk/reward profile.

### OMV – “Shaking off the Russian Bear”

We established a new top-10 position in Austrian integrated oil and gas company OMV. The shares have de-rated materially, despite a very favourable fundamental environment, due to worries related to Russian-US tensions and potential threats of sanctions for related companies. However, the asset base in Russia accounts for less than 5% of the company and we believe these misguided concerns have created an interesting investment opportunity. The fundamental operation is in good shape; OMV has lowered production costs by almost 40% and drastically improved its position on the cost curve. New regulations in the refining business are beneficial to OMV's margins given the technologically advanced asset base. OMV is currently generating solid free cash flow (10%+ yield) following the restructuring in the 2014-17 oil price downturn.



Softbank rose in excess of 40% in the quarter, making Softbank the top contributor in the fund. Photo: Bloomberg

### Looking ahead

At the end of the quarter, SKAGEN Focus holds 34 positions whereby more than half of the fund's assets are invested in small and mid-cap positions. The top ten positions currently account for 42% 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.

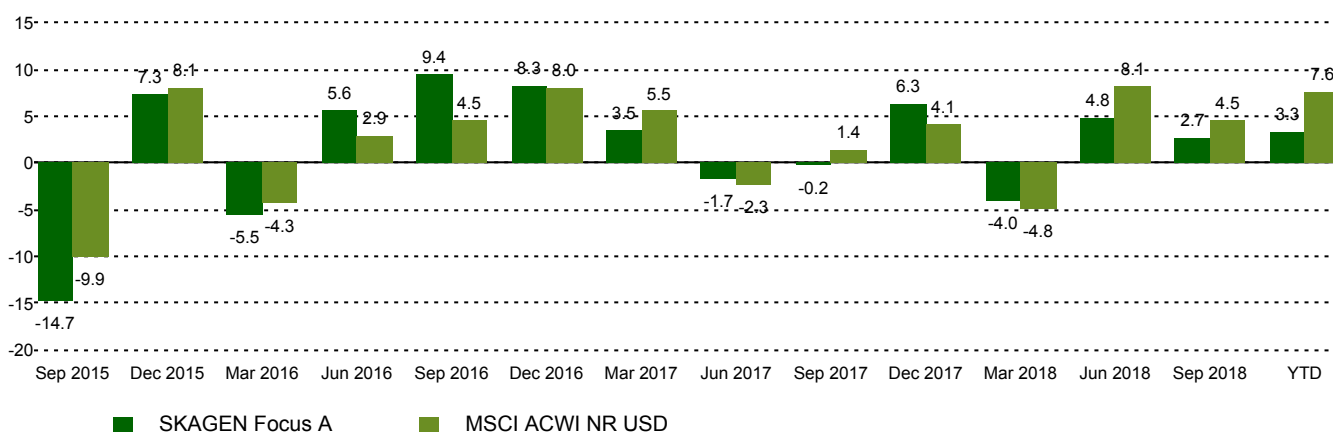
## Historical performance (net of fees)

Period	SKAGEN Focus A	Benchmark index
Last month	2.3%	0.8%
Quarter to date	2.7%	4.5%
Year to date	3.3%	7.6%
Last year	9.9%	12.0%
Last 3 years	12.3%	12.0%
Last 5 years	n/a	n/a
Last 10 years	n/a	n/a
Since start	3.3%	5.8%

## Fund Facts

Type	Equity
Domicile	Norway
Launch date	26.05.2015
Morningstar category	Global Flex-Cap Equity
ISIN	NO0010735129
NAV	13.24 EUR
Fixed management fee	1.60%
Total expense ratio (2017)	1.48%
Benchmark index	MSCI ACWI NR USD
AUM (mill.)	226.86 EUR
Number of holdings	34
Portfolio manager	Jonas Edholm

## Quarterly Performance



## Contributors in the quarter



### Largest contributors

Holding	Weight (%)	Contribution (%)
SoftBank Group Corp	5.07	1.77
SBI Holdings Inc/Japan	5.76	1.01
MagForce AG	1.61	0.52
Hawaiian Holdings Inc	3.52	0.47
Bank of Kyoto Ltd/The	3.56	0.43



### Largest detractors

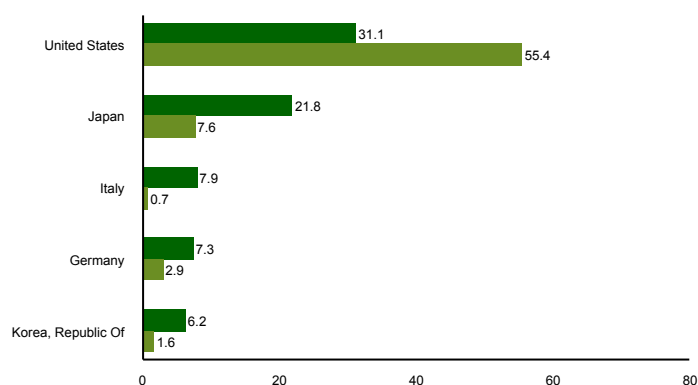
Holding	Weight (%)	Contribution (%)
Gold Fields Ltd	3.25	-1.32
Telecom Italia SpA/Milano	5.84	-1.08
X-Fab Silicon Foundries SE	2.12	-0.61
Teva Pharmaceutical Industries	3.07	-0.40
UniCredit SpA	2.50	-0.26

Absolute contribution based on NOK returns at fund level

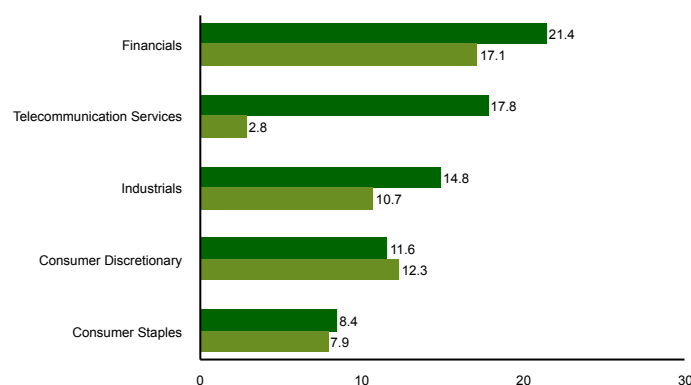
## Top ten investments

Holding	Sector	Country	%
AIG	Financials	United States	5.6
Telecom Italia Spa	Telecommunication Services	Italy	5.4
Softbank Group	Telecommunication Services	Japan	5.2
Viacom Inc	Telecommunication Services	United States	4.0
Bank of Kyoto	Financials	Japan	4.0
Hyundai Motor	Consumer Discretionary	Korea, Republic Of	3.7
Sao Martinho SA	Consumer Staples	Brazil	3.5
OMV AG	Energy	Austria	3.4
Hawaiian Holdings	Industrials	United States	3.4
SBI Holdings	Financials	Japan	3.4
Combined weight of top 10 holdings			41.7

## Country exposure (top five)



## Sector exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR USD

■ SKAGEN Focus A ■ MSCI ACWI NR USD

## Contact



+47 51 80 37 09



contact@skagenfunds.com



SKAGEN AS, Post Box 160, 4001, Stavanger, Norway

## Important information

This report is intended for investment professionals only. The content is not to be viewed by or used with retail investors. Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as of the end of the previous month. Except otherwise stated, the source of all information is SKAGEN AS. Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skills, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. You can download more information including subscription/redemption forms, full prospectus, Key Investor Information Documents (KIID), General Commercial Terms, Annual Reports and Monthly Reports from our local websites or our local representatives. Statements reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. This report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN AS does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this report. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this report or are part of a fund's portfolio. CACEIS Ireland Limited, One Custom House Plaza, International Financial Services Centre, Dublin is the Paying Agent in Ireland.