

Year of the dog

2018, and the last quarter of the year in particular, proved to be a challenging period for many investors. Equity market volatility shot up to extreme levels towards year-end. During the latter part of the year, very few people seemed to be paying attention to tangible book values, so-called intrinsic values, mid-term free cash flow generation or select very low valuations. As we are entirely focused on finding undervalued securities by applying a contrarian based investment process with a 2-3 year investment horizon, the current market situation is frustrating. While many companies have announced solid operating results, stock prices are still reflecting a substantial loss of value.

However, we firmly believe in our value based, contrarian investment process and the current environment has uncovered a solid set of opportunities for SKAGEN Focus.

Key buys

In the midst of the grim operating environment in the fourth quarter, including a sharp fall in crude oil prices, we initiated a position in JAPEX, an oil and natural gas exploration company based in Japan. The company owns and operates a solid set of assets globally, but interestingly also holds a seven percent stake in larger sister company INPEX. The value of the INPEX stake exceeds the current market cap of JAPEX, essentially allowing us to acquire the core business “for free”.

We participated in the forced sell-down by the state in the Slovenian bank NLB Group, which was ill-timed and took place in a fairly poor market environment. This resulted in a deep-discount pricing compared to our estimate of fair value. NLB is the largest financial institution in Slovenia



Photo: OZ Minerals

Outlook

It is worth pointing out that our price-driven investment process has resulted in an increased share of small and mid-cap companies in our portfolio during the year. The fund currently has almost 70% of the portfolio invested in small and mid-cap companies. The fund's lower exposure to US equities in general and the US large cap tech sector in particular may also be relevant factors to consider when analysing the fund's performance versus the underlying global equity markets in 2018.

and the IPO price indicates a dividend yield in excess of 10%, and a more than 50% discount to the overall EU banking sector. We also initiated a position in the Australian-based copper/gold miner OZ Minerals. The company holds a set of high quality assets in Australia with a solid mine-life profile. The company operates with a net-cash balance sheet and is about to start production in Carrapateena within our mid-term investment horizon. Valuations across copper miners globally look very attractive in general, but particularly so in OZ in our opinion.

Key contributors and detractors

Our South African gold miner Gold Fields recovered substantial ground in the fourth quarter and was the fund's best performing stock in the period. Gold prices rallied in the worsening equity environment towards year-end and the market seems to be interpreting the South Deep restructuring more positively. NLB rallied more than 10% on its first trading day and was a solid performer in the quarter. Metro held up well and we do not rule out a full takeover of the company by the new owners in the coming six months at a decent premium to current stock prices.

Softbank lost substantial ground in the fourth quarter as the company's IPO of Softbank Mobile created increased uncertainty as the transaction took place in a sub-optimal market environment. Airline Hawaiian Holdings was one of the weaker performers in the quarter as they lowered guidance for the upcoming quarter and Southwest is due to enter their operating turf. Our largest holding in multi insurance giant American International Group was weak as the company revealed yet another set of disappointing results with major catastrophe hits. Interestingly, they guided for potential improvement in 2019.



Photo: Softbank

We firmly believe that the current state of markets is uncovering substantial opportunities for value investors in our mid-term perspective. We look forward to a New Year with a fresh portfolio in which almost 48% of the positions are less than one year old. The concentration of top ten holdings is 45% and we have a total of 33 holdings in the portfolio.

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.

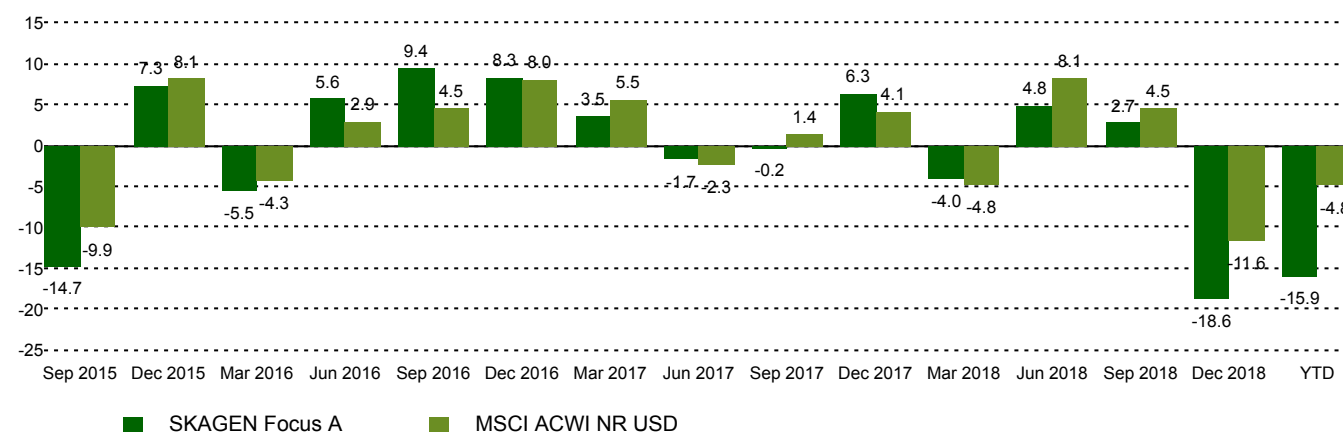
Historical performance (net of fees)

Period	SKAGEN Focus A	Benchmark index
Last month	-12.3%	-7.5%
Quarter to date	-18.6%	-11.6%
Year to date	-15.9%	-4.8%
Last year	-15.9%	-4.8%
Last 3 years	2.4%	4.8%
Last 5 years	n/a	n/a
Last 10 years	n/a	n/a
Since start	-2.7%	1.8%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	26.05.2015
Morningstar category	Global Flex-Cap Equity
ISIN	NO0010735129
NAV	10.77 EUR
Fixed management fee	1.60%
Total expense ratio (2017)	1.48%
Benchmark index	MSCI ACWI NR USD
AUM (mill.)	165.78 EUR
Number of holdings	33
Portfolio manager	Jonas Edholm

Quarterly Performance



Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Gold Fields Ltd	2.56	1.01
Sao Martinho SA	4.66	0.37
Nova Ljubljanska Banka dd	0.89	0.34
Metro AG	2.85	0.17
China Telecom Corp Ltd	2.03	0.10

Largest detractors

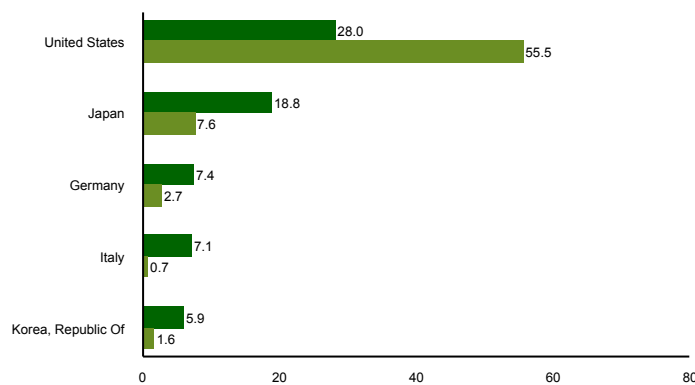
Holding	Weight (%)	Contribution (%)
SoftBank Group Corp	4.41	-1.49
American International Group I	5.55	-1.22
Hawaiian Holdings Inc	3.88	-1.15
ADT Inc	2.85	-0.99
Avaya Holdings Corp	3.00	-0.98

Absolute contribution based on NOK returns at fund level

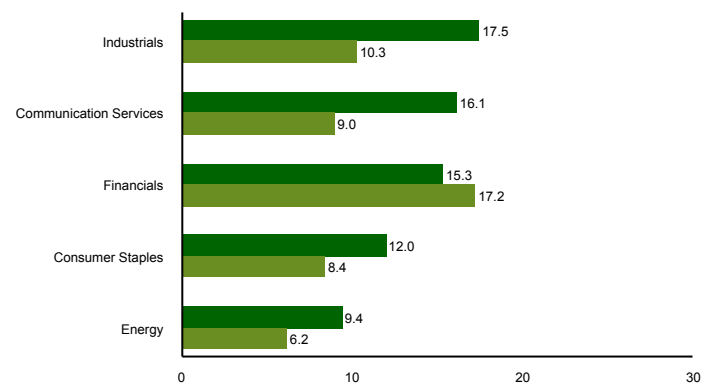
Top ten investments

Holding	Sector	Country	%
AIG	Financials	United States	6.1
Telecom Italia Spa	Communication Services	Italy	5.7
Sao Martinho SA	Consumer Staples	Brazil	5.0
Bank of Kyoto	Financials	Japan	4.5
Softbank Group	Communication Services	Japan	4.2
Hawaiian Holdings	Industrials	United States	3.9
OMV AG	Energy	Austria	3.8
Metro AG	Consumer Staples	Germany	3.7
Viacom Inc	Communication Services	United States	3.5
Avaya Holdings Corp	Information Technology	United States	3.3
Combined weight of top 10 holdings			43.7

Country exposure (top five)



Sector exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR USD

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