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## A solid quarter

The fund has performed well ahead of underlying global equity markets so far this year. During the quarter, global equity markets were impacted by several events, and we initially observed a dramatic sell-off among so-called "profitless tech" companies – in other words companies trading at elevated multiples despite producing neither meaningful revenues nor earnings. This sell-off eventually spread to higher priced income-generating equities, including mega-cap tech stocks in the US as well as select investment darlings in the European equity market. Following the full-scale Russian invasion of Ukraine there was a broad sell-off in the equity markets. The fund did not have any direct Russian exposure and in early March SKAGEN decided to exclude Russian companies from our investment universe. We continue to monitor the situation and as contrarian and price-driven investors, we actively follow several companies that may have been overly and unjustifiably punished due to perceived Russia-related exposure.

The drop in commodity supplies following the Russian crisis is reinforcing the already strong inflationary pressures inherited from the pandemic. The US Consumer Price Index surged to 7% year-over-year in February. The Federal Reserve is probably 'behind the curve' and is now guiding for six to seven rate hikes this year. Bond yields are adapting to this data and the more global hawkish stance from central banks has led to higher bond yields and in specific cases, a sharply inverted yield curve.

### Commodity producers and two buy-outs drive performance

Several of our better-performing positions in the quarter benefitted from the higher commodity prices, as Russian commodity supplies are being increasingly disrupted. The rather remarkable rally in the nickel price, for example, which spiked more than 100% at one point, drove our Indonesian nickel producer Vale Indonesia towards our price target range, and we trimmed the position. Ukraine and Russia are large producers of a variety of fertilisers including potash and as this supply has been disrupted, the price of potash has climbed significantly. This benefited our

potash producer K+S, making it the fund's best performer so far this year. Another strong performer in the year has been Korean property and casualty insurance company DB Insurance as the company generated strong earnings for the year and impressive underwriting efficiency. We reduced our position in the still significantly undervalued Commerzbank following a strong re-rating at the beginning of the quarter. The bank's restructuring process seems to be on track and we should see improvements in the mid-term earnings power.

After a record year for fund buy-outs, so far in 2022 we have received two additional buyout offers for companies in our portfolio. First, US regional bank First Horizon received a 35% premium buy-out offer from Canadian bank Toronto Dominion, which continues its aggressive expansion in the southeast of the US. In addition, our UK bus operator Stagecoach received a revised offer from German infrastructure fund DWS at a 37% premium. Both equities left the portfolio at their respective price targets.

On the commodities side, Russian dominance in palladium has propelled this metal to a new all-time high. The fund has exposure to the metal through Ivanhoe Mines which is developing its Platreef asset. The company recently released a feasibility study indicating that they may be able to produce an average annual output of 590k oz of palladium, rhodium and gold along with a sizable production of nickel and copper from this mine. We do not think that this earnings stream is properly discounted in the current share price.

On the less positive side, our two positions in auto-parts manufacturers, namely German powertrain producer Vitesco and French seat and interiors producer Faurecia were pressured by the uncertainty around global auto production following the Ukraine war and worries over higher input costs.



Photo: Shutterstock

### New positions

We established several new positions in the quarter, including the recently spun off and fairly unknown commercial vehicle producer Iveco, which currently trades at a substantial discount, close to our estimate of the company's liquidation value. We also re-initiated a position in Spanish pulp producer Ence, as the equity is once again trading at our required price point and has several catalysts for re-rating in the mid-term. We also bought into Sao Martinho, a Brazilian based sugar and ethanol producer. The company appears to be generating a substantial amount of cash in the near term and is still extremely undervalued relative to earnings power.



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### Outlook

The recent macro events have given rise to a more volatile global equity backdrop as bond yields are adjusting to an inflationary environment. We believe there is still a strong case for a continued rotation into equities with an above average near term earnings yield at the expense of companies with elevated valuation multiples in global equity markets. Excess and unwarranted volatility also spells opportunities for us as active, contrarian and price driven investors.

The portfolio consists of 47 positions of which 85% are in the small and mid-cap segment. However, we have recently uncovered interesting opportunities in select Japanese large caps which we will highlight in future updates. Importantly, the upside to our weighted price target across the fund is more than 55% at present.

SKAGEN Focus is a high conviction equity fund that seeks to generate long-term capital growth by investing in a portfolio of global companies with the majority of exposure invested in small and mid-cap companies. Subscriptions are made in fund units and not directly in stocks or other securities. The fund has risk profile 6. The benchmark reflects the fund's investment mandate. Since the fund is actively managed, the portfolio will deviate from the composition of the benchmark.

## Historical performance (net of fees)

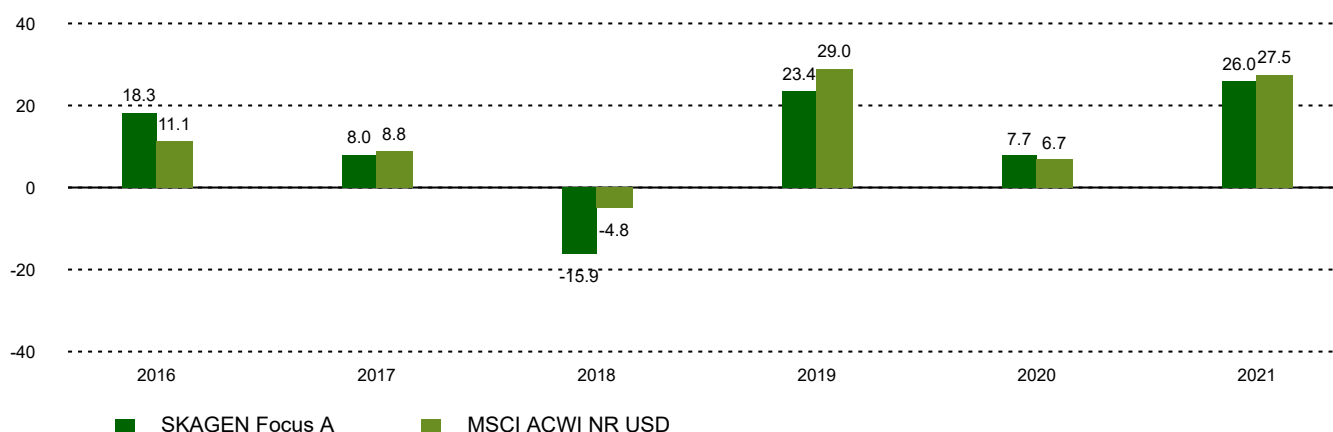
Period	SKAGEN Focus A	Benchmark index
Last month	0.9%	3.1%
Quarter to date	1.3%	-3.3%
Year to date	1.3%	-3.3%
Last year	13.6%	13.1%
Last 3 years	14.1%	14.2%
Last 5 years	8.3%	10.7%
Last 10 years	n/a	n/a
Since start	6.5%	9.1%

## Fund Facts

Type	Equity
Domicile	Norway
Launch date	26.05.2015
Morningstar category	Global Flex-Cap Equity
ISIN	NO0010735129
NAV	18.27 EUR
Fixed management fee	1.60% + performance fee*
Total expense ratio (2021)	1.40%
Benchmark index	MSCI ACWI NR USD
AUM (mill.)	249.83 EUR
Number of holdings	48
Portfolio manager	Jonas Edholm

\*10.00% performance fee calculated daily and charged annually if the fund's value development is better than the benchmark index. The total management fee charged represents a maximum of 3.20% p.a. and a minimum of 0.80% p.a. The performance fee may be charged even if the fund's units have depreciated in value if the value development is better than the benchmark index.

## Performance last ten years



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 management fees. The return may become negative as a result of negative price developments. There is a risk associated with investing in the fund due to market movements, currency developments, interest rate levels, economic, sector and company-specific conditions.

All data in EUR as of 31/03/2022 unless otherwise stated.

## Contributors in the quarter



### Largest contributors

Holding	Weight (%)	Contribution (%)
K+S AG	2.64	1.50
Vale Indonesia Tbk PT	1.71	0.73
Methanex Corp	2.33	0.66
Commerzbank AG	2.11	0.66
Stelco Holdings Inc	1.06	0.64



### Largest detractors

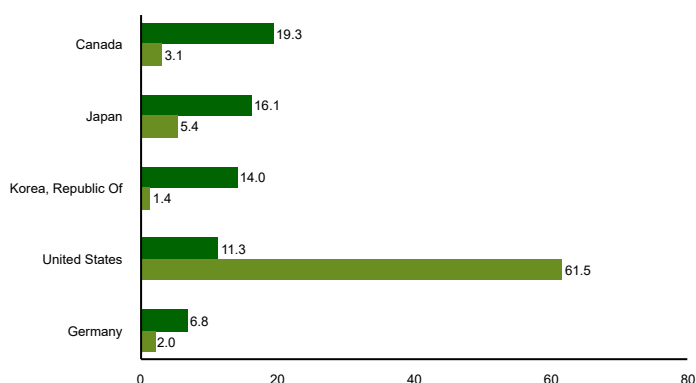
Holding	Weight (%)	Contribution (%)
Faurecia SE	1.64	-0.90
Vitesco Technologies Group	2.37	-0.72
Canfor Pulp Products Inc	2.74	-0.63
GrafTech International Ltd	3.10	-0.61
Sixt SE	2.37	-0.59

Weights shown are the average for the period. Absolute contribution based on NOK returns at fund level.

## Top ten investments

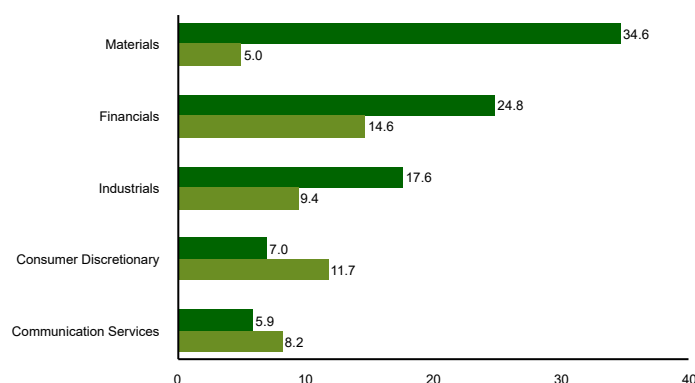
Holding	Sector	Country	%
Cascades Inc	Materials	Canada	4.9
Panasonic Corp	Consumer Discretionary	Japan	4.1
Marcus Corp/The	Communication Services	United States	3.7
Ivanhoe Mines Ltd	Materials	Canada	3.6
KB Financial Group Inc	Financials	Korea, Republic Of	3.4
GrafTech International Ltd	Industrials	United States	3.2
Textainer Group Holdings Ltd	Industrials	China	3.2
Methanex Corp	Materials	Canada	2.9
China Communications Services Corp Ltd	Industrials	China	2.8
Korean Reinsurance Co	Financials	Korea, Republic Of	2.7
Combined weight of top 10 holdings			34.7

## Country exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR USD

## Sector exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR USD

## Important information

This report is intended for investment professionals only. All information is based on the most up-to-date data available. Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as per the end of the previous month. Except otherwise stated, the source of all information is SKAGEN AS. 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.



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