

Global equities pause for breath

Global equity markets were more or less flat in the third quarter. The US market continued to underperform, mainly driven by a weak currency, as hopes of near-term pro-growth reforms from the Trump administration continue to fade. Emerging markets continued to outperform developed markets, as improving fundamental data attracted investors to these markets.

Signs of higher global economic activity, combined with a so far disciplined supply response from OPEC, pushed the oil price up higher in the third quarter. This contributed to energy being the best performing sector over the past three months. Consumer staples was the worst performing sector as the improved economic activity resulted in investors selling defensive stocks.

SKAGEN Global underperformed its benchmark in the third quarter, but has performed in-line with global equity markets so far in 2017.

The key positive contributors to performance in the third quarter were NN Group, Baidu, and Samsung Electronics.

The Dutch insurance company NN group was boosted by increased market confidence in management's ability to extract cost synergies from the Delta Lloyd acquisition. Furthermore, The Rotterdam Court ruled in favour of NN Group in a case relating to disclosure of investment risk on policies dating back to the 1990s.

Baidu, the operator of the largest Internet search engine in China, also had a strong quarter driven by stellar results for the second quarter. Earnings doubled compared to the same period last year, driven by a combination of strong top-line growth and improving margins as management continued to scale back loss-making operations.

Our technology behemoth Samsung Electronics once again delivered very strong results with all major segments showing improvements.



Baidu was one of the key positive contributors to performance in the third quarter. Photo: Bloomberg

Key sells

Two veterans of the SKAGEN Global fund, Johnson Control (formerly Tyco) and AIG, exited the portfolio in the third quarter. Both stocks have been significant contributors to returns over the past several years, but have now closed the gap to our fundamental target price. Similarly, State Bank of India and Akzo Nobel were sold following strong share price performance this year. General Electric left the portfolio in July as we no longer have a differentiated view on the turn-around of the industrial segment. On the same note, Kingfisher was sold out as slower than expected execution and a continued tough retail environment have reduced our conviction in the stock. Finally, we sold the few remaining shares in the French pharma company Sanofi to fund existing positions in the pharma sector.

Following an extended period of disciplined supply growth in the memory industry, the market is gradually coming around to our thesis that consolidation will drive structurally higher industry profitability.

On the negative side, the three weakest performers in the third quarter were Medtronic, G4S, and General Electric. The medical products supplier Medtronic was hurt in the third quarter by investors leaving typically defensive sectors. Its diabetes division also reported numbers below expectations but we think the dip in sales is temporary. After a strong six months, the security company G4S had a weak quarter following a somewhat disappointing result, showing slowing top-line growth. Finally, General Electric failed to show solid progress on its restructuring and cash flow generation in its latest earnings release, which hurt the share price.

Key buys

The fund identified several new undervalued companies which entered the portfolio in the quarter. The first of these is Deutsche Wohnen, the largest owner of residential housing units in Berlin, where we see structurally growing rents. Another newcomer is Waters Corporation, a specialty instrument mid-cap company with significant exposure to the pharma and food safety sectors, where we see long-term structural growth. We also added Chubb, a P&C insurance company with a global footprint, whose strong underwriting capabilities do not seem to be fully reflected in the current valuation. Similarly, the fund added a new position in the specialist insurance company Beazley. The company has expertise in structurally growing specialty lines (like cyber insurance). Combined with an exceptionally strong underwriting culture and a prudent capital allocation discipline, we find the company undervalued. Finally, Schindler Holding, the family-controlled Swiss elevator company with >33% (and growing) Asian exposure and a net cash balance sheet was added to the fund.



Samsung Electronics once again delivered strong results with all major segments showing improvements. Photo: Bloomberg

Outlook

The global economic outlook looks reasonably healthy. Reflecting this positive outlook, the global equity market index MSCI AC World has risen by nearly 20% in USD terms over the past 12 months and now trades on 15x forward earnings. SKAGEN Global's portfolio looks attractively valued and offers an approximately 25% upside over a two-year perspective. We continue to strictly adhere to SKAGEN's time-tested value-based investment philosophy in our pursuit of undervalued companies with attractive long-term potential.

The fund selects undervalued companies from around the world, including emerging markets, with attractive risk-reward for long-term investors.

The objective is to provide the best possible risk adjusted return.

The fund is suitable for those with at least a five year investment horizon.

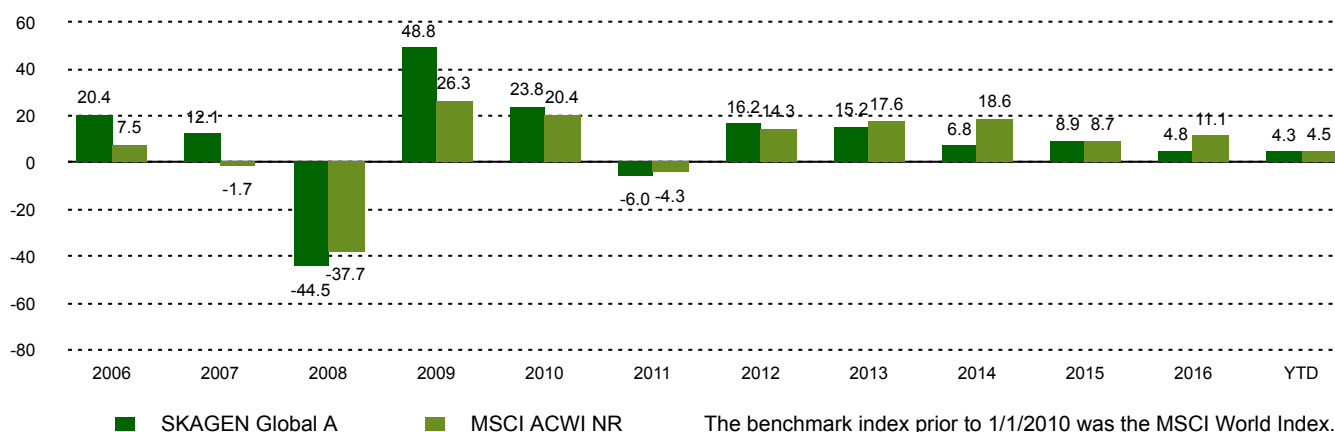
Historical performance (net of fees)

Period	SKAGEN Global A	Benchmark index
Last Month	2.2%	2.4%
Quarter to date	0.2%	-2.2%
Year to date	4.3%	4.5%
Last year	11.1%	12.9%
Last 3 years	5.5%	9.7%
Last 5 years	8.5%	12.1%
Last 10 years	4.7%	5.6%
Since start	13.8%	4.4%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	07.08.1997
Morningstar category	Global Large-Cap Blend Equity
ISIN	NO0008004009
NAV	166.46 EUR
Fixed management fee	1.00%
Total expense ratio (2016)	1.00%
Benchmark index	MSCI ACWI NR
AUM (mill.)	2784.85 EUR
Number of holdings	43
Lead manager	Knut Gezelius

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
NN Group NV	3.46	0.41
Baidu Inc	1.33	0.34
Samsung Electronics	4.49	0.24
Dollar General Corp	2.79	0.22
Citigroup	5.32	0.22



Largest detractors

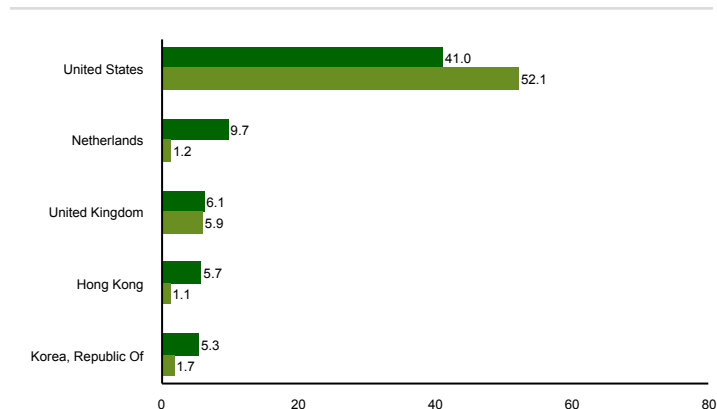
Holding	Weight (%)	Contribution (%)
Medtronic Plc	3.08	-0.52
G4S Plc	2.23	-0.45
General Electric Co	0.82	-0.33
Skechers USA Inc	1.30	-0.28
Roche Holding AG	4.65	-0.28

Absolute contribution based on NOK returns at fund level

Top ten investments

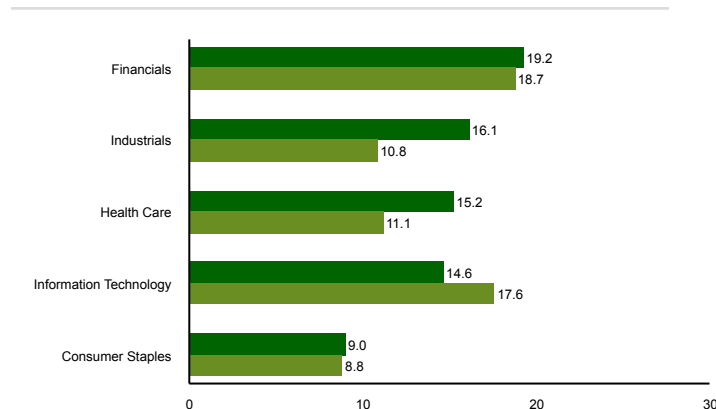
Holding	Sector	Country	%
Citigroup	Financials	United States	5.5
CK Hutchison Holdings	Industrials	Hong Kong	5.1
Microsoft	Information Technology	United States	4.7
Samsung Electronics	Information Technology	Korea, Republic Of	4.4
Roche Holding	Health Care	Switzerland	4.3
3M	Industrials	United States	4.3
Unilever CVA	Consumer Staples	Netherlands	4.2
Merck & Co	Health Care	United States	3.9
China Mobile	Telecommunication Services	China	3.4
NN Group	Financials	Netherlands	3.3
Combined weight of top 10 holdings			43.2

Country exposure (top five)



■ SKAGEN Global A ■ MSCI ACWI NR

Sector exposure (top five)



■ SKAGEN Global A ■ MSCI ACWI NR

Contact



+47 51 80 37 09



contact@skagenfunds.com



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

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