

A volatile quarter

Global equity markets faced a volatile environment in the first quarter. The US generic 10-year government bond yield ticked up by nearly 30 bps and ended at 2.74%. The higher yield coupled with the imposition of tariffs on steel and aluminium by the US administration invoked fears of a more hostile environment for equity markets. Consequently, the elevated positive market sentiment at the beginning of the year gradually dissipated. SKAGEN Global performed roughly in-line with the benchmark in the quarter.

Key performers

The fund's three strongest performers measured by absolute return during the quarter were Beazley, Autoliv and Nissan Chemical Industries.

Beazley, a mid-cap insurer with a focus on disciplined underwriting in specialty lines, managed to squeeze out a profit in 2017 even when the insurance industry faced some of the biggest natural catastrophe losses ever recorded. We think Beazley is a prime example of a company that remains both under-researched and undervalued in today's environment. To that point, Beazley has recently hired several top underwriters who represent a hidden asset in that they are not yet producing a significant amount of premium income but this revenue source will gradually become visible to the market over the next couple of years.

Our long-term holding Autoliv, the Swedish auto-safety and technology company, reported strong results supporting our thesis that the impressive win-rate in airbag inflators over the past few years is now beginning to flow through to financials. We see materially higher earnings and cash flows over the next few years. The previously announced plan to split the company in two may unlock incremental value.

The general market overreaction in the quarter allowed us to buy into Nissan Chemical Industries at an attractive price. The stock has since recovered nicely as the focus gradually returned to the company's favourable fundamentals.



Our long-term holding Autoliv, the Swedish auto-safety and technology company, reported strong results in Q1. Photo: Bloomberg

Key sells

We sold four holdings during the quarter: Skechers, Lundin Petroleum, Red Electrica and China Mobile. The share price of the US footwear company Skechers has doubled over the past 17 months and we exited the holding as it hit our target price. Similarly, Lundin Petroleum has significantly outperformed the benchmark since inception in early 2015. After this stellar run the share is no longer materially undervalued in our view and we therefore sold the position. Finally, the regulatory backdrop turned incrementally negative for the Spanish transmission operator Red Electrica and the Chinese telecom group China Mobile. We used these as funding sources for cases where the equity story is more compelling for long-term investors.

The fund's three largest detractors in the quarter were Citigroup, 3M and CK Hutchison. The bank Citigroup pulled back in sympathy with the market while 3M indicated a softer than expected start to the year. The Hong-Kong conglomerate CK Hutchison retracted as investors' appetite for telecom and utility assets subsided against expectations of higher yields. Also, at age 89, the founder Li Ka-shing announced his retirement from the company. However, this decision should not come as a surprise to the market given his age and we think his son and successor is well placed to assume the lead role going forward.

Key buys

Increased uncertainty in the stock market creates opportunities for stock-pickers who embrace rather than fear volatility. We took advantage of the increased volatility by adding three new names to the portfolio and shifting some exposure during the at times indiscriminate sell-off. We initiated positions in Nissan Chemical Industries, Shangri-La and Adobe.

Nissan Chemical Industries is a USD 6bn market-cap Japanese conglomerate that we have been monitoring for nearly two years. The agile company actively seeks out highly profitable niche areas in the technology and chemical sectors. Its extensive history of shareholder-friendly corporate governance policies is underappreciated and we see several catalysts ahead to drive the share price higher.

Shangri-La is a hotel operator that has launched a turn-around and replaced most of its executive team. The focus is growth in China and, over time, higher exposure to capital light assets.

The US technology company Adobe is the market leader in content creation and holds a strong position in the digital marketing area. The combination of these two assets is a high-octane cocktail producing free cash flow that we estimate will exceed market expectations over the next 3 to 5 years.

We added further to our high-conviction holdings in Intercontinental Exchange and Beazley.



Beazley, a mid-cap insurer, managed to squeeze out a profit in 2017 even when the insurance industry faced some of the biggest natural catastrophe losses ever recorded. Photo: Bloomberg

Outlook

We maintain a constructive outlook on the equity market in spite of the near-term wobble. Fundamentals look relatively healthy and our discussions with companies indicate that trading conditions remain benign, even if some political noise slightly clouds the picture. The global index MSCI AC World is valued at 14.7x forward earnings with a 2.7% dividend yield. SKAGEN Global is more attractively valued and with some excessive optimism now gone from the market sentiment, the set-up for a pick-up in returns looks better for the next few quarters.

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.

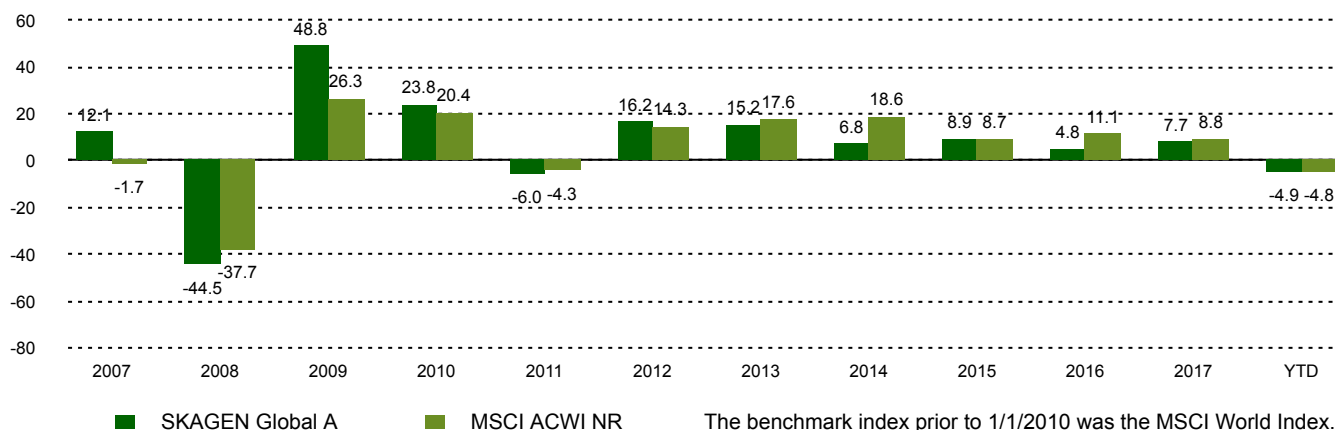
Historical performance (net of fees)

Period	SKAGEN Global A	Benchmark index
Last month	-4.2%	-5.4%
Quarter to date	-4.9%	-4.8%
Year to date	-4.9%	-4.8%
Last year	-2.9%	-1.8%
Last 3 years	0.7%	2.6%
Last 5 years	6.1%	9.8%
Last 10 years	6.4%	8.0%
Since start	13.3%	4.3%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	07.08.1997
Morningstar category	Global Large-Cap Blend Equity
ISIN	NO0008004009
NAV	163.50 EUR
Fixed management fee	1.00%
Total expense ratio (2017)	1.00%
Benchmark index	MSCI ACWI NR
AUM (mill.)	2715.22 EUR
Number of holdings	45
Lead manager	Knut Gezelius

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Autoliv Inc	2.89	0.24
Beazley PLC	3.44	0.22
Nissan Chemical Industries Ltd	0.38	0.05
Sony Corp	1.60	0.02
Lundin Petroleum AB	0.19	0.02



Largest detractors

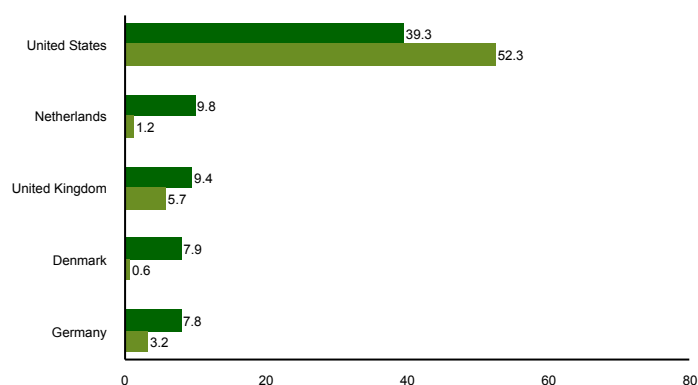
Holding	Weight (%)	Contribution (%)
Citigroup Inc	5.36	-0.63
3M Co	4.82	-0.61
CK Hutchison Holdings Ltd	5.30	-0.52
Comcast Corp	1.79	-0.39
China Mobile Ltd	1.55	-0.31

Absolute contribution based on NOK returns at fund level

Top ten investments

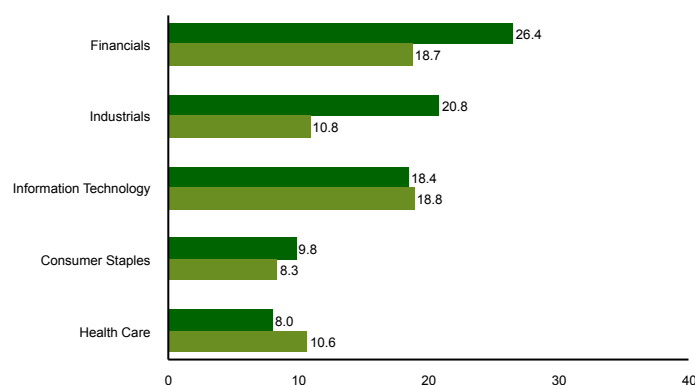
Holding	Sector	Country	%
Microsoft	Information Technology	United States	5.9
CK Hutchison Holdings	Industrials	Hong Kong	5.2
Citigroup	Financials	United States	4.7
Intercontinental Exchange Inc	Financials	United States	4.6
3M	Industrials	United States	4.6
Unilever CVA	Consumer Staples	Netherlands	4.4
Hiscox	Financials	United Kingdom	4.2
Beazley PLC	Financials	United Kingdom	4.1
Samsung Electronics	Information Technology	Korea, Republic Of	3.4
Cap Gemini	Information Technology	France	3.3
Combined weight of top 10 holdings			44.4

Country exposure (top five)



■ SKAGEN Global A ■ MSCI ACWI NR

Sector exposure (top five)



■ SKAGEN Global A ■ MSCI ACWI NR

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