

Rollercoaster ride in emerging markets

While 2019 got off to a strong start with seeming progress in trade negotiations, recession fears abating and the Federal Reserve taking a “patient” approach to monetary policy, Q2 evolved into a roller coaster ride in emerging markets. Trump’s broadening of the trade war into a tech war sent investors fleeing to perceived safe(r) haven assets during the quarter. Ironically, the quarter ended with Trump agreeing to resume trade talks.

Tighter financial conditions last year combined with persistent trade policy uncertainty contributed to increased risk of lower global growth. This led to downgrades in global GDP forecasts during the quarter. Tariffs can have a real economic impact by disrupting supply chains and pausing investment plans. Investor confidence also abated on weaker than expected data coming out of China.

Monetary policy turns more dovish

Towards the end of the quarter, the Federal Reserve went from hitting the pause button to setting the stage for multiple interest rate cuts. This in turn helped the 10-year Treasury yield come to rest below 2%. The dollar has weakened following the Fed’s policy meeting; normally a good sign for EM investors. Unlike previous periods when rates declined, this time it has been accompanied by an increased demand for gold, pushing prices to the highest level in more than six years.

EM central banks are also easing policy. In China, they stepped up liquidity support for small banks, and softer inflation will give the central bank room to guide interest rates lower. India cut rates for the first time in its current easing cycle, while in Russia there are also signs of a new easing cycle. More EM central banks are likely to follow suit. As an easing bias of policy stance has returned, this could support global growth rates amid the trade war. Equity markets therefore finished the quarter on a positive note.

Contributors and detractors

Geopolitical supply risks combined with concerns about reduced global growth led to a volatile oil price during the quarter. Poor sentiment impacted Kon-Tiki’s oil related exposure negatively, and the holdings fell heavily along with the rest of the sector. Borr Drilling reported results in-line with expectations. Upcoming new bank facilities and a positive

outlook statement did not help much, nor did insider buying. We do however expect Borr to secure more contracts as the jack-up market rebalances. For Golar LNG, seasonality and the restart of several nuclear facilities in Japan combined with a mild winter in Asia weighed on LNG prices. A corporate simplification – spinning off the LNG vessels into a standalone entity – should be the next catalyst for the share. The stock no longer discounts any new FLNG projects which could be an additional source of upside.

After a strong start to the year, China Unicom reversed its fortunes during the quarter. Recent results showed slightly disappointing mobile service revenue growth offset by robust industrial internet growth. 5G commercial licences were granted during the quarter, and Unicom and China Telecom reiterated their intention to share 5G network which should reduce construction costs.

Russian grocery retailer X5 recovered strongly during the quarter, supported by a healthy margin improvement in Q1 and strong momentum helped by accelerated food inflation in Russia. A strong customer value proposition is helping them gain market share in a tough market. With a slower expansion rate going forward we see support from increased cash flow and a strong dividend yield.

One of the newcomers in the portfolio, Ivanhoe Mining, also contributed strongly. Ivanhoe is an early-stage, pure play on increasing copper intensity of economic growth driven by the shift towards green energy, electrification of transport and continued urbanisation. They possess some of the most attractive undeveloped copper assets globally, and offer significant upside through the development and commercialisation of these assets. They continue to discover copper, and with CITIC Metal having taken an almost 30% stake, the financing overhang has been removed.

State Bank of India was also a strong contributor during the quarter, following the successful re-election of incumbent parties in national elections. New bad-debt rules released by the regulator were taken positively as they maintain the spirit of the original framework without diluting the reform agenda, while giving additional flexibility and time for banks to resolve stressed loans.



Photo: Bloomberg

Portfolio activity

After the manager change one year ago, the fund’s portfolio turnover has increased and new investments have contributed positively to results. The relative performance has been healthy in both positive and negative markets in 2019, as an improved risk management approach and focus on right-sizing positions have led to a more robust portfolio with an attractive risk-reward proposition.



Fed Chairman Jerome Powell. Photo: Bloomberg

Outlook

We continue to take a constructive view of EM, which trade in-line with historical averages and at a major discount to global markets. Our value-based philosophy continues to be a key factor in setting us apart from many other EM funds. With Kon-Tiki trading at 8x 2020e P/E and 1.0x P/B, this is a material discount to EM at 11.5x and 1.6x, respectively. Value stocks in emerging markets now trade at a historically high discount to growth stocks, which puts the risk-reward in favour of Kon-Tiki’s value philosophy.

The fund selects low-priced, high-quality companies, mainly in emerging economies.

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.

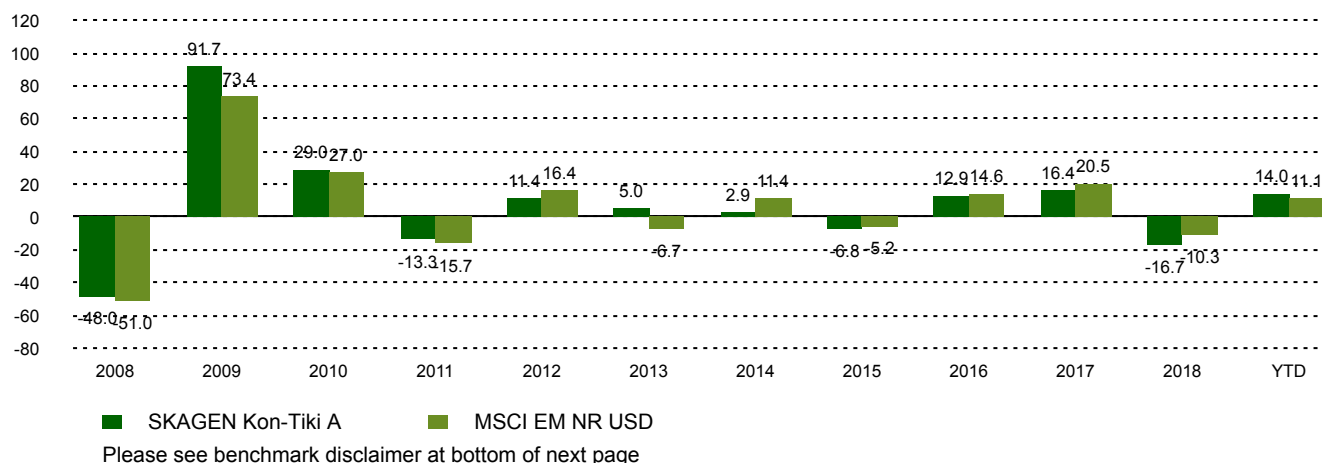
Historical performance (net of fees)

Period	SKAGEN Kon-Tiki A	Benchmark index
Last month	4.2%	4.3%
Quarter to date	0.7%	-0.7%
Year to date	14.0%	11.1%
Last year	2.0%	3.8%
Last 3 years	7.0%	9.8%
Last 5 years	2.3%	6.4%
Last 10 years	7.7%	8.0%
Since start	11.8%	7.5%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	88.86 EUR
Fixed management fee	2.00%
Total expense ratio (2018)	1.16%
Benchmark index	MSCI EM NR USD
AUM (mill.)	1945.71 EUR
Number of holdings	48
Portfolio manager	Cathrine Gether Fredrik Bjelland

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
X5 Retail Group NV	2.73	0.98
Ivanhoe Mines Ltd	1.88	0.58
PING AN	4.10	0.49
Hyundai Motor Co	4.36	0.42
State Bank of India	3.12	0.40



Largest detractors

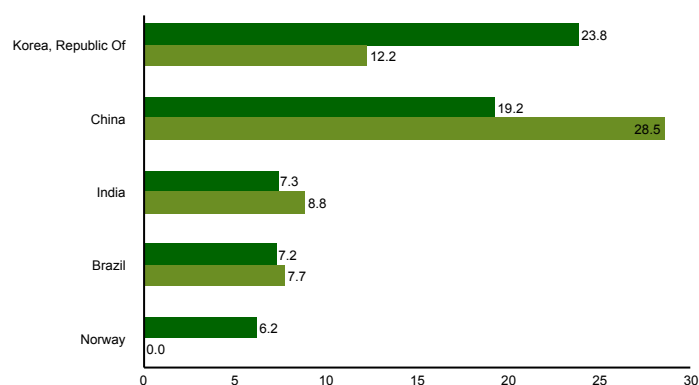
Holding	Weight (%)	Contribution (%)
Borr Drilling Ltd	1.80	-0.87
China Unicom Hong Kong Ltd	3.01	-0.43
Turquoise Hill Resources Ltd	1.11	-0.34
Golar LNG Ltd	2.09	-0.29
Hollsys Automation Technologi	2.27	-0.25

Absolute contribution based on NOK returns at fund level

Top ten investments

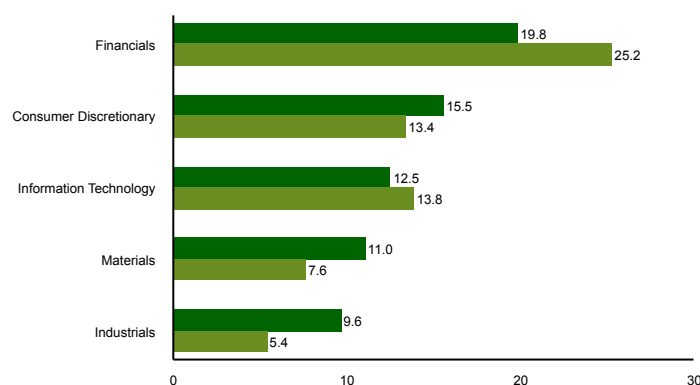
Holding	Sector	Country	%
Samsung Electronics	Information Technology	Korea, Republic Of	8.4
Ping An Insurance Group	Financials	China	5.3
Hyundai Motor Co	Consumer Discretionary	Korea, Republic Of	4.5
Naspers Ltd	Consumer Discretionary	South Africa	4.3
Bank Of China	Financials	China	4.2
LG Electronics	Consumer Discretionary	Korea, Republic Of	3.7
State Bank of India	Financials	India	3.1
China Unicom Hong Kong	Communication Services	China	2.8
Atlantic Sapphire AS	Consumer Staples	Norway	2.8
X5 RETAIL GROUP GDR(USD)	Consumer Staples	Russian Federation	2.7
Combined weight of top 10 holdings			41.6

Country exposure (top five)



■ SKAGEN Kon-Tiki A ■ MSCI EM NR USD

Sector exposure (top five)



■ SKAGEN Kon-Tiki A ■ MSCI EM NR USD

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Important information

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The benchmark index is the MSCI EM Index (net total return), this index did not exist at the inception of the fund and consequently the benchmark index prior to 1/1/2004 was the MSCI World AC Index. This is not reflected in the table/graph above which shows the MSCI EM Index since the funds inception.