

Worst economic quarter meets best financial quarter

While the first quarter of 2020 will be remembered for the fastest market correction in living memory, the second quarter stands out as having delivered the swiftest economic contraction on record as the global economy effectively ground to a halt under various lockdown schemes around the world. Notwithstanding great uncertainty and deep economic malaise, global equity markets rebounded strongly on the back of coordinated monetary and fiscal stimulus. Both central banks and governments have shown a degree of decisiveness that has largely taken the worst-case scenarios off the table and the market has started to price in a recovery.

The shape of the recovery, however, remains highly uncertain as a potential 'second wave' of infections appears to be on its way. This would most likely prolong or even deepen existing lockdown measures. Plenty of commentators are at pains to highlight the apparent disconnect between the very weak economic data and generally higher risk asset pricing. We note that, in general, valuations have trended higher, especially in corners of the market deemed less sensitive to COVID-19 related downside risk. As a result, assets enjoying some form of structural growth element have significantly outperformed more cyclically sensitive assets, as has been the case for some time.

Contributors

This is also evident in the SKAGEN Kon-Tiki portfolio, which traded broadly in line with its benchmark index during the quarter. Our Korean battery manufacturers LG Chem and Samsung SDI delivered strong returns on the back of solid order books and an acceleration of EV subsidies in Europe. We also enjoyed a tightening of the Tencent discount of Naspers, which we believe will be a relative winner in a post-COVID world, and we added to the position during the quarter.

We also added to our position in Indian tractor and auto manufacturer



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Key buys

We initiated a number of smaller positions during the quarter as well as a new investment in Indian IT services company Tech Mahindra. We see the company as well positioned to benefit from accelerating digitalisation and 5G technology spend. The company has a diversified revenue mix and a track record of large contract wins, which is under-appreciated by the market, in our view.

Mahindra & Mahindra, which rebounded strongly on better-than-feared operating performance and improved communication around capital allocation. We believe this is an important development and one that should greatly reduce the discount to fair value of the company.

With regard to the more cyclical holdings, the fund enjoyed solid returns from our copper-exposed miners Ivanhoe, Turquoise Hill and Lundin as commodity prices rebounded and the COVID-19 impact on operations has so far proved negligible. Due to a combination of falling inventories, curtailed supply and accelerating infrastructure spending, we continue to be positive about the long-term outlook for copper.

The biggest detractor during the quarter was crude oil tanker company Euronav, which had been the biggest contributor in Q1. As the oil price rebounded and contango reduced, shipping rates fell back and the shares reversed their gains.

The other biggest detractors were all in the financials sector as the combination of lower rates and potentially higher loan losses have weakened most banks' earnings power for the foreseeable future. As a result, we exited our holding in State Bank of India. Chinese financial services group Ping An fell on a deteriorating near-term growth outlook but we do not believe that this alters the long-term investment thesis.

Portfolio activity

We fundamentally reassessed our holdings in Shell and Aeroflot in terms of longer-term earnings power and potential for shareholder returns. With Shell having cut its dividend by two thirds and Aeroflot revising its funding structure, we decided to exit both. We also exited our holdings in telecom operators China Unicom and Indosat due to weak earnings developments and elevated investment needs.



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Outlook

As a result of recent activity, the portfolio now consists of 42 attractively valued companies, down from 48 at the end of Q1. Consequently, the weight of our top holdings has increased, better reflecting our higher conviction. In terms of valuation, the portfolio now trades on 11x current year earnings and 0.8x P/B while offering a 3% dividend yield. These represent discounts of c30% relative to the MSCI EM index. Given the uncertain backdrop and rising polarisation of valuation between growth companies and value companies, we remain focused on the need to balance upside potential with downside protection across the portfolio.

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.

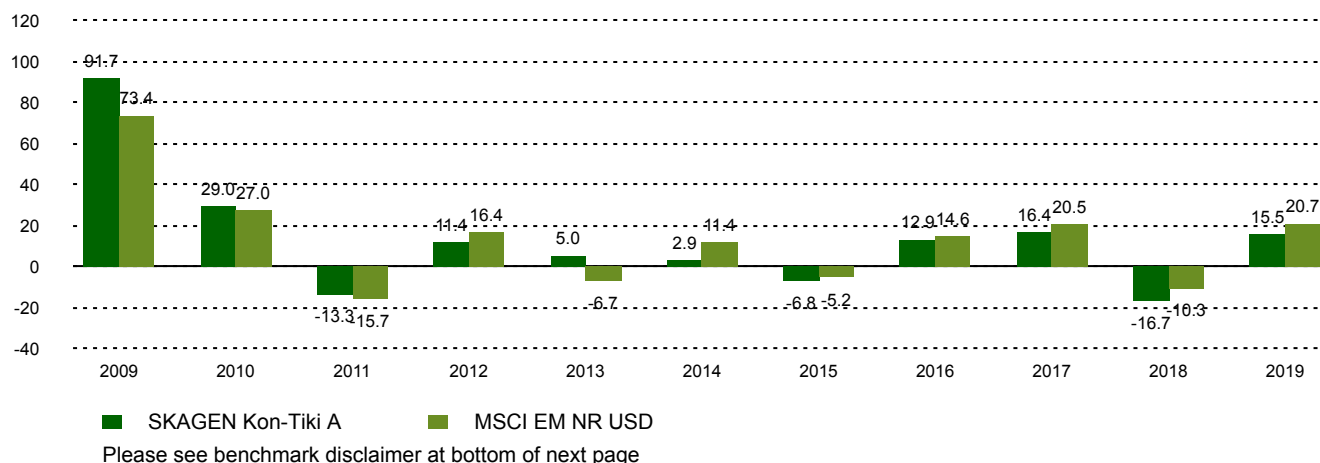
Historical performance (net of fees)

Period	SKAGEN Kon-Tiki A	Benchmark index
Last month	6.6%	7.3%
Quarter to date	16.0%	15.8%
Year to date	-13.9%	-9.5%
Last year	-12.8%	-1.8%
Last 3 years	-3.9%	2.6%
Last 5 years	-0.9%	2.8%
Last 10 years	2.4%	4.2%
Since start	10.3%	7.0%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	77.48 EUR
Fixed management fee	2.00%
Total expense ratio (2019)	1.51%
Benchmark index	MSCI EM NR USD
AUM (mill.)	1271.21 EUR
Number of holdings	42
Portfolio manager	Cathrine Gether Fredrik Bjelland

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Mahindra & Mahindra Ltd	3.30	1.53
Ivanhoe Mines Ltd	3.24	1.52
Naspers Ltd	7.10	1.06
LG Chem Ltd	2.14	1.06
Atlantic Sapphire ASA	3.25	0.96



Largest detractors

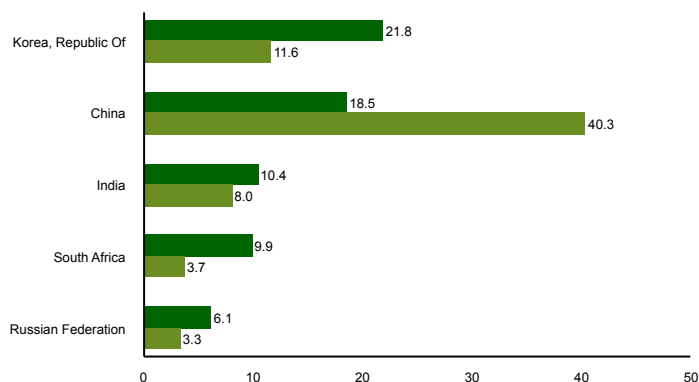
Holding	Weight (%)	Contribution (%)
Euronav NV	1.32	-0.45
Bank of China Ltd	3.64	-0.44
Ping An Insurance Group	7.30	-0.35
State Bank of India	0.55	-0.33
Ghana Commercial Bank Ltd	0.95	-0.32

Absolute contribution based on NOK returns at fund level

Top ten investments

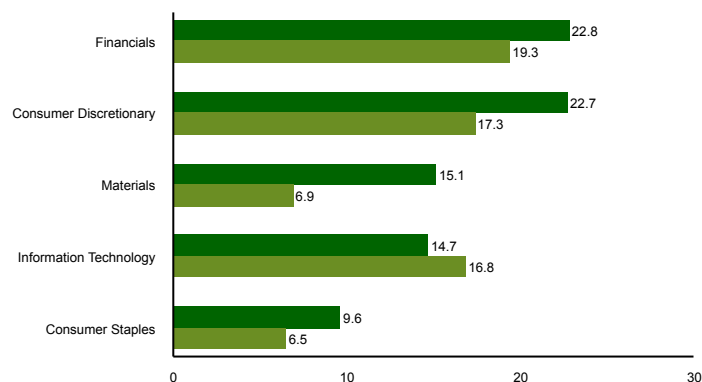
Holding	Sector	Country	%
Naspers Ltd	Consumer Discretionary	South Africa	8.0
Samsung Electronics Co Ltd	Information Technology	Korea, Republic Of	7.8
Ping An Insurance Group Co of China Ltd	Financials	China	7.3
UPL Ltd	Materials	India	4.4
Ivanhoe Mines Ltd	Materials	Canada	3.9
LG Electronics Inc	Consumer Discretionary	Korea, Republic Of	3.8
Mahindra & Mahindra Ltd	Consumer Discretionary	India	3.7
Hyundai Motor Co	Consumer Discretionary	Korea, Republic Of	3.7
Bank Of China Ltd	Financials	China	3.6
Atlantic Sapphire AS	Consumer Staples	Norway	3.4
Combined weight of top 10 holdings			49.6

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.