

China sell-off rattles Emerging Markets

Emerging markets fell during the third quarter as Chinese equities came under pressure following growing contagion fears from the property market. Listed property developer Evergrande continued to sell off as investors became increasingly concerned about its financial position and the potential knock-on effect on the Chinese property market. As a result of a deteriorating demand outlook, some commodities linked to property development, such as iron ore, also corrected.

While SKAGEN Kon-Tiki has no direct exposure to Chinese property developers, the fund also suffered negative returns in the period, predominantly from our holdings in South Korea and China. The biggest positive regional contribution came from Russia, which is well positioned for the currently elevated energy prices on the back of constrained supply. Coupled with several countries raising policy rates on the back of normalising activity levels and rising inflation concerns, typical value sectors such as energy and financials outperformed.

Contributors

Despite the favourable market backdrop, SKAGEN Kon-Tiki underperformed its benchmark in Q3. The largest negative contributor during the quarter was again Chinese insurance group Ping An, which reported weak new business momentum in the second quarter. The market is also increasingly cautious about the outlook for the company's investment portfolio, which includes direct and indirect property investments. We believe that Chinese authorities will prevent systemic risks from taking hold and have increased our position on weakness.

Land-based salmon farming company Atlantic Sapphire suffered several setbacks during the quarter including larger-than-expected Q2 losses. Despite hosting a detailed investor presentation, the market's confidence has clearly been shaken and we look for operational delivery in coming months to rebuild trust with the investment community.



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Outlook

As a result of this activity, the SKAGEN Kon-Tiki portfolio now consists of 47 companies trading on 8x current year earnings and just 1x P/B while supported by a 3% dividend yield. This represents a discount of 40% relative to the MSCI EM index, which itself trades at a historically high discount to developed market equities. While the recent regulatory clampdown on the Chinese internet sector and broader risks associated with a slowdown in the property market make for an uncertain backdrop, we believe that the portfolio's balanced composition and low valuation represent an attractive combination for long-term investors.

LG Electronics sold off as investors started to question the sustainability of recent strong earnings boosted by working from home trends. The company also suffered recall costs on the back of battery packs supplied to GM's Chevy Bolt EV.

The largest positive contributor in the period was Indian IT company Tech Mahindra, which re-rated on the back of continued strong results and a buoyant Indian equity market. We have since exited the position, which proved to be a short but very profitable investment for SKAGEN Kon-Tiki. Another recent investment, Sberbank, also performed strongly as it continues to benefit from an improving economic backdrop and, more importantly, gets recognition for its digital leadership and positioning.

Chinese automation equipment producer Hollysys bucked the negative trend in China as the company received two further indications of interest in buying the company. These come on the back of the former CEO's unsolicited approach in December last year, since when the shares have risen by more than 60%. While there can be no guarantee that the company will be sold, the high level of interest suggests that our assessment of underappreciated value has some merit.

Portfolio activity

Another holding, Chinese property management company Justbon Services was acquired by a competitor during the quarter. In addition to Tech Mahindra, we also exited smaller positions in recent LG Corp spin-off LX Holdings and Kenyan brewer East African Breweries. We made a number of adjustments to portfolio weights during the quarter but initiated just a small position in Chinese internet and gaming company Tencent. We know the company well through our long-term holding in Naspers and, more recently, Prosus where Tencent represents the majority of our valuation.



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Opportunities in volatility

It is also worth bearing in mind that equity market volatility in China is the norm rather than the exception. Over the past 20 years, the MSCI China index has suffered twelve drawdowns exceeding 20% in a year. Moreover, in every period bar 2017, the index corrected by more than 10% at some point during the year. Despite this volatility, total shareholder returns of 11% per annum for MSCI China were more than 4% per annum higher than for global equities in the 20 years up to end 2020. In our view, it is precisely such volatility that may give rise to the best opportunities for long-term investors. As a result, we have steadily been increasing our exposure to Chinese equities as they have fallen during the course of the year.

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.

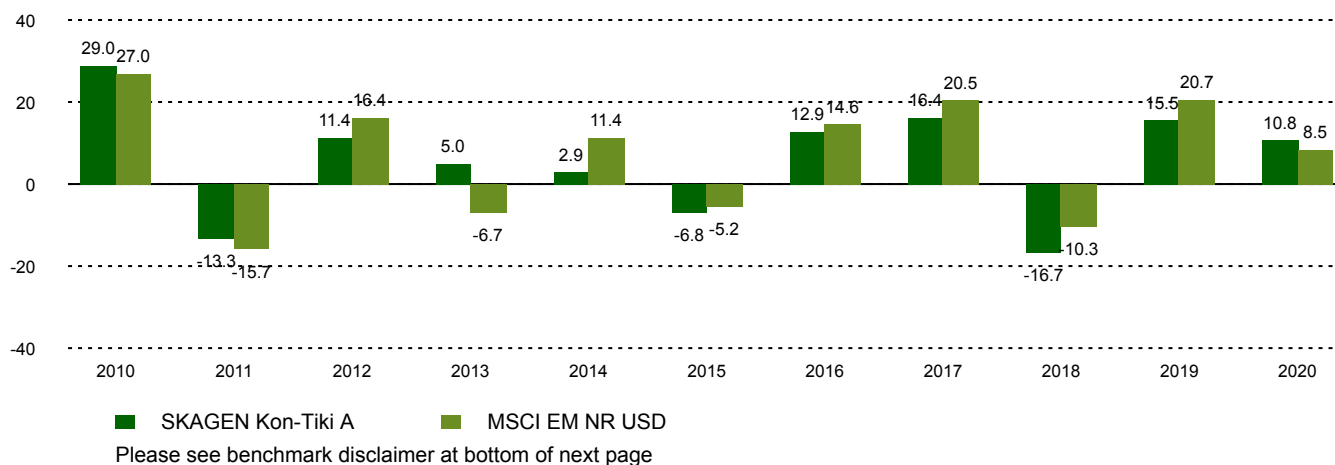
Historical performance (net of fees)

Period	SKAGEN Kon-Tiki A	Benchmark index
Last month	-2.5%	-2.2%
Quarter to date	-8.6%	-6.0%
Year to date	3.5%	4.3%
Last year	25.8%	19.4%
Last 3 years	8.0%	8.6%
Last 5 years	6.0%	8.5%
Last 10 years	6.0%	7.7%
Since start	11.2%	7.7%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	103.18 EUR
Fixed management fee	2.00%
Total expense ratio (2020)	2.18%
Benchmark index	MSCI EM NR USD
AUM (mill.)	1484.41 EUR
Number of holdings	47
Portfolio manager	Fredrik Bjelland Cathrine Gether

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Tech Mahindra Ltd	1.18	0.58
Sberbank of Russia PJSC	3.62	0.51
Hollysys Automation Technologies	1.26	0.42
West China Cement Ltd	1.33	0.29
Magnit PJSC	0.78	0.22



Largest detractors

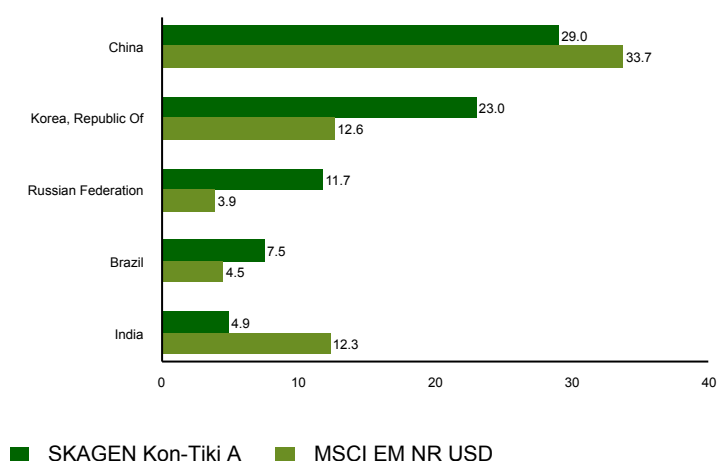
Holding	Weight (%)	Contribution (%)
Ping An Insurance Group	5.77	-1.77
Atlantic Sapphire ASA	2.01	-1.71
LG Electronics Inc	7.47	-1.56
Alibaba Group Holding	3.09	-1.26
Naspers Ltd	3.61	-1.09

Absolute contribution based on NOK returns at fund level

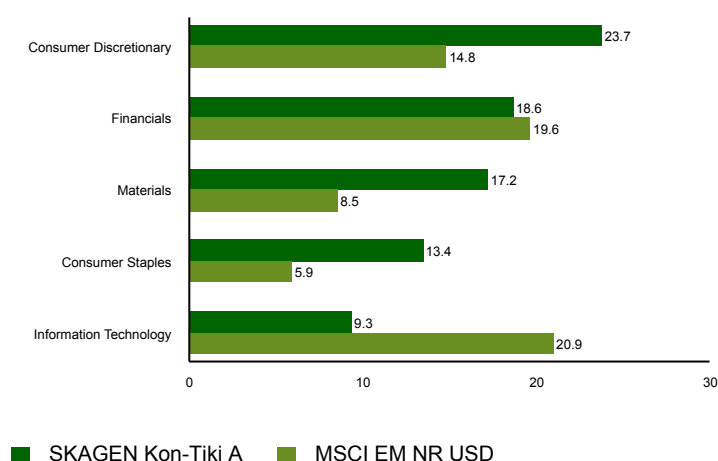
Top ten investments

Holding	Sector	Country	%
LG Electronics Inc	Consumer Discretionary	Korea, Republic Of	7.0
Ping An Insurance Group Co of China Ltd	Financials	China	5.7
Cnooc Ltd	Energy	China	4.2
Sberbank of Russia PJSC	Financials	Russian Federation	4.1
Prosus NV	Consumer Discretionary	China	4.0
Samsung Electronics Co Ltd	Information Technology	Korea, Republic Of	3.9
Hyundai Motor Co	Consumer Discretionary	Korea, Republic Of	3.9
UPL Ltd	Materials	India	3.8
Sendas Distribuidora SA	Consumer Staples	Brazil	3.4
Suzano SA	Materials	Brazil	3.3
Combined weight of top 10 holdings			43.2

Country exposure (top five)



Sector exposure (top five)



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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.