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## China sell-off rattles Emerging Markets

Emerging markets fell during the third quarter as Chinese equities came under pressure on growing contagion fears from the property market and the continuation of the zero-COVID policy. As a result, economic growth expectations have come down further, which, coupled with tightening monetary conditions, has weighed on risk assets.

SKAGEN Kon-Tiki still has no direct exposure to the Chinese property or banking sectors. However, 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 Brazil, which despite the uncertainty surrounding the outcome of its elections, is well positioned for the current positive commodity backdrop. India also performed strongly on the back of continued strong economic growth. We believe that the current market backdrop favours a conservative approach to portfolio construction. The combination of monetary and fiscal policy tightening to bring down historically high inflation rates has yet to feed into corporate earnings expectations, in our view.

### Contributors and detractors

Despite the unfavourable market backdrop, SKAGEN Kon-Tiki outperformed its benchmark in the third quarter. The largest positive contributor during the period was the Brazilian cash & carry operator Assai, which continues to execute well since becoming a standalone company last year. We see significant opportunities ahead as management delivers on its store conversion programme for recently acquired stores.

Our copper producers Ivanhoe Mines and Turquoise Hill Resources also performed well despite weaker commodity prices. Both companies currently operate and are further developing world-class copper deposits in DR Congo and Mongolia, respectively. With copper being a key enabler of the energy transition, we see significant future value creation ahead, corroborated by Rio Tinto's current offer to buy out minority shareholders in Turquoise Hill Resources.

The Indian crop protection company UPL benefited from a buoyant Indian equity market as well as delivering strong Q1 results. We are optimistic about the long-term opportunities for UPL, even more so after the

company raised its top and bottom-line guidance for the 2022/23 financial year on the back of strong demand.

Our largest negative contributors for the quarter were our Chinese and Korean holdings on the back of general market weakness and expectations of weaker results ahead. The Chinese insurance company Ping An fell on weak Q2 results as COVID lockdowns continue to weigh on new sales. Although management believes its property exposure is contained, the market remains sceptical given the negative news flow from the sector.

In Korea, both LG Electronics and Samsung Electronics fell on deteriorating market conditions for consumer electronics and memory chips, respectively. While both industries have historically proven to be cyclically sensitive, we believe that both companies' strong competitive positions and balance sheets should see them fare relatively well.

Finally, the land-based salmon farming company Atlantic Sapphire underperformed in the period despite raising new equity to fund its ongoing expansion. As long-term shareholders, SKAGEN Kon-Tiki participated in the capital raise and continues to believe that the company has the potential to challenge the salmon farming industry. The recent news that Norway will introduce resource rent tax on aquaculture from 2023, makes land-based salmon farming potentially more attractive from a longer-term perspective.

### Portfolio activity

We made only minor changes to the portfolio during the quarter. We invested in the Korean financial group DGB Financial, which is a leading regional bank with additional brokerage, asset management and insurance services. We see the company as a clear beneficiary of higher interest rates while the balance sheet risk is mitigated through high provisioning and adequate capital, both of which have been encouraged by the regulator. Trading on three times earnings and a quarter of net assets, we see a very compelling risk/reward given 9% return on equity. We exited our small holding in the traditional Chinese medicine producer China Shineway due to uncertainty about capital returns and deteriorating risk/reward.



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### Outlook

As a result, the SKAGEN Kon-Tiki portfolio now consists of 47 companies including our five Russian holdings, which are currently valued at zero. Overall, the portfolio is trading on just 5x 2022 earnings and 0.7x price to book, which is approximately half the valuation of the broader Emerging Markets index. The disconnect between our holdings' fundamentals and their aggregate valuation is as wide as it has ever been over the past five years. As a result, we continue to believe that the portfolio offers an attractive risk/reward proposition almost regardless of the macro backdrop.

### Team structure

We added Espen Klette to the portfolio management team at the start of July. Espen has worked as an analyst for SKAGEN Kon-Tiki over the last 3.5 years and we are thrilled to see him take on broader responsibilities.

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. Subscriptions are made in fund units and not directly in stocks or other securities. The fund has risk profile 6. The benchmark reflects the fund's investment mandate. Since the fund is actively managed, the portfolio will deviate from the composition of the benchmark.

## Historical performance (net of fees)

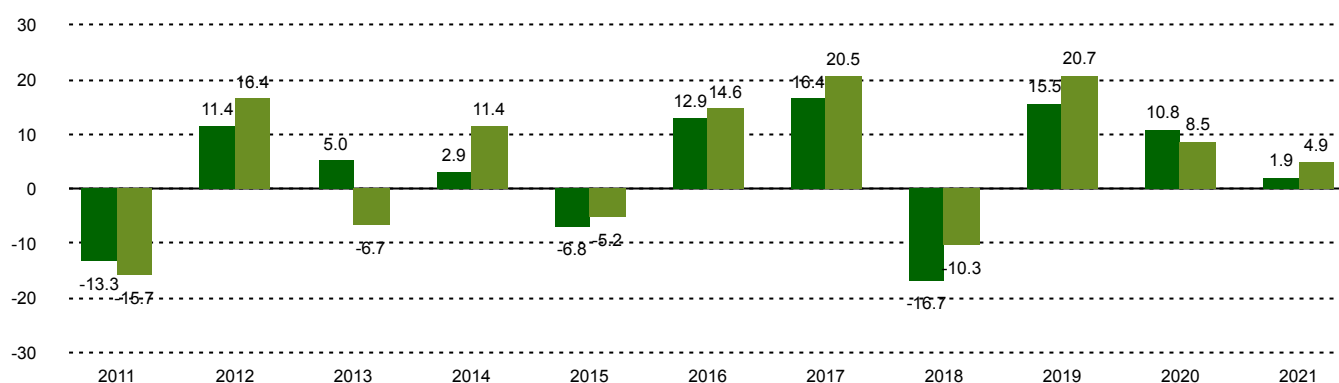
Period	SKAGEN Kon-Tiki A Benchmark index	
Last month	-9.1%	-9.4%
Quarter to date	-5.0%	-5.6%
Year to date	-17.6%	-15.4%
Last 12 months	-18.8%	-15.0%
Last 3 years	-0.5%	1.5%
Last 5 years	-1.0%	1.9%
Last 10 years	1.8%	3.9%
Since start	9.5%	6.5%

## Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	83.75 EUR
Fixed management fee	2.00% + performance fee*
Total expense ratio (2021)	1.67%
Benchmark index	MSCI EM NR USD
AUM (mill.)	1206.54 EUR
Number of holdings	47
Portfolio manager	Fredrik Bjelland
	Cathrine Gether

\*10.00% performance fee calculated daily and charged annually if the fund's value development is better than the benchmark. The total management fee charged represents a maximum of 4.00% p.a. and a minimum of 1.00% p.a. The performance fee may be charged even if the fund's units have depreciated in value if the value development is better than the benchmark.

## Performance last ten years



■ SKAGEN Kon-Tiki A ■ MSCI EM NR USD The benchmark is MSCI EM Index. This index did not exist at the fund's inception, consequently the benchmark prior to 1/1/2004 was MSCI World AC Index. This is not reflected in the graph above which shows MSCI EM Index since the fund's inception.

Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and management fees. The return may become negative as a result of negative price developments. There is a risk associated with investing in the fund due to market movements, currency developments, interest rate levels, economic, sector and company-specific conditions.

## Contributors in the quarter



## Largest contributors

Holding	Weight (%)	Contribution (%)
Sendas Distribuidora	3.39	0.97
Ivanhoe Mines Ltd	2.21	0.52
UPL Ltd	3.62	0.50
Turquoise Hill Resources	1.84	0.44
China Mobile Ltd	2.35	0.37



## Largest detractors

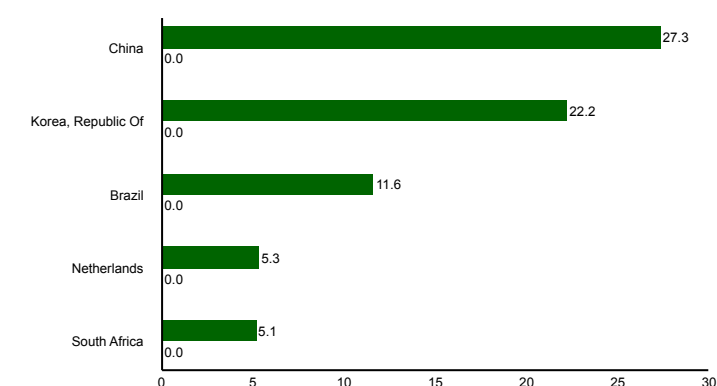
Holding	Weight (%)	Contribution (%)
Ping An Insurance Group	6.61	-1.12
LG Electronics Inc	5.31	-0.62
Atlantic Sapphire ASA	1.01	-0.50
Alibaba Group Holding	1.85	-0.48
Samsung Electronics Co	5.03	-0.44

Weights shown are the average for the period. Absolute contribution based on NOK returns at fund level.

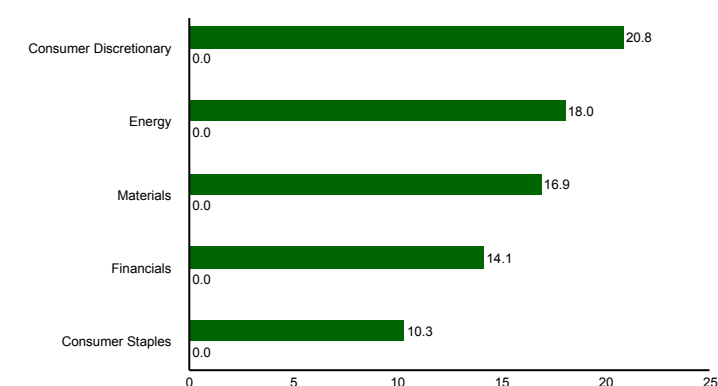
## Top ten investments

Holding	Sector	Country	%
Ping An Insurance Group Co of China Ltd	Financials	China	6.7
Samsung Electronics Co Ltd	Information Technology	Korea, Republic Of	5.3
Shell PLC	Energy	Netherlands	5.3
Cnooc Ltd	Energy	China	5.1
LG Electronics Inc	Consumer Discretionary	Korea, Republic Of	4.7
TotalEnergies SE	Energy	France	4.6
UPL Ltd	Materials	India	3.8
Hyundai Motor Co	Consumer Discretionary	Korea, Republic Of	3.7
Suzano SA	Materials	Brazil	3.7
Prosus NV	Consumer Discretionary	China	3.4
Combined weight of top 10 holdings			46.2

## Country exposure (top five)



## Sector exposure (top five)



■ SKAGEN Kon-Tiki A ■ MSCI EM NR USD

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## Important information

This report is intended for investment professionals only. All information is based on the most up-to-date data available. Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as per the end of the previous month. Except otherwise stated, the source of all information is SKAGEN AS. SKAGEN AS does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this report. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this report or are part of a fund's portfolio. CACEIS Ireland Limited, One Custom House Plaza, International Financial Services Centre, Dublin is the Paying Agent in Ireland.



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