

All data in EUR as of 30/06/2018 unless otherwise stated.

A split quarter

The overall market sentiment changed drastically during the quarter. The first half was characterised by continued strong performance by several of our names, including Whiting Petroleum, Fila Korea and Telecom Italia. However, a rather toxic combination of uncertainty following the Italian election results and increased trade war chatter from Trump clearly increased risk premiums across global equities. This was primarily evident in industrials/auto-related names, as well as in areas with perceived Eurozone sovereign risk. This has given rise to potentially temporary market dislocations in several sectors, if an outright recession can be avoided. Trump's "America First" policy and its subsequent measures have drastically de-rated equities, primarily with a cyclical component outside the US, to levels we find quite attractive. The fund was weaker in the second half of the quarter following the market turbulence and recent uncertainties.

Opportunities in Italy

Concerns regarding the political situation in Italy, where anti-establishment and far right parties have brought a populist government to the Eurozone's third largest economy, pushed up sovereign debt risk premiums during the period. This environment had a negative effect on our Italian positions, such as Telecom Italia and Unicredit, which were among the fund's main detractors. Following the de-rating, which was not prompted by any evident fundamental news, these stocks are trading at exceptionally cheap levels. We increased our position in Telecom Italia during the quarter. Telecom Italia is under pressure from activist Elliot to become more efficient in capital allocation and they are pushing for a spin-off of the fixed network later this year. From a sum-of-the-parts perspective, the shares offer a more than 50% upside from current levels in a conservative scenario. We believe that the entrance of activist Elliot into the stock has also made it even more attractive from a catalyst

perspective. Telecom Italia remains the second largest position in the fund with a combination of ordinary and savings shares.

Price targets reached

Following a substantial share price gain this year, we exited our position in US shale gas producer Whiting Petroleum at target price. The company has managed to de-lever its balance sheet and generally executed well in this improved environment and was one of the main contributors during the period. With the closure of our position in Whiting Petroleum, we have reduced the fund's energy exposure meaningfully. We also exited our position in Fila Korea at the end of the period, as the shares have doubled year to date and now trade at target price. The markets finally discovered this gem which is establishing itself as a true global sports brand, and has in the meantime listed Acushnet in the US. We also exited small-cap Village Supermarket following a quick but very profitable re-rating.

Our dynamic Korean cement duo, Hanil and Asia Cement, were among the top performers during the period. We held these positions for less than a year as the shares migrated towards our price targets during the quarter. The Korean market has seen a consolidation in the number of players and the shares responded positively to the historic meeting between the North and South Korean leaders, fuelling optimism about new business opportunities. In North Korea, there has been a chronic shortage of cement, with production reaching only a tenth of that in the South, while few investments have been made over the past two decades. We closed both positions during the period as they reached fair value, following a substantial re-rating since we initiated both positions in September 2017.



Telecom Italia remains the second largest position in the fund with a combination of ordinary and savings shares. Photo: Bloomberg

Key buys

As several stocks hit price target during the quarter, we added a number of new positions in line with our investment process. We gradually started to scale into new positions in German cash and carry operator Metro, South Korean paint and building materials manufacturer KCC and Turkish industrial conglomerate KOC Holdings.

Following our exit from profitable investments such as South 32 and First Quantum at the beginning of 2017, the fund has had a historically low exposure towards commodities. This exposure was recently increased through our new investment in Ivanhoe Mines, a Canadian listed company which operates assets (mainly copper) in Southern Africa, primarily in the Democratic Republic of Congo. In simple terms, Ivanhoe is an early-stage and pure play on the increasing copper intensity of economic growth driven by the shift towards green energy, electrification of transport and continued urbanisation. The company owns some of the most attractive undeveloped copper assets globally and therefore offers significant upside from the development and commercialisation of these assets.



Our dynamic Korean cement duo, Hanil and Asia Cement, were among the top performers during the period. Photo: Unsplash

We believe that the market places an unduly high discount on the value of Ivanhoe's pre-production assets due to a contraction in risk appetite as well as uncertainty about near-term commodity prices. As we move closer towards production (scheduled for 2019/20), we believe that the discount to intrinsic value will narrow. Following a recent investment by Chinese CITIC Metal, through a 20% stake in the company, we believe that the company's near-term financing overhang has been removed, which the shares have yet to reflect.

Outlook

At the end of the quarter, SKAGEN Focus holds 34 positions whereby more than half of the fund's assets are invested in small and mid-cap positions. The top ten positions currently account for 44% of the fund's assets. We believe these positions are substantially undervalued and have the company-specific potential to re-rate towards our price targets over our mid-term perspective of two to three years.

The fund is a concentrated global equity fund with a mandate to invest in all cap-sizes, geographies and sectors globally. With our concentrated portfolio of 30-35 core positions, we aim to generate absolute returns at a controlled level of absolute risk.

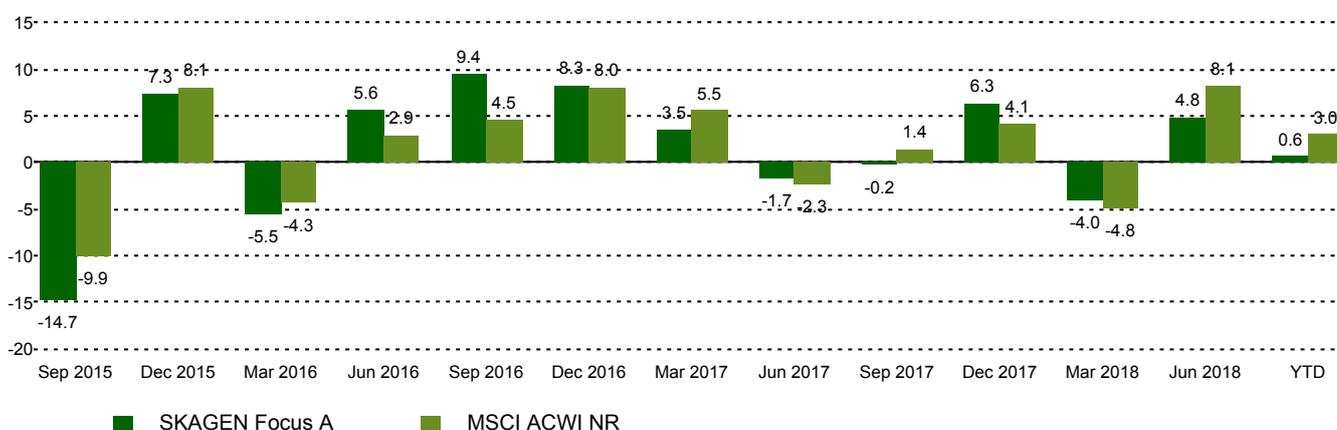
Historical performance (net of fees)

Period	SKAGEN Focus A	Benchmark index
Last month	-3.3%	-0.4%
Quarter to date	4.8%	8.1%
Year to date	0.6%	3.0%
Last year	6.8%	8.7%
Last 3 years	5.5%	6.6%
Last 5 years	n/a	n/a
Last 10 years	n/a	n/a
Since start	2.7%	4.8%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	26.05.2015
Morningstar category	Global Flex-Cap Equity
ISIN	NO0010735129
NAV	12.89 EUR
Fixed management fee	1.60%
Total expense ratio (2017)	1.48%
Benchmark index	MSCI ACWI NR
AUM (mill.)	271.36 EUR
Number of holdings	34
Lead manager	Jonas Edholm

Quarterly Performance



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Whiting Petroleum Corp	2.32	1.83
Teva Pharmaceutical Industries	2.91	1.33
Hanil Cement Ltd	1.16	1.19
Fila Korea Ltd	2.43	1.16
SBI Holdings Inc/Japan	7.48	1.08



Largest detractors

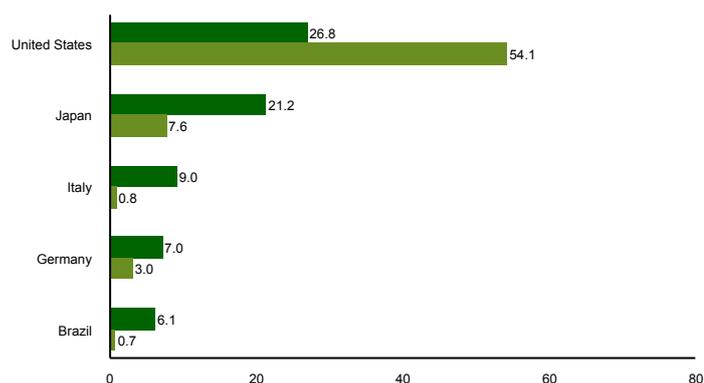
Holding	Weight (%)	Contribution (%)
Telecom Italia SpA/Milano	6.22	-0.96
Renault SA	3.12	-0.71
Heidelberger Druckmaschinen AG	2.43	-0.54
Bank of Kyoto Ltd/The	3.48	-0.38
Gold Fields Ltd	3.32	-0.38

Absolute contribution based on NOK returns at fund level

Top ten investments

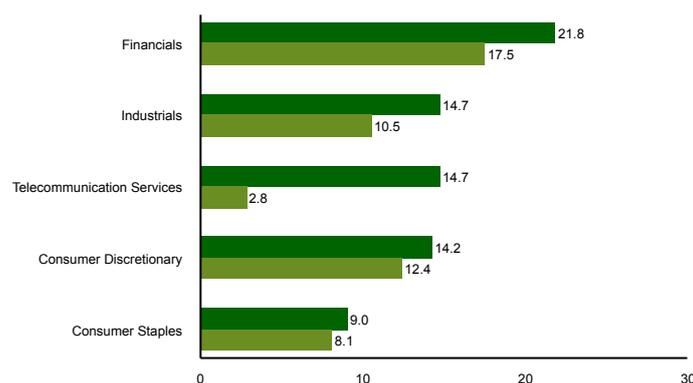
Holding	Sector	Country	%
SBI Holdings	Financials	Japan	6.3
Telecom Italia Spa	Telecommunication Services	Italy	5.9
AIG	Financials	United States	4.8
Softbank Group	Telecommunication Services	Japan	4.5
China Telecom	Telecommunication Services	China	4.3
Gold Fields Ltd	Materials	South Africa	3.9
Sao Martinho SA	Consumer Staples	Brazil	3.7
Hyundai Motor	Consumer Discretionary	Korea, Republic Of	3.7
Hawaiian Holdings	Industrials	United States	3.4
Bank of Kyoto	Financials	Japan	3.3
Combined weight of top 10 holdings			43.7

Country exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR

Sector exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR

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