Bright spots in the quarter

Global equity markets continued to show remarkable resilience in the face of further increased geopolitical tensions and the looming threat of higher interest rates. Although SKAGEN Focus lagged the overall global equity markets, there were a number of bright spots in the fund in the quarter.

One of these bright spots was the overly discounted beverage producer Stock Spirits, which is mainly active in Eastern Europe. We have patiently waited to see a business recovery in the company and have now been rewarded. Following a decent set of quarterly numbers and indications that their market share in Poland is stabilising, the activist-targeted stock shot up by more than 40%, making it the strongest performer in the period. Our recently initiated position in the South African gold miner, Gold Fields also performed well and narrowed the unjustified valuation gap to peers listed in Australia. Our holding in global auto-seat leader Adient is less than a year old, but has swiftly re-rated more than 50% in local currency since we initiated the position. Activist fund Blue Harbour disclosed a 6% ownership in Adient which propelled the stock higher in the quarter. Finally, after a dismal second quarter with numerous distractions for Brazilian food company JBS, the stock has since rebounded and we believe that the current fundamental performance is stronger than many anticipate, partly because of higher margins in beef.

On the negative side, Teva Pharmaceutical delivered a weak set of quarterly numbers and indicated the risk of possible breaches versus the current debt covenant levels. This unfortunate development overshadowed the positive events mentioned above. However, the company has announced they have recruited a new and well-regarded CEO, Kåre Schultz formerly from Lundbeck, and have executed several non-core asset sales, which is key to stabilising the balance sheet. The deflation in the US generics market will probably continue over the next few years, but the key question is how long before things stabilise. We believe this is likely to occur in the medium term and when the dust settles, the survivors will be the companies with rich R&D pipelines and portfolios of specialty generic products. We believe that the high quality standards at the FDA amongst others have effectively put a floor on prices and will limit the competition and number of players going forward. Teva has a decent chance of emerging stronger than before in a mid-term perspective.

Our recently initiated position in the South African gold miner, Gold Fields, was a key contributor. Photo: Bloomberg

We currently have six positions in Japan, and three of these are in the top ten. Photo: Bloomberg.

Portfolio Activity

We initiated a new position in US-based Brighthouse Financial. The company was recently spun off from the larger insurance group MetLife and represents excellent risk/reward in our mid-term perspective. As is usual in situations where the perceived lower quality part of a company is spun off, there is severe initial selling pressure, in this case as MetLife shareholders exited the stock. The share price fell from USD 70 to the current level of USD 53 in just a few weeks. Brighthouse is one of the largest independent life insurers in the US with a sizable annuities business. There is a lot of negative sentiment around the stock as the company has chosen to conservatively build capital until 2019/2020 despite having a solid balance sheet. The stock has a highly attractive earnings multiple and less than 60% of tangible book value. We believe the market may be overly negative on the forward capital return path, and the company has actually guided for a mid-term payout-ratio of up to 70%, which indicates a highly attractive mid-term yield potential. Brighthouse is currently a 2.5% position in the fund.
In light of its very attractive valuation and an increased pressure for capital allocation discipline, we have increased the fund's exposure to the Japanese equity market. The total portfolio exposure now stands at more than 15% of the fund's assets. We currently have six positions in Japan, and three of these are in the top ten, namely Taiheiyo Cement, Softbank and Bank of Kyoto.
We exited our position in Greek small cap IKEA operator Fourlis as the equity price has doubled since we first bought the stock in 2015. We continued to reduce our positions in Stock Spirits and Samsung SDI as they approach our price targets. We are gradually building new positions in two investment cases in Brazil and Japan.

Outlook

At the end of the quarter, SKAGEN Focus holds 33 positions where more than half of the fund's assets are invested in small and mid-cap positions. The top ten positions currently account for 42% 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.

Quarterly Report

SKAGEN Focus A

All data in EUR as of 30.09.2017 unless otherwise stated.

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.

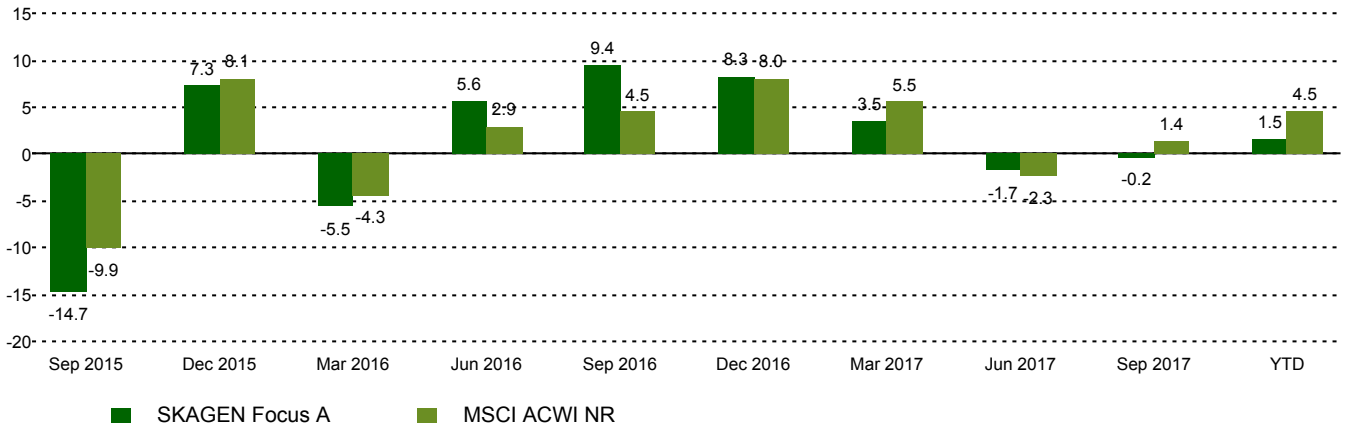
Historical performance (net of fees)

Period	SKAGEN Focus A	Benchmark index
Last Month	3.4%	2.4%
Quarter to date	-0.2%	1.4%
Year to date	1.5%	4.5%
Last year	9.9%	12.9%
Last 3 years	n/a	n/a
Last 5 years	n/a	n/a
Last 10 years	n/a	n/a
Since start	0.6%	3.2%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	26.05.2015
Morningstar category	Global Flex-Cap Equity
ISIN	NO0010735129
NAV	12.05 EUR
Fixed management fee	1.60%
Total expense ratio (2016)	2.24%
Benchmark index	MSCI ACWI NR
AUM (mill.)	259.97 EUR
Number of holdings	33
Lead manager	Filip Weintraub

Quarterly Performance



Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Stock Spirits Group	2.22	0.85
Jbs	3.30	0.77
Gold Fields Ltd	3.27	0.60
Adient	2.58	0.54
Andeavor	5.00	0.44

Largest detractors

Holding	Weight (%)	Contribution (%)
Teva Pharmaceutical	3.05	-2.10
Fila Korea Ltd	3.16	-0.83
Hyundai Motor Co	3.15	-0.55
AIG	6.99	-0.52
X-Fab Silicon Foundries	2.71	-0.48

Absolute contribution based on NOK returns at fund level

Quarterly Report

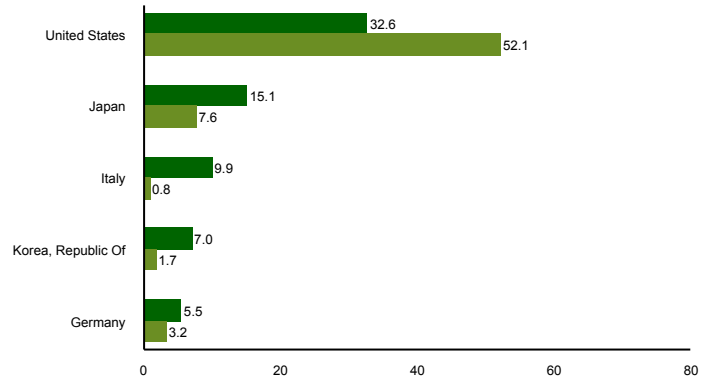
SKAGEN Focus A

All data in EUR as of 30.09.2017 unless otherwise stated.

Top ten investments

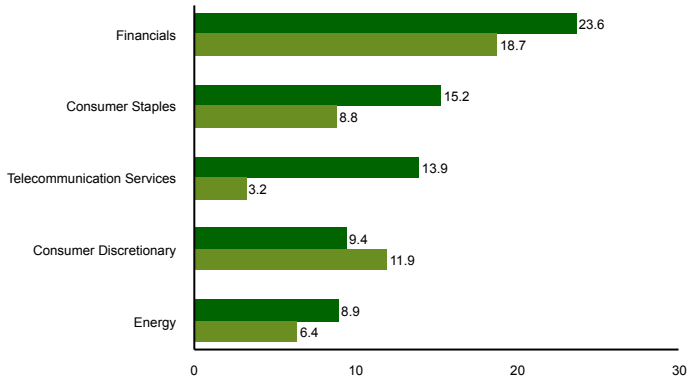
Holding	Sector	Country	%
AIG	Financials	United States	5.8
Telecom Italia Spa	Telecommunication Services	Italy	5.4
Andeavor	Energy	United States	4.7
China Telecom	Telecommunication Services	China	4.4
Softbank Group	Telecommunication Services	Japan	4.1
Bank of Kyoto	Financials	Japan	3.8
Taiheiyo Cement	Materials	Japan	3.8
Schaeffler	Industrials	Germany	3.5
UniCredit	Financials	Italy	3.4
Jbs	Consumer Staples	Brazil	3.4
Combined weight of top 10 holdings			42.3

Country exposure (top five)



SKAGEN Focus A MSCI ACWI NR

Sector exposure (top five)



SKAGEN Focus A MSCI ACWI NR

Contact

+47 51 80 37 09

contact@skagenfunds.com

SKAGEN AS, Post Box 160, 4001, Stavanger, Norway

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