

Exciting times for SKAGEN's shadow activist fund

The encouraging operational developments observed in previous quarters have continued; we are pleased with the progress of corporate transformation across the portfolio. However, the fund's return in the first quarter did not live up to last year's standard as it lagged the broader equity market.

The first quarter was characterised by elevated uncertainty, which caused myopic investors to shy away from our portfolio companies. Many short-term investors do not believe these companies are capable of positive change and are not keen to take the risk when equity markets are in turmoil. We have taken advantage of this and rotated a significant share of the portfolio away from companies that have weathered the recent market turbulence into holdings that have been disproportionately impacted. Importantly, the recent market stress has also increased the sense of urgency at our portfolio companies, which is generally expected to improve the trajectory of corporate transformation. This reinvigorated opportunity for activists to catalyse positive change should bode well for medium-term performance.

Key contributors

The key positive contributors to performance were Conduent and

Cognizant. Conduent beat Q4 earnings expectations and guided higher on all metrics. This provided the first hard evidence to mainstream investors that Conduent is an investable company on a standalone basis (it was spun off from Xerox last year). We continue to see material upside from current levels as investors start to discount the benefits of the company's transformation. Cognizant's results also testify to continued strong operational trends and impressive execution. Fortunately, we had added to the position as the share underperformed in the autumn on political noise in the US.

On the negative side, the two weakest performers in Q1 were Armstrong Flooring and ThyssenKrupp. The latter was actually Insight's strongest performer during January as, leading up to the company's AGM, Cevian Capital took a stance against the current leadership and its seeming inability to lift operating margins to acceptable levels. We are hopeful that the activist's call for a strategic overhaul may have been heard by the company. In the second half of the quarter, however, protectionist policies targeting the US steel industry fuelled speculation that the Chinese will increasingly dump cheap steel into Europe. While all this has understandably generated news headlines, we remain focused on the transformation of the ThyssenKrupp group and have used the opportunity to add to our position in the wake of the share price weakness.



Conduent beat Q4 earnings expectations and guided higher on all metrics. Photo: Bloomberg



Cognizant's results testify to continued strong operational trends and impressive execution. Photo: Bloomberg

Key buys

It has been a busy quarter for SKAGEN Insight with many exciting portfolio changes. Most notably, the fund entered into five new positions: GEA Group, Katakura Industries, Shire, Banca Popolare di Sondrio, and Hudson's Bay. The latter is described in more detail below:

Hudson's Bay was founded in 1670 as a fur trading enterprise, making it one of the oldest companies in the world still in business. Today it owns and operates department stores in North America and Europe, including upscale Saks and Lord & Taylor. This is a situation where we have followed the lead of American activist Land & Buildings that focuses on investments in the real estate sector. Put simply, Hudson's owns some of the most iconic and valuable commercial real estate in the world and is trading at a deep discount to intrinsic value. In fact, its real estate is worth close to four times Hudson's current market capitalisation. The fact that its real estate is valuable is undisputed; the question is how much of a liability Hudson's retail operations are in the new "Amazon-age". While we have followed the company, Hudson's has been burning through its cash pile so we remained on the sidelines. However, more recently, we have observed the company raise new convertible equity to shore up its cash buffers and a possible operational turning point among its US department store counterparts.

This has greatly reduced financial and operational risks. Management has also executed on several value enhancing property transactions and external investors have shown appetite for more. In fact, the new CEO has made her stance clear when it comes to HBC's options for value creation: "There are no sacred cows – everything is on the table." This makes Hudson's an interesting investment for SKAGEN Insight.

Key sells

The fund has exited eight positions, all of which approached our target prices: Deckers Outdoor, Baxter, Stock Spirits, Terex, Morgan Stanley, CBRE, Iluka Resources, and Stewart Information Services. The latter received a takeover offer from its competitor Fidelity National Financials, which values the business at USD 45-50 per share versus our entry price at fund inception of around USD 36.

Outlook

SKAGEN Insight's portfolio trades at a deep discount on normalised earnings versus the broader market: P/E (t+3) of 10.0x versus 13.3x. We view this as a good recipe for longer-term excess returns, especially as the globalisation of shareholder activism is expected to continue unabated in 2018 and even accelerate as the recent market turmoil has increased the sense of urgency and appetite for change at our portfolio companies. These are indeed exciting times for the fund.

SKAGEN Insight invests in a diversified and actively managed portfolio of companies exposed to some of the most attractive activist campaigns globally. Activists seek to unlock value by urging companies to make improvements. SKAGEN Insight "shadows" activists by investing in these companies. 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.

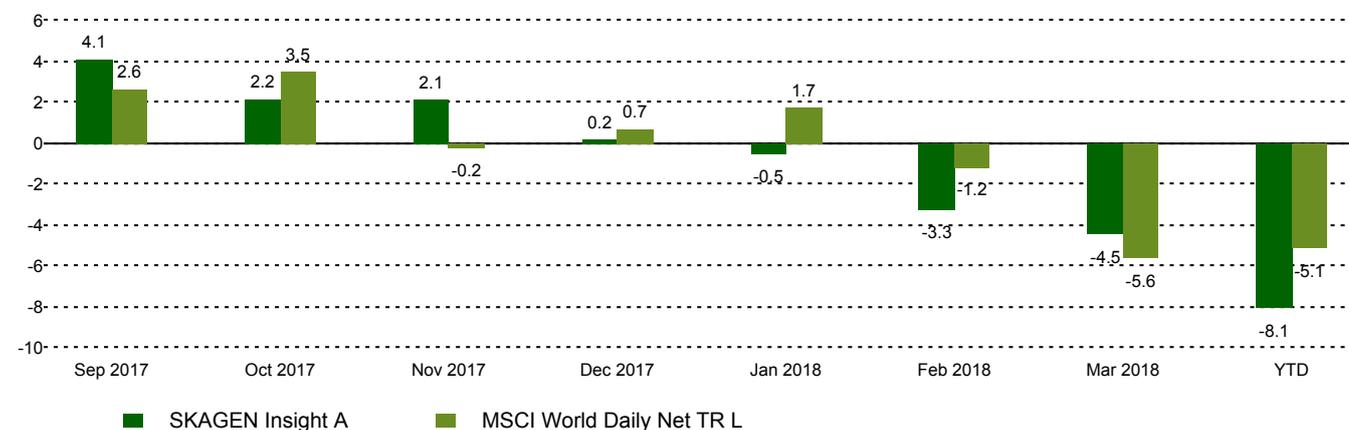
Historical performance (net of fees)

Period	SKAGEN Insight A	Benchmark index
Last month	-4.5%	-5.6%
Last 2 months	-7.6%	-6.7%
Quarter to date	-8.1%	-5.1%
Year to date	-8.1%	-5.1%
Since start	0.7%	2.3%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	21.08.2017
Morningstar category	Global Large-Cap Blend Equity
ISIN	NO0010801558
NAV	10.82 EUR
Fixed management fee	1.5%
Total expense ratio (2017)	n/a
Benchmark index	MSCI World Daily Net TR L
AUM (mill.)	25.67 EUR
Number of holdings	33
Lead manager	Tomas Johansson

Monthly performance



Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Conduent Inc	3.77	0.37
Cognizant Technology Solutions	3.22	0.28
Shire PLC	2.03	0.08
NH Hotel Group SA	3.04	0.06
Baxter International Inc	0.04	0.04

Largest detractors

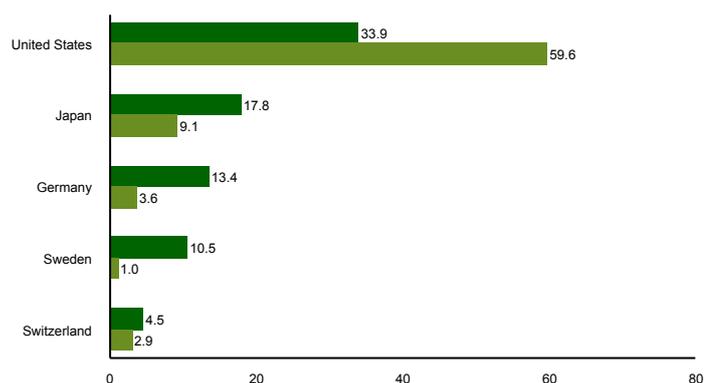
Holding	Weight (%)	Contribution (%)
Armstrong Flooring Inc	3.13	-0.77
thyssenkrupp AG	5.76	-0.77
General Electric Co	2.75	-0.73
Eitel AB	3.05	-0.62
Diebold Nixdorf Inc	4.34	-0.59

Absolute contribution based on NOK returns at fund level

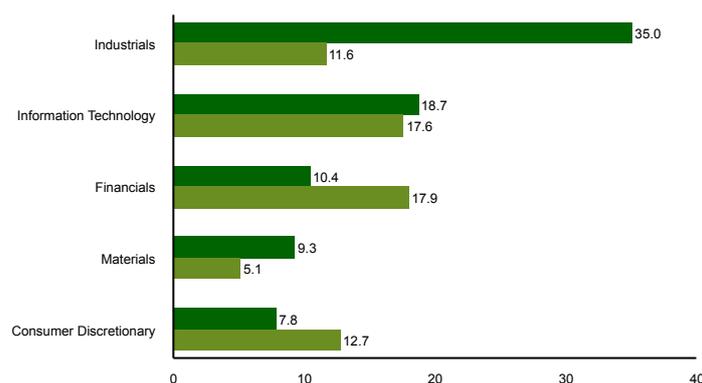
Top ten investments

Holding	Sector	Country	%
thyssenkrupp	Materials	Germany	6.9
Ericsson	Information Technology	Sweden	5.4
Teikoku Sen-I Co	Industrials	Japan	5.3
Eltel	Industrials	Sweden	5.1
Diebold Nixdorf	Information Technology	United States	4.6
AIG	Financials	United States	4.4
Conduent	Information Technology	United States	3.8
General Electric	Industrials	United States	3.5
Rexel	Industrials	France	3.4
Armstrong Flooring	Industrials	United States	3.4
Combined weight of top 10 holdings			45.8

Country exposure (top five)



Sector exposure (top five)



■ SKAGEN Insight A ■ MSCI World Daily Net TR L

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