

Activists are revving up the engine

We remain pleased with the progress of corporate transformation across the portfolio. However, the fund's return in the second quarter was weaker than the broader market as most activist investors had a tough start to the year. SKAGEN Insight is designed to offer all types of investors fundamentally the same exposure as traditional activist funds but in a smarter way – it is not an index fund. This means that we generally have a tough time when activists do, and vice versa. Importantly, we have started outperforming top activist funds (per latest available data spanning seven months since fund inception). This is in-line with our expectations, given the distinct benefits of Insight's shadow activist strategy. More broadly, we are convinced that activist investors will continue to generate above-market returns over time by catalysing positive corporate change. In fact, we see trends of shareholder activism continuing to strengthen across the world, with the number of activist targets up +15% YoY during the first half of 2018. Consequently, we are excited about Insight's prospects for the medium term.

The fund's relative underperformance has been somewhat systematic and can therefore largely be explained by myopic investors shying away from activist-type situations against a backdrop of elevated market uncertainty (e.g. US-China trade tensions, political uncertainty in Italy, etc.). This is because short-term investors do not believe these companies are capable of positive change to begin with and are certainly not keen to take the risk when equity markets are in turmoil. This has created a situation where Insight's portfolio is even more undervalued than at the start of the year – fundamental trends remain positive, but the price at which we are able to buy into these situations has come down. We have taken advantage of this and rotated a significant share of the portfolio out of companies that have weathered the recent turbulence and into holdings that have been disproportionately impacted. Our modus

operandi is to increase exposure to situations when the risk-reward profile improves. Importantly, recent market stress has also increased the sense of urgency within our portfolio companies, which is expected to improve the trajectory of corporate transformation. This renewed opportunity for activists to catalyse positive change bodes well for medium-term performance.

Case in point

General Electric is a case in point of accelerated corporate change in the wake of this heightened sense of urgency. Earlier this year Insight invested into GE, which is one of the world's largest and most complex industrial conglomerates with a huge scope for structural improvement and overall simplification. We invested at a time when the new management had invited activist investors into the boardroom. This was not only a cultural turning point for the company, it was also a first step in reshaping GE for the future. During the past couple of months, GE has announced several landmark deals to transform its business. This started with an agreement to merge its transportation business, which manufactures train engines, with Wabtec to create a new USD 20bn company. Even more drastic change followed as GE just a few weeks later announced the spin-off of its Healthcare division and potential sale of Baker Hughes, the oil services company it currently controls. This decision was worth more than USD 10bn to shareholders as GE's stock posted its strongest gain in more than three years on announcement. We remain invested because we believe that these structural changes will resolve a significant valuation discount at GE, partly by making the company easier to understand for investors but mainly by supporting a medium-term inflection in cash generation at the company on the back of improved operational performance.



Ericsson has performed strongly following its first-quarter results release. Photo: Bloomberg

Key contributors

The key positive contributors to performance were Ericsson and Hudson's Bay. Ericsson has performed strongly following its first-quarter results release, which some investors believe marked the turning point for the company. We were pleased to see some green shoots of recovery and have taken advantage of the strong share price run to scale back our exposure somewhat. Still Ericsson remains one of Insight's largest holdings.

Hudson's Bay was introduced as new investment last quarter. The stock has done well during Q2, up more than 30% as people have started to realise that this department store is not closing shop anytime soon; as one of the world's oldest publically traded companies, HBC has been through tough times before. Backed by asset values exceeding its market value by a factor of around 3x, it remains deeply undervalued.

Shareholder pressure to crystallise this value is as strong as ever with the activist publishing a fresh letter late June highlighting the need for change.



Hudson's Bay was introduced as new investment last quarter. The stock has done well during Q2. Photo: Bloomberg

On the negative side, the two weakest performers were Hertz and Eltel. We remain optimistic on both situations based on the operational developments and corporate change currently taking place at these companies.

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.

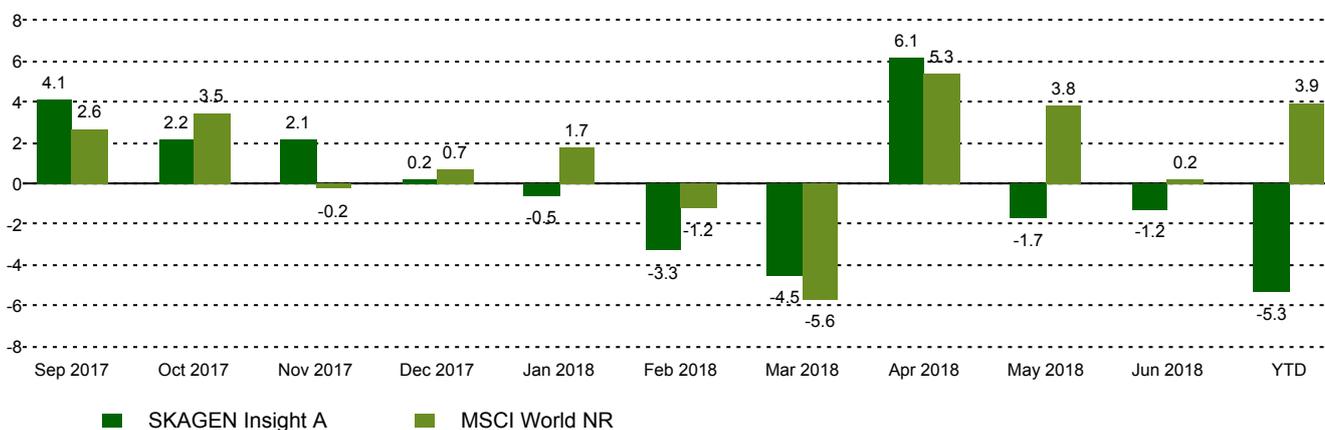
Historical performance (net of fees)

Period	SKAGEN Insight A	Benchmark index
Last month	-1.2%	0.2%
Last 2 months	-2.9%	4.0%
Quarter to date	3.1%	9.5%
Year to date	-5.3%	3.9%
Since start	3.8%	12.1%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	21.08.2017
Morningstar category	Global Large-Cap Blend Equity
ISIN	NO0010801558
NAV	11.15 EUR
Fixed management fee	1.5%
Total expense ratio (2017)	1.50%
Benchmark index	MSCI World NR
AUM (mill.)	29.74 EUR
Number of holdings	30
Lead manager	Tomas Johansson

Monthly performance



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Ericsson	4.48	1.27
Hudson's Bay Co	3.22	1.10
Teikoku Sen-I Co Ltd	5.12	0.69
General Motors Co	1.99	0.46
BHP Billiton Ltd	2.54	0.45



Largest detractors

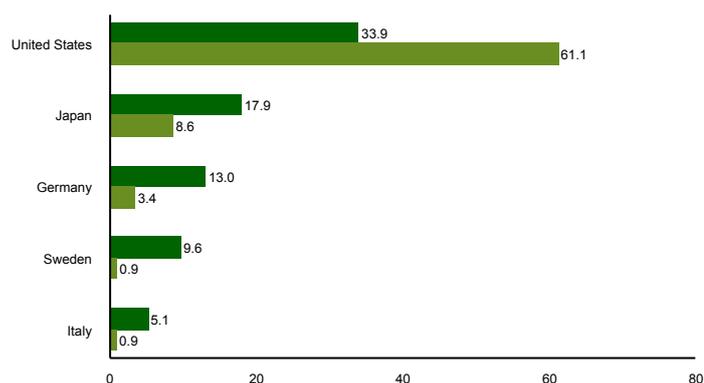
Holding	Weight (%)	Contribution (%)
Hertz Global Holdings Inc	3.69	-0.72
Eitel AB	4.83	-0.65
Diebold Nixdorf Inc	4.84	-0.59
GEA Group AG	2.71	-0.46
Rexel SA	3.67	-0.37

Absolute contribution based on NOK returns at fund level

Top ten investments

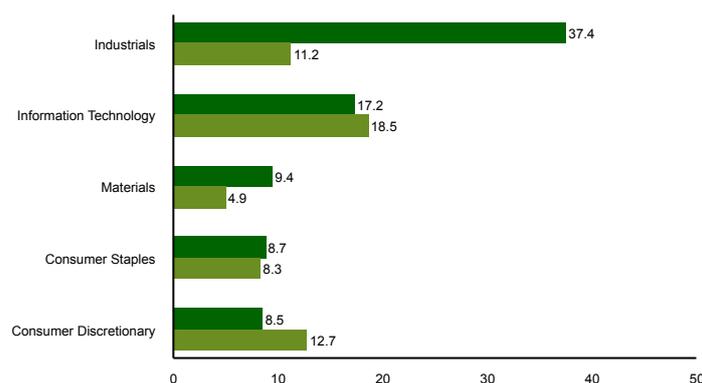
Holding	Sector	Country	%
thyssenkrupp	Materials	Germany	6.7
Teikoku Sen-I Co	Industrials	Japan	5.2
Diebold Nixdorf	Information Technology	United States	5.1
Ericsson	Information Technology	Sweden	4.9
Eltel	Industrials	Sweden	4.7
Mondelez International	Consumer Staples	United States	4.4
Hertz Global Holdings	Industrials	United States	4.1
Perrigo Company	Health Care	United States	4.1
Armstrong Flooring	Industrials	United States	4.0
General Electric	Industrials	United States	4.0
Combined weight of top 10 holdings			47.3

Country exposure (top five)



■ SKAGEN Insight A ■ MSCI World NR

Sector exposure (top five)



■ SKAGEN Insight A ■ MSCI World NR

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