

## Fertile ground for activist investors

Our focus is on generating strong long-term returns and we therefore make investments over a multi-year horizon. In retrospect, 2018 was a difficult year for activist investors globally. The short-term return of our shadow activism strategy was therefore also unsatisfactory. A significant proportion of the fund's relative underperformance versus the broader equity market last year was due to our exposure to activist campaigns – a market segment that we are explicitly targeting because it makes sense for the long term. Going forward we have high expectations that this underperformance will reverse due to the nature of these situations and the factors that have weighed on our short-term performance. It is important to remember that SKAGEN Insight is not an index fund, which is why it will outperform the market some years and likely underperform other years. We remain convinced that the strategy will prove itself over time.

Last year, we saw a broad-based devaluation of activist-led situations in the wake of the elevated market uncertainty. The key reason for this is that when mainstream investors get nervous, they tend to believe companies are incapable of positive change. We have taken a strong contrarian view and put emphasis on the fact that market volatility makes companies more susceptible to change, which increases activists' ability to be a positive catalyst in these situations. This reinvigorated opportunity for activists to be a force for change bodes well for medium-term performance and short-term volatility may actually turn out to be a good thing for the patient investor. As expected, we have also seen a steady rise in new activist campaigns globally. Activist investors are putting new money to work as the opportunity to change companies and make a difference is opening up.

### Top contributors

Stock Spirits and Mondelez were the fund's largest positive contributors during the fourth quarter. Stock Spirits surprised the market with a set of strong results after having made its way back into SKAGEN Insight's portfolio a second time around. The company was part of our portfolio at fund inception in 2017 and we later exited the position as it approached its target price following strong share price performance. Stock Spirits later de-rated for no good reason and we took the opportunity to reinvest in the company.

On the negative side, ThyssenKrupp and Armstrong Flooring were the fund's largest detractors. We have actually been very encouraged by developments at these companies. Both holdings are high-conviction investments where we have seen activists play a decisive role in reshaping the companies' structure to make them less complex and release shareholder value. Clearly, the market has yet to appreciate the magnitude of value creation that we ultimately expect from these moves. It is worth highlighting that, as the share prices of these companies have fallen, so has the sense of urgency increased and helped activists to catalyse positive change.

Other portfolio situations with similar dynamics include General Electric, Hudson's Bay, ABB and Diebold Nixdorf. In fact, more than a third of SKAGEN Insight's current portfolio consists of companies where we have recently seen material change take place that we were generally only expecting to happen 2-3 years into the future, but where falling share prices have helped to frontload improvements. We are patiently waiting for the market to catch up.



Photo: Pasona Group

### Corporate governance in Japan

Looking ahead to next year, one of the most interesting investment themes is the ongoing change of corporate governance in Japan. There is a real possibility this will make Japanese companies more competitive, especially from a capital allocation standpoint, and unlock hidden values for shareholders. Activists have an important role to play here. When we look at Japan today, we see many companies trading at valuations that do not seem to add up to us as value investors. One example, which recently made its way into the fund's portfolio is Pasona Group (currently around 3% weight). This is the third largest staffing company in Japan and is incredibly trading at an implied massively negative value as its market capitalisation is dwarfed by that of one of its listed subsidiaries.



Photo: Mondelez International Inc

### Outlook

More broadly speaking, we see a lot of value potential across the portfolio given the fact that many of our holdings have traded down due to the nervousness of myopic investors and not to deteriorating fundamentals. SKAGEN Insight has a portfolio of deeply undervalued and underappreciated companies where fundamental trends are moving in the right direction and activists are increasingly becoming the catalyst for positive change. We see the potential for the portfolio to more than double over the next 2-3 years as markets stabilise.

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.

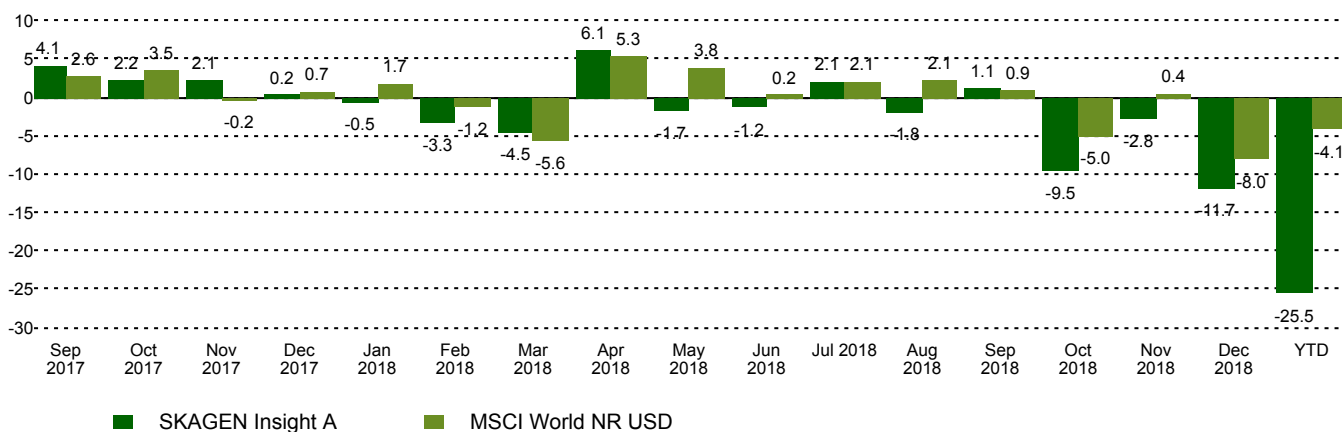
### Historical performance (net of fees)

| Period          | SKAGEN Insight A | Benchmark index |
|-----------------|------------------|-----------------|
| Last month      | -11.7%           | -8.0%           |
| Last 2 months   | -14.2%           | -7.6%           |
| Quarter to date | -22.3%           | -12.2%          |
| Year to date    | -25.5%           | -4.1%           |
| Since start     | -13.8%           | 2.5%            |

### Fund Facts

|                            |                               |
|----------------------------|-------------------------------|
| Type                       | Equity                        |
| Domicile                   | Norway                        |
| Launch date                | 21.08.2017                    |
| Morningstar category       | Global Large-Cap Blend Equity |
| ISIN                       | NO0010801558                  |
| NAV                        | 8.77 EUR                      |
| Fixed management fee       | 1.5%                          |
| Total expense ratio (2017) | 1.50%                         |
| Benchmark index            | MSCI World NR USD             |
| AUM (mill.)                | 19.22 EUR                     |
| Number of holdings         | 32                            |
| Portfolio manager          | Tomas Johansson               |

### Monthly performance



### Contributors in the quarter



#### Largest contributors

| Holding                    | Weight (%) | Contribution (%) |
|----------------------------|------------|------------------|
| Stock Spirits Group PLC    | 2.53       | 0.20             |
| Mondelez International Inc | 1.61       | 0.20             |
| BHP Billiton Ltd           | 2.14       | 0.15             |
| Ericsson                   | 1.89       | 0.15             |
| Newell Brands Inc          | 1.08       | 0.12             |



#### Largest detractors

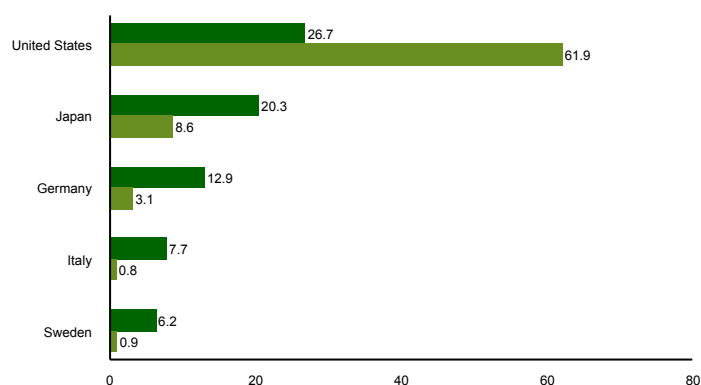
| Holding                | Weight (%) | Contribution (%) |
|------------------------|------------|------------------|
| thyssenkrupp AG        | 7.19       | -2.15            |
| Armstrong Flooring Inc | 5.85       | -1.91            |
| Eitel AB               | 4.47       | -1.75            |
| Diebold Nixdorf Inc    | 2.90       | -1.33            |
| Teikoku Sen-I Co Ltd   | 7.00       | -1.33            |

Absolute contribution based on NOK returns at fund level

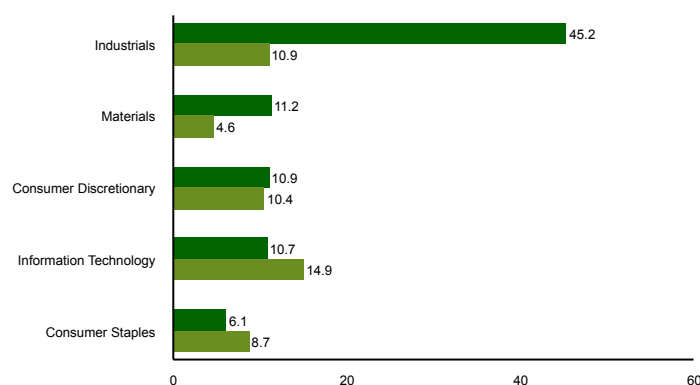
## Top ten investments

| Holding                            | Sector                 | Country       | %    |
|------------------------------------|------------------------|---------------|------|
| Teikoku Sen-I Co                   | Industrials            | Japan         | 7.5  |
| thyssenkrupp                       | Materials              | Germany       | 7.2  |
| Hertz Global Holdings              | Industrials            | United States | 5.6  |
| Armstrong Flooring                 | Industrials            | United States | 5.3  |
| Telecom Italia Spa                 | Communication Services | Italy         | 5.0  |
| Rexel                              | Industrials            | France        | 4.4  |
| Eltel                              | Industrials            | Sweden        | 4.2  |
| Maxell Holdings                    | Information Technology | Japan         | 4.0  |
| BHP Billiton Ltd                   | Materials              | Australia     | 4.0  |
| Katakura Industries Co Ltd         | Industrials            | Japan         | 3.9  |
| Combined weight of top 10 holdings |                        |               | 51.2 |

## Country exposure (top five)



## Sector exposure (top five)



■ SKAGEN Insight A ■ MSCI World NR USD

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## Important information

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