SKAGEN Vekst A

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

A quarter marked by change

Both for global markets and SKAGEN Vekst the second quarter can be summed-up in one word: change. Within the fund, some changes were made to our portfolio team, but our active, value-oriented philosophy remains firm. Within the portfolio, there was some rotation during the quarter, both to take down some of the cyclicality within certain sectors but also to resize positions as investments have matured. In addition, we have broadened the portfolio somewhat, to make room for more mid and small cap exposure. As the second quarter draws to an end, our 47 portfolio holdings are well diversified across sectors and geographies, with 54% invested in the Nordics. In the period, we have added ten companies to the portfolio, while taking down our exposure to some cyclical industries that have performed well (semiconductors and materials).

Change in the global political arena was also on investors' minds in the second quarter as former foes became friends and earlier allies became rivals. As Trumps' words and actions appear to be paving the way towards a trade war, investors became more anxious towards the end of the quarter. The threat to free competition and global trade appears closer as populism continues to find its way into international and domestic politics across the globe and domestic production and development are favoured. Though the impact of the sabre-rattling is not yet reflected in global trade data, investors and company leaders clearly see the clouds gathering on the horizon.

On the positive side, we have seen several economies recovering and thus moving closer to normalising interest rates. We have already started to see this in the US, where the Fed has continued to increase rates. We expect to see the same process taking place across the Nordics in the period to come.

Key contributors and detractors

The fund's performance lagged that of the combined index in the quarter. Much of this was due to poor performance amongst companies that could be impacted by a potential trade war. We also saw increased negative sentiment towards our Russian holdings as new sanctions were introduced. Finally, some of our semiconductor-related names suffered as the market started to worry about a weakening in demand.

We have had strong performance from our exposure in the energy sector. As oil and gas prices have remained on an upward trajectory, our investment in the vertically integrated oil companies Royal Dutch Shell and Swedish-listed Lundin Petroleum both had a strong quarter. In addition, Norwegian-listed Borr and Northern Drilling have both performed well, as the higher energy price has improved demand activity for rigs. Both companies have also taken advantage of stranded assets in shipyards to increase their commercial potential when the cycle improves. Our renewable energy exposure through our holding Bonheur also contributed positively as the company continued to show the latent values imbedded in their renewable book.

Our investment in Swedish-listed Lundin Petroleum had a strong quarter. Photo: Bloomberg

As oil and gas prices have remained on an upward trajectory which benefits Royal Dutch Shell. Photo: Bloomberg

Portfolio activity

We repositioned the fund in the quarter in accordance with the current team's view and focus on value. Ten positions entered the portfolio, the largest among these being our top 10 position in CK Hutchison Holdings Ltd, a Hong Kong family-controlled conglomerate. This is a long-term SKAGEN holding which has created strong performance over previous holding periods. CK Hutchison has recently announced a generation transition, although this has in effect been in place for some time. The conglomerate is renowned for its five core business areas – ports and related services, retail, infrastructure, energy and telecommunications – which they operate in over 50 countries. In Europe, they are particularly well known for their telecommunication business, 3 Group. We see this as a clear value case; the conglomerate has low debt levels, a strong value creation drive and a large part of the underlying holdings are listed or in joint ventures. At approximately 0.7x book value, we find the story compelling.

Another former holding that has re-entered the portfolio is China Mobile, China's largest telecom company. We see continued growth and a strong cash flow trickling back to investors including the majority shareholder, the Chinese state.

With growth rates that most international telecoms companies dream about, China Mobile continues to trade at a substantial discount to international peers, while corporate transactions continue to unveil valuable assets. The company has a dividend yield of over 5% and 5% earnings growth, combined with a strong cash position on the balance sheet.

During the quarter, the fund continued to reduce its exposure to the semiconductor industry, with all three holdings being scaled back. The most notable of these was Samsung Electronics where we have seen a substantial re-rating over the past 12 months. We have also reduced a few positions where we have seen strong share price contribution or have less conviction. Two of these are Boliden and Anglo American, both of which had strong performance on the back of increased mineral prices.

Outlook

At the end of the quarter, the fund holds a robust portfolio with a focus on low valuation, strong business models and limited leverage on the overall portfolio. Given the uncertain macro environment, some continued volatility is to be expected, but this should give rise to good opportunities for long-term active investors.

Quarterly Report

SKAGEN Vekst A

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The fund selects low-priced, high-quality companies in the Nordic region and from around the world.

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.

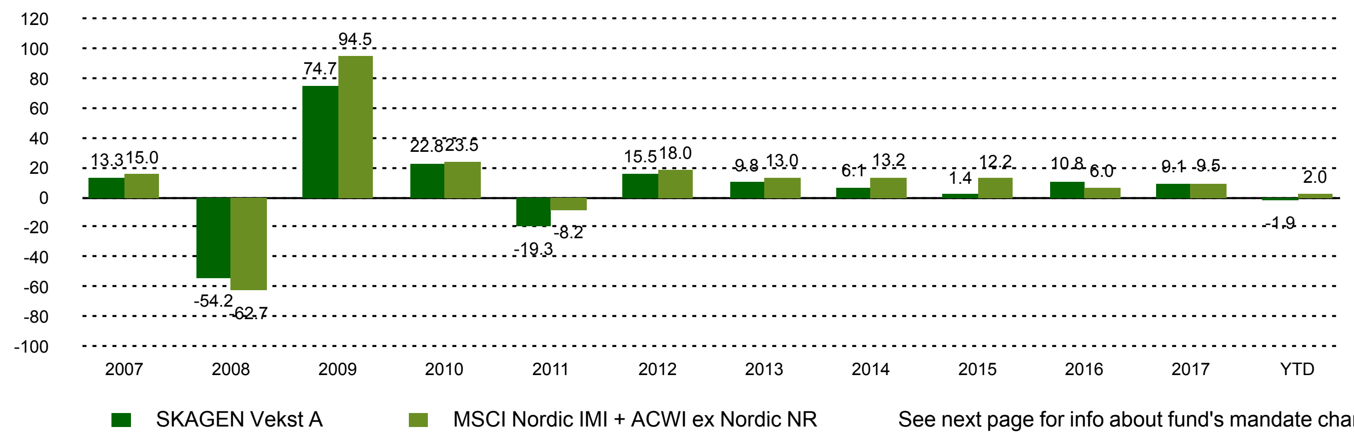
Historical performance (net of fees)

Period	SKAGEN Vekst A	Benchmark index
Last month	-2.7%	-0.8%
Quarter to date	4.4%	6.5%
Year to date	-1.9%	2.0%
Last year	1.8%	5.1%
Last 3 years	4.1%	5.5%
Last 5 years	7.1%	10.6%
Last 10 years	3.5%	5.8%
Since start	13.1%	9.7%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	01.12.1993
Morningstar category	Global Flex-Cap Equity
ISIN	NO0008000445
NAV	244.74 EUR
Fixed management fee	1.00%
Total expense ratio (2017)	2.13%
Benchmark index	MSCI Nordic IMI + ACWI ex Nordic NR
AUM (mill.)	844.40 EUR
Number of holdings	47
Lead manager	Søren Christensen

Performance last ten years



See next page for info about fund's mandate change.

Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Lonza Group AG	4.28	0.81
Lundin Petroleum AB	1.86	0.59
Bonheur ASA	2.53	0.50
Northern Drilling Ltd	1.73	0.47
Royal Dutch Shell PLC	2.73	0.42

Largest detractors

Holding	Weight (%)	Contribution (%)
AP Moller - Maersk A/S	2.47	-0.39
Sberbank of Russia PJSC	2.68	-0.35
Applied Materials Inc	2.33	-0.31
Hyundai Motor Co	1.21	-0.24
Vestas Wind Systems A/S	2.99	-0.23

Absolute contribution based on NOK returns at fund level

Quarterly Report

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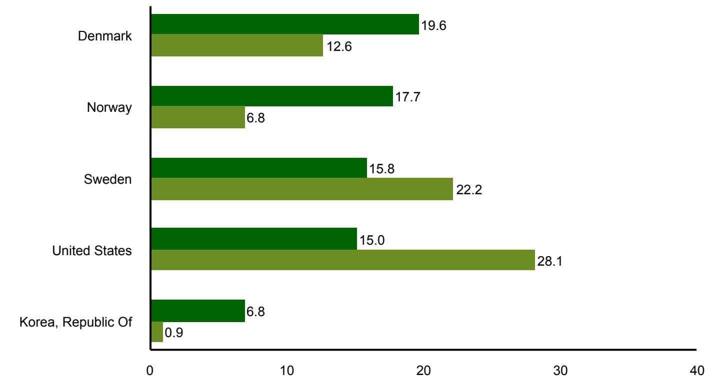
Top ten investments

Holding	Sector	Country	%
Novo Nordisk	Health Care	Denmark	5.7
Citigroup	Financials	United States	4.5
DSV	Industrials	Denmark	4.2
Carlsberg	Consumer Staples	Denmark	4.1
Volvo	Consumer Discretionary	Sweden	4.1
Lonza Group AG	Health Care	Switzerland	4.0
Samsung Electronics	Information Technology	Korea, Republic Of	3.7
CK Hutchison Holdings	Industrials	Hong Kong	3.4
Norsk Hydro	Materials	Norway	3.4
Kinnevik	Financials	Sweden	3.3
Combined weight of top 10 holdings			40.4

Country exposure (top five)



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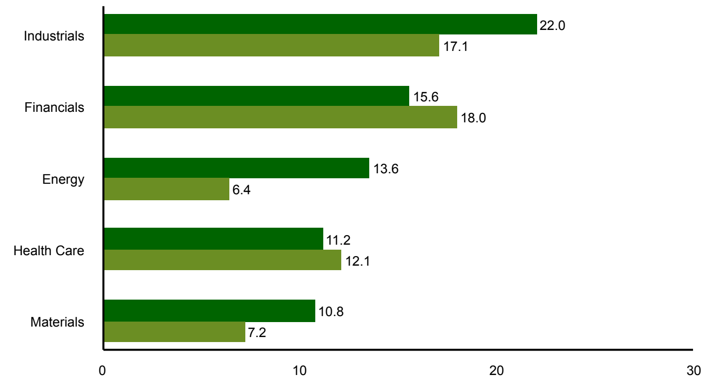
Sector exposure (top five)



SKAGEN Vekst A | MSCI Nordic IMI + ACWI ex Nordic NR

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Important information

Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its funds in Norway to investing a minimum of 50% of its funds in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than they are today. Prior to 1/1/2014, the benchmark index was an evenly composed benchmark index consisting of the Oslo Stock Exchange Benchmark Index (OSEBX) and the MSCI All Country World. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX).