

## A fruitful summer

After an unsettling start to the summer, with worries around protectionism and the aggressive rhetoric of trade war, the equity market bounced back as the summer wore on. SKAGEN Vekst ended the period just shy of the combined benchmark index, with the majority of the positive return driven by companies benefitting from higher material prices and with less focus on global trade disruptions. During the quarter, we have seen prices for raw materials and energy edge higher along with the highest oil price in four years. The Nordic equity market continued to deliver solid returns on the back of this, with both the Norwegian and Swedish stock markets close to all-time highs.

### Key contributors

During the quarter, the best performing company in the portfolio was the Swiss biotechnology and chemical company Lonza Group. The company held an uplifting capital markets day in Basel where market participants heard about the company's attractive business model and impressive growth strategy. Danish DSV was also amongst the positive contributors as the shareholder-friendly management team continued their buyback program and limited the impact of tariffs and the much-discussed trade wars. The higher energy prices towards the end of the quarter benefitted energy companies and associated industries. Investors can once again enjoy the favourable cash flow from the operations of these companies, two of which are among the other contributors to SKAGEN Vekst's portfolio, namely Lundin Petroleum and Northern Drilling.

With our heightened level of investments within the energy space, we should also benefit from the rising energy costs. As energy companies continue to restart projects and develop fields offshore, our exposure to new and effective rigs through Borr Drilling and Northern Drilling should prove profitable. Given the continued focus on environmentally efficient energy, our exposure to the rapidly growing natural gas market – through Shell, Golar, Gazprom and Flex LNG – should benefit from an energy mix tilted more towards gas and LNG.

On the negative side, our exposure to Russia's largest bank, Sberbank caused us some headwinds, despite the fact that Russia's national budget

has increased on the back of higher energy prices and tax revenue. Sberbank continues to report impressive earnings figures and continued growth, but sanctions are clearly putting the company in an unfavourable situation, despite the 7% dividend yield. Our long-term holding Kinnevik also had a difficult quarter. After issuing MTG shares as a special dividend, their largest single holding Zalando (Kinnevik owns 31% of the shares) issued a profit warning which has put both companies' share price under some strain.

### Key buys

During late summer, SKAGEN Vekst initiated two new positions in the Nordics. Denmark's largest bank, Danske Bank, was once again on our radar after the stock lost DKK 60bn of market cap following renewed focus on the money laundering scandal in Estonia. While this is a serious issue, we think the market is overestimating the potential negative economic impact. In addition to closing down the portfolio of non-resident customers in Estonia (in 2015), removing the people directly involved in the case, and launching its own investigation, the bank has quadrupled the number of employees dedicated to combating money laundering and other financial crime. Thus, while the bank did not comply with the rules and regulations, we feel the initiatives taken by the bank will significantly reduce the risk of compliance issues going forward. As some may remember, Danske has been a strong contributor to SKAGEN Vekst unitholders' positive return in the past. We feel they should be able to deal with this tarnish to their reputation and rebuild their position as a strong Nordic bank.

The second new holding in the quarter was the Norwegian-based branded consumer goods company Orkla. The company has almost finished selling its non-core assets, and can now focus on operational excellence in its branded consumer goods business. With an already strong market position, we think the company has ample scope to improve earnings and cash flow by closing factories and rationalising its supply chain. We also see the underleveraged balance sheet providing an attractive opportunity to accelerate growth via M&A and improve capital return to shareholders.



The best performing company in the quarter was the Swiss biotechnology and chemical company Lonza Group. Photo: Lonza

### Outlook

We continue to remain cautiously optimistic for the rest of 2018, with valuation of the portfolio considerably below that of the market and well positioned for potential higher growth in earnings over the next couple of years. Despite the overhanging fears of trade disruptions and some larger political events such as the midterm election in the US and the presidential election in Brazil, we continue to see positive developments in late cyclical industries and economies exposed to these.



The higher energy prices towards the end of the quarter benefitted our holding in Lundin Petroleum. Photo: Lundin Petroleum

SKAGEN Vekst will continue the transformation started over the summer of focusing on a more traditional value approach, but at the same time taking advantage of any good opportunities that may arise. With a strong fundament in Nordic investments coupled with the best investment opportunities in the global equity market, the fund will continue to strive to generate long-term stable returns for our clients.

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.

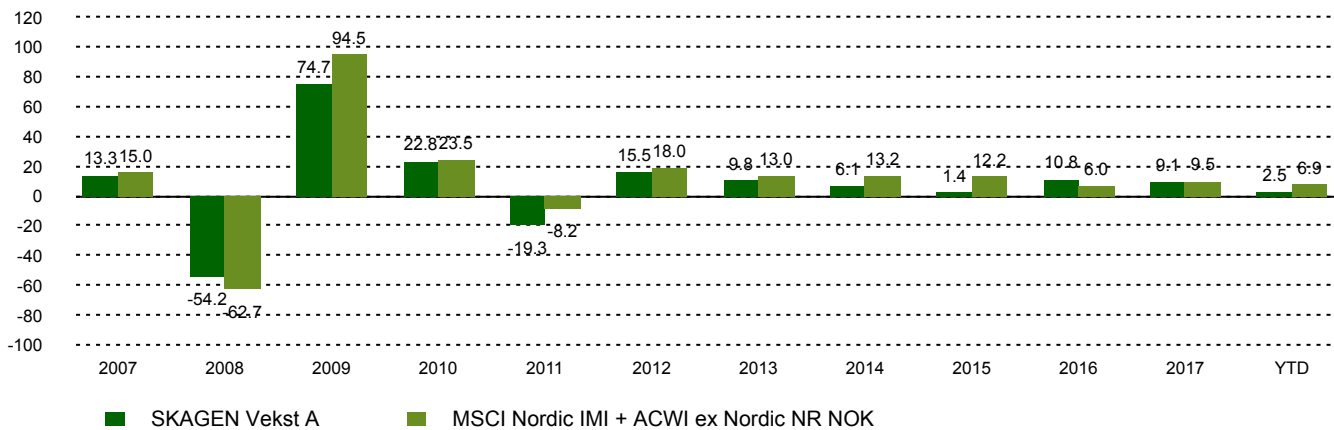
## Historical performance (net of fees)

Period	SKAGEN Vekst A	Benchmark index
Last month	1.7%	0.7%
Quarter to date	4.5%	4.8%
Year to date	2.5%	6.9%
Last year	4.8%	7.9%
Last 3 years	10.1%	10.4%
Last 5 years	7.0%	10.8%
Last 10 years	7.4%	10.8%
Since start	13.1%	9.8%

## Fund Facts

Type	Equity
Domicile	Norway
Launch date	01.12.1993
Morningstar category	Global Flex-Cap Equity
ISIN	NO0008000445
NAV	255.73 EUR
Fixed management fee	1.00%
Total expense ratio (2017)	2.13%
Benchmark index	MSCI Nordic IMI + ACWI ex Nordic NR NOK
AUM (mill.)	807.99 EUR
Number of holdings	47
Portfolio 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	4.17	1.09
DSV A/S	4.20	0.52
AP Moller - Maersk A/S	2.73	0.42
Volvo AB	3.65	0.41
China Mobile Ltd	2.86	0.37



### Largest detractors

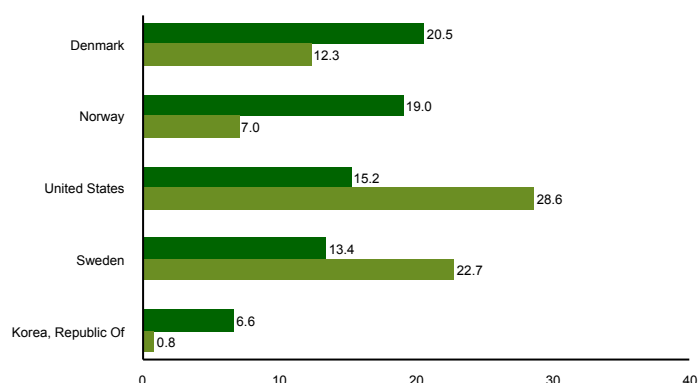
Holding	Weight (%)	Contribution (%)
Sberbank of Russia PJSC	2.18	-0.29
Applied Materials Inc	1.46	-0.26
Kinnevik AB	3.13	-0.24
Shangri-La Asia Ltd	0.99	-0.22
Bonheur ASA	2.67	-0.19

Absolute contribution based on NOK returns at fund level

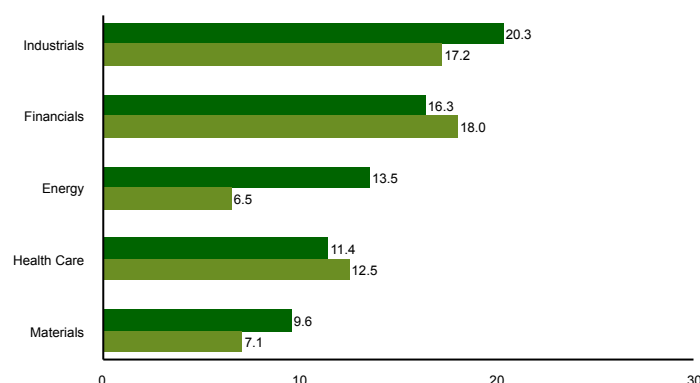
## Top ten investments

Holding	Sector	Country	%
Novo Nordisk	Health Care	Denmark	5.5
Citigroup	Financials	United States	4.3
Lonza Group AG	Health Care	Switzerland	4.0
DSV	Industrials	Denmark	4.0
Samsung Electronics	Information Technology	Korea, Republic Of	3.8
Carlsberg	Consumer Staples	Denmark	3.7
Royal Dutch Shell PLC	Energy	Netherlands	3.5
CK Hutchison Holdings	Industrials	Hong Kong	3.4
Vestas Wind Systems	Industrials	Denmark	3.2
Norsk Hydro	Materials	Norway	3.1
Combined weight of top 10 holdings			38.5

## Country exposure (top five)



## Sector exposure (top five)



■ SKAGEN Vekst A ■ MSCI Nordic IMI + ACWI ex Nordic NR NOK ■ SKAGEN Vekst A ■ MSCI Nordic IMI + ACWI ex Nordic NR NOK

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## Important information

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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).

The art of common sense