

Return of volatility

2018 was the year in which volatility returned to global equity markets, geopolitics took centre stage, and consensus expectations of synchronised global growth transformed into concerns about growth contraction. All of the above factors really came to the fore in the final quarter of the year, putting pressure on global stock markets.

Contributors

The biggest contributor to SKAGEN Vekst's absolute return came from Vestas Wind Systems, the Danish wind turbine manufacturer. A strong quarterly report and a positive capital markets day confirmed a bullish outlook with easing price pressure in its core business, a fast growing high margin service business, and an offshore business that will finally turn profitable. In a generally weak market, our telecom companies Telia and China Mobile along with the pharma company Novo Nordisk were among the fund's largest positive contributors. In a generally tough environment for IT stocks, we were particularly pleased to see Broadcom among the winners in Q4. The company posted exceptionally strong numbers, showing good progress in the integration of the newly acquired software company, CA Technology.

With concerns over global growth rising in the quarter, it was not a big surprise to find some of the more cyclically sensitive companies like our global bank Citigroup among the biggest detractors. With all the focus around a trade war between China and the US, trade-related stocks like the Danish transport and logistics company DSV and dry bulk shipping company Golden Ocean also suffered. Finally, the steep drop in oil price had a negative impact on our two oilrig companies Northern Drilling and Borr Drilling.



Photo: Thermo Fisher Scientific

Outlook

There are plenty of things to worry about, but as always, what matters is what is in the price. While the market is clearly not pricing in a full-scale trade war, a complete collapse of the economic model in China, or an explosion in credit spreads, a lot of bad news has already been priced in. We particularly like the risk-reward in a number of energy-related companies and emerging markets stocks. We generally have a clear tilt towards typical value stocks, a number of which are in emerging markets and within the energy space.

Portfolio activity

The high volatility in the final quarter of 2018 created a number of attractive opportunities and drove increased portfolio activity. Following the heavy sell-off in energy related stocks, we added to our positions in Northern Drilling, Borr Drilling, and Lundin Petroleum. While lower oil prices are a clear negative, we consider the fall in share prices to be excessive relative to the fundamental impact. Employees at all three companies seem to be of the same opinion as they have also been accumulating shares lately. We took advantage of market concerns around global growth to increase our weight in Citigroup, as the current valuation is very attractive even in an environment with lower economic activity. Similarly, we used concerns over a pending trade war to increase our exposure to the diversified protein company Tyson Foods. Finally, market concerns around Chinese growth enabled us to add to our position in the global hotel operator Shangri-La at very attractive levels.

We also initiated a new position in Avenir LNG. In our view, Avenir is in a unique position, as they should be able to take advantage of the growing global market for LNG at the same time as being an important contributor to the continuous development of new market expanses. The stock got off to a flying start, ending the year up more than 50% since it entered the portfolio.

Key sells

To fund our purchases, we trimmed our positions in the two specialty pharma companies Lonza and Thermo Fisher Scientific and in Vestas Wind Systems, as strong share price performance has reduced the upside in these stocks. We also reduced some of our more defensive holdings including the US insurance company Chubb and Chinese telecom company China Mobile that have held up well in a tough market.



Photo: Vestas Wind Systems

After years of underperformance, we find value stocks extremely attractively valued relative to growth stocks. Recent market movements, with the US stock market (home to most of the high growth darlings) starting to underperform, give us hope that the tide is finally turning. It is also worth highlighting that the absolute valuation of value stocks also looks extremely compelling. Aside from a stringent focus on valuation and dividends, we continue to favour stocks with strong balance sheets, as we still do not pay a premium for downside protection in the event that the above-mentioned worst-case scenarios materialise.

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.

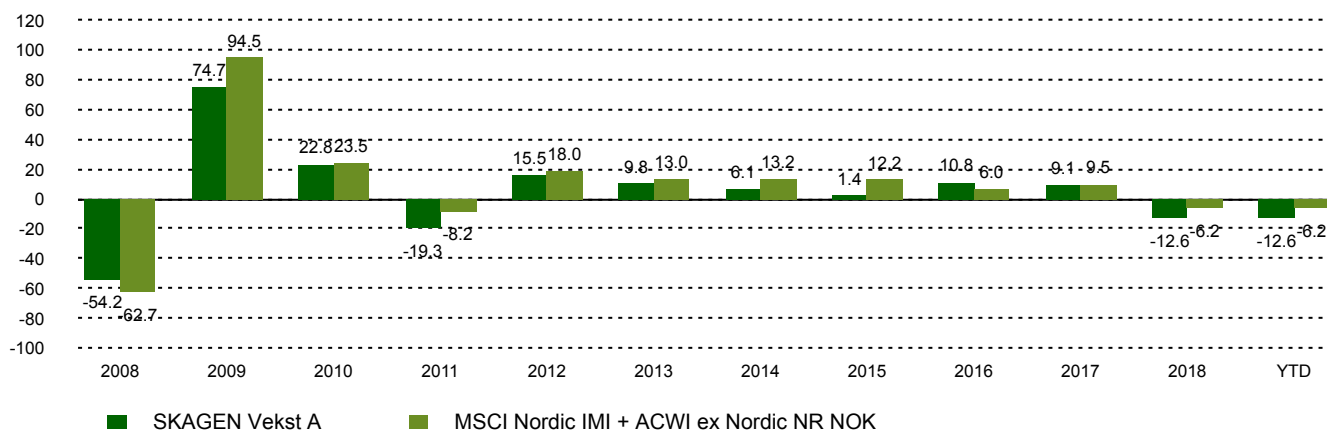
Historical performance (net of fees)

Period	SKAGEN Vekst A	Benchmark index
Last month	-7.5%	-6.0%
Quarter to date	-14.8%	-12.3%
Year to date	-12.6%	-6.2%
Last year	-12.6%	-6.2%
Last 3 years	1.8%	2.9%
Last 5 years	2.6%	6.7%
Last 10 years	9.6%	15.1%
Since start	12.3%	9.1%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	01.12.1993
Morningstar category	Global Flex-Cap Equity
ISIN	NO0008000445
NAV	218.00 EUR
Fixed management fee	1.00%
Total expense ratio (2017)	2.13%
Benchmark index	MSCI Nordic IMI + ACWI ex Nordic NR NOK
AUM (mill.)	671.51 EUR
Number of holdings	47
Portfolio manager	Søren Christensen

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Vestas Wind Systems A/S	3.58	0.63
Telia Co AB	3.23	0.37
Novo Nordisk A/S	6.19	0.24
Broadcom Inc	2.21	0.23
China Mobile Ltd	3.04	0.11



Largest detractors

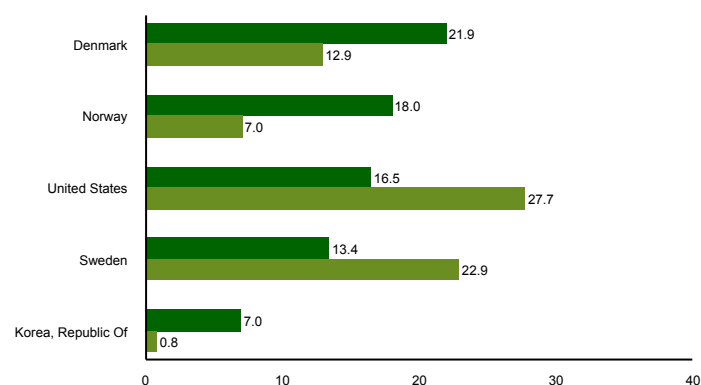
Holding	Weight (%)	Contribution (%)
Citigroup Inc	4.47	-1.06
DSV A/S	3.92	-0.96
Golden Ocean Group Ltd	2.08	-0.80
Northern Drilling Ltd	1.84	-0.69
Borr Drilling Ltd	1.31	-0.67

Absolute contribution based on NOK returns at fund level

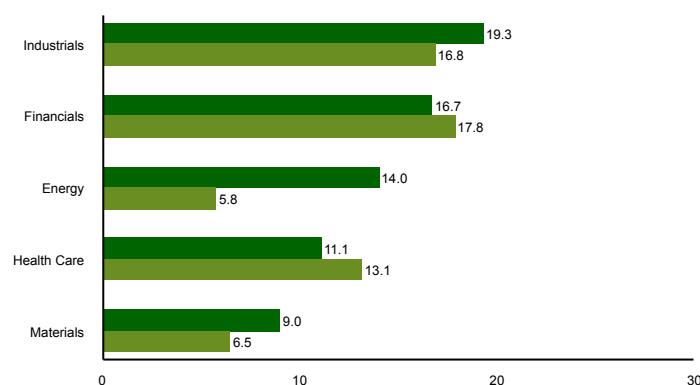
Top ten investments

Holding	Sector	Country	%
Novo Nordisk	Health Care	Denmark	6.8
Citigroup	Financials	United States	4.2
Carlsberg	Consumer Staples	Denmark	4.0
Samsung Electronics	Information Technology	Korea, Republic Of	3.9
Royal Dutch Shell PLC	Energy	Netherlands	3.6
Vestas Wind Systems	Industrials	Denmark	3.6
DSV	Industrials	Denmark	3.5
CK Hutchison Holdings	Industrials	Hong Kong	3.5
Telia	Communication Services	Sweden	3.4
Kinnevik	Financials	Sweden	3.0
Combined weight of top 10 holdings			39.7

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