P.S. Krøyers dog "Rap", 1898, Detail/ manipulated. By Peder Severin Krøyer, one of the Skagen painters. This image belongs to the Skagens Museum.

SKAGEN Focus

Status Report March 2016

The art of common sense

SKAGEN

Summary – March 2016

- The fund is a highly concentrated equity fund with a broad all-global mandate. The overall objective is to invest in a few select investments with an exceptional risk/reward profile from an absolute return perspective.

- The target number of positions is 30-35 and the top ten positions should constitute 40-50% of the portfolio. At the end of the month, the fund holds 33 positions, and the top ten positions account for 46% of the portfolio. The cash position is 4.5%.

- SKAGEN Focus* was up 3.2% in the month (in EUR) while global equity markets (measured as MSCI AC World) were up 2.0% during the month (in EUR). The fund is down 20.12% since inception on 26 May 2015 (in EUR).

- AirAsia, South32 and Jenoptik were the strongest contributors to the fund's performance in March measured as absolute contribution in NOK. Omega Protein, Aryzta and Softbank were the main detractors during the month.

- We have scaled down our exposure to the commodity sector after strong performance in our names South32, First Quantum and Pan America Silver since year end.

- Our combined position in the Brazil-based food company JBS and their majority-owned chicken producer Pilgrim's Pride is after the month on a par with AIG as the largest position in the fund (weight 7.5%).

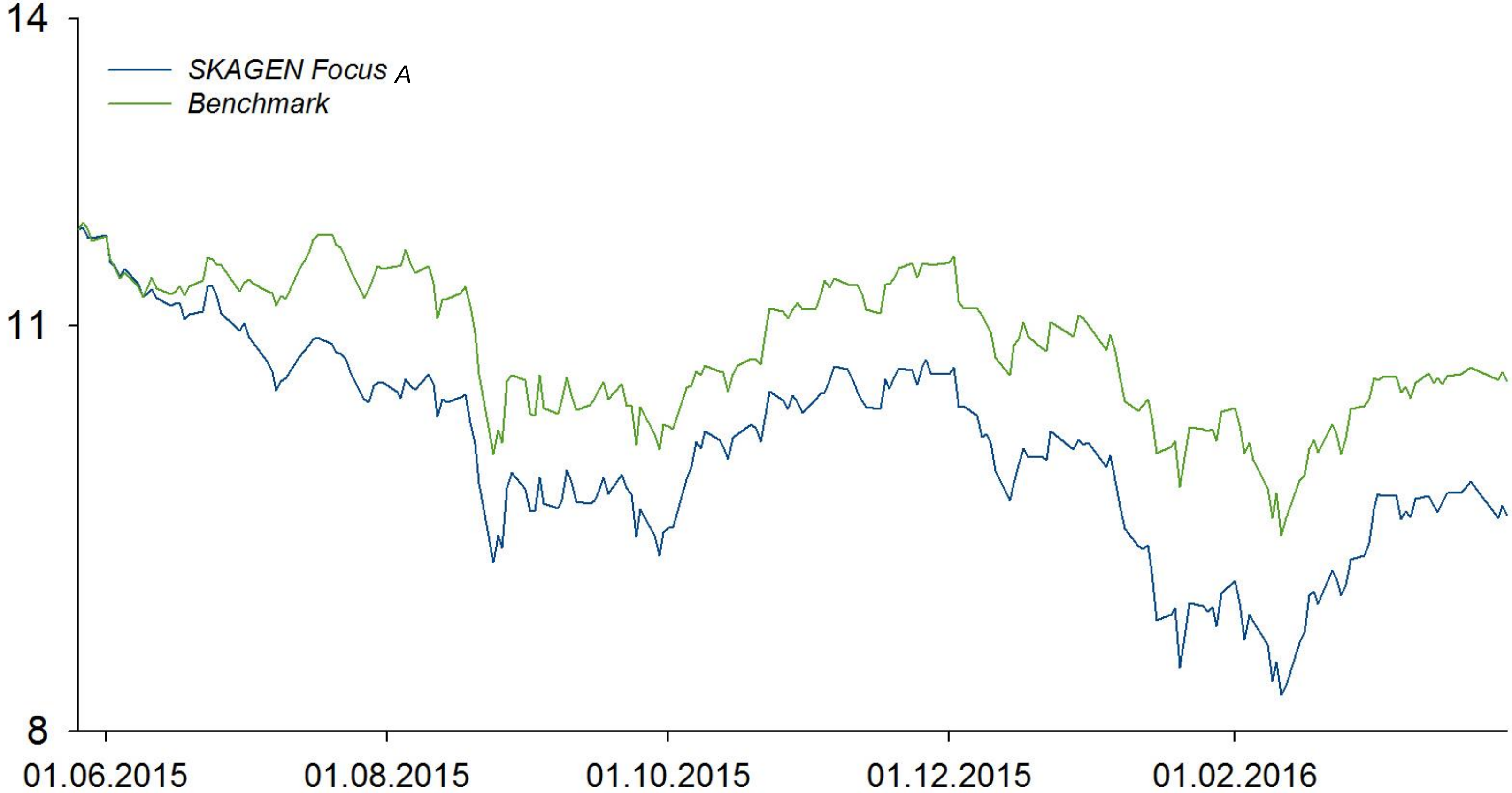
- The fund has a broad mandate to invest in all geographies and sectors. The fund is also market capitalisation-agnostic, and currently small-cap** positions constitute 26% of the fund, while mid-cap and large-cap positions account for 33% and 41%, respectively, of the invested portfolio. These figures may vary meaningfully over time.

** Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.*

*** Small-cap defined as market cap below USD 2bn, Large-cap more than USD 10bn.*

SKAGEN Focus A results, March 2016

EUR, net of fees



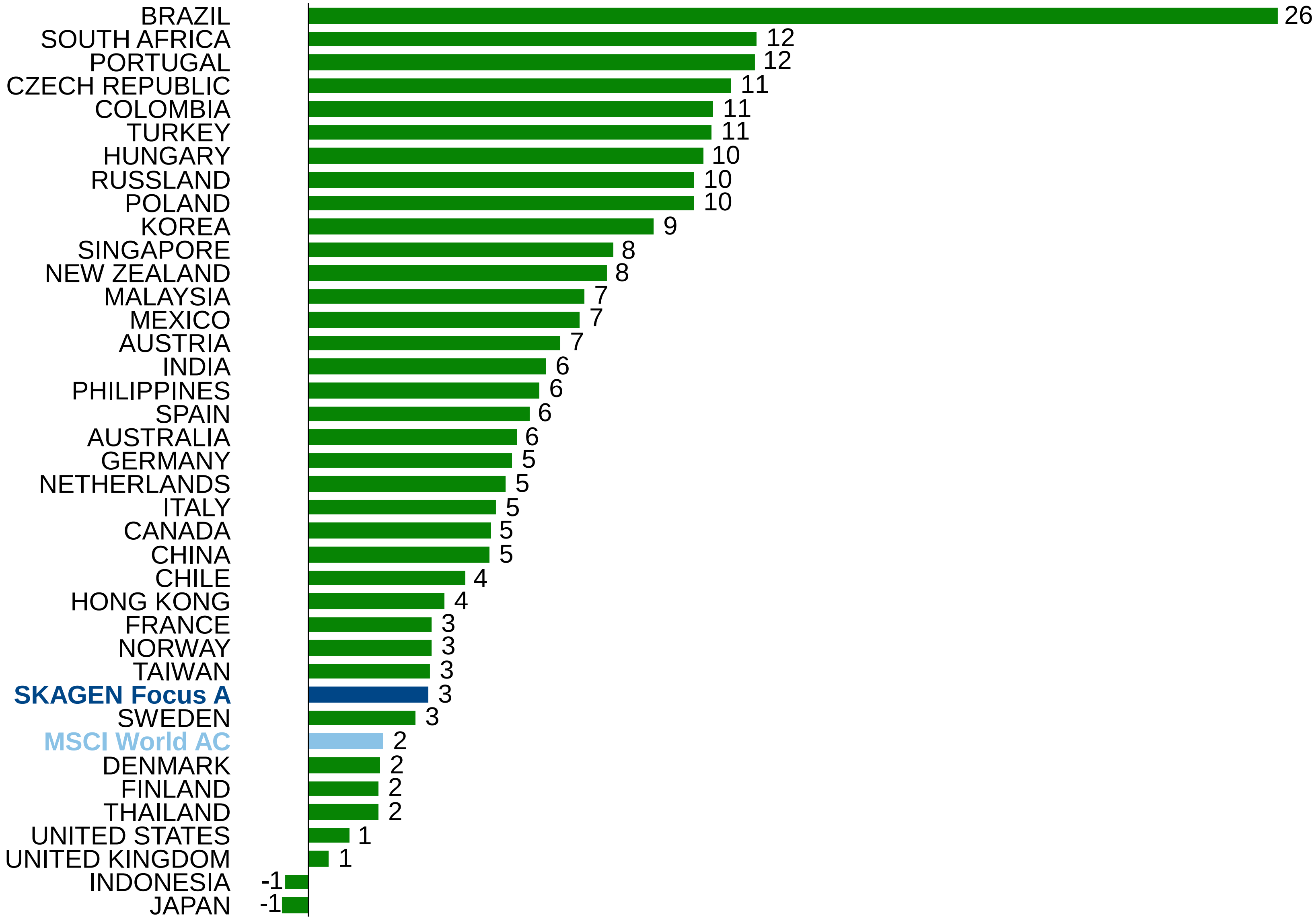
	March	QTD	2015	Since inception*
SKAGEN Focus A	3,2%	-5,5%	-15,4%	-20,1%
MSCI ACWI*	2,0%	-4,3%	-7,2%	-11,2%
Excess return	1,2%	-1,2%	-8,2%	-8,9%

Note: All returns beyond 12 months are annualised (geometric return)

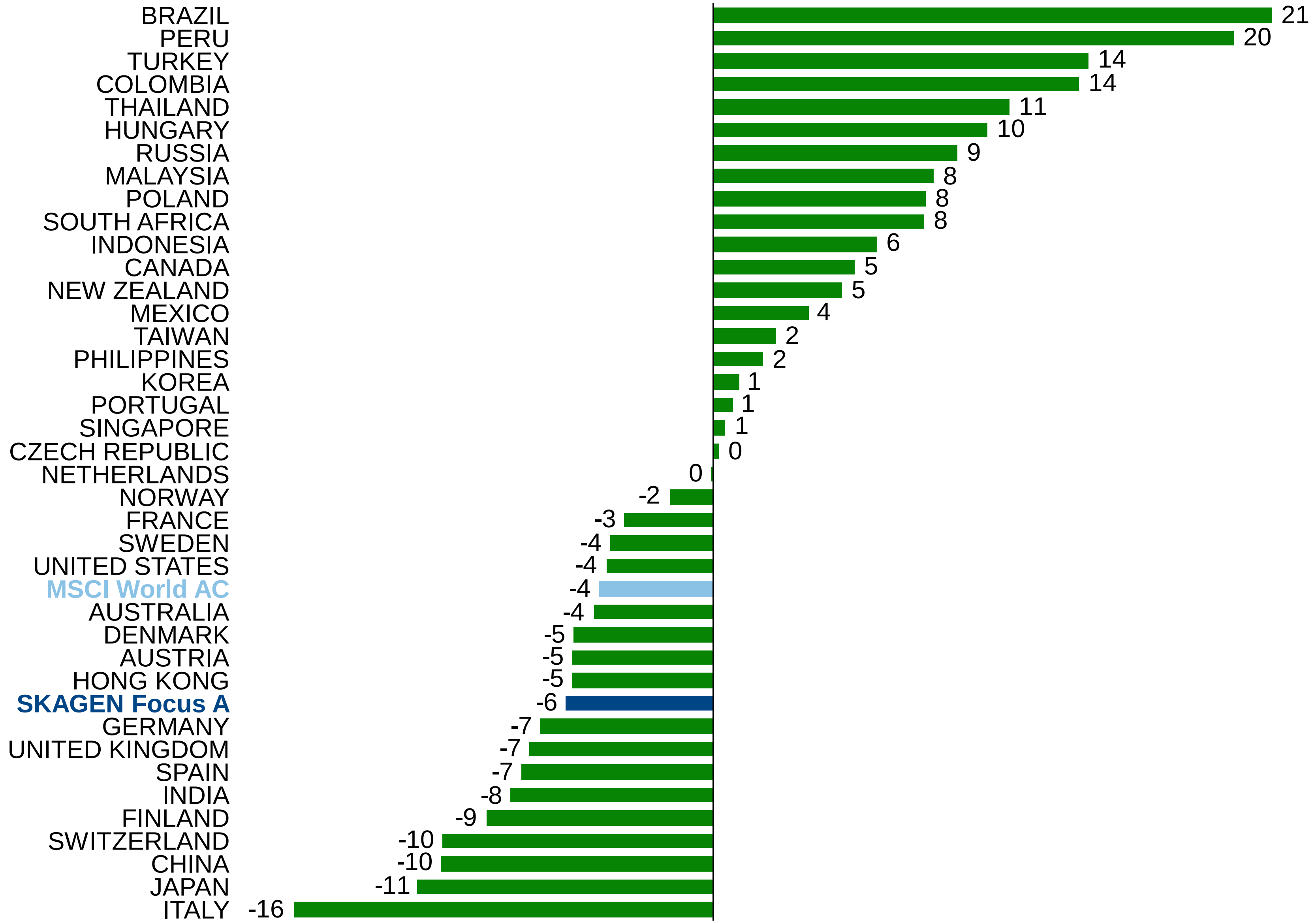
** Inception date: 26 May 2015*

SKAGEN

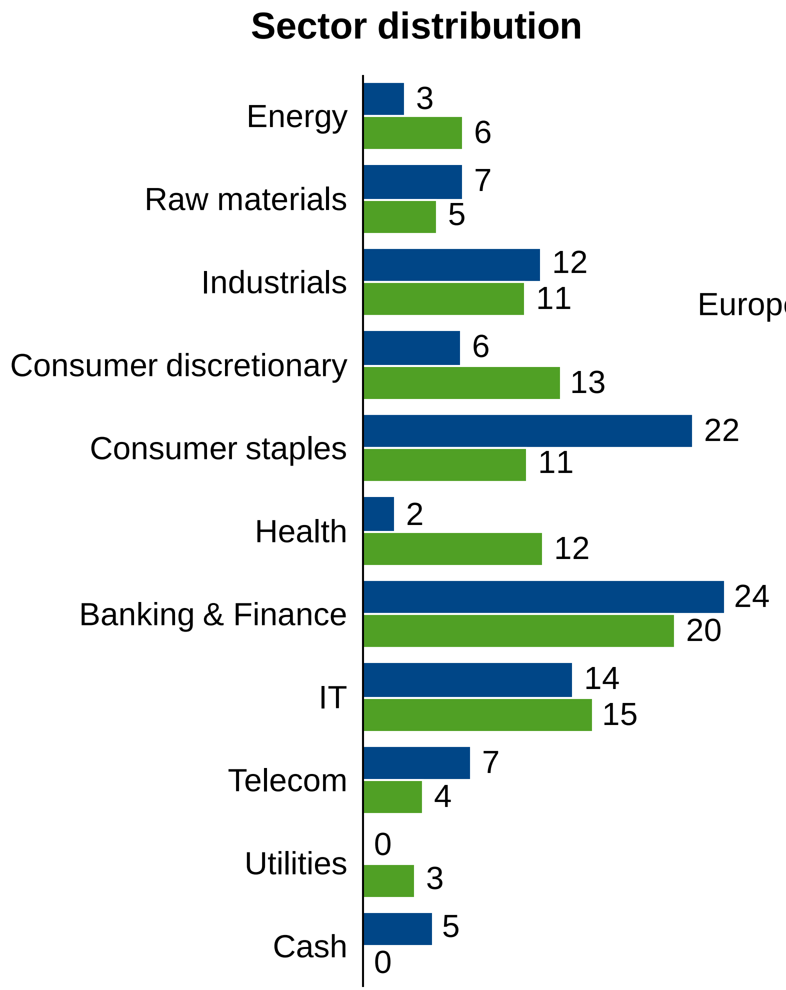
Markets in March in EUR (%)

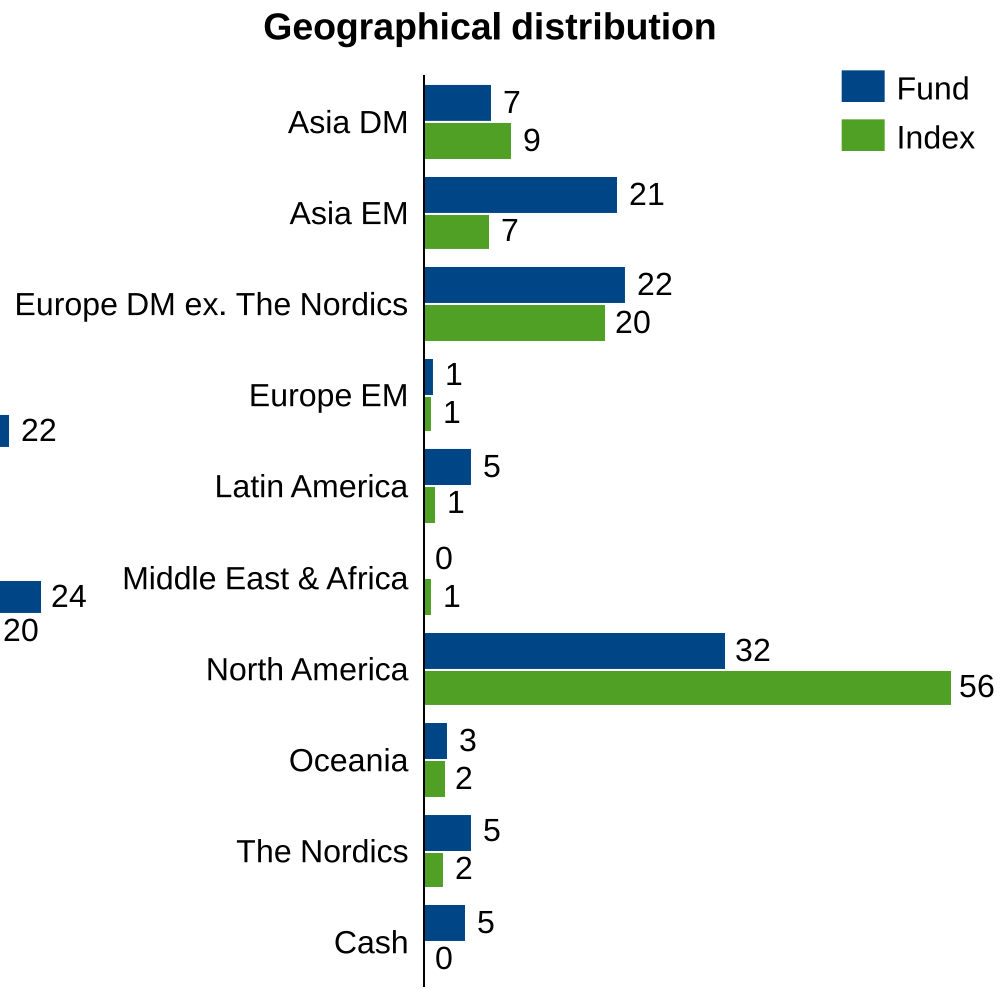


Markets in YTD in EUR (%)



Sector and geographical distribution vs index (March 2016)





Main contributors March 2016

Largest positive contributors

Company	NOK (000)
AirAsia BHD	6 802
South32 Ltd	4 971
Jenoptik AG	4 956
First Quantum Minerals Ltd	4 562
Infineon Technologies AG	3 516

Largest negative contributors

Company	NOK (000)
Omega Protein Corp	-9 745
Aryzta AG	-5 294
Softbank Group Corp	-2 384
SK Hynix Inc	-1 483
Ubiquiti Networks Inc	-1 001

Value Creation MTD (NOK MM): 28

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK (000)
Pan American Silver Corp	15 110
AirAsia BHD	9 997
South32 Ltd	7 852
First Quantum Minerals Ltd	4 255
China Telecom Corp Ltd	2 297

Largest negative contributors

Company	NOK (000)
American International Group I	-15 806
Citizens Financial Group Inc	-12 696
Omega Protein Corp	-8 317
CIT Group Inc	-8 030
Aryzta AG	-7 377

Value Creation YTD (NOK MM): -74

NB: Contribution to absolute return

Most important changes Q1 2016

Holdings increased

Q1

Pilgrim's Pride Corp	(New)
Alphabet Inc	(New)
Massimo Zanetti Beverage Group	(New)
Jbs SA	
Omega Protein Corp	
Infineon Technologies AG	
Aryzta AG	
Stock Spirits Group Plc	
Aercap Holdings NV	
Solazyme Inc	
Schaeffler AG	
AirAsia BHD	
Fourlis Holdings SA	

Holdings reduced

Q1

Sandisk Corp	(Out)
Uniqa Insurance Group AG	(Out)
Komatsu Ltd	(Out)
Pan American Silver Corp	
Ubiquiti Networks Inc	
Carlsberg A/S	
Fila Korea Ltd	
Aercap Holdings NV	
First Quantum Minerals Ltd	
South32 Ltd	
CIT Group Inc	

Top 10 positions in SKAGEN Focus

	Price	P/E 2015e	P/E 2016e	P/BV last	Price target	Upside to target %	Holding size, %
American International Group Inc	54,05	11,2	9,2	0,7	90	67 %	7,5%
SK Hynix Inc	28 150,00	9,0	7,6	0,9	65000	131 %	5,1%
Jbs SA*	10,95	6,9	5,6	1,1	22	101 %	5,0%
Carlsberg AS-B	624,00	21,3	18,8	2,2	822	32 %	5,0%
SBI Holdings Inc	1 143,00	9,2	8,8	0,6	3000	162 %	4,6%
China Telecom Corp Ltd	4,10	16,7	14,8	1,1	8	95 %	4,3%
Jenoptik AG	14,05	15,7	14,5	1,8	20	42 %	3,9%
Citizens Financial Group Inc	20,95	11,7	10,0	0,6	35	67 %	3,8%
Infineon Technologies AG	12,51	17,1	14,7	2,9	20	60 %	3,6%
AirAsia Bhd	1,83	6,9	6,4	1,1	3	48 %	3,2%
Top 10 positions		**11,0**	**9,5**	**1,0**			**46,0%**
Total Equity (33 positions)							**95,5 %**
Cash							**4,5 %**
Total Portfolio							**100,0%**

** JBS is the main owner of Pilgrim's Pride, which is a 2.6% position in the fund. These two positions should be viewed as one, with a total weight of 7.7%.*

Holdings increased and decreased during March 2016

Key buys

- **JBS** – An elevated level of volatility in the share price allowed us to increase the position at very attractive levels.

- **Aryzta** - Position increased as sale of shares from CEO set back share price, but the results were in line with expectations.

Key sells

- **First Quantum** – position reduced after strong run following announcement of sale of mine assets to Boliden.

- **South32** – reduced into strength after announcing vast restructuring program.

- **Pan American Silver** – reduced into strength.

Key earnings releases and corporate news, March 2016

Schaeffler

(2.5% weight)

Investment case update: Schaeffler is a Germany-based automotive/industrial company, mainly active in engine and transmission systems (auto) as well as bearings (industrial). The company executed, with exceptionally poor timing, an IPO of its shares in the middle of the Volkswagen emission scandal in October 2015. Group revenues increased 4.6% in Q415 while adjusted EBIT margin was quite stable at 12.9%. The automotive segment (75% of revenues) grew 7%; and maintained robust EBIT margin of 14%. The industrial segment revenue contracted 3% with 8% adjusted EBIT margin, and continues to be a drag on overall performance, but is addressed by a current restructuring program. The company continues to rapidly de-lever its balance sheet and net debt/EBITDA shrunk to 2.1x at year end. Management indicated that 12-13% operating margin would be “respectable” in the mid-term and the reduction in debt would eventually result in an investment grade status. The company is executing well and is on track to further de-lever its balance sheet through strong cash-flow generation. In this environment, we think the stock should trade at least in line with other high-quality auto-parts/industrial companies, and suggest an initial upside of ca. EUR 18-19/ share. A placement of another 14% of equity, possibly in tranches, will be announced eventually and would mean a much needed increase in free float of the shares.

Fact

The company reported FY15 revenues of EUR 13.2bn, an 9.1% increase compared to last year. EBIT, adjusted for a EUR 238m provision for legal risks related to EU antitrust proceedings and EUR 36m in restructuring provisions, rose to EUR 1.7bn, a 7% increase on last year.

China Telecom

(4.3% weight)

Investment case update: China Telecom is the second largest telecom service provider behind China Mobile, in a maturing industry yet with potentially massive growth in data downloads. In FY15 total revenue grew by 2% mostly driven by an increase in Mobile service revenue. EBITDA was flat on last year and net profit was up 10% but affected by a one-time gain from tower asset disposals. EBITDA margin was 32.1%, a marginal decline from last year. The company’s performance continues to be quite steady which is in stark contrast to the volatility in the share price over the last year. The recently established China Tower company, which is partly owned by China Telecom, is setting a new lease fee structure ahead of an IPO now scheduled for 2017. Overall, the shares trade at a sharp discount to many other telecom-operators, despite facing relatively attractive growth opportunities with the continued roll-out of 4G services in its footprint.

Fact

Full-year revenue grew 2% to RMB 331bn. EBITDA margin for the year came in at 32%. Reported net profit for the full year was RMB 20.1bn, a gain of 10% on last year but a slight decrease when factoring in the tower asset disposals.

Key earnings releases and corporate news, March 2016 (cont.)

JBS

(5.0% weight)

Investment case update: Brazil-based JBS has transformed itself from a mid-sized local beef producer to one of the largest food companies in the world since its IPO in 2007 through a myriad of acquisitions. It now has a leading global market share position in beef, poultry (through 76% owned Pilgrim's Pride in the US) and pork. In FY2015, revenue grew 35% to BRL 163bn while EBITDA grew 20% to BRL 13.3bn from last year, but was impacted by several acquisitions in 2015. EBITDA margin came in at 8.2%. US Beef margins were on the weak side but indicated a better environment the in second half of 2016. The company bought back 96m shares in 2015, the majority of which were acquired in Q415. The company ended the year with net debt/EBITDA of 2.9x. 91% of debt is in USD but is currency hedged which causes volatility and general confusion in net income numbers. After four major acquisitions in 2015, they are now communicating a focus on organic growth, free cash flow generation and reduction of leverage. Cash is building rapidly in the 76% held Pilgrim's and share buybacks continue, effectively increasing the JBS stake in the company. The shares trade at less than 5x EV/EBITDA which probably makes it one of the cheaper food stocks on a global basis currently. We think the company is at an inflection point in terms of capital allocation which is yet to be recognised by the markets.

Fact

JBS reported net sales of BRL 163bn (up 32% on last year) and EBITDA of BRL 13.3bn (up 20%). The results were impacted by several acquisitions during 2015.

Jenoptik

(3.9% weight)

Investment case update: The German optoelectronics company Jenoptik's activities are divided into three segments: Laser & Optical Systems, Metrology and Defence & Civil Systems. The company reported a quite solid Q415 where overall sales grew 6% sequentially during the last quarter while EBIT declined 4%. Full year revenue grew 13% and EBIT rose 18% from last year. Major positives during the year were an upswing in investments within the automotive industry, greater demand for optoelectronic modules and project-related settlements relating to major orders in the Defence & Civil Systems segment. Continued strong cash flow generation allowed the company to further reduce net debt meaningfully. Moderate sales and EBIT growth is expected by the company in 2016. Our position in the stock was reduced late last year into strength, but we still see upside to our EUR 20 target price, as the solid fundamentals gradually get priced in.

Fact

Revenues were up 13% (EUR 670m) and EBIT up 18% (EUR 61m). Net debt stood at EUR 43m at year end. Guidance for 2016 was repeated ("moderate" sales and EBIT growth).

Key earnings releases and corporate news, March 2016 (cont.)

Aryzta

(3.0% weight)

Investment case update: Swiss bakery company Aryzta released H116 results in line with expectations, but again tempered expectations for revenue growth in the mid-term. Total sales grew by 5.5% to EUR 1960m, but with flat overall organic performance. Food Europe performed reasonably well with revenues increasing 4.7% organically. The main weak operation is still the Food North America segment posting a -4.0% underlying decline in revenues. The segment is still suffering from the recent SKU rationalisation and lagging supply chain renewals. Operating profit grew 3% to EUR 230m, with margin down 30 bps to 11.8% on last year. The company disclosed new bank refinancing with extended maturities indicating that a potential breach of covenants is not imminent, which has been a key risk in the investment case. Net debt still runs high however at 2.8x EBITDA. Cash generation was solid at EUR 173m. The company guided for a more or less flat performance over the next 12 months. Our investment case is not built upon a rapid return to growth, and we see value in the stock at the current level of normalised earnings power. It is trading at an 8% free cash flow yield and forward 8x EV/EBITDA which is a 30-40% discount to the overall consumer staples sector.

Fact

Company released numbers for H116. Sales grew by 5.5% during the quarter to EUR 1960m. Underlying organic growth was 0.2%, Operating profit increased 2.7% to EUR 230m on last year.

Massimo Zanetti

(1.0% weight)

Investment case update: Massimo Zanetti, the Italy-based coffee producer, operates in three main segments: Private Label (37% of sales), Mass market (37%) and Food service (26%). The company went public in June 2015 and is still 67% family-controlled. For 2015, overall revenue increased by 20% driven mainly by the Food Service segment and the acquisition of Boncafe. Operating profit was virtually flat on last year, and was negatively impacted by increase in advertising and investments to strengthen the Boncafe brand in Asia as well as the growing single serve business in the US. Compared to industry peers, we think the company has a huge opportunity to increase margins in the mid-term, driven by a shift into the single serve segment and the launch of its first ever efficiency program. Forward free cash flow yield in the stock is potentially above 10% at these levels. The company guided for 2-3% organic sales growth and EBITDA margin of 4-6% for 2016, implying an operating profit margin of just below 8%. While this may look somewhat disappointing, we believe they have deliberately set conservative targets which they are quite certain to deliver on in the mid-term.

Fact

The Group reported revenues of EUR 942m in 2015, up 20% over last year. EBITDA came in at EUR 65m which was up 1% over last year. Net financial debt came in at EUR 185m, decreasing EUR 60m from last year.

Key earnings releases and corporate news, March 2016 (cont.)

Stock Spirits

(2.0% weight)

Investment case update: Stock Spirits is a branded spirits business focused on Central Europe. The company reported full-year results at the upper end of guidance, following a difficult year of disruption in the Polish market. Sales came in at EUR 263m, a decrease of 10% on last year and EBITDA decreased 18% to EUR 54m. Market share in Poland decreased to 31% (38% last year). After a strategic review of its Polish operation, the company will now seek to reinvest part of the gross margin (2-3%) in order to reduce the price gap with its most aggressive competitor Roust in an effort to regain market share. The company increased dividend payment by 55% from last year and on the earnings call indicated that in the absence of any M&A, the company will return capital to shareholders as they will turn net cash last year. The company's solid balance sheet, discounted valuation and strong market positioning have attracted two activist investors (with 10% and 5% respectively) that have engaged in talks with management. Given the potential for change with two activists involved and the highly discounted valuation (30-40% discount to peers) we see scope for further re-valuation in the mid-term. Our price target is GBP 2.6 (now GBP 1.5) which is 12x mid-term EV/EBITDA multiple.

Fact
The company reported FY15 results in line with revised guidance. Sales came in at EUR 263m, a decline of 10% y/y, and EBITDA came in at EUR 54m, a decline of 18% y/y. Dividend was increased to EUR by 55% to 0,058 EUR/share (3% yield currently).

Fourlis

(1.0% weight)

Investment case update: Greek Fourlis has two main business activities; operator of IKEA stores in Greece, Bulgaria and Cyprus and operator of Intersport stores in Greece, Cyprus and Turkey. During the financial crisis and recession in Greece the company managed to become a more efficient operator and also take substantial market share. During Q415 IKEA grew sales 7% on last year while Intersport grew 5%. IKEA gross margin came in at 14% (11% last year) while Intersport was lower at 11.7% (12.7% last year). Total EBITDA for the group expanded to EUR 14.3m for Q415 (+29% on last year) and FY EBITDA came in at EUR 32.6m (+26% YoY). Net debt is falling steadily and the company expressed a target to reduce net debt from EUR 140m currently to EUR 100m in 2017. The fairly impressive earnings growth numbers are a result of the positive operating leverage arising from higher revenues with a quite high fixed cost base. Mid-term EBITDA earnings power in a more normalised environment could be as high as EUR 55-65m which in combination with lower financial leverage would support our target price of EUR 5 for the shares (current price EUR 2.8/share).

Fact
Fourlis released Q415 numbers where IKEA sales were up 7% on last year while Intersport increased 5%. EBITDA for 2015 was 32.6m (26% on last year). Company EBITDA margin expanded from 9.4% to 12.0% from last year.

Key earnings releases and corporate news, March 2016 (cont.)

AirAsia

(3.2% weight)

Investment case update: Malaysian AirAsia is one of the largest low-cost carriers in Asia in terms of fleet size and passengers carried. The company owns interests in affiliates Thai AirAsia, Indonesia AirAsia and Philippines AirAsia. The company reported Q415 profit of MYR 554m compared to a net loss last year. However, the results were positively impacted by non-recurring factors such as recognition of maintenance service revenue. Adjusted for one-time factors, the results were better than expected underpinned by strong traffic numbers across most operations. The total impact from the now included equity affiliates was MYR -232m, mainly impacted by a continued loss-making Indonesian operation. Debt levels remain high with a substantial debt position in USD which hurt the company in 2015. After being attacked by short sellers in mid-2015 questioning the company's accounting methods and high debt, the stock has lagged the airline sector severely. Looking ahead, the company will see a major step-down in energy costs in 2016 as hedges from last year expire. Also, the approved share-buy back program and a potential listing of the Philippines are positive factors in the mid-term.

Fact

Q415 headline revenue was MYR 2168m (1478m last year) but impacted by non-recurring factors. Net income was MYR 554m (loss of MYR 424m last year). The company saw average fuel price decline 21% from last year. Load factor increased to 85%. Passengers carried increased 10% YoY. Average fare was up 4% from last year.

South32

(2.6% weight)

Investment case update: Australia based South32 is a diversified mining company with production in alumina (32%), aluminium (24%), silver (17%), coal (14%), manganese (7%) and nickel (6%). The company was demerged from BHP Billiton in May 2015. Unsurprisingly, the company reported a substantial decrease in revenues on last year reflecting the poor commodity price environment. Underlying EBITDA came in at USD 542m and the company managed to further deliver on cost savings. Net debt was reduced by USD 288m to USD 116m. The investment case in S32 builds upon a substantial opportunity to cut costs and optimise its asset portfolio after receiving a less than optimal asset portfolio from BHP. The company is guiding for USD 300m cost reduction in 2016 after now implementing major restructuring initiatives which is more than we had anticipated and positive for the investment case. Also, the company has one of the strongest balance sheets in the mining space and will be in a net-cash position during FY16. This will give them time to ride out the current commodity downturn and maybe also pursue acquisitions on attractive price levels.

Fact

The company reported revenues of USD 2981m for the first half of the fiscal year 2016. Underlying EBITDA came in at USD 542m with an operating margin of 20%. The company guided for a reduction of USD 300m in controllable costs in FY16.

Key earnings releases and corporate news, March 2016 (cont.)

GCL Poly

(2.3% weight)

Investment case update: Overall, GCL can look back on an eventful year with business streamlining and capital raising on the agenda. For the 2015 results they restated the business after the non-solar power disposal, started using RMB as their reporting currency (from HKD) and announced that Mr Gongshan (CEO and Chairman) will step down from the CEO position (sounds like an improvement in corporate governance, but maybe not given that it is his son who is taking over as CEO). 2015 profit of RMB 2.4bn was up 57% YoY. Stripping out one-off items like the non-solar power disposal gain, FX and impairment loss and share based payment, recurring earnings were RMB 2.1bn which was higher than expectations. This is mainly driven by better than expected cost reduction within the solar material business (380bps gross margin expansion). Higher than expected volumes and production cost cuts (-10% and -14% for polysilicon and wafer) more than offset the lower polysilicon and wafer ASPs for the year (-28%/-15% YoY). They aim to reduce production costs by over 10% in 2016 for both poly and wafer. No major capex is planned for capacity expansion apart from the already announced 1GW mono-wafer capacity) and they aim to reduce gearing further. Operating Cash Flow weakened to RMB 3.2bn (from RMB 6.9bn in 2014), mostly due to an increase in bills receivable which will be monitored. Net debt to equity ratio of 171% was higher than expected, and increased from 143% in 2014 mainly due to the consolidation of highly geared GCL New Energy. However, they completed a rights issue in January 2016, which is bringing it down to 126%.

The largest companies in SKAGEN Focus

AIG is an international insurance company serving commercial, institutional and individual customers. The company provides property-casualty insurance, life insurance and retirement services. AIG was at the very centre of the financial crisis as the central bank for mortgage insurance – it was bailed out in a USD 180bn bail out. The company has two core insurance holdings: Sun America and Chartis that it intends to keep. The company has set a target to achieve 10% ROE by 2015.

SK Hynix Inc. is a Korea-based company engaged in the manufacture of semiconductors. The Company mainly develops and manufactures memory and non-memory semiconductors. Its memory semiconductors include dynamic random access memory (DRAM), multi-chip products (MCPs) and NAND flash memory semiconductors, which are used for cellular phones, PC, digital televisions, digital cameras and other electronic products. The company has the number three market share (in the current oligopoly) in DRAM, behind Samsung and Micron

Brazilian based JBS transformed itself from a mid-sized local beef producer to the world's largest animal protein processor in just a few years since its IPO in 2007. It is now the world's #1 beef, #2. poultry and #3 pork producer by sales. The company operates in six main segments: JBS USA Beef (40% of sales, US beef processing), Moy Park (14%, UK based chicken and foodservice provider), Pilgrim's Pride (14%, 2nd largest chicken producer globally; separately listed in the US; PPC US, JBS ownership 75%), JBS Mercosul (13%, Brazilian based beef processing), JBS USA Pork (10%), JBS Foods (9%, prepared foods and poultry processing).

Carlsberg A/S is an international brewing company. The company produces branded beers and regional brands. Carlsberg makes most of its beer outside of Denmark and it is sold in markets around the world. The company also markets and produces soft drinks, water and wine.

Japanese company established in 1999 as an online financial services company, incubation arm of Softbank. Acquired E*Trade Securities in 2003, Softbank sold out in 2006. Three main businesses: i) Financial services; ii) Asset management, iii) Biotech Financial services: Building ecosystem to offer full range of financial services: SBI Securities: Dominant provider of online securities services in Japan #3 in new tax-saving NISA behind Nomura and Daiwa. SBI Sumishin Net Bank: pure-play internet bank. Also active within insurance (Life & Non-life), Mortgages (through securitization), trading system and FX trading.

The largest companies in SKAGEN Focus

China Telecom is full services integrated information service operator in China. The Company, along with its subsidiaries, is engaged in the provision of basic communications services, including wireline telecommunications services, mobile telecommunications services, value-added services, such as Internet access services, integrated information services and other related services within the service area of the Company. China Mobile, China Telecom and Unicom are the largest and dominant service providers in the country. China Telecom is the growing 2nd player behind China Mobile, in a maturing industry, yet with massive growth in data downloads.

Jenoptik AG is a Germany-based company engaged in the field of optoelectronics. Its main activities are divided into three segments: the Laser & Optical Systems segment, the Metrology segment, the Defence & Civil Systems segment. The Laser & Optical Systems segment encompasses Laser and Material processing division, which is engaged in semiconductor materials and diode lasers. The Metrology Segment is engaged in manufacturing of high precision contact and non-contact metrology systems; and the Traffic Solutions division comprises products and solutions for road safety. The focus areas of the Defence & Civil Systems are military and civil vehicle, rail and aircraft equipment.

The company is one of the oldest financial firms in the US, with headquarters in Providence, Rhode Island, with its roots going back to 1828. It is today the 13th largest retail bank in the US with a footprint in New England, the Mid West and the Mid Atlantic, with over 1200 branches in 11 states. The company was listed in September 2014 after being spun off from the UK-based bank Royal Bank of Scotland (RBS).

Infineon Technologies AG designs, manufactures and markets semiconductors. The Company's products include power semiconductors, microcontrollers, security controllers, radio frequency products and sensors. Infineon markets its products to the automotive, industrial, communications, consumer and security electronics sectors.

AirAsia Berhad provides low-cost air carrier service. The company provides services on short-haul, point-to-point domestic and international routes. AirAsia, headquartered in Malaysia, operates from hubs in Malaysia, Thailand, Indonesia, Philippines and India.

For more information please visit:

Our latest Market report
Information on SKAGEN Focus A on our web pages