P.S. Krøyer's dog. "Rap". Study. 1898. Detail. By Peder Severin Krøyer, one of the Skagen Painters. This image belongs to the Art Museums of Skagen.

SKAGEN Focus

Status Report September 2016

The art of common sense

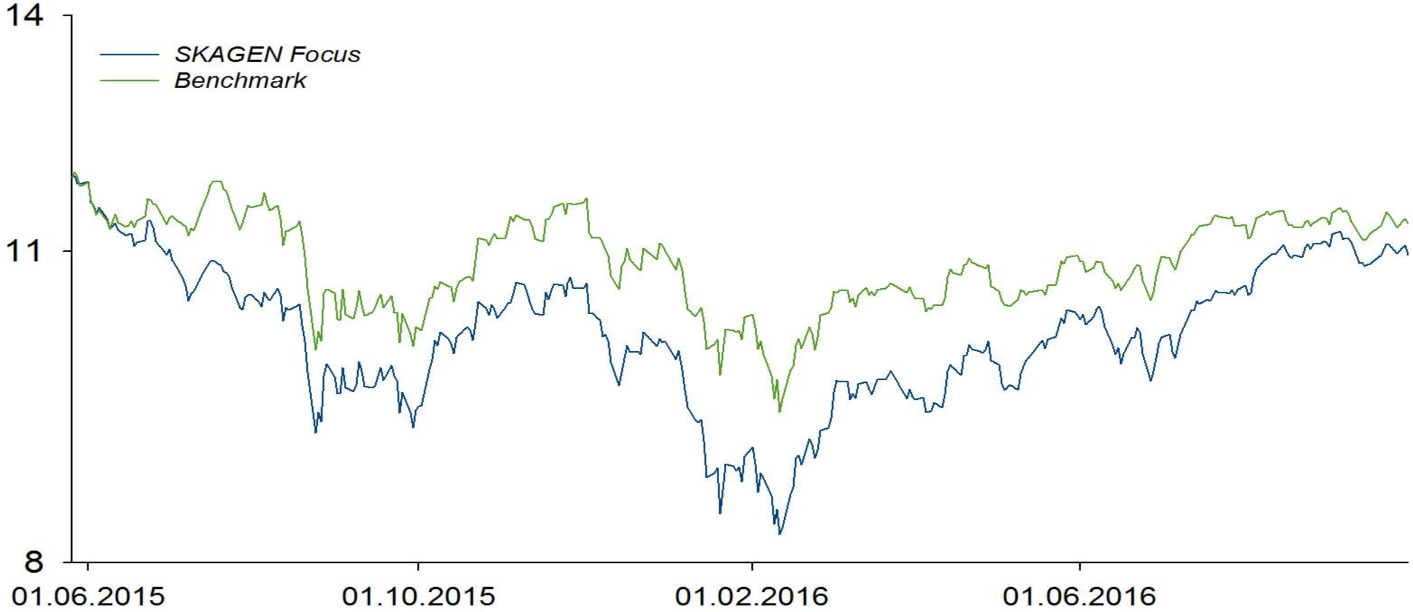
SKAGEN

Summary – September 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 35 positions, and the top ten positions account for 42.9% of the portfolio. The cash position is 6.4%.
- SKAGEN Focus was down 1.3% in the month measured in EUR, while the global equity markets (measured as MSCI AC World) were down 0.4%. In 2016, the fund is up 9.2% while the global equity markets are up 2.9%.
- South32, SK Hynix and Aryzta were the strongest contributors to the fund’s performance in September measured as absolute contribution in NOK. JBS, Teva Pharmaceuticals and Pilgrim’s Pride were the main detractors during the month.
- During the month we continued to build up our new position in Japanese Taiheyo Cement, which is now a top 10 position in the fund. New positions in the top 10 also include Philips Lighting and Schaeffler.
- 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 20% of the fund, while mid-cap and large-cap positions account for 48% and 32%, respectively. 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.*

Results, September 2016 in EUR

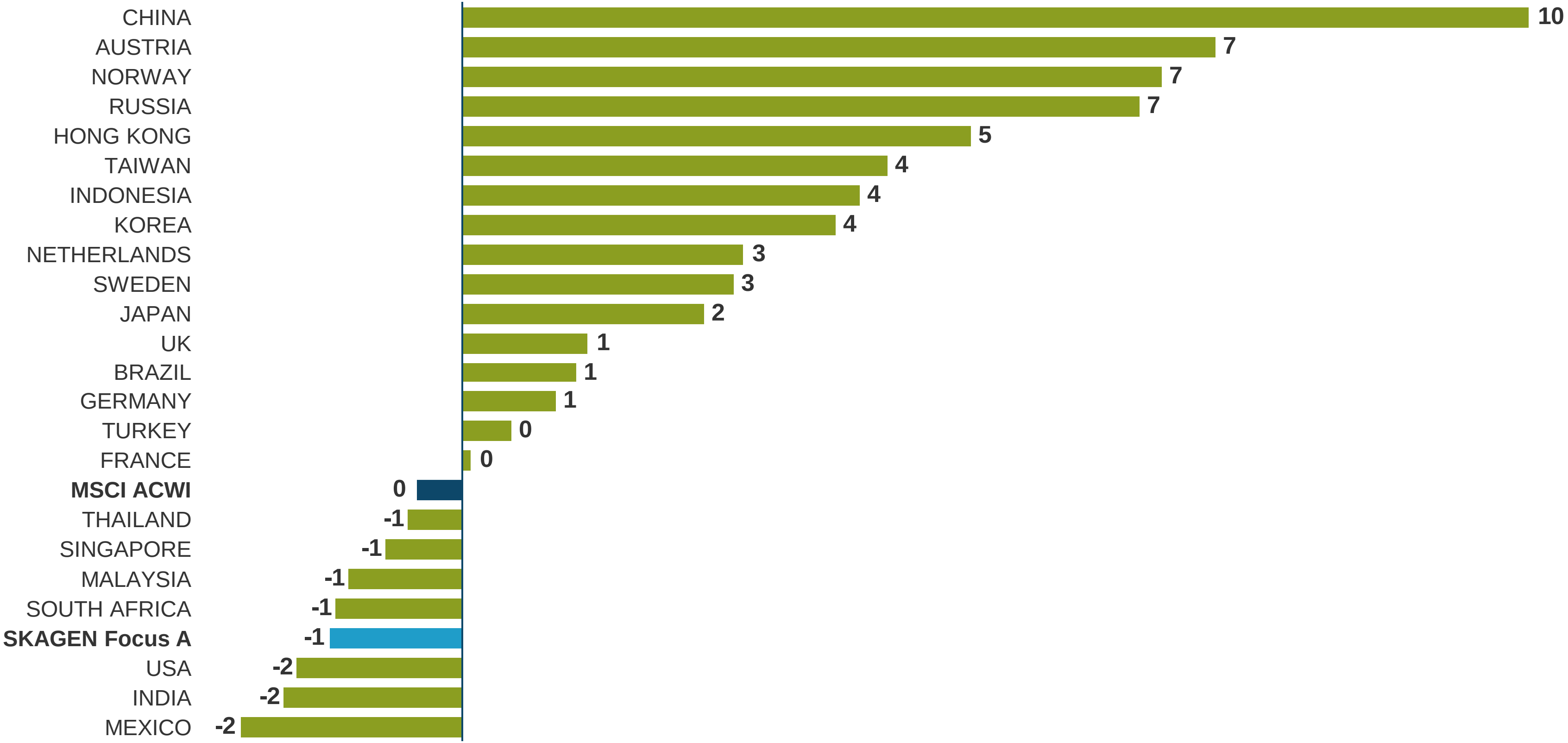


	September	QTD	YTD	Since inception*
SKAGEN Focus A	-1,3%	9,4%	9,2%	-5,7%
World Index*	-0,4%	4,5%	2,9%	-3,4%
Excess return	-0,8%	5,0%	6,3%	-2,3%

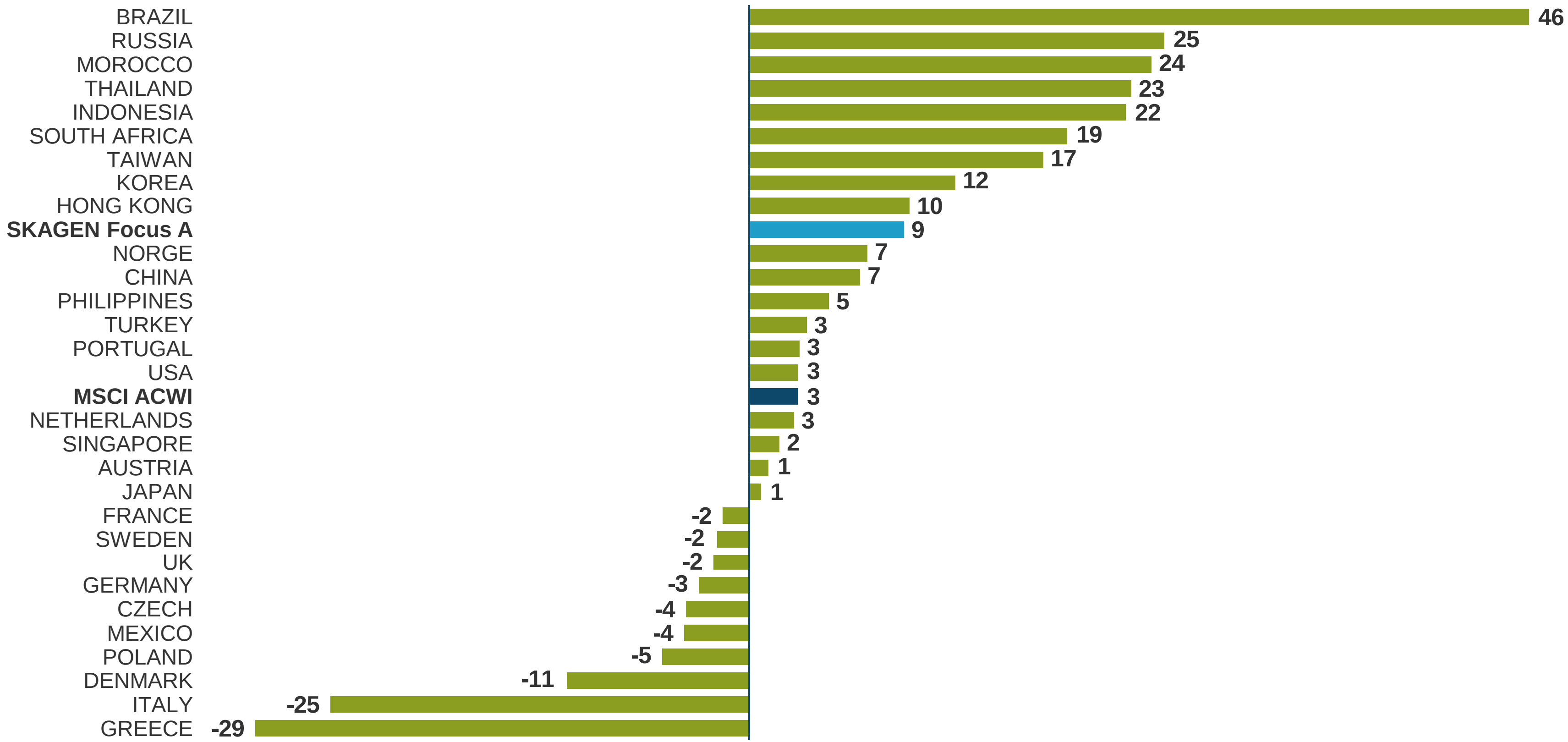
Note: All returns beyond 12 months are annualised (geometric return)

** Inception date: 26 May 2015*

Markets in September 2016 in EUR (%)

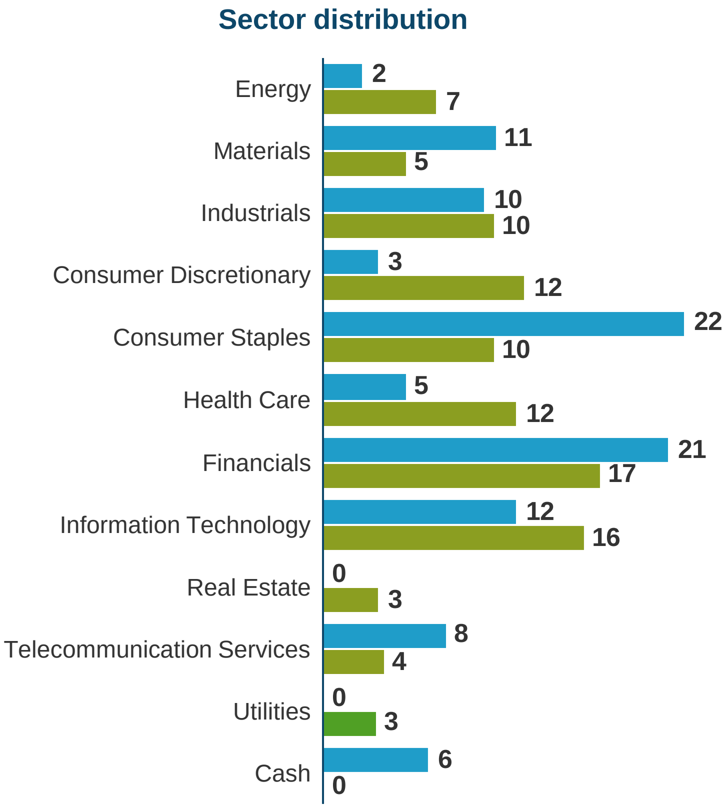


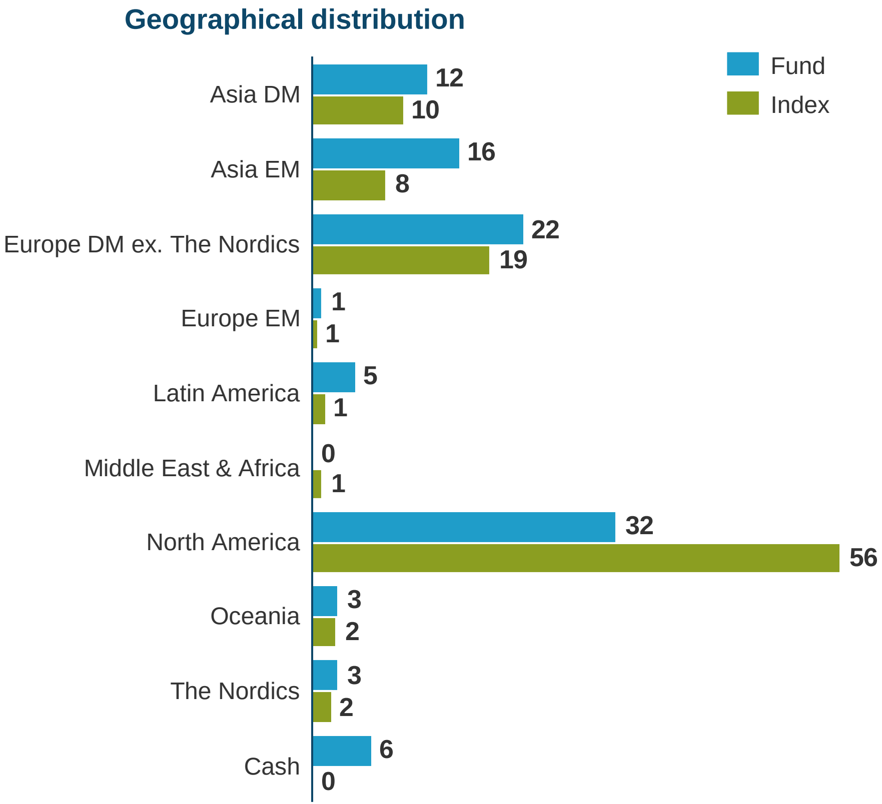
Markets YTD 2016 in EUR (%)



SKAGEN

Sector and geographical distribution vs index (Sept. 2016)





SKAGEN

Holdings increased and decreased during September 2016

Key buys

- **Taiheiyo Cement:** We continued to build up our position in our newly added Japanese cement company Taiheiyo Cement, which is now a top 10 position in the fund.

Key sells

- **Infineon:** Stock is still a top 10 position in the fund although we reduced exposure as the share price reached all-time-high levels during the month, following the announcement of further consolidation among peers within the semiconductor/chip space. Infineon is a 4% position in the fund.

- **South32:** Stock continues to climb higher following solid FY16 results, first as a stand-alone entity after being spun-off from BHP. Position size reduced.

- **AerCap:** Although the company still trades at attractive levels in terms of valuation, we believe that the overall business environment for the company may have become more challenging. As we think the investment case's risk/reward profile has deteriorated and that catalysts for re-valuation are now harder to identify, we reduced the position during the month.

SKAGEN

Largest holdings in SKAGEN Focus

	Price	P/E 2016e	P/E 2017e	P/BV last	Price target	Upside to target %	Holding size, %
American International Group Inc	59,30	14,7	10,7	0,7	90	52 %	7,5%
Jbs SA	11,80	48,8	7,6	1,4	22	86 %	4,6%
Softbank Group Corp	6 522,00	7,5	10,8	3,1	9 600	47 %	4,6%
Infineon Technologies AG	15,90	22,4	19,7	3,7	20	26 %	4,2%
SK Hynix Inc	40 200,00	15,4	10,6	1,4	65 000	62 %	4,1%
SBI Holdings Inc	1 196,00	9,2	8,5	0,7	3 000	151 %	4,0%
Taiheiyo Cement Corp	289,00	8,0	8,7	1,7	420	45 %	3,7%
Teva Pharmaceutical-Sp ADR	46,00	8,8	7,7	1,7	90	96 %	3,6%
Schaeffler AG	14,10	9,2	8,6	2,2	19	35 %	3,5%
Philips Lighting NV	23,70	12,2	10,5	1,4	30	27 %	3,2%
Top 10 positions		**11,9**	**9,8**	**1,3**		**62,6%**	**42,9%**
Total Equity (35 positions)							**93,6 %**
Cash							**6,4 %**
Total Portfolio							**100,0%**

As at 30/9-2016

**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 7,2%.*

SKAGEN

Main contributors MTD 2016

Largest positive contributors

Company	NOK (000)
South32	7 608
SK Hynix	3 845
Aryzta	2 331
Whiting Petroleum	1 812
First Quantum Minerals	1 342

Largest negative contributors

	NOK (000)
Jbs	-9 085
Teva Pharmaceutical Industries	-6 912
Pilgrim's Pride	-4 741
Magforce	-4 592
AIG	-4 397

Value Creation MTD (NOK MM): -60

NB: Contribution to absolute return

Main contributors QTD 2016

Largest positive contributors

Company	NOK (000)
South32	15 800
SK Hynix	11 375
Infineon Technologies	10 113
Jbs	8 980
Omega Protein	8 915

Largest negative contributors

Company	NOK (000)
Crown Confectionery	-7 747
Teva Pharmaceutical Industries	-7 704
Pilgrim's Pride	-7 394
Magforce	-6 107
Taiheiyo Cement	-3 524

Value Creation QTD (NOK MM): 73

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	*NOK (000)*
South32	24 408
Pan American Silver Corp	23 180
AirAsia BHD	20 030
Haitai Confectionery & Foods Co Ltd	15 971
Jbs	14 608

Largest negative contributors

Company	*NOK (000)*
AIG	-12 275
Magforce	-8 911
Teva Pharmaceutical Industries	-8 162
Crown Confectionery	-7 747
Citizens Financial Group	-7 093

Value Creation YTD (NOK MM): 46

NB: Contribution to absolute return

Most important changes Q3 2016

Q3 Holdings increased

(key buys only)

Taiheiyo Cement	(New)
Crown Confectionery	(New)
Teva Pharmaceutical	
AIG	
Schaeffler	
Pilgrim's Pride	
Alphabet	
E-MART	
Samsung SDI	
Whiting Petroleum	
Aercap Holdings	
SK Hynix	
Synchrony Financial	
Magforce	
South32	
Philips Lighting	

Q3 Holdings reduced

Hyundai Motor	(Out)
Ubiquiti Networks Inc	(Out)
Omega Protein	
Aercap Holdings	
Jenoptik	
Infineon Technologies	
Jbs	
South32	
SK Hynix	
Softbank Group	
Citizens Financial Group	

Key earnings releases and corporate news, September 2016

Aryzta
(3.1% weight)

Investment case update

Swiss bakery company Aryzta announced FY16 which confirmed solid free cash flow generation (EUR 267m on a 3.5bn market cap) but organic growth continues to be weak with somewhat weaker margins than anticipated. However, we see these results as an indication that the overall business, especially North America, is stabilising. Importantly, the company is focused on reducing debt levels, and they used cash flow to primarily redeem private placement debt with stricter covenant levels. Beyond this exercise, net debt/EBITDA is 3.0x vs 3.5x overall covenant levels. Free cash flow guidance was indicated at mid-point EUR 250m for FY17. Management has particularly low credibility in the market following several years of mismanagement and poor communication. The recent appointment of a new Chairman, formerly CEO of Smurfit Kappa among other merits, is a positive development. Debt levels are still uncomfortably high at 3.0x net debt/EBITDA since they also are planning to acquire the rest of Picard in the mid-term. The stock is trading at a forward P/E multiple of 11x and 8x forward EV/EBITDA which is at a 30-40% discount to the overall consumer staples sector.

Fact

FY16 group revenue was largely unchanged over last year at EUR 3.8bn. EBIT was down 6% to EUR 484m and margins fell 100 bps. Underlying net profit was down 13% over last year to EUR 311m.

Jenoptik

(2.1% weight)

Investment case update

Jenoptik is a Germany-based company engaged in the field of optoelectronics and has been with us as a top ten position since the launch of the fund. Since then, our investment thesis has played out well and the company has executed on its strategy and delivered solid free cash flow while still expanding its business. The share price has responded accordingly and we have scaled down the position as it got closer to our price target, reflecting our commitment to staying disciplined on price. Jenoptik is now a 2% position. During the week the company announced that their CEO Dr. Michael Mertin, who has been with the company since 2006, will not be seeking to renew his contract after its expiry next year. The announcement of his departure is a short-term negative and the shares were down around 5%, as investors are well aware that in recent years the Jenoptik success story has mainly been related to good management execution. As a timely coincidence, we had a meeting scheduled with the company on the day after the announcement and were able to discuss the situation more closely. Although this is likely to be a short-term negative, we still have confidence in the fundamentals of the business and the potential of the company after the recent years restructuring.

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

Schaeffler (3.5% weight)

Investment case update

Schaeffler is a German-based automotive/industrial company, mainly active in engine and transmission systems (75%, auto) as well as bearings (25%, industrial). The company executed an IPO with exceptionally poor timing only days after the Volkswagen emission scandal was announced. The company announced an early prepayment of a USD 850m bond which reduces Schaeffler's net debt to around EUR 4.2bn. The redemption is financed by a partial prepayment of a loan note and free cash flow generated over the last few quarters. Net debt to EBITDA following this exercise stands at 1.7x which is meaningfully lower than at the time of the IPO. Following this transaction, Moody's upgraded the credit rating of the company's debt to investment grade. The company has delivered solid results with impressive cash flow generation since the IPO, confirming the strong market positions, and we find the still discounted stock price to be unjustified. The stock trades at a meaningful discount to absolute fair value (EUR 18-19 in our opinion) and other high quality operators at mid-term EV/EBITDA of 5x and free cash flow yield at 8-9%. Structurally, we see the company as well positioned to benefit from the increased spending from automakers to achieve more efficient gasoline engines vs. diesel engines.

FFP (1.0% weight)

Investment case update

FFP is a French investment company with a diversified portfolio of assets where approximately 90% of the assets are listed. The company is 80% controlled by the Peugeot family and the largest part of the company NAV is the legacy ownership stake in French automaker Peugeot (45% of NAV and 10% total ownership). Following a family dispute within the Peugeot family, FFP has gradually been diversifying away from the Peugeot stake and has invested in other sectors, such as major investments in French nursing home operator Orpea and turn-around situation Zodiac Aerospace, an aeronautical equipment supplier. The company reported H116 net asset value of EUR 106/share, down from EUR 124/share at the end of last year (-15%). The decline was mainly driven by the decrease in the Peugeot share price from year end which also was exacerbated by Brexit at the end of June. However, since 30 June, Peugeot shares have recovered sharply. Other investments, for instance Orpea, posted positive returns since year end. We believe the stock is trading at an unwarranted discount to fair value at current stock price of around EUR 68/share. The discount may be a result of the scarce coverage of the stock, lower liquidity/free float or general scepticism around the company's core position in auto-maker Peugeot. We think at least a few of these factors have the potential to change for the better in the mid-term.

Fact

The company reported H116 net asset value of EUR 106/share vs. EUR 124/share at year end.

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

China Telecom (3.0% 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 Q216 total revenue increased by 5%. The mobile service segment (38% of sales) grew revenue by 4% from last quarter and 7% YoY, driven by increased 4G penetration, continued growth in subscriber base (up 2% QoQ) and rising average revenue per user (up 2% QoQ). Handset data traffic increased by 18% QoQ and 128% YoY. The wireline segment revenue (52% of sales) increased by 9%, driven by growth in both volume and number of subscribers. Overall EBITDA increased by 12% QoQ, equivalent to a margin of 30%. We think the company has excellent opportunities to further grow its 4G subscriber base (currently 90m vs. 29m one year ago). The company continues to roll out new 4G base stations, but maintains its full year guidance target, which indicates that a period with elevated cap-ex is potentially coming to an end and which will bring attention to the attractive mid-term free cash flow dynamics. The stock is attractive on current earnings power, and at a major discount to other industry peers at EV/EBITDA of less than 4x.

Fact

In Q216, the company reported a 5% sequential increase in revenue to RMB 90.4bn. EBITDA increased 12% to RMB 26.7bn. The company added 4.5m mobile subscribers to the current total base of 204.8m.

Samsung SDI (1.0% weight)

Investment case update

SDI is a key battery supplier to Samsung and likely involved, although they have not announced an official release. Analysts estimate that SDI has a c60% share of battery shipment to Samsung's handset division. If Samsung were to switch supplier, it would negatively impact small battery division sales. It is also likely that SDI would have to cover replacement battery costs. Small cell battery division had sales of KRW 663bn in 2Q16 with KRW 3bn operating profit. Small polymer batteries account for c30% of sales and maybe half of this is related to Samsung handsets. It is hard to calculate the financial impact and we do not expect SDI to bear all the costs which could be up to KRW 700bn. However, this week's share price decline of 9% has cut market capitalisation by KRW 740bn, so this clearly seems to be discounted. We do not believe Samsung, owning 20% of SDI, would radically shift its procurement structure for batteries longer term.

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

Fourlis
(1.0% weight)

Investment case update

Greek Fourlis has two main business activities: (1) operator of IKEA stores in Greece, Bulgaria and Cyprus and (2) operator of Intersport stores in Greece, Cyprus and Turkey. The company is operating seven IKEA stores (five in Greece, one in Cyprus and one in Sofia, Bulgaria). Currently about 70% of sales are derived from the IKEA operations. In Q216, the company produced total sales of EUR 102m, which was 8% higher than last year. IKEA sales rose 10% while Intersport sales climbed 7%. IKEA EBITDA margins expanded nicely from 5.8% to 8.2% while Intersport expanded 100 bps to 11.2%. Total EBITDA grew 51% to EUR 9m. Net debt compressed EUR 10m to EUR 134m which still is rather elevated at 3.5x net debt/EBITDA, but the company has several non-core assets, including land plots in Bulgaria, that could be sold to reduce the debt pile. On the call, management indicated further robust trends in July and August for IKEA and also pointed to the fact that Turkey is a smaller part of Intersport sales (below 5%) and does not present a major headwind at this point. As a sign of the improving operating environment, management stated the intention to reinstate a dividend for next year. On an overall basis, the home furnishing market in Greece has lost more than 70% of its value since the peak of 2008 and sits currently at just 0.4-0.5% of GDP in Greece and competition has been substantially reduced in the ultra-long recession. We believe that there is a gradual improvement towards normalisation of the business environment which is combined with operating leverage, resulting in substantially higher earnings power in the mid-term.

The 10 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.

Brazil-based JBS has 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%, Brazil-based beef processing), JBS USA Pork (10%), JBS Foods (9%, prepared foods and poultry processing).

Japan-based Softbank is a telecom and internet conglomerate. The company's main assets are 1) the Chinese online giant Alibaba Group (32% holding). Alibaba is the leading online commerce platform in China, active both in retail and wholesale; 2) US-based telecom operator Sprint (80% ownership) which provides wireless services in the US and is the third largest wireless network operator after Verizon and AT&T; and 3) domestic telecoms (mainly Softbank Mobile, third largest telco in Japan after KDDI and NTT Docomo).

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.

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.

The 10 largest companies in SKAGEN Focus (cont.)

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 an 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 securitisation), trading system and FX trading.

Largest cement company in Japan and 13th largest globally with approximately 40m tons total capacity (about 60% in Japan). Japanese cement market is an oligopoly with three players following consolidation. Geographic revenue mix: Japan 80%, US 15%, Other 5% (Singapore, Vietnam, HK, Philippines, Australia). Segment revenue mix: Cement 65%, Mineral resources 10%, Environmental business 8%, Construction materials 10%, Other 7%); private/public 50/50. Integrated with minerals business providing large part of internal raw material needs.

Teva's history can be traced back to Jerusalem in the 1930s. Today Teva is the world's largest producer of drugs that have gone off-patent. HQ in Israel; presence in 60 countries; 45k employees. Teva's strategy is to focus on 1) Central nervous system (CNS) 2) Respiratory and 3) Improved versions of existing drugs (not just Teva drugs) and 4) Production of biosimilar drugs. In July 2016, The US Federal Trade Commission granted Teva approval for the acquisition of Allergan's generics business (Actavis).

Schaeffler AG is an integrated automotive and industrial supplier with more than 12bn sales and 84k employees. Founded and mainly owned by the Schaeffler family (who also holds a majority stake in Continental). Two main operating segments: Automotive (75% of sales) - Production of components such as engine systems, transmission systems and chassis. Broad client list of OEMs, which currently accounts for around 60% of segment revenues, the rest is aftermarket sales. Industrial (25% of sales) – Production of rolling bearings and power transmission solutions. Company recently launched a cost-cutting program to increase margins in this segment. The company was listed on the market on 9 October after cutting the IPO size by 50% due to the VW scandal.

Philips Lightning was spun off from Royal Philips and is the global market leader in the c. EUR 70bn lighting industry. Total sales of EUR 7.5bn roughly split between 43% LED / 57% Conventional lighting (2015). Industry in the midst of a technology transition in which traditional lamps are being replaced by LED. As a result LED share of sales will be more than 50% in 2016. Business model is also changing from in-house production selling to distributors (old lamps) towards outsourced production and direct solution selling which includes professional services and long-term contracts.

For more information please visit:

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

Unless otherwise stated, performance data relates to class A units and is net of fees.

Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. KIIDs and Prospectuses for all funds can be found on our website.