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 November 2016

The art of common sense

SKAGEN

Summary – November 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 43% of the portfolio. The cash position is 6.7%.

- SKAGEN Focus* was up 2.5% in the month measured in EUR, while the global equity markets (measured as MSCI AC World) were up 4.2%. In 2016, the fund is up 13.2% while the global equity markets are up 8.5%.

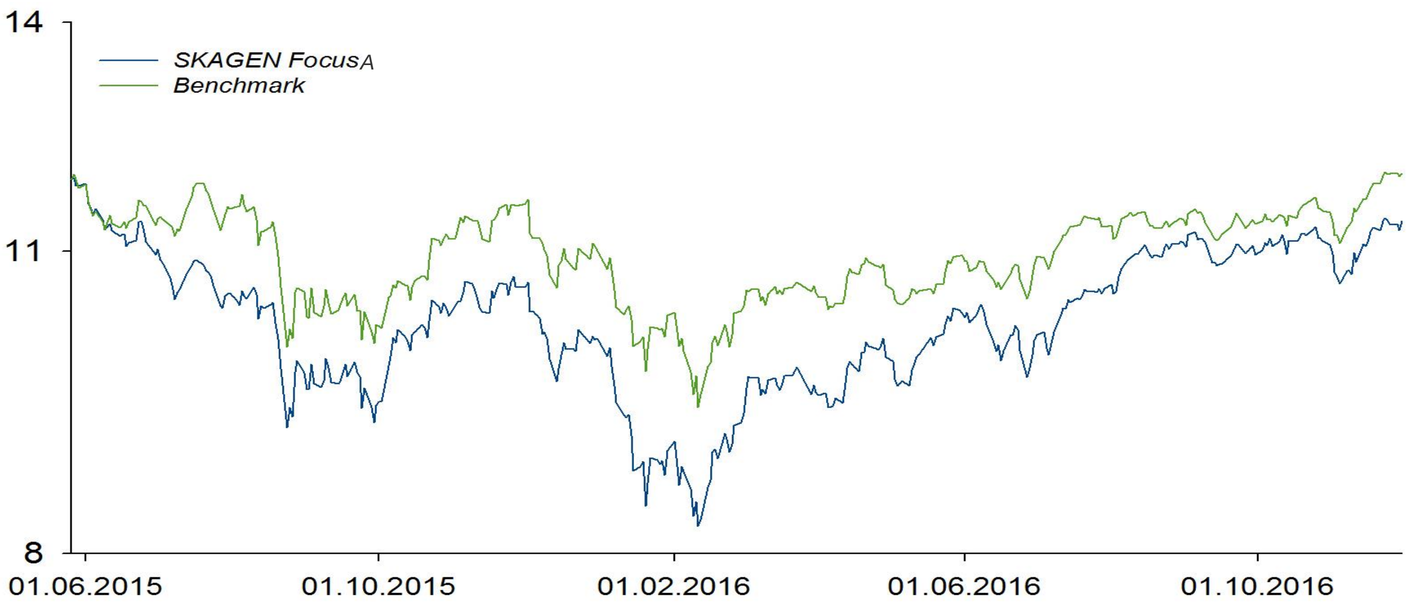
- Whiting Petroleum, Citizens Financial and Taiheiyo Cement were the strongest contributors to the fund's performance in November measured as absolute contribution in NOK. TerraVia, Fila Korea and Schaeffler were the main detractors during the month.

- During the month we initiated a position in Tesoro, a US refiner (see attached fact sheet for more information). Our position in US mid-cap bank Citizens Financial was sold out as the stock reached our price target. Copper miner First Quantum was also sold out following a strong re-rating of the shares towards our price target.

- 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 19% of the fund, while mid-cap and large-cap positions account for 41% and 38%, 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.*

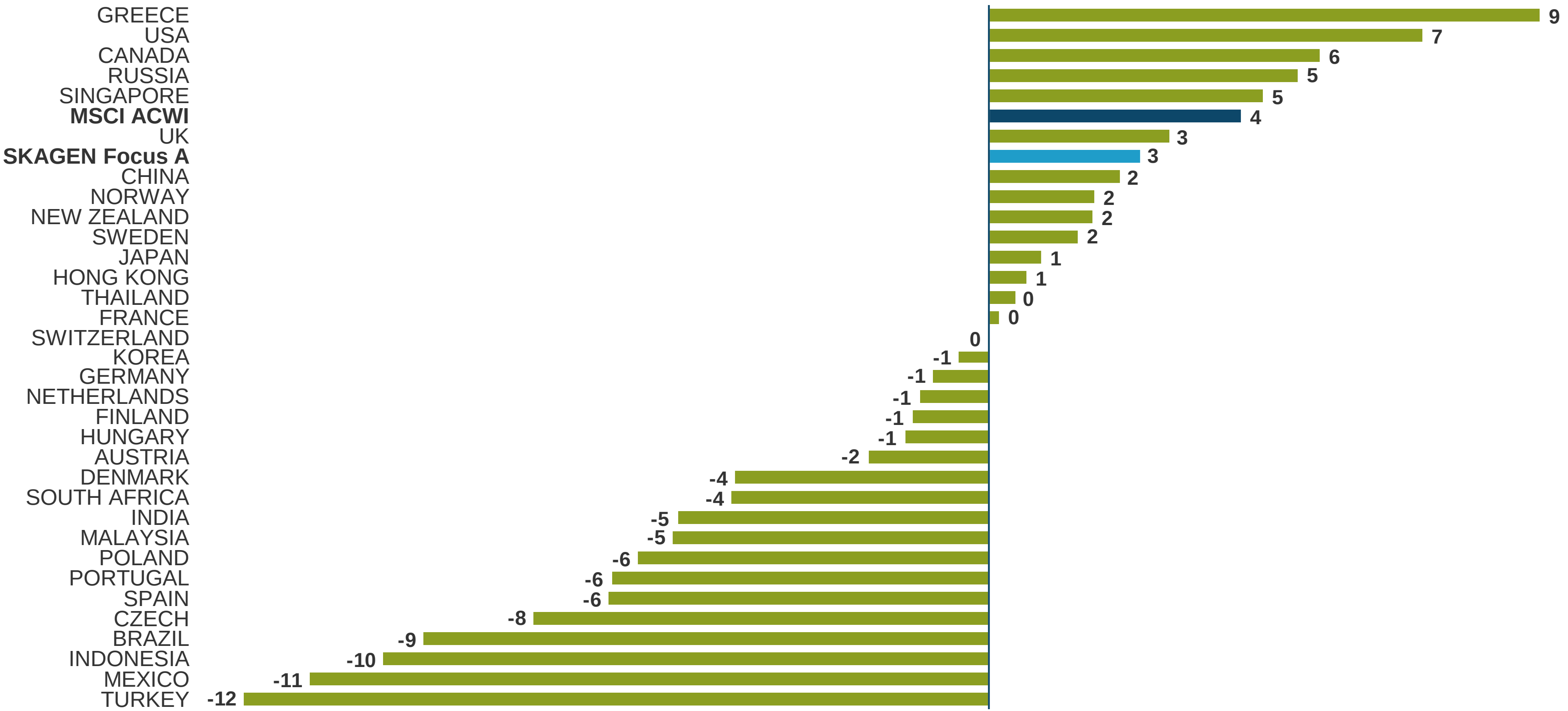
Results, November 2016 in EUR



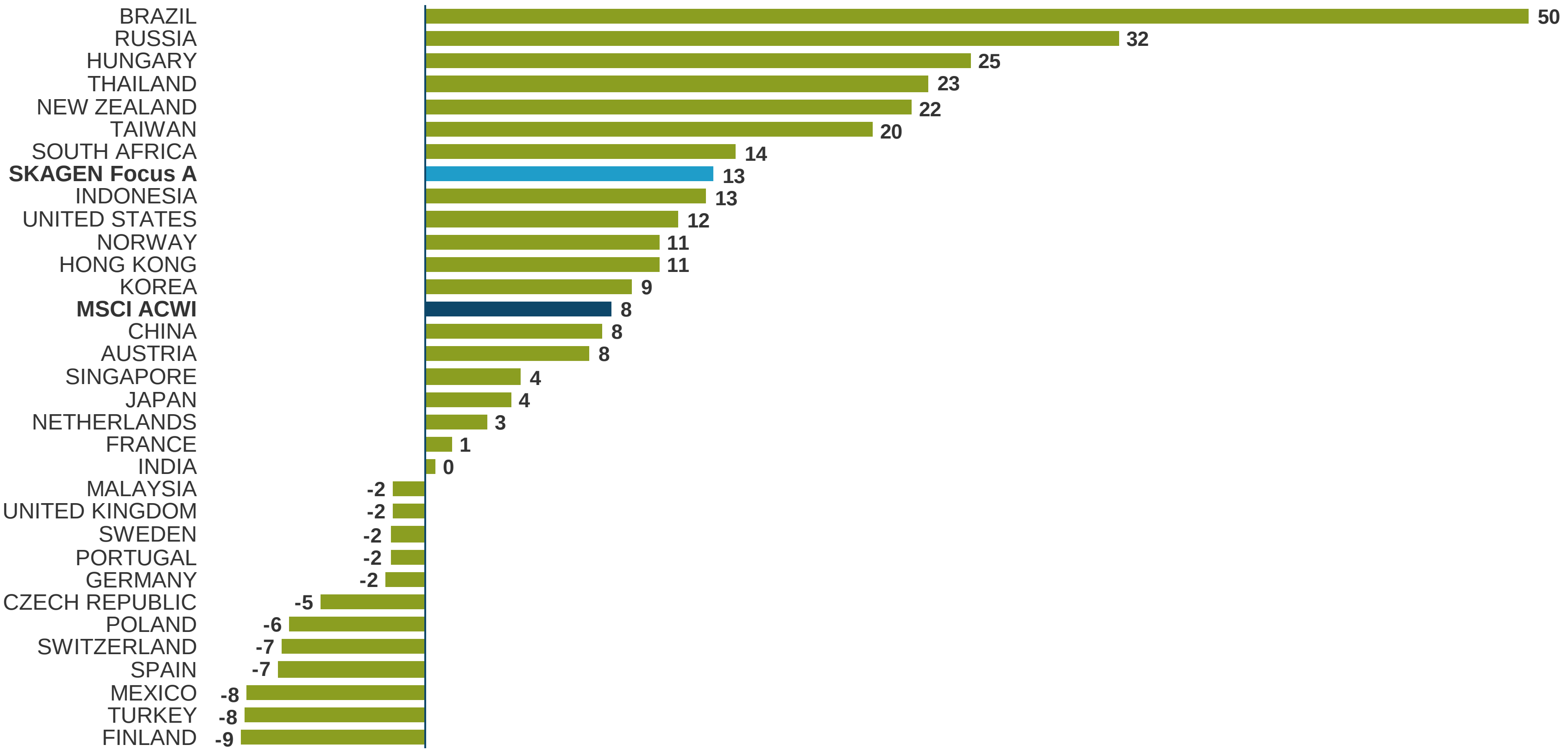
	November	QTD	YTD	Since inception*
SKAGEN Focus A	2,5%	3,6%	13,2%	-2,8%
World Index*	4,2%	5,5%	8,5%	0,4%
Excess return	-1,7%	-1,8%	4,7%	-3,3%

Note: All returns beyond 12 months are annualised (geometric return)
** Inception date: 26 May 2015*

Markets in November 2016 in EUR (%)

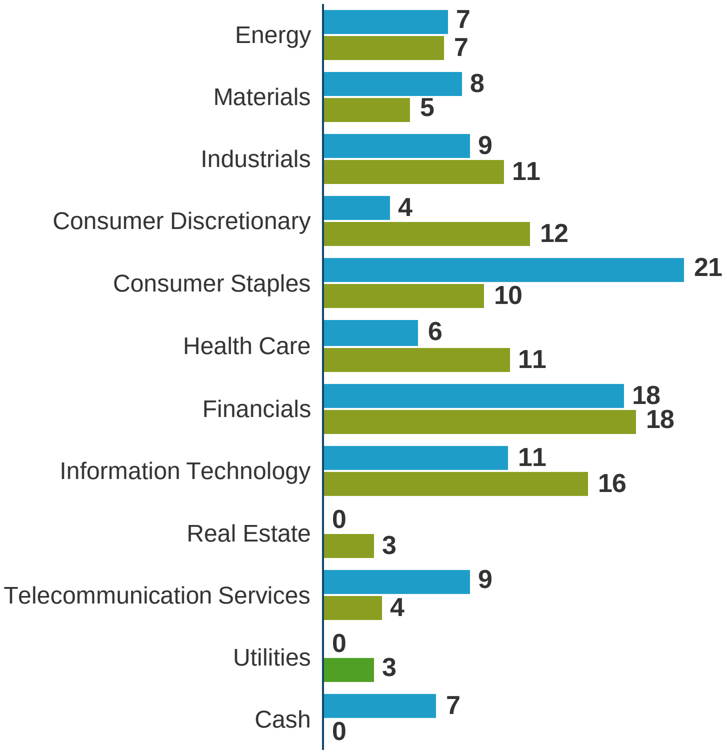


Markets YTD 2016 in EUR (%)

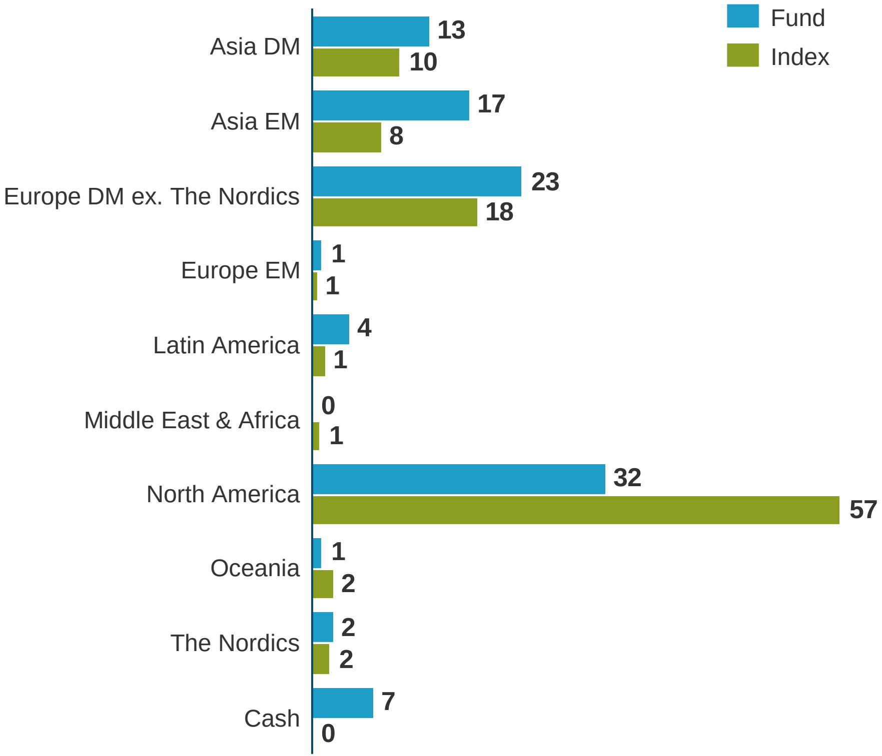


Sector and geographical distribution vs index (Nov. 2016)

Sector distribution



Geographical distribution



Holdings increased and decreased during November 2016

Key buys

- **Tesoro (new) –** please see fact sheet at the end of the report
- **E-MART –** position size increased following signs that company turnaround is on track
- **Whiting Petroleum –** position size increased as balance sheet is improving faster than expected and valuation looks increasingly attractive

Key sells

- **First Quantum (out)** – the position was sold out following strong re-rating of the shares
- **Citizens Financial (out)** – the shares of this US mid-cap bank reached our price target and were sold out in the month
- **Pilgrim's Pride** – position size lowered as uncertainty around litigation risk continues to loom

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	63,33	16,7	11,6	0,7	90	42 %	8,0%
Taiheiyo Cement Corp	358,00	9,1	10,9	1,3	420	17 %	4,4%
E-MART Inc	188 000,00	15,5	13,5	0,7	270 000	44 %	4,4%
Softbank Group Corp	6 712,00	7,6	10,9	3,2	9 600	43 %	4,3%
Jbs SA	9,76	45,2	6,5	1,1	22	125 %	4,1%
SBI Holdings Inc	1 432,00	12,8	12,9	0,8	3 000	109 %	4,1%
Teva Pharmaceutical-Sp ADR	37,70	7,4	6,9	1,1	90	139 %	3,9%
China Telecom Corp Ltd	3,75	15,8	13,9	1,0	8	113 %	3,6%
Tesoro Corp	81,35	16,0	13,3	1,7	120	48 %	3,5%
Infineon Technologies AG	15,78	19,9	17,4	3,5	20	27 %	3,4%
Top 10 positions		**12,9**	**10,8**	**1,1**		**63,1%**	**43,4%**
Total Equity (35 positions)							**93,3 %**
Cash							**6,7 %**
Total Portfolio							**100,0%**

As of 30/11-2016
**JBS is the main owner of Pilgrim's Pride, which is a 1.2% position in the fund. These two positions should be viewed as one, with a total weight of 5.2%.*

Main contributors MTD 2016

Largest positive contributors

Company	NOK (000)
Whiting Petroleum	10 725
Citizens Financial Group	10 595
Taiheiyo Cement	7 335
AIG	7 194
Synchrony Financial	6 258

Largest negative contributors

Company	NOK (000)
TerraVia Holdings	-11 095
Fila Korea	-8 511
Schaeffler	-5 562
Pilgrim's Pride	-4 966
Rentech	-4 499

Value Creation MTD (NOK MM): 30

NB: Contribution to absolute return

Main contributors QTD 2016

Largest positive contributors

Company	NOK (000)
AIG	15 259
Citizens Financial Group	15 028
First Quantum Minerals	10 442
Whiting Petroleum	9 913
Taiheiyo Cement	9 479

Largest negative contributors

Company	NOK (000)
TerraVia Holdings	-15 108
Fila Korea	-12 343
Jbs	-10 772
Teva Pharmaceutical Industries	-6 390
Schaeffler	-5 888

Value Creation QTD (NOK MM): 52

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK (000)
South32	27 594
Pan American Silver Corp	23 180
First Quantum Minerals	22 266
AirAsia BHD	20 030
Haitai Confectionery & Foods Co Ltd	15 971

Largest negative contributors

Company	NOK (000)
Teva Pharmaceutical Industries	-14 552
Fila Korea	-13 008
TerraVia Holdings	-11 685
Schaeffler	-10 281
Rentech	-9 181

Value Creation YTD (NOK MM): 99

NB: Contribution to absolute return

Most important changes Q4 2016

Q4 Holdings increased

Tesoro	(New)
E-MART	
Whiting Petroleum	
Teva Pharmaceutical Industries	
Samsung SDI	
China Telecom	
Jbs	
Fila Korea	
Philips Lighting	
Alphabet	
Taiheiyo Cement	
Jenoptik	
Softbank Group	

Q4 Holdings reduced

First Quantum Minerals	(Out)
Aercap Holdings	(Out)
Citizens Financial Group	
South32	
Pilgrim's Pride	
SK Hynix	
Synchrony Financial	

Key earnings releases and corporate news, November 2016

AIG
(8.0% weight)

Investment case update

Compared to our original investment thesis, AIG continues to deliver on exiting non-core assets and increasing financial leverage, from a very low base, to return a significant amount of capital to shareholders in the form of buy-backs below book value. After an exceptionally strong 2Q, this quarter showed a mixed picture on the operational turnaround in its underperforming commercial P&C business. While cost reductions seem to be ahead of targets, underwriting did not continue its improvement this quarter, and the adverse developments in the prior year's reserve is clearly an issue we hoped AIG had moved past.

Fact

Our operational turnaround case is all about commercial P&C. On costs, the company continued to reduce costs, improving the expense ratio to 27.6% (vs. 29.6% in 3Q15) and the company seems to be ahead of its very ambitious targets. On underwriting, the quarter did not continue the strong improvement we saw last quarter. While the core loss ratio improved 190bps to 64.8% it did deteriorate from 61.7% in 2Q. Management remains confident of its 62%/60% targets by 2016/17 as they are making progress in portfolio optimisation. The big disappointment was adverse prior year reserve developments (adding 5 points to the combined ratio). AIG has returned USD 9.8bn to shareholders YTD. With recently announced divestitures, the company seems to be on track to exceed its deployment target of at least 25bn through year end 2017 – current market cap is USD 61bn.

SBI Holdings
(4.1% weight)

Investment case update

Neutral. SBI Holdings is a complex conglomerate within the financial sector in Japan, with many activities in venture capital and financial holdings, including private and public pharmaceutical companies; thus, the company reporting always contains mark-to-market accounting which makes headline numbers not very indicative of their operations. The company is the country's largest online broker.

The financial services business profits grew 1% in the first half of 2016 versus the previous year, implicitly gaining market share in a falling market. The biotech division had a drawdown of JPY 4,936 million, primarily due to an already published failed drug, while asset management had a very solid JPY 2,877 million gain (versus -262 in first half of 2015, indicating the erratic numbers described above).

SBI Savings Bank of South Korea seems to be turning around, and Investment Banking is involved in 19 deals in 2016. The pharma pipeline is very broad in pharmaceuticals, but we consider this option-value only. The company, in yet another division, has become active in the FinTech/blockchain space during the year.

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

China Telecom
(3.1% 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 Q3, total operating revenue grew 7% YoY while operating expenses grew by 8% (driven by tower rentals and network expansion). EBITDA decreased somewhat (margin down 2pp) while net profit increased 9%, mainly due to reduced financing costs and depreciation that has now been moved to the TowerCo. The mobile service segment (40% of sales) continues to be the main growth driver of sales, driven by increased 4G penetration and the increased subscriber base. Handset data traffic grew by 117% YoY and 24% during the quarter. The wireline segment revenue (50% of sales) increased by 5% supported by growth in both volume and number of subscribers. Given that there has been no change to the full year capex target indicates that the period with elevated capex levels is potentially coming to an end and could draw attention to the attractive mid-term free cash flow dynamics of the company. 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 Q316, the company reported revenue of RMB 87bn. EBITDA decreased to RMB 25.5bn. The company added 5.6m mobile subscribers to the current total base of 212.5m and added 2.7m wireline broad band subscribers to the current total base of 121m.

SK Hynix
(3.2% weight)

Investment thesis update:

Positive. SK Hynix reported solid 3Q16 results benefitting from improved market conditions due to increased seasonal demand and better than expected PC demand and orderly supply additions leading pricing to continue to increase. Revenue increased 8% QoQ while operating profit grew by 60% QoQ, with a margin level of 17% (11% during Q2). The strong increase in profit was mainly driven by the increased cost savings and reversed inventory losses.

Going forward the company expects supply constraints and low inventory for DRAM to boost industry pricing. An increased proportion of production from their new 21nm plant and improving yields, should benefit profitability going forward. The stock has been strong this year, up almost 40% (KRW) following a volatile start of the year. As the stock went from one of our top 5 losers to a top 10 net gainer, we have decreased the position and adjusted its target weight.

Facts

The company reported Q3 2016 sales of KRW 4.2tn with an operating profit of KRW 726bn and EBITDA of KRW 1800bn.

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

Samsung SDI (2.0% weight)

Investment case update

The SDI share has suffered somewhat due to the Note 7 recall. The current share price reflects the value of net cash (KRW 20k per share) and value of its 15.2% stake in Samsung Display (KRW 70k) only. Hence, we get the KRW 18k/share in listed shares and all operating divisions for free. Even applying a zero value to its loss-making large battery/ESS operations, operating activities are still worth KRW 35k/share. The buy-back announcement signals that the board share our view on valuation.

Facts

3Q16 operating loss of KRW 110bn marks a significant worsening from KTW -54bn in 2Q16 and was due to KRW c95bn costs related to recall of Galaxy Note 7. Adjusted for this, small battery had an operating profit of KRW 10bn for a margin of 1.6%. Samsung has not yet announced the reasons for the Note 7 problems but as phones with batteries from a second supplier ATL were also affected, this might not be a battery production issue. If so, SDI should get reimbursements from Samsung. Large battery/ESS grew sales by 5% QoQ and 25% YoY to KRW 223bn, despite the lack of market access in China, where timing of access or access at all remain uncertain. Operating loss narrowed from KRW 95bn in 2Q16 to 64bn. Electronic materials had more or less flat sales of KRW 439bn with stable operating profit QoQ of KRW 39bn. SDI announced that it will spend KRW 300bn on a buy-back of c4.8% of shares in the next three months, which is well covered by a net cash position of KRW 1.44tr.

Softbank (4.3% weight)

Investment thesis update:

Softbank is a Japanese telecom and internet conglomerate with its main assets in Chinese online-giant Alibaba, US-based telecom operator Sprint and Domestic Telecom businesses (mainly Softbank Mobile). In Q217, overall sales fell 3% while EBITDA grew 5% over last year. The Domestic Telecom business posted a marginal increase in revenues but EBITDA 5% higher than last year. Sprint continued to show signs of recovery as margins rose to 29% (25% a year ago) and are contributing solidly. Yahoo Japan posted surprisingly strong numbers with sales up 48% and EBITDA up 18%. The recently acquired processor developer ARM Holdings was consolidated from Sep 6, only marginally impacting quarterly results. The company announced the set-up of the "Softbank Vision Fund", an IT focused fund of up to USD 100bn over the next five years. Softbank indicated it will contribute 25% of the assets (Saudi Arabia's public investment fund stands for 45%) and funding will come gradually from free cash flow. In this set-up, Softbank will collect fees and will be able to invest without overly burdening the balance sheet. Following the quite controversial ARM deal, net debt/EBITDA stands at 4.0x which is supported by the relatively stable cash flows from the domestic telecom business. Management stated a goal to reduce debt to 3-3.5x in the next few years. We believe the implicit share discount to conservative fair value of the underlying assets, assuming the price paid for ARM Holdings, is fair in a longer term perspective. It is in excess of 30% and then there is very little value attached to the myriad of unlisted transport and e-commerce stakes acquired by the company over the last few years.

Facts

In Q217, sales decreased 3% to JPY 2145bn while EBITDA rose 5% to JPY 655bn (margin of 31% vs 28% last year).

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

E-mart

(4.4% weight)

Investment case update

E-mart is a Korea-based company principally engaged in the hypermarket business. The company has been struggling with saturation in its core discount format and increasing competition from new online entrants. The company reported consolidated sales growth of 10% while operating profit grew by 11%. Profitability improvement was seen across core segments. Same-store sales in the hypermarket segment were up 1.4% (after falling 0.8% in Q2) while segment operating profit grew by 5.4% due to cost efficiency improvements. The company continues to roll-out its private label content which increases at a high pace. “Other business” including wholesale concept Traders and online E-mart mall saw continued strong sales increases and profitability improvement, especially Trades (operating profit up 57% YoY). Reduced losses at Chosun Hotel and profit growth for Shinsegae Food contributed to operating profit growth, while the company’s convenience store and overseas units saw profits contracting somewhat.

We believe the current stock valuation still indicates a very limited probability of fundamental improvements, as it is trading at EV/Sales below 0.5 and EV/EBITDA at below 6x. The stock is supported by asset values in non-core holding Samsung Life and property values as 85% of the current stores are owned and current balance sheet is probably under-estimating its market/replacement values.

Fact

In Q316 consolidated sales increased 10% from last year to KRW 4567bn. Operating profit grew 11% YoY to a level of KRW 215bn. Sales growth: Hypermarket +4.1%, Traders +17%, Online +24%.

Schaeffler
(2.8% weight)

Investment thesis 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. In Q316, revenue rose 1% where Automotive was the strongest contributor (77% of sales) increasing 4%, while the industrial segment posted a revenue decline of 7% over last year. Overall EBIT margin contracted to 12.8% from 13.4% sending EBIT lower by 4% primarily due to poor margin within the industrial division. From a geographic perspective, China grew 16% and now constitutes 15% of total sales. The results from the industrial side in particular are on the weak side, and the company launched yet another restructuring program and intends to cut 500 jobs and consolidate plant capacity within this division. The company reaffirmed recent guidance for FY16 at 3-5% revenue growth, 12-13% EBIT margin and free cash flow of EUR 600m, indicating a substantial cash yield. The company has been successful in de-levering its balance sheet and, based on current earnings power and potential margin improvements ahead, we think the stock should trade at least in line with other high-quality auto-parts/industrial names, and suggest the initial upside to be about EUR 18-19/share.

Facts

Revenue increased 1% to EUR 3.3bn in Q316. EBIT decreased by 4% to EUR 417m, equivalent to a margin of 12.8%. Net income increased 16% to a level of EUR 178m. FCF amounted to EUR 264m. Management confirmed full-year guidance.

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

JBS

(4.1% 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. Today it has a leading global market share position in beef, poultry (through 76% owned Pilgrim's Pride in the US) and pork. The share price has been weak following the decision from BNDES to block a restructuring plan of the company, which included plans to list its international businesses in the US. The Q316 report provided a mixed picture of its operations, where the US, except for chicken producer PPC, saw recovering trends. The strength was primarily within JBS USA Beef (EBITDA margin up 200 bps and up over 30% over last year) which is now clearly benefitting from lower input costs as cattle prices have moved lower in the region. On the weak side were chicken producer PPC (already announced), JBS Mercosul and JBS Foods compared to last year. The company generated substantial free cash flow in the quarter (BRL 700m), which we think is set to continue. Net debt was still high but stable at 4.0x EBITDA (debt mostly in USD). The investment case remains based upon an operational turnaround including a continued recovery in beef margins and better capital discipline which coincides with a multi-year low valuation of 5x EV/EBITDA forward multiples. Solid cash flow generation has the potential to pave way for a net debt reduction towards 2.5x in the mid-term.

Fact

Net revenue fell by 4% to BRL 41bn while adjusted EBITDA was down 18% over last year. Net income was BRL 887m over BRL 381m from last year.

TEVA

(3.9% weight)

Investment thesis update:

While another outlook cut is disappointing (Teva provided revised guidance as recently as July), sentiment is understandably at rock-bottom following the string of negative news this year. As contrarians, we cannot help but wonder if the saying "*It's always darkest before the dawn*" isn't now particularly applicable at Teva. There are several triggers that could lead to a sentiment and share price reversal: 1) Teva cited slower-than-expected new drug approvals for the lower guidance but re-iterated that the applications are still there and the pace should pick up in 2017/2018; 2) Generics pricing is not deteriorating beyond -5% negative YoY as per Teva with a one-off Allergan transaction causing the -7% pricing figure in Q3; 3) On the price collusion allegations, the CEO adamantly denied any knowledge of the matter which may turn out to be non-material; 4) Management said it would stop M&A and use cash flow to pay down debt (to 3.5x ND/EBITDA) which is positive as their M&A track-record is poor; and 5) The Copaxone court ruling in early 2017 is widely expected to go against Teva, so could surprise on the upside. While sliding earnings estimates have limited the usefulness of P/E multiples, we think the share's risk-reward at these levels looks attractive. Teva remains the world's largest producer of generics and has nearly 50% of all current FDA first-to-file applications to support future earnings.

Facts

Teva Q3 numbers roughly in-line with expectations, but FY 2016 mid-point guidance lowered for revenues (from USD 22.3bn to USD 21.8bn), EPS (from USD 5.30 to USD 5.15) and operating cash flow (from USD 5.9bn to USD 4.9bn) due to new sales materialising more slowly than expected. No 2017 guidance issued. Copaxone revenue figures (USD 1.06bn) slightly ahead of consensus as the 40 mg version is holding up well. Teva has established a USD 520m provision for the FCPA investigations pertaining to conduct in Russia, Ukraine and Mexico.

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

Massimo Zanetti

(0.8% weight)

Investment case update

Massimo Zanetti, the Italy-based coffee producer, operates in three main segments: Private Label (50% of sales), Mass market (42%) and Food service (8%). The company went public in June 2015 at a meaningfully higher share price than the current price, and has since been 67% family-controlled. In Q316, volume growth was flat YoY and sequentially. A stable pricing environment led to flat sales YoY. On the positive side profitability improved due to a better gross margin and lower opex, contributing to a 4% growth of EBITDA YoY to a margin level of 8.6%. The company's capsules volumes, a strategically important area for the company, continued to grow strongly (12%) but at a softer pace compared to earlier quarters. The company negatively revised its full-year guidance due to the loss of a private label contract in the US and the increase of input costs. Green coffee prices (Arabica) are currently up 20% since August and the company unfortunately failed to extend its hedging program post Q2 results. Management expects to increase list prices in the mass-market and food service from Q117, assuming input costs stays at current levels or above. We think the company continues to have an outsized 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.

Fact

In Q316, the group reported revenues of EUR 228m down 5.5% over last year. Total volume for the group increased by 0.5%. EBITDA came in at EUR 19.5m, up 4% and equivalent to a margin of 8.6%. Revised full year guidance (without their latest acquisition): 1-2% in volumes and EBITDA growth and net debt below EUR 225m.

Crown Confectionary (1.6% weight)

Investment thesis update:

Crown Confectionary is a South Korea based company engaged in the production of confectionary products such as biscuits, wafers and snacks – the second largest in the country despite its market capitalisation. The company has many subsidiaries and is, among other things, also the main shareholder of Haitai (66% stake post-IPO), a former position in the fund.

The Crown investment case is based on the normalised level of the currently depressed domestic food and beverage industry and the underlying market value of its assets, which are not reflected in the company's current share price in our opinion. Ongoing weakness in the snack industry has continued after a depressed first half of the year, and an unusually warm summer. The company reported Q3 numbers with slightly falling sales and further deterioration in profitability while they indicated a more positive outlook for 2017. The main reason for the margin detraction this quarter was a negative impact on gross margins in the form of higher input costs and an unfavourable product mix.

The company is in the process of reorganising its company structure in 2017, into a holding company and the food divisions below. We think that this could ease management's ability to turn the business around, give rise to faster management decisions, give key employees equity stakes, and unlock further shareholder value. In addition, the international business is a major opportunity for the company, if Orion (#1 company in Korea) is any guide.

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

Whiting Petroleum

(3.0% weight)

Investment case update

Whiting Petroleum is an independent E&P company primarily focused on on-shore oil properties in the US. The company raised capital in early 2015 after the poorly timed acquisition of Kodiak Oil and Gas in late 2014, funded mostly with debt. After executing a capital-raise in early 2015, the company has struggled in an environment with a lower oil price and high debt levels. The company has managed to take down debt gradually, primarily by selling non-core assets but also by implementing a rather painful debt-equity conversion transaction. The company announced a partial sale of two processing plants to Tesoro Logistics for USD 700m and continues to execute on non-core asset sales. Through cost-cutting and lower capital expenditures, the company is now able to reach operational cash flow neutrality at levels below the current oil price. On a forward EV/EBITDA perspective, without assuming any dramatic increases in the forward oil price and further de-levering of the balance sheet, the stock appears to have solid upside.

Fact

The company announced the sale of its Robinson Lake and Belfield natural gas processing plant. The midstream assets are being purchased by Tesoro Logistics for USD 700m (50% to WLL). The transaction is expected to close in Q117.

Tesoro
(3.5% weight)

Investment thesis update:

The company owns and operates seven refineries in Western US. They also have a substantial retail operation (selling refined products to gas stations) and a logistics segment (separately listed in a so-called MLP) which owns pipelines for transporting the refined product. The company announced the acquisition of Western Refining (USD 4.1bn), which will expand its presence in Texas, New Mexico and Minnesota. Western also has a substantial retail operation in its footprint and a separately listed MLP for its pipeline assets. These assets will most likely be combined over the coming year. The company sees substantial synergies of USD 350-450m over the first two years and increased its share buyback by USD 2bn. The market responded favourably to the transaction indicating that premium paid is relatively fair (20%) and credible synergies have been identified. We believe Tesoro is undervalued with respect to its different assets, and putting a market multiple on the retail business would indicate that the refinery business is implicitly trading at 2-3x EV/EBITDA which is a distinct discount to peers. The announced transaction would delay any activist investor involvement, but a future breakup remains a credible catalyst for the investment case. As a side-note, activist investor Elliot yesterday announced a major holding in close peer Marathon Petroleum, suggesting a similar path for creating value.

Fact

The company announced the acquisition of Western Refining (WNR US) for USD 4.1bn.

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

Infineon

(3.4% weight)

Investment case update

Infineon is a German semiconductor manufacturer founded in 1999, when the semiconductor operations of the parent company Siemens AG were spun off. The company produces semiconductors and systems solutions. The company reported solid Q416 numbers with core segments, relating to hybrid and EV (60% of sales) performing well driven by strong underlying demand. Group revenues were up 3% from last quarter and 5% compared to last year. The automotive division (40% of sales) grew 13% YoY and expanded margin by 170bps to 17.1%. The Power Management and Multimarket segment (30% of sales) saw its margin detract somewhat due to a negative impact relating to weaker smartphone demand. Full year profit margin came in at 15.2%, down somewhat compared to last year but still above the given target. Free cash flow generation during the quarter continued strongly and increased the current net cash position. After achieving the 15% through-the-cycle margin target during the last fiscal year, Infineon announced a new target of 17%. The margin improvement will mainly be achieved via a higher utilisation rate at the company's existing 300mm fab plant and cost benefits arising from the integration of International Rectifier, which it acquired in 2014. During the conference call, Infineon indicated that it plans to cover about half of the margin gap between the current 15% and the 17% target during 2017. We believe that Infineon has a unique position with its enviable market positions in the structural shift towards hybrid engines, auto electrification and the autonomous car (especially within radar applications) and the explosive growth from increased semi-content in these areas. As this has started to become reflected in the share price, we have been taking down the position. We still see upside on current valuations and a discount to high quality industrial peers, but have adjusted our position size due to risk/reward. Our target price is EUR 20 (trades at 16).

Fact

Infineon released Q416 numbers; Sales of EUR 1.7bn and net income of EUR 225m. Segment result margin came in at 16.7%. The company generated EUR 169m of FCF, increasing current net cash position to EUR 471m.

AIG
(8.0% weight)

Investment thesis update:

The US multi-line insurer was bailed out by the US government following the financial crisis and has since then started a transformation process aiming at reaching peer-group profitability and exiting non-core assets. The company's asset base can for simplification reasons be viewed in three main parts; the operating portfolio (about 80% of assets), DTA (target to utilise) and legacy portfolio (20%, target to shrink/divest). Targets for 2017 were largely confirmed in the form of 10% return on equity on the operating portfolio and an overall 2016/2017 capital return target of USD 25bn (current market cap is USD 65bn). The forecasted increase in profitability will mainly be driven by further efficiency and underwriting improvements, specifically in commercial P&C. The company indicated it is ahead of schedule for its USD 1.4bn operating expense reduction program. Key to the investment case is further improvement in the P&C combined ratio and establishment of a lower volatility asset-mix in its investment portfolio. The stock is trading at 0.8x book value with continued bright prospects for capital returns, and with a longer term ROE potential in line with the peer group, even in a non-split scenario.

Key earnings releases and corporate news, November 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 operates seven IKEA stores (five in Greece, one in Cyprus and one in Sofia, Bulgaria). Currently about 65% of sales are derived from the IKEA operations. In Q316, the company total sales grew by 5% YoY. Both IKEA and Intersport grew sales by 6%. Compared to last year IKEA EBITDA margins expanded from 11.2% to 13.2% while Intersport expanded 40 bps to 9%. Total EBITDA grew 21% YoY. Net debt decreased by EUR 14m to EUR 120m despite the fact that Q3 is the seasonal peak for IKEA's inventory. The debt level is still rather elevated at 3.2x 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. Management expects to be able to reduce debt further by year end. During the conference call management mentioned that the board will propose the reinstatement of a dividend for FY16, given the consistent cash generation and improving operating dynamics. On an overall basis, the home furnishing market in Greece has lost more than 70% of its value since the peak of 2008 and is currently 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.

Fact

Fourlis released Q316 numbers where IKEA and Intersport sales were up 6% to EUR 81m over last year while Intersport increased 6% to EUR 37m. Overall EBITDA increased 21% to EUR 13.7m while EBITDA margin expanded from 10% to 11.6% over last year.

The 10 largest companies in SKAGEN Focus

AIG

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.

Taiheiyo Cement Group

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.

emart

E-MART Inc. operates E-Mart discount stores. The company retails food, clothing, household goods, electronics, and other items through several branch stores. Revenue breakdown: E-mart offline 70%, Traders 6% (wholesale), E-Mart mall/online 5%, Hotel 16%, With Me (convenience format/CVS) 3%. Market share 48% in core discount format in South Korea.

SoftBank

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).

JBS

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).

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.

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).

China Telecom is a 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. 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.

Tesoro Corporation refines and markets petroleum products and provides transporting services. The company operates refineries, as well as a network of retail and refuelling stations in the western United States. Tesoro also markets gasoline and diesel fuel to independent marketers and commercial end users.

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.

Tesoro (TSO US) USD 79

History, what they do and how case was found

- **Refinery segment (50%)** - The company is the fourth largest independent refinery in the US. Tesoro owns and operates seven petroleum refineries in the Western US with a combined capacity of 845k barrels per day. The refineries are located in California (Los Angeles), Pacific North and Mid-continent.
- The refinery business earns a crack spread which, simply put is the price difference between the refined product (diesel, gasoline and jet fuel) and crude oil.
- **Marketing segment (30%)** – The marketing segment sells gasoline and diesel fuel (95% integrated) in Western US through own branded retail outlets/gas stations and to external parties such as ARCO, Shell, Exxon, Mobil. As of June 2016 there were 2500 Tesoro branded outlets in its markets with the bulk in California.
- **Logistics segment (20%)** – The logistics segment mainly consists of TLLP (separately listed MLP – ticker TLLP US, listed in 2011, market cap of USD 4.7bn) which has three segments: Gathering (29%), Processing (19%) and Transportation (52%). TLLP owns and operates over 3500 miles of crude oil, natural gas and refined products pipelines. Revenues are fee based. Tesoro owns 33% of the company but is consolidated into the accounts. Tesoro holds 100% ownership in TLLP General Partners (GP) which receives interest payments from the listed unit.
- **ESG** – Historically there have been issues around health and safety as well as certain labour practices. These seem to be largely behind the company and we seek continuous information on relevant topics.

Rationale for investment

- Robust market position – the larger refineries in the US have strong market positions in its geographic footprints and barriers to entry are high. Major new refinery capacity has not been built in decades.
- Implicit value of the refinery business is about 2x EV/EBITDA assuming value of retail/marketing segment at discount to peer group levels (MUSA US, SUN US, CST US, CASY US) and company ownership stake in TLLP (both GP and LP). While being viciously cyclical, pure refineries such as Valero (VLO US) typically trade at 5-6x EV/EBITDA over the cycle.
- Attractive free cash flow generation – normalised free cash flow yield should be about 8-9% (USD 0.8bn/year) supporting valuation.
- Strong balance sheet – the bulk of the group debt sits in TLLP unit, while "core" Tesoro is close to net cash.
- EBITDA composition transforming from pure refinery to higher margin business such as marketing/retail and logistics (in 2010, 80% was refining while current target is around 40% in 2018/2019).

Potential triggers

- Increase in TLLP ownership via drop-down of assets to simplify corporate structure
- Spin-off or IPO of the marketing segment (Valero spun off its retail operations in 2013 in CST US)
- Open ownership structure which could pave the way for active shareholders to push for release of substantial sum of the parts undervaluation of the company
- Increased availability of oil supply and lower input costs - possible progress in exploration of on-shore California's Monterey Shale, which is one of the largest reserves in the US of oil and gas

Risks

- Pressure on crack spread (generally reprices with lag when crude goes higher)
- US consumer health
- Higher input costs (mainly gas pricing)

Target price

We set a target price of USD 120 which would indicate an implicit valuation of 5x EV/EBITDA of the refinery business within Tesoro. This would equal 9x mid-term EV/EBITDA on the aggregate Tesoro group.

Key figures:

Market cap	USD	9.5bn
Net debt/EBITDA		0.8x
EV/EBITDA		6.0x
EV/Sales		0.7x
P/BV trailing		1.7x
Free float		100%

Owners

Vanguard 10%, State Street 7,5%, Blackrock 6,9%, Hound Partners 4,2%, AQR CapitaL 2,9%

3U addition

Unpopular

- The company is perceived as a refiner but in reality over 50% of operating income is derived from marketing and logistics. The cyclical nature of the refining business lowers the interest for the stock. 1/3 of analysts at hold/sell.

Under-researched

- The company's rather complicated corporate structure (GP and direct ownership in listed TLLP) is clouding the fundamental value in the stock.
- This mid-cap (USD 9bn) is covered by 20 analysts currently.

Under-valued

- We set a target price of USD 120 (current price of USD 79) which would indicate an implicit valuation of 5x EV/EBITDA of the refinery business within Tesoro. This would equal 9x mid-term EV/EBITDA on the total Tesoro group.

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.

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