From the moors north of Skagen, 1885. By P.S. Krøyer, one of the Skagen Painters. This image belongs to the Skagens Museum.

SKAGEN Global

Status Report December 2015

The art of common sense

SKAGEN

Summary – Calendar Year 2015 & December 2015

Calendar Year 2015

- In 2015, the fund generated 8.9% absolute return while the benchmark MSCI All Country World Index returned 8.7% (measured in EUR and rounded to the nearest decimal). SKAGEN Global thus beat its benchmark by approximately 0.1% in the calendar year 2015.

- SKAGEN Global has now outperformed its benchmark index in 15 out of 19 years.

- The three best 2015 performers on an absolute basis were General Electric, AIG and Alphabet (Google). The largest detractors to absolute performance were Banrisul, State Bank of India and Kazmunaigas.

December 2015

- In December, SKAGEN Global posted a negative absolute return of 4.1% which was 0.7% better than its benchmark index which fell by 4.8%. The three best monthly contributors to absolute performance were Dollar General, General Electric and Roche, while State Bank of India, Kingfisher and Citigroup were the three main detractors.

- The team initiated two new positions: China Mobile and Ageas. China Mobile is the largest telecom operator in China whereas Ageas is an international insurance company based in Belgium. The fund exited its positions in Indosat, China Unicom and EFG Hermes.

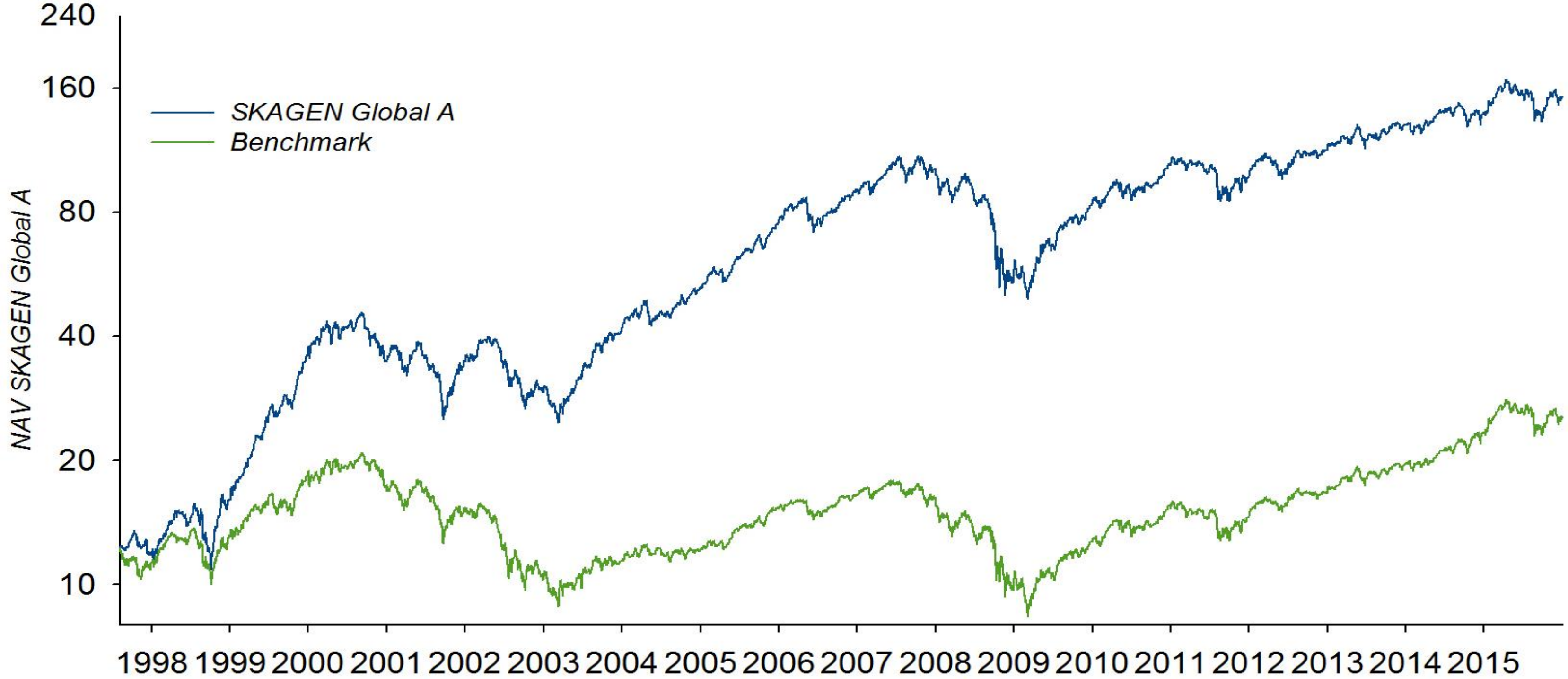
- We added to Kingfisher on short-term share price weakness. The fund trimmed its exposure to Tyson Foods after a strong run-up in the share price and we also reduced the position size in Nordea due to less attractive risk-reward.

- The portfolio remains attractively valued both on an absolute and a relative basis. The fund's top 35 holdings trade at a weighted Price/Earnings (2015e) of 13.8x and a Price/Book of 1.3x vs. the index at 16.5x and 1.9x, respectively.

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

SKAGEN Global A results, December 2015

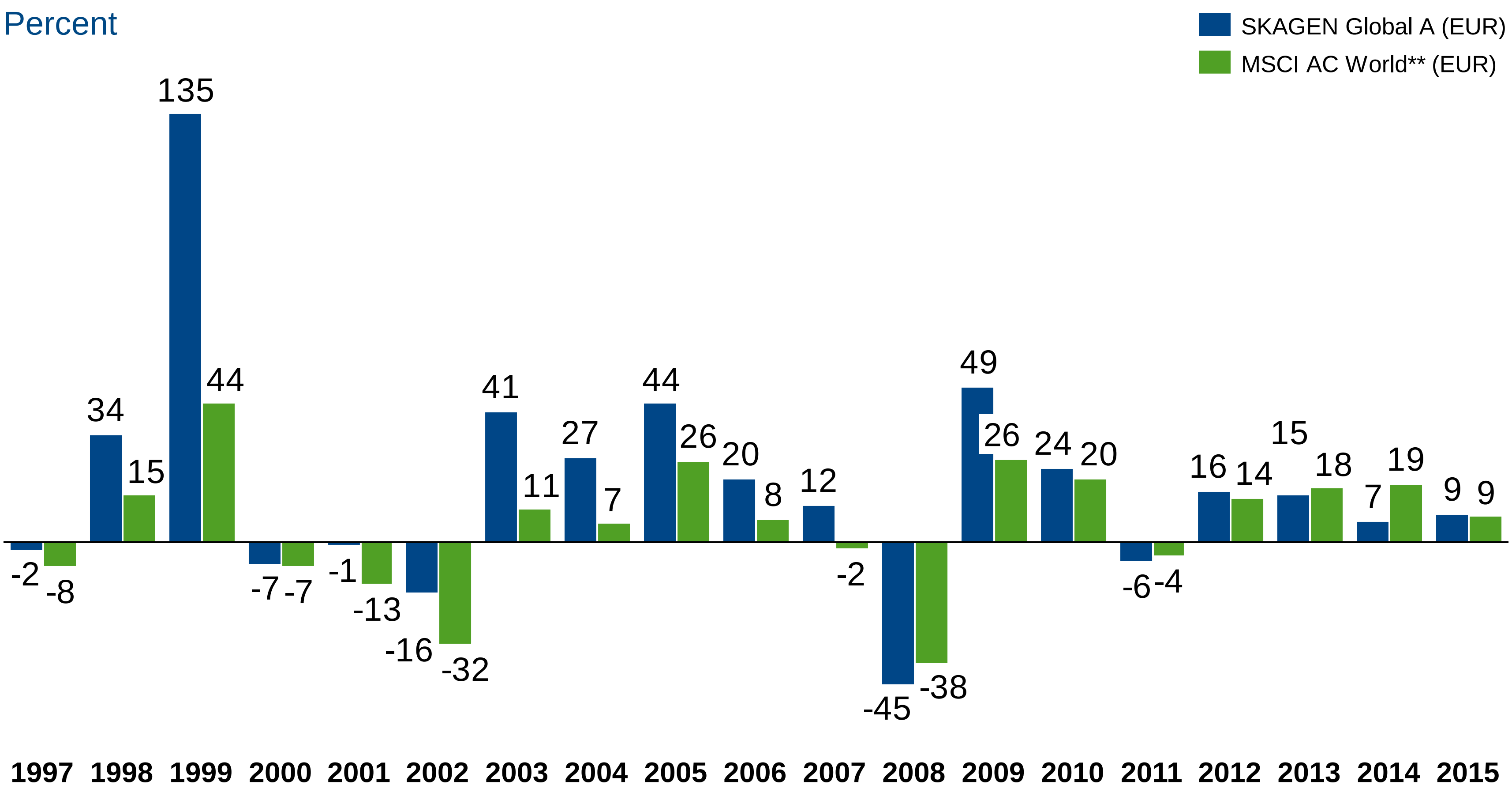
EUR, net of fees



	December	4Q	2015	1 Year	3 years	5 years	10 Years	Since inception*
SKAGEN Global A	-4,1%	12,2%	8,9%	8,9%	10,2%	7,9%	7,3%	14,7%
MSCI AC World Index*	-4,8%	8,1%	8,7%	8,7%	14,9%	10,7%	5,2%	4,0%
Excess return	0,7%	4,1%	0,1%	0,1%	-4,7%	-2,7%	2,1%	10,6%

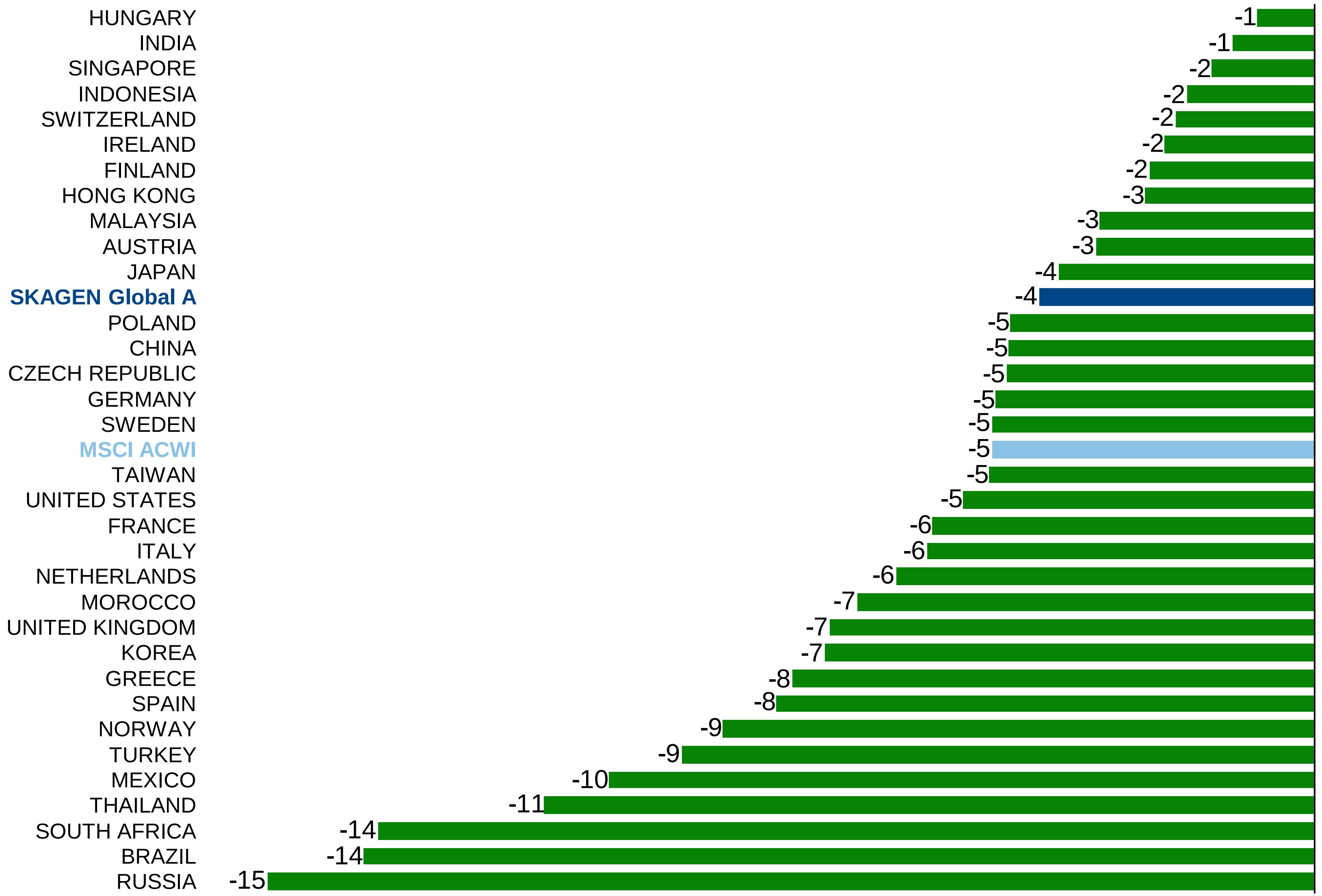
Note: All returns beyond 12 months are annualised (geometric return)
** Inception date: 7 August 1997*
*** Benchmark index was MSCI World in NOK from 7 August 1997 to 31 December 2009 and MSCI All Country World Index from 1 January 2010 onwards*

Annual performance since inception (%)*
SKAGEN Global A has beaten its benchmark 15 out of 19 years



Note: All figures in EUR, net of fees
** Inception date: 7 August 1997*
*** Benchmark index was MSCI World in NOK from 7 August 1997 to 31 December 1997 and MSCI All Country World Index from 1 January 2010 onwards*

Markets in December in EUR (%)



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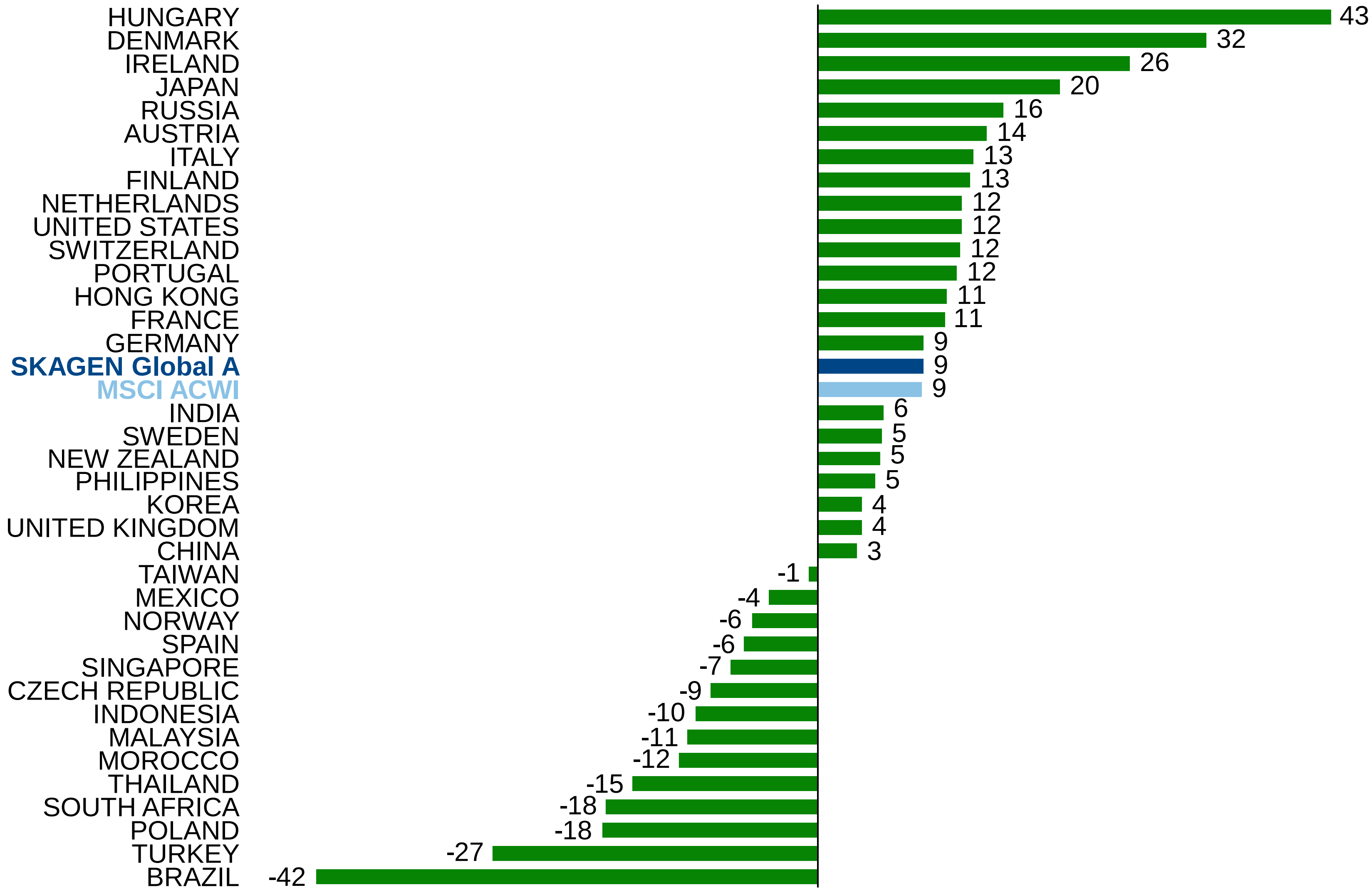
Markets in 2015 in EUR (%)



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Main contributors MTD 2015

Largest positive contributors

Company	NOK Millions
Dollar General Corp	131
General Electric Co	73
Roche Holding AG	65
Tyson Foods Inc	51
Mayr Melnhof Karton AG	49
NN Group NV	45
Teva Pharmaceutical Industries	44
Carlsberg A/S	44
Cheung Kong Holdings Ltd	41
Microsoft Corp	33

Largest negative contributors

Company	NOK Millions
State Bank of India	-75
Kingfisher Plc	-64
Citigroup Inc	-51
Tyco International Plc	-48
Volvo AB	-42
Lundin Petroleum AB	-37
BP PLC	-34
Koninklijke Philips NV	-31
Akzo Nobel NV	-20
Sanofi	-19

Value Creation MTD (NOK MM): 277

NB: Contribution to absolute return

Main contributors QTD 2015

Largest positive contributors

Company	NOK Millions
Samsung Electronics Co Ltd	469
General Electric Co	415
American International Group	285
Microsoft Corp	264
Alphabet Inc	236
NN Group NV	202
Tyson Foods Inc	180
Citigroup Inc	175
HeidelbergCement AG	144
Merck & Co Inc	132

Largest negative contributors

Company	NOK Millions
Kingfisher Plc	-52
Sanofi	-49
State Bank of India	-26
VimpelCom Ltd	-25
WM Morrison Supermarkets PLC	-23
Barclays PLC	-21
China Unicom Hong Kong Ltd	-17
IRSA Inversiones y Representac	-5
Tyco International Plc	-5
G4S Plc	-5

Value Creation QTD (NOK MN): 4428

NB: Contribution to absolute return

Main contributors YTD 2015

Largest positive contributors

Company	NOK Millions
General Electric Co	576
American International Group	573
Alphabet Inc	474
Microsoft Corp	356
Citigroup Inc	344
Samsung Electronics Co Ltd	314
NN Group NV	297
Tyson Foods Inc	290
Renault SA	289
Roche Holding AG	254

Largest negative contributors

Company	NOK Millions
Banrisul	-195
State Bank of India	-179
KazMunaiGas	-176
Lundin Mining Corp	-170
Norsk Hydro ASA	-161
Afren PLC	-140
Gap Inc/The	-136
Hyundai Motor Co	-125
Global Telecom Holding	-120
Egyptian Financial Group-Herme	-110

Value Creation YTD (NOK MN): 5663

NB: Contribution to absolute return

Holdings increased and decreased during December 2015

Key buys in December

- The fund initiated two new positions in December. First, the Chinese telecom operator **China Mobile** entered the portfolio. We believe that China Mobile is better positioned and more attractively valued than its peer China Unicom, which left the portfolio in this stock shuffle. Second, the Belgium-based insurer **Ageas** joined the portfolio. We view Ageas as a well- capitalised insurance company offering an undervalued capital return story. See fact sheets below for more information.

- The UK-based home improvement retailer **Kingfisher** pulled back during the month and we took advantage of this temporary weakness to increase our exposure, making Kingfisher a top-10 position in the fund. SKAGEN Global recently attended a company site visit in Ireland which provided us with valuable insight and incrementally added to our conviction in the Kingfisher self-help story.

Key sells in December

- We sold out of **China Unicom** and re-deployed the funds into China Mobile which offers a more compelling risk-reward.

- Our investment thesis in the Indonesian telecom operator **Indosat** materialised throughout the fourth quarter and the stock soared by more than 50% since the September trough. We remained disciplined and exited as the stock approached our price target.

- The fund offloaded all of its shares in the Egyptian financial house **EFG Hermes** as other positions in the fund offered a more attractive risk–reward, especially in light of extended and heightened tensions in the Middle East.

- **Tyson Foods**, an international leader in the food industry based in the US, rose by a respectable 22% from late November to the end of December. We trimmed the fund’s exposure after this strong performance.

- A continuous flow of more stringent capital requirements imposed by the regulator has dented our strong dividend growth story in **Nordea**. We still find the investment case attractive, but a slightly less rosy upside for the stock has prompted us to re-deploy some of the capital elsewhere in the portfolio.

Most important changes Q1 2015

Holdings increased

Q1

General Electric	(New)
Lundin Petroleum	(New)
Columbia Property Trust	(New)
AIG	

Holdings reduced

Q1

Renault	(Out)
Baker Hughes	(Out)
Gazprom	(Out)
Yamaha Motor	(Out)
Weatherford	(Out)
Petrobras	(Out)
Mosaic	(Out)
UIE	(Out)
Renewable Energy Corp (conv.)	(Out)
Afren	(Out)
Akzo Nobel	
Samsung Electronics	
Technip	
Toyota Industries	
Unilever	
Raiffeisen Bank	
Gap	
Talanx	

Most important changes Q2 2015

Holdings increased

Q2

Tyson Foods	(New)
Sabanci Holding	(New)
Cheung Kong Property Hld*	(New)
Google	
Cheung Kong Hutchison Hld	
Hyundai Motor	

Holdings reduced

Q2

Technip	(Out)
Talanx	(Out)
Raiffeisen Bank	(Out)
Cheung Kong Property Hld*	(Out)
Citigroup	
AIG	
Lenovo Group	
Volvo	
China Unicom	
Comcast	
Tyco International	
Samsung Electronics	

** Spin-off from Cheung Kong Hutchison Hld*

Most important changes Q3 2015

Holdings increased

Q3

G4S	(New)
China Mobile	(New)
Merck	(New)
Barclays	(New)
Credit Suisse	(New)
WM Morrison Supermarkets	(New)
Samsung Electronics (Ord)	
Carlsberg	
Lundin Mining	
Tyson Foods	
Google	

Holdings reduced

Q3

Hyundai Motor	(Out)
Storebrand	(Out)
Varian Medical Systems	(Out)
OCI	(Out)
Valmet	(Out)
Prosegur	(Out)
China Mobile	(Out)
China Communication Services	(Out)
Samsung Electronics (Pref)	
LG Corp	
General Motors	
Citigroup	
Google	
Sanofi	
Teva Pharmaceutical	

Most important changes Q4 2015

Holdings increased

Q4

Company	
Dollar General Corp	(New)
China Mobile Ltd	(New)
Xcel Energy Inc	(New)
Ageas	(New)
ServiceMaster Global Holding Inc	(New)
American International Group I	
Kingfisher Plc	
Roche Holding AG	
G4S Plc	
Sanofi	
Merck & Co Inc	
Credit Suisse Group AG	
Tata Motors Ltd	
Barclays PLC	

Holdings reduced

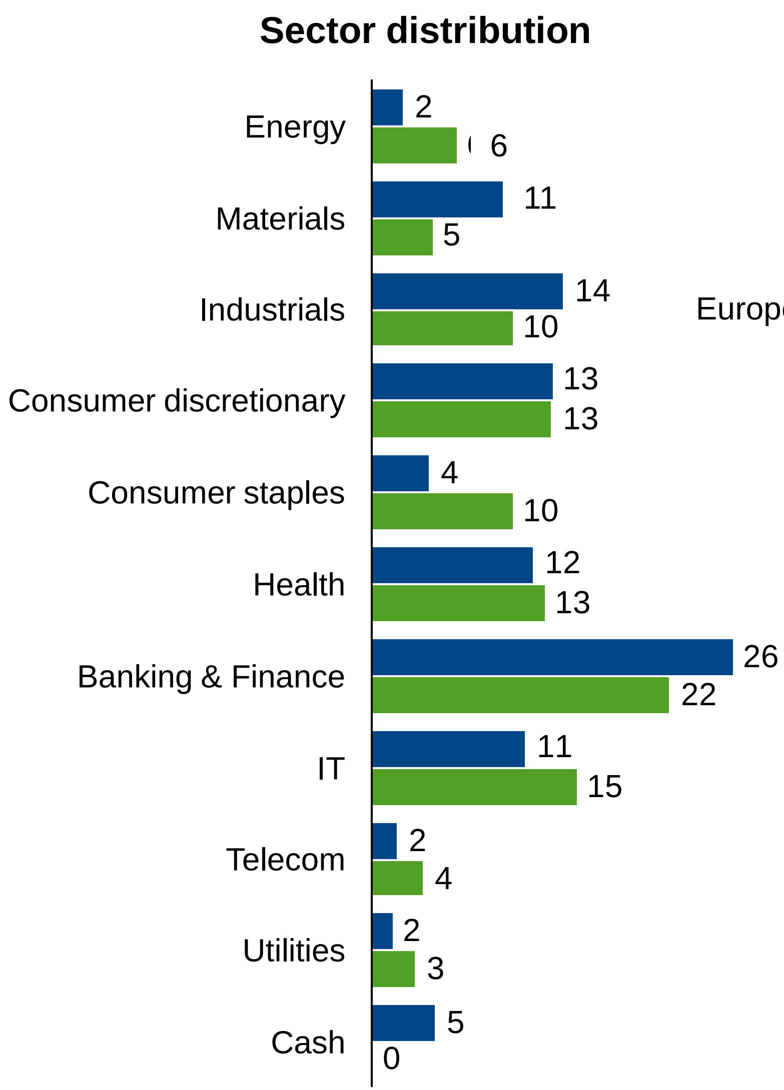
Q4

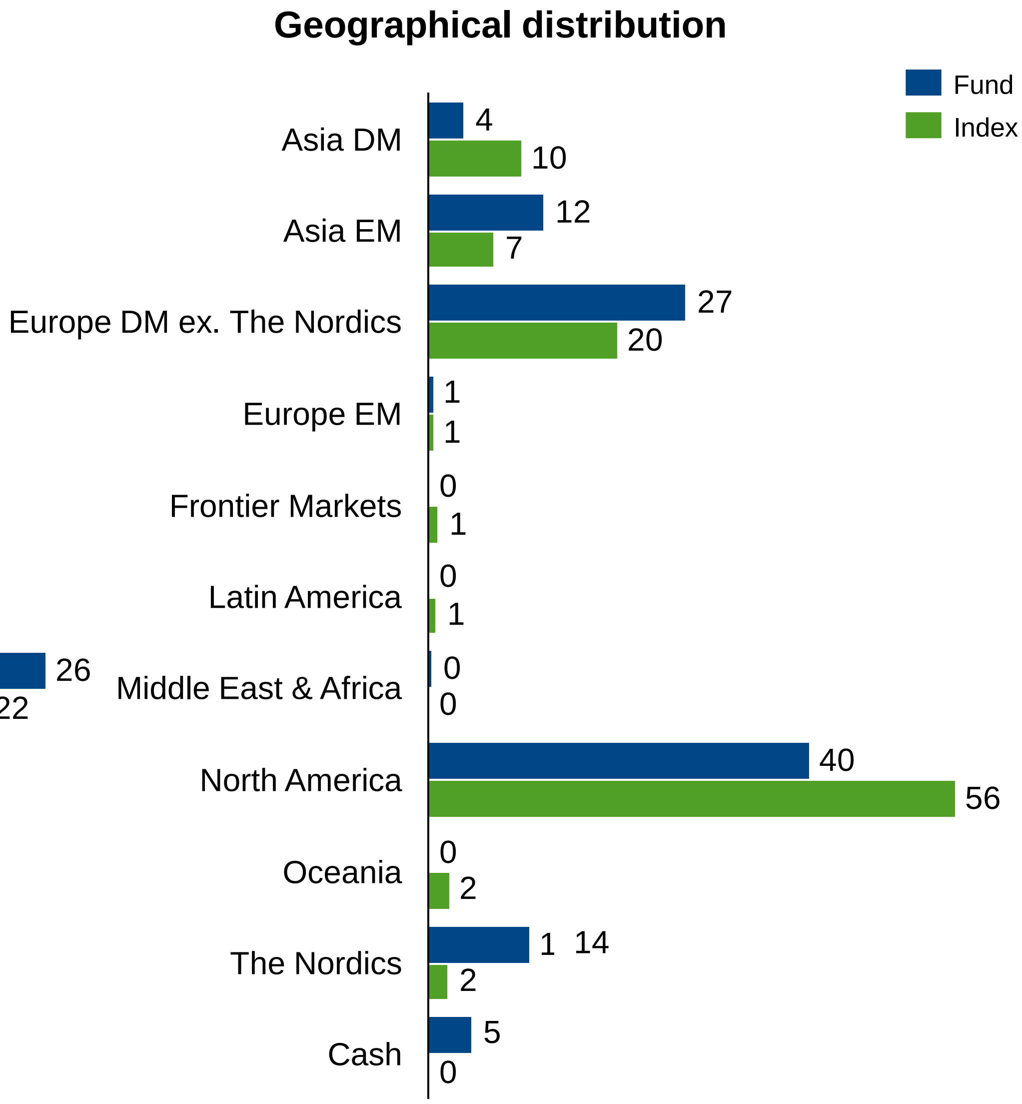
Company	
China Unicom Hong Kong Ltd	(Out)
Norsk Hydro ASA	(Out)
LG Corp	(Out)
Gap Inc/The	(Out)
Ternium SA	(Out)
Indosat Tbk PT	(Out)
Egyptian Financial Group-Hermes	(Out)
KazMunaiGas	(Out)
Yazicilar Holding AS	(Out)
VimpelCom Ltd	(Out)
First Pacific Co Ltd/Hong Kong	(Out)
Global Telecom Holding	(Out)
Banrisul	(Out)
General Electric Co	
Samsung Electronics Co Ltd	
Tyson Foods Inc	
Nordea Bank AB	
Alphabet Inc	
Microsoft Corp	
Goldman Sachs Group Inc/The	
HeidelbergCement AG	
Comcast Corp	
General Motors Co	
Tata Motors Ltd	

Largest holdings in SKAGEN Global as of 31 December 2015

	Holding size, %	Price	P/E 2015e	P/E 2016e	P/BV last	Price target
AIG	7.4	62.0	14.5	12.1	0.8	90
CITIGROUP	5.8	51.8	9.5	9.0	0.7	75
SAMSUNG ELECTRONICS	5.5	1 091 000	7.8	7.8	0.9	1 500 000
ROCHE	4.2	276.4	19.6	18.0	13.8	380
GENERAL ELECTRIC	4.1	31.2	24.1	20.6	2.8	34
MERCK	3.4	52.8	14.8	14.1	3.2	76
DOLLAR GENERAL	3.1	71.9	18.3	16.0	3.9	94
CK HUTCHISON	2.7	104.6	11.5	10.6	1.0	140
KINGFISHER	2.7	329.5	15.5	14.1	1.3	450
G4S	2.5	225.5	15.2	13.8	4.7	403
Weighted top 10	**41.4**		**13.0**	**12.0**	**1.3**	**39%**
Weighted top 35	**84.4**		**13.8**	**12.7**	**1.3**	**37%**
MSCI AC World			**16.5**	**14.9**	**1.9**	

Sector and geographical distribution vs index (Dec. 2015)





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Key earnings releases and corporate news, December 2015

General Electric (4.1%)

GE cancels divestment of Appliances division to Electrolux

Summary: GE has decided to stop the planned USD 3.3bn divestment of its Appliances division to Electrolux following a protracted disagreement with the US Department of Justice regarding the anti-trust terms. GE is entitled to a USD 175m break-up fee from Electrolux (roughly 2 cents per share vs. 6 cents per share gain if the sale were completed) and will now seek new suitors for the division which comprises c. 5% of GE Industrial's revenues with 7% EBITDA-margin.

Investment case implications: Minor negative. GE has flawlessly executed its turn-around plan so far, but this small miss prevents a perfect score for the year. In recent weeks, the communication from GE around this particular deal has turned cautious so the announcement does not come as a huge surprise. Nevertheless, accounting for the break-up fee and lower restructuring charges, the net effect is roughly 2 cents net off the EPS (vs. Industrial division guided for USD 1.13-1.20), so only a marginal impact.

Dollar General (3.1%)

Dollar General Q3 better than feared

Summary: Same store sales (SSS) were fairly consistent through the quarter after adjusting for Halloween shift (Q4 this year vs Q3 last year). SSS came in at 2.3% which was in line with estimates after adjusting for Halloween. EPS of USD 0.88 was as expected. Total revenue came in at +7.3% with both traffic and ticket positive and growth across all categories. EBIT margin was more or less flat with GPM expansion of 20bps due to reduced shrink, and lower transportation costs, partly offset by mix. Management did not see much inflation and is seeing a weaker macro environment across the retail sector with core customers still cash-strapped. Inventory increased slightly but management is working on bringing that down in the next few quarters. Expansion plans for next year with the opening of 900 new stores running as planned. A new USD 1bn share buyback program was announced, leaving outstanding buybacks at a total of USD 1.2bn (c. 6% of market cap)

Investment case implications: New store openings of 6-7% annually with very high ROIC (2-year payback time). Same store sales in the 1.5-2.5% range and buybacks in the range of 5-6% of market cap gives us a potential EPS growth of 12-15% annually. Margins to be protected by internal measures such as lower shrink, more private label and direct sourcing initiatives. We think that dollar stores will fare well in the current economic environment and will offer some protection on the downside if the US economy takes a step back. Higher dividends and increased share buybacks are also a possibility as the company is generating ample free cash flow.

Key earnings releases and corporate news, December 2015 (cont.)

Sanofi (2.2%)

Sanofi swaps animal health for consumer healthcare

Summary: Sanofi has entered into exclusive negotiations with Boehringer Ingelheim (BI) to swap its animal health business for BI's consumer healthcare business. The asset swap values the animal health business at EV EUR 11.4bn (4.4x 2015 sales) and the consumer healthcare business at EV EUR 6.7bn (4.2x 2015 sales). The delta would be a cash payment to Sanofi which would partially be used for buybacks to offset the small 2017 EBIT dilution. Signing intended for 2016 Q1 with closing in 2016 Q4 if everything goes as planned.

Investment case implications: Minor positive. The valuation is roughly in line with historical transactions, but the key positive is that Sanofi's new CEO is taking action as he outlined at the recent Capital Market Day. While animal health has somewhat higher growth and better margins than consumer healthcare, Sanofi's justification of the deal is that it creates more synergies with the group; for example, Sanofi will swap its 18 animal health production locations in Japan for a single consumer healthcare manufacturing facility. Financial benefits will be visible post 2017. Capital allocation at Sanofi has been questionable under previous management, so streamlining the strategy is sensible.

Volvo (1.6%)

Softer than expected truck demand in the US for Volvo

Summary: Volvo Trucks North America has confirmed that it will be reducing production of several truck lines and will therefore be laying off 1 in 4 workers at its Dublin WA plants beginning in February 2016. ACT class 8 net orders (US heavy truck market) in November were down 60% YoY (from very high levels) and came in at the lowest level since August 2010 on a seasonally adjusted basis.

Investment case implications: Swedish headquartered truck manufacturer Volvo's share price has underperformed lately due to weakness in the US market. Slowing freight and the fact that many carriers have renewed their fleets over the past years make them reluctant to order more trucks. On top of that, the unsold truck inventories are piling up. Volvo is responding promptly and cutting 1 of 4 employees at their Virginia plant (which produces virtually all Volvo trucks sold in the US). The weaker than expected volumes in the US do not change the basic investment thesis that Volvo over time will improve margins and is therefore currently undervalued. However, no volumes – no money; so need to see a pick-up in volumes for the stock to work.

Sabanci (0.6%)

Sabanci announces share buyback program

Summary: Company announced that its 46% effectively owned subsidiary, ExSA, has authorised to buy 40m shares in Sabanci Holding, equivalent to 2% of outstanding shares, until the next AGM in 2016.

Investment case implications: Small positive. Management is finally taking steps to address the huge discount to NAV.

The 10 largest companies in SKAGEN Global

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 that it intends to keep: Sun America and Chartis.

Citi is a US financial conglomerate with operations in more than 100 countries worldwide. The bank was bailed out by the US government during the credit crisis and subsequently raised USD 50bn of new capital. Consists of two units: Citi Holdings which is a vehicle for assets that are to be run down and sold and Citi Corp which is the core of the going concern business. In Citicorp 60% of revenues are derived from outside the US - mainly from emerging markets.

Samsung Electronics is one of the world's largest producers of consumer electronics. The company is global #1 in mobile phones and smartphones, the world's largest in TV and a global #1 in memory chips. Samsung also produces domestic appliances, cameras, printers, PCs and air conditioners.

Roche is a leading pharmaceuticals and diagnostics company based in Switzerland. Half of group sales and 2/3 of EBIT are derived from the company's Big 3 oncology franchises: HER2 (breast cancer), Avastin (colorectal cancer), and MabThera/Rituxan/Gazyva (blood cancer), each about USD 7bn of revenue. These businesses all come from Genentech, in which Roche has been a majority owner since 1990, and bought the last 46% in 2009.

Founded in 1892 by Thomas Edison et al., General Electric (GE) operates two divisions (GE Industrial and GE Capital) contributing approximately the same portion of group earnings. GE is the world's 10th largest publicly-traded company and boasts the 6th most valuable brand. The industrial segment is a play on global infrastructure with a high-margin service business and a large installed base producing a wide variety of capital goods ranging from aircraft engines and power turbines to medical imaging equipment and state-of-the-art locomotives.

The 10 largest companies in SKAGEN Global (cont.)

MERCK	Founded in 1891, Merck & Co is a US large-cap pharma company (and #7 worldwide by revenue) with a broad pharma portfolio and a solid pipeline (R&D 16-17% of sales). HQ in New Jersey and 70,000 employees. Sales by division (2014, USD 42bn): Diabetes (14%), Infectious Diseases (18%), Vaccines (13%), Animal Health (8%), Oncology (2%), Other (45%). Consensus expects legacy drugs sales to shrink by single-digit percent annually.
DOLLAR GENERAL	Dollar General (DG) is the largest US dollar store retailer with an estimated 28% market share and 2015e sales of USD 20bn. DG has more than 12,000 stores in 43 states. Most customers live within 3 to 5 miles, or a 10-minute drive, from the store. DG has 12 distribution centres and employs 100,000 people. Items typically cost in the range of USD 1-5 apiece. DG sales are divided into 4 main categories: Consumables (76%), Seasonal (13%), Home Product (6%) and Apparel (5%).
CKH	Founded in 1950 as a plastics manufacturer by its current main shareholder Li Ka Shing, CK Hutchison Holdings is now a multinational conglomerate. The company holds the non-property businesses of the former Cheung Kong and Hutchison group. The group owns assets in (% of 1H 2015 total EBITDA): Infrastructure (37%), Telecom (20%), Retail (15%), Ports 13%), and Energy (11%).
Kingfisher	Kingfisher is the largest home improvement retailer in Europe with leading market share in the UK, France and Poland which together represent 90% of sales and 95% of profits. Kingfisher operates via B&Q and Screwfix in the UK and via Castorama and Brico Depot in France. Sales came in at close to GBP 11bn for 2014/2015. The new CEO, Ms. Laury, has 26 years experience within the do-it-yourself (DIY) industry, including 11 years at Kingfisher.
G4S	G4S is the world's largest security company operating in more than 110 countries with over 620,000 employees. The group was formed in 2004 by the merger of UK-based Securicor plc and Denmark-based Group 4 Falck. By activity (FY2014): Security Services (84% of sales; 74% of EBITA) and Cash Solutions (16%; 26%). Main source of business opportunity is in emerging markets where the company has an unrivaled presence with >30% of sales. New management team installed in 2013.

China Mobile (941 HK) HKD 87.85

中国移动 China Mobile

History, business model and source of investment idea

China Mobile is the leading mobile operator in China with more than 800 million subscribers. After losing out in 3G, the company is aggressively rolling out its 4G network. Case identified through SKAGEN Global internal proprietary research.

Rationale for investment

On an absolute basis, we find the strong, steadily growing free cash flow significantly undervalued; in particular, given the steep decline we have seen in Chinese bond yields lately. From a relative perspective, we again see the company trading at a significant discount to what we have to pay for similar cash flow elsewhere in general and vs. telecom operators outside of China specifically. Especially given the consolidated nature of the Chinese telecom market.

ESG

Being a Chinese SOE, bribery has historically been a concern, but over the past few years we have seen a clear focus from the government (largest shareholder) on addressing this issue.

Triggers

1. Migration to 4G will drive continued earnings and cash flow growth
2. As CAPEX intensity declines, FCF will increase
3. SOE reform improving operations and corporate governance
    1. Reduction of excessive Chinese risk premium in general and for SOEs in particular
    2. Increased dividend pay-out will lead to a revaluation of the stock
    3. Establishment of a tower company leading to a more efficient use of CAPEX
    4. Use of excess cash to pay dividends and buy earning-generative assets
4. China Mobile starting to take a larger share of the broadband market

Risks

1. Excessive competition, corporate governance, regulation, significant devaluation of CNY

Target price

1. Base case target is HKD 125 per share, which is 5x 2017 EBITDA + FCFE generated in 16 and 17
2. Bear case target is HKD 85 per share, which assumes EBITDA in 2017 is equal to the level in 2015, that the company generates no FCFE in 16-17, and the stock trades at Russian peer multiples of 4x.
3. Bull case target is HKD 140 per share, which is our base case 2017 EBITDA and FCFE generation, but using a GEM telco peer valuation of 6x EBITDA

Key Figures		
Market cap	USD	232 bn
Net cash	USD	73 bn
Daily turnover	USD	200 m
No. of shares		20.5 bn
PE 2015e		13.0x
P/E 2016e		12.4x
EV/EBITDA 2015e		4.2x
EV/EBITDA 2016e		3.9x
EV/EBIT 2015e		8.7x
EV/EBIT 2016e		8.0x
DY 2015e		3.3%
DY 2016e		3.5%
P/B (last)		1.7x
# of analysts		32
with Sell/Hold		19%
Largest Owner		
Chinese state		73%

3U acid test (China Mobile)

Unpopular

- Not really, with 81% of analysts having a buy recommendation.
- However, Chinese stocks are fairly unpopular given the concern of a steep economic downturn and politically poor handling of the stock market boom-and-bust over the past 12 months.
- Chinese SOEs are particularly unpopular in spite of political efforts to improve operations and corporate governance practices.

Under-researched

- Not really with 32 analysts covering the stock.
- Analysts generally price the stock based on how it used to be priced. They miss what happens to cash flow when growth slows.
- Also, nobody seems to notice what has happened to valuation of stable cash flow elsewhere in the world and what has happened to bond yields in China. Particularly given the low operational and financial (net cash) risk of China Mobile.

Under-valued

- Yes, 4x EV/EBITDA for a stable cash generative business is cheap on an absolute basis.
- On a relative basis, we buy China Mobile on a valuation equal to Russian peers and at a 50% discount to EM peers.
- At a currently low pay-out ratio of 43%, and with 31% of current market cap in net cash, a starting dividend yield of 3.2% looks very attractive vs. other stable cash flow generating assets in general.
- 2017 FCFE (a year where CAPEX is 15%+ higher than depreciations) is 7% of current market cap and 10% of current EV.

Ageas (AGS BB) EUR 42

Mean reversion	Special situation	Long-term value builder
33%	33%	33%

History, business model and source of investment idea

- In the aftermath of the demise and subsequent break-up of the financial conglomerate Fortis, the separated Belgian/Asian insurance operations re-branded into Ageas in 2010 and started streamlining the corporate structure
- Today, Ageas writes EUR 11bn of premiums roughly split 2/3 Life and 1/3 Non-life insurance products in 13 countries
- Average 80 bps operating margin on technical reserves in Life (90 bps in Guaranteed and 30-40 bps in Unit-linked)
- 98-99% combined ratio (COR) in P&C with claims ratio in the mid 60%s and expense ratio in the mid 30%s
- Earnings by geography (2014): 80% DM (Belgium, UK, Southern Europe); 20% EM (China, Thailand, Malaysia)
- 2018 financial targets: 11-13% Insurance ROE (ex-UGL), <97% COR, SII (Insurance) > 175%, Insurance PR 40-50%, Life Division operating margin of 85-90 bps for guaranteed products and 40-45 bps for unit-linked products
- CEO (2009): Bart De Smet (b. 1957; Belgian). Mainly incentivised on TSR (LTI) and ROE, COR, Net profit (STI)
- Case identified through SKAGEN Global internal proprietary research

ESG Excellent scores in all areas, excluding the ongoing litigation case linked to Fortis' insolvency (2008 legacy)

Rationale for investment

- The market underappreciates the value of Ageas' strong solvency and B/S position. Ageas' cash earnings are now distributable to shareholders (no longer needed for solvency building), allowing 7-8% capital return per year (EUR 250m buybacks / EUR 350+m dividends). We calculate >EUR 2bn of excess capital which provide further optionality.
- Operational improvements are not priced in. We see management – "helped" by shareholder-friendly remunerative incentives - reaching its 97% COR target as both claims and expense ratios look unjustifiably high.
- The market takes an overly negative stance on the economic impact of the litigation. While our conservative base case valuation assumes a EUR 500m fine, the final impact may well be significantly lower - similar historical court procedures indicate final fines of 2-10% of the initial "headline claims". This fear factor has inflated the cost of equity.
- Trading at 2017 11x P/E and 0.75x P/B, the share fails to reflect the sweet spot in which Ageas finds itself. If interest rates stay low, we think management will continue its proven track record of returning capital to shareholders and seeking some growth in Asia. If interest rates begin to rise, new life business is profitable and Ageas should re-rate.

Triggers

- Consistent capital return coupled with operational improvements and growth in Asia boosting EPS/DPS (short-term)
- Visibility around litigation with timeline and economic impact more benign than consensus anticipates (medium-term)
- Growth in Asian life segments, consolidation of Benelux players and/or higher interest rates (long-term)

Risks

- Belgian economy. The asset portfolio would take a significant hit if the Belgian economy were to collapse
- Litigation risk. Several ongoing court cases could result in significant economic fines or lower sentiment, or both
- Value-destructive M&A. The further away from the Benelux, the higher the risk associated with any acquisitions
- Asian life. Unexpected reserve hit or equity write-down from Taiping Life minority stake or sharp slow-down in growth

Target price

Applying SOTP and P/B valuation techniques, adjusting for EUR 500m litigation hit and excess cash/capital return projections, gives an all-in equity value of EUR 55/sh (1.1x 2018 TNAV), thus implying 36% upside in our base case.

Key Figures

Market cap	EUR 9.3 bn
Daily turnover	EUR 20 mn
No. of shares	224 mn
Free float	93%
P/E 2017	11.1x
P/TNAV 2016	0.8x
DY 2015	4.1%
ROE 2016	7.8%
Solvency II 2014	235%
Debt/Capital 2015	19%
# of analysts	14
with Sell/Hold	57%

Largest Owners

1. Ping An Life Insurance 5.3%
2. Schroders 4.6%
3. Franklin Resources 3.1%

3U acid test (Ageas)

Unpopular

- 57% SELL/HOLD recommendations.
- Ongoing litigation linked to the 2008 insolvency of Fortis (legacy issue), exacerbated by the 17% intra-day dip in 2014 upon initial court statement.
- Life insurance business model seen as broken in today's low-interest world.
- Solvency II framework perceived as complex, deterring many investors.

Under-researched

- Limited in-depth coverage on sell-side indicates that important aspects of the investment case probably are not fully understood by the market.
- Litigation and Solvency II are two areas requiring thorough due diligence, but each of them often fails to enthuse a majority of both generalists and specialists (it's easier to pass on the case until the litigation overhang is gone).

Under-valued

- Yes. The ~8% yield (dividends and buybacks) coupled with optionality from excess capital, balance sheet optimisation and operational improvements remain underappreciated by the market as indicated by 2017 0.8x P/TNAV and 11x P/E.
- Our base case – including a significant litigation provision - indicates a fair value of EUR 55/share (36% upside) with a fairly attractive risk-reward (18% downside in bear case and 68% upside in bull case).

For more information please visit:

Our latest Market report
Information on SKAGEN Global 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.

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