SKAGEN Global

Status Report August 2016

The art of common sense

SKAGEN

Summary – August 2016

- SKAGEN Global outperformed its benchmark index by 2.6% in August. The fund gained 3.4% while the benchmark MSCI All Country World Index increased by 0.8% (measured in EUR).*

- In 2016, the fund has gained 0.1% while the benchmark is up 3.3%. Hence, the fund's year-to-date relative performance is -3.2%.

- G4S, AIG and Citigroup were the three best monthly contributors to absolute performance while Dollar General, Sanofi and Roche were the three largest detractors.

- The fund initiated one new position in 3M during August and increased our exposure mainly to Comcast, Unilever and Dollar General.

- We did not exit any positions during the past month, but reduced our exposure to a number of companies that have rebounded following their Brexit-dip.

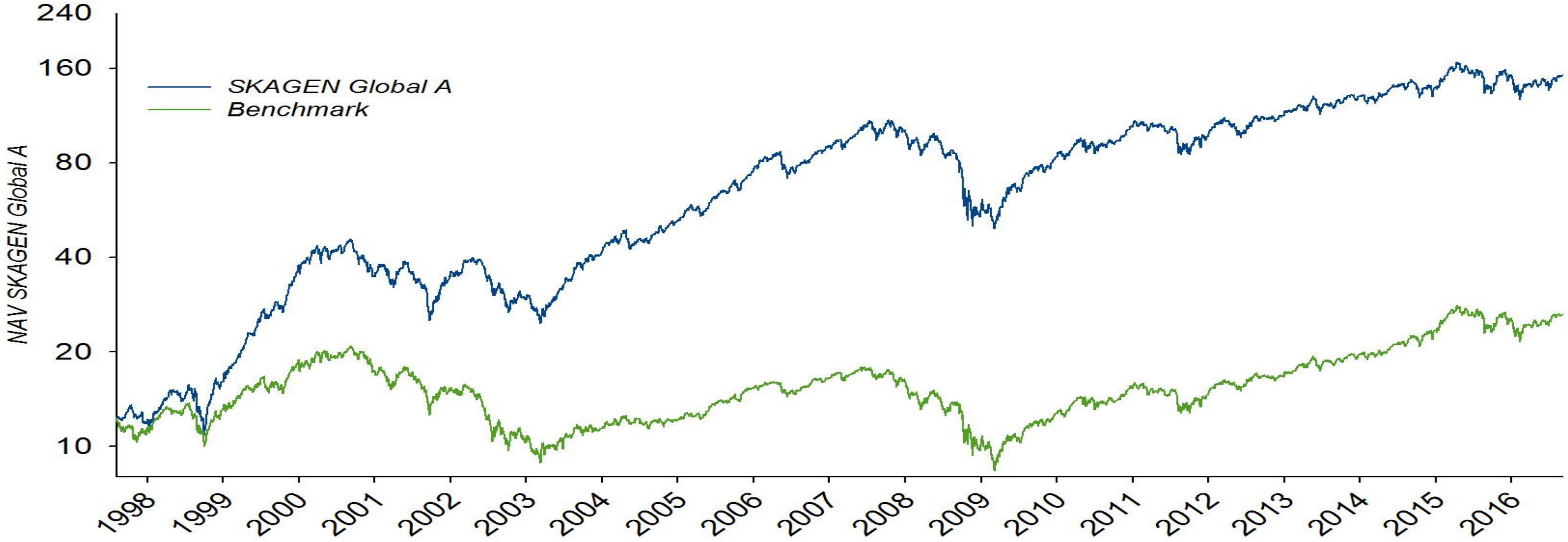
- The fund's top 35 holdings trade at a weighted Price/Earnings (2017e) of 12.9x and a Price/Book of 1.4x vs. the index at 15.0x and 2.1x, respectively.

- The weighted average upside to our price targets for the fund's top 35 holdings is 33%.

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

SKAGEN Global A results, August 2016

EUR, net of fees



	August	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Global A	3,4%	7,6%	0,1%	7,9%	8,1%	10,8%	6,6%	14,1%
World Index*	0,8%	4,9%	3,3%	7,9%	12,9%	14,0%	5,4%	4,1%
Excess return	2,6%	2,6%	-3,2%	0,0%	-4,8%	-3,2%	1,2%	10,1%

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*

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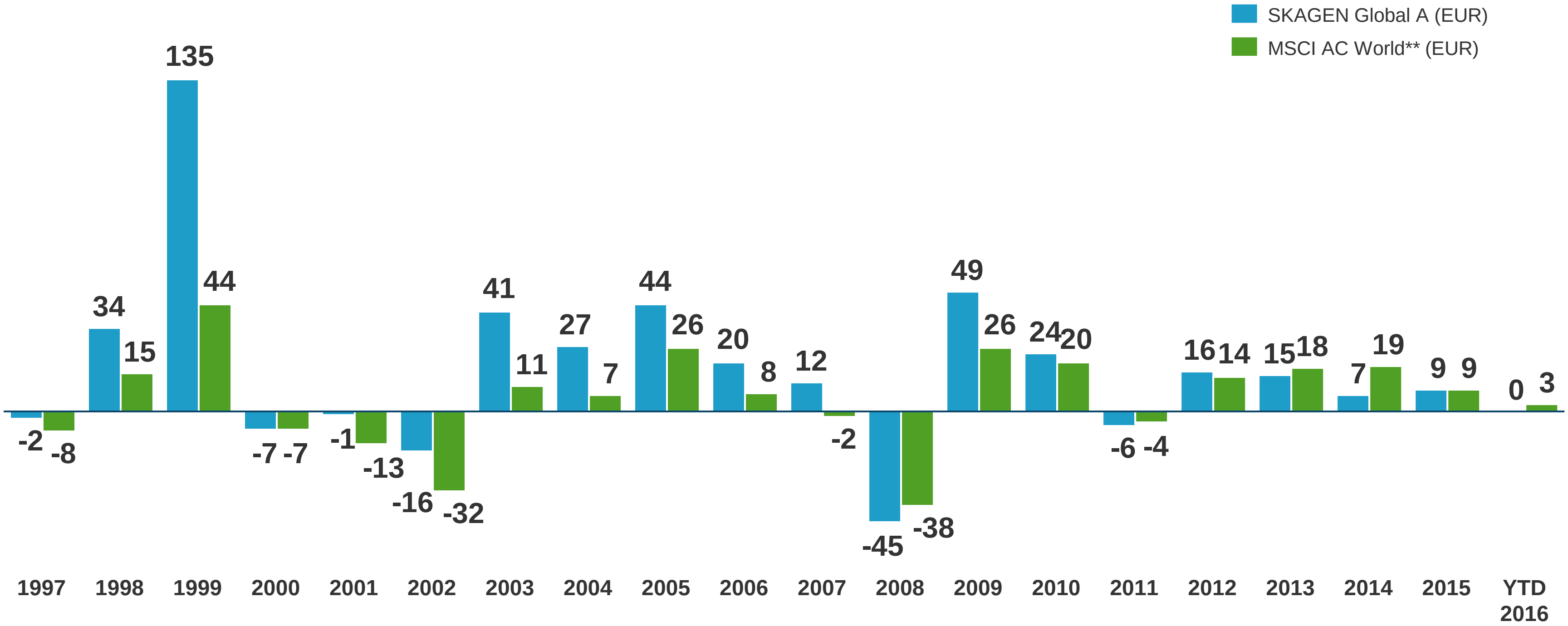
Annual performance since inception (%)*

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*

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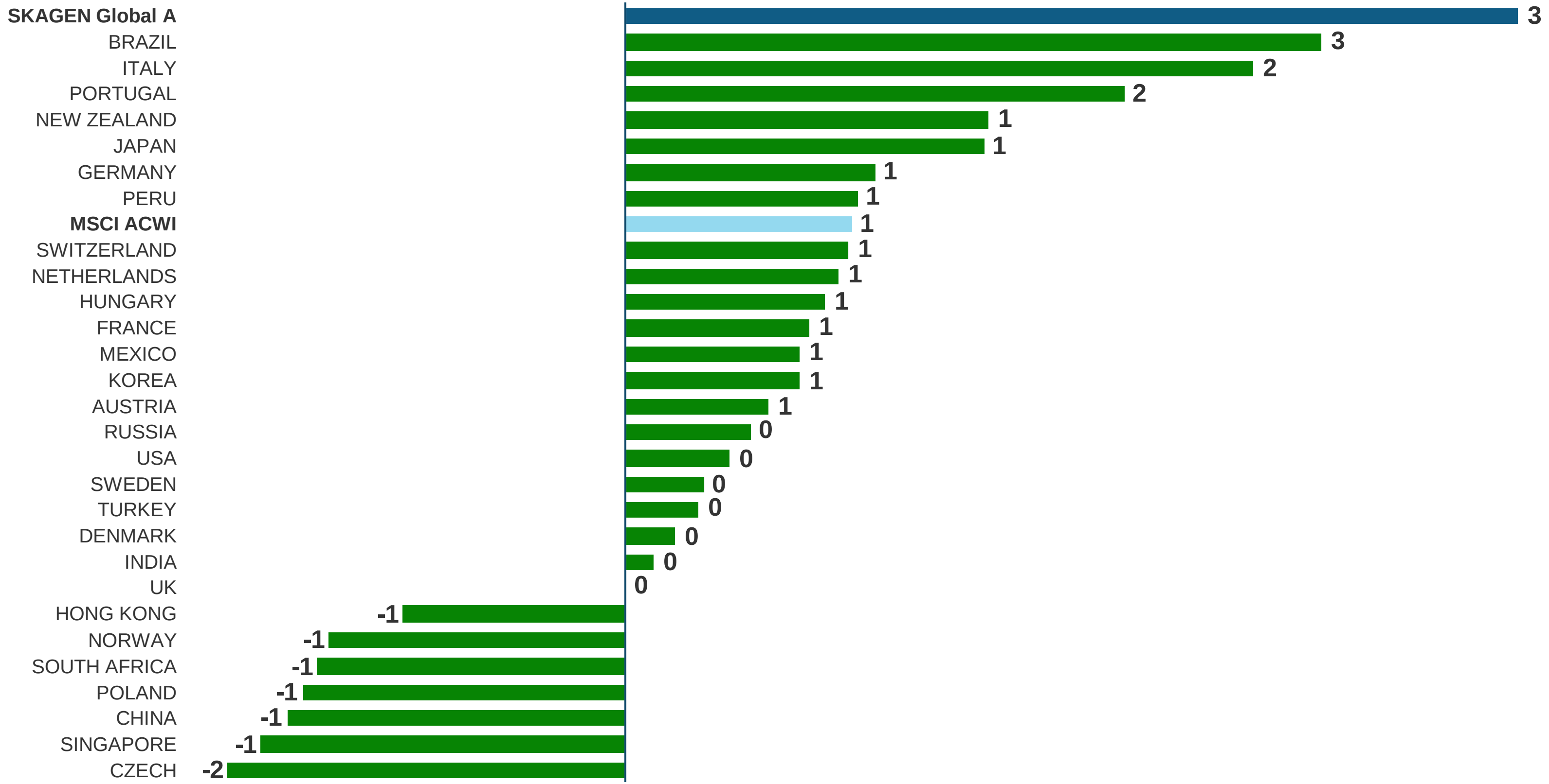
Markets in August 2016, EUR (%)



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Main contributors and detractors – August 2016

Largest positive contributors

Company	NOK Millions
G4S	182
AIG	164
Citigroup	126
NN Group	106
Cheung Kong Holdings	97
Merck & Co	79
Kingfisher	64
Philips	44
DSM	44
Samsung Electronics	42

Largest negative contributors

Company	NOK Millions
Dollar General	-145
Sanofi	-88
Roche Holding	-80
Teva Pharmaceutical	-55
Carlsberg	-38
Comcast	-22
Credit Suisse	-14
General Electric	-12
Tyco International	-11
ServiceMaster	-9

Value Creation MTD (NOK MM): 580

NB: Contribution to absolute return

Main contributors and detractors – QTD 2016

Largest positive contributors

Company	*NOK Millions*
AIG	282
Citigroup	232
G4S	198
Cheung Kong Holdings	179
Samsung Electronics	178
Microsoft	124
Toyota Industries	115
Merck & Co	113
DSM	102
Philips	101

Largest negative contributors

Company	*NOK Millions*
Dollar General	-135
Roche Holding	-100
Sanofi	-60
Skechers	-47
ServiceMaster	-19
Carlsberg	-8
Lundin Petroleum	-5
Comcast	-5
Unilever	-4
Autoliv	-2

Value Creation QTD (NOK MM): 2047

NB: Contribution to absolute return

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Main contributors and detractors – YTD 2016

Largest positive contributors

Company	NOK Millions
Samsung Electronics	228
DSM	182
Merck & Co	155
Tyco International	154
Sony	116
Lundin Mining	100
Xcel Energy	77
Lundin Petroleum	71
Philips	70
IRSA	70

Largest negative contributors

Company	NOK Millions
Citigroup	-268
AIG	-249
Teva Pharmaceutical	-219
Roche Holding	-210
Credit Suisse Group	-202
NN Group	-147
Barclays	-117
Lenovo	-115
State Bank of India	-113
Nordea Bank	-111

Value Creation YTD (NOK MM): -1256

NB: Contribution to absolute return

Most important changes Q1 2016

Q1 Holdings increased

Cap Gemini	(New)
Sony	(New)
Baidu	(New)
Autoliv	
Citigroup	
Teva	
G4S	
General Electric	

Q1 Holdings reduced

Tyson Foods	(Out)
Tata Motors	(Out)
Global Mediacom	(Out)
Dollar General	
Lundin Mining	
Alphabet	
Xcel Energy	
State Bank of India	
UPM-Kymmene	
Nordea Bank	
Barclays	

Most important changes Q2 2016

Q2 Holdings increased

Hiscox	(New)
Skechers	(New)
Cap Gemini	
Cheung Kong Holdings	
NN Group	
Microsoft	
Unilever	
Philips	
Toyota Industries	
Roche Holding	

Q2 Holdings reduced

BP	(Out)
UPM-Kymmene	(Out)
Haci Omer Sabanci	(Out)
Samsung Electronics	
Lundin Mining	
General Motors	
Tyco International	
Nordea Bank	
DSM	
Lundin Petroleum	
Dollar General	
State Bank of India	

Most important changes Q3 2016

Q3 Holdings increased

3M	(New)
Comcast	
Unilever	
Dollar General	

Q3 Holdings reduced

Xcel Energy	(Out)
Credit Suisse	(Out)
General Motors	(Out)
Nordea Bank	(Out)
Barclays	(Out)
Citigroup	
AIG	
HeidelbergCement	
Philips	
General Electric	
Volvo	
DSM	
Cap Gemini	

Holdings increased and decreased during August 2016

Key buys

- We initiated a new position in the US-based conglomerate **3M**. Our analysis shows that the company is perennially undervalued and epitomises the benefit of applying a generalist approach to long-term investing. In short, it is a highly profitable, innovative and resilient conglomerate with superior market positions.

Key sells

- We did not exit any positions during the past month, but reduced our exposure to a number of companies that have rebounded following their Brexit-dip, including (but not limited to): **Citigroup**, **AIG**, **Philips**, **Volvo** and **Capgemini**

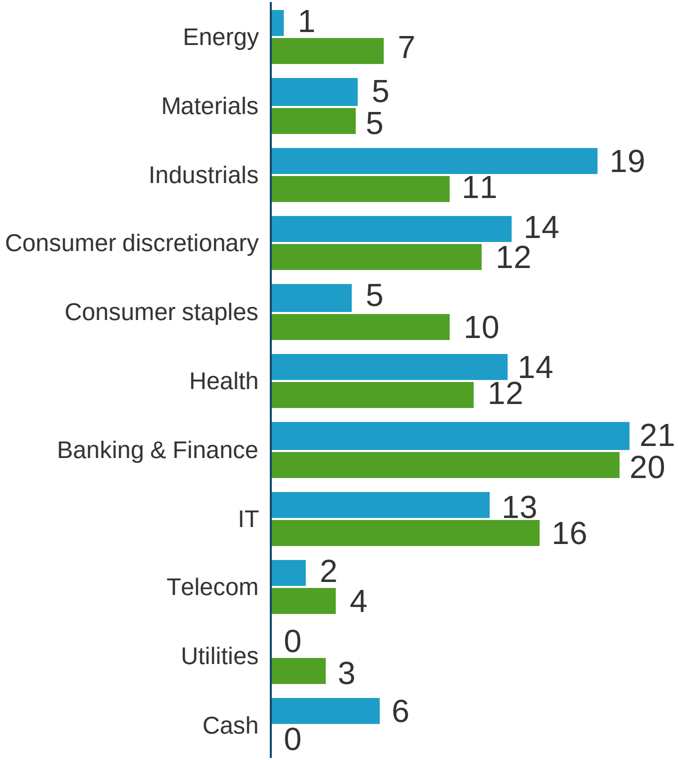
Largest holdings in SKAGEN Global

	Holding size, %	Price	P/E 2016e	P/E 2017e	P/BV last	Price target
AIG	6,7	59,8	14,8	10,8	0,7	90
CITIGROUP	5,7	47,7	10,3	9,2	0,7	70
ROCHE	4,4	239,8	16,2	15,1	11,1	360
GENERAL ELECTRIC	4,3	31,2	20,7	18,1	3,3	36
SAMSUNG ELECTRONICS	4,3	1 324 000	8,1	7,5	1,0	1 500 000
MERCK	4,3	62,8	16,8	16,3	4,0	76
CK HUTCHISON HOLDINGS	4,1	99,7	12,4	11,4	1,0	140
MICROSOFT	3,6	57,5	19,9	17,9	6,2	68
G4S	3,5	230,6	15,3	13,7	4,9	380
NN GROUP	3,4	26,7	9,2	8,4	0,3	35
Weighted top 10	**44,3**		**13,1**	**11,6**	**1,1**	**36 %**
Weighted top 35	**87,3**		**14,4**	**12,9**	**1,4**	**33 %**
MSCI AC World			**17,0**	**15,0**	**2,1**	

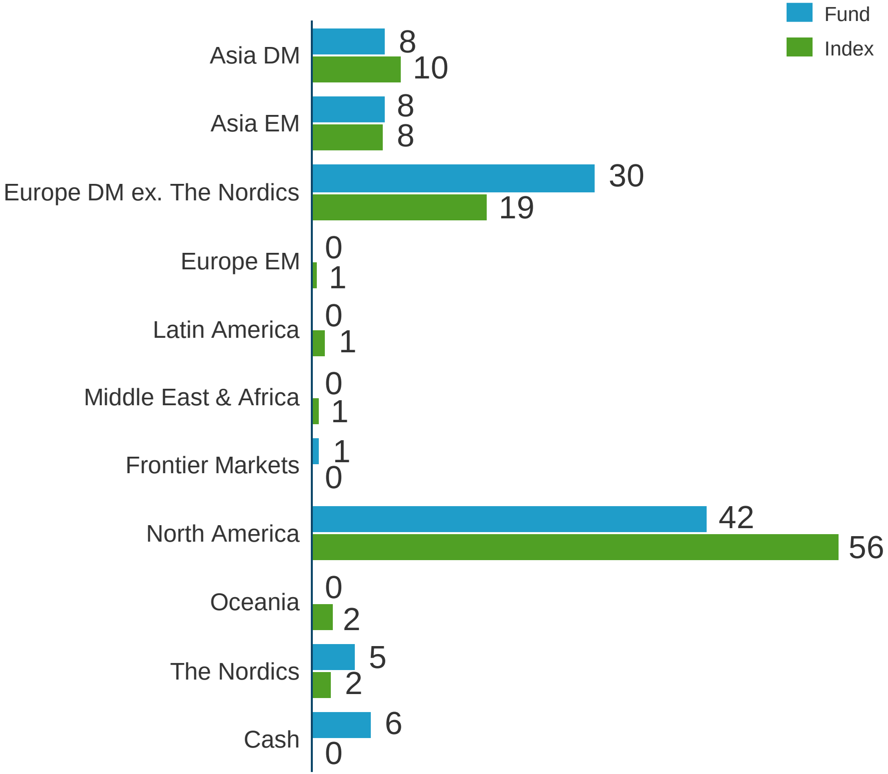
As at 31 July 2016

SKAGEN Global sector and geographical distribution

Sector distribution



Geographical distribution



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Key earnings releases and corporate news, Aug 2016

AIG

(6.7%)

Improvements on all key parameters of our investment thesis

Summary: Though the fundamental improvement was masked somewhat by (expected) higher catastrophe losses, the core P&C loss ratio was ahead of expectations (60.6% vs. 61.7% in 2Q 2015) primarily driven by a significant improvement in the historically weak commercial business (improved loss ratio 4pp YoY). Similarly, the firm made solid progress against its cost reduction targets, with the P&C expense ratio coming in at 32.2% vs. 34.6% last year (ahead of expectations). Finally, AIG spent almost USD 3bn to buy back shares in the quarter and the firm has already returned nearly USD 8bn to shareholders this year (vs. a market cap of USD 62bn).

Investment case implications: This quarter AIG delivered an outstanding result, touching on all parts of our investment thesis as i) underwriting improved in P&C; ii) expenses were aggressively cut across the board; and iii) the company continued to determinedly return capital to shareholders, buying back shares at a discount to book (fair value).

CK Hutchison

(4.1%)

Stable earnings and free cash flow growth

Summary: On an FX-neutral basis, EBITDA was flat YoY, as growth across most segments was off-set by a sharp drop in energy earnings (EBITDA -29% YoY) due to the impact of lower oil prices YoY. Telecom continues to be the main driver of earnings (+17%) driven by improved margins across Europe and Indonesia. The overall infrastructure business also continued its solid growth (9% YoY) helped by acquisitions of new assets. The core retail business (Health & Beauty) grew EBITDA 6% YoY driven by growth in new stores. On the negative side, Ports were slightly weak (-1%) as the company continues to see soft global trade. While earnings are increasing, capex is declining, leading to fast growing FCF (although the 78% growth in FCF in 1H was partly driven by timing of 1H capex).

Investment case implications: The result once again confirmed CK Hutchison as a stable growing company. Free cash flow continues to grow faster than earnings (driven by lower capex in telecom) and management still seems disciplined about M&A. Paying 11x earnings for quality assets with solid earnings growth and 3% dividend yield (we expect pay-out to increase significantly over the coming 5 years) still seems attractive to us.

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

G4S

(3.5%)

Favourable development supporting our investment thesis

Summary: Organic revenue growth accelerated to 5.4% YoY (Q1: 4.5%; FY15: 3.9%) despite ongoing macroeconomic uncertainty. As a reminder, G4S' business is relatively well insulated from economic/market-induced turbulence. EBITA growth also accelerated to 9.7% YoY (Q1: 6.5%; FY15: 5.7%), thus implying that margins expanded by 20bps (in-line with our expectations). Currently, G4S' core business operates at a margin of around 6.8%. We see this moving into the high-single digits over the coming years, closing the gap to peers. The disposal program is reported to still be on track. Separately, Israeli media has reported that a sale of G4S Israel is relatively close. No further impairments or onerous contract charges.

Investment case implications: We have talked a great deal about G4S over the past year: it has mostly been about sweat and tears, but our conviction has remained strong throughout this somewhat challenging period and we substantially increased our stake during the spring. Now we have started to see the first tangible evidence supporting our investment thesis: G4S' long-awaited H1 results were better than market expectations on all accounts. Importantly, solid execution on growth, margins and cash conversion pushed down leverage to 3.0x ND/EBITDA (adjusting for FX) versus market fears of an increase to around 3.5x. This development is likely to start shifting focus away from the balance sheet to G4S' operations – which are continuing to do very well in what can only be described as a challenging macroeconomic environment.

NN Group

(3.4%)

NN's capital generation normalising in Q2

Summary: Operating result down 42% YoY to EUR 321m but 13% ahead of consensus. Non-Life COR deteriorated YoY from 99.7% to 103.7% (storms, motor). ROE 8.6%, down YoY from 14.9% due to higher claims in Non-life, lower technical margin in Life and no private equity dividend. Solvency II ratio at 252%, up QoQ from 241% due to spread compression on European government bonds. Capital generation at EUR 300m (vs. EUR 200m in Q1) and EUR 2.3bn at HoldCo (vs. EUR 2.1bn in Q1) is strong as virtually all subsidiaries upstreamed dividends to the group.

Investment case implications: In-line with investment thesis. The results support our long-held view that NN Group can achieve at least EUR 700-800m in normalised capital generation per annum (8-9% cash flow yield), plus any excess capital that may be returned to shareholders. Cash flow generation is volatile on a quarterly basis – Q1 was weak but Q2 strong – and therefore the fundamental value should be based on the normalised level. Solvency remains one of the best in the sector.

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

Kingfisher

(2.7%)

Sales update

Summary: Neutral to slightly positive sales numbers. Total sales +8.4% vs consensus +6.4% so better than expected. Strong performance in the UK and Poland offset by a temporary drag in France. Company guides for +50bps margin uplift in France due to less promotions and -100bps margin in the UK to reflect clearance sales and mix. Guidance for Poland is for +150bps margin uplift in 1H. Reporting 1H results on 20 September.

Investment case implications: Neutral. France outlook is uncertain, while UK continues to deliver both from B&Q and Screwfix. The Screwfix business has been fantastic and the rollout of new stores in Germany is off to a good start and could open up for other countries. Plan for a “One Kingfisher” going according to plan although it will take a few years to fulfil the task. The “One Kingfisher” plan is unifying the product range, right-sizing the space, rolling out a unified IT platform, cutting costs in goods not for resale and centralising management. Higher costs for the next two years before a nice inflection point from 2018. Cash flow strong and balance sheet strong with net cash of GBP 546m (6% of market cap).

China Mobile

(2.1%)

Continued robust growth

Summary: Total service revenue increased 7% YoY driven by a combination of more subscribers (+3%) and each of them spending more on average (ARPU +3%) mainly driven by higher data usage. While costs remain well controlled (particularly handset subsidies -15% and marketing -7%) the increase in tower rental costs (following tower assets sale in October last year) combined with lower interest rates (on their now USD 70bn cash balance), resulted in flat net margins (net income was up 6% YoY). Despite higher than expected growth, the company’s full year capex guidance remained unchanged, indicating a decline of 7% YoY.

Investment case implications: China Mobile posted strong 1H results, with all metrics beating consensus expectations. Key for us, the company continued to provide solid growth, stable margins and lower capex. The most interesting part of the result was management promising to review the dividend policy with an eye on balancing the “long-term needs of the company with the short-term needs of investors”. While this line is far from any guarantees, it could be a significant trigger for a company with 30% of market cap in cash and a current payout ratio of 43%.

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.

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 proportion 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.

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.

The 10 largest companies in SKAGEN Global (continued)

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.
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%).
Microsoft	Microsoft is the world's largest software company and delivers software to a number of applications from PCs to servers and cell phones – its most famous product is Windows and the affiliated Office Software Suite. In recent years the company has also diversified into video game consoles, ERP systems, internet search and cloud-based computing. Despite a strong push for diversification 80% of the company's revenues and nearly all its profits come from three main areas: Windows OS, Windows Server and the business division (Office Suite).
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.
NN	NN Group is the former European and Japanese insurance arm of the financial conglomerate ING that was spun off in July 2014 as required by the Dutch government in return for providing state aid to ING during the financial crisis . NN's on-going business operating result before tax is split as follows (2014): 51% Netherlands Life, 14% Insurance Europe, 13% Investment Management, 11% Japan Life and 11% Netherlands Non-Life. NN has 12,000 employees and its history dates back to 1845.

3M (MMM US) USD 179

Mean reversion	Special situation	Long-term value builder
0%	0%	100%

History, business model and source of investment idea

- 3M is a US-based conglomerate selling products ranging from medical devices and office *Post-it©* notes to purification filters and safety harnesses. Since its inception in 1902, 3M has paid a USD dividend without interruption for 99 years and raised it for 58 consecutive years. 3M is headquartered in St. Paul's, MN and employs 90,000 people
- Sales / Operating margin by division (2015): Healthcare USD 5bn / 32%; Safety & Graphics USD 6bn / 24%; Industrials USD 10bn / 22%; Electronics & Energy USD 5bn / 21%; and Consumer USD 4bn / 24%
- Key objectives of 2016-2020 Strategic Plan: 2-5% Sales / 8-11% EPS CAGR, 20% ROIC and 100% FCF conversion
- CEO (2012): Inge Thulin (b. 1953, USD 27m in shares); CFO (2014): Nick Gangestad (b. 1964, USD 3m in shares)
- Case identified through SKAGEN Global internal research by applying a generalist approach to the stock universe

ESG

- 3M complies with SKAGEN's ethical guidelines. Still, we have noted some ESG concerns around the black lung disease lawsuit and wastewater treatment, warranting the use of an incrementally higher WACC in our bear case.

Rationale for investment

Viewing 3M through SKAGEN-like generalist glasses rather than through a narrow sector-specialist lens, we see a highly profitable (>25% ROCE, >20% operating margin), innovative (>USD 1.8bn R&D) and resilient (1.1x ND/EBITDA, 2.5% dividend yield) conglomerate in a superior market position to consistently grow (we project 3% Sales, 8% EPS CAGR thru 2020) and compound value for many years to come. Our analysis shows that 3M is perennially undervalued and epitomises the benefit of applying a generalist approach to long-term investing. More specifically, two key aspects that the market has not fully priced in are:

- (1) The rising earnings power created by a large R&D spend (~ 6% of Sales, ~USD 2bn / year, solid track record) coupled with a sizeable and growing emerging market footprint (~30% of Sales) focusing on the relevant consumer categories (air and water quality, food safety, infrastructure, middle class consumer)
- (2) The downside protection that is much more robust than what is widely understood due to the protective power of small-ticket purchases across structurally growing sectors and geographies (significantly reducing tail risk)

In today's environment, this combination looks like one of the most compelling and arguably undervalued bottom-up stories that is available at what is still an attractive entry price for someone with a long-term investment horizon.

Triggers

- 3M continuously hitting financial numbers as detailed in the 2016-2020 Strategic Plan (medium-/long-term)

Risks

- Underestimated headwinds in the partly commoditised Electronics & Energy division could impact earnings/margins
- Poorly executed M&A. 3M has limited acquisition experience, so a big strategic shift here could upset the market

Target price

Given the diversified business model encompassing several profoundly different sectors, we believe triangulating a fair value based on various valuation methods yields the most accurate fundamental value. Using a blend of P/E, EV/EBITDA and FCFY, we compute a 2-yr forward cum-dividend fair value of USD 230/sh. The bear-bull range is USD 140-300/sh. Our base case assumes 19x P/E FY1, 12x EV/EBITDA FY1 and 5% free cash flow yield.

Key Figures	
Market cap	USD 109bn
Daily turnover	USD 0.4bn
No. of shares	607m
Free float	100%
ND/EBITDA 2015	1.1x
S&P credit rating	AA-
ROE / ROIC 2015	37% / 23%
P/E 2018	18.6x
P/B 2016	10.7x
EV/EBITDA 2018	12.2x
DY 2016	2.5%
# of analysts	18
with Sell/Hold	61%

Largest Owners

1. State Street 7.3%
2. Vanguard 6.8%
3. Blackrock 5.7%

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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