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 March 2017

The art of common sense

SKAGEN

Summary – March 2017

- SKAGEN Global outperformed its benchmark index by 1.5% in March. The fund delivered a return of 2.1% while the benchmark MSCI All Country World Index gained 0.6% (measured in EUR).*

- G4S, Roche and Samsung Electronics were the three best monthly contributors to absolute performance while Teva, Dollar General and Merck & Co. were the three largest detractors.

- The fund initiated a new position in Red Electrica, a mid-cap Spanish regulated utility operating the high-voltage transmission grid.

- We trimmed the position in G4S after strong share price development. There were no significant buys during the period.

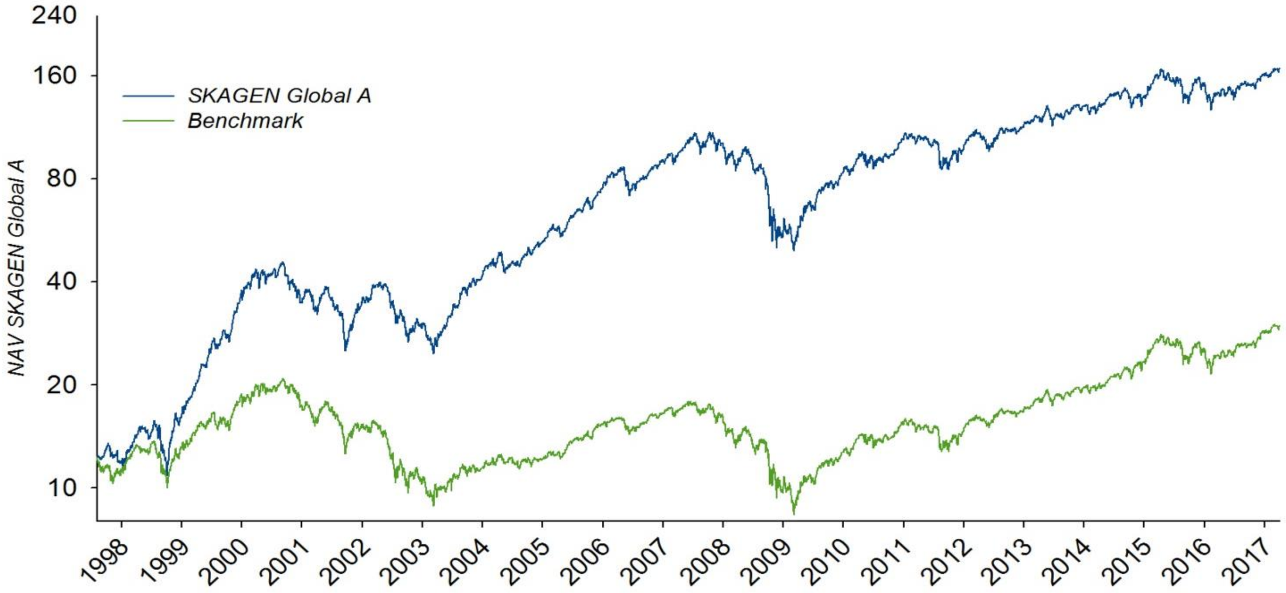
- The fund's top 35 holdings trade at a weighted Price/Earnings (2017e) of 14.5x and a Price/Book of 1.7x vs. the index at 16.6x and 2.2x, respectively.

- The weighted average upside to our price targets for the fund's top 35 holdings is 29%.

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

SKAGEN Global A results, March 2017

EUR, net of fees



	March	QTD	2016	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Global A	2,1%	5,5%	4,8%	18,3%	8,8%	9,3%	6,1%	14,3%
World Index**	0,6%	5,5%	11,1%	22,6%	14,4%	13,3%	6,0%	4,6%
Excess return	1,5%	0,0%	-6,3%	-4,2%	-5,6%	-4,1%	0,1%	9,6%

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*

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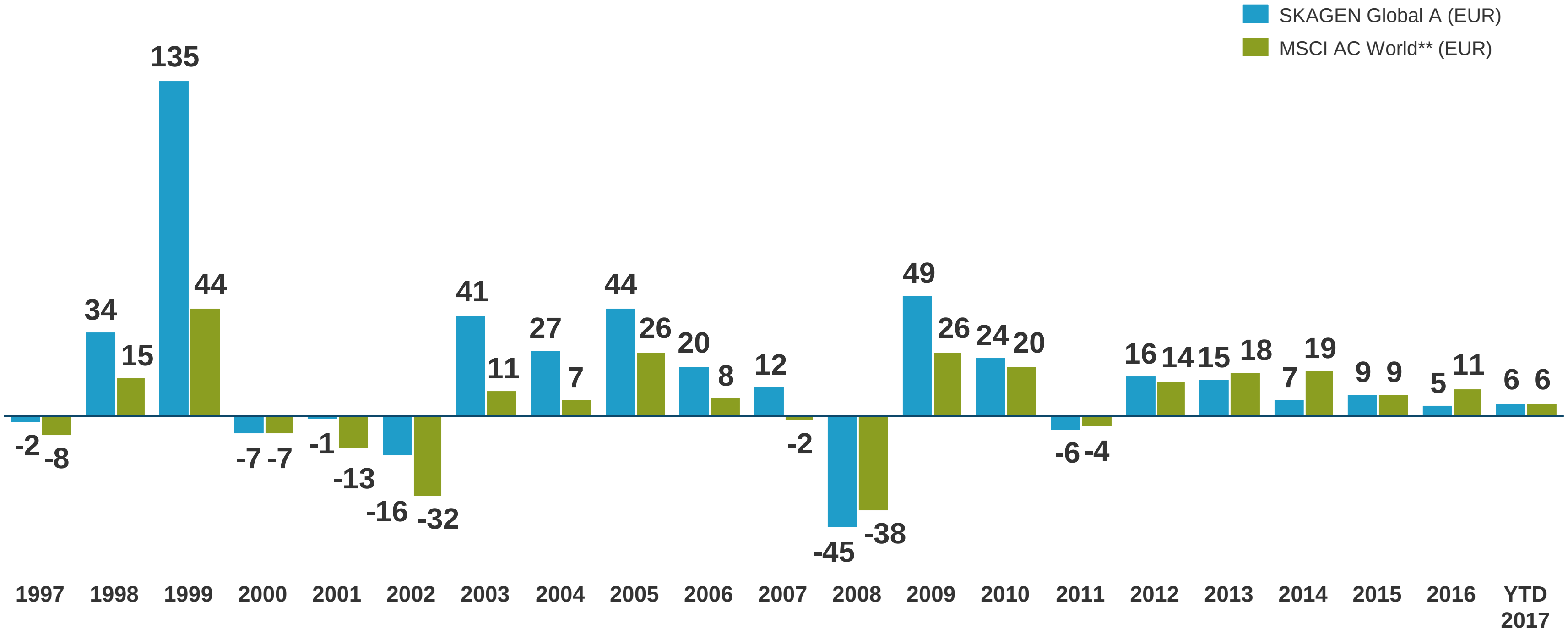
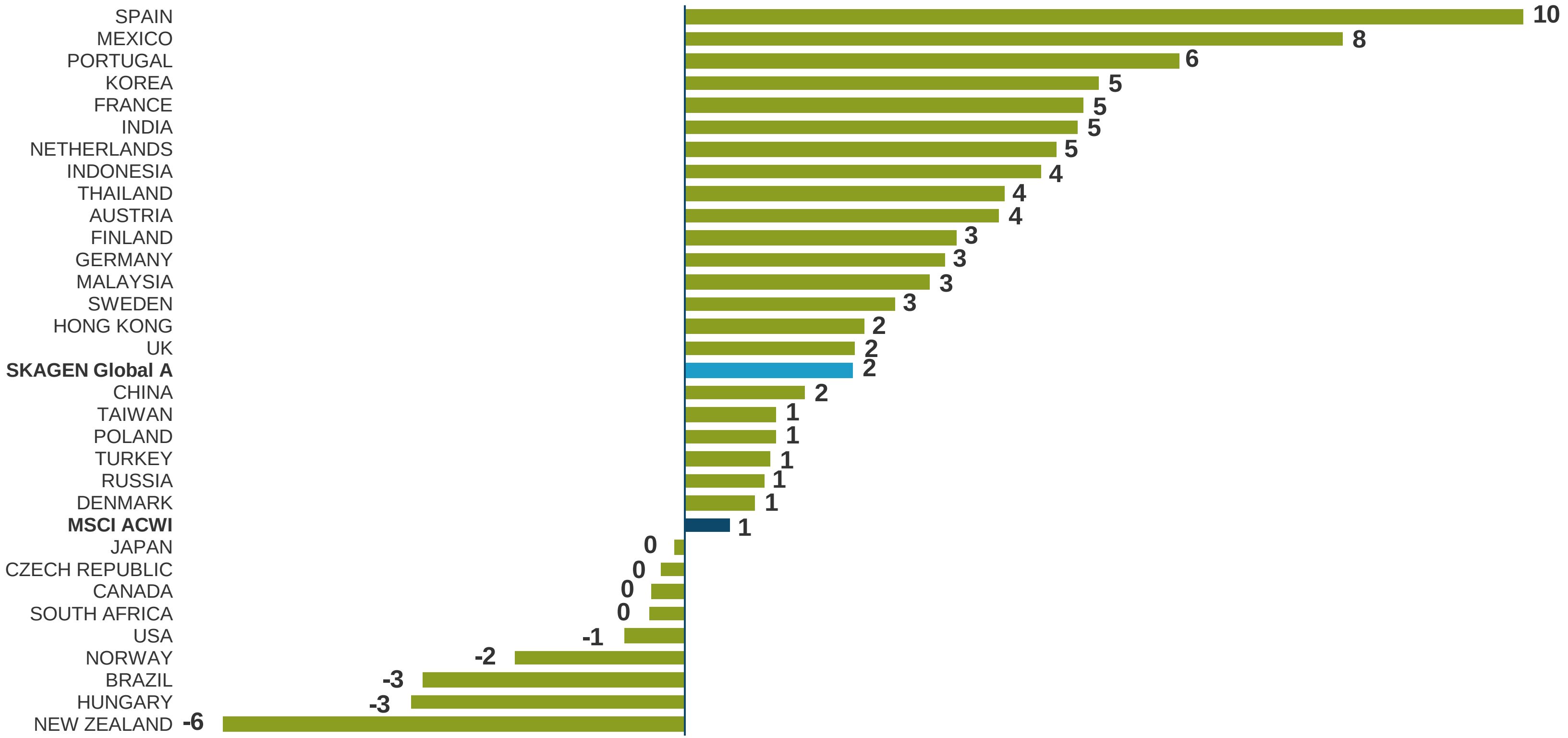
Annual performance since inception (%)*

SKAGEN Global A has beaten its benchmark 15 out of 20 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 March 2017, EUR (%)



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Main contributors MTD

Largest positive contributors

Company	NOK Millions
G4S	154
Roche Holding	140
Samsung Electronics	122
Akzo Nobel	110
Unilever	96
Cap Gemini	75
Microsoft	63
3M	59
NN Group	59
Carlsberg	54

Largest negative contributors

Company	NOK Millions
Teva	-44
Dollar General	-7
Merck & Co	-5
Columbia Property Trust	-4

Value Creation MTD (NOK MM): 1469

NB: Contribution to absolute return

Main contributors YTD 2017

Largest positive contributors

Company	NOK Millions
Unilever	261
G4S	223
Samsung Electronics	221
Roche	181
Akzo Nobel	126
CK Hutchison	111
Medtronic	99
Merck & Co	86
3M	83
IRSA	77

Largest negative contributors

Company	NOK Millions
Teva	-93
General Electric	-61
AIG	-56
Autoliv	-55
NN Group	-36
Dollar General	-31
Kingfisher	-22
Lundin Petroleum	-8
Ageas	-6
Novo Nordisk	-5

Value Creation YTD (NOK MM): 1882

NB: Contribution to absolute return

Most important changes Q1 2017

Holdings increased

Q1

Red Electrica	(New)
Hyundai Motor	(New)
Golar LNG	(New)

Holdings reduced

Q1

Samsung Electronics
Unilever
G4S
AIG
Comcast

Holdings increased and decreased during March 2017

Key buys

- We entered a new position in **Red Electrica**, a Spanish mid-cap regulated utility which has sold off in the reflation trade and now trades at an attractive valuation given its visibility on earnings, upside optionality from an underappreciated balance sheet and downside support from >5% dividend yield.

Key sells

- The UK integrated security company **G4S** has staged a strong recovery in 2017 with shares up 29% in local currency during the first quarter and we reduced our position somewhat by selling into strength.

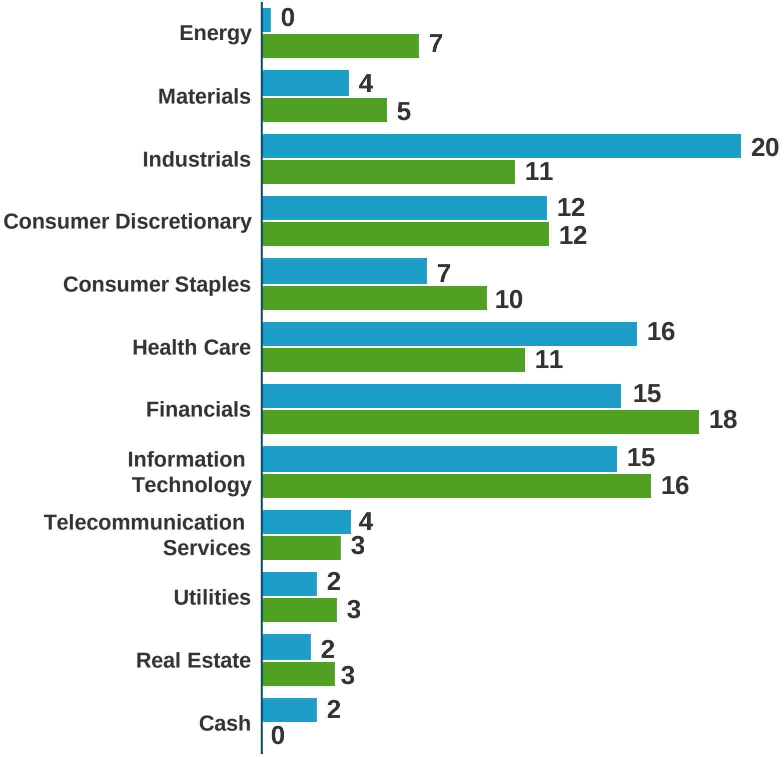
Largest holdings in SKAGEN Global

	Holding size, %	Price	P/E 2016a/e	P/E 2017e	P/BV last	Price target
CK HUTCHISON HOLDINGS	5,0	95,6	11,2	10,4	0,9	140
ROCHE	4,8	255,8	17,6	16,5	9,1	360
UNILEVER	4,8	46,6	24,7	22,6	8,1	52
CITIGROUP	4,6	59,8	12,7	11,5	0,8	70
AIG	4,4	62,4	15,9	12,8	0,8	90
GENERAL ELECTRIC	4,3	29,8	20,0	18,3	3,4	36
MICROSOFT	4,2	65,9	23,6	22,3	7,4	68
3M	4,0	191,3	23,4	22,2	11,1	230
MERCK	3,9	63,5	16,8	16,7	4,4	76
SAMSUNG ELECTRONICS	3,9	1 603 000	10,0	6,9	1,2	1 700 000
Weighted top 10	**43,9**		**16,0**	**14,0**	**1,8**	**24 %**
Weighted top 35	**90,0**		**15,6**	**14,5**	**1,7**	**29 %**
MSCI AC World			**21,0**	**16,6**	**2,2**	

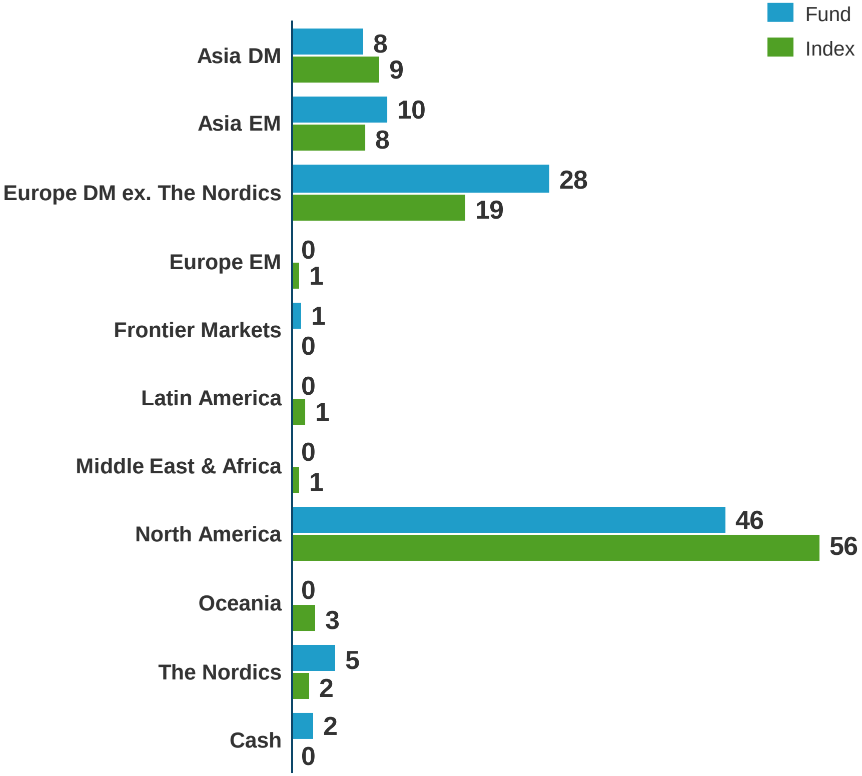
As of 31 March 2017

SKAGEN Global sector and geographical distribution

Sector distribution



Geographical distribution



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Key earnings releases and corporate news, March 2017

CK Hutchison

(5.0%)

Stable earnings and free cash flow growth

Summary: Overall net profit grew 11% YoY in local currency (6% adjusted for a gain on sale of oil assets) which was slight better than consensus expectations. Due to significant exposure to Europe (55% of EBITDA) and UK in particular (33% of EBITDA), reported net income grew 4%. While earnings are increasing, CAPEX are declining, leading to fast growing FCF (+30% YoY). Dividends only increased in-line with earnings (+5%), as the company is still focused on the balance sheet (net debt /equity is now down to 20%). In telecom, 3 Europe (21% of FY16 EBITDA) saw EBITDA grow by 9% YoY (up 15% in local currency). Growth was mainly driven by the two-month contribution from Wind-3 Italy, but 3 Europe's performance was generally strong, with 5-8% EBITDA growth in every market in local currency terms. Retail (16% of FY16 EBITDA): EBITDA declined by 2% YoY (up 3% in local currency). Europe was strong with EBITDA +9% in local currency, while China is still struggling (SSS was -10%) due to significant on-line competition. Ports (13% of FY16 EBITDA): EBITDA declined by 3% YoY (up 2% in local currency). Throughput declined by 3% due to weak intra-Asia transshipment in Hong Kong and increased competition in Rotterdam. Infrastructure (34% of FY16 EBITDA): EBITDA declined by 4% YoY (up 5% in local currency) as main underlying assets continued their steady growth. Husky (oil) (10% of FY16 EBITDA): EBITDA declined by 1% YoY as upstream production declined due to assets disposals.

Investment case implications: The result once again confirmed CK Hutchison as a stable growing company at an attractive valuation. Free cash flow continues to grow faster than earnings (driven by lower capex in telecom), but we were a bit disappointed by the stable pay-out ratio as the balance sheet is already solid. We still find the company significantly undervalued – 10x earnings and a 3% dividend yield (we expect pay-out to increase significantly over the coming 5 years) for quality assets with solid earnings growth managed by a team with an excellent track-record in allocating capital.

G4S

(2.4%)

Finally, people are starting to get it

Summary: FY16 results were strong on most accounts. Key highlights include: i) Acceleration of organic growth to 5.6% YoY (H1: 5.1%; H2: 6.1%; Q4 was the strongest quarter of the year despite tough comparable). Regionally, North America was the star and Middle East slightly weaker; ii) EBITA increased 10% YoY to £454m, which translated into 60+% higher operating cash flow in FY16 vs. the prior year; and iii) ND/EBITDA reduced to < 2.7x vs. 3.4x in FY15.

Investment case implications: The G4S-story is playing out as planned; combination of accelerated organic growth and further margin expansion is driving solid earnings growth and very strong cash generation. Leverage metrics obviously falling fast as both the denominator and numerator are improving (ND/EBITDA down to < 2.7x vs 3.4x last year). We've always felt the balance sheet was a non-issue, and are now looking forward to a highly accretive re-financing over the coming years. Stock is up 10% after the results announcement, extending its YTD gain to 25%.

Key earnings releases and corporate news, Mar 2017 (cont.)

Dollar General

(2.3%)

Investments for the future take their toll on profitability, but might lead to a stronger Dollar General (DG)

Summary: DG delivered a positive quarterly report with same-store-sales (SSS) +1% which was a lot better than the market had feared. Price investments made over the past two quarters are starting to gain traction and although traffic was down the basket size was up, leading to positive SSS. DG still sees negative impact from SNAP (food stamps) but will lap the weak quarters later this year. Expectations going forward are for 1-2% SSS as management highlighted that consumer feels better about the economy but still they are reluctant to spend more. DG continues to roll out new stores although some of the stores will be smaller leading to a square footage growth of 7% in 2017. EPS guidance for 2017 has been hampered by USD 34c headwind due to 1) 9 cents from lapping the 53rd week in 2016, 2) 9 cents due to tax, slower share buybacks due to a new DC centre, early retirement of debt, 3) 16 cents due to higher store management compensation which has a delayed benefit to turnover, shrink, and sales. EPS guidance for 2017 in the range of USD 4.25-4.50. They think 2017 is a one-off as they will not be able to deliver the 10%+ EPS growth but they believe the investments taking place now will enable them to deliver 10%+ EPS growth long term. Share buybacks scaled back as DG's leverage is already at the high end of its target range and they have investments like a new distribution centre taking place in 2017.

Investment case implications: The DG case has faced severe headwinds due to elevated competition and deflation. New store openings of 7% with high return on invested capital (less than 2 years payback) is intact. SSS in the range of 2-4% have been taking a hit and will now be 1-2%. Buybacks of around 5% of market cap annually have been scaled back to c.2.5% for 2017 and we foresee that returning to previous level after 2018. We are currently in a deflationary environment, but once that changes there will be tailwind to drive earnings higher as cost has been taken out.

Akzo Nobel

(1.8%)

Take-out offer for Akzo Nobel

Summary: The American Fortune 500 chemicals company PPG Industries has launched a take-out bid for the Dutch chemical conglomerate Akzo Nobel with an unsolicited offer of EUR 83/share, equivalent to a nearly 30% premium to the share price at the time of the offer. Akzo has rejected the bid as it finds the proposal to "substantially undervalue" the company.

Investment case implications: Very positive and in-line with our bull case. Stock +17% over two days. A few weeks after Warren Buffett orchestrated a take-out offer for Unilever (later rejected), we now have another tangible example of a significantly undervalued stock in the SKAGEN Global portfolio. Although a take-out scenario is not our base case for this stock, we have previously clearly identified Akzo Nobel as a prime takeover candidate in our portfolio. Obviously, PPG's offer is only an opening bid and does not capture the true long-term intrinsic value of Akzo Nobel. To that point, we think Akzo's Board of Directors have a responsibility to prudently evaluate any higher bid that may be forthcoming. In-line with our active ESG-approach (when needed), SKAGEN Global plans to act on behalf of the fund and its clients to emphasise to the board the importance of putting shareholder value first.

Key earnings releases and corporate news, March 2017 (cont.)

Kingfisher

(1.3%)

Quarterly results OK, but France and UK outlook uncertain

Summary: Not many surprises in Kingfisher's Q4 trading statement. French like-for-like figures struggling as expected while UK did OK. No sign of any Bunnings competitive impact this quarter. French presidential elections looming in early May. Kingfisher's "One Program" is seemingly very much on track and they exited the quarter at 8% unified range. They have a goal of reaching 20% by the end of 2017, so clearly a lot to do but management stays firm on the previous guidance. Dividend and share buybacks as before.

Investment case implications: Neutral. The outlook for France remains uncertain, while UK continues to deliver both from B&Q and Screwfix. The Screwfix business is fantastic and the rollout of new stores in Germany has got off to a good start and could open up for similar ventures in other countries. The "One Kingfisher" program is going according to plan although it will take a few years to fulfil the task. Recall that the "One Kingfisher" program aims to unify the product range, right-size the space, roll out a unified IT platform, cut costs in goods not for resale and centralise management. Higher cost for the next 18 months before a nice inflection point from 2018. Cash flow strong, balance sheet strong with net cash of £600m (8% of market cap). Healthy dividend of 3.5% and share buybacks of £200m a year for a total annual shareholder return of 6%. We still see 35%+ upside in a 2-3 year time period.

Mayr-Melnhof

(1.2%)

2016 Q4 results summary

Summary: Mayr-Melnhof reported Q4 sales of EUR 559m some 3% below consensus expectations as (-1% YoY vs. Q3: +4%; Q2: +6%; Q1: +8%). However, EBIT of EUR 54m was ahead (+14% YoY), driven by a favourable product mix. MM Packaging partly offset by continued challenges in the European cartonboard market (tough competition and a declining backlog for Karton). Cartonboard pricing fell -6.5% YoY despite rising OCC prices, so this part of the business remains a concern. Hence, management's focus areas for 2017 are volume growth and price hikes in cartonboard.

Investment case implications: Organic momentum in the business has slowed over the past 18 months and we did not see a positive inflection in Q4'16. The company now has the opportunity to prove its defensive capabilities: the litmus test will be MMK's ability to effectively hike cartonboard pricing over the coming quarters to offset OCC cost inflation that is squeezing its profitability.

Largest holdings in SKAGEN Global

	Holding size, %	Price	P/E 2016a/e	P/E 2017e	P/BV last	Price target
CK HUTCHISON HOLDINGS	5,0	95,6	11,2	10,4	0,9	140
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Weighted top 35	**90,0**		**15,6**	**14,5**	**1,7**	**29 %**
MSCI AC World			**21,0**	**16,6**	**2,2**	

As of 31 March 2017

The 10 largest companies in SKAGEN Global

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 (as % of 1H 2015 total EBITDA): Infrastructure (37%), Telecom (20%), Retail (15%), Ports 13%), and Energy (11%).

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.

Unilever is a manufacturer of branded and packaged consumer goods. Main segments are food (24% of sales), refreshment (19%), personal care (38%), and home care (19%). The company operates in more than 180 countries and emerging markets now account for more than 50% of sales. We think the market underestimates the long-term organic growth in emerging markets and Unilever's ability to increase margins. Due to very high ROIC, growth will be produced with a minimal "growth" CAPEX, enabling the company to grow and maintain a high pay-out ratio.

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.

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.

The 10 largest companies in SKAGEN Global (cont.)

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.

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).

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 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. Key objectives of 2016-2020 Strategic Plan: 2-5% Sales / 8-11% EPS CAGR, 20% ROIC and 100% FCF conversion.

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.

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.

Red Eléctrica (REE SM) EUR 17.45

Mean reversion	Special situation	Long-term value builder
10%	20%	70%

History, business model and source of investment idea

- Founded in 1985 and privatised in 1999, Red Eléctrica (REE) is a fully regulated utility which owns and operates the high-voltage transmission grid in Spain. Between 2002 and 2010 REE acquired grid assets from other Spanish utilities and thus became the sole transmission operator in Spain with 1,700 staff.
- REE derives >90% of its revenues from regulated activities with earnings visibility until 2020 (99% in Spain). The regulatory framework guarantees REE a 6.5% pre-tax nominal return with upside potential from efficiency gains.
- 3 divisions (2016 Sales %): (i) 95% Transmission; (ii) 4% Fibre optic network; (iii) 1% International
  - Transmission. 42,000 km of high-voltage lines; transmission cost is only c. 5% of total consumer bill
  - Fibre Optic Network. 20-year concession (grid owned by ADIF); capacity leased to Telefonica, Vodafone et al.
  - International. Ownership stakes in regulated electricity transmission assets in Chile and Peru
- 2014-2019 Strategic Plan Targets: 5-6% EPS CAGR, 3.5x ND/EBITDA, EBITDA margin +200 bps to 76%
- Case identified through SKAGEN Global internal proprietary research

ESG Excellent scores. Still, our due diligence recognises the political risk aspect and we note that the Spanish state must hold at least 10% of REE shares while no other shareholder may own >5% (voting rights capped at 3%)

Rationale for investment

- First, the European power generation players are slowly bleeding to death as technological innovation and cash-strapped policymakers irreversibly transform the utility landscape. On a high level, we believe REE as a pure-play regulated name is more strategically situated in the value chain than the market has fully realised.
- Second, our simple - yet differentiated – investment thesis argues that the market's current obsession with inflation (reflation) has overly penalised REE, leading to 31% relative underperformance (vs. MXWD) over the past 9 months; consensus expects virtually no annual earnings growth between 2018 and 2022 due to REE's allowed return (potentially) falling from the current 6.5% (pre-tax, nominal). While we also project the regulated return to come down, we take a contrarian view because we see several levers (low B/S, pre-1998 assets, interconnections, int'l operations, inflation-adjustment inclusion optionality post-2019 regulatory period) for REE to use to mitigate a lower allowed return. The market seemingly assigns no meaningful value to these variables.
- Third, the combination of superior earnings visibility (until 2020), fast-growing dividend (7% CAGR 2014-2019), high dividend coverage (71% payout ratio), robust balance sheet (3.4x ND/EBITDA, A- credit rating by S&P) and a relatively robust regulatory framework shielding REE from power price and volume risk is undervalued in a global equity market context. After the recent stock pullback, we think REE at the current level offers an attractive double-digit total-return story that will continue to unfold over the next few years.

Triggers

- Life extension of pre-1998 assets (short-term/medium-term)
- Capex hikes from further integration across the European electricity market boosting earnings (long-term)

Risks

- Regulation/Politics. Political meddling with the regulatory framework (or RAB) would reduce earnings visibility
- Inflation. The regulatory framework decouples returns from inflation, so any big uptick in inflation is likely negative
- Battery. Long-term threat to transmission grid from local electricity production (solar) with battery back-up capacity

Target price

Based on DDM/DCF/SOTP valuation techniques we calculate a 2-yr forward price target of EUR 23/share (32% upside)

Key Figures

Market cap	EUR 9.4bn
Daily turnover	EUR 50m
No. of shares	541m
ND/EBITDA	EUR 3.4
ROE 2017e	22%
P/E 2018	13.3x
P/B 2017	3.0x
EV/EBITDA 2018	9.7%
DY 2017	5.3%
# of analysts	32
with Sell/Hold	59%

Largest Owners

1. SEPI (Spanish State) 20.0%
2. Capital Group 7.0%
3. HSBC 3.2%

Team Global 2016-03-31

www.ree.es

3U acid test

Unpopular

- 59% SELL/HOLD recommendations
- The market's notion that inflation is bad for (perceived) bond-proxy regulated utilities has made Red Electrica very unpopular as shown by 31% relative underperformance (vs. MSCI AC World Index) in the past 9 months
- While Spanish utilities have recovered from the mayhem caused by the infamous 15-year tariff deficit dilemma that lasted until 2013, investors still seem cautious given the relatively short history of a stable and consistent regulatory regime in Spain
- Utilities are rated as highly unpopular among investors; for example, utilities had the largest underweight (c. 30%) of all sectors in BAML's Fund Manager Survey published in March 2017

Under-researched

- The regulatory framework and the business model itself are fairly straightforward to analyse; however, the key aspect which remains mispriced at current levels is REE's value creation opportunities afforded by a strong balance sheet and supportive regulation
- 31 analysts, but many of them have a short time horizon (12 months) and struggle to grasp the overriding industry dynamics currently re-shaping the European utility sector fundamentals and furthermore do not assess the attractiveness of the investment case from a general global equity perspective

Under-valued

- Yes. Using a multi-year time horizon, the market signals a pessimistic outlook for REE and fails to capture the value of the earnings visibility afforded through the regulatory framework
- Our base case valuation triangulates a fair value of EUR 23/sh (32% upside) with a reasonably attractive risk-reward skew (bull case = EUR 28/sh, 61% upside; bear case = EUR 14/sh, or 20% downside)

For more information please visit:

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