



SKAGEN Vekst Status Report – October 2015

The art of common sense

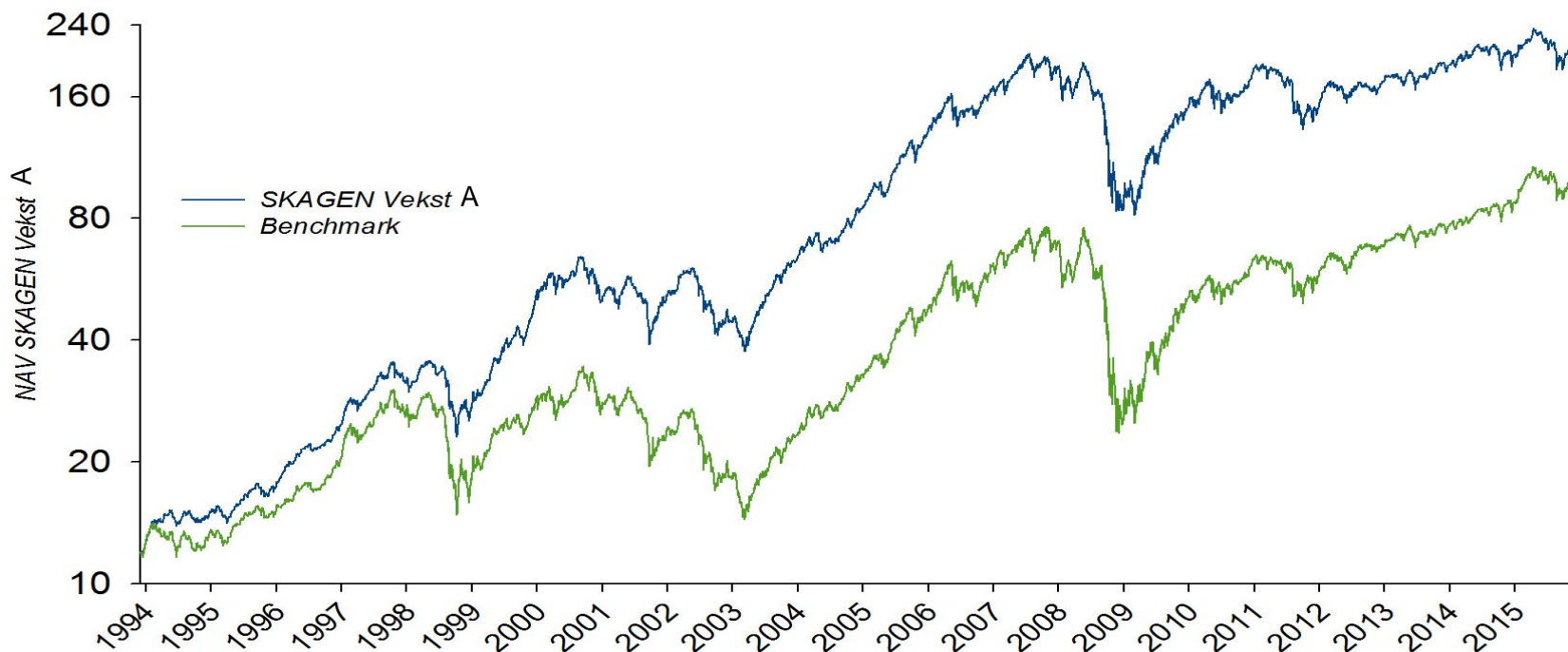
Summary – October 2015

- The first month of the fourth quarter started with strong returns for SKAGEN Vekst both on an absolute and a relative basis. In October, the fund was up 9.2% in EUR versus the Nordic/Global index which was up 7.5%.
- Measured in NOK, the largest contributors in October were Samsung Electronics, SAP and Continental. The largest detractors were Danske Bank, Norwegian Air Shuttle and Teliasonera.
- In Samsung, the increased focus on shareholders and stronger than expected figures especially from the memory business created a strong lift for the company's share price as investors once again see potential in the Korean chaebol. The German software company SAP also contributed nicely after we increased the position, as the reception of their internet cloud services and the rollout of their new analytic tool HANA turned out to be better than expected.
- SKAGEN Vekst increased its holdings in SAP, Credit Suisse and Volvo. We reduced our holdings in Danske Bank, Elekta and Raiffeisen Bank International (out).
- In October we were paid for our contrarian and long-term value investing style. Long-term holdings performed well, and together with a high conviction portfolio (with 90% of the investments concentrated on the portfolio's top 35 holdings), we are confident of creating strong absolute returns for unitholders in SKAGEN Vekst.

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

Results, October 2015

EUR, net of fees

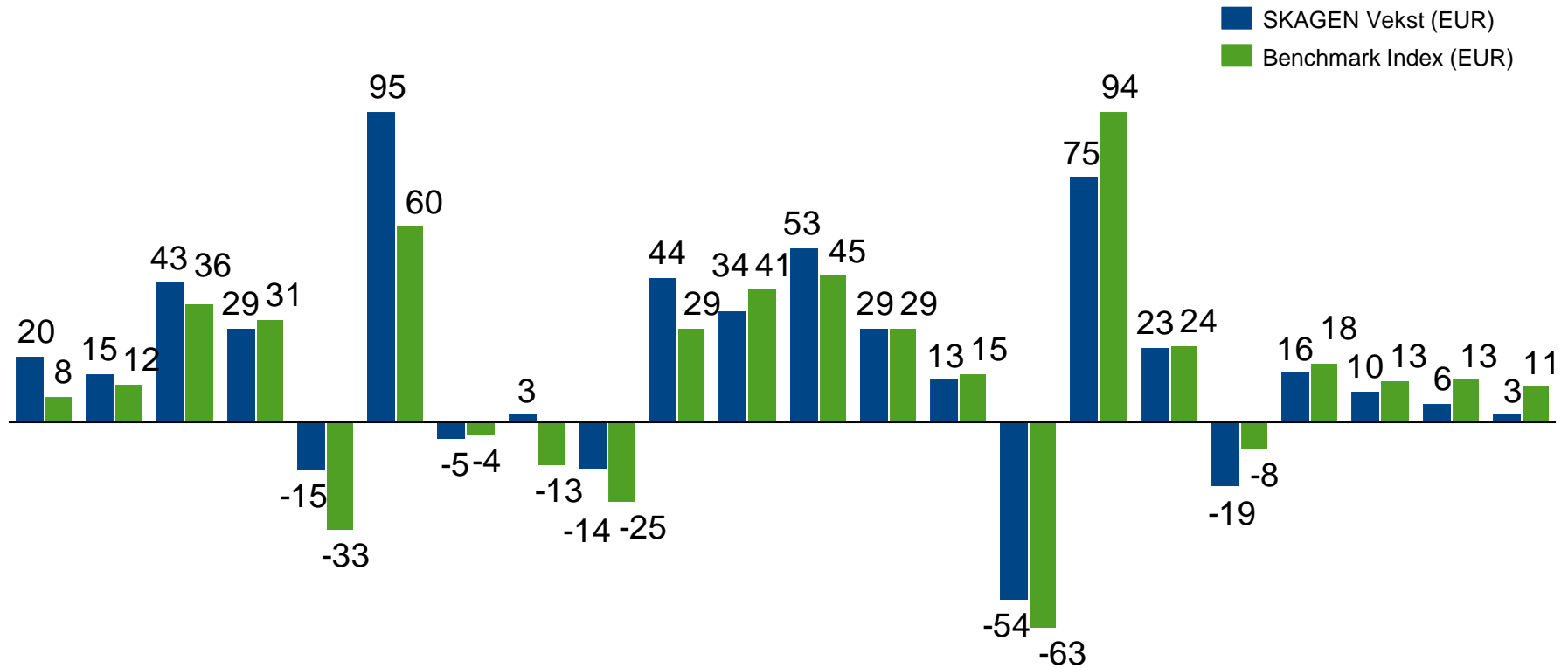


| | October | QTD | YTD | 1 Year | 3 years | 5 years | 10 Years | Since inception* |
|------------------|---------|------|-------|--------|---------|---------|----------|------------------|
| SKAGEN Vekst A | 9,2% | 9,2% | 2,8% | 2,3% | 7,9% | 4,9% | 5,9% | 13,9% |
| Benchmark index* | 7,5% | 7,5% | 11,3% | 12,8% | 13,0% | 11,4% | 8,2% | 10,0% |
| Excess return | 1,6% | 1,6% | -8,5% | -10,5% | -5,1% | -6,5% | -2,3% | 3,9% |

Note: All returns for periods exceeding 12 months are annualised. Inception date: 1 December 1993. Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its assets in Norway to investing a minimum of 50% of its assets in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than exist today. The Fund's benchmark index prior to 1/1/2014 was an evenly composed benchmark index consisting of the Oslo Stock Exchange Benchmark Index (OSEBX) and the MSCI All Country World. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX). Today the benchmark is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World

Annual performance since inception

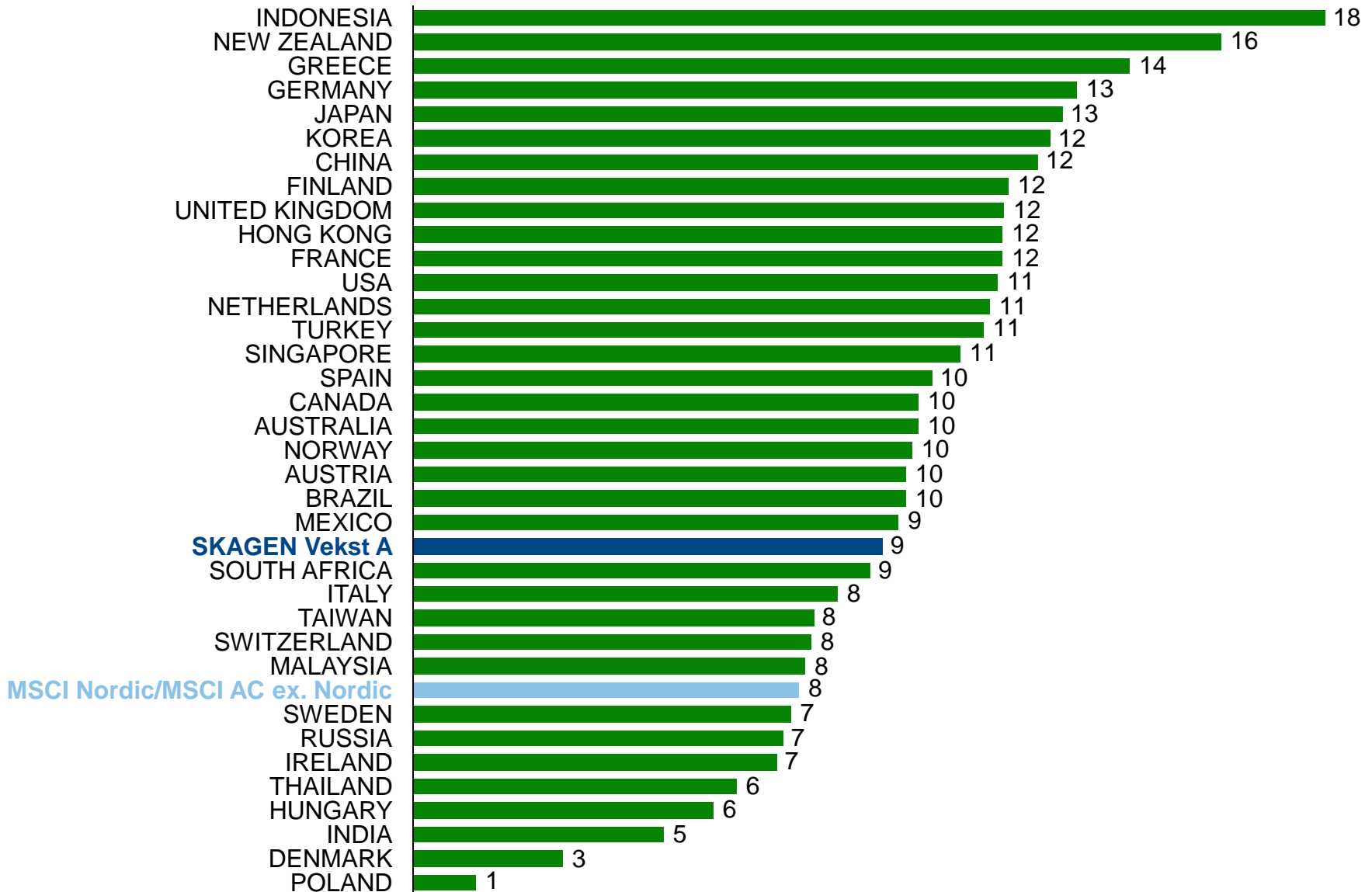
Percent



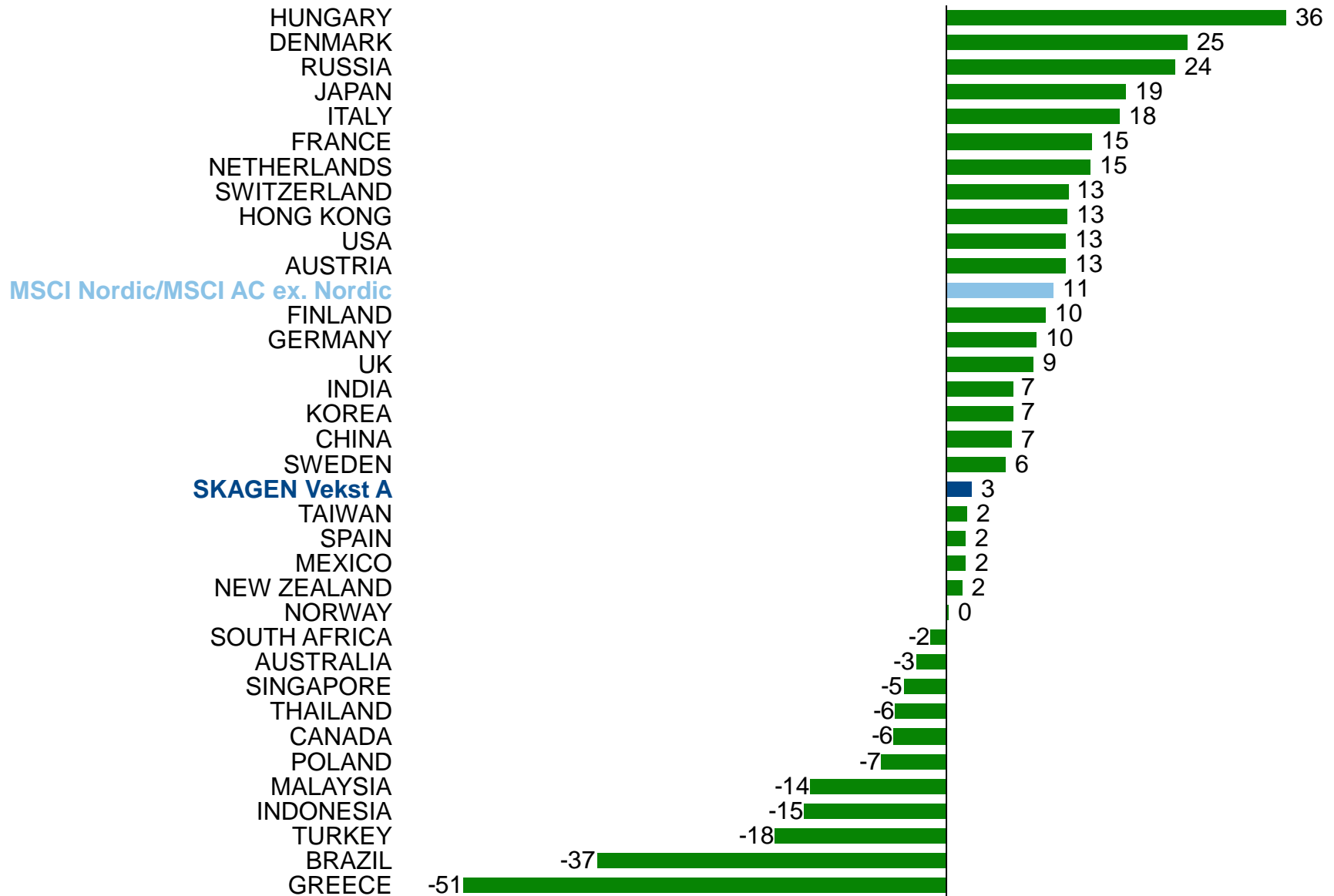
1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 YTD
2015

Note: All returns for periods exceeding 12 months are annualised. Inception date: 1 December 1993. Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its assets in Norway to investing a minimum of 50% of its assets in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than exist today. The Fund's benchmark index prior to 1/1/2014 was an evenly composed benchmark index consisting of the Oslo Stock Exchange Benchmark Index (OSEBX) and the MSCI All Country World. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX). Today the benchmark is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World

Markets in October in 2015 in EUR (%)



Markets YTD in 2015 in EUR (%)



Largest holdings in SKAGEN Vekst, October 2015



SKAGEN Vekst has 51% of its portfolio invested in the Nordic countries.

| | Weight in portfolio | Price | P/E* 2015e | P/E 2016e | P/E 2017e | P/B trailing | Target price | Upside potential |
|------------------------|---------------------|-----------|-------------|-------------|-------------|--------------|--------------|------------------|
| Samsung Electronics | 8,2 % | 1 195 000 | 7,5 | 7,2 | 6,7 | 1,1 | 1 500 000 | 26 % |
| Continental AG | 6,6 % | 218 | 14,3 | 11,9 | 10,5 | 3,6 | 298 | 37 % |
| Citigroup | 5,4 % | 53 | 8,4 | 8,2 | 7,5 | 0,8 | 77 | 45 % |
| Norsk Hydro | 5,4 % | 30 | 12,2 | 10,2 | 8,7 | 0,8 | 45 | 50 % |
| SAP | 5,2 % | 72 | 21,6 | 19,1 | 18,0 | 4,5 | 91 | 26 % |
| Carlsberg | 5,0 % | 556 | 15,9 | 12,7 | 11,1 | 1,6 | 822 | 48 % |
| Teliasonera AB | 4,3 % | 44 | 10,9 | 10,9 | 11,2 | 1,7 | 60 | 36 % |
| ABB | 4,0 % | 160 | 14,4 | 10,7 | 9,4 | 3,0 | 250 | 56 % |
| Philips | 4,0 % | 25 | 20,5 | 17,6 | 12,3 | 2,1 | 30 | 20 % |
| Norwegian Air Shuttle | 3,8 % | 312 | 13,6 | 8,2 | 6,2 | 4,6 | 500 | 60 % |
| Top 10 | 52,1 % | | 12,0 | 10,4 | 9,2 | 1,53 | | 39 % |
| Top 35 | 90,0 % | | 11,9 | 10,4 | 9,0 | 1,24 | | 51 % |
| Reference index | | | 16,4 | 15,3 | 13,9 | 2,10 | | |

*Earnings estimates are based on net cash earnings when meaningful. Multiples are calculated using the same method as the index.

Main contributors MTD 2015

Largest positive contributors

| <i>Company</i> | <i>NOK Millions</i> |
|-----------------------------|---------------------|
| Samsung Electronics Co Ltd | 171 |
| SAP SE | 74 |
| Continental AG | 59 |
| Koninklijke Philips NV | 42 |
| Norsk Hydro ASA | 31 |
| Citigroup Inc | 30 |
| Carlsberg A/S | 26 |
| Lundin Petroleum AB | 26 |
| Investment AB Kinnevik | 22 |
| Wilh Wilhelmsen Holding ASA | 19 |

Largest negative contributors

| <i>Company</i> | <i>NOK Millions</i> |
|--------------------------|---------------------|
| Danske Bank A/S | -32 |
| Norwegian Air Shuttle AS | -21 |
| TeliaSonera AB | -16 |
| Bonheur ASA | -9 |
| Ganger Rolf ASA | -6 |
| DOF ASA | -6 |
| Golden Ocean Group Ltd | -4 |
| Medistim ASA | -4 |
| SKF AB | -3 |
| Sevan Drilling AS | -2 |

Value Creation MTD (NOK MM): 580

NB: Contribution to absolute return

Main contributors YTD 2015

Largest positive contributors

| <i>Company</i> | <i>NOK Millions</i> |
|----------------------------|---------------------|
| Samsung Electronics Co Ltd | 136 |
| Continental AG | 131 |
| SAP SE | 94 |
| Norwegian Air Shuttle AS | 85 |
| Danske Bank A/S | 65 |
| Carlsberg A/S | 50 |
| Citigroup Inc | 48 |
| Sberbank of Russia | 47 |
| Koninklijke Philips NV | 34 |
| Kia Motors Corporation | 33 |

Largest negative contributors

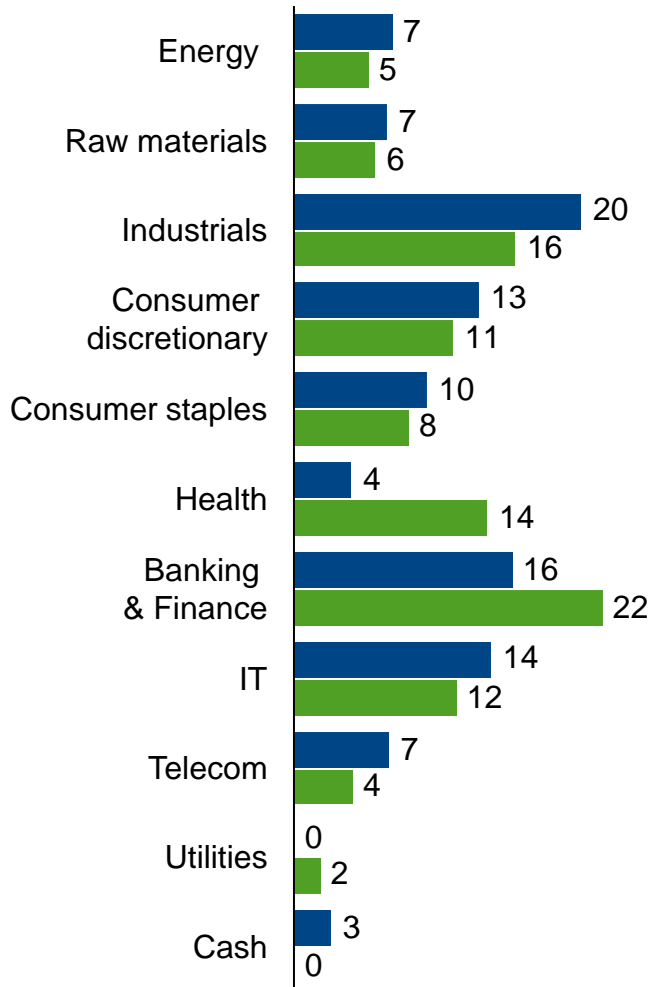
| <i>Company</i> | <i>NOK Millions</i> |
|--------------------------------|---------------------|
| Norsk Hydro ASA | -157 |
| Solstad Offshore ASA | -100 |
| AirAsia BHD | -75 |
| Casino Guichard Perrachon SA | -63 |
| DOF ASA | -56 |
| Toshiba Corp | -47 |
| Ganger Rolf ASA | -19 |
| Siem Offshore Inc | -18 |
| Bonheur ASA | -18 |
| Electromagnetic GeoServices AS | -17 |

Value Creation YTD (NOK MM): 569

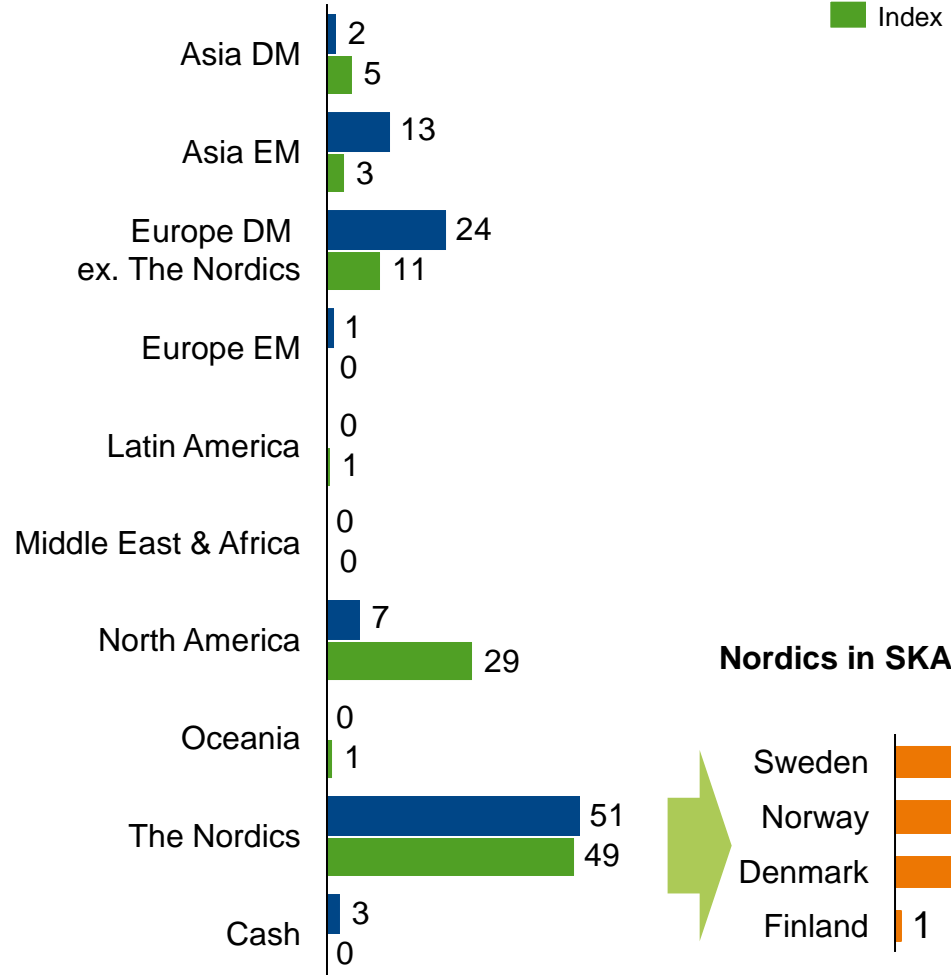
NB: Contribution to absolute return

Sector and geographical distribution vs. index (percent)

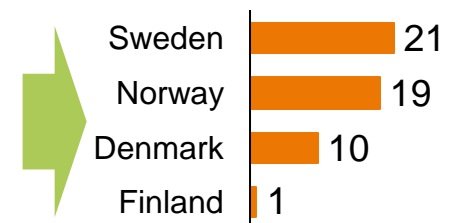
Sector distribution



Geographical distribution



Nordics in SKAGEN Vekst



Most important changes YTD 2015

Holdings increased

Q1

Roche Holding AG (New)
 Kemira OYJ (New)
 Frontline 2012 Ltd (New)
 Danieli & Officine Meccaniche SpA (New)

Q2

Credit Suisse Group AG (New)
 Elekta AB (New)
 Solar A/S (New)
 H Lundbeck A/S (New)
 Golden Ocean Group Ltd (New)

Q3

SKF AB (New)
 Localiza Rent a Car SA (New)

Q4

SAP SE
 Credit Suisse Group AG

Holdings reduced

Q1

Teva Pharmaceutical Industries (Out)
 Kongsberg Gruppen AS (Out)
 Getinge AB (Out)
 Q-Free ASA (Out)
 Odfjell SE (Out)

Q2

Toshiba Corp (Out)
 Nokian Renkaat OYJ (Out)
 Toto Ltd (Out)
 Novo Nordisk A/S (Out)
 Norwegian Finance Holding ASA (Out)
 Stolt-Nielsen Ltd (Out)
 Sparebanken Ost (Out)

Q3

Korean Reinsurance Co (Out)
 OCI Co Ltd (Out)
 Royal UNIBREW A/S (Out)
 Siem Offshore Inc (Out)

Q4

Raiffeisen Bank International AG (Out)
 Danske Bank A/S

Key buy and sell, October 2015

Key buy

SAP

- Stock prices in general went through a soft patch in September and early October. This was also the case for SAP and we used the weakness to add to the position
- SAP has been in SKAGEN Vekst since 2012 and as a leader within corporate data analytics, it is well positioned for the future.
- After recent meetings with the company our impression is that the new revenue stream from the internet cloud-based software services will be equally as profitable as the traditional premise-based software solutions, but it will take a few years for this to become fully visible.



Key sell

Danske Bank

- Danske Bank has been a sizeable holding in the fund since late 2012. Danske Bank has lowered costs, reduced loan losses and maintained a steady revenue stream.
- There will be less growth ahead, but stable and good profitability. As the bank does not need all the capital generated from operations, the capital distribution to shareholders is expected to be high.
- This is however priced into the stock and as we seek to generate more than 15% per year, the position was trimmed as we see a lower return/risk tradeoff.



Key earnings releases and corporate news, October 2015

Samsung
(8.2%)

Samsung preferred shares **All about shareholder returns**

Investment case update

Positive. Samsung just went from 1-2% shareholder return per annum to 6-8% (more for the preferred shares) with the potential of quarterly dividends. This should help shares re-rate towards intrinsic value. Numbers are good and show good cost control and an improved mix between divisions. However, the telecom segment's margins will see further pressure as the changes in internal mix (more low cost phones) hit the books in 2016. As increased shareholder distribution was part of the original investment thesis, we keep the target price of KRW 1.5m per share, which implies 9x 2018 earnings.

3U update

Unpopular: No, with 86% buy recommendations although in a Korean context this is not extremely popular.

Under-researched: No, not with 55 sell-side analysts covering the company. However, sentiment on the mobile phone segment (losing ground to Apple) overshadows everything.

Undervalued: Yes. The preferred shares trade below book and at a P/E well below 7x going forward. Company has a net cash position and may return more than 6% to shareholders in the next 12 months.

Case update details

Q315 EBIT was KRW 7.39tr (+82% Y/Y and +7% Q/Q). Group margin was 14.3%, 10 bps higher than Q215 as consumer electronics and displays improved substantially whereas both the semiconductor and telecom segments had lower margins sequentially. However, the semiconductor segment's (50% of EBIT) margin of 28.6% was impressive given market challenges. The telecom segment's (33% of EBIT) margin of 9.0% was 160bps lower than Q215 as the company cleared out inventory.

Samsung announced that it intends to distribute 30-50% of free cash flow through dividends and share buybacks for 2015-2017 with priority given to dividend distribution (keeping it at least flat). On top of this sustainable distribution plan comes an immediate buyback program of KRW 11.3tr (USD 10bn) or about 6.3% of shares outstanding with shares acquired to be cancelled as opposed to previous buybacks which were added to treasury shares (they hold 21.2m treasury shares today, equal to 12.5% of share count).

Samsung will buy back a proportionally higher share of preferred shares as the company said "they are cheaper" and will do so as long as the preference shares "are trading a discount larger than 10%".

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

Citigroup
(5.4%)

Citigroup

Flattish topline and 36% growth in net income as cost reductions come through

Investment case update

Our investment thesis of cost cutting and other optimisation processes is unfolding nicely. When we entered into the investment Citigroup was perceived as a poorly-managed global bank with lots of hangovers from before the financial crisis in 2008. In 2015, the impact of the clean-up process is clearly showing. 2015 and 2016 earnings will go into the capital buffer, but as Citigroup is well-capitalised and does not need the additional cash, its communicated intention is to send it back to shareholders. There are still bad assets on the balance sheet (e.g. Citi Holding) and litigation cases to be settled, but the current operating performance should mitigate these concerns.

Unpopular: All global banks are disliked due to past behaviour and complex 300-400 page annual reports few understand. Sell-side analysts have become more positive in recent months but this is of little concern as the current valuation does not point to Citi being popular.

Under-researched: Sell-side analysts spend a lot of time on the details in the bank, but they didn't see the financial crisis coming in 2008. 2017 estimates are 15% below our analysis based on simple assumptions regarding revenue streams (flat), costs (down) and loan loss ratios (slightly down).

Undervalued: With a market capitalisation of USD 161bn Citigroup is an elephant stock. However, an equity value of USD 206bn with 10% ROE (and improving) combined with a potential USD 15bn pay-out per year makes the elephant very attractive. Assuming our analysis is correct then a fair price for a 10% ROE machine with 7% return requirement (market is 6%) gives us a fair value of USD 77 per share plus dividends.

Summary

Citigroup reported Q315 numbers - revenues in the core banking business were down 8% to USD 18.5bn, operating expenses were down 7% to USD 10.2bn and loan losses 21% lower to USD 1.7bn or 102bp annualised of the loan book. Total net income grew 36% and earnings per share grew 38%. Return on tangible book was 10.0% and capital buffer was increased by USD 14bn and is now equal to 11.6% of risk weighted assets. Total assets were down 4% to USD 1 818bn and to a large extent driven by Citi Holding with USD 27bn lower assets of USD 110bn. Approximately half of Citi Holding is North American mortgage bonds leftovers from the subprime party before 2008. The bright spots in the report are lower operating costs, control of Citi Holdings, lower loan losses and lower taxes due to utilisation of tax loss carry forwards. The loan book grew 5% to USD 567bn and deposit book grew 4% to USD 897bn so the company is very overfunded from that source.

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

Danske Bank (2.9%)

Danske Bank

Pressure on revenues, lower costs, loan loss reversals and well capitalised

Investment case

The Danske Bank investment thesis is based on a historically good bank having lost track and conducting unwise banking business in the period prior to the 2008 financial turmoil. After several years dealing with the consequences as well as CEO and Board changes, the bank is now back to where it used to be. Performance update shows headwinds for Danske Bank just as we have seen in its Nordic peers. Lower revenues hit net income despite good progress on cost cutting and loan loss reversals. Tier 1 capital ratio is 15.7%, 1.7 percentage points above the SiFi requirement.

After some stress testing based on the latest sequence of quarters, the conclusion is that the value in Danske Bank is not likely to go much higher before revenues improve. Dividends and stock buybacks worth DKK 15bn are likely for 2016, so the down-side risk is moderate for the DKK 188bn market cap company.

3U update

Unpopular: No – when we bought into the stock it was hated by the media and analysts. After a good transformation over the last 3 years it is liked and analysts see a 20% upside to its share price.

Under-researched: No – 33 analysts and some very competent ones.

Undervalued: Neutral value. Dividend machine produces 8-9% returns per year, which limit the downside. Upside with moderate revenue growth and good profitability is however also moderate.

Facts

Q3 report showed lower revenues from lower net interest income, fee income and trading. Costs were down and loan losses reversed. Net income of DKK 3.9bn was reported against the consensus expectation of DKK 4.1bn. The company has sufficient capital judging by its tier 1 capital ratio of 15.7%.

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

Tribona AB
(1.5%)

Tribona AB

Bid from Catena AB which we have accepted

Investment case implications

Positive, the bid from Catena opens up the possibility for further value creation for all shareholders. With the proposed swap at the trading date of 375 new Catena shares per 1000 TRI shares (equal to SEK 45) or a SEK 42 cash offer, there is a fair risk/reward tradeoff. With the increased bid, we decided to accept the share offer and the possibility of being part of the continued value creation in the Nordic logistics property section. The new company will roughly double in size and have a much better potential to create value and shareholder return going forward. The new company should have better client diversification, a stronger impact zone (southern Sweden) and attract more investors (better disclosure and liquidity). The bid is expected to close in Q1 2016.

3U Update

Unpopular: No, 2 out of 3 analysts have buy recommendations. All coverage has come over the last 6 months.

Under-researched: No, though lack of disclosure and continued deteriorating NAV have scared away volume – it is considered a special situation by institutional owners.

Undervalued: Yes, as one of the property companies with the lowest debt and one of two fairly pure logistics companies, the company should warrant a price tag closer to SEK 50 in a couple of years if they are able to increase their yield up to 7% and improve vacancy rate (up to historic 95+%).

Summary

Catena AB has announced a public offer to the shareholders of Tribona AB to sell its shares for a consideration of SEK 42 cash per share, alternatively shareholders can also accept a consideration of issued shares in Catena, corresponding to a value of SEK 45 per share in Tribona. The total value of the offer has been assessed to be approximately SEK 2 133 million for the whole company.

The largest companies in SKAGEN Vekst



Samsung Electronics, the Korean electronics group, has enjoyed very solid growth in consumer electronics, especially smartphones. Pole position in global semiconductor market. Cash generation is very strong and the company has historically invested wisely in new business areas – solar power and healthcare are on the roadmap for the future.



Continental AG produces tyres for cars and trucks and makes auto technology such as power trains, safety systems and automated drive systems. The replacement cycle for tyres is becoming stretched in some markets, so near-term earnings look promising. In the longer term Continental's pole position in global auto technology provides a good backdrop for substantial growth.



Citigroup Inc. is an American multinational banking and financial services corporation headquartered in Manhattan, New York City. Citigroup was formed from one of the world's largest mergers in history by combining the banking giant Citicorp and financial conglomerate Travelers Group in October 1998.



Norsk Hydro ASA is a Norwegian aluminium and renewable energy company headquartered in Oslo. Norsk Hydro is one of the largest aluminium companies worldwide. It has operations in some 50 countries around the world and is active on all continents. The Norwegian state holds a 34.3% ownership interest in the company, which employs approximately 13,000 people.



SAP SE is a German multinational software corporation that makes enterprise software to manage business operations and customer relations. SAP is headquartered in Walldorf, Baden-Württemberg, with regional offices in 130 countries.

The largest companies in SKAGEN Vekst (continued)



Carlsberg A/S is an international brewing company. The company produces branded beers and regional brands. Carlsberg makes most of its beer outside of Denmark which is sold in markets around the world. The company also markets and produces soft drinks, water and wine.



Swedish/Finnish incumbent telecom operator offering services primarily in the Nordic region. Its history goes back to 1853 as the Royal Swedish Electrical Telegraph. The company is Europe's fifth largest telecom operator and offers services across Eurasia, including stakes in mobile phone operators in Turkey and Russia.



ABB is a multinational corporation headquartered in Zurich, Switzerland, operating mainly in robotics and the power and automation technology areas. ABB is one of the largest engineering companies as well as one of the largest conglomerates in the world. ABB has operations in around 100 countries, with approximately 150,000 employees.



Koninklijke Philips N.V. is a Dutch diversified technology company headquartered in Amsterdam with primary divisions focused in the areas of electronics, healthcare and lighting. It is expected to list its lighting division through a separate company in 2016.



Norwegian Air Shuttle is the leading Nordic-based low cost airline, which in 2015 expects to fly over 26m passengers. The fleet of airliners and the route network are growing rapidly, proving the concept of a Norwegian low-cost airline, with Nordic, European and global reach.

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Unless otherwise stated, all performance data in this report 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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