SKAGEN Vekst
Status Report – February 2016

The art of common sense

SKAGEN

Summary – February 2016

- After a difficult start to 2016 the fund recovered somewhat in February on both a relative as well as an absolute basis. Measured in EUR, the fund delivered a positive return of 1.1% in the month versus its benchmark which lost 0.1%. YTD the fund is down 8.3% while the benchmark index is down 6.8%.

- Measured in NOK, the largest contributors in February were Norsk Hydro, Norwegian and Volvo. The largest detractors were Credit Suisse, Continental, and Samsung Electronics.

- After a tough start to 2016, there were glimpses of stabilisation in the global equity markets in February and the SKAGEN Vekst portfolio delivered decent returns.

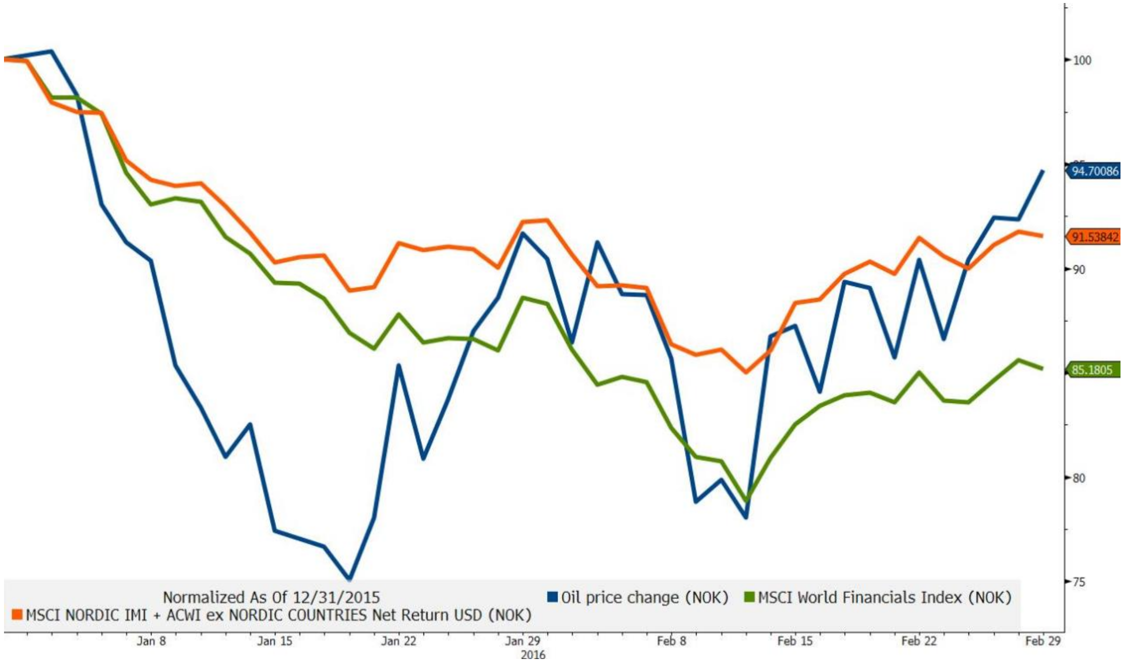
- Several of our positions have been put under review and as markets have come down we are looking at entering new portfolio positions at attractive levels. Restructuring in companies also creates interesting opportunities and we redeploy investments where we see good potential for better returns for stakeholders going forward. In February we have seen this in the dry bulk company Golden Ocean Group, which was increased in the portfolio.

- SKAGEN Vekst continues to be an active investment fund with solid foundations in SKAGEN's value based investing philosophy.

Unless otherwise stated, all performance data in this report is in EUR, for class A units and is net of fees.
** SKAGEN Vekst benchmark index is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World*

After the storm – let's hope for calmer seas ahead

- January 2016 will be remembered as one of the toughest starts to a year in the history of global equity markets.
- In February we have seen a normalisation of commodity prices, both soft commodities and the harder hit energy and materials commodities.
- The uncertainty surrounding financial companies also calmed after concerns regarding their exposure to oil and gas companies and the potential negative effects of prolonged low interest rates.



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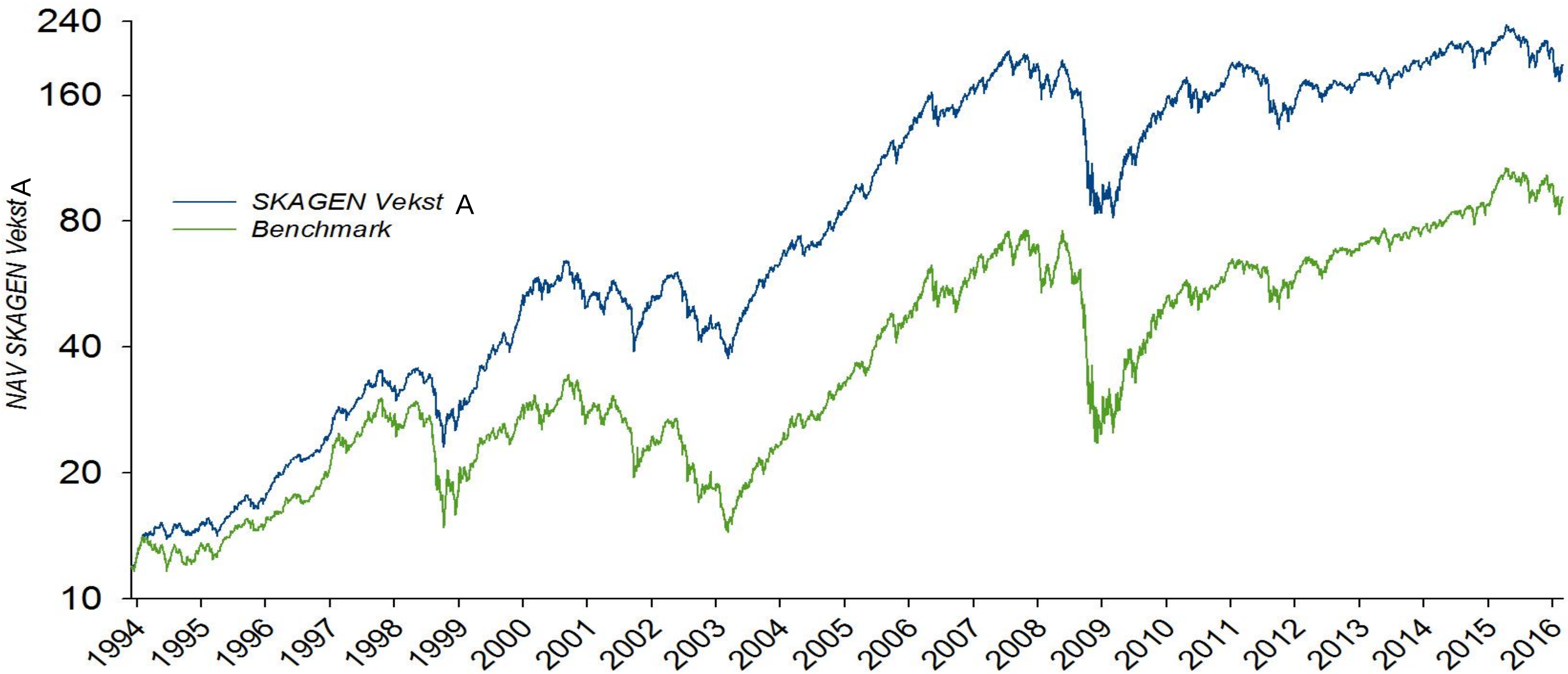
Results, February 2016

EUR, net of fees

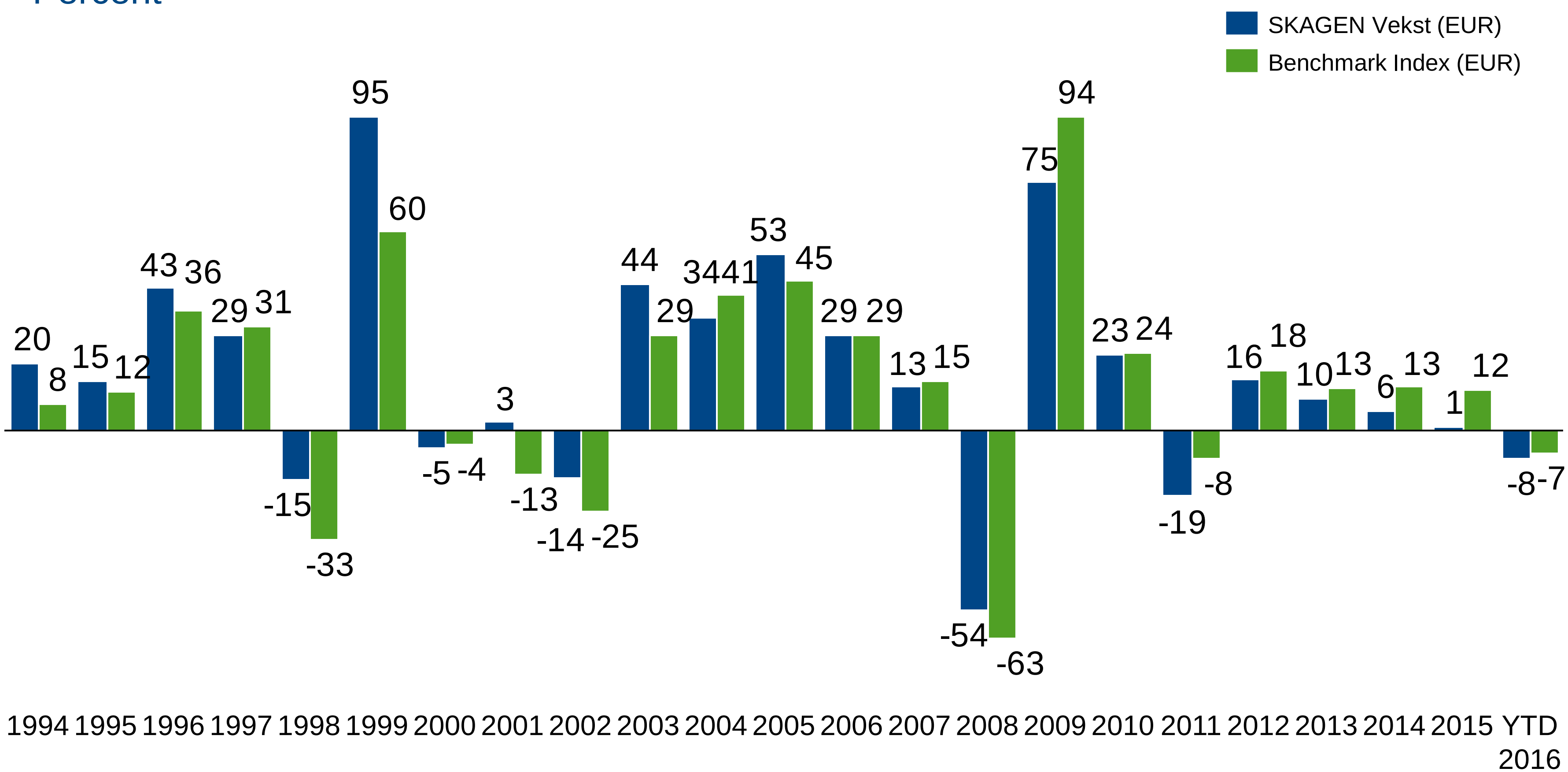


	February	QTD	2015	1 Year	3 years	5 years	10 Years	Since inception*
SKAGEN Vekst A	1,1%	-8,3%	1,4%	-13,2%	1,8%	-0,2%	2,9%	13,2%
Benchmark index*	-0,1%	-6,8%	12,2%	-8,6%	8,4%	7,3%	5,8%	9,6%
Excess return	1,2%	-1,5%	-10,8%	-4,6%	-6,6%	-7,5%	-2,9%	3,6%

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



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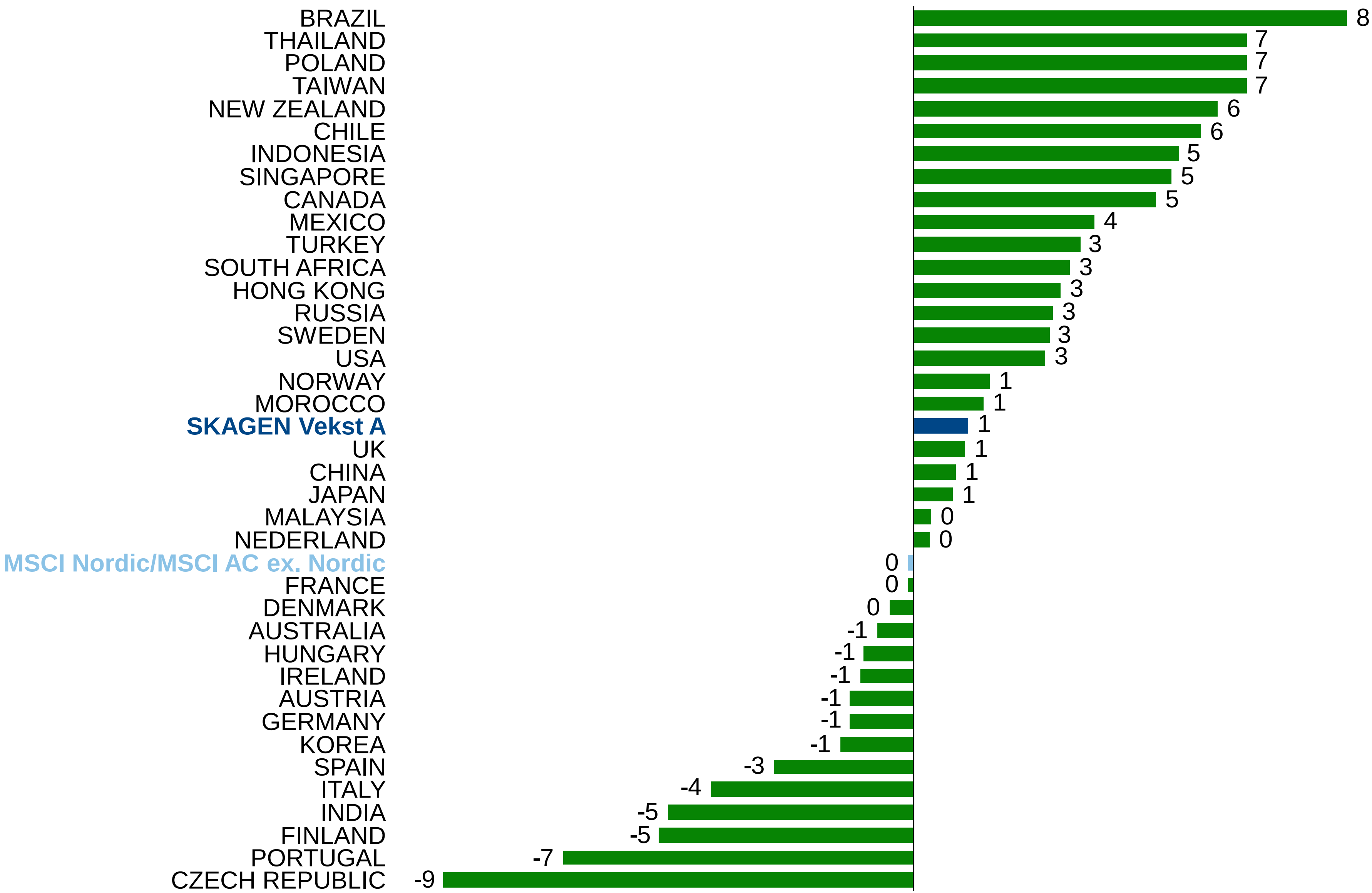
Markets in February in 2016 in EUR (%)



Largest holdings SKAGEN Vekst, end of February 2015

SKAGEN Vekst has 57% 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
Samsung Electronics	6,6 %	986 000	7,6	6,9	6,8	0,8	1 300 000
Norsk Hydro	6,5 %	35	12,8	13,9	9,9	1,0	45
Continental AG	6,3 %	183	12,6	10,6	9,5	3,0	298
Carlsberg	5,5 %	594	22,0	17,0	14,8	2,1	822
SAP	5,2 %	70	18,9	17,1	16,1	3,3	92
Norwegian Air Shuttle	4,3 %	287	19,1	7,6	5,7	3,5	500
Citigroup	4,2 %	39	7,2	7,5	6,7	0,6	78
Philips	3,9 %	23	16,7	14,6	12,3	1,8	30
Teliasonera	3,8 %	40	11,3	11,3	11,3	1,7	45
Ericsson	3,6 %	79	19,2	15,5	13,6	1,8	130
Weighted top 10	**49,9 %**		**12,6**	**10,8**	**9,5**	**1,38**	**46%**
Weighted top 35	**92,1 %**		**12,0**	**10,7**	**7,8**	**0,99**	**55%**
Benchmark index			**16,0**	**14,3**	**13,0**	**1,95**	

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

Main contributors in February 2016

Largest positive contributors

Company	NOK Millions
Norsk Hydro ASA	85
Norwegian Air Shuttle AS	27
Volvo AB	25
Lundin Petroleum AB	21
Carlsberg A/S	17
Ericsson LM-B SHS	14
Catena AB	13
Oriflame Cosmetics AG	12
ABB Ltd	11
SKF AB	10

Largest negative contributors

Company	NOK Millions
Credit Suisse Group AG	-44
Continental AG	-20
Samsung Electronics Co Ltd	-20
SAP SE	-15
Citigroup Inc	-14
Koninklijke Philips NV	-11
Rec Silicon ASA	-9
Nippon Seiki Co Ltd	-8
Frontline Ltd	-8
SBI Holdings Inc	-6

Value Creation MTD (NOK MM): 117

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Norsk Hydro ASA	21
Cal-Maine Foods Inc	14
Catena AB	12
Lundin Petroleum AB	12
Volvo AB	11
H Lundbeck A/S	6
Bonheur ASA	3
Danieli & Officine Meccaniche SpA	2
Golar LNG Ltd	1

Largest negative contributors

Company	NOK Millions
Continental AG	-112
Citigroup Inc	-104
Samsung Electronics Co Ltd	-96
Credit Suisse Group AG	-94
Investment AB Kinnevik	-43
Norwegian Air Shuttle AS	-40
Kia Motors Corporation	-32
Teliasonera AB	-32
SAP SE	-27
Rec Silicon ASA	-26

Value Creation YTD (NOK MM): -765

NB: Contribution to absolute return

Most important changes Q1 2016

Holdings increased

Q1

Hennes & Mauritz AB	(New)
Catena AB	(New)
Golden Ocean Group Ltd	
Investment AB Kinnevik	
Ericsson LM-B SHS	

Holdings reduced

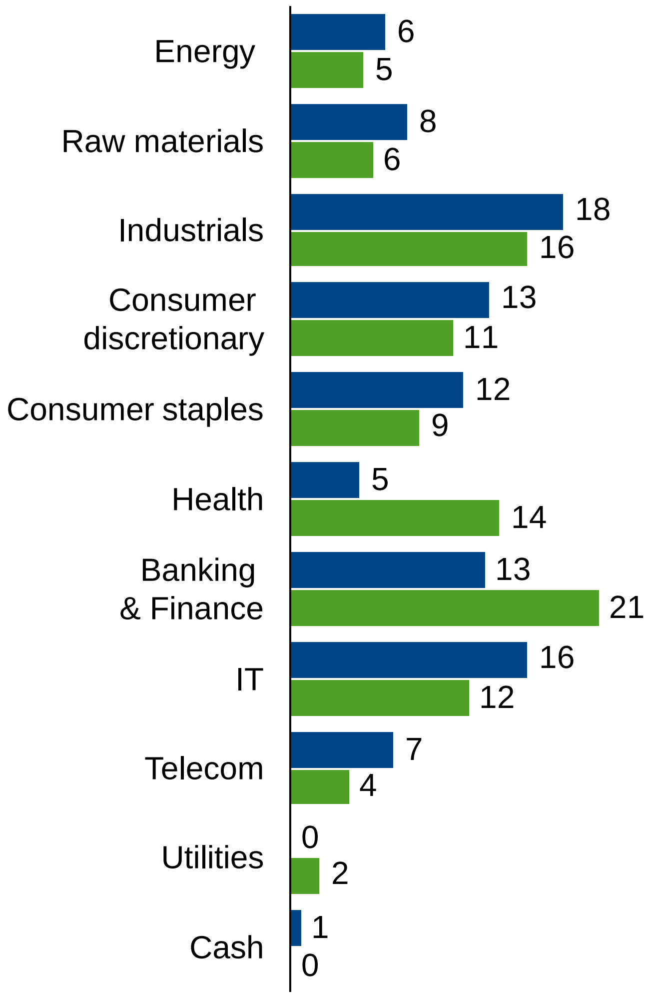
Q1

FLSmidth & Co A/S	(Out)
Bang & Olufsen A/S	(Out)
YIT Oyj	(Out)
Tribona AB	(Out)
ABB Ltd	
Carlsberg A/S	
Samsung Electronics Co Ltd	
Lundin Petroleum AB	
Koninklijke Philips NV	
Norsk Hydro ASA	
Teliasonera AB	

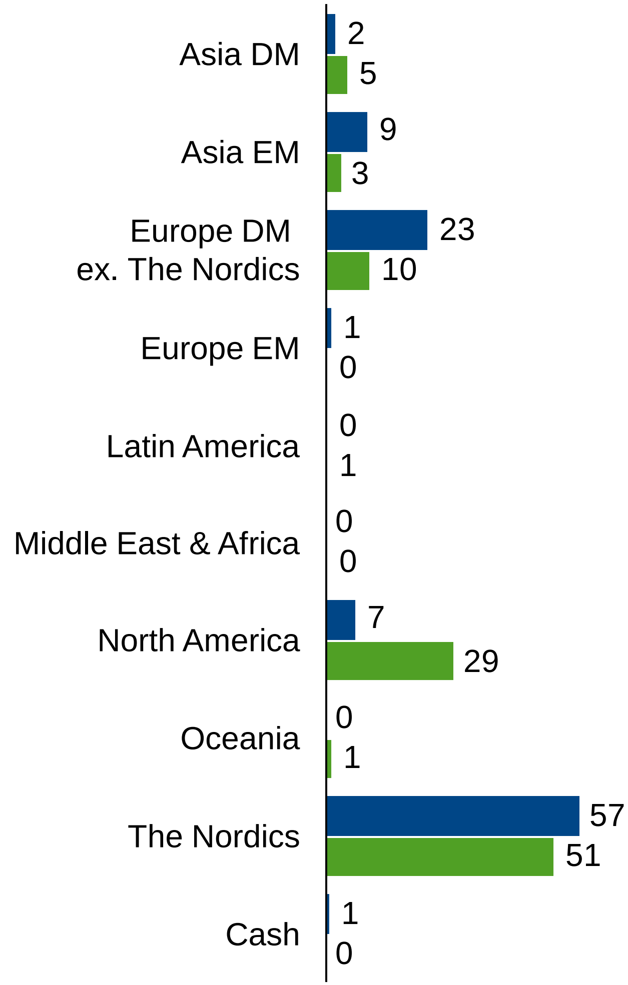
Sector and geographical distribution vs. index (percent)

Fund
Index

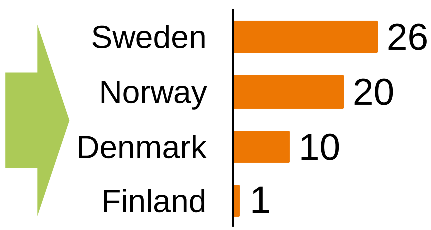
Sector distribution



Geographical distribution



Nordics in SKAGEN Vekst



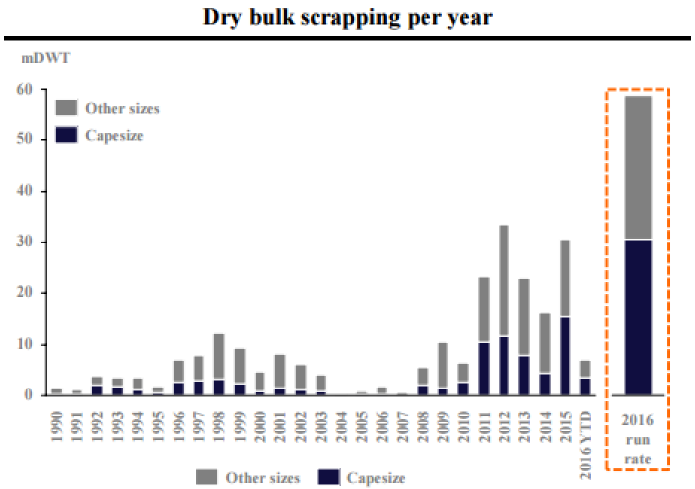
Key buy and sell, February 2016

Key buy

Golden Ocean Group

- SKAGEN Vekst decided to take a larger position in the John Fredriksen controlled dry bulk shipping company in connection with the restructuring of the company.

- The combination of a strong commitment by the main shareholder and a realignment with the banks makes for an attractive entry point in a very unpopular market over the last year with vessel values at their lowest.



Key sell

YIT

- The Finnish property construction company was sold out of the portfolio in the month.

- Although the company has delivered more satisfying results over the year, and been able to reduce their debt more quickly than anticipated, the company has been negatively affected by its exposure to Russia.

- Given the lacklustre development of the Finnish property market and the continued bearish sentiment in Russia, we decided to better deploy the capital in other investments in the portfolio.

Key earnings releases and corporate news, February 2016

Norsk Hydro
(6.5%)

A very strong Q4 report. Guidance better due to reduced production in China

Investment case update
Positive. Solid execution on cost savings continues. They now expect the aluminium market to be largely in balance by the end of 2016 (they said 1 mill tonnes surplus 2 months ago) due to significant curtailments in China at the end of 2015. On the other hand, they now see primary demand growth outlook of 3-4% which is down from 4-5% due to lower building and construction activity in China. Dividend as expected at NOK 1 (yield 3%), and we expect to see increased dividend and/or share buy-backs going forward as cash flow will remain very strong.

3U Update
Unpopular: no, 57% buys – but conviction is fading among analysts
Under-researched: no, crowded
Undervalued: yes, given their low cost production, net cash and above 3% yield. But need to see a recovery in aluminium price to get it rocketing.

Fact
NHY reported Q4 EBIT of NOK 1.566 mill. Record high bauxite and alumina production and lower costs, including record low implied alumina cost. EPS FY 2015 at NOK 3.

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

Carlsberg (5.4%)

Q415 hit by restructuring costs, but strong underlying cash generation

Investment case update
The Danish brewer Carlsberg reported Q415/FY15 numbers. In Q415, reported profit was down sharply on last year, but was impacted by special items of about DKK 8.7bn related to the restructuring program "Funding the Journey" which was announced earlier in the year. The restructuring efforts have been focused on mainly the Russian and Chinese operations. After adjusting for special items, operating profit for FY15 was DKK 8.5bn, down 8% on last year with an operating margin of about 13%. The investment case is built upon the substantial self-help opportunity to bring operating margins closer to peer-group levels. The company will announce its long-term strategic plan "Sail 2022" on 16 March.

3U update
Unpopular: Few domestic institutions hold it and it is perceived as the 'Danish Ministry of Beer'. Majority of sell-siders are at hold/sell.
Under-researched: 35 analysts and it is a beer company most people know. However, focus is on the poor historical track record and they don't buy into the better upcoming profitability. We think it is misanalysed in terms of timing and potential profitability perspective.
Undervalued: Net earnings likely to grow 15-20% over the next few years and stock trades at 16x earnings – in line with overall market, which has 7% growth. It has a well-known business model (make good beer and sell it) so execution risk going forward should be limited. Carlsberg has net debt of DKK 31bn (most of it from 2007 acquisition of Baltika in Russia), they pay DKK 1.4bn in dividend, so it will take them 4-5 years to become debt free (which would again lift net cash earnings by DKK 1bn per year), so good upside leverage.

Facts
FY15 beer volume came in at 132m, a decline of 2% over last year. Net revenue was up just over 1% to DKK 65bn. After adjusting for special items, the operating profit was down 8% to DKK 8.5bn.

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

Philips (3.9%)

Good operational progress and order intake send stock higher

Investment case update

Although low earnings quality, Philips show good progress in improving its operations and cash flow generation. As expected, outlook is on the cautious side and despite good order intake (+15% Y/Y) we see upgrades of c. 3-4%.
The story remains interesting as the company aims to go from a conglomerate towards a med-tech company. However, this will be a volatile journey as the company needs to acquire some competence within cloud technology which does not come cheap. Short-term triggers concerning divestment of lighting limit downside from current levels. Future company should have the ability to make at least EUR 2/share which could see share price at EUR 30.

3U update

Unpopular: Mixed, perceived as value trap due to weak cash flow yield last 10 years and endless restructuring charges. 55% of analysts have HOLD/SELL.
Under-researched: No, 32 analysts follow the company including bulge bracket internationals. However, overweight of capital goods analysts rather than med-tech analysts.
Undervalued: Yes, provided that Philips succeeds with its restructuring towards a med-tech company it has potential to make FCF >EUR 2/share in a few years on which it trades 10x (cheap compared to med tech peers). Target price c. EUR 30/share

Case update details

Q415 Sales EUR 7.095m (organic +2% Y/Y), adjusted ebita EUR 842m (+13% primarily driven by cost cutting), Cashflow: EUR 740m (+32% driven by reduced working capital)
FY15 Sales EUR 24.2bn (organic +2% Y/Y), adjusted ebita EUR 2.2bn (+7% driven by strong 2nd half 2015). ROCE 7% (4.5% in 2014).

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

Volvo (3.2%)

Good report confirms ability for EPS to reach SEK 10 before 2018 .

Investment case update

Despite flat sales development in 2015, Swedish-headquartered Volvo increased adj. eps from SEK 2.5/share in 2014 to SEK 6.6/share in 2015 (implies attractive P/E 12x) on improved operations and better mix. Even though the currency was favourable throughout 2015, reported numbers support thesis that company should be able to make SEK 10/share before 2018 provided recovery in truck volumes.

Cash flow was extremely strong during the quarter (follows other industrials which clearly had high inventory levels going into Q415). Volvo is now net cash on its industrials operations (ex leasing) which is comforting.
The new CEO is reshaping the truck organisation which will mean greater focus on the different brands. As the different brands are targeting different customer groups this sounds wise. However, we need more truck volumes for the stock to work.

3U-Check

Unpopular: Mixed view among investors, 50% of sell side analysts have hold-sell
Under-researched: No, stock covered by 28 analysts, but short-term horizon fails to capture long-term value of the company
Undervalued: Play on recovery in trucking volumes and margin improvement which could give eps SEK10/share. TP 120/share (50% upside)

Fact Q415

- Group: Sales -1%, adj ebit margin 6.8% (3.9% Q414), strong operating cash flow SEK 14.7bn resulted in net cash position for industrial positions (ex leases)
- Truck sales -2%. Weak demand in the US offset by strong growth in EU, Ebit margin 7.9% (6.0% Q414).
- Construction equipment sales -16% - all regions weaker except EU, Ebit margin -1.7% (-6.6% Q414).

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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 wisely invested in new business areas – solar power and healthcare are on the roadmap for the future.

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.

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.

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 and it is sold in markets around the world. The company also markets and produces soft drinks, water and wine.

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)

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

Citigroup Inc. or Citi 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.

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. In 2016 it is expected to list their lighting division in a separate company.

Swedish/Finnish incumbent telecom operator offering services primarily in the Nordic region. 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.

Ericsson is a Swedish multi-national corporation that provides communication technology and services. Founded in 1876 and has today a revenue of 227bn SEK. Ericsson had 33% market share in the 2G/3G/4G mobile network infrastructure market in 2014.

For more information please visit:

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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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