

MARKET REPORT

SKAGEN



AS THE WORLD LOOKS WEST
– WE LOOK EVERYWHERE

US ELECTIONS AND A POTENTIAL FED RATE HIKE ARE AROUND THE CORNER. WE CONTINUE TO LOOK FOR OPPORTUNITIES GLOBALLY.

October 2016 | www.skagenfunds.com

Sense and sensibility

In our mid-year Market Report we observed how the outcome of the UK's referendum on European Union membership initially rocked the global financial markets – and that it took just a few weeks for some of the market indices such as MSCI EM and S&P 500 to return to trading within 1% of their pre-Brexit levels.

The British pound did not, however, recover from its initial weakening against major currencies and as we enter the fourth quarter, the pound is trading at a new post-Brexit low; a 31-year low in fact. This continued weakening has come as a result of the announcement of the timetable to leave the EU made by the UK Prime Minister Theresa May in early October.

Not always rational

When we go through periods of market volatility, we, as active investors, are at times provided with the opportunity to enter into investments at good price levels. These periods of substantial price swings also serve as proof that the financial markets' pricing mechanisms do not always work rationally. They also serve to explain why we have chosen the path of active management; conducting our own analyses and carefully making our investment decisions.

The Nobel laureate and economist Robert Shiller published a paper in 1981 titled 'Do stock prices move too much to be justified by subsequent changes in dividends?'. This is perhaps not a paper I would recommend as bedtime reading, although Shiller did come to a significant conclusion that the volatility of the stock market was in fact greater than could be explained by any rational view of the companies' future. The 1987 stock crash further bolstered Shiller's research that emotions, at times, steer market participants more than rational thought.

So, what does this walk down memory lane have to do with the past quarter's performance in SKAGEN? If we, for example, look at the three best contributors in SKAGEN Global in absolute terms, they are the two US financials AIG and Citigroup and the British security firm G4S. Two things they all have in common are that they were all unjustifiably negatively affected by the outcome of the Brexit vote – and they all subsequently posted solid quarterly earnings in line with our investment thesis.

Another example is our global real estate fund SKAGEN m2. The fund suffered in the immediate aftermath of the Brexit vote. Not because the

fund was exposed to the UK, rather owing to an outflow of capital from Europe to the US – where the fund is underweight. Shortly thereafter the tide turned once again and at the end of the third quarter the fund had gained 4.9 percent relative to its benchmark, making it the best fund so far this year in its Morningstar category in most of the markets where we operate.

Opportunities neglected by the market

Turning back to the school of thought that does in fact view the markets as rational – or efficient as it is referred to in academia – this is an area that the aforementioned Robert Shiller has proclaimed as "one of the most remarkable errors in the history of economic thought". Still, we continue to observe an increasing flow of investments going into passively managed funds. A recent study by S&P showed that the market share of passive funds now exceeds one third in the US. With fewer investors actually analysing companies before investing in them, we can make the argument that we are able to enter into positions that the wider markets tend to neglect. One good example that stands out in the past quarter is Oriflame in SKAGEN Vekst. This Swedish cosmetics company was long viewed as dependent on sales from Eastern Europe. Sales growth recently has come from Asia, Turkey and Latin America and more and more investors have taken note – the stock is up 130% so far this year. Another example of a carefully selected stock is the Australian mining company South32 in the SKAGEN Focus portfolio. When the company was spun off from BHP Billiton it had a cost structure that was not optimised. Now, after a period of cost cutting, the stock has responded positively and was up 56% in local currency during the quarter and is up 120% so far in the year. Please read further in the separate fund updates.

Dedicated CIO

On a last note, I am very happy to welcome Alexandra Morris on board as our new CIO. She comes to us with wide industry experience having worked with investor relations in the medical industry, as an analyst, as a portfolio manager and recently as CIO at one of Norway's banks. She will be SKAGEN's first CIO to focus solely on the role and it probably goes without saying that our investment philosophy will remain the same.



– Leif Ola Rød
CEO

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The Swedish cosmetics firm **Oriflame** was once again the best contributor in the fund in the quarter with a 130% share price rise year to date. Photo: Oriflame



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We continue to see growth opportunities in the Russian retailer X5 despite a 45% share price rise in the quarter. Pictured here: tins of caviar inside the Perekrstok supermarket in Moscow, operated by X5. Photo: Bloomberg



Photo: Oriflame

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Schaeffler, the automotive parts producer, was IPOd in October 2015 on the Frankfurt Stock Exchange (pictured). SKAGEN Focus has added to its equity position in Schaeffler and SKAGEN Credit also made a timely investment in a USD-bond issued by Schaeffler in the quarter.

Photo: Bloomberg

Photo: Bloomberg

LEADER

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Leif Ola Rød

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SKAGEN seeks to the best of its ability to ensure that all information given in this report is correct, however, makes reservations regarding possible errors and omissions. Statements in the report reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice.

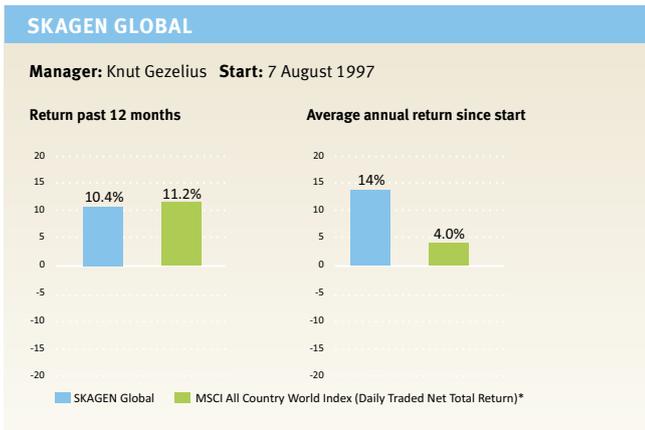
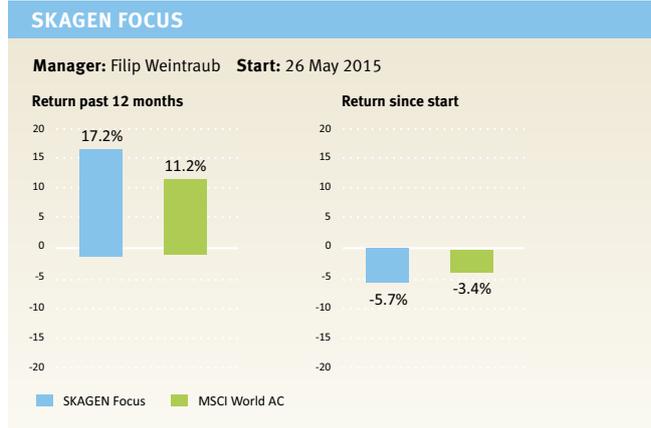
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Returns

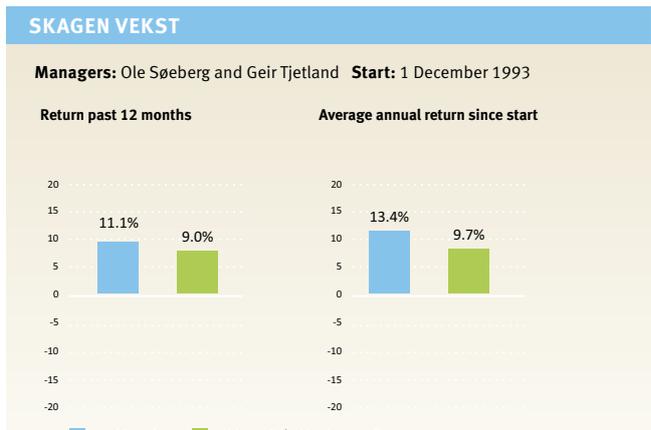
The following tables show the returns for SKAGEN's funds versus their respective benchmarks in euro. The figures are updated as of 30.09.2016

Unless otherwise stated, all performance data in this report is in euro, 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.

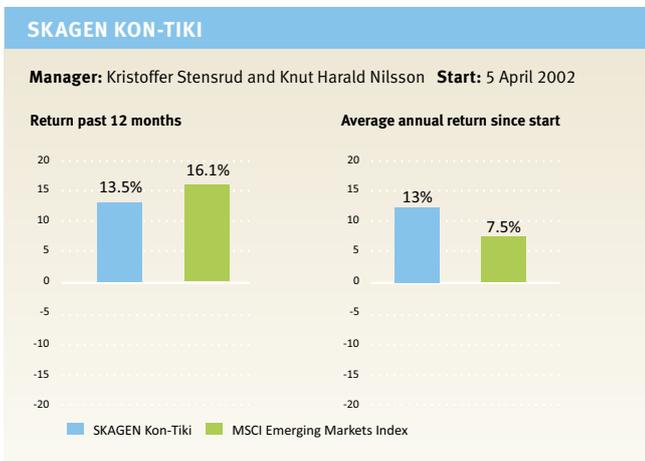
■ Equity Fund ■ Fixed Income Fund



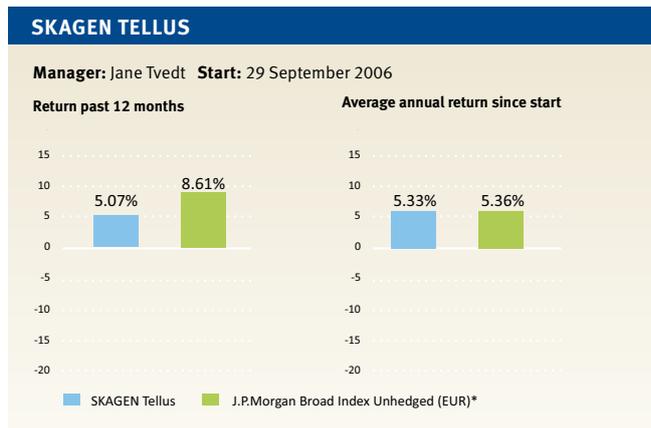
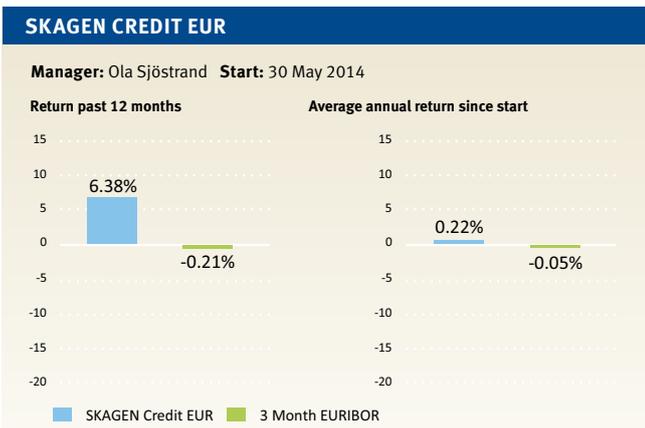
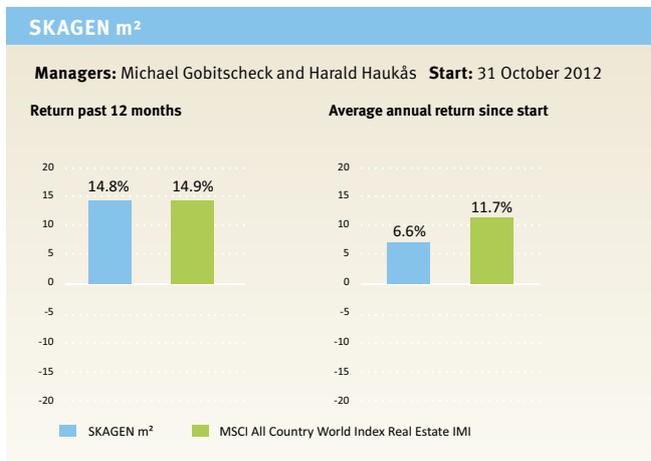
* The benchmark index prior to 1/1/2010 was the MSCI World Index



* Effective 1/1/2014, the fund's investment mandate changed. Read more on page 35. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX).



* The benchmark index prior to 1/1/2004 was the MSCI World Index



* The benchmark index prior to 1/1/2013 was Barclay's Capital Global Treasury Index 3-5 years.

Investment Director's Report

Introduction

- › A positive third quarter - 10 out of our 11 funds were ahead of their respective indices.
- › Emerging markets performed better than developed markets in the quarter and we saw a shift in investor sentiment in favour of EM equities.
- › As a result we saw increasing inflow into emerging markets. From March until May, much of the capital went into index funds (ETFs), but it is now flowing back into actively managed funds.
- › The fourth quarter looks set to be dominated by the US election and potential interest rate hike – the markets tensely await the outcome of both these events.



Photo: Bloomberg

What a year it's been – so far!

Although I only joined SKAGEN at the beginning of September, I will nevertheless venture so far as to remark “what a year it’s been so far”. We have now put the first nine months of the year behind us; a period that started with a substantial drop, only to recover right up until the big surprises of the summer with the UK electing to leave the EU (Brexit) and a coup attempt in Turkey.

– Alexandra Morris
Investment Director

Our faith in active, value-based management remains unshakeable. That is why it is gratifying to be able to report a positive third quarter for our clients – regardless of whether they invested in the equity or fixed income funds. Ten out of our eleven funds ended the third quarter ahead of their respective benchmark indices.

The only fund that ended the period behind its benchmark index was SKAGEN Kon-Tiki. The absolute return ranged from 9.6% for SKAGEN Vekst to 5.7% for SKAGEN Global while the relative return varied on a scale from 5.0 percentage points for SKAGEN Focus and SKAGEN Vekst to minus 1.7 percentage points for SKAGEN Kon-Tiki.

Please read the individual fund reports for more information about the absolute and relative performance in the third quarter.

During the third quarter, the MSCI All Country World Index gained 4.5% while the MSCI Emerging Markets Index was up 8.1%. Both indices were pushed up by the technology sector. Many investors turned

FUND PERFORMANCE YEAR TO DATE (IN BASE CURRENCY, NOK)





Photo: Bloomberg

At the beginning of the year there was a general perception that the overall outlook for Emerging Markets was rather bleak. So far these markets have shown a remarkable resilience. They continue to exhibit a higher growth rate than developed markets and have also shown an appetite for political, economic and structural changes. Pictured: Mumbai, India.

their backs on this sector during the market turbulence at the start of the year, but it has gained steadily in popularity in the ensuing months. The financial sector has also made a comeback after having suffered as a result of Brexit. The last sector worth mentioning is consumer goods, which enjoyed a positive third quarter in emerging markets in particular.

Aside from observing which sectors won the popularity contest in the quarter, it is worth pointing out that as long-term investors, we are well aware that preferences change and the picture may be entirely different another quarter.

Emerging markets march on

Bearing in mind the return figures for the third quarter, it is well worth saying a few words about the outlook, in particular for global emerging markets. At the start of 2016, a number of commentators predicted a rather unfavourable outlook for these markets. Nonetheless, emerging markets have shown a remarkable resilience so far.

Economic growth continues at a faster pace there than in more developed markets. China has not collapsed as many had feared

it would. In addition, several emerging markets countries have shown an appetite for political, economic and structural change.

Economic developments are important, but equally important is what investors are willing to pay for earnings. It now appears as though global investors have discovered and become more positive towards global emerging markets and have noticed that low equity valuations are a characteristic of these countries. Emerging markets have been trading at the low end of price/earnings relative to developed markets for the past decade. At the same time, there has been a positive earnings momentum and analysts have again started to boost earnings estimates for emerging markets companies.

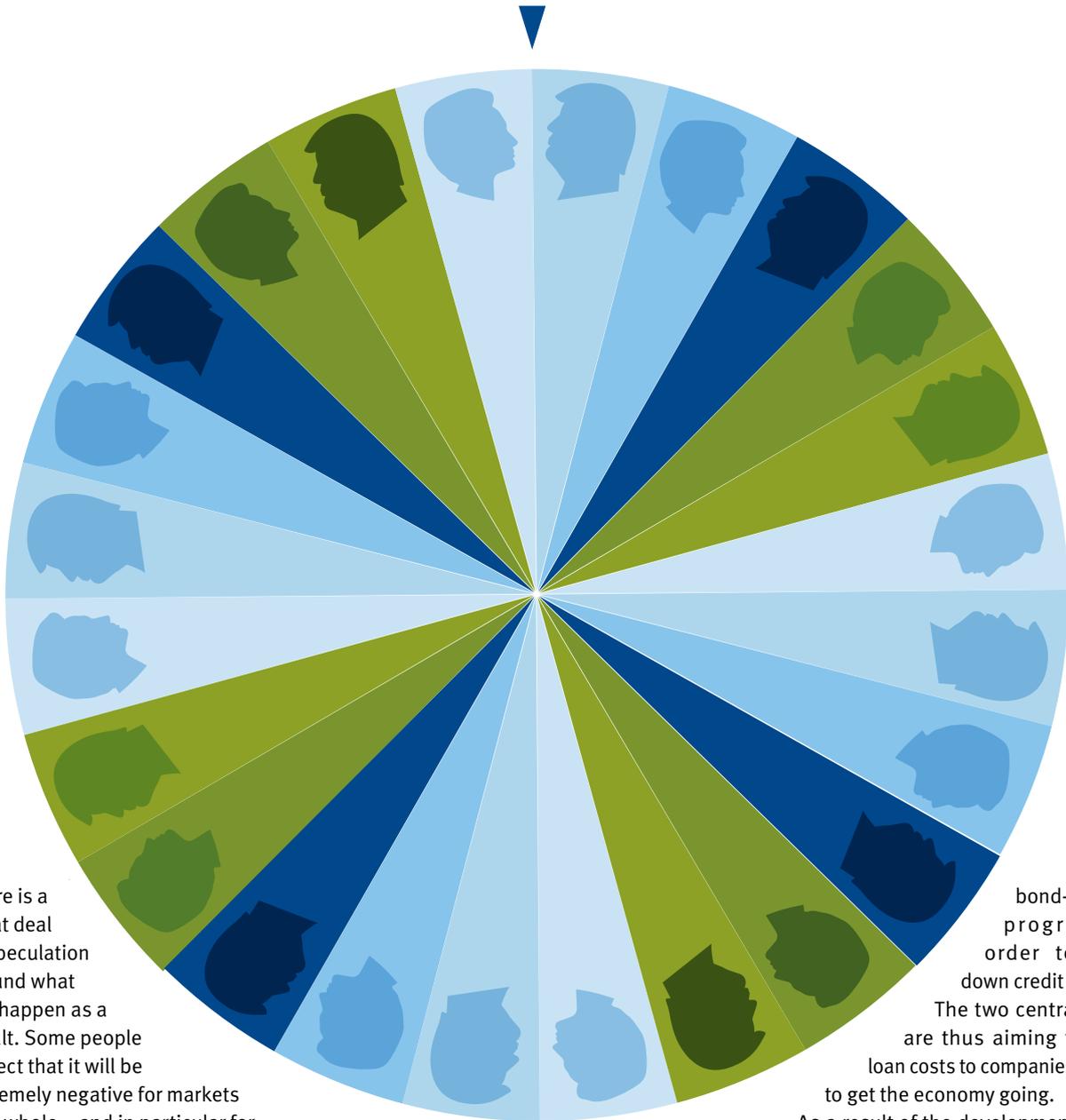
The recovery in commodity prices has also contributed to turning a previously negative sentiment towards emerging markets. From the trough on 20 January, the oil price – as measured by Brent Blend – has almost doubled to around USD 48 a barrel. During the third quarter, the oil price has for the most part hovered around USD 46-48 a barrel. For the time being, the dollar appears to have stopped rising against almost all

other currencies, and this is improving the situation for the many countries and companies with loans in US dollars.

As a result, there has been a very strong inflow of capital into emerging markets with global investors seeking better return opportunities than they can find in developed markets. At the end of August, almost USD 9 billion had flowed into equity funds focusing on emerging markets, according to figures from the international research company EPFR (Emerging Portfolio Fund Research). This year now looks like it will be the first year of inflows to emerging markets since 2012. While much of the capital that has flowed in was placed in index funds (ETFs) between March and May this year, it is now being allocated to active management.

Rate hike resilience

It will therefore be exciting to see what will happen if the US central bank, the Federal Reserve, starts to hike the policy rate in December. They have so far been cautious about tightening, but the long-announced rate hike must materialise at some point.



There is a great deal of speculation around what will happen as a result. Some people expect that it will be extremely negative for markets as a whole – and in particular for emerging markets which typically face headwinds from rising US interest rates.

We believe that a US interest rate hike is nothing to fear, however. On the contrary, a normalisation of the interest rate level is a positive sign of the economy improving. The global interest rate level is, and has been historically low. Several countries, in Europe in particular, have negative market rates. Emerging markets will thus be able to deal with slight and gradual US interest rate hikes without this changing the overall picture for these countries.

Although the Federal Reserve is still on standby, bond yields for most durations in the developed markets rose during the third quarter. The increase came after most of these countries reached a new trough in the days following the Brexit referendum. The

yield on 10-year US Treasuries rose from 1.36% to 1.58%. At the same time, the 10-year German government bond yield went from minus 0.19% to minus 0.12% in the period.

Other than the Moody's and S&P downgrade of Turkish debt to below Investment Grade, it was overall a good quarter for emerging market debt. This was also apparent from the return for our government bond fund, SKAGEN Tellus. The fund, which applies active bond selection, gained 0.29% in the quarter versus a return of -0.81% for its benchmark index.

It was also interesting to note the continued ascent in the market for corporate bonds in the third quarter. Some of this was due to the fact that the European and British central banks have initiated a corporate

bond-buying program in order to force down credit spreads. The two central banks are thus aiming to lower loan costs to companies in order to get the economy going.

As a result of the developments in the corporate bond market, and a well-selected portfolio, SKAGEN Credit delivered a return of 2.38% in the quarter. The fund seeks to identify credit investment opportunities overlooked by the market and to use the same disciplined, value-oriented investment philosophy as our equity funds.

US election

Going into the final quarter of the year, there are still a number of events ahead that may cause turbulence in the market. I have already mentioned the expected US policy rate hike; equally important is the US presidential election in November.

Uncertainty around the outcome of the US election is of course giving rise to concerns both in the US and in the global markets. Public opinion polls have tight-



Photo: Bloomberg



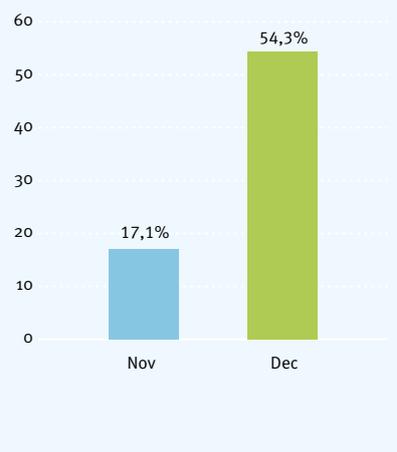
Photo: Bloomberg

ned and as the election approaches, the markets have been forced to assess what the consequences of a Trump victory might be. There is no cause for despair, however. For a long-term investor, turbulence in the markets creates opportunities to buy good companies at an attractive price – and this is crucial.

As mentioned in my introduction, I am just starting in my new role as Investment Director in SKAGEN and have no other manifesto than to focus on ensuring that we continue to deliver good results for our clients – just as SKAGEN has done in the past.

I have great faith in SKAGEN’s investment philosophy and in our portfolio managers. Value investors often know the companies better than other investors; they think long-term and do not speculate with their clients’ money. That is how they create results over time.

LIKELIHOOD OF A US RATE HIKE IN 2016



In September, the Organization for Petroleum Exporting Countries held a meeting to talk about the outlook and have seemingly agreed to modestly reduce the output to increase the price of oil in the market. Pictured: Mohammed Al-Sada, Qatar’s minister of energy and industry and president of OPEC.

The markets are preparing for a rate hike by the US central bank. Pictured: Fed chairman Janet Yellen testifying in congress.

Source: Bloomberg



SKAGEN Vekst

Exploring the narrow path to prosperity

- › Well ahead of the index in the quarter
- › Out of the tanker market
- › Orflame best contributor yet again

1 2 3 4 5 **RISK** 7

Fund start date 1 December 1993

Return since start 1679,3%

Average annual return 13.4%

AUM EUR 789 million

Number of unitholders 69 641

PERFORMANCE IN EUR Q316* 12 M*

SKAGEN Vekst 9.6% 11.1%

MSCI Nordic/MSCI AC ex. Nordic 4.5% 9.0%

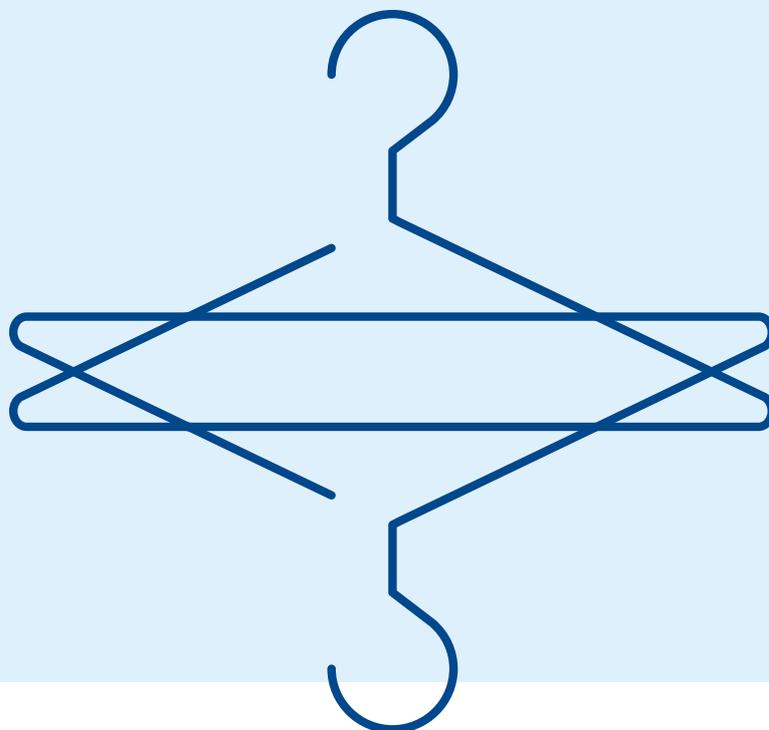
*As of 30 Sept 2016



PORTFOLIO MANAGERS

Geir Tjetland, Ole Sjøberg and Alexander Stensrud (Junior manager)

Beach cyclists. 1894. Detail. By Einar Hein, one of the Skagen painters. This image belongs to the Art Museums of Skagen (cropped).



Well dressed

Swedish cosmetics and fashion stood out in the portfolio in the third quarter.

SKAGEN Vekst gained 9.6% in the third quarter, putting it well ahead of its benchmark index which was up 4.5%. Year to date, SKAGEN Vekst is up 3.1% while the general market has gained 0.5%.

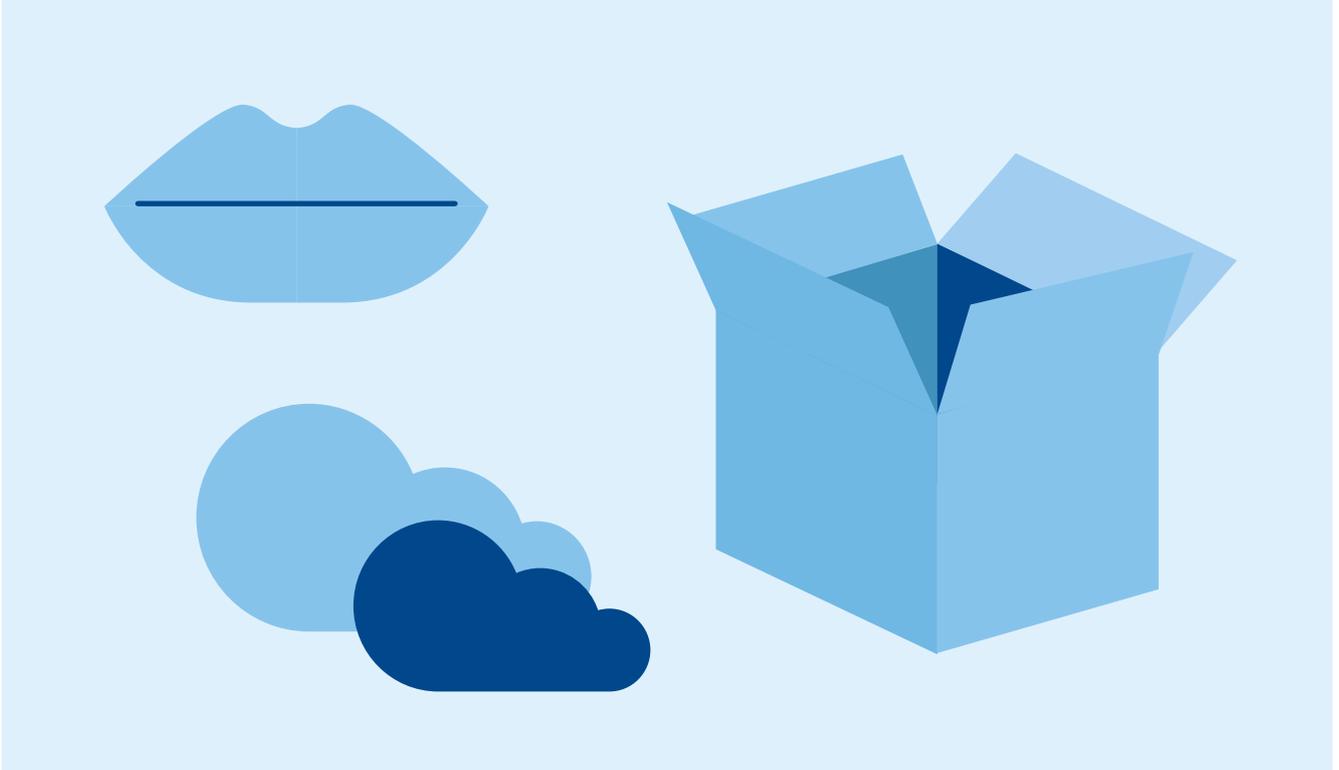
The stock market in Scandinavia was generally strong in the third quarter, with the exception of Denmark. Norway, Sweden and Finland gained between 6 and 9% (measured in EUR), while Denmark was down 6%. The broad European stock market also gained 4% while the US was up only 2%. In Japan the stock market rose 6%.

The turmoil surrounding Brexit was extremely short-lived, and at the time of writing, the focus has shifted to the US presidential election and the consequences of the two different outcomes for the global economy and stock markets. The election may well cause turbulence in the markets, but unlike Brexit, the outcome is likely focused on a stable and predictable US policy going forward. The stock markets have probably already priced this in. Regardless of the result, we will focus on our investments in good companies with low price tags.

SKAGEN VEKST KEY NUMBERS FOR THE LARGEST HOLDINGS (AS OF 30.09.2016)

| Company | Holding size | Price | P/E 2016E | P/E 2017E | P/E 2018E | P/BV latest | Target price |
|---------------------------------------|--------------|-----------|-------------|-------------|-------------|-------------|--------------|
| Samsung Electronics | 6,6% | 1 290 000 | 8,6 | 7,6 | 7,2 | 1,0 | 1 500 000 |
| Continental AG | 5,9% | 187 | 12,8 | 10,7 | 9,7 | 2,9 | 275 |
| SAP SE | 5,2% | 81 | 21,1 | 19,1 | 17,3 | 4,3 | 99 |
| Citigroup Inc | 5,0% | 47 | 9,4 | 8,3 | 7,5 | 0,6 | 65 |
| Norwegian Air Shuttle | 4,9% | 293 | 9,1 | 5,9 | 5,3 | 3,8 | 500 |
| Carlsberg AS-B | 4,7% | 632 | 18,4 | 16,2 | 14,4 | 2,2 | 830 |
| Kinnevik AB-B | 4,1% | 219 | 109,4 | 36,5 | 34,2 | 0,8 | 295 |
| Norsk Hydro ASA | 3,9% | 34 | 13,8 | 10,4 | 9,8 | 0,9 | 45 |
| Ericsson LM-B SHS | 3,7% | 62 | 18,8 | 13,8 | 11,9 | 1,5 | 88 |
| Hennes & Mauritz AB | 3,5% | 242 | 19,4 | 16,1 | 14,2 | 8,1 | 400 |
| Weighted top 10 | 47,5% | | 13,6 | 10,8 | 9,9 | 1,4 | 39% |
| Weighted top 35 | 91,4% | | 12,7 | 10,3 | 9,2 | 1,5 | 41% |
| MSCI Nordic/MSCI AC ex. Nordic | | | 17,3 | 15,4 | 13,9 | 2,1 | |

P/E may deviate from other sources when based on SKAGEN estimates.



Cosmetics on top

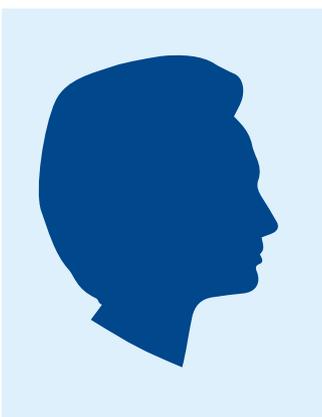
As was the case in the second quarter, the Swedish cosmetics company Oriflame was once again the best contributor in the fund. Investors are starting to realise that the company is no longer dependent on developments in the former Soviet states, but that growth is coming from Asia, Turkey and Latin America. Continued strong growth in China in particular has contributed to pushing up the share price by 45% in the third quarter, and 130% year to date. Following the recent upturn, we are now approaching our target price and have therefore reduced our holding significantly.

German SAP also performed well in the third quarter and the share price is up more than 20%. The company, which is a world leader within software/data solutions for large businesses, is still in the process of transitioning from traditional software to cloud-based solutions. Sales of the latter are growing rapidly and are the main driver of the company's value creation and will push the share price up further going forward. We took advantage of the strong performance to trim the position slightly.

Norsk Hydro was a good contributor this quarter, partly

thanks to an improvement in aluminium prices, which is based on expectations that the aluminium market will start to stabilise during the course of the year. At the start of the year, the general perception was that the aluminium market would remain very much out of kilter due to far more production than demand from China. We reduced our position somewhat during the period when the share was priced at around book value, but we are confident that Norsk Hydro will perform well in the future. The company is therefore a 3.9% position in the fund.

Last but not least, we should mention our holding in US company, eBay. The share price rose 39% in the third quarter and the position now accounts for just over 2.5% of the fund. The company's most important business area – its online marketplace – saw growth in both number of users (up 2 million) and volume (+5% measured on sales values). In its second quarter report, eBay adjusted expected growth upwards to 5-6% for the full year 2016. In addition, the company increased its share buyback program, announcing that a further USD 2.5 billion will be spent on share buybacks or 7% of all shares at today's price.



Hillary fears

Despite a good quarter in both absolute and relative terms, some positions in the fund performed less well, in particular pharmaceuticals company, Roche. Along with the entire pharma sector, the company saw weak share price development in the third quarter. The stock market's memory can sometimes be good since many people clearly remember Hillary Clinton's crusade against pharmaceutical companies more than 20 years ago. There are fears that Clinton will put pressure on the entire industry when it comes to the pricing of pharmaceutical products if she wins the election in November.

Both Telia and Ericsson saw slightly negative performance in the third quarter and although Carlsberg was flat for the quarter, we were somewhat disappointed with the result. The warm late summer and early autumn were positive for beer sales throughout most of Europe and given that Russia is also generally improving, we should see positive reports from Carlsberg in future.

Out of the tanker market

Frontline was sold out of the portfolio during the quarter. We chose to relinquish our sole exposure to the tanker market since rate developments continued their negative trend at the same time as fleet growth continues to rise. Towards the end of the quarter, OPEC announced their proposal to cut oil production by 740,000 barrels per day – the first such suggestion in eight years. If the proposal goes through, and is sustained, it will result in reduced demand for tankers, and possibly the withdrawal of as many as 20 ships. This would clearly put further pressure on rates in the future.

The Samsung share price was up in the quarter. We took advantage of the increase to reduce our position somewhat, primarily because the share is nearing our price target and the upside is slightly reduced. Battery problems in their new mobile Galaxy Note 7 have had a negative effect on the share price, although we believe this to be transitory since the company has shown the ability and willingness to tackle the problems at an early stage. In addition, Samsung continued to sell off its non-core business; both its stake in the semi-conductor business ASML and Samsung's printer division were sold during the third quarter. We reduced our stake in Philips in the quarter, and used some of the capital from this to increase our holding in the newly spun-off subsidiary, Philips Lighting. We also trimmed our holdings in Volvo and Credit Suisse somewhat, in addition to the above-mentioned Norsk Hydro and SAP.

What have we bought/added to

The global biopharmaceutical company Shire was a newcomer in the portfolio this summer. The company has 30 years' history developing drugs to treat rare conditions within the fields of neuroscience, gastrointestinal diseases and internal medicine, amongst others. This includes treatment of extremely rare and life-threatening illnesses such as Hunter's Syndrome and Fabry's

disease, as well as treatment of ADHD and ulcerative colitis. Shire's acquisition of Baxalta was finalised in June this year, and the combined company is now a clear world leader within rare diseases. We believe that the company will continue to grow more than 15% over the next 4-5 years; a more than 60% upside from today's level.

We almost doubled our position in H&M in the third quarter and it now accounts for just over 3% of the portfolio. The company's value development has been extremely weak over the past few years, but the current pricing of H&M is in our view attractive for a long-term investor. We have glimpsed a flattening out of the gross margin and took advantage of the weak sales figures caused by the warm weather (lack of demand for autumn wear) to add to our position. The weather will likely turn.

Kinnevik has a long history in SKAGEN's portfolios, having made its first appearance there in 1994. Since that time, the company has once again reinvented itself. Currently, value can primarily be found in the electronic commerce companies Zalando and Global Fashion Group, while the "old" value is in the telephony companies Millicom and Tele2. The latter has performed poorly over the past few years, but the current share price should provide a significant upside. We believe that Kinnevik will continue to build value through new investments, as well as by selling off existing divisions. The major driver will be the further development of the company's electronic commerce operations.

We also increased our holdings in Norwegian Air and Danske Bank.

At the end of the third quarter, the SKAGEN Vekst portfolio trades at 13 times this year's earnings, substantially lower than the general market. Measured against book value, the portfolio is priced at 1.5, also well below the market at 2.1. We are therefore well positioned to face both the upcoming presidential election as well as any other geopolitical challenges that may arise.

SKAGEN VEKST PORTFOLIO CHANGES IN Q3 2016 (PERCENTAGE OF AUM)

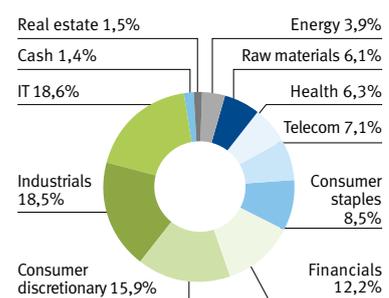
| 5 largest contributors | | 5 largest purchases | |
|------------------------|--------|-----------------------|--------|
| Oriflame Holding | 0,87% | Hennes & Mauritz AB | 2,24% |
| SAP | 0,79% | Kinnevik | 1,16% |
| Norsk Hydro | 0,76% | Shire | 0,83% |
| Samsung Electronics | 0,68% | Norwegian Air Shuttle | 0,75% |
| eBay | 0,64% | Danske Bank | 0,56% |
| 5 largest detractors | | 5 largest sales | |
| Ericsson | -0,32% | Norsk Hydro | -2,01% |
| Roche Holding | -0,29% | Samsung Electronics | -1,97% |
| Hennes & Mauritz AB | -0,26% | Oriflame Holding | -1,96% |
| Telia | -0,25% | Phillips | -1,46% |
| Bonheur | -0,18% | SAP | -0,59% |

HISTORICAL PRICE DEVELOPMENT SKAGEN VEKST

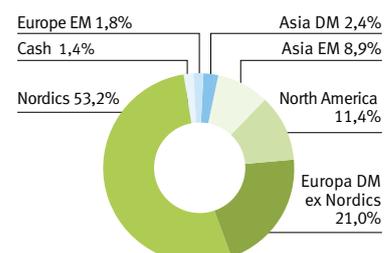


* Effective 1/1/2014, the fund's investment mandate changed. Read more on page 35. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX).

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



| Securities | Sector | Number of shares | Acquisition value NOK* | Market-value NOK* | Unrealised gain/loss* | Share of fund | Stock exchange |
|-----------------------------------|----------------------------|------------------|------------------------|-------------------|-----------------------|----------------|----------------|
| Samsung Electronics Co Ltd Pref | Information Technology | 49 630 | 296 541 | 464 241 | 167 700 | 6,57% | Seoul |
| Continental AG | Consumer Discretionary | 252 000 | 139 867 | 419 608 | 279 741 | 5,94% | Frankfurt |
| SAP SE | Information Technology | 515 000 | 238 067 | 370 365 | 132 298 | 5,24% | Frankfurt |
| Citigroup Inc | Financials | 943 700 | 337 135 | 351 702 | 14 566 | 4,98% | New York |
| Norwegian Air Shuttle ASA | Industrials | 1 188 040 | 170 372 | 347 621 | 177 248 | 4,92% | Oslo |
| Carlsberg AS-B | Consumer Staples | 432 000 | 272 000 | 328 735 | 56 735 | 4,65% | Copenhagen |
| Kinnevik AB-B | Telecommunication Services | 1 425 000 | 296 078 | 288 888 | -7 190 | 4,09% | Stockholm |
| Norsk Hydro ASA | Materials | 8 000 000 | 205 706 | 275 600 | 69 894 | 3,90% | Oslo |
| Ericsson LM-B SHS | Information Technology | 4 522 950 | 349 543 | 259 544 | -89 999 | 3,67% | Stockholm |
| Hennes & Mauritz AB | Consumer Discretionary | 1 100 000 | 289 108 | 247 779 | -41 329 | 3,51% | Stockholm |
| ABB Ltd | Industrials | 1 300 000 | 171 569 | 232 086 | 60 517 | 3,28% | Stockholm |
| Telia Co AB | Telecommunication Services | 5 880 000 | 270 096 | 209 291 | -60 804 | 2,96% | Stockholm |
| Roche Holding AG-Genusschein | Health Care | 106 000 | 229 901 | 209 250 | -20 652 | 2,96% | Zürich |
| Danske Bank A/S | Financials | 890 000 | 129 646 | 206 978 | 77 332 | 2,93% | Copenhagen |
| eBay Inc | Information Technology | 690 000 | 137 899 | 180 161 | 42 261 | 2,55% | NASDAQ |
| Koninklijke Philips NV | Industrials | 750 000 | 152 748 | 176 115 | 23 368 | 2,49% | Amsterdam |
| Volvo AB | Consumer Discretionary | 1 885 000 | 159 470 | 171 069 | 11 599 | 2,42% | Stockholm |
| Kia Motors Corporation | Consumer Discretionary | 425 000 | 130 536 | 129 896 | -640 | 1,84% | Seoul |
| SKF AB - B Shares | Industrials | 908 000 | 140 010 | 124 493 | -15 517 | 1,76% | Stockholm |
| Oriflame Holding AG | Consumer Staples | 425 000 | 54 629 | 124 017 | 69 388 | 1,76% | Stockholm |
| Kemira OYJ | Materials | 1 119 000 | 107 832 | 120 003 | 12 172 | 1,70% | Helsinki |
| Bonheur ASA | Energy | 2 420 511 | 224 825 | 116 669 | -108 156 | 1,65% | Oslo |
| SBI Holdings Inc | Financials | 1 139 000 | 96 714 | 107 394 | 10 680 | 1,52% | Tokyo |
| Catena AB | Real Estate | 800 000 | 70 593 | 105 739 | 35 146 | 1,50% | Stockholm |
| Sberbank of Russia Pref | Financials | 7 580 000 | 109 840 | 101 496 | -8 343 | 1,44% | Moscow |
| Philips Lighting NV | Industrials | 471 792 | 92 014 | 100 071 | 8 057 | 1,42% | Amsterdam |
| Swatch Group AG | Consumer Discretionary | 44 000 | 115 141 | 99 013 | -16 128 | 1,40% | Zürich |
| Shire Plc-ADR | Health Care | 60 000 | 94 024 | 92 823 | -1 202 | 1,31% | NASDAQ |
| Wilh. Wilhelmsen Holding ASA | Industrials | 539 701 | 38 599 | 91 209 | 52 611 | 1,29% | Oslo |
| Golden Ocean Group Ltd | Industrials | 2 642 660 | 65 732 | 86 151 | 20 419 | 1,22% | Oslo |
| Lundin Petroleum AB | Energy | 471 000 | 46 434 | 68 567 | 22 133 | 0,97% | Stockholm |
| Medi-Stim ASA | Health Care | 1 070 072 | 13 385 | 66 880 | 53 495 | 0,95% | Oslo |
| Cal-Maine Foods Inc | Consumer Staples | 189 600 | 88 481 | 59 848 | -28 632 | 0,85% | New York |
| Nippon Seiki Co Ltd | Consumer Discretionary | 393 000 | 49 406 | 59 517 | 10 112 | 0,84% | Tokyo |
| Sodastream International Ltd | Consumer Staples | 277 183 | 63 016 | 58 569 | -4 447 | 0,83% | NASDAQ |
| H Lundbeck A/S | Health Care | 220 000 | 42 146 | 57 807 | 15 661 | 0,82% | Copenhagen |
| Danieli & Officine Meccaniche SpA | Industrials | 527 390 | 67 936 | 55 660 | -12 275 | 0,79% | Italian |
| Credit Suisse Group AG | Financials | 500 000 | 99 213 | 51 427 | -47 786 | 0,73% | Zürich |
| HitecVision AS | Financials | 792 668 | 7 191 | 40 585 | 33 394 | 0,57% | Unlisted |
| Strongpoint ASA | Information Technology | 3 555 227 | 40 680 | 39 641 | -1 040 | 0,56% | Oslo |
| GCL-Poly Energy Holdings Ltd | Energy | 35 000 000 | 65 216 | 37 128 | -28 088 | 0,53% | Hong Kong |
| Solar AS - B Shs | Industrials | 77 576 | 29 955 | 35 139 | 5 185 | 0,50% | Copenhagen |
| Solstad Offshore ASA | Energy | 2 006 645 | 100 573 | 31 103 | -69 470 | 0,44% | Oslo |
| CF Industries Holdings Inc | Materials | 158 900 | 31 989 | 30 917 | -1 072 | 0,44% | New York |
| Golar LNG Ltd | Industrials | 180 000 | 55 641 | 30 264 | -25 378 | 0,43% | NASDAQ |
| Rec Silicon ASA | Energy | 21 000 000 | 31 267 | 23 394 | -7 873 | 0,33% | Oslo |
| Yazicilar Holding AS | Consumer Staples | 654 669 | 22 383 | 22 659 | 276 | 0,32% | Istanbul |
| PhotoCure ASA | Health Care | 427 092 | 17 228 | 17 041 | -187 | 0,24% | Oslo |
| Goodtech ASA | Industrials | 1 950 949 | 44 407 | 16 193 | -28 214 | 0,23% | Oslo |
| TTS Group ASA | Industrials | 3 035 946 | 30 321 | 9 381 | -20 940 | 0,13% | Oslo |
| Nordic Mining ASA | Materials | 8 797 128 | 9 924 | 6 598 | -3 327 | 0,09% | Oslo Axess |
| I.M. Skaugen SE | Industrials | 1 554 152 | 18 891 | 3 233 | -15 658 | 0,05% | Oslo |
| Solstad Offshore ASA Tegningsrett | Energy | 311 208 | 0 | 934 | 934 | 0,01% | Oslo |
| Total equity portfolio* | | | 6 161 918 | 6 960 492 | 798 573 | 98,51% | |
| Disposable liquidity | | | | 105 377 | | 1,49% | |
| Total share capital | | | | 7 065 869 | | 100,00% | |

* Numbers in 1 000 NOK.

SKAGEN Global

A world of opportunities

- › A good quarter with an outperformance of 1.2 percentage points
- › AIG, G4S and Citigroup lifted the portfolio
- › There were two newcomers in the quarter: 3M and Amerco

1 2 3 4 5 **RISK** 7

| | |
|-----------------------|-------------------|
| Fund start date | 7 August 1997 |
| Return since start | 1119.4% |
| Average annual return | 14.0% |
| AUM | EUR 3 030 million |
| Number of unitholders | 87 905 |

| | | |
|---------------------------|--------------|--------------|
| PERFORMANCE IN EUR | Q316* | 12 M* |
| SKAGEN Global | 5.7% | 10.4% |
| MSCI ACWI | 4.5% | 11.2% |

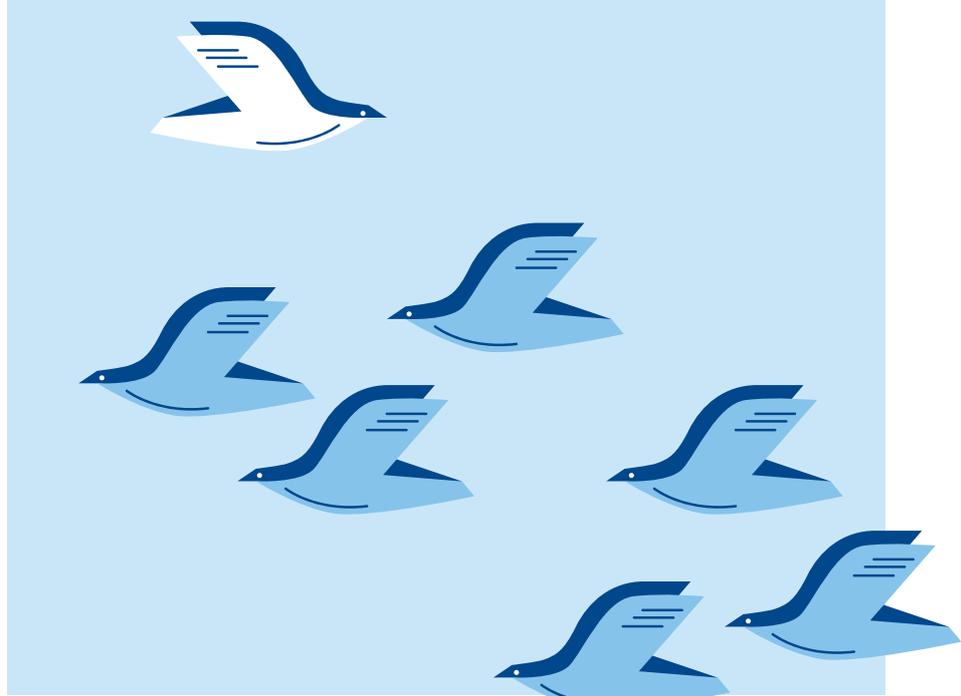
*As of 30 Sept 2016



PORTFOLIO MANAGERS

Knut Gezelius, Søren Milo Christensen, Chris-Tommy Simonsen and Tomas Johansson

From the moor north of Skagen, 1885. Detail. By P.S. Krøyer, one of the Skagen painters. This image belongs to the Art Museums of Skagen (cropped).



The art of going one's own way

In the wake of Brexit, SKAGEN Global chose to go its own way. This contributed to a good quarter for the fund, which delivered an outperformance of 1.2 percentage points.

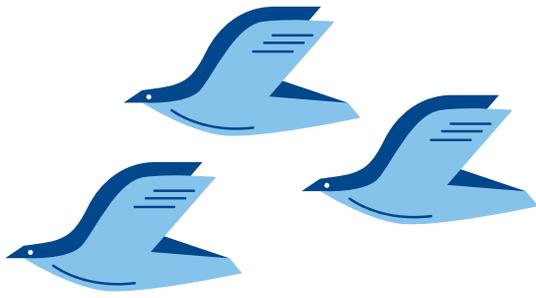
“Whenever people agree with me I always feel I must be wrong.” So said the 19th century Irish writer and satirist Oscar Wilde. The instinct and ability to question established beliefs is an important characteristic, including among investors wishing to beat the market. All too often it seems that herd mentality rather than individual critical thinking is the deciding factor governing the capital market.

At the start of the third quarter, shortly after the tumultuous Brexit-referendum, the market was still positioned for continued turmoil in the stock markets. According to data from the Bank of America, in July the average global fund manager held 5.8% of their portfolio in cash - the highest level since 2001! Nonetheless, the stock exchange defied investors' collective pessimism and the MSCI AC World index (also SKAGEN Global's benchmark index) gained 4.5% (measured in EUR) during the quarter. SKAGEN Global, which went against the trend and increased exposure to equities at the beginning of the quarter, generated a return of 5.7% (measured in EUR) during the same period.

SKAGEN GLOBAL KEY NUMBERS FOR THE LARGEST HOLDINGS (AS OF 30.09.2016)

| Company | Holding size | Price | P/E 2016E | P/E 2017E | P/BV last | Price target |
|------------------------------------|--------------|-----------|-------------|-------------|------------|--------------|
| AIG | 6,8 | 59,3 | 14,7 | 10,7 | 0,7 | 90 |
| Citigroup | 5,7 | 47,2 | 10,2 | 9,2 | 0,6 | 70 |
| Roche | 4,6 | 241 | 16,4 | 15,2 | 11,1 | 360 |
| Samsung Electronics | 4,3 | 1 290 000 | 8,1 | 7,2 | 1 | 1 500 000 |
| Merck | 4,3 | 62,4 | 16,6 | 16,2 | 4 | 76 |
| General Electric | 4,2 | 29,6 | 19,7 | 17,2 | 3,1 | 36 |
| CK Hutchison Holdings | 4,2 | 98,6 | 12,2 | 11,0 | 1 | 140 |
| NN Group | 3,6 | 27,4 | 9,4 | 8,7 | 0,4 | 35 |
| Microsoft | 3,6 | 57,6 | 19,8 | 17,9 | 6,2 | 68 |
| G4S | 3,5 | 227,8 | 14,9 | 13,4 | 4,8 | 380 |
| Weighted top 10 | 44,8 | | 13,0 | 11,4 | 1,1 | 38% |
| Weighted top 35 | 88,1 | | 14,4 | 12,8 | 1,4 | 35% |
| Benchmark index (MSCI ACWI) | | | 17 | 15 | 2,1 | |

P/E may deviate from other sources when based on SKAGEN estimates.



Portfolio activity

The fund initiated two new positions (3M and Amerco) and divested of five holdings (Xcel Energy, General Motors, Nordea, Barclays and Credit Suisse) during the third quarter.

Contributors

The fund's three best contributors in absolute terms were AIG, G4S and Citigroup. The US financial companies AIG and Citigroup were punished undeservedly hard during the Brexit turbulence, but bounced back after delivering positive quarterly reports. This confirmed

our investment hypothesis for both cases. The British security group G4S gained almost 25% in local currency during the quarter following a strong quarterly report; the improved balance sheet was particularly appreciated by the market.

Three holdings which detracted from performance during the quarter were Dollar General, Roche and Sanofi. The US discount chain Dollar General did not meet expectations regarding sales growth per store and fell 18% in local currency according to the second quarter report. We think that the share price slump is an overreaction and have added to our position as the stock now trades at an attractive 14x next year's earnings, which is lower than the average multiple since 2010 despite good earnings and growth prospects. Performance was poor for the pharmaceutical sector as a whole during the third quarter, and this was reflected in weak share prices for both Swiss Roche and French Sanofi. In the case of Roche, the market is anxiously awaiting the results of the Phase 3 APHINITY study (breast cancer), which are expected at the end of the year. Sanofi's shares fell after a major US distributor replaced the company's long-acting basal insulin drug, Lantus, with a competing product.



Photo: 3M

3M

The fund initiated a position in 3M, a US conglomerate dating from the early 1900s, which is currently headed up by Swedish CEO Inge Thulin, who has been with the company for many years. 3M is listed in the US, but the group's sales are highly diversified globally with around 40% from North America, 30%

from Asia, 20% from Europe and the Middle East and 10% from the rest of the world. 3M is often classified as an industrial company but in fact its product range is considerably broader than the classification suggests and also includes consumer, health and safety products. Thanks to good pricing power and a focus on the premium segment, 3M generates a return on capital employed in excess of 20%. We believe that the market continues to underestimate 3M's ability to generate strong cash flow over several years that can finance large investments in research and development (equivalent to 6% of sales) as well as return capital to shareholders via dividends and share buybacks. 3M has paid a dividend without interruption over the past 100 years and raised it for 58 consecutive years. This is a sign of the company's ability to continually renew its product offering and master unexpected crises, which we believe limits the downside risk in the stock. We estimate an upside of at least 30% for the share price within the next two years.



Amerco

Amerco is the anonymous parent company of the better known brand U Haul, which dominates the removals market in the US with an estimated 50% market share through its 250 000 trucks and trailers. The family-controlled Amerco has also expanded its operations into such segments as storage and insurance. The return on capital employed (before tax) amounted to around 15%, which should be reflected in good equity returns over time given that market conditions have not changed significantly. The removal activities are in principle unleveraged which opens up for possible future dividends if the balance sheet is optimised. Despite a market capitalisation of USD 6 billion, the company almost entirely lacks coverage from analysts - perhaps due to its complex corporate structure. Better communication from (and about) the company may lead to greater interest from investors going forward with multiple expansion as a result.

We sold out of the US energy company Xcel Energy which, after a steady climb in the stock market, was starting to approach our target price and thus no longer appeared to be significantly undervalued. We have also exited our holding in the US automobile manufacturer General Motors. Although the company has beaten analysts' expectations by a wide margin for several quarters in a row, it is

at the same time grappling with demand that may have passed its peak and will eventually face transformational challenges in the form of digital carpooling services and self-driving cars. In the banking segment, we believe that the structural headwinds are unlikely to abate in the foreseeable future and have therefore sold the last of our shares in Nordea, Barclays and Credit Suisse.



Outlook & valuation

When Oscar Wilde died in 1900, the yield on ten-year government bonds was around 3%. Since then, this figure has fluctuated between 1.5% (2016) and 15.8% (1981) and at the end of the third quarter of 2016 was 1.6%. The global equity markets (MSCI AC World) are currently trading at 15x 2017 P/E, which is 13% higher than the average over the past 15 years. The valuation should be put in the perspective of the low interest rate environment and against this backdrop we still see a global equity portfolio as a very attractive investment option for long-term investors.

SKAGEN Global applies detailed fundamental company analysis to select between 40 and 50 undervalued global equities that offer attractive risk-adjusted returns. The fund's 35 largest holdings represent 88% of the total portfolio and on average have a 35% upside potential calculated over a time horizon of two years. SKAGEN's investment philosophy has proven to be a successful concept which has enabled SKAGEN Global to outperform its benchmark 15 of 19 years.

SKAGEN GLOBAL PORTFOLIO CHANGES IN Q3 2016 (PERCENTAGE OF AUM)

5 largest contributors

| | |
|----------------------|-------|
| AlG | 0,68% |
| Citigroup | 0,48% |
| G4S | 0,48% |
| Cheung Kong Holdings | 0,43% |
| Samsung Electronics | 0,39% |

5 largest purchases

| | |
|----------------|-------|
| 3M | 2,05% |
| Comcast | 1,40% |
| Unilever | 0,67% |
| Amerco | 0,52% |
| Dollar General | 0,46% |

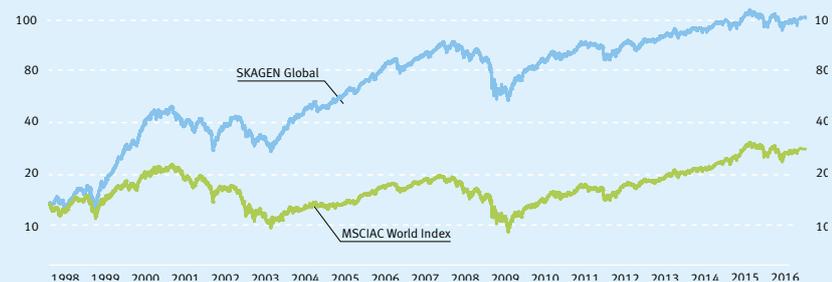
5 largest detractors

| | |
|--------------------------------|--------|
| Dollar General | -0,64% |
| Roche Holding | -0,47% |
| Sanofi | -0,35% |
| General Electric | -0,33% |
| Teva Pharmaceutical Industries | -0,32% |

5 largest sales

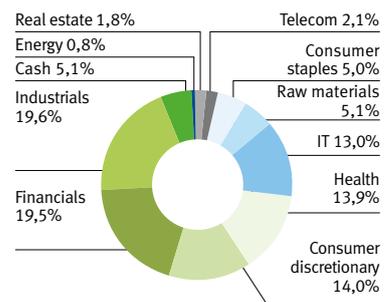
| | |
|---------------------|--------|
| Citigroup | -1,56% |
| AlG | -1,49% |
| Xcel Energy | -1,38% |
| Heidelberg Cement | -0,93% |
| Credit Suisse Group | -0,88% |

HISTORICAL PRICE DEVELOPMENT SKAGEN GLOBAL

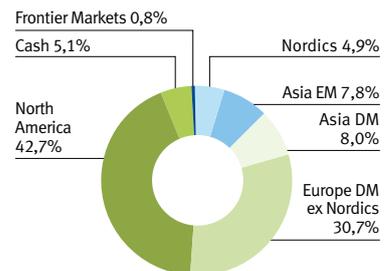


* The benchmark index prior to 1/1/2010 was the MSCI World Index

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



| Securities | Sector | Number of shares | Acquisition value NOK * | Market-value NOK* | Unrealised gain/loss * | Share of fund | Stock exchange |
|------------------------------------|----------------------------|------------------|-------------------------|-------------------|------------------------|----------------|----------------|
| American International Group Inc | Financials | 3 909 586 | 1 274 700 | 1 843 537 | 568 837 | 6,77% | New York |
| Citigroup Inc | Financials | 4 160 767 | 1 095 689 | 1 559 706 | 464 016 | 5,73% | New York |
| Roche Holding AG-Genusschein | Health Care | 631 458 | 941 586 | 1 249 756 | 308 170 | 4,59% | Zürich |
| Merck & Co Inc | Health Care | 2 347 310 | 1 083 177 | 1 173 936 | 90 760 | 4,31% | New York |
| General Electric Co | Industrials | 4 796 440 | 979 757 | 1 139 490 | 159 733 | 4,19% | New York |
| CK Hutchison Holdings Ltd | Industrials | 11 120 098 | 981 277 | 1 129 773 | 148 496 | 4,15% | Hong Kong |
| Samsung Electronics Co Ltd Pref | Information Technology | 111 904 | 271 818 | 1 046 813 | 774 995 | 3,85% | Seoul |
| NN Group NV | Financials | 4 030 990 | 866 426 | 987 720 | 121 294 | 3,63% | Amsterdam |
| Microsoft Corp | Information Technology | 2 142 570 | 513 419 | 984 794 | 471 376 | 3,62% | NASDAQ |
| G4S Plc | Industrials | 40 072 713 | 1 166 322 | 941 143 | -225 179 | 3,46% | London |
| Unilever NV-Cva | Consumer Staples | 1 899 849 | 630 690 | 697 090 | 66 401 | 2,56% | Amsterdam |
| Comcast Corp | Consumer Discretionary | 1 297 708 | 531 216 | 688 273 | 157 057 | 2,53% | NASDAQ |
| Teva Pharmaceutical-Sp ADR | Health Care | 1 850 367 | 769 426 | 680 834 | -88 591 | 2,50% | NASDAQ |
| Sanofi | Health Care | 1 125 289 | 748 090 | 680 030 | -68 060 | 2,50% | Paris |
| Kingfisher Plc | Consumer Discretionary | 17 395 707 | 669 919 | 678 394 | 8 475 | 2,49% | London |
| Toyota Industries Corp | Consumer Discretionary | 1 645 705 | 445 251 | 603 853 | 158 603 | 2,22% | Tokyo |
| Koninklijke Philips NV | Industrials | 2 456 460 | 473 235 | 577 861 | 104 626 | 2,12% | Amsterdam |
| Cap Gemini SA | Information Technology | 707 453 | 548 103 | 552 326 | 4 222 | 2,03% | Paris |
| 3M Co | Industrials | 389 500 | 578 688 | 548 756 | -29 932 | 2,02% | New York |
| Carlsberg AS-B | Consumer Staples | 678 377 | 465 628 | 517 139 | 51 512 | 1,90% | Copenhagen |
| Dollar General Corp | Consumer Discretionary | 928 677 | 580 778 | 515 412 | -65 366 | 1,89% | New York |
| Koninklijke DSM NV | Materials | 769 391 | 321 768 | 412 088 | 90 320 | 1,51% | Amsterdam |
| Autoliv Inc | Industrials | 458 182 | 302 867 | 386 799 | 83 933 | 1,42% | New York |
| Volvo AB | Consumer Discretionary | 4 241 770 | 334 623 | 385 311 | 50 688 | 1,42% | Stockholm |
| China Mobile Ltd | Telecommunication Services | 3 973 490 | 396 169 | 384 249 | -11 921 | 1,41% | Hong Kong |
| Akzo Nobel NV | Materials | 693 647 | 231 902 | 374 261 | 142 359 | 1,38% | Amsterdam |
| Alphabet Inc Class C | Information Technology | 59 696 | 244 165 | 370 654 | 126 489 | 1,36% | NASDAQ |
| Sony Corp | Consumer Discretionary | 1 229 300 | 243 540 | 319 430 | 75 891 | 1,17% | Tokyo |
| Johnson Controls International Plc | Industrials | 834 251 | 108 247 | 307 693 | 199 446 | 1,13% | New York |
| Ageas | Financials | 1 015 112 | 383 434 | 294 187 | -89 247 | 1,08% | Brussels |
| Mayr-Melnhof Karton AG | Materials | 333 933 | 172 249 | 293 703 | 121 454 | 1,08% | Vienna |
| Columbia Property Trust Inc | Real Estate | 1 589 780 | 289 144 | 284 661 | -4 483 | 1,05% | New York |
| Baidu Inc ADR | Information Technology | 180 410 | 263 950 | 263 058 | -892 | 0,97% | NASDAQ |
| ServiceMaster Global Holdings Inc | Consumer Discretionary | 945 676 | 288 194 | 255 884 | -32 310 | 0,94% | New York |
| Skechers USA Inc | Consumer Discretionary | 1 394 387 | 325 627 | 254 467 | -71 160 | 0,93% | New York |
| Lundin Petroleum AB | Energy | 1 583 370 | 176 741 | 230 481 | 53 740 | 0,85% | Stockholm |
| Hiscox Ltd | Financials | 2 084 780 | 234 455 | 225 333 | -9 121 | 0,83% | London |
| Goldman Sachs Group Inc | Financials | 172 636 | 153 809 | 221 888 | 68 078 | 0,82% | New York |
| Irsa Sa ADR | Real Estate | 1 425 497 | 118 740 | 217 300 | 98 560 | 0,80% | New York |
| Lenovo Group Ltd | Information Technology | 38 742 506 | 283 916 | 205 190 | -78 726 | 0,75% | Hong Kong |
| HeidelbergCement AG | Materials | 252 045 | 83 468 | 188 854 | 105 386 | 0,69% | Frankfurt |
| China Mobile Ltd ADR | Telecommunication Services | 373 130 | 186 660 | 182 956 | -3 704 | 0,67% | New York |
| Autoliv Inc SDR | Industrials | 188 105 | 117 692 | 158 846 | 41 154 | 0,58% | Stockholm |
| State Bank Of India GDR | Financials | 496 529 | 91 101 | 147 847 | 56 746 | 0,54% | India |
| WM Morrison Supermarkets PLC | Consumer Staples | 6 463 929 | 139 589 | 145 167 | 5 578 | 0,53% | London |
| Amerco | Industrials | 51 405 | 146 849 | 132 273 | -14 576 | 0,49% | NASDAQ |
| Samsung Electronics Co Ltd | Information Technology | 11 108 | 94 970 | 128 720 | 33 750 | 0,47% | Seoul |
| Sony Corp Sponsored ADR | Consumer Discretionary | 437 000 | 90 416 | 115 054 | 24 638 | 0,42% | New York |
| Lundin Mining Corp | Materials | 1 462 531 | 40 571 | 46 335 | 5 764 | 0,17% | Toronto |
| State Bank of India | Financials | 1 261 856 | 32 513 | 38 033 | 5 521 | 0,14% | India |
| Total equity portfolio* | | | 21 512 562 | 25 767 362 | 4 254 800 | 94,67% | |
| Disposable liquidity | | | | 1 449 973 | | 5,33% | |
| Total share capital | | | | 27 217 335 | | 100,00% | |

* Numbers in 1 000 NOK.



SKAGEN Kon-Tiki

Leading the way in new waters

- › EM outperformed DM in the quarter and there are signs this may continue
- › Structural reforms in many EM should stimulate long-term growth
- › Russian grocery retailer X5 stood out with shares up 45% in the quarter

| 1 | 2 | 3 | 4 | 5 | RISK | 7 |
|---------------------------|-------------------|--------------|---|---|------|---|
| Fund start date | 5 April 2002 | | | | | |
| Return since start | 490.2% | | | | | |
| Average annual return | 13.0% | | | | | |
| Assets under management | EUR 3 524 million | | | | | |
| Number of unitholders | 67 293 | | | | | |
| PERFORMANCE IN EUR | Q316* | 12 M* | | | | |
| SKAGEN Kon-Tiki | 6.4% | 13.5% | | | | |
| MSCI Emerging Markets | 8.1% | 16.1% | | | | |

*As of 30 Sept 2016

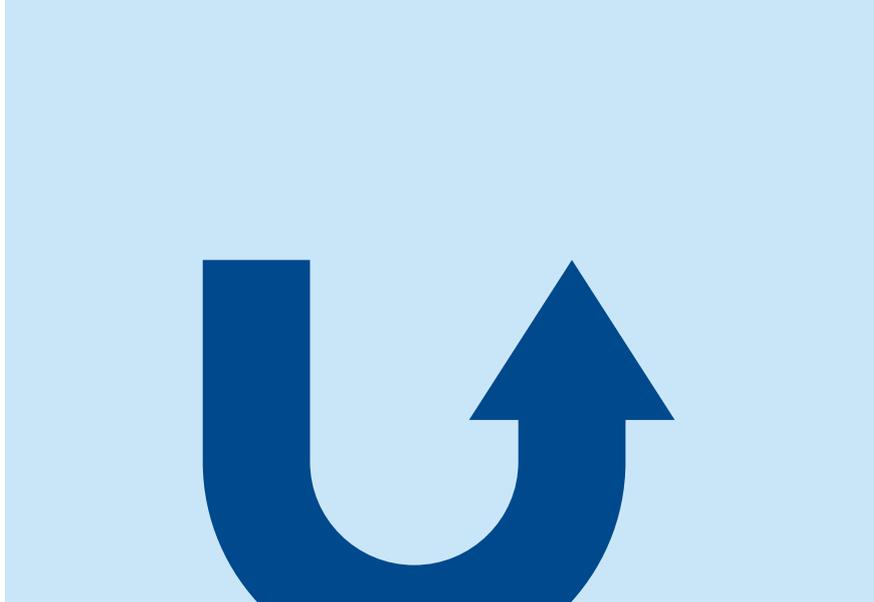


PORTFOLIO MANAGERS

Kristoffer Stensrud, Knut Harald Nilsson, Cathrine Gether, Erik Landgraaf and Hilde Jenssen*

*Appointed head of product specialists as of 12.10.2016

Skagen reef's lightship, 1892. Detail. By Carl Locher, one of the Skagen painters. The picture is owned by the Art Museums of Skagen. (Cropped)



Shift in favour of EM equities

Emerging markets outpaced developed markets in the quarter and we saw a shift in investor sentiment in favour of EM equities. For SKAGEN Kon-Tiki, it was also gratifying to observe that the second quarter earnings season resulted in breaking the downward earnings revision trend, although this was not enough to help the relative performance of the fund.

Emerging markets (EM) have disappointed investors in recent years, as stocks have been held back for a number of reasons including political turmoil, weak exchange rates, weak commodity prices and sluggish export growth. This has led to disappointing company results and earnings downgrades in EM over the past few years.

During the third quarter, we saw signs of the trend reversing. Emerging market equities outpaced developed markets (DM) by

4.11 percentage points during the quarter, and the big question now is whether this is likely to continue.

Volatility is likely to persist as emerging markets remain sensitive both to global monetary policy and macroeconomic indicators in the short term. However, confidence seems to be returning to EM. We see signs that the outperformance relative to developed markets can continue.

Positive earnings season

For SKAGEN Kon-Tiki, which focuses on company fundamentals, it was also gratifying to observe that the second quarter earnings season resulted in breaking the downward earnings revision trend, as we have finally seen earnings being upgraded on an aggregate basis for EM. This could be a sign that expectations are now down to more realistic levels so that we could start seeing positive surprises again. However, it still remains to be seen whether it will become a trend or if it was a one-off.

The strong second quarter results season did not help the fund's relative performance, however. For the period, SKAGEN Kon-Tiki was up 6.4% (in EUR) while the MSCI EM index was up 8.1%.

Climbing the risk ladder

We are currently operating in an environment with low yields in DM and weak expected returns. When more than one third of developed markets' government-issued bonds have negative yields, what do investors do? They search for higher yields by climbing the risk ladder. As a result, there has been strong inflow into EM bonds and equities over the past few months. This was exaggerated after Brexit in June as investors also started to readjust their risk scale. Sluggish growth in Europe and a cautious Fed should lead to continued accommodative monetary policy and a low rate environment in DM.

Other factors have also been supportive of the shift in investor sentiment in favour of EM equities. In China, government stimulus appears to have stabilised activity while the negative focus on a potential hard landing we saw at the beginning of the year as well as concerns about China's foreign exchange policy have abated. Raw material prices have stabilised at a level which seems healthy both for exporters as well as importers, while EM currencies are on average more competitive after the fall in 2015.

The growth gap between EM and DM is set to widen again, and that is normally correlated with a stronger EM equity market. According to Bloomberg consensus estimates, GDP in EM is set to expand by around 4% this year, while next year growth is set to increase to almost 5%. In contrast, DM is expected to see more modest growth of around 1.7% for both years. EM growth drivers include big economies like Brazil and Russia which seem to be recovering from recessions. Asian economic indicators are also signalling further growth.

Structural reform

We have also seen signs that many emerging markets are finally making progress when

it comes to structural reforms that should stimulate growth in the longer term. In India we have seen two very positive reforms coming through over the past few months with the national bankruptcy law as well as the national goods and services tax bill. Brazil seems to be cleaning up both when it comes to corruption but also politically with a more market-friendly president. These are exactly the measures we need in order to see continued improvement in the sentiment around EM going forward.

If you consider the fact that EM companies now have historically low margins (as opposed to many DM countries), with a valuation gap to DM which is now almost back to dotcom bubble levels, then on a relative basis it is easy to argue for relative outperformance. In terms of absolute levels, EM is now trading in-line with historical averages at around 1.5x P/B multiple.



Photo: Bloomberg



Photo: Bloomberg



Photo: Bloomberg

Winners and losers

Among the detractors from fund performance in the quarter, our Indian telecom services provider Bharti Airtel (1.7% of the portfolio) was down almost 15% (local currency) mostly on concerns about new competitor Reliance Jio's eagerly anticipated launch this quarter. Yet another competitor in India is clearly not positive news, but as we expected, there are no signs that they are out to destroy the market with their pricing packages. We believe the ongoing market consolidation will continue. The long-term prospects still look strong as smartphone penetration is low at 25% (representing more than half the mobile data in India) and mobile broadband penetration is only 12%. This underlines the significant scope for growth. A lot of bad news is already taken into account with a valuation of 6x 17x EV/EBITDA.

Our Turkish conglomerate Sabanci (4.5% holding) was also a detractor in the quarter. Turkey was downgraded from investment grade by Moody towards the end of the quarter, and the recent political turmoil also weighed negatively on the stock. However, Sabanci has shown good operational progress in the first half of the year. Sabanci gives us high-quality bank exposure and an undemanding valuation for the non-financials portfolio with strong earnings momentum at a heavily discounted price based on our sum-of-the-parts analysis.

SKAGEN KON-TIKI KEY NUMBERS FOR THE LARGEST HOLDINGS (AS OF 30.09.2016)

| Company | Holding size % | Price | P/E 2016E | P/E 2017E | P/BV last | Price target |
|------------------------|----------------|-----------|-------------|-------------|------------|--------------|
| Hyundai Motor | 8,0 | 100 500 | 4,2 | 4,0 | 0,4 | 170 000 |
| Samsung Electronics | 7,0 | 1 290 000 | 8,3 | 7,6 | 1,0 | 1 700 000 |
| Mahindra & Mahindra | 4,9 | 1 406 | 18,7 | 14,1 | 2,9 | 2 000 |
| Naspers | 4,5 | 172 | 38,2 | 26,4 | 7,4 | 216 |
| Sabanci Holding | 4,5 | 9,29 | 6,4 | 5,8 | 0,9 | 14 |
| Richter Gedeon | 4,2 | 5 600 | 18,7 | 15,3 | 1,6 | 7 500 |
| X5 Retail Group | 3,7 | 1 910 | 18,4 | 14,7 | 4,4 | 2 242 |
| ABB | 3,1 | 192 | 18,3 | 16,7 | 3,8 | 200 |
| Cosan Ltd. | 3,0 | 23,4 | 7,8 | 7,1 | 0,5 | 32 |
| State Bank of India | 2,7 | 251 | 15,7 | 11,4 | 0,9 | 300 |
| SBI Holdings | 2,3 | 1 196 | 8,5 | 8,0 | 0,7 | 2 500 |
| Banrisul | 2,2 | 10,7 | 6,5 | 6,3 | 0,7 | 14 |
| Weighted top 12 | 49,9 | | 9,0 | 8,1 | 0,9 | |
| Weighted top 35 | 79,8 | | 12,5 | 10,0 | 1,0 | |
| Benchmark index | | | 13,8 | 12,0 | 1,6 | |

P/E may deviate from other sources when based on SKAGEN estimates.

Growth opportunities

On the winning side, our Russian grocery retailer X5 (3.7% holding) stands out this quarter with the shares up 45% in local currency after delivering strong second quarter results. They are on track to take over as the overall market leader in Russian grocery retail next year, and to double their business over a 3-4 year timeframe. They have renewed and repositioned their formats and improved the value proposition over the past couple of years. As they have been ramping up the store expansion, it is now increasingly clear that they are getting more bargaining power with the suppliers as well as scale effects within the business.

Russian grocery retail is still at an early stage with modern formats still representing a smaller share of grocery retail compared to more mature countries. It is a fragmented market where the top 5 players have around 20% market share compared to more like 60-70% in more established markets. As a result, we are confident X5 has a lot of growth opportunities ahead. Despite the recent share price strength, the company is still one of the cheapest grocery retailers in the EM universe. It trades at a 2017e EV/EBITDA multiple of 7x compared to close to 10x for the sector, despite higher growth and higher return on equity.



Sticking to value

The hunt for yield has forced capital into more risky assets which is conducive to equities. We believe the renewed focus on EM is likely to continue as it offers an attractive opportunity through improving fundamentals and a more attractive valuation than DM. EM trades at a 2016e P/B multiple of 1.5x compared to 2.1x for DM. By way of comparison, the Kon-Tiki portfolio now trades at 1.0x. This shows the value aspect of the portfolio, and the fact that we stick with our investment philosophy which has served us well over the years.

Value stocks have been out of favour for a long time now, but as the valuation gap between value and growth has also increased, we believe the valuation aspect will eventually return to fashion.



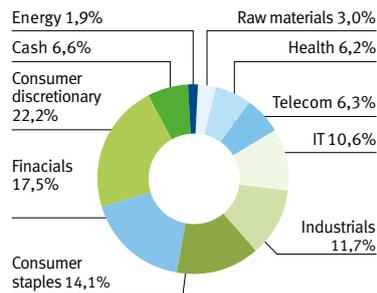
Photo: Bolloré

Complex newcomer

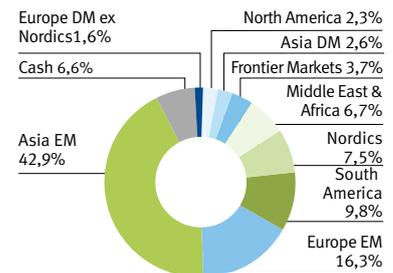
A newcomer in the portfolio this quarter is the French-listed conglomerate Bolloré. Bolloré is the clear number 1 logistics provider on the African continent, making it an important beneficiary of long-term economic development in the region. It is also present within freight forwarding where they have strong growth opportunities especially in the Americas. They also own a stake in media company Vivendi which is a turnaround candidate. Their battery technology and car sharing scheme provides a "free option" if they were to succeed. And a complex holding structure means Bolloré owns around 50% of itself. Any untangling of this web would crystallise value, even though we do not take this into account as a likely scenario in our valuation.

A complex group structure makes it unpopular with investors, and it is probably one of the least buy-side covered EUR 10bn companies out there. At an attractive 30% discount to our conservatively calculated sum-of-the-parts valuation for a long-term compounder of Bolloré's calibre, this is an investment case which clearly fulfils our investment philosophy.

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



HISTORICAL PRICE DEVELOPMENT SKAGEN KON-TIKI



SKAGEN PORTFOLIO CHANGES IN Q3 2016 (PERCENTAGE OF AUM)

5 largest contributors

| | |
|---------------------|-------|
| X5 Retail Group | 0,99% |
| Samsung Electronics | 0,64% |
| Hyundai Motor | 0,57% |
| ABB | 0,40% |
| Banrisul | 0,38% |

5 largest detractors

| | |
|---------------------------|--------|
| Haci Omer Sabanci Holding | -0,47% |
| Bharti Airtel | -0,35% |
| Tech Mahindra | -0,29% |
| LG Electronics | -0,28% |
| Samsung SDI | -0,18% |

5 largest purchases

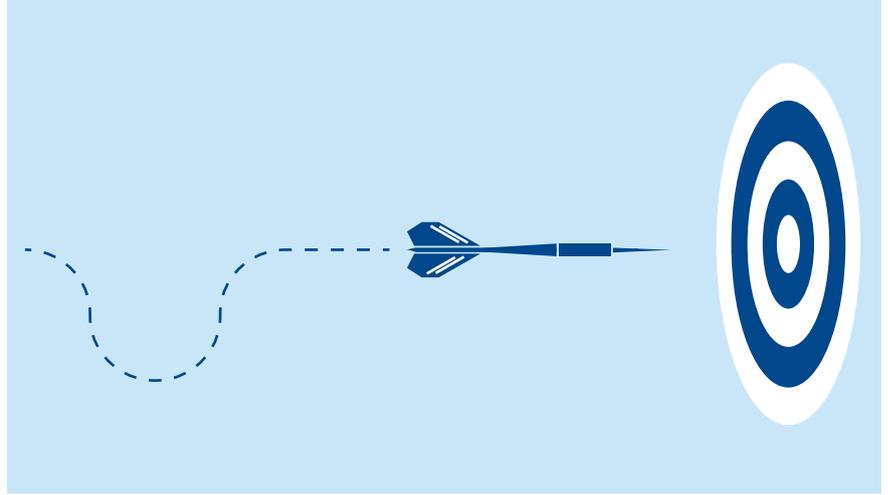
| | |
|------------------------|-------|
| Naspers | 0,44% |
| Bolloré | 0,25% |
| Kinnevik | 0,23% |
| Sistema | 0,17% |
| Cia Cervecerias Unidas | 0,16% |

5 largest sales

| | |
|---------------------|--------|
| State Bank of India | -1,87% |
| Moscow Exchange | -1,76% |
| Samsung Electronics | -1,26% |
| UPL | -0,68% |
| Bharti AirTel | -0,62% |

| Securities | Sector | Number of shares | Acquisition value NOK * | Market-value NOK* | Unrealised gain/loss * | Share of fund | Stock exchange |
|--|----------------------------|------------------|-------------------------|-------------------|------------------------|----------------|----------------------|
| Samsung Electronics Co Ltd Pref | Information Technology | 176 000 | 844 789 | 1 646 403 | 801 615 | 5,20% | Seoul |
| Naspers Ltd | Consumer Discretionary | 1 035 393 | 414 217 | 1 434 723 | 1 020 506 | 4,54% | Johannesburg |
| Haci Omer Sabanci Holding AS | Financials | 56 848 322 | 1 240 691 | 1 406 560 | 165 869 | 4,45% | Istanbul |
| Richter Gedeon Nyrt | Health Care | 8 234 857 | 896 692 | 1 340 615 | 443 923 | 4,24% | Budapest |
| Mahindra & Mahindra Ltd GDR | Consumer Discretionary | 7 629 541 | 178 007 | 1 292 936 | 1 114 929 | 4,09% | London International |
| Hyundai Motor Co Pref (2pb) | Consumer Discretionary | 1 690 000 | 286 196 | 1 292 924 | 1 006 728 | 4,09% | Seoul |
| Hyundai Motor Co Pref (1p) | Consumer Discretionary | 1 670 000 | 268 957 | 1 217 072 | 948 116 | 3,85% | Seoul |
| X5 Retail Group NV GDR | Consumer Staples | 4 990 306 | 506 677 | 1 155 629 | 648 952 | 3,65% | London International |
| ABB Ltd | Industrials | 5 405 900 | 445 582 | 967 486 | 521 904 | 3,06% | Stockholm |
| Cosan Ltd | Consumer Staples | 16 220 419 | 907 123 | 932 253 | 25 129 | 2,95% | New York |
| State Bank of India | Financials | 28 375 000 | 646 809 | 855 243 | 208 434 | 2,70% | India |
| SBI Holdings Inc | Financials | 7 759 600 | 603 768 | 732 314 | 128 545 | 2,31% | Tokyo |
| Banco Do Estado Rio Grande Do Sul SA Pref | Financials | 25 985 500 | 608 331 | 682 712 | 74 381 | 2,16% | Sao Paulo |
| Kinnevik AB-B | Telecommunication Services | 3 292 167 | 549 279 | 667 221 | 117 942 | 2,11% | Stockholm |
| Great Wall Motor Co Ltd | Consumer Discretionary | 79 522 500 | 83 910 | 618 647 | 534 737 | 1,96% | Hong Kong |
| Samsung Electronics Co Ltd Pref GDR | Information Technology | 119 489 | 117 733 | 556 851 | 439 118 | 1,76% | London International |
| LG Electronics Inc Pref | Consumer Discretionary | 3 050 000 | 826 565 | 549 617 | -276 948 | 1,74% | Seoul |
| Cia Brasileira de Distribuicao - Pref | Consumer Staples | 4 192 200 | 642 353 | 549 467 | -92 886 | 1,74% | Sao Paulo |
| Bharti Airtel Ltd | Telecommunication Services | 14 582 628 | 557 791 | 549 304 | -8 486 | 1,74% | India |
| CNH Industrial NV | Industrials | 9 138 348 | 555 765 | 520 469 | -35 296 | 1,65% | New York |
| Indosat Tbk PT | Telecommunication Services | 126 424 850 | 341 055 | 466 928 | 125 873 | 1,48% | Indonesia |
| Samsung SDI Co Ltd | Information Technology | 670 000 | 480 383 | 466 423 | -13 960 | 1,47% | Seoul |
| Tech Mahindra Ltd | Information Technology | 8 784 608 | 354 670 | 442 450 | 87 780 | 1,40% | India |
| Korean Reinsurance Co | Financials | 4 860 366 | 182 711 | 410 609 | 227 898 | 1,30% | Seoul |
| Yazicilar Holding AS | Consumer Staples | 10 837 139 | 313 127 | 375 506 | 62 379 | 1,19% | Istanbul |
| Kiatnakin Bank Plc | Financials | 30 000 000 | 268 342 | 366 654 | 98 312 | 1,16% | Bangkok |
| Marfrig Global Foods SA | Consumer Staples | 28 290 400 | 445 599 | 360 499 | -85 100 | 1,14% | Sao Paulo |
| Apollo Tyres Ltd | Consumer Discretionary | 13 028 865 | 109 665 | 343 778 | 234 113 | 1,09% | India |
| JSE Ltd | Financials | 3 514 971 | 136 477 | 325 343 | 188 865 | 1,03% | Johannesburg |
| UPL Ltd | Materials | 3 970 315 | 82 219 | 320 949 | 238 730 | 1,01% | India |
| Cia Cervecerias Unidas SA ADR | Consumer Staples | 1 929 549 | 344 490 | 311 257 | -33 232 | 0,98% | New York |
| LG Chem Ltd Pref | Materials | 259 179 | 179 108 | 309 172 | 130 064 | 0,98% | Seoul |
| China Shineway Pharmaceutical | Health Care | 36 934 000 | 280 824 | 302 932 | 22 108 | 0,96% | Hong Kong |
| Frontline Ltd | Industrials | 5 210 072 | 264 969 | 299 840 | 34 871 | 0,95% | Oslo |
| Sistema PJSC FC | Telecommunication Services | 115 287 412 | 606 630 | 296 228 | -310 401 | 0,94% | Moscow |
| Rumo Logística Operadora | Industrials | 18 734 600 | 212 375 | 288 505 | 76 130 | 0,91% | Sao Paulo |
| Enka Insaat Ve Sanayi AS | Industrials | 24 246 616 | 218 014 | 283 492 | 65 478 | 0,90% | Istanbul |
| Vietnam Enterprise Investments Ltd | Financials | 9 000 000 | 257 177 | 280 102 | 22 925 | 0,89% | Dublin |
| Distribuidora Internacional de Alimentacion SA | Consumer Staples | 5 522 518 | 197 189 | 272 126 | 74 938 | 0,86% | Madrid |
| OCI Co Ltd | Materials | 396 454 | 301 427 | 268 806 | -32 621 | 0,85% | Seoul |
| Mahindra & Mahindra Ltd | Consumer Discretionary | 1 565 122 | 126 864 | 263 930 | 137 065 | 0,83% | India |
| China Shipping Development | Industrials | 58 670 000 | 325 473 | 253 300 | -72 172 | 0,80% | Hong Kong |
| Tullow Oil Plc | Energy | 9 241 978 | 821 783 | 242 677 | -579 106 | 0,77% | London |
| LG Corp Pref | Industrials | 808 430 | 118 669 | 241 238 | 122 569 | 0,76% | Seoul |
| GCL-Poly Energy Holdings Ltd | Energy | 224 088 000 | 369 048 | 237 827 | -131 221 | 0,75% | Hong Kong |
| Podravka Prehrambena Ind DD | Consumer Staples | 517 852 | 153 914 | 234 599 | 80 686 | 0,74% | Zagreb |
| Lenovo Group Ltd | Information Technology | 43 490 000 | 280 193 | 230 334 | -49 859 | 0,73% | Hong Kong |
| Golar LNG Ltd | Industrials | 1 298 301 | 471 325 | 219 704 | -251 621 | 0,69% | NASDAQ |
| Norwegian Air Shuttle ASA | Industrials | 700 000 | 65 751 | 204 820 | 139 069 | 0,65% | Oslo |
| Eis Eczacibasi Ilac ve Sinai | Health Care | 19 410 554 | 133 394 | 203 685 | 70 291 | 0,64% | Istanbul |
| EFG-Hermes Holding SAE | Financials | 13 778 665 | 237 808 | 154 411 | -83 397 | 0,49% | Cairo |
| Ghana Commercial Bank Ltd | Financials | 18 001 604 | 90 783 | 142 594 | 51 811 | 0,45% | Ghana |
| East African Breweries Ltd | Consumer Staples | 6 489 466 | 103 695 | 142 341 | 38 646 | 0,45% | Nairobi |
| Massmart Holdings Ltd | Consumer Staples | 1 932 340 | 147 925 | 134 116 | -13 808 | 0,42% | Johannesburg |
| Bollere SA | Industrials | 4 764 499 | 133 508 | 131 766 | -1 742 | 0,42% | Paris |
| Golden Ocean Group Ltd | Industrials | 3 695 653 | 97 061 | 120 478 | 23 418 | 0,38% | Oslo |
| VinaCapital Vietnam Opportunity Fund Ltd | Financials | 4 392 100 | 92 364 | 108 875 | 16 511 | 0,34% | London |
| Eczacibasi Yatirim Holding | Health Care | 3 362 732 | 40 038 | 106 577 | 66 539 | 0,34% | Istanbul |
| Toray Industries Inc | Industrials | 1 100 000 | 78 907 | 84 977 | 6 070 | 0,27% | Tokyo |
| Euronav SA | Industrials | 1 340 286 | 127 454 | 82 187 | -45 266 | 0,26% | Brussels |
| Rec Silicon ASA | Energy | 72 628 788 | 115 820 | 80 908 | -34 912 | 0,26% | Oslo |
| Norfinance AS | Financials | 578 397 | 57 840 | 56 527 | -1 313 | 0,18% | Unlisted |
| Asia Cement China Holdings | Materials | 28 497 000 | 105 063 | 54 909 | -50 154 | 0,17% | Hong Kong |
| Deep Sea Supply Plc | Energy | 17 250 931 | 171 047 | 24 496 | -146 551 | 0,08% | Oslo |
| Diamond Bank Plc | Financials | 718 971 941 | 154 156 | 21 884 | -132 272 | 0,07% | Lagos |
| Euronav SA | Industrials | 247 965 | 21 297 | 15 173 | -6 124 | 0,05% | New York |
| Hyundai Motor Co GDR | Consumer Discretionary | 33 510 | 10 090 | 12 121 | 2 031 | 0,04% | London |
| Suzano Papel E Celulose SA | Materials | 249 300 | 6 412 | 6 390 | -22 | 0,02% | Sao Paulo |
| EFG-Hermes Holding GDR | Financials | 232 480 | 8 193 | 3 494 | -4 700 | 0,01% | London International |
| Total equity portfolio* | | | 21 423 559 | 29 576 387 | 8 152 827 | 93,49% | |
| Disposable liquidity | | | | 2 058 936 | | 6,51% | |
| Total share capital | | | | 31 635 322 | | 100,00% | |

* Numbers in 1 000 NOK.



SKAGEN m²

A doorway to global interest rates*

- › After a strong quarter, m2 is the best global property fund year to date
- › US CBL and Argentinian IRSA are winners in the portfolio
- › Real estate given own sector; positive in the long term

| 1 | 2 | 3 | 4 | 5 | RISK | 7 |
|-----------------------|---|---|---|---|------|-----------------|
| Return since start | | | | | | 28.3% |
| Average annual return | | | | | | 6.6% |
| AUM | | | | | | EUR 105 million |
| Number of unitholders | | | | | | 8 084 |

| PERFORMANCE IN EUR | Q316* | 12M* |
|---------------------------|-------|-------|
| SKAGEN m ² | 5.9% | 14.8% |
| MSCI ACWI Real Estate IMI | 1.0% | 14.9% |

*As of 30 Sept2016



PORTFOLIO MANAGERS

Michael Gobitschek and Harald Haukås

Architect Ulrik Plesner's first extension to Brøndum's hotel, 1892. Detail. By Johan Peter von Wildenradt, one of the Skagen painters. The picture belongs to the Art Museums of Skagen.

Strong recovery

The third quarter began on a turbulent note for the fund in the wake of the Brexit vote.

Not because we had significant exposure to the UK property market - on the contrary - but because capital flowed out of Europe where we have an overweight. The money was mainly allocated to the US, where we are underweight both in terms of equities and currencies. The negative trend was reversed shortly afterwards with money finding its way back again, and SKAGEN m2 had very strong performance in July and August. At the end of September, the fund is back in positive territory in both relative and absolute terms. Between the second and the third quarter, the fund gained 6.0 percentage points in absolute terms and 5.0 percentage points in relative terms, making SKAGEN m2 the best global real estate fund since the beginning of the year. *

Real estate continued to show strength

Many of the world's leading central banks, except the UK's, continued to press the snooze button by failing to tighten monetary policy. Interest rates look set to remain low for some time to come, and investors are being forced further up the risk scale as the fixed income market is failing to meet the yield requirements.

High-yield and less risky assets such as real estate are the natural next step, which will continue to drive up value and push down the required rate of return on real estate globally. The counterweight was that further monetary stimulus in Europe, for example, was put on hold. Real estate companies generally continued to show strength and are definitely holding their own, with or without further central bank action.

SKAGEN M2 KEY NUMBERS FOR THE LARGEST HOLDINGS (AS OF 30.09.2016)

| Company | Holding size % | Price | P/NAV latest | Dividend Yield 2016E | EBITDA 2016E/EV |
|--------------------------------|----------------|--------|--------------|----------------------|-----------------|
| SL Green Realty Corp | 5,1% | 103,74 | 75% | 2,8% | 5,8% |
| Olav Thon Eiendomsselskap ASA | 5,1% | 143,5 | 70% | 1,3% | 6,3% |
| Mitsui Fudosan Co Ltd | 4,8% | 2331,5 | 58% | 1,4% | 6,5% |
| Global Logistic Properties Ltd | 4,6% | 1,8 | 61% | 3,6% | 3,7% |
| Inmobiliaria Colonial SA | 4,6% | 0,66 | 86% | 3,5% | 3,5% |
| Mercialys SA | 4,1% | 19,2 | 94% | 6,4% | 4,8% |
| D Carnegie & Co AB | 4,0% | 96,75 | 108% | 0,0% | 3,8% |
| Catena AB | 3,7% | 122,5 | 85% | 3,0% | 6,8% |
| Irsa Sa ADR | 3,2% | 16,27 | 55% | 1,3% | 12,0% |
| Deutsche Wohnen AG | 3,2% | 30,56 | 122% | 2,4% | 3,7% |
| Weighted top 12 | 42,6% | | 80% | 2,4% | 5,5% |
| Weighted top 35 | 95,0% | | | 3,3% | 6,2% |
| Benchmark index | | | | 3,6% | |

Photo: Bloomberg



Swedish property market goes from strength to strength across all segments and Stockholm (pictured) is now the hottest market in terms of top rental growth after San Francisco.

Hot in Sweden and Norway

The Stockholm office market is a very good example of this strength. Here the top rental prices in prime locations have increased by about 29% during the year, making the city the second hottest in terms of rental growth after San Francisco.**

The Swedish real estate market across all segments continues to go from strength to strength. In August, one of the world’s largest players in alternative investments, US Blackstone, took a position in our holding D. Carnegie & Co. Due to bidding regulation, Blackstone will now be forced to bid for the entire rental housing operator as a result of their purchase. This is a positive signal and confirms our thesis for the company’s future potential. Carnegie is the fund’s strongest contributor in both absolute and relative terms since the beginning of the year.

Despite the recent years’ oil crisis, Norwegian real estate remains strong. The company Olav Thon traded up after one of the major owners finally completed a protracted sales process.

Sluggish Abenomics

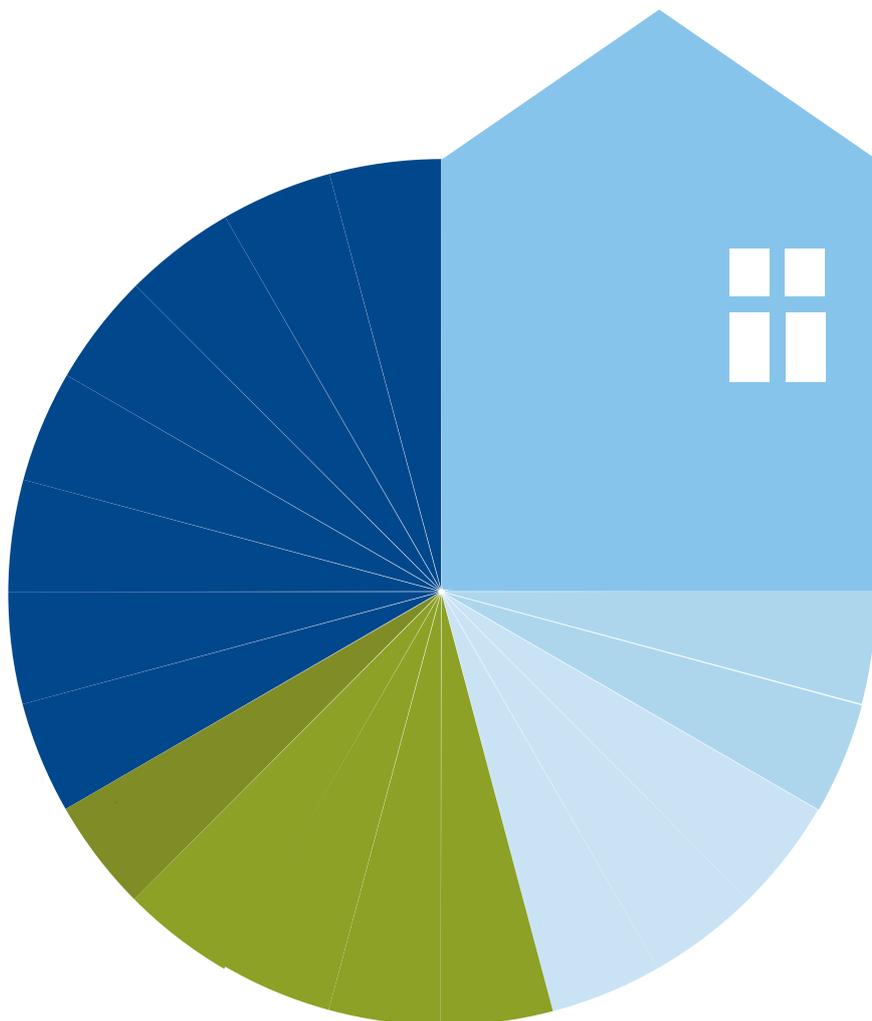
The Japanese real estate developer Mitsui Fudosan continues to struggle and lost the most during the period, despite a strong second quarter report. The reason is mainly macro-economic rather than company-specific. As a result of the continued problems in creating inflation and stimulating the economy, the market is asking itself whether Abenomics will help or hinder the country’s economy.

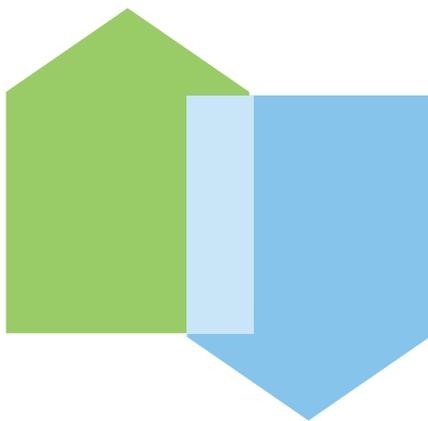
The real estate market in Tokyo is continuing at full throttle in all segments. Mitsui Fudosan is taking advantage of this as it has a diversified business model whereby capital can quickly be allocated internally between the various segments and markets it operates in. Mitsui Fudosan is trading at historically low levels and we still have great faith in the company.

Real estate a sector of its own

September 2016 was a historic month for real estate, which received status as a separate sector, no longer falling under the Financials categorisation. It is now the eleventh sector in the GICS classification. This is a unique event since the sector classification was introduced in 1999, which affected both the major indices, MSCI and S&P 500. The split led to inflows and outflows of capital in both sectors. The reallocation was noticeable in the US, while the effect was neutral in Europe.

This is most important in the long term, as the real estate asset class will become more prominent in the media and among analysts and investors. It will clarify the benefits of investing in real estate and its particular properties as an asset class. Moreover, it makes sense not to mix real estate with banks and insurance companies.





One company in and two out

After Brexit become a fact, and the stock market plummeted, we bought back into British Land at a discount to net asset value. The discount is reinforced by the fact that a number of large real estate funds are closed for trading. This is also a reminder of the benefits of investing in liquid property assets such as SKAGEN m2.

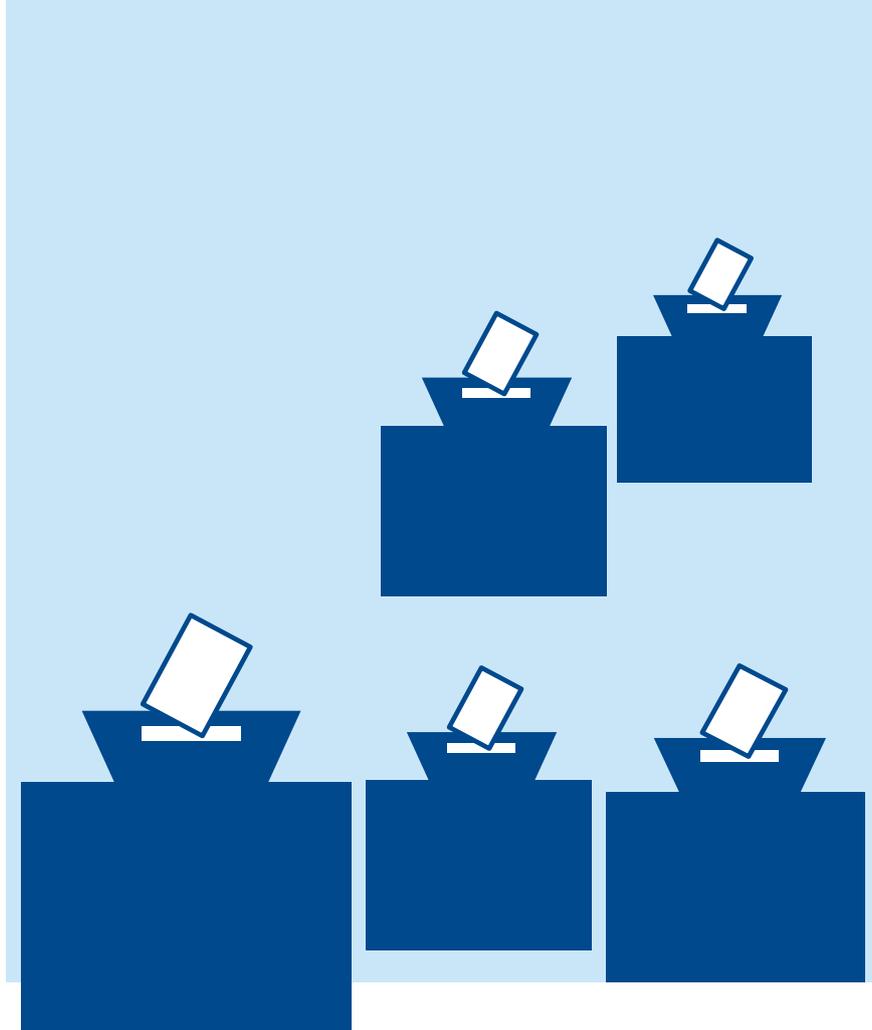
During the quarter, many of our positions in emerging markets performed well after years of wandering in the wilderness. The period was also marked by an unusually large number of real estate companies taking the opportunity to raise new capital from shareholders at a valuation above net asset value in order to grow the business. This is something that is likely to continue.

We sold out of two companies during the quarter. The first was the Brazilian BR Properties, which has been in a protracted bidding process where we see limited upside. We also exited the Indonesian industrial site developer Bekasi Fajar which has been affected negatively by deferred direct investment in the country in recent years. The sales are also a result of continued portfolio consolidation.

From loser to winner

The US real estate company CBL was the quarter's winner after being the year's biggest loser. The reason for the poor performance in the first half was mainly due to accusations of rigged vacancy rates in connection with the refinancing of loans. These proved to be unfounded, and the company was acquitted of the accusations, which sparked a rally of about 50% before the stock took a new breather at the end of September.

Argentinian IRSA continued to convince the market that investors' assumptions of a potential downturn were mistaken. We also believed the company and therefore bought more shares. The measures the company undertook were to consolidate subsidiaries, refinance debt and continue to develop the business in a positive direction. Despite the challenges, Argentina is developing in the right direction. The company is one of this year's winners in the fund.



An interesting autumn awaits

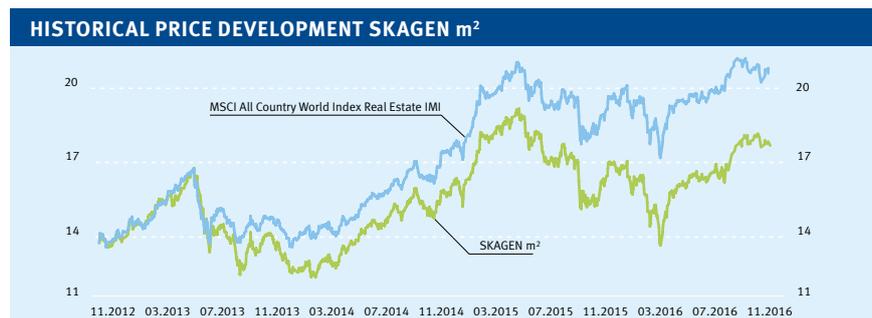
The next few months will be exciting with the upcoming presidential election in the US and several elections in Europe. In addition, a US interest rate hike is also on the cards. Using football analogy, we have long been adding more players to midfield and defence in order to factor in increased

volatility. In other words, SKAGEN m2 is well equipped for uncertainty and has many promising companies in the portfolio to add to when the buying opportunities arise.

*Morningstar Norway, category "Real Estate, Indirect – Global"

**JLL Global Office Index. Top rents 2q15-2q16.

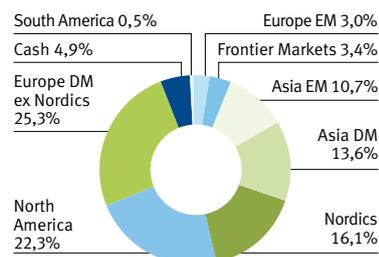
| SKAGEN m ² PORTFOLIO CHANGES IN Q3 2016 (PERCENTAGE OF AUM) | | | |
|--|--------|--------------------------------|--------|
| 5 largest contributors | | 5 largest purchases | |
| CBL & Associates Properties | 0,82% | British Land | 2,00% |
| Olav Thon Eiendomsselskap | 0,72% | Inmobiliaria Colonial | 0,58% |
| IRSA | 0,38% | Axiare Patromonio | 0,49% |
| Ashford Hospitality Trust | 0,33% | Mitsui Fudosan Co | 0,48% |
| Catena | 0,33% | D Carnegie & Co | 0,22% |
| 5 largest detractors | | 5 largest sales | |
| Mitsui Fudosan Co | -0,54% | HCP | -2,60% |
| Inmobiliaria Colonial | -0,28% | Brandywine Realty Trust | -1,66% |
| General Growth Properties | -0,20% | Bekasi Fajar Industrial Estate | -0,73% |
| Big Yellow Group | -0,19% | SOHO China | -0,72% |
| Keck Seng Investments | -0,15% | General Growth Properties | -0,52% |



| Securities | Sector | Number of shares | Acquisition value NOK* | Market-value NOK* | Unrealised gain/loss* | Share of fund | Stock exchange |
|--|-----------------------------------|------------------|------------------------|-------------------|-----------------------|----------------|----------------|
| Olav Thon Eiendomsselskap ASA | Real Estate Companies incl. REITs | 325 350 | 42 807 | 53 683 | 10 876 | 5,68% | Oslo |
| SL Green Realty Corp | Real Estate Companies incl. REITs | 54 500 | 42 027 | 46 924 | 4 897 | 4,97% | New York |
| Inmobiliaria Colonial SA | Real Estate Companies incl. REITs | 787 580 | 44 929 | 45 543 | 614 | 4,82% | Madrid |
| Mitsui Fudosan Co Ltd | Real Estate Companies incl. REITs | 259 000 | 52 211 | 43 644 | -8 566 | 4,62% | Tokyo |
| Global Logistic Properties Ltd | Real Estate Companies incl. REITs | 3 837 700 | 51 806 | 42 055 | -9 751 | 4,45% | Singapore |
| D Carnegie & Co AB | Real Estate Companies incl. REITs | 404 084 | 28 039 | 41 381 | 13 342 | 4,38% | Stockholm |
| Mercialys SA | Real Estate Companies incl. REITs | 205 282 | 32 614 | 39 403 | 6 790 | 4,17% | Paris |
| Catena AB | Real Estate Companies incl. REITs | 297 842 | 34 699 | 39 325 | 4 627 | 4,16% | Stockholm |
| CBL & Associates Properties Inc | Real Estate Companies incl. REITs | 366 000 | 45 344 | 35 561 | -9 782 | 3,77% | New York |
| Deutsche Wohnen AG | Real Estate Companies incl. REITs | 113 000 | 24 825 | 32 748 | 7 923 | 3,47% | Frankfurt |
| Irsa Sa ADR | Real Estate Companies incl. REITs | 212 000 | 22 306 | 32 317 | 10 011 | 3,42% | New York |
| Columbia Property Trust Inc | Real Estate Companies incl. REITs | 148 000 | 25 316 | 26 500 | 1 185 | 2,81% | New York |
| Axiare Patrimonio SOCIMI SA | Real Estate Companies incl. REITs | 235 000 | 24 186 | 24 633 | 447 | 2,61% | Madrid |
| Dic Asset AG | Real Estate Companies incl. REITs | 304 000 | 20 380 | 24 378 | 3 999 | 2,58% | Xetra |
| Ashford Hospitality Trust | Real Estate Companies incl. REITs | 475 000 | 31 417 | 22 896 | -8 521 | 2,42% | New York |
| PS Business Parks Inc | Real Estate Companies incl. REITs | 25 000 | 15 943 | 22 634 | 6 691 | 2,40% | New York |
| Big Yellow Group Plc | Real Estate Companies incl. REITs | 280 000 | 25 490 | 22 531 | -2 959 | 2,39% | London |
| Nomura Real Estate Master Fund Inc | Real Estate Companies incl. REITs | 1 483 | 15 041 | 19 777 | 4 736 | 2,09% | Tokyo |
| Shangri-La Asia Ltd | Real Estate Companies incl. REITs | 2 150 000 | 22 641 | 18 831 | -3 810 | 1,99% | Hong Kong |
| British Land Co Plc | Real Estate Companies incl. REITs | 280 000 | 18 560 | 18 315 | -244 | 1,94% | London |
| CA Immobilien Anlagen AG | Real Estate Companies incl. REITs | 120 000 | 16 969 | 18 313 | 1 343 | 1,94% | Vienna |
| Atrium Ljungberg AB | Real Estate Companies incl. REITs | 128 327 | 13 063 | 18 129 | 5 066 | 1,92% | Stockholm |
| General Growth Properties Inc | Real Estate Companies incl. REITs | 81 000 | 18 857 | 17 812 | -1 044 | 1,89% | New York |
| SM Prime Holdings Inc | Real Estate Companies incl. REITs | 3 811 800 | 11 039 | 17 748 | 6 708 | 1,88% | Philippines |
| Melia Hotels International | Real Estate Companies incl. REITs | 177 000 | 15 586 | 17 536 | 1 950 | 1,86% | Madrid |
| Phoenix Mills Ltd | Real Estate Companies incl. REITs | 355 160 | 13 637 | 16 446 | 2 809 | 1,74% | India |
| Emlak Konut Gayrimenkul Yatirim Ortakligi AS | Real Estate Companies incl. REITs | 1 835 000 | 16 136 | 14 857 | -1 279 | 1,57% | Istanbul |
| First Real Estate Investment Trust | Real Estate Companies incl. REITs | 1 827 494 | 13 439 | 14 511 | 1 072 | 1,54% | Singapore |
| Ashford Hospitality Prime Inc | Real Estate Companies incl. REITs | 127 400 | 12 143 | 14 349 | 2 206 | 1,52% | New York |
| CapitaLand Ltd | Real Estate Companies incl. REITs | 750 000 | 13 330 | 14 064 | 734 | 1,49% | Singapore |
| Grivalia Properties Reic AE | Real Estate Companies incl. REITs | 225 485 | 15 181 | 13 570 | -1 611 | 1,44% | Athens |
| Obero Realty Ltd | Real Estate Companies incl. REITs | 329 090 | 9 428 | 11 534 | 2 106 | 1,22% | India |
| Ascendas India Trust | Real Estate Companies incl. REITs | 1 780 200 | 7 454 | 11 267 | 3 813 | 1,19% | Singapore |
| Soho China Ltd | Real Estate Companies incl. REITs | 2 568 500 | 13 794 | 11 089 | -2 705 | 1,17% | Hong Kong |
| Brandywine Realty Trust | Real Estate Companies incl. REITs | 88 000 | 10 328 | 10 984 | 656 | 1,16% | New York |
| Keck Seng Investments | Real Estate Companies incl. REITs | 1 618 000 | 12 276 | 9 253 | -3 024 | 0,98% | Hong Kong |
| Ashford Inc | Real Estate Companies incl. REITs | 18 000 | 12 572 | 6 763 | -5 809 | 0,72% | New York |
| HCP Inc | Real Estate Companies incl. REITs | 20 100 | 6 458 | 6 179 | -279 | 0,65% | New York |
| General Shopping Finance | Real Estate Companies incl. REITs | 950 000 | 5 159 | 5 073 | -85 | 0,54% | Euroclear |
| Total equity portfolio* | | | 857 428 | 902 556 | 45 128 | 95,56% | |
| Disposable liquidity | | | | 41 931 | | 4,44% | |
| Total share capital | | | | 944 488 | | 100,00% | |

* Numbers in 1 000 NOK.

GEOGRAPHICAL DISTRIBUTION





SKAGEN Focus

Hunting for exceptional investments

- › The fund has maintained its discipline and liquidated assets that have reached our price target
- › Market turmoil early in the quarter allowed the fund to enter into new positions at good levels

| 1 | 2 | 3 | 4 | 5 | RISK | 7 |
|-----------------------|-----------------|---|---|---|------|---|
| Fund start date | 26 May 2015 | | | | | |
| Return since start | -7.6% | | | | | |
| Average annual return | -5.7% | | | | | |
| AUM | EUR 148 million | | | | | |
| Number of unitholders | 4 194 | | | | | |

| PERFORMANCE IN EUR | Q316* | 12 M* |
|------------------------|-------|-------|
| SKAGEN Focus | 9.4% | 17.2% |
| MSCI World AC TR Index | 4.5% | 11.2% |

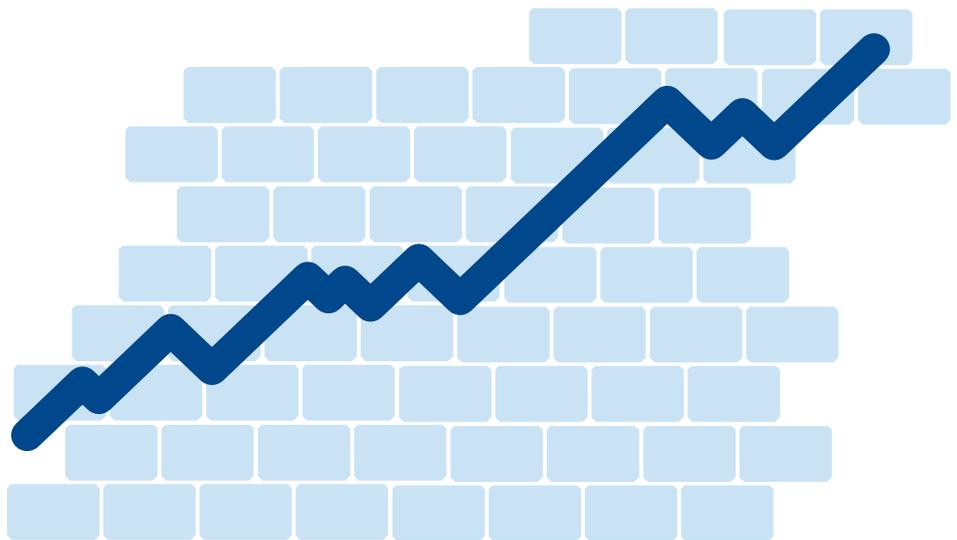
* As of 30 Sept 2016



PORTFOLIO MANAGERS

Filip Weintraub, Jonas Edholm and David Harris (Junior Manager)

Krøyer's dog, Rap, 1898. By P S Krøyer, one of the Skagen painters. The picture belongs to the Art Museums of Skagen (cropped).



A satisfactory quarter

SKAGEN Focus posted satisfactory results in the third quarter of 2016 of 9.4%. We will mainly focus on our individual equity positions in this update.

It is interesting to observe that the overall equity markets are trading at higher levels despite all the events in the period that could or should have stressed investors; events such as the continued rise of Donald Trump, puzzling central bank decisions, bad German banks, a North Korean nuclear bomb test, and lastly an OPEC-induced rally in oil prices.

In spite of all this, following the turmoil around Brexit in late June, global equity markets posted a remarkable recovery in the third quarter of 4.5 percent. Emerging markets, which we entered into meaningfully during the first half of the year via a bottom-up process, were even stronger. This quarter reminded us of the old Wall Street expression 'The market was climbing the wall of worry'.

SKAGEN FOCUS PORTFOLIO CHANGES IN Q3 2016 (PERCENTAGE OF AUM)

| 5 largest contributors | | 5 largest purchases | |
|--------------------------------|--------|--------------------------------|--------|
| South32 | 1,27% | Taiheiyo Cement | 4,76% |
| SK Hynix | 0,87% | Crown Confectionery | 2,60% |
| Infineon Technologies | 0,80% | Teva Pharmaceutical Industries | 2,36% |
| Omega Protein | 0,76% | AIG | 1,95% |
| Jbs | 0,73% | Schaeffler | 1,42% |
| 5 largest detractors | | 5 largest sales | |
| Crown Confectionery | -0,60% | Hyundai Motor | -2,37% |
| Pilgrim's Pride | -0,55% | Omega Protein | -2,08% |
| Teva Pharmaceutical Industries | -0,53% | Jenoptik | -1,78% |
| Magforce | -0,46% | JBS | -1,23% |
| Taiheiyo Cement | -0,26% | Aercap Holdings | -1,11% |



Lighting and auto-parts

Early on in the quarter, amidst the confused state of the markets, we managed to increase a few of our positions substantially at highly attractive prices. We added to our relatively new position in Philips Lighting. Taking into account the performance growth, it was a top 10 position in the fund at quarter end. Having failed to sell the company to a strategic buyer in a miserable climate, Royal Philips was forced to issue an IPO of Philips Lighting at what we considered to be a very low price. We have continued to add to the position below the IPO price.

We also added to German auto-parts manufacturer Schaeffler, which, despite having reduced debt on its balance sheet by over EUR 3 billion in one year and impressive expected free cash-flow, still trades at highly attractive valuation levels. Schaeffler also moved up into the top 10 position segment of the fund in the quarter. Meanwhile, we have reduced our position in Infineon, which has re-rated from the weakness caused by the Volkswagen scandal less than a year ago to an all-time-high stock price today; we still find upside in the company.

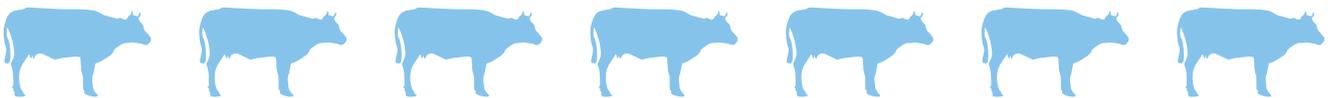
As always with SKAGEN Focus, our core exercise is to analyse company-specific variables and specific investment case situations, also taking into account portfolio risk diversification. A diverse set of stocks therefore drove the performance in the quarter. Key in our investment process is remaining disciplined in terms of setting price targets as well as acting on them. This was manifested through the liquidation of several winning positions

for the year including Pan American Silver, AirAsia and Haitai. The first two suffered in 2015 but all three rose more than 100% respectively this year. We shifted our exposure from Pan American Silver into our Australia-based miner South32, which proved to be a lucrative decision.

High-performing nightclub

To some of our readers (thank you, client X, for the joke), the name South32 may be reminiscent of a flashy nightclub. In reality it is a USD 10 billion Australian mining company, still under most investors' radars. South32 was spun off from BHP Billiton in May 2015 and consists of the non-strategic assets of BHP, which are in essence high-quality assets. The company had a non-optimised cost structure and following its first year as a stand-alone operation, costs were cut by 25% and a net debt position turned into a solid net cash position, while they also established a dividend – something that is unheard of in the commodity space these days. The stock has finally responded and was up more than 56% in local currency in the quarter and up more than 120% on the year.

Another so-called “price taker” company, our memory-producer SK Hynix, re-rated sharply in the quarter. We have long suspected that the market has been too negative in its outlook for DRAM pricing after a dramatic multi-year decline, and this was confirmed as supply-demand dynamics changed for the better. SK Hynix gained more than 24% in the period.



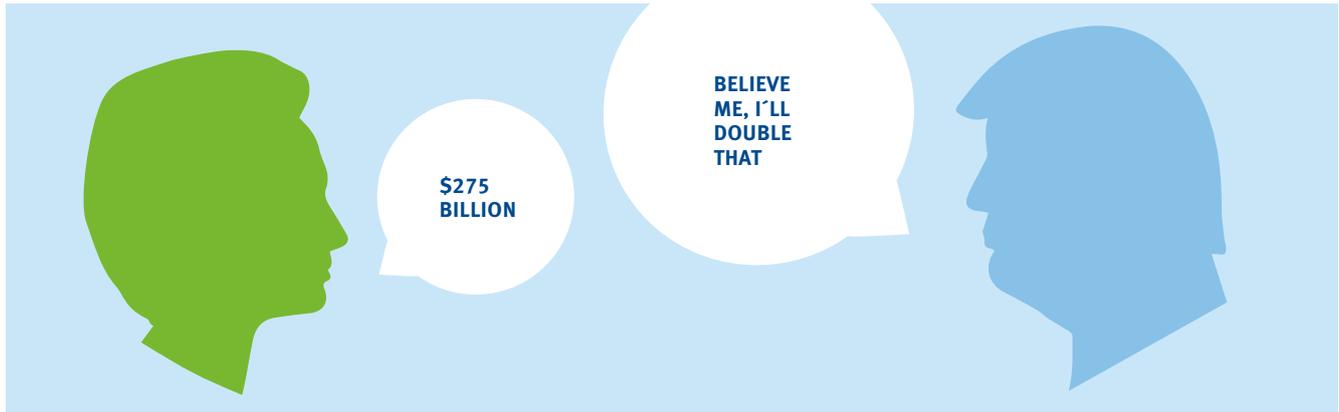
“Bad Cow Disease” risk?

Late last year we established a position in Brazil-based food company JBS, which is the fourth largest food company in the world in terms of revenue. The investment opportunity in JBS is built upon a depressed valuation in light of fundamentally unrelated government investigations focusing on the holding company of JBS, and excess currency hedging within the

company. Now the company is on track to list its international assets in the US, which we think will contribute to closing the valuation gap to peers like Tyson Foods.

Our related position in US chicken producer Pilgrim's Pride, in which JBS owns 76% of the shares, was however one of the weakest performers in the quarter. We suspect there could be further simplification of the overall corporate structure

in the medium term. This, combined with the fact that the slow-down in the chicken cycle seems to be highly anticipated by the market and that there is a great deal of short interest in the stock, bodes well for the future. The combined JBS/PPC position is the second largest position in the fund accounting for 7.2% of assets.



A concrete and overlooked opportunity

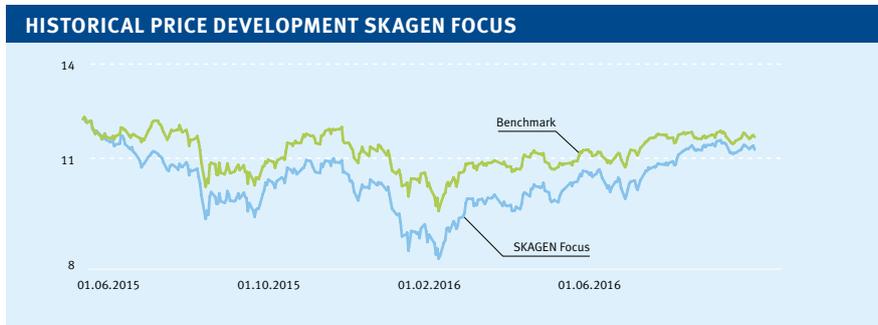
The Japanese cement market has for many years been quite depressed and suffered from slower demand. The market has gone through a substantial consolidation over the past 20 years, leaving three main players, of which Taiheiyo Cement is the largest with a 40% market share. We established a position in the company in the quarter.

The valuation of this asset seems to imply a further deteriorating cement environment in Japan and completely disregards the company’s growing US presence. Taiheiyo acquired a cement operation from Martin & Marietta last year, and could be a

primary beneficiary of the increases in US infrastructure spending, which ironically is the only policy that the presidential candidates Trump and Clinton seem to agree on. Many US-related names active in cement are trading at multiples more than double that of Taiheiyo, after rerating more than 50% this year. We believe that the Tokyo 2020 Olympics will drive a cyclical rebound in cement demand in the next few years, while current industry capacity utilisation is already at 90%. Taiheiyo Cement is a 3.7% position in the fund at the end of the quarter.

Looking ahead, we continue to search for unique company situations with our required 50% equity upside within a portfolio with a diversified set of risk factors. The current market conditions, where some areas of the market are overly popular – for instance the long-duration “growth” stocks, massive ETF flows and index fixation – provide appetising opportunities for the price-driven active investor, such as ourselves.

Thank you for your continued trust – we will continue to work hard to earn it in the future.

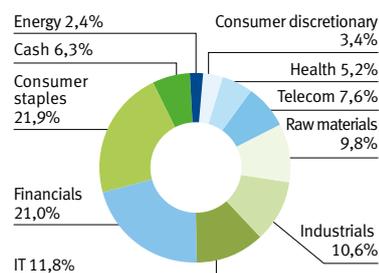


| SKAGEN FOCUS KEY NUMBERS FOR THE LARGEST HOLDINGS (AS OF 30.09.2016) | | | | | | |
|--|---------------|-----------|-------------|------------|-------------|--------------|
| Company | Holding size | Price | P/E 2016E | P/E 2017E | P/BV latest | Price target |
| American International Group Inc | 7,5% | 59,30 | 14,7 | 10,7 | 0,7 | 90 |
| Jbs SA | 4,6% | 11,80 | 48,8 | 7,6 | 1,4 | 22 |
| Softbank Group Corp | 4,6% | 6 522,00 | 7,5 | 10,8 | 3,1 | 9 600 |
| Infineon Technologies AG | 4,2% | 15,90 | 22,4 | 19,7 | 3,7 | 20 |
| SK Hynix Inc | 4,1% | 40 200,00 | 15,4 | 10,6 | 1,4 | 65 000 |
| SBI Holdings Inc | 4,0% | 1 196,00 | 9,2 | 8,5 | 0,7 | 3 000 |
| Taiheiyo Cement Corp | 3,7% | 289,00 | 8,0 | 8,7 | 1,7 | 420 |
| Teva Pharmaceutical-Sp ADR | 3,6% | 46,00 | 8,8 | 7,7 | 1,7 | 90 |
| Schaeffler AG | 3,5% | 14,10 | 9,2 | 8,6 | 2,2 | 19 |
| Philips Lighting NV | 3,2% | 23,70 | 12,2 | 10,5 | 1,4 | 30 |
| Weighted top 10 | 42,9% | | 11,9 | 9,8 | 1,3 | |
| Total Equity (35 positions) | 93,6 % | | | | | |
| Cash | 6,4 % | | | | | |
| Total | 100,0% | | | | | |

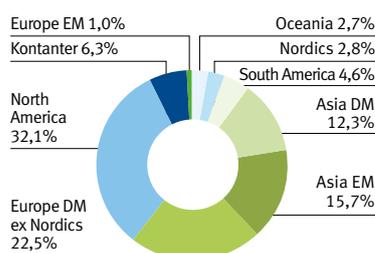
P/E may deviate from other sources when based on SKAGEN estimates.
 * JBS is the main owner of Pilgrim’s Pride, which is a 2.7% position in the fund. These two positions should be viewed as one, with a total weight of 7.2%.

| Securities | Sector | Number of shares | Acquisition value NOK* | Market-value NOK* | Unrealised gain/loss* | Share of fund | Stock exchange |
|------------------------------------|----------------------------|------------------|------------------------|-------------------|-----------------------|----------------|----------------|
| American International Group Inc | Financials | 212 000 | 102 236 | 99 967 | -2 269 | 7,49% | New York |
| Jbs SA | Consumer Staples | 2 110 000 | 50 468 | 61 405 | 10 937 | 4,60% | Sao Paulo |
| Softbank Group Corp | Telecommunication Services | 118 300 | 54 401 | 60 882 | 6 482 | 4,56% | Tokyo |
| Infineon Technologies AG | Information Technology | 393 000 | 45 805 | 55 526 | 9 721 | 4,16% | Frankfurt |
| SK Hynix Inc | Information Technology | 188 000 | 45 159 | 54 805 | 9 646 | 4,11% | Seoul |
| SBI Holdings Inc | Financials | 568 000 | 59 955 | 53 605 | -6 350 | 4,02% | Tokyo |
| Taiheiyo Cement Corp | Materials | 2 160 000 | 53 227 | 49 258 | -3 969 | 3,69% | Tokyo |
| Teva Pharmaceutical-Sp ADR | Health Care | 130 000 | 56 411 | 47 833 | -8 579 | 3,58% | NASDAQ |
| Schaeffler AG | Industrials | 368 033 | 47 287 | 46 247 | -1 041 | 3,47% | Frankfurt |
| Philips Lighting NV | Industrials | 201 193 | 39 205 | 42 657 | 3 453 | 3,20% | Amsterdam |
| Aryzta AG | Consumer Staples | 117 707 | 45 073 | 41 448 | -3 625 | 3,11% | Zürich |
| China Telecom Corp Ltd | Telecommunication Services | 9 914 000 | 49 123 | 39 942 | -9 181 | 2,99% | Hong Kong |
| Citizens Financial Group Inc | Financials | 198 000 | 42 464 | 38 983 | -3 482 | 2,92% | New York |
| Carlsberg AS-B | Consumer Staples | 49 600 | 35 727 | 37 811 | 2 084 | 2,83% | Copenhagen |
| South32 Ltd | Materials | 2 415 601 | 29 705 | 35 597 | 5 892 | 2,67% | Sydney |
| Pilgrim's Pride Corp | Consumer Staples | 210 000 | 40 963 | 35 235 | -5 728 | 2,64% | New York |
| Alphabet Inc Class C | Information Technology | 5 500 | 33 807 | 34 150 | 343 | 2,56% | NASDAQ |
| TerraVia Holdings Inc | Materials | 1 436 525 | 30 157 | 32 210 | 2 053 | 2,41% | NASDAQ |
| Fila Korea Ltd | Consumer Discretionary | 45 500 | 32 637 | 31 477 | -1 160 | 2,36% | Seoul |
| E-MART Inc | Consumer Staples | 27 000 | 33 624 | 30 837 | -2 786 | 2,31% | Seoul |
| Omega Protein Corp | Consumer Staples | 155 300 | 23 339 | 29 148 | 5 810 | 2,18% | New York |
| Synchrony Financial | Financials | 129 572 | 33 194 | 28 758 | -4 436 | 2,16% | New York |
| CIT Group Inc | Financials | 98 000 | 33 812 | 28 303 | -5 509 | 2,12% | New York |
| Jenoptik AG | Industrials | 190 909 | 20 449 | 27 591 | 7 141 | 2,07% | Xetra |
| First Quantum Minerals Ltd | Materials | 370 000 | 14 676 | 24 367 | 9 691 | 1,83% | Toronto |
| Stock Spirits Group Plc | Consumer Staples | 1 410 375 | 30 671 | 22 917 | -7 753 | 1,72% | London |
| Crown Confectionery Co Ltd | Consumer Staples | 100 000 | 29 067 | 21 320 | -7 747 | 1,60% | Seoul |
| Magforce AG | Health Care | 595 989 | 29 829 | 20 878 | -8 951 | 1,56% | Xetra |
| Aercap Holdings NV | Financials | 58 210 | 18 126 | 17 714 | -411 | 1,33% | New York |
| GCL-Poly Energy Holdings Ltd | Energy | 16 500 000 | 31 962 | 17 512 | -14 450 | 1,31% | Hong Kong |
| Whiting Petroleum Corp | Energy | 210 000 | 30 239 | 14 923 | -15 316 | 1,12% | New York |
| Rentech Inc | Industrials | 623 816 | 31 949 | 14 212 | -17 737 | 1,07% | New York |
| Fourlis Holdings SA | Consumer Discretionary | 400 251 | 10 037 | 13 769 | 3 732 | 1,03% | Athens |
| Massimo Zanetti Beverage Group SpA | Consumer Staples | 195 564 | 15 008 | 12 560 | -2 448 | 0,94% | Italy |
| FFP | Financials | 20 606 | 12 994 | 12 262 | -733 | 0,92% | Paris |
| Samsung SDI Co Ltd Pref | Information Technology | 18 720 | 8 749 | 6 665 | -2 084 | 0,50% | Seoul |
| Samsung SDI Co Ltd | Information Technology | 9 000 | 7 139 | 6 265 | -874 | 0,47% | Seoul |
| Total equity portfolio* | | | 1 308 672 | 1 249 039 | -59 634 | 93,61% | |
| Disposable liquidity | | | | 85 237 | | 6,39% | |
| Total share capital | | | | 1 334 276 | | 100,00% | |

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



Opportunities in challenging times

The world currently faces a host of political and economic challenges. Nevertheless, the US election, Britain's divorce from the EU and China's wavering growth all provide opportunities to earn money if the outcome is not as the market expects – and if you choose correctly, and in good time.

Will it be Donald Trump or Hillary Clinton who moves into the White House in the New Year? At the time of writing, just ahead of the second presidential debate, Hillary is slightly ahead in the public opinion polls. By the time you read this, the mood may have turned. The outcome is unclear, and we should definitely not rule out the possibility that a loud-mouthed real estate developer may be enjoying a cigar in the oval office in a few months time. Would Trump as president be such a disaster though? I don't think so. Almost none of us like what he has said in the election campaign. He comes across as vulgar, conceited, ignorant and unprincipled. If Trump does end up as president, however, his staff will likely cover for the first two character traits.

His ignorance is a greater problem. Most of what Trump says about international trade, such as that the US loses out on having a trade deficit with China, is rubbish even though it is said by those who should know better. "We have talked to China for many years to no avail, at the same time as the trade deficit has expanded... Recently, the prime minister said, absurdly enough, that the country's currency is not overvalued.... China must be threatened with an import duty of 25%." Trump's words? No. The quote is from Paul Krugman, professor, New York Times columnist and Nobel Prize winner in Economics. Even a mediocre advisor would likely point out to Trump that protectionism will cause the US economy to shrink. And it may well be that this, and many other moves by Trump are meant merely to provoke in order to secure better deals.

I would not rule out the possibility that Trump, being the shy business man he is, could do a U-turn and that the world could end up having far fewer rather than more limitations on the free flow of goods, services, capital and labour. In the same way that Richard Nixon surprised everyone by bringing Mao's China into the diplomatic warmth, so too could Trump get Russia involved in a free trade deal. I also don't exclude the possibility that a trip or two to Beijing could radically alter his view on Sino-US business relations. The point is that if Trump becomes president, it is most likely that his politics will surprise positively; his lack of principle may turn out to be an asset.

Continued uncertainty around Brexit

The Brits have voted in favour of divorce from the EU, but the breakup will take time and could end in reconciliation. Formally speaking, the UK has not yet sought a divorce – the assumption now is that this will take place in March next year and two years of divorce proceedings

will ensue. In the meantime, there will be parliamentary elections in both the UK and Germany and a presidential election in France. Both the EU and the UK will change during the negotiation period, and Brexit may appear differently to both parties once the negotiations are underway. I do not view a reconciliation as entirely out of the question – we should not forget that the referendum was advisory only and that the UK's unwritten constitution grants all the power to parliament. If you think that the race has been run already, you should at least be prepared to be surprised.

Stagnating Chinese growth

Is China in for an imminent hard landing? I am not sure. For four decades the Middle Kingdom has enjoyed enormous earnings development – to the satisfaction of the Chinese themselves as well as consumers around the world. Growth has stagnated lately; it could not have been otherwise. The reason that China could grow so quickly for so long was that they, thanks to communism, started from an extremely low level when they began to liberalise the economy at the end of the 1970s. With a high income level, it is far more difficult to be able to generate new high growth rates, regardless of economic policy.

There is much talk of China's economic model needing to be adjusted – reducing investments and increasing consumption. This is based on a misunderstanding. No country can get richer by consuming more. Higher consumption, which China has had a lot of for decades, is just the facade – behind this, people are working more, accumulating capital and using resources increasingly effectively. The problem in China is that it has an overly large public sector, with a huge number of publicly owned companies not managed profitably but propped up by politically determined credit decisions. A genuine change of the Chinese economy would really only mean ending what Deng Xiaoping started – continuing with privatisations, deregulations and de-bureaucratisation. This would result in more, not less growth.

The question is whether authorities are willing to take further steps in this direction. If they resist and try to preserve the public sector loss-makers with subsidised credit, it will end in failure. I fear the latter scenario, but hope I am mistaken.



– Torgeir Høien
Portfolio Manager



SKAGEN Tellus

A doorway to global interest rates

- › Capital gains and coupons contributed positively to the fund's return
- › Croatia was the best investment in the quarter
- › We have bought into short British government bonds after the pound weakened substantially

1 2 3 **RISK** 5 6 7

| | |
|-----------------------|-------------------|
| Fund start date | 29 September 2006 |
| Return since start | 67.87% |
| Average annual return | 5.33% |
| AUM | EUR 119 million |
| Number of unitholders | 2 727 |

| PERFORMANCE IN EUR | Q316* | 12 M* |
|------------------------------------|--------|-------|
| SKAGEN Tellus | 0.29% | 5.07% |
| JP Morgan GBI Broad Index Unhedged | -0.81% | 8.61% |

* As of 30 Sept 2016



PORTFOLIO MANAGERS

Jane Tvedt, Torgeir Høien and Sondre Solvoll Bakketun

Interior. Brøndum's annex, ca 1920. Detail. By Anna Ancher, one of the Skagen painters. The picture is owned by the Art Museums of Skagen (cropped).



Trump and Brexit

SKAGEN Tellus delivered an almost flat return of 0.3% as measured in euro while the benchmark index lost 0.8%.

Capital gains and coupons both contributed to lift the fund's price, while the combined foreign exchange movements pulled the price in the opposite direction.

Croatia was the best investment in the fund in the third quarter. Interest rates in Slovenia and Spain also fell and contributed to capital gains in the fund. We have invested a significant proportion of the fund in Southern Europe, both within and outside the Eurozone. Our analyses indicate that both higher growth and quantitative easing from the European Central Bank will result in a drop in interest rates in this part of Europe. Despite the fact that interest rates have already come down, there is still a substantial difference between the interest rates in Southern Europe and Germany. Economic growth, better central government finances and monetary policy will probably result in this shrinking further – while German policy rates will remain at their current level for some time to come.

Our investments in the US and Mexico pulled down the fund's return in the third quarter. The Mexican peso has recently been moving in step with Donald Trump's popularity in the US presidential election campaign – the better he does in the public opinion polls, the weaker the peso becomes. The situation will most likely stabilise after the election in November – regardless of the outcome – and the peso will appreciate.

The British pound has depreciated substantially in the wake of the Brexit referendum. We therefore chose to buy short British government bonds. The pound weakened as a result of the uncertainty around what the separation from the EU will mean, even though it could take two to three years for a final settlement to be agreed upon. After weak confidence indicators immediately following the referendum, the figures have turned surprisingly quickly and both consumers and businesses are showing signs of optimism. We believe that the pound will shortly follow suit and appreciate.

| Security | Maturity | Coupon | Face value *** | Cost price *** | Market Price | Accrued interest *** | Market value** | Market value incl. accrued interest *** | Unrealised gain/loss *** | Share of fund |
|------------------------------|------------|--------|-------------------|-------------------|-----------------|----------------------------|-------------------|---|--------------------------------|------------------|
| GOVERNMENT BONDS | | | | | | | | | | |
| Canadian Government | 01.11.2016 | 1,00 | 10 000 | 65 014 | 610,86 | 252 | 61 086 | 61 338 | -3 929 | 5,74% |
| Chilean Government | 05.08.2020 | 5,50 | 4 410 000 | 54 659 | 1,30 | 451 | 57 135 | 57 587 | 2 476 | 5,39% |
| Croatia Government Int Bond | 30.05.2022 | 3,87 | 8 300 | 74 798 | 971,10 | 972 | 80 602 | 81 574 | 5 804 | 7,63% |
| European Bank Recon & Dev | 19.03.2018 | 5,75 | 200 000 | 25 846 | 11,92 | 739 | 23 841 | 24 579 | -2 005 | 2,30% |
| German Government | 10.03.2017 | 0,00 | 2 000 | 18 779 | 899,75 | 0 | 17 995 | 17 995 | -784 | 1,68% |
| Hellenic Republic Government | 24.02.2035 | 3,00 | 9 000 | 53 134 | 535,14 | 1 449 | 48 162 | 49 611 | -4 972 | 4,64% |
| Lithuanian Government | 01.02.2022 | 6,62 | 5 500 | 42 570 | 990,20 | 478 | 54 461 | 54 939 | 11 891 | 5,14% |
| Mexican Government | 15.12.2016 | 7,25 | 120 000 | 54 693 | 41,42 | 1 066 | 49 700 | 50 766 | -4 993 | 4,75% |
| New Zealand Government | 17.04.2023 | 5,50 | 8 000 | 54 358 | 705,04 | 1 176 | 56 403 | 57 579 | 2 045 | 5,39% |
| Norwegian Government | 19.05.2017 | 4,25 | 80 000 | 83 898 | 102,34 | 1 248 | 81 870 | 83 118 | -2 028 | 7,78% |
| Peruvian Government | 12.08.2037 | 6,90 | 25 000 | 59 712 | 254,25 | 539 | 63 563 | 64 102 | 3 852 | 6,00% |
| Portugese Government | 15.10.2025 | 2,87 | 7 000 | 66 651 | 880,95 | 1 731 | 61 667 | 63 398 | -4 984 | 5,93% |
| Slovenia Government | 30.03.2026 | 5,12 | 3 500 | 41 766 | 1 270,83 | 811 | 44 479 | 45 290 | 2 713 | 4,24% |
| Spanish Government | 30.04.2025 | 1,60 | 6 000 | 55 241 | 962,60 | 361 | 57 756 | 58 117 | 2 514 | 5,44% |
| UK Government | 23.01.2017 | 1,75 | 5 000 | 54 509 | 1 043,39 | 173 | 52 169 | 52 342 | -2 340 | 4,90% |
| UK Government | 07.09.2017 | 1,00 | 5 000 | 54 636 | 1 046,73 | 33 | 52 337 | 52 370 | -2 299 | 4,90% |
| US Government | 30.06.2017 | 0,62 | 10 800 | 88 468 | 800,92 | 135 | 86 500 | 86 635 | -1 968 | 8,11% |
| US Government | 30.11.2016 | 0,87 | 10 000 | 87 347 | 801,48 | 234 | 80 148 | 80 383 | -7 199 | 7,52% |
| Total Bond Portfolio | | | 1 036 081 | | | 11 849 | 1 029 874 | 1 041 723 | -6 206 | 97,49% |
| Disposable liquidity | | | 27 826 | | | 0 | 26 860 | 26 860 | -966 | 2,51% |
| TOTAL | | | 1 063 907 | | | 11 849 | 1 056 735 | 1 068 584 | -7 172 | 100,00% |

Key numbers

| | | | |
|-----------------|-------|------------|------|
| Effective yield | 2,12% | Duration** | 3,75 |
|-----------------|-------|------------|------|

* Effective yield adjusted for management fee.

** Duration is a simplified expression of how much the price of the security will change if the interest rate changes by one percentage point.

*** Figures in 1000 NOK.

Effective interest is the average annual return of an interest bearing security until maturity.

Securities are valued at market price as of 30.09.2016

Bonds and notes for which there are no market maker prices are at all times valued against the applicable yield curve.



Looking beyond Europe

SKAGEN Credit EUR

Picking the best bonds from the global orchard

- › A positive quarter for the fund
- › EUR and GBP bonds have become expensive
- › The fund's broad mandate allows us to seek the best opportunities globally

| | 1 | 2 | RISK | 4 | 5 | 6 | 7 |
|-----------------------|-------------|---|------|---|---|---|---|
| Fund start date | 30 May 2014 | | | | | | |
| Return since start | 0.22% | | | | | | |
| AUM | EUR 10 mill | | | | | | |
| Number of unitholders | 46 | | | | | | |

| PERFORMANCE IN EUR | Q316* | 12 M* |
|--------------------|--------|--------|
| SKAGEN Credit | 2.38% | 6.38% |
| 3 Month EURIBOR | -0.07% | -0.21% |

* As of 30 Sept 2016



PORTFOLIO MANAGERS

Ola Sjöstrand and Tomas Nordbø Middlethon

Apple trees, 1907. By Michael Ancher, one of the Skagen painters. The picture is owned by the Art Museums of Skagen (cropped).

The fund had a good third quarter with almost all of the bonds in the portfolio increasing in value. The nervous market sentiment we witnessed around the Brexit referendum back in June turned positive in July. With this mood shift, corporate bond spreads in general came in, resulting in an appreciation in bond prices.

The European Central Bank and the Bank of England have both started buying corporate bonds, with the aim of reducing borrowing costs for corporates in the bond market. This will in turn allow companies to access cheap funding in order to stimulate the economy.

A consequence of these efforts is that EUR bonds and GBP bonds are being mispriced as it is not the usual market forces setting the prices. As a result, the relationship between risk and return is not always in place. The two central banks are buying bonds purely on the basis of geography (the Eurozone and UK respectively), and no judgement is made with regard to whether the companies' credit quality is improving or deteriorating!

The benefit of a broad mandate

With fewer attractive investment opportunities in the EUR corporate bond market, the risk-reward simply fails to pay off when bonds with the same risk can provide a higher yield and/or spread in other currencies. SKAGEN Credit has a mandate that allows it to invest in a variety of currencies and countries, depending on where the best risk adjusted return can be found. We have therefore chosen to reduce the proportion of the portfolio invested in EUR-denominated bonds. Lately it has been easier to find good value in USD bonds, and now even some bonds issued in Scandinavian currencies appear attractive.

Key buys and sells

We also divested of our holding in the US beauty company Avon after the company started to buy back its own bonds at attractive levels.

Our USD bond issued by the Nigerian Diamond Bank was also sold out of the portfolio. The rather unstable and unpredictable economic situation in Nigeria has made the bond price of Diamond Bank less correlated with the credit quality of the bank and instead much too dependent on other factors.

Some of the proceeds from the above-mentioned sales went to a USD bond issued by the German automotive parts producer, Schaeffler. The company had strong credit metrics that were somewhat hidden or at least not crystal clear due to its organisational set-up. But already in September – about a year earlier than we had anticipated – Schaeffler clarified the situation and as a consequence immediately received a higher credit rating.

Outlook

With the central banks' involvement in Europe and the UK, there are fewer opportunities to be found in the EUR and GBP corporate bond markets. Does this mean that corporate bonds will in general provide more meagre returns going forward? There is of course no straight-forward answer to this, but one important aspect to bear in mind is whether you have the opportunity to invest in bond markets outside of Europe. Corporate bond markets in USD, CAD, AUD and even in NOK and SEK provide better returns and are all easily accessible. In SKAGEN Credit we have the opportunity to pick the bonds that provide the best risk adjusted return – geography, currency, sector and rating are all of minor importance. As such, we are well positioned and well equipped to be able to provide good returns for our clients in future also.

| SKAGEN CREDIT EUR | Number of units | Market value EUR | % |
|----------------------------|-----------------|------------------|---------------|
| SKAGEN Credit | 882 | 10 404 | 99,19 |
| Liquidity | | 85 | 0,81 |
| Total share capital | | 10 490 | 100,00 |

Degree of currency hedging 96.66%, Share of SKAGEN Credit 32.33%
 SKAGEN Credit SEK/ NOK/EUR are feeder funds or a collection of funds that feed into the master fund, which oversees all portfolio investments.
 The following is an overview of the portfolio of the SKAGEN Credit master fund.

| SKAGEN CREDIT MASTER FUND Security | Currency | Maturity | Face value | Coupon | Market value NOK | Share of fund (%) |
|---------------------------------------|----------|------------|------------|--------|------------------|-------------------|
| Gazprom OAO | USD | 11.04.2018 | 900 | 8,15 | 8 058 | 2,80 |
| Petrobras Global Finance BV | USD | 01.03.2018 | 600 | 5,88 | 4 981 | 1,73 |
| Petrobras Global Finance BV | USD | 20.01.2020 | 300 | 5,75 | 2 494 | 0,87 |
| Seadrill Ltd | USD | 15.09.2017 | 700 | 6,13 | 2 446 | 0,85 |
| Petrobras Global Finance BV | USD | 27.01.2021 | 200 | 5,38 | 1 600 | 0,56 |
| Total Energy | | | | | 19 580 | 6,79 |
| Glencore Canada Financial Corp | GBP | 27.05.2020 | 500 | 7,38 | 6 194 | 2,15 |
| INEOS | EUR | 01.05.2023 | 600 | 4,00 | 5 494 | 1,91 |
| Glencore Funding LLC | USD | 30.05.2023 | 600 | 4,13 | 4 840 | 1,68 |
| Glencore Funding LLC | USD | 29.04.2019 | 500 | 3,13 | 4 073 | 1,41 |
| Total Raw Materials | | | | | 20 601 | 7,15 |
| Color Group AS | NOK | 18.09.2019 | 9 000 | 6,33 | 9 422 | 3,27 |
| Schaeffler Finance BV | USD | 15.05.2023 | 1 100 | 4,75 | 9 171 | 3,18 |
| DSV A/S | DKK | 18.03.2022 | 6 000 | 1,66 | 7 366 | 2,56 |
| Tallink Group AS | NOK | 18.10.2018 | 6 000 | 6,00 | 6 318 | 2,19 |
| Stena AB | EUR | 01.02.2019 | 620 | 5,88 | 5 861 | 2,03 |
| Norwegian Air Shuttle AS | EUR | 11.12.2019 | 500 | 7,25 | 4 780 | 1,66 |
| Heathrow Funding Ltd | GBP | 20.03.2020 | 300 | 6,00 | 3 693 | 1,28 |
| Heathrow Funding Ltd | GBP | 10.09.2018 | 300 | 6,25 | 3 414 | 1,18 |
| Bombardier Inc | USD | 16.03.2020 | 400 | 7,75 | 3 294 | 1,14 |
| Bombardier Inc | USD | 14.10.2022 | 400 | 6,00 | 2 961 | 1,03 |
| Noble Group Ltd | USD | 29.01.2020 | 350 | 6,75 | 2 297 | 0,80 |
| Norwegian Air Shuttle AS | NOK | 03.07.2017 | 2 000 | 4,76 | 2 004 | 0,70 |
| PostNL NV | GBP | 14.08.2018 | 168 | 7,50 | 1 976 | 0,69 |
| Total Industrials | | | | | 62 558 | 21,71 |
| Best Buy Co Inc | USD | 15.03.2021 | 900 | 5,50 | 7 994 | 2,77 |
| Jaguar Land Rover Automotive Plc | GBP | 01.03.2023 | 600 | 3,88 | 6 471 | 2,25 |
| Samvardhana Motherson Automotive | EUR | 15.07.2021 | 600 | 4,13 | 5 521 | 1,92 |
| Fiat Finance & Trade SA | EUR | 15.03.2018 | 400 | 6,63 | 3 990 | 1,38 |
| Samvardhana Motherson Automotive | USD | 16.12.2021 | 400 | 4,88 | 3 344 | 1,16 |
| Fiat Chrysler Finance Europe | EUR | 22.03.2021 | 300 | 4,75 | 3 007 | 1,04 |
| Total Consumer discretionary | | | | | 30 326 | 10,53 |
| JBS Investments GmbH | USD | 28.10.2020 | 900 | 7,75 | 7 787 | 2,70 |
| Cosan | USD | 14.03.2023 | 700 | 5,00 | 5 482 | 1,90 |
| Safeway Ltd | GBP | 10.01.2017 | 400 | 6,00 | 4 376 | 1,52 |
| Lennar Corp | USD | 17.06.2019 | 500 | 4,50 | 4 227 | 1,47 |
| Total Consumer staples | | | | | 21 873 | 7,59 |
| Insurance Australia Group Ltd | GBP | 21.12.2026 | 800 | 5,63 | 8 635 | 3,00 |
| Länsförsäkringar Bank AB | SEK | 27.04.2026 | 9 000 | 1,81 | 8 632 | 3,00 |
| Danske Bank AS | GBP | 29.09.2021 | 600 | 5,38 | 6 612 | 2,29 |
| Amlin Plc | GBP | 18.12.2026 | 600 | 6,50 | 6 555 | 2,27 |
| Bank of Baroda | USD | 23.07.2019 | 750 | 4,88 | 6 442 | 2,24 |
| Standard Chartered PLC | EUR | 23.11.2022 | 400 | 3,63 | 3 963 | 1,38 |
| Standard Chartered Bank | GBP | 03.04.2018 | 200 | 7,75 | 2 342 | 0,81 |
| Banco Est Rio Grande Sul | USD | 02.02.2022 | 250 | 7,38 | 1 980 | 0,69 |
| Total Financials | | | | | 45 162 | 15,67 |
| Rolta Americas LLC | USD | 24.07.2019 | 400 | - | 380 | 0,13 |
| Total IT | | | | | 380 | 0,13 |
| VimpelCom Holdings BV | USD | 01.03.2022 | 850 | 7,50 | 7 672 | 2,66 |
| Bharti Airtel International | USD | 20.05.2024 | 700 | 5,35 | 6 259 | 2,17 |
| Frontier Communications Corp | USD | 15.09.2022 | 550 | 10,50 | 4 675 | 1,62 |
| Bharti Airtel International | EUR | 20.05.2021 | 400 | 3,38 | 3 956 | 1,37 |
| Total Telecom | | | | | 22 563 | 7,83 |
| BKK AS | NOK | 22.05.2020 | 13 000 | 1,76 | 13 003 | 4,51 |
| EDP Finance BV | USD | 01.10.2019 | 1 400 | 4,90 | 12 193 | 4,23 |
| Total Utilities | | | | | 25 196 | 8,74 |
| American Tower Corp | USD | 15.02.2019 | 300 | 3,40 | 2 502 | 0,87 |
| Total Real estate | | | | | 2 502 | 0,87 |
| TOTAL SECURITIES PORTFOLIO | | | | | 250 740 | |
| IRS EUR 20180620 | EUR | 20.06.2018 | 3 000 | | -398 | -0,14 |
| IRS EUR 20210511 | EUR | 11.05.2021 | 600 | | -208 | -0,08 |
| IRS GBP 20180129 | GBP | 29.01.2018 | 1 200 | | -258 | -0,09 |
| IRS GBP 20230523 | GBP | 23.05.2023 | 400 | | -190 | -0,07 |
| IRS USD 20180620 | USD | 20.06.2018 | 3 500 | | -337 | -0,11 |
| IRS USD 20190820 | USD | 20.08.2019 | 2 000 | | -328 | -0,11 |
| IRS USD 20210622 | USD | 22.06.2021 | 1 000 | | -327 | -0,12 |
| IRS USD 20220927 | USD | 27.09.2022 | 1 500 | | -49 | -0,02 |
| IRS USD 20230905 | USD | 05.09.2023 | 1 000 | | -42 | -0,02 |
| Derivatives | | | | | -2 136 | -0,74 |
| Liquidity | | | | | 39 553 | 13,72 |
| Total share capital | | | | | 288 156 | 100,00 |

Return and risk measurements

Returns in euro (all return figures beyond 12 months are annualised and net of fees)

| As of 30.09.2016 | Last Year | Last 2 Years | Last 3 Years | Last 5 Years | Last 7 Years | Last 10 Years | Since Start |
|---|-----------|--------------|--------------|--------------|--------------|---------------|-------------|
| SKAGEN Vekst A* | 11,1% | 0,7% | 5,3% | 8,7% | 6,4% | 3,7% | 13,1% |
| MSCI Nordic/MSCI AC ex. Nordic | 9,0% | 6,9% | 10,6% | 13,6% | 12,4% | 6,8% | 9,6% |
| SKAGEN Global A | 10,4% | 2,8% | 6,6% | 11,3% | 9,8% | 6,2% | 13,8% |
| MSCI World AC** | 11,2% | 8,2% | 11,8% | 14,5% | 11,8% | 5,2% | 3,8% |
| SKAGEN Kon-Tiki A | 13,5% | -0,1% | 2,8% | 6,0% | 6,2% | 6,9% | 12,8% |
| MSCI Emerging Markets*** | 16,1% | 3,0% | 5,8% | 6,8% | 6,2% | 5,2% | 7,0% |
| SKAGEN m2 A | 14,8% | 8,4% | 9,8% | | | | 5,4% |
| MSCI All Country World Index Real Estate IMI | 14,9% | 14,1% | 14,0% | | | | 12,3% |
| SKAGEN Focus A | 17,2% | | | | | | -14,3% |
| MSCI World AC | 11,2% | | | | | | -7,9% |
| SKAGEN Tellus A | 5,1% | 2,7% | 4,7% | 5,4% | 5,9% | 5,3% | 5,4% |
| J.P. Morgan GBI Broad Index Unhedged in EUR**** | 8,6% | 9,3% | 8,8% | 4,4% | 5,7% | 5,4% | 5,6% |
| SKAGEN Credit EUR A | 6,4% | 0,3% | | | | | -0,9% |
| 3 Month EURIBOR | -0,2% | -0,1% | | | | | 0,0% |

Risk and performance measurements

| As of 30.09.2016 | SKAGEN Vekst | SKAGEN Global | SKAGEN Kon-Tiki | SKAGEN Tellus |
|------------------------------------|--------------|---------------|-----------------|---------------|
| RISK MEASURES 5 YEARS | | | | |
| Standard Deviation NAV | 0,13 | 0,13 | 0,15 | 0,06 |
| Standard Deviation Benchmark | 0,12 | 0,11 | 0,14 | 0,08 |
| Tracking Error | 0,06 | 0,05 | 0,05 | 0,06 |
| Beta | 0,95 | 1,15 | 0,99 | 0,54 |
| Active share ¹⁾ | 92 % | 92 % | 92 % | |
| RISKADJUSTED RETURN 5 YEARS | | | | |
| Alpha | -0,04 | -0,05 | -0,01 | 0,03 |
| Sharpe Arithmetic | 0,62 | 0,79 | 0,37 | 0,83 |
| Sharpe Ratio Benchmark | 1,03 | 1,23 | 0,44 | 0,54 |
| Information Ratio Arithmetic | -0,71 | -0,55 | -0,15 | 0,15 |

¹⁾ Active share represents the picture in the fund as at 30 September 2016

* 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 they are 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). The benchmark index prior to 1/1/2010 was OSEBX and prior to 1/1/2014 it was OSEBX / MSCI AC (50/50).

** The benchmark index prior to 1/1/2010 was the MSCI World Index.

*** The benchmark index prior to 1/1/2004 was the MSCI World Index.

**** The benchmark index prior to 1/1/2013 was Barclay's Capital Global Treasury Index 3-5 years.

NOTICE

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. There are no subscription costs.

SKAGEN Vekst has a fixed management fee of 1% per annum. Returns exceeding 6% p.a. are shared 90/10 between the unitholders and the management company. A charge of the variable management fee may solely be made if the unit value as at December 31st exceeds the unit value at the previous charge/settlement of the variable management fee (the high watermark).

SKAGEN Global has a fixed management fee of 1% per annum. Better value development measured in percent in the fund's net asset value compared with the MSCI AC World Index (in NOK) is shared 90/10 between the unitholders and the management company.

SKAGEN Kon-Tiki has a fixed management fee of 2% per annum. Better value development measured in percent in the fund's net asset value compared with the MSCI Emerging Markets Index (in NOK) is shared 90/10 between the unit holders and the management company. However, the total annual management fee charged may not exceed 4% of the fund's average annual asset value.

SKAGEN m² has a fixed management fee of 1.5% per annum. Better/worse value development measured in percent in the fund's asset value compared with the MSCI ACWI Real Estate IMI (in NOK) is shared 90/10 between the unit holders and the management company. The total management fee charged constitutes a maximum of 3% and a minimum of 0.75% per year.

SKAGEN Focus has a fixed management fee of 1.6% per annum. Better/worse value development measured in percent in the fund's asset value compared with the MSCI World AC TR Index (in NOK) is shared 90/10 between the unit holders and the management company. The total management fee charged constitutes a maximum of 3.2% and a minimum of 0.80% per year.

SKAGEN Global, SKAGEN Kon-Tiki, SKAGEN Focus and SKAGEN m2 may be charged a variable management fee even if the fund's return has been negative, as long as the fund has outperformed the benchmark. Conversely, the fund may have a positive return without being charged a variable management fee, as long as there is no outperformance of the benchmark. The fixed management fees are calculated daily and charged quarterly. The variable management fees are calculated daily and charged annually.

The annual management fee is 0.8% for SKAGEN Tellus and SKAGEN Credit EUR. The management fee is calculated daily and charged quarterly.

Please refer to the product sheets and prospectuses for a detailed description of the cost, etc. They are available upon request from SKAGEN Funds or at www.skagenfunds.com



London Branch



Stavanger
Head Office



Amsterdam Branch

- Home market, or under home market supervision
- International market
- Marketing permission

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Front page: *Two fishermen*, 1898.
 By Michael Ancher, one of the
 Skagen painters. The picture is
 manipulated and belongs to the
 Art Museums of Skagen

