MARKET REPORT

SKAGEN

A VOLATILE QUARTER

A SAILOR'S SKILL IS TESTED IN STORMY WATERS

APRIL 2016 | www.skagenfunds.co.uk

Dear Readers,

The year started with a broad market sell-off in both developed and emerging markets. Fortunately the turbulence we witnessed already seems like a distant memory as the markets started to bounce back at the end of January/ early February. This was particularly the case in emerging markets that are now trading in positive territory in most major currencies. After 18 weeks of outflow from emerging market funds, March in fact saw four weeks of inflow.

Does this recent strength in the markets perhaps hint at good times ahead? If I were to offer a clear answer to that, you, the reader, should probably worry as I have no claims of being a very successful fortune teller.

There are however always dangers to concern ourselves with; one such is the looming risk of the outcome of the referendum on Britain's membership of the European Union on 23 June. If the world's fifth largest economy does end up leaving its biggest market, commonly referred to as Brexit, we need to consider how the markets would be affected. You only need to look at the FTSE 100, consisting of the 100 biggest companies in the United Kingdom, to see that it is predominantly a collection of multinational companies that happen to have a stock exchange listing in London. These companies have their main earnings in dollars rather than in pounds sterling. In the long run the effects of a Brexit could therefore be fairly limited; in the short term we have already seen a weakness in the pound and it's impossible to say exactly how the equity markets would react.

At SKAGEN we obviously need to keep an eye on how the macro environment affects our portfolio investments. However, as bottom-up investors, our starting point in analysing equities is generally not the macro-economic conditions of a country or region, rather the specific company valuation and the unique set of variables that will determine whether an investment will be successful or not.

For quite some time now, the overall performance of SKAGEN and our active style of investing have not been rewarded by the financial markets in the way we would have wanted. We are not alone in this regard. As an example of this, according to a recent study by S&P Dow Jones Indices, 100% of the actively managed Netherlands equity funds have failed to beat their benchmark over the past 5 years. It seems extraordinary that 100% of active funds have failed, although neither in Europe as a whole nor in the US have active funds made investors particularly happy during this time period.

So, back to the question of whether there will be good times ahead. As active fund managers it is our job at SKAGEN to find the best possible investments in all market conditions. In essence it is our duty to be positive and always aim at making sure that our investment portfolios consist of the best composition of undervalued investments – without trying to pinpoint the exact timing of when we will be rewarded for our efforts. Until that time comes, we won't be lured into indiscriminately buying into an entire market and all its listed companies in order to deliver returns in line with the market average. Instead, we continue to make active and careful decisions on what to invest in order to deliver above average returns. The SKAGEN Global team will tell you more about three such examples of carefully selected investments – SONY, Capgemini, Baidu – that have recently entered Global's portfolio.

At the end of the quarter, Portfolio Manager and hitherto CIO, Ole Søeberg, changed his role to solely focus on managing SKAGEN Vekst and I took on the role of acting CIO. As such I will continue the process that Ole started with a focus on supporting an environment of dynamic shared investment thinking. This will not be the first time I take on the role of CIO and it will not be the first time that SKAGEN will have a combined CEO/CIO-position.

On the topic of SKAGEN Vekst, the team has had a good start to the year. They recently initiated positions in eBay and the Swedish fashion giant H&M, which might seem like unusual investments for SKAGEN. You can find out more about this and other activities in all the funds in the report. Happy reading!

– Leif Ola Rød
CEO

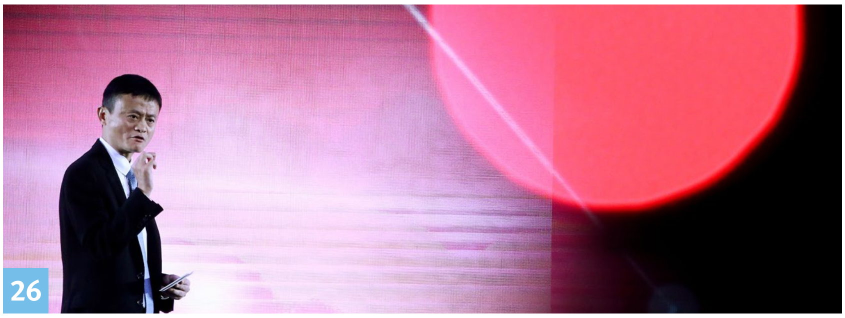
CONTENT

Photo: Bloomberg

Tell us. SKAGEN Tellus sees a strenghtening dollar on the back of a healthy US economy. Photo: sheets of one hundred dollar bills waiting to be cut into singles.

Photo: Bloomberg

The SKAGEN Global team seized an opportunity to invest in Baidu, the leading Chinese internet search provider. Photo: Baidu's autonomous car at the company's headquarters in Beijing.



Photos: Bloomberg

Through its investment in Japan's SoftBank, SKAGEN Focus has exposure to Chinese e-commerce through SoftBank's 32% stake in Alibaba Group, the dominant internet retailer in China. Photo: Jack Ma, chairman of Alibaba, at the APEC meeting in November 2015.

SKAGEN FUNDS

Returns

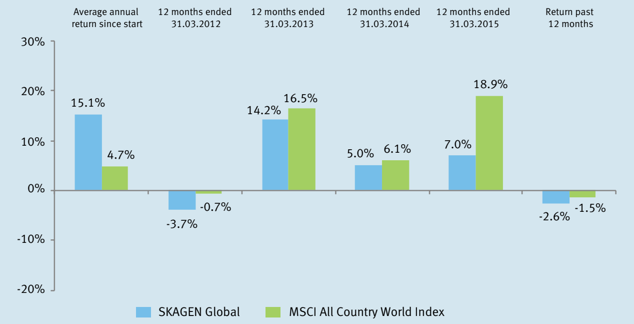
The following tables show the returns for SKAGEN's funds versus their respective benchmarks in GBP. The figures are updated as of 31.03.2016

Unless otherwise stated all figures quoted in this report are in GBP, except for SKAGEN Credit EUR which are in EUR and the Financial Statement and Notes, which are in Norwegian kroner. The report relates to class A units and is net of fees. SKAGEN Funds does not have authorisation to market SKAGEN Høyrente, SKAGEN Høyrente Institusjon, SKAGEN Balanse 60/40, SKAGEN Krona and SKAGEN Avkastning in the UK. Information regarding these funds is included in the official accounts and audited information hereto. Other information regarding these funds from the Norwegian version of the report has been excluded from this English language publication.

Equity fund   Fixed Income fund

SKAGEN GLOBAL A

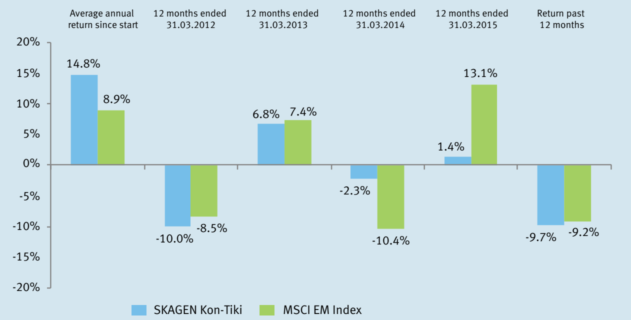
Lead Manager: Knut Gezelius **Start:** 7 August 1997



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

SKAGEN KON-TIKI A

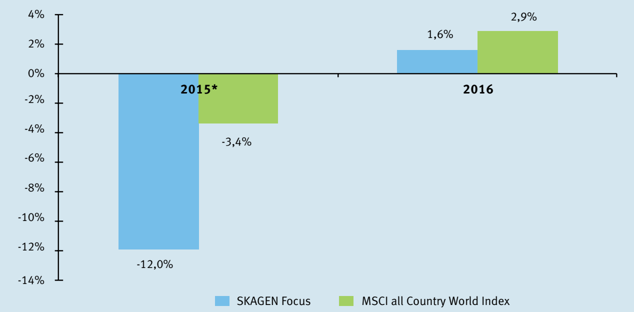
Lead Managers: Kristoffer Stensrud and Knut Harald Nilsson **Start:** 5 April 2002



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

SKAGEN FOCUS A

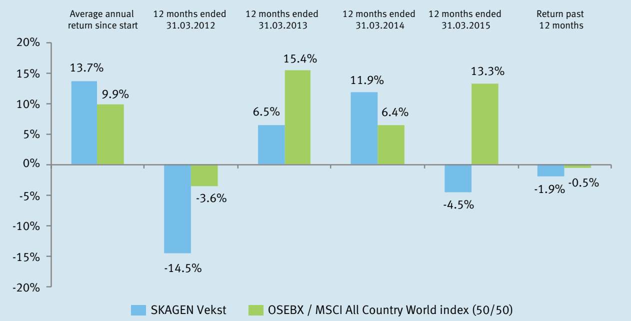
Lead manager: Filip Weintraub **Start:** 26 May 2015



* Launched on 26 May 2015

SKAGEN VEKST A

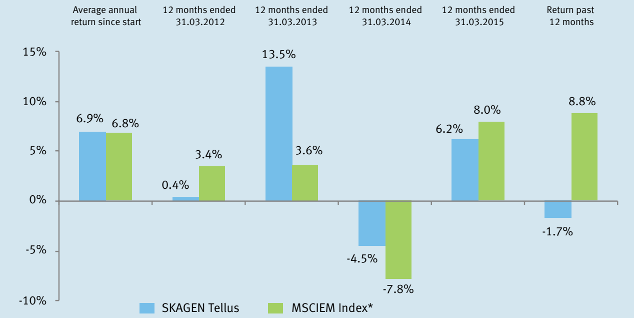
Managers: Ole Søeberg and Geir Tjetland **Start:** 1 December 1993



* Effective 1/1/2014, the fund's investment mandate changed. Read more on page 20. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX).

SKAGEN TELLUS A

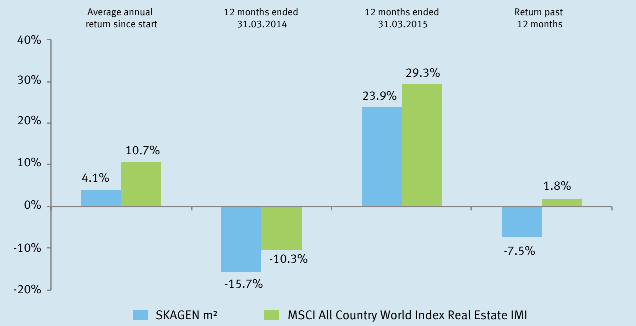
Lead Manager: Torgeir Høien **Start:** 29 September 2006



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

SKAGEN m² A

Managers: Michael Gobitscheck and Harald Haukås **Start:** 31 October 2012



SKAGEN CREDIT EUR

Manager: Ola Sjöstrand **Start:** 30 May 2014

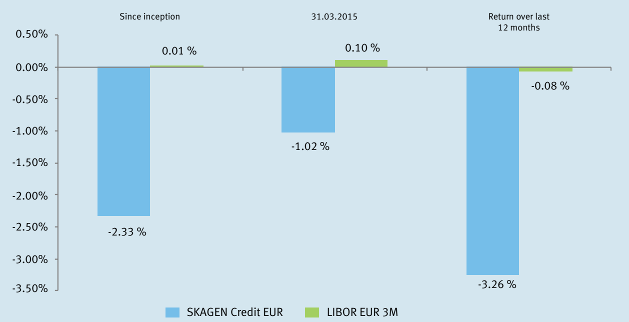
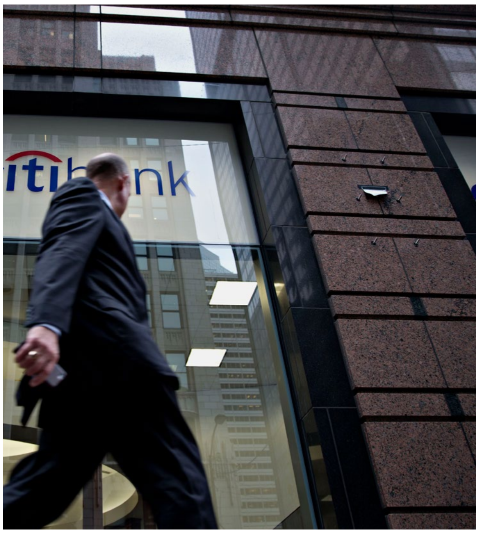


Photo: Bloomberg

Down and up. Commodity related equities were among the winners in the quarter. The price of oil dropped about 37% at the start of the quarter only to end up higher at the end. Photo: an oil pumping jack in Russia – one of the strongest markets in the quarter.

Photo: Bloomberg



Down. Financials were among the losers in the quarter with Citigroup being the largest detractor in both SKAGEN Vekst and Global – in part due to overall concerns about energy related debt. Photo: a pedestrian walks past a Citibank branch in Chicago.

Portfolio managers' report

Introduction

- SKAGEN's equity funds delivered negative returns in the first quarter ranging from 0.5% to 5.8% as measured in GBP. Developed Markets in general declined 3%, outperformed by Emerging Markets which gained 8% in GBP terms.
- The fixed income funds all delivered positive returns in the range of 0.8% to 7.7% (as measured in GBP), which is satisfactory in an environment with close to zero interest rates.
- Key assets had a roller coaster performance in the quarter. To illustrate, oil started the year at USD 37 for Brent oil, only to fall to USD 28 in a matter of weeks and then rebound to USD 40 by quarter end. Global stocks followed the same pattern but did not make it into positive territory for the quarter. The value investment style performed slightly better than growth, but whether this is evidence of a prolonged period of value outperforming growth remains to be seen.
- The initial decline in asset prices came as a surprise and was driven by fears of slower growth in China and the US as well as the financial industry being hit by losses in the energy sector. The somewhat delayed, but much needed response from central bankers calmed the financial markets during the quarter.
- We expect the mood to continue to be jittery; however we see a strong foundation for further value creation going forward as companies continue to accumulate cash. Unless a global recession hits, then weak periods should be used to accumulate financial assets, especially equities.

A rollercoaster quarter

– Ole Søeberg
Investment Director

Big movements

Global stock markets ended the first quarter with a 0.3% decline in USD terms. Ten-year US bonds provided a total return of 3.4% as interest rates declined.

During the quarter global equities initially declined 12% in USD, before staging a 13% rebound from early February. The biggest movers in the quarter were Latin America and Eastern Europe on the upside and Asia and Western Europe on the downside. At sector level, utilities, telecom, materials and energy outperformed, while healthcare, consumer discretionary and financials lagged.

The sector winners of 2014 and 2015 are the laggards so far this year and vice versa. This could be indicative of either a normalisation of intrinsic valuation or a sign that investors are betting on higher economic growth ahead than the current economic news flow suggests.

The market punished companies that either missed their own guidance or disappointed investors with their future outlook. This is not unusual, but the punishment was particularly harsh in the last quarter, especially for highly valued companies. This tells us that investors' patience is being tested and they are becoming more inclined to shorter term thinking.

Looking for value

When searching for value in the stock market a few sectors stand out, namely finance, energy and materials. These industries are trading at an unusually low valuation compared with the 10-year price-to-book average and may be interesting from that perspective. Nevertheless, there are plenty of reasons to believe they will continue to face low profitability due to financial regulation and oversupply of commodities after the 'China rush' from 2003-2012. As the 3-5 year outlook for these sectors is far from certain, then prudent value investors should tread carefully in their search for value in that space.

Growth, low volatility and momentum-oriented investment strategies have performed very well in recent years. However as we have previously mentioned, a number of the companies in that space are now valued beyond a reasonable balance between growth, profitability and valuation, and this poses a problem for the rational investor in that space.

The capital movements in first quarter suggest some kind of normalisation as flows are moving towards very inexpensive and beaten up stocks in the energy and commodity space as well as moving back into Brazil. However, as experienced investors know, the market movements in the shorter term are based on popularity, while the long-term returns are based on underlying trends in the individual companies' earnings.

As such it would appear that active investors are price setters while passive investors are price takers. The movements in the first quarter tell us very little about

the longer term trend in our high conviction investments. It tells us that short-term investors are chasing and creating movements of unusual volatility. As a value investor and stock picker, SKAGEN focuses on companies that provide attractive long-term value creation. The refinements that have been made by SKAGEN's equity teams during the first quarter show a clear commitment to picking up good long-term businesses when the short-term market voting machine dislikes those companies. For more details on this, see the individual fund sections.

SKAGEN funds' performance

SKAGEN's equity funds delivered negative returns in the first quarter ranging from 0.5% to 5.8% as measured in GBP. Developed Markets in general declined 3%, outperformed by Emerging Markets which gained 8% in GBP terms.

The fixed income funds all delivered positive returns in the range of 0.8% to 7.7%, which is satisfactory in an environment with close to zero interest rates.

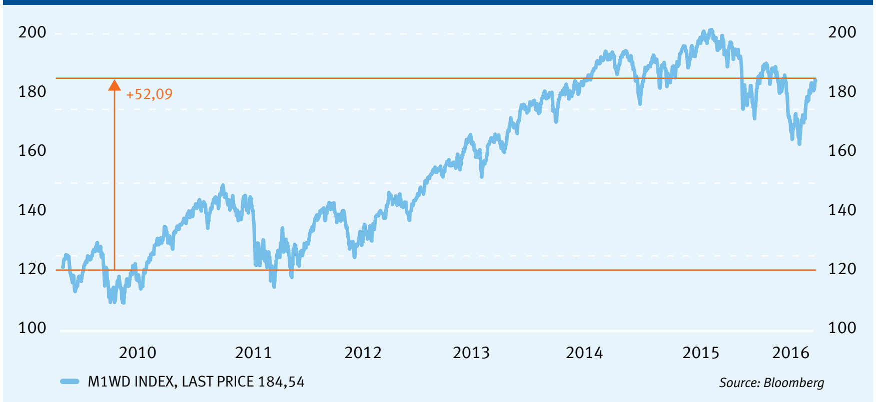
A general observation is that the funds' performance was slightly less correlated in the period than has been the case in the past. SKAGEN is known for sharing investment ideas across teams. However, as the number of fund managers has increased since 2010, so have the individual decision styles and investment profile preferences also become more differentiated. Nevertheless, it is important to note that all portfolio managers keep to SKAGENS's narrow path of contrarian value investment.

Amidst financial markets jitters, we stick to the facts

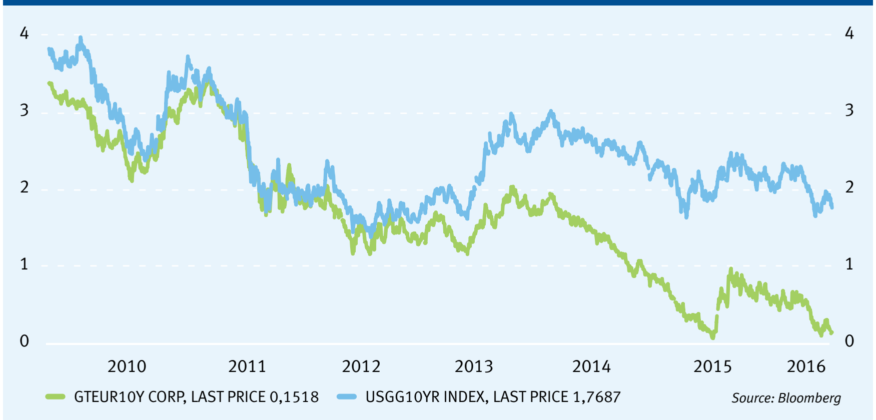
After seven years of rising earnings and stock prices and ever lower interest rates, investors are asking themselves 'how long can the good times last?' This was also a theme in our quarterly reports last year. The conventional wisdom among many investors now is that a recession is imminent, which is reflected in the depressed energy and commodities prices. We disagree, however, and base our conclusion on factual developments taking place within the companies we know well. Paradoxically in a volatile environment, we observe that defensive sectors are lagging in terms of performance and deeply cyclical industries are outperforming despite media headlines of oversupply of everything from oil and gas to iron ore and polysilicon.

The global economy may well go through a soft patch, but given low interest rates, low energy prices and a prolonged period of low investment in production efficiency/ capacity by corporates, we may see this result in the economic pace picking up a year from now. The political and monetary authorities have also demonstrated that they understand that reforms must be accelerated to speed up innovation and productivity growth, ensure more efficient distribution of capital and hence boost economic growth in developed markets. The erratic nature of some Emerging

MSCI WORLD ACWI SINCE END 2009



US AND EUROPEAN 10-YEAR GOVERNMENT BONDS SINCE END 2009



Market politicians tends to create sensationalist headlines and a sense of higher risk. However, investors should not confuse rhetoric with actions that seriously rock the boat. As such and assuming a global recession does not become a reality then weak periods should be used to accumulate financial assets.

The equity markets peaked in May 2015 and then retrenched by 20% in USD until February 2016 only to rebound by 13% as mentioned above. In the meantime the value of listed companies has grown via earnings growth, dividend pay-outs and growth in shareholders' value. In total, the average global stock has grown 5-10%, so barring a recession the value build has continued unabated while equity markets have corrected. In the long term equity prices will reflect the direction of the underlying fundamentals. Current valuations of 16x for global stocks and 12x for Emerging Markets do not suggest that overvaluation is a major risk that will cause equities to decline in value.

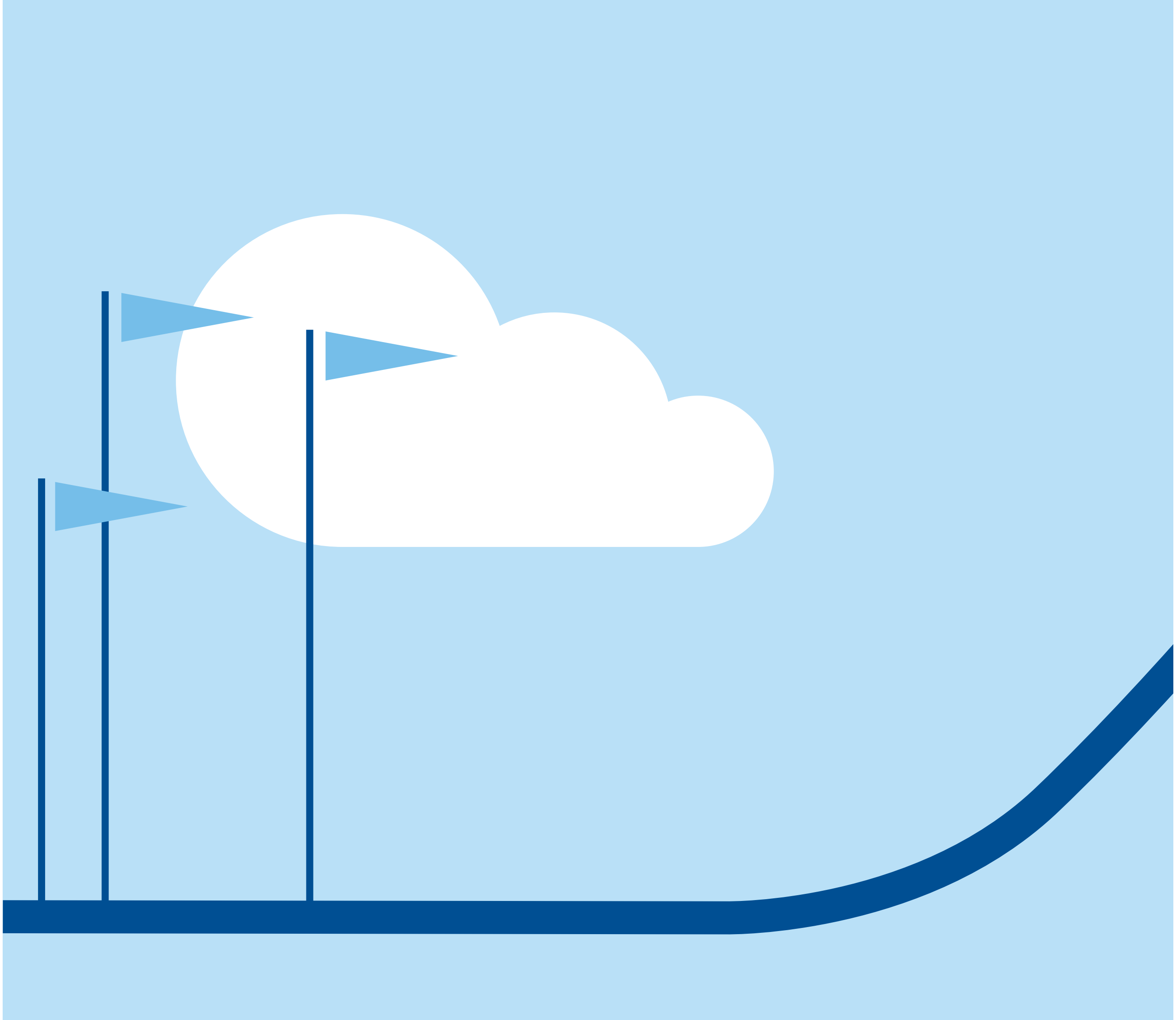
Interest rates are at multiyear lows and inflation is subdued. Consequently, we see low interest rates lasting for a long time to come. There will be the occasional inflation spectre or imbalanced government budget deficit hitting the headlines and investor moods, but a long-term significant increase in interest rates is years away. The implied message from equity markets is that 10-year government bonds yield around 3% and not the currently observed 1.9% in US and 0.23% in Europe and Japan. Local variances may occur.

Focus on good stocks, not good headlines

Macroeconomic factors impact investors' risk appetite in the shorter term, however long term we firmly believe and invest in good business models and solid management as these matter the most in generating superior performance. Investing in good assets during distressed periods has historically created superior returns for SKAGEN.

All the investments in the equity funds have been re-evaluated versus an upside potential of 50% over a 2-3 year period while also identifying investment specific risk and volatility factors. We have also applied the 3U test to all investments as well as an individual ESG assessment. The fixed income funds also have ambitious targets albeit with lower return and lower volatility. Investment management is about making the right decisions. If our investments do not comply with a proper risk and return profile, we re-evaluate and exit the position if necessary.

Losses cannot be avoided, but with common sense, good historical insight and a thorough understanding of potential risks relative to expected investment returns, we strive to generate superior risk-adjusted returns for our investors.



PIT STOP FIRST QUARTER 2016

At the outset of 2016 the consensus for the year was for 5-10% returns in equities and continued low interest rates driven by modest growth and low inflation. The economic datapoint updates for the first quarter 2016 have not changed the fundamental view by much, however the financial market ups and downs have had a more negative impact on the media and investor mindset.

The first quarter company reports will be released in the coming weeks, but we note that very few corporate warnings have been issued during the latter part of the quarter.

In conclusion we see positive returns ahead for SKAGEN's funds as the balance between valuation, growth and profitability offer good opportunities. We shouldn't be surprised by volatility ahead however.

SKAGEN Global

A world of opportunities

- Unpopularity of Chinese equities gave us a rare opportunity to invest in Baidu.
- Tyson Foods exited the portfolio having reached our target price after stellar performance.
- We see the stock market slump in Q1 as a cyclical pullback, not a preview of an abysmal future.

1	2	3	4	5	RISK	7

Fund start date	7 August 1997
Return since start	1,278.8%
Average annual return	15.1%
AUM	GBP 2,668 million
Number of unitholders	88,529

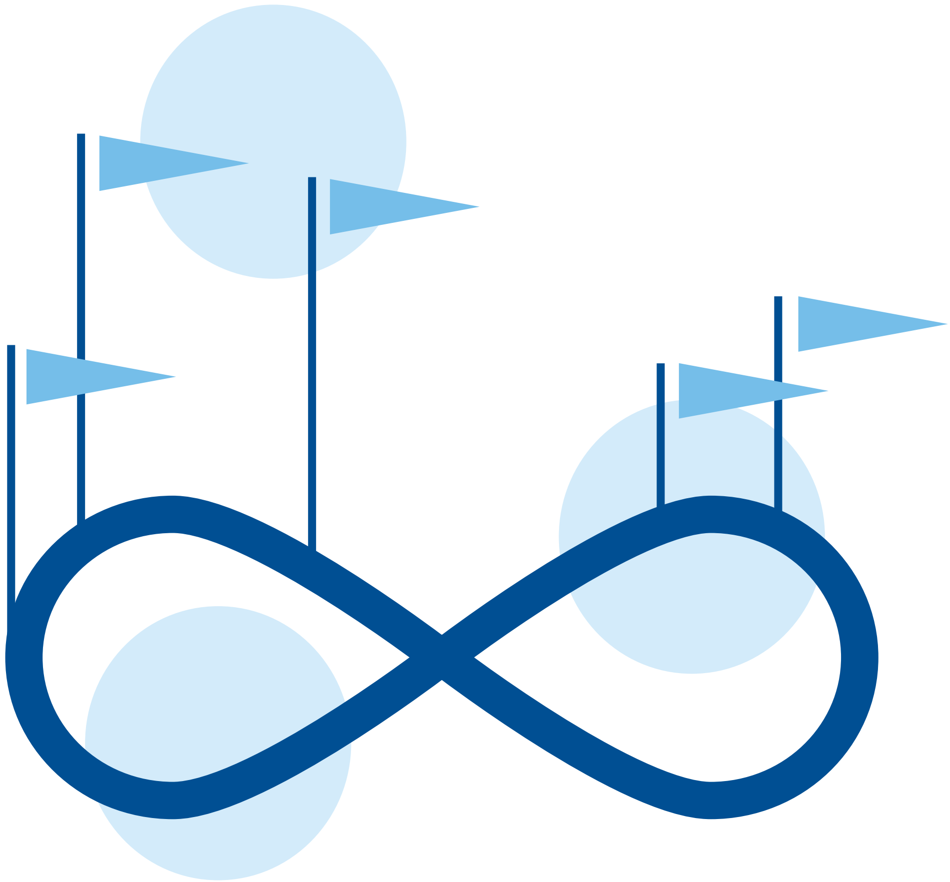
PERFORMANCE IN GBP	Q1 16*	12 M*
SKAGEN Global A	0.5%	-2.6%
MSCI ACWI	2.9%	-1.5%

** As of 31 March 2016, net of fees*

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).



Repeating cycles

While briefly discussing the end of the world in the Book of the Dead, the Egyptian mythology's god-king Osiris depicts the underworld as a desert: "it hath not water, it hath not air; it is depth unfathomable, it is black as the blackest night, and men wander helplessly therein". This description might as well have referred to the start of this year's global equity markets which slumped by 12% in USD terms during the first six trading weeks and entered a bear market for the first time in five years. Many investors sounded the trumpet of doom and begun offloading stocks in pure despair. Financial stocks were particularly clobbered in the turmoil as the toxic cocktail of a looming recession, energy loan losses and negative interest rates became the consensus view in the market. However, a forceful response from central banks in the second half of the quarter allayed some of the fears and helped global equities to recover some of the initial losses.

SKAGEN GLOBAL KEY NUMBERS FOR THE LARGEST HOLDINGS (AS OF 31.03.2016)

Company	Holding size	Price	P/E 2015	P/E 2016E	P/BV last	Price target
AIG	6.9	54	24.7	11.2	0.7	90
Samsung Electronics	6.1	1,107,000	8.6	8.6	0.9	1,500,000
Citigroup	5.9	42	7.8	8.4	0.6	70
General Electric	4.9	32	24.3	21.1	3.0	34
Roche	4.0	237	17.5	16.2	9.6	380
Merck	3.6	54	14.7	14.3	3.3	76
G4S	3.1	191	13.0	12.4	4.4	403
Kingfisher	3.0	377	16.4	16.4	1.4	480
CK Hutchison Holdings	2.9	101	12.1	11.7	1.0	140
NN Group	2.7	29	7.6	9.7	0.4	35
Weighted top 10	**43.0**		**12.6**	**11.6**	**1.0**	**49%**
Weighted top 35	**85.5**		**14.6**	**13.1**	**1.3**	**41%**
Benchmark index (MSCI ACWI)			**18.1**	**15.9**	**2.0**	

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

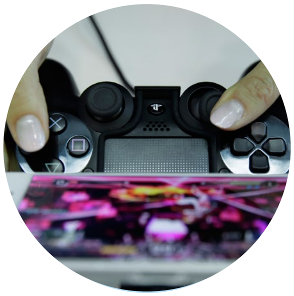
PORTFOLIO ACTIVITY

SKAGEN Global A generated an absolute return of 0.5% in the first quarter and the benchmark index MSCI World ACWI returned 2.9% (measured in GBP) during the same period.

The three best contributors to absolute returns were Dollar General, Lundin Mining and Volvo. The US bargain retail chain Dollar General benefited as investors showed renewed appetite for its undervalued structural growth story. Higher copper prices supported Lundin Mining while sector rotation into cyclical industrial names boosted Volvo.

The fund's performance has been negatively affected primarily by the holdings in AIG, Citigroup and G4S. The US financial companies AIG and Citigroup have not yet recovered from the sell-off in financials described above, but we expect both stocks to perform better once investors' nervousness about market conditions eases. G4S, a global integrated security company, pulled back as investors worried about its balance sheet. However, the rating agency S&P recently affirmed the investment grade rating (BBB-) of G4S after a business plan review with its management.

The fund initiated three positions and exited three positions in the first quarter. Capgemini, Sony and Baidu entered the portfolio and we exited Tyson Foods as the stock has reached our target price after stellar performance (+26% in USD). The British-Indian auto producer Tata Motors and the Indonesian media conglomerate Global Mediacom left the portfolio to fund other opportunities that arose when markets sold off indiscriminately.



CAPGEMINI

Seeing through outdated truths and dispelling myths are key in identifying undervalued investment opportunities. Both of these play a role in our investment thesis for Capgemini, Europe's largest IT services provider. Firstly, the market still perceives Capgemini as a cyclical IT consulting company. In our opinion, the group structure has evolved over recent years and most of the cyclical elements have been removed. As such, we note that revenue volatility is much less correlated to the macro environment today than it has been historically. Secondly, the purported threat of Indian IT consultancies flooding Europe's market lacks clear evidence.

Meanwhile, Capgemini has built up a significant Indian backbone to make it more competitive globally. Propelled by its expanding offshore footprint, Capgemini has lifted operating margins from 7% to over 10% in the past five years. Our proprietary analytics show that Capgemini should be able to further enhance margins towards 12-13%, maybe even as high as 15%, underpinned by 5%+ organic growth and more meaningful scale benefits. Trading at 1.2x EV/Sales, Capgemini ticks our "Undervalued box" as it looks excessively discounted compared to best-in-class peer Accenture and top Indian competitors trading at 1.9x and 3.6x, respectively.

SONY

Many readers probably associate Sony with Walkman and video cassette recording (VCR) devices that dominated the home electronics market in the 1990s. While cassette players may elicit feelings of nostalgia, they no longer bring in any hard cash in today's world where media consumption is rapidly going digital. We see Sony as a play on the structural trend of digitalisation of media and entertainment. One telling example is Sony's gaming platform, PlayStation, which is becoming the "Netflix for gaming" and thus commands huge operating leverage that is underappreciated by the market. The company's strong market position in virtual reality is a free option on further upside.

While we focus on the long-term shift from hardware to entertainment, the market is myopically focusing on the less attractive parts of the Sony conglomerate, e.g. image sensors and life insurance. These operations may not be quite as bad as the market fears and their relevance to the group's earnings profile should dissipate over the coming years. We predict that Sony's Entertainment segment will generate 70% of the group's profit by 2020, significantly higher than 40% today. Importantly, the recurring nature of the revenue stream should also warrant an uplift in valuation multiples.

BAIDU

Viewing the Internet as an irresistible force that is likely to have a profound impact on everyday life for billions of people over the next few decades, the Global team is closely monitoring a number of companies in this area to be ready to act on any price dislocation in the market. When Chinese equities fell out of favour with investors this winter, the fund had a rare opportunity to invest in Baidu, the USD 53bn market cap leading Chinese-language Internet search provider. Baidu is essentially China's equivalent to Google.

The core search business is highly profitable whereas other business operations targeting group buying services, online travel and online video are still loss-making. According to our analysis, the market has priced Baidu's stock based on the belief that the unprofitable units will continue to bleed money at the current run-rate for another 16 years. We challenge this overly pessimistic outlook since we believe that the company's capital allocation ability is more prudent than the market understands. High marginal return on invested capital for search enables Baidu to annually grow earnings at a 30% clip with positive cash flow. Our base case envisions 50% upside while a net cash balance sheet helps limit the downside to roughly 15%.

Photo: Pixabay.com

OUTLOOK

Unlike many other early civilizations, the ancient Egyptian society did not have a very elaborate version of the apocalypse. In fact, Egyptians viewed the world in terms of repeating cycles and therefore saw little point in portraying a single cataclysmic end event. Drawing upon this historical wisdom, we see the stock market's wobble in the first quarter as a cyclical pullback after many years of rising valuations rather than a preview of an abysmal future. The reality is that the world economy continues to grow, albeit at a moderate pace. The International Monetary Fund (IMF) predicts 3.4% global growth in 2016. With interest rates low and a global equity market valued at 16x 2017 P/E, we are optimistic that the stock market will continue to be an attractive place for long-term investors. Our portfolio of carefully selected global stocks is well positioned to deliver attractive returns and the top 35 positions offer a 41% upside over a two-year perspective.

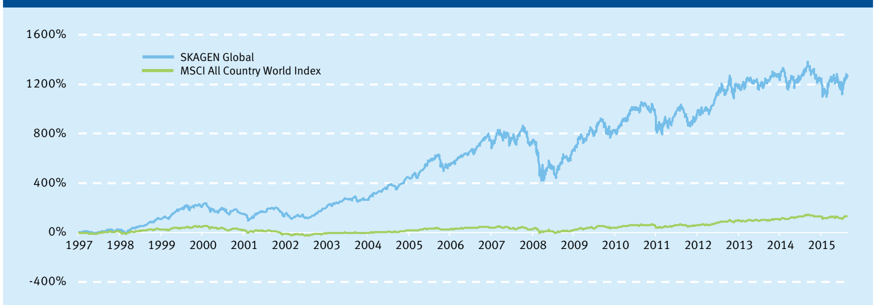
Egyptian god-king Osiris's description of the underworld as a bleak and unfathomable desert could have been used to describe the equity markets at the start of this year. We see the stock market's wobble in the first quarter as a cyclical pullback rather than a preview of an abysmal future, however, and are optimistic that the stock market will continue to be an attractive place for long-term investors.

SKAGEN GLOBAL PORTFOLIO CHANGES IN Q1 2016 (PERCENTAGE OF AUM)

5 largest contributors		5 largest purchases	
Dollar General Corp	0.39%	Autoliv Inc	0.99%
Lundin Mining Corp	0.25%	Citigroup Inc	0.98%
Volvo AB	0.19%	Cap Gemini SA	0.95%
Lundin Petroleum AB	0.16%	Teva Pharmaceutical	0.88%
Tyson Foods Inc	0.15%	G4s	0.82%

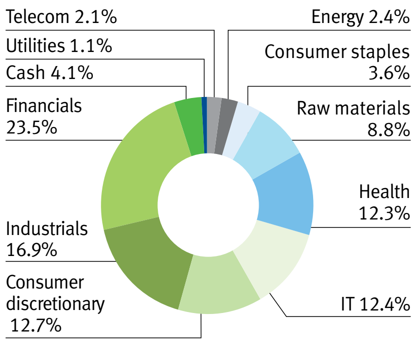
5 lagest detractors		5 largest sales	
Citigroup Inc	-1.58%	Tyson Foods Inc	-1.50%
AIG Inc	-1.40%	Dollar General Corp	-1.45%
Roche Holding AG	-0.67%	Lundin Mining Corp	-1.06%
G4s	-0.67%	Tata Motors Ltd	-0.98%
Teva Pharmaceutical	-0.58%	Alphabet Inc	-0.84%

HISTORICAL PRICE DEVELOPMENT SKAGEN GLOBAL A

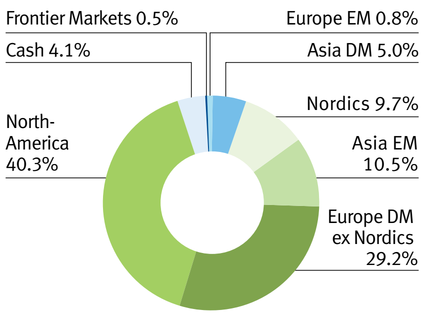


* The benchmark index prior to 1/1/2010 was the MSCI World Index

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



SECURITIES PORTFOLIO SKAGEN GLOBAL AS OF 31 MARCH 2016

See the portolio in its entirety at www.skagenfunds.co.uk/portfolio-global

Securities	Sector	Number	Acquistion value NOK *	Market-value NOK*	Unrealised gain/loss *	Share of fund	Stock exchange
American International Group Inc	Financials	4 869 221	1 566 086	2 198 198	632 112	6.94%	New York
Citigroup Inc	Financials	5 403 367	1 404 851	1 874 866	470 014	5.92%	New York
General Electric Co	Industrials	5 897 740	1 203 561	1 554 925	351 364	4.91%	New York
Roche Holding AG-Genusschein	Health Care	616 238	874 169	1 258 620	384 451	3.97%	Zürich
Merck & Co Inc	Health Care	2 585 610	1 192 033	1 138 609	-53 423	3.59%	New York
Samsung Electronics Co Ltd Pref	Information Technology	131 747	319 104	1 060 767	741 663	3.35%	Seoul
G4S Plc	Industrials	42 700 900	1 244 555	969 929	-274 626	3.06%	London
Kingfisher Plc	Consumer Discretionary	21 008 056	803 720	936 636	132 916	2.96%	London
CK Hutchison Holdings Ltd	Industrials	8 450 098	715 147	907 341	192 194	2.86%	Hong Kong
Samsung Electronics Co Ltd	Information Technology	90 415	771 861	862 791	90 930	2.72%	Seoul
NN Group NV	Financials	3 103 496	625 511	843 323	217 812	2.66%	Amsterdam
Microsoft Corp	Information Technology	1 737 070	303 222	797 199	493 977	2.52%	NASDAQ
Teva Pharmaceutical-Sp ADR	Health Care	1 787 367	739 799	793 449	53 650	2.50%	NASDAQ
Koninklijke DSM NV	Materials	1 631 124	677 604	742 152	64 548	2.34%	Amsterdam
Sanofi	Health Care	1 050 189	699 459	700 533	1 075	2.21%	Paris
Dollar General Corp	Consumer Discretionary	975 489	552 993	695 026	142 032	2.19%	New York
Carlsberg AS-B	Consumer Staples	850 127	582 856	671 215	88 359	2.12%	Copenhagen
Volvo AB	Consumer Discretionary	6 613 655	521 093	602 985	81 892	1.90%	Stockholm
Koninklijke Philips NV	Industrials	2 531 443	472 070	597 314	125 244	1.89%	Amsterdam
Tyco International Plc	Industrials	1 865 162	230 483	564 177	333 694	1.78%	New York
Heidelbergcement AG	Materials	783 828	259 382	555 812	296 430	1.75%	Frankfurt
Autoliv Inc	Industrials	530 882	339 535	521 727	182 192	1.65%	New York
Akzo Nobel NV	Materials	897 430	295 721	505 320	209 599	1.60%	Amsterdam
Alphabet Inc Class C	Information Technology	77 291	315 928	479 485	163 558	1.51%	NASDAQ
General Motors Co	Consumer Discretionary	1 799 180	314 371	464 156	149 785	1.47%	New York
China Mobile Ltd	Telecommunication Services	4 903 490	488 006	452 012	-35 995	1.43%	Hong Kong
Nordea Bank AB	Financials	5 614 946	394 454	445 468	51 014	1.41%	Stockholm
Lundin Petroleum AB	Energy	3 122 923	347 154	439 436	92 282	1.39%	Stockholm
Toyota Industries Corp	Consumer Discretionary	1 143 126	271 433	425 811	154 378	1.34%	Tokyo
Comcast Corp	Consumer Discretionary	701 905	129 257	354 842	225 585	1.12%	NASDAQ
Xcel Energy Inc	Utilities	1 022 488	313 872	352 078	38 206	1.11%	New York
State Bank of India	Financials	13 999 620	359 585	339 525	-20 060	1.07%	India
Cap Gemini SA	Information Technology	427 203	337 764	333 415	-4 348	1.05%	Paris
Credit Suisse Group AG	Financials	2 747 980	487 339	322 650	-164 689	1.02%	Zürich
Mayr-Melnhof Karton AG	Materials	317 983	153 946	315 050	161 104	0.99%	Vienna
Unilever NV-Cva	Consumer Staples	818 518	203 974	303 747	99 773	0.96%	Amsterdam
Ageas	Financials	881 982	357 354	290 049	-67 305	0.92%	Brussels
ServiceMaster Global Holdings Inc	Consumer Discretionary	907 472	278 270	282 074	3 804	0.89%	New York
Columbia Property Trust Inc	Financials	1 561 194	297 176	279 052	-18 124	0.88%	New York
Lundin Mining Corp	Materials	10 422 459	288 937	276 647	-12 290	0.87%	Toronto
Goldman Sachs Group Inc	Financials	190 836	169 901	247 471	77 570	0.78%	New York
Lenovo Group Ltd	Information Technology	37 539 484	279 268	241 771	-37 496	0.76%	Hong Kong
Autoliv Inc SDR	Industrials	243 405	146 970	239 305	92 335	0.76%	Stockholm
China Mobile Ltd ADR	Telecommunication Services	494 530	247 145	227 836	-19 310	0.72%	New York
UPM-Kymmene Oyj	Materials	1 433 689	134 895	215 165	80 270	0.68%	Helsinki
Sony Corp	Consumer Discretionary	981 000	187 206	208 925	21 719	0.66%	Tokyo
BP Plc	Energy	4 359 090	216 817	181 803	-35 014	0.57%	London
Irsa Sa ADR	Financials	1 443 664	120 014	171 711	51 697	0.54%	New York
WM Morrison Supermarkets PLC	Consumer Staples	7 151 929	153 567	168 831	15 265	0.53%	London
Haci Omer Sabanci Holding AS	Financials	5 703 696	156 106	163 207	7 101	0.52%	Istanbul
Baidu Inc ADR	Information Technology	102 310	155 010	162 604	7 594	0.51%	NASDAQ
BP Plc ADR	Energy	610 684	178 030	153 959	-24 071	0.49%	New York
State Bank Of India GDR	Financials	557 696	102 239	135 157	32 918	0.43%	India
Lundin Mining Corp SDR	Materials	4 548 666	120 472	120 817	345	0.38%	Stockholm
Barclays PLC	Financials	4 541 073	146 036	80 925	-65 111	0.26%	London
Sony Corp Sponsored ADR	Consumer Discretionary	233 300	45 751	49 883	4 131	0.16%	New York
Total equity portfolio*			**24 293 062**	**30 277 783**	**5 984 721**	**95.59%**	
Disposable liquidity				1 397 943		4.41%	
Total share capital				**31 675 726**		**100.00%**	

* Numbers in 1 000 NOK.

SKAGEN Kon-Tiki

Leading the way in new waters

- EM equities outperformed global equities over the quarter
- EM currencies started to recover, allaying concerns around USD leverage among EM companies
- Brazilian and Turkish holdings contributed most to the fund over the period

1	2	3	4	5	RISK	7

Fund start date	5 April 2002
Return since start	593.3%
Average annual return	14.9%
Assets under management	GBP 2,783 million
Number of unitholders	68,254

PERFORMANCE IN GBP	Q1 16*	12 M*
SKAGEN Kon-Tiki A	5.8%	-9.7%
MSCI Emerging Markets	8.5%	-9.2%

** As of 31 March 2016, net of fees*

PORTFOLIO MANAGERS

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

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)

Photo: Pixabay.com

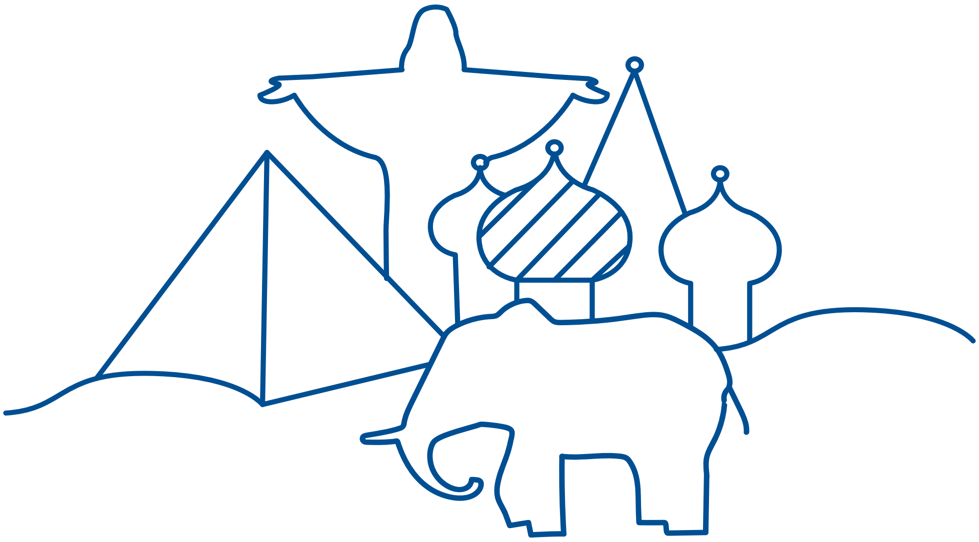
Brazil was the strongest market in the quarter. The chaotic political situation, where several politicians have been implicated in the Petrobras corruption scandal and a potential impeachment process, fuelled hopes of political change.

Cyclicals drive returns in Emerging Markets

SKAGEN Kon-Tiki A had a rough start to the year, but gained back some of its relative loss during the latter part of the period with an overall loss for the quarter of 2.7% versus the index (in GBP).

After recession fears drove equities significantly lower early in the year, equities recovered from late January onwards. The MSCI EM index closed the quarter with a gain of 8.5% (measured in GBP) and had its best relative quarter versus global equities since the second quarter of 2009, outperforming developed markets by 5.6 percentage points. Echoing the development in global equities, and contrary to 2015, cyclicals drove returns in emerging markets with a 9% gain for both materials and energy on hopes that commodity prices are bottoming out (as measured in EUR). From a country perspective, the EM countries of Russia, Brazil, Turkey, Peru and Colombia all ranked among the ten best performing stock markets globally. Brazil was the strongest market, up 23% measured in EUR, driven by equity price appreciation and a 7% currency appreciation. The chaotic political situation in Brazil, where several current and former politicians have been implicated in the Petrobras corruption scandal and a potential impeachment process against President Dilma Rousseff, fuelled hopes of political change.

The weakest market in EM was China, with the Hong Kong listed H share index down 11% in EUR.



A DIVERSE ASSET CLASS

We are frequently asked when EM equities will recover. In answering this question, it is important to remember that the emerging markets represent a very diverse group of countries. The spread in GDP growth between India and Brazil was a full 13 percentage points in 4Q15, for example, with India growing 7.3% and Brazil's GDP contracting 5.9%.

Another example of the large variations is the GDP per capita adjusted for purchasing power. This figure was USD 141,000 in Qatar in 2014 versus USD 5,700 in India. South Korea, with USD 34,000, ranks above developed countries such as Portugal and Spain, and is close to the levels of Italy and Japan.

With regard to inflation, the gap between countries is also significant. Brazil is currently experiencing a high 11% inflation, while Malaysia, Poland, Greece and Thailand currently have deflation.

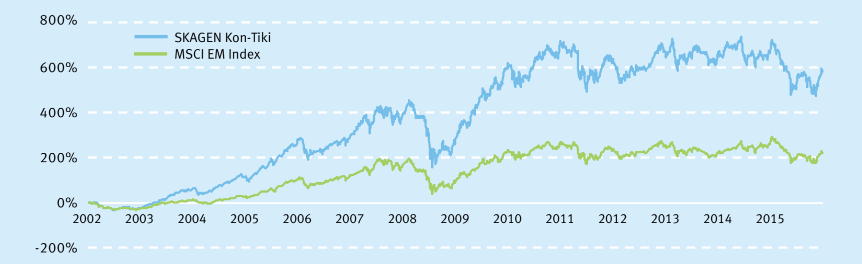
EM economies are therefore far more diverse than economies in the Eurozone for example.

From a valuation perspective, the universe is also diverse. Based on consensus for 2016, P/E spans from 7x for Russia and 9x for Turkey and China H-shares, to 20x for Mexico and 19x for the Philippines. This reflects major differences in sector composition, for example. The EM aggregate valuation is P/E 11.9x, while valuation of the Kon-Tiki portfolio is at 8.5x.

Equity return is less dependent on economic growth, and this was clearly demonstrated by Brazil during the first quarter. Returns actually seem to lead economic growth, with valuation and expectations as key drivers. Many global companies are also becoming less dependent on their home country. Samsung Electronics is a good example of this as Korea accounts for just 10% of sales and less than 50% of production.

To judge EM as a homogenous asset class therefore makes little sense.

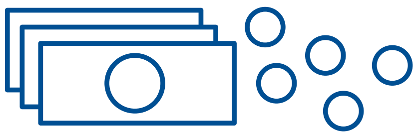
HISTORICAL PRICE DEVELOPMENT SKAGEN KON-TIKI A



SKAGEN KON-TIKI KEY NUMBERS FOR THE LARGEST HOLDINGS (AS OF 31.03.2016)

Company	Holding size	Price	P/E 2015	P/E 2016E	P/BV last	Price target
Samsung Electronics	8.3	1,107,000	8.6	7.9	0.9	1,600,000
Hyundai Motor	7.9	104,000	4.3	4.3	0.4	170,000
Sabanci Holding	4.9	9.7	8.9	6.7	0.9	14
Mahindra & Mahindra	4.9	1,211	16.1	12.7	2.6	2 000
Richter Gedeon	4.1	5,498	19.0	18.3	1.7	7,500
State Bank of India	4.1	194	10.8	5.6	0.8	265
Naspers	3.3	2,057	41.1	27.4	10.7	2,500
Bharti Airtel	3.2	351	21.9	11.7	2.2	400
ABB	3.0	158	16.1	13.2	2.8	200
X5 Retail Group	2.7	21.2	18.9	14.1	4.0	25
LG Electronics	2.2	32,550	47.3	8.1	0.5	40,000
Cosan Ltd.	2.0	4.9	8.1	8.7	0.4	10
Weighted top 12	**50.6**		**9.9**	**8.1**	**0.9**	
Weighted top 35	**84.2**		**11.6**	**8.5**	**1.0**	
Benchmark index			**13.2**	**11.9**	**1.4**	

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



EM CURRENCY APPRECIATION

After almost a year of EM currency depreciation, the asset class recovered meaningfully from its February low, both measured against the EUR and especially versus a depreciating USD. This reduces concerns around USD leverage among EM companies and sovereigns. The only EM currency that bucked the trend was the Egyptian pound, after the central bank devalued the currency by 13% in response to mounting pressure.

SIGNS OF STABILIZATION

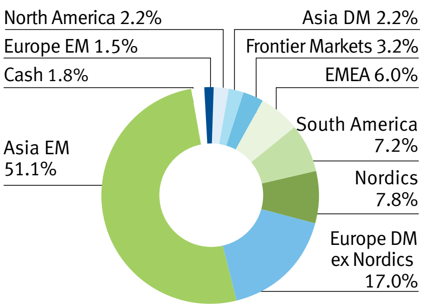
After 18 consecutive weeks of outflow for EM equity funds, March saw four consecutive weeks of inflow. However, the aggregated inflow of USD 6bn is minor relative to the USD 48bn of outflow during 2015 and a total of USD 100bn leaving EM equity funds since the start of 2013.

BRAZIL AND TURKEY KEY CONTRIBUTORS

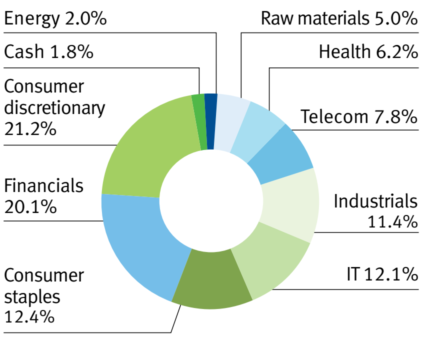
Out of the top five contributors to SKAGEN Kon-Tiki in the first quarter, three were Brazilian holdings, namely Banrisul, Cosan and GPA (CBD). We believe the key to the return for these companies has been the reversal from a very depressed valuation, as company-specific news has been more or less in line with expectations. The same can be said of our largest Turkish position, Sabanci Holding, the best overall contributor to return during the period.

Among our negative contributors, Frontline suffered as tanker rates have fallen from an elevated level at the end of 2015. State Bank of India detracted after the central bank imposed new and tougher rules for recognition of non-performing loans, leading to a sector wide sell-off.

GEOGRAPHICAL DISTRIBUTION



SECTOR DISTRIBUTION



COMPANY RESULTS VARIABLE

The reporting season for 2015 has come to a close and in the coming weeks we will start to receive results for 1Q16. For our portfolio companies, 4Q15 results were mixed. For some of our holdings, depreciating EM currencies again weighed on results due to mark-to-market losses on lending in USD. 1Q16 will likely see some reversal of this.

Of our larger holdings, our two stock exchanges, Johannesburg Stock Exchange and Moscow Exchanges delivered strong results. We also saw decent results from Russian food retailer, X5 Retail Group, which is now outgrowing its larger competitor. Turkish conglomerate, Sabanci Holding, also continues to report good progress driven by self-help in its energy business. Our Hungarian drug producer, Richter Gedeon, also surprised on the upside versus expectations.

Samsung Electronics has suffered from increased competition in the smart phone business, while its memory business has recovered meaningfully. While management provided conservative guidance for 2016, its recent launch of a new flagship phone seems to have started well.

Our Korean auto producer, Hyundai Motor reported weak results, partly due to one-offs in non-core operations. While EM demand, which accounts for 65% of volumes, is subdued, new models, FX tailwind and better shareholder remuneration are helpful factors for a revaluation. Our Indian auto and tractor producer, Mahindra & Mahindra has struggled with weak tractor demand due to unfavourable weather conditions, as well as a lack of products in the fast growing compact-SUV segment. It is reassuring to see that both segments are now recovering, with close to 20% volume growth for both segments.

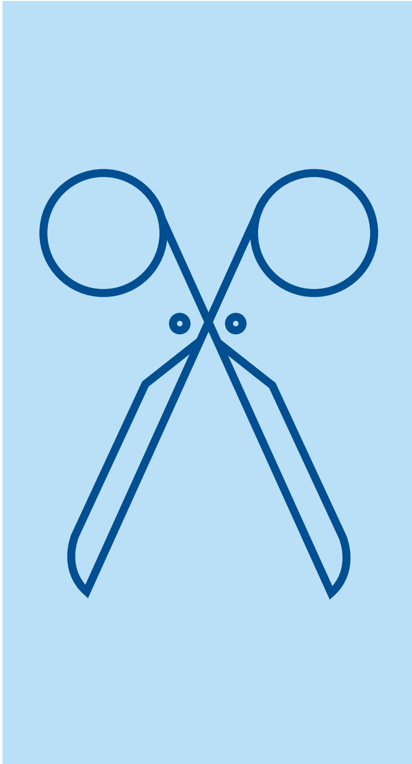
SKAGEN PORTFOLIO CHANGES IN Q1 2016 (PERCENTAGE OF AUM)

5 largest contributors	
Sabanci Holding	0.66%
Banrisul	0.51%
Cosan Ltd	0.45%
OCI Co Ltd	0.40%
Cia Brasileira de Distribuicao (GPA)	0.32%

5 largest detractors	
State Bank of India	-0.99%
Frontline Ltd	-0.97%
Great Wall Motor	-0.85%
Mahindra & Mahindra	-0.66%
Lenovo Group	-0.33%

5 largest purchases	
Toray Industries	0.22%
Samsung SDI	0.13%
Golden Ocean Group	0.11%
UPL Ltd	0.08%

5 largest sales	
Bidvest Group	-1.10%
Hyundai Motor	-0.78%
Bharti Airtel	-0.62%
Samsung Electronics	-0.61%
Indosat Tbk	-0.37%



CONTINUED PORTFOLIO CONCENTRATION

SKAGEN Kon-Tiki has an international investment mandate and while at least 50% of the fund's assets must be invested in emerging markets, we are free to invest the remainder in companies with strong and increasing EM operations. Currently, our share of assets related to equities listed in developed markets is down by 13 percentage points to 19% in two years to reach the lowest level since late 2008. This reflects the increasing gap in valuation between EM and DM listed equities, and we have taken advantage of this.

During the quarter, we exited four holdings, reducing the number of companies in the portfolio to 64. We sold South African food services company, Bidvest, where we more than doubled our initial investment from 2011, as the company now appears fully valued. We also accepted a bid for our Slovenian brewery, Pivovarna Lasko, from Heineken. We sold out of Aveng and Archer at a loss as the outlook for both has deteriorated markedly and balance sheet strength might come into question.

The reduction in holdings allows us to spend more time following up each portfolio holding and identifying new investments. As a result we expect to introduce new positions into the fund over the coming quarters, while maintaining a concentrated portfolio focused on our very best ideas.

SECURITIES PORTFOLIO SKAGEN KON-TIKI AS OF 31 MARCH 2016

See the portfolio in its entirety at www.skagenfunds.co.uk/portfolio-kontiki

Securities	Sector	Number	Acquistion value NOK *	Market-value NOK*	Unrealised gain/loss *	Share of fund	Stock exchange
Haci Omer Sabanci Holding AS	Financials	56 848 322	1 238 642	1 626 671	388 030	4.93%	Istanbul
Samsung Electronics Co Ltd Pref GDR	Information Technology	347 718	342 147	1 380 518	1 038 371	4.18%	London International
Richter Gedeon Nyrt	Health Care	8 286 510	899 721	1 366 868	467 147	4.14%	Budapest
State Bank of India	Financials	55 690 910	1 265 479	1 350 641	85 162	4.09%	India
Samsung Electronics Co Ltd Pref	Information Technology	166 757	411 986	1 342 651	930 665	4.07%	Seoul
Hyundai Motor Co Pref (2pb)	Consumer Discretionary	1 690 000	285 422	1 302 939	1 017 517	3.95%	Seoul
Hyundai Motor Co Pref (1p)	Consumer Discretionary	1 720 352	276 337	1 301 314	1 024 978	3.94%	Seoul
Mahindra & Mahindra Ltd GDR	Consumer Discretionary	7 737 148	180 261	1 148 733	968 472	3.48%	London International
Naspers Ltd	Consumer Discretionary	928 514	271 764	1 073 446	801 682	3.25%	Johannesburg
Bharti Airtel Ltd	Telecommunication Services	24 136 298	920 203	1 057 121	136 918	3.20%	India
ABB Ltd	Industrials	6 200 000	550 476	1 001 482	451 006	3.03%	Stockholm
X 5 Retail Group NV GDR	Consumer Staples	4 990 306	506 266	875 058	368 792	2.65%	London International
LG Electronics Inc Pref	Consumer Discretionary	3 050 000	823 954	722 075	-101 879	2.19%	Seoul
Cosan Ltd	Consumer Staples	16 220 419	906 323	662 770	-243 553	2.01%	New York
Indosat Tbk PT	Telecommunication Services	168 724 250	455 165	655 338	200 172	1.99%	Indonesia
SBI Holdings Inc	Financials	7 759 600	603 587	652 917	49 329	1.98%	Tokyo
Kinnevik Investment AB-B	Telecommunication Services	2 717 167	481 930	637 975	156 045	1.93%	Stockholm
UPL Ltd	Materials	10 661 566	220 134	635 874	415 740	1.93%	India
Great Wall Motor Co Ltd	Consumer Discretionary	79 522 500	83 779	534 208	450 429	1.62%	Hong Kong
Tech Mahindra Ltd	Information Technology	8 784 608	354 450	520 913	166 463	1.58%	India
CNH Industrial NV	Industrials	9 138 348	555 673	516 252	-39 420	1.56%	New York
Korean Reinsurance Co	Financials	4 860 366	182 225	493 145	310 920	1.49%	Seoul
Cia Brasileira de Distribuicao - Pref	Consumer Staples	4 192 200	641 376	490 194	-151 182	1.48%	Sao Paulo
Banco Do Estado Rio Grande Do Sul SA Pref	Financials	25 985 500	606 935	487 418	-119 517	1.48%	Sao Paulo
Samsung SDI Co Ltd	Information Technology	670 000	479 737	482 438	2 701	1.46%	Seoul
Mahindra & Mahindra Ltd	Consumer Discretionary	3 103 503	250 706	469 119	218 414	1.42%	India
Moscow Exchange MICEX-RTS OAO	Financials	35 939 200	384 267	462 884	78 617	1.40%	Moscow
OCI Co Ltd	Materials	600 000	455 623	462 582	6 959	1.40%	Seoul
China Shipping Development	Industrials	83 220 000	460 891	455 223	-5 667	1.38%	Hong Kong
Frontline Ltd	Industrials	6 347 627	322 822	444 334	121 512	1.35%	Oslo
Marfrig Global Foods SA	Consumer Staples	28 290 400	444 752	442 870	-1 882	1.34%	Sao Paulo
LG Chem Ltd Pref	Materials	259 179	178 915	427 915	249 000	1.30%	Seoul
JSE Ltd	Financials	5 103 502	197 286	426 296	229 009	1.29%	Johannesburg
Yazicilar Holding AS	Consumer Staples	10 837 139	312 847	421 209	108 362	1.28%	Istanbul
Distribuidora Internacional de Alimentacion SA	Consumer Staples	8 706 469	310 738	376 236	65 498	1.14%	Madrid
Kiatnakin Bank Pcl	Financials	37 429 463	334 353	370 215	35 862	1.12%	Bangkok
China Shineway Pharmaceutical	Health Care	36 934 000	280 298	368 228	87 931	1.12%	Hong Kong
Enka Insaat Ve Sanayi AS	Industrials	23 092 016	217 528	331 059	113 531	1.00%	Istanbul
GCL-Poly Energy Holdings Ltd	Energy	224 088 000	368 096	305 850	-62 247	0.93%	Hong Kong
Cia Cervecerias Unidas SA ADR	Consumer Staples	1 538 270	280 090	287 551	7 461	0.87%	New York
Apollo Tyres Ltd	Consumer Discretionary	13 028 865	109 290	284 506	175 216	0.86%	India
Lenovo Group Ltd	Information Technology	42 588 000	274 970	274 286	-684	0.83%	Hong Kong
LG Corp Pref	Industrials	808 430	118 266	269 302	151 036	0.82%	Seoul
Norwegian Air Shuttle ASA	Industrials	800 000	75 029	249 200	174 171	0.75%	Oslo
Dragon Capital - Vietnam Enterprise Investments Ltd	Financials	9 000 000	111 229	221 836	110 607	0.67%	Dublin
Tullow Oil Plc	Energy	9 241 978	817 339	216 741	-600 598	0.66%	London
Sistema Jsfc	Telecommunication Services	95 885 212	552 356	208 457	-343 899	0.63%	Moscow
Podravka Prehrambena Ind DD	Consumer Staples	517 852	153 340	207 906	54 566	0.63%	Zagreb
Massmart Holdings Ltd	Consumer Staples	2 832 920	216 005	201 799	-14 206	0.61%	Johannesburg
Golar LNG Ltd	Industrials	1 298 301	471 325	192 007	-279 318	0.58%	NASDAQ
Eis Eczacibasi Ilac Ve Sanayi	Health Care	19 410 554	133 038	187 610	54 572	0.57%	Istanbul
EFG-Hermes Holding SAE	Financials	17 914 888	308 051	167 247	-140 804	0.51%	Cairo
Ghana Commercial Bank Ltd	Financials	18 001 604	88 821	141 730	52 908	0.43%	Ghana
DRB-Hicom Bhd	Consumer Discretionary	63 136 300	260 982	136 597	-124 385	0.41%	Kuala Lumpur
East African Breweries Ltd	Consumer Staples	5 774 866	88 566	134 300	45 734	0.41%	Nairobi
Rec Silicon ASA	Energy	93 675 416	149 265	131 146	-18 119	0.40%	Oslo
Eczacibasi Yatirim Holding	Health Care	3 362 732	39 931	124 970	85 039	0.38%	Istanbul
Euronav SA	Industrials	1 340 286	127 389	114 055	-13 334	0.35%	Brussels
VinaCapital Vietnam Opportunity Fund Ltd	Financials	4 392 100	92 364	92 713	349	0.28%	London
Toray Industries Inc	Industrials	1 100 000	78 883	77 674	-1 209	0.24%	Tokyo
Asia Cement China Holdings	Materials	42 729 500	157 070	71 077	-85 993	0.22%	Hong Kong
Golden Ocean Group Ltd	Industrials	13 457 876	67 362	68 097	735	0.21%	Oslo
Norfinance AS	Financials	578 397	57 840	62 189	4 350	0.19%	Unlisted
Drdgold Ltd ADR	Materials	1 402 606	77 743	46 347	-31 395	0.14%	NASDAQ
Trimegah Securities Tbk PT	Financials	700 000 000	67 131	35 224	-31 907	0.11%	Jakarta
Diamond Bank Plc	Financials	718 971 941	153 449	34 396	-119 053	0.10%	Lagos
Euronav SA	Industrials	247 965	21 283	21 084	-199	0.06%	New York
Deep Sea Supply Plc	Energy	17 250 931	170 959	16 733	-154 226	0.05%	Oslo
Golden Ocean Group Ltd	Industrials	2 236 261	73 486	12 814	-60 672	0.04%	Oslo
Hyundai Motor Co GDR	Consumer Discretionary	33 510	10 085	12 556	2 471	0.04%	London
Golden Ocean Group Ltd	Industrials	2 178 609	76 206	12 526	-63 680	0.04%	NASDAQ
Frontline Ltd	Industrials	169 155	11 164	11 613	449	0.04%	New York
EFG-Hermes Holding GDR	Financials	232 480	8 188	3 654	-4 535	0.01%	London International
Total equity portfolio*			**23 561 588**	**32 412 919**	**8 851 331**	**98.19%**	
Disposable liquidity				596 857		1.81%	
Total share capital				**33 009 776**		**100.00%**	

* Numbers in 1 000 NOK.

SKAGEN Focus

In pursuit of exceptional investments

- We scaled down our commodity exposure after strong performance in several related positions since year end.
- Our combined position in JBS and Pilgrim's Pride is on par with AIG as the largest position.
- Diversification in terms of market cap size, sector and geography allows us to capture a unique and exceptional risk/reward profile.

1 2 3 4 5 RISK 7

Fund start date	26 May 2015
Return since start	-10.6 %
AUM	GBP 84 million
Number of unitholders	3,815

PERFORMANCE IN GBP	Q1 16*	12 M*
SKAGEN Focus A	1.6%	n/a
MSCI World AC TR Index	2.9 %	n/a

** As of 31 March 2016, net of fees*

PORTFOLIO MANAGERS

Filip Weintraub and Jonas Edholm

After the last battue, 1905. By Michael Ancher, one of the Skagen painters. The picture belongs to the Art Museums of Skagen (cropped).

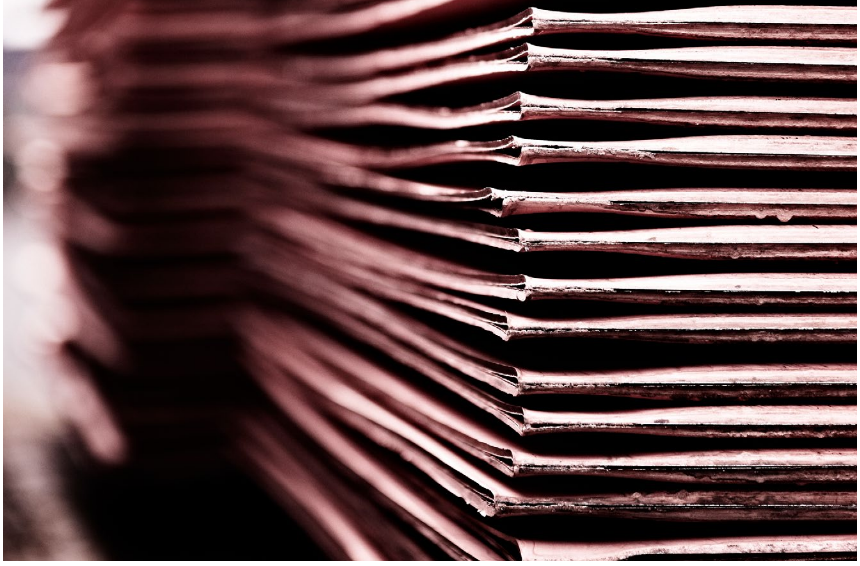


Photo: Boliden

Copper producer First Quantum benefited from strong production numbers. The company also managed to reduce their debt position by selling the Kevitsa mine to Swedish Boliden. Pictured here are copper cathodes.

Commodities on top

The first quarter started on a note of "Mystery Madness" – nobody was really able to pinpoint what caused the early volatility and weakness, because it was not fundamental company news.

Since our focus is on the latter, we have continued to exercise such a strategy; adding to positions on weakness, and trimming those that performed well.

After a dismal 2015 for commodity stocks, all our commodity-related stocks were on the list of the best performing stocks in the first quarter, measured as absolute contribution in NOK. In the case of copper producer First Quantum, the company benefited from strong production numbers. They also managed to reduce their debt position by selling the Kevitsa mine to Swedish Boliden. Australia-based South32, formerly spun off from BHP, initiated a vast restructuring program to cut costs and streamline their operations and the stock rose 40% in the quarter in local currency. The strongest performer was Pan America Silver, up almost 70% in the quarter, driven by strong production results and an overall increase in gold and silver prices. We reduced the commodity-related positions in the quarter on the back of the strong performance, keeping our position size stable.

Another strong performer was Malaysian low-cost airline AirAsia which bounced back from a turbulent last year. The shares increased over 40% in the quarter as the company produced impressive operational metrics with increases in traffic and load numbers. The market is also starting to realise that the company will make a huge saving on energy costs this year, as expensive fuel cost hedges are expiring. The shares have still lagged the airline peers severely and at current valuations there is still upside in our opinion. The position was increased at the beginning of the period.

SKAGEN FOCUS PORTFOLIO CHANGES IN Q1 2016 (PERCENTAGE OF AUM)

5 largest contributors	
Pan American Silver Corp	1.65%
AirAsia	1.02%
South32 Ltd	0.88%
First Quantum Minerals Ltd	0.48%
China Telecom Corp	0.26%

5 largest detractors	
AIG Inc	-1.68%
Citizens Financial Group	-1.35%
CIT Group	-0.85%
Omega Protein Corp	-0.80%
Aryzta AG	-0.73%

5 largest purchases	
JBS SA	2.43%
Pilgrim's Pride Corp	2.39%
Alphabet Inc	2.15%
Massimo Zanetti Beverage Group	1.27%
Omega Protein Corp	0.98%

5 largest sales	
SanDisk Corp	-2.00%
Pan American Silver Corp	-1.87%
Uniqa Insurance Group	-1.40%
Komatsu Ltd	-1.34%
Ubiquiti Networks Inc	-0.84%

Photo: Bloomberg

ONE IN FIVE CHICKENS

In the first quarter we increased our position in Brazil-based food company JBS and extended this position by investing into the related US-listed company Pilgrim's Pride. JBS currently owns 76% of Pilgrim's, which is one of the largest producers/processors of chicken in the US; in fact one out of five chickens annually consumed is from the company. Following a series of acquisitions and successful integrations, the company has become one of the most efficient operators in the industry and we believe consensus has taken an overly negative stance towards the cyclicality of the company. This is reflected through a low valuation and very pronounced short interest in the stock. Pilgrim's business is highly cash-generative and we think that they can produce free cash flow supporting shareholder capital returns of roughly 50% of the market cap over the next 5 years. The combined JBS/Pilgrim's position is one of the largest positions in the fund at the end of the quarter with a weight of about 8%.

WEAK FINANCIALS

Financial stocks were generally weak on a global basis during the first quarter. This could mainly be explained by concerns over energy-related debt exposure as well as the lowered probability of rate increases in 2016, primarily in the US. We have no exposure to Europe, where increased regulatory capital requirements and lately, the Panama Papers scandal, are making headlines. In general our positions in financials have very low exposure to the energy sector but are clearly negatively affected by the lower-for-longer interest rate environment. AIG, the US based multi-line insurer, was the largest position at the start of the year, and the shares fell 12% in the quarter in local currency. The activist investor Carl Icahn has pushed for a break-up of the company into three divisions following slow progress in turning around fundamental operations. The company is executing well with regard to asset sales and capital returns to shareholders. The appointment of two activist investors to AIG's board is a clear positive as it should give management an increased sense of urgency and it increases the likelihood of further transformational asset sales. We reduced the overall exposure to financials in the period, and sold out of our position in Uniqa Insurance as the company has not delivered according to our expectations. The equity remains cheap but we now struggle to see catalysts for re-valuation in the mid-term.

One of the negative contributors in the period was Switzerland-based bakery firm Aryzta despite delivering satisfactory earnings numbers and announcing the completion of their debt refinancing – which was part of our investment thesis. The good news was somewhat overshadowed by a sell-transaction post-earnings in the shares by the company CEO and yet again very clumsy communication regarding the issue from the company. The position was increased on weakness as we see solid value in the shares at current levels.

During the quarter we increased our position in Stock Spirits – another slightly mistimed investment, as two different parties are seemingly trying to gain control of the company. The Polish discount retailer Eurocash, known for acquiring other similar assets with strong distribution capabilities in the sector, has acquired over 9% of the company in the last few weeks via a related vehicle. At the same time a CEE private equity firm, Arca Capital, is building a stake in the company, and will try to establish board representation in the mid-term. In the meantime, the stock trades at a 30-40% discount to similar assets and offers substantial upside on a stand-alone basis.

COMPANY SNAPSHOTS

Photo: Unsplash

Pilgrim's traces its roots back to 1946 and is currently the largest chicken producer in the US and second largest in Mexico. 80% of sales are in the US, 12% in Mexico and 8% in other regions. The company is vertically integrated and has divisions for every part of the production chain. Customers include large retailers, food-service companies and quick-serve restaurants. A vicious combination of oversupply of chicken, record corn prices and elevated financial leverage forced the company into bankruptcy in 2009. After the emergence from Chapter 11, Brazil-based JBS bought into the company. Today JBS owns 76% of the company after gradually increasing its holding.

Photo: Bloomberg

Softbank is a Japanese telecom and internet conglomerate. The company owns 32% of Chinese online giant Alibaba Group. It also holds an 80% ownership stake in US-based telecom operator Sprint and is the third largest wireless network operator after Verizon and AT&T. Domestic telecoms mainly include Softbank Mobile, the third largest telco in Japan. The company also holds stakes in specialized wireless distributor Brightstar (100%), video game company GungHo (25%) and Finnish mobile game producer Supercell (55%). Pictured here customers at a mobile store operated by SoftBank in Tokyo are served entirely by SoftBank's Pepper robots.

Photo: Bloomberg

AirAsia was listed in November 2004 in Malaysia. Since pioneering the short-haul low-cost carrier model in ASEAN in 2001, it has grown from a domestic airline in Malaysia to the leading low-cost airline in Asia serving around 121 destinations from 16 hubs in Malaysia, Thailand, Indonesia and the Philippines. Along with its affiliates (Thai AirAsia, Indonesia AirAsia, and Philippines' AirAsia), AirAsia Group is the largest low-cost carrier in Asia in terms of fleet size and the number of passengers carried.

GOOD DIVERSIFICATION

We end the quarter with a highly concentrated portfolio of 34 holdings where our top 10 positions are 46% of the fund. As a size agnostic fund, a distinguishing feature is the opportunity to invest in all market cap sizes and we currently have 26% in small caps, 33% in mid-caps and 41% in large caps. The diversification in terms of market cap size, sector and geography allows us to capture a unique and exceptional risk/reward profile in the fund's combined positions. We thank you for your trust and support of the fund and look forward to a prosperous 2016.

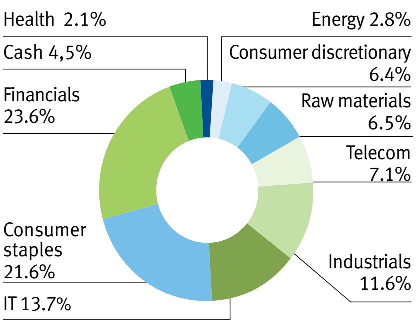
SECURITIES PORTFOLIO SKAGEN FOCUS AS OF 31 MARCH 2016

See portfolio in its entirety at www.skagenfunds.co.uk/portfolio-focus

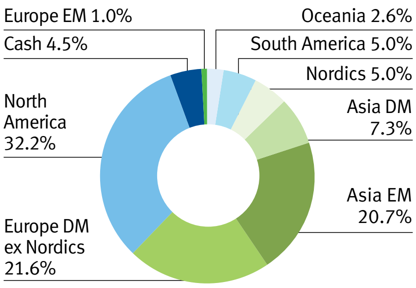
Securities	Sector	Number	Acquistion value NOK *	Market-value NOK*	Unrealised gain/loss *	Share of fund	Stock exchange
American International Group Inc	Financials	167 000	80 303	75 392	-4 911	7.53%	New York
SK Hynix Inc	Information Technology	248 000	71 949	50 776	-21 173	5.07%	Seoul
Jbs SA	Consumer Staples	1 980 000	51 710	50 258	-1 452	5.02%	Sao Paulo
Carlsberg AS-B	Consumer Staples	63 600	45 913	50 215	4 303	5.02%	Copenhagen
SBI Holdings Inc	Financials	543 000	57 870	45 690	-12 180	4.56%	Tokyo
China Telecom Corp Ltd	Telecommunication Services	9 914 000	49 021	43 342	-5 679	4.33%	Hong Kong
Jenoptik AG	Industrials	294 800	29 962	38 726	8 764	3.87%	Xetra
Citizens Financial Group Inc	Financials	218 000	46 575	37 668	-8 907	3.76%	New York
Infineon Technologies AG	Information Technology	308 000	33 273	36 274	3 000	3.62%	Frankfurt
AirAsia Bhd	Industrials	8 190 100	30 276	31 791	1 515	3.18%	Kuala Lumpur
Aercap Holdings NV	Financials	98 210	34 685	31 437	-3 248	3.14%	New York
Aryzta AG	Consumer Staples	87 707	35 194	30 060	-5 133	3.00%	Zürich
Hyundai Motor Co Pref (2pb)	Consumer Discretionary	38 200	28 104	29 451	1 347	2.94%	Seoul
Omega Protein Corp	Consumer Staples	205 800	27 726	28 580	854	2.86%	New York
Pan American Silver Corp	Materials	304 000	18 712	27 433	8 721	2.74%	NASDAQ
Softbank Group Corp	Telecommunication Services	69 300	31 666	27 375	-4 291	2.73%	Tokyo
Pilgrim's Pride Corp	Consumer Staples	125 000	24 940	26 277	1 337	2.63%	New York
South32 Ltd	Materials	2 810 000	37 322	26 198	-11 124	2.62%	Sydney
Schaeffler AG	Industrials	188 033	24 735	24 896	161	2.49%	Frankfurt
Fila Korea Ltd	Consumer Discretionary	35 500	25 895	24 581	-1 314	2.46%	Seoul
Synchrony Financial	Financials	99 572	26 450	23 513	-2 936	2.35%	New York
Alphabet Inc Class C	Information Technology	3 700	22 389	22 953	565	2.29%	NASDAQ
GCL-Poly Energy Holdings Ltd	Energy	16 500 000	31 896	22 520	-9 375	2.25%	Hong Kong
Ubiquiti Networks Inc	Information Technology	80 000	20 513	22 141	1 627	2.21%	NASDAQ
Magforce AG	Health Care	445 989	23 535	21 022	-2 514	2.10%	Xetra
CIT Group Inc	Financials	78 000	27 919	19 897	-8 023	1.99%	New York
Stock Spirits Group Plc	Consumer Staples	1 110 228	25 164	19 376	-5 788	1.94%	London
Solazyme Inc	Industrials	859 700	19 192	13 795	-5 397	1.38%	NASDAQ
First Quantum Minerals Ltdc	Materials	270 000	8 819	11 743	2 924	1.17%	Toronto
Massimo Zanetti Beverage Group SpA	Consumer Staples	171 514	13 380	11 391	-1 989	1.14%	Italy
Fourlis Holdings SA	Consumer Discretionary	387 563	9 613	10 413	800	1.04%	Athens
Rentech Inc	Industrials	399 500	26 491	7 038	-19 452	0.70%	New York
Whiting Petroleum Corp	Energy	85 000	21 857	5 505	-16 352	0.55%	New York
Samsung SDI Co Ltd Pref	Information Technology	11 080	5 177	5 109	-68	0.51%	Seoul
FFP	Financials	4 736	2 889	2 931	42	0.29%	Paris
Total equity portfolio*			**1 071 115**	**955 769**	**-115 347**	**95.48%**	
Disposable liquidity				45 226		4.52%	
Total share capital				**1 000 994**		**100.00%**	

* Nubers in 1 000 NOK.

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



SKAGEN FOCUS KEY NUMBERS FOR THE LARGEST HOLDINGS (AS OF 31.03.2016)

Company	Holding size	Price	P/E 2016E	P/E 2017E	P/BV latest	Price target
American International Group Inc	7.5%	54.05	11.2	9.2	0.7	90
SK Hynix Inc	5.1%	28,150.00	9.0	7.6	0.9	65,000
Jbs SA	5.0%	10.95	6.9	5.6	1.1	22
Carlsberg AS-B	5.0%	624.00	21.3	18.8	2.2	822
SBI Holdings Inc	4.6%	1,143.00	9.2	8.8	0.6	3,000
China Telecom Corp Ltd	4.3%	4.10	16.7	14.8	1.1	8
Jenoptik AG	3.9%	14.05	15.7	14.5	1.8	20
Citizens Financial Group Inc	3.8%	20.95	11.7	10.0	0.6	35
Infineon Technologies AG	3.6%	12.51	17.1	14.7	2.9	20
AirAsia Bhd	3.2%	1.83	6.9	6.4	1.1	3
Weighted top 10	**46.0%**		**11.0**	**9.5**	**1.0**	
Total Equity (34 positions)*	**95.5%**					
Cash	**4.5%**					
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 2.6% postition in the fund. These two positions should be viewed as one, with a total weight of 7.7%.*

SKAGEN Vekst

Exploring the narrow path to prosperity

- Vekst beat its benchmark in a quarter characterised by high volatility
- We continued to concentrate the portfolio, and new ideas are on their way in
- The portfolio trades at a discount to the market which should provide excess return over time

1	2	3	4	5	RISK	7

Fund start date	1 December 1993
Return since start	1,649.2 %
Average annual return	13.7 %
AUM	GBP 645 million
Number of unitholders	70,518

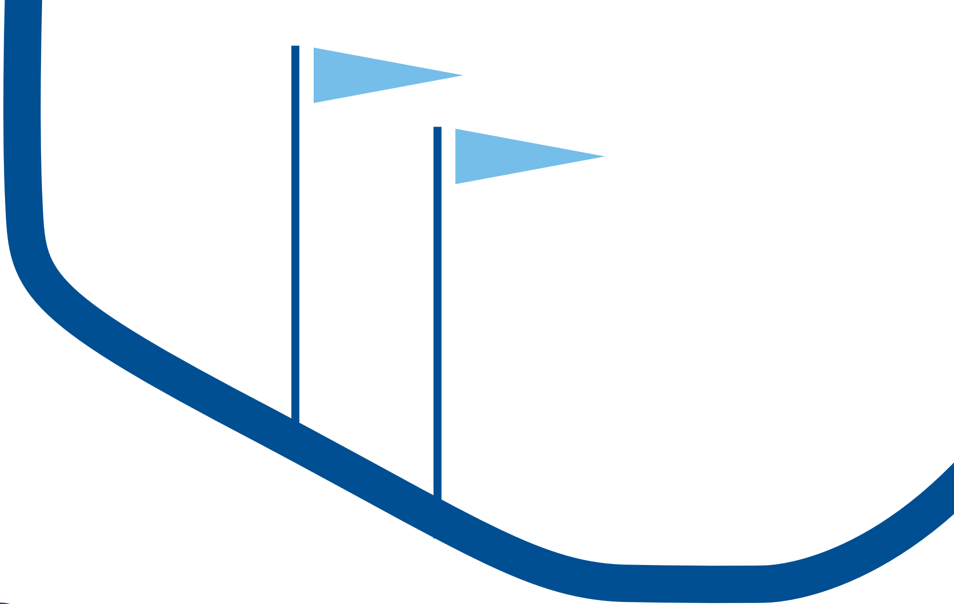
PERFORMANCE IN GBP	Q1 16*	12 M*
SKAGEN Vekst A	3.8%	-2.0 %
MSCI Nordic/MSCI AC ex. Nordic	2.5%	-0.5 %

** As of 31 March 2016, net of fees*

PORTFOLIO MANAGERS

Geir Tjetland, Ole Søeberg, Erik Bergöö 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).



On course despite rough weather

SKAGEN Vekst managed to withstand a lot of the turbulence at the beginning of the year and beat the index by 1.3 percentage points.

The first quarter was characterised by high volatility with stock markets falling sharply at the beginning of the year and then recovering somewhat. Measured in GBP, SKAGEN Vekst returned 3.8 percent, while the benchmark index returned by 2.5 percent during the quarter. Unrest in the credit markets caused the financial sector to fall sharply and this also affected two of our holdings; Citigroup and Credit Suisse both of which had a very weak quarter.

New ideas

We continued to concentrate the SKAGEN Vekst portfolio, with one of the goals being to improve control over individual holdings. The net reduction in the number of positions was two, leaving the fund with a total of 54 holdings by the end of the quarter.

As some of our 35 largest positions are approaching full valuation, we are currently focusing on finding new ideas in line with our investment philosophy, companies that are under-researched, undervalued and unpopular. In more specific terms, we are looking to invest in shares with a minimum 50 percent upside potential and a maximum 20 percent downside over a two to three year period. We have a quality library of potential ideas, some of which are likely to be introduced into the portfolio in the near future.

GRATIFYING IMPROVEMENT

As we strive to be fully invested in the stock market at all times, the fund was negatively affected by the stock market turbulence. Eight of the fund's ten largest positions (corresponding to approximately 50 percent of the total fund) outperformed the index and of the fund's 35 largest holdings (more than 90 percent of the fund), 23 holdings delivered better returns than the index. Having undergone a long period of underperformance, we are naturally gratified to see some improvement in early 2016.

The fund took advantage of the weak stock markets at the beginning of the year to increase its holdings in Kinnevik, Ericsson and Roche, amongst others. The fund also participated in the restructuring of the dry bulk shipping company Golden Ocean and initiated positions in e-commerce company eBay and clothing chain H&M.

For four of our portfolio holdings we believed that the conditions had changed so much that there was better risk-reward to be found elsewhere, so we exited the positions. These were Brazilian car rental company Localiza, Danish industrial company FLSmidth, Finnish property developer YIT and the Danish consumer company Bang & Olufsen.


Photo: Pixabay.com


Photo: H&M

Ebay
After having studied the company for some time, we took advantage of a fall in share price to initiate a position in e-commerce company, eBay. Today the company has over 160m users and provides both buyers and sellers with a gigantic global marketplace. Even though it has a high rate of profitability and strong cash flow, the market fears that the company will be subject to competition in the near future and discounts minimal growth. We believe that the company will play an important role in the future as part of the growing sharing economy. In addition, the company is a world leader within online classifieds. We believe, very little of this is reflected in the current share price.

Golden Ocean
The dry bulk shipping company Golden Ocean carried out a restructuring during the quarter which the fund participated in. As a result, the position now accounts for one percent of the portfolio. The company operates in a cyclical market that is currently suffering from overcapacity, which has in turn pushed freight rates and ship values down to historically low levels. Strong financing is required to survive the austerity, and we believe Golden Ocean has this. The company's good bank contacts help to limit the downside risk over the next three years, and means that the investment is in a good position to benefit from an improvement in the dry cargo market in the long term.

H&M
Given our investment philosophy, the fund's newly initiated position in the Swedish clothing giant H&M may seem somewhat surprising. However, even though the company may not be under-researched, the stock has become increasingly unpopular over the last 12 months as margins have come under pressure. Nonetheless, we believe that H&M's current investments, which are temporarily putting pressure on margins, can provide good returns for long-term investors. With a growth rate of ten percent per year, and a reasonable stabilisation of margins, we believe that the shares will reach at least SEK 400 within a couple of years, yielding a 50 percent return. The investment currently makes up one percent of the portfolio as we wish to see more concrete signs that margins will stabilise before we increase the position.

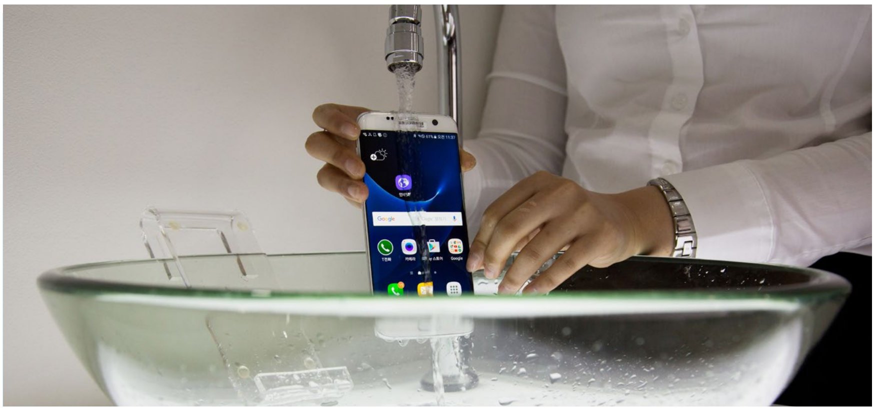


Photo: PBloomberg

Samsung Electronics
The attractive valuation of Samsung Electronics is the main reason that it continues to be the largest position in the fund. The company faced strong headwinds in 2015, driven primarily by the failed launch of the S6 phone and falling global prices for DRAM (computer memory). In spite of this, the company's operating cash flow is very strong at around USD 35 billion, and it has a net cash position of over USD 50 billion. The downside to the current valuation therefore appears limited.

Citigroup and Credit Suisse
As forementioned, the banking and financial sector had a tough quarter with falling share prices. The fund was underweight this sector during the quarter (13 percent weight versus 21 percent for the index). Nevertheless, this underweight barely worked to our advantage since two of our larger holdings, Citigroup and Credit Suisse, were among the weakest. We are particularly unhappy with our investment in Credit Suisse. The fund participated in a share issue at the end of 2015 on the basis that the company's management had full control of the bank's credit and derivative exposure. This turned out to not be the case at the beginning of 2016 and the shares have fallen 40 percent in Norwegian kroner, which has cost the fund nearly NOK 100 million. We are monitoring this investment very carefully.

PORTFOLIO WITH POTENTIAL

SKAGEN Vekst's Nordic/global mandate gives us a unique opportunity to invest in world class shares, which fulfil SKAGEN's investment philosophy, without any geographical limitation. This is clearly illustrated by a portfolio that trades at a discount to the market and which should provide excess returns over time.

It may seem obvious for a value investor like SKAGEN, but is well worth repeating: buying undervalued stocks is something we believe strongly in and will continue to do. At the end of March the 35 largest positions in SKAGEN Vekst traded at a weighted 2016 P/E of 11.5x, versus 15.9x for the market, and we see a weighted upside of 48 percent in these positions. This, combined with the new investment cases we have in the pipeline, gives us confidence for the future - despite the volatile markets.

SKAGEN VEKST PORTFOLIO CHANGES IN Q1 2016 (PERCENTAGE OF AUM)

5 largest contributors	
Volvo AB	0.32%
Lundin Petroleum AB	0.31%
Casino Guichard Perrachon	0.30%
Oriflame Cosmetics AG	0.27%
Norsk Hydro ASA	0.26%

5 largest purchases	
Hennes & Mauritz AB (H&M)	1.34%
eBay Inc	0.97%
Kinnevik AB	0.82%
Golden Ocean Group Ltd	0.79%
Roche Holding AG	0.51%

5 largest detractors	
Citigroup Inc	-1.32%
Credit Suisse Group AG	-1.25%
Continental AG	-0.93%
Roche Holding AG	-0.42%
Frontline Ltd	-0.34%

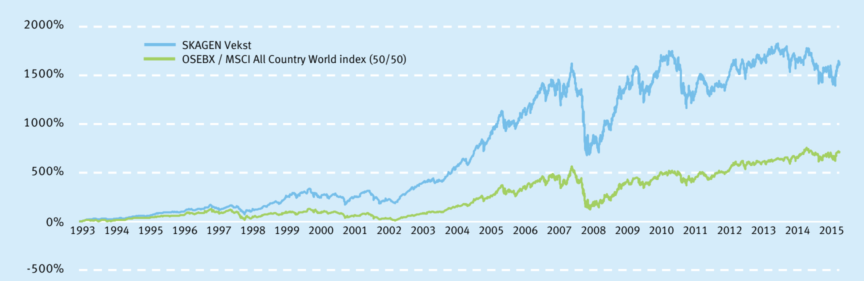
5 largest sales	
Casino Guichard Perrachon	-1.39%
ABB Ltd	-1.00%
Lundin Petroleum AB	-0.90%
Norsk Hydro ASA	-0.85%
Carlsberg AS	-0.48%

SKAGEN VEKST KEY NUMBERS FOR THE LARGEST HOLDINGS (AS OF 31.03.2016)

Company	Holding size	Price	P/E 2016E	P/E 2017E	P/BV last	Price target
Samsung Electronics	7.4%	1,107,000	8.1	7.7	0.9	1,300,000
Continental AG	6.6%	200	11.6	10.3	3.1	275
Norsk Hydro	5.6%	34	13.6	9.7	0.9	45
Carlsberg	5.5%	624	20.1	15.6	2.2	822
SAP	5.0%	71	20.3	16.3	3.7	92
Norwegian Air Shuttle	4.5%	312	8.2	6.2	3.8	500
Citigroup	4.1%	42	8.2	7.5	0.6	78
Philips	4.0%	25	17.9	14.5	1.9	30
Teliasonera	3.9%	42	12.0	11.7	1.8	45
Ericsson	3.5%	81	15.9	14.0	1.8	130
Weighted top 10	**50.1%**		**11.8**	**10.1**	**1.47**	**36%**
Weighted top 35	**91.2%**		**11.5**	**9.0**	**1.05**	**48%**
Benchmark index			**15.9**	**14.5**	**2.12**	

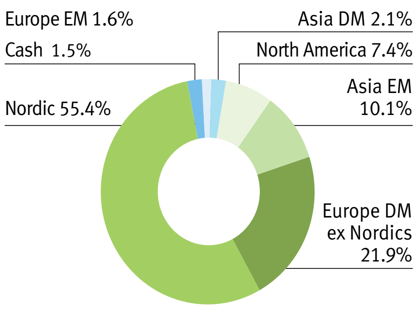
P/E may deviate from other sources when based on SKAGEN estimates.

HISTORICAL PRICE DEVELOPMENT SKAGEN VEKST

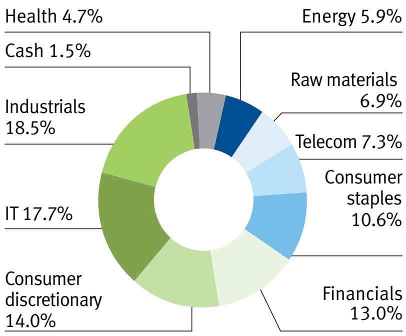


* Effective 1/1/2014, the fund's investment mandate changed. Read more on page 35. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX).

GEOGRAPHICAL DISTRIBUTION



SECTOR DISTRIBUTION



SECURITIES PORTFOLIO SKAGEN VEKST AS OF 31 MARCH 2016

See the portolio in its entirety at www.skagenfunds.co.uk/portfolio-vekst

Securities	Sector	Number	Acquistion value NOK *	Market-value NOK*	Unrealised gain/loss *	Share of fund	Stock exchange
Samsung Electronics Co Ltd Pref	Information Technology	70 000	418 207	565 700	147 493	7.39%	Seoul
Continental AG	Consumer Discretionary	265 595	147 251	502 445	355 193	6.56%	Frankfurt
Norsk Hydro ASA	Materials	12 500 000	321 092	425 875	104 783	5.56%	Oslo
Carlsberg AS-B	Consumer Staples	540 000	338 198	424 627	86 429	5.55%	Copenhagen
SAP SE	Information Technology	575 000	260 225	385 500	125 275	5.03%	Frankfurt
Norwegian Air Shuttle ASA	Industrials	1 100 000	110 418	342 650	232 232	4.47%	Oslo
Citigroup Inc	Financials	900 000	322 245	313 246	-8 999	4.09%	New York
Koninklijke Philips NV	Industrials	1 300 000	264 035	307 597	43 562	4.02%	Amsterdam
Teliasonera AB	Telecommunication Services	7 000 000	321 269	301 339	-19 930	3.94%	Stockholm
Ericsson LM-B SHS	Information Technology	3 250 000	267 254	268 937	1 683	3.51%	Stockholm
Kinnevik Investment AB-B	Telecommunication Services	1 100 000	247 533	258 946	11 413	3.38%	Stockholm
Volvo AB	Consumer Discretionary	2 690 000	227 300	244 761	17 460	3.20%	Stockholm
ABB Ltd	Industrials	1 500 000	207 380	242 262	34 883	3.16%	Stockholm
Roche Holding AG-Genusschein	Health Care	105 000	228 325	214 893	-13 432	2.81%	Zürich
Oriflame Cosmetics AG	Consumer Staples	1 000 000	128 352	163 146	34 794	2.13%	Stockholm
Danske Bank A/S	Financials	678 622	78 788	159 745	80 957	2.09%	Copenhagen
Kia Motors Corporation	Consumer Discretionary	450 000	138 015	158 672	20 657	2.07%	Seoul
Lundin Petroleum AB	Energy	1 100 000	108 372	156 043	47 671	2.04%	Stockholm
Credit Suisse Group AG	Financials	1 240 384	253 167	146 394	-106 773	1.91%	Zürich
Catena AB	Financials	1 069 125	94 341	136 508	42 166	1.78%	Stockholm
SKF AB - B Shares	Industrials	800 000	126 863	120 036	-6 827	1.57%	Stockholm
Wilh. Wilhelmsen Holding ASA	Industrials	744 081	53 139	116 077	62 938	1.52%	Oslo
Hennes & Mauritz AB	Consumer Discretionary	375 000	109 800	103 898	-5 902	1.36%	Stockholm
Cal-Maine Foods Inc	Consumer Staples	245 000	114 318	103 404	-10 914	1.35%	New York
SBI Holdings Inc	Financials	1 139 000	96 634	95 973	-661	1.25%	Tokyo
Sberbank of Russia Pref	Financials	9 620 000	139 234	93 905	-45 329	1.23%	Moscow
Kemira OYJ	Materials	970 000	93 751	91 018	-2 734	1.19%	Helsinki
Bonheur ASA	Energy	1 492 594	107 317	83 585	-23 732	1.09%	Oslo
eBay Inc	Information Technology	400 000	79 091	79 469	378	1.04%	NASDAQ
Danieli & Officine Meccaniche SpA	Industrials	560 000	72 052	72 337	285	0.94%	Italy
Golden Ocean Group Ltd	Industrials	13 782 835	68 564	69 741	1 177	0.91%	Oslo
H Lundbeck A/S	Health Care	235 000	44 996	64 528	19 532	0.84%	Copenhagen
Nippon Seiki Co Ltd	Consumer Discretionary	393 000	49 364	63 042	13 678	0.82%	Tokyo
Medi-Stim ASA	Health Care	1 165 625	14 565	55 950	41 385	0.73%	Oslo
Ganger Rolf ASA	Energy	1 213 817	124 262	54 379	-69 883	0.71%	Oslo
Hitecvision AS	Financials	793 668	7 193	52 382	45 189	0.68%	Unlisted
Strongpoint ASA	Information Technology	3 755 227	42 957	52 010	9 053	0.68%	Oslo
GCL-Poly Energy Holdings Ltd	Energy	36 000 000	66 945	49 269	-17 677	0.64%	Hong Kong
Rec Silicon ASA	Energy	35 182 178	52 331	49 255	-3 076	0.64%	Oslo
Casino Guichard Perrachon SA	Consumer Staples	100 000	68 379	47 710	-20 669	0.62%	Paris
Solar AS - B Shs	Industrials	104 000	40 099	43 924	3 825	0.57%	Copenhagen
Sodastream International Ltd	Consumer Staples	365 000	82 946	42 220	-40 726	0.55%	NASDAQ
Frontline Ltd	Industrials	510 000	41 502	35 700	-5 802	0.47%	Oslo
Solstad Offshore ASA	Energy	2 052 746	102 753	33 665	-69 088	0.44%	Oslo
Golar LNG Ltd	Industrials	190 000	58 722	28 437	-30 285	0.37%	NASDAQ
Yazicilar Holding AS	Consumer Staples	689 169	23 544	26 772	3 228	0.35%	Istanbul
DOF ASA	Energy	5 762 213	110 022	22 703	-87 319	0.30%	Oslo
Goodtech ASA	Industrials	2 055 949	46 750	21 382	-25 368	0.28%	Oslo
Photocure ASA	Health Care	626 466	25 235	21 300	-3 935	0.28%	Oslo
Nordic Mining ASA	Materials	16 195 321	18 270	11 985	-6 286	0.16%	Oslo Axess
TTS Group ASA	Industrials	3 035 946	30 312	9 563	-20 749	0.12%	Oslo
Eidesvik Offshore ASA	Energy	386 055	14 348	3 474	-10 874	0.05%	Oslo
I.M. Skaugen SE	Industrials	1 639 152	19 918	3 377	-16 541	0.04%	Oslo
Sevan Drilling ASA	Energy	388 715	48 961	801	-48 161	0.01%	Oslo
Total equity portfolio*			**6 676 909**	**7 542 556**	**865 647**	**98.50%**	
Disposable liquidity				114 809		1.50%	
Total share capital				**7 657 365**		**100.00%**	

* Numbers in 1 000 NOK.

Consolidation creates resilience

SKAGEN m²

A doorway to global interest rates

- Property shares rebounded after a decline at the beginning of the quarter
- Actions of central banks continue to affect portfolio
- The companies' ability to succeed remains our sole focus

1	2	3	4	5	RISK	7

Fund start date	31 October 2012
Return since start	14.7%
Average annual return	4.1%
AUM	GBP 80 million
Number of unitholders	8,121

PERFORMANCE IN GBP	Q1 16*	12M*
SKAGEN m² A	5.3%	-7.5%
MSCI ACWI Real Estate IMI	6.9%	1.8%

** As of 31 March 2016, net of fees*

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.

SKAGEN m2 A ended the quarter returning 5.3 percent, slightly behind its benchmark. The return for global property shares were more than double that of the global broad equity indices during the period.

A FLYING START TO THE NEW YEAR

The new year began with a market correction, followed by a recovery in the second half of the quarter. The decline was driven in part by the depressed financial sector, which also affected real estate shares as they continue to be categorised under the financial sector. This is significant as ETFs and index funds move their massive amounts of capital whenever there are major changes. During the year the real estate sector will no longer be categorised under the financial sector, a change that we welcome as we believe it will mean lower volatility and greater clarity. The consequences are still unclear, however, since it is the first time a new sector has been created since classification in 1999. The risk of Britain withdrawing from the EU also put pressure on markets, as did recurring fears about China's future growth and debt. In spite of this, emerging markets recovered in March, especially in Brazil where the property index gained about 50 percent in local currency in the period.

CENTRAL BANK EXPERIMENTS

The fund got a lift from the European Central Bank's stimulus package, which generally tends to be positive for a real estate company's net worth, cash flow and earnings growth. Even the Bank of Japan surprised on the upside with negative interest rates. The US central bank's ambivalence and changing message about the future pace of interest rate hikes also created volatility in the market. At the end of the quarter they announced a more cautious increase than the market expected, and this had a positive impact. The era of interest rate cuts and stimulus is now likely reaching an end globally. Sooner or later, it will mean higher yield, that is, a levelling off or decreasing of properties' values. Although property companies' financing costs are generally at a record low level and tied up for a long time to come, these will increase. Companies where increases in asset value constitute the larger part of total return (increase in value plus dividends) will have a tougher time ahead.

SKAGEN m2 will continue to focus on companies with strong rental growth and cash flow and a high degree of active value creation, something that will become even more important in the future when stimulus from the world's central banks comes to an end. However, interest rates are likely to remain low for a long time in many parts of the world. A higher interest rate indicates positive economic developments in most cases, something that is also beneficial to property companies' rental rates and consumption patterns.

SHOPPING MALL SUCCESS - DESPITE PROBLEMS

We continued to consolidate the portfolio during the quarter by selling nine positions and buying two. The majority of the companies sold were listed in emerging markets and disposed of either because they reached our target price, have disappointed or where the positions were too small. Our exposure to emerging markets, however, is in line with previous levels when we increased the holdings that we believed in most.

We exited the Brazilian shopping mall operator BR Malls after the company turned out to be the portfolio winner in the quarter, gaining about 40 percent in local currency. Although BR Malls delivered better results than expected, times are still tough for the company's tenants due to declining consumption.

Brazil saw its market and currency rise on the back of hopes that there will be a much-needed change in government after politicians at the highest level have been involved in corruption scandals.

Another company that is riding the wave of a market and reform-friendly change of government is Argentinian IRSA. The company has restructured its debt and ended the quarter as the third best contributor. Thanks to various internal transactions, IRSA managed to fend off the hedge fund that attacked the company in order to exploit the falling share price.

SPANISH TAILWIND

A new exciting company is Spanish Inmobiliaria Colonial, which mainly has high-quality office properties in prime locations in Madrid, Barcelona and Paris. After many years of rental decline in Spanish cities, rental growth is now starting to pick up in the most central locations where Colonial has most of its portfolio. The positive rental trend is driven by the demand for and inadequate supply of large central office properties primarily in Madrid. This is reflected in the company's rapidly declining vacancy rates.

Spanish cities are at the beginning of the rental cycle, something that sets them apart from many other European cities, and the positive momentum of the Spanish economy is accelerating the trend. The Paris office market, where the company has about 50 percent of its properties, also has good development potential. Colonial was the only Spanish real estate company that survived the aftermath of the financial crisis in Spain and has since had a tough ride and is being recapitalised. Thanks to its very attractive valuation when it entered the portfolio, Colonial was one of the big winners in the quarter despite only having been in the fund for a short time. Value drivers for the company include rental growth, reduced vacancy rates and an active repositioning of assets.

BRITISH STORAGE

The other new company to enter the portfolio during the quarter was the British Big Yellow Group, which owns and operates a self-storage business. The company has a good track record of value creation and is reasonably priced in light of its expected growth, dominant position, solid balance sheet and centrally located London portfolio. Three American REITs were the losers of the quarter, namely HCP, SL Green and Columbia Property Trust. This was partly due to the market's fears that the US central bank would accelerate the pace of interest rate hikes; although the opposite turned out to be the case at the end of March. The dollar also weakened during the period. While company-specific events explain the decline, in HCP's case it is mainly continuing problems for one of their major tenants that have led the market to distrust their future dividend capacity. The company has had 31 consecutive years of dividend growth. Colombia Property Trust delivered a worse forecast than expected, while the dividend is not covered by cash flow until the end of 2017. This means a limited capacity to proceed with the repurchase of shares which would have been a better capital allocation than dividends. SLG Green's CEO spoke negatively about the continued recovery in the New York office market. The company is now trading at low levels relative to the portfolio's central location in Manhattan.

Photo: D. Carnegie

The Swedish rental property owner, D. Carnegie, was one of the winners in the quarter. Despite good growth, the company remains undervalued with apartments in the Stockholm area booked at under SEK 11 000 per square meter, about half the cost of new builds. Pictured here is one of the company's housing complexes in Vårby, Stockholm.

UNDERVALUED RENTAL APARTMENTS IN SWEDEN

D. Carnegie, the Swedish rental property owner was another winner. Despite good growth, the company remains undervalued with apartments in the Stockholm area booked at under SEK 11,000 per square meter, about half the cost of new builds. In addition, the company has virtually no vacancy risk with the current housing shortage and rental growth that is well above inflation. During the quarter, the company announced that they will redeem outstanding convertible bonds, which removes the negative overhang. The transaction will contribute to lower financial expenses, reduce dilution, and improve liquidity and transparency. Despite its size, D.Carnegie is followed by just one analyst.

FUND MORE ROBUST THAN EVER

About a year ago we started a process to concentrate the fund in order to create a more robust and liquid portfolio that has good potential to create long-term excess return. As a result we now have 40 companies in the portfolio, mainly in developed countries, with a high proportion of assets on the balance sheet. Our focus remains on companies that we believe can create value through growth in rental income and cash flows, rather than by increasing asset value on the back of various central bank experiments. In other words, our sole focus is on the companies' own capacity for success.

SKAGEN m² PORTFOLIO CHANGES IN Q1 2016 (PERCENTAGE OF AUM)

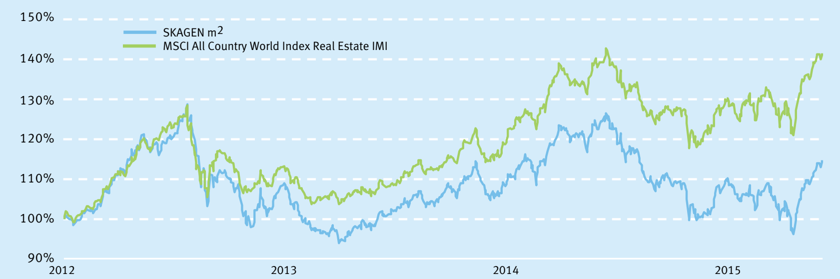
5 largest contributors	
IRSA	0.43%
D Carnegie & Co	0.42%
BR Malls	0.34%
Immobiliaria Colonial	0.31%
Mercialys	0.29%

5 largest purchases	
Immobiliaria Colonial	2.86%
Big Yellow Group	2.07%
D Carnegie & Co	1.53%
SL Green Realty Corp	1.02%
Ashford Hospitality Prime	0.60%

5 largest detractors	
HCP	-0.98%
SL Green Realty Corp	-0.79%
Columbia Property Trust	-0.68%
Global Logistic Properties	-0.54%
Mitsui Fudosan	-0.41%

5 largest sales	
Apartment Investment & Management	-2.13%
Columbia Property Trust	-1.60%
BR Malls	-1.21%
Entra ASA	-0.93%
Ananda Development	-0.86%

HISTORICAL PRICE DEVELOPMENT SKAGEN m² A



SKAGEN M2 KEY NUMBERS FOR THE LARGEST HOLDINGS (AS OF 31.03.2016)

Company	Holding size	Price	P/NAV last	Div. Yield 2015e	EBITDA 2015e/EV
Mitsui Fudosan Co Ltd	4.9 %	2808	72%	1.1%	6.8%
Global Logistic Properties Ltd	4.8 %	1.92	66%	3.6%	4.2%
Olav Thon Eiendomsselskap ASA	4.6 %	137	70%	1.3%	6.6%
SL Green Realty Corp	4.6 %	95.64	75%	3.1%	5.1%
Deutsche Wohnen AG	4.0 %	27.29	119%	2.7%	4.5%
Mercialys SA	3.9 %	20.29	99%	6.2%	5.1%
HCP Inc	3.5 %	32.32	90%	6.9%	6.6%
Inmobiliaria Colonial SA	3.4 %	0.65	84%	3.8%	4.2%
Brandywine Realty Trust	3.3 %	13.95	85%	4.3%	6.1%
General Growth Properties Inc	3.2 %	29.65	90%	2.6%	5.1%
Weighted top 10	**40.2%**		**84%**	**3.4%**	**5.4%**
Weighted top 35	**92%**			**3.2%**	**6.0%**
Benchmark index				**3.6% (actual)**	

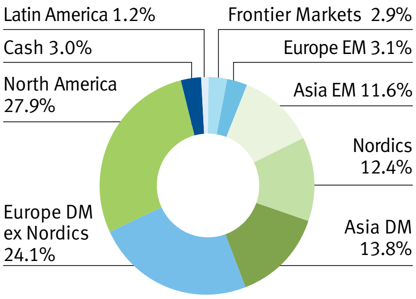
SECURITIES PORTFOLIO SKAGEN M2 AS OF 31 MARCH 2016

See the portfolio in its entirety at www.skagenfunds.co.uk/portfolio-m2

Securities	Sector	Number	Acquistion value NOK *	Market-value NOK*	Unrealised gain/loss *	Share of fund	Stock exchange
Mitsui Fudosan Co Ltd	Real Estate Companies incl. REITs	222 000	45 346	45 890	544	4.85%	Tokyo
Global Logistic Properties Ltd	Real Estate Companies incl. REITs	3 837 700	51 736	45 376	-6 360	4.79%	Singapore
Olav Thon Eiendomsselskap ASA	Real Estate Companies incl. REITs	320 000	41 742	43 840	2 098	4.63%	Oslo
SL Green Realty Corp	Real Estate Companies incl. REITs	55 000	42 239	43 509	1 269	4.60%	New York
Deutsche Wohnen AG	Real Estate Companies incl. REITs	146 000	26 467	37 560	11 094	3.97%	Frankfurt
Mercialys SA	Real Estate Companies incl. REITs	193 269	29 956	36 967	7 011	3.91%	Paris
HCP Inc	Real Estate Companies incl. REITs	122 100	38 556	32 646	-5 910	3.45%	New York
Inmobiliaria Colonial SA	Real Estate Companies incl. REITs	5 301 157	29 241	32 383	3 143	3.42%	Madrid
Brandywine Realty Trust	Real Estate Companies incl. REITs	271 000	30 129	31 269	1 141	3.30%	New York
General Growth Properties Inc	Real Estate Companies incl. REITs	124 000	24 754	30 410	5 656	3.21%	New York
CBL & Associates Properties Inc	Real Estate Companies incl. REITs	300 000	39 865	29 305	-10 560	3.10%	New York
Catena AB	Real Estate Companies incl. REITs	221 204	25 012	28 215	3 202	2.98%	Stockholm
D Carnegie & Co AB	Real Estate Companies incl. REITs	354 084	23 765	27 821	4 056	2.94%	Stockholm
Columbia Property Trust Inc	Real Estate Companies incl. REITs	152 000	27 421	27 169	-252	2.87%	New York
Irsa Sa ADR	Real Estate Companies incl. REITs	228 000	23 408	27 119	3 711	2.86%	New York
Ashford Hospitality Trust	Real Estate Companies incl. REITs	508 342	34 947	26 090	-8 857	2.76%	New York
PS Business Parks Inc	Real Estate Companies incl. REITs	29 000	18 482	24 179	5 697	2.55%	New York
Dic Asset AG	Real Estate Companies incl. REITs	310 000	21 531	24 136	2 605	2.55%	Xetra
CA Immobilien Anlagen AG	Real Estate Companies incl. REITs	138 000	19 821	22 376	2 555	2.36%	Vienna
Axia Real Estate SOCIMI SA	Real Estate Companies incl. REITs	180 000	18 306	22 102	3 796	2.33%	Madrid
Big Yellow Group Plc	Real Estate Companies incl. REITs	233 000	21 401	21 586	184	2.28%	London
Shangri-La Asia Ltd	Real Estate Companies incl. REITs	2 150 000	22 605	20 289	-2 316	2.14%	Hong Kong
Melia Hotels International	Real Estate Companies incl. REITs	203 000	17 889	19 807	1 917	2.09%	Madrid
Nomura Real Estate Master Fund Inc	Real Estate Companies incl. REITs	1 483	15 004	18 341	3 337	1.94%	Tokyo
SM Prime Holdings Inc	Real Estate Companies incl. REITs	4 511 800	12 595	17 846	5 251	1.89%	Philippines
Atrium Ljungberg AB	Real Estate Companies incl. REITs	120 621	12 052	17 281	5 228	1.83%	Stockholm
Soho China Ltd	Real Estate Companies incl. REITs	4 068 500	21 991	16 051	-5 939	1.70%	Hong Kong
Grivalia Properties Reic AE	Real Estate Companies incl. REITs	213 445	14 377	14 830	452	1.57%	Athens
Emlak Konut Gayrimenkul Yatirim Ortakligi AS	Real Estate Companies incl. REITs	1 710 000	15 091	14 418	-673	1.52%	Istanbul
First Real Estate Investment Trust	Real Estate Companies incl. REITs	1 796 484	13 202	13 572	370	1.43%	Singapore
Phoenix Mills Ltd	Real Estate Companies incl. REITs	358 945	13 688	13 458	-230	1.42%	India
Ashford Hopsitality Prime Inc	Real Estate Companies incl. REITs	125 000	12 162	11 838	-324	1.25%	New York
CapitaLand Ltd	Real Estate Companies incl. REITs	600 000	10 553	11 314	761	1.20%	Singapore
Gecina SA	Real Estate Companies incl. REITs	10 000	9 829	11 261	1 432	1.19%	Paris
Oberoi Realty Ltd	Real Estate Companies incl. REITs	329 090	9 399	9 923	524	1.05%	India
Keck Seng Investments	Real Estate Companies incl. REITs	1 618 000	12 260	9 627	-2 632	1.02%	Hong Kong
Ascendas India Trust	Real Estate Companies incl. REITs	1 780 200	7 443	9 568	2 124	1.01%	Singapore
Ashford Inc	Real Estate Companies incl. REITs	19 046	13 168	7 113	-6 055	0.75%	New York
Bekasi Fajar Industrial Estate Tbk PT	Real Estate Companies incl. REITs	39 786 400	14 631	6 757	-7 874	0.71%	Indonesia
BR Properties SA	Real Estate Companies incl. REITs	325 000	9 236	6 725	-2 510	0.71%	Sao Paulo
General Shopping Finance	Real Estate Companies incl. REITs	950 000	5 159	4 672	-487	0.49%	Euroclear
Bumi Serpong Damai PT	Real Estate Companies incl. REITs	2 154 400	1 773	2 487	713	0.26%	Indonesia
Total equity portfolio*			**898 232**	**917 122**	**18 890**	**96.89%**	
Disposable liquidity				29 432		3.11%	
Total share capital				**946 554**		**100.00%**	

* Numbers in 1 000 NOK.

GEOGRAPHICAL DISTRIBUTION



Will the helicopters take off?

Having helicopters drop money will hardly help central banks achieve their inflation targets.

Even after years of close to zero interest rate policy and several rounds of quantitative easing, several central banks are struggling to push up inflation. Recently some central bank economists have been referring to "helicopter money" as an interesting concept, indicating that this is being discussed as a potential new weapon in the campaign for higher inflation.

What is helicopter money? Can it help push up inflation? And what is the likelihood of the helicopters taking off?

Helicopter money refers to an untraditional way of funding budget deficits. Deficits are traditionally financed by issuing government debt to the private sector. The state uses helicopter money as financing if it instead borrows from its central bank. Many people think of helicopter money as 'money printing'. This is misleading. What happens is that the central bank increases its balance sheet. On the assets side, the central bank adds a loan to the government. On the liability side a corresponding amount is deposited in the government's account. The government uses these deposits to cover the deficit.

Contrary to how it might sound, helicopter money is not a sure-fire recipe for inflation. At any rate it is highly unlikely to be an accurate tool for obtaining inflation that is in line with the central bank's inflation target.

First, there is barely any difference between borrowing from the market and borrowing from the central bank. Regardless of how the government finances its deficit, it ends up with a higher debt to the private sector. Why is this?

When the government spends its new deposits, the deposits flow from the government's central bank account to accounts in the central bank that are owned by private banks. Since the government owns the central bank, private sector central bank deposits are part of the government's overall debt to the private sector. Thus in the case of helicopter money, the government issues debt to the same extent as when it issues bonds in the market. The only difference between government bonds and central bank deposits is that the interest rate on bonds is typically fixed while the interest rate on central bank deposits is floating. Hence the choice between helicopter money and bond issuance impinges on the interest rate risk profile of the government's overall debt to the private sector.

Whether helicopter money will result in higher inflation depends on whether the market thinks such a policy lowers the probability that the government will keep its fiscal house in order.

A government can run large deficits and accumulate a lot of debt and still have the market's trust, if the private sector is convinced that expenditure and tax levels over time are adjusted sufficiently to service the debt. If, however, the private sector does not think that the government will properly manage its finances over time, they will try to dispose of their government assets by buying more real products, such as goods and services. The increased demand for goods and services pushes up inflation until the real value of the state's liabilities has dropped to a suitable level.

The high inflation recently seen in Russia is likely due to a lack of trust in government finances. A sharply falling price of oil and adverse repercussions of foreign adventures decreased tax revenues. Putin and his gang were likely not seen as capable of ensuring that the government could honour its obligations at the initial price level. This resulted in a sharp increase in inflation, which for a time was in the double digits.

Supporters of helicopter money seemingly believe that if the state camouflages part of its debt as central bank deposits, they can obtain some of the same type of inflation.

The idea is that the private sector might come to think that the government is only going to stand by its traditional debt, i.e. that the government will pursue a fiscal policy that neglects the fiscal implications of debt owed to the private sector via the central bank. If, so, the private sector deems the fiscal stance as unsound and inflation increases as purchases of goods and services accelerate.

I think this approach underestimates the market's ability to understand public finances. Why shouldn't households and firms understand that it does not make any difference to the government finances whether the state borrows from the market or from the central bank? And why shouldn't they expect politicians to service entire government debt?

I don't think democratically elected governments in developed economies can credibly commit themselves to only servicing their traditional debt. I think it is safe to assume that the private sector expects their politicians to behave responsibly in the long run. If so, households' savings will increase if the government resorts to helicopter money. They must save to pay higher future taxes (or to compensate for lower public transfers). And if this is the case, the private sector willingly holds the augmented government debt and helicopter money has no impact on inflation.

But let us assume that the trick works and the authorities manage to make the public believe that central bank debt is not government debt. It does not follow that the state hits the bull's eye of the inflation target.

No one has attempted a fiscal policy that is deliberately somewhat unsustainable. How much money will be crammed into the helicopters? Authorities will grope around in the dark, and there is a big risk that inflation will be higher than the inflation target.

As I see it, it is likely that an attempt to use helicopter money will either have no effect on inflation, or the effects will be far too strong. I think that when the authorities have mulled over these questions, they will come to the same conclusion. Hence I don't think we will see monetary helicopters on the horizon.

– Torgeir Høien
Portfolio Manager SKAGEN Tellus

SKAGEN Tellus

A doorway to global interest rates

› Fund return pulled down by a weakening of the dollar versus the euro

› We anticipate a stronger dollar ahead

› Developments in Japan did not contribute sufficiently relative to the benchmark

1 2 4 RISK 5 6 7

Fund start date	29 September 2006
Return since start	89.3%
Average annual return	6.9%
AUM	GBP 94 million
Number of unitholders	2,778

PERFORMANCE IN GBP	Q1 16*	12 M*
SKAGEN Tellus A	7.7%	-1.7%
JP Morgan GBI Broad Index Unhedged	9.4%	8.7%

** As of 31 March 2016, net of fees*

PORTFOLIO MANAGERS

Torgeir Høien and Jane Tvedt

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).

Currency tailwinds

The fund delivered a marginally positive return for the first quarter of the year. We were not satisfied with this, or with the fact that the fund delivered a slightly weaker return than its benchmark index.

Measured in local currency, however, Portugal was the only one of our bonds that delivered a negative return. The Portuguese bond depreciated slightly more than what we gained in interest income.

With the exception of a US bond with long maturity, we have maintained the other long-term bonds we had at the start of the year. We believe that we will make additional capital gains from selected countries in the Eurozone and South America.

The main reason that the fund's result was pulled down in the quarter was the strengthening of the euro versus several of the currencies that the fund's bonds are denominated in. A five percent weakening of the dollar versus the euro made the largest dent in the return. Thirty percent of the fund is invested in dollar-denominated bonds.

Although some of the fund's currencies appreciated against the euro, overall the foreign exchange rate changes pulled the fund's price down by 1.4 percentage points.

The weakening of the dollar can partly be attributed to the US central bank, the Fed, indicating that they will hike the policy rate at a slower pace than they announced at the end of last year.

We have maintained our dollar-denominated positions, primarily on the back of our belief that the labour market will run tight and that inflation will rise. We also think that the global economy is doing better than the Fed took into account last quarter. The latter has become an increasingly important control parameter for the US central bank. With decent economic growth in the US and a policy rate relative to the outside world, we believe that the dollar will strengthen over the next few quarters.

Relative to its benchmark index, the fund had lower exposure to yen-denominated debt, which strengthened versus the euro. At the end of January the Bank of Japan unexpectedly announced a rate cut. The policy rate was cut to minus 0.1 percent. The already low long-term bond yields fell further and bond prices rose. Paradoxically this policy cut strengthened the yen. The market expected less inflation after the policy cut than before it. As the fund has ten percent of the portfolio invested in Japanese government bonds with relatively short duration, we made less profit than the benchmark index.

From an absolute perspective, we faced headwind from a depreciating dollar and relatively speaking we did not get sufficient lift from an appreciating yen and higher Japanese bond yields.

It is stated in the fund's mandate that we shall take both interest rate and currency risk. The foreign exchange market can be erratic at times, but over time our currency exposure has made a positive contribution to the fund's return.

SECURITIES PORTFOLIO SKAGEN TELLUS AS OF 31 MARCH 2016

See portfolio in its entirety at www.skagenfunds.co.uk/portfolio-tellus

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	2016-11-01	1.00	10 000	65 014	645.50	267	64 550	64 817	-465	5.78%
Chilean Government	2020-08-05	5.50	4 410 000	54 659	1.28	466	56 579	57 045	1 920	5.09%
Colombian Government	2021-04-14	7.75	13 400 000	48 232	0.28	2 774	37 504	40 279	-10 728	3.59%
Croatia Government Int Bond	2022-05-30	3.87	8 300	74 798	970.42	2 541	80 545	83 085	5 747	7.41%
Hellenic Republic Government	2035-02-24	3.00	9 000	53 134	547.59	251	49 283	49 534	-3 851	4.42%
Portugese Government	2025-10-15	2.87	5 000	47 985	952.95	623	47 647	48 271	-338	4.31%
Slovenia Government	2026-03-30	5.12	3 500	41 766	1 279.33	5	44 777	44 781	3 010	4.00%
Spanish Government	2025-04-30	1.60	5 000	45 315	969.81	694	48 491	49 184	3 176	4.39%
European Bank Recon & Dev	2018-03-19	5.75	200 000	25 846	12.35	47	24 696	24 743	-1 150	2.21%
Japan Government	2016-06-20	1.90	900 000	62 398	7.41	353	66 664	67 017	4 266	5.98%
Japan Government	2017-10-16	0.10	550 000	37 991	7.41	19	40 749	40 767	2 757	3.64%
Mexican Government	2036-11-20	10.00	60 000	38 345	67.22	823	40 332	41 155	1 987	3.67%
Norwegian Government	2017-05-19	4.25	60 000	63 360	104.29	2 215	62 573	64 787	-788	5.78%
New Zealand Government	2023-04-17	5.50	8 000	54 358	686.61	1 165	54 928	56 093	571	5.01%
Peruvian Government	2037-08-12	6.90	18 000	41 063	236.46	407	42 564	42 970	1 501	3.83%
Lithuanian Government	2022-02-01	6.62	5 500	42 570	1 001.65	503	55 091	55 593	12 520	4.96%
US Government	2016-08-31	0.50	12 800	87 374	828.27	47	106 018	106 065	18 644	9.46%
US Government	2017-06-30	0.62	10 800	88 468	827.26	140	89 345	89 484	877	7.99%
US Government	2016-11-30	0.87	10 000	87 347	829.79	243	82 979	83 221	-4 369	7.43%
Total Bond Portfolio				**1 060 025**		**13 580**	**1 095 313**	**1 108 894**	**35 288**	**98.95%**
Disposable liquidity				11 931			11 738	11 738	-193	1.05%
TOTAL				**1 071 956**		**13 580**	**1 107 051**	**1 120 631**	**35 095**	**100.00%**

Key numbers

Effective underlying return	2.50%	Duration**	3.98

* Effective underlying return adjusted for managment 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 1 000 NOK.

Effective interest is the average annual return of an interest bearing security until maturity.
Securities are valued at market price as of 31.03.2016
Bonds and notes for which there are no market maker prices are at all times valued against the applicable yield curve.

SKAGEN Credit EUR

Picking the best bonds from the global orchard

- Large fluctuations in the credit market
- Reduced exposure to external factors
- Attractive yield on the fund's investments

1 2 RISK 4 5 6 7

Fund start date	30 May 2014
Return since start	-2.3%
AUM	EUR 7 million
Number of unitholders	41

PERFORMANCE IN EUR	Q1 16*	12 M*
SKAGEN Credit EUR A	0.8%	-3.3%
OMRX-TBILL	-0.1%	-0.1%

** As of 31 March 2016, net of fees*

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).

Large fluctuations in the market

It has been a very volatile quarter where credit spreads have fluctuated sharply.

The fluctuations had an effect on the fund's returns in the first quarter and overshadowed developments in the individual companies and bonds. Many people believe that these large fluctuations are due to uncertainty about China's future economic growth and the consequences for the world economy in general. Our starting point for finding investments, however, is the individual companies and an assessment of their particular circumstances. We then look at the external factors that could affect the company's markets.

Focus on companies' ability

We have exited a few companies, whose future development is overly dependent on external factors, including two Turkish banks. On the one hand, the banks have good credit and their bonds yield good returns at a low risk. On the other hand, their rating and thus the price of the bonds depend on Turkey's credit rating. Lately it has become increasingly uncertain whether Turkey will maintain its investment grade rating and this is a risk we do not want to have in the fund. We focus on the analysis of companies and their ability to maintain or improve their financial situation. That is also how we try to create excess returns.

Extra surcharge for Brazil

Nine percent of the portfolio is invested in Brazilian companies (as at 31 March 2016). The prices of these bonds are greatly influenced by Brazil's economic and political development. However, this is a calculated risk and we are well aware that external factors control the development of all corporate bonds issued by Brazilian companies.

If a company has their headquarters in Brazil, it means that their bonds are in dollars and traded on an international fixed-income market, so they automatically get a higher credit premium than if the company's headquarters were in a developed market. Such an additional surcharge affects bad and good businesses alike, so we can find a lot of good companies that provide high returns at a low company-specific risk. The chemicals company Braskem and protein (meat) company JBS are two such examples.

Good prospects

The fund's investments have an average credit spread of 600 basis points - a very attractive level that provides the conditions for a good return for the rest of the year. Since the spread has increased mainly because the general credit spread in the bond market is historically high, a normalisation may strengthen the fund's return. It is more likely, however, that our companies deliver good profits and improved credit quality and therefore increase in value.

SECURITIES PORTFOLIO FOR SKAGEN CREDIT AS OF 31 MARCH 2016

See the portfolio in its entirety at www.skagenfunds.co.uk/portfolio-credit

SKAGEN CREDIT EUR	Number of units	Market value EUR	%
SKAGEN Credit	607	6 823	98,97
Liquidity		71	1,03
Total share capital		**6 894**	**100,00**

Degree of currency hedging 96.92%, Share of SKAGEN Credit 31,66%

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 EUR	Share of fund (%)
Gazprom OAO	USD	2018-04-11	800	8.15	7 458	3.68
Petrobras Global Finance BV	USD	2018-03-01	700	5.88	5 624	2.78
Seadrill Ltd	USD	2017-09-15	700	6.13	2 454	1.21
Petrobras Global Finance BV	USD	2020-01-20	100	5.75	726	0.36
Total Energy					**16 262**	**8.03**
Braskem Finance Ltd	USD	2021-04-15	575	5.75	4 698	2.32
INEOS	EUR	2023-05-01	500	4.00	4 688	2.32
Glencore Canada Financial Corp	GBP	2020-05-27	350	7.38	4 571	2.26
Glencore Funding LLC	USD	2019-04-29	475	3.13	3 678	1.82
Glencore Funding LLC	USD	2023-05-30	100	4.13	697	0.34
Total Raw Materials					**18 333**	**9.06**
Color Group AS	NOK	2019-09-18	7 000	6.26	6 876	3.40
Stena AB	EUR	2019-02-01	620	5.88	5 921	2.92
PostNL NV	GBP	2018-08-14	400	7.50	5 623	2.78
Norwegian Air Shuttle AS	EUR	2019-12-11	500	7.25	4 961	2.45
Noble Group Ltd	USD	2020-01-29	750	6.75	4 302	2.13
Tallink Group AS	NOK	2018-10-18	4 000	6.17	4 115	2.03
Heathrow Funding Ltd	GBP	2018-09-10	300	6.25	4 035	1.99
Bombardier Inc	USD	2020-03-16	400	7.75	2 889	1.43
Heathrow Funding Ltd	GBP	2020-03-20	200	6.00	2 702	1.33
Norwegian Air Shuttle AS	NOK	2017-07-03	2 000	4.88	1 964	0.97
Total Industrials					**43 387**	**21.43**
Samvardhana Motherson Automotive	EUR	2021-07-15	600	4.13	5 610	2.77
Volkswagen Leasing GmbH	EUR	2022-09-06	500	2.38	5 075	2.51
Best Buy Co Inc	USD	2021-03-15	550	5.50	4 841	2.39
Fiat Finance & Trade SA	EUR	2018-03-15	400	6.63	4 126	2.04
Jaguar Land Rover Automotive Plc	GBP	2023-03-01	200	3.88	2 261	1.12
Fiat Chrysler Finance Europe	EUR	2021-03-22	200	4.75	2 030	1.00
Jaguar Land Rover Automotive Plc	USD	2018-12-14	200	4.13	1 726	0.85
Total Consumer discretionary					**25 670**	**12.68**
Safeway Ltd	GBP	2017-01-10	400	6.00	4 972	2.46
Avon Products Inc	USD	2019-03-01	400	6.50	2 860	1.41
JBS Investments GmbH	USD	2020-10-28	300	7.75	2 548	1.26
Cosan	USD	2023-03-14	300	5.00	2 198	1.09
Lennar Corp	USD	2019-06-17	200	4.50	1 733	0.86
Total Consumer staples					**14 310**	**7.07**
Danske Bank AS	GBP	2021-09-29	600	5.38	7 578	3.74
Bank of Baroda	USD	2019-07-23	750	4.88	6 693	3.31
Amlin Plc	GBP	2026-12-18	500	6.50	6 139	3.03
Insurance Australia Group Ltd	GBP	2026-12-21	400	5.63	4 807	2.37
Diamond Bank Plc	USD	2019-05-21	400	8.75	2 899	1.43
Standard Chartered Bank	GBP	2018-04-03	200	7.75	2 789	1.38
Standard Chartered PLC	EUR	2022-11-23	200	3.63	1 874	0.93
American Tower Corp	USD	2019-02-15	200	3.40	1 708	0.84
Banco Est Rio Grande Sul	USD	2022-02-02	250	7.38	1 691	0.84
Total Financials					**36 177**	**17.87**
Rolta Americas LLC	USD	2019-07-24	400	8.88	1 371	0.68
Total IT					**1 371**	**0.68**
VimpelCom Holdings BV	USD	2022-03-01	550	7.50	4 834	2.39
Bharti Airtel International	EUR	2021-05-20	400	3.38	4 161	2.06
Bharti Airtel International	EUR	2018-12-10	300	4.00	3 084	1.52
VimpelCom Holdings BV	USD	2017-03-01	200	6.26	1 713	0.85
Frontier Communications Corp	USD	2022-09-15	200	10.50	1 679	0.83
Total Telecom					**15 470**	**7.64**
EDP Finance BV	USD	2019-10-01	850	4.90	7 514	3.71
Total Utilities					**7 514**	**3.71**
TOTAL SECURITIES PORTFOLIO					**178 495**	**88.17**
IRS EUR 20210511	EUR	44327	600		-170	-0.08
IRS EUR 20180620	EUR	43271	3 000		-459	-0.22
IRS GBP 20180129	GBP	43129	1 200		-312	-0.16
IRS USD 20210622	USD	44369	1 000		-332	-0.16
IRS USD 20190820	USD	43697	2 000		-413	-0.20
IRS USD 20180620	USD	43271	3 500		-483	-0.24
Derivatives					**-2 169**	**-1.06**
Liquidity					**26 100**	**12.89**
Total share capital					**202 425**	**100.00**

Return and risk measurements

Returns in GBP (all return figures beyond 12 months are annualised)

As of 31.03.2016	YTD 2016	Last Year	Last 2 Years	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Since start
SKAGEN Vekst A	3.8%	-1.9%	-3.3%	1.5%	-1.0%	9.4%	4.1%	13.7%
MSCI Nordic/MSCI AC ex. Nordic	2.5%	-0.5%	6.2%	6.2%	5.9%	15.7%	6.5%	9.9%
SKAGEN Global A	0.5%	-2.6%	2.1%	3.1%	3.8%	12.2%	6.9%	15.1%
MSCI World AC	2.9%	-1.5%	8.2%	7.5%	7.5%	12.2%	5.7%	4.7%
SKAGEN Kon-Tiki A	5.8%	-9.7%	-4.3%	-3.6%	-3.0%	9.6%	6.7%	14.8%
MSCI Emerging Markets	8.5%	-9.2%	1.4%	-2.7%	-2.0%	8.2%	5.0%	8.9%
SKAGEN m2 A	5.3%	-7.5%	7.1%	-1.1%				4.1%
MSCI All Country World Index Real Estate IMI	6.9%	1.8%	14.7%	5.7%				10.7%
SKAGEN Focus A	1.6%							-10.6%
MSCI World AC	2.9%							-0.6%
SKAGEN Avkastning	10.7%	1.0%	-6.3%	-6.8%	-2.1%	1.0%	3.2%	4.8%
Statsobligasjonsind. 3.00	10.6%	3.2%	-5.4%	-7.2%	-2.5%	0.2%	3.4%	4.9%
SKAGEN Tellus A	7.7%	-1.7%	2.2%	-0.1%	2.6%	4.5%		6.9%
J.P. Morgan GBI Broad Index Unhedged in EUR	9.4%	8.8%	8.4%	2.7%	3.0%	2.6%		6.8%

* Effective 1/1/2014, the fund's investment mandate changed. Read more on page 10.
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 1/1/2013 was Barclay's Capital Global Treasury Index 3-5 years.

Risk and performance measurements

As of 31.03.2016	SKAGEN VEKST A	SKAGEN GLOBAL A	SKAGEN KON-TIKI A	SKAGEN Tellus A
RISK MEASURES 5 YEARS				
Standard Deviation NAV	15.1%	13.6%	16.4%	6.7%
Standard Deviation Benchmark	13.5%	11.0%	15.3%	7.2%
Tracking Error	6.2%	4.8%	5.0%	5.8%
Beta	1.02	1.18	1.02	0.60
Active share *	92%	93%	96%	

Risk and performance measurements

As of 31.03.2016	SKAGEN VEKST A	SKAGEN GLOBAL A	SKAGEN KON-TIKI A	SKAGEN Tellus A
RISKADJUSTED RETURN 5 YEARS				
Alfa	-6.8%	-4.9%	-1.0%	0.8%
Sharpe Arithmetic	-0.11	0.22	-0.22	0.28
Sharpe Ratio Benchmark	0.38	0.60	-0.17	0.32
Information Ratio Arithmetic	-1.08	-0.74	-0.20	-0.07

* Active share represents the picture in the fund as at 31 March 2016

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 m^2 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.co.uk

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Customer Services is open from Monday to Friday from 9am to 5pm (GMT). Please visit us at our office, send an e-mail or call us and we will do our best to help you.

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Front page: Sun over the breakers, 1871 (detail). By P.S. Krøyer, one of the Skagen painters. The picture belongs to the Art Museums of Skagen

SKAGEN funds