

MARKET REPORT
SKAGEN



**AS THE WORLD LOOKS WEST
– WE LOOK EVERYWHERE**

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

Sense and sensibility

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

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

Not always rational

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

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

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

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

was exposed to the UK, rather owing to an outflow of capital from Europe to the US – where the fund is underweight. Shortly thereafter the tide turned once again and at the end of the third quarter the fund had gained 5.2 percent relative to its benchmark (measured in GBP), making it the best fund so far this year in its Morningstar category in most of the markets where we operate.

Opportunities neglected by the market

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

Dedicated CIO

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



– Leif Ola Rød
CEO

CONTENT



22

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



14

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

Photo: Bloomberg



Photo: Oriflame

18 / 32

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

Photo: Bloomberg

LEADER

Sense and sensibility › 2
Leif Ola Rød

INVESTMENT DIRECTOR'S REPORT

What a year it's been - so far! › 5

EQUITY FUNDS

SKAGEN Global › 11
The art of going one's own way

SKAGEN Kon-Tiki › 14
Shift in favour of EM equities

SKAGEN Focus › 18
A satisfactory quarter

SKAGEN Vekst › 22
Well dressed

SKAGEN m² › 26
Strong recovery

FIXED INCOME FUNDS

Macro comment › 30
Opportunities in challenging times

SKAGEN Tellus › 31
Trump and Brexit

SKAGEN Credit › 33
Looking beyond Europe

RETURN AND RISK

Return and risk measurements › 35

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

The report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of the report. SKAGEN recommends that anyone wishing to invest in our funds contacts a qualified customer adviser by telephone on +44 0207 408 2500 or by email at contact@skagenfunds.co.uk.

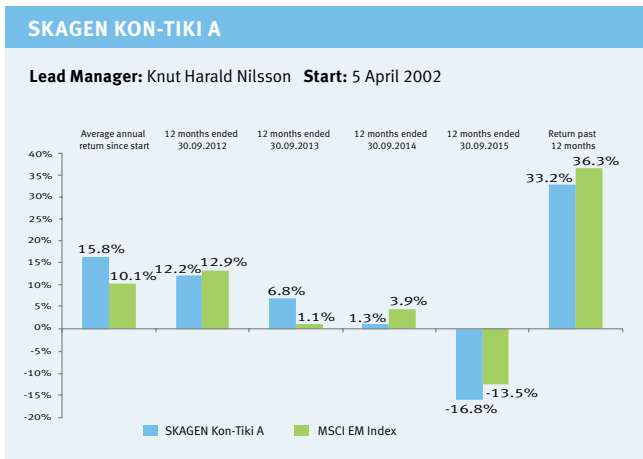
Returns

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

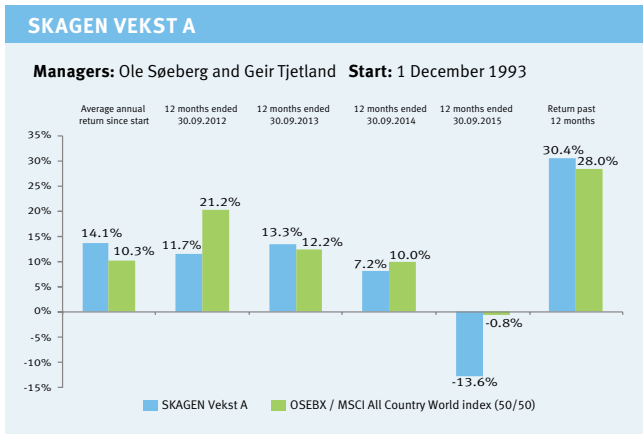
Unless otherwise stated all figures quoted in this report are in GBP, except for SKAGEN Credit EUR which are in EUR and the Financial Statement and Notes, which are in Norwegian kroner. The report relates to class A units and is net of fees. SKAGEN Funds does not have authorisation to market SKAGEN Høyrente, SKAGEN Høyrente Institusjon, SKAGEN Balance 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.

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.

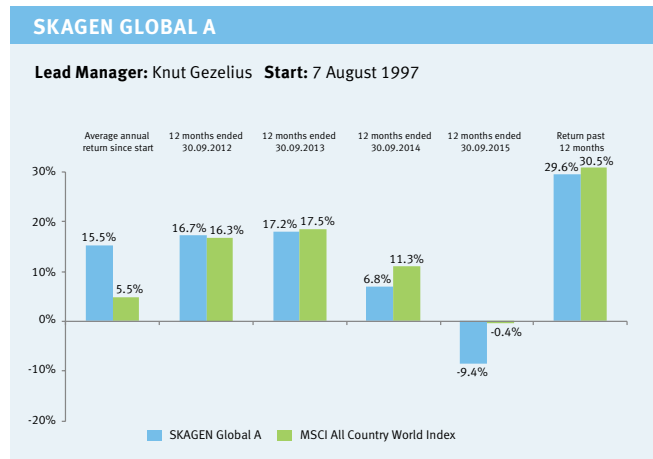
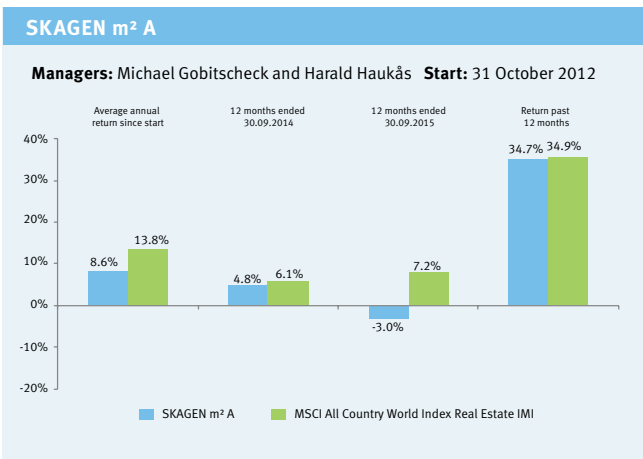
■ Equity fund ■ Fixed Income fund



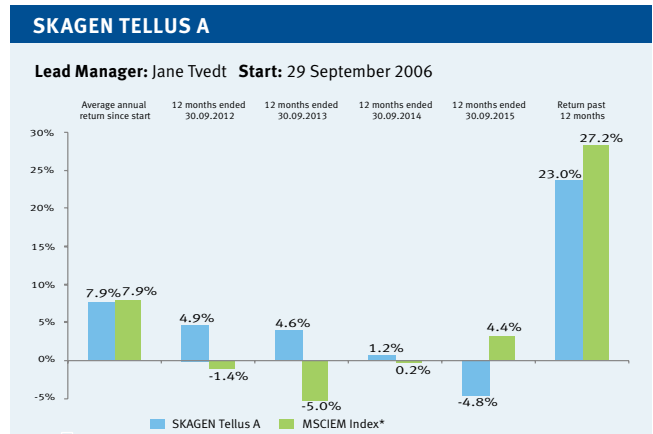
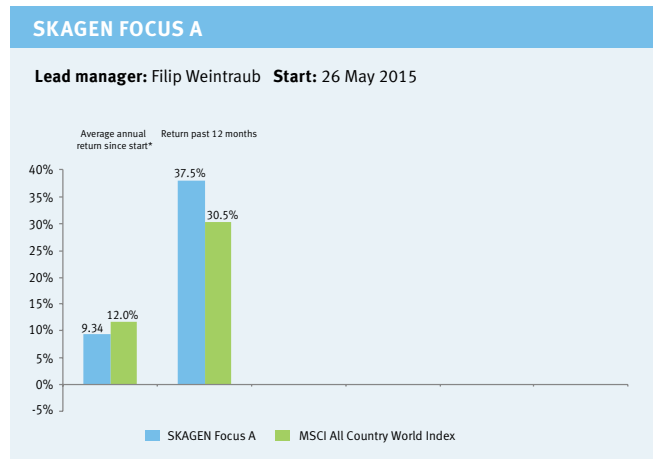
* The benchmark index prior to 1/1/2004 was the MSCI World Index



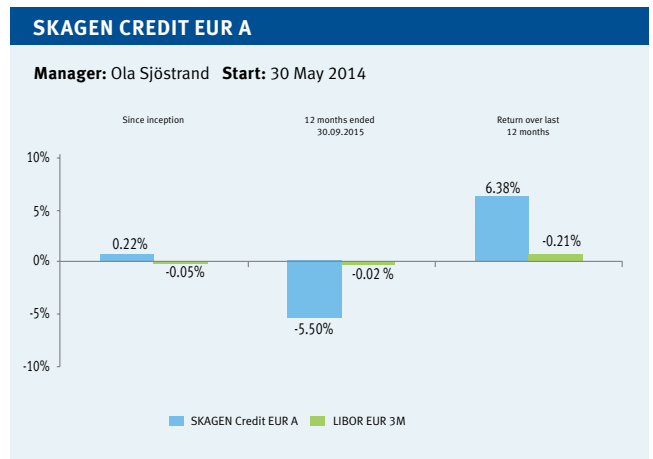
* Effective 1/1/2014, the fund's investment mandate changed. Read more on page 20. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX).



* 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.



Investment Director's Report

Introduction

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



Photo: Bloomberg

What a year it's been – so far!

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

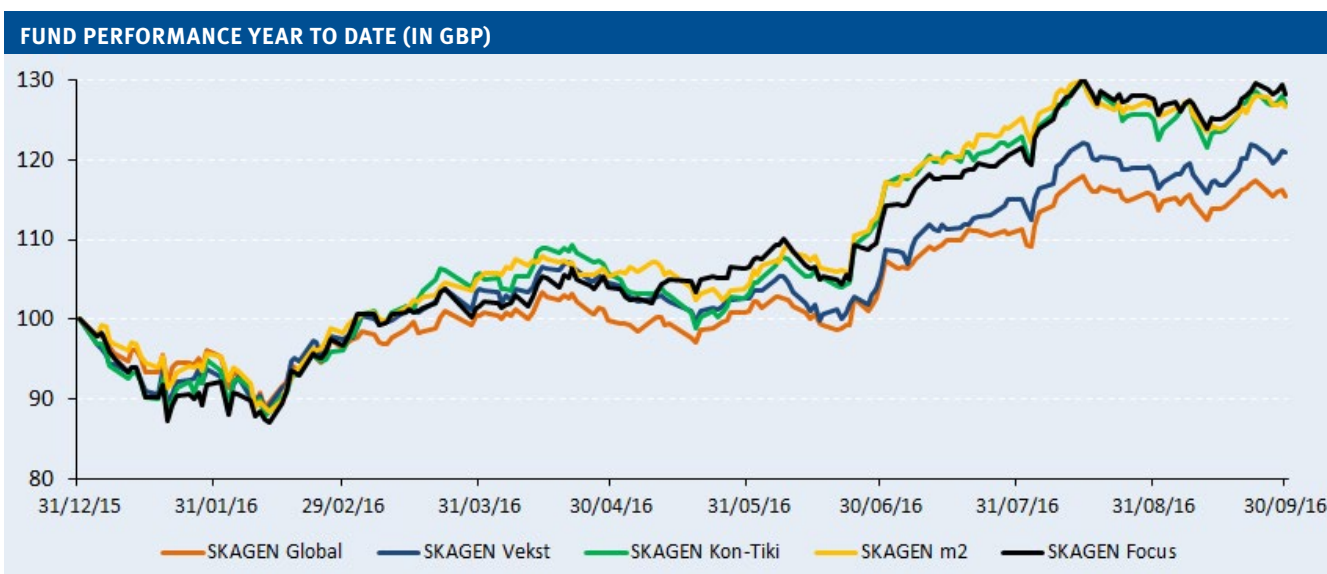
– Alexandra Morris
Investment Director

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

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

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

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





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

Photo: Bloomberg

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

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

Emerging markets march on

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

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

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

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

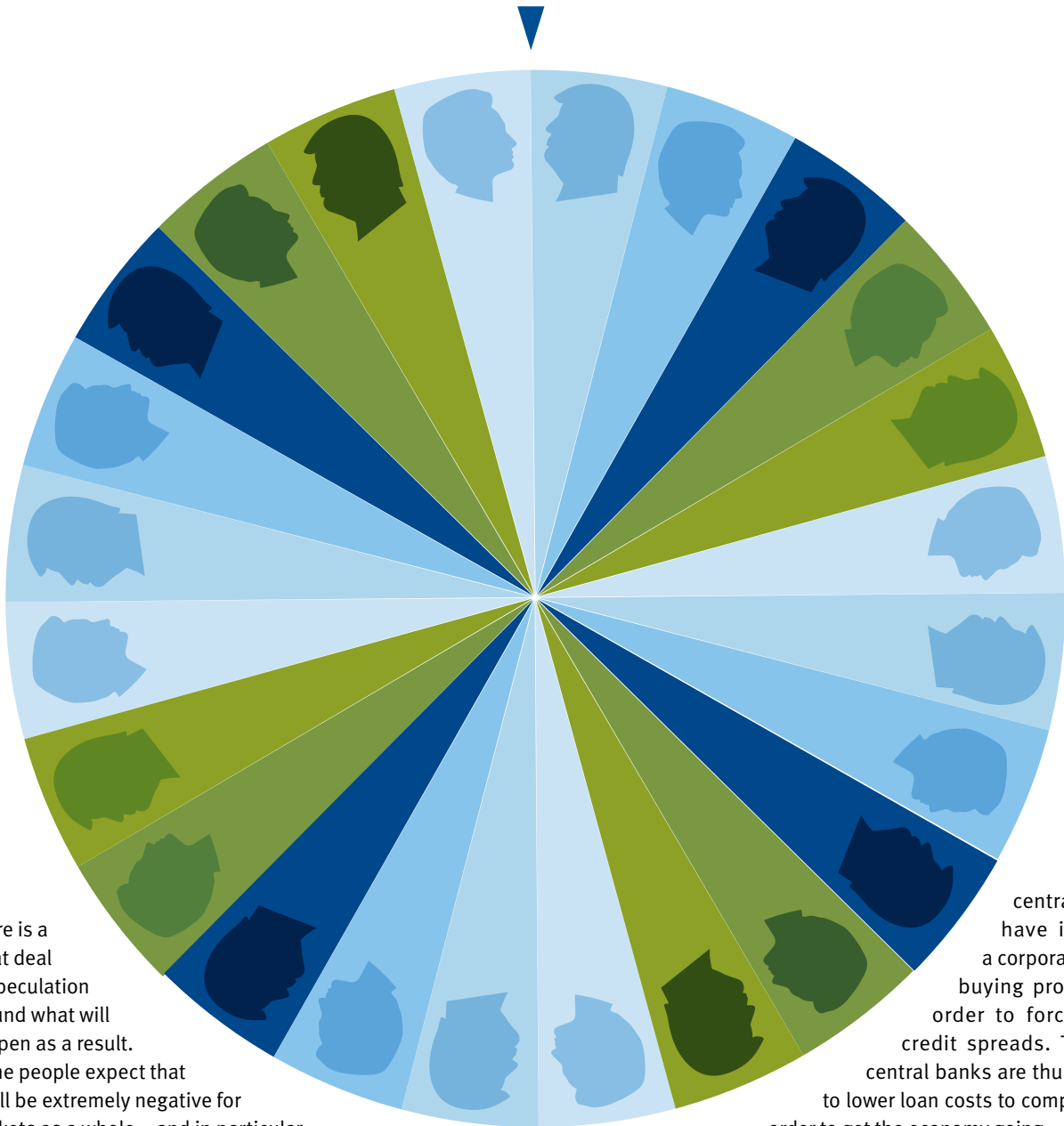
The recovery in commodity prices has also contributed to turning a previously negative sentiment towards emerging markets. From the trough on 20 January, the oil price – as measured by Brent Blend – has almost doubled to around USD 48 a barrel. During the third quarter, the oil price has for the most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

to have stopped rising against almost all other currencies, and this is improving the situation for the many countries and companies with loans in US dollars.

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

Rate hike resilience

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



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

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

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

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

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

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

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

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

US election

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

Uncertainty around the outcome of the US election is of course giving rise to concerns both in the US and in the global



Photo: Bloomberg

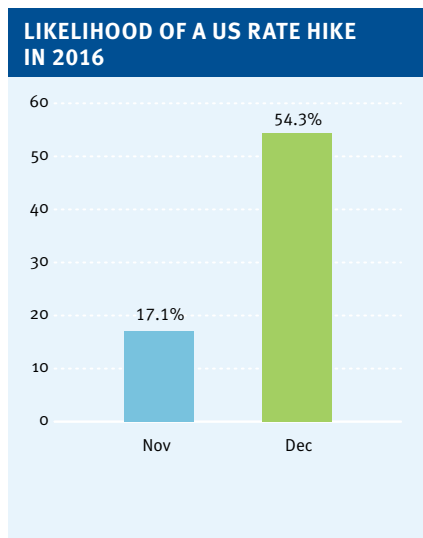


Photo: Bloomberg

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

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

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



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

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

SKAGEN Global

A world of opportunities

- › A good quarter with an outperformance of 1.3 percentage points
- › AIG, G4S and Citigroup lifted the portfolio
- › There were two newcomers in the quarter: 3M and Amerco

1 2 3 4 5 **RISK** 7

Fund start date	7 August 1997	
Return since start	1,483.9%	
Average annual return	15.5%	
AUM	GBP 2,621 million	
Number of unitholders	87,905	

PERFORMANCE IN GBP	Q316*	12 M*
SKAGEN Global A	10.5%	29.6%
MSCI ACWI	9.2%	30.5%

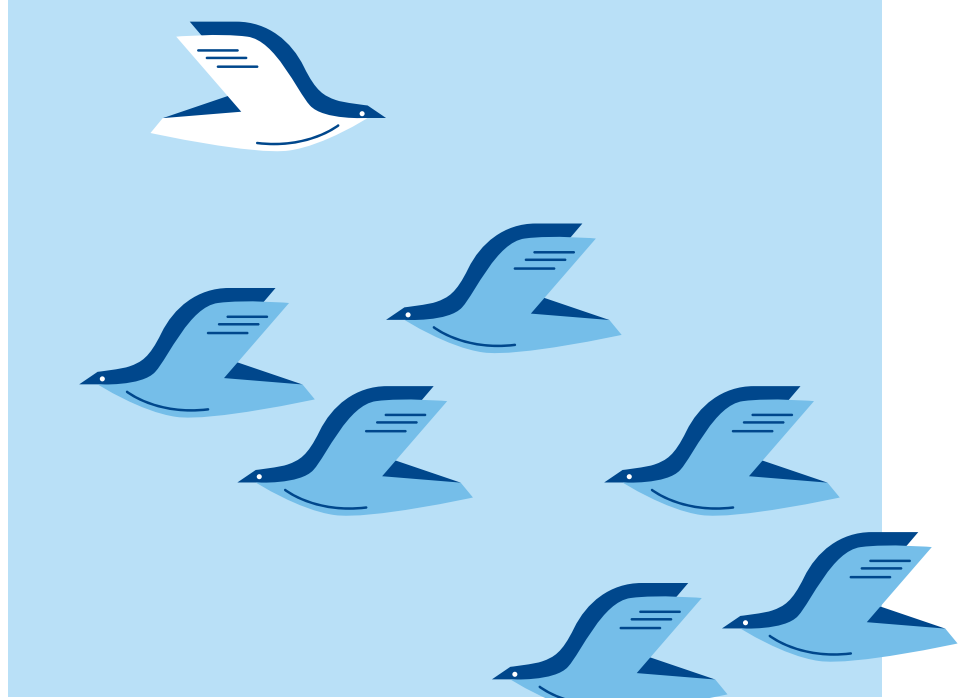
*As of 30 Sept 2016, net of fees



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).



The art of going one's own way

In the wake of Brexit, SKAGEN Global chose to go its own way. This contributed to a good quarter for the fund, which delivered an outperformance of 1.3 percentage points.

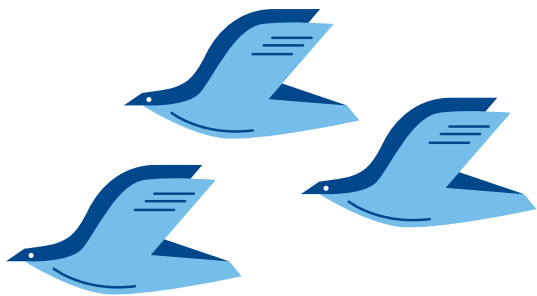
“Whenever people agree with me I always feel I must be wrong.” So said the 19th century Irish writer and satirist Oscar Wilde. The instinct and ability to question established beliefs is an important characteristic, including among investors wishing to beat the market. All too often it seems that herd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

At the start of the third quarter, shortly after the tumultuous Brexit-referendum, the market was still positioned for continued turmoil in the stock markets. According to data from the Bank of America, in July the average global fund manager held 5.8% of their portfolio in cash - the highest level since 2001. Nonetheless, the stock exchange defied investors' collective pessimism and the MSCI AC World index (also SKAGEN Global's benchmark index) gained 9.2% (measured in GBP) during the quarter. SKAGEN Global, which went against the trend and increased exposure to equities at the beginning of the quarter, generated a return of 10.5% (measured in GBP) during the same period.

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

Company	Holding size	Price	P/E 2016E	P/E 2017E	P/BV last	Price target
AIG	6.8	59.3	14.7	10.7	0.7	90
Citigroup	5.7	47.2	10.2	9.2	0.6	70
Roche	4.6	241	16.4	15.2	11.1	360
Samsung Electronics	4.3	1,290 000	8.1	7.2	1	1,500,000
Merck	4.3	62.4	16.6	16.2	4	76
General Electric	4.2	29.6	19.7	17.2	3.1	36
CK Hutchison Holdings	4.2	98.6	12.2	11.0	1	140
NN Group	3.6	27.4	9.4	8.7	0.4	35
Microsoft	3.6	57.6	19.8	17.9	6.2	68
G4S	3.5	227.8	14.9	13.4	4.8	380
Weighted top 10	44.8		13.0	11.4	1.1	38%
Weighted top 35	88.1		14.4	12.8	1.4	35%
Benchmark index (MSCI ACWI)			17	15	2.1	

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



Portfolio activity

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

Contributors

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

3M

The fund initiated a position in 3M, a US conglomerate dating from the early 1900s, which is currently headed up by Swedish CEO Inge Thulin, who has been with the company for many years. 3M is listed in the US, but the group's sales are highly diversified globally with around 40% from North America, 30% from Asia, 20% from Europe and the Middle East and 10% from the rest of the world. 3M is often classified as an industrial company but in fact its product range is considerably broader than the classification suggests and also includes consumer, health and safety products. Thanks to good pricing power and a focus on the premium segment, 3M generates a return on capital employed in excess of 20%. We believe that the market continues to underestimate 3M's ability to generate strong cash flow over several years that can finance large investments in research and development (equivalent to 6% of sales) as well as return capital to shareholders via dividends and share buybacks. 3M has paid a dividend without interruption over the past 100 years and raised it for 58 consecutive years. This is a sign of the company's ability to continually renew its product offering and master

unexpected crises, which we believe limits the downside risk in the stock. We estimate an upside of at least 30% for the share price within the next two years.

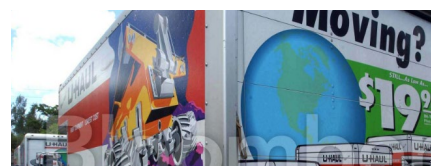


Photo: 3M

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

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

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



Amerco

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

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



Outlook & valuation

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

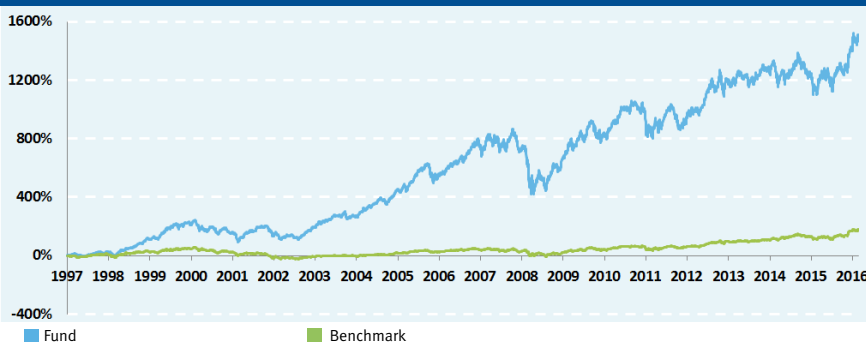
SKAGEN Global applies detailed fundamental company analysis to select between 40 and 50 undervalued global equities that offer attractive risk-adjusted returns. The fund's 35 largest holdings represent 88% of the total portfolio and on average have a 35% upside potential calculated over a time horizon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

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

5 largest contributors		5 largest purchases	
Alig	0.68%	3M	2.05%
Citigroup	0.48%	Comcast	1.40%
G4S	0.48%	Unilever	0.67%
Cheung Kong Holdings	0.43%	Amerco	0.52%
Samsung Electronics	0.39%	Dollar General	0.46%
5 largest detractors		5 largest sales	
Dollar General	-0.64%	Citigroup	-1.56%
Roche Holding	-0.47%	Alig	-1.49%
Sanofi	-0.35%	Xcel Energy	-1.38%
General Electric	-0.33%	Heidelberg Cement	-0.93%
Teva Pharmaceutical Industries	-0.32%	Credit Suisse Group	-0.88%

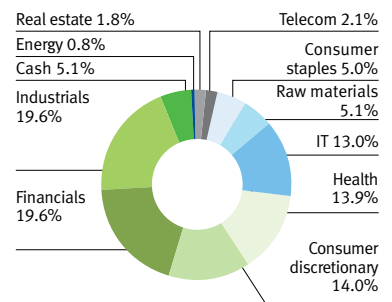
Based on NOK return

HISTORICAL PRICE DEVELOPMENT SKAGEN GLOBAL

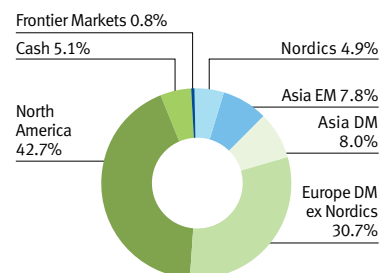


The benchmark index is the MSCI AC index. Prior to 1/1/2010 it was the MSCI World Index

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



SECURITIES PORTFOLIO SKAGEN GLOBAL AS OF 30 SEPT 2016

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

* Numbers in 1 000 NOK.



SKAGEN Kon-Tiki

Leading the way in new waters

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

1	2	3	4	5	RISK	7
Fund start date	5 April 2002					
Return since start	732.9%					
Average annual return	15.8%					
Assets under management	GBP 3,048 million					
Number of unitholders	67,293					
PERFORMANCE IN GBP	Q316*	12 M*				
SKAGEN Kon-Tiki A	11.2%	33.2%				
MSCI Emerging Markets	13.0%	36.3%				

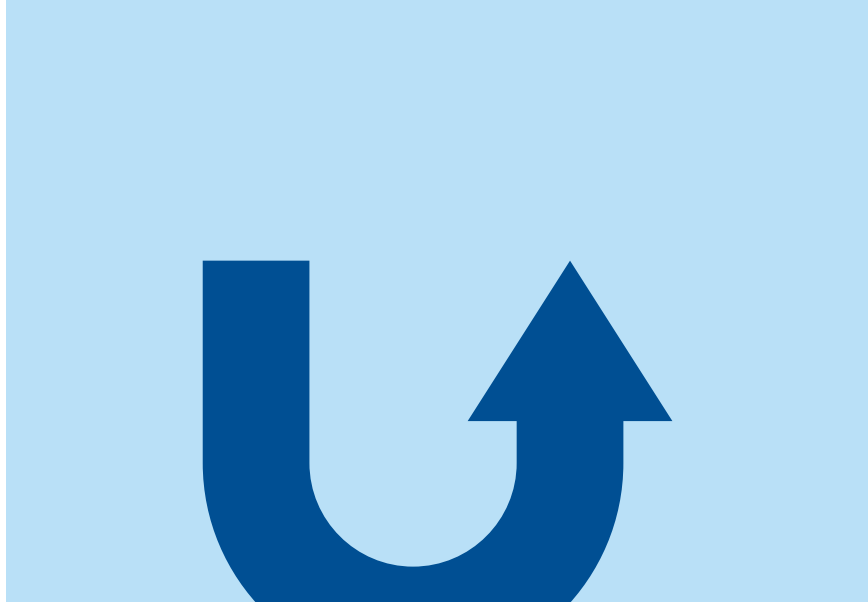
*As of 30 Sept 2016, net of fees



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)



Shift in favour of EM equities

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

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

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

by 3.8 percentage points during the quarter, and the big question now is whether this is likely to continue.

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

Positive earnings season

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

The strong second quarter results season did not help the fund's relative performance, however. For the period, SKAGEN Kon-Tiki was up 11.2% (in GBP) while the MSCI EM index was up 13.0%.

Climbing the risk ladder

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

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

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

Structural reform

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

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

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



Photo: Bloomberg



Photo: Bloomberg



Photo: Bloomberg

Winners and losers

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

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

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

Company	Holding size %	Price	P/E 2016E	P/E 2017E	P/BV last	Price target
Hyundai Motor	8.0	100,500	4.2	4.0	0.4	170,000
Samsung Electronics	7.0	1,290,000	8.3	7.6	1.0	1,700,000
Mahindra & Mahindra	4.9	1,406	18.7	14.1	2.9	2,000
Naspers	4.5	172	38.2	26.4	7.4	216
Sabanci Holding	4.5	9.29	6.4	5.8	0.9	14
Richter Gedeon	4.2	5,600	18.7	15.3	1.6	7,500
X5 Retail Group	3.7	1,910	18.4	14.7	4.4	2,242
ABB	3.1	192	18.3	16.7	3.8	200
Cosan Ltd.	3.0	23.4	7.8	7.1	0.5	32
State Bank of India	2.7	251	15.7	11.4	0.9	300
SBI Holdings	2.3	1,196	8.5	8.0	0.7	2,500
Banrisul	2.2	10.7	6.5	6.3	0.7	14
Weighted top 12	49.9		9.0	8.1	0.9	
Weighted top 35	79.8		12.5	10.0	1.0	
Benchmark index			13.8	12.0	1.6	

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

Growth opportunities

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

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



Sticking to value

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

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



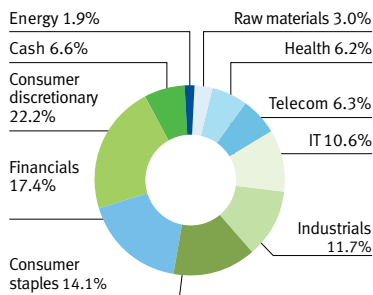
Photo: Bolloré

Complex newcomer

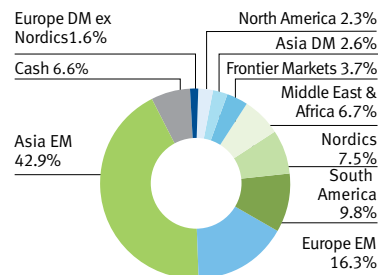
A newcomer in the portfolio this quarter is the French-listed conglomerate Bolloré. Bolloré is the clear number 1 logistics provider on the African continent, making it an important beneficiary of long-term economic development in the region. It is also present within freight forwarding where they have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

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

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



HISTORICAL PRICE DEVELOPMENT SKAGEN KON-TIKI



The benchmark index is the MSCI EM index.

SKAGEN PORTFOLIO CHANGES IN Q3 2016 (PERCENTAGE OF AUM)

5 largest contributors		5 largest purchases	
X5 Retail Group	0.99%	Naspers	0.44%
Samsung Electronics	0.64%	Bolloré	0.25%
Hyundai Motor	0.57%	Kinnevik	0.23%
ABB	0.40%	Sistema	0.17%
Banrisul	0.38%	Cia Cervecerias Unidas	0.16%
5 largest detractors		5 largest sales	
Haci Omer Sabanci Holding	-0.47%	State Bank of India	-1.87%
Bharti Airtel	-0.35%	Moscow Exchange	-1.76%
Tech Mahindra	-0.29%	Samsung Electronics	-1.26%
LG Electronics	-0.28%	UPL	-0.68%
Samsung SDI	-0.18%	Bharti Airtel	-0.62%

Based on NOK return

SECURITIES PORTFOLIO SKAGEN KON-TIKI AS OF 30 SEPT 2016

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

* Numbers in 1 000 NOK.



SKAGEN Focus

In pursuit of exceptional investments

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

1	2	3	4	5	RISK	7
Fund start date	26 May 2015					
Return since start	12.8%					
Average annual return	9.4%					
AUM	GBP 128 million					
Number of unitholders	4,194					

PERFORMANCE IN GBP	Q316*	12 M*
SKAGEN Focus A	14.2%	37.5%
MSCI World AC TR Index	9.2%	30.5%

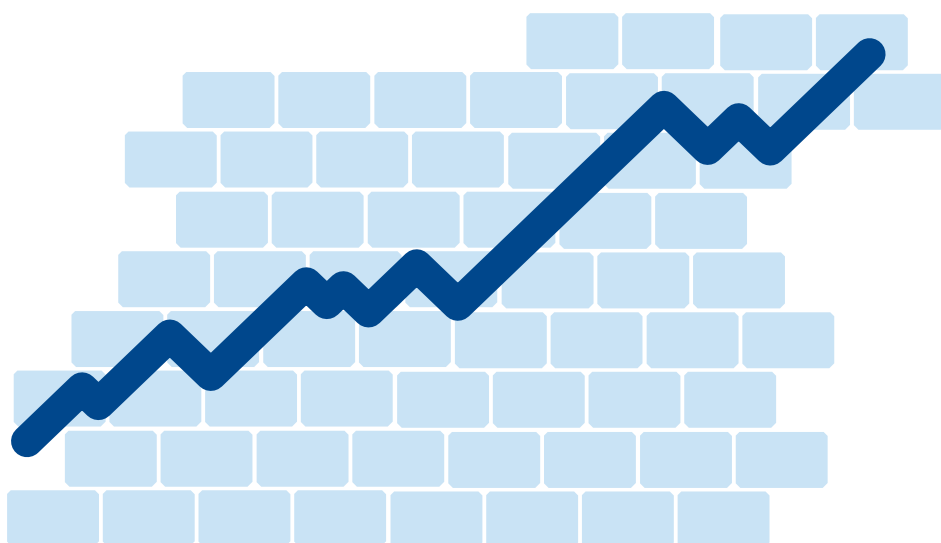
* As of 30 Sept 2016, net of fees



PORTFOLIO MANAGERS

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

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



A satisfactory quarter

SKAGEN Focus posted satisfactory results in the third quarter of 2016 of 14.2%. We will mainly focus on our individual equity positions in this update.

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

In spite of all this, following the turmoil around Brexit in late June, global equity markets posted a remarkable recovery in the third quarter of 9.2 percent. Emerging markets, which we entered into meaningfully during the first half of the year via a bottom-up process, were even stronger. This quarter reminded us of the old Wall Street expression 'The market was climbing the wall of worry'.

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

5 largest contributors		5 largest purchases	
South32	1.27%	Taiheiyo Cement	4.76%
SK Hynix	0.87%	Crown Confectionery	2.60%
Infineon Technologies	0.80%	Teva Pharmaceutical Industries	2.36%
Omega Protein	0.76%	AIG	1.95%
Jbs	0.73%	Schaeffler	1.42%
5 largest detractors		5 largest sales	
Crown Confectionery	-0.60%	Hyundai Motor	-2.37%
Pilgrim's Pride	-0.55%	Omega Protein	-2.08%
Teva Pharmaceutical Industries	-0.53%	Jenoptik	-1.78%
Magforce	-0.46%	JBS	-1.23%
Taiheiyo Cement	-0.26%	Aercap Holdings	-1.11%

Based on NOK return



Lighting and auto-parts

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

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

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

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

High-performing nightclub

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

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



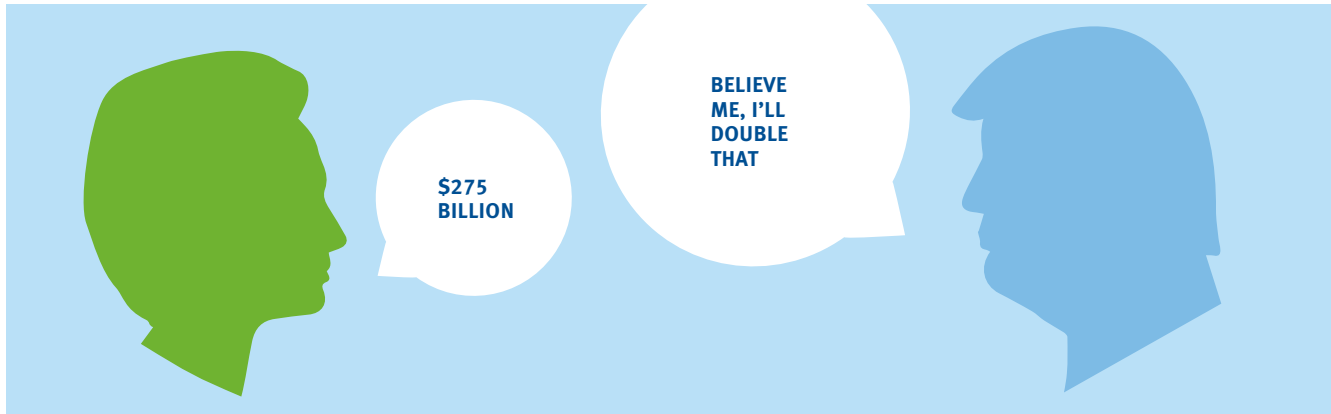
“Bad Cow Disease” risk?

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

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

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

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



A concrete and overlooked opportunity

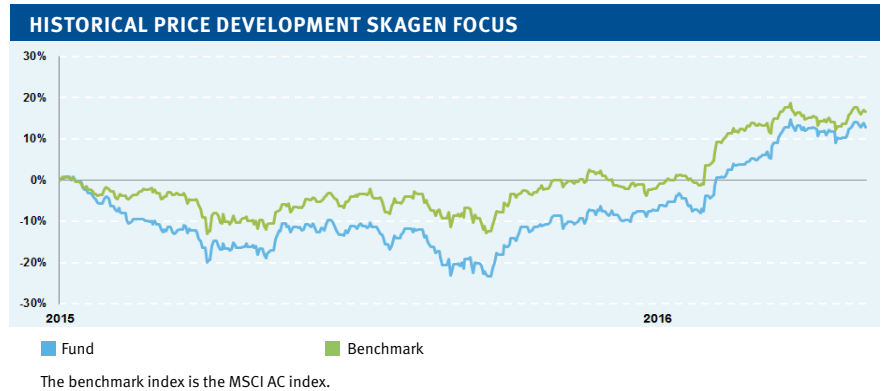
The Japanese cement market has for many years been quite depressed and suffered from slower demand. The market has gone through a substantial consolidation over the past 20 years, leaving three main players, of which Taiheiyo Cement is the largest with a 40% market share. We established a position in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

The valuation of this asset seems to imply a further deteriorating cement environment in Japan and completely disregards the company’s growing US presence. Taiheiyo acquired a cement

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

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

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



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

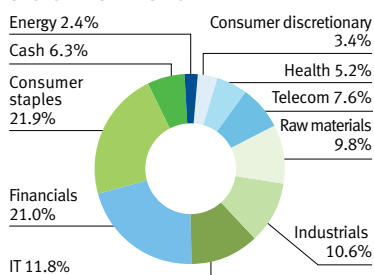
Company	Holding size	Price	P/E 2016E	P/E 2017E	P/BV latest	Price target
American International Group Inc	7.5%	59.30	14.7	10.7	0.7	90
Jbs SA	4.6%	11.80	48.8	7.6	1.4	22
Softbank Group Corp	4.6%	6,522.00	7.5	10.8	3.1	9,600
Infineon Technologies AG	4.2%	15.90	22.4	19.7	3.7	20
SK Hynix Inc	4.1%	40,200.00	15.4	10.6	1.4	65,000
SBI Holdings Inc	4.0%	1,196.00	9.2	8.5	0.7	3,000
Taiheiyo Cement Corp	3.7%	289.00	8.0	8.7	1.7	420
Teva Pharmaceutical-Sp ADR	3.6%	46.00	8.8	7.7	1.7	90
Schaeffler AG	3.5%	14.10	9.2	8.6	2.2	19
Philips Lighting NV	3.2%	23.70	12.2	10.5	1.4	30
Weighted top 10	42.9%		11.9	9.8	1.3	
Total Equity (35 positions)	93.6%					
Cash	6.4%					
Total	100.0%					

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

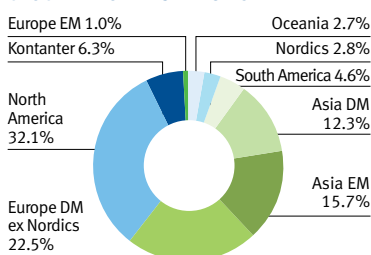
SECURITIES PORTFOLIO SKAGEN FOCUS AS OF 30 SEPT 2016

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

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION





SKAGEN Vekst

Exploring the narrow path to prosperity

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

1 2 3 4 5 **RISK** 7

Fund start date	1 December 1993	
Return since start	1940.3%	
Average annual return	14.1%	
AUM	GBP 682 million	
Number of unitholders	69,641	

PERFORMANCE IN GBP	Q316*	12 M*
SKAGEN Vekst A	14.6%	30.4%
MSCI Nordic/MSCI AC ex. Nordic	9.4%	28.0%

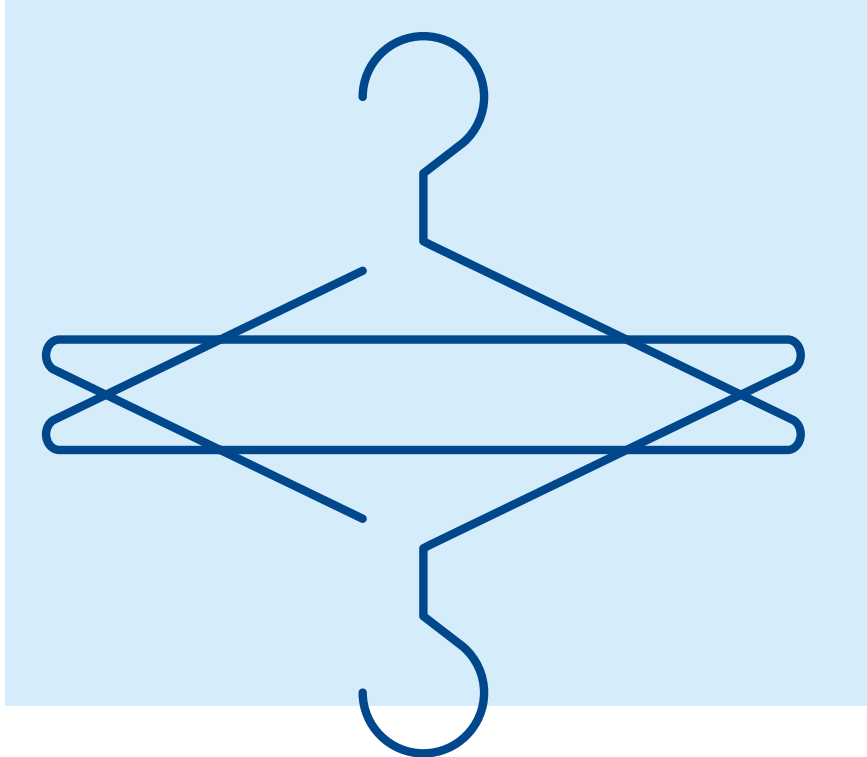
*As of 30 Sept 2016, net of fees



PORTFOLIO MANAGERS

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

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



Well dressed

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

SKAGEN Vekst gained 14.6% in the third quarter, putting it well ahead of its benchmark index which was up 9.4%. Year to date, SKAGEN Vekst is up 21.0% while the general market has gained 18.0% (measured in GBP).

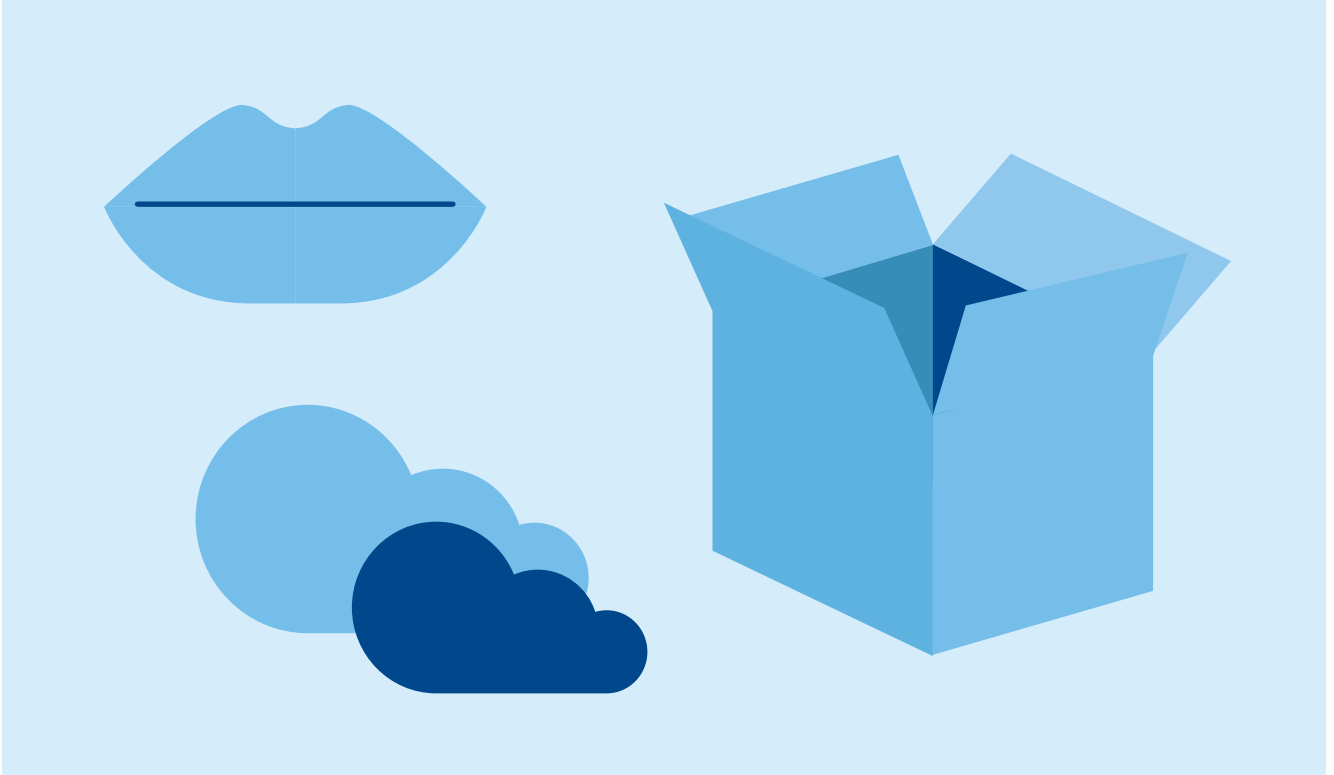
The stock market in Scandinavia was generally strong in the third quarter, with the exception of Denmark. Norway, Sweden and Finland gained between 6 and 9% (measured in EUR), while Denmark was down 6%. The broad European stock market also gained 4% while the US was up only 2%. In Japan the stock market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

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

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

Company	Holding size	Price	P/E 2016E	P/E 2017E	P/E 2018E	P/BV latest	Target price
Samsung Electronics	6.6%	1,290,000	8.6	7.6	7.2	1.0	1,500,000
Continental AG	5.9%	187	12.8	10.7	9.7	2.9	275
SAP SE	5.2%	81	21.1	19.1	17.3	4.3	99
Citigroup Inc	5.0%	47	9.4	8.3	7.5	0.6	65
Norwegian Air Shuttle	4.9%	293	9.1	5.9	5.3	3.8	500
Carlsberg AS-B	4.7%	632	18.4	16.2	14.4	2.2	830
Kinnevik AB-B	4.1%	219	109.4	36.5	34.2	0.8	295
Norsk Hydro ASA	3.9%	34	13.8	10.4	9.8	0.9	45
Ericsson LM-B SHS	3.7%	62	18.8	13.8	11.9	1.5	88
Hennes & Mauritz AB	3.5%	242	19.4	16.1	14.2	8.1	400
Weighted top 10	47.5%		13.6	10.8	9.9	1.4	39%
Weighted top 35	91.4%		12.7	10.3	9.2	1.5	41%
MSCI Nordic/MSCI AC ex. Nordic			17.3	15.4	13.9	2.1	

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



Cosmetics on top

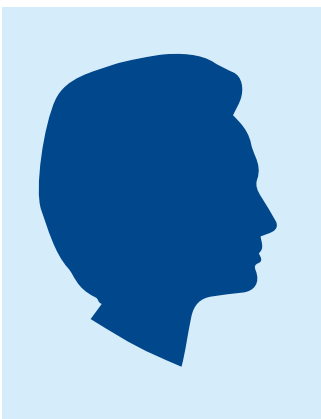
As was the case in the second quarter, the Swedish cosmetics company Oriflame was once again the best contributor in the fund. Investors are starting to realise that the company is no longer dependent on developments in the former Soviet states, but that growth is coming from Asia, Turkey and Latin America.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

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

Norsk Hydro was a good contributor this quarter, partly

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

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



Hillary fears

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

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

Out of the tanker market

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

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

What have we bought/added to

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

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

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

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

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

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

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

5 largest contributors

Oriflame Holding	0.87%
SAP	0.79%
Norsk Hydro	0.76%
Samsung Electronics	0.68%
eBay	0.64%

5 largest detractors

Ericsson	-0.32%
Roche Holding	-0.29%
Hennes & Mauritz AB	-0.26%
Telia	-0.25%
Bonheur	-0.18%

5 largest purchases

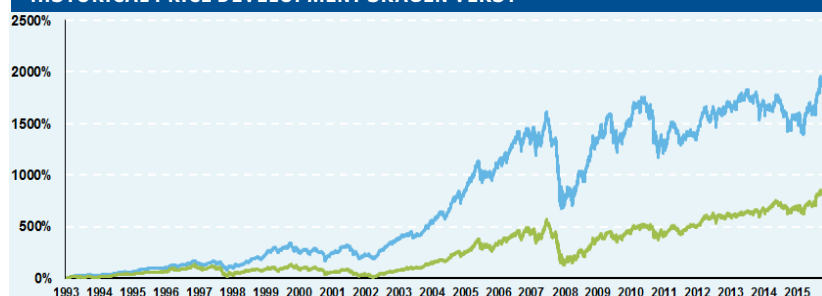
Hennes & Mauritz AB	2.24%
Kinnevik	1.16%
Shire	0.83%
Norwegian Air Shuttle	0.75%
Danske Bank	0.56%

5 largest sales

Norsk Hydro	-2.01%
Samsung Electronics	-1.97%
Oriflame Holding	-1.96%
Phillips	-1.46%
SAP	-0.59%

Based on NOK return

HISTORICAL PRICE DEVELOPMENT SKAGEN VEKST

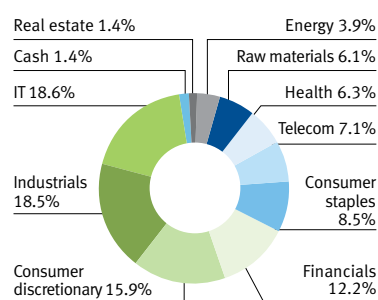


■ Fund

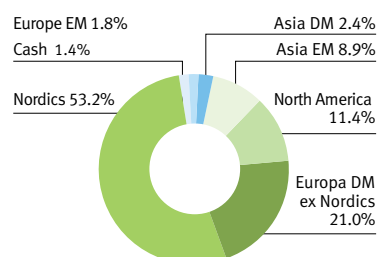
■ Benchmark

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

SECTOR DISTRIBUTION



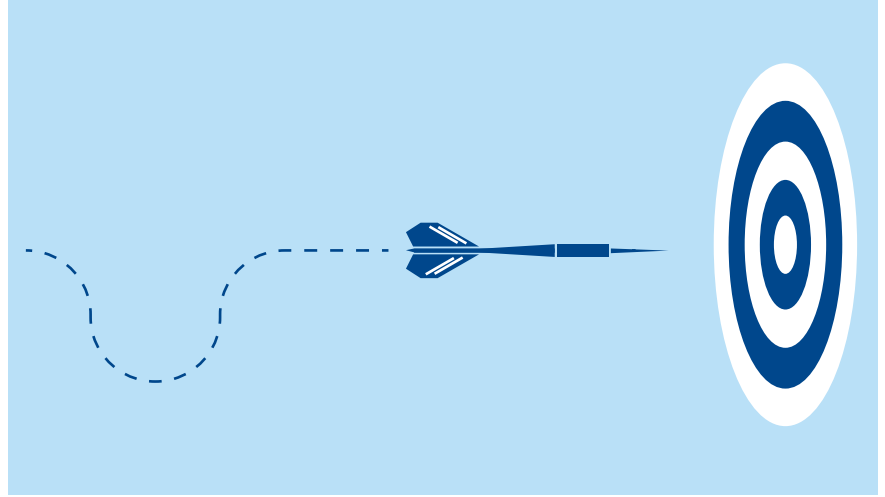
GEOGRAPHICAL DISTRIBUTION



SECURITIES PORTFOLIO SKAGEN VEKST AS OF 30 SEPT 2016

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

* Numbers in 1 000 NOK.



SKAGEN m²

A share in the global property market

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

1	2	3	4	5	RISK	7
Fund start date	31 October 2012					
Return since start	38.0%					
Average annual return	8.6%					
AUM	GBP 91 million					
Number of unitholders	8,084					

PERFORMANCE IN GBP	Q316*	12M*
SKAGEN m ² A	10.7%	34.7%
MSCI ACWI Real Estate IMI	5.5%	34.9%

*As of 30 September 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.

Strong recovery

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

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

Real estate continued to show strength

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

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

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

Company	Holding size %	Price	P/NAV latest	Dividend Yield 2016E	EBITDA 2016E/EV
Olav Thon Eiendomsselskap ASA	5,7 %	165	80%	1,1%	5,9%
SL Green Realty Corp	5,0 %	107,71	80%	2,7%	6,0%
Inmobiliaria Colonial SA	4,8 %	6,44	84%	3,0%	3,2%
Mitsui Fudosan Co Ltd	4,6 %	2135,5	58%	1,5%	6,7%
Global Logistic Properties Ltd	4,5 %	1,87	63%	3,6%	3,8%
D Carnegie & Co AB	4,4 %	109,75	123%	0%	3,9%
Mercialys SA	4,2 %	21,37	100%	5,5%	4,5%
Catena AB	4,2 %	141,5	106%	2,5%	5,0%
CBL & Associates Properties Inc	3,8 %	12,15	50%	8,7%	9,4%
Irsa Sa ADR	3,4 %	19,07	60%	0%	12%
Weighted top 12	44,6%		81%	2.80%	5.80%
Weighted top 35	92%			3.10%	6.00%
Benchmark index				3.7% actual	

Photo: Bloomberg



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

Hot in Sweden and Norway

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

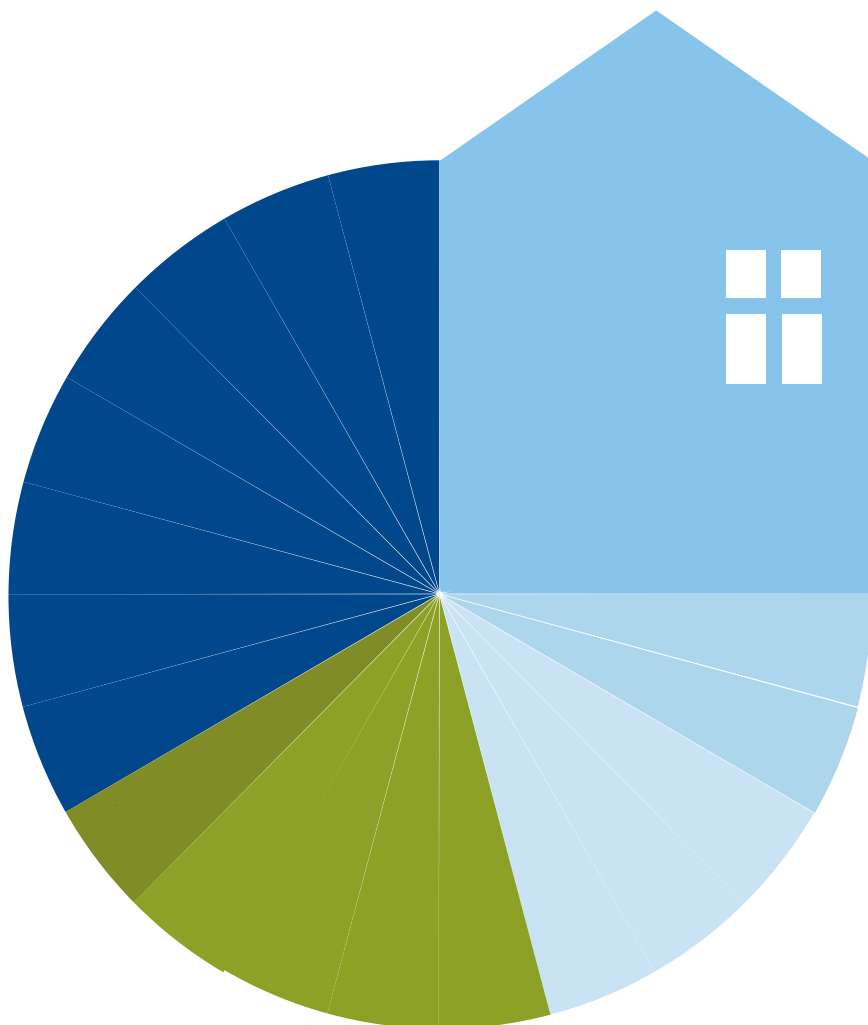
The Swedish real estate market continues to go from strength to strength across all segments. In August, one of the world’s largest players in alternative investments, US Blackstone, took a position in our holding D. Carnegie & Co. Due to bidding regulation, Blackstone will now be forced to bid for the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

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

Sluggish Abenomics

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

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



Real estate a sector of its own

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

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



One company in and two out

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

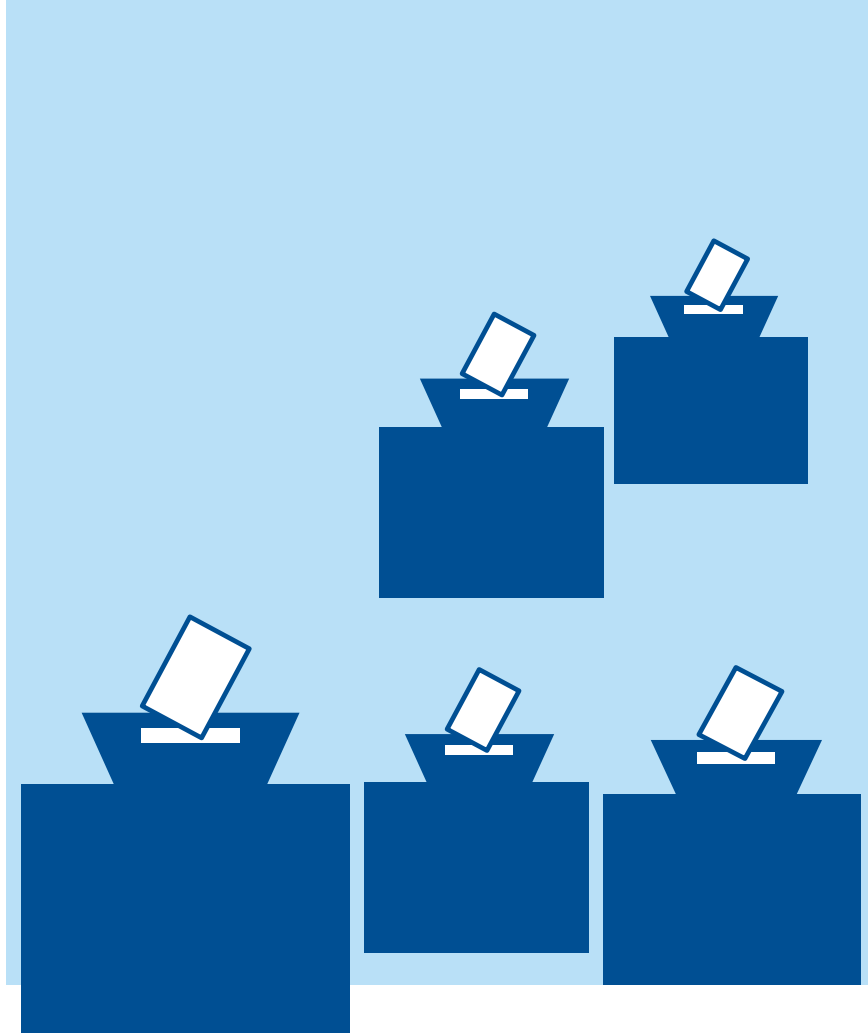
During the quarter, many of our positions in emerging markets performed well after years of wandering in the wilderness. The period was also marked by an unusually large number of real estate companies taking the opportunity to raise new capital from shareholders at a valuation above net asset value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

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

From loser to winner

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

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



An interesting autumn awaits

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

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

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

SKAGEN m² PORTFOLIO CHANGES IN Q3 2016 (PERCENTAGE OF AUM)

5 largest contributors		5 largest purchases	
CBL & Associates Properties	0.82%	British Land	2.00%
Olav Thon Eiendomsselskap	0.72%	Inmobiliaria Colonial	0.58%
IRSA	0.38%	Axiare Patromonio	0.49%
Ashford Hospitality Trust	0.33%	Mitsui Fudosan Co	0.48%
Catena	0.33%	D Carnegie & Co	0.22%
5 largest detractors		5 largest sales	
Mitsui Fudosan Co	-0.54%	HCP	-2.60%
Inmobiliaria Colonial	-0.28%	Brandywine Realty Trust	-1.66%
General Growth Properties	-0.20%	Bekasi Fajar Industrial Estate	-0.73%
Big Yellow Group	-0.19%	SOHO China	-0.72%
Keck Seng Investments	-0.15%	General Growth Properties	-0.52%

Based on NOK return

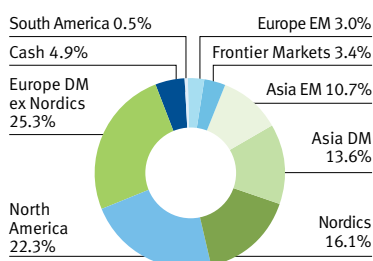
HISTORICAL PRICE DEVELOPMENT SKAGEN m²



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

* Numbers in 1 000 NOK.

GEOGRAPHICAL DISTRIBUTION



Opportunities in challenging times

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

Will it be Donald Trump or Hillary Clinton who moves into the White House in the New Year? At the time of writing, just ahead of the second presidential debate, Hillary is slightly ahead in the public opinion polls. By the time you read this, the mood may have turned. The outcome is unclear, and we should definitely not rule out the possibility that a loud-mouthed real estate developer may be enjoying a cigar in the oval office in a few months time.

Would Trump as president be such a disaster though? I don't think so. Almost none of us like what he has said in the election campaign. He comes across as vulgar, conceited, ignorant and unprincipled. If Trump does end up as president, however, his staff will likely cover for the first two character traits.

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

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

Continued uncertainty around Brexit

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

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

Stagnating Chinese growth

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

There is much talk of China's economic model needing to be adjusted – reducing investments and increasing consumption. This is based on a misunderstanding. No country can get richer by consuming more. Higher consumption, which China has had a lot of for decades, is just the facade – behind this, people are working more, accumulating capital and using resources increasingly effectively.

The problem in China is that it has an overly large public sector, with a huge number of publicly owned companies not managed profitably but propped up by politically determined credit decisions. A genuine change of the Chinese economy would really only mean ending what Deng Xiaoping started – continuing with privatisations, deregulations and de-bureaucratisation. This would result in more, not less growth.

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



– Torgeir Høien
Portfolio Manager



SKAGEN Tellus

A doorway to global interest rates

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

1 2 3 **RISK** 5 6 7

Fund start date	29 September 2006
Return since start	113.9%
Average annual return	7.9%
AUM	GBP 103 million
Number of unitholders	2,727

PERFORMANCE IN GBP	Q316*	12 M*
SKAGEN Tellus A	4.7%	23.0%
JP Morgan GBI Broad Index Unhedged	3.6%	27.2%

* As of 30 Sept 2016, net of fees



PORTFOLIO MANAGERS

Jane Tvedt, Torgeir Høien and Sondre Solvoll Bakketun

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



Trump and Brexit

SKAGEN Tellus delivered 4.7% over the quarter (as measured in GBP) while the benchmark index delivered 3.6%.

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

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

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

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

SECURITIES PORTFOLIO SKAGEN TELLUS AS OF 30 SEPT 2016

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

Key numbers

Effective yield	2,12%	Duration**	3,75
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* Effective yield adjusted for management fee.

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

*** Figures in 1000 NOK.

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

Securities are valued at market price as of 30.09.2016

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



Looking beyond Europe

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

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

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

The benefit of a broad mandate

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

Key buys and sells

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

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

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

Outlook

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

SKAGEN Credit EUR

Picking the best bonds from the global orchard

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

	1	2	RISK	4	5	6	7
Fund start date	30 May 2014						
Return since start	0.51%						
Average annual return	0.22%						
AUM	EUR 10 mill						
Number of unitholders	46						

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

* As of 30 Sept 2016



PORTFOLIO MANAGERS

Ola Sjöstrand and Tomas Nordbø Middlethon

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

SECURITIES PORTFOLIO FOR SKAGEN CREDIT AS OF 30 SEPT 2016

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

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

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

Return and risk measurements

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

As of 30.09.2016	YTD 2016	Last Year	Last 2 Years	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Since Start
SKAGEN Vekst A*	21.0%	30.4%	6.1%	6.5%	8.8%	5.6%	6.3%	14.1%
MSCI Nordic/MSCI AC ex. Nordic	18.0%	28.0%	12.7%	11.8%	13.7%	11.5%	9.4%	10.3%
SKAGEN Global A	15.5%	29.6%	8.3%	7.8%	11.4%	8.9%	8.8%	15.5%
MSCI World AC**	20.7%	30.5%	14.0%	13.1%	14.6%	10.9%	7.8%	5.5%
SKAGEN Kon-Tiki A	27.1%	33.2%	5.3%	3.9%	6.1%	5.4%	9.5%	15.8%
MSCI Emerging Markets***	31.8%	36.3%	8.6%	7.0%	6.9%	5.4%	7.8%	10.1%
SKAGEN m2 A	26.7%	34.7%	14.3%	11.0%	-	-	-	8.6%
MSCI All Country World Index Real Estate IMI	25.4%	34.9%	20.2%	15.3%	-	-	-	13.8%
SKAGEN Focus A	28.2%	37.5%	-	-	-	-	-	9.3%
MSCI World AC	20.7%	30.5%	-	-	-	-	-	12.0%
SKAGEN Tellus A	21.7%	23.0%	8.2%	5.8%	5.4%	5.0%	7.9%	7.9%
J.P. Morgan GBI Broad Index Unhedged in EUR****	25.3%	27.2%	15.2%	10.0%	4.5%	4.8%	7.9%	7.9%
SKAGEN Credit EUR A	5.8%	6.4%	0.3%	-	-	-	-	0.2%
3 Month EURIBOR	-0.2%	-0.2%	-0.1%	-	-	-	-	-0.1%

Risk and performance measurements

As of 30.09.2016	SKAGEN Vekst	SKAGEN Global	SKAGEN Kon-Tiki	SKAGEN Tellus
RISK MEASURES 5 YEARS				
Standard Deviation NAV	0.13	0.13	0.16	0.08
Standard Deviation Benchmark	0.12	0.10	0.15	0.09
Tracking Error	0.06	0.05	0.05	0.06
Beta	0.96	1.12	0.99	0.69
Active share ¹⁾	92%	92%	92%	
RISKADJUSTED RETURN 5 YEARS				
Alpha	-0.04	-0.05	-0.01	0.02
Sharpe Arithmetic	0.59	0.80	0.34	0.59
Sharpe Ratio Benchmark	0.99	1.25	0.40	0.42
Information Ratio Arithmetic	-0.71	-0.55	-0.15	0.15

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

* Effective 1/1/2014, the fund's investment mandate changed from investing a minimum of 50% of its assets in Norway to investing a minimum of 50% of its assets in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than they are today. The fund's benchmark index prior to 1/1/2014 was an evenly composed benchmark index consisting of the Oslo Stock Exchange Benchmark Index (OSEBX) and the MSCI All Country World. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX). The benchmark index prior to 1/1/2010 was OSEBX and prior to 1/1/2014 it was OSEBX / MSCI AC (50/50).

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

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

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

NOTICE

Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. There are no subscription costs.

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

SKAGEN m² A 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 A 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 A, SKAGEN Kon-Tiki A, SKAGEN Focus A and SKAGEN m² A 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 A. 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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Stavanger
Head Office



Amsterdam Branch



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

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

