MARKET REPORT 1 2017

SKAGEN

STOCKPICKING IS A SKILL AND AN ART
– AND THEREFORE REQUIRES PATIENCE

Dear Readers,

While the history books will most likely associate 2016 with Brexit and Donald Trump, other less renowned events will have a much more lasting impact on the fund management industry.

As the outgoing Chief Executive Officer of SKAGEN AS, I would like to take this opportunity to say a few words about the industry that I have been a part of for the past 25 years.

One of the biggest investment trends since the financial crisis is the great investor rotation out of active investments and into passive ones. This trend continued unabated in 2016 and is expected to continue this year. According to Morningstar quoted by MarketWatch, active funds saw outflows of USD 285.2 billion in 2016, while passive funds attracted USD 428.7 billion.

Moreover, this trend is set to continue, spurred on by changes in regulation as well as technological shifts in the fund management industry – all around the world. At the time of writing, just over one out of every three invested dollars in the world is in passive funds.

Two issues are worth noting: first, a highly fragmented European fund market has seen and will see even more regulation and integration in the coming years. The European Commission has stated that it will recommend that EU regulators investigate the asset management industry "to ensure more competition and better service for consumers". Looking at the European fund landscape it is easy to agree that more integration and improved service is needed, particularly in Europe.

Second, in the past year, we have witnessed many large, global fund providers uniting to improve efficiency. In addition, platforms have boosted their market share as the preferred means of distribution for the future and automated solutions are now the vehicle of choice for investment advice to the mass market. Local fund providers are now competing in a global arena, and it is rare to find customers dropping by their local branches to top up their savings.

The winners in the changing European fund industry will be those that can provide good long-term returns, customer-focused service and optimised distribution, all while maintaining a simple and understandable business model. This chimes well with how we work at SKAGEN.

Although the long-term effects remain to be seen, one point is clear: SKAGEN aims to be a part of the changes. We have in the past year appointed a dedicated Chief Investment Officer, Alexandra Morris, to head up the portfolio management team and we have set up an innovation team to make sure we keep up with the changes. The next leg of the SKAGEN journey will be steered by Øyvind Schanke, who replaces me as CEO at the beginning of February. He comes to us with a deep belief in active management and sees the strong growth in index management worldwide as an opportunity for SKAGEN. Both the company and our clients should therefore be in capable hands as he works to ensure that SKAGEN remains a preferred provider of actively managed funds.

– Leif Ola Rød
CEO

CONTENT

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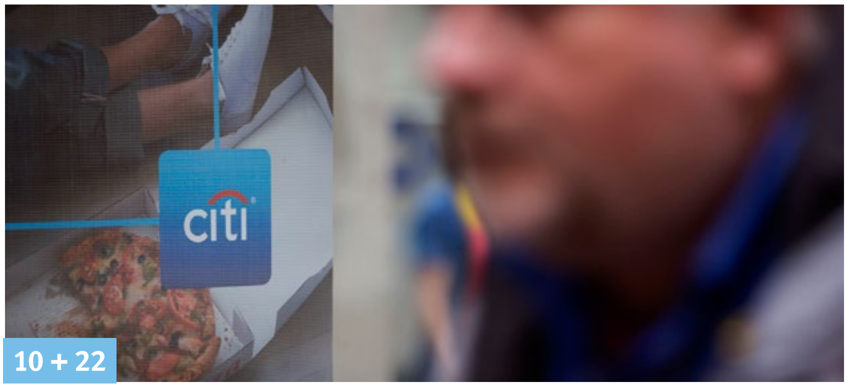
SKAGEN Focus entered into Telecom Italia at the end of the year. The company's shares have been weighed down by the anticipated competitive pressure from mobile operator Iliad and Enel in fibre. Pictured here: pedestrians sit outside a TIM store, operated by Telecom Italia SpA, in Milan, Italy



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The US financial giant Citigroup was one of the best contributors to both SKAGEN Global and SKAGEN Vekst in the fourth quarter after the share price rose over 27% in the quarter.

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By far the largest contributor to the return of SKAGEN Credit was the Anglo-Swiss multinational commodity trading and mining company, Glencore. Pictured here: contractors work at the underground Glencore Plc Bracemac-McLeod zinc mine in Malartic, Quebec, Canada.

Photos: Bloomberg

Returns

The following tables show the returns for SKAGEN's funds versus their respective benchmarks. The figures are updated as of 31.12.2016

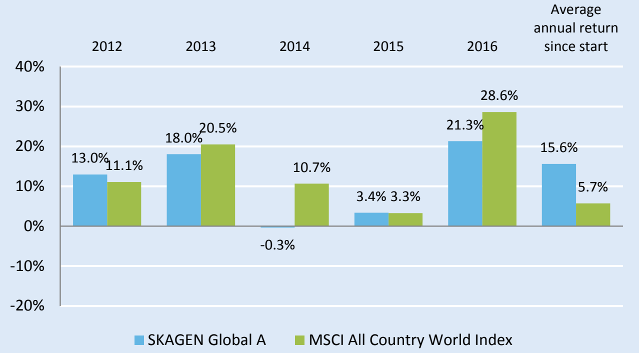
Unless otherwise stated all figures quoted in this report are in GBP, except for SKAGEN Credit EUR which are in EUR and the Financial Statement and Notes, which are in Norwegian kroner. The report relates to class A units and is net of fees. SKAGEN Funds does not have authorisation to market SKAGEN Høyrente,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

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

SKAGEN GLOBAL A

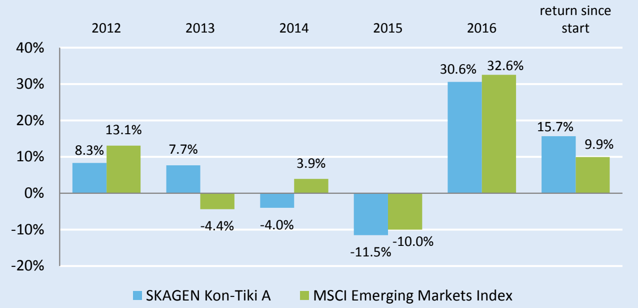
Lead Manager: Knut Gezelius **Start:** 7 August 1997



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

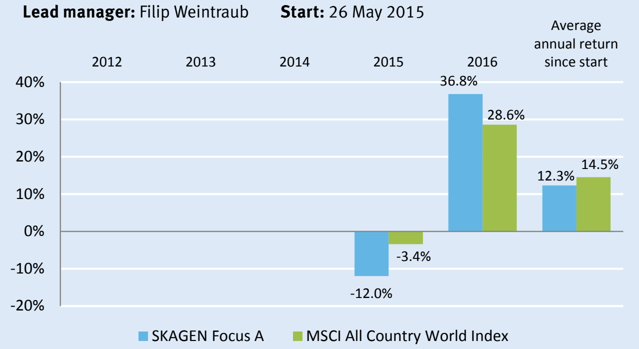
SKAGEN KON-TIKI A

Lead Manager: Knut Harald Nilsson **Start:** 5 April 2002



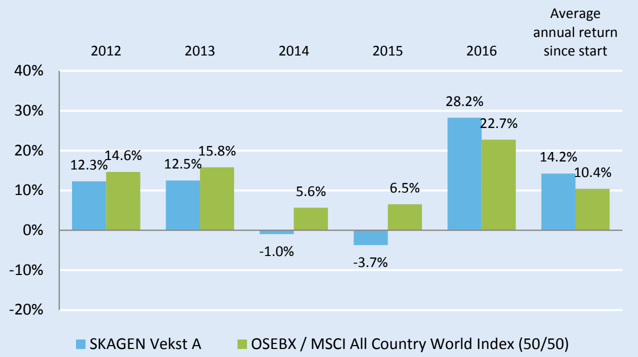
SKAGEN FOCUS A

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



SKAGEN VEKST A

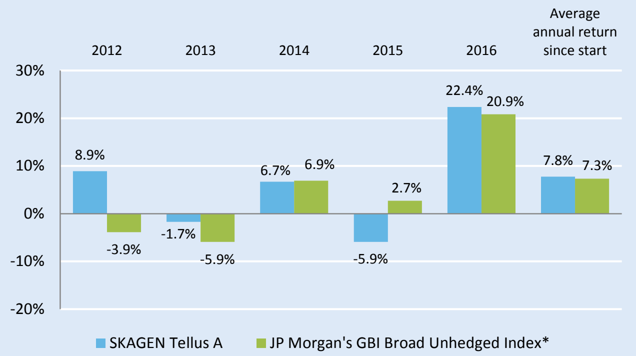
Managers: Ole Søeberg and Geir Tjetland **Start:** 1 December 1993



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

SKAGEN TELLUS A

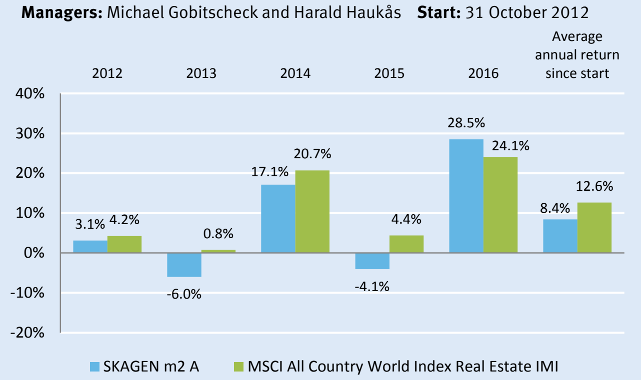
Lead Manager: Jane Tvedt **Start:** 29 September 2006



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

SKAGEN m² A

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



SKAGEN CREDIT EUR A

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

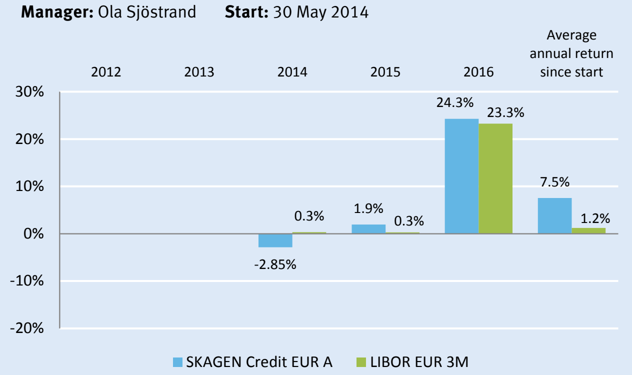


Photo: Bloomberg

Janet Yellen, chair of the US Federal Reserve, holds a news conference following a Federal Open Market Committee (FOMC) meeting in December 2016. The Fed raised interest rates for the first time in 2016 and forecast a steeper path for borrowing costs in 2017, saying inflation expectations have increased "considerably" and suggesting the labour market is tightening.

Photo: Bloomberg

Marine Le Pen, leader of the French National Front, speaks to journalists during the inauguration of her presidential campaign headquarters in Paris. Anti-EU leader Le Pen is aiming to repeat Trump's success in harnessing the discontent of white voters to upend the political order and she's been consistently leading polls for the first-round ballot.

Photo: Bloomberg

UK prime minister Theresa May has stated that the UK government intends not only to withdraw from the EU but also from the single market. She is pictured here leaving number 10 Downing Street, to deliver a speech setting out her Brexit plan.

Portfolio managers' report

Introduction

- 2016 was a good year for the majority of our funds with 8 out of 11 performing ahead of their benchmarks.
- 2017 promises to be an exciting year and the global economy is off to a good start.
- Europe is expected to do better this year. The great unknown is the timeline and effects of the UK starting the Brexit process. The presidential election in France this spring will also bring with it uncertainty.
- The US central bank will likely continue to raise interest rates; they started in December and have signalled that there may be more to come.
- Skies have turned brighter in emerging markets and we think they may be the best place to be in 2017.

SKAGEN is a truly active fund manager. No sideways look towards the benchmark, no hiding behind the largest stocks or benchmark-tactics – blending in is not our business. SKAGEN is experienced and has a long tradition in active management.

These are some of the reasons why I joined SKAGEN, which has a team of some of the best portfolio managers and a proven long-term track record.

Active fund management has been through a rough patch lately. Underperformance and outflow have been the norm in recent years and this trend continued in 2016. Amidst all the changes that our industry is experiencing (please see the CEO comment), we at SKAGEN stick to what we know, namely stock picking.

A skill and an art

Stock picking is both a skill and an art. Both are equally important and you cannot have one without the other.

– Alexandra Morris
Investment Director

The skill lies in the ability to use one's education and experience, and apply it to understand complex business cases, financial accounts and valuation methodology. It is the ability to look at all sides of the investment story, not missing any relevant opportunities or risks that may be pertinent to your conclusion.

The art lies in the ability to look into the future and understand the human dimension of the financial markets, existing portfolio companies and potential portfolio companies' management, board and owners as well as their customers' future likes and dislikes. The art also lies in the ability to take a bird's eye view of the world economy and make good decisions on a detailed company and portfolio level.

Combining art and skill is a potent cocktail. These are the ingredients of SKAGEN's success along with our value approach to stock picking, our unconventional methods of finding opportunities and our determination to provide our unit holders with the best possible returns.

After my first four months at SKAGEN, I see that there are various dimensions to our key strengths, and these can be illustrated as follows:

8 out of 11 ahead

2016 was a good year for the majority of our funds and most chief investment officers would be satisfied to see 8 out of 11 funds performing ahead of their benchmarks. Nevertheless, as an organisation we always want more for our unit holders and will continue to strive for the perfect score.

SKAGEN Kon-Tiki has beaten its benchmark 11 out of 15 years; we are behind over the last three years. The four best performing portfolio companies earned our unit holders 189m in 2016 (measured in GBP). These were Cosan, a Brazilian diversified energy company, X5, a Russian supermarket chain, Samsung Electronics, a Korean technology company and Banrisul, a Brazilian bank. SKAGEN Kon-Tiki

is starting to pull ahead again and the second half of 2016 was markedly better than the first half, with the fund ahead of its benchmark in the period. 2016 also marked the year when Kristoffer Stensrud chose to hand over sole leadership of the fund to Knut Harald Nilsson. Knut Harald has managed the fund together with Kristoffer over the last 10 years.

SKAGEN Global, which turns 20 this year, has beaten its benchmark 15 out of 19 years. Over the last 20 years, the fund has delivered a performance of over 14 percent per year. While the fund was ahead of benchmark in 2015, we were not able to follow up this good performance in 2016. We were surprised by Brexit in the first half, and in the second half the rotation out of healthcare stocks and unfavourable company news led to weak performance from two pharma stocks in the portfolio, Roche and Teva. This is a harsh reminder that avoiding losers is crucial to good performance. As active fund managers, we know we will deviate from benchmark – both on the up- and downside. We are working hard to ensure that 2017 will be an "up" year.

I would like to emphasise that outperformance in SKAGEN Kon-Tiki and SKAGEN Global is our number one priority for 2017.

SKAGEN Vekst invests about half of its assets in the Nordics and the rest globally. The fund has grown twentyfold since its inception in 1993. In 2016, SKAGEN Vekst beat its benchmark, driven by its investments in companies like Oriflame, a Swedish cosmetics firm, Samsung Electronics and Norsk Hydro, a Norwegian aluminium company.

Our global property fund SKAGEN m2 also performed well in 2016. SKAGEN m2 had a few teething problems at inception four years ago, but a successful change of portfolio managers and a clean-up of the portfolio has put this fund firmly back on track. SKAGEN m2 is an exciting product for clients looking for international exposure to real estate.

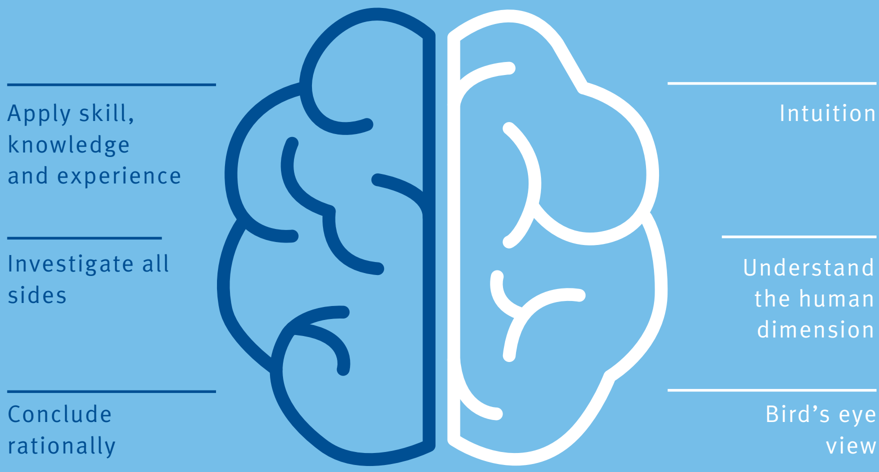
Last, but not the least, I would like to review our latest equity fund family member, SKAGEN Focus. SKAGEN Focus is a global equity fund with a clearly defined mandate and strategy. The fund delivered formidable performance last year, outperforming its benchmark by a significant margin.

SKAGEN offers several fixed income funds, a number of which have been part of the SKAGEN family for many years. Our fixed income funds consistently deliver excellent returns, not only against their benchmarks, but against competition as well. This is demonstrated by the 5 and 4 star ratings from Morningstar for SKAGEN Tellus and SKAGEN Avkastning, respectively.

You may read more about our fixed income and our equity funds in the portfolio updates.

A promising year

2017 promises to be an exciting year and the global economy is off to a good start. The US economy is strong, and a new president will be in place by the end of January. What this will mean for investors remains to be seen.



What we do know is that Europe is expected to do better this year following a clean-up of Italian banks and better exports on the back of a weaker euro. The great unknown is the timeline and the effects of the UK activating Article 50 and starting the Brexit process. The British Prime Minister has signalled that the formal process will start at the end of March. With the British government in effect ending a half of a century of foreign and economic policy, European collaboration will surely be put to the test.

The spring months will also probably be filled with noise surrounding the election in France. Still, one should not be distracted from the fact that the US central bank may continue to raise interest rates. They already started to do so in December and have signalled that there may be more to come. Meanwhile, there are important events such as the German elections and China's Communist party congress scheduled for the second half of the year.

What President Trump will, or will not, do when it comes to protectionism is far from clear. Will he use smoke and mirrors to achieve big headlines, or will he actually implement import taxes and export subsidies or other major measures that would hinder global trade? The current business climate in emerging markets is improving. A trade war would reverse this.

However, aside from these clouds, the skies have turned brighter in emerging markets. After several years of profits being downgraded due to high cost inflation and slow demand, emerging markets are now on the path to recovery. Costs are coming down and demand is picking up which is in itself very positive for the companies. Combining this with very low valuation, we may be in for positive equity performance in emerging markets. We believe they may turn out to be the best place to be in 2017; the combination of improving earnings and record low valuation is indeed potent.

Photo: Bloomberg

Donald Trump
The biggest unknown entering into 2017 is whether or not the incoming US president Trump will pursue a protectionist policy.

Photo: Dhiraj Singh/Bloomberg

Emerging markets
Pictured here are Tiny Owl employees at the company's head office in Mumbai, India. Tiny Owl is a smartphone application that helps city-dwellers scour nearby eateries for deliveries. The service now handles 2,000 orders a day and has caught the interest of venture funds including Sequoia Capital.

SKAGEN Global

A world of opportunities

- The team bought into new attractively priced companies in the healthcare sector.
- Samsung was one of the fund's best absolute contributors over 2016, despite the Note 7 battery scandal.
- Increasing global growth and higher interest rates in 2017 will provide good opportunities for value-based investors.

1 2 3 4 5 **RISK** 7

Fund start date	7 August 1997
Return since start	1564.1%
Average annual return	15.6%
AUM	GBP 2,659 million
Number of unitholders	87,553

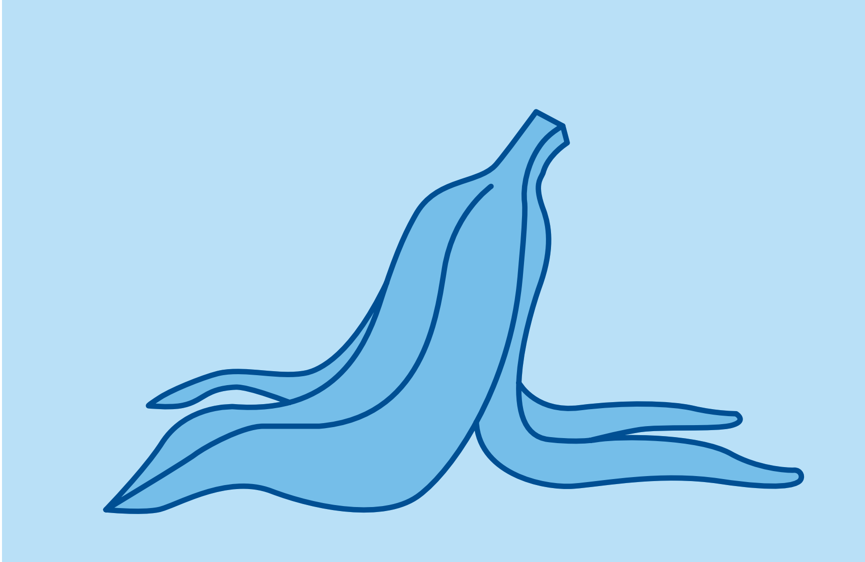
PERFORMANCE IN GBP	Q4 2016	12M
SKAGEN Global A	5.1 %	21.3%
MSCI ACWI	6.5 %	28.6%

As of 31 December 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 (cropped).



A year of challenge and opportunity

2016 was a mixed year for SKAGEN Global. Our investments in healthcare and finance in particular made their mark on the portfolio.

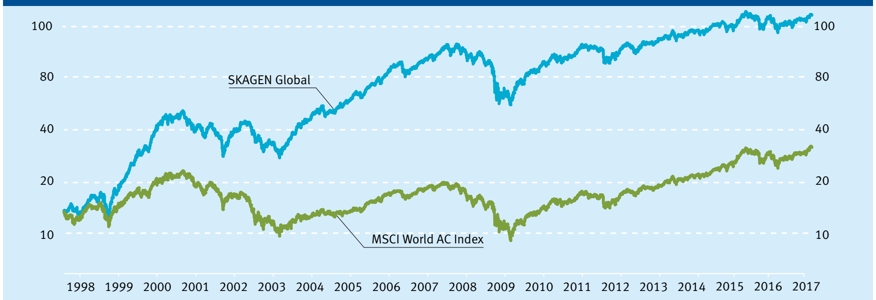
Despite all the doomsday scenarios, the stock market chose to focus on the positive aspects of Donald Trump's victory in the US presidential election in November. As a result, the year ended on a strong note, something that unit holders in SKAGEN Global also benefited from. The fund gained 5.1% (in GBP) in the fourth quarter. For the year as a whole, SKAGEN Global gained 21.3%, versus a gain of 28.6% for the fund's benchmark, the MSCI All Country World Index.

SKAGEN GLOBAL PORTFOLIO CHANGES IN Q4 2016 (PERCENTAGE OF AUM)

5 largest contributors		5 largest purchases	
Citigroup	1.50%	Medtronic Plc	2.88%
AIG	1.00%	Unilever CVA	2.75%
General Electric	0.62%	China Mobile	1.94%
Microsoft	0.60%	3M	1.50%
NN Group	0.49%	Cms Energy Corp	1.29%
5 largest detractors		**5 largest sales**	
Teva Pharmaceutical Industries	-0.38%	Sanofi	-2.44%
Medtronic Plc	-0.22%	Citigroup	-2.13%
Cheung Kong Holdings	-0.19%	AIG	-2.04%
China Mobile	-0.17%	Volvo	-1.42%
Ntt Docomo	-0.17%	Goldman Sachs	-1.21%

Based on NOK returns

HISTORICAL PRICE DEVELOPMENT SKAGEN GLOBAL



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

Photo: Bloomberg

Contributors

The main drivers behind the sharp share price upturn last quarter were hopes of lower corporate tax in the US, increasing economic growth, rising inflation and higher interest rates. This is a particularly favourable cocktail for the financial sector, which has also been among the cheapest sectors for many years. This was also the case for SKAGEN Global, where two US finance companies, Citigroup and AIG, were the largest contributors to the fund's absolute return in the fourth quarter. Although we have trimmed both positions, the two companies remain among the largest holdings in SKAGEN Global. The market continues to underestimate how much free capital these companies will be able to generate and return to shareholders over the next five years – particularly if we start to see higher interest rates. Among the detractors from the fund's performance we find two companies within the medical and health sector: Teva Pharmaceutical and Medtronic, both of which have lowered guidance on future earnings in the fourth quarter.

Positive

For 2016 as a whole, the Korean electronics company, Samsung Electronics, and the US industrial company, Johnson Controls, were some of the fund's best contributors to absolute return. Although Samsung Galaxy Note 7 was plagued by battery problems, the operational developments in Samsung Electronics have been going in the right direction, at the same time as the Korean company has continued the shareholder friendly measures that have been well received by the stock market. The merger between Tyco International and Johnson Controls, combined with hopes of higher infrastructure investments in US, were the main reason for the strong performance of Johnson Controls in 2016.

Negative

Two companies in the medical and healthcare sector detracted from performance in 2016, namely Teva Pharmaceutical and Roche. While both companies were impacted by the generally increasing scepticism around the future outlook for the sector, Teva in particular had a turbulent year, announcing a range of company specific news. We believe that the market has overreacted to the negative news in the healthcare sector, and we have chosen to swim against the tide and increased our exposure to existing and new positions throughout the year.

Portfolio activity

In December we exited the US investment bank Goldman Sachs, when the share reached our price target. Since we bought our first shares in the company in June 2011, the investment has delivered a return of 90% measured in strong local currency (USD). That is twice the return the world index has delivered in the same currency. As such, it is worth recalling the number of negative articles and reports that have been written about the financial sector in the wake of the financial crisis. Everything from headwinds due to stricter regulation to the negative effects of low interest rates has been cited as the reason for finance companies being so cheap. The performance of the Goldman Sachs shares over the past five years once again demonstrates the value of daring to go against the flow and buying companies cheaply – especially if the company is good at allocating capital, which Goldman Sachs has indeed been.

Given the strong end to the year, several of SKAGEN Global's other shares also reached their price targets. We therefore sold out of Swedish truck maker Volvo, British supermarket chain WM Morrision Supermarkets, and the Swedish mining company Lundin Mining. Finally, as a shareholder in Johnson Controls, we received shares in the spin-off of US automotive seating supplier, Adient. We sold all the shares after receiving them.

SKAGEN Global invested in three new companies during the quarter, namely, Medtronic, CMS Energy and Novo Nordisk.

Photo: Novo Nordisk

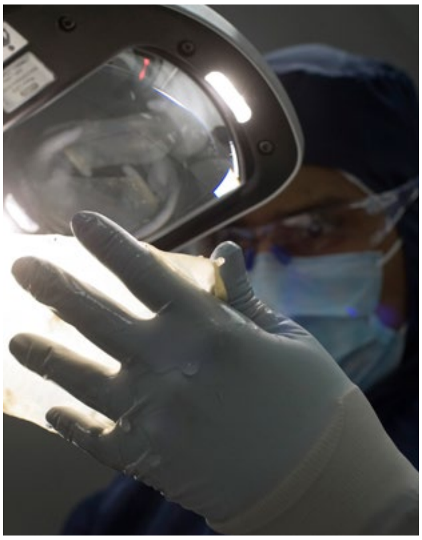


Photo: Medtronic

Novo Nordisk

Both sector and sector-specific news contributed to a miserable year for shareholders in the Danish pharmaceutical company Novo Nordisk. This provided us with a unique opportunity in December to buy into a world-leading company within diabetes treatment at an extremely attractive valuation. With a growing market and a strong portfolio of new and existing products, we expect Novo Nordisk to continue to deliver a growing free cash flow which will be returned to shareholders. The market clearly does not believe this to be the case since we bought the stock at a valuation (based on free cash flow) equivalent to companies with a much lower quality business model and significantly lower growth prospects.

Medtronic

Since its inception in 1949, the US company Medtronic, has developed into a global provider of medical devices. We believe that the market underestimates the company's ability to improve earnings under its own steam, particularly given that the synergies from the acquisition of its competitor, Covidien, have not yet materialised. In addition we like the combination of a strong balance sheet and high free cash flow.

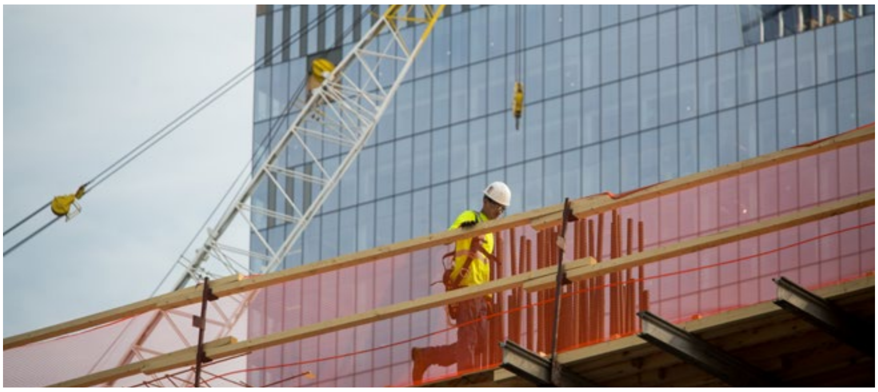


Photo: Bloomberg

Photo: CMS Energy

Outlook

The global stock market (MSCI All Country World Index) is currently trading at 15.5x expected earnings in 2017, which is somewhat higher than the historic average. Part of the reason for this is the low interest rate environment, but it is worth remembering that the global stock market has risen sharply since the financial crisis. However, as a unit holder in SKAGEN Global, you are not buying the general market. We are still able to find pockets in the stock market that are attractively priced. Based on careful fundamental company analysis, SKAGEN Global picks between 40 and 50 undervalued global stocks which provide attractive risk adjusted returns. At the end of the year, the fund's 35 largest positions constitute 91% of the total portfolio - on average we see a 31% upside to these positions. Despite a challenging 2016 for SKAGEN Global, SKAGEN's investment philosophy has proven to deliver strong returns in the long run and the fund has beaten its benchmark index in 15 out of 20 years. With the prospect of higher economic growth combined with higher interest rates, 2017 shows promising signs of being a good year for a value-based investor like SKAGEN.

CMS Energy

The energy company CMS Energy operates solely in the regulatory friendly US state of Michigan. The combination of good management, a strong balance sheet as well as earnings and dividend growth are all factors that the current valuation does not fully reflect. We view the share as attractive on an absolute level, but particularly relative to the levels at which its peers are trading in the current environment.

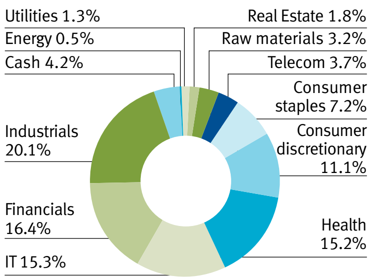
SECURITIES PORTFOLIO SKAGEN GLOBAL AS OF 31 DEC 2016

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

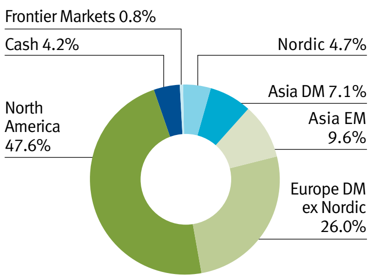
Securities	Sector	Number of shares	Acquistion value NOK *	Market-value NOK*	Unrealised gain/loss *	Share of fund	Stock exchange
American International Group Inc	Financials	2 772 001	903 797	1 557 998	654 201	5,51%	New York
Unilever NV-Cva	Consumer Staples	4 073 553	1 380 056	1 446 159	66 103	5,11%	Amsterdam
Citigroup Inc	Financials	2 696 167	710 004	1 378 943	668 939	4,88%	New York
CK Hutchison Holdings Ltd	Industrials	13 582 098	1 230 262	1 325 192	94 930	4,69%	Hong Kong
General Electric Co	Industrials	4 796 440	979 757	1 304 368	324 610	4,61%	New York
Roche Holding AG-Genusschein	Health Care	631 458	941 586	1 243 653	302 067	4,40%	Zürich
Microsoft Corp	Information Technology	2 142 570	513 419	1 145 777	632 358	4,05%	NASDAQ
Samsung Electronics Co Ltd Pref	Information Technology	109 204	265 260	1 119 947	854 688	3,96%	Seoul
3M Co	Industrials	689 340	987 116	1 059 341	72 225	3,75%	New York
Merck & Co Inc	Health Care	2 077 710	958 769	1 052 623	93 854	3,72%	New York
Teva Pharmaceutical-Sp ADR	Health Care	2 899 630	1 098 551	904 575	-193 976	3,20%	NASDAQ
NN Group NV	Financials	2 932 306	631 611	856 835	225 224	3,03%	Amsterdam
Comcast Corp	Consumer Discretionary	1 363 151	609 839	810 031	200 191	2,86%	NASDAQ
China Mobile Ltd	Telecommunication Services	8 611 990	829 969	785 775	-44 194	2,78%	Hong Kong
G4S Plc	Industrials	30 479 929	873 654	761 862	-111 792	2,69%	London
Cap Gemini SA	Information Technology	1 016 719	691 728	739 612	47 884	2,61%	Paris
Medtronic Plc	Health Care	1 178 946	783 954	722 688	-61 266	2,56%	New York
Alphabet Inc Class C	Information Technology	103 881	526 006	689 995	163 989	2,44%	NASDAQ
Dollar General Corp	Consumer Discretionary	1 008 115	614 456	642 608	28 152	2,27%	New York
Carlsberg AS-B	Consumer Staples	787 337	544 224	585 744	41 520	2,07%	Copenhagen
Akzo Nobel NV	Materials	741 798	373 426	399 851	26 425	1,41%	Amsterdam
Kingfisher Plc	Consumer Discretionary	10 354 978	395 989	385 819	-10 169	1,36%	London
Cms Energy Corp	Utilities	997 835	351 010	357 400	6 391	1,26%	New York
Toyota Industries Corp	Consumer Discretionary	847 628	250 053	348 327	98 275	1,23%	Tokyo
Ageas	Financials	1 015 112	383 434	346 511	-36 924	1,23%	Brussels
Skechers USA Inc	Consumer Discretionary	1 552 387	350 724	328 379	-22 345	1,16%	New York
Hiscox Ltd	Financials	2 874 906	320 338	310 985	-9 353	1,10%	London
ServiceMaster Global Holdings Inc	Consumer Discretionary	945 676	288 194	306 572	18 378	1,08%	New York
Autoliv Inc SDR	Industrials	314 457	245 577	306 161	60 585	1,08%	Stockholm
Mayr-Melnhof Karton AG	Materials	333 933	172 249	305 202	132 954	1,08%	Vienna
Koninklijke Philips NV	Industrials	1 159 386	273 903	305 158	31 256	1,08%	Amsterdam
Novo Nordisk A/S-B	Health Care	955 307	286 438	296 992	10 555	1,05%	Copenhagen
Autoliv Inc	Industrials	304 442	239 248	296 451	57 203	1,05%	New York
Columbia Property Trust Inc	Real Estate	1 589 780	289 144	295 655	6 511	1,05%	New York
Baidu Inc ADR	Information Technology	200 160	291 968	283 204	-8 764	1,00%	NASDAQ
China Mobile Ltd ADR	Telecommunication Services	573 692	280 607	258 853	-21 754	0,92%	New York
Irsa Sa ADR	Real Estate	1 423 572	118 580	225 909	107 329	0,80%	New York
Lenovo Group Ltd	Information Technology	38 742 506	283 916	202 120	-81 797	0,71%	Hong Kong
Sony Corp Sponsored ADR	Consumer Discretionary	790 981	186 328	190 802	4 475	0,67%	New York
Koninklijke DSM NV	Materials	366 587	177 218	189 516	12 298	0,67%	Amsterdam
Johnson Controls International Plc	Industrials	477 751	55 476	169 351	113 874	0,60%	New York
Amerco	Industrials	51 405	146 849	163 501	16 652	0,58%	NASDAQ
State Bank Of India GDR	Financials	496 529	91 101	157 035	65 934	0,56%	India
Samsung Electronics Co Ltd	Information Technology	11 108	94 970	143 253	48 283	0,51%	Seoul
Lundin Petroleum AB	Energy	713 723	79 668	133 909	54 241	0,47%	Stockholm
Sony Corp	Consumer Discretionary	545 656	123 454	131 843	8 389	0,47%	Tokyo
Sanofi	Health Care	104 889	69 730	73 207	3 478	0,26%	Paris
State Bank of India	Financials	1 261 856	32 513	40 054	7 541	0,14%	India
Total equity portfolio*			**22 326 119**	**27 085 746**	**4 759 627**	**95,76%**	
Disposable liquidity				1 198 273		4,24%	
Total share capital				**28 284 019**		**100,00%**	

* Numbers in 1 000 NOK.

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



SKAGEN GLOBAL KEY NUMBERS FOR THE LARGEST HOLDINGS (AS OF 31.12.2016)

Company	Holding size	Price	P/E 2016E	P/E 2017E	P/B last	Price target
AIG	5.5	65.3	17.2	12.0	0.8	90
Unilever	5.1	39.1	21.1	19.5	7.7	44
Citigroup	4.9	59.4	12.6	11.4	0.8	70
CK Hutchison	4.7	87.9	10.8	9.8	0.9	140
General Electric	4.6	31.6	21.2	19.0	3.4	36
Samsung Electronic	4.5	1,433,000	9.4	7.6	1.1	1,650,000
Roche	4.4	232.6	15.8	14.8	10.7	360
Microsoft	4.1	62.1	20.9	19.0	6.9	68
3M	3.7	178.6	21.9	20.7	8.9	230
Merck	3.7	58.9	15.6	15.3	3.7	76
Weighted top 10	**45.2**		**15.3**	**13.3**	**1.7**	**28%**
Weighted top 35	**91.0**		**15.0**	**13.5**	**1.6**	**31%**
Benchmark index			**17.5**	**15.5**	**2.1**	

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

SKAGEN Kon-Tiki

Leading the way in new waters

› 2016 is the first year since 2012 that EM outperformed DM

› A tough year for active managers ended positively with value returning to favour

› Russian retailer X5 was one of the strongest contributors in Q4 and 2016

1	2	3	4	5	RISK	7

Fund start date	5 April 2002
Return since start	756.0%
Average annual return	15.7%
Assets under management	GBP 2,881 million
Number of unitholders	67,035

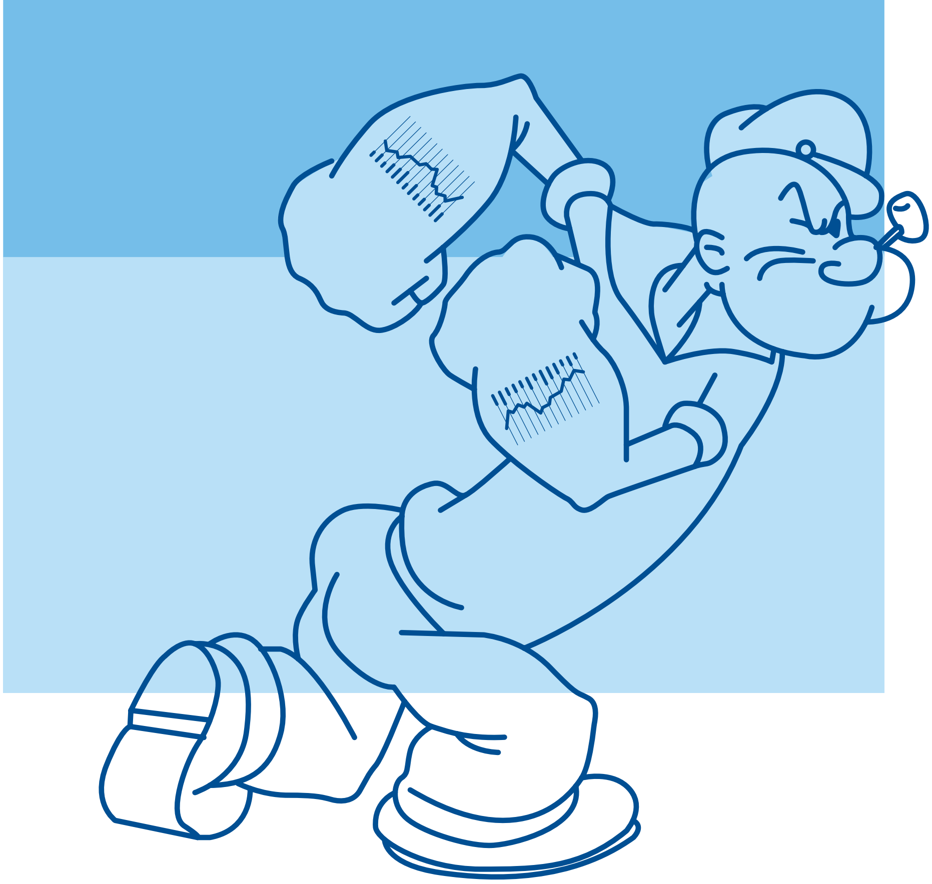
PERFORMANCE IN GBP	Q4 2016	12M
SKAGEN Kon-Tiki A	2.8 %	30.6%
MSCI Emerging Markets	0.6 %	32.6%

As of 31 December 2016, net of fees

PORTFOLIO MANAGERS

Knut Harald Nilsson, Kristoffer Stensrud, Cathrine Gether and Erik Landgraff.

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

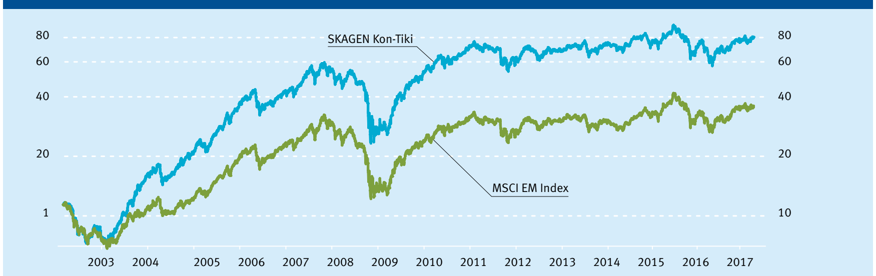


A strong end to a tough year for active managers

2016 was a tough year for active managers with the median of 58 large active EM funds underperforming their benchmark indexes by 3.3 percentage points. In 2016, the fund gained 30.6% versus a 32.6% gain for the benchmark; a performance that we are not satisfied with. However, our value focused investment style seems to have returned to favour at the end of the year, giving us optimism as we enter 2017.

SKAGEN Kon-Tiki ended 2016 on a strong note, gaining 2.8% (in GBP) in Q4 and outperforming the MSCI EM index by 2.2 percentage points. A broad number of holdings contributed to performance, with Samsung Electronics, X5 Retail Group, CNH Industrial, Richter Gedeon and newcomer, Borr Drilling, leading the way.

HISTORICAL PRICE DEVELOPMENT SKAGEN KON-TIKI



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

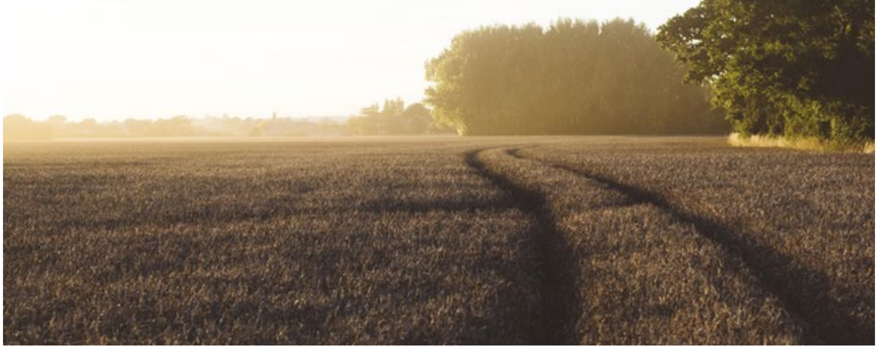


Photo: Pixabay

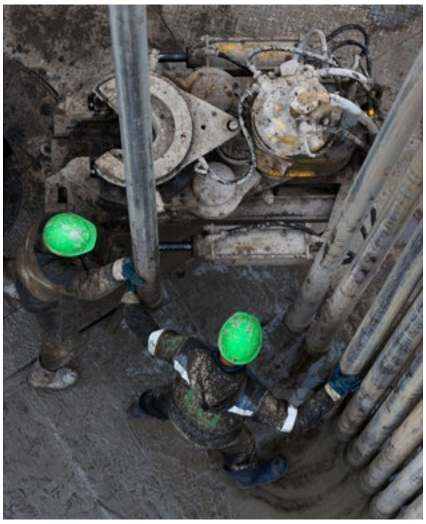


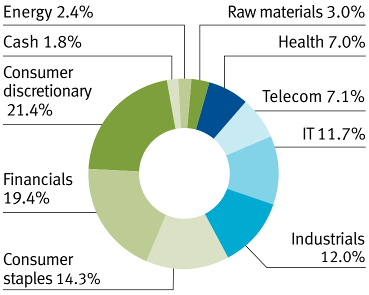
Photo: Bloomberg

First year of outperformance for EM since 2012

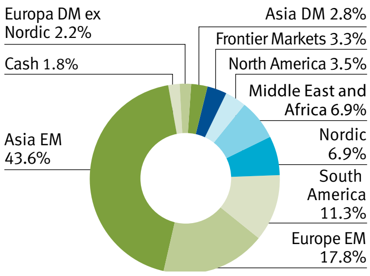
2016 marks the first year since 2012 that EM equities outperformed developed markets. After several years of disappointments, the earnings momentum started to improve during the summer. This gives room for optimism going into 2017, as the valuation of the EM universe is well below that of developed markets measured on P/E and P/BV, while our portfolio is valued at a material discount to the EM universe.

Foreign exchange movements across EM had a major impact on returns in developed market currencies in 2016. The Russian rouble and Brazilian real both gained c25%, while the Turkish lira experienced double digit depreciation. This impacted returns and contributed to Russia and Brazil being the top performing emerging markets in 2016.

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



SKAGEN KON-TIKI KEY NUMBERS FOR THE LARGEST HOLDINGS (AS OF 31.12.2016)

Company	Holding size	Price	P/E 2016E	P/E 2017E	P/B last	Price target
Hyundai Motor	7.6	95,700	4.0	3.8	0.4	170,000
Samsung Electronics	7.5	1,433,000	9.2	8.4	1.1	1,700,000
Richter Gedeon	4.9	6,210	20.7	17.0	1.8	7,500
Mahindra & Mahindra	4.5	1,185	15.8	11.8	2.5	2,000
Naspers	4.5	146	32.6	22.5	5.7	218
X5 Retail Group	4.4	1,989	19.1	15.3	4.3	2,391
Sabanci Holding	4.2	9.15	6.3	5.7	0.8	14
Cosan Ltd.	3.4	24.60	8.2	7.0	1.0	33
State Bank of India	2.9	250	15.6	11.4	0.9	300
SBI Holdings	2.8	1,487	10.6	9.9	0.8	2,500
Kinnevik	2.4	218	43.7	36.4	0.8	312
ABB	2.4	192	18.3	16.7	3.6	200
Weighted top 12	**51.4**		**9.7**	**8.6**	**1.0**	
Weighted top 35	**85.1**		**11.1**	**9.4**	**1.0**	
Benchmark index			**13.4**	**12.0**	**1.4**	

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

SKAGEN KON-TIKI PORTFOLIO CHANGES IN Q4 2016 (PERCENTAGE OF AUM)

5 largest contributors	
Samsung Electronics	0.80%
X5 Retail Group	0.75%
Borr Drilling Ltd	0.57%
CNH Industrial	0.51%
Richter Gedeon	0.51%

5 largest detractors	
Mahindra & Mahindra	-0.51%
Haci Omer Sabanci Holding	-0.42%
Naspers	-0.39%
Hyundai Motor	-0.29%
OCI	-0.14%

5 largest purchases	
Aberdeen Asset Management	0.93%
Bollore	0.47%
Golar LNG	0.45%
Borr Drilling Ltd	0.33%
Rumo Logistica Operadora	0.22%

5 largest sales	
Frontline	-0.85%
DIA	-0.85%
ABB	-0.76%
Podravka	-0.71%
China Shipping Development	-0.57%

Based on NOK return.

Buys and sells

We further concentrated the portfolio during 2016 and at the start of 2017, we hold 60 companies, down from 69 a year ago. During Q4, we exited DIA and Podravka as well as three small positions; REC Silicon, Toray Industries and Suzano.

We invested in two new companies in Q4, namely, Aberdeen Asset Management and Borr Drilling. Aberdeen is an EM focused fund manager which has, like other EM managers, suffered over the past few years. The company has a good M&A track record and generous pay-out policy. It has twice before been a profitable fund holding and should rise again when EM returns to favour. Through Borr Drilling, we acquired two modern jack-up drilling rigs at a quarter of their new build cost in 2013 and half the valuation of listed peers. We expect Borr to make further value enhancing acquisitions in 2017. Borr gives us associations with Seadrill, which we invested in back in 2005 when they started with two rigs. From a small venture, at the bottom of the cycle, the investment provided our unit holders with a return of more than NOK 1bn. We hope that one of the key men behind Seadrill is able to repeat the success with Borr.

Our top 35 positions represent 85% of the fund's assets. Investments with a weight of 1 percent or more make up 88% of values. The portfolio is highly concentrated around our best ideas with an active share of 92%. Portfolio concentration also allows us more time to search for new ideas to challenge existing holdings in order to deliver the best possible risk adjusted return.

Photo: Bloomberg

Customers use scales to weigh fruit and vegetables inside a Perekrestok supermarket, operated by X5 Retail Group, in Moscow, Russia. X5 was one of the largest contributors both in Q4 and 2016 as a whole.

The winners

During 2016, we witnessed further positive governance steps at Samsung Electronics, our top contributor during Q4. The company outlined a plan to return a significant part of value creation to shareholders. The operational outlook is solid with strong recovery for memory and display, while we expect recovery for smartphones after the Note 7 incident in 2016. To put the latter into perspective, the "loss" represents about two months of earnings. Valuation is still attractive at less than 7x earnings. We trimmed our position during 2016 due to strong return in order to align position size with fund strategy.

One of the largest contributors both in Q4 and 2016 as a whole was our Russian grocery retailer, X5 Retail Group. After having owned it years back, we re-entered as shareholder in 2013. At that time, it was valued at a quarter of its sales or about half the valuation of market leader, Magnit. X5 is in good shape, is gaining market share and growing 25% per annum in a fragmented market. Still, valuation is below domestic competitors as well as other EM peers.

From X5, we learned that depressed valuation of a grocery retailer with a leading market position in a fragmented market often creates great opportunities. We took this to Brazil in 2015 and established ownership in the market leader, Cia Brasileira de Distribuicao or GPA. Brazil looks much like Russia with low but increasing consolidation. Macro headwinds have weighed on profitability and management has initiated steps to regain growth and margins. Even after a decent return in 2016, the grocery retail operation is still valued at a quarter of sales and less than five times cash flow.

Thanks to improved sugar and ethanol prices, our energy-focused Brazilian holding, Cosan Ltd., was a strong contributor to return in Q4 and 2016 as a whole. Ongoing de-leverage has helped reduce risk perception, while renewed focus on efficiency, capital allocation and structure were well received. The discount to NAV is reduced from an elevated level, but we still see the discount as too wide. Sugar and ethanol prices should continue to benefit from expectations of a global sugar deficit as well as limited ethanol supply in Brazil.

Our Hungarian pharmaceutical company, Gedeon Richter, delivered a strong return in Q4. The company is defying competitive pressure in the generic industry by focusing on higher margin women's health products and its presence in underpenetrated EM. We believe the market underestimates the margin accretive growth from the launch of Vraylar (antipsychotic) and Esmya (myoma treatment) in the US. These should start providing meaningful impact during 2017. There is also significant upside if ongoing clinical trials read out positively. Their high R&D spending also provides long-term optionality.

The losers

Like other global auto manufacturers, Hyundai Motor had a tough 2016. A long strike at its Korean plants in the autumn added to the negative sentiment. We see 2017 as a turning point for volumes and margins, helped by improved demand outlook in EM, which represent 65% of unit sales, and increased contribution from new models. With auto operation valued at 1x earnings, the revaluation potential is significant.

Sabanci Holding was a notable loss maker in Q4, mainly due to depreciation of the Turkish currency. Its largest investment, Akbank, is a well capitalised bank, while the efficiency of its energy assets has improved dramatically through 2016. Here we own attractively valued assets at a 40% discount, which we find compelling.

Our allocation to Turkey is 7.3%. Clearly, Turkey faces both political and geopolitical challenges and we are by no means supporters of the government's recent actions on human rights. The market, however, offers excellent investment opportunities in well run companies. We have looked at several potential new holdings during 2016, but our overall portfolio risk assessment has so far prevented us from acting. Our existing holdings are highly compelling investment cases with improving operations and solid balance sheets. Our second largest holding in Turkey, Yazicilar Holding, is valued at a 30% discount to its attractively valued brewery assets alone, while we get all other assets for free. We find a fair value to be more than double the current share price.

Indian automobile manufacturer Mahindra & Mahindra detracted from returns in Q4. The demonetisation announced by the Modi administration created near-term dislocation, as consumers struggle to exchange and withdraw notes. We see this as a short-term headwind. Its most important operation, farm equipment, benefits from improved demand through better crops and lower interest rates. The auto division is launching new products which fit well into demand trends in India; mainly small SUVs.

The share price performance of Naspers was disappointing in Q4, wiping out a large part of the gains for the year. Their stake in the Chinese Internet and gaming leader Tencent is now worth a lot more than their own market capitalisation. The market therefore expects value destruction from their leading positions in multiple emerging markets within segments such as pay TV, online classifieds and online travel which should benefit from increased internet penetration in EM. Despite delayed monetisation and reduced profitability from investments in new areas, we have been well rewarded by this holding since we invested in 2010. Prospects are just as good now.

We thank fellow unit holders for their support during 2016 and hope you share the view that we enter 2017 with a consolidated non-consensus portfolio of solid and undervalued companies with strong growth and revaluation potential.

SECURITIES PORTFOLIO SKAGEN KON-TIKI AS OF 31 DEC 2016

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

Securities	Sector	Number of shares	Acquistion value NOK *	Market-value NOK*	Unrealised gain/loss *	Share of fund	Stock exchange
Samsung Electronics Co Ltd Pref	Information Technology	163 000	782 390	1 671 655	889 265	5,46%	Seoul
Richter Gedeon Nyrt	Health Care	8 134 857	885 803	1 485 466	599 663	4,85%	Budapest
Naspers Ltd	Consumer Discretionary	1 074 593	463 367	1 363 093	899 726	4,45%	Johannesburg
X5 Retail Group NV GDR	Consumer Staples	4 853 130	492 749	1 355 285	862 535	4,42%	London International
Haci Omer Sabanci Holding AS	Financials	56 848 322	1 240 691	1 272 568	31 877	4,15%	Istanbul
Hyundai Motor Co Pref (2pb)	Consumer Discretionary	1 670 000	282 809	1 187 998	905 189	3,88%	Seoul
Mahindra & Mahindra Ltd GDR	Consumer Discretionary	7 622 740	177 848	1 154 563	976 715	3,77%	London International
Hyundai Motor Co Pref (1p)	Consumer Discretionary	1 630 000	262 515	1 116 381	853 866	3,64%	Seoul
Cosan Ltd	Consumer Staples	16 220 419	907 123	1 048 325	141 201	3,42%	New York
State Bank of India	Financials	28 375 000	646 809	900 679	253 871	2,94%	India
SBI Holdings Inc	Financials	7 759 600	603 768	851 289	247 521	2,78%	Tokyo
Kinnevik AB-B	Telecommunication Services	3 582 146	609 581	740 616	131 035	2,42%	Stockholm
ABB Ltd	Industrials	4 068 279	335 329	739 018	403 690	2,41%	Stockholm
Banco Do Estado Rio Grande Do Sul SA Pref	Financials	25 985 500	608 331	709 042	100 711	2,31%	Sao Paulo
CNH Industrial NV	Industrials	9 138 348	555 765	683 410	127 645	2,23%	New York
Great Wall Motor Co Ltd	Consumer Discretionary	79 522 500	83 910	639 075	555 164	2,09%	Hong Kong
Samsung Electronics Co Ltd Pref GDR	Information Technology	119 489	117 733	609 785	492 051	1,99%	London International
Cia Brasileira de Distribuicao - Pref	Consumer Staples	4 205 800	643 971	608 827	-35 144	1,99%	Sao Paulo
LG Electronics Inc Pref	Consumer Discretionary	3 050 000	826 565	559 887	-266 679	1,83%	Seoul
Tech Mahindra Ltd	Information Technology	8 784 608	354 670	544 866	190 196	1,78%	India
Bharti Airtel Ltd	Telecommunication Services	14 022 628	536 370	543 752	7 382	1,77%	India
Samsung SDI Co Ltd	Information Technology	670 000	480 383	522 654	42 271	1,71%	Seoul
Indosat Tbk PT	Telecommunication Services	126 424 850	341 055	521 066	180 011	1,70%	Indonesia
Golar LNG Ltd	Industrials	2 022 557	614 659	399 290	-215 369	1,30%	NASDAQ
Korean Reinsurance Co	Financials	4 860 366	182 711	396 540	213 828	1,29%	Seoul
Cia Cervecerias Unidas SA ADR	Consumer Staples	2 193 449	387 122	396 029	8 907	1,29%	New York
Kiatnakin Bank Pcl	Financials	27 066 000	242 098	384 053	141 955	1,25%	Bangkok
Rumo Logistica Operadora	Industrials	23 535 800	284 054	382 084	98 029	1,25%	Sao Paulo
Sistema PJSC FC	Telecommunication Services	115 287 412	606 630	376 908	-229 722	1,23%	Moscow
JSE Ltd	Financials	3 514 971	136 477	363 649	227 172	1,19%	Johannesburg
China Shineway Pharmaceutical	Health Care	36 934 000	280 824	360 771	79 947	1,18%	Hong Kong
Yazicilar Holding AS	Consumer Staples	10 837 139	313 127	348 644	35 518	1,14%	Istanbul
LG Chem Ltd Pref	Materials	259 179	179 108	332 949	153 841	1,09%	Seoul
Marfrig Global Foods SA	Consumer Staples	18 537 800	291 987	323 982	31 995	1,06%	Sao Paulo
Enka Insaat Ve Sanayi AS	Industrials	24 246 616	218 014	319 136	101 122	1,04%	Istanbul
UPL Ltd	Materials	3 805 618	78 808	312 375	233 567	1,02%	India
Bollore SA	Industrials	10 155 415	277 287	308 775	31 488	1,01%	Paris
Tullow Oil Plc	Energy	9 241 978	821 783	307 388	-514 394	1,00%	London
Vietnam Enterprise Investments Ltd	Financials	9 000 000	257 177	282 875	25 698	0,92%	Dublin
Apollo Tyres Ltd	Consumer Discretionary	11 855 954	99 793	278 112	178 320	0,91%	India
Aberdeen Asset Management Plc	Financials	9 475 609	293 750	259 323	-34 426	0,85%	London
Mahindra & Mahindra Ltd	Consumer Discretionary	1 565 122	126 864	235 236	108 371	0,77%	India
GCL-Poly Energy Holdings Ltd	Energy	224 088 000	369 048	231 326	-137 722	0,76%	Hong Kong
Lenovo Group Ltd	Information Technology	43 490 000	280 193	226 887	-53 306	0,74%	Hong Kong
LG Corp Pref	Industrials	808 430	118 669	225 931	107 262	0,74%	Seoul
OCI Co Ltd	Materials	396 454	301 427	223 296	-78 131	0,73%	Seoul
Norwegian Air Shuttle ASA	Industrials	700 000	65 751	200 900	135 149	0,66%	Oslo
Eis Eczacibasi Ilac ve Sinai	Health Care	24 263 192	133 394	185 202	51 808	0,60%	Istanbul
Borr Drilling Ltd	Energy	6 250 000	105 500	181 250	75 750	0,59%	Unlisted
EFG-Hermes Holding SAE	Financials	13 778 665	237 808	165 576	-72 231	0,54%	Cairo
East African Breweries Ltd	Consumer Staples	7 471 622	123 086	155 649	32 562	0,51%	Nairobi
Massmart Holdings Ltd	Consumer Staples	1 932 340	147 925	153 535	5 610	0,50%	Johannesburg
Golden Ocean Group Ltd	Industrials	3 695 653	97 061	152 630	55 570	0,50%	Oslo
Ghana Commercial Bank Ltd	Financials	18 001 604	90 783	129 231	38 448	0,42%	Ghana
VinaCapital Vietnam Opportunity Fund Ltd	Financials	4 392 100	92 364	128 002	35 638	0,42%	London
Eczacibasi Yatirim Holding	Health Care	5 044 098	40 038	109 582	69 543	0,36%	Istanbul
Cosco Shipping Energy Transportation	Industrials	21 964 000	121 846	105 566	-16 280	0,34%	Hong Kong
Euronav SA	Industrials	1 318 060	125 340	90 666	-34 674	0,30%	Brussels
Norfinance AS	Financials	578 397	57 840	63 661	5 821	0,21%	Unlisted
Frontline Ltd	Industrials	970 287	49 346	60 158	10 812	0,20%	Oslo
Asia Cement China Holdings	Materials	22 407 000	82 610	44 520	-38 090	0,15%	Hong Kong
Deep Sea Supply Plc	Energy	17 250 931	171 047	23 979	-147 068	0,08%	Oslo
Diamond Bank Plc	Financials	718 971 941	154 156	17 715	-136 441	0,06%	Lagos
Hyundai Motor Co GDR	Consumer Discretionary	33 510	10 090	11 261	1 172	0,04%	London
Euronav SA	Industrials	97 655	8 387	6 681	-1 706	0,02%	New York
EFG-Hermes Holding GDR	Financials	232 480	8 193	4 512	-3 682	0,01%	London International
Bollore SA	Industrials	24 818	682	737	54	0,00%	Paris
Total equity portfolio*			**20 924 393**	**30 095 872**	**9 171 479**	**98,24%**	
Disposable liquidity				539 509		1,76%	
Total share capital				**30 635 381**		**100,00%**	

* Numbers in 1 000 NOK.

In 2016, SKAGEN Kon-Tiki kept up its focus on environmental, social and governance-related factors (ESG). The fund voted in as many as 92% of all shareholder meetings and engaged with several companies on governance. We believe this focus is part of our fiduciary duty and important as it may reduce risk.

SKAGEN Focus

In pursuit of exceptional investments

- 2016 was a year of many faces in the market, and a dramatic about-turn took place in Q4
- Financial and commodity names contributed most to the fund's return in Q4
- Four out of the fund's top five contributors for 2016 were sold out after reaching their price targets

1	2	3	4	5	RISK	7

Fund start date	26 May 2015
Return since start	20.5%
Average annual return	12.3%
AUM	GBP 159 million
Number of unitholders	4,934

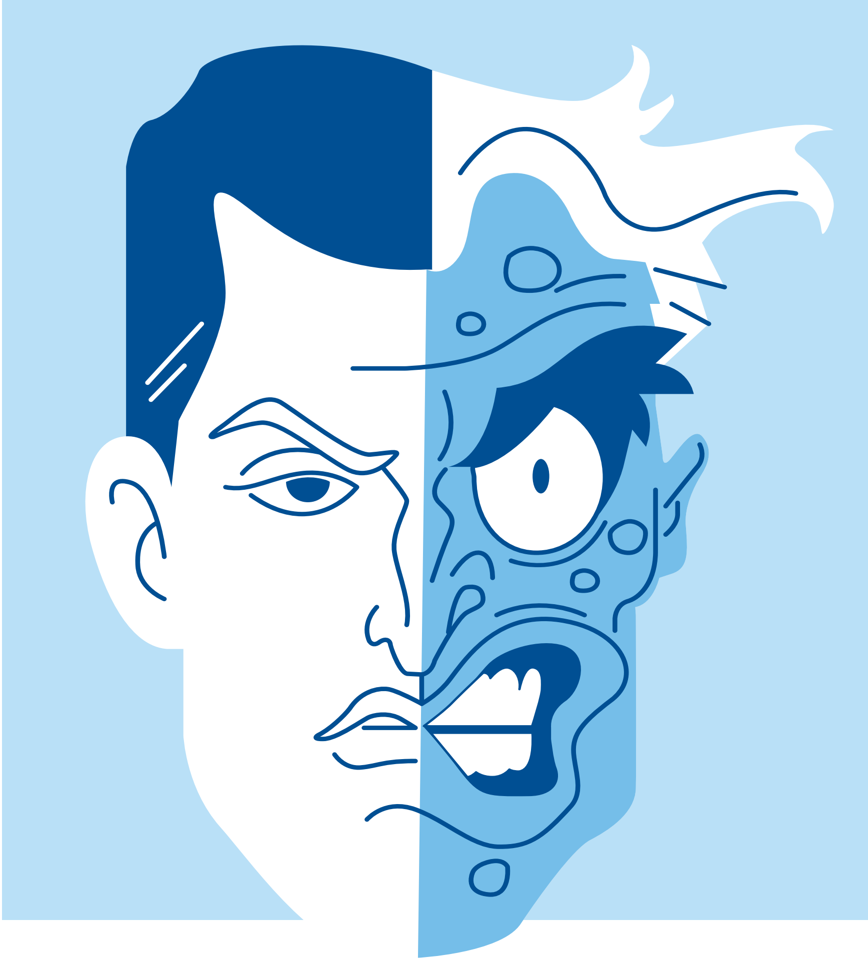
PERFORMANCE IN GBP	Q4 2016	12M
SKAGEN Focus A	6.8%	36.8%
MSCI World AC TR Index	6.5%	28.6%

As of 31 December 2016, net of fees

PORTFOLIO MANAGERS

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

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



The market's two faces

The year 2016 was one of many different faces and trends; SKAGEN Focus delivered an absolute return of 36.8% in GBP which was significantly higher than the global equity market.

The last quarter of the year brought about a remarkable change of scenery in the financial market, primarily driven by the developments in the US exchanges. We will focus on the fourth quarter in this report. (please see previous 2016 quarterly reports for information about the rest of the year).

Just like the Batman villain Two-Face, the market has shown one, rather predictable, face since global QE was initiated by most central banks in 2010. The unprecedented monetary stimulus has resulted in ultra-low interest rates globally and even negative rates in some countries. As yields have contracted to these absurd levels, capital has moved heavily into equity market "bond-proxies", such as specific areas of consumer staples, telecoms and high yielding stocks. The capital movement towards ETFs and low-volatility funds has been a powerful force underpinning this. As we communicated clearly when the fund was launched, we observed very little value in these market segments, with some areas being highly overvalued in our view. Additionally, we have been "Emerging Markets light," since the fund's formation but found attractive value via individual stocks in the segment and increased our exposure significantly during the second quarter of the year.

However, we would argue that even before the Trump-election win, there were signs of a breakdown in this pattern. We saw early strength in commodities and other related names. The catalyst for the complete about-turn in the markets was the election outcome in the US, according to general media at least. All of a sudden, markets became obsessed with reflation, i.e. higher inflation, higher interest rates and potentially higher growth, primarily in the US. Bond yields spiked and equity segments that had been ignored for 5 to 6 years accelerated higher. This was the case with financial stocks, for example, which are highly dependent on a steeper yield curve.


Photo: Bloomberg


Photo: Tesoro

Financials and commodities on top following rotation

How was SKAGEN Focus positioned during this quite dramatic rotation? Since inception of the fund we have held positions, with varying degrees of exposure, in commodities and financial names, both of which have been beneficiaries of the new equity environment. The main contributors in the quarter can be found in these segments.

Our largest position is diversified insurer AIG, which was a top performer in the quarter, measured as absolute contribution. AIG was an almost 8% position at year end, and we continue to believe the stock represents significant value trading at a major discount to book value with a clear fundamental recovery process in place.

Our US mid-cap regional bank Citizens Financial has been with us since fund launch. At that time we saw a mismanaged asset with the potential to more than double the return on equity towards peer group level. There had been solid fundamental progress but the stock was slow to re-rate. However, the strong end to the year and the reflation focus brought the stock to its price target and it was sold out at the end of 2016. Synchrony Financial, the US credit card private label provider, which was previously plagued by consumer credit fears, also re-rated sharply in the quarter as the company is a clear beneficiary of de-regulation and better growth prospects in the US. The company is trading at a substantial discount to our estimate of absolute fair value.

SKAGEN FOCUS CHANGES IN Q4 2016 (PERCENTAGE OF AUM)

5 largest contributors	
AIG	1.40%
Whiting Petroleum	1.09%
Citizens Financial Group	1.06%
First Quantum Minerals	0.77%
Taiheiyo Cement	0.74%

5 largest purchases	
Tesoro	4.58%
Telecom Italia Spa	3.50%
Adient	3.07%
E-MART	2.95%
Ence Energia y Celulosa	2.70%

5 largest detractors	
TerraVia Holdings	-1.31%
Fila Korea	-0.78%
Teva Pharmaceutical Industries	-0.60%
Rentech	-0.25%
Pilgrim's Pride	-0.11%

5 largest sales	
Citizens Financial Group	-4.04%
South32	-2.94%
First Quantum Minerals	-2.61%
Crown Confectionery	-1.63%
Aercap Holdings	-1.44%

Based on NOK return.

SKAGEN FOCUS KEY NUMBERS FOR THE LARGEST HOLDINGS (AS OF 31.12.2016)

Company	Holding size	Price	P/E 2016E	P/E 2017E	P/B last	Price target
American International Group Inc	7.9 %	65.31	17.2	12.0	0.8	90
JBS SA	4.7 %	11.40	63.7	7.4	1.3	22
Telecom Italia Spa	4.6 %	0.84	12.7	12.7	0.8	1.2
E-MART Inc	4.4 %	183,000.00	15.2	13.2	0.7	270,000
Teva Pharmaceutical-Sp ADR	4.3 %	36.25	7.1	6.7	1.0	90
SBI Holdings Inc	4.0 %	1,487.00	13.3	13.4	0.8	3,000
Softbank Group Corp	3.9 %	7,765.00	9.4	12.8	3.7	9,600
Tesoro Corp	3.9 %	87.45	17.7	14.0	1.9	120
Taiheiyo Cement Corp	3.6 %	370.00	8.7	11.6	1.4	495
Whiting Petroleum Corp	3.4 %	12.02	n/a	n/a	0.7	35
Weighted top 10	**44.7%**		**17.8**	**12.5**	**1.0**	
Weighted top 35	**95.4%**					
Cash	**4.6%**					
Total portfolio	**100%**					

**JBS is the main owner of Pilgrim's Pride, which is a 1.1% position in the fund. These two positions should be viewed as one, with a total weight of 5.8%.*

Tesoro

The company is the fourth largest independent refinery in Western US. Tesoro owns and operates seven petroleum refineries and a substantial retail/marketing operation with a vast network of petrol stations. The company has a strong market position with almost a local monopoly status in its geographic areas. At current stock price we think the market is implicitly undervaluing the refinery business compared to peer and absolute fair value.


Photo: Adient

Adient

US based auto-parts supplier Adient is the global market share leader in seating and interior components for passenger cars, commercial vehicles, and light trucks. Adient has a myriad of Chinese JVs which supply seating products to the Chinese market. The company recently installed a new management team recruited from peer Visteon. We see major potential for margin improvement and monetisation of the company's JV structure in the mid-term.

Photos: Pixabay

Scissors, rock, paper… and some oil

Throughout the year, we kept our overall commodity-complex exposure stable at below 10%, but the company types varied greatly. First, we invested in precious commodities company Pan American Silver (scissors), then diversified mining producer South 32 (rock) which was finally discovered by investors as a newly spun-off company. Finally, we bought into First Quantum, the most efficient copper producer in the sector. All three each delivered more than 100% return in the year. This capital gain, now liquidated, was invested in paper pulp and energy towards the end of the year, via positions in paper pulp producer Ence (paper) and in energy names.

Our energy exposure has been limited throughout the year, and the depressed environment has caused valuation to collapse in many parts of the energy sector. We increased our position in US onshore driller Whiting Petroleum in the quarter. The company managed, with miserable timing, to acquire peer Kodiak in December 2014 and at the same time build up an excessive debt burden. Obviously at that time, nobody foresaw the collapse in the oil price, and the company has spent the last two years cutting costs and reducing capital expenditure, developing and implementing more efficient techniques to extract oil and reducing excessive debt. At the end of the quarter, the stock is a 3.4% position in the fund. Also energy-related, our recently established position in the US based refiner Tesoro is highlighted in the company box section. These two positions represent a conservative approach since the oil price is implicitly hedged out, as Whiting carries a long oil exposure and Tesoro will, all else being equal, benefit from a lower oil price through a higher so-called crack spread.

An important part of the investment process is to remain disciplined with regard to the original investment case assumptions and its price targets. Several positions reached our price targets in the quarter, namely Canada-based copper miner First Quantum, Australia-based diversified miner South 32, and mid-cap bank Citizens Financial. In fact, four out of the five top contributors in the fund for the year have been sold out. As a result, the fund's exposure to metal and mining is at its lowest point since inception. The resulting capital has mainly been deployed into new positions, including the US based auto-parts supplier Adient, a global world leader in seating. The position was initiated at the end of the year, following a spin-off from Johnson Control.

Disconnected from fair value

We entered into Telecom Italia at the end of the year following the general de-rating of stable earners as well as Italian political risk and banking system weakness. The shares of the telecom company have also been weighed down by the anticipated competitive pressure from mobile operator Iliad and Enel in fibre. Fibre penetration is currently low in Italy, at a level that is on a par with emerging markets. Trading at less than five times cash flow at our inception point, the shares look undervalued and there are tangible triggers for revaluation on the horizon. Vivendi, the French media conglomerate, is the new main owner, holding 25% of the company, and is pushing for a corporate overhaul and cost-cutting. They have recently installed a new CEO in former board member Flavio Cattaneo, and he is highly motivated to deliver on an efficiency program towards 2018. Furthermore, the assumed future competitive pressure may be overly discounted in the shares. Telecom Italia is a 4.5% position in fund at year-end.

It remains to be seen whether the market will change face again in the near term. As we see it, the SKAGEN Focus portfolio contains a tremendously undervalued collection of 33 companies at the end of the year, which will hopefully deliver good risk-adjusted absolute returns regardless of the constantly changing face of the market.

We thank you for your trust in us in 2016.

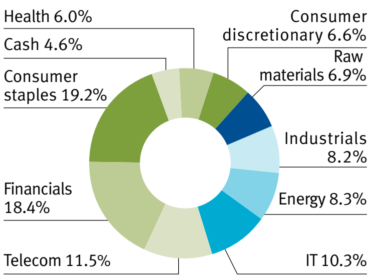
SECURITIES PORTFOLIO SKAGEN FOCUS AS OF 31 DEC 2016

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

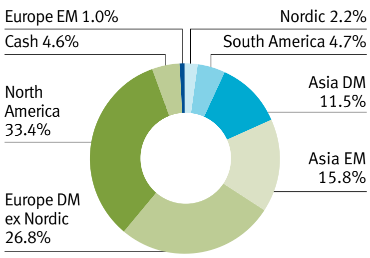
Securities	Sector	Number of shares	Acquistion value NOK *	Market-value NOK*	Unrealised gain/loss *	Share of fund	Stock exchange
American International Group Inc	Financials	238 000	116 420	133 808	17 388	7,89%	New York
Jbs SA	Consumer Staples	2 625 000	64 115	79 122	15 007	4,67%	Sao Paulo
E-MART Inc	Consumer Staples	56 800	72 973	74 390	1 417	4,39%	Seoul
Teva Pharmaceutical-Sp ADR	Health Care	235 000	90 514	73 331	-17 183	4,32%	NASDAQ
SBI Holdings Inc	Financials	613 000	64 995	67 251	2 256	3,97%	Tokyo
Softbank Group Corp	Telecommunication Services	116 300	54 774	66 627	11 853	3,93%	Tokyo
Tesoro Corp	Energy	88 000	61 032	66 235	5 203	3,91%	New York
Taiheiyo Cement Corp	Materials	2 210 000	54 577	60 328	5 751	3,56%	Tokyo
Whiting Petroleum Corp	Energy	555 000	44 709	57 363	12 654	3,38%	New York
Philips Lighting NV	Industrials	255 361	49 650	54 234	4 584	3,20%	Amsterdam
Telecom Italia Spa	Telecommunication Services	7 100 000	46 710	53 937	7 227	3,18%	Italien
Aryzta AG	Consumer Staples	137 707	52 371	52 295	-75	3,08%	Zürich
China Telecom Corp Ltd	Telecommunication Services	13 014 000	61 548	51 715	-9 833	3,05%	Hong Kong
Schaeffler AG	Industrials	398 033	50 708	50 775	67	2,99%	Frankfurt
Fila Korea Ltd	Consumer Discretionary	100 600	62 751	50 757	-11 993	2,99%	Seoul
CIT Group Inc	Financials	138 000	47 505	50 699	3 194	2,99%	New York
Infineon Technologies AG	Information Technology	335 000	39 426	50 199	10 773	2,96%	Frankfurt
Alphabet Inc Class C	Information Technology	7 500	47 059	49 852	2 792	2,94%	NASDAQ
SK Hynix Inc	Information Technology	140 000	31 931	44 787	12 856	2,64%	Seoul
Ence Energia y Celulosa SA	Materials	1 909 208	36 032	43 494	7 462	2,56%	Madrid
Adient Plc	Consumer Discretionary	85 555	40 905	43 146	2 241	2,54%	New York
Synchrony Financial	Financials	134 572	35 879	42 016	6 137	2,48%	New York
Carlsberg AS-B	Consumer Staples	49 600	35 727	36 900	1 173	2,18%	Köpenhamn
Stock Spirits Group Plc	Consumer Staples	1 760 375	36 885	33 844	-3 041	2,00%	London
Jenoptik AG	Industrials	225 909	25 484	33 677	8 193	1,99%	Xetra
Magforce AG	Health Care	672 154	32 822	27 751	-5 071	1,64%	Xetra
Telecom Italia Rsp	Telecommunication Services	3 750 000	20 218	23 382	3 164	1,38%	Italien
Samsung SDI Co Ltd	Information Technology	29 000	20 778	22 622	1 845	1,33%	Seoul
Pilgrim's Pride Corp	Consumer Staples	115 000	21 760	18 804	-2 956	1,11%	New York
FFP	Financials	26 858	16 862	17 612	750	1,04%	Paris
Fourlis Holdings SA	Consumer Discretionary	474 628	12 707	17 576	4 869	1,04%	Aten
Omega Protein Corp	Consumer Staples	80 491	12 515	17 317	4 803	1,02%	New York
GCL-Poly Energy Holdings Ltd	Energy	16 500 000	31 962	17 033	-14 929	1,00%	Hong Kong
TerraVia Holdings Inc	Materials	1 436 525	30 157	13 599	-16 558	0,80%	NASDAQ
Massimo Zanetti Beverage Group SpA	Consumer Staples	213 933	16 138	13 485	-2 653	0,80%	Italien
Samsung SDI Co Ltd Pref	Information Technology	18 720	8 749	7 315	-1 434	0,43%	Seoul
Total equity portfolio*			**1 549 346**	**1 617 277**	**67 930**	**95,37%**	
Disposable liquidity				78 431		4,63%	
Total share capital				**1 695 707**		**100,00%**	

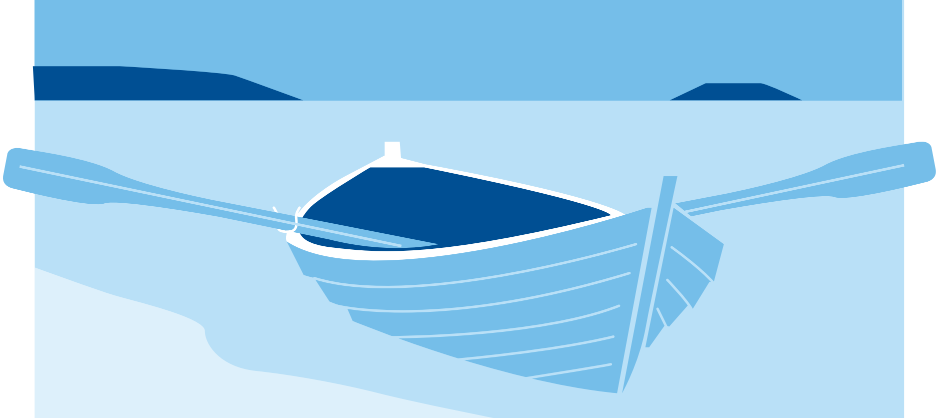
* Nubers in 1 000 NOK.

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION





SKAGEN Vekst

Exploring the narrow path to prosperity

- › Excess return in a turbulent year
- › Best contribution from finance in fourth quarter
- › Growing interest in value stocks

1	2	3	4	5	RISK	7

Fund start date	1 December 1993
Return since start	2061.7%
Average annual return	14.2%
AUM	GBP 702 million
Number of unitholders	69,309

PERFORMANCE IN GBP	Q4 2016	12M
SKAGEN Vekst A	6.0%	28.2%
MSCI Nordic/MSCI AC ex. Nordic	4.0%	22.7%

As of 31 December 2016, net of fees

PORTFOLIO MANAGERS

Geir Tjetland, Ole Søeberg, and Alexander Stensrud*

** Junior manager*

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

New spring for value stocks

Last year we saw a growing interest in value stocks at the expense of growth stocks. Focus on underlying values is a welcome development.

What a year we have just put behind us. It was a year that would not have been out of place in Roald Dahl's *Tales of the Unexpected*. In the fund, we chose to sit tight and ride out the large political events that took place in the year, including the Brexit referendum in the UK and the presidential election in the US. The surprising outcomes in both cases led to negative fluctuations in the stock market – in the short run. The stock market then performed extremely well throughout the rest of the year and SKAGEN Vekst delivered a return of 3.3% in the second half, measured in GBP. The fund's return was 6.0% in the fourth quarter and for the full year 2016 we gained 28.2%, outperforming the benchmark index in each period.

SKAGEN VEKST PORTFOLIO CHANGES IN Q4 2016 (PERCENTAGE OF AUM)

5 largest contributors	
Citigroup	1.60%
Bonheur	0.91%
Norsk Hydro	0.78%
Samsung Electronics	0.71%
Sodastream International	0.58%

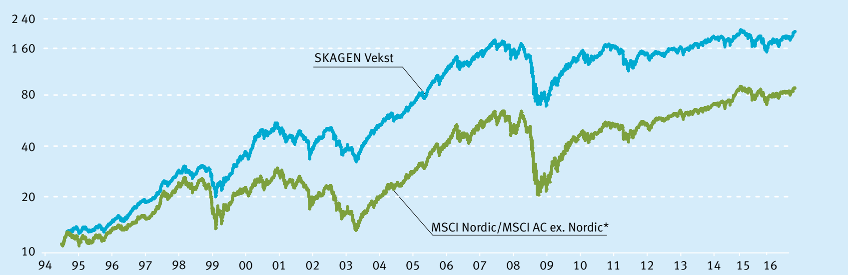
5 largest purchases	
Novo Nordisk	1.52%
Gazprom OAO	1.16%
Hennes & Mauritz AB	0.50%
Golar LNG	0.44%
Norwegian Air Shuttle	0.43%

5 largest detractors	
Ericsson	-0.43%
Solstad Offshore	-0.13%
Catena	-0.13%
Oriflame Holding	-0.12%
Kia Motors	-0.11%

5 largest sales	
Oriflame Holding	-1.75%
Philips	-1.45%
Citigroup	-1.31%
Nippon Seiki	-1.00%
ABB	-0.93%

Based on NOK return.

HISTORICAL PRICE DEVELOPMENT SKAGEN VEKST



** 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).*

Photo: Pixabay

Photo: Pixabay

Favourable outlook for Citigroup

The fund's best contributor in the fourth quarter was Citigroup, whose share price rose over 27% in the period. For the year as a whole, the share price was up 15% after a volatile journey. An interest rate hike in the US will result in better earnings for the bank in future and according to the company, 100 basis points of higher interest rates will result in an earnings increase corresponding to USD 1.3 billion, without any increase in costs. The incoming president of the US has stated a clear aim to reduce corporate tax. This could be positive for Citigroup as it would result in increased acquisition activity among US companies and as such greater consultancy income for the bank. We believe that the bank is capable of earning USD 7 per share in 2018, which still gives significant scope for the share price to rise.

Sodastream

Sodastream gained 50% last quarter and 142% for 2016 as a whole. In our view, the company still has the potential to grow considerably in Germany, Scandinavia, France and Japan. In the US too, sales are beginning to pick up after Sodastream repositioned itself there from being a provider of soft drinks to being a facilitator of home-produced carbonated water.

Cars and network pulled down

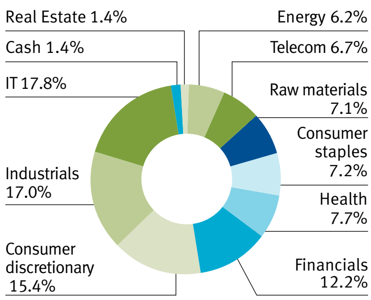
On the negative side, Swedish Ericsson stands out. The company had negative performance in the fourth quarter and the share price was down more than 30% for the year as a whole. Ericsson is a world leading provider of infrastructure and services to the mobile phone industry. We expect the company to now deliver on the cost-cutting plan which they have initiated, at the same time as we see that the company's customers are about to make major investments in new infrastructure. Increased use of video and smart phones in general are leading to capacity bottlenecks, so telecoms companies must once again increase investments in order to provide their customers with sufficiently high quality. We hope that much of this will benefit Ericsson.

Our companies within the auto industry also had a difficult year. Continental and Kia were both detractors from the fund's performance.

Bonheur

The Fred Olsen company, Bonheur, contributed positively to the quarterly result after their share price rose 50%. Other investors are starting to wake up to the company's value within renewable energy (wind power). We calculate that we get NOK 1 for NOK 0.3 here, and that these values will sooner or later be substantially repriced. The company is debt free, but there is of course a moral obligation in the system to help its subsidiary Fred Olsen Energy should the need arise. At the start of 2017, we have one New Year's wish; Bonheur listed Fred Olsen Energy in 1997, Fred Olsen Production in 2007, and now we wish for a listing of Renewable Energy in 2017.

SECTOR DISTRIBUTION



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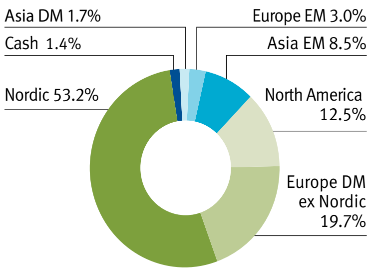


Photographer: Andrey Rudakov/Bloomberg

Employees pass beneath pipes leading to oil storage tanks belonging to Gazprom in Salym, Russia. Gazprom is back in the portfolio after falling gas prices and waning investor interest.

Long-standing holdings deliver

Russian Sberbank also contributed positively to the fund both in the quarter and for the year as a whole after the share price rose 70%. The bank continues to deliver an impressive return on capital of more than 20%. We also like that Sberbank continues to cut costs by reducing the number of subsidiaries; more than 6% of subsidiaries were closed down in 2016, but they continue to operate more than 15,000. We think there is more to be done here.

Two other long-standing holdings also contributed substantially to the fund's good fourth quarter and full year returns, namely Samsung and Norsk Hydro. Samsung ended the year up 31%, despite all the negative news around the launch and withdrawal of their Galaxy Note 7. Norsk Hydro's share price experienced a boost after the pessimism surrounding the expected overcapacity in aluminium was reversed to expectations of less supply capacity and higher expectations on the demand side.

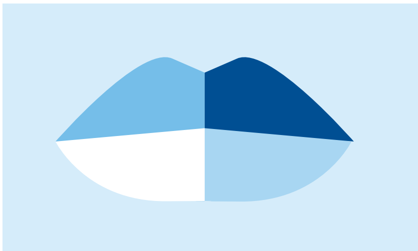
Photographer: Bloomberg

Employees stand inside a Samsung Electronics retail store in Hong Kong. The company is ending production of its problematic Galaxy Note 7 smartphones, taking the drastic step of killing off a smartphone that became a major headache for the company. In spite of this, Samsung Electronics was one of the best contributors to the fund's return in Q4 and 2016.

Welcoming back old acquaintances

Novo Nordisk was bought back into the portfolio in the fourth quarter. The company is a world leader within the treatment of diabetes and also has a strong position within haemophilia. The company lost much of its "must have" status in the stock market last year, as its traditional turnover growth of 10% and earnings growth of 15-20% were adjusted downwards to 5% and 10%, respectively. After the share price fell more than 30%, we decided the time was right to once again invest in the company. Since lifestyle diseases such as diabetes and obesity continue to become ever more commonplace, there will (unfortunately) be strong demand for Novo's products for many more years to come.

We once again invested in Russian Gazprom after pressure from falling gas prices and waning investor interest pushed down the share price. The company is the world's largest exporter of gas and has a solid resource base, unrivalled market access and good transport systems. In light of the price increases for coal and other traditional energy sources, Gazprom stands out as extremely attractive. In addition, Gazprom appears to be a preferred partner for Russia in new areas. There is great potential here as less than 10% of Russian reserves have been developed so far. At the time of investing, we paid 5 times earnings and only 30% of book value, so most of the Russia risk should already be priced into the share price.



Reached target price for cosmetics

Oriflame exited the portfolio in the fourth quarter. The company was the largest contributor to the fund's performance last year, and we realised a profit of over NOK 125 million. The share price more or less tripled during the year, and thus became too expensive in our view as expectations of continued strong growth were more than priced into the share price.

The Japanese producer of car instruments and screens Nippon Seiki was sold out of the portfolio in December. The company has on the whole delivered according to the expectations we had when we first invested in the autumn of 2013, and we made a profit of 47% on the investment. This is close to our aim for holdings to deliver a 50% return over a 2-3 year time horizon.

Danish Solar AS was also sold out of the portfolio, while our holdings in Philips and ABB were trimmed somewhat as they start to approach target price.

SECURITIES PORTFOLIO SKAGEN VEKST AS OF 31 DEC 2016

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

Securities	Sector	Number of shares	Acquistion value NOK *	Market-value NOK*	Unrealised gain/loss *	Share of fund	Stock exchange
Samsung Electronics Co Ltd Pref	Information Technology	47 000	280 827	482 011	201 184	6,46%	Seoul
Continental AG	Consumer Discretionary	252 000	139 867	420 154	280 287	5,63%	Frankfurt
SAP SE	Information Technology	515 000	238 067	387 070	149 003	5,19%	Frankfurt
Norwegian Air Shuttle ASA	Industrials	1 300 000	200 616	373 100	172 484	5,00%	Oslo
Citigroup Inc	Financials	725 000	259 005	370 861	111 856	4,97%	New York
Carlsberg AS-B	Consumer Staples	460 000	291 973	342 220	50 247	4,59%	Copenhagen
Norsk Hydro ASA	Materials	8 000 000	205 706	330 400	124 694	4,43%	Oslo
Hennes & Mauritz AB	Consumer Discretionary	1 250 000	324 719	299 994	-24 725	4,02%	Stockholm
Kinnevik AB-B	Telecommunication Services	1 425 000	296 078	294 622	-1 456	3,95%	Stockholm
Ericsson LM-B SHS	Information Technology	4 522 950	349 543	229 177	-120 366	3,07%	Stockholm
Roche Holding AG-Genusschein	Health Care	106 000	229 901	208 766	-21 135	2,80%	Zürich
Telia Co AB	Telecommunication Services	5 880 000	270 096	204 436	-65 660	2,74%	Stockholm
Bonheur ASA	Energy	2 777 795	242 405	200 696	-41 710	2,69%	Oslo
Volvo AB	Consumer Discretionary	1 885 000	159 470	189 954	30 484	2,55%	Stockholm
Danske Bank A/S	Financials	725 000	105 611	189 553	83 943	2,54%	Copenhagen
eBay Inc	Information Technology	690 000	137 899	176 360	38 460	2,36%	NASDAQ
ABB Ltd	Industrials	942 440	124 379	171 198	46 818	2,29%	Stockholm
Kemira OYJ	Materials	1 350 000	130 354	148 626	18 272	1,99%	Helsinki
SKF AB - B Shares	Industrials	908 000	140 010	144 130	4 121	1,93%	Stockholm
SBI Holdings Inc	Financials	1 139 000	96 714	124 957	28 243	1,67%	Tokyo
Kia Motors Corporation	Consumer Discretionary	425 000	130 536	119 383	-11 154	1,60%	Seoul
Sberbank of Russia Pref	Financials	6 500 000	94 190	119 000	24 810	1,59%	Moscow
Swatch Group AG	Consumer Discretionary	44 000	115 141	117 990	2 849	1,58%	Zürich
Philips Lighting NV	Industrials	550 000	108 892	116 809	7 917	1,57%	Amsterdam
Golden Ocean Group Ltd	Industrials	2 642 660	65 732	109 142	43 410	1,46%	Oslo
Novo Nordisk A/S-B	Health Care	350 000	107 526	108 810	1 284	1,46%	Copenhagen
Wilh. Wilhelmsen Holding ASA	Industrials	522 647	37 379	103 484	66 105	1,39%	Oslo
Catena AB	Real Estate	830 100	74 311	101 025	26 714	1,35%	Stockholm
Sodastream International Ltd	Consumer Staples	294 500	66 049	100 059	34 010	1,34%	NASDAQ
Shire Plc-ADR	Health Care	66 000	103 606	96 785	-6 821	1,30%	NASDAQ
Lundin Petroleum AB	Energy	471 000	46 434	88 369	41 935	1,18%	Stockholm
Gazprom Oao ADR	Energy	2 000 000	82 281	86 919	4 638	1,16%	London Int
Koninklijke Philips NV	Industrials	325 000	66 191	85 542	19 352	1,15%	Amsterdam
H Lundbeck A/S	Health Care	220 000	42 146	77 149	35 004	1,03%	Copenhagen
Danieli & Officine Meccaniche SpA	Industrials	527 390	67 936	72 470	4 534	0,97%	Italia
Cal-Maine Foods Inc	Consumer Staples	189 600	88 481	72 038	-16 442	0,97%	New York
Golar LNG Ltd	Industrials	340 400	86 992	67 201	-19 791	0,90%	NASDAQ
Medi-Stim ASA	Health Care	850 072	10 633	62 480	51 847	0,84%	Oslo
Credit Suisse Group AG	Financials	500 000	99 213	61 854	-37 360	0,83%	Zürich
Strongpoint ASA	Information Technology	3 429 227	39 239	55 553	16 315	0,74%	Oslo
CF Industries Holdings Inc	Materials	180 000	36 066	48 780	12 714	0,65%	New York
HitecVision AS	Financials	792 668	7 191	44 389	37 199	0,59%	Unlisted
GCL-Poly Energy Holdings Ltd	Energy	35 000 000	65 216	36 131	-29 085	0,48%	Hong Kong
Solstad Offshore ASA	Energy	2 417 853	105 713	27 805	-77 908	0,37%	Oslo
Rec Silicon ASA	Energy	21 000 000	31 267	23 940	-7 327	0,32%	Oslo
Yazicilar Holding AS	Consumer Staples	654 669	22 383	21 062	-1 321	0,28%	Istanbul
PhotoCure ASA	Health Care	399 267	16 106	16 769	663	0,22%	Oslo
Goodtech ASA	Industrials	1 950 949	44 407	13 657	-30 751	0,18%	Oslo
TTS Group ASA	Industrials	2 411 069	24 080	9 114	-14 966	0,12%	Oslo
Nordic Mining ASA	Materials	900 000	6 092	3 672	-2 420	0,05%	Oslo Axess
I.M. Skaugen SE	Industrials	1 554 152	18 891	3 606	-15 285	0,05%	Oslo
Total equity portfolio*			**6 133 559**	**7 359 272**	**1 225 714**	**98,62%**	
Disposable liquidity				102 659		1,38%	
Total share capital				**7 461 931**		**100,00%**	

* Numbers in 1 000 NOK.

SKAGEN VEKST KEY NUMBERS FOR THE LARGEST HOLDINGS (AS OF 31.12.2016)

Company	Holding size	Price	P/E 2016E	P/E 2017E	P/E 2018E	P/B last	Price target
Samsung Electronics Pref	6.5 %	1,433,000	9.9	8.4	8.0	1.2	1,680,000
Continental AG	5.6 %	184	13.5	11.3	10.5	2.8	265
SAP SE	5.2 %	83	21.6	19.5	17.7	4.4	102
Norwegian Air Shuttle ASA	5.0 %	287	9.9	6.4	5.2	2.9	500
Citigroup Inc	5.0 %	59	11.2	10.5	9.4	0.8	75
Carlsberg AS-B	4.6 %	610	16.7	14.8	13.4	2.0	847
Norsk Hydro ASA	4.4 %	41	15.3	12.5	11.8	1.1	45
Hennes & Mauritz AB	4.0 %	253	20.3	16.9	14.9	7.7	400
Kinnevik AB-B	4.0 %	218	54.6	36.4	34.1	0.8	295
Ericsson LM-B SHS	3.1 %	54	21.2	15.4	12.0	1.3	75
Weighted top 10	**47.3**		**14.6**	**11.8**	**10.5**	**1.6**	**36 %**
Weighted top 35	**90.8**		**13.6**	**11.1**	**9.7**	**1.5**	
Benchmark index			**18.1**	**16.1**	**14.6**	**2.1**	

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

Growing interest in value

At the start of the year, SKAGEN Vekst's portfolio is priced at 13.6 times this year's earnings, significantly lower than the market at 18 times earnings. The portfolio consists of 52 companies, whereby 90% of the capital is allocated to the 35 largest positions. During the course of 2016, around a quarter of the fund was reinvested or reallocated, indicating that investments in SKAGEN Vekst are held for four years on average.

Last year, we witnessed a growing interest in value stocks at the expense of growth stocks and so-called stable earners. We expect this trend to continue, which bodes well for SKAGEN Vekst and SKAGEN's overall investment philosophy in the year ahead.

SKAGEN m²

A doorway to global interest rates

- The two best contributors were D. Carnegie & Co and IRSA
- SKAGEN m² has increased its exposure to Scandinavia over the past year
- We are optimistic about long-term prospects

1	2	3	4	5	RISK	7

Fund start date	31 October 2012
Return since start	40.0%
Average annual return	8.4%
AUM	GBP 90 million
Number of unitholders	8,006

PERFORMANCE IN GBP	Q4 2016	12M
SKAGEN m² A	1.4 %	28.5%
MSCI ACWI Real Estate IMI	-1.0%	24.1%

As of 31 December 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 Skagens Museum

A good year for m2

SKAGEN m2 was ranked the best global indirect property fund across Europe by Morningstar and Citywire. The second half of 2016 in particular contributed to the fund's performance.

2016 was marked by surprising election results and by the expected rate hike in the US. The market was ill prepared for Brexit, and the reaction following the referendum confirmed that the outcome was unexpected. The surprise over Brexit meant, however, that the market was well prepared for Trump's election victory. Even though the election outcome appeared unexpected, the market had already sold down on fears of what Trump's election victory would mean ahead of the event. As a result, when the dreaded result was announced, everything had already been sold off, and a classic rally was triggered. This rally is still in progress, at the same time as we have seen a strong rise in the long-term interest rates in both the US and Europe.

Should you invest in property when interest rates rise?

The crash in real estate companies during the financial crisis is still fresh in many people's minds. The big difference now is the debt levels. Most property companies have used the period since the financial crisis to reduce their debt levels. Prior to the financial crisis, property companies typically had debt levels of 50-75% relative to property values. That level has now been reduced to 25-50%, with the majority at around 30-40%. Companies are therefore better equipped than ever to deal with higher interest rate costs and reduced property values.

The companies that will benefit most from higher interest rates are those that issue perpetual loans and which can be bought back in the market. Our winning US-based holding, PS Business Parks, is one such company whose most recent perpetual loan was issued on 12 October 2016 at a 5.2% interest rate. When the interest rate rose, the nominal value fell to 82% two months later. Given that the loan is traded in the market, the company can use its free cash flow to buy back the loan at a significant discount, and thereby make a profit. This company will benefit from inflation and higher interest rates on both sides of the balance sheet.

Photo: IRSA

Contributors

Our two best contributors to both absolute and excess return were D.Carnegie & Co and IRSA. The former is a Swedish apartment company partly founded on the remains of Acta in Sweden. Large-scale immigration, as well as demand for Stockholm apartments as a result of rental regulations and general urbanisation, have resulted in a significant revaluation of the apartments. The company has also carried out a comprehensive renovation program, which yields a return in the range of 8-9% on invested capital. This is significantly higher than the 4-5% required rate of return and provides significant valuation gains.

IRSA is an Argentinian company with exposure to New York, Argentina and Israel. Over the past year the company has been switching its exposure from New York to Israel and has bought an Israeli investment company under restructuring. There was speculation that IRSA would have to consolidate the debt in the Israeli company, which is close to bankruptcy. The big question is whether the parent company is responsible for the subsidiary's debt. We took advantage of the fall in share price to increase our position. After the speculation was laid to rest, the share price has risen over 100%. A contributing factor has also been that Argentina has moved in a positive direction both politically and economically, and appears to be negotiating itself out of its hopeless debt situation.

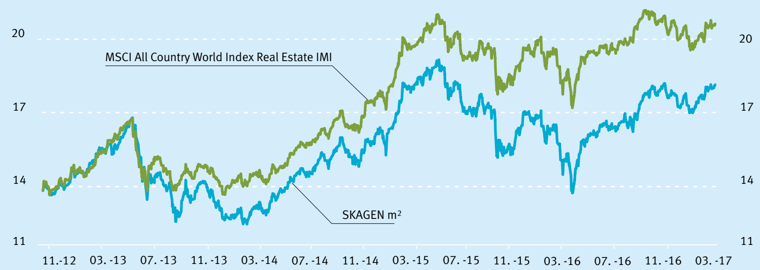
There were very few losers in the portfolio last year, and none of them were very large. Our largest relative detractor was Big Yellow Group, which proved not to be a safe haven, as many had believed. Much of the loss was related to the weakening of the British pound. Meanwhile, Mitsui Fudosan lost out on failing expectations around Abenomics. However, the loss was small given the size of the position.

SKAGEN M2 KEY NUMBERS FOR THE LARGEST HOLDINGS (AS OF 31.12.2016)

Company	Holding size	Price	P/NAV last	Div. Yield 2016e	EBITDA 2016e/EV
D Carnegie	5.6 %	109	112 %	0.0 %	3.6 %
SL Green Realty	5.3 %	107.56	75 %	2.6 %	6.4 %
Olav Thon	5.2 %	160.00	75 %	1.3 %	6.6 %
Inmobiliaria Colonial	5.1 %	6.58	90 %	3.0 %	3.1 %
Catena	5.0 %	128.50	97 %	2.5 %	5.2 %
Mitsui Fudosan	4.8 %	2,705.00	69 %	1.2 %	6.1 %
Deutsche Wohnen	4.6 %	29.84	107 %	2.5 %	3.7 %
Global Logistic Properties	4.6 %	2.20	73 %	3.2 %	3.9 %
CBL Properties	3.9 %	11.50	60 %	9.2 %	9.5 %
Mercialys	3.9 %	19.24	90 %	6.0 %	4.7 %
Weighted top 10	**48.0%**		**85 %**	**2.8%**	**4.7 %**
Weighted top 35	**95.0%**			**2.9%**	**5.5 %**
Benchmark index				**3.8% actual**	

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

HISTORICAL PRICE DEVELOPMENT SKAGEN m²



Tax hurdles

SKAGEN m2 has increased its exposure towards Scandinavia over the past year, which has had a positive impact on the return. We have also increased our focus on companies that are long-term value creators. Real estate equity funds receive higher dividends than other funds. This has to do with the nature of the companies, the stable cash flows and the REIT tax regime.

The REIT tax regime was established in the US in the 1960s in order to incentivise private individuals to invest in property. As part of this tax regime, companies do not pay income tax, but rather distribute 90% of their taxable profit in dividends. Taxation should thus take place with the recipient of the dividend. One disadvantage of this tax regime is that many companies wanting to grow must finance their growth via equity issues rather than holding back acquired capital. As a result, the companies distribute dividends on the one hand, only to then collect capital via issues on the other. This is a sub-optimal allocation of capital. The companies pay fees to brokers and investors are taxed for the distribution of dividends. In addition, it is a major disadvantage for Norwegian registered equity funds to receive dividends rather than value creation since Norwegian equity funds must pay tax on dividends (after deduction from management fee) received from companies outside the European Economic Area (EEA).

Norwegian-registered equity funds do not, however, pay tax on dividends from Scandinavian companies, and in accordance with the EEA court of justice, dividends from companies to equity funds within the EEA should be tax exempt. In practice, management companies have fought hard to avoid paying withholding tax in EEA countries and now appear to be succeeding.

That was the tax regime applicable to SKAGEN m2 up until last summer. A new stipulation then came from the Norwegian tax authorities that will unfortunately result in the taxation of dividends distributed by European REITs to Norwegian equity funds. This means that we will position the portfolio even further towards non-REITs companies in European countries that do not charge withholding tax. It is in any case the sensible course of action. REITs have no tax-related upside associated with the potential reduction in tax from "Trumponomics" when the tax is already zero, but there is a downside when many countries try to expand their tax basis.

Looking ahead to 2017 and higher interest rates, it is companies with low debt levels and inflation-protected assets, which stand out as attractive. This applies in particular to property companies where inflation protection is included in their rental agreements. Even if interest costs rise, we can expect this to be compensated by an increase in rent.

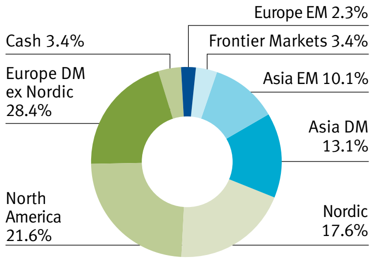
For short periods of time, property stocks may lose out on the back of higher required rates of return. We are nevertheless positive about property stocks in the long term and see no reason for equity investors to behave any differently from those who buy real estate – to sit tight for the long term.

SKAGEN M2 PORTFOLIO CHANGES IN Q4 2016 (PERCENTAGE OF AUM)

5 largest contributors		5 largest purchases	
Ashford Hospitality Trust	0.90%	Deutsche Wohnen	1.87%
Mitsui Fudosan Co	0.90%	Catena	1.26%
Global Logistic Properties	0.81%	D Carnegie & Co	1.13%
Axiare Patrimonio	0.51%	Beni Stabili	1.08%
SL Green Realty	0.44%	General Growth Properties	0.42%
5 largest detractors		**5 largest sales**	
Catena	-0.35%	Brandywine Realty Trust	-1.16%
Mercialys	-0.31%	Ashford Hospitality Trust	-0.78%
Deutsche Wohnen	-0.21%	Emlak	-0.76%
Big Yellow Group	-0.18%	Nomura Real Estate Master Fund	-0.71%
Olav Thon Eiendomsselskap	-0.18%	Global Logistic Properties	-0.61%

Based on NOK return.

GEOGRAPHICAL DISTRIBUTION



SECURITIES PORTFOLIO SKAGEN M2 AS OF 31 DEC 2016

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

Securities	Sector	Number of shares	Acquistion value NOK *	Market-value NOK*	Unrealised gain/loss *	Share of fund	Stock exchange
D Carnegie & Co AB	Real Estate Companies incl. REITs	516 251	38 680	53 295	14 614	5,55%	Stockholm
SL Green Realty Corp	Real Estate Companies incl. REITs	54 562	42 821	50 505	7 684	5,26%	New York
Olav Thon Eiendomsselskap ASA	Real Estate Companies incl. REITs	313 000	41 676	50 080	8 404	5,22%	Oslo
Inmobiliaria Colonial SA	Real Estate Companies incl. REITs	817 580	46 591	48 849	2 258	5,09%	Madrid
Catena AB	Real Estate Companies incl. REITs	395 888	46 552	48 181	1 629	5,02%	Stockholm
Mitsui Fudosan Co Ltd	Real Estate Companies incl. REITs	233 000	47 403	46 500	-903	4,84%	Tokyo
Deutsche Wohnen AG	Real Estate Companies incl. REITs	163 000	38 178	44 145	5 968	4,60%	Frankfurt
Global Logistic Properties Ltd	Real Estate Companies incl. REITs	3 337 700	45 715	43 734	-1 981	4,56%	Singapore
CBL & Associates Properties Inc	Real Estate Companies incl. REITs	380 000	46 404	37 608	-8 797	3,92%	New York
Mercialys SA	Real Estate Companies incl. REITs	215 282	34 249	37 603	3 354	3,92%	Paris
Irsa Sa ADR	Real Estate Companies incl. REITs	208 973	22 506	32 965	10 459	3,43%	New York
Columbia Property Trust Inc	Real Estate Companies incl. REITs	149 000	25 483	27 710	2 227	2,89%	New York
Axiare Patrimonio SOCIMI SA	Real Estate Companies incl. REITs	198 943	20 649	24 954	4 305	2,60%	Madrid
Dic Asset AG	Real Estate Companies incl. REITs	300 000	20 376	24 778	4 402	2,58%	Xetra
PS Business Parks Inc	Real Estate Companies incl. REITs	24 000	15 274	24 056	8 781	2,51%	New York
Ashford Hospitality Trust	Real Estate Companies incl. REITs	350 000	22 330	23 373	1 044	2,43%	New York
Big Yellow Group Plc	Real Estate Companies incl. REITs	310 000	27 582	22 603	-4 979	2,35%	London
British Land Co Plc	Real Estate Companies incl. REITs	325 000	21 199	21 761	562	2,27%	London
General Growth Properties Inc	Real Estate Companies incl. REITs	100 000	22 824	21 506	-1 318	2,24%	New York
CA Immobilien Anlagen AG	Real Estate Companies incl. REITs	118 662	16 793	18 810	2 017	1,96%	Vianna
SM Prime Holdings Inc	Real Estate Companies incl. REITs	3 811 800	11 039	18 749	7 710	1,95%	Philippines
Ashford Hospitality Prime Inc	Real Estate Companies incl. REITs	158 000	15 439	18 560	3 122	1,93%	New York
Melia Hotels International	Real Estate Companies incl. REITs	182 000	16 044	18 303	2 258	1,91%	Madrid
Atrium Ljungberg AB	Real Estate Companies incl. REITs	128 327	13 063	17 295	4 232	1,80%	Stockholm
Shangri-La Asia Ltd	Real Estate Companies incl. REITs	1 900 000	20 104	17 252	-2 853	1,80%	Hong Kong
Phoenix Mills Ltd	Real Estate Companies incl. REITs	355 160	13 637	16 903	3 267	1,76%	India
Grivalia Properties Reic AE	Real Estate Companies incl. REITs	225 485	15 181	15 676	495	1,63%	Athens
First Real Estate Investment Trust	Real Estate Companies incl. REITs	1 856 811	13 670	13 990	319	1,46%	Singapore
CapitaLand Ltd	Real Estate Companies incl. REITs	750 000	13 330	13 490	160	1,41%	Singapore
Nomura Real Estate Master Fund Inc	Real Estate Companies incl. REITs	983	10 429	12 822	2 393	1,34%	Tokyo
Beni Stabili SpA	Real Estate Companies incl. REITs	2 282 917	10 232	11 251	1 019	1,17%	Milano
Soho China Ltd	Real Estate Companies incl. REITs	2 568 500	13 794	10 891	-2 903	1,13%	Hong Kong
Ascendas India Trust	Real Estate Companies incl. REITs	1 780 200	7 454	10 762	3 308	1,12%	Singapore
Keck Seng Investments	Real Estate Companies incl. REITs	1 550 000	11 743	9 635	-2 108	1,00%	Hong Kong
Oberoi Realty Ltd	Real Estate Companies incl. REITs	214 090	6 591	8 022	1 431	0,84%	India
Emlak Konut Gayrimenkul Yatirim Ortakligi AS	Real Estate Companies incl. REITs	885 000	7 123	6 474	-650	0,67%	Istanbul
Ashford Inc	Real Estate Companies incl. REITs	10 900	7 573	4 047	-3 527	0,42%	New York
Total equity portfolio*			**849 730**	**927 134**	**77 404**	**96,58%**	
Disposable liquidity				32 829		3,42%	
Total share capital				**959 963**		**100,00%**	

* Numbers in 1 000 NOK.

Does common sense trump protectionism?

The biggest unknown entering into 2017 is whether or not president Trump will pursue a protectionist policy. Protectionism could lead not only the US but also the world into a new, deep recession.

I was not one of those who subscribed to the view that the election of Donald Trump as president of the US would herald the demise of the global economy. I did not take all his cunning campaign moves seriously and assumed that he – watched over by his staff, his cabinet, the US congress and Supreme Court – would end up pursuing a policy that would not deviate substantially from that of his predecessors.

The reaction following the election suggests that many people shared this assumption. The stock markets are up, both in the US and in most other parts of the world. This indicates that investors are counting on a policy that can be expected to increase companies' earnings. In some political arenas, Trump and Congress are likely to deliver a commerce-friendly policy. The US has a pressing need for deregulation, for example. The risk, however, is that Trump will replace regulation with jawboning through twittery directives.

The US tax system is complex and ineffective. A tax reform with lower tax rates could accelerate growth. But it would probably also lead to a period of much higher budget deficits. For there is little to indicate that Trump and the elected representatives will curb public expenditure; most signs point to the opposite. Economists disagree whether increased public purchasing of goods and services has a positive or negative effect on the economy. Much depends on what the money is used for – if the extra dollars go to useful public investments, the net effect might be positive.

The big risk is that the election campaign's protectionist rhetoric becomes a reality. So far Trump's appointments and statements have been more protectionist than I anticipated. It is arguable, however, whether he really intends to build economic walls around the US, or whether it is just a threat intended to get other countries to moderate their barriers. If the latter is the case, we might end up with freer trade and increased globalisation.

However, there are grounds to believe that Trump – like some of his central economic advisors – thinks that the average American would benefit from their country being more isolated. Unfortunately, there is much here Trump can do acting alone. Congress must adopt new trade legislation to prevent Trump from raising customs tariffs. With Trump's veto power, this will take time. Meanwhile, other countries could already have reacted to the US's protectionist measures by building more barriers of their own.

The fact that protectionism is not the road to riches has been widely explained and documented. Here is an attempt to explain why free trade is better than hampered trade. Foreign trade is merely profound production technology.

Let us take Norway as an example. Each day, large amounts of oil are extracted from the continental shelf. Economically speaking, this is just a smart way of producing cars, smartphones and bananas. Imagine that the oil is loaded onto ships which are sent to the equator. At the equator, something mystical happens that turns the oil into cars, smartphones and bananas. The ships then return, the goods are unloaded and sold to Norwegians as though the oil companies themselves had produced them on their off-shore platforms.

If that were really the case, offshore production could be seen as part of Norwegian industry and agricultural output – and Norwegians could have boasted about how they single-handedly produce goods that few other small countries themselves can provide.

The fact that what actually happens overseas is an exchange of goods with foreigners, and involves export and import, is economically irrelevant. The point is whether we can get better and cheaper goods by producing them indirectly abroad than if we had attempted to produce them domestically.

Protectionism therefore equates to poorer production technology. "Protecting" Americans against cheap Chinese and Mexican goods is like prohibiting Boeing and GM from using IT in their production halls. Production costs would increase sharply and value creation would be reduced.

One argument used against free trade is that even though it lifts the general level of prosperity, there will always be someone who loses out by being outcompeted by foreigners. This explains why protectionist ideas are always a running theme in certain circles. But why should we shed tears for capital owners who must make a loss, or for workers who must find a new job? It is the essence of capitalism that the development of prosperity is driven by resource-saving innovation. The alternative is an economy that stands still. That is not something that most people want.

There is no reason to differentiate between domestic trade within a country and trade between countries. Internet streaming killed my neighbour's small video shop. Should streaming never have seen the light of day, or should my neighbour be compensated? Now he earns money from a bowling hall. A reason that kids from my neighbourhood can afford to go bowling is that their parents can see films more cheaply on Netflix than by renting them from a video shop.

Trump, who has become a billionaire by trading both near and far, should understand the benefits of free trade. It would be a sad state of affairs if the global economy were to enter into a new recession because he and his advisors cannot be bothered to absorb the wisdom of David Hume, Adam Smith and David Ricardo. The president should read extracts from their books the next time he visits his golf course in their homeland.

–Torgeir Høien
Portfolio Manager

SKAGEN Tellus

A doorway to global interest rates

- Believe in higher interest rates in the US and Central Europe
- Peru, the US, Chile, Croatia and Greece contributed most to the absolute return
- Good relative return due to low interest rate duration

1 2 3 RISK 5 6 7

Fund start date	29 September 2006
Return since start	115.1%
Average annual return	7.8%
AUM	GBP 99 million
Number of unitholders	2,680

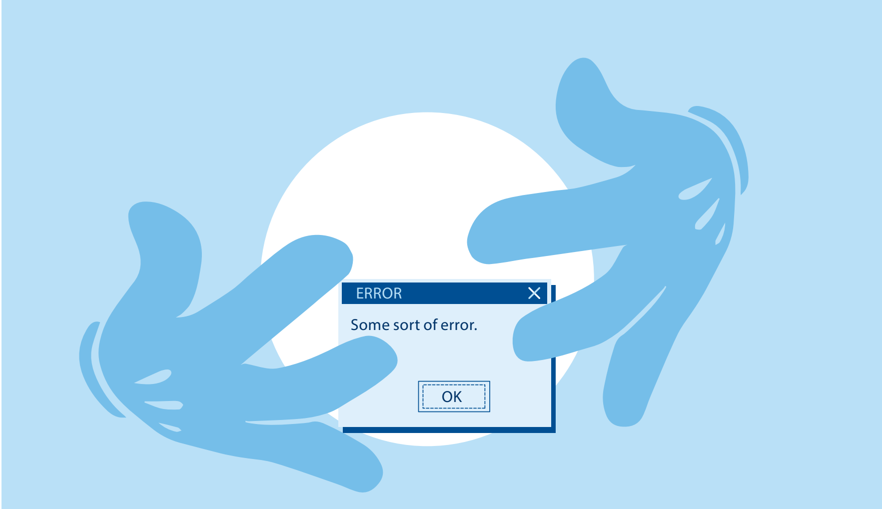
PERFORMANCE IN GBP	Q4 2016	12M
SKAGEN Tellus A	0.5%	22.4%
JP Morgan GBI Broad Index Unhedged	-3.6%	20.9%

As of 31 December 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 Skagens Museum (cropped).



The year the polls failed

2016 was the year that we stopped believing in polls.

In June we were caught off guard by the British public voting in favour of leaving the EU. In November, we were no less shocked when Donald Trump won the US presidential election. The financial markets' reaction to these events was almost equally surprising. The market turbulence following the Brexit referendum lasted barely a few days while the Trump victory led, contrary to most expectations, to a rise in interest rates and a stronger US dollar.

In 2016 the fund has been invested in accordance with our view that the long-term interest rates in the US, Japan and Central Europe would remain at their current level or increase going forward. Further, we have duration in countries where there is a strong case for a fall in credit premiums going forward, such as Croatia, Greece and Portugal, or where the yield is still attractive, such as Peru and Chile. Our investments in the US, Norway, Canada and the UK have low duration and are based on our view that the currencies in these countries will strengthen.

Our investments in Peru, the US, Chile, Croatia and Greece contributed most to the fund's return in 2016. These investments contributed 4 percentage points to the total 5.7 percentage point return (measured in euro). In Peru and Chile, both the drop in interest rates and the stronger currency contributed to the return. In the US, a stronger dollar paid off, while the fall in the long-term interest rates provided capital gains on our investments in Croatia and Greece.

Fears that Trump's protectionist rhetoric is more than just empty words led to a sharp weakening of the Mexican peso. This contributed to a negative return on this investment. In Portugal a weaker economy and less focus on reforms by the new government led to a rise in interest rates and meant that we also made a slight loss on this investment.

Our view on long-term interest rates has been the reason for our relatively low interest rate duration in 2016 relative to the index, with 3.9 years versus 7.7 years, respectively, on average throughout the year. Furthermore, we have been underweight Japan all year. Given the fall in the long-term interest rates and stronger Japanese yen, the fund did not keep pace with the index in the first half of the year. In the second half of the year, and particularly following the Trump victory, we benefitted from our lower interest rate duration after there was a sharp lift in the long-term interest rates. A sharp weakening of the yen also contributed to the fund's excess return of 5 percentage points relative to the index in the second half of the year.

SECURITIES PORTFOLIO SKAGEN TELLUS AS OF 31 DEC 2016

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

Security	Maturity	Coupon	Face value ***	Cost price ***	Market Price	Accrued interest ***	Market value ***	Market value incl. accrued interest ***	Unrealised gain/loss ***	Share of fund
GOVERNMENT BONDS										
Canadian Government	01.03.2018	1,25	8 000	49 891	646,05	213	51 684	51 897	1 793	4,94%
Chilean Government	05.08.2020	5,50	4 410 000	54 659	1,35	1 257	59 557	60 814	4 898	5,79%
Dominican Republic	10.05.2024	11,50	150 000	28 449	19,65	443	29 473	29 916	1 024	2,85%
Croatia Government Int Bond	30.05.2022	3,87	8 300	74 798	978,68	1 711	81 231	82 942	6 433	7,90%
Hellenic Republic Government	24.02.2035	3,00	9 000	53 134	589,92	2 076	53 093	55 169	-41	5,25%
Portugese Government	15.10.2025	2,87	7 000	66 651	862,66	380	60 386	60 767	-6 265	5,79%
Slovenia Government	30.03.2026	5,12	3 500	41 766	1 252,46	1 227	43 836	45 063	2 070	4,29%
Spanish Government	30.04.2025	1,60	6 000	55 241	939,47	582	56 368	56 950	1 127	5,42%
UK Government	23.01.2017	1,75	5 000	54 509	1 064,61	407	53 230	53 638	-1 278	5,11%
UK Government	07.09.2017	1,00	5 000	54 636	1 070,84	167	53 542	53 709	-1 094	5,12%
European Bank Recon & Dev	19.03.2018	5,75	200 000	25 846	12,68	1 143	25 352	26 495	-494	2,52%
Mexican Government	15.06.2017	5,00	120 000	50 145	41,60	105	49 919	50 024	-226	4,76%
Norwegian Government	19.05.2017	4,25	80 000	83 898	101,39	2 096	81 112	83 207	-2 786	7,93%
New Zealand Government	17.04.2023	5,50	8 000	54 358	687,54	551	55 003	55 554	645	5,29%
Peruvian Government	12.08.2037	6,90	25 000	59 712	257,04	1 684	64 260	65 944	4 549	6,28%
Lithuanian Government	01.02.2022	6,62	2 000	15 480	1 000,43	472	20 009	20 481	4 528	1,95%
US Government	31.03.2017	0,50	10 000	85 616	860,55	108	86 055	86 163	439	8,21%
US Government	30.06.2017	0,62	10 800	88 468	860,53	289	92 938	93 227	4 470	8,88%
Total Bond Portfolio				**997 258**		**14 911**	**1 017 049**	**1 031 960**	**19 791**	**98,29%**
Disposable liquidity				17 897			17 972	17 972	74	1,71%
TOTAL				**1 015 155**		**14 911**	**1 035 020**	**1 049 931**	**19 865**	**100,00%**

Key numbers			
Effective yield	4,59%	Duration*	3,73

*   Effective yield adjusted for managment fee.
** Duration is a simplified expression of how much the price of the security will change if the interest rate changes by one percentage point.
*** Figures in 1000 NOK.

Effective interest is the average annual return of an interest bearing security until maturity.
Securities are valued at market price as of 30.12.2016
Bonds and notes for which there are no market maker prices are at all times valued against the applicable yield curve.

SKAGEN Credit EUR

Picking the best bonds from the global orchard

- 2016 proved that the fund's mandate pays off
- Glencore was the largest contributor in the fund
- Lower bond spreads means it is more important than ever to pick the right corporate bonds

1 2 RISK 4 5 6 7

Fund start date	30 May 2014
Average annual return	0.61%
AUM	EUR 14 million
Number of unitholders	49

PERFORMANCE IN EUR	Q4 2016	12M
SKAGEN Credit EUR	1.08%	6.94%
3 Month EURIBOR	-0.08%	-0.26%

As of 31 December 2016, net of fees

PORTFOLIO MANAGERS

Ola Sjöstrand and Tomas Nordbø Middlethon

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

The fund's mandate paid off

2016 was a good year for SKAGEN Credit, which delivered a return of 6.94% (in EUR) versus a loss of 0.26% for the benchmark index. The return was not the only thing we were pleased with, however. This year also proved that the fund's mandate pays off; return and volatility are generated from changes in credit spreads – nothing else matters.

2016 started on a dramatic note. Almost all high yield and emerging market bonds fell substantially over the first one and a half months of the year. The tide quickly turned, however, and the losses were reversed in just one month.

During this short period, all bonds moved more or less in step with the market regardless of quality, and this was also the case with the holdings in SKAGEN Credit, which was down four percent at the bottom.

Since mid-March, however, 2016 was a stable journey for the fund. The commotion around Brexit in June only lasted a few weeks. Following the unexpected Trump victory in November, rates in the US increased. Since many corporate bonds around the world are issued in USD, a large number of bonds fell in value at the end of the year. SKAGEN Credit has around 40% invested in USD but interest rate swaps reduce the interest rate risk, so the fund was unaffected.

Market overreaction

By far the largest contributor to the fund's return was the Anglo–Swiss multinational commodity trading and mining company, Glencore. The company got into trouble in 2015, mainly as a result of the fall in commodity prices. Its investment grade rating was threatened and its outstanding bonds fell substantially in value. Glencore acted swiftly and decisively, taking several steps to keep its rating. They certainly convinced us, and we added to the position throughout the year. The situation in Glencore is back to normal at the start of 2017 and this is a good example of how the market can overreact.

Another large contributor was Brazilian oil company Petrobras. The company also did a huge about-turn in 2016 and demonstrated its ability to finance itself even in hard times. The situation in Petrobras is very much connected to Brazil as a whole, and there is still a long way to go here.

The importance of picking the right bonds

Global corporate bond spreads are now below the five year average and not as attractive as they were a year ago. It is therefore unlikely that the return from corporate bonds in 2017 will be as good as it was in 2016. The lower bond spreads do not necessarily mean one should not invest in corporate bonds, however, as there are still a large number of bonds to be found at attractive prices. Given the generally lower corporate bond spread, it is even more important to pick the right corporate bonds, instead of just buying an index.

During the last few months of the year, several holdings reached such levels that the risk no longer justified the expected return. We therefore sold out of some positions and trimmed others, ending the year with a lower risk level in the fund. The proceeds have been invested in short bonds with high credit quality and good liquidity. When the situation changes and the opportunity arises, we will not hesitate to raise the risk level again.

SECURITIES PORTFOLIO FOR SKAGEN CREDIT AS OF 31 DEC 2016

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

SKAGEN CREDIT EUR	Number of units	Market value EUR	%
SKAGEN Credit	1087	13 444	99,32
Liquidity		91	0,68
Total share capital		**13 536**	**100,00**

Degree of currency hedging 95.71%, Share of SKAGEN Credit 36.11%
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	8 415	2,51
Petrobras Global Finance BV	USD	01.03.2018	600	5,88	5 407	1,61
Petrobras Global Finance BV	USD	20.01.2020	300	5,75	2 678	0,80
Seadrill Ltd	USD	15.09.2017	300	6,13	1 369	0,41
Total Energy					**17 869**	**5,34**
Glencore Canada Financial Corp	GBP	27.05.2020	900	7,38	11 579	3,46
Glencore Funding LLC	USD	30.05.2023	800	4,13	6 977	2,08
Total Raw Materials					**18 556**	**5,54**
DSV A/S	DKK	18.03.2022	8 000	–	10 058	3,00
Schaeffler Finance BV	USD	15.05.2023	1 100	4,75	9 820	2,93
Tallink Group AS	NOK	18.10.2018	6 000	6,11	6 337	1,89
Heathrow Funding Ltd	GBP	10.09.2018	500	6,25	5 877	1,76
Color Group AS	NOK	18.09.2019	5 000	6,40	5 247	1,57
Heathrow Funding Ltd	GBP	20.03.2020	300	6,00	3 797	1,13
Bombardier Inc	USD	16.03.2020	400	7,75	3 695	1,10
Bombardier Inc	USD	14.10.2022	200	6,00	1 667	0,50
Total Industrials					**46 499**	**13,88**
JBS Investments GmbH	USD	28.10.2020	1 100	7,75	10 206	3,05
Cosan	USD	14.03.2023	1 200	5,00	10 071	3,01
Safeway Ltd	GBP	10.01.2017	400	6,00	4 506	1,35
Lennar Corp	USD	17.06.2019	500	4,50	4 477	1,34
Total Consumer staples					**29 260**	**8,74**
Jaguar Land Rover Automotive Plc	GBP	01.03.2023	1 000	3,88	11 132	3,32
Best Buy Co Inc	USD	15.03.2021	900	5,50	8 624	2,58
Samvardhana Motherson Automotive	EUR	15.07.2021	600	4,13	5 713	1,71
Fiat Finance & Trade SA	EUR	15.03.2018	400	6,63	4 081	1,22
Samvardhana Motherson Automotive	USD	16.12.2021	400	4,88	3 464	1,03
Fiat Chrysler Finance Europe	EUR	22.03.2021	300	4,75	3 105	0,93
Volvo Car AB	SEK	07.03.2022	3 000	2,50	2 885	0,86
Total Consumer discretionary					**39 003**	**11,65**
Sparebank 1 Telemark	NOK	15.06.2017	15 000	1,55	15 012	4,48
Länsförsäkringar Bank AB	SEK	27.04.2026	9 000	1,84	8 771	2,62
Sparebank 1 Nord-Norge	NOK	26.05.2017	7 000	1,47	7 010	2,09
Bank of Baroda	USD	23.07.2019	750	4,88	6 922	2,07
Danske Bank AS	GBP	29.09.2021	600	5,38	6 811	2,03
Turkiye Halk Bankasi AS	USD	13.07.2021	800	5,00	6 607	1,97
Standard Chartered PLC	EUR	23.11.2022	600	3,63	5 844	1,75
Standard Chartered Bank	GBP	03.04.2018	200	7,75	2 417	0,72
Banco Est Rio Grande Sul	USD	02.02.2022	250	7,38	2 024	0,60
Total Financials					**61 419**	**18,34**
Rolta Americas LLC	USD	24.07.2019	400	–	766	0,23
Total IT					**766**	**0,23**
VimpelCom Holdings BV	USD	01.03.2022	850	7,50	8 325	2,49
Bharti Airtel International	USD	20.05.2024	700	5,35	6 352	1,90
Bharti Airtel International	EUR	20.05.2021	500	3,38	5 006	1,49
Frontier Communications Corp	USD	15.09.2022	300	10,50	2 806	0,84
Total Telecom					**22 489**	**6,72**
BKK AS	NOK	22.05.2020	16 000	1,78	16 012	4,78
EDP Finance BV	USD	01.10.2019	1 600	4,90	14 608	4,36
Agder Energi AS	NOK	04.04.2018	10 000	2,15	10 106	3,02
EDP Finance BV	USD	14.01.2021	200	5,25	1 867	0,56
Total Utilities					**42 593**	**12,72**
Entra ASA	NOK	10.04.2017	10 000	2,38	10 073	3,01
American Tower Corp	USD	15.02.2019	300	3,40	2 672	0,80
Total Real estate					**12 746**	**3,81**
TOTAL SECURITIES PORTFOLIO					**291 201**	**86,97**
IRS EUR 20180620	EUR	20.06.2018	3 000		-366	-0,11
IRS EUR 20210511	EUR	11.05.2021	600		-164	-0,04
IRS GBP 20180129	GBP	29.01.2018	1 200		-252	-0,08
IRS GBP 20230523	GBP	23.05.2023	400		-71	-0,02
IRS USD 20180620	USD	20.06.2018	3 500		-68	-0,02
IRS USD 20190820	USD	20.08.2019	2 000		-147	-0,04
IRS USD 20210622	USD	22.06.2021	1 000		-12	–
IRS USD 20220927	USD	27.09.2022	1 500		484	0,15
IRS USD 20230905	USD	05.09.2023	1 000		387	0,11
Derivatives					**-209**	**-0,05**
Liquidity					**43 897**	**13,11**
Total share capital					**334 889**	**100,00**

Return and risk measurements

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

As of 31.12.2016	NAV This year	Last Year	Last 2 Years	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Since Start
SKAGEN Vekst A	28.2%	28.2%	11.1%	6.9%	9.1%	5.3%	5.6%	14.2%
MSCI Nordic/MSCI AC ex. Nordic	22.7%	22.7%	14.3%	11.4%	12.9%	10.0%	8.0%	10.4%
SKAGEN Global A	21.3%	21.3%	12.0%	7.7%	10.8%	9.0%	8.3%	15.6%
MSCI World AC	28.6%	28.6%	15.3%	13.7%	14.5%	11.4%	8.1%	5.7%
SKAGEN Kon-Tiki A	30.6%	30.6%	7.5%	3.5%	5.3%	4.5%	8.6%	15.7%
MSCI Emerging Markets	32.6%	32.6%	9.2%	7.4%	6.0%	4.4%	6.6%	9.9%
SKAGEN m2 A	28.5%	28.5%	11.0%	13.0%				8.4%
MSCI All Country World Index Real Estate IMI	24.1%	24.1%	13.8%	16.1%				12.6%
SKAGEN Focus A	36.8%	36.8%						12.3%
MSCI World AC	28.6%	28.6%						14.5%
SKAGEN Tellus A	26.2%	26.2%	6.9%	1.0%	0.9%	1.5%	4.9%	5.3%
J.P. Morgan GBI Broad Index Unhedged in EUR	23.2%	23.2%	5.9%	0.4%	-0.7%	1.0%	5.2%	5.2%
SKAGEN Credit EUR A	22.4%	22.4%	7.3%	7.1%	5.6%	5.3%	7.9%	7.8%
3 Month EURIBOR	20.9%	20.9%	11.4%	9.9%	3.7%	4.6%	7.9%	7.3%

* Effective 1/1/2014, the fund's investment mandate changed. Read more on page 10.
The benchmark index prior to 1/1/2010 was OSEBX and prior to 1/1/2014 it was OSEBX / MSCI AC (50/50).
** The benchmark index prior to 1/1/2010 was the MSCI World Index.
*** The benchmark index prior to 1/1/2013 was Barclay's Capital Global Treasury Index 3-5 years1

Risk and performance measurements

As of 31.12.2016	SKAGEN Vekst	SKAGEN Global	SKAGEN Kon-Tiki	SKAGEN Tellus	SKAGEN Focus	SKAGEN m2
MEAN VARIANCE ANALYSIS LAST 5 YEARS						
Standard Deviation NAV	13.2 %	12.1 %	15.8 %	8.2 %		
Standard Deviation Benchmark	11.9 %	10.2 %	15.1 %	9.4 %		
Tracking Error	6.3 %	4.9 %	4.9 %	5.6 %		
Beta	0.98	1.08	1.00	0.71		
Active share	90%	92%	92%		94%	98%
RISKADJUSTED RETURN 5 YEARS						
Alpha	-3.1 %	-4.5 %	-0.7 %	2.9 %		
Sharpe Arithmetic	0.61	0.79	0.29	0.59		
Sharpe Ratio Benchmark	0.97	1.26	0.35	0.32		
Information Ratio Arithmetic	-0.55	-0.67	-0.15	0.33		

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 for our funds.

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 m^2 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 A and SKAGEN Credit EUR Aand 0.5% for SKAGEN Avkastning. 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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Front page:
Fishermen hauling a net on Skagen's South Beach, 1882. By Peder Severin Krøyer, one of the Skagen painters. The picture belongs to the Art Museums of Skagen (manipulated).

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