P.S. Krøyers dog "Rap", 1898, Detail/ manipulated. By Peder Severin Krøyer, one of the Skagen painters.
This image belongs to the Skagens Museum.

SKAGEN Focus
Status Report November 2015

The art of common sense

SKAGEN

Summary – November 2015

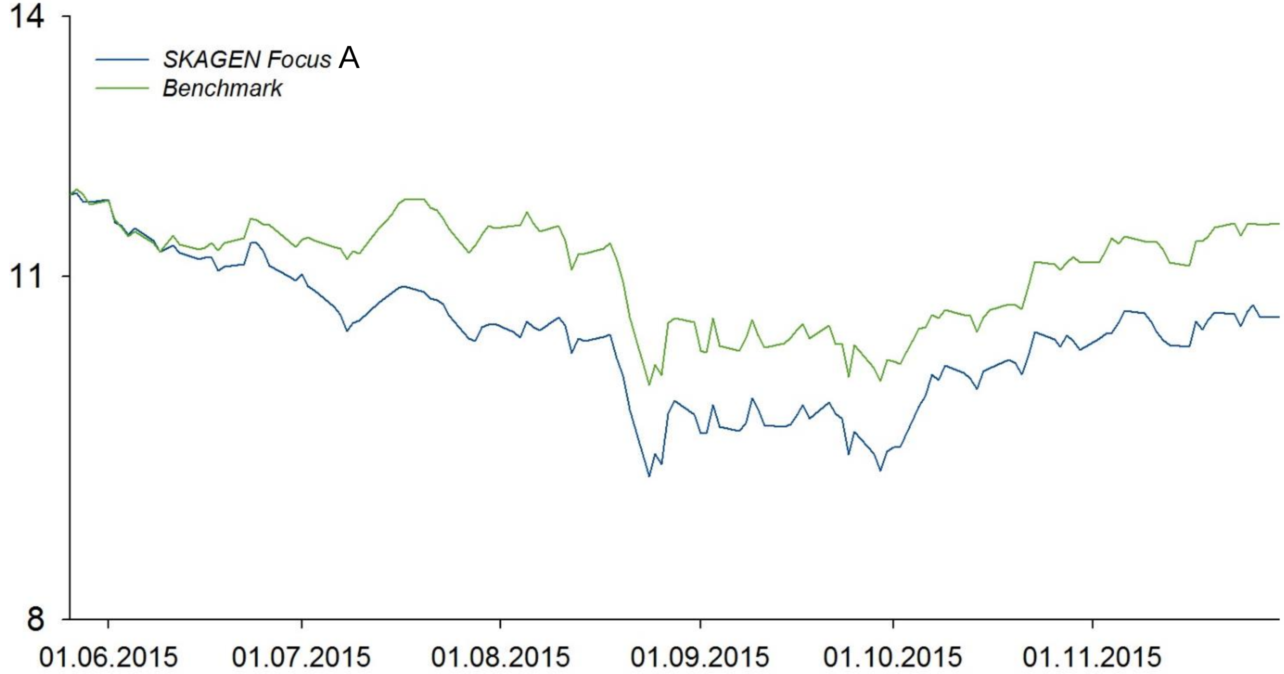
- The fund is a highly concentrated equity fund with a broad all-global mandate. The overall objective is to invest in a few select investments with an exceptional risk/reward profile from an absolute return perspective.
- The target number of positions is 30 - 35 and top ten positions should equal 40 - 50% of the portfolio. At the end of the month, the fund holds 32 positions, and top ten positions constitute 48% of the fund.
- Global equity markets were up during the month. SKAGEN Focus returned 3.1% measured in euros during November. The fund is down -10.7% since inception on 26 May 2015 (EUR).
- Omega Protein, Citizens Financial and Ubiquiti Networks were the strongest contributors to the fund's performance in November measured as absolute contribution in NOK. Stocks Spirits, Rentech and South32 were the main detractors during the month.
- The following recent events in the fund's larger positions are worth highlighting:
  - AIG, the fund's largest position, is now in the gun sights of Carl Icahn – perhaps the most outspoken of activist investors. The company reported weak earnings and activists are picking up on the opportunity to split up the company thus avoiding harsher financial sector regulations.
  - Our second largest position, Omega Protein, showed how to deliver a record quarter in style and the share price responded accordingly – we trimmed our position down to 2.5% of the portfolio towards the end of the period.
- The fund has a broad mandate to invest in all geographies and sectors. The fund is also market capitalisation-agnostic, and currently small-cap** positions constitute 25% of the fund, while mid-cap and large-cap positions account for 31% and 44%, respectively, of the invested portfolio. These figures may vary meaningfully over time.

** Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.*

*** Small-cap defined as market cap below USD 2bn, Large-cap more than USD 10bn.*

SKAGEN Focus A results, November 2015

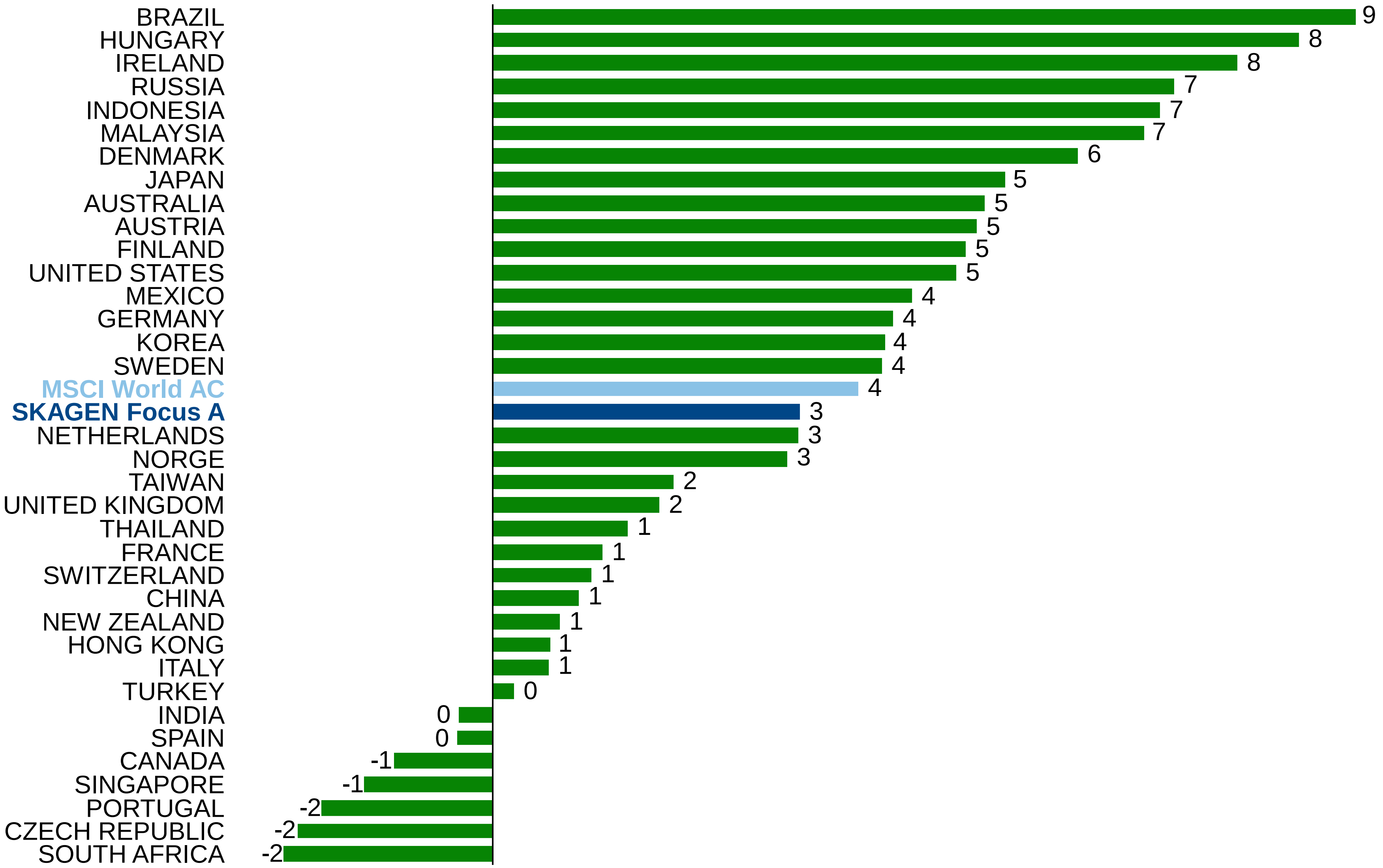
EUR, net of fees



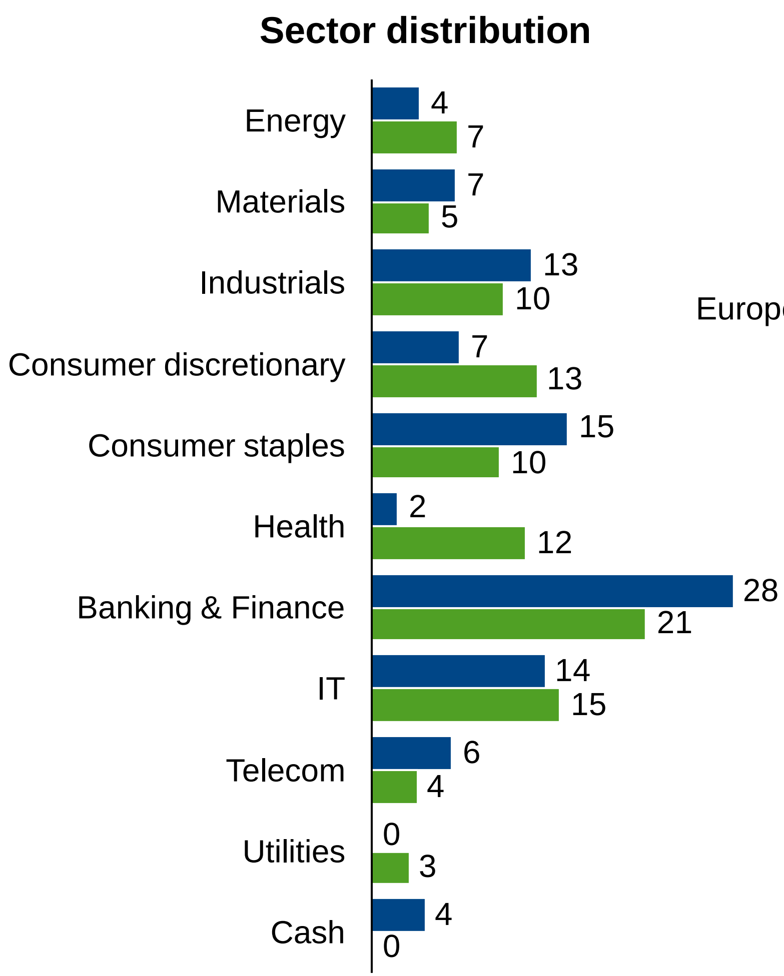
	November	QTD	Since inception*
SKAGEN Focus A	3,1%	13,3%	-10,7%
MSCI AC World Index	3,7%	13,5%	-2,6%
Excess return	-0,6%	-0,2%	-8,1%

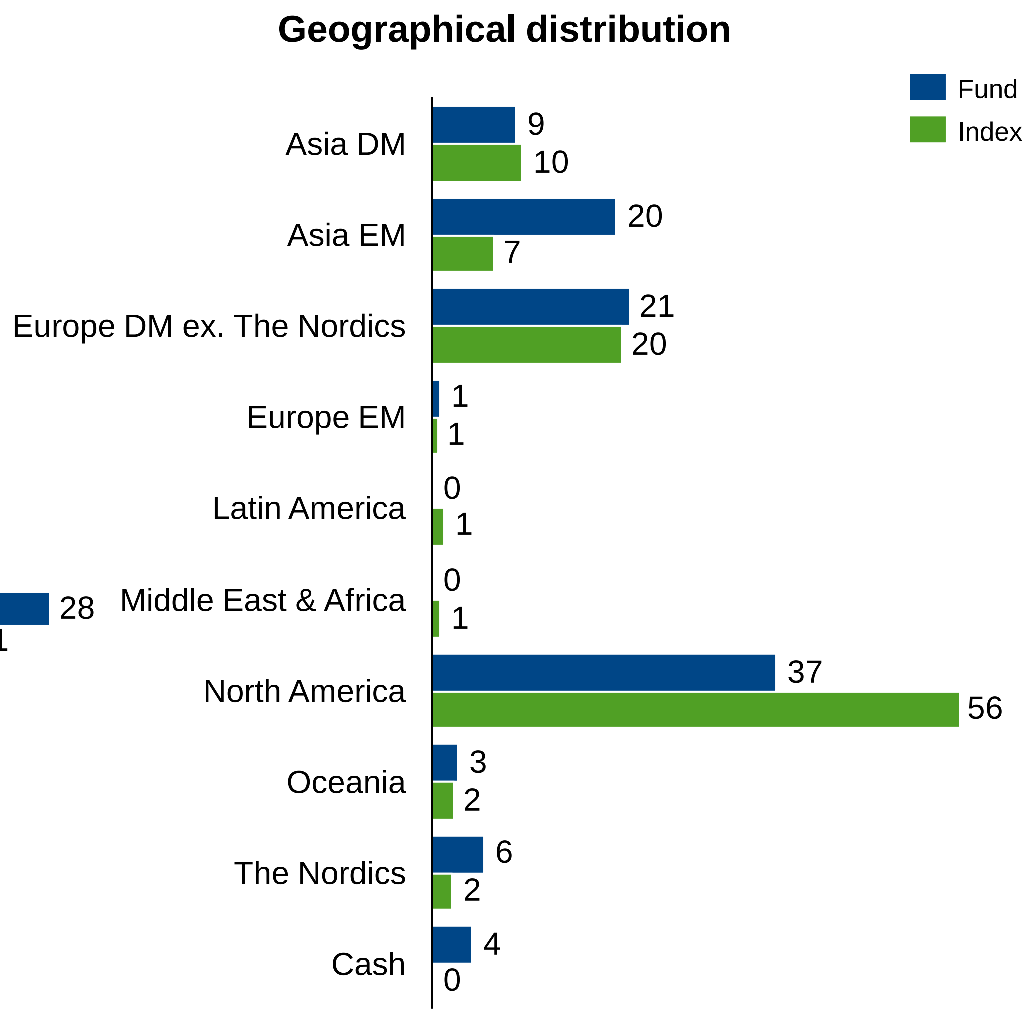
Note: All returns beyond 12 months are annualised (geometric return)
** Inception date: 26 May 2015*

Markets in November in EUR (%)



Sector and geographical distribution vs index (Nov. 2015)





Main contributors MTD 2015

Largest positive contributors

Company	NOK (000)
Omega Protein Corp	18 053
Citizens Financial Group Inc	4 437
Ubiquiti Networks Inc	4 423
Infineon Technologies AG	3 485
Schaeffler AG	3 331

Largest negative contributors

Company	NOK (000)
Stock Spirits Group Plc	-11 917
Rentech Inc	-7 555
South32 Ltd	-4 242
First Quantum Minerals Ltd	-2 819
Fila Korea Ltd	-1 529

Value Creation MTD (NOK MM): 10

NB: Contribution to absolute return

Main contributors QTD 2015

Largest positive contributors

Company	NOK (000)
Omega Protein Corp	19 403
American International Group	8 592
Sandisk Corp	8 051
Carlsberg A/S	5 292
Citizens Financial Group Inc	4 867

Largest negative contributors

Company	NOK (000)
Stock Spirits Group Plc	-11 236
Rentech Inc	-7 246
South32 Ltd	-2 149
Magforce AG	-1 665
SK Hynix Inc	-618

Value Creation QTD (NOK MM): 65

NB: Contribution to absolute return

Main contributors YTD 2015

Largest positive contributors

Company	NOK (000)
Omega Protein Corp	32 155
Jenoptik AG	11 700
American International Group I	11 443
Infineon Technologies AG	5 115
Ubiquiti Networks Inc	5 033

Largest negative contributors

Company	NOK (000)
South32 Ltd	-18 189
Rentech Inc	-16 342
SK Hynix Inc	-13 751
Stock Spirits Group Plc	-10 492
Whiting Petroleum Corp	-9 911

Value Creation YTD (NOK MM): -22

NB: Contribution to absolute return

Most important changes Q4 2015

Holdings increased

Q4

- Schaeffler AG (New)
- First Quantum Minerals Ltd (New)
- Synchrony Financial (New)
- SK Hynix Inc
- Aryzta AG
- Infineon Technologies AG
- Rentech Inc
- American International Group I
- Fourlis Holdings SA
- SBI Holdings Inc
- Fila Korea Ltd

Holdings reduced

Q4

- Omega Protein Corp
- Komatsu Ltd
- First Quantum Minerals Ltd
- Jenoptik AG
- Sandisk Corp
- Softbank Group Corp
- Fila Korea Ltd
- Hyundai Motor Co

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Holdings increased and decreased during November 2015

Key buys in November

- **Synchrony Financial (new)**: New position in the fund. The company is the leading US provider of private label credit cards (42% market share in the US) and also offers solutions in consumer financing/healthcare. For more information see the fact sheet later in the report.

- **SK Hynix:** The position size (5.4%) was maintained despite weakness in the shares. The company now trades at low single multiples of cash flow generation.

Key sells in November

- **Omega Protein:** Portfolio weight reduced after the stock posted a more than 80% increase since inception.

Top 10 positions in SKAGEN Focus

	Price	P/E 2015e	P/E 2016e	P/BV last	Price target	Upside to target %	Holding size, %
American International Group Inc	63,58	14,8	12,4	0,8	90	42%	8,4%
Carlsberg AS-B	600,50	17,2	13,7	2,0	822	37%	5,7%
SK Hynix Inc	31 600,00	5,2	6,4	1,1	65 000	106%	5,6%
Omega Protein Corp	24,58	14,3	13,4	1,9	30	22%	5,2%
Citizens Financial Group Inc	26,63	16,9	14,0	0,7	35	31%	4,8%
SBI Holdings Inc	1 395,00	10,9	9,6	0,8	3 000	115%	4,7%
Jenoptik AG	14,90	17,8	16,4	2,1	20	34%	4,6%
China Telecom Corp Ltd	3,80	15,7	14,6	1,0	8	111%	3,8%
Aercap Holdings NV	45,44	7,3	7,5	1,1	70	54%	3,6%
Hyundai Motor Co Pref	111 500,00	4,3	4,3	0,4	200 000	79%	3,3%
Top 10 positions		**10,3**	**10,0**	**1,0**			**49,4%**
Total Equity (32 positions)							**95,8 %**
Cash							**4,2 %**
Total Portfolio							**100,0%**

Key earnings releases and corporate news, November 2015

AIG

(8.4% weight)

Investment case update: This US multi-line insurer was bailed out by the US government following the financial crisis and has since then started a transformation process aiming at reaching peer-group profitability and exiting non-core assets. While the company has been quite successful in streamlining its asset base, and executed substantial share buy-backs over the last few years, fundamental improvements in its core underwriting activities have been slow to materialise. Indeed, this quarter's poor results, with a "normalised" ROE of 5.9%, reinforce this view. The company also announced restructuring initiatives of USD 0.5bn as an extraordinary item. Some progress was made on expenses, which decreased 6% from last year. The major disappointments generally related to investment income and a deteriorating combined ratio in P&C.
Just days before the earnings release, activist investor Carl Icahn disclosed a "large" (said to be close to 2%) stake in the company, apparently also supported by hedge fund manager John Paulson (1% ownership). Icahn also sent a letter to the management/board highlighting the slow progress in turning AIG around, and called for a split-up of the company, specifically suggesting that a separation of the life unit and the mortgage insurance unit would be value-creating. As such, the company could not have picked a worse time for a bad quarter as the pressure from activists like Icahn will now only increase. The stock is trading at 0.8x book value with continued bright prospects for capital returns, and with a longer term ROE potential in line with the peer group, even in a non-split scenario.

Summary: The company reported an after tax operating income of USD 691m (before restructuring charges of USD 0.5bn) compared to USD 1.7bn last year. USD 3.7bn in share-repurchases were executed in the quarter. Book value was USD 74.1 /share up 7% over last year.

Omega Protein

(5.2% weight)

Investment case update: Omega Protein is the largest US producer of Omega-3 oil. The company also sells food ingredients in the form of fishmeal and whey as well as other high-end oil, all used for animal and human consumption directly or indirectly. The company reported a trifecta of improvements in the quarter with the best quarter ever in company history. EPS was $0.66 versus $0.22 YoY on sales growth of 58 % (33% organic) YoY – Mother Nature helped some (El Nino effect?) with catch and pricing slightly above last three years' average levels. However, there was also a major pick-up in margin due to operating efficiencies. The Human nutrition segment is starting to get operating scale (50% cap. utilisation) and the company reported a 300 bps point increase in operating margin on about 7% organic sales growth. There was a slight inventory true-up benefit, and the big question now is; was the quarter padded, due to pressure from investor activists (denied) and what will happen to the pressure from activists? The company clearly stated "no future acquisitions, and all options coming during current strategic review will be on the table, and we will do what is best for shareholders."
Our price targets are primarily based on conservative analysis of a company's earnings power, and we rarely change our conclusions on this point. However, in light of the substantial earnings power exhibited this year on a structural basis and recent trade sale valuations in the sector we have increased our price target for Omega Protein to USD 30 per share. We have liquidated half of our position in late November/early December at around USD 25 per share as better risk/reward opportunities were identified elsewhere.

Key earnings releases and corporate news, November 2015 (cont.)

Hyundai Motor

(3.3% weight)

Investment case update: October shipment rose 6% YoY to 458,375 units which marks a material improvement from +1% in September and +3% in August. Year-to-date shipment of 3,997,169 is still down 1.5% YoY. Domestic sales of 67,807 units (15% of total) rose 17% YoY versus +9% YoY in September. New models – the Tuscon compact SUV and Avante (Elantra) small-size sedan – contributed positively to domestic sales with unit sales of these models up 47% and 46% YoY respectively. However, growth still trailed overall sales growth for Korean branded autos of 20% YoY, with domestic auto sales growth driven by reduced excise tax throughout 2015. Overseas sales rose 5% YoY to 390,568 units which marks a strong improvement over flat YoY sales in September. HMC has yet to disclose regional sales and retail sales by region, but we suspect China sales have recovered somewhat MoM. Sales abroad will get further support from the global roll out of Avante/Elantra (US in December and China early 2016).

CIT

(3.1% weight)

Investment case update: The US specialty finance company CIT Group, which re-emerged from bankruptcy in 2010, reported Q315 earnings with plenty of extraordinary items. Adjusted earnings were down 10% from last year as yields compressed. The recently acquired OneWest bank is now consolidated and two months of earnings from the bank impacted the quarter. The company added USD 20bn in assets and reduced the average funding costs by 70 bps as the deposit base grew. The combined bank is now 65% of total assets. The process to simplify the corporate structure was confirmed, as the company sold its Mexican business and is currently exploring a separation of its air-leasing unit (USD 10bn in assets, 350 aircrafts), most likely through a spin-off. The company continued to return capital through share repurchases (3m shares, USD 130m) in the quarter and has over the last four years decreased its share count by more than 10%. The company is trading below its tangible book value and we think recent structural changes will bring the stock closer to fair value towards our price target of USD 65 in the mid-term.

Summary: The company reported Q315 earnings of USD 693m (USD 3.6/share) but was impacted by a number of one-time factors, mostly tax-items related to the OneWest deal closing. Core earnings after adjustments were USD 160m (USD 0.8/share), down 10% from last year as yields compressed. Tangible book value per share was USD 47.1/share. Tier one common ratio was 12.4% at the end of quarter.

Key earnings releases and corporate news, November 2015 (cont.)

Softbank

(2.5% weight)

Investment case update: Softbank is a Japanese telecom and internet conglomerate with main assets in Chinese online-giant Alibaba, US-based telecom operator Sprint and Domestic Telecom businesses (mainly Softbank Mobile). The company also holds stakes in Yahoo Japan, wireless distributor Brightstar, Japanese video game company GungHo and Finnish mobile game producer Supercell. In Q216, the domestic telecom segment and Yahoo Japan posted healthy growth in both sales and operating profit over the past year. Sprint posted an improvement in subscribers but remained on a loss-making level for the quarter. The main concern for Softbank is probably the looming debt refinancing and overall leverage in Sprint. The company has gradually increased its holding in the market in Sprint and the ownership now stands at 83%. The company has initiated a savings program (USD 2.5bn) and currently seems willing to trade losses for subscriber growth in the fierce competition with the other US carriers. The situation has created a substantial discount in the Softbank share compared to its net asset value; not even taking into account the currently small but promising holdings in emerging online-companies in India and Korea.

Summary: For the total company in the first six month of the year, net sales increased 10% YoY to JPY 4423bn while operating income amounted to JPY 685bn (21% YoY). Net income after minorities was JPY 426bn (down 24% YoY), mainly impacted by the lower equity value of Alibaba.

Whiting Petroleum

(1.5% weight)

Investment case update: Whiting Petroleum is an independent E&P company primarily focused on on-shore oil properties in the US. The company did raise capital in early 2015 after the poorly-timed acquisition of Kodiak Oil and Gas in late 2014, funded mostly by debt. The company is working hard to adapt to the realities of a lower oil price. The Q3 operating results disclosed a marginal loss but importantly non-core asset sales and efforts to de-lever the balance sheet continue at a brisk pace. The company has completed the sale of USD 400m of non-core assets this year to reduce its USD 5bn debt pile. We still expect more asset sales (up to USD 1bn this year), and the company should be able to fund its 2016 capital plan with minimal borrowings on its revolver which lenders recently confirmed at USD 3.5bn. At the same time production costs are falling rapidly (down over 50% YoY). Capital spending was down 46% from last quarter and sharply lower from last year. Guidance for full-year production was somewhat trimmed, although not adjusted for the asset sales.

Summary: On an adjusted basis the company reported a USD 35m loss in the quarter, but headline numbers were dragged down by non-cash write offs of USD 1.7bn, related to oil and gas properties and the Kodiak purchase in 2014. The production in the quarter totalled 14.8 MMBOE, 89% crude oil/natural gas liquids, which was a 38% increase over last year.

Key earnings releases and corporate news, November 2015 (cont.)

Solazyme

(1.3% weight)

Investment case update: Solazyme uses micro-algae to convert low-cost plant sugars into high-value renewable oils and bio-products for personal care as well as nutritional and industrial markets. The company reported USD 11.4m in revenues (ex-Moema) in the quarter. While personal care line Algenist reported +30% YoY sales, the slower adoption of oil service product Encapso was a drag on performance. The company is rationalising and optimising its plant base now that greenfield Moema in Brazil is starting to ramp up, and is expected to see a fall in costs of USD 12-15m per annum starting in 2016. Related to this, the joint venture with Bunge in Brazil has deepened and Bunge's sales force will distribute many of Solazyme's future food-related products. The agreement with Unilever and several other leading food producers has been expanded. The company currently has 120 different sample/test projects, many with top-tier global companies such as McDonalds (cooking oil). However, the transition from a base-load increase strategy to a higher margin specialty product strategy means that negative cash flow will continue longer, unless the company is successful in product wins in the short term. On the other hand, with many interesting avenues, option value has clearly increased beyond proof of concept.

Summary: Solazyme reported revenues of USD 11.4m (USD 17.6m in 2014). Algenist grew 30% YoY, while Encapso progress stalled. Reported EPS was – USD 0.43 which was roughly in-line with expectations due to good cost containment.

Ubiquiti Networks

(3.0% weight)

Investment case update: US-based Ubiquiti Networks offers a broad portfolio of wireless networking products and solutions. The company operates in two main segments; Service Provider Technology and Enterprise Technology. The company released first quarter results that showed signs of both recovery and strength, after two quarters of negative growth. Sales increased 4% sequentially and 1% YoY to USD 151m.

The Enterprise Technology segment was the main driver of sales, growing 19% from last quarter and 12% YoY, now representing more than 30% of sales. The Service provider segment continued to struggle against macro headwinds with a negative growth of 4% YoY. Business model continues to show strength with a record gross margin of 48.5% (up 7.8% YoY) .

The company completed the share buyback program which was initiated during the last quarter, of USD 100m. Along with the Q1 results, the company announced that they have initiated a new stock repurchase program of up to USD 50m. The high level of short interest in the stock reflects scepticism around the sustainability of the company's business model and worries over increased competition which we think are largely unfounded.

Summary: Total revenues for the quarter grew 4% sequentially and 1% YoY to USD 151m. Gross margin continued to increase during the quarter to a new record of 48.5%. The Service Provider Technology declined somewhat to USD 103m, a decline of 1% sequentially and 4% YoY. Enterprise Technology grew 19% from sequentially and 12% YoY. Enterprise Technology now represents 32% of sales.

Key earnings releases and corporate news, November 2015 (cont.)

Carlsberg

(5.7% weight)

Investment case update: The Danish brewer Carlsberg's investment case core is that it is a stable earner with sub-par profitability to peers and on route to be improved. The Q315 report confirms the path. Organic sales grew 3% and operating profit grew 9% to an 18.9% margin. Carlsberg's annual OP-margin is 14%, while that of its three large peers (InBev, SAB Miller and Heineken) is 32%, 20% and 17% respectively. Geographical mix will not enable Carlsberg to reach more than 17-18%, but the investment thesis only requires 15.5% to reach the DKK 856 target price. Sail 2022 strategy plan will be communicated in March 2016, so over the next few months the stock will likely move higher as Nordic investors have a large underweight in a stock with market level valuation and 3 times the growth rate.

Summary: Main elements of the Q315 report: Sales DKK 18bn +1%, OP DKK 3.5bn +2%.West Europe sales up 5%, however lower profitability. East Europe/Russia sales down 23%, but much better profitability as Q314 was impacted by writedowns. Asia 18% sales growth and better profitability due to scale effects. Restructuring/impairment charge of DKK 8.5bn. 97% non-cash. Will improve profitability by DKK 1.5-2.0bn by 2017 (2/3 will be visible in 2016) to fund investment in future profitability. More details in March 2016 with Sail 2022 strategy plan including working capital improvements. Will reduce debt and increase shareholder remuneration. M&A off the agenda which is very good news as Carlsberg's M&A history is a textbook of how not to do it.

Jenoptik

(4.6% weight)

Investment case update: Jenoptik, a Germany-based quality industrial engaged in the field of optoelectronics. The company's main activities are divided into three segments: Laser & Optical Systems, Metrology and Defence & Civil Systems. Strong sales growth in all three segments during the quarter contributed to a company record revenue of EUR 488m for the first nine months of the year. Strongest contribution to revenue growth came from the Defence segment (ESG compliant, measurement systems) which grew by 48% during the quarter, year on year, mainly due to the booking of a major part of an anticipated defence system order. EBIT margin remained at 9%, comparable to the same period last year. Order intake was up year on year but down sequentially, resulting in a book-to-bill ratio of 0.85x compared to 0.98x. Guidance was confirmed and narrowed to the upper range – a full-year topline of EUR 660-690m with an EBIT margin of "at least" 9%. The strong FCF generation (EUR 29m for the nine months) reinforces our view of the company as an undervalued high quality industrial that is able to generate attractive free cash flow while expanding, as it is exposed to structurally growing customer segments. The company's year 2015 is already in the bag.

Summary: The company reported revenue for the first nine months of EUR 488m, an increase of 16% from prior year to current record level. All three segments contributed with strong sales growth. Full-year sales guidance was reaffirmed and narrowed to the upper range of previous guidance EUR 660-690m with an EBIT margin of "at least" 9%.

Key earnings releases and corporate news, November 2015 (cont.)

Aercap

(3.6% weight)

Investment case update: AerCap is the largest independent aircraft leasing company globally. It is also active within engine leasing, trading and spare part sales/service of aircrafts. The company manages a fleet of 1300 aircrafts with a current order book of an additional 458 aircrafts. The Q315 report disclosed overall stable underlying trends in the leasing business. Part of the business strategy is to manage its fleet actively, and the quarterly result was helped by aircraft sales (including eight widebody aircrafts). Importantly, management is not seeing overall weakness in mid-sized widebody segment values, contradicting recent comments by Delta's CEO who suggested values in these categories are under severe pressure. The company continues to de-lever its balance sheet after the ILFC acquisition from AIG and debt/equity ratio reached 3.1 at the end of the quarter. The company is highly cash-generative (about USD 500m annually or 7% of current market cap) and another substantial share-buyback program could be on the cards in the short term. Current stock price offers substantial value as stock is potentially trading below its liquidation value (market value of aircrafts minus debt) and at 6x P/E. The stock is about to be included in the MSCI World indices as free float increased after AIG sell-down of ownership during 2015.

Summary: The company reported net income of USD 328m in Q315, compared with USD 294m for the same period in 2014. The underlying operational results grew moderately from last year but were also positively affected by gains on sale of assets. The fleet utilisation rate continues to be at high levels at 99.7% with 5.9 years average remaining contracted lease term at the end of the quarter.

First Quantum

(0.8% weight)

Investment case update: First Quantum is a Canada-based mining and metals company. It has seven mines across the world. It produces copper (70%), nickel (20%), gold, zinc and platinum. It mainly operates mines in Zambia, Spain, Finland, Australia and Turkey. Major development projects are Enterprise (Zambia), Cobre Panama (Panama), Haquira (Peru) and Taca Taca (Argentina). In Q315, the company reported reassuring operating earnings (USD 261m) and production was higher both QoQ and YoY as Sentinel is ramping up. Production guidance for 2015 was lowered somewhat for copper and gold while nickel output was raised. Guidance for cash cost per pound copper (USD 1.20-1.35) and annual capital expenditure (USD 1.4bn) were unchanged from the October update. The key to the investment case in the mid-term is successful execution of non-core asset sales and subsequent de-levering of its balance sheet (currently about USD 5.3bn in net debt). In early November the company confirmed they are considering selling Kevitsa, Ravensthorpe nickel mines, which would help achieve goal of reducing debt by at least USD 1bn in the short term. The company also owns a power plant in the Panama project which could be monetised in the coming year. Overall we think company copper production has the potential to almost double by 2018 with current projects.

Summary: In Q315 the company reported adjusted EBITDA of USD261m which is down sharply from last year (USD 410m), due to falling copper prices. Net debt was essentially unchanged from last quarter. The company guided for marginally lower 2015 copper production guidance at 380k-400k tonnes and unchanged estimate for cash cost per pound copper at USD 1.2-1.35.

Key earnings releases and corporate news, November 2015 (cont.)

Pan American Silver

(3.0% weight)

Investment case update: The company operates seven mines in Mexico, Peru, Bolivia and Argentina. The aggregated output in base metal terms is silver 65%, gold 20% and other base metals (zinc, lead and copper) 15%. With current depressed silver and gold prices the company is struggling to generate cash flow and is still trying to maintain a dividend. The company reported an 11% drop in revenue over last year while production rose 7% in silver and there was record gold production, 57% higher than a year ago. Net cash amounted to USD 208m which provides the company with a cushion in the overall gloomy climate for the underlying commodities. The company continues to operate at a more or less break-even level after adjusting for a non-cash write-down, and there were some significant cost improvements in most operations, also helped by weaker currencies. Overall we think the stock is discounting that these depressed levels of silver prices will last for a prolonged period, and not giving any credit to coming reductions in the silver supply in the mid-term or the structurally increased industrial use of silver. We would, however, expect that the company will cut its dividend sooner rather than later, to preserve cash balances.

Summary: The company reported silver production of 6.6 million ounces, 7% higher than a year ago. Gold production was at 53,600 ounces, 57% higher than a year ago. Total revenue was USD 159m while operating cash flow was USD 33m. Net loss for the quarter was USD 9m after adjusting for a non-cash write-down in the carrying value of the Manantial Espejo mine.

Schaeffler AG

(2.2% weight)

Investment case update: Schaeffler is a Germany-based automotive/industrial company, mainly active in engine and transmission systems (auto) as well as bearings (industrial). With exceptionally poor timing, the company executed an IPO of its shares in the middle of the Volkswagen emission scandal in October 2015. In light of the worries related to the Volkswagen scandal, the company reported reassuring numbers for Q315 with revenue up 7% over last year and EBIT up 3%. EBIT margins fell to 13.3% vs. 14.1% a year ago. The company also reiterated guidance for the full year. Within Automotive revenues grew 10% while Industrial was flat from last year. The company is specifically struggling with margins within the Industrial segment, which fell sharply from last year. Free cash flow generation at EUR 264m in Q3 alone was positive, but may have been affected by one-time factors. Net debt fell from 6.3bn to 5.9bn since last quarter (2.7x net debt/EBITDA). Overall we think these numbers show that the company is executing well and is on track to de-lever its balance sheet through strong cash-flow generation. Margins in the industrial division should go higher with the initiated restructuring program. We think the stock should at least trade in line with other high-quality auto-parts/industrial names, and suggest initial upside of about EUR18-19/share.

Summary: The company reported Q315 revenues of EUR 3.3bn, 7% higher than last year. EBIT grew by 3% to EUR 433m pressured by lower margins in its industrial segment. Net debt fell to 5.9bn from 6.3bn.

Key earnings releases and corporate news, November 2015 (cont.)

Fila Korea

(2.9% weight)

Investment case update: Fila Korea, owner of the global brand Fila and several other brands, reported mixed Q3 numbers. On the positive side, Fila USA (40% of sales) continued to show solid sales growth, 7% YoY for the quarter, notably in a very competitive market. On the weak side, sales in Korea (40% of sales) showed continued weakness and declined 12.7% YoY for the quarter. Consolidated sales rose by 3.7% to KRW196bn, aided by FX tailwind. The company's profitable Global Royalty income segment represented a major part of operating profit. The main reason for the domestic decline was the weak underlying golf equipment market that hit Acushnet this quarter and resulted in a consolidated decline in operating profit of 8.5% YoY. Acushnet and its upcoming IPO is key to the investment case since both its full value and cash flow potential is not currently reflected in the company's share price. We continue to monitor the underlying developments and especially Acushnet's upcoming initial IPO; price– IB is already in place.

Summary: Fila Korea reported consolidated sales of KRW 196.4bn during Q3, a 3.7% YoY growth in sales. Operating profit fell 8.5% to KRW19.1bn. Domestic sales declined 12.8% YoY and had an operating loss of KRW 1.7bn. Fila USA sales grew 7.2% with flat operating margin resulting in an operating profit of USD 4.1m (FX effect to KRW is positive). Global Royalty income declined 6% YoY but was stable across the regions. Acushnet sales declined 7% YoY and op margin declined to 1.7% from 6.4% in the same quarter one year ago. Acushnet Net income came in negative at USD 1.8m.

Infineon

(2.3% weight)

Investment case update: Germany's largest chipmaker, Infineon, ended their fiscal year with a strong fourth quarter. Q4 revenue grew 36% YoY, fuelled by FX effects and the International Rectifier acquisition. Q4 sales were flat QoQ but stronger than what the market expected. Full-year Ebit margin expanded 8% to 15.5%. Net income grew 22% YoY to a level of EUR 639m for the full year, including acquisition expenses of EUR 62m but also tax income of EUR 131m. All segments contributed to organic growth during the last quarter except the Automotive segment (40% sales), where slightly weaker demand from China was the main reason for the decline. Power Management (25% of sales) was the main contributor driven by good demand. In contrast to competitors, in all segments, these were very solid numbers representing market share gains across the board – and no Volkswagen effect in sight.
The company also stated that the integration of Rectifer (power semis) has been a success and that the margin has already reached its target level of 15% - which demonstrates shocking execution a year ahead of plan. FCF generation continued to be strong, contributing EUR 177m to Infineon's net cash position which is now at EUR 220m. The structural shift towards increased semi-content per car continues to benefit the company which is very well positioned to take advantage of that opportunity. Infineon gave strong FY16 guidance of 13% sales growth and about 16% segment result margin. Shares rallied after earnings to its highest level in more than 13 years.

Summary: Infineon released full-year figures of EUR 5797m in revenue and net income of EUR 639m. Net income for Q4 grew 80% YoY and included tax income of EUR 121m and acquisition expenses of EUR 62m.

Key earnings releases and corporate news, November 2015 (cont.)

Air Asia

(1.9% weight)

Investment case update: Air Asia reported very strong underlying operating numbers, even compared to statements made at our meeting with the CFO in Hong Kong in September. Thailand is receiving record Chinese tourists, more than recovering from the bomb blast recently. Indonesia is still struggling but going in the right direction as regulatory issues are now solved. The legacy fleet in the Philippines is starting to be rotated out, which lowers costs. The company, probably due to investor pressure, consolidated its loss-making subs numbers, including historical losses, thus the terrible headline numbers. It should be noted that these numbers are still unaudited, and under Malaysian accounting standards. Although disclosure is improving and nothing substantially new was disclosed, it is a major step in the right direction. Debt increase due to (translational) FX weakness versus USD. The case is still based on faith in management reporting the truth in our opinion - thus, the numbers will not alleviate concerns of investors yet, but things are moving in the right direction.

Summary: Air Asia reported consolidated number for Q315, whereby subsidiaries were consolidated for the first time; Revenue (Malaysia & Leasing units) +15% YoY as Malaysia 19% RPK growth was offset by a 7% decline in average fair price. Aircraft lease revenue +27% YoY (includes more transfers) Q315 other income +15% YoY. Consolidated EBIT improved 53% YoY as fuel prices declined 14% YoY; EBITDAR improved 33% (500bp of margin improvement). Adj Core Net Income was closer to RM 180m (vs. the reported loss of RM 406m), +44% from the Adjusted number of RM 125m in Q314. The headline loss came from consolidation of the subs, primarily the controversial struggling Indonesia unit.

Stock Spirits Group

(1.6% weight)

Investment case update: Stock Spirits is a branded spirits (primarily vodka) and liqueurs business focused on Central Europe, mainly Poland, the Czech Republic and Italy. The company was listed in 2013 in the UK. The investment case is built upon a normalisation of market share and a more rational pricing picture especially in the Polish market and that the guidance given earlier was sufficiently conservative. The reduction in guidance of about 20% on EBITDA level suggests several factors have changed for the worse and that several orders that were expected have been pushed out highlighting an increased volatility in ordering patterns. The shift towards the discounter channel, where Stock is weaker, compared to traditional channel has intensified and more operators are joining the movement, including Pernod Ricard. The main competitor Roust has launched aggressive promotional products in the market and the number 3 player, Marie Brizard, re-launched a brand at a lower price point. There are also talks of an increased retail tax at the beginning of next year, but this would mainly target the large retail channel. The company had counted on positive impact from new product sales, but the launch of new products seems to have been pushed out to early next year. There was also mention of supply issues of glass/bottles. The company would still generate a healthy amount of cash this year, at EUR 30-40m (current market cap of EUR 300m), and the balance sheet is strong with the company coming into a net cash position next year. The stock trades at a discount of 30-40% versus the peer group.

Key earnings releases and corporate news, November 2015 (cont.)

Fourlis

(0.8% weight)

Investment case update: Greek Fourlis has two main business activities; they are the operator of IKEA stores in Greece, Bulgaria and Cyprus and they also operate Intersport stores in Greece, Cyprus and Turkey. The home furnishing market in Greece has deteriorated 70% since the peak; from 1.5% of GDP to current 0.4% of GDP. During the financial crisis and recession in Greece the company has managed to become a more efficient operator and is also taking substantial market share. Intersport has been remarkably resilient in the downturn. The group delivered a solid set of results with sales basically flat from a year ago and EBITDA increasing 35% to EUR 11.3m. The core IKEA division saw its gross margin expand 200 bps over last year while margins at Intersport were stable at 8.6%. Net debt was down marginally from last year to EUR 141.6m. These are very respectable results given that Q3 included the potential impact from introduced capital controls and slower consumption pattern overall in July-August. At the conference call management guided for continued positive trends in Q4 and homeware market growth in 2016 with the IKEA division likely to perform better than average. We continue to believe that the company is seeing a slow but gradual improvement and that operating leverage will be substantial once the environment stabilises further.

Summary: Fourlis released Q315 numbers where IKEA sales were flat YoY while Intersport increased 1%. Company EBITDA margin expanded from 7.2% to 10.0% from last year. Operating cash flow was marginally negative but was impacted by a discontinued operation in the quarter.

The largest companies in SKAGEN Focus

AIG is an international insurance company serving commercial, institutional and individual customers. The company provides property-casualty insurance, life insurance and retirement services. AIG was at the very centre of the financial crisis as the central bank for mortgage insurance – it was bailed out in a USD 180bn bail out. The company has two core insurance holdings: Sun America and Chartis that it intends to keep. The company has set a target to achieve 10% ROE by 2015.

Carlsberg A/S is an international brewing company. The company produces branded beers and regional brands. Carlsberg makes most of its beer outside of Denmark and it is sold in markets around the world. The company also markets and produces soft drinks, water and wine.

SK Hynix Inc. is a Korea-based company engaged in the manufacture of semiconductors. The Company mainly develops and manufactures memory and non-memory semiconductors. Its memory semiconductors include dynamic random access memory (DRAM), multi-chip products (MCPs) and NAND flash memory semiconductors, which are used for cellular phones, PC, digital televisions, digital cameras and other electronic products. The company has the number three market share (in the current oligopoly) in DRAM, behind Samsung and Micron

Omega Protein Corporation is a nutritional ingredient company and the United States that markets fish meal and fish oils from menhaden, an oily, virtually inedible fish found in the Gulf of Mexico and in the Atlantic Ocean. The Company fishes for its own source of raw material and without their own catch. They are the largest US producer of Omega-3 fish oil and specialty fish meal products. These heart-healthy fish oils have experienced rapid growth as a dietary supplement and the fish meal is finding increasing usage nutritional food additives.

The company is one of the oldest financial firms in the US, with headquarters in Providence, Rhode Island, with its roots going back to 1828. It is today the 13th largest retail bank in the US with a footprint in New England, the Mid West and the Mid Atlantic, with over 1200 branches in 11 states. The company was listed in September 2014 after being spun off from the UK-based bank Royal Bank of Scotland (RBS).

The largest companies in SKAGEN Focus (cont.)

SBI Holdings	Japanese company established in 1999 as an online financial services company, incubation arm of Softbank. Acquired E*Trade Securities in 2003, Softbank sold out in 2006. Three main businesses: i) Financial services; ii) Asset management, iii) Biotech Financial services: Building ecosystem to offer full range of financial services. SBI Securities is the dominant provider of online securities services in Japan, #3 in new tax-saving NISA behind Nomura and Daiwa. SBI Sumishin Net Bank: pure-play internet bank. Also active within insurance (Life & Non-life), Mortgages (through securitisation), trading system and FX trading.
JENOPTIK	Jenoptik AG is a Germany-based company engaged in the field of optoelectronics. Its main activities are divided into three segments: the Laser & Optical Systems segment, the Metrology segment, the Defence & Civil Systems segment. The Laser & Optical Systems segment encompasses Laser and Material processing division, which is engaged in semiconductor materials and diode lasers. The Metrology Segment is engaged in manufacturing of high precision contact and non-contact metrology systems; and the Traffic Solutions division comprises products and solutions for road safety. The focus areas of the Defence & Civil Systems are military and civil vehicle, rail and aircraft equipment.
中国电信 CHINA TELECOM	China Telecom is full services integrated information service operator in China. The Company, along with its subsidiaries, is engaged in the provision of basic communications services, including wireline telecommunications services, mobile telecommunications services, value-added services, such as Internet access services, integrated information services and other related services within the service area of the Company. China Mobile, China Telecom and Unicom are the largest and dominant service providers in the country. China Telecom is the growing 2nd player behind China Mobile, in a maturing industry, yet with massive growth in data downloads.
AerCap Aviation Solutions	US based AerCap is the largest independent aircraft lessor globally. It is also active within engine leasing, trading and spare part sales/service of aircrafts. . In December 2013 the company transformed itself by acquiring IFLC, previously the largest aircraft lessor, from American International Group (AIG). Current ambition is to grow the book at a 5% annual rate going forward. AerCap benefits from growth in travel which doubles every 15 years, without the risk of operating an airline.
HYUNDAI	Hyundai Motor is the world's 5th largest car maker, including their 39% stake in Kia Motor. Sold 8m cars in 2014 and has a ca. 5% global market share. Focus on smaller/less expensive cars. Strong position in several countries and in emerging markets such as India and China.

Synchrony Financial (SYF US) USD 30

synchrony FINANCIAL

History, what they do and how case was found

- The company is the leading US provider of private label credit cards (42% market share in the US) and also offers solutions in consumer financing/healthcare. They also provide "dual cards" which are co-branded credit cards used outside the loyalty programs. Operations through three platforms; Retail Card, Payment Solutions and CareCredit. 75% of the total loan book (USD 61bn) is related to Retail cards and 25% to Instalment loans/Payment solutions.
- Largest private label program clients: American Eagle, Gap, Lowes, QVC, Sam's club (WalMart), BP retail card, Chevron and JCPenney.
- In consumer financing, the company is part of the same eco-system as a current position. The company has been a publicly listed company since August 2014, then partly separated from its parent GE after 80 years of operation within GE Capital. GE finalised the separation of the company in November 2015.
- ESG - No major issues identified .

Rationale for investment

- Economics in private label cards are different to general cards as they charge no interchange fee and over time have a higher loss picture but this is compensated by higher yields. The private label credit card industry has taken substantial market share from general credit cards. Within private label, Synchrony is the market leader and has gained 800bps of market share since 2004 (at 42% share today).
- Proprietary closed-loop network advantage; offer better economics for the merchants as it eliminates interchange fees. Closed-loop network provides valuable data capture, which enables SKU-level insight on transactions, is not visible for merchants using the mainstream payment eco-system. High switching cost for merchants to change payment structure. Network allows for mobile and online payments. Closest peer is Alliance Data Systems (ADS US) within data-analytics.
- Extremely well-capitalised with a Basel III tier one common ratio at 16.6%. The company was recently approved by the Fed to be a stand-alone Savings and Loans, and is not part of CCAR process. 16% of the assets are in cash, and company has major opportunities to increase asset yields and return capital in the mid-term.

Potential triggers

- Asset re-positioning – company had to run an overly conservative balance sheet in the separation process from GE; major opportunities to increase asset yields in the short term.
- Capital returns - Elevated capital levels after the separation from GE and a highly cash-generative business should pave way for substantial capital returns in the mid-term.
- Index inclusion - the quite decent market cap (about USD 25bn) would mean inclusion in the S&P500.

Risks

- Client concentration and loss of contracts – top 40 programs is 75% of revenues within the Retail card business. All major contracts have however been renewed to 2019.
- Competing payment networks that would incentivise merchants to migrate to new payment structure despite high switching costs.

Target price

The company is generating a relatively high ROE (20%+) with a strong strategic position; we have a target price of USD 45, which is 13x mid-term earnings power.

Key figures:

Market cap	USD	25.5bn
P/E 2016		10.8x
P/E 2017		10.0x
ROE 2015		22%
Book value	USD	12.5bn
Dividend yield		0%
P/B		2.0x

Team Focus, November 2015
www.synchronyfinancial.com

3U addition to fact sheet

Unpopular

- The stock has in the short term been pressured by the overhang from GE separation; only 20% of the analysts are at hold/sell.

Under-researched

- Today 20 analysts are covering the name; analyst coverage will probably increase over the short term as this USD 25bn market cap company enters the S&P500.

Under-valued

- The company is generating a relatively high ROE (20%+) with a strong strategic position, and with major opportunities to return capital; we have a target price of USD 45, which is 13x mid-term earnings power.

For more information please visit:

Our latest Market report
Information on SKAGEN Focus A on our web pages