SKAGEN Focus A

All data in EUR as of 31/03/2020 unless otherwise stated.

Uncertainty at peak levels

The initial investment environment in 2020 was a continuation of last year's surprisingly strong global equity climate. Since late February, however, global equity markets have posted one of the most rapid declines of all time, throwing the world into the first global bear market since 2008. The response to the coronavirus threat has led to an unprecedented shutdown of entire economies and very few investors can claim they have witnessed a similar investment environment. Uncertainty currently remains at peak levels.

Positions hit price target

We observe that investors do not yet full differentiate between the extremely serious situation in the Western developed world, symbolised primarily by US and select European markets, and the seemingly more insulated economies represented by China, Korea and Japan. The fund has positioned itself accordingly, as we believe there is a fair probability that value equities in the latter countries will outperform the still overpriced US equity markets. At the end of the quarter, we have allocated more than 40% of fund assets in China, Korea and Japan. Not only are these economies seemingly better positioned in terms of the virus cycle, the companies in these markets hold excess cash positions and major non-core holdings to weather a financial storm. Moreover, we believe a large part of the "quality/growth" complex, which still trades at exceptional multiples, will finally be exposed as being more cyclical than perceived in this downturn and face shrinking valuation multiples.

Accordingly, the fund has a record low allocation towards US assets at around 12% of the fund, following the exit of our US food retailer position Kroger initiated in August 2019, which hit price target late in quarter, and is the strongest performer in the year. We also closed our position in Brazilian ethanol producer Sao Martinho at price target early in the year following a rapid re-rating.

Chicken and paper producer added

The rapid decline in global equity markets has uncovered opportunities to gradually accumulate several new positions. For instance, we re-initiated a position in the largest chicken producer in the US, Pilgrim's Pride. The stock again trades at multiples consistent with a 50% equity upside in 2-3 years and we think demand for chicken is more resilient than the market currently discounts. Food retail demand is compensating for the downturn in the restaurant related segment and we also believe that the majority owner, Brazilian based JBS, may use Pilgrim's listing to eventually list its US business.

The fund established a position in debt-free UPM, Europe's largest graphic paper company, which is using cash flow from its mature paper business to fund its evolution into a global pulp, labels and specialty paper group. While a recovery to normalised levels may be deferred, this is an opportunity for the fund to rotate some of our pulp exposure into a high-quality company, which at current levels offers exceptional risk-reward due its defensive industry leading balance sheet and self-funded growth optionality. From a position of net cash, UPM has considerable flexibility to both pay dividends while pursuing transformative capital projects.

Another company which has been in our pipeline for quite some time, but never traded in our price range, is German service company Befesa, which engages in the collection and recycling of steel dust and aluminium residuals. It operates in a niche market with solid underlying trends while providing a critical service with high barriers to entry. Steel dust and aluminium salt slag recycling is a highly regulated necessary service, leaving Befesa uniquely positioned to benefit from the long-term secular trends in demand for EAF steel and aluminium production.

We also increased our positions in China Unicom and Japanese conglomerate Hitachi, which now represent the two largest positions in the fund. China Unicom should prove to be a resilient company in the current downturn, now trading at an absurd valuation at about two times its operating cash flow. We think the 5G spending worries are overdone and see a significant equity price potential in the mid-term. Hitachi is indisputably more cyclical but is heavily tilted towards relatively more robust economies in Japan/China and currently trades at exceptionally cheap valuation levels on 2021/2022 earnings levels with a strong balance sheet.

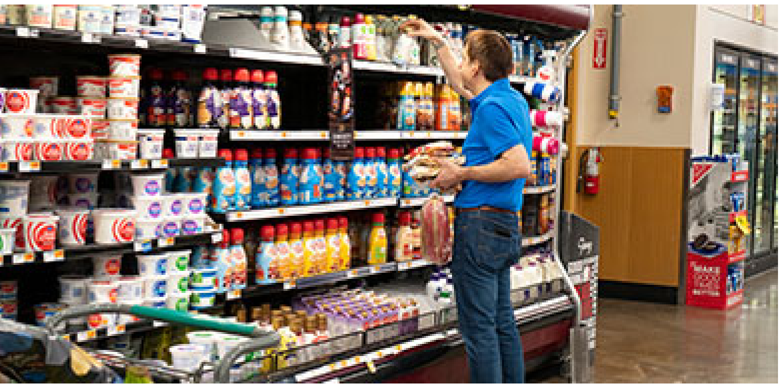


Photo: Shutterstock

Photo: Shutterstock

Value stocks set to lead the recovery

A recovery will eventually occur, but the timing is obviously elusive. We firmly believe the current dramatic decline in global equity markets mark the end of the "growth" investment cycle which started in 2010 and a new leadership will emerge. Even if interest rates stay low, an early cyclical recovery will allow the currently beaten down value segment to post impressive earnings growth rates and we think commodity values followed by financial values will lead the recovery. Many of our positions are implicitly trading at exceptionally low multiples on 2021/2022 earnings levels and any indication of economic normalisation could propel a major rotation into value assets.

Portfolio at record cheap levels

At the of the quarter we have 35 positions with 59% in small or mid cap positions. Our concentration in the top-10 is 43%. On next year's weighted earnings power, the portfolio trades at a record low of 6x and at a price/book value of 0.7x. The equity upside potential across the portfolio is now more than double the current depressed asset price levels, implying a favourable risk/reward over a 2-3 year investment perspective.

Quarterly Report

SKAGEN Focus A

All data in EUR as of 31/03/2020 unless otherwise stated.

The fund is a concentrated global equity fund with a mandate to invest in all cap-sizes, geographies and sectors globally. With our concentrated portfolio of 30-35 core positions, we aim to generate absolute returns at a controlled level of absolute risk.

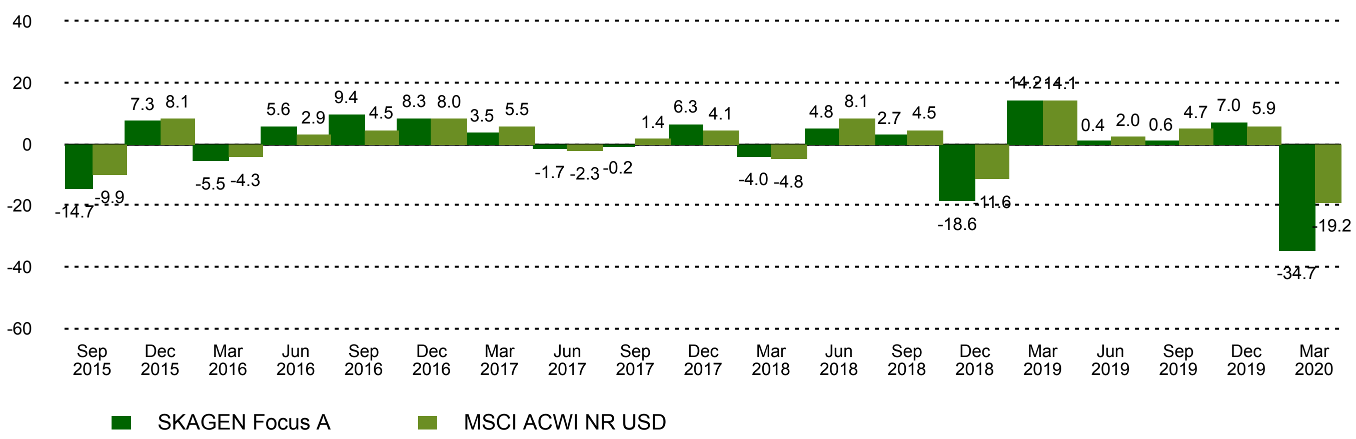
Fund Facts

Type	Equity
Domicile	Norway
Launch date	26.05.2015
Morningstar category	Global Flex-Cap Equity
ISIN	NO0010735129
NAV	8.68 EUR
Fixed management fee	1.60%
Total expense ratio (2019)	1.23%
Benchmark index	MSCI ACWI NR USD
AUM (mill.)	85.19 EUR
Number of holdings	35
Portfolio manager	Jonas Edholm

Historical performance (net of fees)

Period	SKAGEN Focus A	Benchmark index
Last month	-21.7%	-11.5%
Quarter to date	-34.7%	-19.2%
Year to date	-34.7%	-19.2%
Last year	-29.5%	-8.7%
Last 3 years	-10.9%	0.7%
Last 5 years	n/a	n/a
Last 10 years	n/a	n/a
Since start	-6.3%	2.2%

Quarterly Performance



Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Kroger Co/The	3.34	1.45
Teikoku Sen-I Co Ltd	2.09	0.34
Sao Martinho SA	0.72	0.29
UPM-Kymmene Oyj	0.16	0.17
Toyota Industries Corp	4.29	0.06

Largest detractors

Holding	Weight (%)	Contribution (%)
Lincoln National Corp	2.25	-2.29
OMV AG	4.17	-2.27
Dow Inc	3.93	-2.06
Ivanhoe Mines Ltd	4.14	-2.04
West Fraser Timber Co	2.70	-1.84

Absolute contribution based on NOK returns at fund level

SKAGEN Focus A

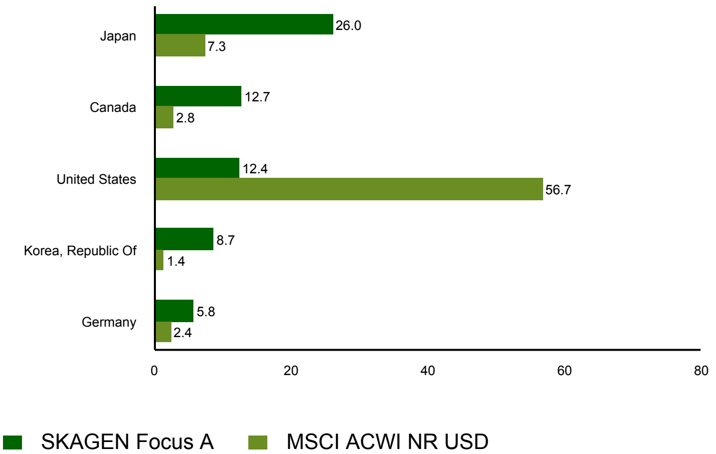
All data in EUR as of 31/03/2020 unless otherwise stated.

SKAGEN
Part of Storebrand

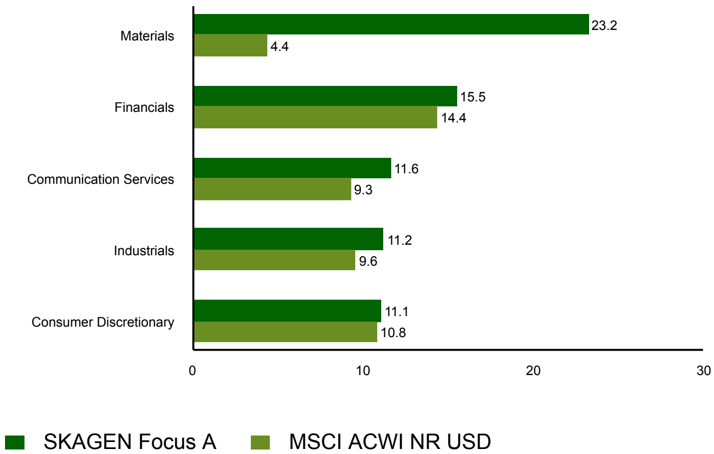
Top ten investments

Holding	Sector	Country	%
Hitachi Ltd	Information Technology	Japan	5.8
China Unicom Hong Kong Ltd	Communication Services	China	5.6
Toyota Industries Corp	Consumer Discretionary	Japan	4.9
Korean Reinsurance Co	Financials	Korea, Republic Of	4.5
Roxgold Inc	Materials	Canada	4.2
Ivanhoe Mines Ltd	Materials	Canada	3.9
Avaya Holdings Corp	Information Technology	United States	3.5
Oz Minerals Ltd	Materials	Australia	3.4
Dow Inc	Materials	United States	3.3
OMV AG	Energy	Austria	3.2
Combined weight of top 10 holdings			42.4

Country exposure (top five)



Sector exposure (top five)



Contact

+47 51 80 37 09

contact@skagenfunds.com

SKAGEN AS, Post Box 160, 4001, Stavanger, Norway

Important information