From the moors north of Skagen, 1885. By P.S. Krøyer, one of the Skagen Painters. This image belongs to the Skagens Museum.

SKAGEN Global
Status Report June 2016

The art of common sense

SKAGEN

Summary – June 2016

- SKAGEN Global underperformed its benchmark index by 3.5% in June. The fund lost 4.5% while the benchmark MSCI All Country World Index declined by 1.0% (measured in EUR).*

- In 2016, the fund has declined 6.9% while the benchmark has lost 1.5%. Hence, the fund's year-to-date relative performance is -5.4%.

- Samsung Electronics, General Electric and Dollar General were the three best monthly contributors to absolute performance while AIG, Citigroup and Kingfisher were the three largest detractors.

- We took advantage of the Brexit turbulence to increase the fund's exposure to select names that were disproportionally impacted by the market sell-off and where we continue to see solid fundamentals, including AIG, Citigroup and Kingfisher. No new positions were initiated during June.

- We trimmed our positions in Nordea, DSM and Tyco International.

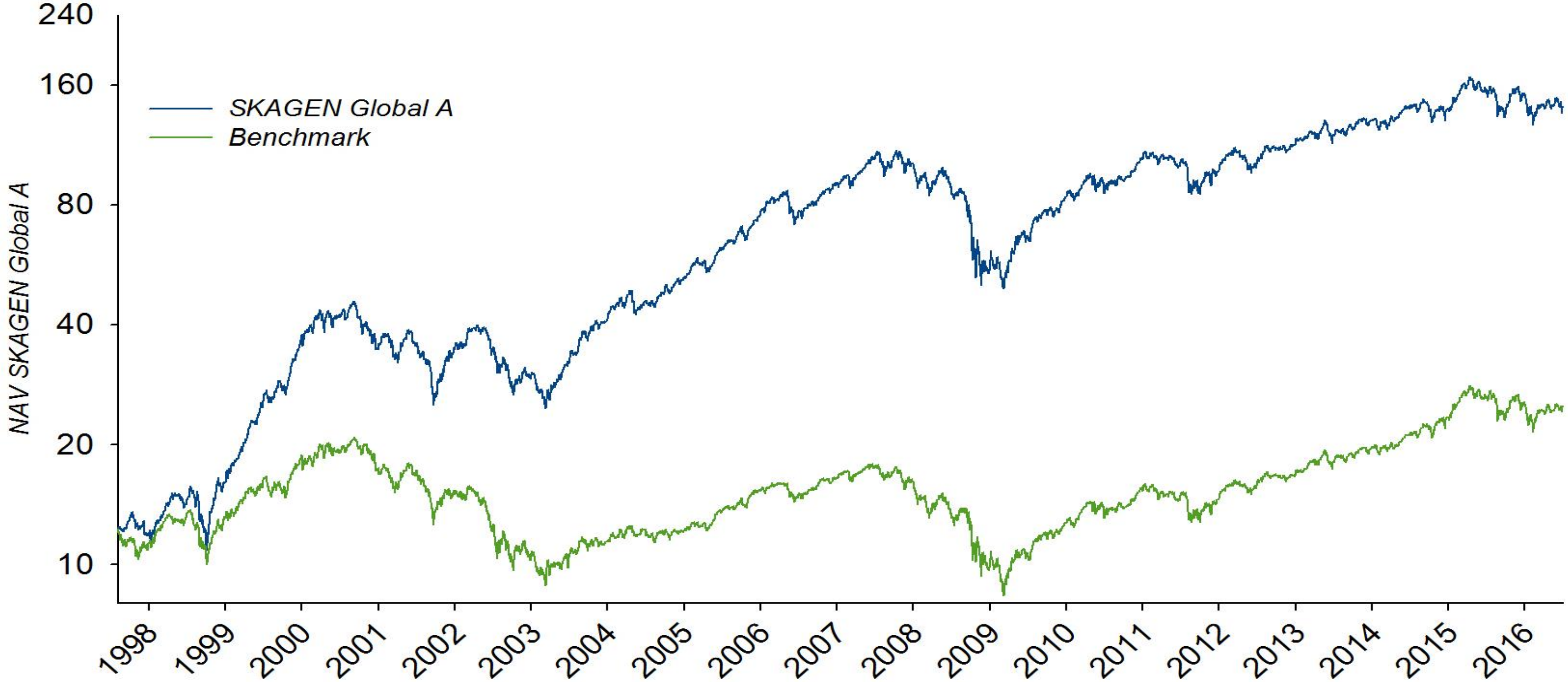
- The fund's top 35 holdings trade at a weighted Price/Earnings (2016e) of 13.2x and a Price/Book of 1.2x vs. the index at 16.1x and 1.9x, respectively.

- The weighted average upside to our price targets for the fund's top 35 holdings is 42%.

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

SKAGEN Global A results, June 2016

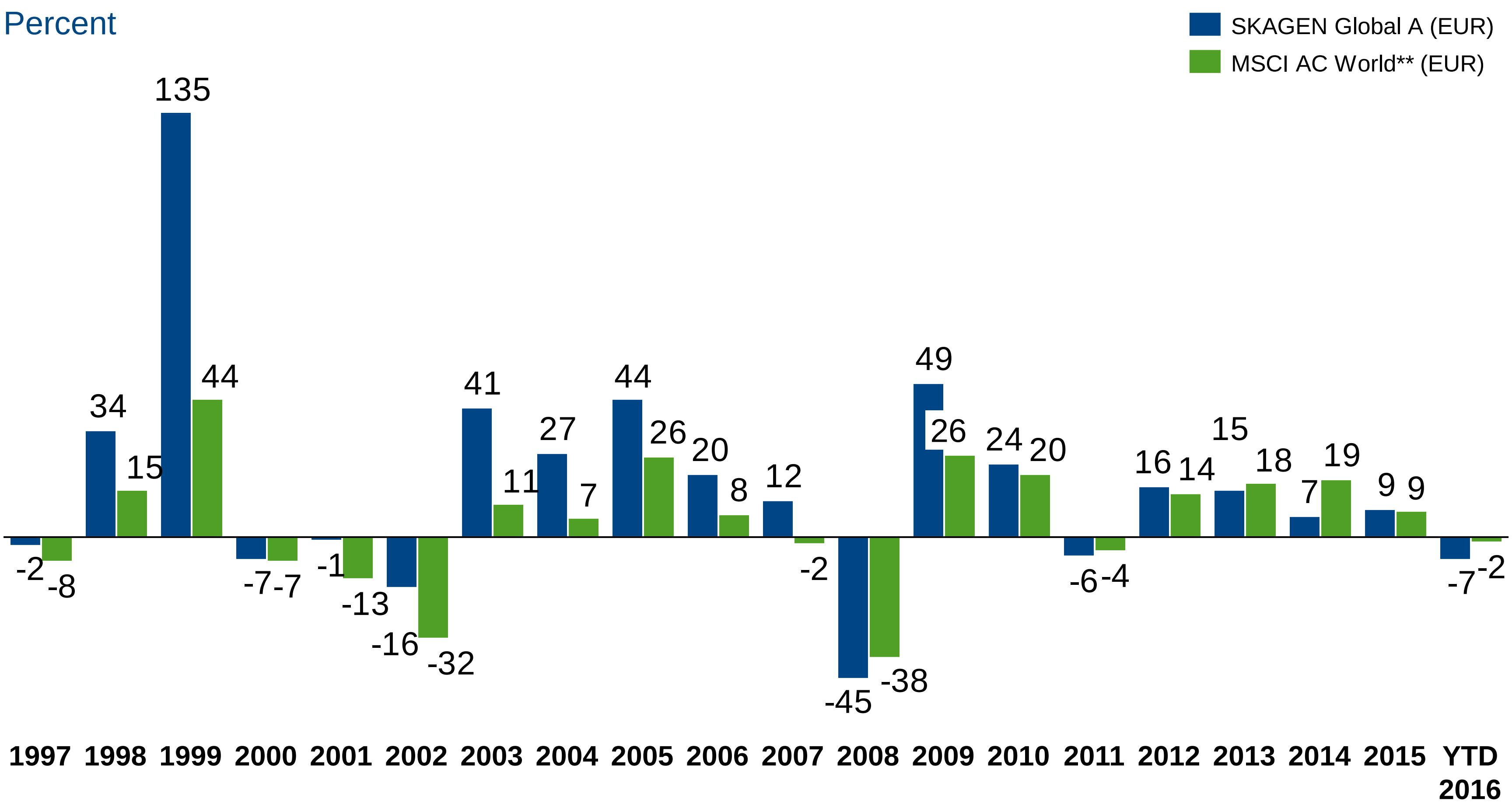
EUR, net of fees



	June	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Global A	-4,5%	-0,4%	-6,9%	-8,0%	5,8%	6,8%	6,3%	13,8%
MSCI AC World Index*	-1,0%	2,9%	-1,5%	-4,1%	11,4%	11,1%	5,3%	3,8%
Excess return	-3,5%	-3,3%	-5,4%	-3,9%	-5,6%	-4,2%	1,0%	10,0%

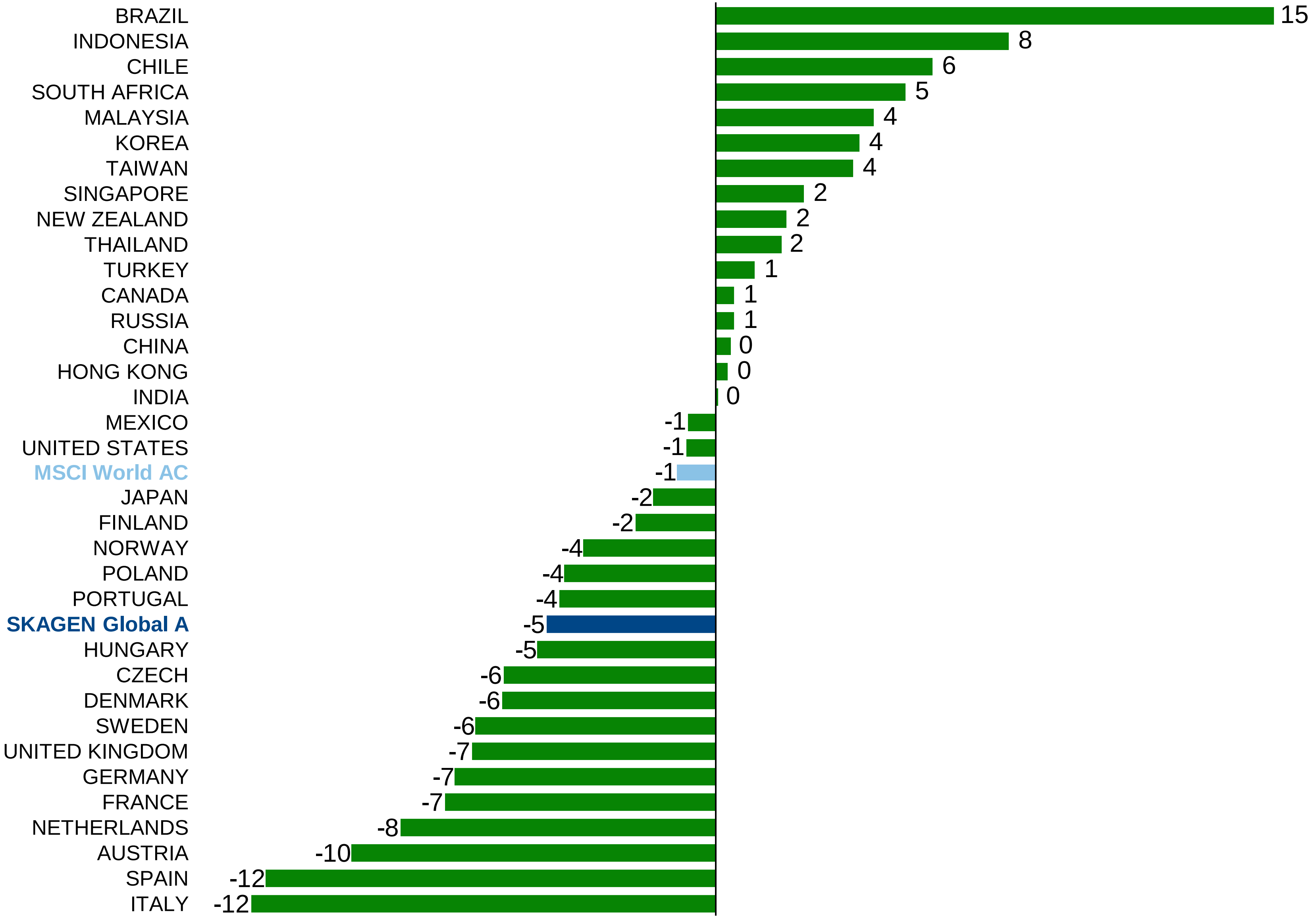
Note: All returns beyond 12 months are annualised (geometric return)
** Inception date: 7 August 1997*
*** Benchmark index was MSCI World in NOK from 7 August 1997 to 31 December 2009 and MSCI All Country World Index from 1 January 2010 onwards*

Annual performance since inception (%)*
SKAGEN Global A has beaten its benchmark 15 out of 19 years

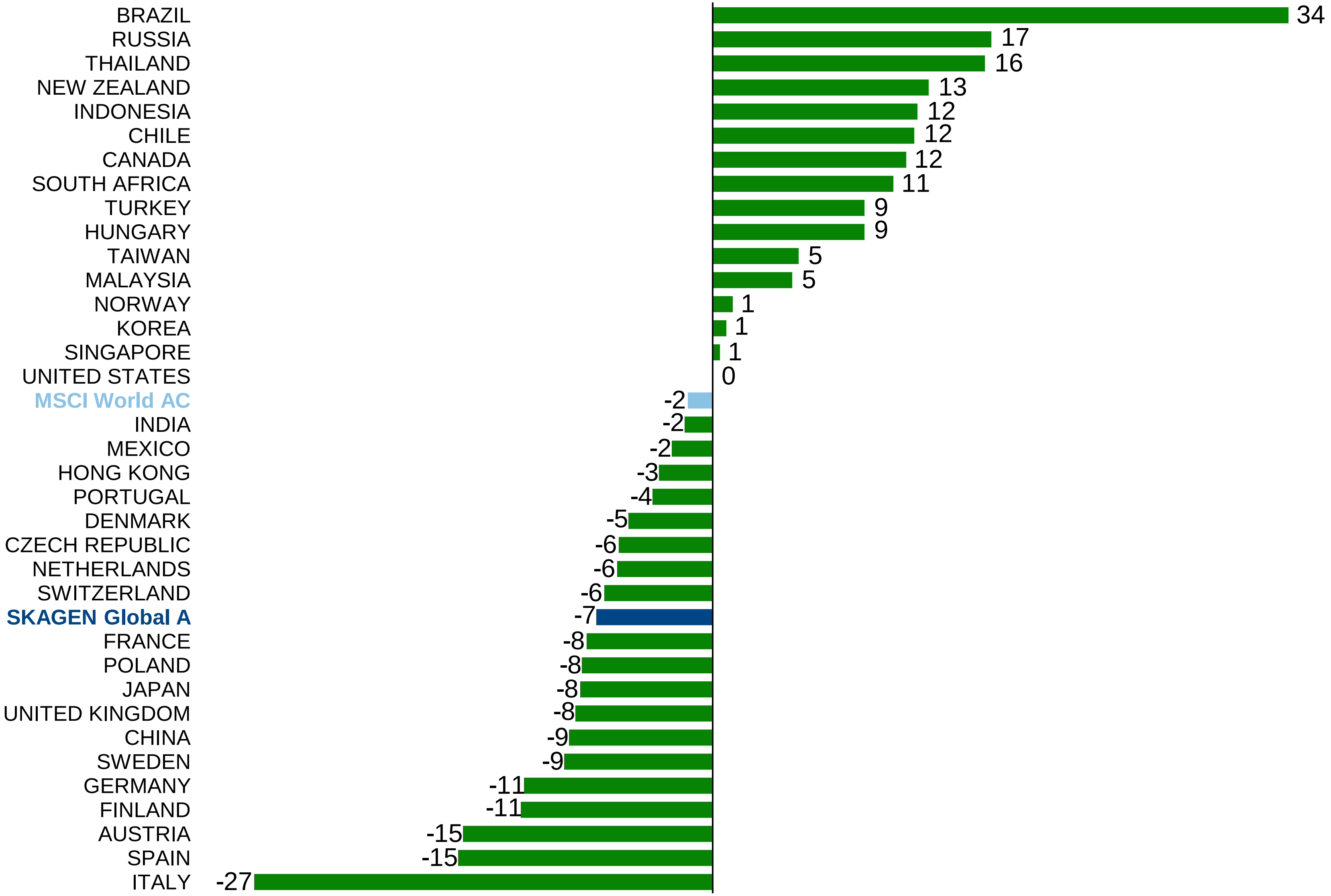


Note: All figures in EUR, net of fees
** Inception date: 7 August 1997*
*** Benchmark index was MSCI World in NOK from 7 August 1997 to 31 December 1997 and MSCI All Country World Index from 1 January 2010 onwards*

Markets in June 2016 in EUR (%)



Markets YTD 2016 in EUR (%)



Main contributors June 2016

Largest positive contributors

Company	NOK Millions
Samsung Electronics	178
General Electric	48
Dollar General	32
Xcel Energy	31
Merck & Co	23
State Bank of India	21
Unilever	19
Sony	18
IRSA	15
Sanofi	15

Largest negative contributors

Company	NOK Millions
AIG	-244
Citigroup	-207
Kingfisher	-185
NN Group	-132
G4S	-107
Autoliv	-103
Volvo	-72
Credit Suisse	-72
HeidelbergCement	-64
Cheung Kong Holdings	-63

Value Creation MTD (NOK MM): -1381

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Dollar General	174
Tyco International	143
Lundin Mining	92
DSM	80
Lundin Petroleum	76
Sony	75
Xcel Energy	73
Samsung Electronics	50
Tyson Foods	43
Merck & Co	42

Largest negative contributors

Company	NOK Millions
AIG	-531
Citigroup	-500
G4S	-291
NN Group	-236
Cheung Kong Holdings	-232
Teva	-225
Credit Suisse	-213
State Bank of India	-153
Lenovo	-147
Toyota Industries	-134

Value Creation YTD (NOK MM): -3302

NB: Contribution to absolute return

Most important changes Q1 2016

Holdings increased

Q1

Company	
Cap Gemini	(New)
Sony	(New)
Baidu	(New)
Autoliv	
Citigroup	
Teva	
G4S	
General Electric	

Holdings reduced

Q1

Company	
Tyson Foods	(Out)
Tata Motors	(Out)
Global Mediacom	(Out)
Dollar General	
Lundin Mining	
Alphabet	
Xcel Energy	
State Bank of India	
UPM-Kymmene	
Nordea Bank	
Barclays	

Most important changes Q2 2016

Holdings increased

Q2

Hiscox	(New)
Skechers	(New)
Cap Gemini	
Cheung Kong Holdings	
NN Group	
Microsoft	
Unilever	
Philips	
Toyota Industries	
Roche Holding	

Holdings reduced

Q2

BP	(Out)
UPM-Kymmene	(Out)
Haci Omer Sabanci Holding	(Out)
Samsung Electronics	
Lundin Mining	
General Motors	
Tyco International	
Nordea Bank	
DSM	
Lundin Petroleum	
Dollar General	
State Bank of India	

Holdings increased and decreased during June 2016

Key buys in June

- We took advantage of the Brexit turbulence to increase the fund's exposure to select names that were disproportionally impacted by the market sell-off and where we continue to see solid fundamentals. The list of stocks that we added to includes, but is not limited to, the following names:
  - **Citi**;
  - **AIG**;
  - **Kingfisher**;
  - **Hiscox**;
  - **Skechers**;
  - **Cap Gemini**;
  - **Cheung Kong Holdings**;
  - **NN Group**;
  - **Unilever**;
  - **Philips**; and
  - **Toyota Industries**.

Key sells in June

- We decided to reduce our exposure to **Nordea Bank** following a string of negative surprises on costs, compliance, and most recently, capital. The combination of lower earnings estimates and higher capital requirements is unfavourable for the dividend outlook, which has been central to our investment thesis.

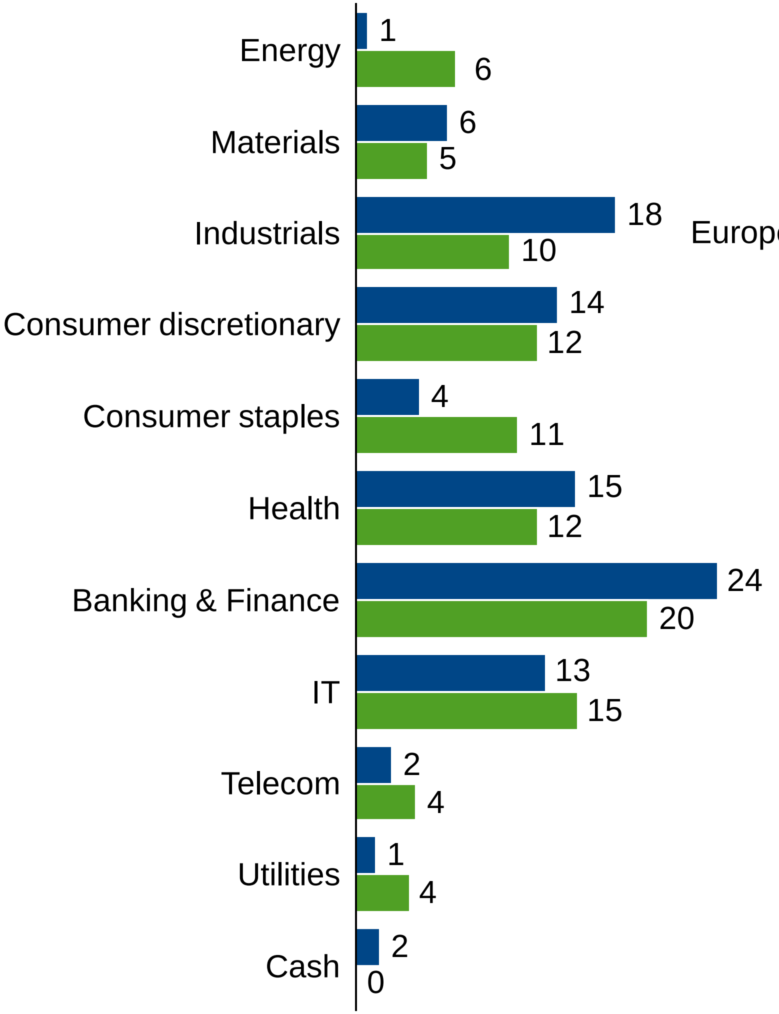
- Following strong share price performance we have also trimmed our positions in **DSM** and **Tyco International.**

Largest holdings in SKAGEN Global as of 30 June 2016

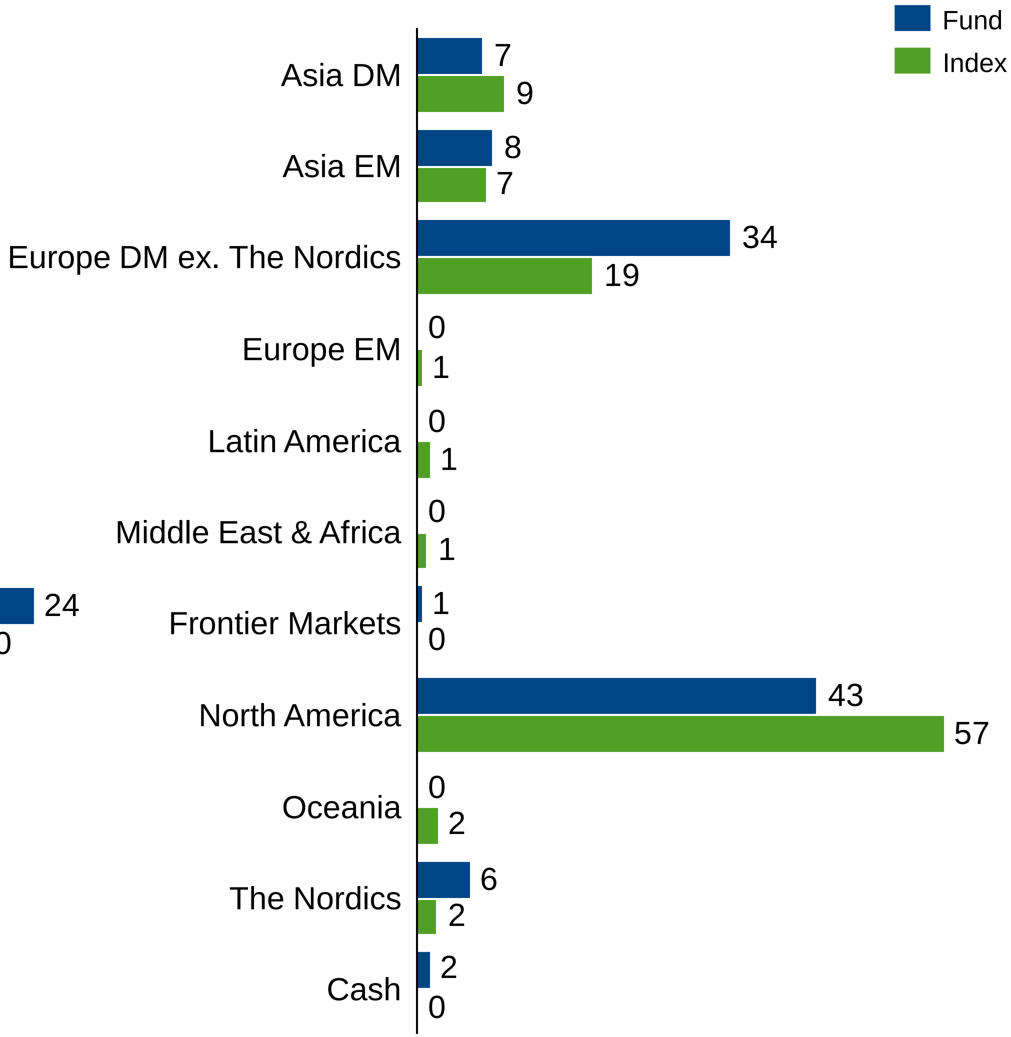
	Holding size, %	Price	P/E 2015a	P/E 2016e	P/BV last	Price target
AIG	7.4	53	21.9	12.8	0.6	90
CITIGROUP	6.6	42	7.8	9.0	0.6	70
GENERAL ELECTRIC	5.1	31	23.7	20.3	3.3	34
ROCHE	5.1	256	18.1	17.3	8.7	380
SAMSUNG ELECTRONICS	4.1	1 183 000	9.0	8.6	0.9	1 500 000
MERCK	4.1	58	16.0	15.3	3.8	76
CK HUTCHISON HOLDINGS	3.7	85	10.4	10.5	0.7	140
MICROSOFT	3.3	51	18.9	17.7	5.2	68
NN GROUP	3.3	25	6.8	8.6	0.4	35
KINGFISHER	3.0	323	15.0	13.9	1.2	500
Weighted top 10	**45.6**		**12.7**	**12.2**	**0.9**	**47%**
Weighted top 35	**90.3**		**13.6**	**13.2**	**1.2**	**42%**
MSCI AC World			**19.8**	**16.1**	**1.9**	

Sector and geographical distribution vs index (June 2016)

Sector distribution



Geographical distribution



Key earnings releases and corporate news, June 2016

Citigroup

(6.6%)

8.4% yield is just the beginning

Summary: The Fed releases results of the 2016 CCAR.

Investment case implications: The results of the 2016 Comprehensive Capital Analysis and Review (CCAR) confirmed our thesis – Citi has the financial strength to significantly increase its capital return. Citi´s capital return plan was approved as the company passed both the quantitative and qualitative parts of the CCAR test. Specifically, Citi will increase capital return by 43% YoY (dividends by 205% YoY and buy-backs by 29%). Compared to Citi's current market cap, the return plan provides an annualised yield of 8.4% (dividend 1.5% and buy-backs 7.0%). As always, sustainability and future direction of the capital return is much more important than the current level. To that point, it is worth highlighting that the current 8.4% capital return yield represents a 76% pay-out ratio on current year's consensus accounting earnings (on cash earnings, the pay-out ratio drops to 64%). It is also worth mentioning that the current year's accounting earnings are earned in an environment with: i) very low interest rates; ii) a year in which trading activity is depressed even compared to the sluggish period following the financial crisis; and iii) a year in which Citi is adding to reserves (and lastly it is important to remember that the previous stress test showed the current balance sheet to be significantly over-capitalised). Thus, we still see the opportunity for markedly higher capital return going forward. On a separate note, the CCAR showed that banks further ahead on the capital return path were allowed to pay out close to 100% of earnings – adding confidence to our thinking that the (US) regulator is not as unreasonable as the market seems to price in.

Microsoft

(3.3%)

Microsoft acquires LinkedIn for USD 26bn

Summary: Microsoft has offered to buy the US professional network site LinkedIn for USD 26bn in an all-cash deal. The take-out price is at a 50% premium to LinkedIn's share price and equivalent to roughly 21x EBITDA or 7x EV/Sales. The two boards have approved the take-over.

Investment case implications: This acquisition came as a surprise to the market which reacted negatively as it is not obvious what synergies LinkedIn has with Microsoft's product suite. Moreover, Microsoft's less-than-successful history of previous acquisitions (Skype, Nokia's phone business) added to the general scepticism. While we agree with both of these points, our contrarian mind-set cannot help but wonder whether Microsoft may actually be onto something bigger here than the market realises. The reality is that the shrewd CEO Satya Nadella has been a prudent capital allocator since taking over the reins in 2014 and he obviously knows a thing or two about the technology space (the same cannot necessarily be said of the previous management which orchestrated the Skype/Nokia deals). We note that Microsoft has USD 60bn net cash on its balance sheet and generates roughly USD 25bn in free cash flow every year. Hence, Microsoft is betting roughly one year of FCF on the LinkedIn transaction and there is clearly some option value in this deal that could surprise the market positively over time.

Key earnings releases and corporate news, June 2016 (cont.)

Capgemini

(2.4%)

Climbing the food chain

Summary: Capgemini's management team hosted a CMD at one of its innovation centres in Munich, focusing on Digital industry transformation. Key themes highlighted were: (i) Automation is happening faster than previously anticipated (Cap is strategically well-positioned to capitalise on this development, many competitors less so); (ii) Company is on track to reach the high end of the 12.5-13% medium-term margin guidance outlined last year; (iii) Cap does not need a macro acceleration to reach the 5-7% target growth range (structural demand growth is probably the strongest we have seen in 10+ years); (iv) The cyclicality of the business has been greatly reduced, as demonstrated by how the recent downturn in North America Oil & Gas was managed; (v) Integration of IGATE is ahead of schedule, with targeted cost synergies (and then some) already realised and cross-selling initiatives on track; and (vi) The rhetoric has clearly shifted and signals that Accenture, not Atos, is the benchmark (Accenture trades at a steep premium to Cap in the market).

Investment case implications: The message was reassuring and clearly supported the cornerstone of our investment thesis: Capgemini is climbing the food chain and emerging as a premium worldwide IT services company.

Autoliv

(2.1%)

A true "one-off" recall or the start of something bigger for Autoliv?

Summary: Autoliv will recall 1.4m Toyota Prius and Lexus CT200h vehicles to rectify side curtain airbags which in seven instances have partially deployed erroneously in parked cars. The technical explanation is that when cars of this model are parked for a long time and exposed to large temperature fluctuations, a crack can develop in the welding separating the two gas chambers, causing gas to leak into the airbag and partly inflate it. Autoliv believes the reported incidents are linked to the specific characteristics of said car models, i.e., the combination of the inflators and how they were installed in the Toyota cars, as none of the other four OEMs with the same inflator has reported any problems (Autoliv has purportedly checked 1m vehicles). The manufacturing process used for these inflators was changed in 2012. Autoliv estimates the recall cost to be USD 10-40m. To be clear, there are no crashes, deaths or injuries linked to this recall.

Investment case implications: Negative. The cost of this particular recall is not the issue, rather it is the risk that recalls will expand and that Autoliv will run into similar problems that Takata has experienced. Autoliv has had recalls in the past (some in 2012), but not recently on this scale. Given Autoliv's strong reputation, the market will probably give them the benefit of the doubt that this is an isolated case, but it obviously reduces the company's market goodwill if additional recall announcements were to materialise. While today's news does not significantly change our base case, it increases the probability of the bear case and thus limits our overall risk appetite for the stock (which otherwise looks very attractively priced given solid organic growth, high returns, superior market position and balance sheet strength).

Key earnings releases and corporate news, June 2016 (cont.)

Sony

(1.5%)

Virtual reality around the corner

Summary: Sony hosted a CMD in Tokyo updating the market on its medium-term plans. As expected, Sony is leaving its FY3/18 targets of JPY 500+bn EBIT and 10+% ROE unchanged. The composition of profits is however changing materially with the expected contribution from Games & Network Services (the PlayStation ecosystem) doubling to JPY 190bn on the back of continued strong PS4 momentum and the launch of PSVR, clearly surpassing our expectations. The aggregated contribution from Sony's Entertainment businesses is now expected to be approximately 60% in FY3/18 vs. our previous assumption that this level would be reached only in 2019/20. Another important change is the new explicit focus on "recurring revenue" streams. We expect both the accelerated shift to Entertainment from Hardware and the greater focus on annuity income to be supportive to the valuation of the group over the medium term.

Investment case implications: Sony's CMD confirmed that the company is moving at an accelerated pace in the direction outlined in our investment thesis: the centre of gravity is shifting to Entertainment, mainly the PlayStation ecosystem, from traditional Hardware businesses, a move which will result in a more predictable earnings stream that warrants a higher valuation.

The 10 largest companies in SKAGEN Global

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 that it intends to keep: Sun America and Chartis.

Citi is a US financial conglomerate with operations in more than 100 countries worldwide. The bank was bailed out by the US government during the credit crisis and subsequently raised USD 50bn of new capital. Consists of two units: Citi Holdings which is a vehicle for assets that are to be run down and sold and Citi Corp which is the core of the going concern business. In Citicorp 60% of revenues are derived from outside the US - mainly from emerging markets.

Founded in 1892 by Thomas Edison et al., General Electric (GE) operates two divisions (GE Industrial and GE Capital) contributing approximately the same proportion of group earnings. GE is the world's 10th largest publicly-traded company and boasts the 6th most valuable brand. The industrial segment is a play on global infrastructure with a high-margin service business and a large installed base producing a wide variety of capital goods ranging from aircraft engines and power turbines to medical imaging equipment and state-of-the-art locomotives.

Roche is a leading pharmaceuticals and diagnostics company based in Switzerland. Half of group sales and 2/3 of EBIT are derived from the company's Big 3 oncology franchises: HER2 (breast cancer), Avastin (colorectal cancer), and MabThera/Rituxan/Gazyva (blood cancer), each about USD 7bn of revenue. These businesses all come from Genentech, in which Roche has been a majority owner since 1990, and bought the last 46% in 2009.

Samsung Electronics is one of the world's largest producers of consumer electronics. The company is global #1 in mobile phones and smartphones, the world's largest in TV and a global #1 in memory chips. Samsung also produces domestic appliances, cameras, printers, PCs and air conditioners.

The 10 largest companies in SKAGEN Global (cont.)

MERCK	Founded in 1891, Merck & Co is a US large-cap pharma company (and #7 worldwide by revenue) with a broad pharma portfolio and a solid pipeline (R&D 16-17% of sales). HQ in New Jersey and 70,000 employees. Sales by division (2014, USD 42bn): Diabetes (14%), Infectious Diseases (18%), Vaccines (13%), Animal Health (8%), Oncology (2%), Other (45%). Consensus expects legacy drugs sales to shrink by single-digit percent annually.
CKH	Founded in 1950 as a plastics manufacturer by its current main shareholder Li Ka Shing, CK Hutchison Holdings is now a multinational conglomerate. The company holds the non-property businesses of the former Cheung Kong and Hutchison group. The group owns assets in (% of 1H 2015 total EBITDA): Infrastructure (37%), Telecom (20%), Retail (15%), Ports 13%), and Energy (11%).
Microsoft	Microsoft is the world's largest software company and delivers software to a number of applications from PCs to servers and cell phones – its most famous product is Windows and the affiliated Office Software Suite. In recent years the company has also diversified into video game consoles, ERP systems, internet search and cloud-based computing. Despite a strong push for diversification 80% of the company's revenues and nearly all its profits come from three main areas: Windows OS, Windows Server and the business division (Office Suite).
NN	NN Group is the former European and Japanese insurance arm of the financial conglomerate ING that was spun off in July 2014 as required by the Dutch government in return for providing state aid to ING during the financial crisis . NN's ongoing business operating result before tax is split as follows (2014): 51% Netherlands Life, 14% Insurance Europe, 13% Investment Management, 11% Japan Life and 11% Netherlands Non-Life. NN has 12,000 employees and its history dates back to 1845.
Kingfisher	Kingfisher is the largest home improvement retailer in Europe with leading market share in the UK, France and Poland which together represent 90% of sales and 95% of profits. Kingfisher operates via B&Q and Screwfix in the UK and via Castorama and Brico Depot in France. Sales came in at close to GBP 11bn for 2014/2015. The new CEO, Ms. Laury, has 26 years experience within the do-it-yourself (DIY) industry, including 11 years at Kingfisher.

For more information please visit:

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

Unless otherwise stated, performance data relates to class A units and is net of fees.

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.

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