



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

SKAGEN Kon-Tiki

Status Report – February 2016

The art of common sense

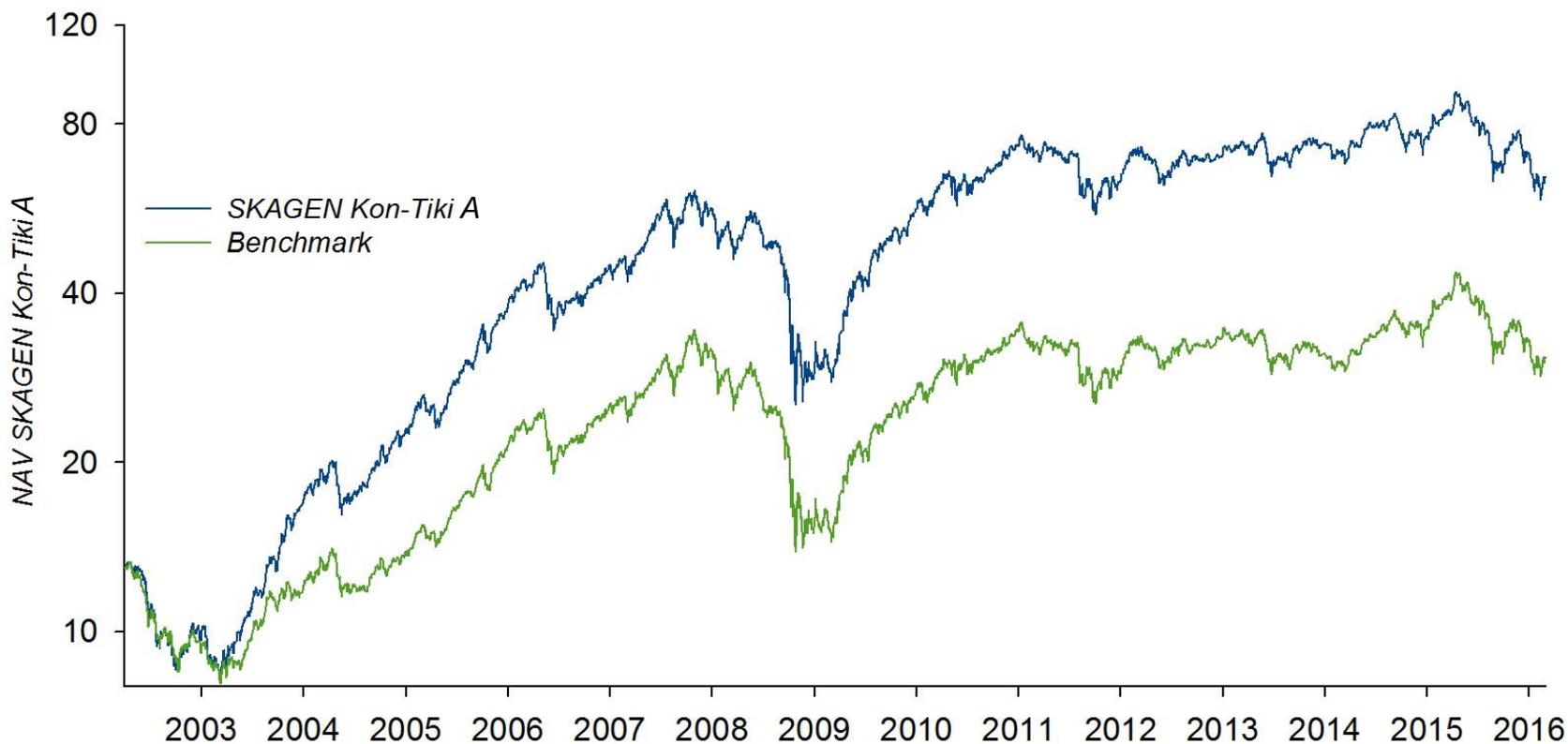


Highlights – February 2016

- SKAGEN Kon-Tiki* was down 0.9% in February, while the MSCI Emerging Markets index was down by 0.1% measured in EUR. The start of the year has been characterised by a risk-off environment with falling oil prices and concerns related to China's outlook, currency and policy.
- Our top three performers in February were OCI, Bharti and LG Electronics. Korean chemical and polysilicon producer OCI is up by almost 50% in February after reporting neutral results. The reason for the big run is because it seems like we might be getting closer to a turning point: there are signs that polysilicon supply pressure might ease at the same time as polysilicon prices have stabilised. Indian telecom operator Bharti recovered a little after recent weakness, while LG Electronics has been strong after their full-year results release. They are seeing near term benefits from low component costs, and there has been focus on long-term growth opportunities in automotive components despite sluggish smartphone sales.
- At the bottom of the performance list for February we yet again see State Bank of India. Richter and Tech Mahindra were also amongst the underperformers. State Bank of India was heavily impacted by potential new provisioning rules that could put pressure on earnings and capital ratios. The fact that their 3Q16 results in the period were better than feared did not do much to alleviate this. Richter, our Hungary-listed pharmaceutical manufacturer lost some of its recent gains without any news. Tech Mahindra reported results at the beginning of the month which were negatively received.
- We added no new positions in February but we sold out of South African Bidvest after recent share price strength made the risk-reward less attractive given the circumstances in South Africa at present.
- Emerging markets continue to trade at a discount to developed markets, with a 2016e P/E of 11.6x and P/B of 1.3x for EM, compared with 16.0x and 2.1x for DM.
- The top 12 positions now represent almost 51% of the fund (from 45% at the beginning of 2015). In the same period we have reduced the number of positions in the fund from 95 to 66. The fund's portfolio remains attractively valued at a 2016e P/E of 7.7x and P/B of 0.9x. We now see a 66% upside for our portfolio over a 2-year perspective.

Results, February 2016

EUR, net of fees



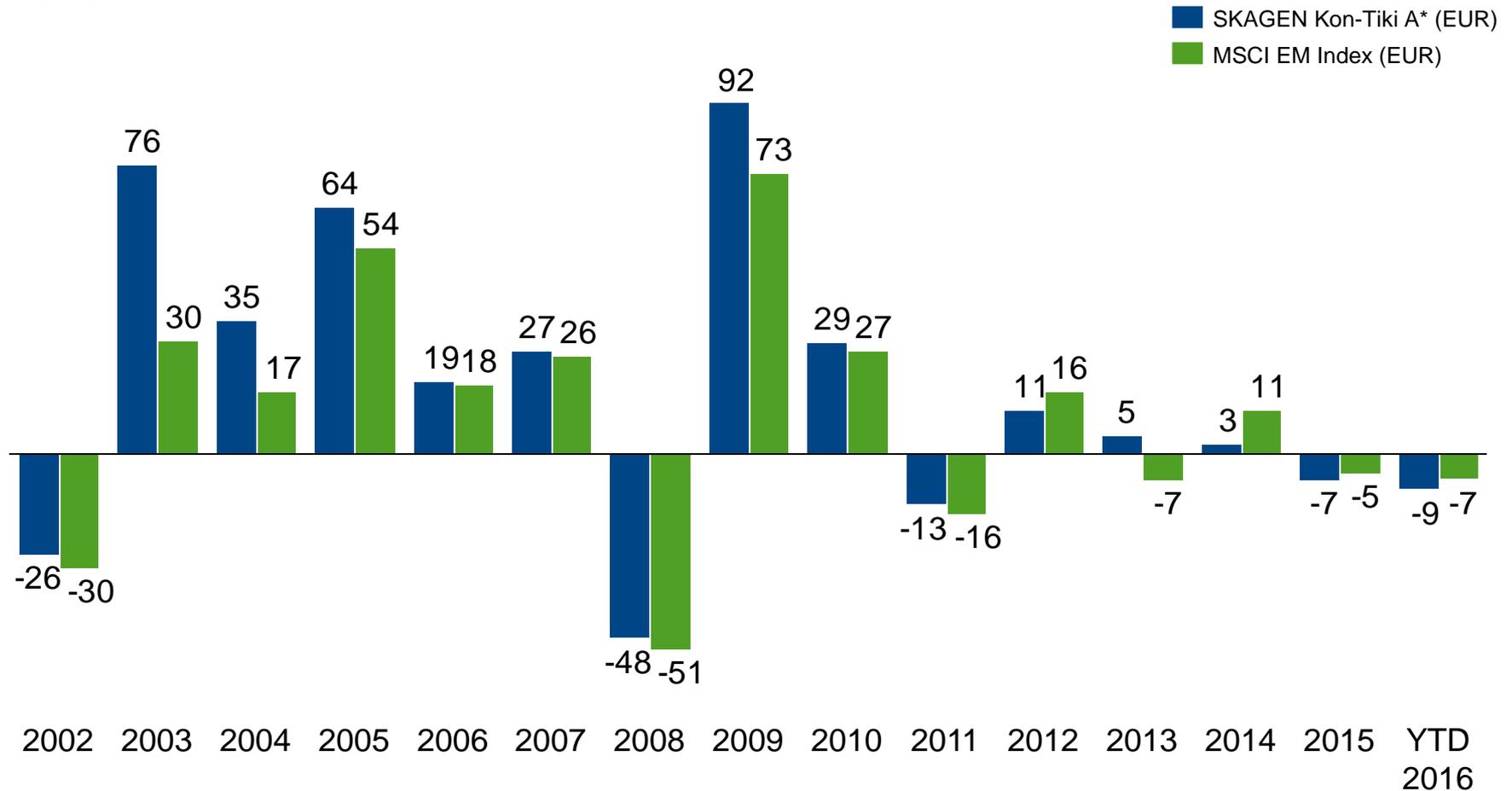
	February	QTD	2015	1 Year	3 years	5 years	10 Years	Since inception*
SKAGEN Kon Tiki A	-0,9%	-9,1%	-6,8%	-22,4%	-4,1%	-1,9%	4,5%	12,2%
MSCI EM Index	-0,1%	-6,6%	-5,2%	-20,9%	-3,1%	-0,7%	2,8%	6,4%
Excess return	-0,8%	-2,5%	-1,6%	-1,5%	-1,1%	-1,2%	1,7%	5,8%

Note: All returns beyond 12 months are annualised (geometric return)

* Inception date: 5 April 2002

SKAGEN Kon-Tiki has beaten the index in 11/14 calendar years

Percent

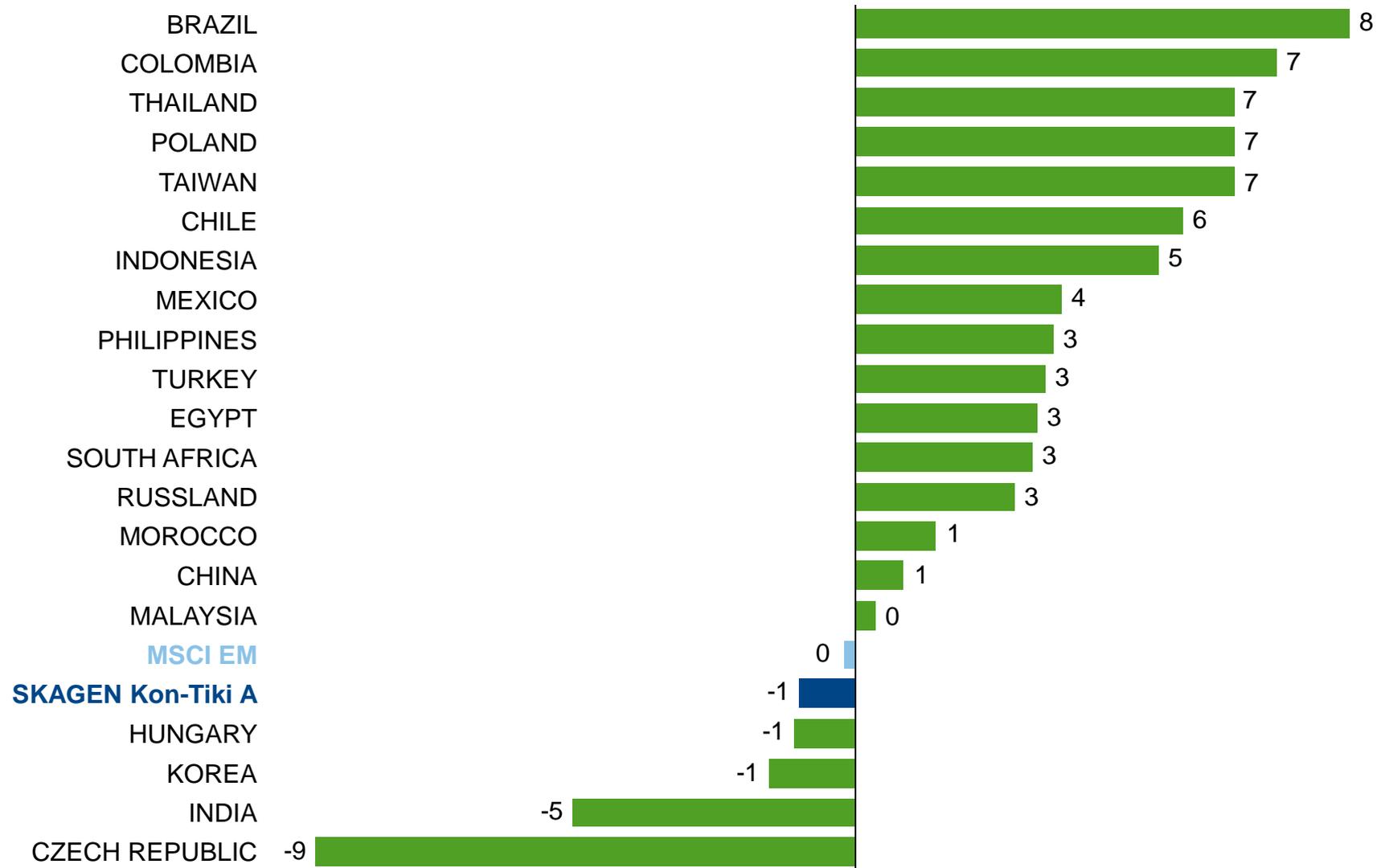


Note: All figures in EUR, net of fees

* Inception date: 5 April 2002

Emerging markets, February 2016 (in EUR)

Percent



Main contributors MTD 2016

Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
OCI Co Ltd	98
Bharti Airtel Ltd	85
LG Electronics Inc	75
Banrisul	72
Kiatnakin Bank PCL	48
ABB Ltd	48
Cosan Ltd	45
JSE Ltd	45
Cia Brasileira de Distribuicao	45
CNH Industrial NV	40

Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
State Bank of India	-162
Richter Gedeon Nyrt	-115
Tech Mahindra Ltd	-101
Samsung Electronics Co Ltd	-100
Frontline Ltd	-97
UPL Ltd	-80
Naspers Ltd	-47
SBI Holdings Inc	-47
LG Chem Ltd	-40
Great Wall Motor Co Ltd	-28

Value Creation MTD (NOK MM):

-191

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
LG Electronics Inc	90
Kiatnakin Bank PCL	79
DRDGOLD Ltd	54
OCI Co Ltd	46
Haci Omer Sabanci Holding AS	36
JSE Ltd	31
EIS Eczacibasi Ilac ve Sinai v	22
Bidvest Group Ltd	17
Golar LNG Ltd	16
Moscow Exchange MICEX-RTS OAO	16

Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
State Bank of India	-545
Samsung Electronics Co Ltd	-476
Great Wall Motor Co Ltd	-318
Frontline Ltd	-315
Hyundai Motor Co	-246
Investment AB Kinnevik	-160
Bharti Airtel Ltd	-157
Naspers Ltd	-153
Tech Mahindra Ltd	-148
Mahindra & Mahindra Ltd	-144

Value Creation YTD (NOK MM):

-3805

NB: Contribution to absolute return

Main contributors full year 2015

Largest positive contributors

Company	NOK Millions
Samsung Electronics Co Ltd	625
Richter Gedeon Nyrt	585
Frontline 2012 Ltd	420
X5 Retail Group NV	381
Mahindra & Mahindra Ltd	274
Shiseido Co Ltd	264
Moscow Exchange MICEX-RTS OAO	245
LG Chem Ltd	239
Naspers Ltd	235
Indosat Tbk PT	222

Largest negative contributors

Company	NOK Millions
Banrisul	-575
Vale SA	-485
AirAsia BHD	-433
Hyundai Motor Co	-430
State Bank of India	-364
Haci Omer Sabanci Holding AS	-362
Cosan Ltd	-333
Hindalco Industries Ltd	-248
Cia Brasileira de Distribuicao	-244
Tullow Oil PLC	-233

Value Creation YTD (NOK MM): 714

NB: Contribution to absolute return

Holdings increased and decreased, February 2016

Key buys during February

Due to outflows over the past few months we have been net sellers.

Key sells during February

Bidvest (out)

We sold out due to recent outperformance and concerns about South Africa in general.

Samsung Electronics

As we have been net sellers due to outflows, we trimmed the position somewhat in order not to increase the weighting in the portfolio.

Hyundai Motor

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ABB

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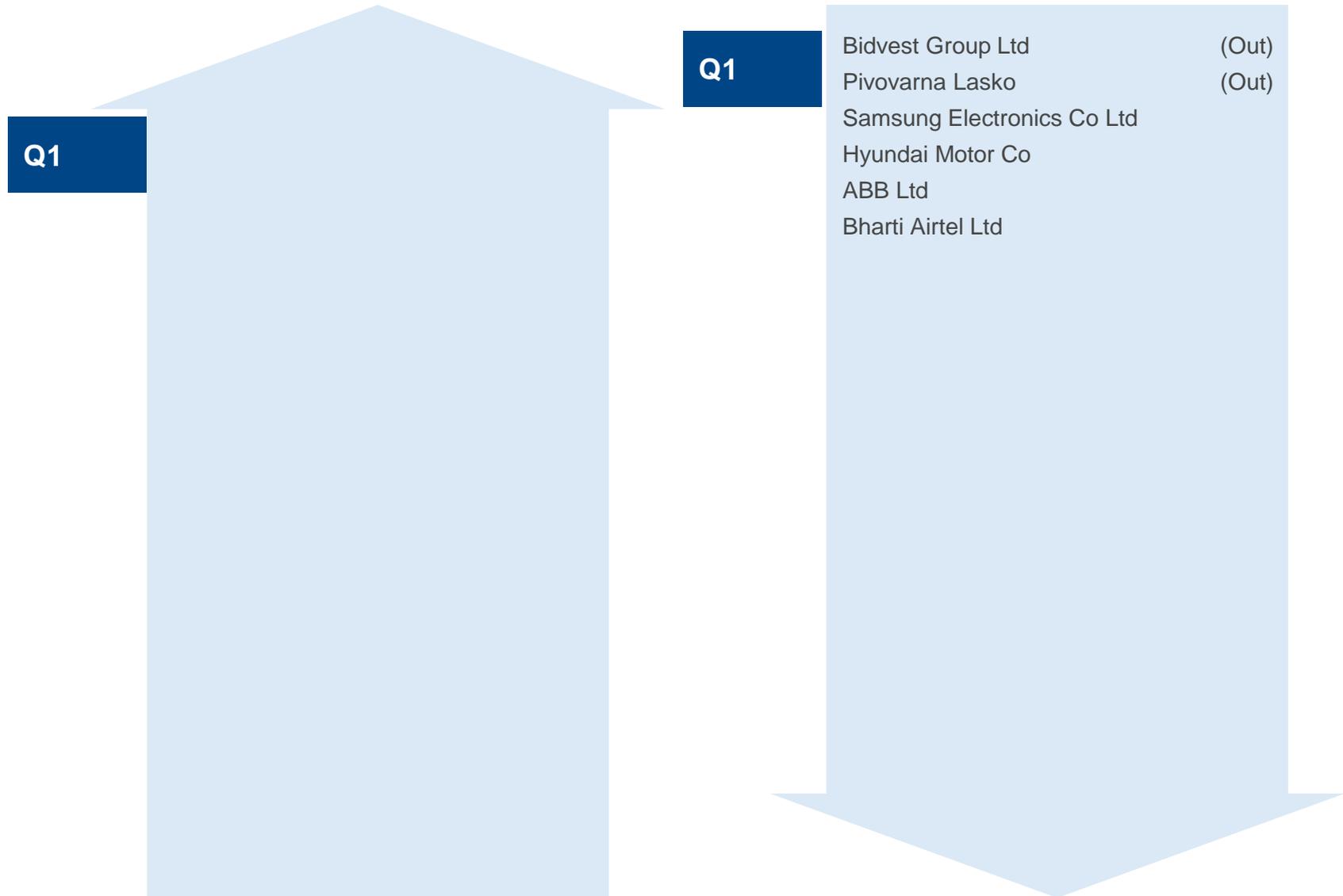
Bharti Airtel

As we have been net sellers due to outflows, we trimmed the position somewhat in order not to increase the weighting in the portfolio.

Most important changes Q1 2016

Holdings increased

Holdings reduced

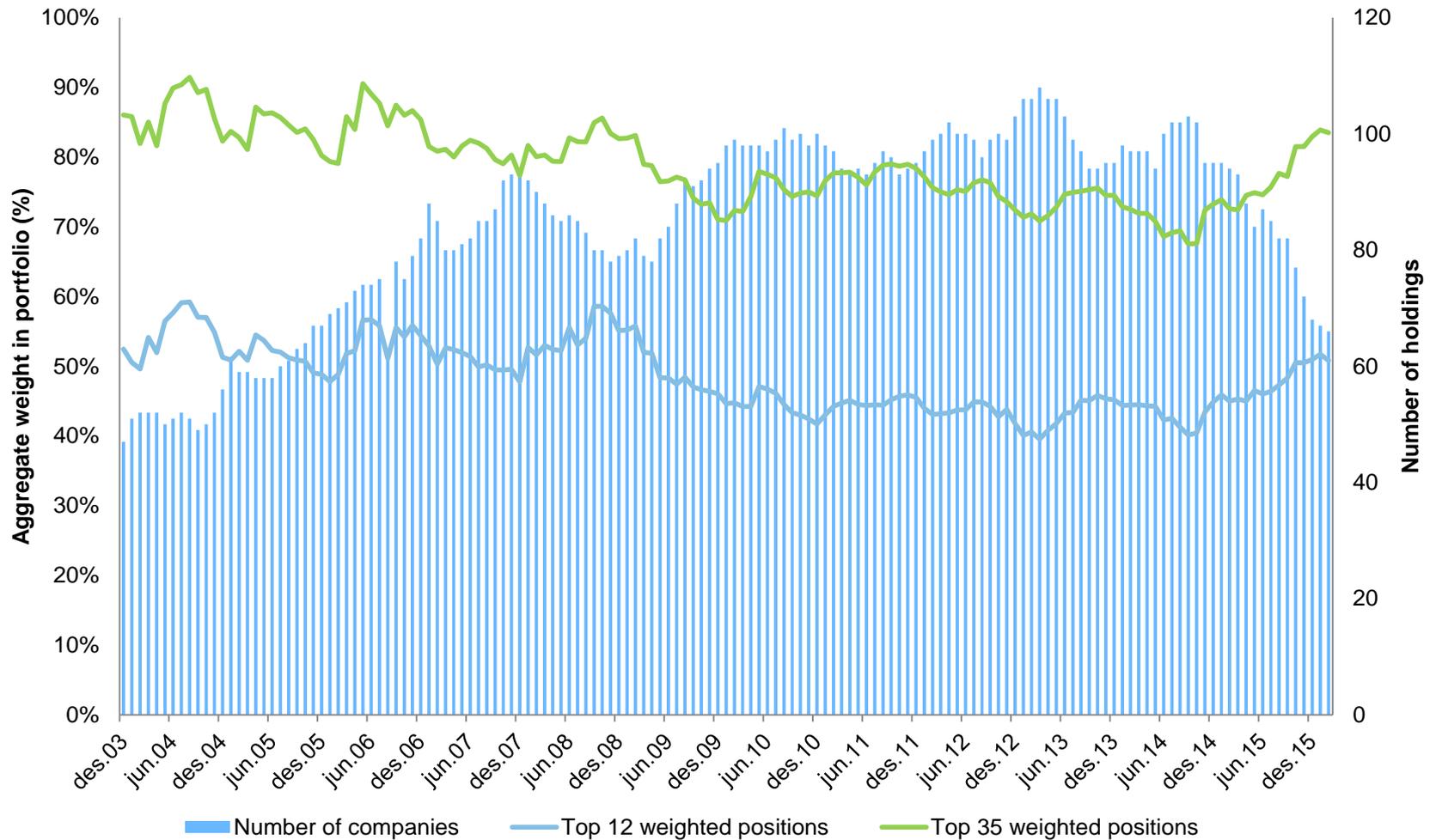


Largest holdings SKAGEN Kon-Tiki, end of February 2016

	Holding size, %	Price	P/E 2015e	P/E 2016e	P/BV last	Div. yield 15e (%)	Price target	Upside %
Hyundai Motor	8,4	101 500	4,2	4,2	0,4	4,0	170 000	67
Samsung Electronics	7,6	986 000	7,7	7,0	0,8	2,1	1 600 000	62
Mahindra & Mahindra	5,5	1 228	16,4	12,9	2,7	1,1	2 000	63
Sabancı Holding	4,7	9	7,9	6,0	0,8	1,7	14	61
Richter Gedeon	4,2	5 079	17,5	16,9	1,5	1,3	7 500	48
State Bank of India	3,6	159	4,8	4,5	0,7	2,8	450	183
Bharti Airtel	3,5	316	15,8	10,5	2,0	0,8	400	27
ABB	3,1	155	15,7	12,9	2,8	4,1	200	29
Naspers	3,1	1 885	37,7	25,1	9,8	0,3	2 500	33
X5 Retail Group	2,6	19	14,3	12,4	3,2	0,0	25	34
LG Electronics	2,4	35 000	50,9	8,8	0,5	1,3	40 000	14
SBI Holdings	2,0	1 030	7,9	7,4	0,6	3,4	3 000	191
Weighted top 12	50,8		8,6	7,5	0,9	2,1		66
Weighted top 35	83,5		9,5	7,7	0,9	2,6		66
Emerging market index			12,2	11,7	1,3	3,2		
Top 35 @ price target			14,9	12,8	1,6	1,5		

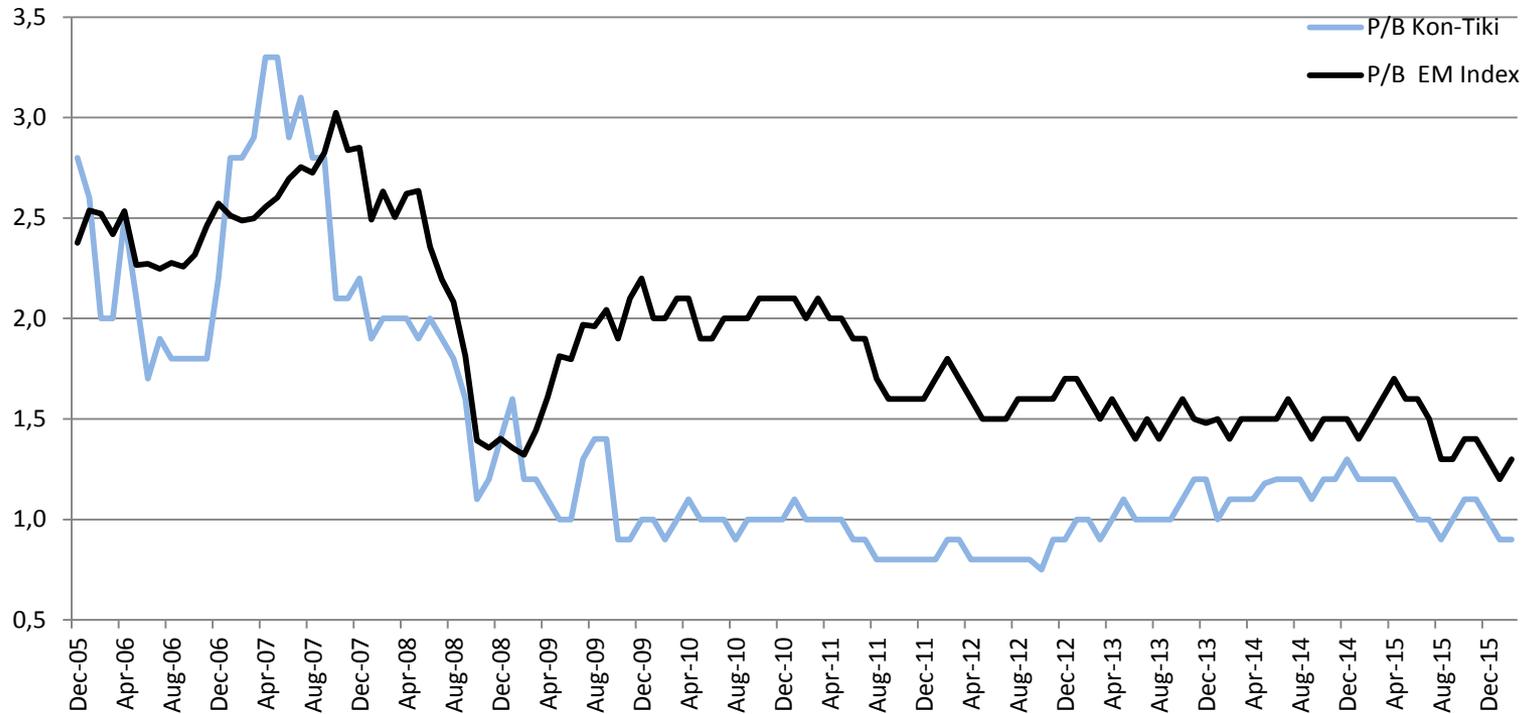
Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates.

SKAGEN Kon-Tiki portfolio concentration



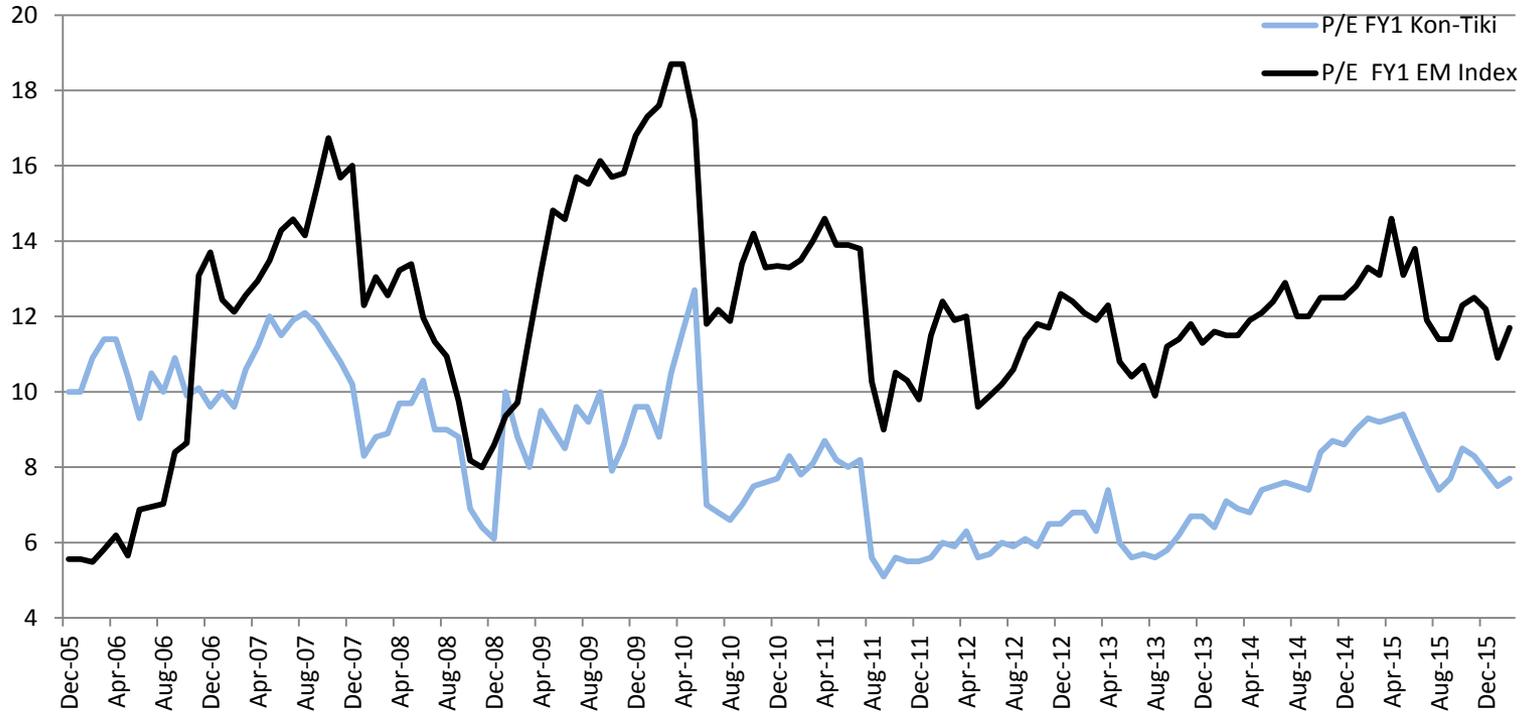
Source: SKAGEN AS as of 29 February 2016

P/BV for SKAGEN Kon-Tiki versus emerging markets



As of February 29, 2016

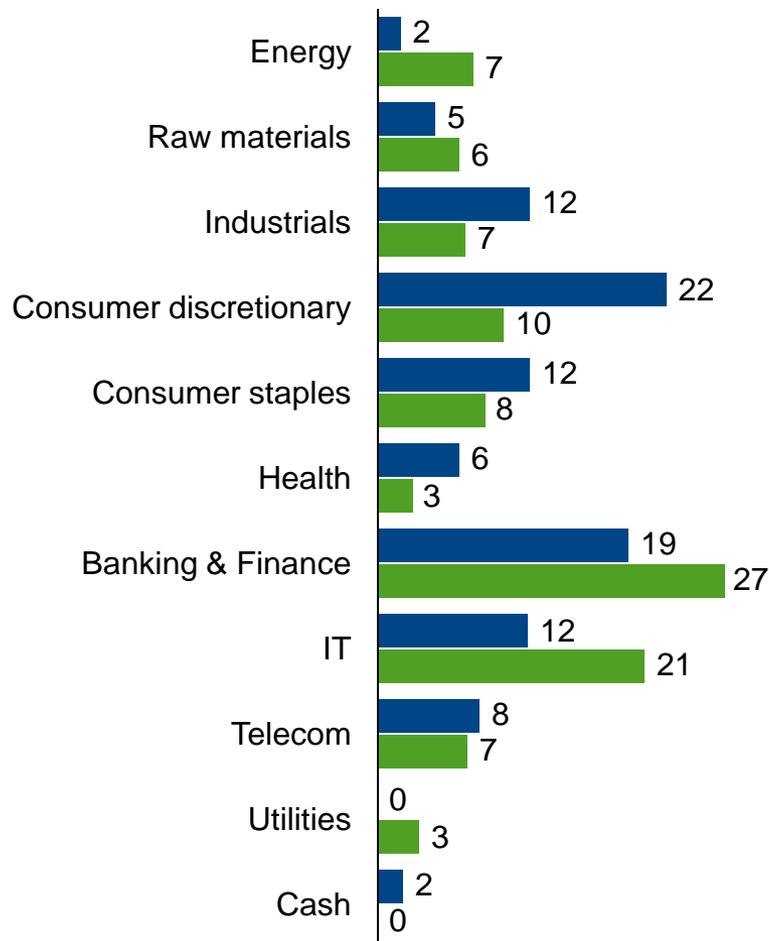
P/E SKAGEN Kon-Tiki versus emerging markets



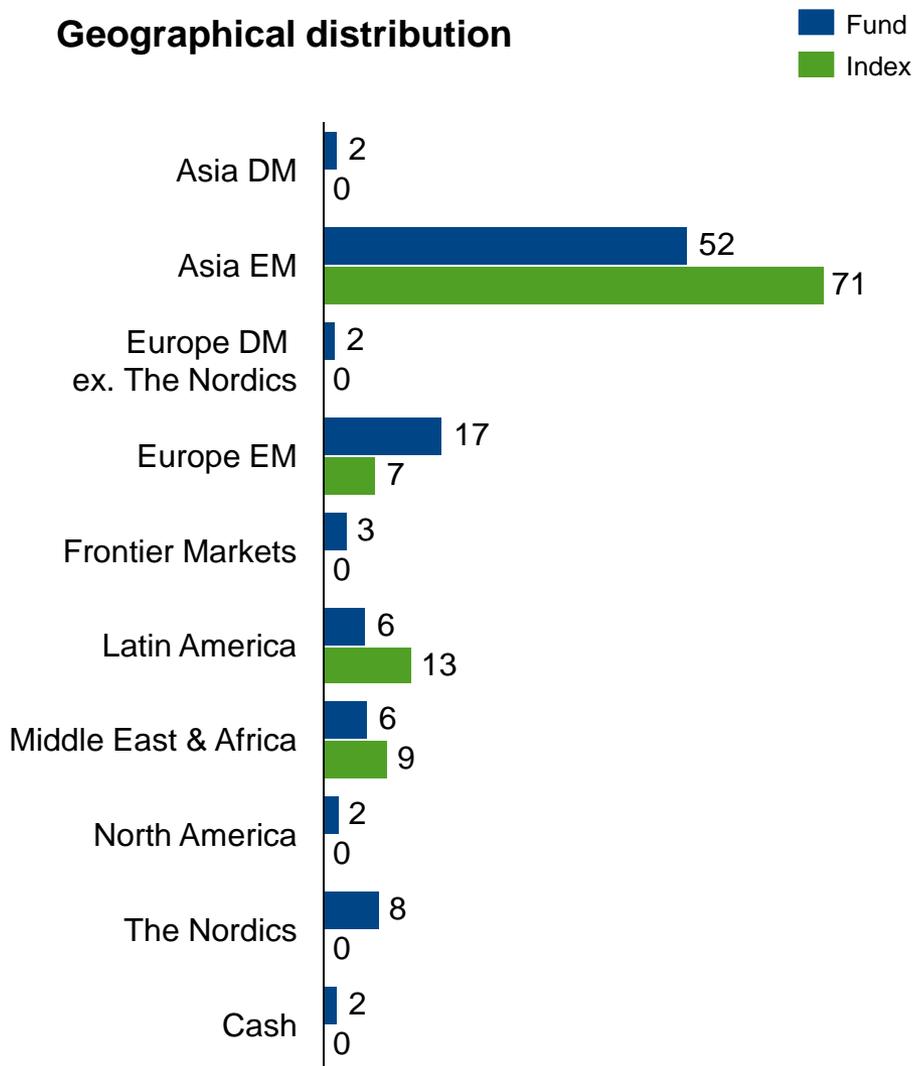
As of February 29, 2016

SKAGEN Kon-Tiki sector and geographical distribution

Sector distribution



Geographical distribution



Key earnings releases and corporate news, February 2016

Mahindra
(5.5% weight):

3QFY16 results: Good market share in tractors and encouraging signs from new auto launches

Implications for Investment Case: A minor positive. Mahindra has had a couple of challenging years, as weakness in the rural economy has put pressure on tractor sales and automotive market share has slipped. Going forward we see some encouraging signs in both divisions. Recent auto launches have received very good early bookings, indicating an attractive product proposition. In tractors, improvement in one or more of the following should lead to improvements from a low base: i) normalisation in weather patterns; ii) pent-up demand for tractors; iii) increasing government support for the farm sector.

Event summary: Revenue +13% YoY to INR 105bn, EBITDA +31%, and net profit +13% to INR 8.2bn. The revenue growth was driven by strong auto volumes at +15% YoY. Tractor volumes grew 5% YoY, outperforming the YoY industry decline amid what remains a sluggish rural economy after two consecutive years of weak monsoons. Tractor market share reached 42.7%, the highest in 16 quarters. Margins improved in both auto and tractor operations, leading to an EBIT margin of 10.3% vs. 8.8% in the corresponding period last year.

Unpopular: 79% buy ratings, but valuation points to some scepticism on the buy side.

Under-researched: No, covered by around 50 sell side analysts.

Undervalued: 72% upside to our INR 2,000 target price. Listed holdings represent a value of INR 432 per share or 37% of share price. This puts core tractor and auto operation at a P/E of c12-13x for next CY. Our target price of INR 2000 is based on a 2y forward P/E multiple of c13x for core operations, providing an upside of 60%. Disruption in the auto industry remains a risk for the sector.



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

ABB
(3.1% weight):

Cost reductions/improved operations but end markets are not improving

Facts: Q415 base orders were down 6% and total orders were down 2%. Revenue -1%. 60bps improvement in ebita margin which came in at 11.7%. Substantial improvement in operating cash flow (in line with communication at CMD in Sep 2015). Despite challenging outlook, the company increased dividend to c. SEK 6/share (4% implied yield).

Implications for Investment Case: End markets developing weaker than expected six months ago (primarily driven by lower oil price and sluggish China). The indirect impact of lower oil prices (industrial activity, etc.) is part of the reason why we have trimmed the position somewhat. The company continues to reduce costs (took out USD 1.2bn during 2015) and improve cash flow (sustainable as involves supply chain and internal processes). Underlying margin improved 60bps to 11.8% in 2015 and company returned almost 8% of mcap to shareholders (through share buy backs and dividends).

The strong balance sheet and strong cash flow generation clearly supports a yield of 6-8% (including share buy backs) which limits downside. In addition to this, the main shareholder (investor/Wallenberg) is continuing to increase their stake. However, based on the sluggish outlook it is difficult to a major rerating in the short term.

Unpopular: Yes, despite distributing cash equivalent of 8% of mcap to shareholders in 2015 (share buy backs and dividends) it is perceived as a value trap due to the complicated company structure and vast array of end markets

Under-researched: 36 analysts (sell/hold: 65%). ABB has a complicated corporate structure which often overshadows the many leading positions that the company has in various growth sectors.

Undervalued: Yes. As the company improves its operations/cashflow, the implied sustainable yield is 6-8% which should limit the downside. On a mid-cycle basis, it should have the ability to make SEK 15-20/share for which the market should be willing to pay some SEK 250/Share vs. current SEK 145.

The largest companies in SKAGEN Kon-Tiki



Hyundai Motor is the world's 4th largest car maker, including their 39% stake in Kia Motor. Sold 4.9m 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.



Samsung Electronics is one of the world's largest producers of consumer electronics, with over 155,000 employees. 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 appliances, cameras, printers, PCs and air-conditioning units.



Mahindra & Mahindra is the largest manufacturer of utility vehicles in India (50% market share) and tractors (40% market share). It has several listed subsidiaries including Tech Mahindra and M&M financial services (largest financier of UVs and tractors in India).



Turkey's leading and financial conglomerate in sectors including financial services, energy, cement, retail and industrials. The company has 10 companies currently listed on the Istanbul Stock Exchange and operates in 18 countries across Europe, the Middle East, Asia, North Africa and North and South America. Controlled by the Sabanci family.



Hungarian pharmaceutical company established in 1901 with focus on CEE. Transitioning from generic-focused to more specialised through higher margin, innovative products within its women's health division (Esmya) and nervous system treatments (Cariprazine). Significant upside potential from US marketing approval of Cariprazine and extended usage of Esmya is not reflected in the current valuation at 30-40% discount to peers.

The largest companies in SKAGEN Kon-Tiki (continued)



Largest bank in India with 17% market share (ca. 25% including 5 associate banks). Also presence in life insurance, asset management and investment banking. 15,000 branches, 32,000 ATMs, 130 million customers and over 220,000 employees. Largest Indian overseas bank with 190 offices in 34 countries.



Bharti Airtel is India's largest private integrated telecom company, and it is a leading global player (#4) with operations in 20 countries across Asia and Africa. They had around 287m customers across their operations at the end of June 2014. They separated out towers into part-owned unit (passive infrastructure). Bharti family and SingTel own 30% each.



ABB is a leader in power and automation technologies that enable utility and industrial customers to improve performance while lowering environmental impact. The group operates in around 100 countries and employs 146,000 people. Approximately 50% of sales stem from emerging markets and this share is rapidly increasing.



South-African listed media and internet holding company incorporated in 1915. They have a strong Pay-TV business in South-Africa and Sub-Saharan African countries and a fast growing internet division focused on commerce, communities, content, communication and games. They hold a 34% stake in Chinese Tencent and 29% of Russian Mail.ru.



X5 is a leading Russian food retailer, operating through several retail formats: discount stores under the Pyaterochka brand, supermarket chain under the Perekrestok brand, hypermarket chain under the Karusel brand and convenience stores under different brands. Modern retail is gaining share in the Russian retail market, and X5 is well positioned with their formats in the current difficult trading environment. They are also in the middle of an aggressive expansion and refurbishment period.

For more information please visit:

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Information about [SKAGEN Kon-Tiki A](#) on our web pages

Unless otherwise stated, all performance data in this report 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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