



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 – April 2016

The art of common sense

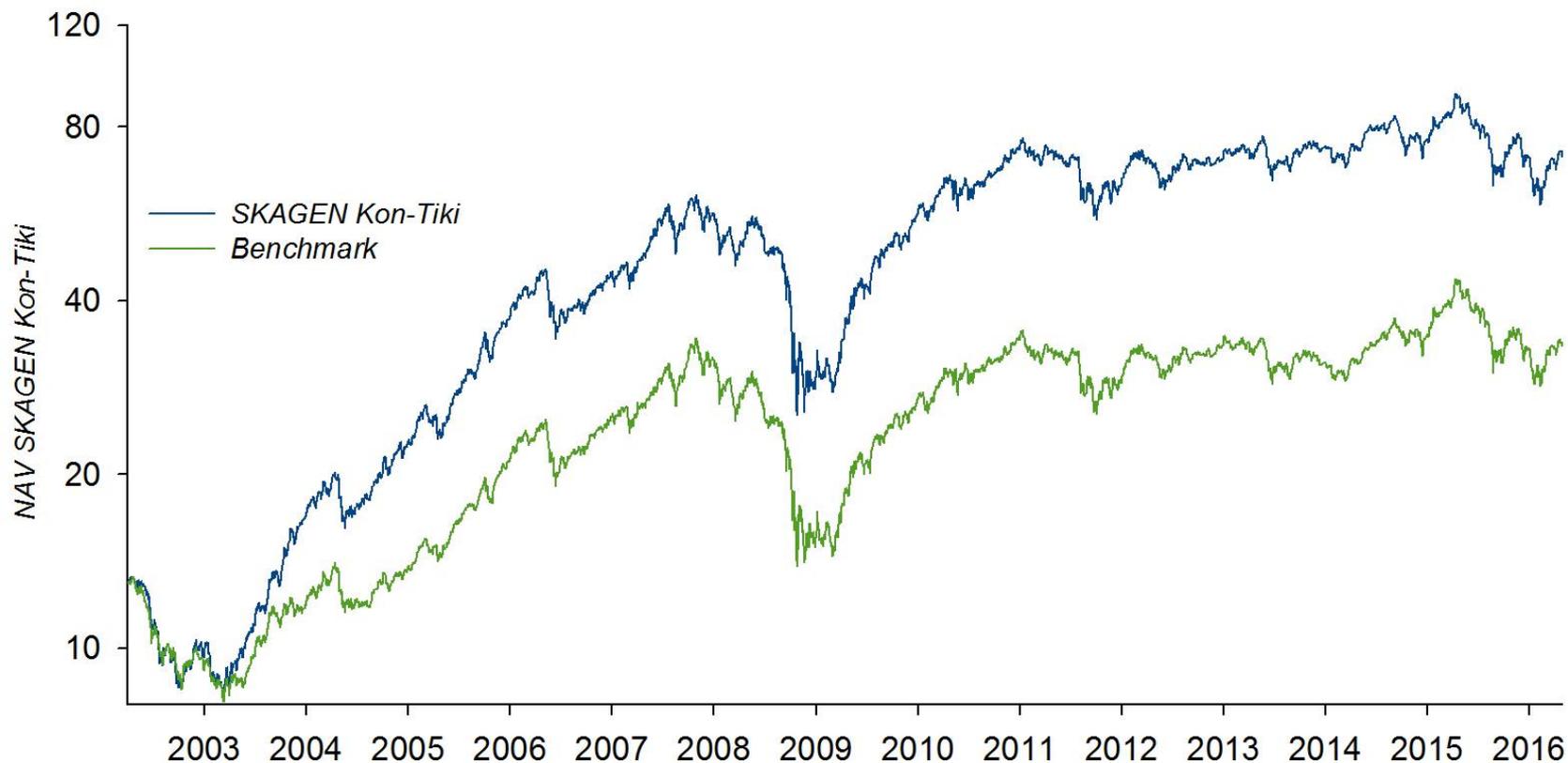


Highlights – April 2016

- SKAGEN Kon-Tiki* was up 1.4% in April, while the MSCI Emerging Markets index was flat measured in EUR. Year-to-date, the fund is down 0.2% versus a 0.9% gain for the EM index.
- Emerging markets (flat) underperformed global markets (up 0.8%) in April, after a strong outperformance in 1Q. YTD EM has gained 0.9% while global markets are down 3.6%. Russia, Brazil and Turkey were amongst the strongest markets in EM in April, which shows a continuation of these markets' strength in 1Q.
- Our top three performers in April were Mahindra & Mahindra, Tullow Oil as well as CNH Industrial. Mahindra reported strong sales figures on 1 April, while Tullow benefited from a strong oil price on top of a positive trading statement released towards the end of the month. CNH Industrial, which designs, produces and sells agricultural and construction equipment, trucks, commercial vehicles, buses and specialty vehicles recovered from a low level, as demonstrated by their 1Q results at the beginning of May.
- Hyundai, Samsung Electronics and X5 were our three main detractors from absolute return during the month. Hyundai reported weak 1Q16 results at the end of the month, while Samsung's report was solid. X5 also published strong figures, but was unfairly dragged down by a competitor's weak numbers (ironically, most likely due to X5's strong competitive positioning).
- We added no new positions in April, but have now made space for new positions within our pipeline through trimming less high conviction positions. We sold out of DRD Gold after a fantastic journey in 2016 (up around 3x since the start of the year).
- Emerging markets continue to trade at a discount to developed markets, with a 2016e P/E of 12.3x and P/B of 1.4x for EM, compared with 16.5x and 2.1x for DM.
- The top 12 positions now represent more than 49% 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 63. The portfolio* remains attractively valued at a 2016e P/E of 8.6x and P/B of 1.0x. We now see 46% upside for our portfolio over a 2-year horizon.

Results, as of 30 April 2016

EUR, net of fees



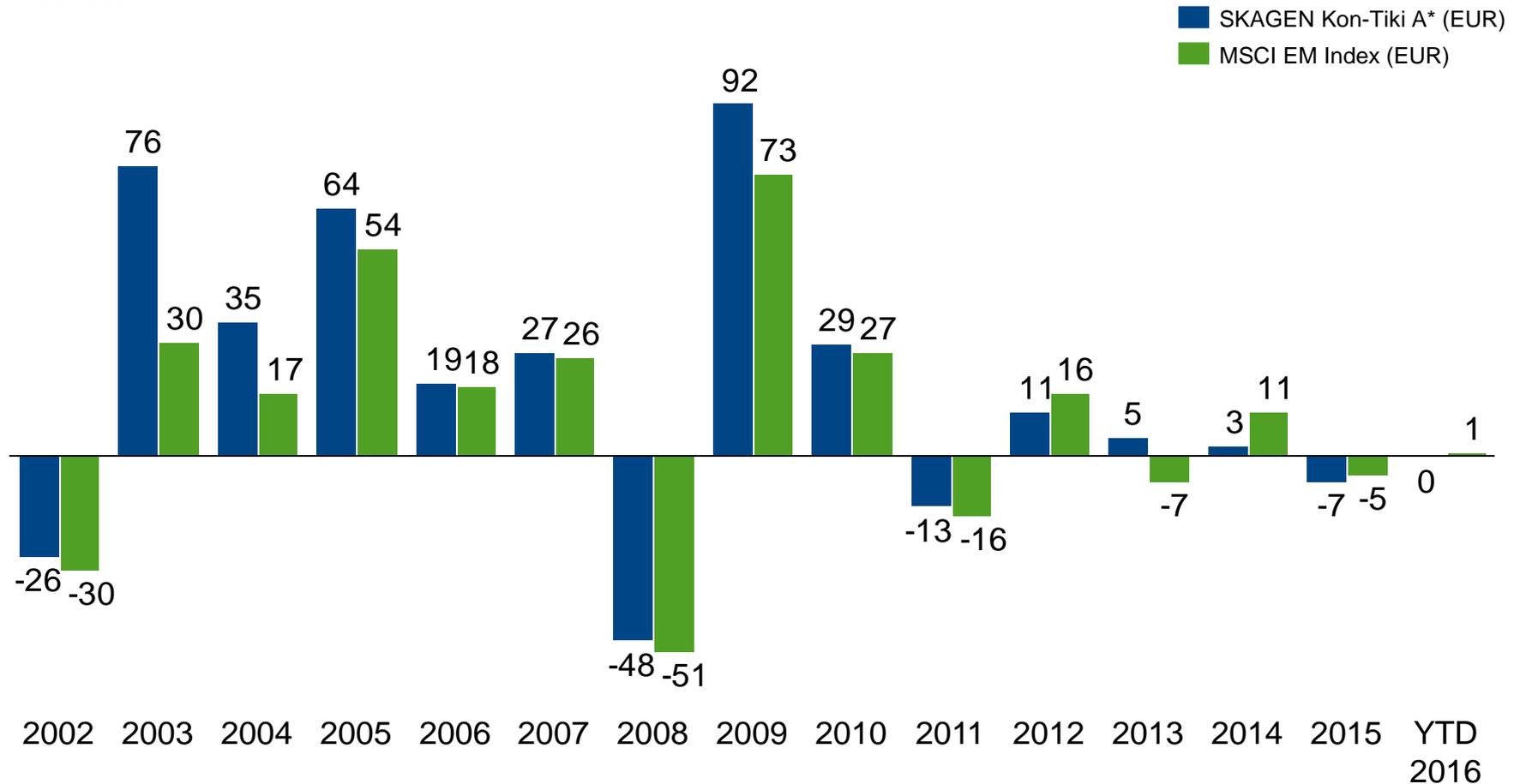
	April	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Kon Tiki A	1,4%	1,4%	-0,2%	-18,0%	-0,8%	-0,5%	4,8%	12,8%
MSCI EM Index	0,0%	0,0%	0,9%	-19,4%	0,1%	0,5%	3,4%	6,9%
Excess return	1,4%	1,4%	-1,1%	1,5%	-0,9%	-1,0%	1,5%	5,9%

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

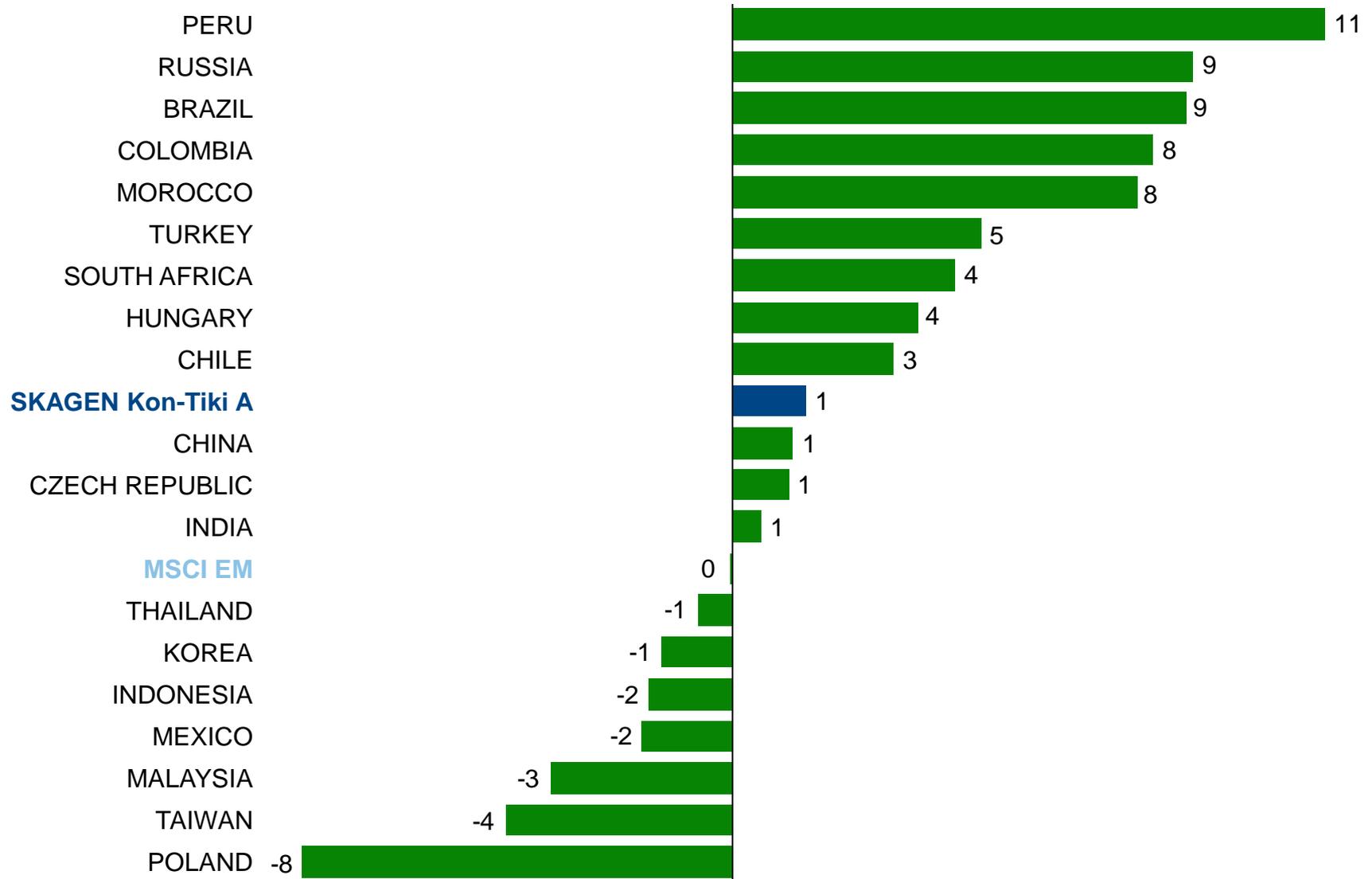


Note: All figures in EUR, net of fees

* Inception date: 5 April 2002

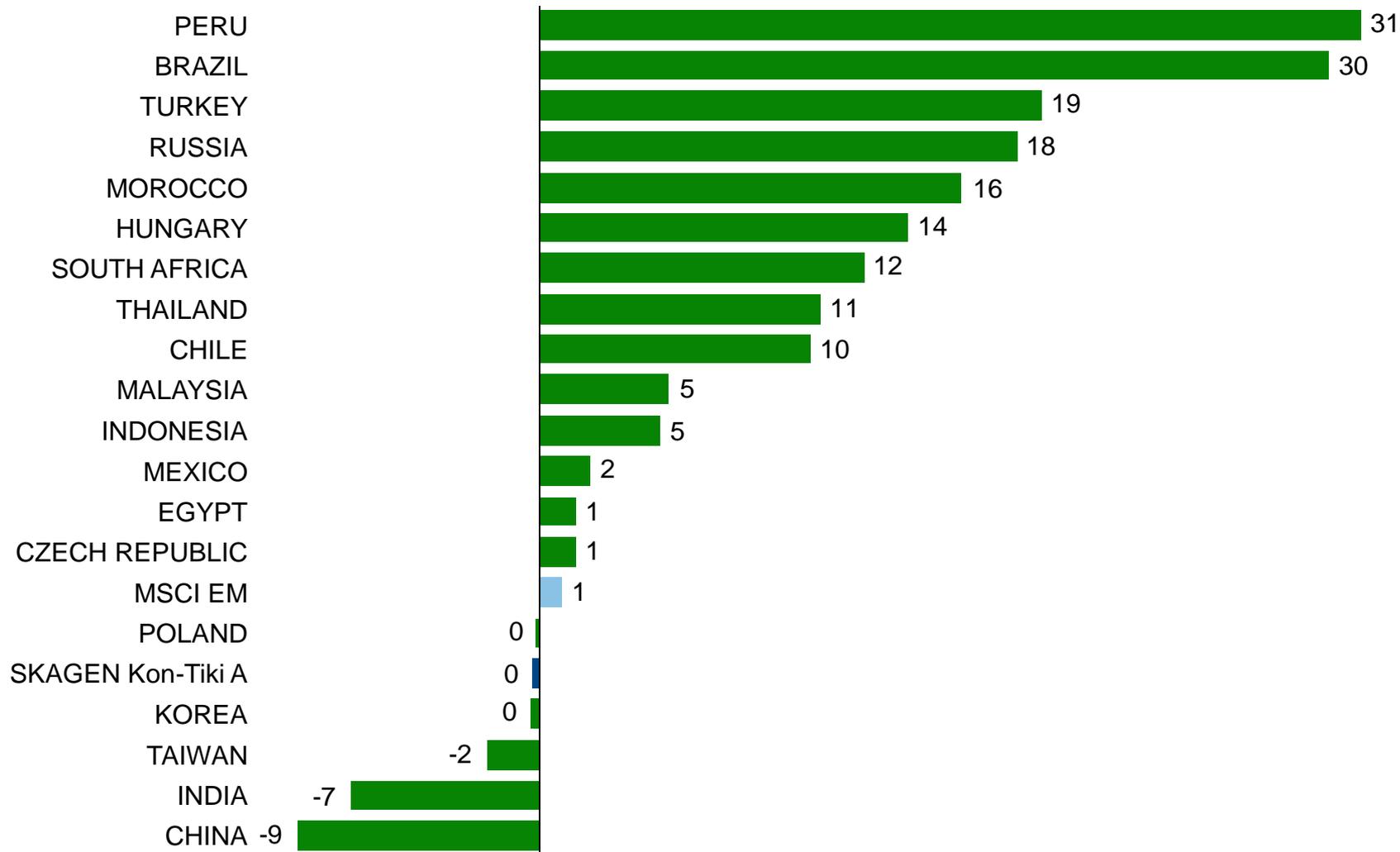
Emerging markets, April 2016 (in EUR)

Percent



Emerging markets, YTD 2016 (in EUR)

Percent



Main contributors MTD 2016

Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
Mahindra & Mahindra Ltd	117
Tullow Oil PLC	93
CNH Industrial NV	66
UPL Ltd	60
Yazicilar Holding AS	60
ABB Ltd	58
Samsung SDI Co Ltd	56
Cosan Ltd	51
JSE Ltd	50
Haci Omer Sabanci Holding AS	49

Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Hyundai Motor Co	-232
Samsung Electronics Co Ltd	-221
X5 Retail Group NV	-80
State Bank of India	-73
LG Chem Ltd	-67
LG Electronics Inc	-52
Great Wall Motor Co Ltd	-49
Richter Gedeon Nyrt	-43
Korean Reinsurance Co	-37
Naspers Ltd	-37

Value Creation MTD (NOK MM):

-159

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
Haci Omer Sabanci Holding AS	248
Banrisul	201
Cosan Ltd	184
OCI Co Ltd	141
JSE Ltd	127
Tullow Oil PLC	110
Cia Brasileira de Distribuicao	101
Indosat Tbk PT	94
UPL Ltd	76
DRDGOLD Ltd	68

Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
State Bank of India	-394
Frontline Ltd	-377
Great Wall Motor Co Ltd	-331
Samsung Electronics Co Ltd	-327
Hyundai Motor Co	-313
LG Chem Ltd	-121
Investment AB Kinnevik	-117
Lenovo Group Ltd	-112
Mahindra & Mahindra Ltd	-110
Tech Mahindra Ltd	-94

Value Creation YTD (NOK MM):

-1493

NB: Contribution to absolute return

Holdings increased and decreased, April 2016

Key buys during April

Key sells during April

DRD Gold (out)

We sold out due to recent strength (up by more than 200% in 2016).

Asia Cement

Norwegian Air Shuttle

DRB Hicom

EFG Hermes

JSE

Bharti

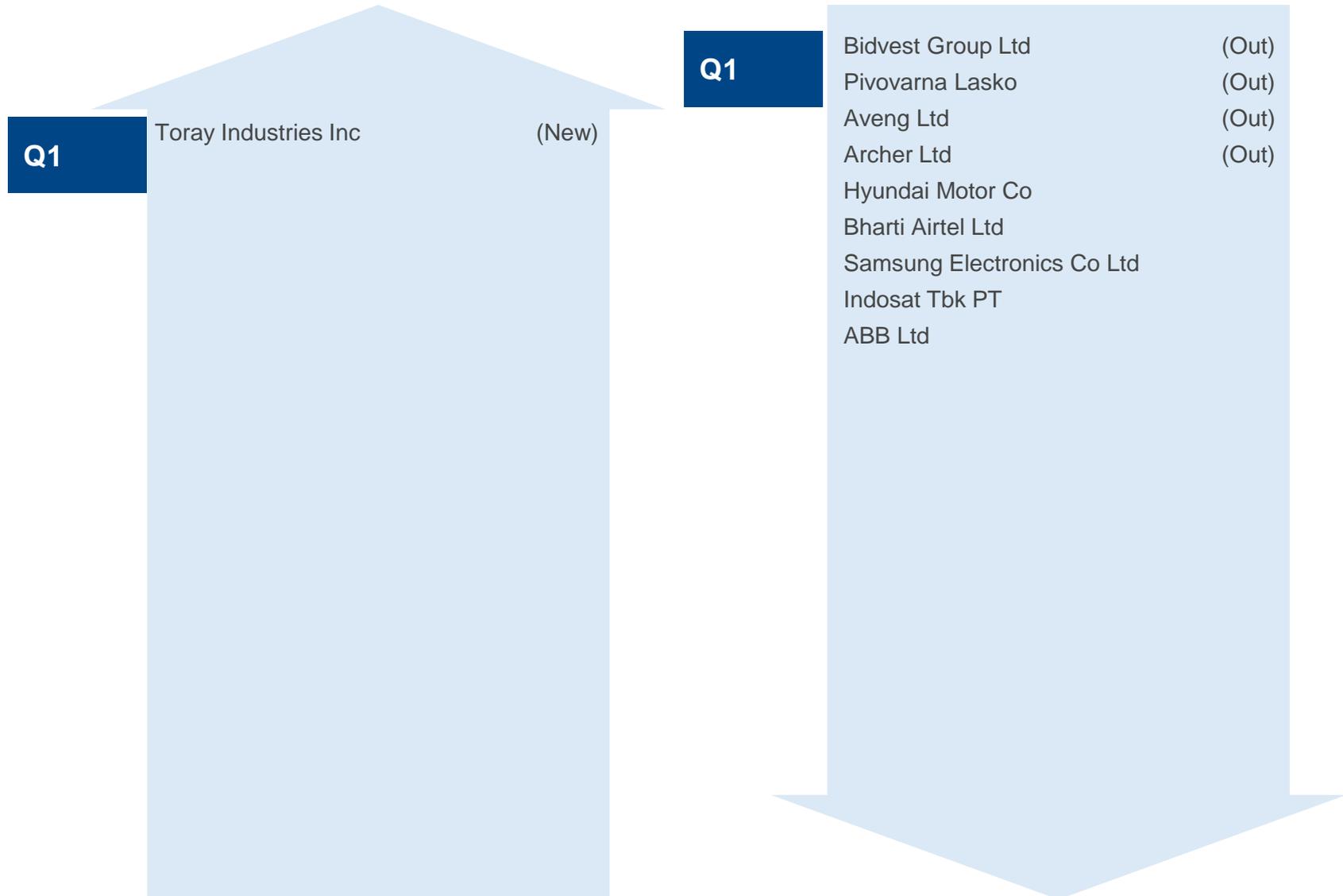
Indosat

Trimming of the positions to free up capital for higher conviction ideas (existing as well as new ideas in the pipeline).

Most important changes Q1 2016

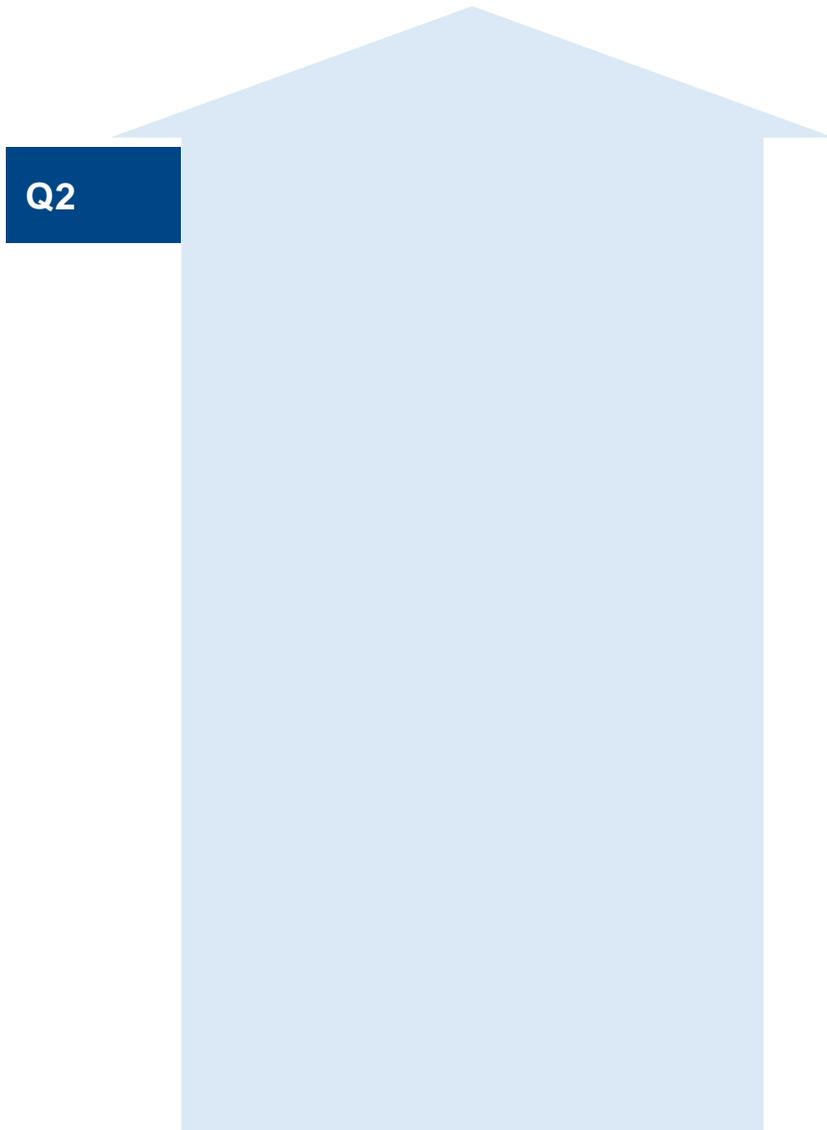
Holdings increased

Holdings reduced

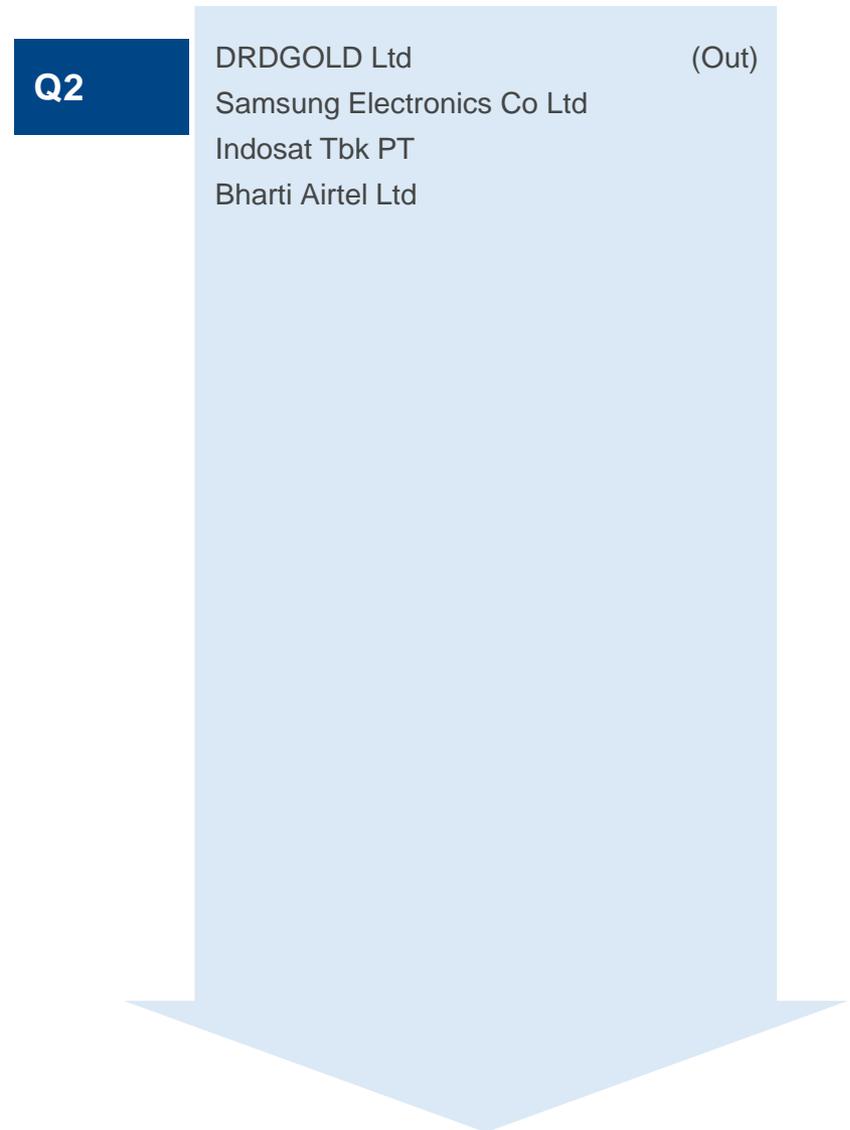


Most important changes Q2 2016

Holdings increased



Holdings reduced

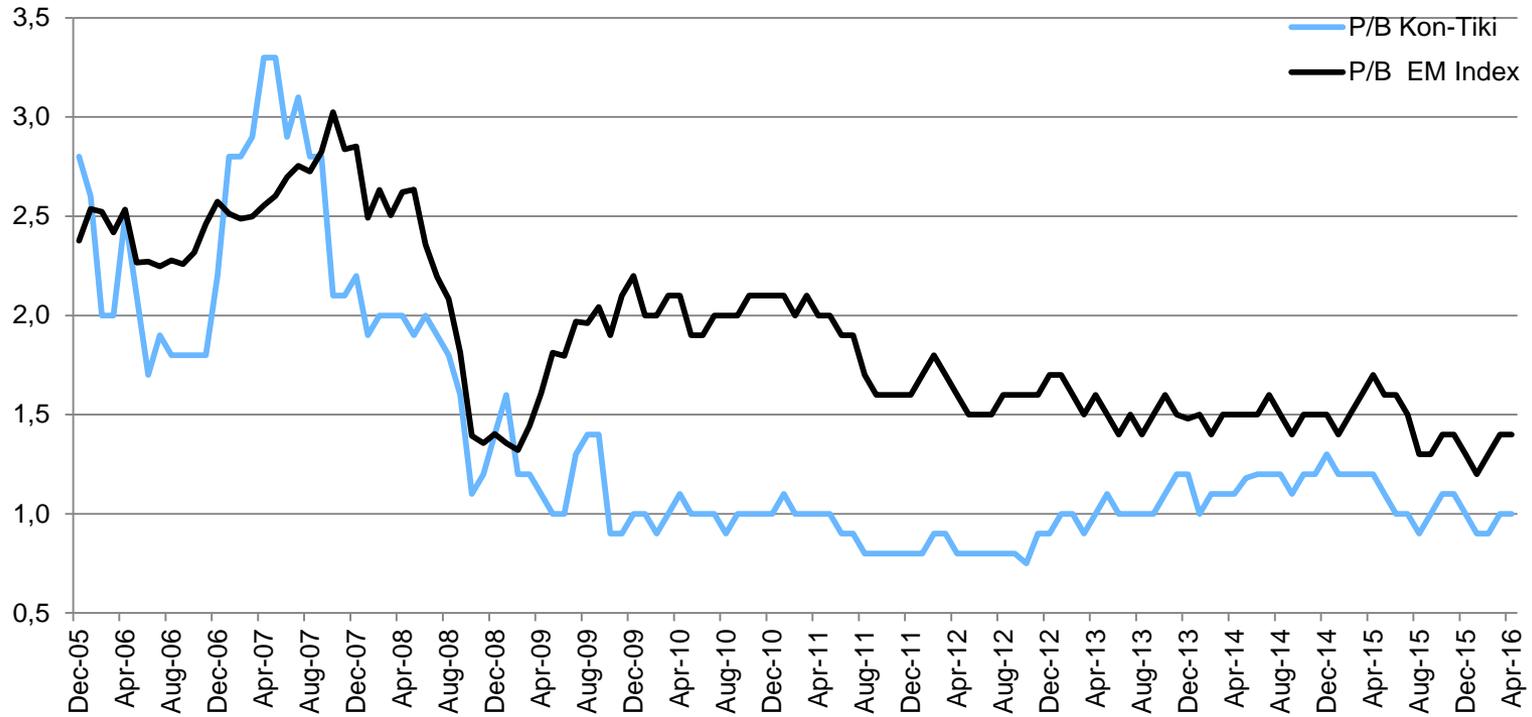


Largest holdings SKAGEN Kon-Tiki, end of April 2016

	Holding size, %	Price	P/E 2015e	P/E 2016e	P/BV last	Div. yield 15e (%)	Price target	Upside %
Samsung Electronics	7.4	1 043 000	8.1	7.5	0.8	2.0	1 600 000	53
Hyundai Motor	7.3	97 400	4.0	4.1	0.4	4.2	170 000	75
Mahindra & Mahindra	5.4	1 331	17.7	14.0	2.9	1.1	2 000	50
Sabancı Holding	5.1	10.1	9.2	7.0	1.0	1.5	14	39
Richter Gedeon	4.1	5 396	18.6	18.0	1.6	1.3	7 500	39
State Bank of India	3.9	189	10.5	5.4	0.8	2.4	265	40
ABB	3.3	170	17.4	14.2	3.1	3.8	200	17
Naspers	3.2	1 966	39.3	26.2	10.2	0.3	2 500	27
Bharti Airtel	2.9	364	26.5	12.1	2.2	0.7	400	10
X5 Retail Group	2.5	19.8	17.7	13.2	3.2	0.0	25	26
Cosan Ltd.	2.2	5.5	8.9	9.6	0.4	0.0	10	83
UPL	2.2	538	17.6	14.5	3.4	1.1	700	30
Weighted top 12	49.4		9.8	8.2	0.9	1.5		45
Weighted top 35	83.6		11.6	8.6	1.0	2.2		46
Emerging market index			13.2	12.3	1.4	2.9		
Top 35 @ price target			17.7	12.7	1.5	1.5		

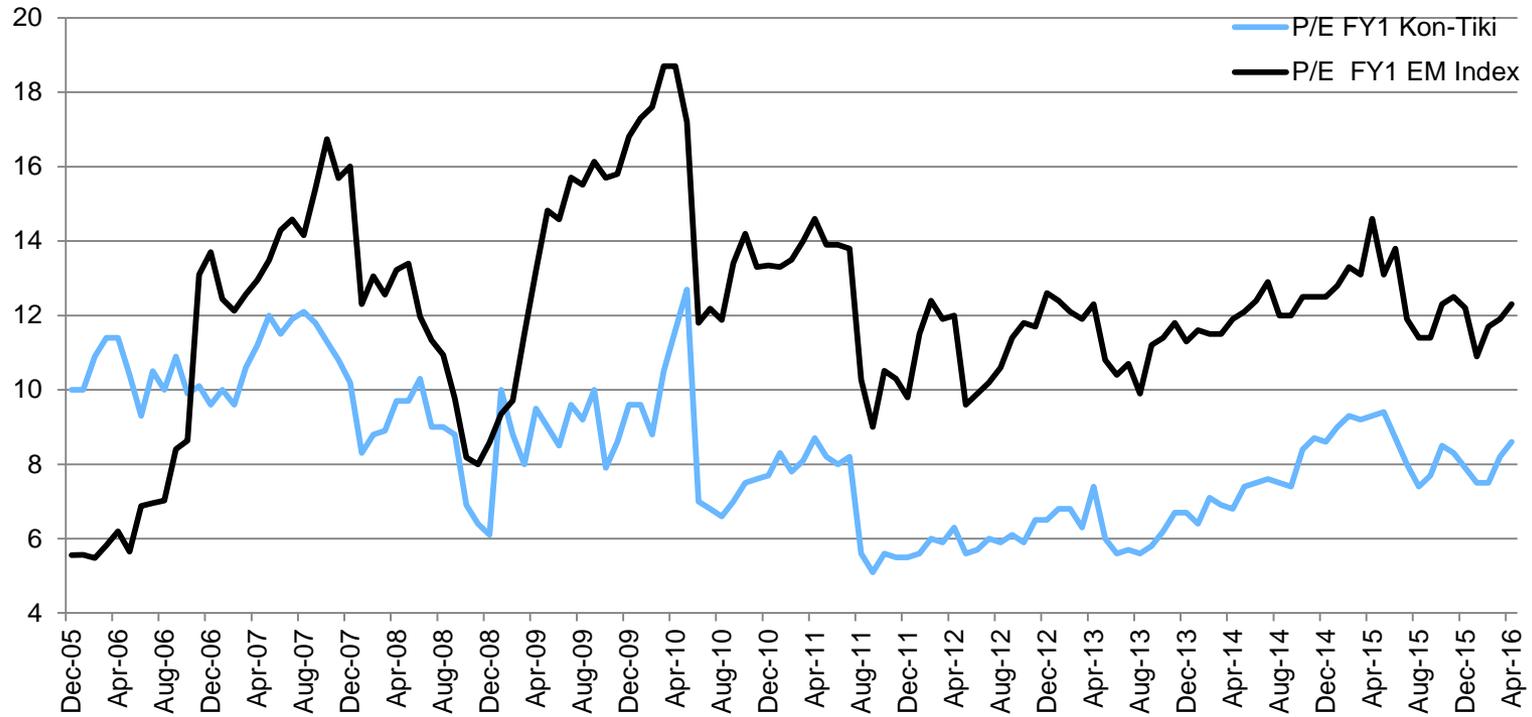
Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates.

P/BV for SKAGEN Kon-Tiki versus emerging markets



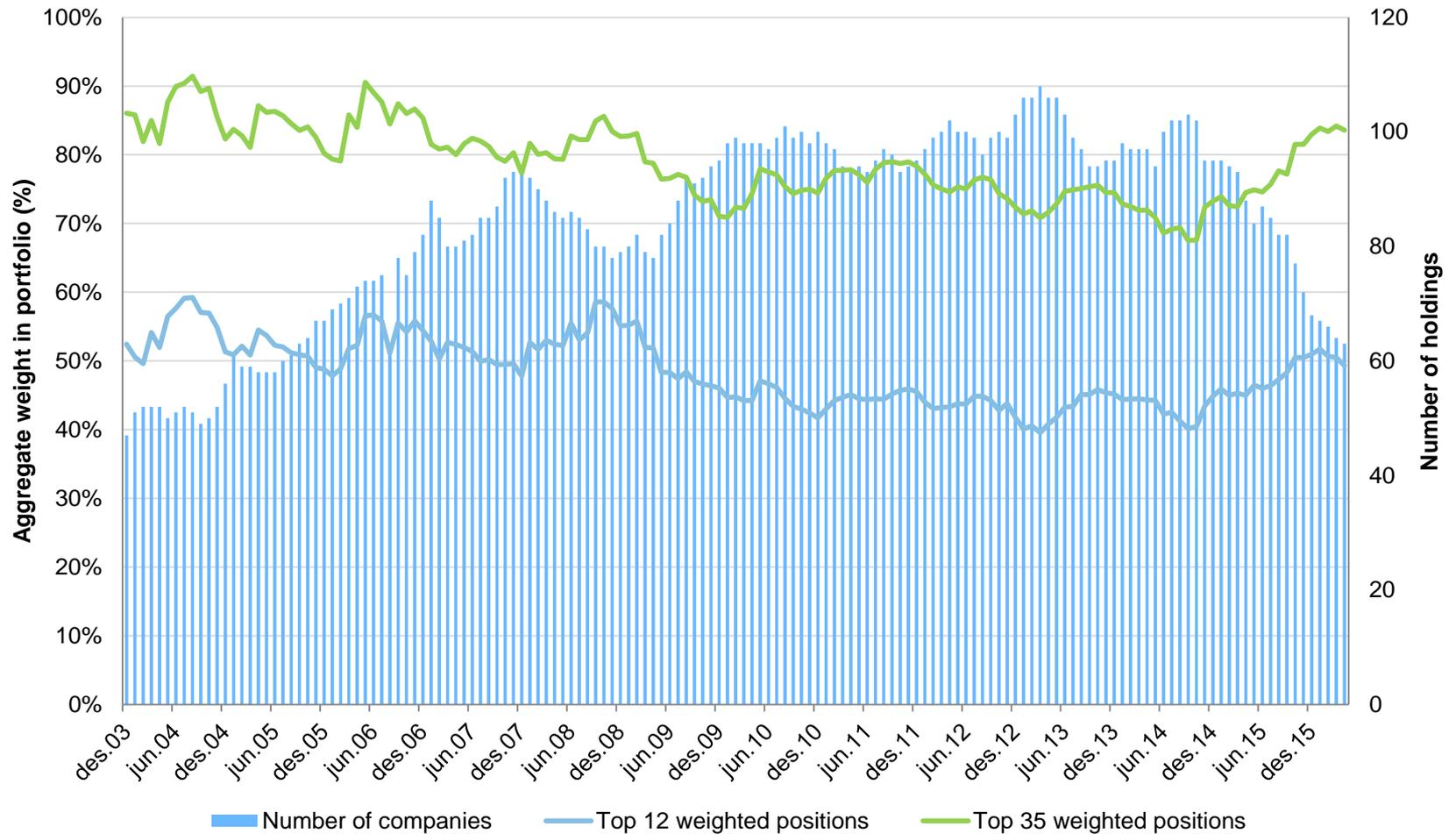
Top 12 positions, as of 30 April, 2016

P/E SKAGEN Kon-Tiki versus emerging markets



Top 12 positions, as of 30 April, 2016

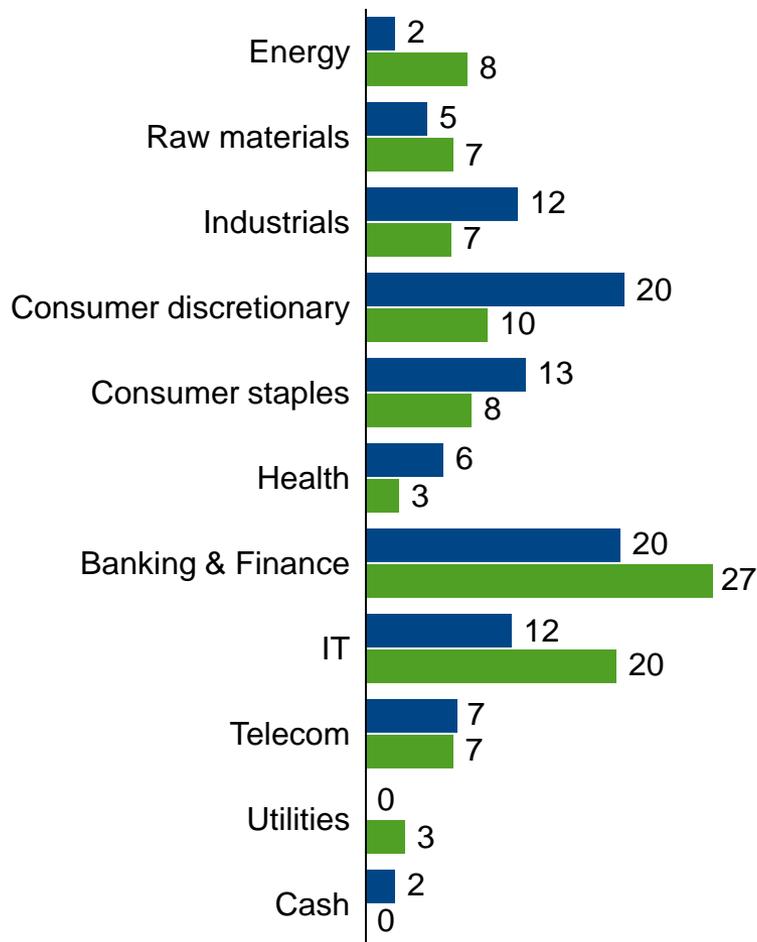
SKAGEN Kon-Tiki portfolio concentration



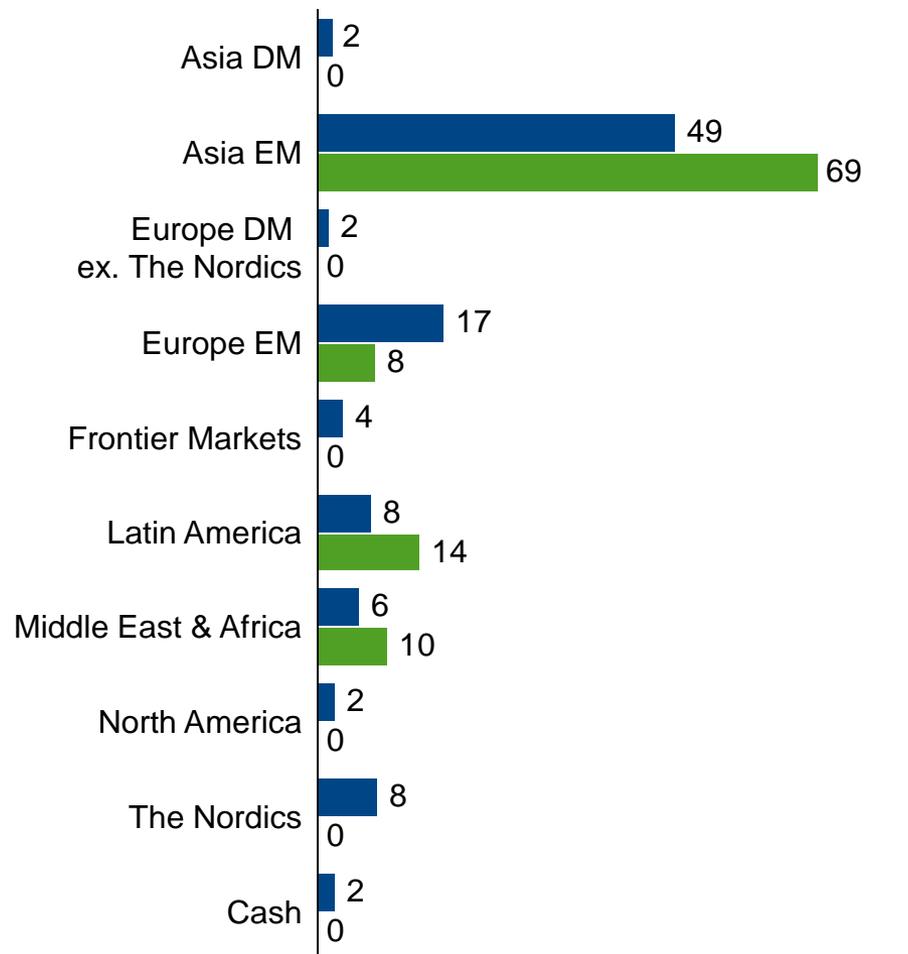
Source: SKAGEN AS as of 29 April 2016

SKAGEN Kon-Tiki sector and geographical distribution

Sector distribution



Geographical distribution



Key earnings releases and corporate news, April 2016

Samsung
Electronics
(7.4% weight):

A solid 1Q16 report

Implications for Investment Case: Positive. Management now says “In the second quarter we expect our solid performance to continue”. We believe 2Q16 operating profit should be close to 1Q16. With consensus EPS estimate still implying a c10% decline for 2016, we expect positive revisions in the near term. We also believe the 1Q16 result should reduce two major concerns; 1) sharp decline in DRAM profits and 2) return to sub-10% margin in handset business.

Event summary: Final operating profit for 1Q16 of KRW 6.68tr was at the high end of preliminary range and +12% YoY and +9%. This includes a KRW c250bn non-recurring impact from retrospective cuts in royalty payments to Nokia. Benefit from FX was KRW c400bn versus 4Q15, helping mainly semi and display earnings. Adjusted for this, underlying result was flat QoQ in a seasonally weaker quarter. Annualised RoE was 12%, dragged down by its growing low yielding cash pile.

IM division: Sharply improving operating profit of KRW 3.9tr up from 2.23tr in 4Q16 and 2.74tr in 1Q15. The key driver is strong sales of the new Galaxy S7 flagship (2x initial sale of S6), where the Edge has sold especially well.

Semiconductors: operating profit of KRW 2.63bn on sales of KRW 11.15tr declining 16% QoQ albeit on a higher operating margin of 23.6%, up from 21.2% in 4Q15. This is quite impressive given the fact that standard DRAM prices (c80% of division profit) declined c14% QoQ. And demonstrates the increasing cost leadership of Samsung and widening technology gap to peers.

Consumer Electronics: Profit of KRW 510bn is significantly up from a loss in 1Q15 but down from a seasonally strong 4Q15 of KRW 820bn. Profit is helped by lower panel prices. Management expects 2Q16 profit to improve QoQ based on higher TV shipment (helped by Olympics), better mix (more SUHD) and seasonally strong contribution from air conditioning and refrigerators. The only weak spot was Display which recorded an operating loss of KRW 270bn versus 300bn profit in 4Q15. Seasonally lower volume in LCD panels and further price decline amid weaker industry utilisation contributed. Management expects a return to profit from 2Q16 driven by higher LCD volumes. The company has now finalised the second tranche of its extraordinary buy-back program, acquiring a total of 5m shares (3% of issued shares) of which 35% preference shares, for total proceeds of KRW 7.3tr of the total KRW 11.3tr program. The third tranche will last from now to end-July and will amount to KRW c2.0tr, with a final tranche expected after 3Q16 reporting at the end of July.

Unpopular: No, with 85% Buy, but in a Korean context this is not extremely popular. Buy-side seems to have been on the sidelines until recently due to corporate governance, risk of DRAM overcapacity and low conviction in a sustainable recovery for handset division. 1Q16 results at least proved that these risks are exaggerated.

Under-researched: No, not with 48 sell-side analysts but most tend to use a P/E and P/BV approach versus historic valuation, failing to capture KRW 11.4tr buyback in next year and 30-50% of FCF in dividend/buyback on average for 2015-2017. Only 2-3 analysts have conducted a sum-of-parts and few work with updated share count taking onto consideration ongoing buyback.

Undervalued: Yes. Based on a conservative sum-of-parts, we calculate a value per share of KRW 1.8m. Of this, semiconductor and handsets contributed KRW c550k each. The pref. share discount has narrowed from 22% to 18% following the buy-back announcement on 30 October. With management committed to buying back a higher relative proportion of pref. shares if discount is 10% or more, we would expect the discount to stay at this level or below. Our pref. share price target of KRW 1.6tr is based on a 10% discount to sum-of-parts or a c10% pref. share discount.

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

GPA
(1.5% weight):

Signs of improvement in food sales

Implications for Investment Case: Not great, but some sign of recovery is appreciated. The investment thesis is that we buy a very cheap market leader in a fragmented cash generative industry, which has long-term tailwind from consolidation. This has been applied successfully in Russia through X5 Retail Group.

Event summary: GPA reported 1Q15 net sales of BRL 17,754m or +3% YoY. Sales growth was diluted by 13% YoY sales decline for listed home goods operation Via Varejo. Sales for the important food retail business of BRL 9,888m rose 11% YoY while same-store-sales (SSS) grew 6%. This is a step up from 2% in 4Q15, but adjusted for calendar effect, SSS rose 3%. Also, food inflation in Brazil picked up in 1Q16 to 13% versus 11.3% in 4Q15. Management states that sales performance improved gradually during the course of the quarter, which is positive. SSS are still clearly lagging food inflation, reflecting the impact of consumer trading down, amid recession, as well as competitive pressure. Assai, the cash-and-carry format, continues to expand rapidly with a 36% YoY sales growth (up from 28% in 4Q15) to BRL 3,148m and now accounts for 32% of food retailing sales.

Unpopular: Partly, with 31% Buy and 69% Hold/Sell and sell-side getting less enthusiastic (35% Buy end February, 71% end October and 81% end July). Even though stock price has come down 39% since July, the stock is becoming less popular! Target prices vary widely from BRL 35 to BRL 74 with average of BRL 50.7 versus share price of BRL 46.8.

Under-researched: No, not with 16 analysts covering the company but in-depth research is scarce and very few are taking a longer term view nor making a sum-of-parts analysis, while mainly focusing on short-term challenges. Analysts also fail to de-consolidate the debt of separately listed but fully consolidated Via Varejo.

Undervalued: Yes, rock bottom food valuation versus EM peers and potential synergies from stronger LatAm integration. Implied EV/EBITDA for food operation (deduct stakes in Via Varejo and CNova at market value of combined BRL 22.2 per share or 47% of share price) is 3.2x for 2015. This is significantly below the EM median of 10x for 2015 estimates. Our 2y forward target price of BRL 100 is based on sum-of-parts with food multiple at 8x for 2016e. We have not applied additional value, except for EBITDA contribution, to its 330k m2 of external rental space tied mainly to its hypermarkets, which could offer added upside in a potential transaction when the economy improves.

The largest companies in SKAGEN Kon-Tiki



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.



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.



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.



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.



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.



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:

Our latest [Market report](#)

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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