



The ship at Skagen Reef, 1892, Detail, By Carl Locher, one of the Skagen Painters. This image belongs to the Art Museums of Skagen.

# SKAGEN Kon-Tiki

## Status Report – August 2016

The art of common sense



# Summary – August 2016

- SKAGEN Kon-Tiki\* was up 1.9% in August measured in EUR, lagging the MSCI Emerging Markets Index. Year to date, the fund is up 8.5% versus an 11.8% gain for the EM index. Emerging markets outperformed developed markets during August, posting a 2.8% gain versus 0.8%. Year to date, emerging markets have returned 11.8% compared with a 3.3% gain for developed markets.
- In South Africa, the ruling party ANC suffered its worst election since the end of apartheid. Sluggish economic growth, stubbornly high unemployment (currently at 26%) and a series of corruption allegations and scandals involving President Jacob Zuma set the stage for a stronger opposition. In Brazil, Dilma Rousseff was formally removed from office after a decisive impeachment vote.
- We sold out of Moscow Exchange after strong performance. Since investing in the spring of 2014, our position has doubled in value including dividends, and has now reached our target price. DRB-Hicom also left the portfolio, as this investment failed to play out according to our thesis.
- Our top three contributors during August were X5 Retail Group, Samsung Electronics and State Bank of India. X5 reported very strong results driven by 6% LFL sales increase and a solid 75 bps increase in EBITDA margin to a 3.5 year high of 8%. Our Samsung preference shares continued their good performance and are now up 29% (in KRW) for the year. On the losing side, we find telecoms companies Bharti Airtel and Indosat, and Indian auto and tractor manufacturer Mahindra & Mahindra. The fiercely competitive Indian telecom market recently saw the entry of new player Reliance Jio. Following massive network investments, Jio plans to win customers by offering low cost data plans and free voice.
- Despite this year's solid outperformance, emerging markets still trade at a discount to developed markets, with a 2016e P/E of 13.4x and P/B of 1.6x for EM, compared with 17.0x and 2.1x for DM.
- The top 12 positions now represent c50% of the fund (from 45% at the beginning of 2015). The portfolio\*\* remains attractively valued at a 2016e P/E of 12.6x and P/B of 0.9x and we now see a 43% upside for our portfolio over a 2-year horizon.

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

\*\* Portfolio valuation refers to top 35 positions.

# SKAGEN Kon-Tiki A results, August 2016

EUR, net of fees



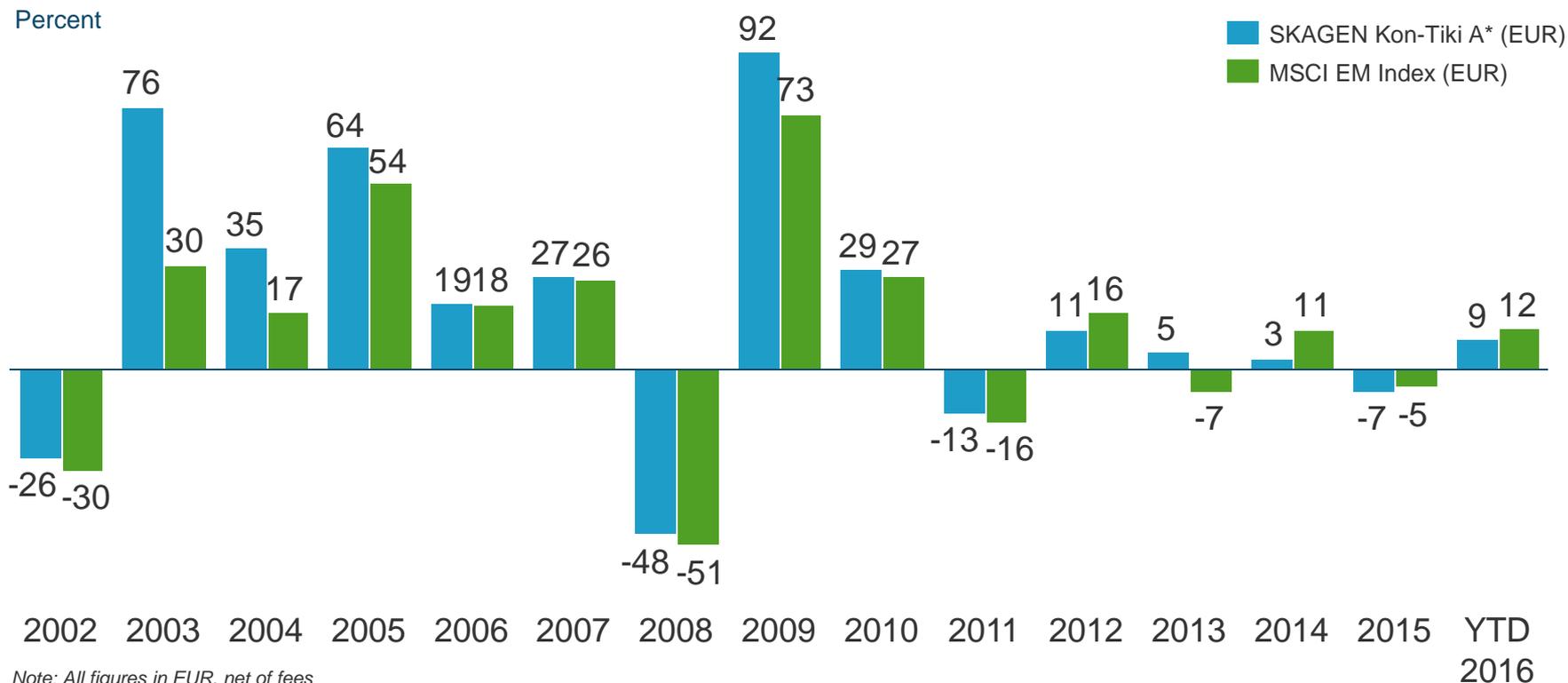
	August	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Kon Tiki A	1,9%	6,6%	8,5%	13,4%	4,1%	4,1%	7,0%	13,1%
Emerging Markets Index	2,8%	7,5%	11,8%	12,9%	7,1%	4,9%	5,4%	7,5%
Excess return	-0,9%	-1,0%	-3,3%	0,6%	-3,0%	-0,8%	1,7%	5,6%

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

\* Inception date: 5 April 2002

# Annual performance since inception\*

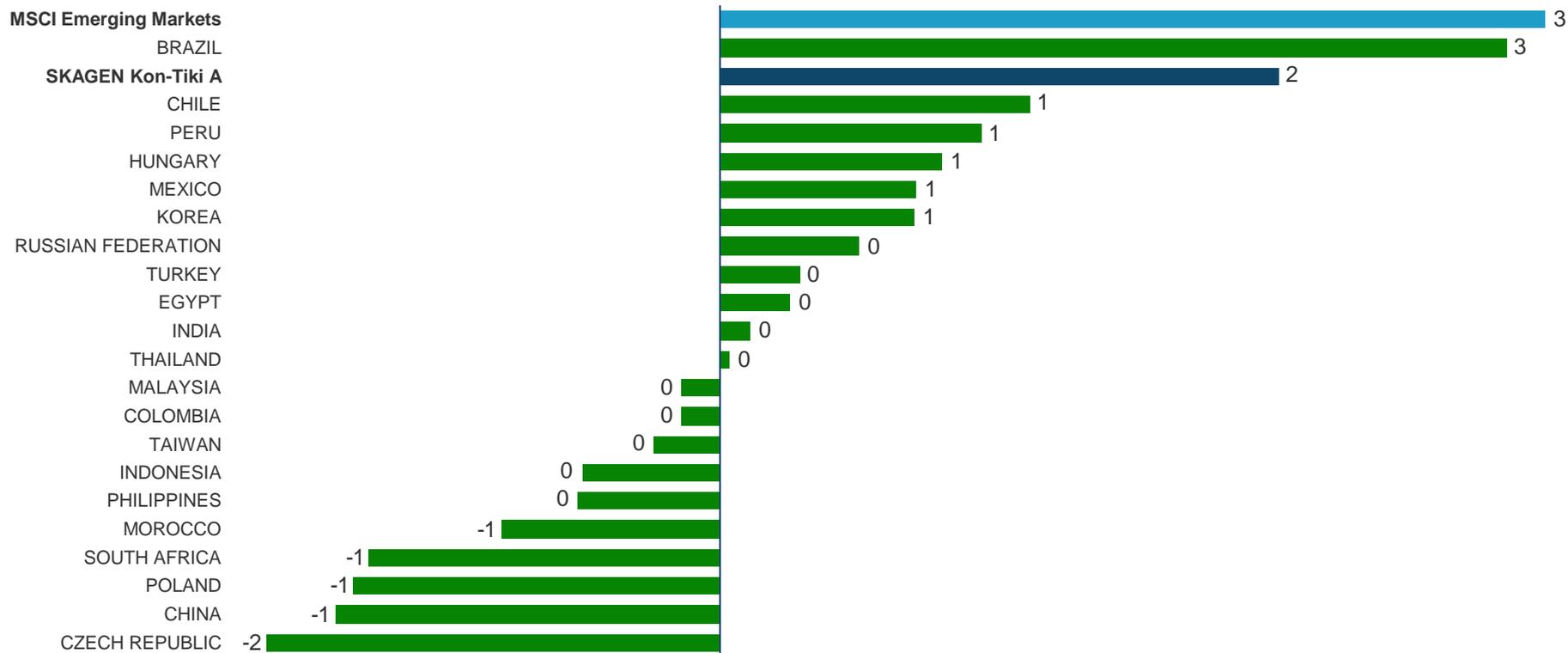
## SKAGEN Kon-Tiki A has beaten the index in 11 out of 14 years



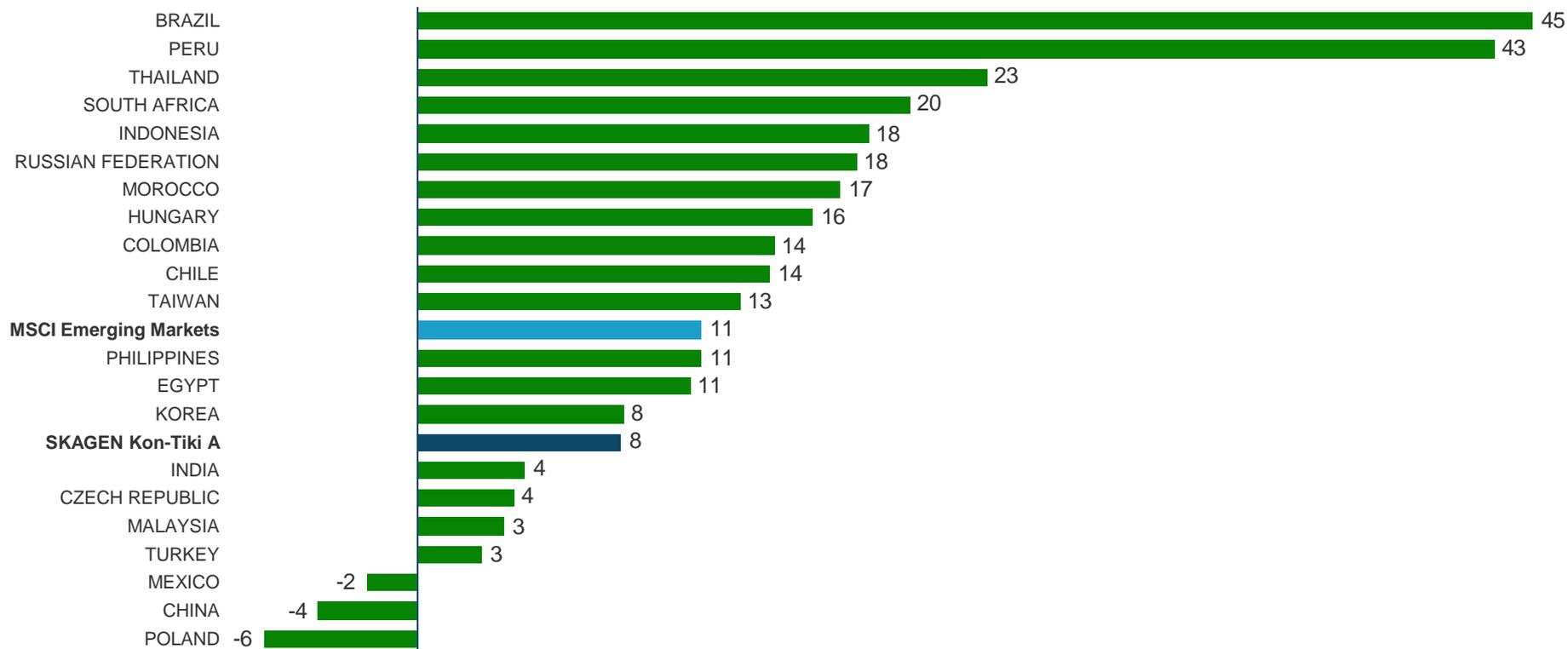
Note: All figures in EUR, net of fees

\* Inception date: 5 April 2002

# Emerging markets in August 2016, EUR (%)



# Emerging markets YTD 2016, EUR (%)



# Main contributors MTD 2016

## Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
X5 Retail Group	185
Samsung Electronics	83
State Bank of India	78
Cosan	55
Rumo Logistica	51
Yazicilar Holding	49
SBI Holdings	48
Samsung SDI	42
Moscow Exchange	41
Naspers	41

## Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Bharti Airtel	-66
Indosat	-65
Mahindra & Mahindra	-59
Hyundai Motor	-58
Richter Gedeon	-54
JSE	-52
Great Wall Motor	-51
Marfrig	-36
Kinnevik	-33
LG Electronics	-31

**Value Creation MTD (NOK MM): 191**

*NB: Contribution to absolute return*

# Main contributors QTD 2016

## Largest positive contributors

Company	NOK Millions
Samsung Electronics	346
X5 Retail Group	271
Banrisul	165
State Bank of India	161
Hyundai Motor	141
ABB	138
SBI Holdings	130
Rumo Logistica	113
Great Wall Motor	94
Kiatnakin Bank	80

## Largest negative contributors

Company	NOK Millions
Sabancı	-94
Bharti Airtel	-65
JSE	-61
Tullow Oil	-49
Marfrig	-40
LG Electronics	-35
Diamond Bank	-29
CCU	-24
Tech Mahindra	-24
China Shipping Development	-23

**Value Creation QTD (NOK MM): 2015**

*NB: Contribution to absolute return*

# Main contributors YTD 2016

## Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
Cosan	433
Banrisul	412
Samsung Electronics	382
X5 Retail Group	265
Moscow Exchange	192
UPL	190
Cia Brasileira de Distribuicao	160
ABB Ltd	153
Kiatnakin Bank	150
Naspers	148

## Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Frontline	-385
Hyundai Motor	-167
Great Wall Motor Co	-155
Lenovo Group	-135
LG Chem	-134
Investment AB Kinnevik	-119
China Shipping Development	-109
Bharti Airtel	-94
Tech Mahindra	-86
Korean Reinsurance	-84

**Value Creation YTD (NOK MM): 1566**

*NB: Contribution to absolute return*

# Most important changes Q1 2016

Q1

## Holdings increased

Toray Industries Inc (New)

Q1

## Holdings reduced

Bidvest Group (Out)  
Pivovarna Lasko (Out)  
Aveng (Out)  
Archer (Out)  
Hyundai Motor  
Bharti Airtel  
Samsung Electronics  
Indosat  
ABB

# Most important changes Q2 2016

Q2

## Holdings increased

Rumo Logistica (New)  
Kinnevik

Q2

## Holdings reduced

Drd Gold (Out)  
Trimegah Securities (Out)  
Samsung Electronics  
UPL  
Bharti Airtel  
State Bank of India  
Indosat  
Mahindra & Mahindra  
DIA  
OCI Co

# Most important changes Q3 2016

## Q3 Holdings increased



Bollore (New)  
Vietnam Enterprise  
Investments  
Naspers

## Q3 Holdings reduced



Moscow Exchange (Out)  
DRB-Hicom Bhd (Out)  
State Bank of India  
Samsung Electronics  
Vietnam Enterprise  
Investments  
UPL Ltd  
Bharti Airtel  
Mahindra & Mahindra

# Holdings increased and decreased during August 2016

## Key buys

- **Naspers:** We increased our position as we are positive about Tencent's (Naspers owns 34%) ability to grow, monetise their mobile ecosystem and cut costs. The Tencent stake is worth c115% of Naspers' market capitalisation so we think owning Naspers is an attractive way of owning Tencent. As of 31 August, Naspers represents 4.3% of the SKAGEN Kon-Tiki portfolio.

## Key sells

- **Moscow Stock Exchange (OUT):** Since investing in the spring of 2014, our position has doubled in value including dividends and reached our target price.
- **DRB-Hicom (OUT):** We divested the stub position.
- **State Bank of India:** The stock has rallied 66% from the low in February. We sold into strength expecting further loan losses in the Indian banking sector before things improve.

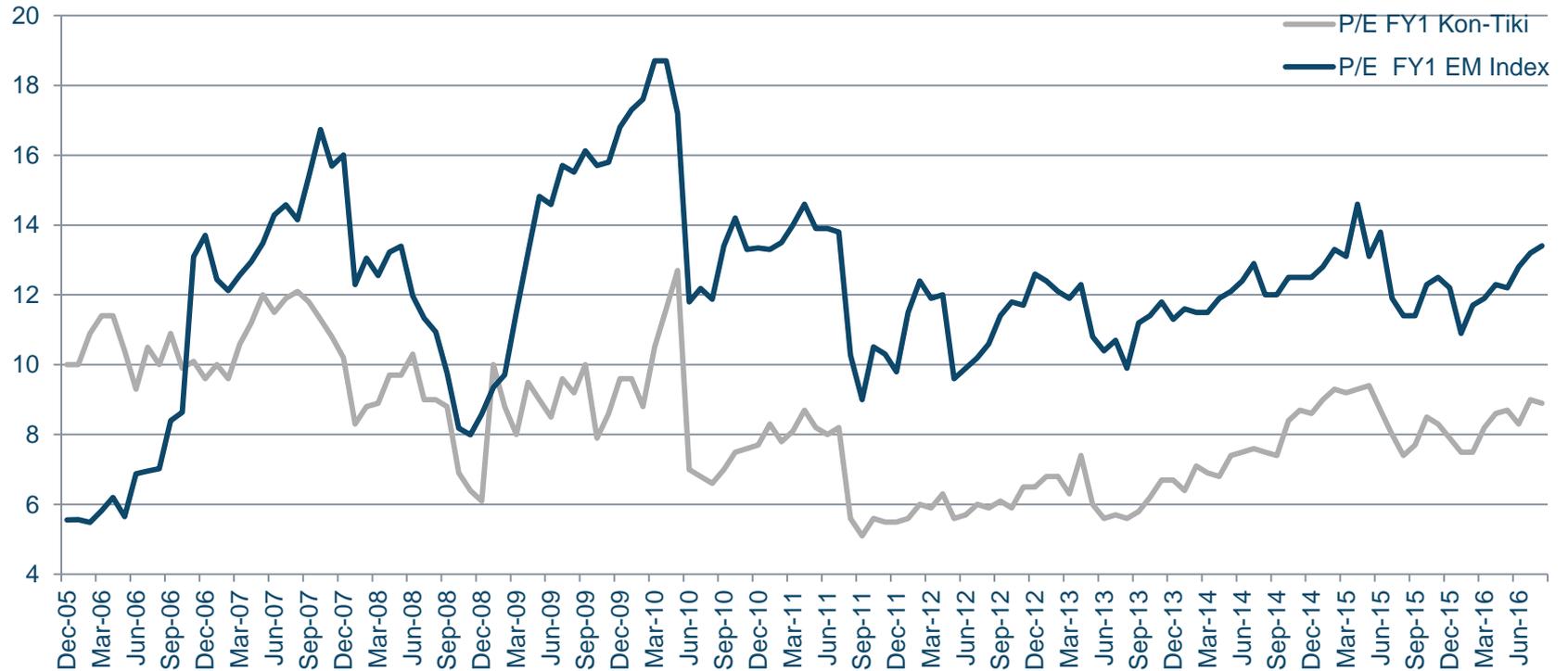
# Largest holdings in SKAGEN Kon-Tiki

	Holding size, %	Price	P/E 2016e	P/E 2017e	P/BV last	Div. yield 15 (%)	Price target	Upside %
Hyundai Motor	7,6	97 000	4,0	3,9	0,4	4,2	170 000	75
Samsung Electronics	7,5	1 324 000	8,5	7,8	1,0	1,6	1 700 000	28
Mahindra & Mahindra	5,2	1 437	19,2	14,4	3,0	0,8	2 000	39
Sabancı Holding	4,4	9,13	6,3	5,7	0,8	1,6	14	53
Richter Gedeon	4,3	5 713	19,0	15,0	1,7	1,3	7 500	31
Naspers	4,3	173	38,5	26,7	7,4	0,2	216	25
X5 Retail Group	3,3	1 744	16,8	13,4	4,0	0,0	2 242	29
ABB	3,2	186	17,7	16,2	3,7	3,4	200	8
Cosan Ltd.	2,8	22,9	7,6	6,9	0,5	1,5	32	42
State Bank of India	2,7	253	12,6	9,7	0,9	1,0	300	19
SBI Holdings	2,3	1 228	8,8	8,2	0,7	3,7	2 500	104
Banrisul	2,2	10,9	6,6	6,4	0,7	7,5	14	28
<b>Weighted top 12</b>	<b>49,8</b>		<b>8,9</b>	<b>8,0</b>	<b>0,9</b>	<b>1,5</b>		<b>41</b>
<b>Weighted top 35</b>	<b>80,6</b>		<b>12,6</b>	<b>9,9</b>	<b>0,9</b>	<b>1,8</b>		<b>43</b>
<b>Emerging market index</b>			<b>13,4</b>	<b>11,8</b>	<b>1,6</b>	<b>2,9</b>		
<b>Top 35 @ price target</b>			<b>18,0</b>	<b>14,3</b>	<b>1,6</b>	<b>1,4</b>		

As at 31 August 2016

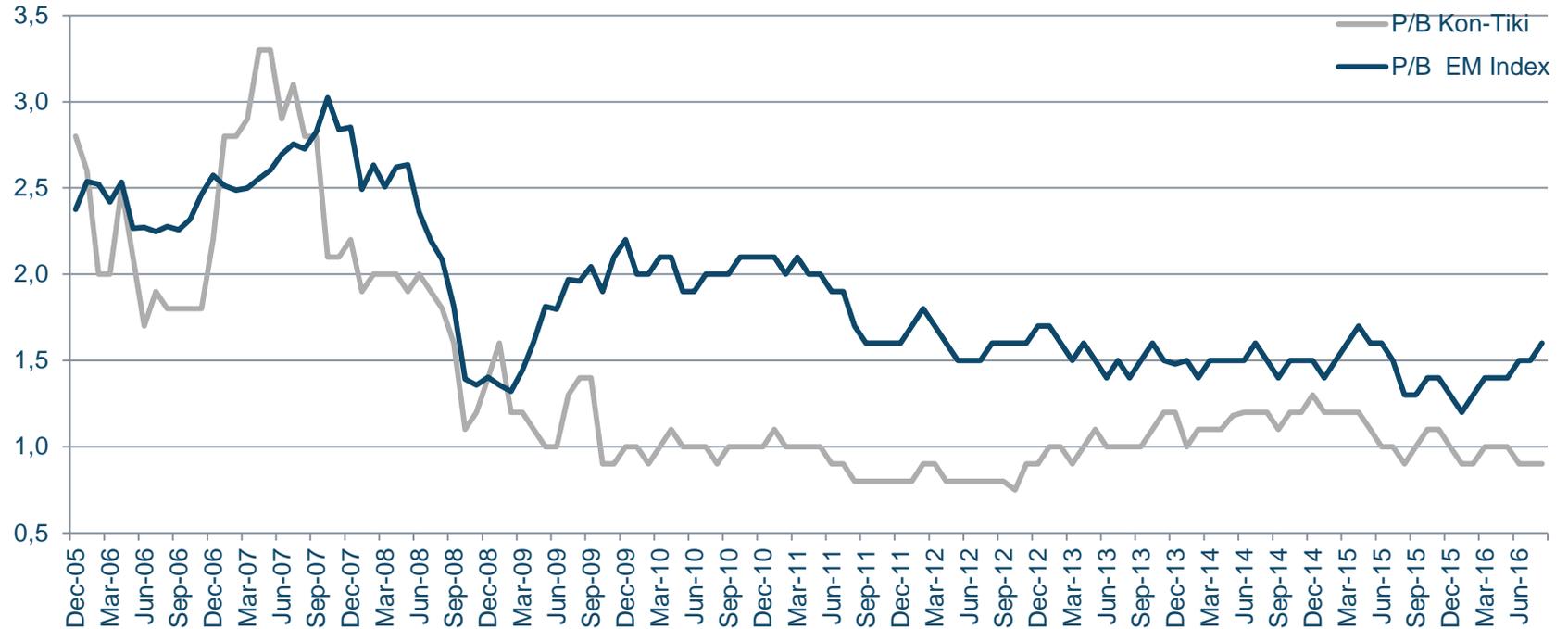
Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates. Converted share prices to reported currency for Naspers, X5 and Cosan.

# P/E for SKAGEN Kon-Tiki versus emerging markets



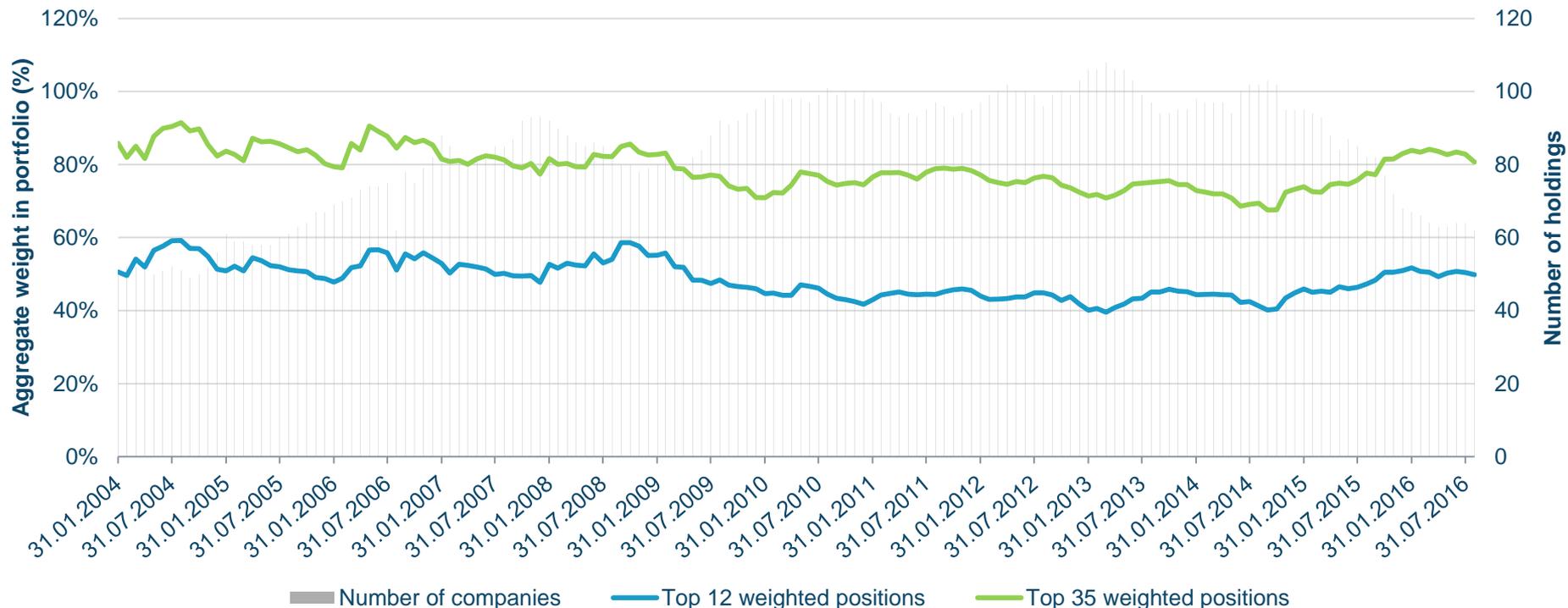
Top 12 positions, as of 31 August, 2016

# P/BV for SKAGEN Kon-Tiki versus emerging markets



Top 12 positions, as of 31 August, 2016

# SKAGEN Kon-Tiki portfolio concentration

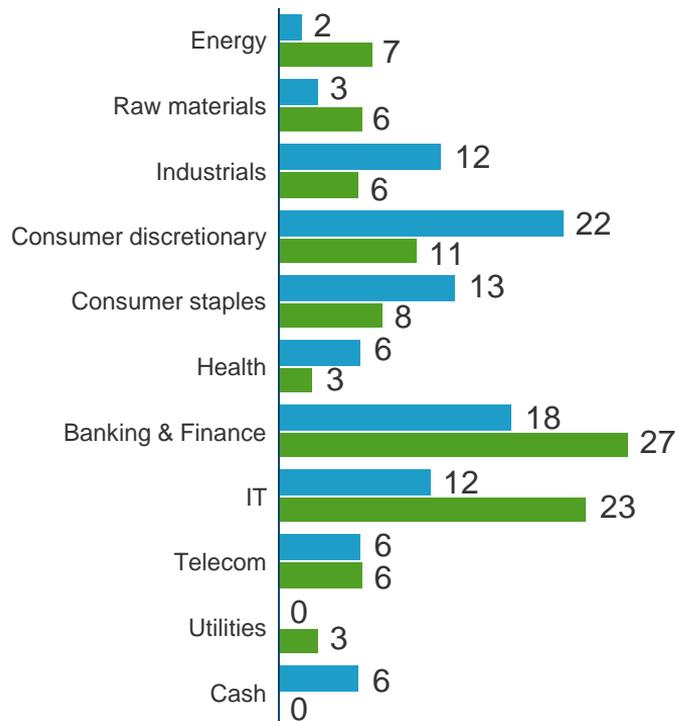


Source: SKAGEN AS as of 31 August 2016

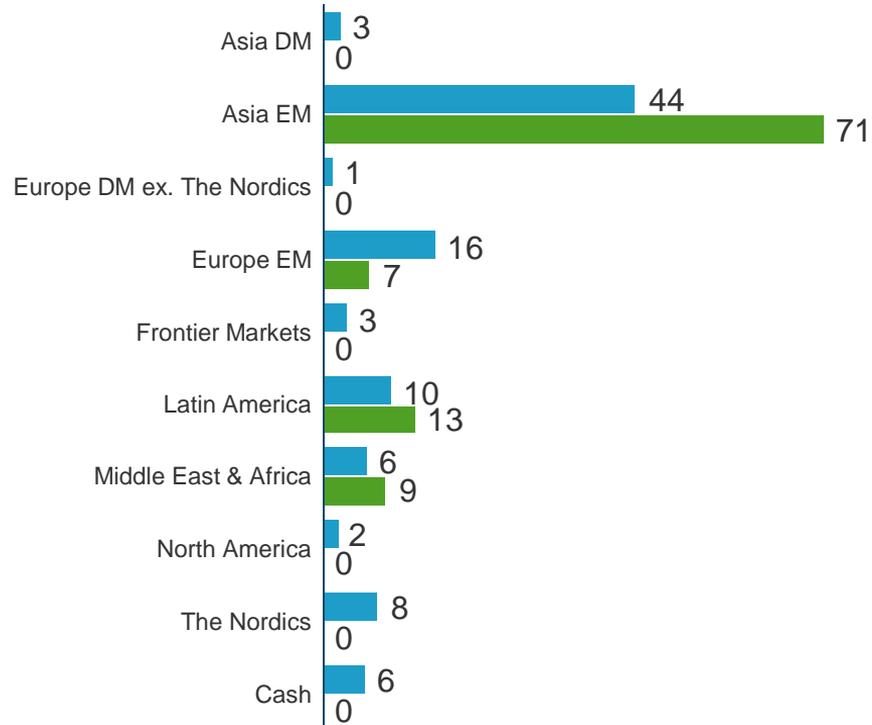
# SKAGEN Kon-Tiki sector and geographical distribution

Fund  
Index

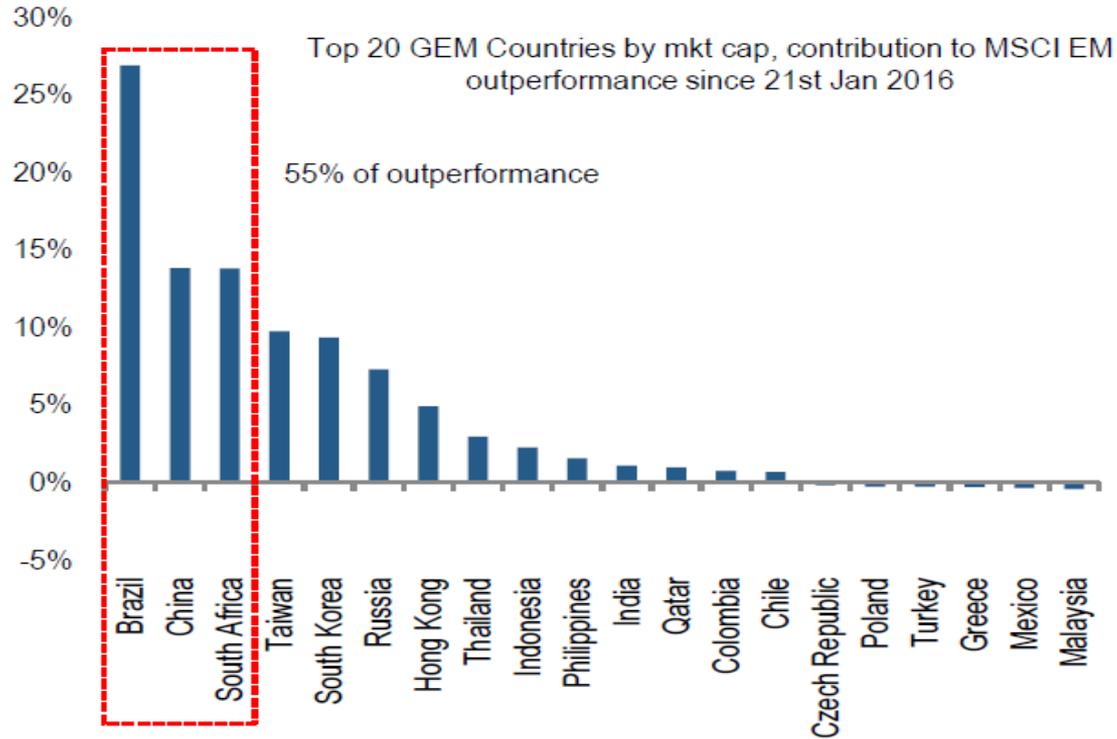
## Sector distribution



## Geographical distribution

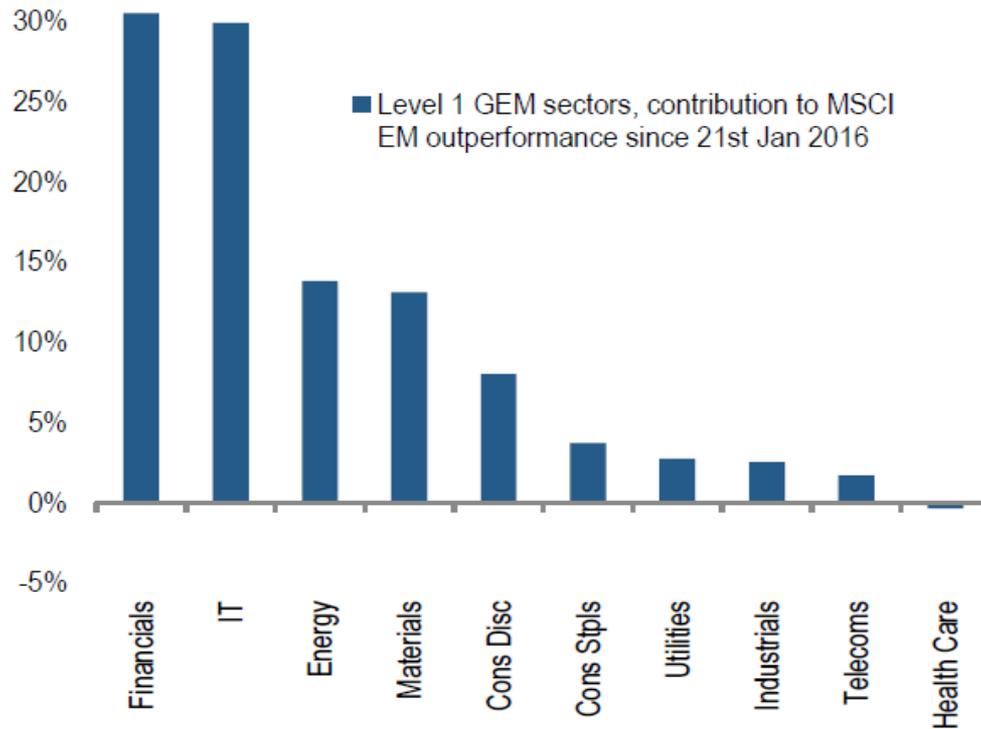


Since 21 Jan, EM has outperformed DM by 11.7% (in USD).  
Brazil, China and South Africa make up more than half of outperformance.



Source: Thomson Reuters Datastream, Credit Suisse research.

## At sector level, financials and tech have contributed 60% of the outperformance



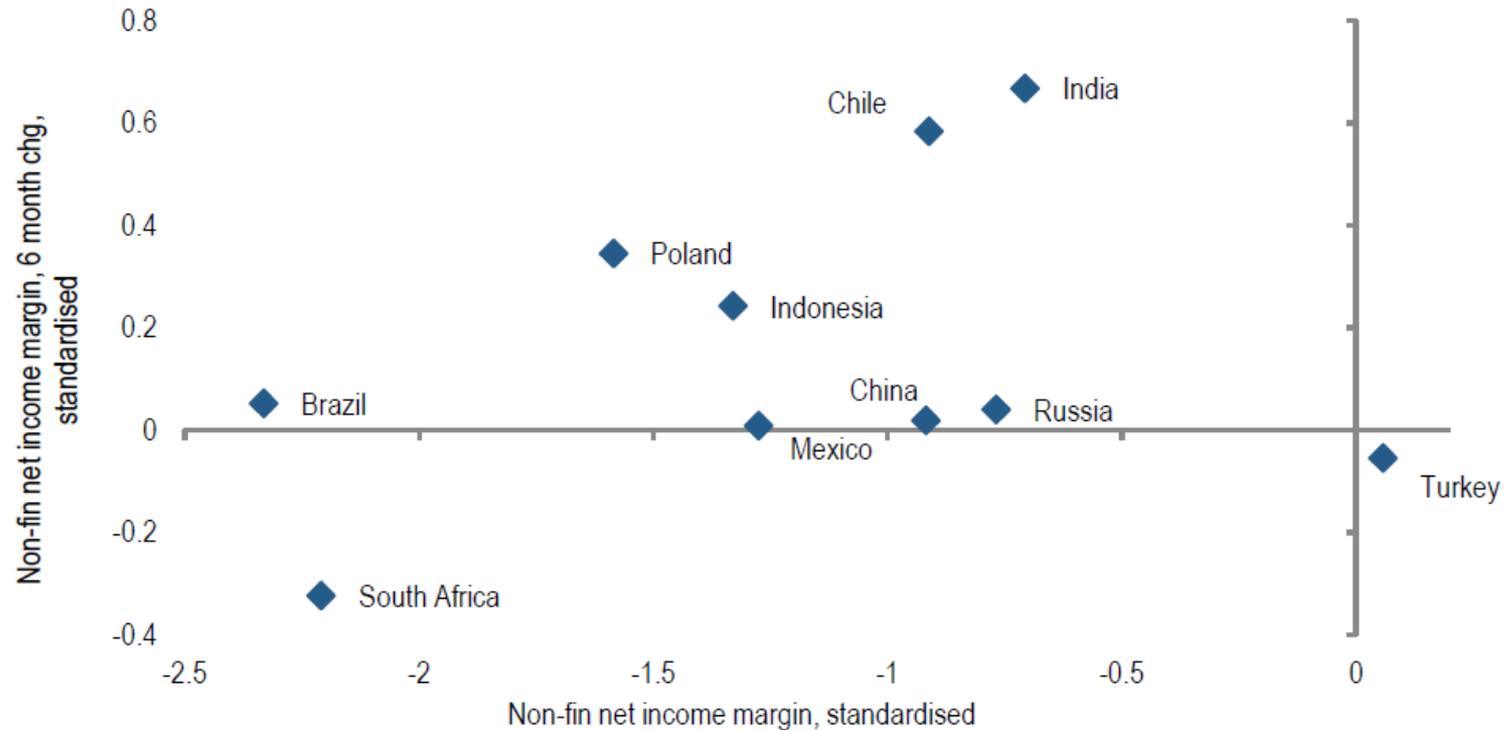
Source: Thomson Reuters Datastream, Credit Suisse research.

# EM non-financial net income margins are forecast to improve by c50bps



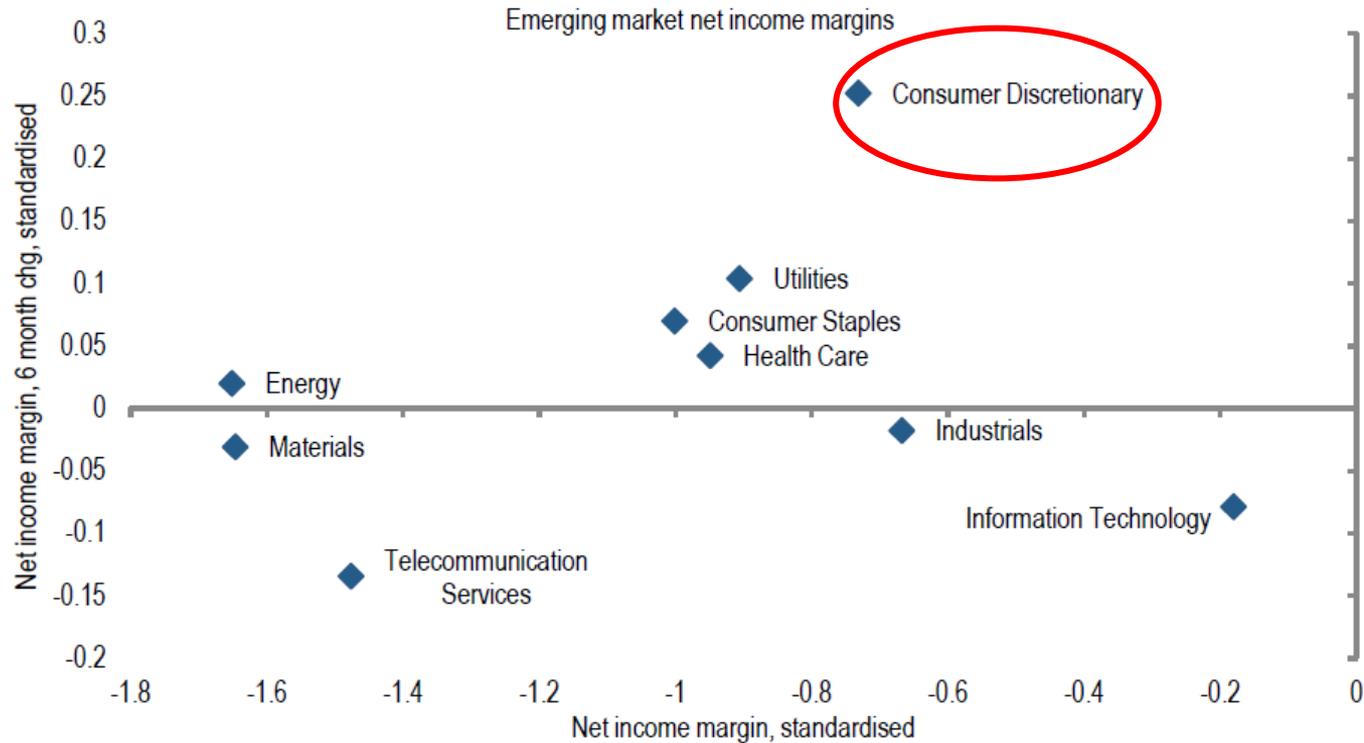
Source: Thomson Reuters Datastream, Credit Suisse research.

## Where are margins set to improve most? Brazil and South Africa showing signs of bottoming out.



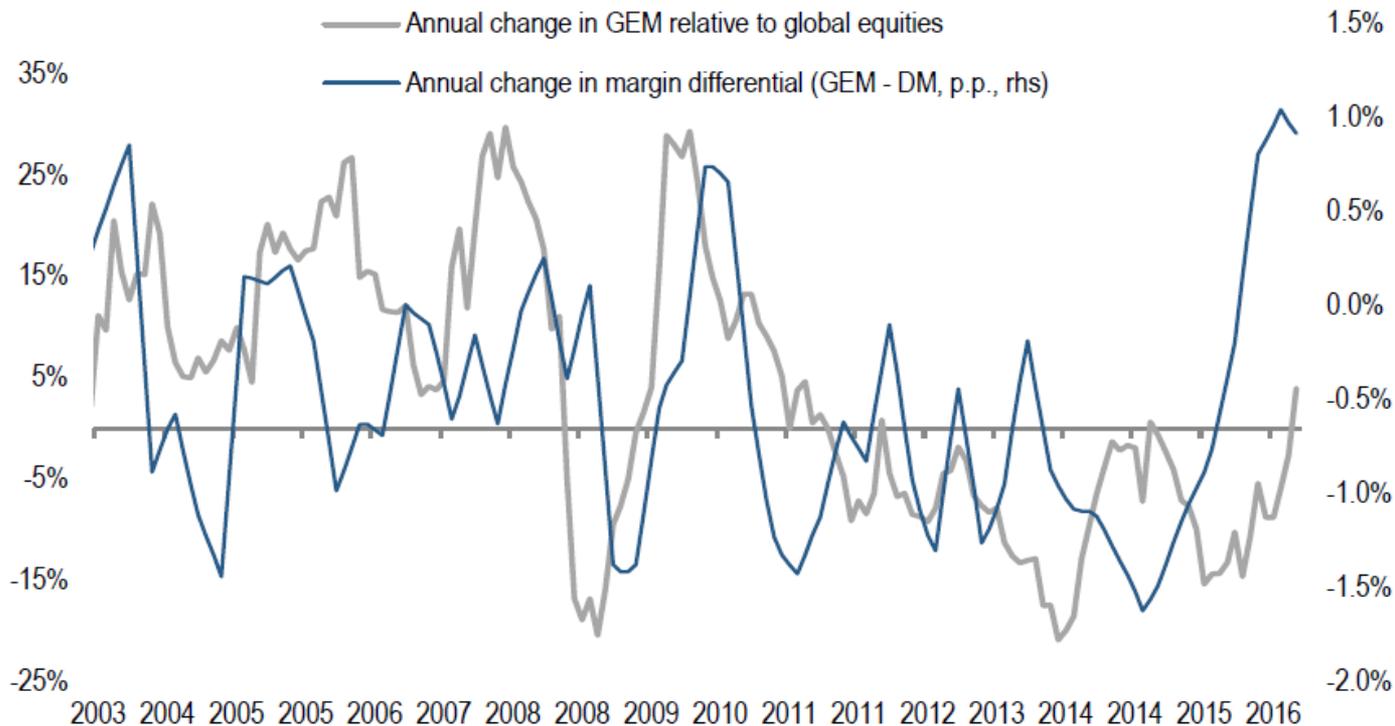
Source: Thomson Reuters Datastream, Credit Suisse research.

## Consumer discretionary sector is driving recovery in EM margins, but all sectors still have margins below their norm



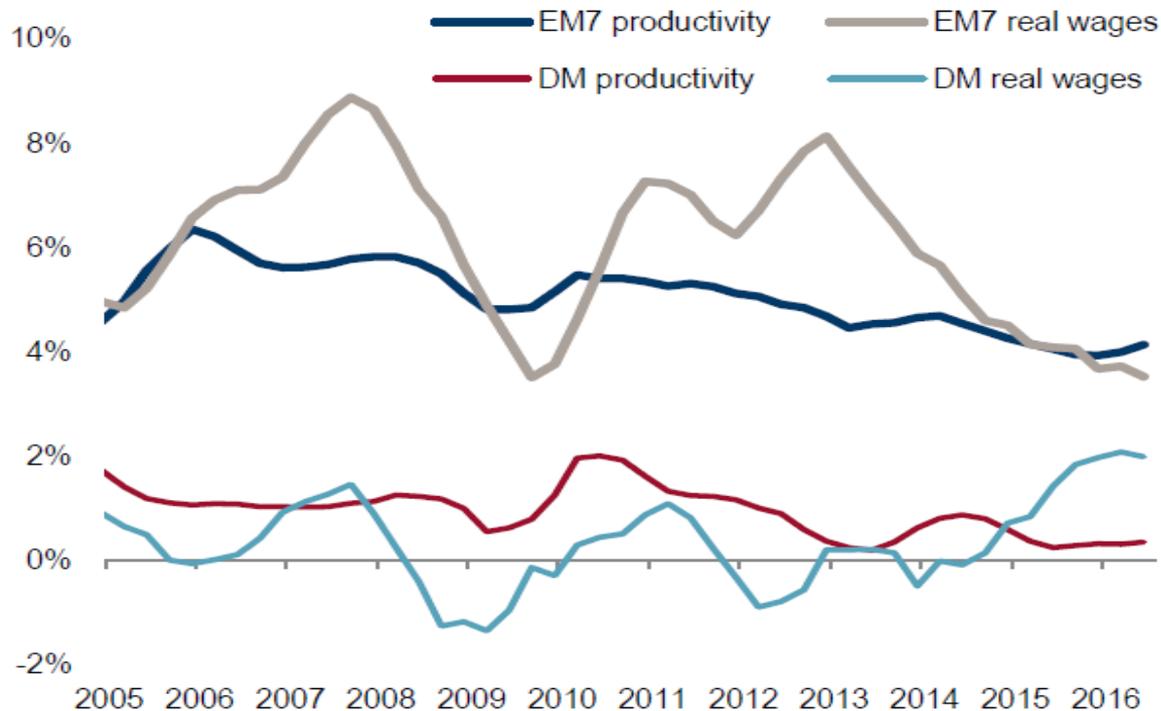
Source: Thomson Reuters Datastream, Credit Suisse research.

## Relative rise in global EM margins is consistent with a significant pick-up in EM equity outperformance



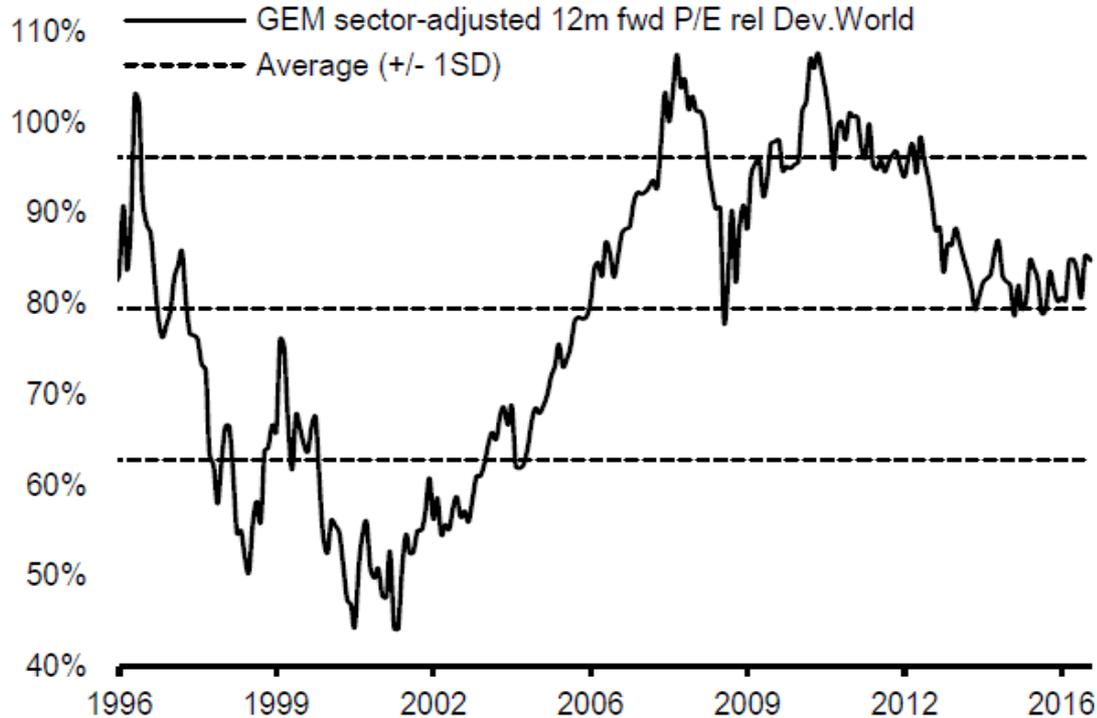
Source: Thomson Reuters Datastream, Credit Suisse research.

## Productivity growth in EM is now outpacing real wage growth, in contrast to DM



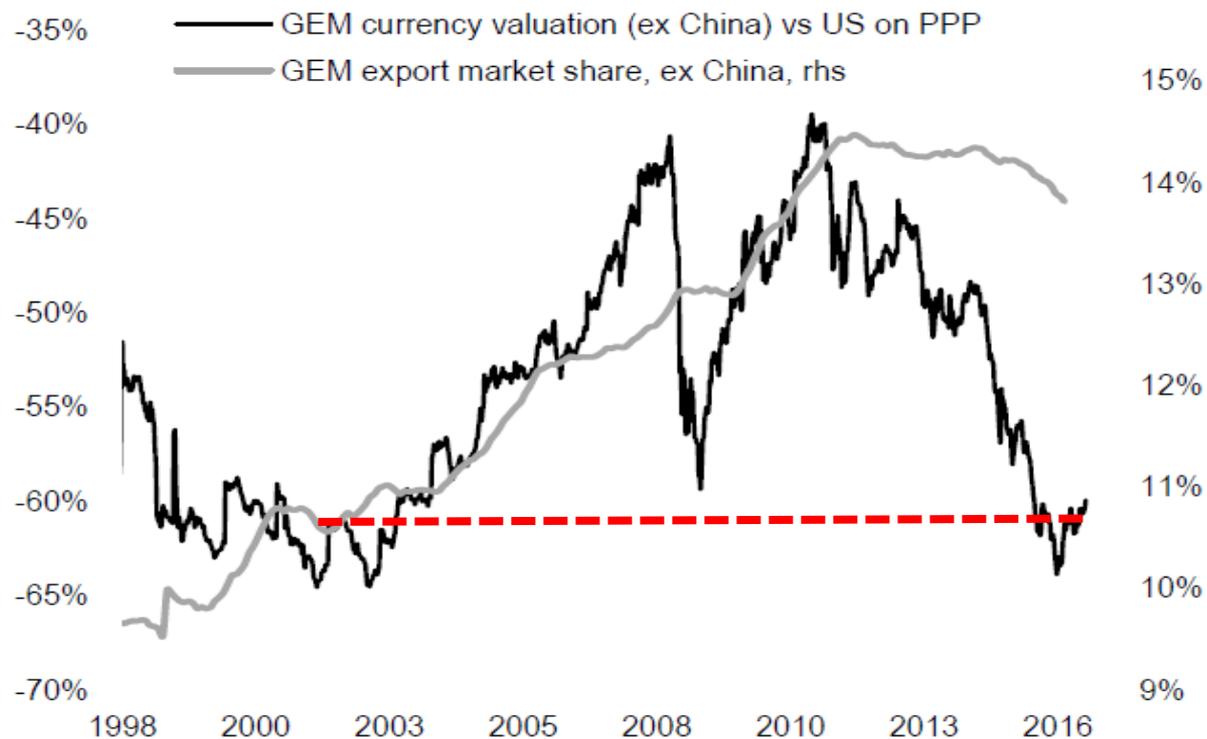
Source: Thomson Reuters Datastream, Credit Suisse research.

# Global EM equities trade near 10-year low on sector-adjusted P/E relative to DM



Source: Thomson Reuters Datastream, Credit Suisse research.

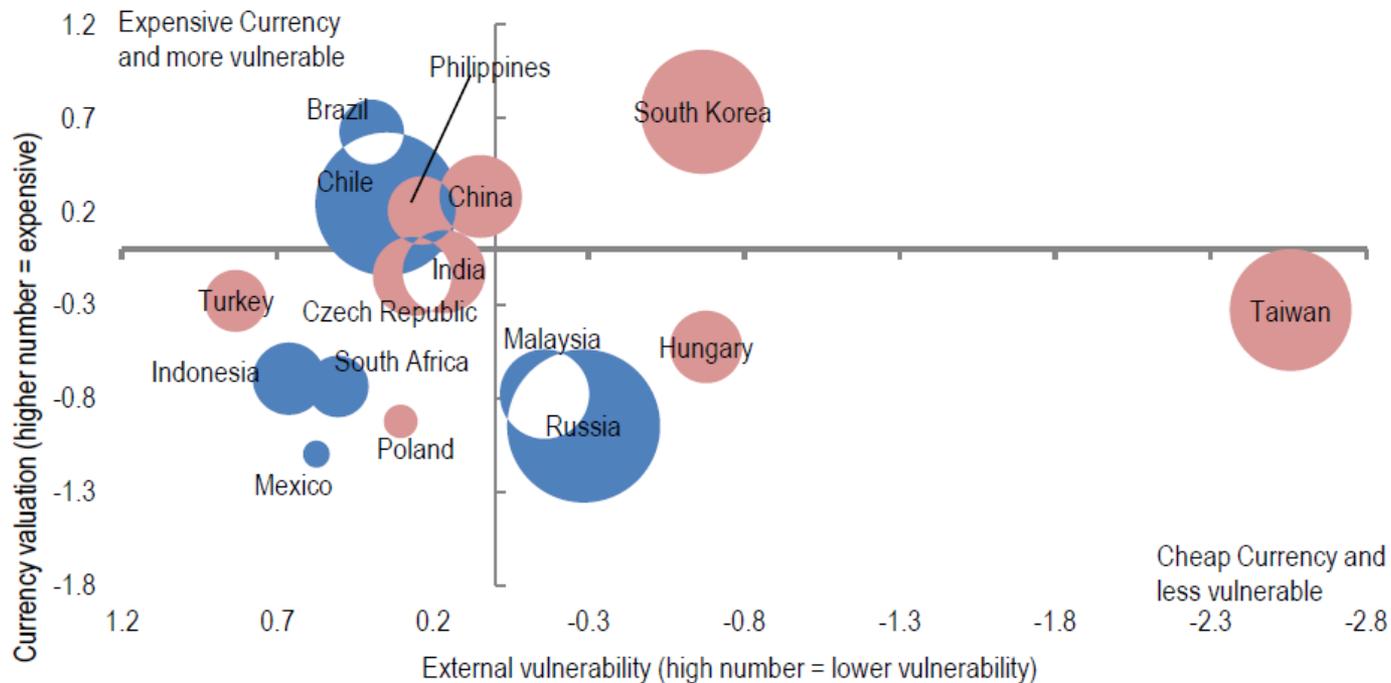
## EM currencies are cheap and close to 2002 levels



Source: Thomson Reuters Datastream, Credit Suisse research.

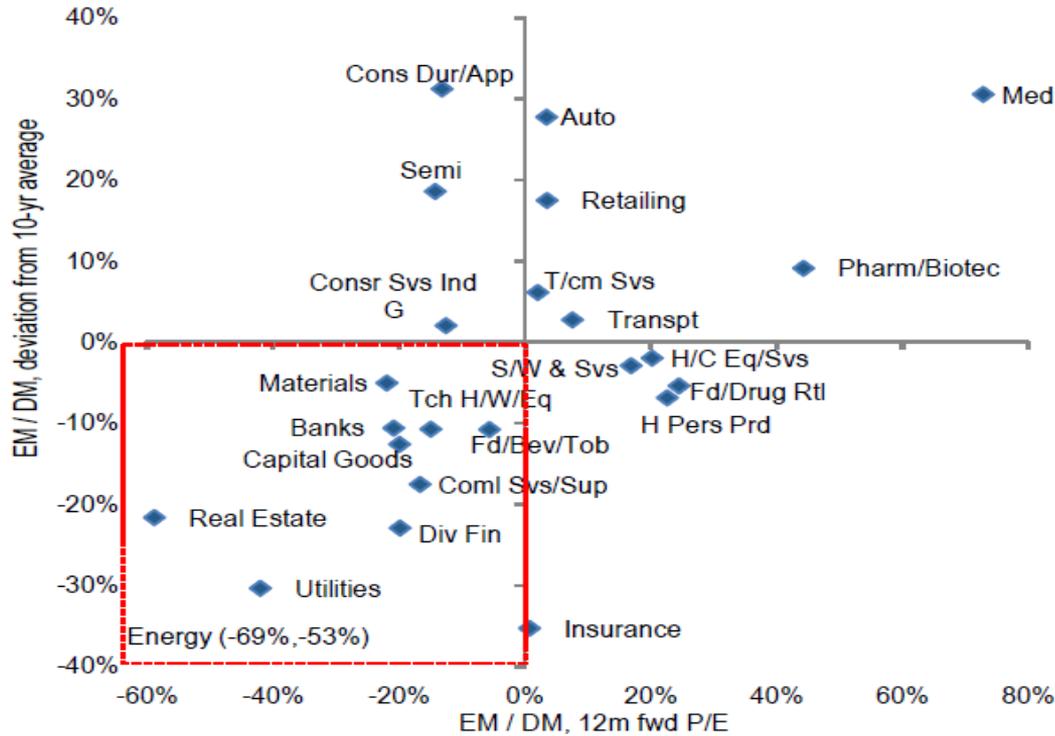
# Currency valuation vs. country fundamentals

Red denotes a net commodity importer, blue a net exporter



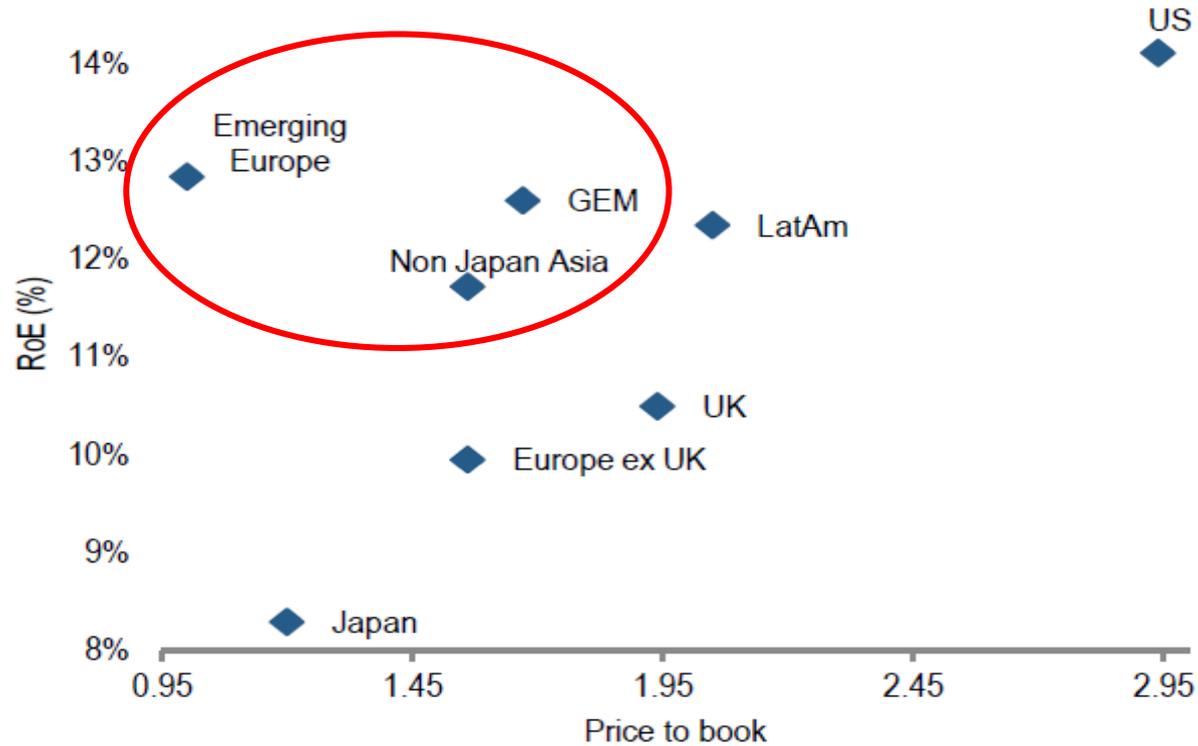
Source: Thomson Reuters Datastream, Credit Suisse research.

# Most EM sectors trade at a discount to their DM peer group



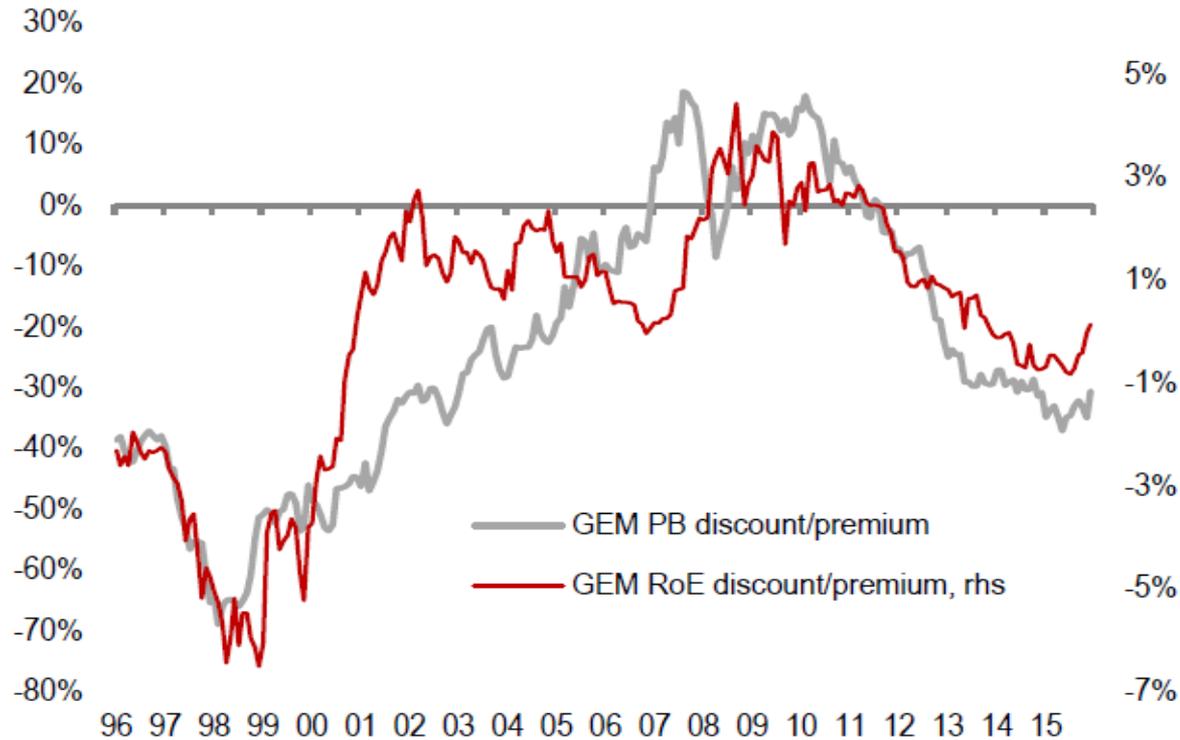
Source: Thomson Reuters Datastream, Credit Suisse research.

## RoE vs. Price/Book trade-off is attractive in EM



Source: Thomson Reuters Datastream, Credit Suisse research.

# EM RoE discount to DM is closing, suggesting P/B will follow



Source: Thomson Reuters Datastream, Credit Suisse research.

# Key earnings releases and corporate news, August 2016

Banrisul  
(2.3% weight)

## Solid 2Q16 results with better asset quality a clear positive

**Implications for Investment Case:** Overall positive from improved asset quality at this Brazilian bank. While declining, current credit costs are still above average over a cycle and a normalisation of these will provide strong support to RoE. Management has made efforts to contain costs, but there is still potential to improve efficiency.

**Summary:** 2Q16 net profit of 202m rose 15% YoY and 7% QoQ and was above sell-side consensus of BRL 188m. This equals RoE of 13.2% versus 12.6% in 1Q16 and 14% in 2Q15.

- *What we liked:* 1) Fee income rose 22% YoY and 6% QoQ, 2) Non-performing loans ratio edged down 3) Loan losses declined 27% QoQ and a modest +3% YoY, even with increased provision coverage. Solid results.
- *What we did not like:* 1) Administrative costs rose 7% QoQ and employee count rose for the first time since 4Q13. 2) Loan book declined 5% QoQ as credit demand is weak. 3) Basel regulatory capital ratio declined 150bp QoQ to 16.8% with Tier 1 ratio down 150bp to 14.1% (still comfortably above 10.5% regulatory limit) due to the deduction of intangible assets through the acquisition of payroll accounts in June.
- Management now expects RoE to be 11-15% vs 14-17% with credit growth minus 4-0% versus 0-4% amid strong decline in corporate lending. Credit costs of 3.5-4.5% are untouched but total allowance balance raised 1pp to 7.5-8.5%.
- **Unpopular:** Partly, with 7 analysts at Hold/Sell and 5 Buy (42%). Average target price of BRL 9.41 versus share price of BRL 10.9. Consensus estimates need upward adjustment based on results.
- **Under-researched:** No, not with 12 analysts covering a bank with USD 600m in free float but highly macro driven research with lack of fundamental bottom-up focus. Due to its small size, Banrisul flies below the radar of most global investors and receives less attention from analysts as it is more profitable to focus on a more liquid bank.
- **Undervalued:** Yes, but less so now. The stock has returned 96% year-to-date versus a 31% gain for Bovespa index and 46% gain for MSCI Brazil banking index. P/BV is 0.7x with P/TBV at 0.9x (deducting goodwill). We conservatively estimate an RoE of c12% for 2016 and 2017 in line with 10y Brazilian sovereign yield. Based on 2Q16 results, a 1% point decline in credit costs lifts RoE to 16%. We do not expect the bank to return to its +20% RoE seen in 2010 and 2011, but 16% RoE should be within reach in 2018. Our target price of BRL 14 (upside of 28% plus 6% yield) is based on 1.0x P/TBV two years from now, which is conservative given the potential upside in RoE.



# The 10 largest companies in SKAGEN Kon-Tiki

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Hyundai Motor is the world's 4th largest car maker, including their 39% stake in Kia Motor. Sold 5m cars in 2015 and has a c5% global market share. Focus on smaller/less expensive cars. Strong position in several countries and in emerging markets such as India and China.

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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.

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

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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.

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Hungarian pharmaceutical company established in 1901 with focus on Central and Eastern Europe. Transitioning from generic-focused manufacturer to a more specialised one through higher margin, innovative products within its women's health division (Esmya) and nervous system treatments (Vraylar). Significant upside potential from US marketing approval of Vraylar and extended usage of Esmya is not reflected in the current valuation.

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# The 10 largest companies in SKAGEN Kon-Tiki (continued)

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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.

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X5 is a leading Russian food retailer, operating through several retail formats: discount stores under the Pyaterochka brand, supermarkets under the Perekrestok brand, hypermarkets 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.

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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.

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Cosan is one of the largest Brazilian energy conglomerates with almost 80 years of history. Present within gas distribution, fuel distribution (5800 gas stations), convenience stores (950 stores at gas stations), sugar and ethanol production (24 mills with 68m ton crushing capacity), lubricants, land development and railways/logistics (25% market share of grain transportation for export).

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Largest bank in India with 17% market share (c25% including 5 associate banks). Also presence in the life insurance, asset management and investment banking sectors. 15,000 branches, 32,000 ATMs, 400 mil+ accounts and over 220,000 employees. Upside potential from banking and economic reforms in India.

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## For more information please visit:

Our latest [Market report](#)  
Information on [SKAGEN Kon-Tiki 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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