



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 – September 2016

The art of common sense



Summary – September 2016

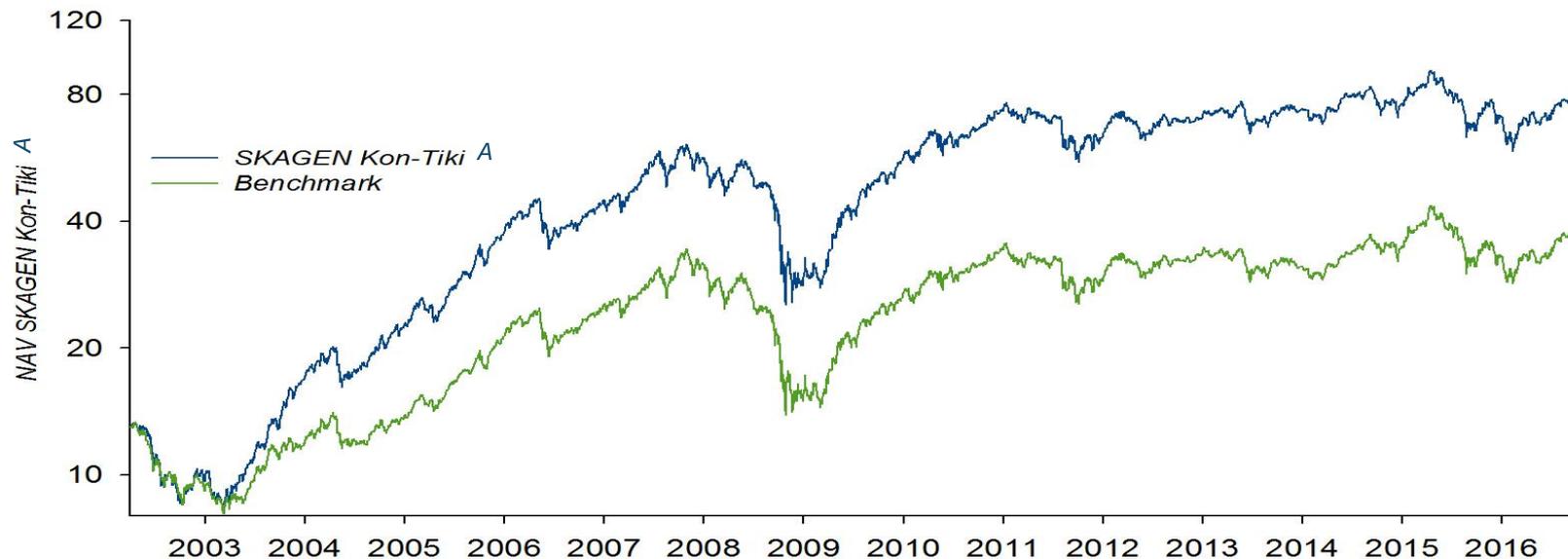
- SKAGEN Kon-Tiki* was down 0.1% in September measured in EUR, lagging the MSCI Emerging Markets Index which was up 0.5%. Year to date, the fund is up 8.3% versus a 12.4% gain for the EM index. Emerging markets continued to outperform global markets, being up 0.6% for the month.
- Our top three contributors were X5 Retail Group, Hyundai Motor and Apollo Tyres. Last month X5 reported another set of strong numbers and continued its ascent. Hyundai Motor, which has had a weak trend over the past two years, is now trading at record low levels. Attractive valuation combined with signs of operational improvement bode well for the next two years. Apollo, India's largest tyre maker, will probably deliver both sales and earnings growth over the coming years, and the share price has climbed steadily over the past few months.
- On the losing side, we find Samsung Electronics, Samsung SDI and Mahindra. Samsung Electronics had a volatile month due to the recall of their new flagship phone Galaxy Note 7 due to battery issues. Samsung SDI is the company producing these batteries which caused fires and explosions. The value of the company is now below net cash and the stake in Samsung Display, and hence we see downside protection.
- We added one new position this month. Suzano is a Brazilian pulp and paper company which has been hit hard due to lower pulp prices and foreign exchange volatility. We believe this is more than discounted in the share price and see room for improvement.
- Despite this year's solid outperformance, emerging markets still trade at a discount to developed markets, with a 2016e P/E of 13.8x and P/B of 1.5x for EM, compared with 17.4x 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 12.5x and P/B of 1.0x and we now see 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, September 2016

EUR, net of fees



	September	QTD	YTD	1 year	3 years	5 years	10 years
SKAGEN Kon-Tiki A	-0,1%	6,4%	8,3%	13,5%	2,8%	6,0%	6,9%
MSCI EM	0,5%	8,1%	12,4%	16,1%	5,8%	6,8%	5,2%
Excess return	-0,7%	-1,7%	-4,0%	-2,6%	-3,0%	-0,8%	1,7%

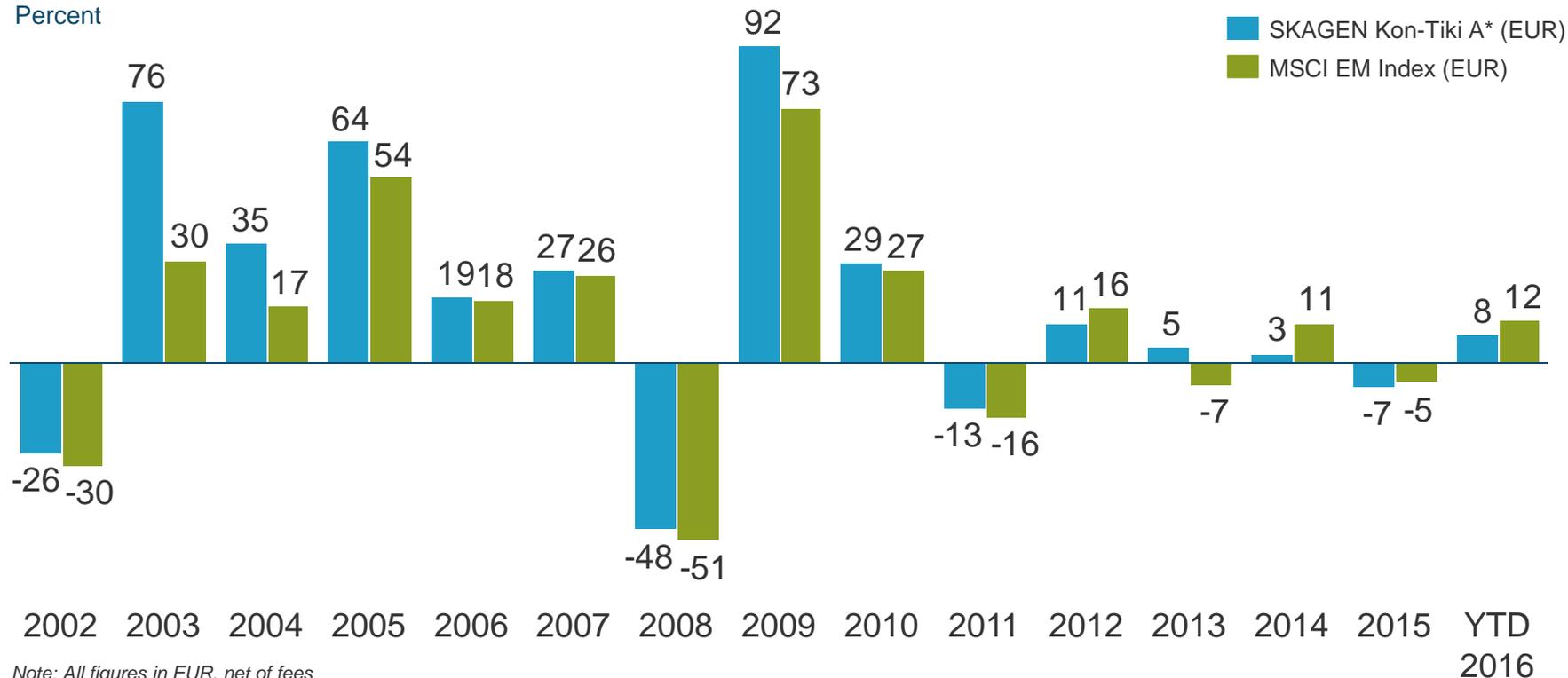
Note: All returns beyond 12 months are annualised (geometric return)

* Inception date: 5 April 2002

Annual performance since inception*

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

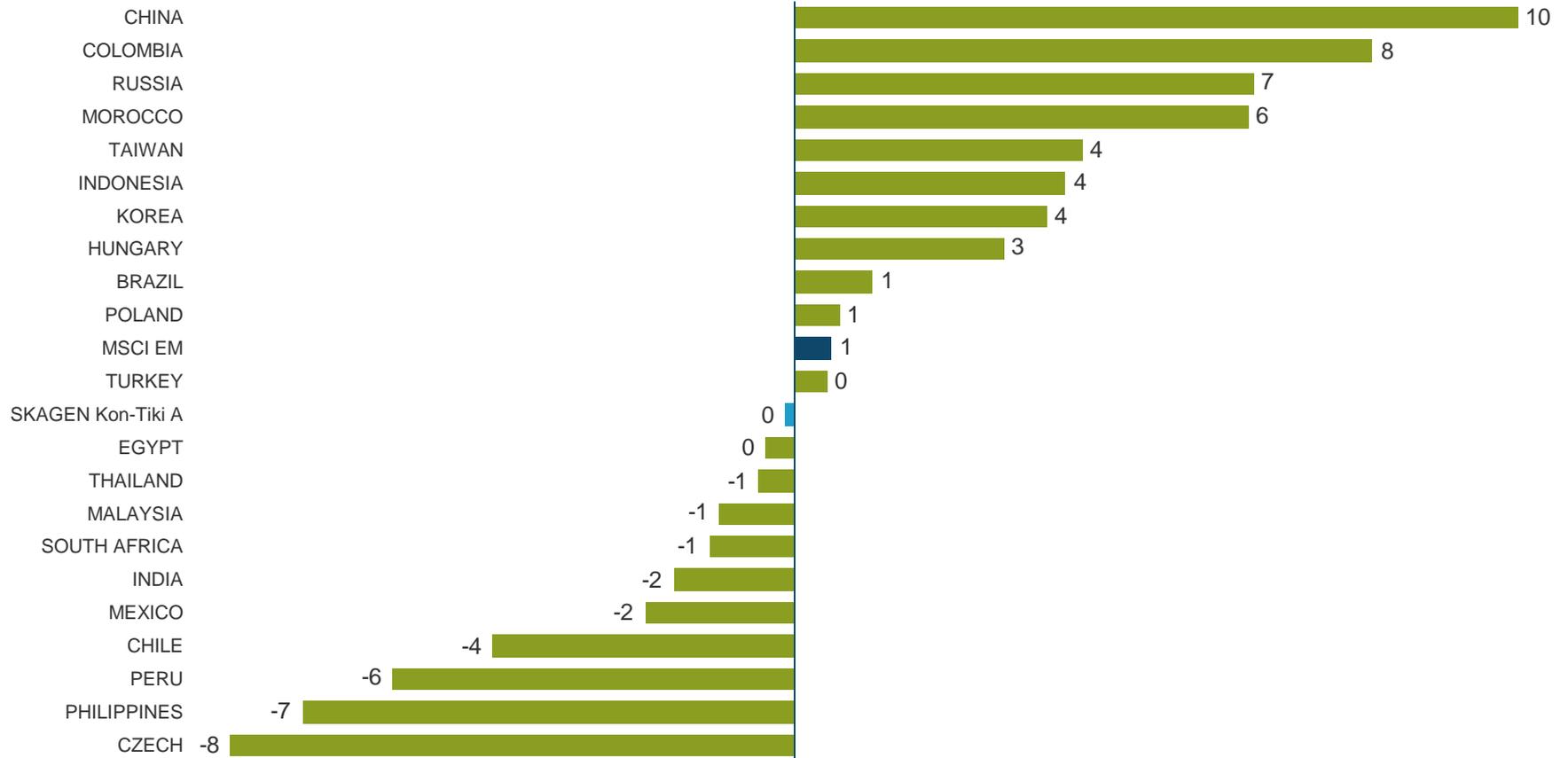
Percent



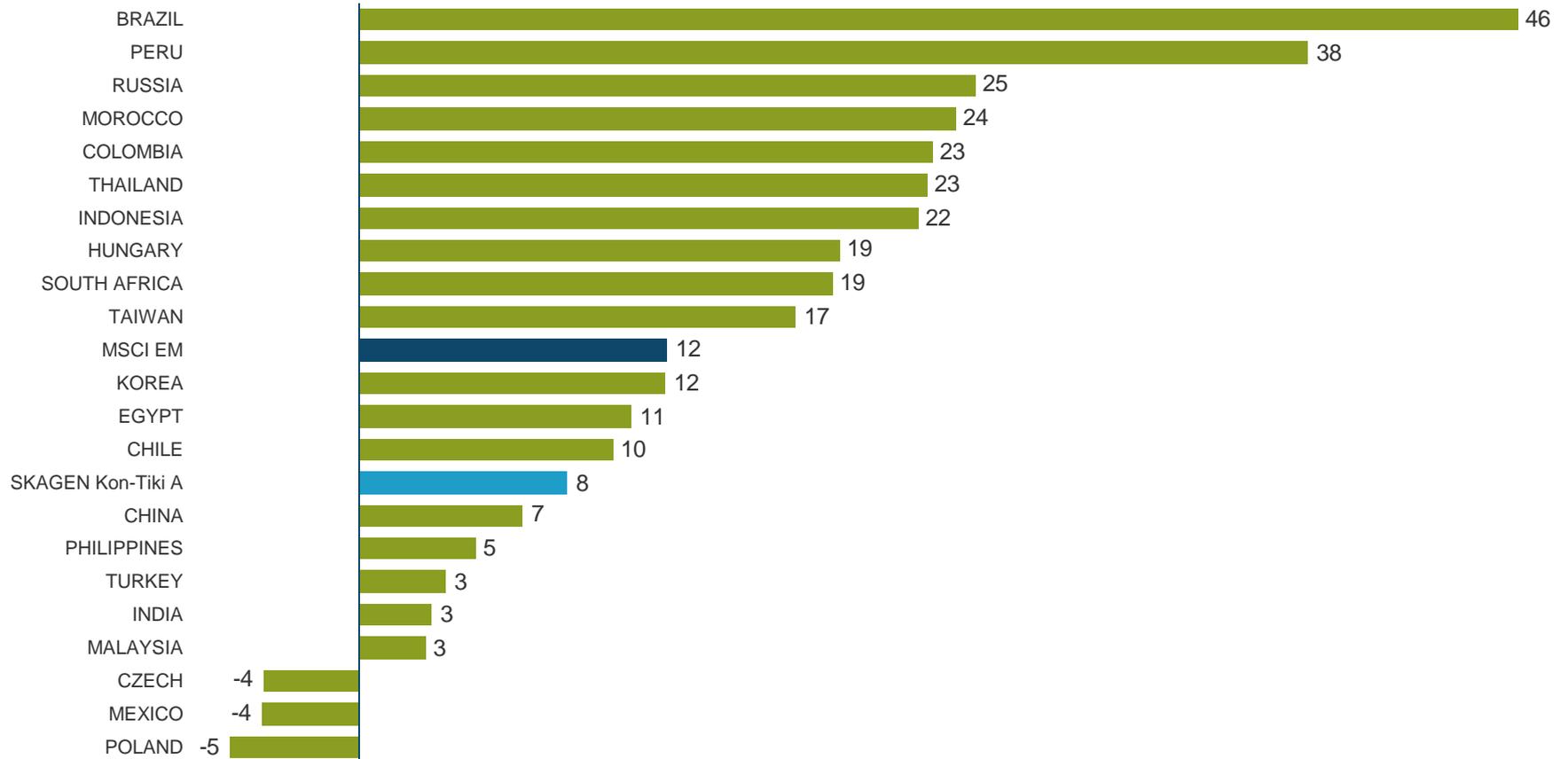
Note: All figures in EUR, net of fees

* Inception date: 5 April 2002

Emerging markets in September 2016, EUR (%)



Emerging markets YTD 2016, EUR (%)



Main contributors MTD 2016

Largest positive contributors

Company	NOK Millions
X5 Retail Group	54
Hyundai Motor	47
Apollo Tyres Ltd	47
Naspers	28
Tullow Oil	22
JSE	14
EIS Eczacibasi Ilac	13
East African Breweries	13
Golden Ocean Group	12
OCI	10

Largest negative contributors

Company	NOK Millions
Samsung Electronics	-141
Samsung SDI	-111
Mahindra & Mahindra	-100
Richter Gedeon	-72
Tech Mahindra	-71
Haci Omer Sabanci Holding	-57
LG Electronics	-54
Bharti Airtel	-53
Rumo Logistica Operadora	-52
Banrisul	-39

Value Creation MTD (NOK MM): -1110

NB: Contribution to absolute return

Main contributors QTD 2016

Largest positive contributors

Company	NOK Millions
X5 Retail Group	325
Samsung Electronics	205
Hyundai Motor	188
ABB	129
Banrisul	126
State Bank of India	124
Naspers	106
Apollo Tyres Ltd	102
SBI Holdings	99
Kiatnakin Bank	87

Largest negative contributors

Company	NOK Millions
Haci Omer Sabanci Holding	-151
Bharti Airtel	-118
Tech Mahindra	-95
LG Electronics	-89
Samsung SDI	-58
Mahindra & Mahindra	-57
Cia Cervecerias Unidas	-51
LG Chem	-50
Marfrig Global Foods	-49
JSE	-47

Value Creation QTD (NOK MM): 911

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Cosan	415
Banrisul	373
X5 Retail Group	319
Samsung Electronics	241
UPL	195
Moscow Exchange MICEX-RTS OAO	192
Naspers	176
Kiatnakin Bank	158
Cia Brasileira de Distribuicao	157
ABB	143

Largest negative contributors

Company	NOK Millions
Frontline	-403
Great Wall Motor	-181
LG Chem	-173
Tech Mahindra	-157
Lenovo Group	-150
Bharti Airtel	-148
Kinnevik	-126
Hyundai Motor	-120
LG Electronics	-110
China Shipping Development	-108

Value Creation YTD (NOK MM): 458

NB: Contribution to absolute return

Most important changes Q3 2016

Q3

Holdings increased



Suzano	(New)
Bolloré	(New)
Naspers	

Q3

Holdings reduced



Moscow Exchange	(Out)
DRB-Hicom Bhd	(Out)
Frontline Ltd	
State Bank of India	
Samsung Electronics	
UPL	
Bharti Airtel	

Holdings increased and decreased during September 2016

Key buys

- **CCU:** The company holds a dominant position in beverages in Chile and a challenger position in Argentina. In addition, the company is in the process of establishing a business in Colombia. Cost inflation in Chile and difficult times in Argentina have put pressure on the share price. In addition, the stock market is concerned about increased competition following the merger of AV InBev and SAB Miller. We believe that the company will maintain its strong position in Chile and that the situation in Argentina will improve. We have therefore used the opportunity to increase our holding at attractive levels.
- **Sistema:** The recent underperformance offers an attractive level to add to the position. Please see page 18 for a reminder of the investment case.

Key sells

- **Samsung Electronics:** We took advantage of recent strength to reduce the position slightly in order to keep the weighting down.
- **China Shipping Development:** We have become increasingly concerned about the supply-demand conditions in the oil shipping industry and have therefore reduced the position.
- **ABB:** We took advantage of the recent share price strength to reduce the position somewhat.

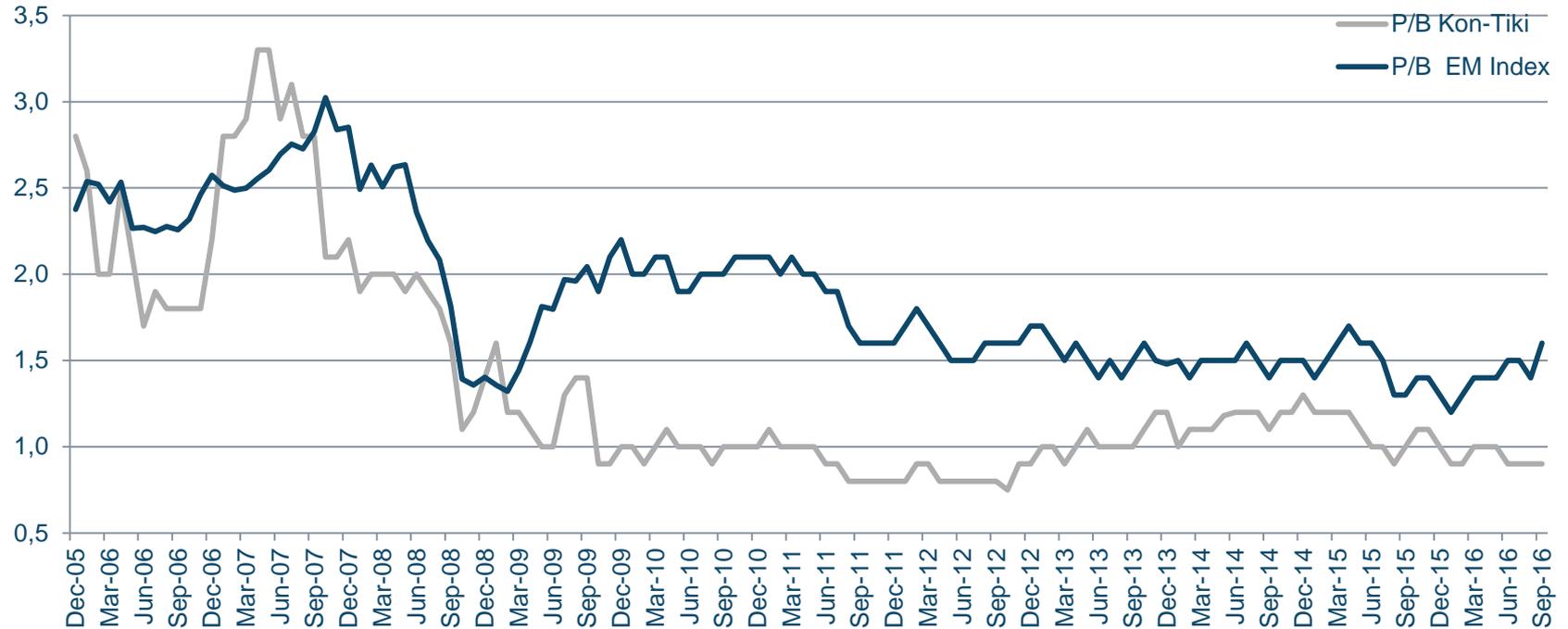
Largest holdings in SKAGEN Kon-Tiki

	Holding size, %	Price	P/E 2016e	P/E 2017e	P/BV last	Div. yield 15 (%)	Price target	Upside %
Hyundai Motor	8,0	100 500	4,2	4,0	0,4	4,0	170 000	69
Samsung Electronics	7,0	1 290 000	8,3	7,6	1,0	1,6	1 700 000	32
Mahindra & Mahindra	4,9	1 406	18,7	14,1	2,9	0,9	2 000	42
Naspers	4,5	172	38,2	26,4	7,4	0,3	216	26
Sabancı Holding	4,5	9,29	6,4	5,8	0,9	1,6	14	51
Richter Gedeon	4,2	5 600	18,7	15,3	1,6	1,3	7 500	34
X5 Retail Group	3,7	1 910	18,4	14,7	4,4	0,0	2 242	17
ABB	3,1	192	18,3	16,7	3,8	3,3	200	4
Cosan Ltd.	3,0	23,4	7,8	7,1	0,5	1,5	32	39
State Bank of India	2,7	251	15,7	11,4	0,9	1,0	300	19
SBI Holdings	2,3	1 196	8,5	8,0	0,7	3,8	2 500	109
Banrisul	2,2	10,7	6,5	6,3	0,7	7,7	14	31
Weighted top 12	49,9		9,0	8,1	0,9	1,4		41
Weighted top 35	79,8		12,5	10,0	1,0	1,8		43
Emerging market index			13,8	12,0	1,6	2,9		
Top 35 @ price target			18,0	14,3	1,6	1,4		

As at 30 September 2016

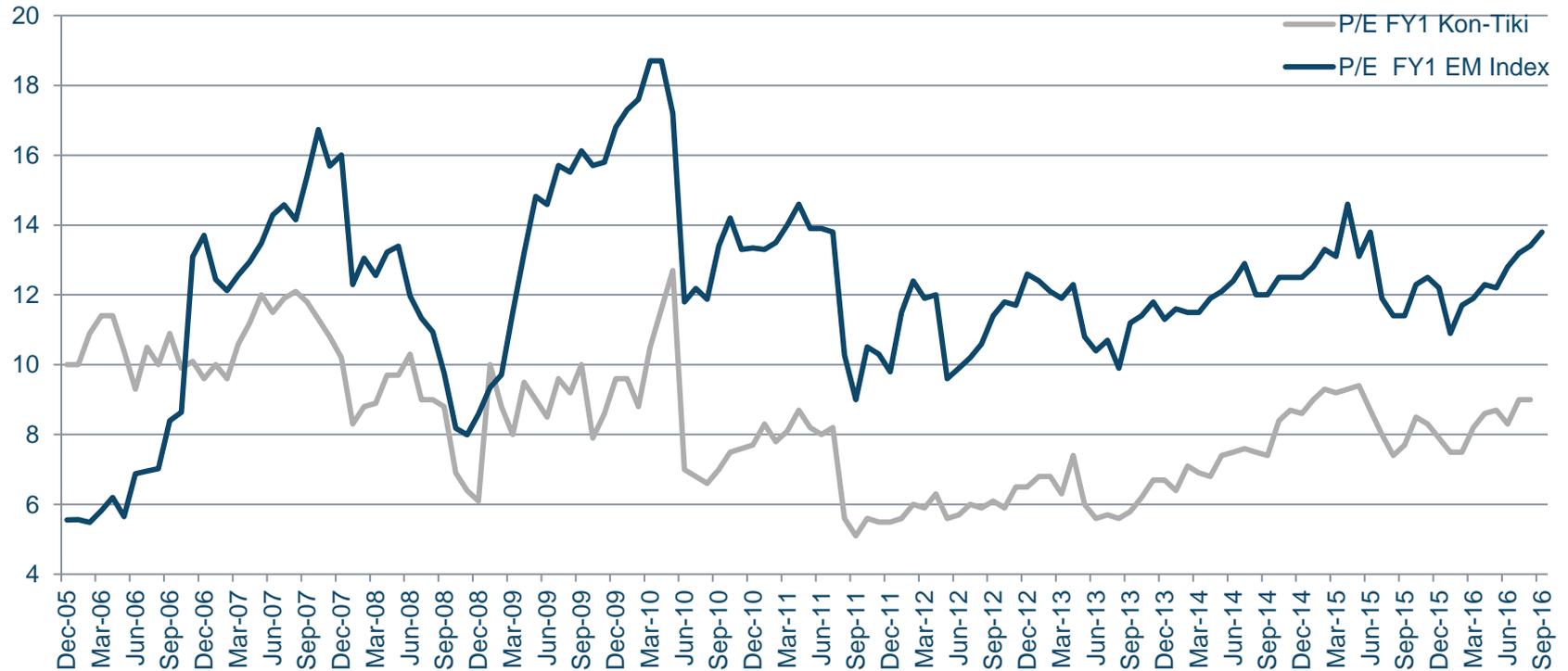
Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates. Converted share prices to reported currency for Naspers, X5 and Cosan.

P/BV for SKAGEN Kon-Tiki versus emerging markets



Top 12 positions, as of 30 September, 2016

P/E for SKAGEN Kon-Tiki versus emerging markets



Top 12 positions, as of 30 September, 2016

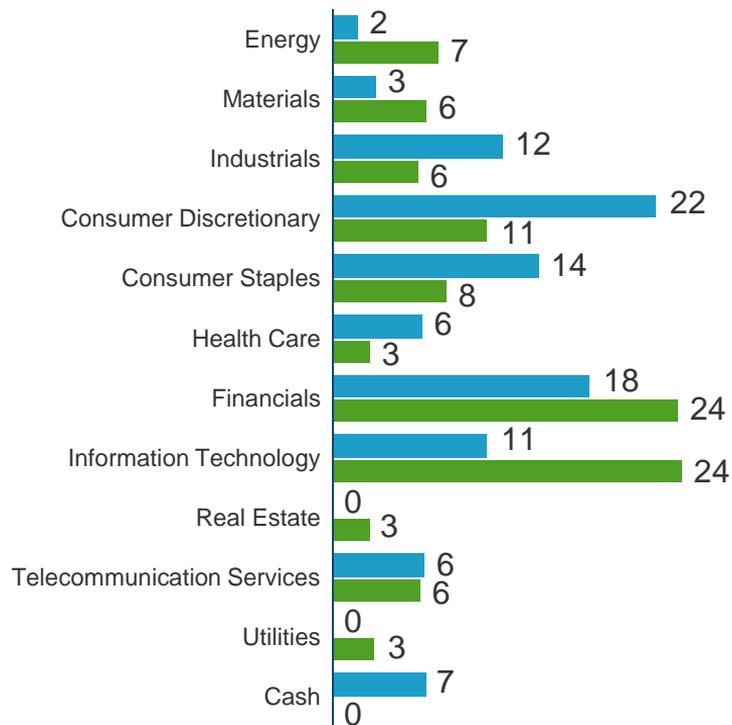
SKAGEN Kon-Tiki portfolio concentration



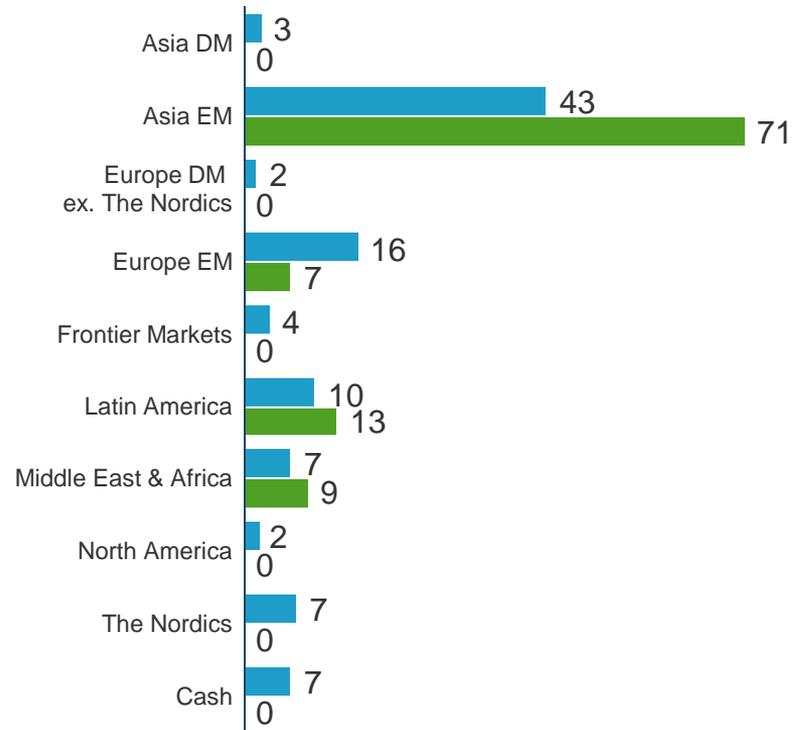
Source: SKAGEN AS as of 30 September 2016

SKAGEN Kon-Tiki sector and geographical distribution

Sector distribution



Geographical distribution



Key earnings releases and corporate news, September 2016

Sistema (0.9%
weight)

Case refresher and catalyst update

What it is: Russian investment company controlled by chairman Vladimir Evtushenkov (64%). Key asset is a 50% stake in MTS, which is the largest mobile operator in Russia. Following the “confiscation” of its oil assets in 2014, Sistema has reinvented itself within pulp & paper and agriculture, which are fragmented industries in Russia, and real estate development.

Business Case update: In April, the board implemented a dividend policy with payment of a dividend of at least RUB 0.67 per share. This is supported by a new dividend policy for MTS where its minimum RUB 6.3bn dividend obligation is backed by dividend inflow from MTS of minimum RUB 20bn. We see this as a positive governance step. Management has also recently started to improve transparency with separate capital market days for key unlisted assets.

Valuation: We calculate a NAV of RUB 35 per share. This is based on market valuation of MTS which is itself relatively cheap (EV/EBITDA 4.1x versus EM median of 5.6x). Amid lack of data, we have valued its real estate holdings at RUB 20bn which implies 790m2 of developed office space only and development assets at zero value.

Catalyst 1: They have recently carried out a perception study among investors which signals increased focus on governance and transparency. Perception of the company has been weak after the 2014 Bashneft “confiscation”.

Catalyst 2: Upside in valuation of non-listed assets where disclosure should be improved, particularly within real estate.

Catalyst 3: Sistema has adopted a share acquisition plan where management is encouraged to buy shares in the open market. Aligning interests is clearly in shareholder’s interests.

Catalyst 4: 41% discount to NAV is the top end of historic range, while key listed assets are valued below historic average.

Catalyst 5: Sistema is now de-leveraging the holding company which should contribute to supporting a NAV discount compression.

Catalyst 6: IPO of portfolio companies like children’s goods retailer Detsky Mir.

Catalyst 7: Sistema has 7 assets which account for less than 1% of GAV. Consolidation and concentration of portfolio should be welcomed by investors.

Catalyst 8: Sistema is close to finalising the merger of loss-making Indian telecom assets into Reliance Communication.

Catalyst 9: Clarification on MTS Bank, as the market is concerned about a potential capital injection.

The 10 largest companies in SKAGEN Kon-Tiki



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.



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 (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).



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.



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.

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



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.

X5 RETAIL GROUP

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.



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.



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).



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.

Bolloré (BOL FP) EUR 2.95

Mean reversion

10%

Special situation

15%

Long term value builder

75%

History and description of business

Bolloré was founded in 1822 and has its origins in fine paper production for cigarettes (and later bibles). The company struggled during the 1970s and was sold to a group of investors. Vincent Bolloré brought the family back in control when he acquired the company for two francs aged 29 in 1981, and has since turned Bolloré into a EUR 10bn turnover conglomerate. BVPS has grown 18% annually since 1995.

Today, Bolloré is a conservatively managed family company that seeks long-term capital appreciation and the safeguarding of family control. Investment strategy consists of a combination of wholly- or majority-owned operating businesses and influential stakes in publicly listed entities.

Three main segments:

1. Transport & logistics (EUR 6bn turnover, 570m EBIT)

i) Bolloré Logistics: Top-10 worldwide global freight forwarding group.

ii) Bolloré Africa Logistics: The #1 operator for port concessions in Africa (17 concessions). Also operates rail concessions on the Ivory Coast – Burkina Faso (Sitarail), Cameroon (Camrail) and Niger-Benin (Benirail). Major investment program in existing and new concessions / projects.

iv) Bolloré Energy: The leading distributor of household fuel/oil in France. Strong presence in oil logistics in France and Europe.

2. Communications: 60% stake in Havas, a leading advertising and communication consultancy

3. Electricity storage: LMP battery production and applications (car sharing, Bluezones, IER etc.).

In addition, the group has sizeable stakes in a number of listed companies, incl. 14% of Vivendi and 8% of Mediobanca.

Why opportunity exists / investment rationale

- Current opportunity to buy into this compounder at a reasonable valuation due to slowdown in commodity and oil price dependent African countries, as well as transition period at Vivendi. Current P/B 0.9x vs. 18% BVPS compounding last 20 years
- Clear #1 in logistics on the African continent makes Bolloré important beneficiary of long-term economic development
- Freight forwarding geographic expansion: #5 in Europe, but underrepresented in the Americas = growth opportunity
- VIV FP turnaround potential (Canal+ loss reduction, gaming, European centric content creation)
- FF margin more resilient than often believed: Increased through the financial crisis in 2008-09
- Battery technology and car sharing provides “free option”
- Complex holding structure means BOL FP owns ~50% of itself. Any untangling of this web would crystallise value (low probability)

ESG: Issues identified re. land acquisition for plantations in Africa and Asia, but small part of group and non-controlling.

Triggers:

1. Share gains in FF through Americas expansion
2. Corporate action, e.g. IPO of Africa logistics and simplification of corporate structure
3. Economic improvement in African oil/materials exporters
4. Value accretive M&A (justified by extraordinary track record)

Risks

1. Political and litigation risk in Africa
2. Death or incapacitation of Vincent Bolloré
3. Minority shareholder abuse

Key figures:

Market cap	EUR	8.6bn
NAV	EUR	11.9bn

P/NAV	0.72x
No. of shares	2,870m

P/E FY15	16x
P/E FY16	15x
P/BV trailing	0.9x
ROE 5yr avg.	5%
ROE FY15	6%
Dividend Yield	1.9%
Altman Z score	1.3x

Daily turnover	EUR	6m
No of analysts with sell/hold		6 33%

Owners

BOL FP ultimately owns c. 54% of itself through web of ownership loops

Suzano (SUZB5 BZ), BRL 10.0

Mean reversion

25%

Special situation

10%

Long term value builder

65%

History and description of business

Suzano is the second largest eucalyptus (hardwood) pulp producer in the world (fifth largest pulp producer), with a 90 year history. 35% domestic market share in printing & writing paper and 27% in paperboard:

- Market pulp (3.5m tons capacity) and Paper (1.3m tons capacity, split into coated, uncoated and paperboard)
- Total forest base of 1.1m ha, of which 50% is planted area
- Pulp revenue breakdown (12m to 1H16): North America 14%, South/Central America 1%, Brazil 12%, Asia 40%, Europe 33%. Per segment: Tissue 57%, Specialties 17%, Printing & Writing 17%, Packaging 8%.
- Paper revenue breakdown (12m to 1H16): Brazil 64%, South/Central America 17%, North America 10%, Europe 4%, Other 4%.

Why opportunity exists / investment rationale

Suzano is down 45% YTD on the back of pulp price weakness (-16%) and BRL strengthening (+20%). The short-term outlook looks challenging given new capacity coming into the market. However, as it is now trading at 16e 5.6x EV/EBITDA, with strong free cash flows and at the low end of the cost curve. A lot of bad news is already discounted. The investment case benefits from 1) recent paper price hikes supporting paper margins 2) cash cost reductions due to a reduction in wood costs (less 3rd party wood), cost cutting plan and de-bottlenecking (increasing capacity by 6%) and 3) high-return projects like lignin, fluff and tissue production diversifying exposure and increasing value added from pulp. Suzano has gone from investment to deleveraging focus, while now the strategy is to maximise the return on invested capital.

Catalysts:

- Pulp cash cost reductions according to plan (very few take guidance into account)
- BRL, pulp and paper price stabilisation
- Acceptance of fluff (first company to use hardwood to produce fluff (30% cheaper)
- Industry pulp capacity delays and/or capacity closures
- Industry consolidation

Risks

BRL strength, pulp capacity/pulp price, paper imports, corporate governance, expensive acquisitions, BNDES potential share overhang.

Key figures:

Market cap	BRL	11.4bn
	USD	3.8bn
Net debt	BRL	10.2bn
No. of shares		734,6m
P/E FY16e		5,5x
P/E FY17e		8,5x
P/BV trailing		1,0x
EV/EBITDA		5,6x
FY16e		
ROE FY16e		20%
Dividend Yield		3.5%
Altman Z score		1.5x
Daily turnover	USD	18m
No of analysts		15
with sell/hold		20%
Owners		
BNDES		10%,
Mondrian		10%,
Blackrock		2%

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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