



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

# SKAGEN Kon-Tiki

## Status Report – November 2016

The art of common sense



# Summary – November 2016

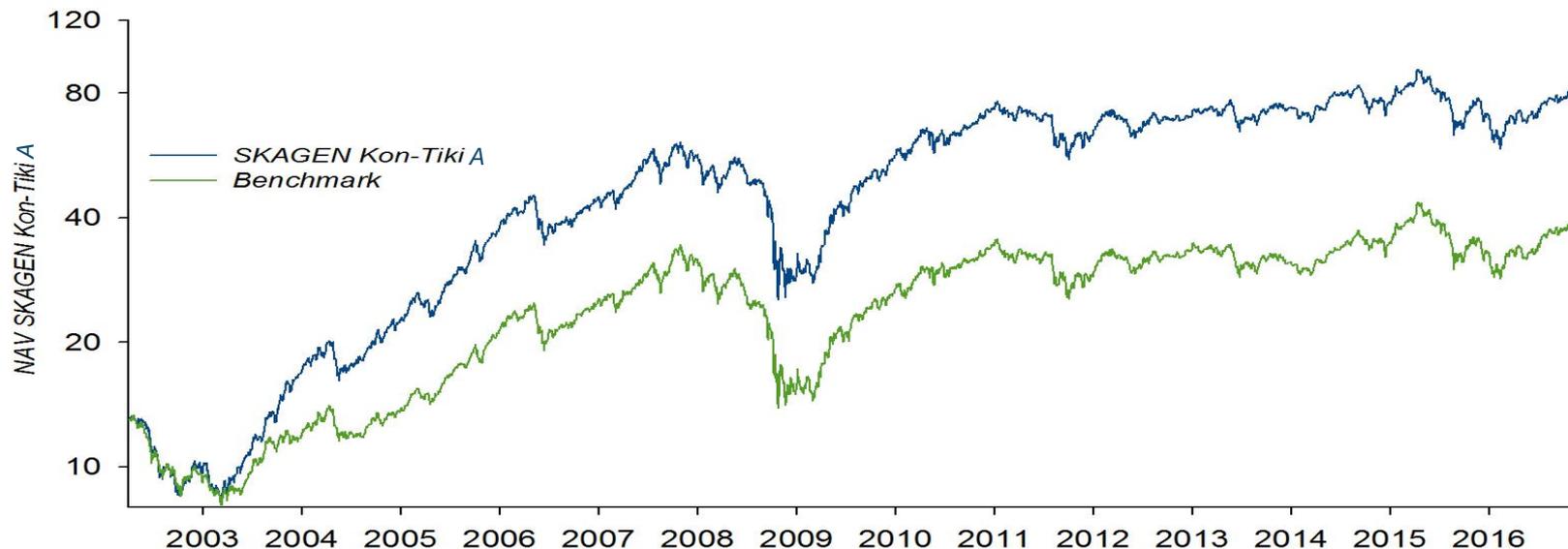
- SKAGEN Kon-Tiki\* was down 1.9% in November measured in EUR, underperforming the MSCI Emerging Markets Index which was down 1.4%. Year to date, the fund is up 9.3% versus a 13.7% gain for the EM index. Emerging markets underperformed global markets this month – the latter were up 4.2% for the month and 8.5% YTD.
- Our top three contributors during November were CNH Industrial, Samsung Electronics and SBI Holdings. CNH, which is an agricultural equipment producer, reported decent 3Q results and it now seems they might be through the trough. Following the letter received from activist investor Elliott, Samsung Electronics published their strategic update, which indicates improved focus on shareholder returns in the future. SBI Holdings, which is a Japanese internet financial group, was up after the US election on no company specific news.
- The major detractors for the month were the Brazilian sugar and ethanol conglomerate Cosan, Turkish conglomerate Sabanci and Brazilian bank Banrisul. Cosan lost the gains made the previous month after weakness on the back of Trump's election win. Sabanci was down again on increased clampdown on the opposition in Turkey. Banrisul, on the other hand, was down slightly after reporting weak 3Q results with a reversal of previous good signs on credit quality.
- This month global markets wiped out almost all of emerging markets' outperformance year to date. As a result, the emerging markets discount to developed markets increased again, with a 2016e P/E of 12.8x and P/B of 1.5x for EM, compared with 17.5x 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 10.6x and P/B of 1.0x and we now see a 42% 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, November 2016

EUR, net of fees



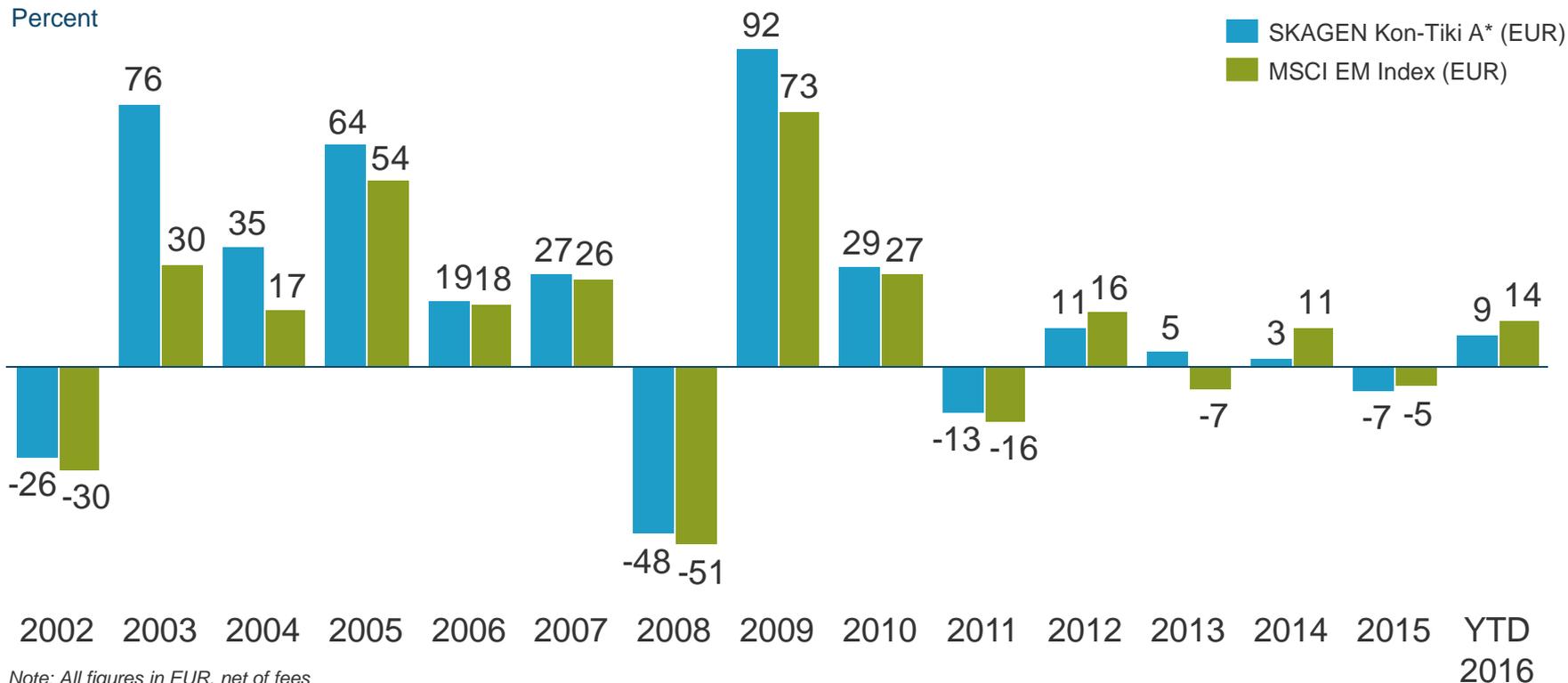
	November	QTD	YTD	1 year	3 years	5 years	10 years
SKAGEN Kon Tiki A	-1,9%	0,9%	9,3%	2,1%	1,4%	4,3%	6,2%
MSCI EM Index	-1,4%	1,2%	13,7%	7,8%	5,3%	5,9%	4,6%
Excess return	-0,5%	-0,3%	-4,4%	-5,6%	-3,9%	-1,5%	1,6%

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

\* Inception date: 5 April 2002

# Annual performance since inception\*

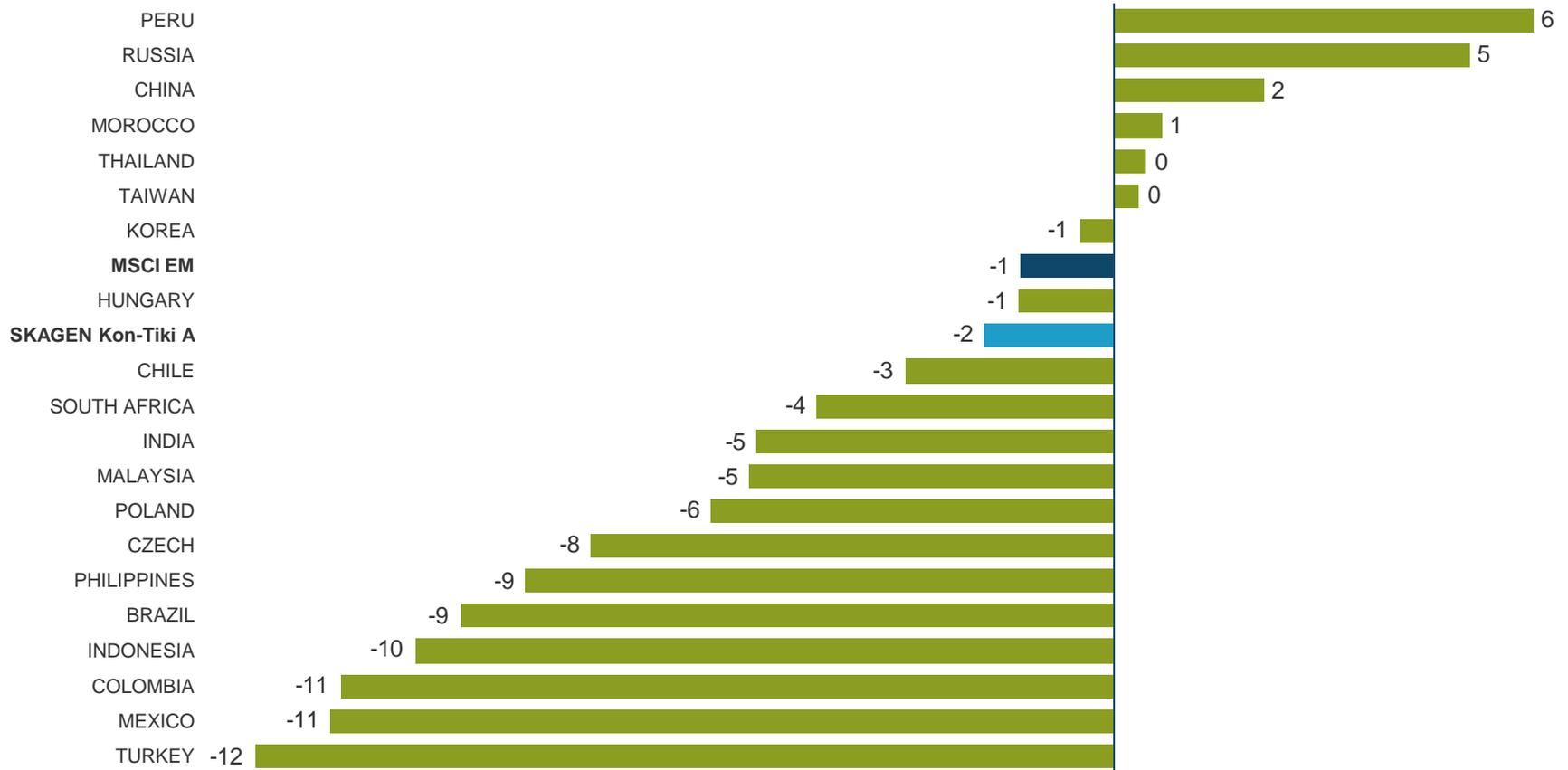
## SKAGEN Kon-Tiki A has beaten the index in 11 out of 14 years



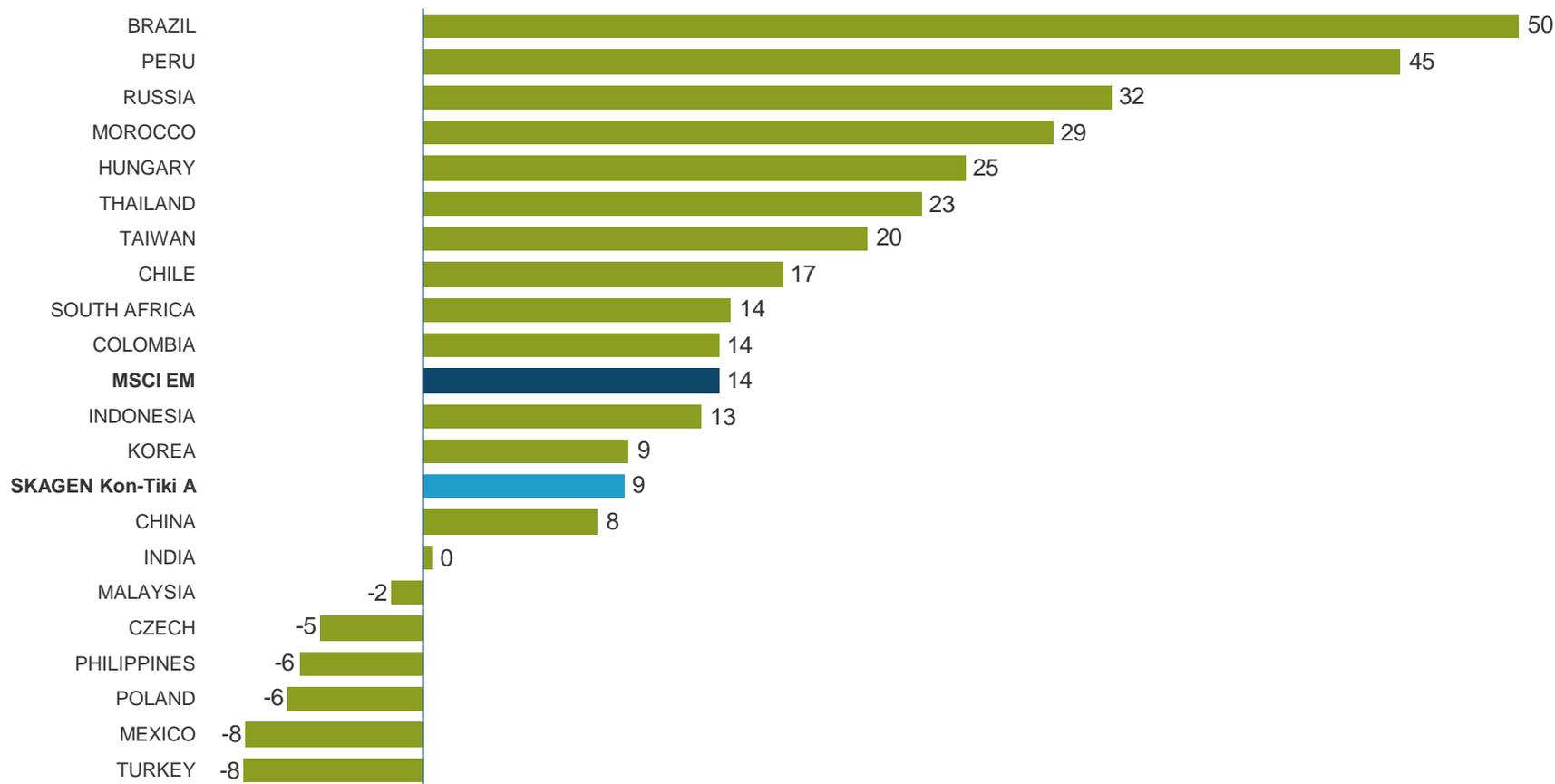
Note: All figures in EUR, net of fees

\* Inception date: 5 April 2002

# Emerging markets in November 2016, EUR (%)



# Emerging markets YTD 2016, EUR (%)



# Main contributors MTD 2016

## Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
CNH Industrial	80
Samsung Electronics	79
SBI Holdings	69
Tech Mahindra	52
X5 Retail Group	45
Sistema	40
Marfrig Global Foods	40
Tullow Oil	35
EFG-Hermes	25
Golden Ocean Group	25

## Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Cosan	-186
Sabancı	-182
Banrisul	-174
Mahindra & Mahindra	-144
Naspers	-141
CBD/GPA	-78
Yazicilar	-64
Richter Gedeon	-62
Rumo Logistica	-51
OCI	-47

**Value Creation MTD (NOK MM): -716**

*NB: Contribution to absolute return*

# Main contributors QTD 2016

## Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
CNH Industrial	139
X5 Retail Group	123
Samsung Electronics	112
SBI Holdings	100
Marfrig Global Foods	94
Tech Mahindra	88
Cosan	69
Banrisul	65
Richter Gedeon	57
State Bank of India	56

## Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Mahindra & Mahindra	-213
Sabancı	-172
Naspers	-146
Hyundai Motor	-134
OCI	-57
LG Electronics	-52
Yazicilar	-47
Apollo Tyres	-31
Eczacıbası	-29
ABB	-29

**Value Creation QTD (NOK MM): 490**

*NB: Contribution to absolute return*

# Main contributors YTD 2016

## Largest positive contributors

Company	NOK Millions
Cosan	484
X5 Retail Group	441
Banrisul	438
Samsung Electronics	353
Moscow Exchange	192
UPL	188
Kiatnakin Bank	187
CBD/GPA	184
JSE	142
CNH Industrial	118

## Largest negative contributors

Company	NOK Millions
Frontline	-382
Hyundai Motor	-254
Mahindra & Mahindra	-197
LG Chem	-173
Sabancı	-172
Great Wall Motor	-163
LG Electronics	-162
Lenovo Group	-148
Korean Reinsurance	-115
Samsung SDI	-112

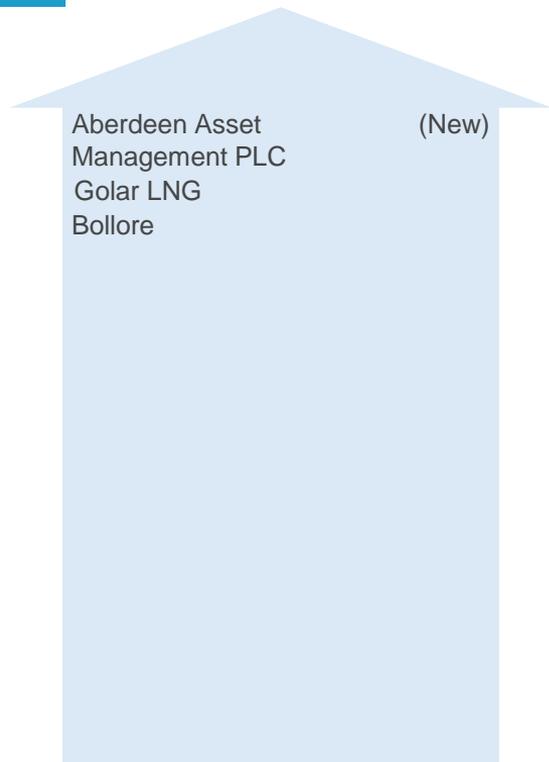
**Value Creation YTD (NOK MM): 948**

*NB: Contribution to absolute return*

# Most important changes Q4 2016

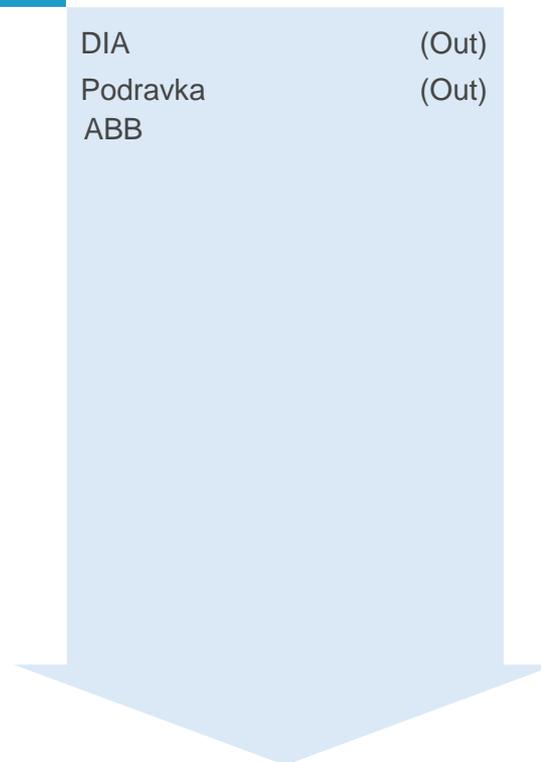
Q4

## Holdings increased



Q4

## Holdings reduced



# Holdings increased and decreased during November 2016

## Key buys

- **Aberdeen Asset Management (NEW):** We have re-entered an old position in the fund. The company has suffered from EM outflow and weak relative performance since we sold out of the position in 2Q 2013. We are now re-entering the company at a 30% lower price with a much weaker GBP. Please see factsheet on page 21.

## Key sells

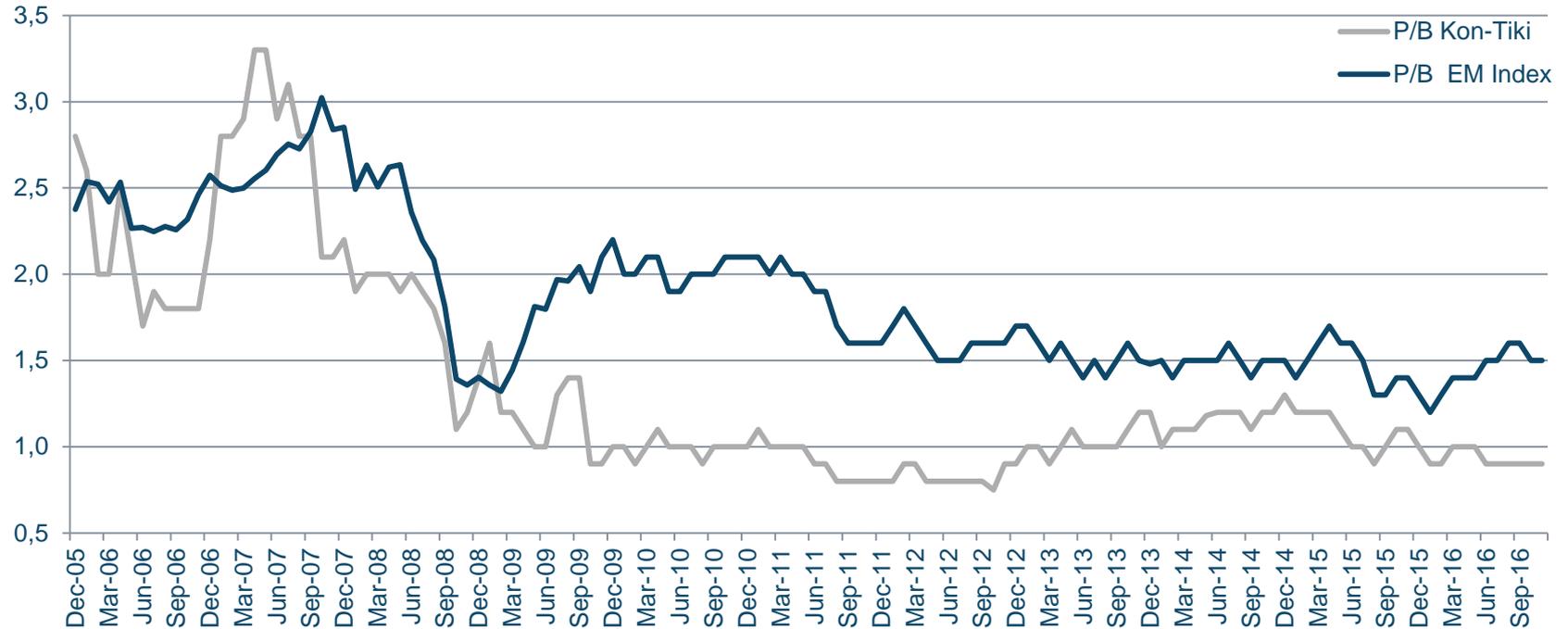
- **Podravka (OUT):** We sold our shares after receiving a bid for the whole position.

# Largest holdings in SKAGEN Kon-Tiki as of 30 November 2016

	Holding size, %	Price	P/E 2016e	P/E 2017e	P/BV last	Div. yield 15 (%)	Price target	Upside %
Hyundai Motor	7,5	95 800	4,0	3,8	0,4	4,2	170 000	77
Samsung Electronics	7,4	1 356 000	8,7	8,0	1,1	1,6	1 700 000	25
Richter Gedeon	4,4	5 878	19,6	16,1	1,7	1,2	7 500	28
Mahindra & Mahindra	4,3	1 185	15,8	11,9	2,5	1,0	2 000	69
Naspers	4,2	148	32,9	22,8	5,8	0,3	216	46
X5 Retail Group	4,1	1 986	19,1	15,3	4,3	0,0	2 242	13
Sabancı Holding	3,9	8,76	6,0	5,5	0,8	1,7	14	60
Cosan Ltd.	3,2	24,9	8,3	7,5	1,1	1,4	32	31
State Bank of India	2,9	258	16,1	11,7	0,9	1,0	300	16
SBI Holdings	2,6	1 432	10,2	9,5	0,8	3,1	2 500	75
ABB	2,5	188	17,9	16,3	3,5	3,4	200	6
Banrisul	2,4	11,5	7,0	6,8	0,7	7,1	14	22
<b>Weighted top 12</b>	<b>49,4</b>		<b>9,0</b>	<b>8,0</b>	<b>1,0</b>	<b>1,4</b>		<b>42</b>
<b>Weighted top 35</b>	<b>81,1</b>		<b>10,6</b>	<b>9,0</b>	<b>1,0</b>	<b>1,9</b>		<b>42</b>
<b>Emerging market index</b>			<b>12,8</b>	<b>11,2</b>	<b>1,5</b>	<b>2,8</b>		
<b>Top 35 @ price target</b>			<b>15,3</b>	<b>12,9</b>	<b>1,5</b>	<b>1,4</b>		

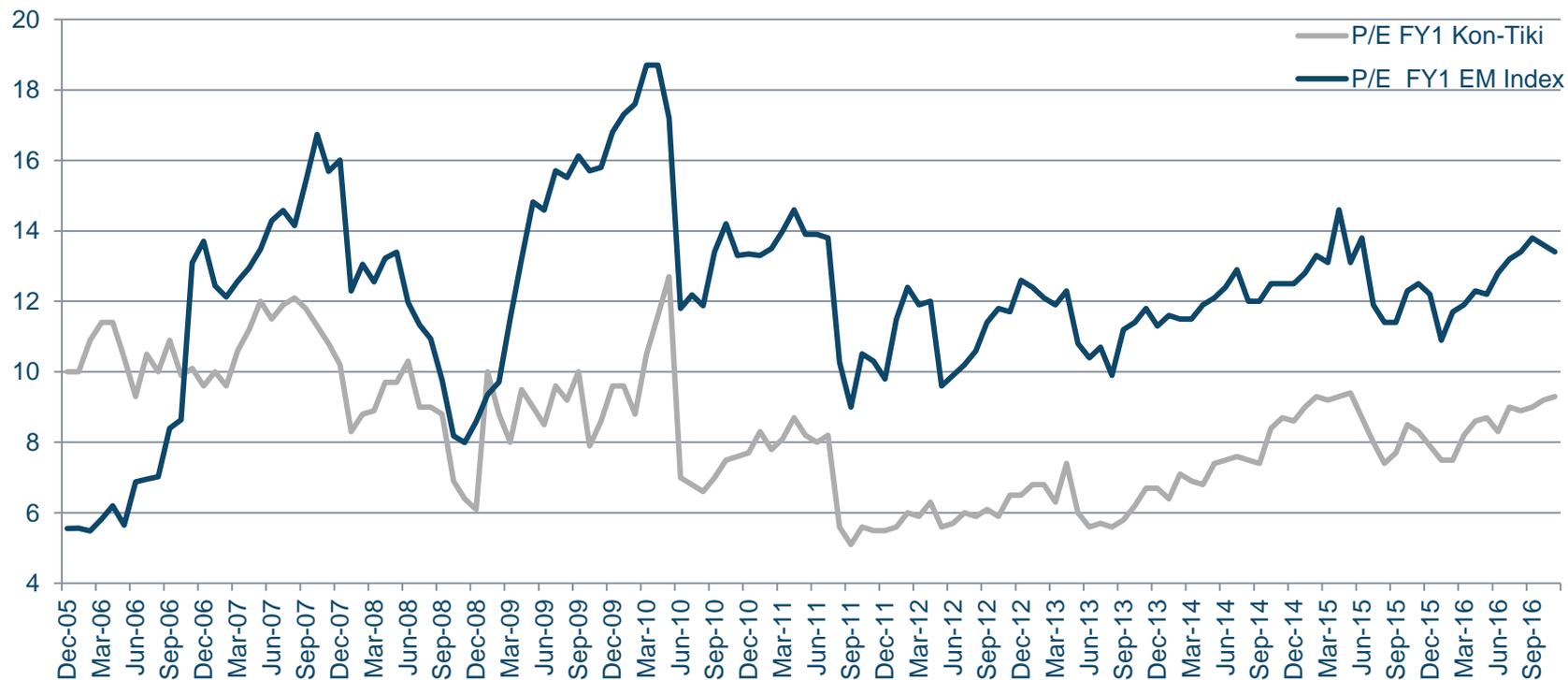
Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates. Converted share prices to reported currency for Naspers, X5 and Cosan.

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



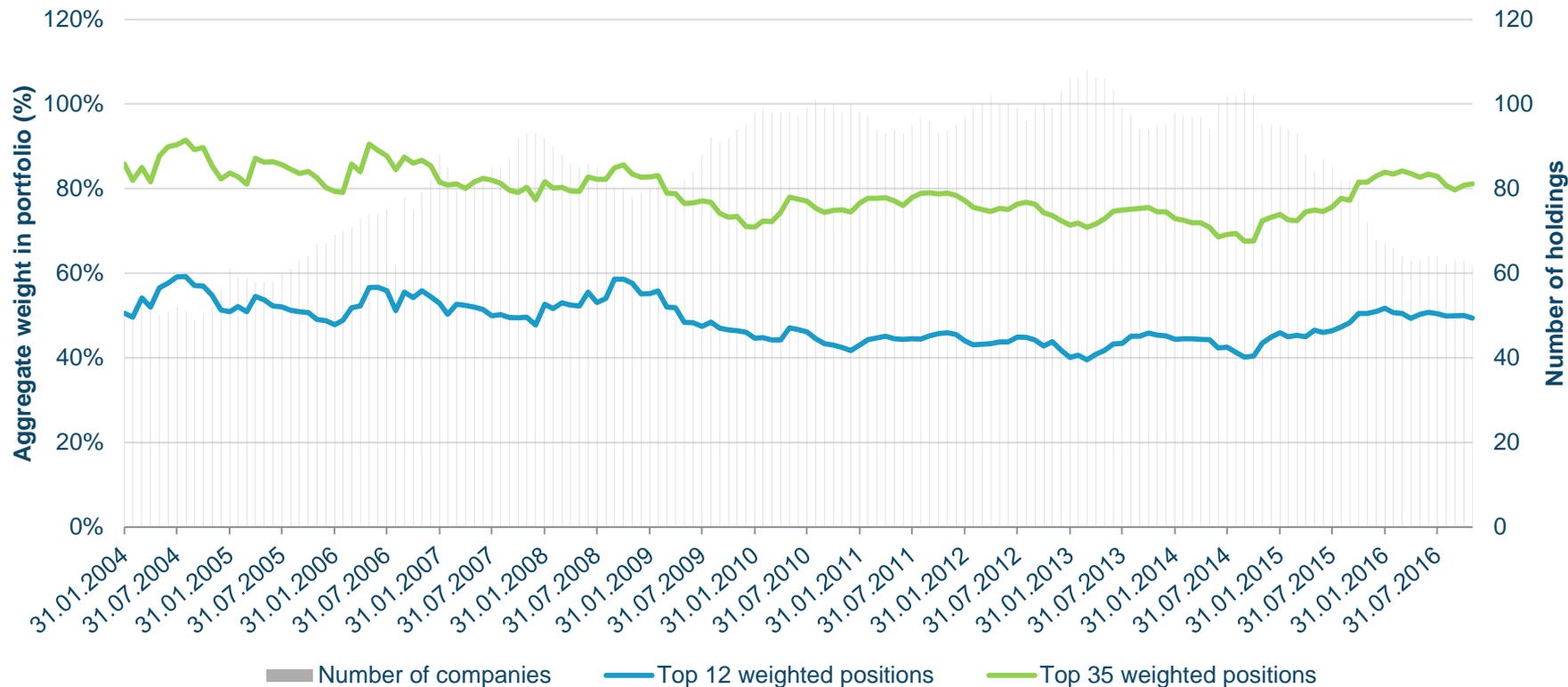
Top 12 positions, as of 30 November 2016

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



Top 12 positions, as of 30 November 2016

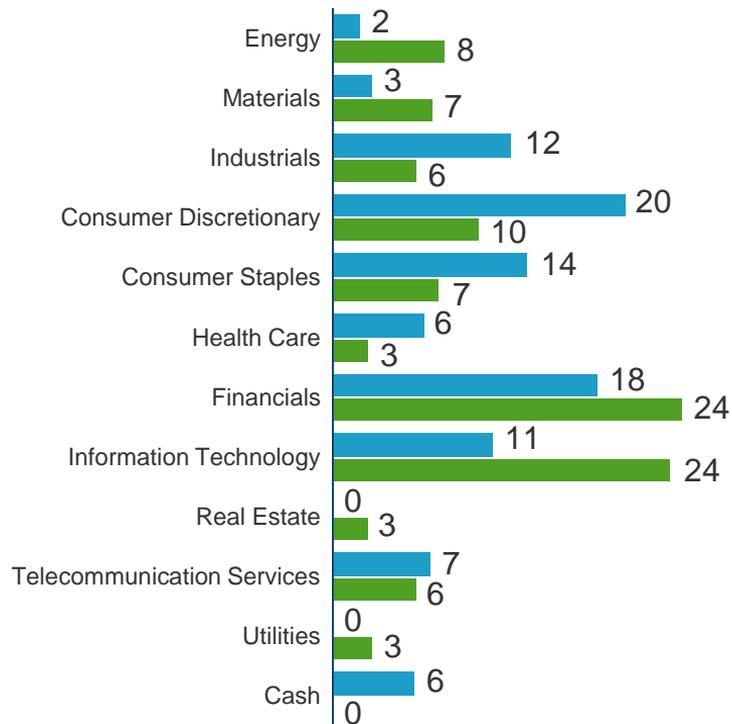
# SKAGEN Kon-Tiki portfolio concentration



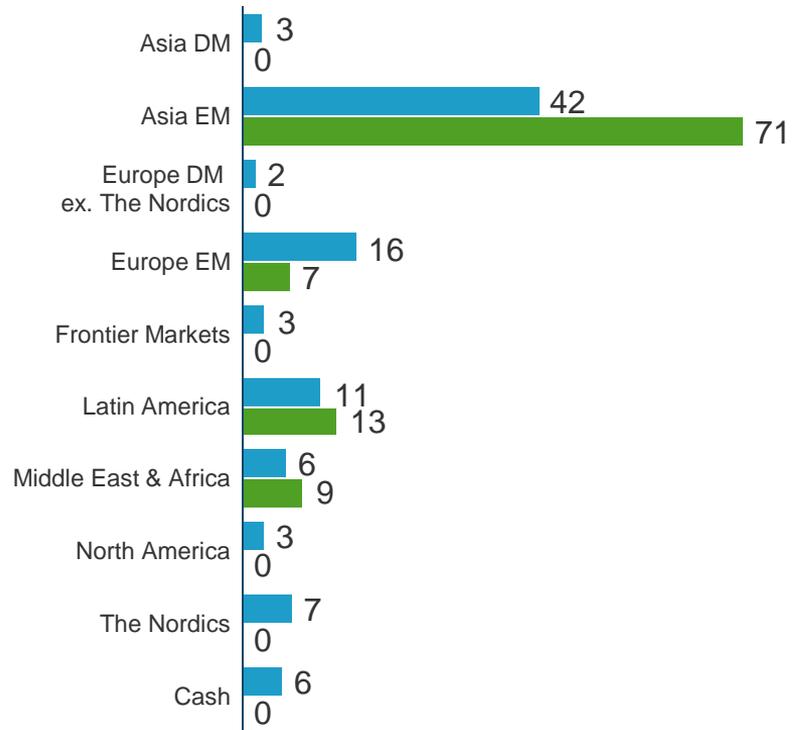
Source: SKAGEN AS as of 30 November 2016

# SKAGEN Kon-Tiki sector and geographical distribution

## Sector distribution



## Geographical distribution



# Key earnings releases and corporate news, November 2016

Mahindra &  
Mahindra  
(4.3% weight)

## 2QFY17 results: strong tractor sales drive 21% growth in recurring net profit

**Implications for the investment case:** Minor positive. Mahindra's tractor performance (24% sales growth) remains strong, as good execution meets a rural economy rebound. Automotive PV volume growth of 16% and flat margins are less impressive relative to peers, as Mahindra's lack of new model launches and limited non-diesel offerings continue to cause losses in UV market share.

### Summary:

- Sales volumes: Tractors +36% YoY; passenger vehicles +16%; commercial vehicles +9%
- Sales +16% YoY, or +14% adjusted for one-off incentives. Tractor revenue +24% YoY and automotive revenue +12% YoY
- Segment profitability: Tractors +12% YoY and tractors +37%
- Adj. net profit and EPS +21% YoY
- Management upgraded tractor industry growth for FY17 from 15% to 20% (and remember they increased from 10% to 15% only last quarter).

**Valuation:** Mahindra's listed holdings are worth INR 500 per share based on current market values. At current stock price of INR 1,240, core auto and tractor operations trade at 11x forward P/E, or 12x if we apply a 20% conglomerate discount on listed holdings.



Mahindra  
Rise.

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

Cosan

(3.2% weight)

## 3Q16 was yet another set of strong results with continued strong cash flow generation

**Implications for the investment case:** Neutral. Shows continued strong execution in all businesses, despite a challenging environment in Brazil. Cosan continues to grow supported by expansion of fuel, natural gas and lubricant distribution networks and by higher sales of own sugar and ethanol volumes at higher prices. The positive outlook for sugar and ethanol prices is likely to continue to drive the results over the next few quarters. We still see a positive investment case on the back of 1) good execution in their fuel distribution arms with an aggressive branding strategy 2) the ability to deliver strong improvements in the sugar and ethanol segment on the back of a good pricing outlook 3) a potential gas distribution tariff review in 2017.

**Summary:** 3Q16 revenues of BRL 11.8bn was up 2% YoY (+3% QoQ). Adjusted EBITDA of BRL1.2bn (reported BRL 1.4bn) was up a strong 25% QoQ/11% YoY. This was better than expected, with strong performance in all segments. Net earnings of BRL 328m were up from a loss of BRL 17m in 3Q15. Deleveraging remains on track.

- Raizen Combustives (fuel distribution, 39% of EBITDA): Revenues up 11% YoY reflecting higher prices and sales mix while volumes were down 3% (outperforming sector which was down 4%). Adj EBITDA was up 29% YoY reflecting the better sales mix with a higher share of gasoline and gains from the supply and commercialisation strategy.
- Raizen Energia (sugar, ethanol and cogeneration, 28% of EBITDA): Revenues up 9% with sugar sales (46% of sales) down 1% (lower sales volume in the quarter offset by 15% higher price) and ethanol (44% of sales) up 24% (volumes up 12% due to higher export and average price up 11%). EBITDA was up 33% but adjusted for hedge accounting/change in biological assets it was down 6% YoY.
- Comgas (gas distribution, 35% av EBITDA): EBITDA was up 18%, benefiting from better sales mix (residential and commercial sales up 19/6% while industrial down 4%) and pass through of inflation to margins.

**Valuation:** Cosan trades at 5.4x EV/EBITDA for 2016 (5.1x 17e) versus a historic average of 6.5x. Earnings momentum is good driven by Raizen Energia which is benefiting from a global sugar deficit, which should more than offset a challenging year for the fuel distribution business. We believe Cosan SA is undervalued by 20% based on a peer group based sum-of-parts. Cosan Ltd (which is the entity we own), trades at a 45% discount to market values of Cosan SA and Cosan Logistics, and a 60% discount based on fair values of its Cosa SA/Rumo stakes. Our BRL 10 price target is based on a 40% holding discount to our fair value sum-of-the-parts.



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

## 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.

## SABANCI HOLDING

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.

## cosan

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).

## भारतीय स्टेट बैंक State Bank of India

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.

## SBI Holdings

SBI Holdings is a Japanese financial services group established in 1999 (as Softbank Investment). They manage a venture capital fund which mainly invest in Internet related venture companies. They also provide brokerage, investment banking and financial services.

# Aberdeen Asset Management (ADN LN) GBP 288



## History and business description

Founded in 1983, ADN is a global independent asset manager with GBP 301bn in AuM. It has 38 offices in 25 countries with over 2,800 employees, of which 750 are investment professionals. ADN has combined organic growth with a series of bolt-on acquisitions. It is a highly regarded active manager with an excellent long-term track record running high conviction portfolios with focus on quality companies. They operate in a team-based manner, thereby reducing risk related to loss of key personnel.

- AuM by asset class: Multi-asset 28%, Equities 28%, Fixed income 23%, Quant 7%, Alternative 7%, Property 6%
- Equity AuM split by mandate: Asia/Pacific 33%, EM 32%, Global 26%, UK 5%, Europe 2%, US 2%.
- AuM by client domicile: UK 57%, Europe ex. 19%, Americas 16%, Asia-Pacific 6%, Middle-East/Africa 2%
- AuM by client type: Insurance 43%, Open-ended 25%, Pension 16%, Closed-end 6%, 3rd party 5%, Central banks 3%, other 2%
- Fees: Blended 33bp with equities 66bp, fixed income 19bp, Solutions 18bp and Property 48bp.
- Revenue by asset class: Equities 55%, Solutions 23%, Fixed income 13%, Property 9%.

## Business model, investment rationale and target price

Business is built on fixed fee generation with very limited performance fee. Management has strong focus on efficiency and recently launched a GBP 70m cost reduction program with full impact from FY18 (10% of FY15 cost base). Costs in GBP (55%) outstrip revenues (45%), which means ADN is benefiting from weakness in GBP.

ADN has been through a rough period with weak asset return and outflow from Middle Eastern funds. We now see signs that relative performance is improving.

Valuation at 1.3% AuM is rather attractive given its asset mix and is at a discount to US and UK managers on P/E. High payout ratio of >90% secures an attractive yield.

Target price of GBP 350bp based on P/E 14x on FY18. With dividend this provides a two-year return potential of 35%.

ESG: No controversies discovered.

## Catalysts

- Recovery in flows after three consecutive years of outflow. APAC and EM equity mandates likely account for <40% of revenues and 50% of profit
- Earnings surprise driven by GBP short term, strong cost control and better fee in new mandates.

## Risks

- Weak equity markets
- Underperformance causing continuous outflow
- Loss of key personnel

### Key figures:

Market cap: GBP 3.8bn  
USD 4.7bn

No. of shares: 1,317.9m

P/E (09/16e): 14.9x

P/E (09/17e): 13.6x

P/BV (a): 2.3x

RoE (09/17e): 13%

Div. Yield (09/17e): 6.8%

Daily trading volume of 4.3m shares or USD 15m.

1 Buy, 8 Hold, 11 Sell. Average target price GBP 293p.

Mitsubishi UFJ 17.2%, Lloyds Bank 9.8%, Capital Group 9.6%, Blackrock 4.8%, Norges Bank 3.9%. Management and employees own c1% and has share award program.

## 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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