

Broad-based global growth

Political noise around the US tax reform, Brexit negotiations, and Chinese regulations dominated headlines over the past three months. However, confirmation of broad-based global growth combined with final approval of the US tax reform drove markets higher in the final quarter of 2017. This also helped the absolute return in SKAGEN Global.

The tax reform had a positive effect on the US equity market, making it one of the strongest in Q4. Japan and Emerging Markets also did well, while European equities underperformed. This development had a negative impact on the relative return of SKAGEN Global due to our relative weights in the US and Europe.

On a sector basis, IT continued to do well driven by generally strong results. Materials also had a strong end to the year, driven by higher commodity prices. Typically defensive sectors like utilities, telecommunication, and healthcare struggled to keep up with the strong markets as signs of improved economic growth and higher interest rates meant that investors favoured other types of exposure.

The key positive contributors to performance in the fourth quarter were Microsoft, 3M, and Hiscox. The global software company Microsoft once again beat market expectations, showing continued strong traction for its cloud-based solutions combined with healthy cash flow generation. Following strong Q3 results, the market continued to reward the global conglomerate 3M for its ability to capitalise on the improved economic outlook in Emerging Markets. In addition to a strong result, the global P&C insurer Hiscox was also helped by the prospect of higher rates following one of the worst years in history from a natural disasters point of view for the insurance industry.



Global software company Microsoft beat market expectations, showing continued strong traction for its cloud-based solutions. Photo: Bloomberg

Key sells

To fund the new ideas we sold out of G4S, Merck, Roche, and Toyota Industries. While G4S has delivered on improving its ESG profile during our holding period, organic growth has disappointed. Merck and Roche left the portfolio as we see a changed policy stance from the FDA accelerating the approval rate of competing generic drugs. The Japanese producer of forklifts, Toyota Industries, was sold as we no longer see fundamental upside following strong share price performance.

The largest detractors were the two pharma companies Merck and Roche, followed by the global security company G4S. Merck announced a 12-18 month delay in the follow-up study on its key cancer drug. Roche was also weak following investors' increased concerns over generics/biosimilars risks to the company's long-term earnings. G4S failed to keep up with the market as its quarterly result showed continued disappointing organic growth.

Key buys

The fund identified several new undervalued companies that entered the portfolio in the quarter. These were namely the Danish transport and logistics company DSV, the global provider of information and analytics RELX Group, the German conglomerate ThyssenKrupp, and one of the leading exchange and clearing operators in the world Intercontinental Exchange.

DSV is well positioned to benefit from increased trade and e-commerce, which we think, will enable the company to sustain its impressive earnings growth. RELX Group is undergoing a massive transformation from sleepy publisher to an innovation-driven data analytics company. ThyssenKrupp is in the process of a major transformation, which we expect to result in higher margins, lower financial risk, and a lower conglomerate discount. Intercontinental Exchange should continue to drive earnings growth and margin expansion from its data business, combined with increased cash returns to shareholders.



New undervalued companies entered the portfolio in Q4. One of them was the German conglomerate ThyssenKrupp. Photo: Bloomberg

Outlook

The global economic outlook appears reasonably healthy. Reflecting this positive outlook, the global equity market index MSCI AC World has risen by 25% in USD terms over the past 12 months and now trades on 16x forward earnings. SKAGEN Global's portfolio is attractively valued and offers approximately 20% upside from a 2-year perspective. We continue to strictly adhere to SKAGEN's time-tested value-based investment philosophy in our pursuit of undervalued companies with attractive long-term potential.

The fund selects undervalued companies from around the world, including emerging markets, with attractive risk-reward for long-term investors.

The objective is to provide the best possible risk adjusted return.

The fund is suitable for those with at least a five year investment horizon.

Historical performance (net of fees)

Period	SKAGEN Global A	Benchmark index
Last Month	-0.3%	0.9%
Quarter to date	3.3%	4.1%
Year to date	7.7%	8.8%
Last year	7.7%	8.8%
Last 3 years	7.1%	9.6%
Last 5 years	8.6%	12.9%
Last 10 years	5.4%	6.6%
Since start	13.8%	4.6%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	07.08.1997
Morningstar category	Global Large-Cap Blend Equity
ISIN	NO0008004009
NAV	171.94 EUR
Fixed management fee	1.00%
Total expense ratio (2017)	1.00%
Benchmark index	MSCI ACWI NR
AUM (mill.)	2835.78 EUR
Number of holdings	45
Lead manager	Knut Gezelius

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Microsoft Corp	5.15	0.88
3M Co	4.64	0.69
Hiscox Ltd	3.41	0.60
Samsung Electronics Co Ltd	4.27	0.56
Skechers U.S.A. Inc	1.00	0.54



Largest detractors

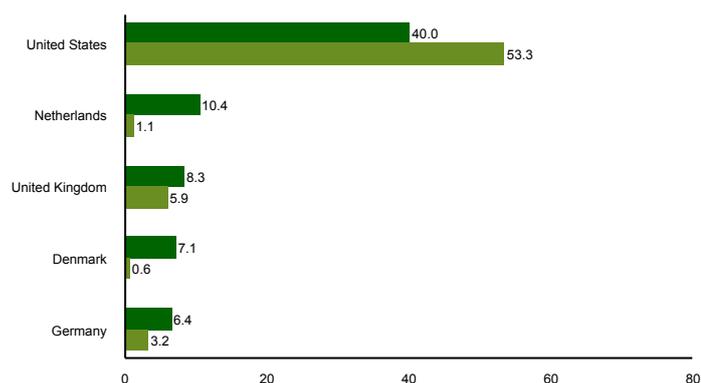
Holding	Weight (%)	Contribution (%)
Merck & Co Inc	1.22	-0.31
Roche Holding AG	0.92	-0.23
G4S PLC	0.76	-0.09
Koninklijke Philips NV	1.17	-0.07
Intercontinental Exchange Inc	0.38	-0.06

Absolute contribution based on NOK returns at fund level

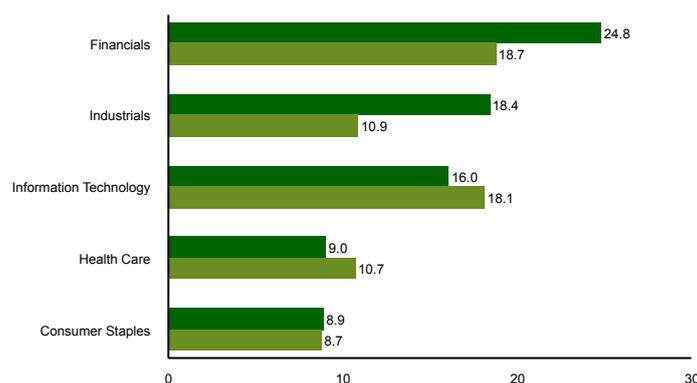
Top ten investments

Holding	Sector	Country	%
Citigroup	Financials	United States	5.5
Microsoft	Information Technology	United States	5.3
CK Hutchison Holdings	Industrials	Hong Kong	5.2
3M	Industrials	United States	4.7
Unilever CVA	Consumer Staples	Netherlands	4.0
Samsung Electronics	Information Technology	Korea, Republic Of	3.9
China Mobile	Telecommunication Services	China	3.8
Hiscox	Financials	United Kingdom	3.7
Beazley PLC	Financials	United Kingdom	3.3
NN Group	Financials	Netherlands	3.0
Combined weight of top 10 holdings			42.6

Country exposure (top five)



Sector exposure (top five)



■ SKAGEN Global A ■ MSCI ACWI NR

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