

SKAGEN's new fund hits the ground running

Our new "shadow activist" fund SKAGEN Insight was opened up to external investors during the fourth quarter after having been incubated with internal funds since 21 August 2017. Since inception, the fund has hit the ground running and outperformed its benchmark by over 1.5% as of year-end. The positive performance has been supported by solid operational developments across the portfolio and several idiosyncratic events, including two takeover offers.

The key positive contributors to performance in the fourth quarter were Buffalo Wild Wings and Ericsson.

The US-based sports bar chain Buffalo Wild Wings was one of SKAGEN Insight's largest holdings at inception. We had invested because we saw the scope for strategic improvements in the company; an expansion of their franchise-footprint that would release shareholder capital, reduce operational risks and support a re-rating. The fund initiated its position at USD 107 in August and subsequently increased the stake at below USD 100 as the stock performed poorly in the run-up to the third-quarter results. The results were a blow-out and the stock spiked at USD 120+. A couple of weeks later it emerged that the US-based private-equity firm Roark Capital (owner of Arby's) was contemplating a USD 150 per share offer for the company, which caused the shares to spike yet again. We sold some of our shares on that indication and finally exited the position as a final offer of USD 157 per share was put on the table. This offer was precisely in-line with our target price. Importantly, we never invest in companies hoping for a takeover but welcome situations where other investors recognise these companies as deeply undervalued and are willing to pay us for the value-improvement potential upfront. In this case, the takeover resulted in a strong money-weighted return and an excellent

time-weighted return for SKAGEN Insight.

The second strongest contributor to performance in the quarter was Swedish telecom equipment manufacturer Ericsson. The renowned activist fund Cevian Capital had joined the company's share register in the spring, which had caused some initial excitement among investors that this tanker ship was set to turn the right way. This was however turned on its head a couple of weeks later in connection with the company's results release for the second quarter. Myopic investors were astounded that Ericsson was not a changed company at this stage and still struggling to navigate its tough operational backdrop. The disappointment sent the stock down some -16% on the day, providing an opportunity for SKAGEN Insight to invest. We recognise that these complex structural and operational change processes take time, and were handsomely rewarded as the third-quarter results showed that fundamentals had stopped deteriorating. This time the stock was up +8% on the day, extending its gain to +18% from the bottom one month earlier. This remains a long-term story where Ericsson will need to make a lot of tough decisions to be successful. We have invested because there is now a sense of urgency among owners that extends into the boardroom. In addition, the reinvigorated leadership has the mandate and competence to redesign Ericsson.

On the negative side, the two weakest performers in the fourth quarter were Diebold Nixdorf and dorma+kaba. These movements were not driven by material company-specific events, however; the ATM-giant Diebold came under pressure in the wake of a profit warning by one of its peers and dorma+kaba paid back some of its previous outperformance.



The second strongest contributor in the quarter was Swedish telecom equipment manufacturer Ericsson. Photo: Bloomberg



US-based sports bar chain Buffalo Wild Wings was one of SKAGEN Insight's largest holdings at inception. Photo: Bloomberg

Key transactions

SKAGEN Insight exited two positions in the quarter, Buffalo Wild Wings (as described above) and Nomad Foods. The latter holding was exited during September as the activist principal (Pershing Square) sold its position, in-line with SKAGEN Insight's strategy to be invested in the most attractive live activist campaigns globally. Already at inception the position in Nomad Foods was viewed as being in the later stages of its investment cycle, so the activist move was not unexpected. As anticipated, the activist sold its position through an accelerated book-build process that was priced at a discount to the prevailing market price. We sold our shares in the open market on the day following this liquidity event, and realised a premium of 6.5% versus the published price of Pershing's offering. This validates our expectation to catch up with activists at the of our investment period.

Outlook

Global equity markets continued to rise through the fourth quarter and closed the year at or close to peak levels. SKAGEN Insight's portfolio on the other hand is not close to its peak. Our holdings are on average c. 20% below their respective three-year high – which is part of the reason why they have become subject to activist campaigns. Moreover, the portfolio trades at a deep discount on normalised earnings versus the broader market: P/E (t+3) of 11.4x versus 15.3x. This is a good recipe for longer-term excess returns, especially as we expect the globalisation of shareholder activism to continue unabated in 2018 and even accelerate if economic momentum slows.

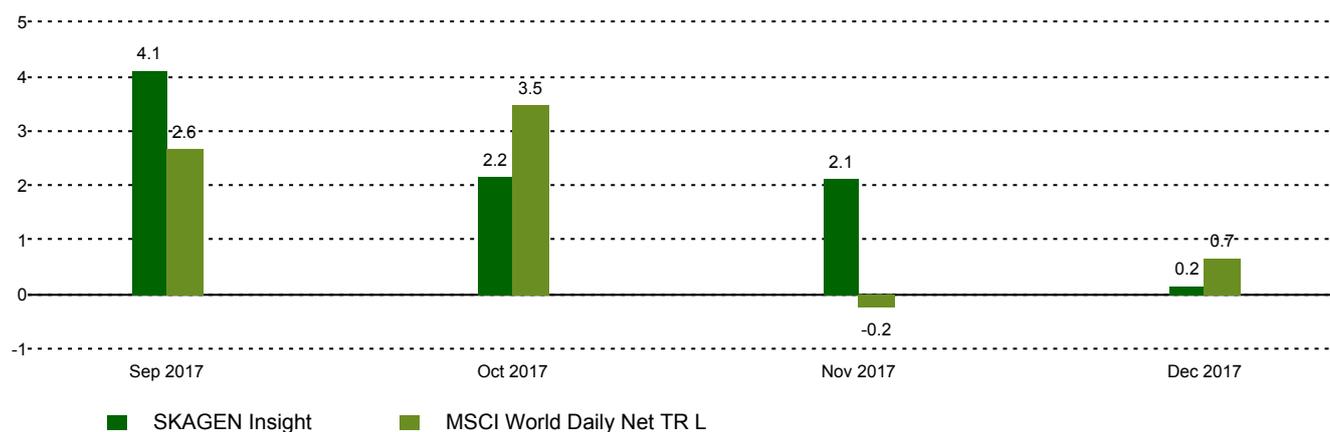
Historical performance (net of fees)

Period	SKAGEN Insight	Benchmark index
Last Month	0.2%	0.7%
Last 2 months	2.3%	0.4%
Quarter to date	4.5%	3.9%
Since start	9.6%	7.8%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	21.08.2017
Morningstar category	Global Large-Cap Blend Equity
ISIN	NO0010801558
NAV	11.77 EUR
Fixed management fee	1.5%
Total expense ratio (2017)	n/a
Benchmark index	MSCI World Daily Net TR L
AUM (mill.)	15.28 EUR
Number of holdings	36
Lead manager	Tomas Johansson

Monthly performance



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Buffalo Wild Wings Inc	2.51	2.03
Ericsson	4.20	0.74
Dai-ichi Life Holdings Inc	4.18	0.72
Depomed Inc	1.10	0.53
Sysco Corp	3.01	0.50



Largest detractors

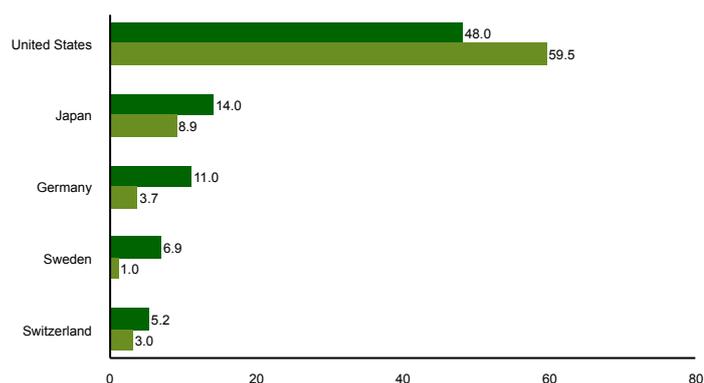
Holding	Weight (%)	Contribution (%)
Diebold Nixdorf Inc	4.25	-1.28
dormakaba Holding AG	2.10	-0.11
General Electric Co	1.11	-0.11
Maxell Holdings Ltd	1.89	-0.04
E.ON SE	2.01	-0.01

Absolute contribution based on NOK returns at fund level

Top ten investments

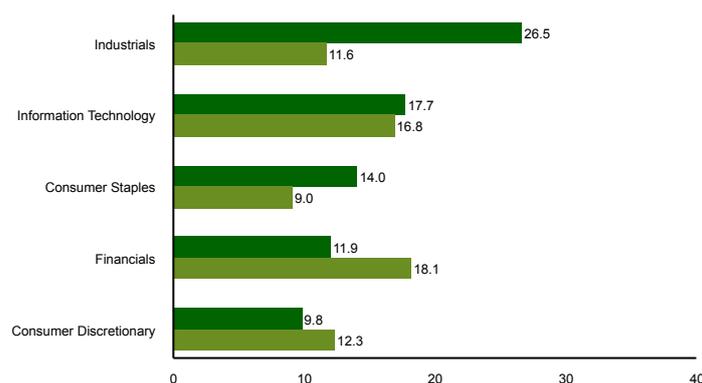
Holding	Sector	Country	%
thyssenkrupp	Materials	Germany	5.8
Seven & i Holdings	Consumer Staples	Japan	5.2
Mondelez International	Consumer Staples	United States	5.1
AIG	Financials	United States	4.7
Dai-ichi Life Holdings	Financials	Japan	4.2
Ericsson	Information Technology	Sweden	4.2
Rexel	Industrials	France	4.2
Diebold Nixdorf	Information Technology	United States	4.1
Perrigo Company	Health Care	United States	4.1
NH Hotel Group	Consumer Discretionary	Spain	3.7
Combined weight of top 10 holdings			45.2

Country exposure (top five)



■ SKAGEN Insight ■ MSCI World Daily Net TR L

Sector exposure (top five)



■ SKAGEN Insight ■ MSCI World Daily Net TR L

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