
From the moors north of Skagen, 1885. By P.S. Krøyer, one of the Skagen Painters. This image belongs to the Skagens Museum.

SKAGEN Global

Status Report September 2014

The art of common sense

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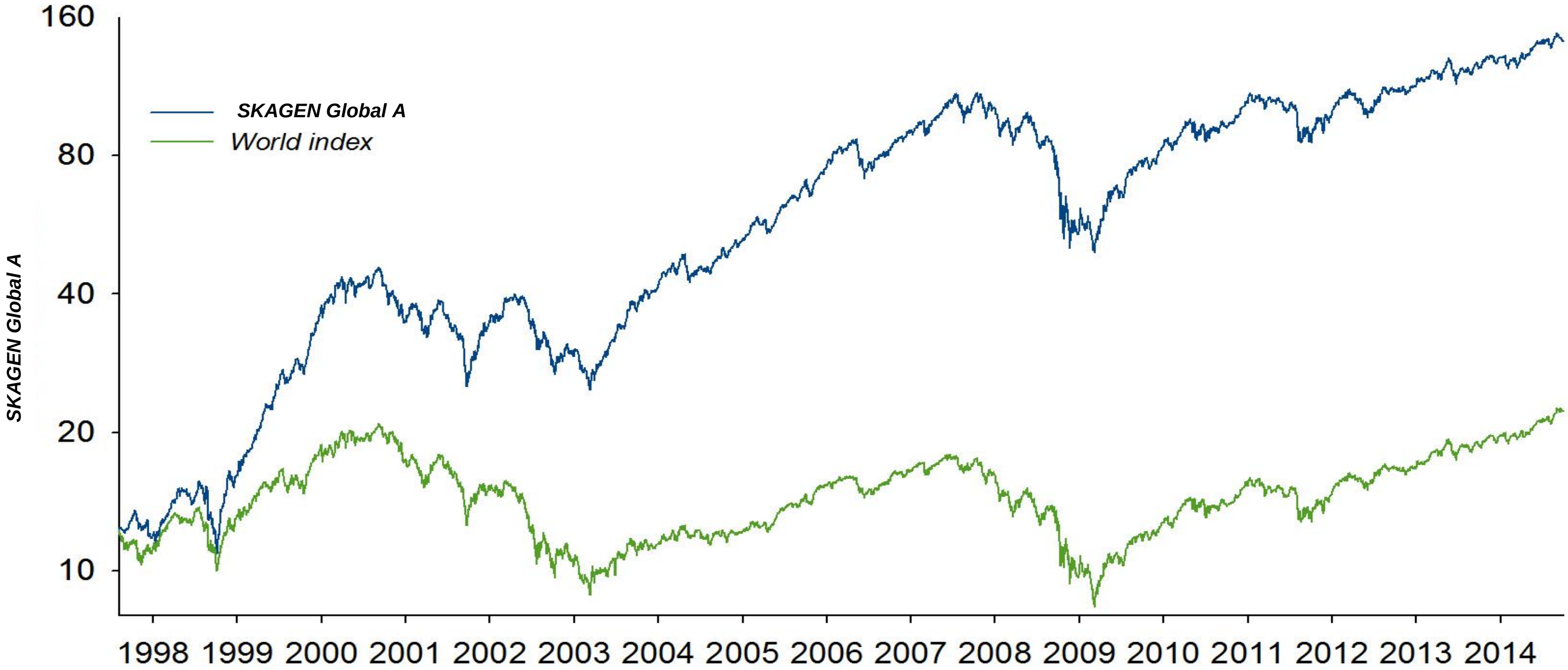
Summary – September 2014

- SKAGEN Global* underperformed its benchmark index in September. The unit price lost 1.9% measured in EUR while the MSCI All Country World Index increased 1.4%. Year-to-date SKAGEN Global is up 8.3%, which is 5.1 percentage points behind the index.
- We added to our positions in Philips, Gap, and Volvo in September. The Brazilian iron ore company, Vale, was completely exited. We also reduced our positions in Hannover Re, Bunge, Tyco, Weatherford and RSA Insurance.
- The net cash position in SKAGEN Global increased from 4.6% to 6.3% in September and the aggregate weight of the top 10 positions increased from 30.9% to 31.5% of the fund. SKAGEN Global currently consists of 102 companies.
- Citigroup (6.3% weight) was the best contributor to absolute performance in September while Samsung Electronics (6.7% weight) was the biggest detractor.
- The SKAGEN Global portfolio remains attractively valued both on an absolute and relative basis. The fund's top 35 holdings trade at a weighted Price/Earnings ('14e) of 10.1 and a Price/Book of 1.0.
- Valuations of equities remain attractive given the low interest rate climate we are currently experiencing. However, some industries and geographical areas are now seeing valuations above historical averages. Thus, valuations have become more vulnerable to higher interest rates or setbacks in economic growth. Dividend yields on equities remain high relative to bond yields.
- Leading economic indicators have recently pointed towards increased activity both in developed and emerging economies. We believe there is a good chance of global GDP growth in 2014 exceeding that of 2013 despite the negative effect from the cold winter in the US.
- Strong corporate balance sheets combined with more macroeconomic visibility should be supportive of increased M&A activity and more cash returned to shareholders (via dividends and share buybacks).

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

September 2014 - Results for SKAGEN Global A

EUR, net of fees



	September	Q3	YTD	1 Year	3 years	5 years	10 Years	Since inception*
SKAGEN Global A	-1,9%	1,4%	8,3%	14,7%	17,4%	12,7%	11,4%	15,3%
MSCI AC World Index*	1,4%	6,2%	13,5%	19,5%	19,0%	13,3%	6,5%	3,6%
Excess return	-3,3%	-4,7%	-5,1%	-4,8%	-1,6%	-0,5%	4,9%	11,8%

Note: All returns beyond 12 months are annualised (geometric return)
** Inception date: 7 August 1997*
*** Benchmark index was MSCI World in NOK from 7 August 1997 to 31 December 2009 and MSCI All Country World Index from 1 January 2010 onwards*

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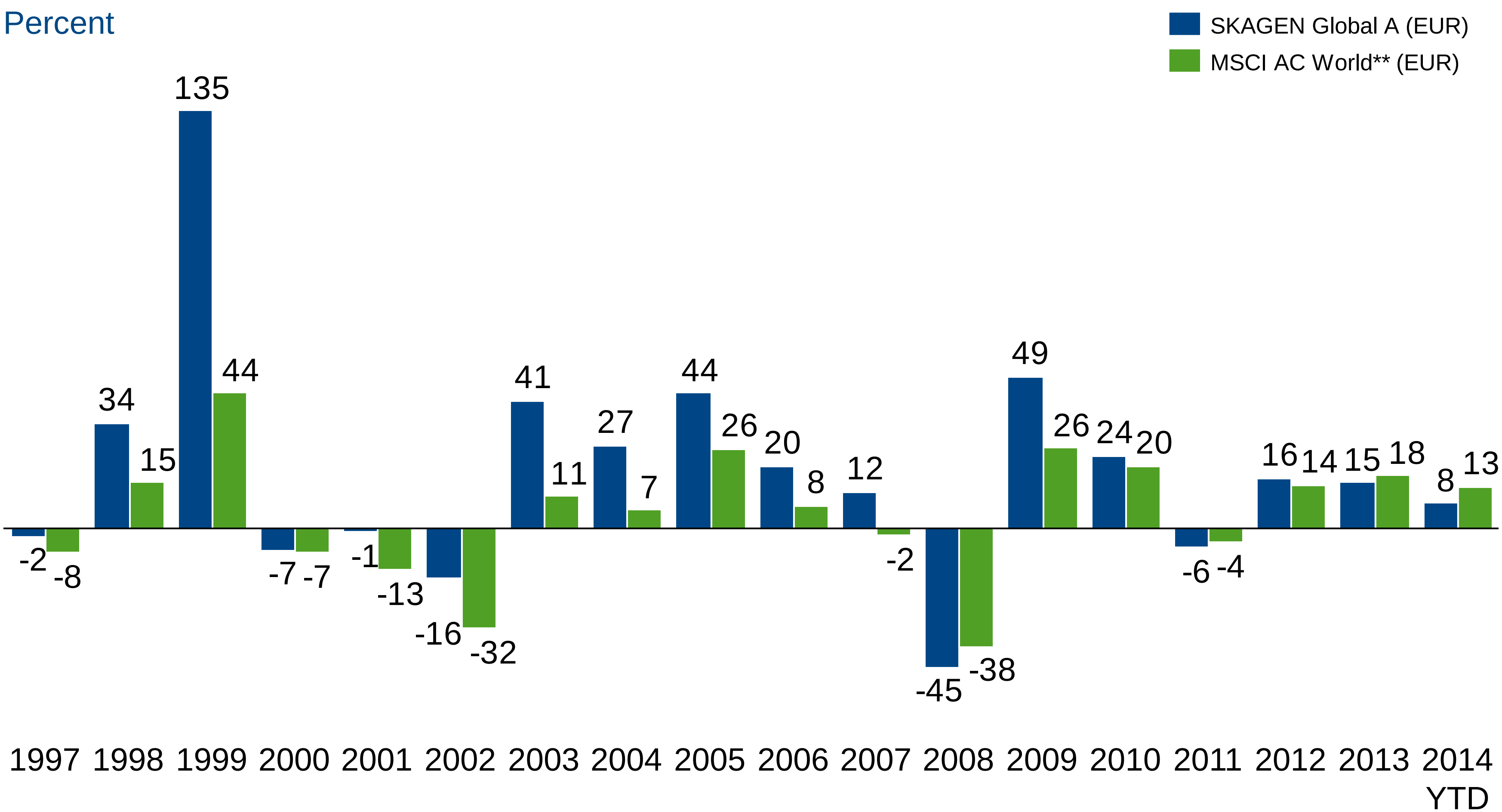
Annual performance since inception (%)*

SKAGEN Global A has beaten the benchmark 14 out of 17 years



Note: All figures in EUR, net of fees

** Inception date: 7 August 1997*

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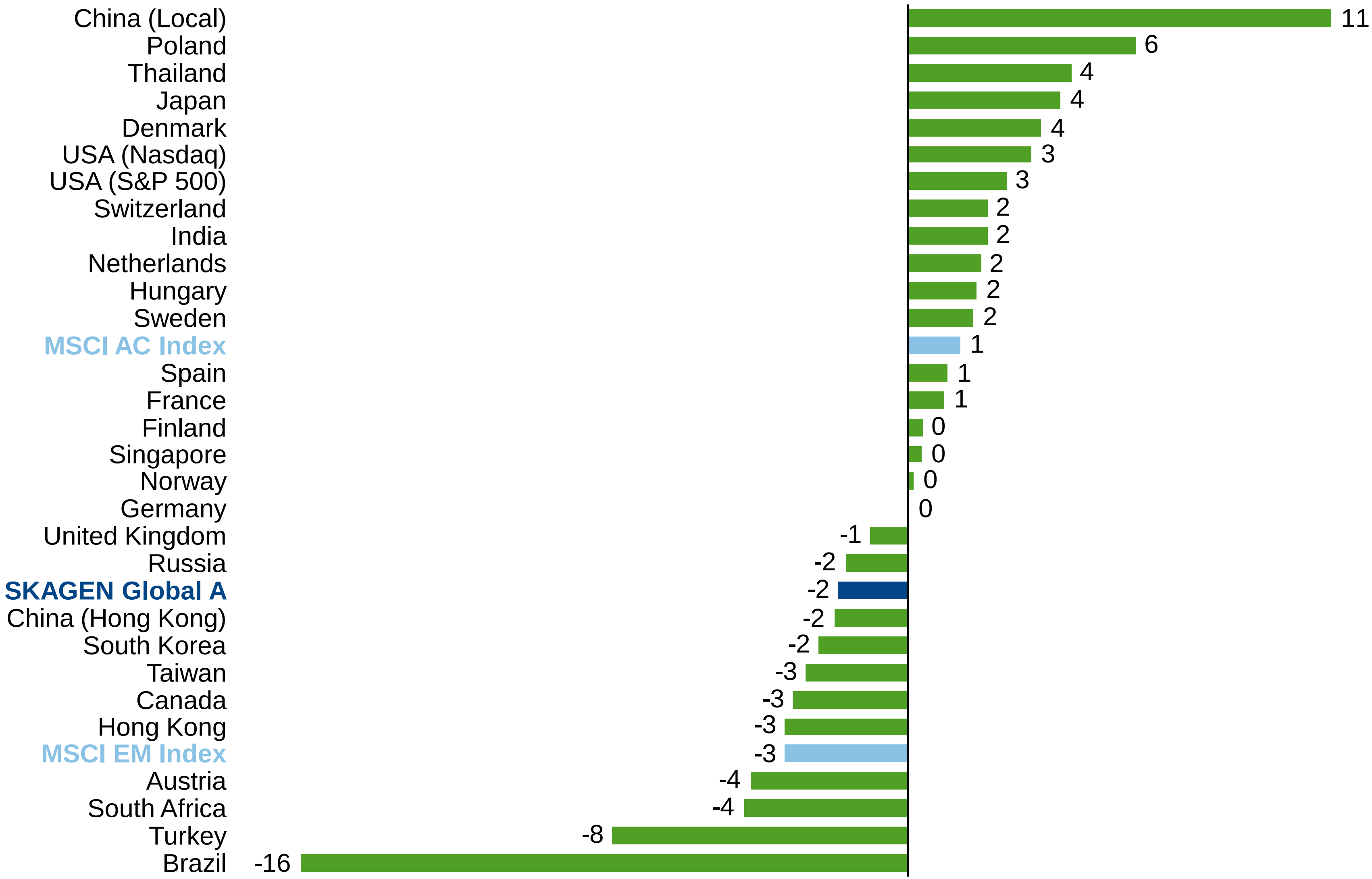
Markets September 2014 in EUR (%)



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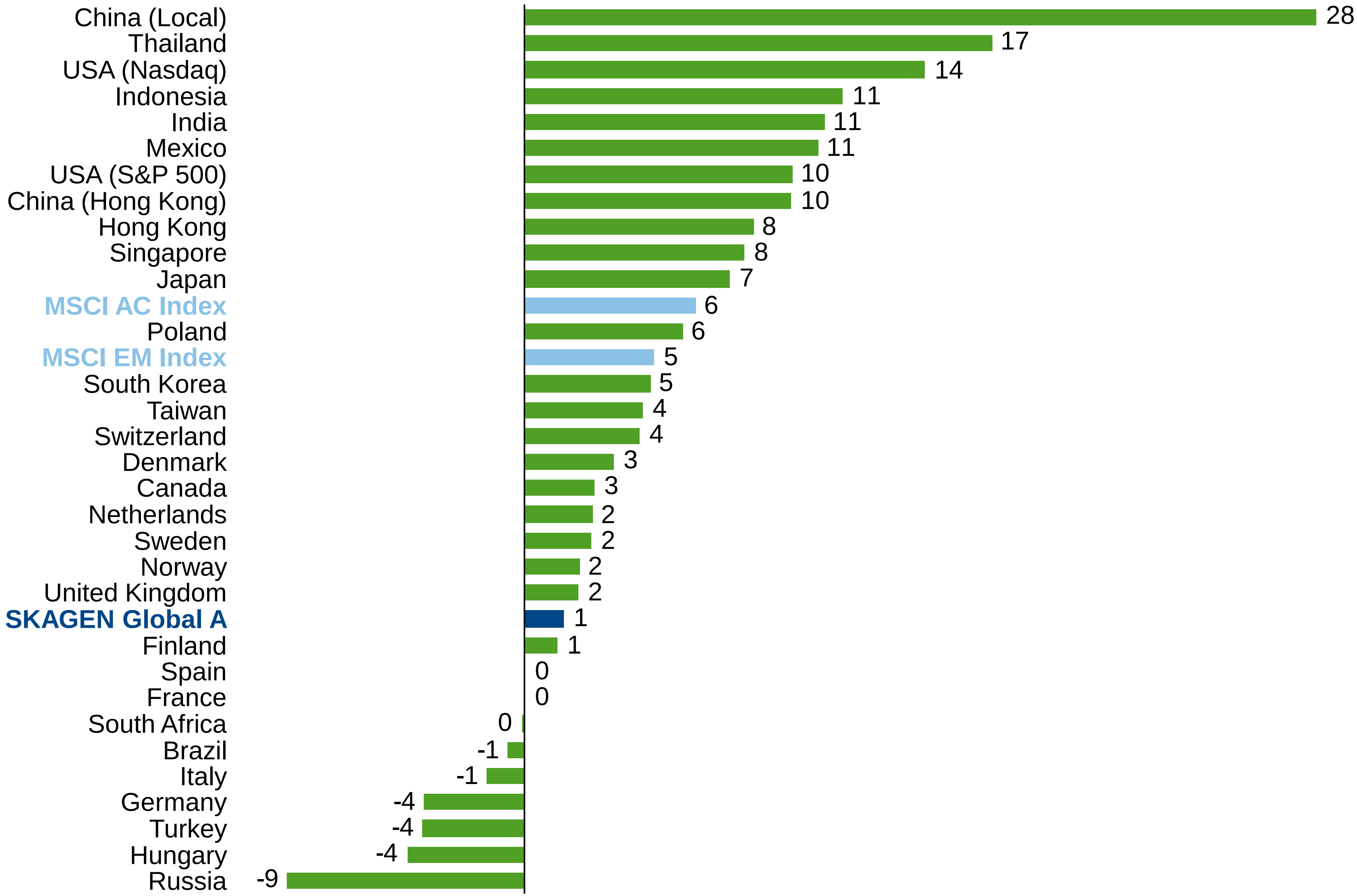
Markets Q3 2014 in EUR (%)



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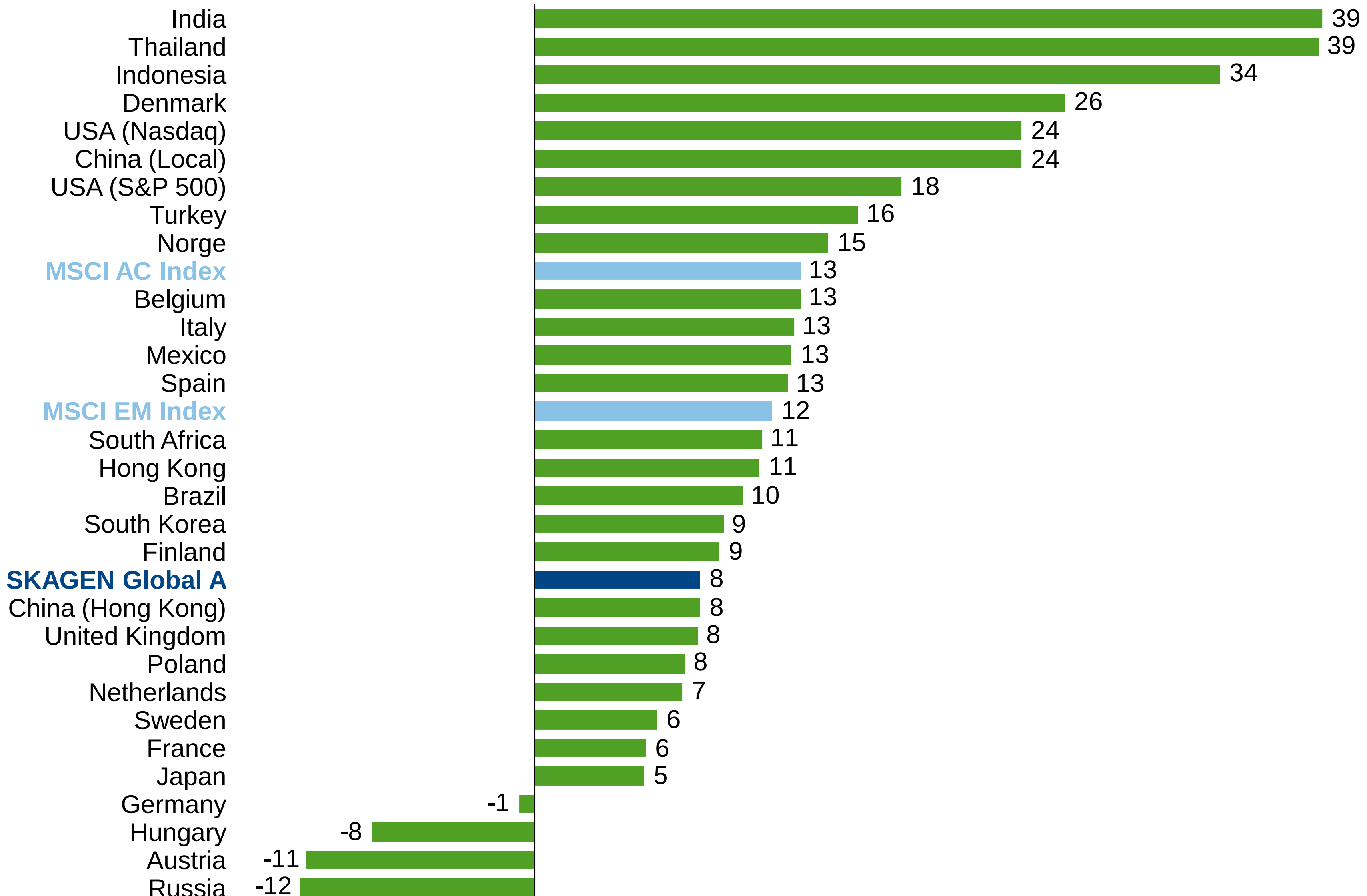
Markets 2014 YTD in EUR (%)



Main contributors September 2014

Largest positive contributors

Company	NOK (m)
Citigroup	148
LG Corp	86
Teva Pharmaceutical	76
Microsoft	70
Roche	47
Philips	38
Yamaha Motors	37
Nordea	36
Goldman Sachs	34
Tyco International	33

Largest negative contributors

Company	NOK (m)
Samsung Electronics	-417
Sistema	-185
Hyundai Motor	-147
China Unicom	-101
Vimpelcom	-86
Petrobras	-75
Eletrobras	-61
LG Electronics	-54
Banrisul	-51
Heidelbergcement	-49

Total value creation September 2014: NOK -1 008 million

NB: Contribution to absolute return

Main contributors 2014 YTD

Largest positive contributors

Company	NOK (m)
Teva Pharmaceutical	333
Microsoft	293
Weatherford	287
LG Corp	242
AIG	208
Baker Hughes	206
State Bank of India	198
Norsk Hydro	195
EFG Hermes	189
Citigroup	172

Largest negative contributors

Company	NOK (m)
Vimpelcom	-357
Sistema	-270
Samsung Electronics	-198
Afren	-153
CTC Media	-144
OMV	-139
General Motors	-132
OCI	-126
ADT	-112
Stolt-Nielsen	-108

Total value creation YTD 2014: NOK 2 517 million

NB: Contribution to absolute return

Holdings increased and decreased during September 2014

Key buys during September

- **Philips** was increased in September. The share has been weak this year without any meaningful change in our fair value estimate.
- **Gap** We added to our position on the back of weak August sales numbers, which caused the stock to drop. We believe a turnaround of the Gap brand and supply chain improvements could drive sales and margins over the coming year, adding to already strong momentum in Old Navy.
- **Volvo** The Volvo share has fallen some 30% from its April high as a result of weakening near-term outlook. We think this is a good opportunity to gain exposure to the long-term turnaround of Volvo, which is making significant progress.

Key sells during September

- **Hannover Re** We took profit in Hannover Re as we see the reinsurance market is at risk of disappointing over the next 12 months if the benign cat season continues.
- **Bunge** was reduced in September after a strong share price performance reduced our potential upside.
- **Tyco** was also sold down in September following a strong share price performance which reduces our estimated upside.
- **Vale** Iron ore prices have proven even more vulnerable to new supply than we expected. We have closed our position as Vale's earnings outlook at current prices is far below market expectations.
- **Weatherford** We trimmed our position after witnessing solid progress with the restructuring program which has pushed up the share price nearly 30% YTD.

Holdings increased and decreased during September 2014 (cont.)

Key buys during September

Key sells during September

- **RSA Insurance** After this year's uptick in the stock, we believe a large part of the expected recovery is now priced into the name.

Most important changes, 2014

Holdings increased

Q1
- AIG
- Raiffeisen Bank International (new)
- Cheung Kong
- State Bank of India
- Sanofi (new)
- Storebrand
- DSM(new)
- Yamaha Motor

Q2
- AIG
- Gap (new)
- Philips
- Lenovo Group (new)

Q3
- Volvo (new)
- NN Group (new)
- Deutz (new)
- Industrial Bank of Korea
- DSM
- Gap
- Philips

Holdings reduced

Q1
- Ensco (out)
- Tyco International
- ADT
- Baker Hughes
- Oracle

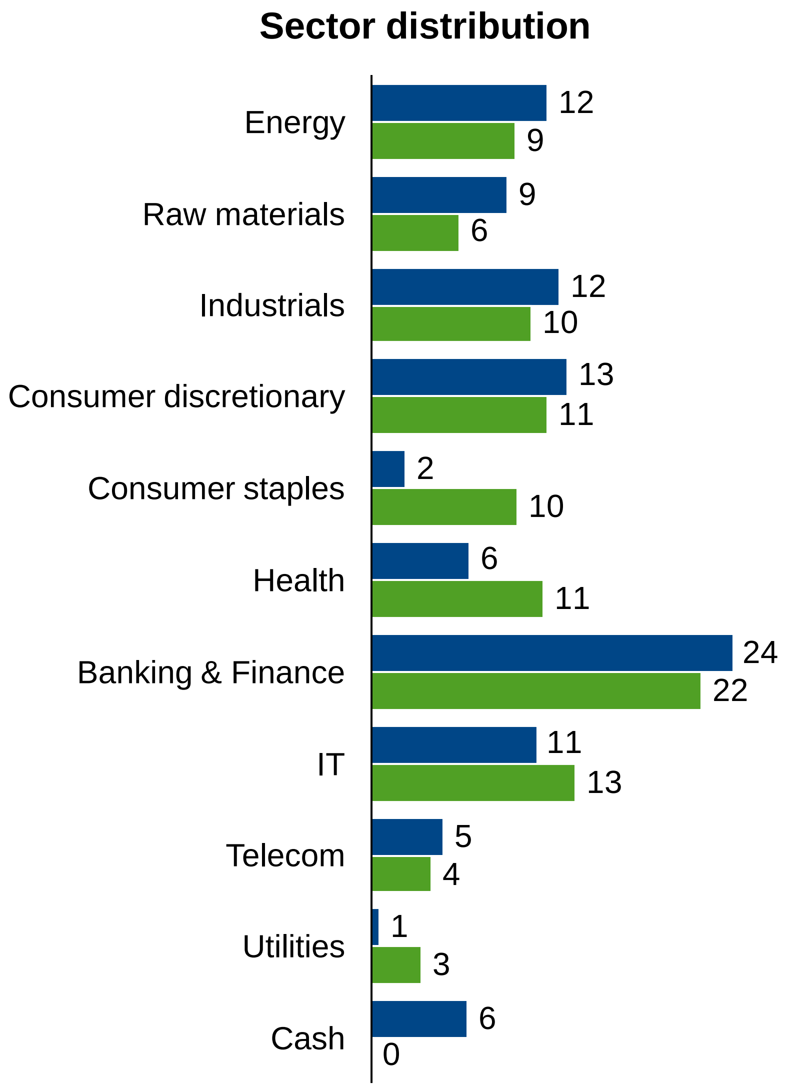
Q2
- ADT (out)
- State Bank of India
- Weatherford
- Tesco (out)
- Kyocera
- Lundin Mining
- China Unicom
- Samsung Electronics
- Tyco International
- Oracle

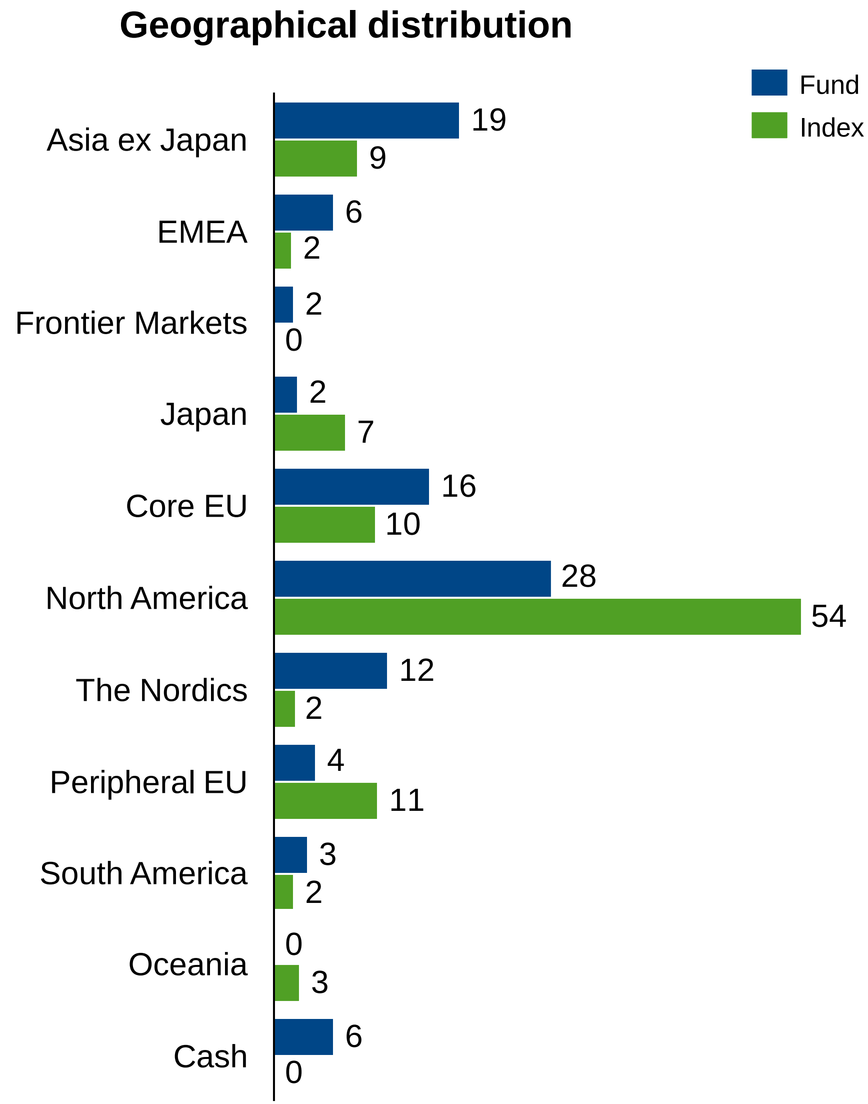
Q3
- Lundin Mining
- Cheung Kong
- China Unicom
- Dixons Retail/Dixons Carphone
- Hannover Re
- Oracle(out)
- RCL(out)
- Bunge
- Tyco
- Vale (out)
- RSA
- Weatherford

Largest holdings SKAGEN Global as at 30 September 2014

	Holding size, %	Price	P/E 2014e	P/E 2015e	P/BV last	Price target
SAMSUNG ELECTRONICS	6,7	898 000	6,0	6,2	0,8	1 300 000
CITIGROUP	6,3	51,8	10,8	9,6	0,8	75
AIG	3,6	54,0	11,7	10,8	0,7	80
LG CORP	2,5	76 800	13,0	10,9	1,1	100 000
NORDEA	2,4	93,9	11,8	11,0	1,4	105
MICROSOFT	2,3	46,4	16,6	14,3	4,3	50
TEVA	2,2	53,8	11,0	11,0	1,9	65
ROCHE	1,9	283,1	19,1	17,9	13,8	380
GAZPROM	1,9	7,0	2,8	3,0	0,3	11
RENAULT	1,9	57,4	8,8	6,3	0,7	80
Weighted top 10	**31,5**		**8,5**	**8,1**	**0,9**	**37%**
Weighted top 35	**62,5**		**10,1**	**9,0**	**1,0**	
MSCI AC World			**15,3**	**13,7**	**2,0**	

Sector and geographical distribution versus index





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Key earnings releases and corporate news, September 2014

Philips

(1.1%)

Announce separation into two business lines

- *Summary:* Philips plans to split the company into a €15bn "HealthTech division" (i.e. Merged Healthcare + Consumer Lifestyle) and a €7bn Lighting solutions business. The lighting business will eventually be sold in 1 or 2 parts leaving Philips with just 1 division in the future. Philips also repeated its 2016 target of 4-6% sales growth and 11-12% EBITA margin with ROIC >14% .
- *Implications:* This is one of the main triggers in our thesis, as the conglomerate discount should fade. The stock reacted positively to the announcement but still trades at a discount to SOTP (using conservative peer multiples gives a SOTP target price of around EUR 28 per share). Main drivers from this point will be fixing the issues in the healthcare division and increasing dividends / buybacks.

Sistema

(0.2%)

Lawsuit filed against Sistema

- *Summary*: The General Prosecutor's office filed a lawsuit against Sistema and related entities, seeking the return of Sistema's Bashneft shares to the state. As a result, the court has put a freeze on Bashneft's shares subject to the lawsuit.
- *Implications:* Sistema's share price dropped on the news, and is now down approximately 75% since early July. So far there is no clear indication that Sistema's other assets are at risk, but recent events have demonstrated that such seemingly rational judgments are made at investors' own peril in Russia these days.

Gazprom

(1.9%)

Reports Strong 1Q14 FCF

- *Summary:* Revenue (up 7% YoY) was better than expected as both volumes (particular to Europe) and prices were better than expected. EBITDA was down 6% YoY as expected, driven by Ukraine bad debt provision. Free cash flow was significantly better than expected due to lower working capital and significantly lower than expected CAPEX. The FCF was used to repay debt, driving net debt down by more than 10%. Net income was lower than consensus expectations due to high FX losses.
- *Implications:* Our thesis centres around a belief that Gazprom capital allocation is bad, but not as bad as the market expects – EV of USD 120bn for a company generating annual operating cash flow of USD 50bn. A Main driver would be to lift dividends "saving" an increasingly larger part of these 50bn from wasteful investments. CAPEX mix shifting away from "maintenance" (IRR of 0%) to clear growth capex (like the Chinese deal with an expected IRR of 10%+) which will drive earnings growth with no change in the market's absolute CAPEX assumptions. Biggest short-term risk is the government backing down from demands for a higher dividend policy given the current situation in Ukraine and its impact on the economy and Russian companies.

Key earnings releases and corporate news, September 2014 (cont.)

Hyundai Motor

(1.1%)

Agrees to pay USD 10bn for land in downtown Seoul

- *Summary*: Hyundai Motor Group has agreed to pay KRW 10.5tr for a 79k m2 lot in the Gangnam district in Seoul with aim of developing offices for the use of all 30 Hyundai affiliates. The development will include a convention centre, shopping complex, auto theme park and museum. The costs are to be split 50% on Hyundai Motor, 30% on Kia Motor and 20% on Hyundai Mobis. In addition to land acquisition value, HMG will have to donate 40% of the land to the government for re-licensing to commercial zoning as well as increase in utilisation ratio, and pay a land donation fee to the City of Seoul. Construction costs for the project could double the total investment cost to as much as KRW 20tr (land acquisition + development), with the development costs to be split among HMG's affiliates.
- *Implications for Investment Case:* Hyundai Motor's share (KRW 5.25tr) of land acquisition costs alone amounts to 58% of HMC's 2013 net income, or 30% of net cash in the auto operation as of 2Q14. On top of this, actual property development costs could double the total cost of this undertaking. The price paid by Hyundai is very high, whether we compare with average sqm prices in the area or Kepco's (seller of the land) own appraisal. HMC's argument that the HMG group uses KRW 240bn per year on external rent, and will therefore benefit from building a large HQ to house its various businesses, is not particularly convincing. The land acquisition demonstrates a disregard for minority shareholders' interests and reduces the possibility of any material increase in dividend payout, at least in the near term.

Raiffeisen

(0.2%)

Issued profit warning on Ukraine and Hungary write-downs

- *Summary:* Raiffeisen issued a profit warning for 2014 due to higher loan loss provisions in Ukraine and Hungary. The higher charges include 1) EUR 200-300m higher LLP guidance because of Ukraine situation; 2) Hungarian foreign exchange charges up by EUR 80m; 3) EUR 190m write-down of deferred tax assets; 4) EUR 60m write-down of goodwill in Ukraine. As a result, the bank now expects a net loss for 2014. Management also reduced its mid-term ROE target by 1 percentage point from 15% to 14% (pre-tax).
- *Implications:* The announcement caught the market off guard, as evidenced by a share price drop of 10% on the day. The surprise was not so much the fact that assets in rebel held areas of Ukraine are being written down, but that management came out with the announcement now, only a month after their upbeat 2Q earnings release. Raiffeisen is trading at P/TBV of 0.6x, which makes it one of the cheapest banks out there. Our view is that many risks are priced into the stock, but we also recognise the inherent risks to the highly leveraged business models of banks in unstable environments.

The largest companies in SKAGEN Global

Samsung Electronics is one of the world's largest producers of consumer electronics. 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 domestic appliances, cameras, printers, PCs and air conditioners.

Citi is a US financial conglomerate with operations in more than 100 countries worldwide. The bank was bailed out by the US government during the credit crisis and subsequently raised USD 50bn of new capital. Consists of two units: Citi Holdings which is a vehicle for assets that are to be run down and sold and Citi Corp which is the core of the going concern business. In Citicorp 60% of revenues are derived from outside the US - mainly from emerging markets.

AIG is an international insurance company serving commercial, institutional and individual customers. The company provides property-casualty insurance, life insurance and retirement services. AIG was at the very centre of the financial crisis as the central bank for mortgage insurance – it was bailed out to the tune of USD 180bn. The company has two core insurance holdings: Sun America and Chartis that it intends to keep. The company has set a target to achieve 10% ROE by 2015.

LG Corp is the third largest conglomerate in Korea. It is a holding company which operates a number of listed subsidiaries: LG Chem (basic chemicals but it is also a leading manufacture of batteries), LG Electronics (consumer electronics and home appliances), LG Uplus (wireless telecom services), and LG Household & Health (households and personal care products). The company also operates a number of unlisted companies.

Nordea holds pole position in the Nordics with 11.2m retail costumers and 625,000 corporate clients. Nordea is the largest Nordic asset manager/wealth manager with EUR 224bn in AuM (EUR 138bn in managed funds). It is the most diversified among its Nordic peers. Total loans are EUR 346bn with the following split: Finland 27%, Sweden 26%, Denmark 24%, Norway 18%, and Baltics/Poland/Russia 5%.

The largest companies in SKAGEN Global cont.

Microsoft is the world's largest software company and delivers software to a number of applications from PCs to servers and cell phones – its most famous product is Windows and the affiliated Office Software Suite. In recent years the company has also diversified into video game consoles, ERP systems, internet search and cloud-based computing. Despite a strong push for diversification 80% of the company's revenues and nearly all its profits come from three main areas: Windows OS, Windows Server and the business division (Office Suite).

Teva is the largest generic (off patent) pharmaceutical company worldwide, however more than half its net earnings come from patented drugs – most well known is Teva's multiple sclerosis drug: Copaxone. Teva has expanded considerably in the past decade and since 2012 management focus has been on cleaning up the organisation, optimising the drug portfolio and production units, selling channels and cutting costs.

Roche is a leading pharmaceutical and diagnostics company based in Switzerland. Half of group sales and 2/3 of EBIT is derived from the company's oncology franchises: HER2 (breast cancer), Avastin (colorectal cancer), and MabThera/Rituxan/Gazyva (blood cancer), each about USD 7bn of revenue. These businesses all come from Genentech, in which Roche has been a majority owner since 1990, and bought the last 46% in 2009.

Gazprom is the world's largest gas producer with proven gas reserves of 550bn m3 (10% of global reserves and equal to 30 years' reserve life). The company controls 160,000km of gas pipelines and has significant storage capacity. It owns and operates Russia's entire high pressure gas transportation network and accounts for 28% of gas supply in Europe. Gazprom is also the 5th largest oil producer in Russia with production of 0.87m boe (9% of Russian output) and Russia's largest power utility with 36GW of installed capacity.

Renault is a leading manufacturer of automobiles through brands like Renault, Dacia and Renault Samsung Motors. It holds ownership of stakes in Nissan (43.4%), AvtoVaz (25%) and Daimler (1.55%). It has also built up sizable operations in Russia, Turkey, North Africa and Brazil. Renault is also a leader in Electrical Vehicles and holds a 2-3 year advance vs. competitors. The market value of the stake in Nissan makes up ~80% of the market cap. of Renault.

For more information please visit:

Our latest Market report
Information on SKAGEN Global 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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