

Skagen reef's lightship, 1892.
Detail. By C. Locher, one of the
Skagen painters. The picture is
owned by the Skagens Museum.

SKAGEN Kon-Tiki

Status Report – September 2014

The art of common sense



Market highlights – September 2014

- Emerging markets (EM) declined 3.3% in September in EUR while developed markets (DM) rose 1.1%. YTD, EMs are up 11.7% vs. 9.5% for developed markets.
- Latin American markets continued to perform well with Argentina (+33%) and Venezuela (+15%). Brazil, on the other hand, lost 16% after a strong August, reflecting renewed concerns that the pro-market presidential challenger may not win the elections in October. Turkey also had a challenging month (-8%) mainly due to the negative effect on the economy of the weakening euro against the dollar.
- Hong Kong equities had a turbulent month (-4%) with local pro-democracy protests weighing on the markets. Mainland China equities rose 11%, pulling ahead of the Hang Seng index year-to-date.
- The dollar appreciated against most major currencies, most notably against the euro and the Japanese yen, with the latter hitting a 6-year low. The stronger dollar was boosted by improving US economic figures. Weaker global currencies measured against the US dollar should help improve Japanese as well as European and emerging markets' competitiveness, further boosting economic sentiment.
- In Russia, the rouble declined to historic lows against the euro, reflecting investors' concerns about further sanctions and potential limits on cross-border capital flows.
- EM index valuation at 11.6x P/E and 1.4x P/B is compelling compared with 15.7x P/E and 2.1x P/B for developed markets.

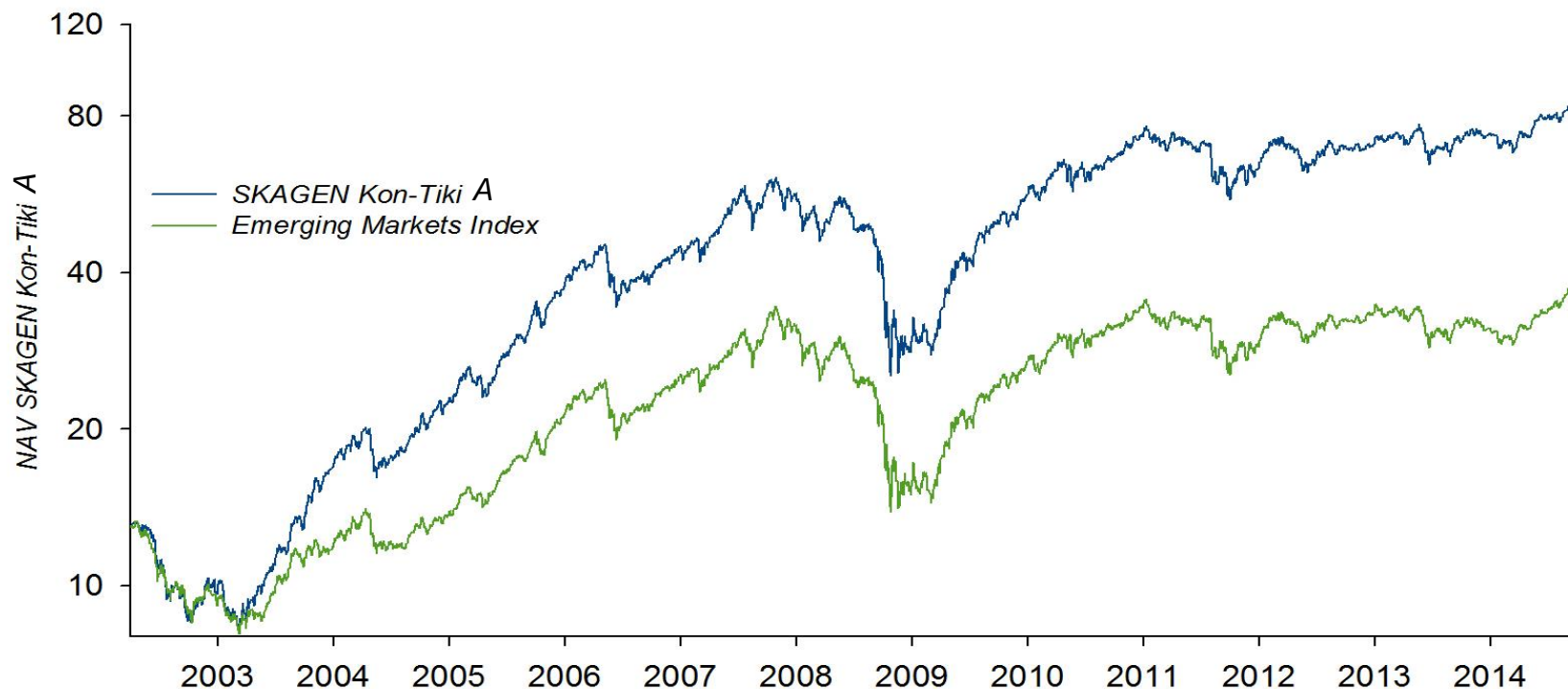
Kon-Tiki highlights – September 2014

- SKAGEN Kon-Tiki* declined 5.8% in September in EUR and the MSCI Emerging Markets index fell 3.3%. The underperformance was largely driven by share price falls in our top two positions, Hyundai Motor and Samsung Electronics, as well as Sistema. YTD, the fund is up 4.0% vs. 11.7% for the index.
- Bharti Airtel, Golar and Apollo Tyres were the top three contributors during the month. The bottom three performers were Hyundai Motor, Sistema and Samsung Electronics.
- Hyundai Motor surprised investors by announcing a real estate investment at record high valuations in downtown Seoul. Investors had expected the cash to be used for dividend payments or projects with greater expected returns, which resulted in selling pressure on the shares. We are disappointed in the management's decision, which reduces the possibility for a greater dividend pay-out in the short term. However, we continue to expect management to deliver strong operational results with new models coming on stream this year and in 2015.
- We entered into the Indian company Hindalco, which is Asia's leading aluminium producer with a global presence in the recycling of scrap metal. We expect the company to benefit from strong growth in the construction and auto sectors from tighter global environmental regulations. We also participated in a secondary offering in Golar and increased our positions in Cosan and Massmart.
- There were no exits during September, although we reduced our positions in the Russian companies Sistema and VTB Bank.
- We believe the SKAGEN Kon-Tiki portfolio is valued at inexpensive levels both on an absolute and relative basis. The fund's top 35 holdings, which together represent 68% of the portfolio, trade at a weighted Price/Earnings 2014e of 8.7x versus 11.6x for the index and a Price/Book of 1.2x versus 1.4x for the index, with a weighted upside of 48%.

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

Results, September 2014

EUR, net of fees



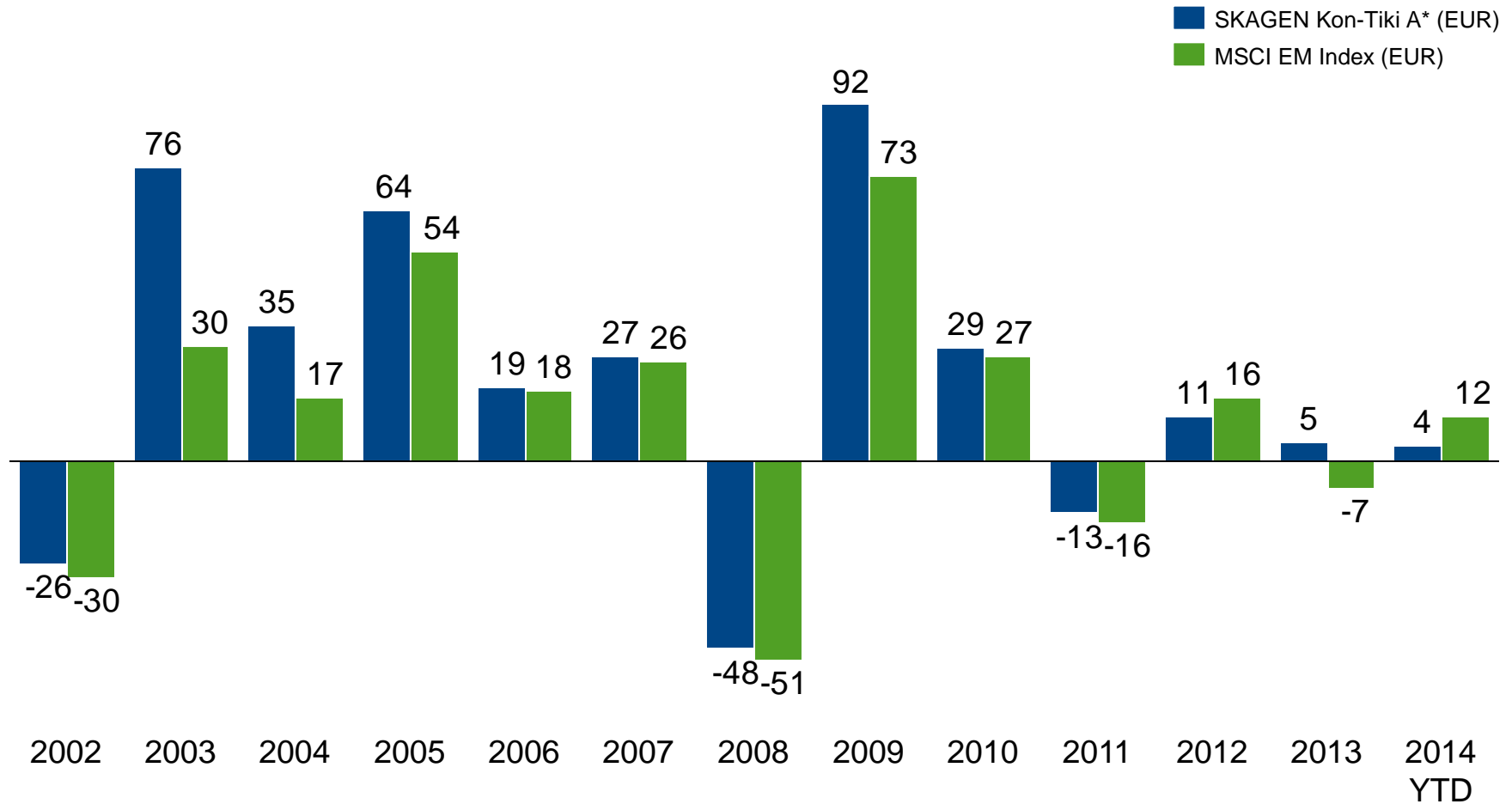
	September	Q3	YTD	1 Year	3 years	5 years	10 Years	Since inception*
SKAGEN Kon-Tiki A	-5,8%	-2,5%	4,0%	8,7%	10,3%	8,9%	14,4%	15,3%
MSCI EM Index	-3,3%	4,6%	11,7%	11,5%	9,5%	7,5%	10,5%	8,2%
Relative return	-2,5%	-7,1%	-7,7%	-2,8%	0,8%	1,4%	3,9%	7,1%

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

* Inception date: 5 April 2002

SKAGEN Kon-Tiki has beaten the index in 11/12 calendar years

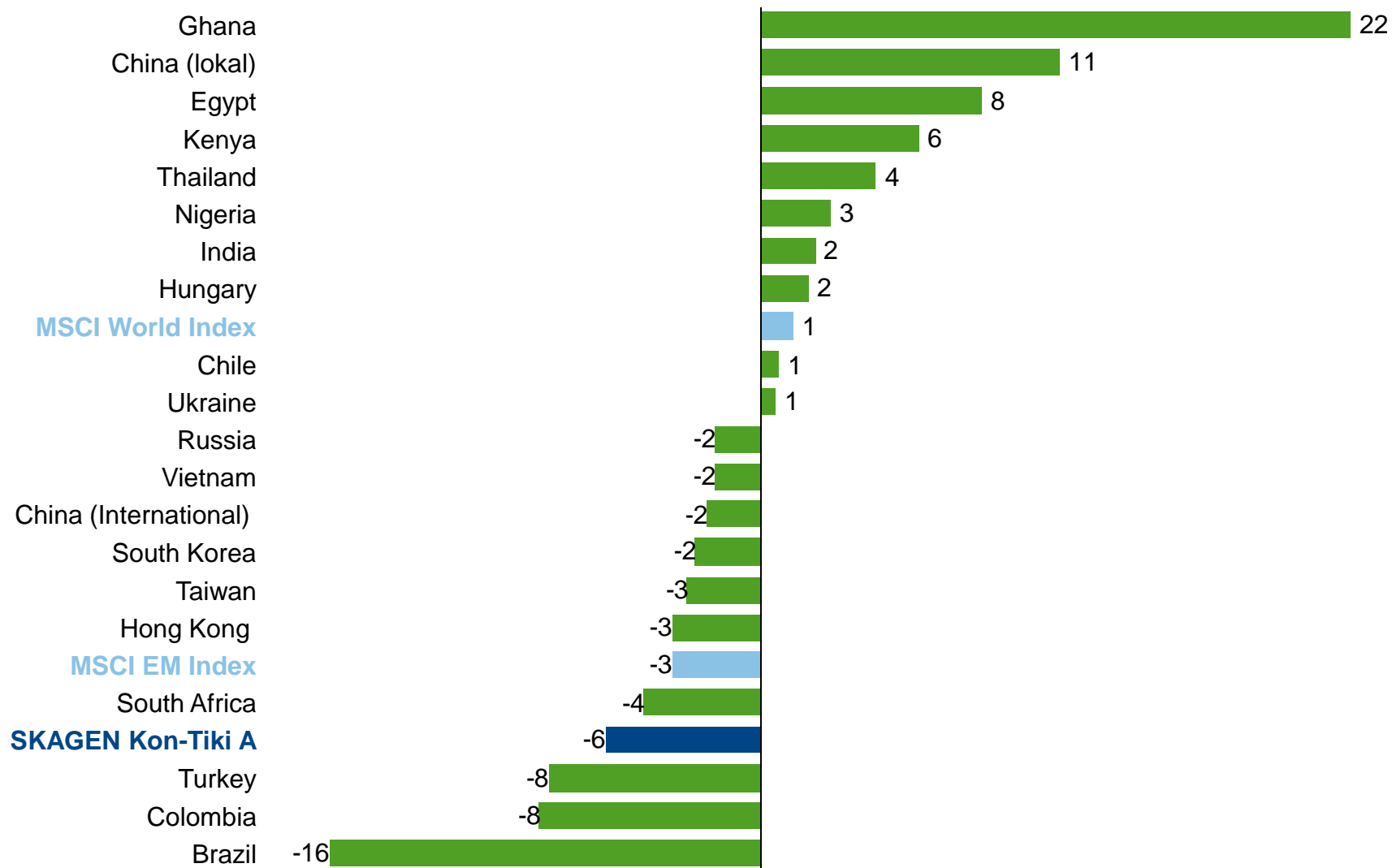
Percent



Note: All figures in EUR, net of fees
* Inception date: 5 April 2002

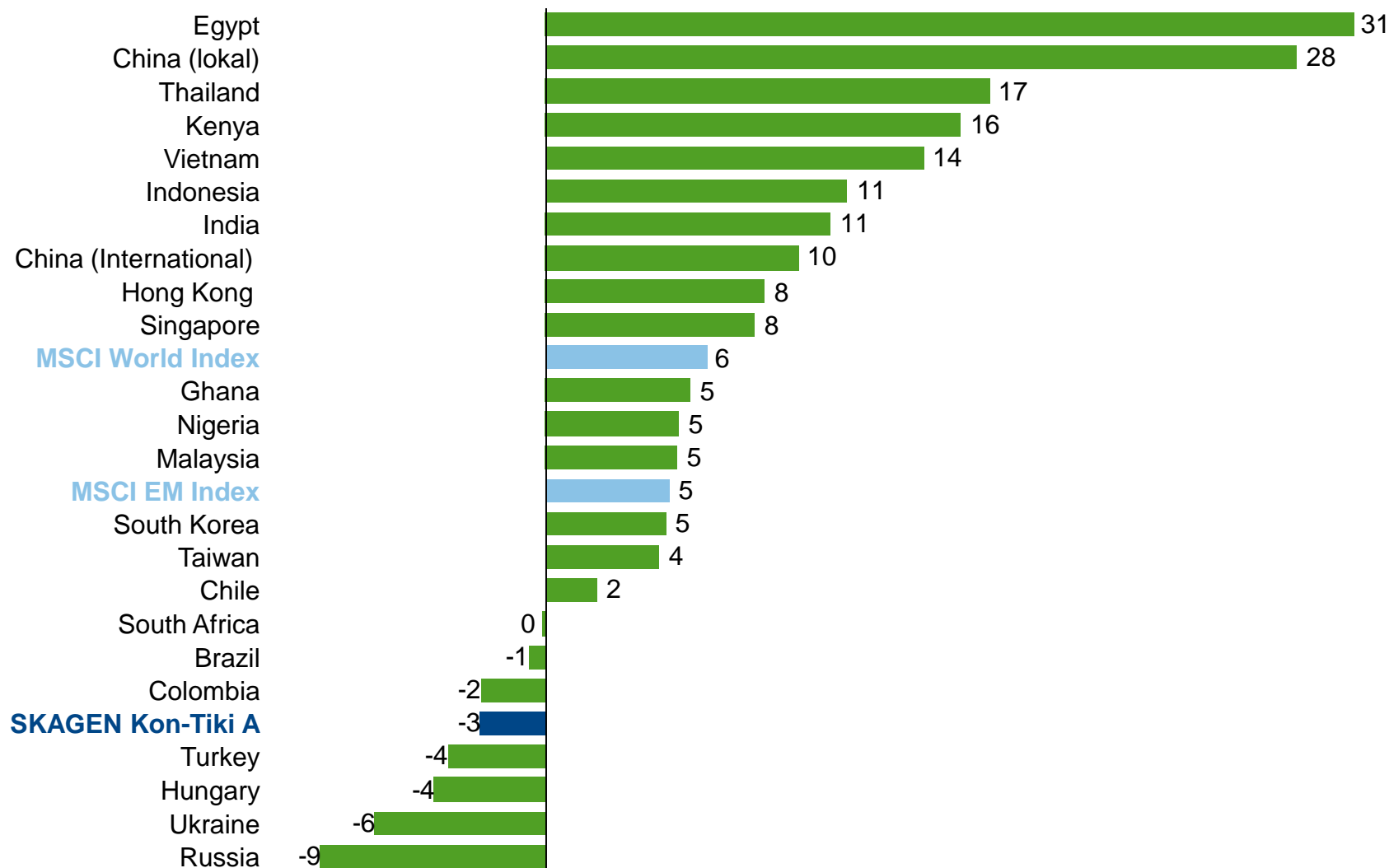
Emerging markets, September 2014 (in EUR)

Percent



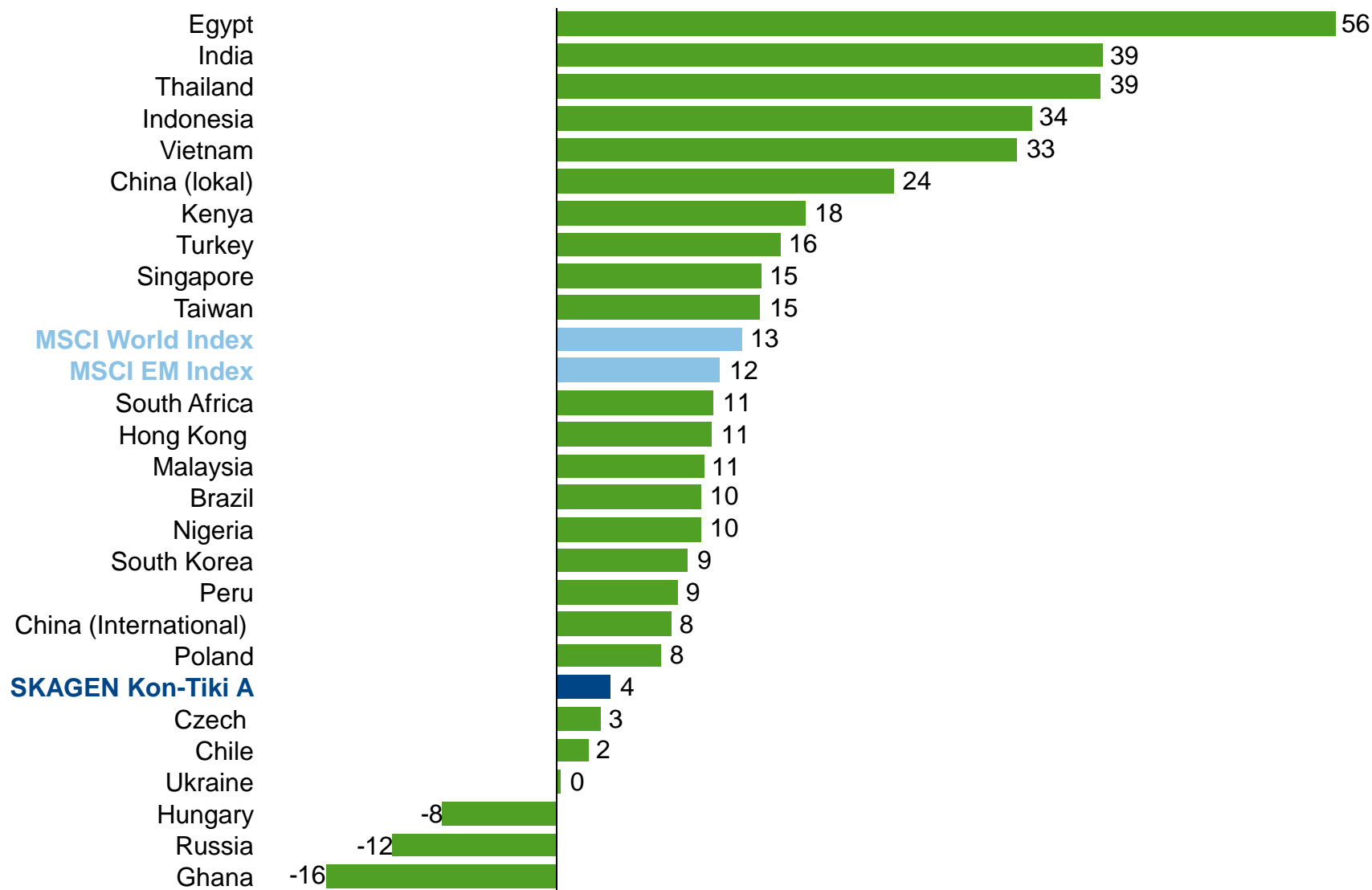
Emerging markets, Q3 2014 (in EUR)

Percent

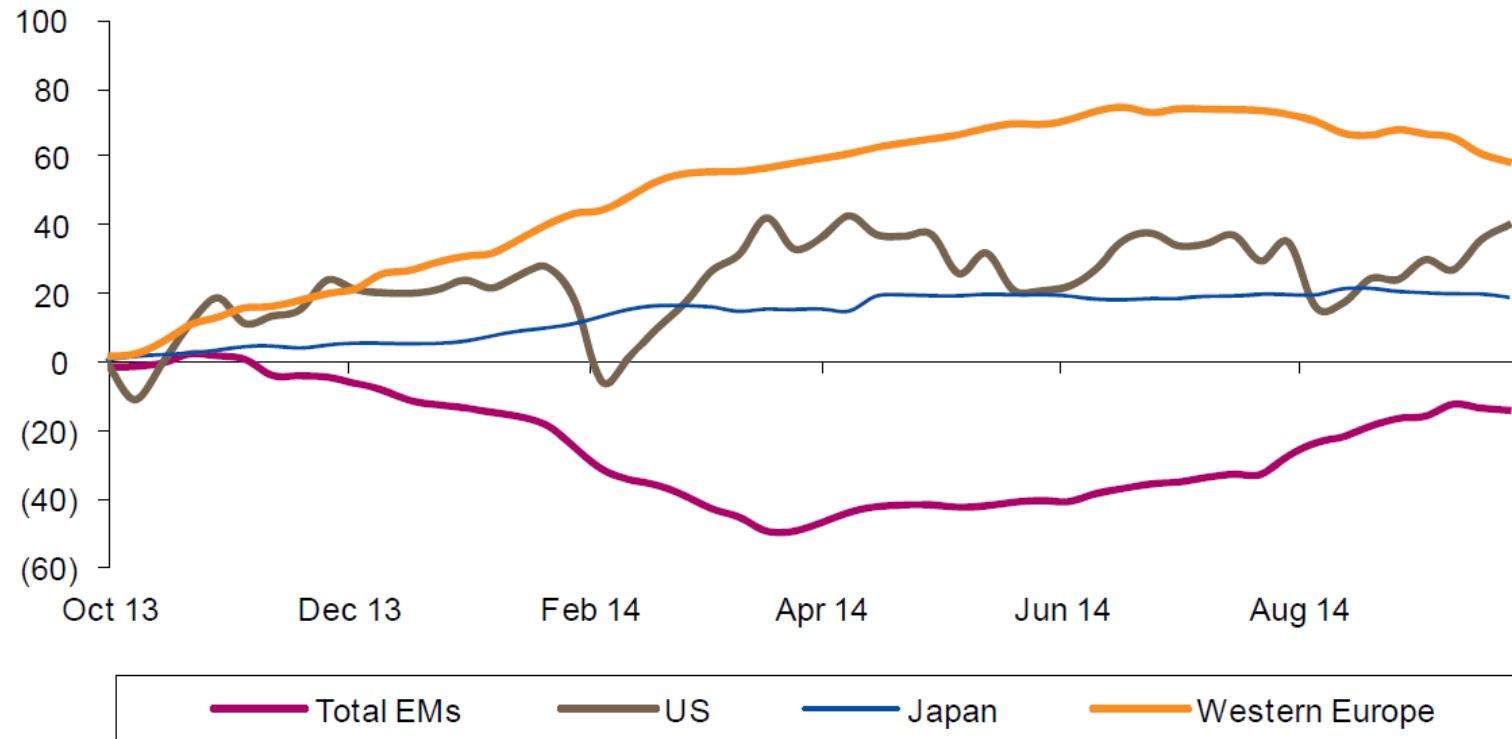


Emerging markets, YTD 2014 (in EUR)

Percent



Cumulative net flows to major regional/country funds (USDbn)



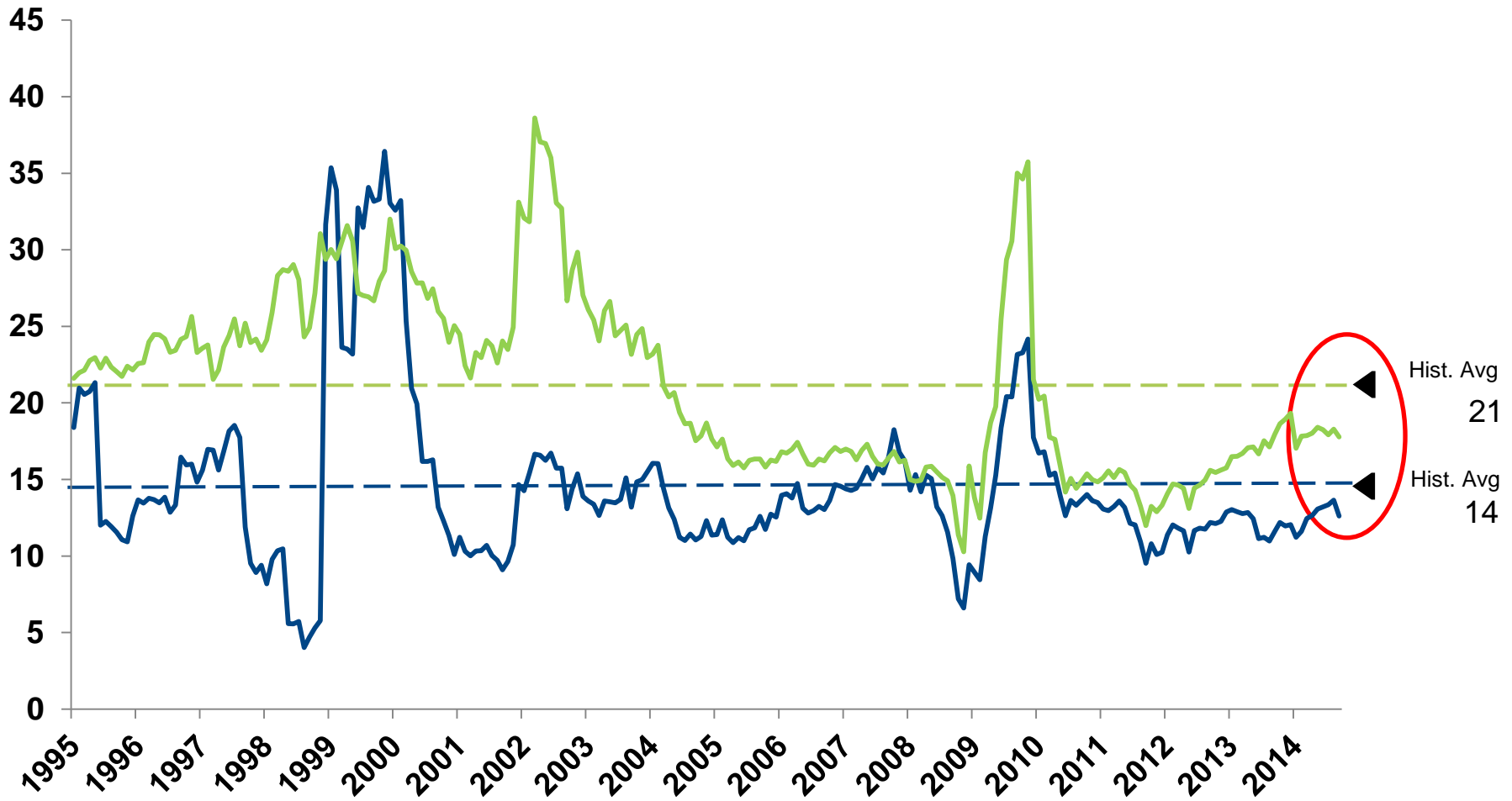
Note: Based on past 52 weeks

Source: EPFR, Samsung Securities

P/E Multiples EM vs DM

Jan'95 - Sep'14

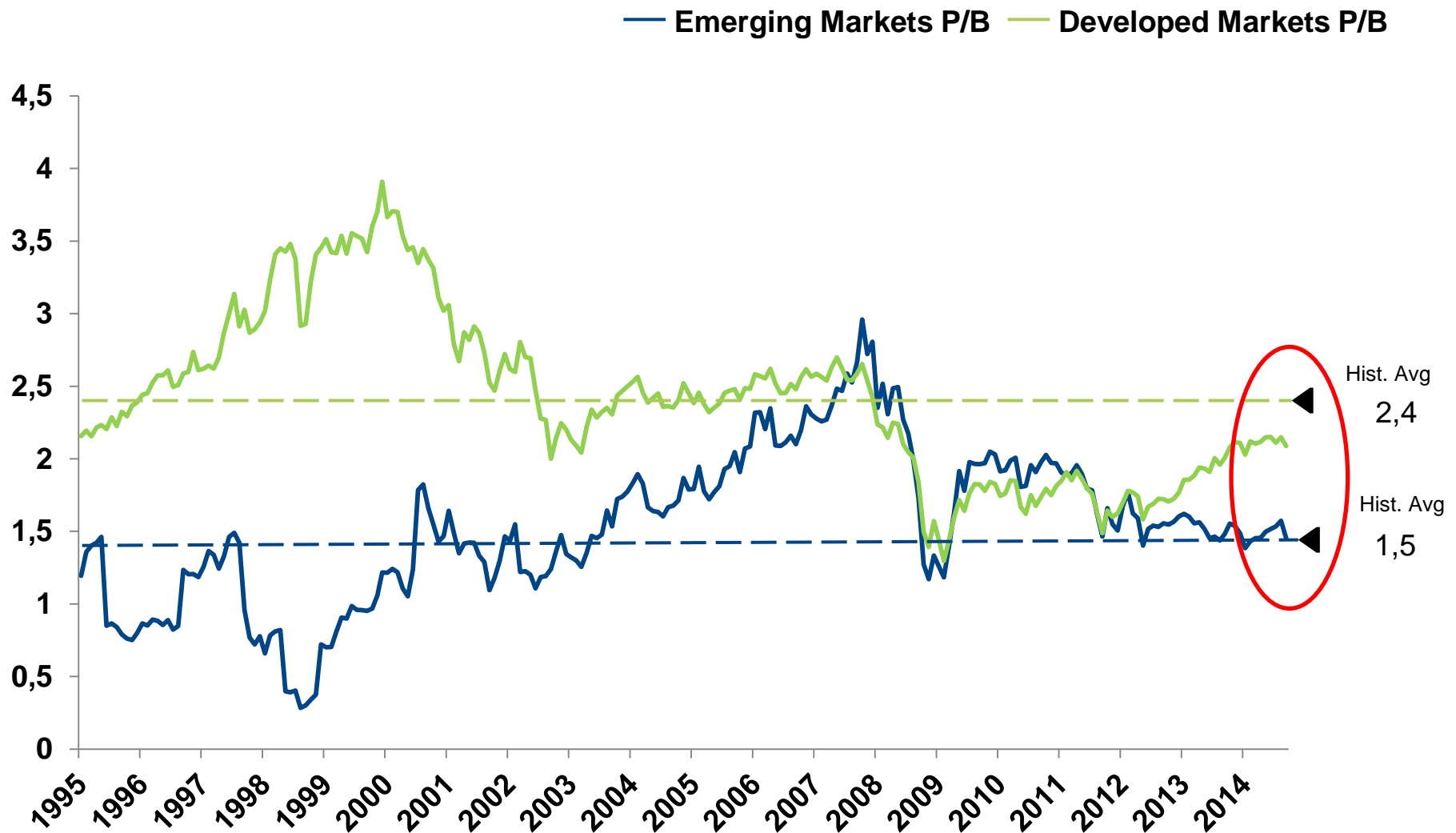
— Emerging Markets P/E — Developed Markets P/E



Source: Bloomberg, SKAGEN research.

P/B for EM still at a discount to DM

Jan'95 - Sep'14



Source: Bloomberg, SKAGEN research.

Main contributors, September 2014



Largest positive contributors

Company	NOK (m)
Bharti Airtel	194
Golar LNG	127
Apollo Tyres	89
Royal Caribbean	57
Ghana Commercial	50
Tech Mahindra	45
UPL	32
ABB	31
GCL-Poly	27
AirAsia	25



Largest negative contributors

Company	NOK (m)
Hyundai Motor	-1 077
Sistema	-834
Samsung	-457
Cosan	-252
Vale	-177
LG Electronics	-152
Marfrig	-121
Banrisul	-114
Great Wall Motor	-92
Naspers	-89

Total value creation in September 2014: NOK -3 499m

Note: Contribution to absolute return

Main contributors, YTD 2014

Largest positive contributors

Company	NOK (m)
State Bank of India	629
Mahindra & Mahindra	609
Bharti Airtel	424
Lenovo	355
Apollo Tyres	268
Royal Caribbean	266
AP Møller - Maersk	242
Marfrig	234
Tech Mahindra	204
Heineken	201

Largest negative contributors

Company	NOK (m)
Sistema	-1 289
Great Wall Motor	-532
Vale	-318
Raiffeisen	-227
Samsung Electronics	-224
VTB Bank	-223
Richter Gedeon	-210
Afren	-183
Cosan	-160
Tullow Oil	-147

Total value creation YTD 2014: NOK 568

Note: Contribution to absolute return

Holdings increased and decreased, September 2014

Key buys during September

Hindalco (new)

Asia's leading aluminium producer with an edge in recycling scrap metals. Well-positioned to benefit from strong recycling growth in the automotive and construction segments.

Golar

We participated in a secondary offering and view Golar as a market leader in floating liquefied natural gas (FLNG) conversion and re-gasification. Capable of disrupting the traditional point-to-point LNG market and taking advantage of the shift to flexible pricing.

Cosan

The class A share price discount to Cosan S.A. increased and we used the weakness to increase our position. The discount is due to an upcoming share split into separate energy and logistics shares. Class A shareholders, however, do not have the option to choose, but will continue to hold both.

Massmart

A difficult South African economic climate weighed on the shares and we bought into the weakness. The wholesale and retail company is going through efficiency programs and is poised to benefit from improving consumer conditions in South Africa as well as further expansion in Africa.

Key sells during September

Sistema

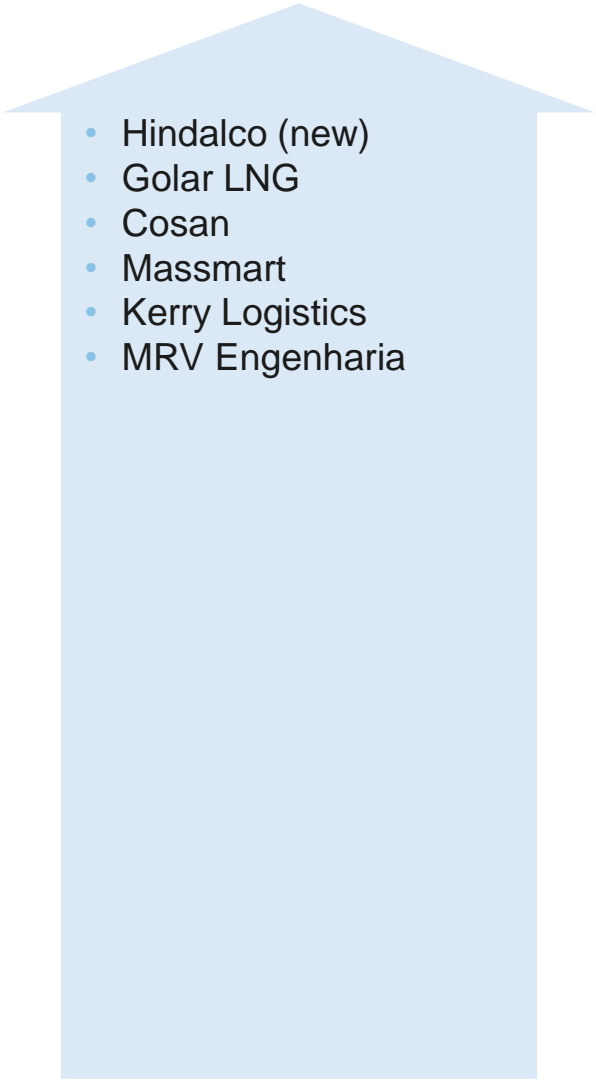
The Russian state is disputing the legitimacy of the Bashneft acquisition and accumulated dividends since 2009. We expected the lack of visibility to weigh on the stock price and sold approximately one third of the position.

VTB Bank

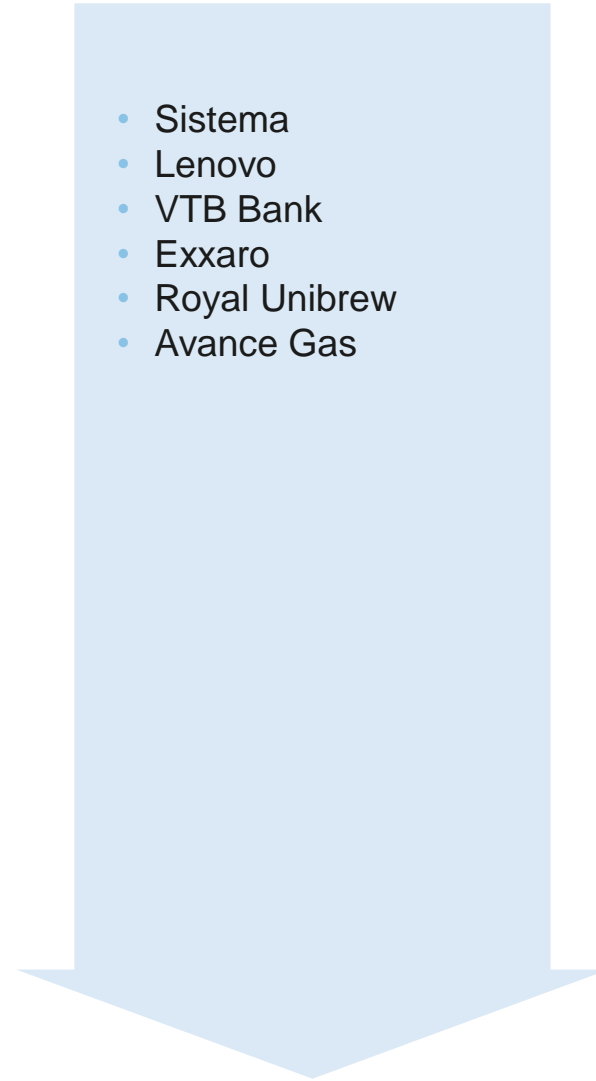
We consider VTB Bank to be vulnerable to sanctions against Russia, and we reduced the position.

Most important changes, September 2014

Holdings increased

- 
- A large, light blue arrow pointing upwards, representing an increase in holdings.
- Hindalco (new)
 - Golar LNG
 - Cosan
 - Massmart
 - Kerry Logistics
 - MRV Engenharia

Holdings reduced

- 
- A large, light blue arrow pointing downwards, representing a reduction in holdings.
- Sistema
 - Lenovo
 - VTB Bank
 - Exxaro
 - Royal Unibrew
 - Avance Gas

Most important changes, YTD 2014

Holdings increased

Q1

- SBI Holdings (new)
- Nippon Yusen (new)
- UPL (new)
- Moscow Exchange (new)
- State Bank of India
- Raiffeisen Bank
- Familymart
- Lenovo
- Haitong
- Kinnevik
- Vale
- East African Breweries

Q2

- Hitachi (new)
- Massmart (new)
- Casino (new)
- Golar LNG (new)
- Bharti Airtel
- SBI Holdings
- Lenovo
- Heineken
- Moscow Exchange
- GCL Poly
- Vale
- Air Asia

Holdings reduced

Q1

- Abengoa (out)
- HSBC (out)
- Royal Caribbean
- Hyundai
- Naspers
- Samsung
- Pacific Drilling
- Gazprom
- AP Møller-Maersk
- ABB

Q2

- Pacific Drilling (out)
- TSKB (out)
- Pacific Drilling (out)
- VTB Bank
- State Bank of India
- Gazprom
- Samsung
- Apollo Tyres
- ABB
- Sistema

Most important changes, YTD 2014

Holdings increased

Q3

- Hindalco (new)
- Isuzu Motors (new)
- MRV (new)
- Kerry Logistics (new)
- Casino
- Golar
- Moscow Exchange
- Cosan
- Raiffeisen Bank
- Massmart
- CNH Industrial NV

Holdings reduced

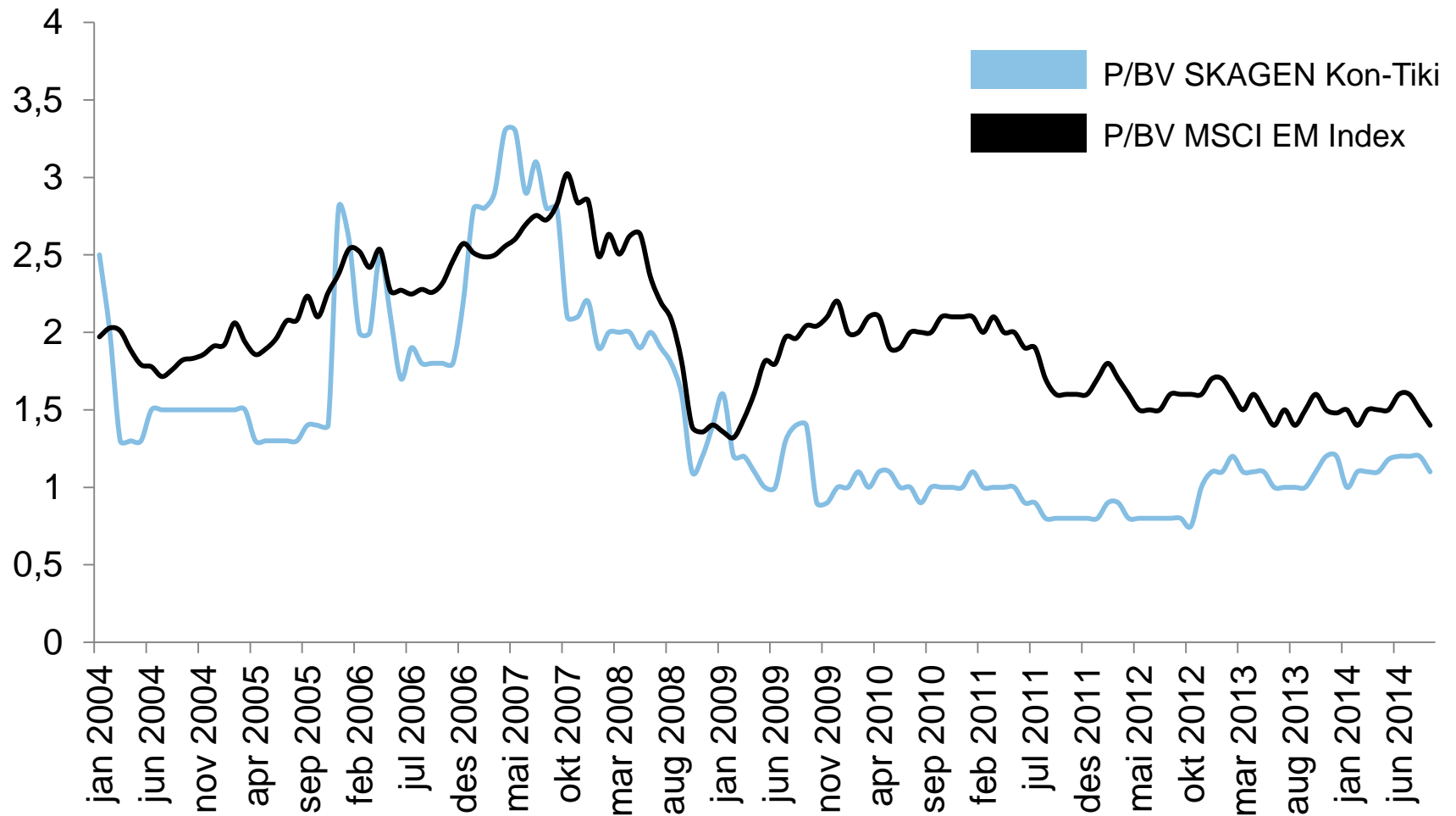
Q3

- Sistema
- Exxaro
- Hyundai Motor
- Lenovo
- Royal Unibrew
- VTB Bank
- Avance Gas

Largest holdings SKAGEN Kon-Tiki, end of September 2014

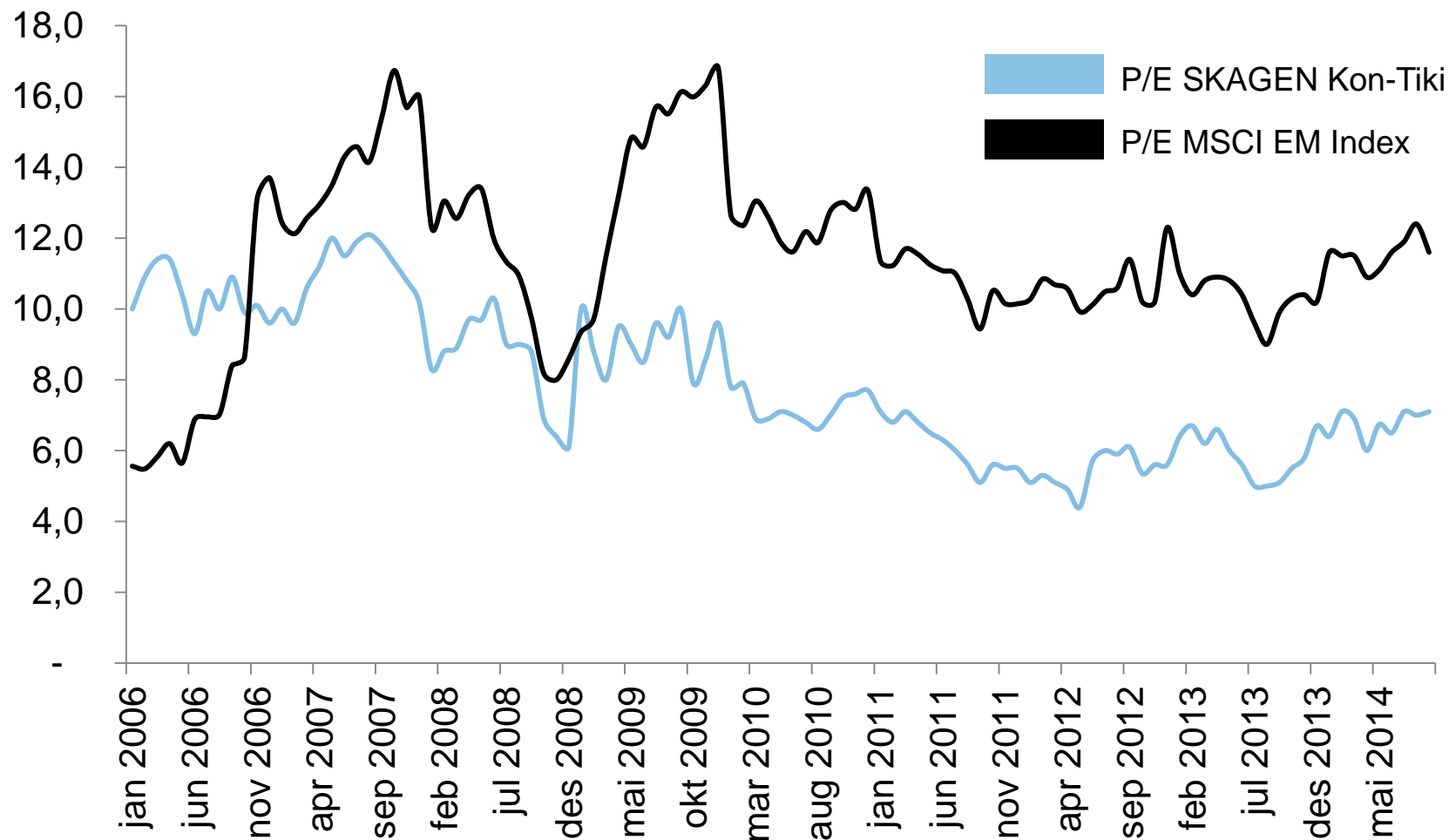
	Holding size, %	Price	P/E 2013	P/E 2014e	P/BV last	Div. yield 2013%	Price target	Upside %
Hyundai Motor	6.9	118 000	3.6	3.3	0.5	1.7	250 000	112
Samsung Electronics	6.5	898 000	4.4	6.0	0.8	1.6	1 500 000	67
Bharti Airtel	3.6	405	57.7	16.9	2.7	0.4	450	11
Great Wall Motor	3.2	29.7	8.5	7.9	2.5	3.4	50	69
Mahindra & Mahindra	3.2	1 361	17.2	15.1	3.4	1.0	1 500	10
State Bank of India	2.9	2 446	12.0	9.8	1.2	1.2	3 600	47
AP Moller-Maersk	2.9	14 000	15.8	12.3	1.3	2.0	15 000	7
Heineken	2.6	59.2	25.0	18.0	2.9	1.5	66	11
Sabanci Holding	2.4	9.6	11.3	8.0	1.1	1.0	12	25
ABB	2.3	162	20.6	18.0	3.1	3.2	190	17
Richter Gedeon	1.9	3 850	15.4	19.3	1.3	1.7	5 000	30
Vale	1.9	23.8	4.2	4.3	0.8	8.4	40	68
Weighted top 12	40.2		7.4	7.1	1.1	2.0		49
Weighted top 35	67.6		9.3	8.7	1.2	2.0		48
Emerging market index			12.0	11.6	1.4	2.6		
Top 35 @ target prices			15.1	13.7	1.9	1.3		

P/B for SKAGEN Kon-Tiki vs. MSCI Emerging Markets



As at 30 September 2014

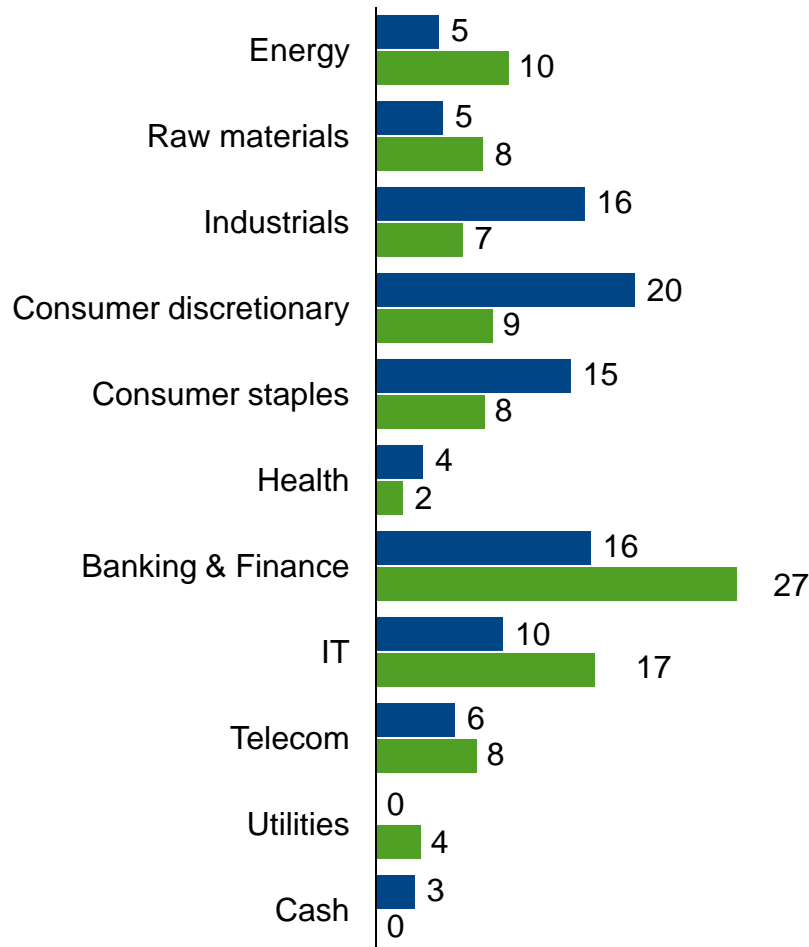
P/E SKAGEN Kon-Tiki vs. MSCI Emerging Markets



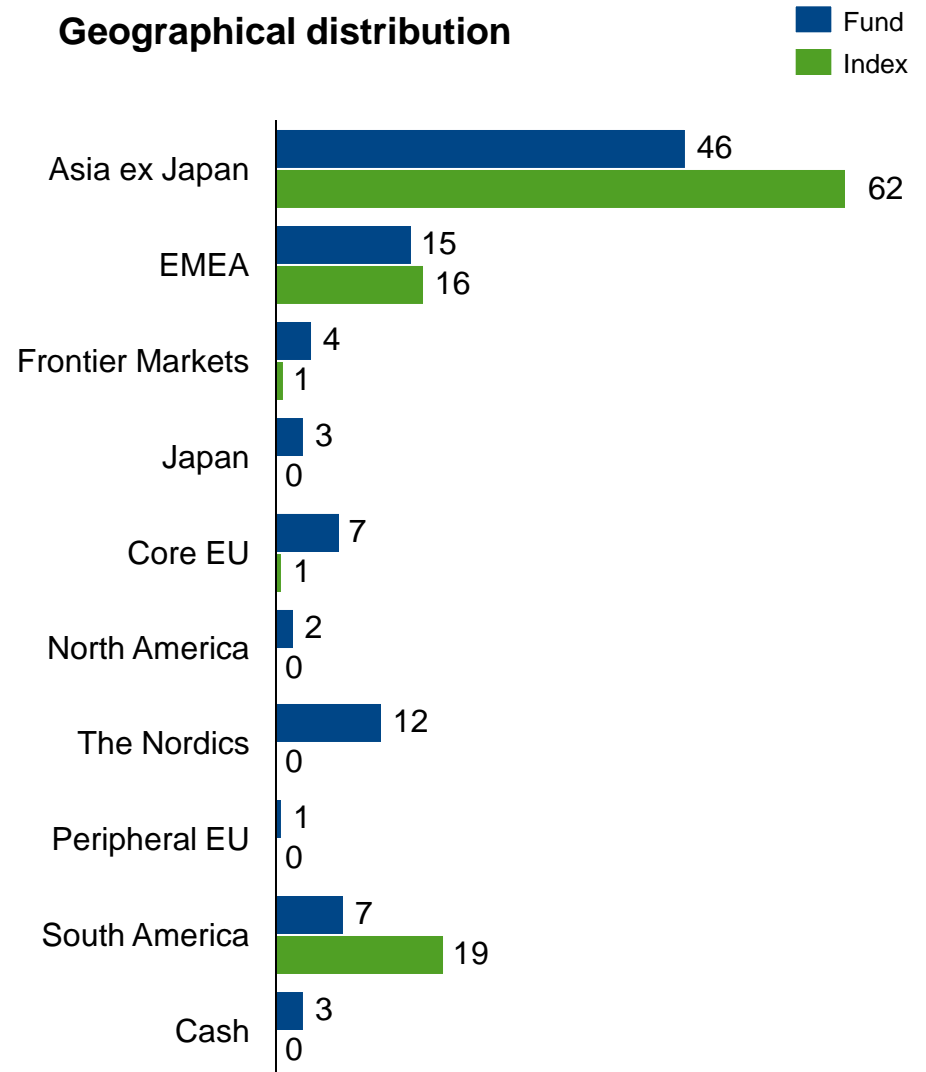
As at 30 September 2014

SKAGEN Kon-Tiki sector and geographical distribution

Sector distribution



Geographical distribution



Key earnings releases and corporate news, September 2014

Hyundai Motor
(HMG)
(6.9% weight):

HMG 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 the 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 between Hyundai Motor (50%), Kia Motor (30%) and Hyundai Mobis (20%). In addition to the land acquisition value, HMG will have to donate 40% of the land to the government for re-licensing to commercial zoning 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: HMC's share (KRW 5.25tr) of the land acquisition cost 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 it with average sqm prices in the area or the vendor Kepco's own appraisal. HMC's argument that the HMG group spends 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. Most importantly, the land acquisition demonstrates a disregard for minority shareholders' interests and reduces the possibility of any material increase in the dividend pay-out, at least in the near term.

Bharti Airtel
(3.6% weight):

Further tower sales in Africa address leverage concerns

Summary: Following the announcement in July of the sale of 3,100 towers in Africa, Bharti announced a deal to sell a further 3,500 towers in Nigeria from its initial 15,000 towers in the region to Eaton Towers. Terms are undisclosed but media reports a price of USD 800-1,000m. The sales in Africa follow tower sales in India and are in line with the asset-light strategy of Bharti.

Implications for Investment Case: The two sales are expected to bring in USD 1.3-1.5bn and hence meaningfully reduce the net debt which stood at USD 9.6bn or c2x EBITDA at the end of 1Q FY15. Bharti also sold shares in Bharti Infratel worth USD 500m in July. Hence, one of the major market concerns is being addressed. As tower companies attract a high valuation of EV/EBITDA 10-15x, with Bharti trading at 7x, it also seems to be an attractive exit price. Balance sheet de-risking, strong data growth and material improvement in voice prices are unfolding the investment case.

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

Heineken (HEIA)
(2.6% weight):

Confirms approach by SABMiller for acquisition

Summary: HEIA confirmed that it has been approached by SABMiller for a potential acquisition. HEIA, however, has informed SAB that the proposal is “non-actionable” and prefers to operate as an independent company. According to media, SAB should have offered the controlling family of HEIA (which has a 25% economic interest) to become the new company’s largest shareholder, ahead of Altria which holds a 27% interest in SAB. Market cap of SAB is USD 94bn and that of HEIA is USD 45bn.

Implications for Investment Case: The media speculates that SAB’s approach is a defensive move in order to protect itself from a potential takeover by AB-Inbev. If media reports are correct, this implies a very high, and unreasonably high, premium on HEIA. The news had limited positive impact on the share price and the family behind Heineken has stated that its aims to keep control. However, the M&A focus in the industry is unlikely to wane and the family’s view might change over time. A potential tie-up of AB-Inbev and SAB will likely create competitive issues in a number of markets, allowing HEIA to pick up operations at affordable prices as a combined entity would be forced to sell off some operations.

ABB (2.3%
weight):

USD 4bn buyback and organic focus with operational de-risking

Summary: Now that the new CEO Spiesshofer has been at the helm for a year, he has had time to impact the strategy at ABB. He has sold off smaller operations for about USD 1bn and intensified the work of restructuring the underperforming Power Systems division and de-risking the business. Focus on cost saving will continue. In a sense, he seems more operationally focused than predecessor Hogan, who undertook several acquisitions in order to fill gaps in the portfolio. With ABB now apparently mostly relying on organic growth, the CEO announced a USD 4bn share buyback (8% of market cap.) over two years equal to c390k shares per day or 7% of Swiss daily trading volume. Financial targets for 2015-2020 are in-line with the old plan with organic revenue growth 5-7% p.a. (previously 5.5-8.5%) and “clean” EPS growth of 10-15% (unchanged).

Implications for Investment Case: ABB is highly cash generative with target FCF to net profit of >90% (94% in 2013) with a solid balance sheet (net debt of USD 2.9bn or 0.5x EBITDA and 0.15x equity). The buyback represents about one year FCF and will be in addition to dividend (USD 1.6bn for 2013). It is positive that ABB addresses the capital allocation, while the CMD in general did not bring any spectacular news. The slightly lower organic growth target should be seen in the light of lower global inflation compared to 2011 and a previously ambitious target. However, it is above its end market growth of 3-5% implying market share gains.

The largest companies in SKAGEN Kon-Tiki



Hyundai Motor is the world's 4th largest car maker, including their 39% stake in Kia Motor. Sold 4.7m cars in 2013 and has a c. 5% 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.



Bharti Airtel is India's largest private integrated telecom company, and it is a leading global player (#4) with operations in 20 countries across Asia and Africa. They had around 287m customers across their operations at the end of June 2014. They separated out towers in part owned unit (passive infrastructure). Bharti family and SingTel own 30% each.



Great Wall Motor is a Chinese car manufacturer with sales of over 752,000 units in 2013, up 24% YoY. It has a market share of more than 3.5% in China. Volume is divided between SUV, sedans and pick-ups, where it is market leader. The cars are certified in the EU and Great Wall exports to 120 markets. It has its own engine and transmission production.



Mahindra & Mahindra is the largest manufacturer of utility vehicles in India (50% market share) and tractors (40% market share). It has several listed subsidiaries including Tech Mahindra and M&M financial services (largest financier of UVs and tractors in India).

The largest companies in SKAGEN Kon-Tiki (continued)



Largest bank in India with 17% market share (c. 25% including 5 associate banks). Also presence in life insurance, asset management and investment banking. 15,000 branches, 32,000 ATMs, 130 million customers and over 220,000 employees. Largest Indian overseas bank with 190 offices in 34 countries.



AP Møller-Maersk is a Danish conglomerate with four core businesses which include Maersk Line (container shipping), APM Terminals (global terminal network in 68 countries), Maersk Oil and Maersk Drilling. The company is going through a process of streamlining the business by terminating non-core and underperforming assets.



Leading brewer in Europe and #3 brewer by volume in the world with operations in over 70 countries and present in 178 countries. Strong foothold in Africa and Middle East (23 countries), Asia (19 countries) and Americas (10 countries).



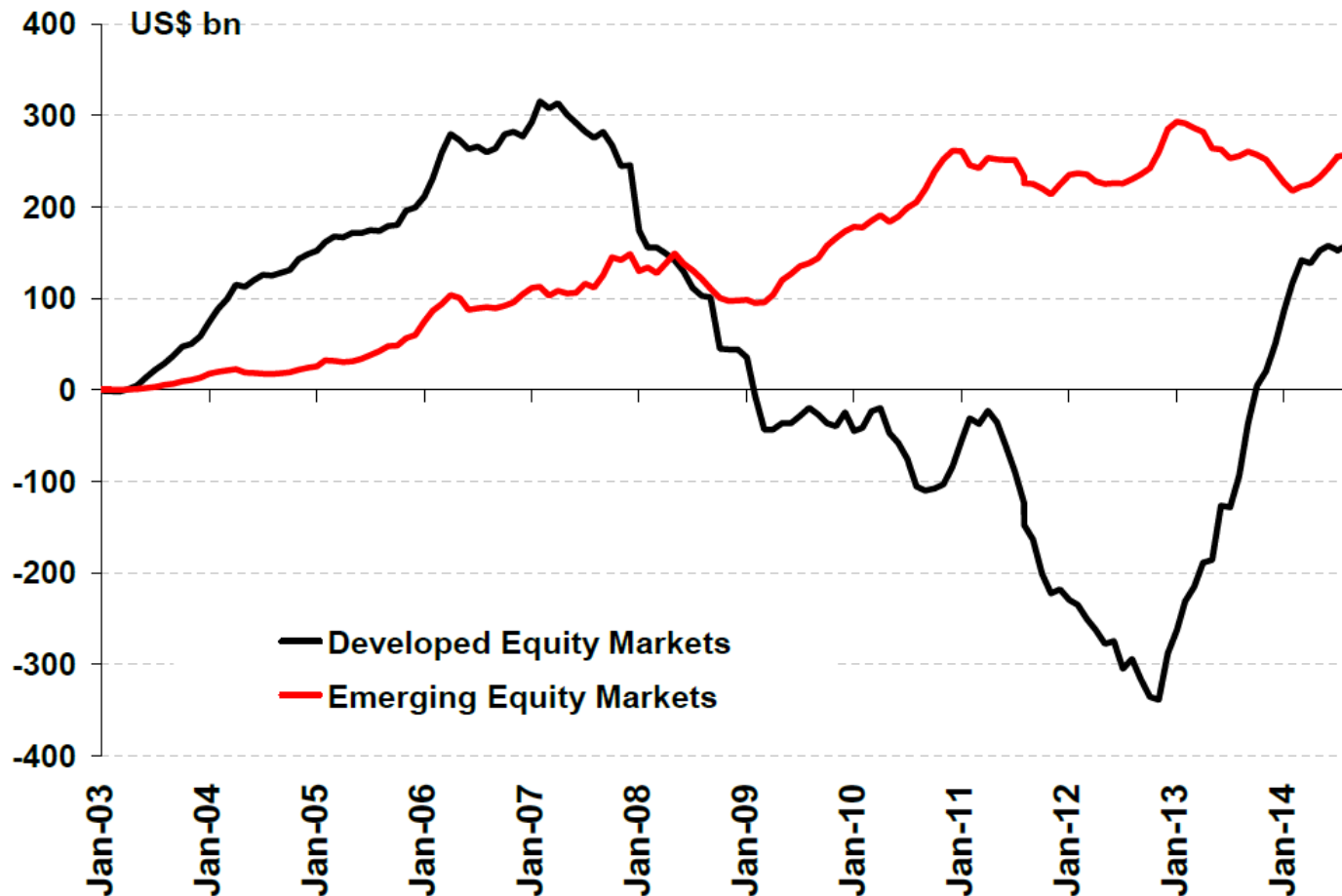
Turkey's leading conglomerate in sectors including financial services, energy, cement, retail and industrials. The company has 10 companies currently listed on the Istanbul Stock Exchange and operates in 18 countries across Europe, the Middle East, Asia, North Africa and North and South America. Controlled by the Sabanci family.



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.

Additional information

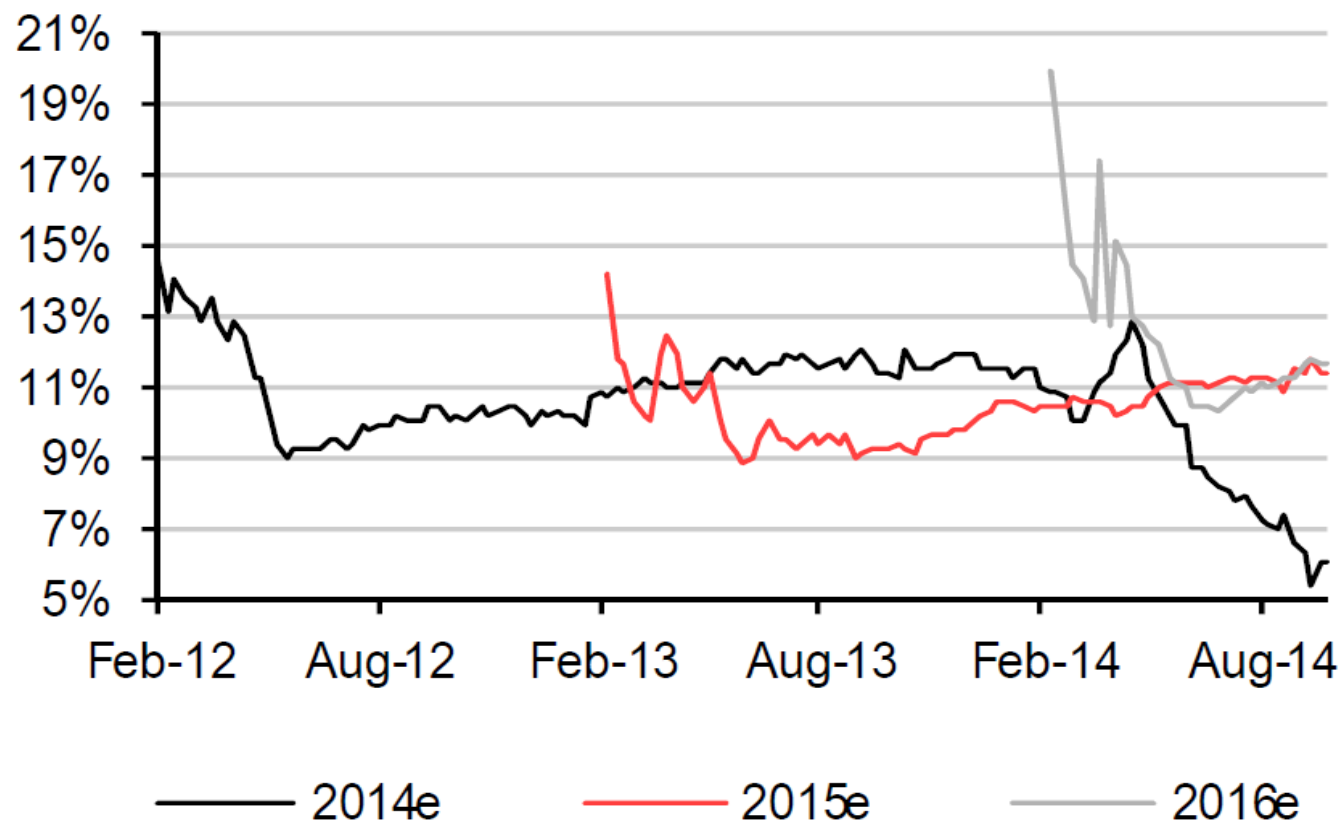
Cumulative equity flows to EM and DM (as at end of Sep 14)



Source: EPFR Global, Country Flows Database (see last page for details), Morgan Stanley Research. Data as of September 24, 2014

Earnings growth forecast

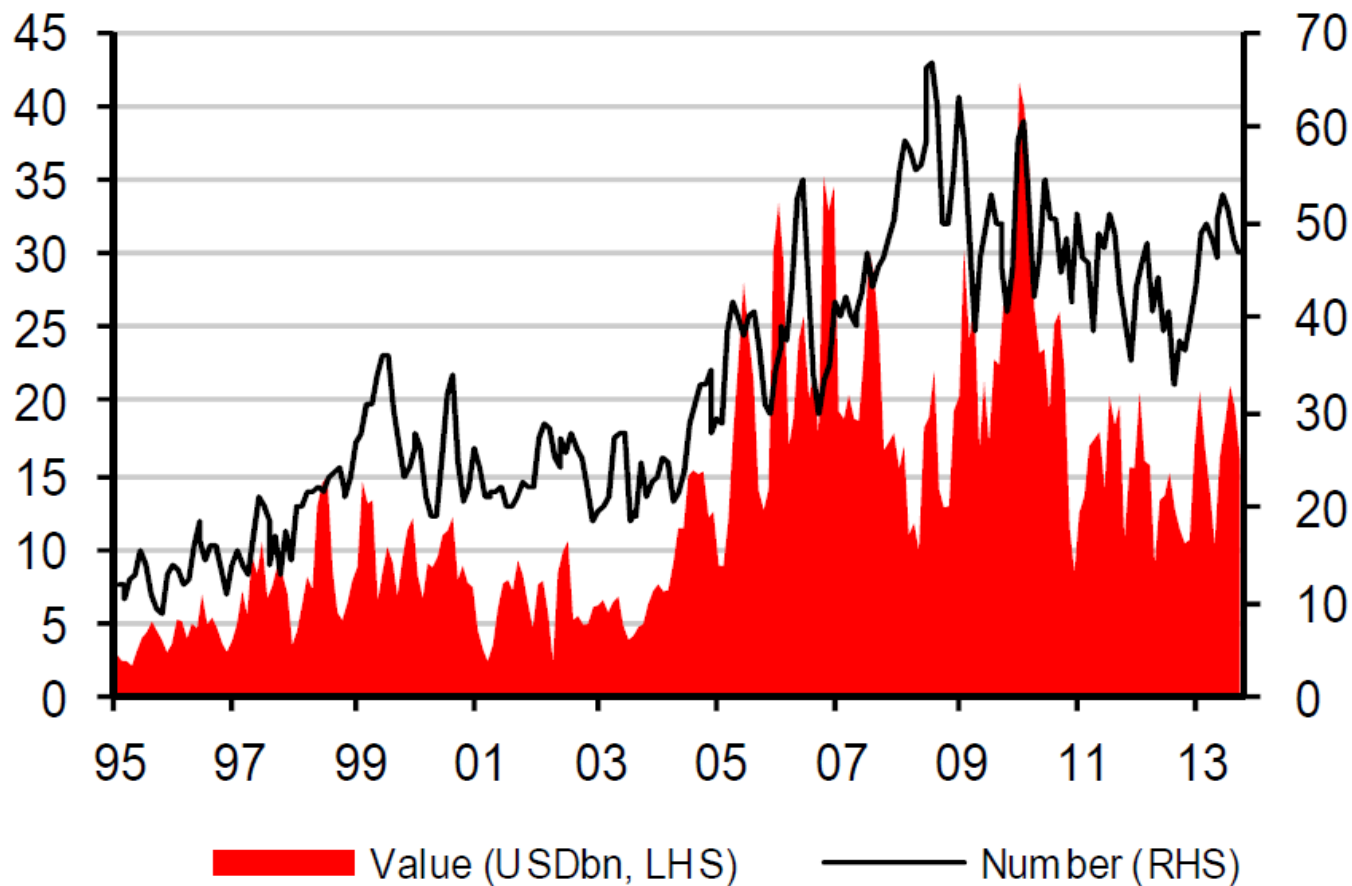
MSCI Emerging Markets



Source: MSCI, I/B/E/S, Thomson Reuters Datastream, HSBC

EM M&A Deals

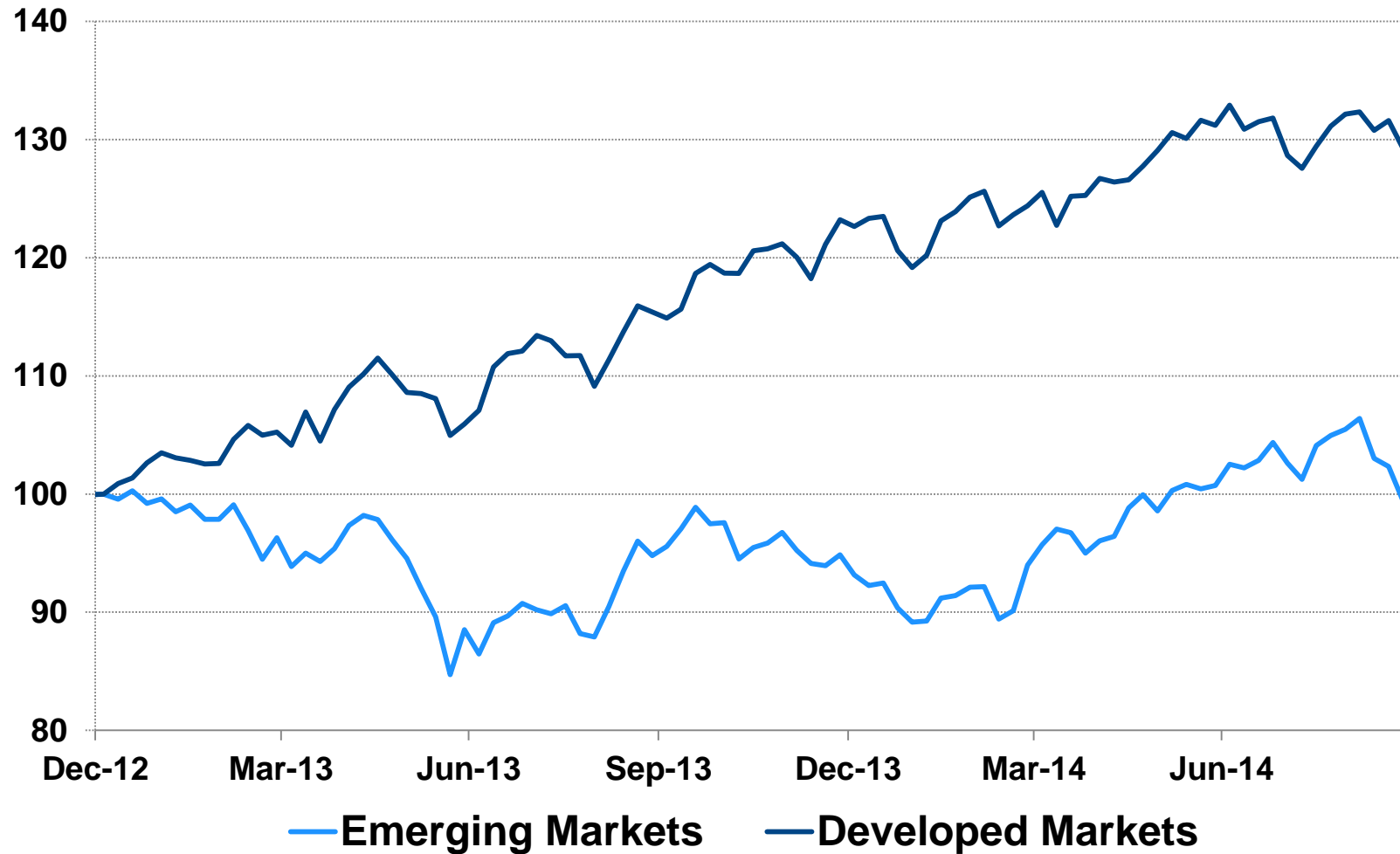
Emerging Market M&A* (value and numbers) 3MMA



Source: *Note: Only include M&A deals where target is a publically listed company

Cumulative performance in USD

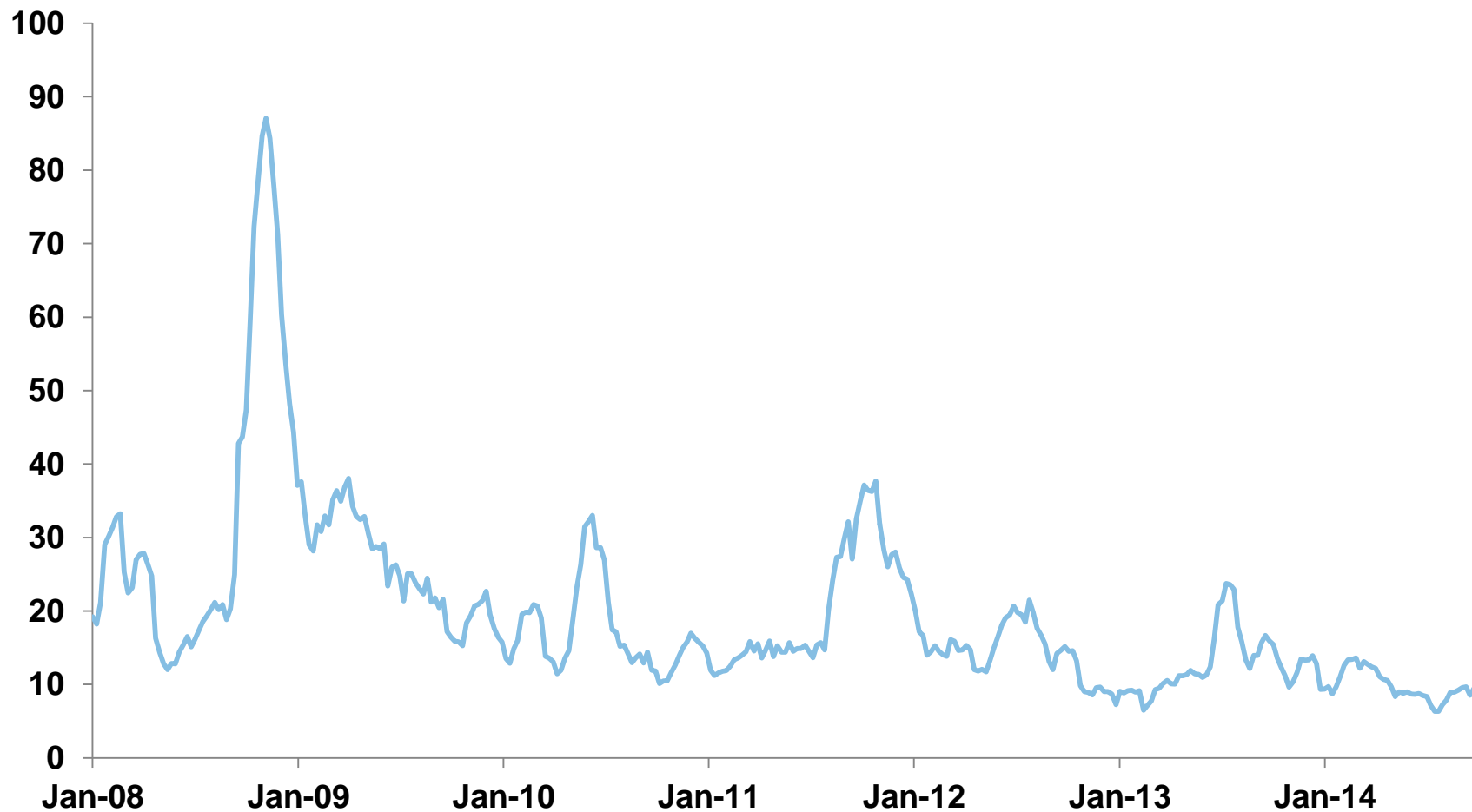
Dec'12 - Sep '14



Source: Bloomberg, SKAGEN research.

EM equity volatility in September remains subdued

MSCI EM 30-day implied volatility index



Source: Bloomberg, SKAGEN research.

For more information please visit:

Our latest [Market report](#)

Information about [SKAGEN Kon-Tiki A](#) on our web pages

Unless otherwise stated, all performance data in this report 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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