SKAGEN Global

Status Report – July 2014

From the moor north of Skagen. July, 1885. Detail.
By P. S. Krøyer, one of the Skagen painters. The picture is owned by the Skagens Museum.

The art of common sense

SKAGEN

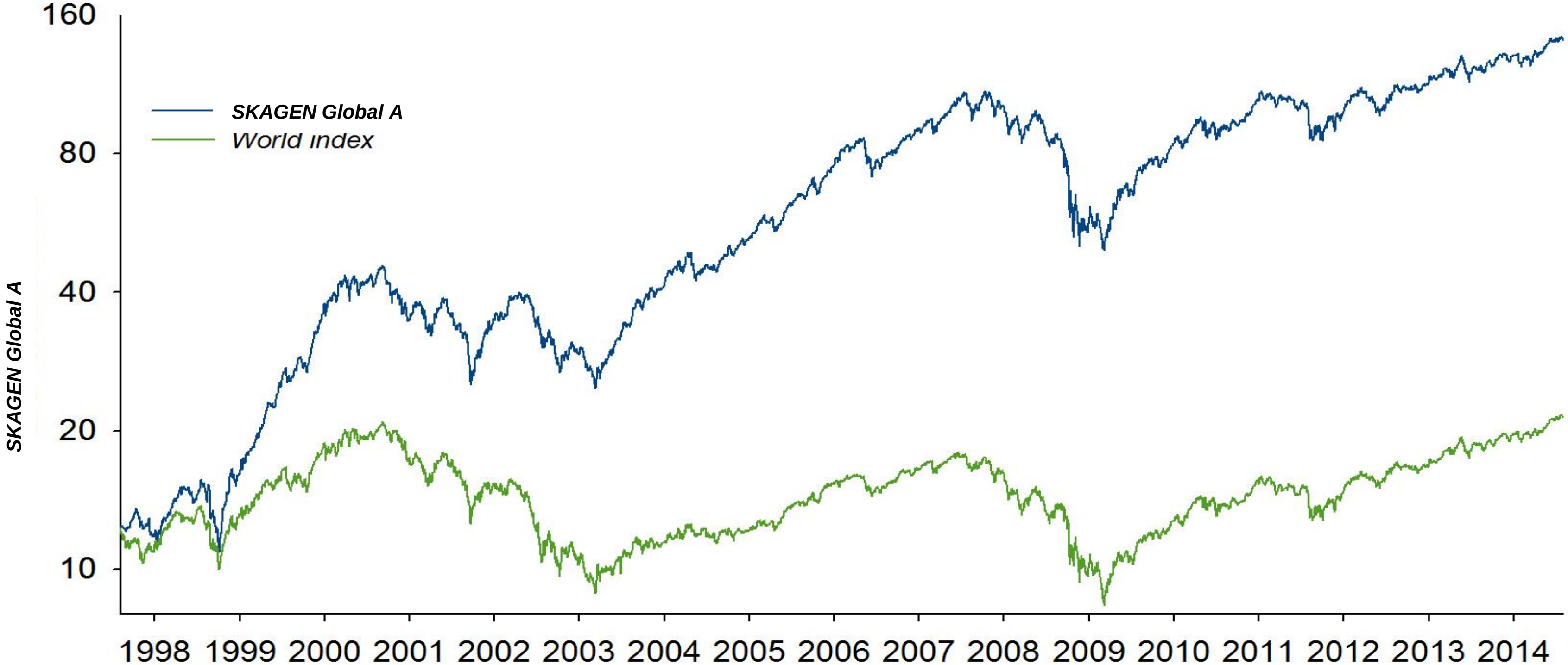
Summary – July 2014

- SKAGEN Global* underperformed its benchmark index in July. The unit price increased 1.0% measured in EUR while the MSCI All Country World Index increased 1.5%. Year-to-date SKAGEN Global is up 7.8% - 0.6 percentage points behind the index.
- Volvo, the Swedish manufacturer of trucks, buses and construction equipment, together with the Dutch life insurer NN Group were new portfolio entrants in July. We also added to our position in Industrial Bank of Korea. We reduced our positions in Lundin Mining, Cheung Kong, China Unicom and Dixons Retail.
- The net cash position in SKAGEN Global increased from 3.2% to 3.4% in July and the aggregate weight of the top 10 positions fell from from 31.3% to 29.5% of the fund. SKAGEN Global currently consists of 105 companies.
- Citigroup (5.6% weight) was the best contributor to absolute performance in July (up 5% in USD) and Gazprom (1.9% weight) was the biggest detractor (down 16% in USD).
- 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 9.8 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 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.*

July 2014 - Results for SKAGEN Global A

EUR, net of fees

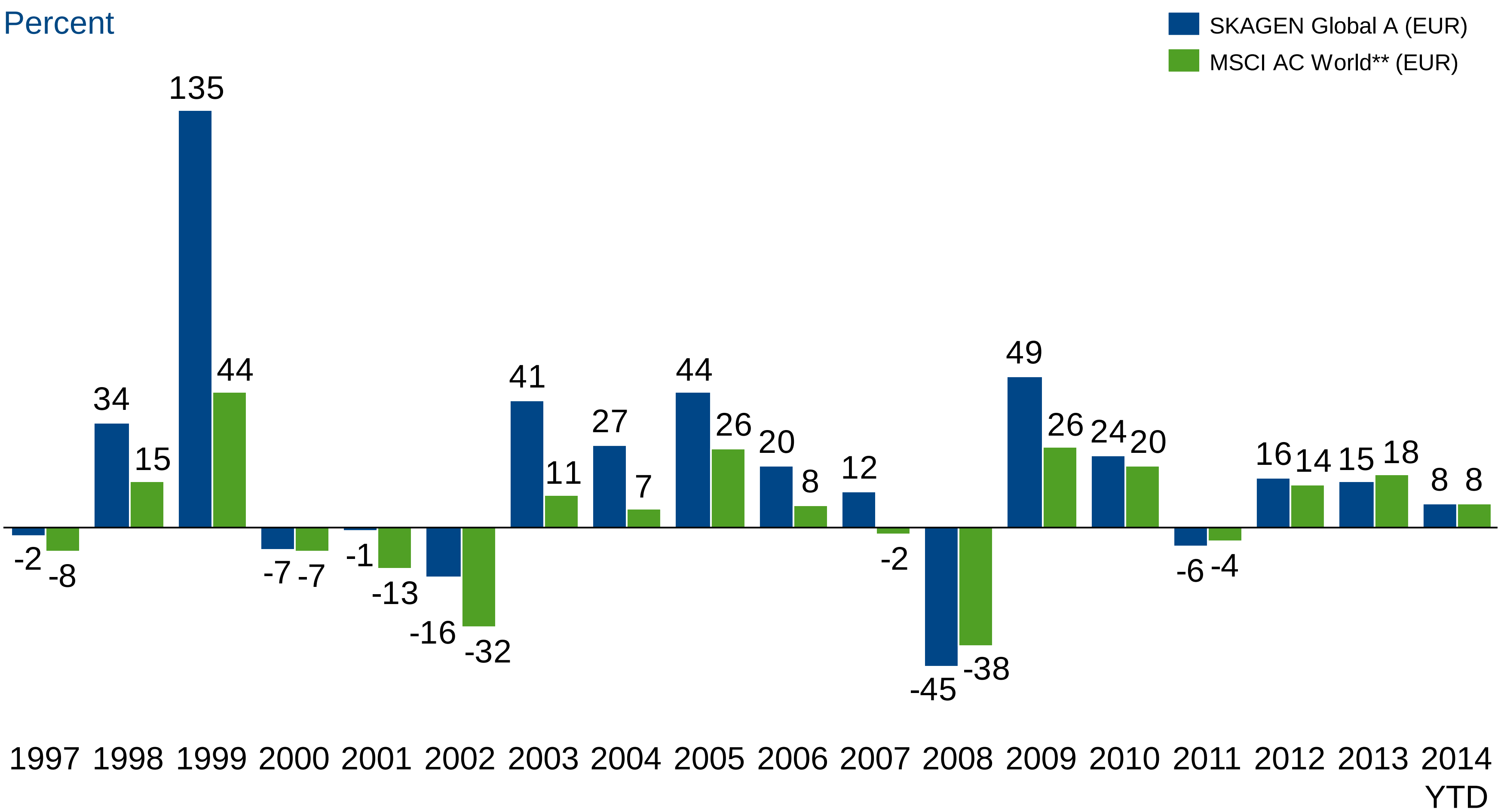


	July	QTD	YTD	1 Year	3 years	5 years	10 Years	Since inception*
SKAGEN Global A	1.0%	1.0%	7.8%	16.3%	12.0%	14.0%	11.9%	15.5%
MSCI AC World Index*	1.5%	1.5%	8.4%	15.0%	13.2%	13.4%	6.0%	3.3%
Excess return	-0.5%	-0.5%	-0.6%	1.3%	-1.2%	0.6%	5.9%	12.2%

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*

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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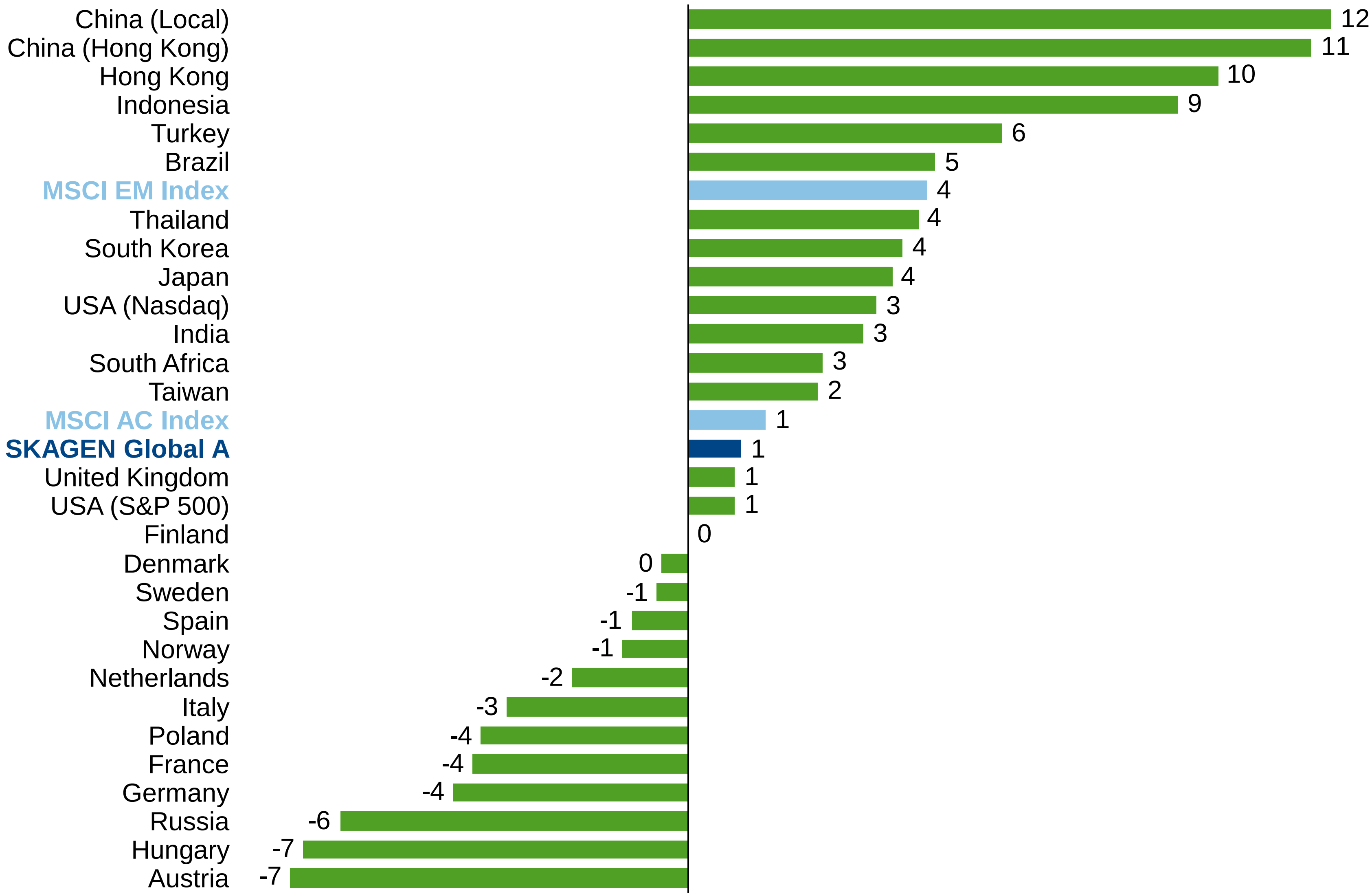
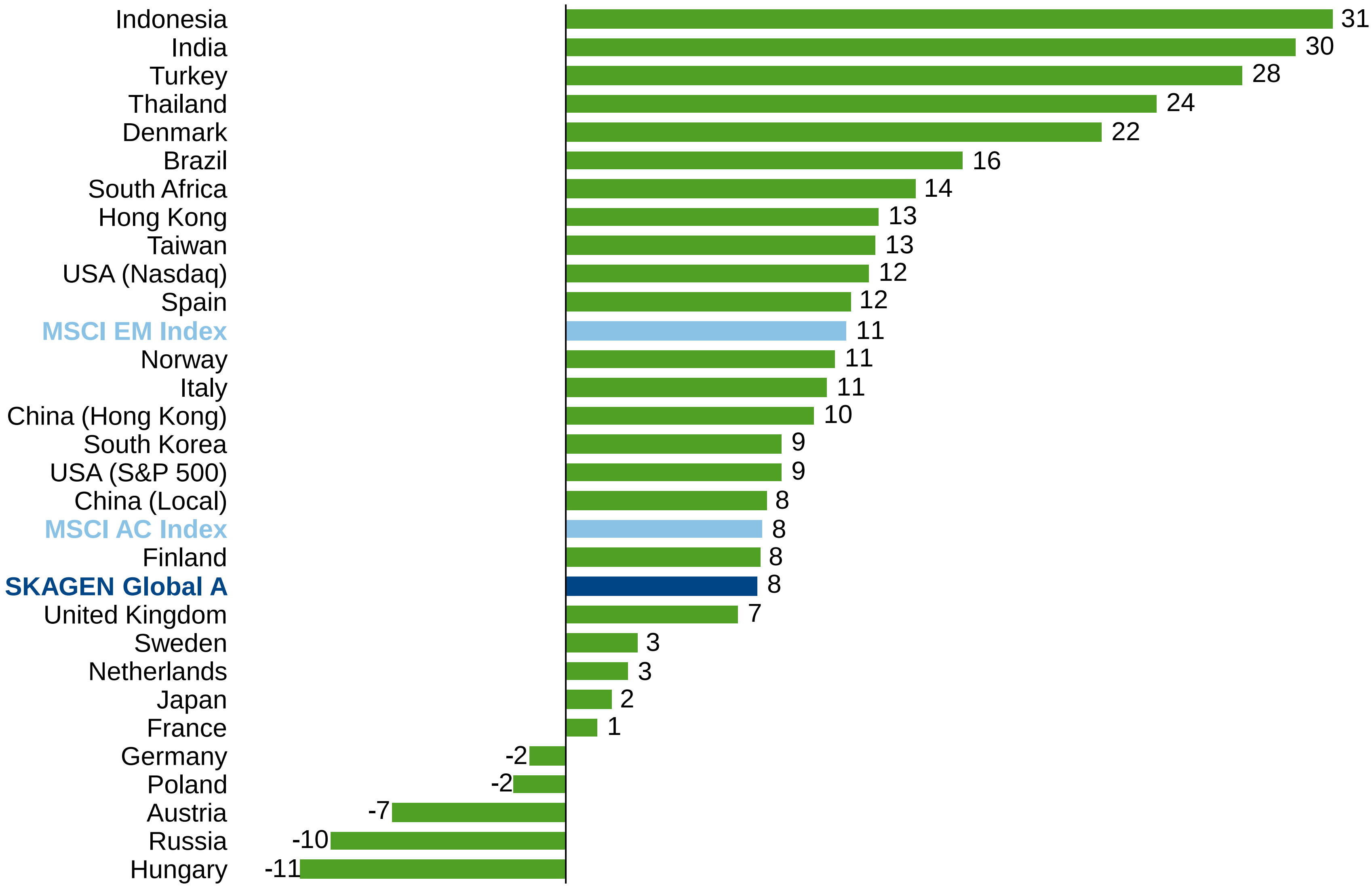
Markets in July in EUR (%)



Markets YTD 2014 in EUR (%) as at end July 31st



Main contributors in July 2014

Largest positive contributors

Company	NOK (m)
Citigroup	183
China Unicom	150
LG Corp	110
Norsk Hydro	91
Cheung Kong	75
Samsung Electronics	66
Microsoft	59
Hyundai Motors	57
Kazmunaigas	45
Teva	44

Largest negative contributors

Company	NOK (m)
Gazprom	-96
Afren	-90
Heidelbergcement	-63
Renault	-56
Technip	-55
OMV	-49
Sberbank	-40
Sistema	-38
State Bank of India	-37
General Motors	-37

Total value creation July 2014: NOK 558 million

NB: Contribution to absolute return

Main contributors YTD 2014 (as at July 31st)

Largest positive contributors

Company	NOK (m)
Samsung Electronics	413
Weatherford	308
Teva	293
Norsk Hydro	224
China Unicom	217
Baker Hughes	216
Hyundai Motor	200
Cheung Kong	200
State Bank of India	196
Microsoft	194

Largest negative contributors

Company	NOK (m)
Vimpelcom	-279
Afren	-131
ADT	-112
General Motors	-108
CTC Media	-79
Gazprom	-67
Sberbank	-66
OMV	-65
Stolt Nielsen	-55
Sistema	-55

Total value creation YTD 2014: NOK 3.992 million

NB: Contribution to absolute return

Holdings increased and decreased during July 2014

Key buys during July

- We introduced **Volvo** into the portfolio after the stock fell as a result of weak 2Q earnings and lowered FY guidance. We think Volvo is heading for a harvest period from 2015 and beyond, following significant investments in new truck models in Europe and Asia, and we regard the present share price weakness as a good opportunity to gain exposure to this.

- **NN Group** was initiated as a new position in connection with an IPO. The company, whose core business is life insurance, is valued at 0.5x book value. This corresponds to expected return on equity of 5% in 2015. We believe efficiency gains and improved capital discipline will increase expected return on equity and thus be a catalyst for re-rating to 0.7 times book within a two year time frame.

- **Industrial Bank of Korea** was increased in connection with a share offering from the Korean Government. We believe we will see more focus on profitability and higher return on equity due to less push on low net interest margin from the Government. The bank is traded at attractive valuation multiples – P/E (2014e) of 9x and P/Book of 0.6x.

Key sells during July

- **Lundin Mining** has had a good run over the last few months on the back of increased metal pricing and good operational performance. We still see upside but after a 40% stock price appreciation we have trimmed our position

- **Cheung Kong** was reduced in July as the share price has done well, reducing the discount to our target price. We still see upside to our 165 HKD target price as the company continue to amortise assets, paying out the proceeds as special dividends.

- **China Unicom** was also reduced in July as the share price has done well, reducing the discount to our target price. We still see upside to our 17 HKD target price as the market fails to price in the company's earnings growth and changing cash flow profile (CAPEX taking a still smaller share of revenues)

- We reduced our position in **Dixons Retail** because we doubt the merger with Carphone Warehouse will add value to the Dixon Retail shareholders.

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)
- Industrial Bank of Korea

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

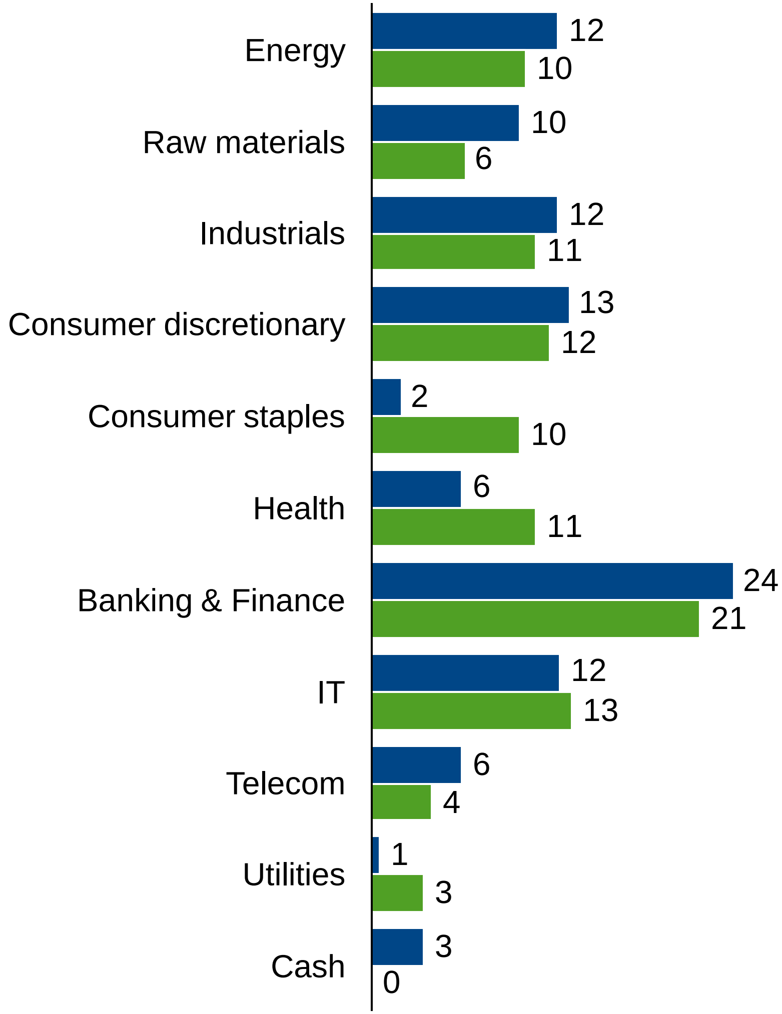
Largest holdings SKAGEN Global as of 31st July 2014

	Holding size, %	Price	P/E 2014e	P/E 2015e	P/BV last	Price target
SAMSUNG ELECTRONICS	7.7	1 073 000	6.1	5.9	1.0	1 500 000
CITIGROUP	5.6	48.9	10.3	9.1	0.7	75
AIG	3.2	52.0	11.6	10.4	0.7	80
NORDEA	2.4	92.8	11.5	10.6	1.4	105
MICROSOFT	2.2	43.2	15.4	13.4	4.0	50
LG CORP	2.2	69 400	11.5	9.7	1.0	100 000
TEVA PHARMACEUTICAL	2.1	53.5	11.2	11.0	1.9	65
CHINA UNICOM	2.1	13.6	19.5	16.5	1.2	17
RENAULT	2.0	62.4	9.0	6.5	0.8	80
GAZPROM	1.9	7.4	2.5	2.7	0.3	11
Weighted top 10	**29.5**		**7.5**	**7.0**	**0.8**	**40%**
Weighted top 35	**62.8**		**9.8**	**8.8**	**1.0**	
MSCI AC World			**15.2**	**13.6**	**2.0**	

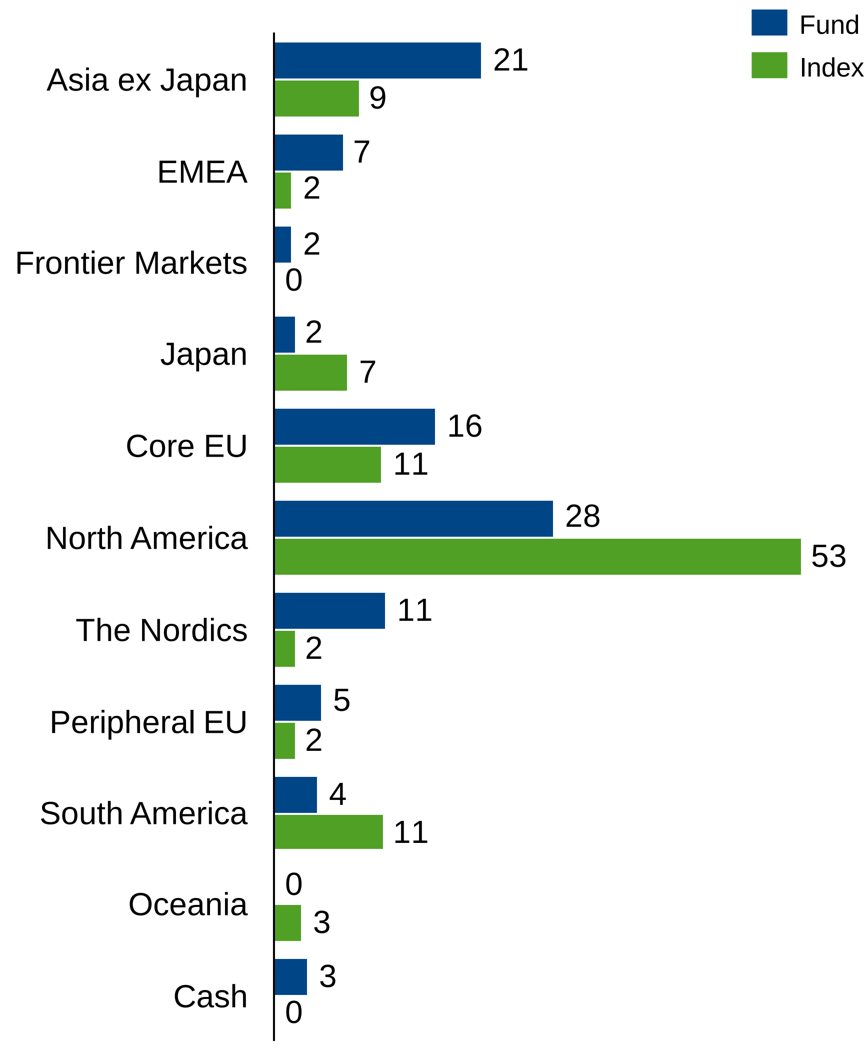
SKAGEN

Sector and geographical distribution versus index

Sector distribution



Geographical distribution



Key earnings releases and corporate news, July 2014

Citi

(5.6%)

Reported better than expected results driven by strong investment banking revenue

- *Summary:* Revenues were marginally down y-o-y driven by weak trading revenue. Although weak (down 15% y-o-y), trading revenue came in significant better than expected (market was looking for a 20-25% decline) as June was very strong. The other highlight in the quarter was the strong investment banking business (up 16% y-o-y). Importantly, core expenses are still declining (down 2% y-o-y) as Citi continues its restructuring. Credit cost also continues to come down in both Corp (down 12% y-o-y) and particular in Holding (down 36% y-o-y) as NPLs are declining. Citigroup finally announced its mortgage settlement, taking a 4bn USD legal charge in the quarter.
- *Implications:* The quarter showed the underlying improvement we are looking for: reduced core operating expenses (-2% y-o-y), a reduced drag from Citi Holdings (adjusted for the mortgage settlement, Holding had a profit of USD 250 million in the quarter), DTA utilization (USD 1.1bn in the quarter), and improved capital ratios.

Bunge

(1.3%)

Reported much better than expected results driven by all segments

- *Summary:* Net income beat consensus expectations by 30% with all segments preforming better than expected. The agribusiness performed well ahead of expectations with strong oilseed crushing margins in North America and Europe, along with strong soy exports out of Brazil. Going forward, the environment should become even better with the arrival of a large US crop this fall. Its Food Products division (wheat milling & edible oils) produced record Q2 profits as efficiency measures are driving higher margins. Bunge thinks they can continue to drive margins higher, leading to 40% improvements in earnings over the coming 2 years (it is 25% of total earnings today). Even the Sugar & Bioenergy business came in better than expected. The segment produced a small operating profit, despite a still tough environment. Bunge is still working to sell this business. The company bought back 1% of shares outstanding in the quarter and plans to buy back another 1% in Q3.
- *Implications:* The new CEO continues to give more specific data each quarter on how he plans to increase efficiency Bunge. This is what matters for our investment thesis – after 10 years with a growth focus, we think the new CEO should have ample opportunity to improve margins and cash flow. Bunge's agribusiness results are very volatile, so while number were impressive, it is too early to give him credit for this. However, the Food Products division is clearly benefitting from the new focus.

Key earnings releases and corporate news, July 2014

Cheung Kong

(1.2%)

Reported strong, but not as strong as expected results

- *Summary*: Ex-Hutch, underlying profit went up 22% y-o-y driven by strong performance from all divisions except the Chinese real estate development business where profit was down more than 50%. The Hong Kong development business tripled earnings. This segment is extremely volatile due to the timing of bookings, but Cheung Kong is clearly slowing their land purchase in both HK and China. Property rental income, excluding disposals, was up close to 10% y-o-y. Profit from infrastructure business was up 24% y-o-y, helped by newly acquired assets. Earnings from Hutchison more than doubled, but this was mainly to one-off gains from disposals. Net gearing declined further and the company now only has a marginal net debt position.
- *Implications:* With no gearing and continued monetisation of assets (paid out as special dividends) we think the NAV discount should narrow further. The result confirmed this thesis. Both Cheung Kong and Hutch continued to sell assets and the ordinary dividend was hiked following a special dividend in May.

Tyco International

(1.8%)

Reported results marginally ahead of expectations

- *Summary:* Tyco delivered marginal organic revenue growth as expected. More importantly, improved mix and lower costs lead to another quarter of margin improvement. As earnings continue to be driven by lower cost instead of capital intensive top-line growth, cash flow was exceptionally strong. We finally saw some signs of an improved outlook for the commercial real estate market in the US, with improved order growth in that region. The company made two small acquisitions in the quarter and also bought back close to 5% of shares outstanding. Net cash ended the quarter at USD 0.5bn.
- *Implications:* Tyco continues to execute extremely well on margins, cash conversion and capital allocation. The valuation increasingly reflects this, so we have reduced our position

Goldman Sachs

(1.1%)

Q2 not as bad as feared

- *Summary:* Goldman Sachs reported another quarter of 11% ROE, despite weak performance by Institutional Client Services (Fixed Income, FX & Equities). The shortfall in ICS was offset by strong numbers from Investing and lending, but also by good performance from Investment banking and Investment management. *Implications:* At present, GS trades at around book value and has an ROE of 11%. This level was maintained in Q2. We think that once the regulatory environment settles, the bank will be able to return closer to 15% ROE and as such earn a higher multiple. The timing of this remains uncertain, which is why we maintain a relatively small position of around 1% of the fund. We regard the downside fairly well protected as GS is well capitalized and the majority of ROE is funneled towards dividends and share buybacks.

Key earnings releases and corporate news, July 2014

Comcast

(1.0%)

Q2 numbers better than expected – Share buybacks to accelerate in 2H

- *Summary:* Operational trends continue to impress across the businesses. Comcast continues to execute on profitable cable growth and improvement in the NBCU businesses. EPS of USD 0.76 was up by 15.4% compared to Q2 2013. Revenue increased by 3.5% while free cash flow was down by 40% due to increased working capital, capex and cash taxes. Free cash flow for 2H 2014 looks more favorable. Even with the big TWC deal that hopefully will by closed by the end of 2014, management has kept their operational focus which is good to see
- *Implications:* Momentum in continuing for most of Comcast`s businesses. We still wait for the closure of the TWC deal later this year and then there is scope for more share buy-backs. We also think that Comcast should be able to raise TWC residential metrics to the Comcast level and combining the companies' highly complementary enterprise businesses

GM

(1.6%)

Q2 highly impacted by recall related costs – EPS in line with expectations.

- *Summary:* GM reported Q2 EPS of USD 0.58 – more or less in line with expectations. EBIT came in slightly lower than expected, but was offset by lower than expected tax rate. Adj. EBIT of USD 1.35bn includes USD 1.2bn in recall related costs and USD 0.2bn in restructuring costs. Operating margin in North-America (ex. recalls) was 9.2%. Europe posted EBIT loss of USD 305mn.
- *Implications:* So far it seems that the significant recalls this year haven`t impacted sales much. The North-America market share increased 0.7 percentage points to 17.2% q-o-q. We still expect GM to deliver EPS close to USD 5/share in 2015 driven by successful model launches and profitability improvement in Europe.

Renault

(2.1%)

H1 earnings in-line with expectations, cash-flow was disappointing

- *Summary:* Renault reported H1 automotive operating margin of 1.9%. Automotive EBIT came in at EUR 348mn and EBIT on group level was EUR 729mn. Working capital build-up of EUR 861mn was a drag on cash-flow leading to negative free cash-flow of EUR 360mn in the period. The company confirmed guidance for the full year: Increased group and automotive earnings compared to 2013 and positive operating free cash-flow.
- *Implications:* The stub value of Renault (ex. Nissan and Financial services) is still valued at ridiculously low multiples – EV/Sales of 0.1 and EV/EBITDA <1. Improvement in core automotive profitability is driven by cost cutting, growth in emerging markets and a potential recovery in the European car market. We see still upside from both profitability improvement and a reduction in the conglomerate discount.

Key earnings releases and corporate news, July 2014

Heidelberg-cement

(1.1%)

EBITDA in Q2 slightly behind expectations, outlook for 2014 confirmed

- *Summary:* Revenue of EUR 3.57bn (-0.5% y-o-y) was in-line with expectations, but EBITDA of EUR 699mn was ~3% lower than expected due to reduced EBITDA-margin in Asia. Operating cash flow improved significantly from Q2 2013 and net debt came in at EUR 8bn (unchanged y-o-y). EPS for Q2 was EUR 1.24. The disposal of Building Products is on track. Outlook for 2014 was confirmed: “Increase in revenue, operating income, and profit for the FY on a like-for-like basis.
- *Implications:* Heidelbergcement is still facing headwinds in some emerging markets from certain depreciating currencies, cost inflation and more fierce competition due to capacity increases. We see some easing pressure on margins, especially in Indonesia which could improve profitability in H2. The Ukraine situation could offset this. The outlook for US is strong (Q2 organic growth at 10%) and the situation in Europe (Q2 organic growth of 1.5%) is gradually improving from a depressed level.

Weatherford

(1.7%)

Q2 shows strong margin expansion in spite of lower revenues; FCF and net debt targets maintained

- *Summary:* Weatherford delivered USD 0.24 EPS, comfortably beating the Street’s estimate of USD 0.21. Revenues however, were 4% lower y-o-y and 2% below consensus. Operating margin increased sequentially by 280 bps to 14%, driven primarily by significant margin jumps in North America/Europe/Africa/CIS. LatAm was the only disappointment where start-up costs in Brazil and labor disruptions in Argentina weighed on results.
- *Implications:* . For the first time since 2010, Weatherford has managed to generate positive free cash flow in Q2. Nevertheless, the company needs to ramp up FCF quite significantly during H2 to hit its FY USD 500mn target. There is room for further margin expansion as indicated by the strong 16.5% operating margin in core segments vs. 14% on group level.

Microsoft

(2.2%)

Q4 results slightly ahead of consensus – good momentum in cloud offerings

- *Summary:* Microsoft reported Q4 results with revenues 2% ahead of consensus and operating profit 4% ahead. Revenue growth (ex Nokia) was 6% y-o-y. EPS of USD 0.55 missed expectation due to a USD 0.08/share impact of Nokia loss.
- *Implications:* The new CEO Satya Nadella is pushing Microsoft to grow in cloud services. Commercial cloud services (includes Office365, DynamicsCRM and Azure) grew 147% y-o-y to an annualized revenue run rate at USD 4.4bn. This is a clear support to our view that most of the future growth potential (and value) lies in enterprise software. We have already seen a rerating (P/E have moved from 9 to 15 last two years) so the potential for further multiple expansion seems less likely.

Key earnings releases and corporate news, July 2014

Toyota Industries

(1.2%)

In-line Q2 results: forklifts strong, diesel engines weak

- *Summary:* The industrial conglomerate Toyota Industries reported roughly 7% y-o-y growth in sales and operating profit, slightly beating consensus estimates. The beat was more notable on the RP and NP levels where higher dividends from equity affiliates (mainly Toyota Motor) boosted results significantly and contributed to management raising the full-year guidance for these items by 7% and 9%, respectively.
- *Implications:* The key take-away, in our opinion, is the positive message on the fork lift business. With forklift operating margins almost 3x lower than best-in-class peers (Komatsu, Kion), Toyota Industries has ample opportunity to surprise the market in this segment. Last year's acquisition of Cascade (non-fork attachments) will help toward improving the fork lift market position, and it is encouraging to see that there are no integration hiccups (so far).

Baker Hughes

(1.8%)

Strong Q2 results driven by improved profitability in North America and Eastern Hemisphere

- *Summary:* Baker Hughes reported Net Income growth of 53% y-o-y in Q2. EPS of USD 0.92 was 3% better than expected by sell side analysts. EBIT margin in North-America was reported at 12% in Q2 vs 10.8% in Q1 and 8.3% in Q2 2013. The company also reported meaningful margin expansion in the Eastern Hemisphere. Only disappointment was a sequential decline in operating margin in Latin America. The company used USD 200mn for share buy-backs in Q2 (similar to Q1). Free cash-flow was –USD 31mn.
- *Implications:* Our thesis for profitability improvement is playing out. We have seen a radical improvement in profitability both in North-America and Internationally. The reason is increased internal efficiency and market improvement – especially in the US. We see this trend to continue and see earnings potential of at least USD 7/share in 2016.

Teva

(2.1%)

Q2 in line with expectations, Copaxone convertion at 50%

- *Summary:* The Israeli pharmaceutical company reported Q2 roughly in line with market expectations with sales of approx. USD 5bn and operating income 1.4bn (up 8% y-o-y), EPS USD 1.23 with a gross profit margin of 58%. Teva's conversion of clients from the traditional Copaxone to the new patented three-times-a-week formula is now at 50% and aim for 65% by year end, this is versus a target a 40% target when the conversion process started. The company has been able to fight off any generic competition in US after the patent for the drug expired in May. Improvement in sales shows growth came mainly in the generic and US market. Guidance of EPS improve up with USD 0.05 for the year (no Copaxone generic launch) to USD 4.90-5.10
- *Implications:* Teva followed up on their strong Q1 figures and continued to grow both revenues and profitability organically. It is encouraging to see the hire of new management within generics with previous expertise and their statement to focus on organic growth to strengthen and develop the generic business.

Key earnings releases and corporate news, July 2014

Roche

(1.8%)

Another solid quarter, record margins for pharma division

- *Summary:* Roche reported another solid quarter in Q2. Pharma sales grew 5% in local currencies driven by good performance by its three blockbusters (Avastin, Herceptin and MabThera/Rituxan) as well as by recent launches (Perjeta, Kadcyla, Actemra). The strong topline resulted in a new record margin (48.2%) for the pharma division. Diagnostics (<10% of EBIT) also grew by a strong 6% in the first half, but the margin contracted somewhat due to higher cost of sales.
- *Implications:* Results were well in line with expectations, as well as the company's guidance for the FY (low-to-mid single digit topline growth and faster EPS growth). We like Roche for its focused franchise, leading positions and strong late stage pipeline, which was again manifested in the good results for the quarter. We find the stock reasonably priced at a P/E of 17x.

Nordea

(2.4%)

Q2 confirmed the push for higher operating efficiency

- *Summary:* Nordea reported headline EPS of EUR 0.17 in Q2 – 5% above expectations. The beat was mainly driven by lower restructuring charges and lower loan losses than expected. Net interest income was slightly lower than expected. The CET1 capital ratio increased by 60bp q-o-q to 15.2%. Underlying return on Equity increased from 11.4% in Q1 to 12.0% in Q2.
- *Implications:* The target for 5% cost reduction in 2015 vs 2013 seems achievable. Cost/income ratio fell 80bps to 49% during Q2, helped by 8% decline in non-staff cost vs Q2 2013. The strong capital position paves the way for further increases in the dividend pay-out ratio. We think Nordea will beat current expectation of RoE of 12.5% and 12.8% in 2015 and 2016 driven by operating efficiency and improved capital discipline. We have lifted our share price target to SEK 105 (corresponds to 10x expected earnings in 2016)

Akzo Nobel

(1.8%)

Q2 earnings support portfolio transformation to higher profitability

- *Summary:* Akzo Nobel reported Q2 results with revenues down 4% (mainly negative FX) but operating income up 10% y-o-y. Higher volume across all divisions and more favourable price-mix are the main reasons behind the higher operating income. Return on sales rose from 8.3% to 9.5%; same goes for ROI that hit 9.5% (vs 7.8% in 2013 H1). The company reiterated 2015 targets of 9% ROS and 14% ROI.
- *Implications:* This is an encouraging set of results lending further support to the turn-around story. Having replaced 8 of 9 members of the executive team over the past two years, Akzo can now prune the portfolio with full force and drop unprofitable contracts without being held back by any legacy issues. These actions are beginning to pay off – Q2 was the fourth straight quarter with margins improving on a group level.

Key earnings releases and corporate news, July 2014

Norsk Hydro

(1.6%)

Q2 weaker than expected due to temporary electricity issue in Norway

- *Summary:* The Norwegian aluminum producer reported figures for Q2 that were weaker than the market expected. Though the revenue was strong at NOK 18.3bn (estimates 16.8bn), the underlying EBIT was significantly weaker than expected for Q2 at NOK 544m. This led to a net profit of 185m, (627m in Q2 2013), the shortfall in earnings comes mainly from their energy production, where the significant drop in market price in Norway which gave lowest prices since 2010 with a 30% drop combined with they were unable to export due to grid issues. An unrealized currency loss on a derivative of new electricity contracts also gave a financial write down of -217m.
- *Implications:* Even though the results were a bit weaker than expected, the case for Norsk Hydro still holds, the issue within the Norwegian electricity market is a temporary issue that should be solved. The continued focus on cost makes production very competitive (Qatar production as low as USD 1000 per ton). With improved pricing power, continued strong demand for aluminum should improve profitability.

Samsung Electronics

(7.7%)

Weak Q2 results on handset inventory charges

- *Summary:* SEC announced operating profit for Q2 of KRW 7.2tr which is down 15% q-o-q and -24% y-o-y. The result was below market downgraded market expectations of 8.1tr, after management had signaled negative impact from KRW strength and weaker sales of low and mid end phones, leading to inventory clean up (Europe and China mainly) as well as increased marketing costs. Weak display and system LSI results also contributed. For the first time in a preliminary announcement, management provided some comments to results and also gave a brief comment to Q3 outlook. SEC expects results for current quarter to improve sequentially based on seasonal demand pick up in memory and display divisions as well as recovery in handset division with q-o-q shipment growth.

- *Implications:* Results mean a downward revision to 2014 estimates. With net cash now exceeding KRW 60tr or 30% of market cap, cash returns to investors remains a key trigger. However, amid chairman Lee's illness this process might be further delayed. Our discounted preference shares trade at a P/E (2014e) of c. 6.1x, but if we deduct low yielding cash, cash-adjusted P/E is at about 4.1x for pref. share. This valuation more than makes up for slowing growth in the handset division.

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 in a 180bn bail out. 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.

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%.

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).

The largest companies in SKAGEN Global cont.

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.

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.

After the merger with China Netcom and disposal of CDMA in 2008, China Unicom is now a full service provider, offering both fixed-line and mobile (GSM and WCDMA) services. China Unicom has 222m mobile subscribers, 93m fixed line subscribers and 61m broadband subscribers. The Chinese government owns 75% of the company. The company is listed in Hong Kong and also has a fairly liquid ADR in New York.

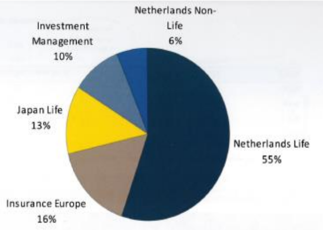
Renault is a leading manufacturer of automobiles through brands like Renault, Dacia and Renault Samsung Motors. It holds ownership of stakes in Nissan (43.4%), AvtoVaz (25%) and Daimler (1.55%). It has also built up sizable operations in Russia, Turkey, North Africa and Brazil. Renault is also a leader 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

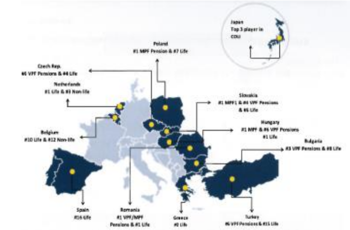
Gazprom is the world's largest gas producer with proven gas reserves of 550bn m3 (10% of global reserves and equal to 30 years' reserve life). The company controls 160,000km of gas pipelines and has significant storage capacity. It owns and operates Russia's entire high pressure gas transportation network 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.

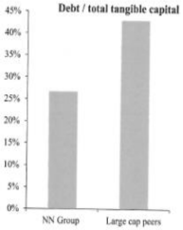
NN Group (NN NA) EUR 20

Background and Business Model

- NN Group is primarily the life insurance arm of ING which is required to separate its bank and insurance operations as a result of receiving Dutch state aid post the financial crisis . The NN Group IPO in July 2014 is part of this divestment process. Note that ING must sell down <50% ownership by 2015 and sell out 100% before 2017. No M&A allowed for NN Group until ING is below <50%
- Operating income by product area (2013): 84% Life, 10% Investment management; 6% Non-life
- Operating income by division (2013): 55% Dutch Life; 16% Insurance Europe; 13% Japan Life, 10% IM; 6% Non-life







- The strategy is to improve efficiency/yield in Dutch Life, grow (life) modestly in the underpenetrated CEE and lower COR in Non-life
- Management targets >7% ROE and 5-7% annual growth in operating income by 2018, including EUR 200 mn of cost savings

Investment Thesis

1. We view NN Group as a capital return story while the market assumes significant capital shortfall within the structure. We believe efficiency gains, capital discipline and potentially lower-than-expected Solvency II requirements will allow NN Group to return capital to shareholders
2. The market underestimates NN Group's cost-cutting opportunity across the group which has not been forcefully addressed in the past; for example, the Dutch Life and Non-life divisions have admin expense ratios 40+% above peers'
3. IPO: Being below 0.5x 2015e TNAV indicates the market assumes ROE (≈ ROTE) will stay at roughly 5% forever (or a massive capital uncertainty discount). We disagree and argue that NN Group is likely to hit (or exceed) its "7% ROE by 2018" –target earlier than projected and therefore the stock deserves to trade at a higher multiple, at least 0.7x 2016e TNAV (plus 5% dividend yield)

Catalysts

- Evidence of capital surplus and sustainable margin improvement driven by capital efficiency gain, cost cutting and/or mix shift
- Earnings stabilization driven by lowering UTL-charges ("one-off costs") and avoiding large-scale reserve top-ups

Risks

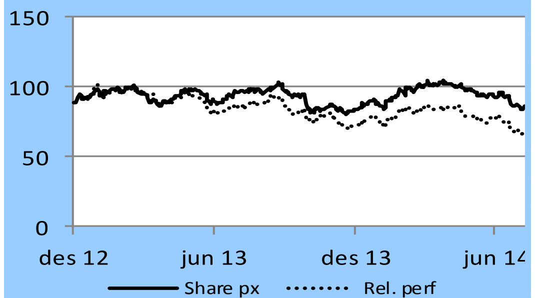
- Capital shortfall due to underestimated longevity, regulatory changes (Solvency II) or market volatility
- Lawsuit from mis-selling of unit-linked products ("Woekerpolis")

Target Price: 0.7x 2016e TNAV = 0.7 x 45 = €32/sh. → 58% upside (vs. IPO mid-range price)

Key Figures	
Market cap	EUR 7 bn
	NOK 58 bn
Free-float	29%
# shares (total)	355 mn
P/E 2015e	9.0x
P/NAV 2015e	0.5x
P/TNAV 2015e	0.5x
RONAV 2015e	5.0%
ROTNAV 2015e	5.2%
DY 2014e	5.0%
# Analysts	TBD
% Sell/Hold	TBD
Owners	
ING 71-73%	
Temasek	
RRJ Capital	

Volvo (VOLVb SS) SEK 86

INFO	
Market cap:	185 041
P/E 2014 consensus:	22x
P/E 2015 consensus:	13x
EV/EBITDA 2014 consensus:	11,4x
Net debt (cash)	105 442
P/BV	2,3x
ROE (5y average)	8 %
ROE 2014 consensus:	11 %
Dividend % 2014 consensus:	4 %
Free float	87 %
Buy	36 %
Hold	48 %
Sell	15 %



What they do

Volvo is the world's largest producer of heavy trucks, and is also a major producer of busses and large off-road mining & construction vehicles. The **Trucks** division accounts for 70% of sales with production of 230k units (EUR 38%, Americas 38% and Asia/other 23%). **Construction Equipment** accounts for another 20% of sales with production of 70K units (Europe 30%, Asia 42%, Americas 23%, other 5%) Remaining divisions are negligible for the investment case.

Rationale for investment

We think Volvo is heading for a harvest period from 2015 and beyond, following significant investments in new truck models in Europe and Asia. For the first time, Volvo now has a high degree of commonality between its Volvo, Renault and UD branded trucks, which should drive significant economies of scale and a boost to gross margins. Further earnings growth should come from cost savings, a new go-to-market/branding strategy and EM volume opportunities.

While this is well known to the market, we think investors are suffering from battle fatigue as benefits from restructuring efforts under new CEO Olof Persson have taken longer than expected to realize. We think today is a much better time to invest in Volvo than in late 2012 when the restructuring program was first launched, as we expect it will start to have material impact from 2015.

Triggers

The key to the case is without a doubt execution on the restructuring program, with a visible improvement in margins for (mainly) the truck division. We anticipate 2015 will be the make-or-break year for Volvo in this respect.

Risks

Apart from failure to execute on the restructuring program, we believe the truck cycles in Europe, North America and Brazil are the key risks to the Volvo case. At present we argue Europe and North American volumes are at or somewhat above normalized levels. However, for the coming 3 years our best guess is that volume risk is skewed to the upside.

The Asian construction equipment remains a risk too, especially in China, but we note volumes are already down 30-40% from peak levels.

Target price

Our target price for Volvo is SEK 120, which based on a 10.5x P/E on blended consensus 2016/2017 EPS forecasts, plus expected dividends.

Volvo's 10y product cycles, can history repeat itself?

Volvo's share price and timing of new truck launches

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A tale of two Citis

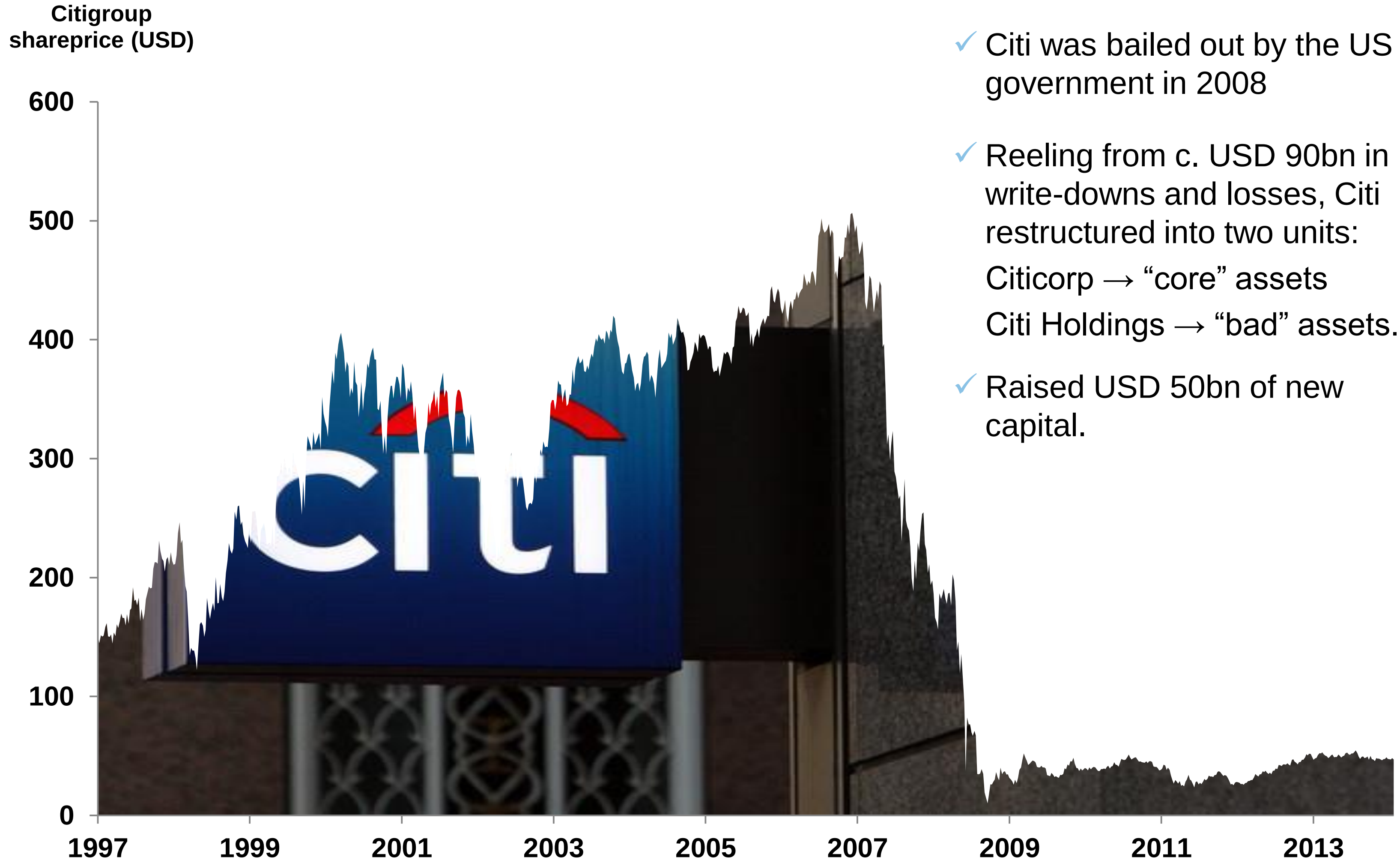
The art of common sense

SKAGEN

Citi in context

- More than 200 million customers in 140 countries – from Manila to NYC
- In revenue terms, the company is the size of Oman (GDP)
- Around 60% of revenues are derived from outside the United States

”It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness.” – Charles Dickens



- ✓ Citi was bailed out by the US government in 2008
- ✓ Reeling from c. USD 90bn in write-downs and losses, Citi restructured into two units:

  Citicorp → “core” assets

  Citi Holdings → “bad” assets.
- ✓ Raised USD 50bn of new capital.

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Market focus:

	2014	2015	2016
Return on Tangible book	8%	8%	10%

For a company trading at 0.8x tangible book value

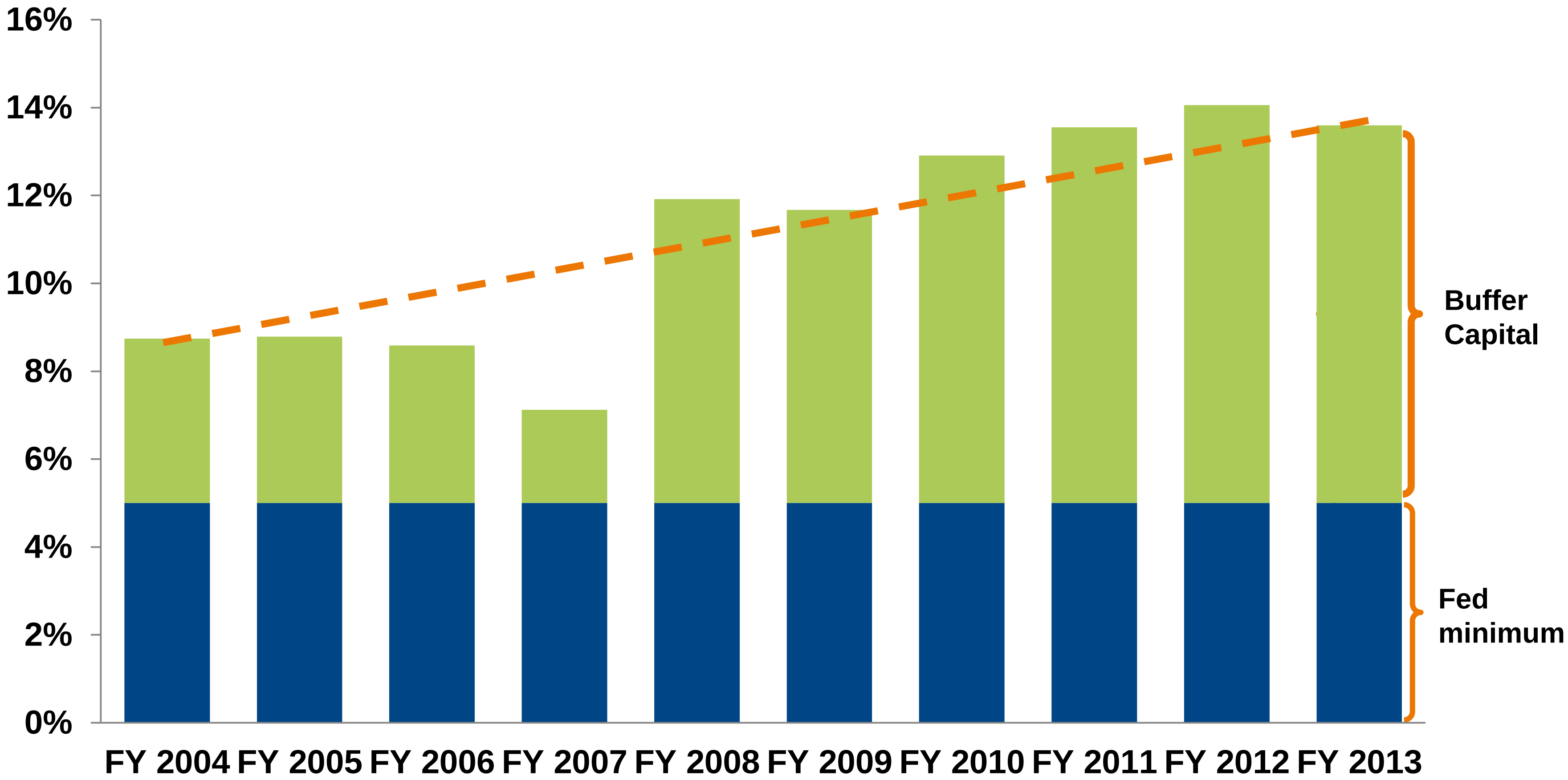
Our focus:

	2014	2015	2016
Free cash flow yield	12%	12%	14%

For a company which already has excess cash today

We focus on creation of excess regulatory capital as the best proxy for free cash flow generation – based on this there should be scope for revaluation.

Citi is well capitalised with high tier one capital ratios



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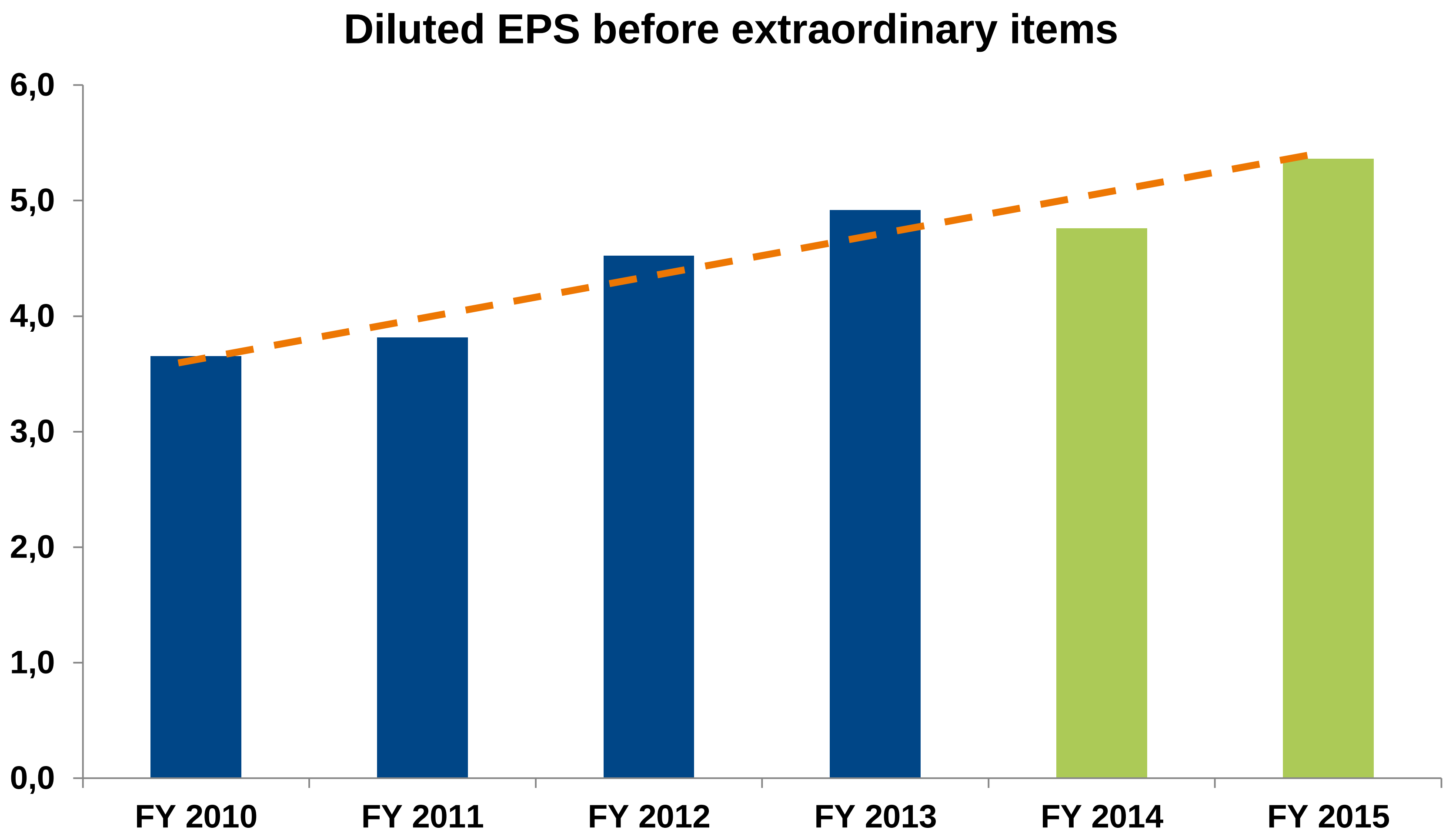
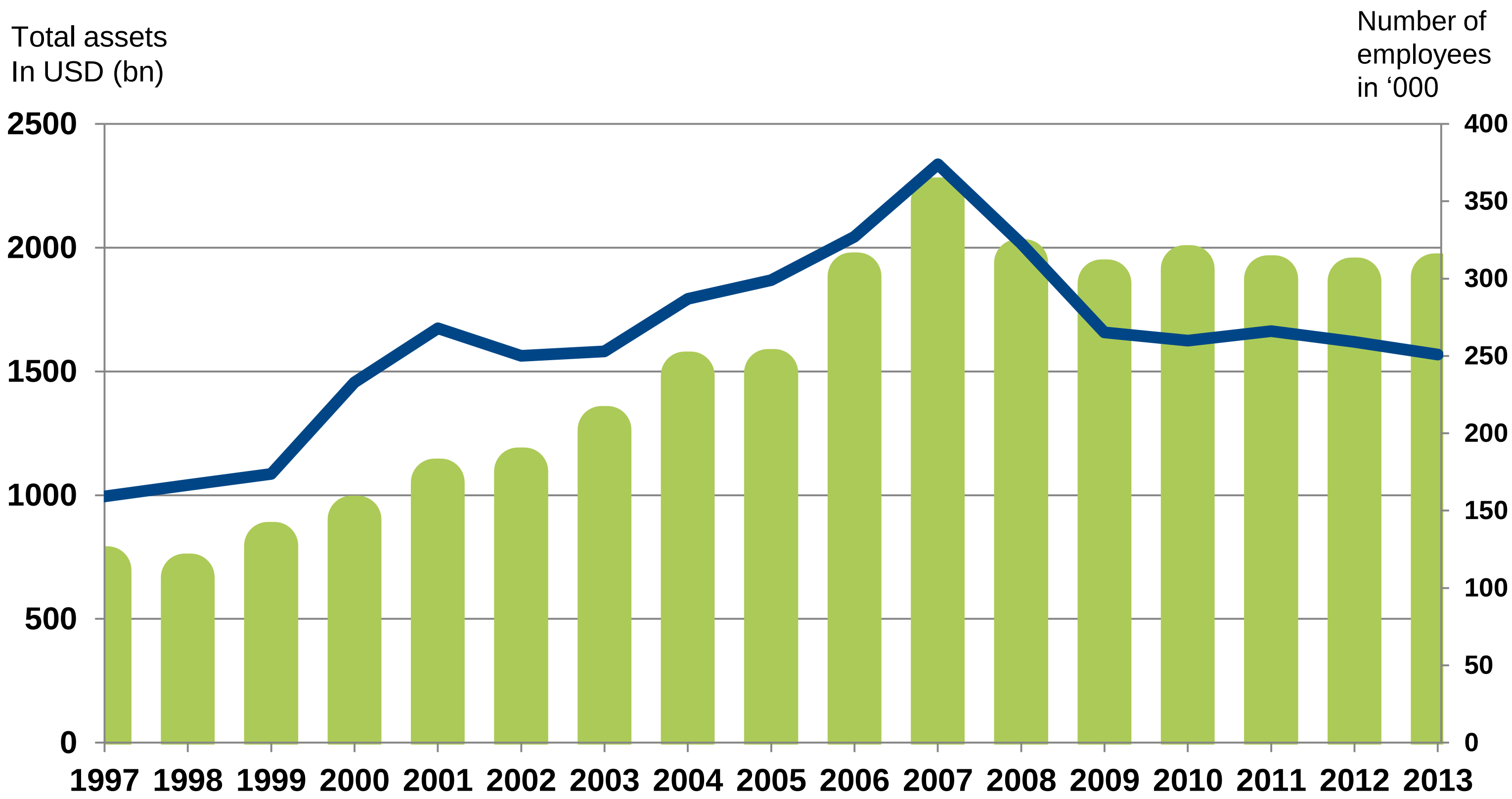
…and Citi has growing earnings

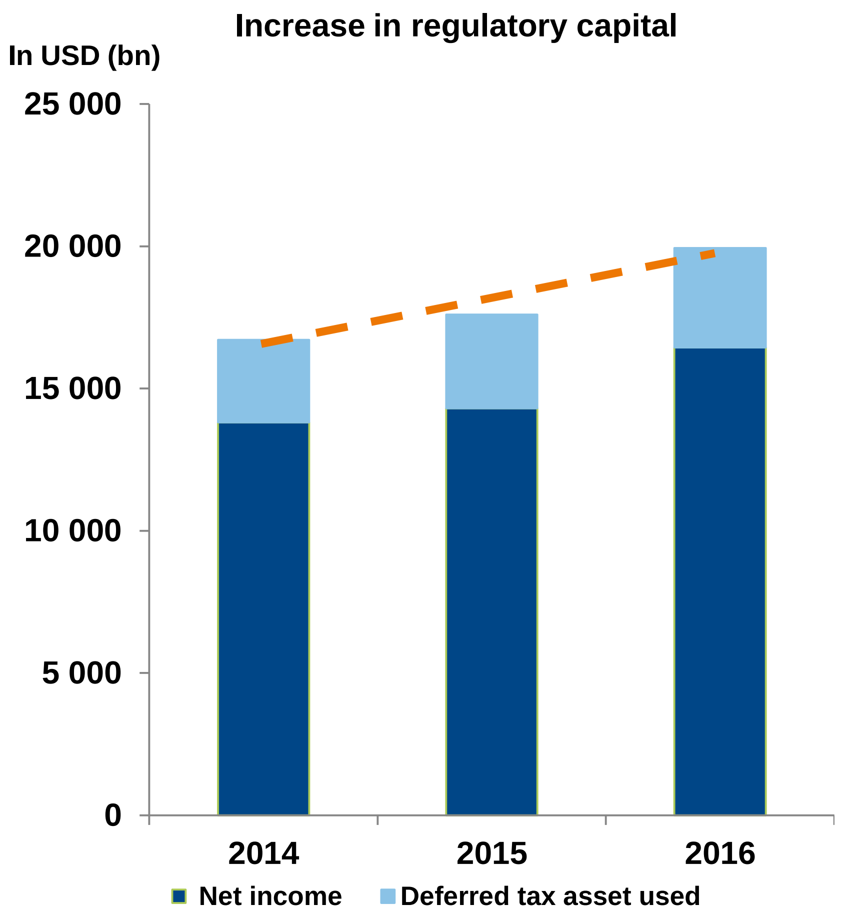


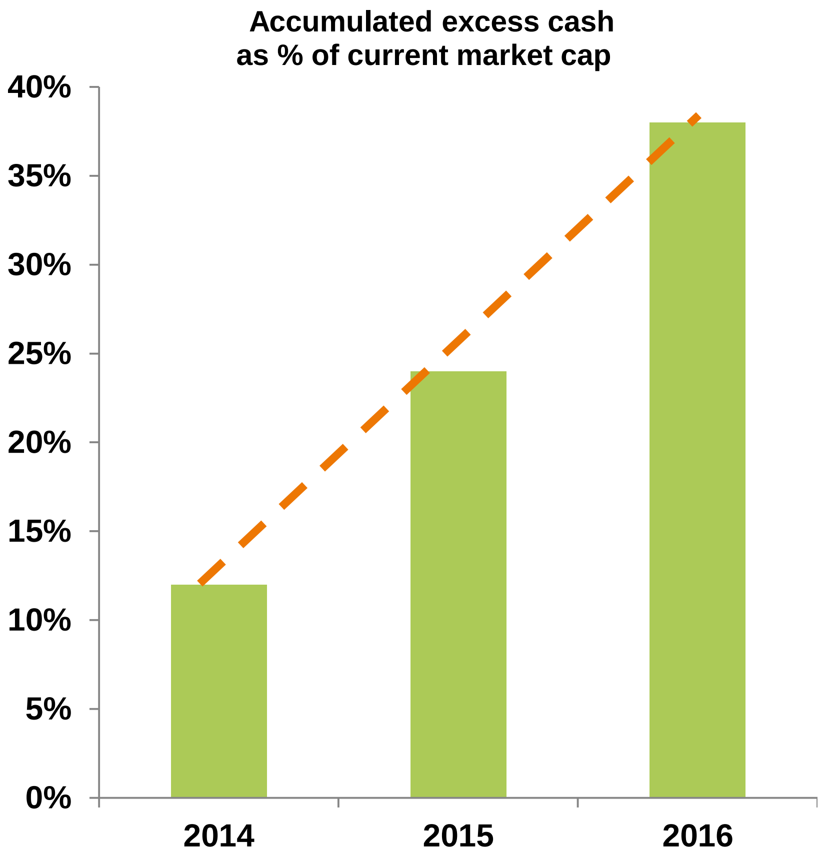
….. on a smaller asset base – with lower costs



The blue line is number of employees

Earnings and the use of deferred tax assets will create 40% of market cap in excess capital over the next 3 years





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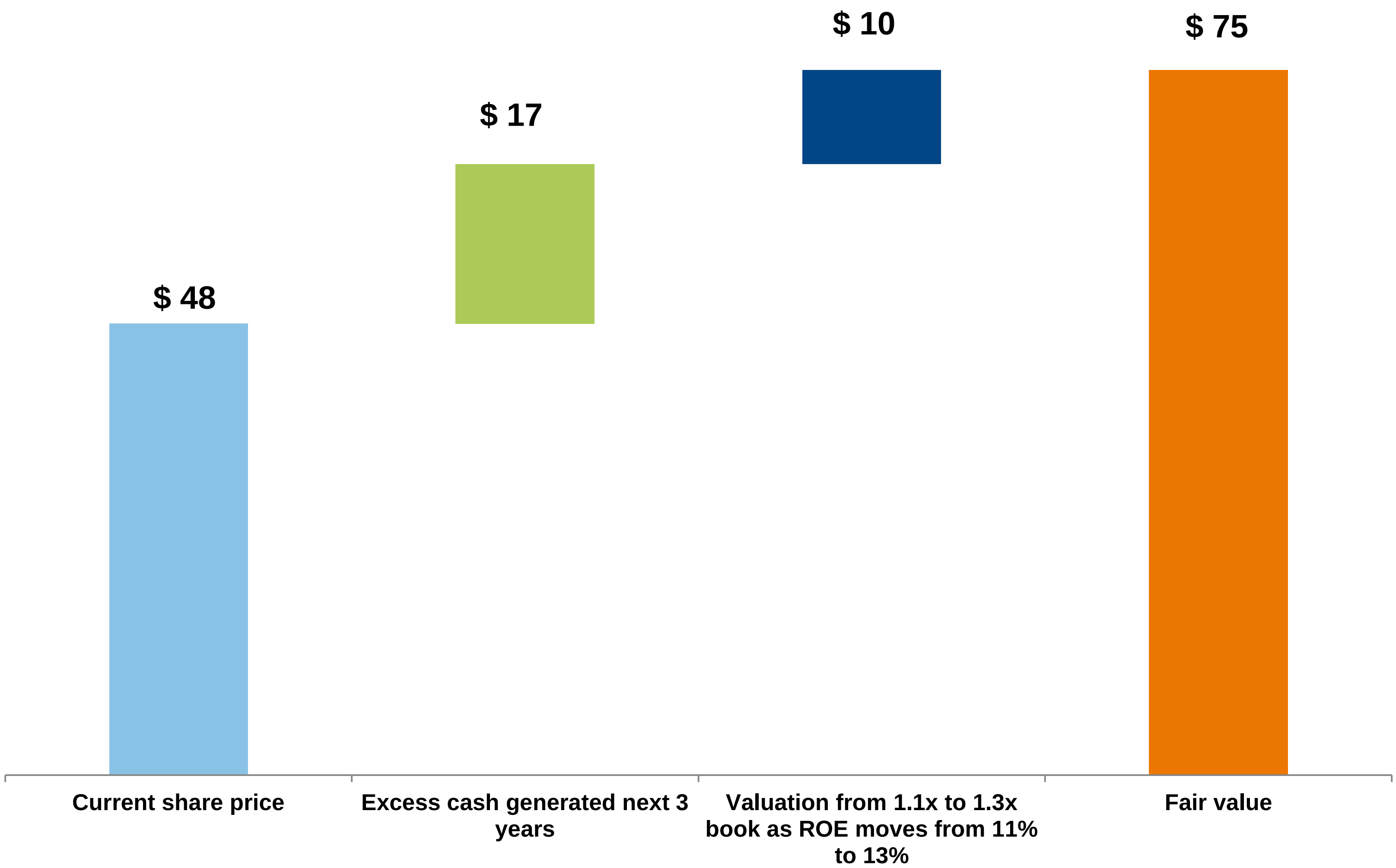
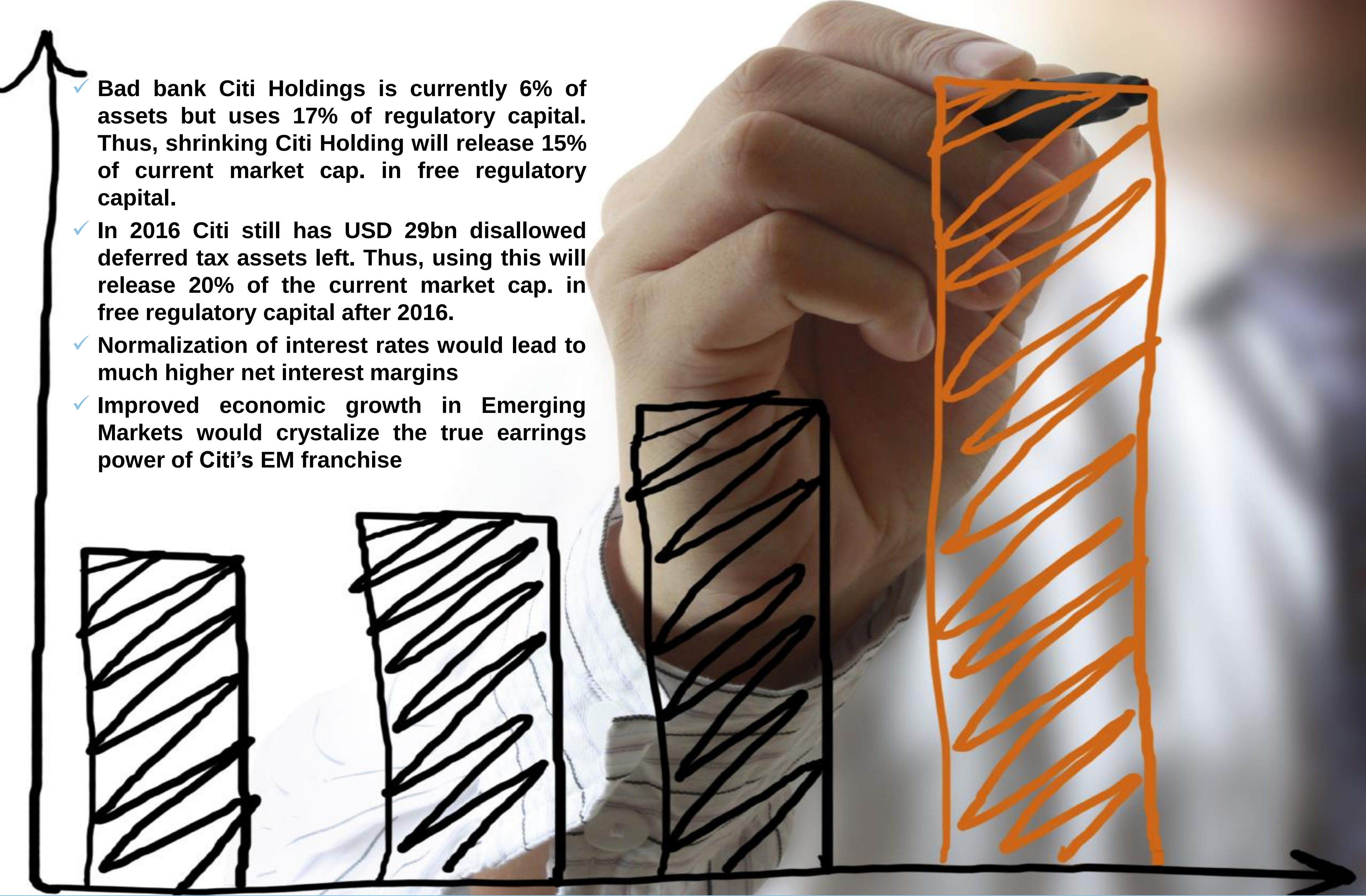
What is fair value for Citi Group?



This is not included in our fair value:



- ✓ **Bad bank Citi Holdings is currently 6% of assets but uses 17% of regulatory capital. Thus, shrinking Citi Holding will release 15% of current market cap. in free regulatory capital.**
- ✓ **In 2016 Citi still has USD 29bn disallowed deferred tax assets left. Thus, using this will release 20% of the current market cap. in free regulatory capital after 2016.**
- ✓ **Normalization of interest rates would lead to much higher net interest margins**
- ✓ **Improved economic growth in Emerging Markets would crystalize the true earrings power of Citi’s EM franchise**

UNLOCK RETURNS

We believe that Citi being allowed to distribute cash to shareholders could move market focus to cash flow potential and trigger a revaluation. A buy-back of shares, significantly below fair value, will provide further upside for existing shareholders

For more information please visit:

Our latest Market report
Information on SKAGEN Global A on our web pages

Kunsten å bruke sunn fornuft

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