

All data in EUR as of 30.09.2017 unless otherwise stated.

## Emerging markets continue to deliver

Emerging Markets (EM) equities have done better year to date than most people anticipated at the start of the year. In the quarter, EM (+7.1% in USD) continued to outperform DM (+4.4% in USD), leading to a YTD return of 27.7% compared to 14.2% for DM, as measured in USD. A strong global backdrop with improving fundamentals and company earnings across EM combined with a weaker USD, lower rates, lower inflation and stronger commodity prices have all been to the benefit of EM equity markets over the past 18 months. The 10 biggest contributors to returns in the MSCI EM index, out of a total 850 stocks, have contributed almost 40% of the gains over the past 12 months. The tech sector, which is up 57% YTD (in USD), accounts for 43% of gains in EM. Over 40% of the gains are also due to China. As the fund has a big value tilt and a China underweight, the current environment has been a challenging one for SKAGEN Kon-Tiki. With the valuation discrepancy between Growth and Value increasing, we patiently await a comeback as we currently see interesting stock picking opportunities on the back of major sector and geographical divergences.

### Contributors

Key positive contributors to Kon-Tiki's performance in the third quarter were X5, Banrisul and Cosan. Russian grocery retailer X5 continues to surprise positively with impressive top-line growth as well as margin expansion from operating leverage. The recently announced dividend policy combined with strong operating momentum heading into 2018 mean we see scope for a multiple expansion story not currently taken into account in our price target. The Brazilian market was an outperformer this quarter, and our Brazilian holdings did not disappoint. Banrisul has been strong on speculation of a potential privatisation, but the bank has also

posted positive trends in net interest margins and asset quality. Brazilian energy conglomerate Cosan has shown impressive operational execution across all business lines. Share price strength has also been driven by improved macro conditions, leading to higher expectations for their fuel and gas distribution businesses.

The three weakest performers in the third quarter were Hyundai Motor, Sabanci and Mahindra. Hyundai lost the share price gains it made in Q2 after reporting disappointing results. Sales in China have been weak stemming from anti-Korea campaigns, and the US operations have faced challenges on weaker US auto sales. We continue to see a cyclical earnings turnaround in the near future due to strong domestic and EM operations. We believe that the government's focus on minority shareholders at the expense of chaebol families will be a catalyst for improving corporate governance and valuation in Korea. The Turkish conglomerate Sabanci also made a round-trip back to Q1 share price levels as a new seller from the founding family seems to have created negative sentiment. With a discount to NAV of more than 40%, based on attractively priced key holdings, we hope the Board will consider a share buy-back now that they are in a meaningful net cash position. A listing of the energy division could also be a positive catalyst. Mahindra was also weak following results as a firm outlook for farm equipment was offset by self-imposed headwind in the auto business. Tractor sales are recovering nicely, while the auto division has seen demand shifting towards compact SUVs where they lack a compelling product portfolio. India, however, remains an underpenetrated market in both segments with the rate of mechanisation in Indian agriculture below China and only half the level of Brazil and India, while auto ownership at 3% is only a quarter of the level in China.



Gree Electric is a new position in Kon-Tiki this quarter. Photo: Bloomberg



X5 was a key positive contributor to Kon-Tiki's performance in the third quarter. Photo: Bloomberg

## Portfolio activity

Gree Electric is a new position in Kon-Tiki this quarter, and our first investment in Chinese A-listed equities. Gree is the world's largest air conditioner manufacturer, operating in a growing market with penetration and upgrade demand. The industry is characterised by a high degree of consolidation and stable market share. We see around 60% return potential including dividends over the next 2-3 years with only a modest re-rating to a P/E of around 13x.

We exited 3 positions during the quarter. After Aberdeen Asset Management's merger with Standard Life, the new entity is no longer the EM-focused asset manager we invested in. Including dividends, the investment yielded more than 20% return since we invested less than a year ago. We also exited Bharti Airtel after a strong rally on the back of signs that the most aggressive operator Jio is finally reducing discounts combined with continued sector consolidation making the Indian telecom market more attractive. But with a pricing in-line with the rest of the Asian operators, we no longer find the risk reward as compelling. We also sold out of Solstad Farstad as part of our continued effort to streamline the portfolio into fewer positions.

## Outlook

Emerging markets continue to trade at a major discount to developed markets, with a FY17e P/E of less than 14x compared to 17.7x for developed markets. That is despite an expectation of higher company earnings growth in 2018 (17% vs 9%), similar ROEs of around 11.5% and a marginally higher dividend yield in EM. By way of comparison, the Kon-Tiki portfolio is valued at a FY17e P/E of 11.4x. Based on that, we see a more than 30% upside for the portfolio over the next couple of years.

The fund selects low-priced, high-quality companies, mainly in emerging economies.

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

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

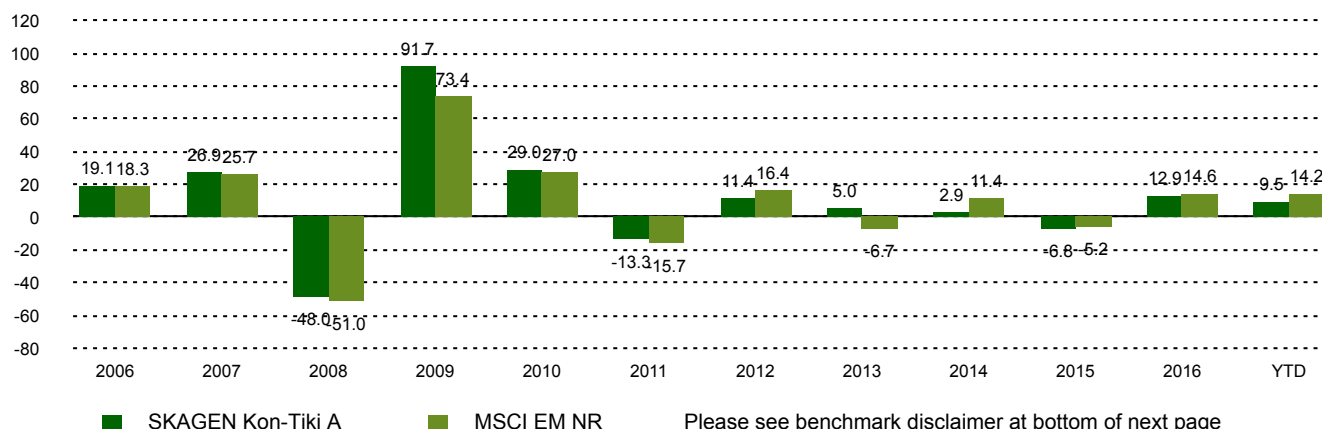
## Historical performance (net of fees)

Period	SKAGEN Kon-Tiki A	Benchmark index
Last Month	0.1%	0.1%
Quarter to date	0.9%	4.4%
Year to date	9.5%	14.2%
Last year	14.1%	16.4%
Last 3 years	4.4%	7.3%
Last 5 years	4.7%	5.8%
Last 10 years	4.3%	3.2%
Since start	13.1%	8.0%

## Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	88.05 EUR
Fixed management fee	2.00%
Total expense ratio (2016)	1.81%
Benchmark index	MSCI EM NR
AUM (mill.)	3439.74 EUR
Number of holdings	51
Lead manager	Knut Harald Nilsson

## Performance last ten years



## Contributors in the quarter



### Largest contributors

Holding	Weight (%)	Contribution (%)
X5 Retail Group	4.19	0.86
Banrisul	2.88	0.78
Cosan Ltd	3.06	0.54
Rumo SA	1.59	0.45
Samsung Electronics Co	7.65	0.42



### Largest detractors

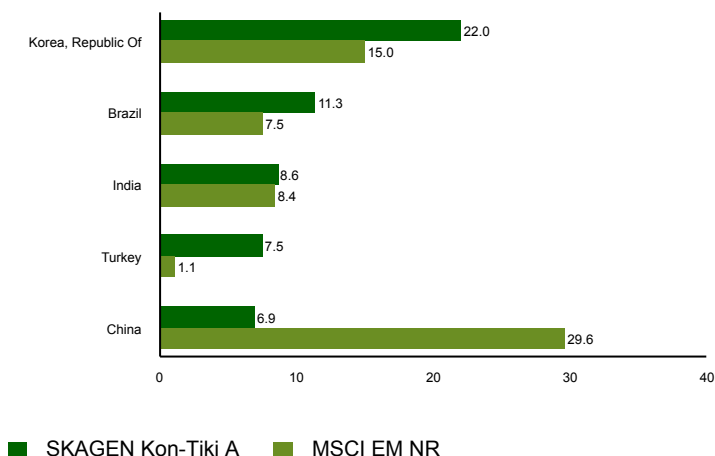
Holding	Weight (%)	Contribution (%)
Hyundai Motor Co	7.16	-1.45
Sabancı Holding	4.51	-0.64
Mahindra & Mahindra	3.87	-0.50
State Bank of India	3.25	-0.40
Ericsson	1.55	-0.39

Absolute contribution based on NOK returns at fund level

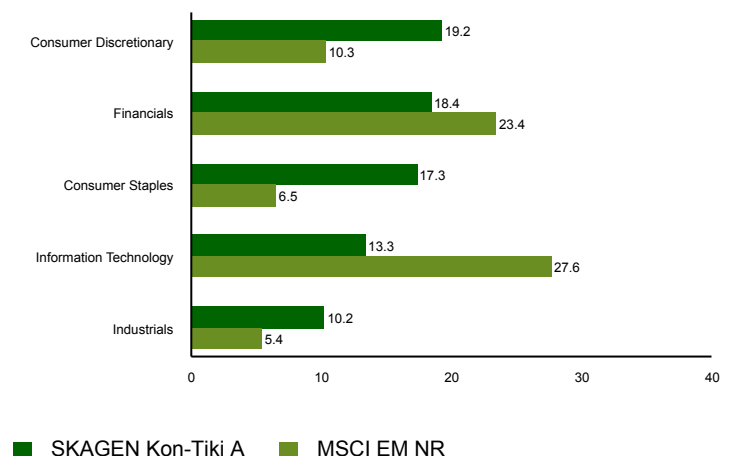
## Top ten investments

Holding	Sector	Country	%
Samsung Electronics	Information Technology	Korea, Republic Of	7.6
Hyundai Motor	Consumer Discretionary	Korea, Republic Of	6.5
X5 Retail Group	Consumer Staples	Russian Federation	4.4
Naspers	Consumer Discretionary	South Africa	4.4
Sabanci Holding	Financials	Turkey	4.0
Mahindra & Mahindra	Consumer Discretionary	India	3.4
Richter Gedeon	Health Care	Hungary	3.2
Cosan Ltd	Consumer Staples	Brazil	3.1
Banrisul	Financials	Brazil	2.9
SBI Holdings	Financials	Japan	2.9
Combined weight of top 10 holdings			42.3

## Country exposure (top five)



## Sector exposure (top five)



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## Important information

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The benchmark index is the MSCI EM Index (net total return), this index did not exist at the inception of the fund and consequently the benchmark index prior to 1/1/2004 was the MSCI World AC Index. This is not reflected in the table/graph above which shows the MSCI EM Index since the funds inception.