

A slower quarter

After a strong start to 2017, the second quarter brought with it a breather for global equity markets and a rollercoaster for prices of several commodities and energy. The US president's erratic tweets continue to dominate news headlines, and are potentially muddling the US economic picture. Beyond the tabloid headlines of populism in both the US and Europe, the economies seem to be in decent shape. The Eurozone has hit a six-year high and even Greece is making a welcome return to growth. Over the past 12 months the developing markets have also delivered encouraging news, with Asia taking the lead.

Together with global markets, SKAGEN Vekst experienced a slowdown in the second quarter and performed somewhat more weakly than the combined Nordic/Global index. In the Nordics our Danish holdings were strong contributors. The diabetes giant Novo Nordisk saw strong performance as some of the fears around drug pricing dwindled and they announced positive developments for their weight reduction drugs. The Danish-based global brewery group Carlsberg also contributed positively after announcing encouraging operational updates. Other positive contributors include Samsung Electronics on the back of improving conditions in the memory market, and Kinnevik after the company reported the strong hire of a new CEO at the end of the quarter.

On the negative side were companies partly impacted by raw material prices. One of the companies affected was bulk carrier Golden Ocean Group which, despite sturdy operations, is finding the current shipping rate developments challenging. Falling energy prices, in particular lower prices for oil and gas, have caused some headwinds for our companies in this sector. These include the newly established oil service company Borr Drilling, the world largest gas exporter Gazprom and the natural gas company Golar LNG.



In the Nordics our Danish holdings were strong contributors. One of these was Novo Nordisk (pictured). Photo: Bloomberg

Key sells

We sold out of several positions that reached our pricing targets. Amongst these were the Danish pharmaceutical company H. Lundbeck AS, a specialist in psychiatric and neurological drugs. The company's share price has increased over 80 percent over the past eight months and the return has been strong ever since we initiated the position in 2015 (the share price is up almost 150% including dividends). We decided to take profit as the timeline on further development is somewhat unclear. Nevertheless, we continue to monitor the company with great interest.

We also sold out of Credit Suisse after a bounce-back from low levels and reduced our stakes in Continental, Volvo and Philips Lighting on the back of strong operational developments in first quarter.

Key buys

We took advantage of the volatility in the second quarter to increase our holdings within the energy space. One example is our position in the LNG carrier company Flex LNG. The main shareholder, Mr J. Fredriksen, increased the new build fleet to six ships which are scheduled for delivery in 2018/2019 with the most fuel-efficient technology currently available. With increased export of LNG from projects across the globe starting in 2017-19, we anticipate an increased demand for movement of LNG and thereby positive developments in a depressed LNG shipping market. Flex LNG is currently a 1.2% position in the portfolio. We also added to our holdings in Lundin Petroleum and Gazprom during the quarter.

We also added to our US fertiliser producer, CF Industries, on encouraging news that tax clawbacks of over USD 800m will be received earlier than anticipated and mitigate some of the financial pressure the company has recently been under due to investments in new capacity. Despite this, the market for urea and ammonia based fertiliser in the US still looks challenging after build-out of production capacity. With energy being one of the most important factors in the ammonia production cost curve, US-produced fertiliser is very attractive compared to imported goods from the EU and the Far East. The shale gas revolution in the US has created the potential for economical energy-intensive production on US soil. Our exposure to CF Industries is currently 1.2%.

We also added to our 3.2% position in Swedish/Finnish telecom provider Telia as their sale of Eurasian assets are coming to an end. This should allow for more focus on core operations, a healthy cash flow and once again make the company attractive to Nordic and international investors.



We added to our position in Swedish/Finnish telecom provider Telia in the quarter. Photo: Bloomberg

Outlook

Although markets are currently at fairly elevated levels we still see potential for the market and companies to take part in continued market developments. This year's strong market has been a fairly narrow one with just a few large companies delivering the majority of the performance.

SKAGEN Vekst currently has a very liquid portfolio, and we continue to be able to deploy capital where we see the best risk/return opportunities for our unit holders. The portfolio is currently priced at attractive levels relative to the index at 12.2x times companies' earnings and 1.3x times book values. This is considerably lower than the market valuation.

The fund selects low-priced, high-quality companies in the Nordic region and from around the world.

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.

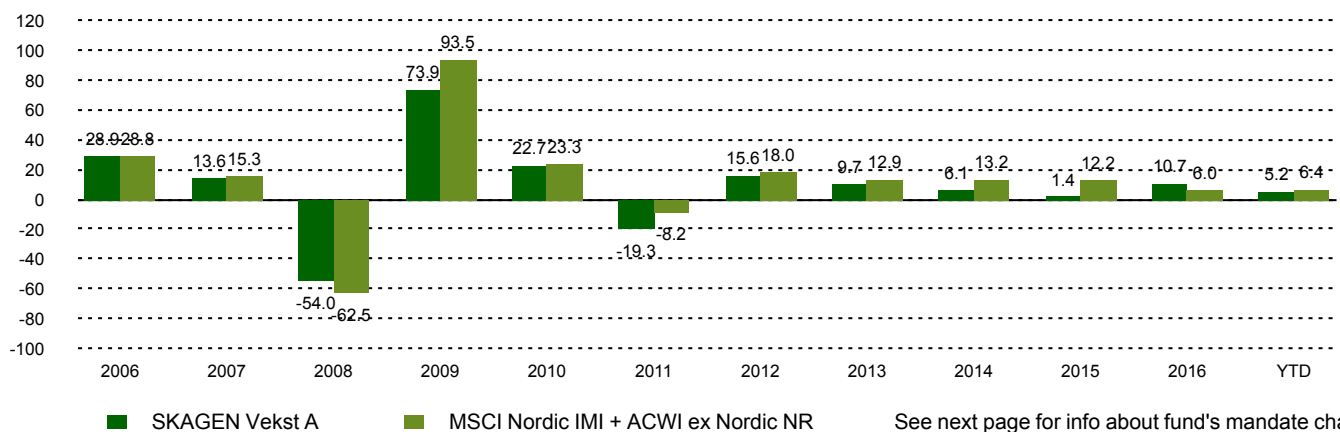
Historical performance (net of fees)

Period	SKAGEN Vekst A	Benchmark index
Quarter to date	-1.0%	0.8%
Year to date	5.2%	6.4%
Last year	23.6%	17.1%
Last 3 years	5.0%	9.9%
Last 5 years	8.0%	12.0%
Last 10 years	2.0%	4.3%
Since start	13.6%	10.0%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	01.12.1993
Morningstar category	Global Flex-Cap Equity
ISIN	NO0008000445
NAV	240.62 EUR
Fixed management fee	1.00%
Total expense ratio (2016)	1.00%
Benchmark index	MSCI Nordic IMI + ACWI ex Nordic NR
AUM (mill.)	850.01 EUR
Number of holdings	50
Lead manager	Øyvind Fjell

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Samsung Electronics	5.92	0.71
Novo Nordisk	3.96	0.68
Carlsberg	5.66	0.65
Kinnevik	4.38	0.56
Philips Lighting	1.70	0.56



Largest detractors

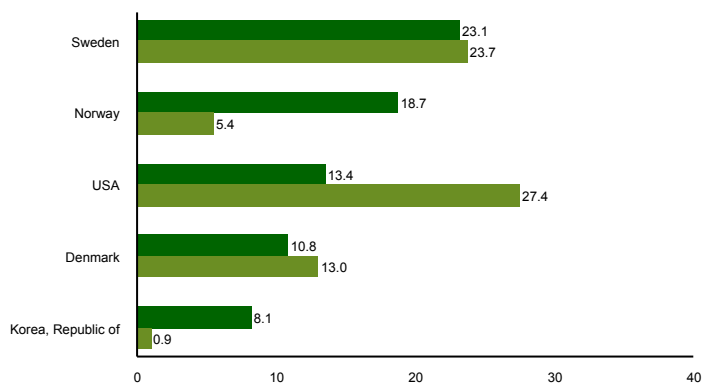
Holding	Weight (%)	Contribution (%)
Golden Ocean Group	2.26	-0.44
Borr Drilling	1.20	-0.27
Gazprom OAO	1.95	-0.25
Golar LNG	1.07	-0.22
Flex LNG	0.77	-0.15

Absolute contribution based on NOK returns at fund level

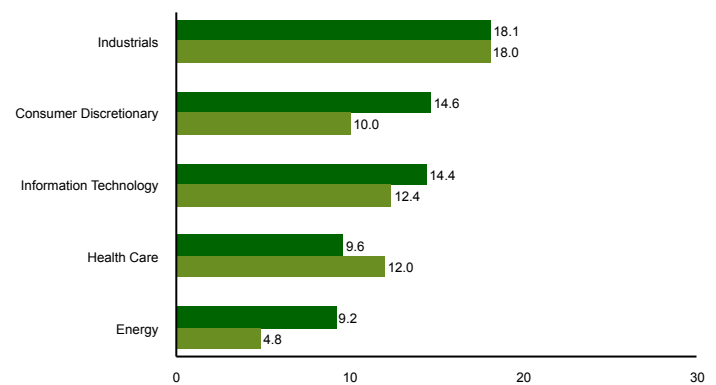
Top ten investments

Holding	Sector	Country	%
Samsung	Information Technology	Korea, Republic of	5.89
Carlsberg	Consumer Staples	Denmark	5.58
Norwegian Air Shuttle	Industrials	Norway	4.80
Continental	Consumer Discretionary	Germany	4.68
Kinnevik	Telecommunication Services	Sweden	4.52
Citigroup	Financials	USA	4.49
Novo Nordisk	Health Care	Denmark	4.00
Hennes & Mauritz AB	Consumer Discretionary	Sweden	3.90
Ericsson	Information Technology	Sweden	3.49
Telia	Telecommunication Services	Sweden	3.20
Combined weight of top 10 holdings			44.55

Country exposure (top five)



Sector exposure (top five)



■ SKAGEN Vekst A ■ MSCI Nordic IMI + ACWI ex Nordic NR

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Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its funds in Norway to investing a minimum of 50% of its funds in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than they are today. Prior to 1/1/2014, the benchmark index was an evenly composed benchmark index consisting of the Oslo Stock Exchange Benchmark Index (OSEBX) and the MSCI All Country World. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX).