

All-time highs

In the late summer we saw increased volatility in the global equity markets, largely due to increased political unrest on the Korean peninsula and the fear of incompetent diplomatic communication exacerbating an already tense situation. In Europe several elections were held, where we most notably saw ultra-right wing parties once again gaining seats at the table. In Spain, a referendum in Catalonia added fuel to fire, as secessionists campaign for a separate state. Closer to home, the Norwegian electorate went to the ballots without any major surprises. Political elections over the past 12 months have seen constituencies exceedingly split, even in apparently stable economies, and seemingly forceless politicians coming into office with little or minor impact to implement their populist ideas.

Despite an eventful quarter filled with both political unrest and sabre rattling, the equity markets appeared surprisingly unruffled and reached new highs towards the end of the third quarter. Volatility indexes and other measurements of perceived risk in the market also highlight a peculiar coincidence; we are seeing an all-time low pricing of insurance against potential market corrections. Looking at the global markets, we see that although interest rates have crept marginally higher, inflation still appears stubbornly low - as is also the case in the Nordic region.

Overall we see continued decent growth and demand in the global economy. Capacity development and asset utilisation seem to be creeping upwards and continue to point at improved conditions for companies in the global equity markets.

Portfolio activity: an unusually busy quarter

Vekst had a fairly busy third quarter, with a number of new companies entering the portfolio and several old ones going out. A number of our

holdings reached their price targets and were sold out. One of these was long-term holding Continental, which has been a strong contributor to SKAGEN Vekst over the past six years. We also exited the Dutch lighting company Philips and US e-commerce platform eBay following satisfying developments in share price and valuation targets.

We also decided to exit a few holdings where we have seen operational issues and tough competitive pressure. Some of these include Norwegian Air Shuttle, Teva Pharmaceutical, H&M and Ericsson. Several smaller positions were trimmed or disposed of to give way to new investment ideas where we see the potential for higher return and lower risk.

We have focused on adding high quality Nordic companies to the portfolio. We invested in Vestas Wind in Denmark, where we see the recent weakness as a good opportunity to invest in the world leading wind turbine producer and installer. Given the increased demand for and installation of renewable wind production across the globe, we view Vestas as a strong contender in a market that has become increasingly demanding for smaller producers and where size and reliability will become even more important in the years to come.

We also invested in the Danish transport and logistics company, DSV. With their impressive track record of acquisitions and mergers over the past couple of years, we think the company clearly has more potential than the market has priced in after their merger with UTi. We also bought into A.P. Møller-Mærsk towards the end of the quarter as we see the divestment of the energy part of the company being executed faster than we and the market anticipated and do not believe that the world's largest (and best) container shipper and operator should trade at such a significant discount to peers.



We entered into A.P. Møller-Mærsk towards the end of the quarter. Photo: Bloomberg



We invested in Vestas Wind in Denmark. Photo: Unsplash

Outside the Nordics

Outside of the Nordics we have increased our holdings within the technology space with the addition of two US companies, namely Broadcom and Applied Materials. Despite being different plays, they should both benefit from the strong cycle we are currently seeing within semiconductors.

We also swapped our healthcare exposure outside of the Nordics with something slightly further down the value chain, substituting Roche and Shire for the Swiss company Lonza. The Basel-based chemical and biotechnology company has a very interesting business producing pharmaceuticals on contract for the pharma industry; we see a strong outlook for the company that is not reflected in expectations or valuation.

Outlook

Although the markets have had a strong run over the past six years, the current market seems undeterred by political unrest or natural catastrophes. The pressure is now on companies to deliver strong results by means of higher utilisation of assets and better prices within several sectors. In SKAGEN Vekst we will take an active approach to capturing this development and will continue to look for the best companies to give the desired return and risk. We will maintain a strong focus on high quality Nordic companies while spicing up the portfolio with investments from outside the region. Although the third quarter was a fairly busy one for SKAGEN Vekst, we expect the turnover rate to come down significantly over the next few quarters.

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.

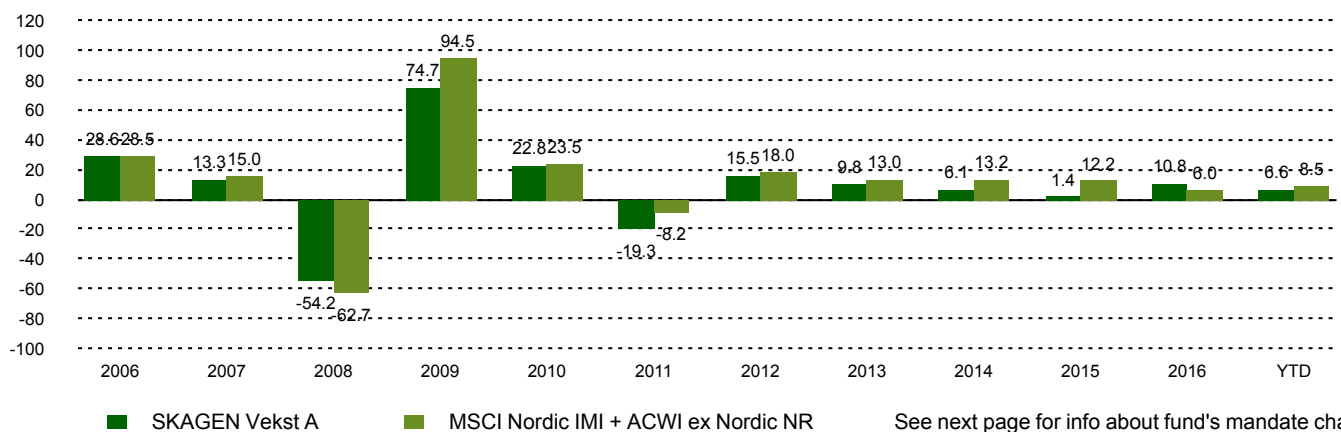
Historical performance (net of fees)

Period	SKAGEN Vekst A	Benchmark index
Last Month	2.1%	2.3%
Quarter to date	1.5%	2.1%
Year to date	6.6%	8.5%
Last year	14.5%	14.4%
Last 3 years	5.1%	9.3%
Last 5 years	7.6%	10.6%
Last 10 years	2.3%	4.4%
Since start	13.5%	9.9%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	01.12.1993
Morningstar category	Global Flex-Cap Equity
ISIN	NO0008000445
NAV	243.98 EUR
Fixed management fee	1.00%
Total expense ratio (2016)	1.00%
Benchmark index	MSCI Nordic IMI + ACWI ex Nordic NR
AUM (mill.)	842.67 EUR
Number of holdings	42
Lead manager	Øyvind Fjell

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Lonza Group	4.90	0.70
Norsk Hydro	3.34	0.70
Novo Nordisk	6.67	0.58
Sberbank of Russia	1.75	0.38
Samsung Electronics	6.32	0.33



Largest detractors

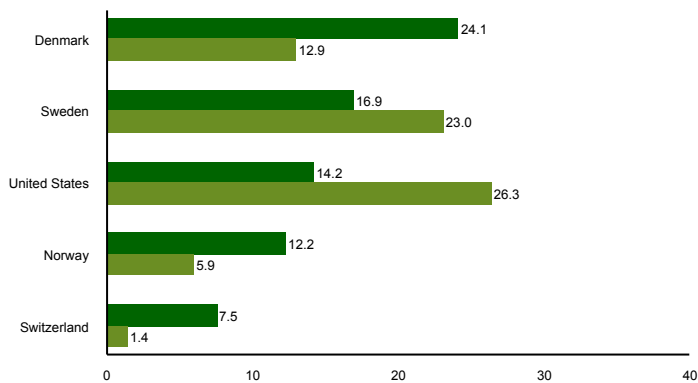
Holding	Weight (%)	Contribution (%)
Norwegian Air Shuttle	1.05	-1.24
Ericsson	2.14	-0.83
Teva Pharmaceutical	0.63	-0.75
Vestas Wind Systems	3.49	-0.34
Broadcom Ltd	4.29	-0.23

Absolute contribution based on NOK returns at fund level

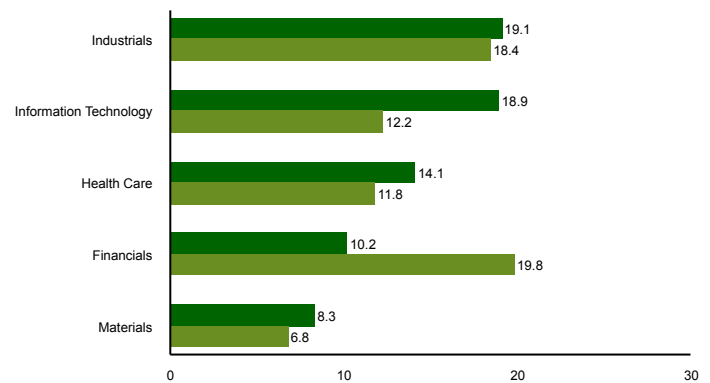
Top ten investments

Holding	Sector	Country	%
Novo Nordisk	Health Care	Denmark	7.6
Lonza Group AG	Health Care	Switzerland	6.5
Samsung Electronics	Information Technology	Korea, Republic Of	6.2
Carlsberg	Consumer Staples	Denmark	5.3
Broadcom Ltd	Information Technology	United States	4.8
Vestas Wind Systems	Industrials	Denmark	4.7
Citigroup	Financials	United States	4.3
Volvo	Consumer Discretionary	Sweden	4.1
Applied Materials	Information Technology	United States	4.0
DSV	Industrials	Denmark	3.8
Combined weight of top 10 holdings			51.4

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).