P.S. Krøyer's dog, "Rap". Study 1898. Detail. By Peder Severin Krøyer, one of the Skagen Painters. This image belongs to the Art Museums of Skagen.

SKAGEN Focus

Statusrapport mars 2017

The art of common sense

SKAGEN

Sammendrag – mars 2017

- SKAGEN Focus er et aktivt forvaltet konsentrert fond med et globalt investeringsmandat. Fondets strategi er å finne et begrenset antall selskaper av høy kvalitet til en lav pris.

- Fondet har en målsetning om å ha 30-35 selskaper i porteføljen, og de 10 største posisjonene skal utgjøre 40-50 prosent. Ved utgangen av måneden besto porteføljen av 34 selskaper, hvorav de ti største posisjonene utgjorde ca. 42,3 prosent av porteføljen. Kontanter utgjør 4,8 prosent.

- SKAGEN Focus* var opp 3,4 prosent i mars, mens de utviklede markedene var opp 4,0 prosent. Hittil i år er fondet opp 4,7 prosent mens de globale aksjemarkedene er opp 6,8 prosent.

- Telecom Italia, Magforce og Infineon var de beste bidragsyterne i mars, målt i absoluttbidrag. JBS, Whiting Petroleum og Teva Pharmaceutical var de dårligste bidragsyterne i måneden.

- Vi startet to nye posisjoner og gikk ut av en i løpet av måneden. Vi deltok i rekapitaliseringen av Unicredit, Italias nest største bank og gikk på nytt inn i Hyundai Motors. Vi solgte oss ut av Jenoptik siden aksjen nå handles rundt vår vurdering av en fornuftig verdi.

- Fondets brede mandat reflekteres i både den geografiske og bransjemessige sammensetningen. SKAGEN Focus kan investere uavhengig av markedsverdi og ved utgangen av januar utgjorde smallcaps** 11 prosent av fondet, mens mid-cap og large-cap utgjorde henholdsvis 45 prosent og 44 prosent. Disse tallene kan variere mye over tid.

* *Med mindre annet er oppgitt er alle avkastningstall for fondet i denne rapporten knyttet til klasse A, og etter fradrag for gebyrer.*
** *Small-cap defineres som selskap med en markedsverdi under 2 milliarder USD, og Large-cap som mer enn 10 milliarder USD.*

SKAGEN Focus A avkasning i mars (i NOK)

	mars	QTD	2016	1 år	Siden start*
SKAGEN Focus A	3,4%	4,7%	11,6%	26,2%	6,7%
Verdensindeks*	4,0%	6,8%	4,9%	19,4%	9,7%
Meravkastning	-0,5%	-2,1%	6,7%	6,8%	-3,0%

*Note: Alle tall utover 12 måneder er annualisert (geometrisk avkastning)   * Startdato: 26. mai 2015*

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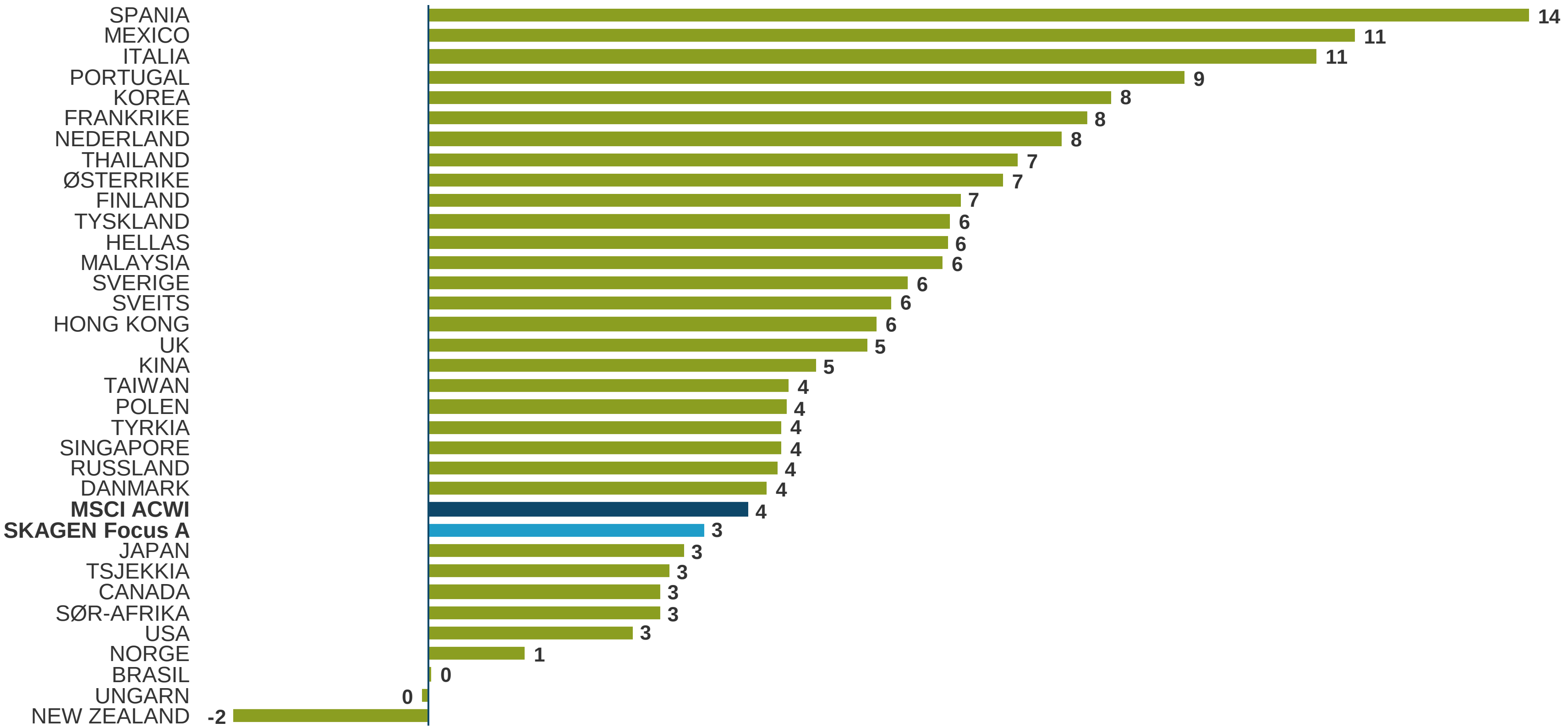
Markeder i mars 2017, NOK (%)



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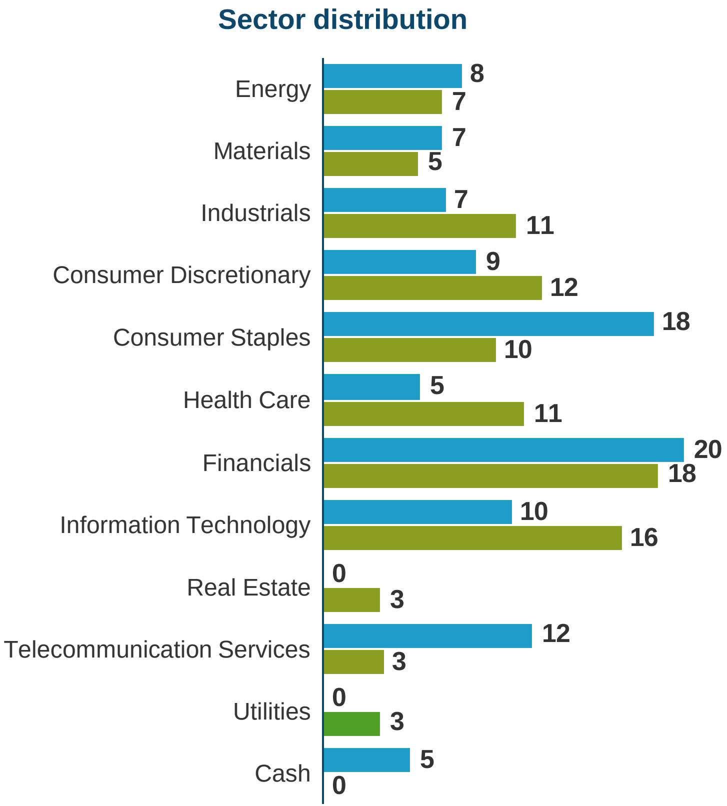
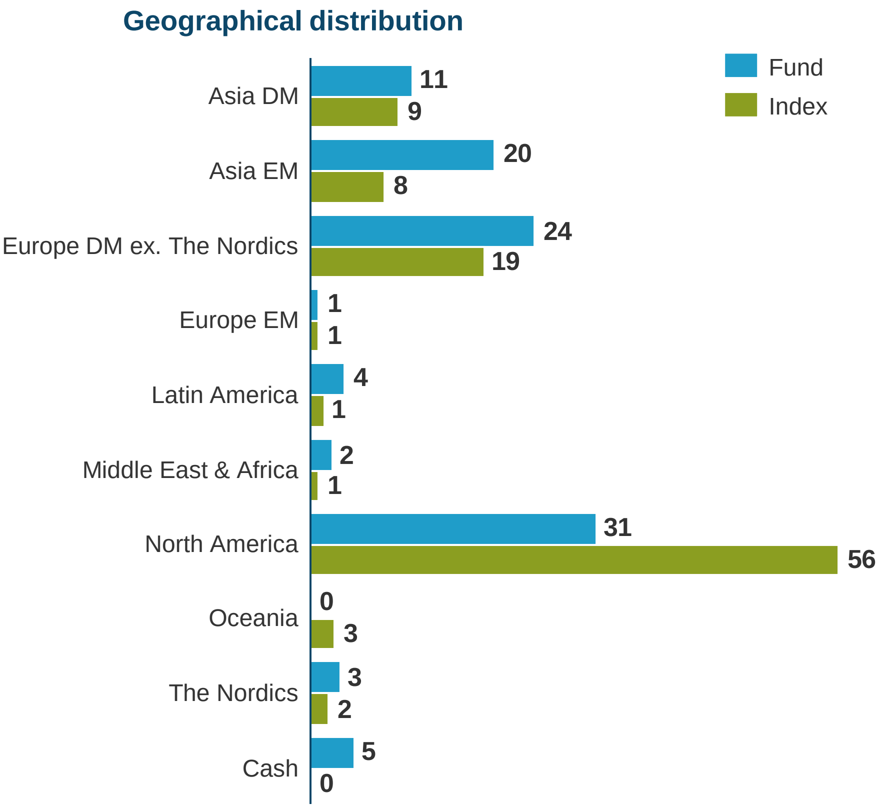
Sektor og geografisk fordeling mot indeks, mars 2017





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Kjøp og salg i mars 2017

Kjøp

- **Unicredit (ny) –** Unicredit er den nest største banken i Italia etter Intesa og har også store virksomheter i Sentral- og Øst-Europa samt Tyrkia. Selskapet har nylig gjennomgått en tøff rekapitalisering på 1,3 mrd EUR, hvor vi deltok. Se faktaarket for mer informasjon

- **Hyundai Motors, pref aksjer (ny) –** I juli i fjor solgte vi oss ut av vår posisjon i Hyundai Motors da vi så begrensede katalysatorer og bedre muligheter andre steder. Vi måtte også balansere risikoeksponeringen mot bil-sektoren bedre. I stedet økte vi posisjonene i eksempelvis Infineon, FFP, Schaeffler og Jenoptik. Siden den gang er den politiske situasjonen i Sør-Korea endret etter en turbulent periode. Det har ført til mer intenst press på chaebols. Hyundai Motors handles fortsatt til svært attraktiv verdsettelse og vi mener at det nå er rimelig sannsynlighet for potensiell restrukturering og bedre kapitalallokering. Vi har derfor besluttet å ønske Hyundai velkommen tilbake i porteføljen. Per 31. mars utgjør Hyundai Motors 3 prosent av porteføljen.

Salg

- **Jenoptik (out) –** Vi solgte oss ut av Jenoptik siden dette veldrevne selskapet i stadig større grad verdsettes rundt vårt kursmål. Jenoptik har vært i fondet siden oppstart og kursen har økt mer enn 90 prosent målt i euro i denne perioden.

Viktigste bidragsytere mars

Største positive bidragsytere

Company	*NOK (000)*
Telecom Italia Spa	11 241
Magforce	10 042
Infineon Technologies	9 673
Schaeffler	8 831
Gold Fields Ltd	8 132

Største negative bidragsytere

Company	*NOK (000)*
Jbs	-9 280
Whiting Petroleum	-7 946
Teva Pharmaceutical Industries	-4 449
Tesoro	-4 084
Omega Protein	-3 129

Value Creation MTD (NOK MM): 78

Note: Bidrag til absoluttavkastning

Viktigste bidragsytere hittil i år

Største positive bidragsytere

Company	NOK (000)
E-MART	16 220
Samsung SDI	13 297
Adient	11 731
Jenoptik	11 645
Philips Lighting	10 856

Største negative bidragsytere

Company	NOK (000)
Aryzta	-16 069
Whiting Petroleum	-15 657
Teva Pharmaceutical Industries	-7 708
AIG	-5 899
Jbs	-5 745

Value Creation YTD (NOK MM): 99

Note: Bidrag til absoluttavkastning

Viktigste endringer i 1. kvartal 2017

Q1 Økte poster

Hyundai Motor	(Ny)
UniCredit	(Ny)
Gold Fields Ltd	(Ny)
Tesoro	
Carlsberg	
AIG	
China Telecom	
Telecom Italia Spa	
Omega Protein	
Teva Pharmaceutical Industries	
Synchrony Financial	
Taiheiyo Cement	
Philips Lighting	
Samsung SDI	
Whiting Petroleum	
CIT Group	
Adient	

Q1 Reduserte poster

Jenoptik	(Ut)
Ence Energia y Celulosa	
Adient	
Aryzta	
SK Hynix	
FFP	
Infineon Technologies	

Største poster i SKAGEN Focus

	Price	P/E 2017e	P/E 2018e	P/BV last	Price target	Upside to target %	Holding size, %
American International Group Inc	62,43	12,8	10,5	0,8	90,0	44 %	7,1%
Telecom Italia Spa	0,84	12,0	11,2	0,8	1,2	42 %	4,5%
E-MART Inc	205 500,00	13,9	12,3	0,7	270000,0	31 %	4,5%
Tesoro Corp	81,06	14,4	11,7	1,7	120,0	48 %	4,3%
Teva Pharmaceutical-Sp ADR	32,09	6,6	6,7	1,2	90,0	180 %	3,8%
Philips Lighting NV	26,81	11,3	10,7	1,5	30,0	12 %	3,7%
SBI Holdings Inc	1 552,00	13,9	14,0	0,8	3000,0	93 %	3,7%
Taiheiyo Cement Corp	372,00	8,7	11,6	1,3	495,0	33 %	3,7%
Jbs SA	10,21	6,9	5,9	1,2	22,0	115 %	3,6%
Softbank Group Corp	7 862,00	9,2	12,2	2,8	9600,0	22 %	3,6%
Top 10 positions		**17,8**	**12,5**	**1,1**		**59,9%**	**42,3%**
Total Equity (33 positions)							**95,2 %**
Cash							**4,8 %**
Total Portfolio							**100,0%**

Per 31. mars
JBS er største aksjonær i Pilgrim's Pride, som utgjør 1,0 % av fondet. Disse to posisjonene bør ses på som en, med en total vekt på 4,6 %.

Nyheter på engelsk

Key earnings releases and corporate news, March 2017

Ence

(1.5% weight)

Investment case update

Ence is Europe's leading producer of eucalyptus pulp and the second largest in terms of sales. It is also the leading Spanish company in the production of renewable energy using forest biomass. The company reported fourth quarter earnings after a turbulent 2016 which was characterised by depressed hardwood pulp prices and operational disruptions. These were short-term headwinds which gave us the opportunity to initiate the position at depressed share price levels. In the fourth quarter, the company reported a 25% increase in net sales, driven by both the pulp and energy segment. The hardwood pulp price continued to decline somewhat in EUR but was offset by a pickup in demand and strong volume growth (20%). Going forward the company expects pulp prices to follow an upward trend in H1 and be stable in H2. Ebitda increased by 29% during the quarter, driven by the volume growth and, most importantly, a reduced cash cost level thanks to investments in the Navia mill. Net debt was reduced to a level of 1.9x nd/ebitda. Asset disposals were discussed during the conference call, relating to non-core forest land assets in the southern part of Spain, with a book value of EUR 170m. These will be evaluated for sale and could offer further catalysts in the future. The share price has been strong since we initiated the position in late October, driven by the appreciating USD and improving market conditions. We believe that Ence is well positioned within its fragmented industry, has a solid balance sheet, non-core assets it could dispose of, a long-term oriented ownership structure and generates healthy amounts of cash even in this depressed pulp price environment. Our target price for Ence is EUR 3.2, equivalent to 7x EV/ebitda.

Fact

Ence reported Q4 sales of EUR 174m, EBITDA of EUR 42m and net profit of EUR 14m. The company reported a cash cost level of EUR 340/ton (a reduction of EUR 14/ton vs. Q3).

Massimo Zanetti Beverage Group
(0.7% weight)

Investment case update

Massimo Zanetti, the Italian based coffee producer, operates in three main segments: Private Label (37% of sales), Mass market (37%) and Food services (26%). The company went public in June 2015 at a meaningfully higher share price than the current price, and since then has become 67% family-controlled. The end of 2016 was rather weak for the company with revenue falling to 1.5% over last year, primarily driven by lower volumes. Higher sourcing costs hit gross profit as coffee prices have risen materially over the last year (gross profit per kilo down 4%). However, good control of operating costs brought EBITDA to a largely unchanged level from last year (EUR 22m). The recently acquired Nutricafe's contribution to EBITDA was about EUR 3m. Net debt is up over last year (EUR 220m at year end) following the acquisition of Portuguese coffee leader Nutricafe and the minority stake in Canadian Club Coffee. Guidance for 2017 points to volume growth of 2-4%, EBITDA up 10-12% and net debt below EUR 210m. The company has been hit by higher coffee prices in the short term, but we continue to see outsized opportunities for operating cost-cutting to increase margins in the mid-term. Also, the product mix shift towards the single serve segment will positively impact the margin picture. Mid-term free cash flow yield is potentially above 10% at current levels which is substantially higher than the peer group.

Fact

In Q416, the group reported revenues of EUR 247m down 1.5% over last year. Total volume for the group decreased by 1.3%. EBITDA was EUR 22m, unchanged from last year.

Key earnings releases and corporate news, March 2017 (cont.)

Schaeffler

(3.2% weight)

Investment case update

Schaeffler is a German-based automotive/industrial company; mainly active in engine and transmission systems (75%, auto) as well as bearings (25%, industrial). The company executed an IPO with exceptionally poor timing only days after the Volkswagen emission scandal was announced. The automotive division, with China as the main driver, generated decent revenue growth in Q416 with a solid 14.8% EBIT margin. The industrial division continues to be the weak spot, where revenues fell and EBIT margin was a poor 4.9%. FY16 results and FY17 guidance were largely preannounced. The company has initiated a restructuring program to bring the industrial division in line with peer group margins, which will gradually kick in during 2017. There have been positive developments on the debt side as the company lowered its net debt by EUR 2.3bn in 2016 to EUR 2.6bn at year end (net debt/EBITDA at 1.1x). 2016 free cash flow was an impressive EUR 735m while company guidance for 2017 is EUR 600m. The automotive division guidance implies revenue growth of 4-5% at constant currency while the industrial division will see about the same level as last year. EBIT margin is expected to be around 12-13% in 2017. The company continued to highlight the progress in electric mobility and also indicated there was room for potential acquisitions in this area. The company's high exposure to traditional combustion engines has been a concern for investors. The stock is still trading at a meaningful discount to absolute fair value (EUR 19 in our opinion) and to other high quality operators at mid-term EV/EBITDA of 5x and free cash flow yield at 6-7%.

Fact

Q416 automotive revenues increased slightly over last year to EUR 3.4bn while industrial revenues fell marginally to EUR 731m. EBIT margin was 14.8% in automotive division and 4.9% in the industrial division.

Stock Spirits Group
(2.0% weight)

Investment case update

Stock Spirits is a branded spirits (primarily vodka) and liqueurs business focused on Central Europe, mainly Poland, the Czech Republic and Italy. The company reported results for the second half of 2016, which were an improvement on the first half but were weak YoY mainly due to volume decline in the Polish vodka market (50% of sales) and the competitive pressure from local peers in Poland. Sales declined 6% YoY while EBITDA declined 20% YoY. After a turbulent year with attempts to turnaround the business, management started to invest in pricing in order to close the price gap to main competitors. As a consequence, the gross margin declined but market share dynamics stabilized and resulted in a marginal market share gain, currently a volume market share of 25%. A key positive was that the company saw improved free cash flow generation and an increase in net profit of 4.5% YoY, driven by improvements in working capital, a reduction in inventories, and lower finance and tax expenses. Activist holding company Western Gate, which holds 9% of shares, continues to pressure management to reduce costs, primarily by moving the current HQ from London to its main market in Poland and improve competitiveness. The company has a highly discounted valuation (30-40% discount to peer group). We see scope for further re-valuation in the mid-term. Our price target is GBP 2.6 (now GBP 1.7) which is 12x mid-term EV/EBITDA multiple.

Fact

The company reported H2 revenue of EUR 145m, EBITDA of EUR 34m and a net profit of EUR 20m.

Key earnings releases and corporate news, March 2017 (cont.)

JBS

(3.6% weight)

Investment case update

Brazilian based JBS transformed itself from a mid-sized local beef producer to one of the largest food companies in the world since its IPO in 2007. It currently has a leading global market share position in beef, poultry (through 76% owned Pilgrim's Pride in the US) and pork. In Q416, net revenue was lower by 12% while EBITDA held flat due to higher overall margins. Net income was higher due to a 50% decrease in financial expenses, reversing a loss from a year ago. The main bright spots were JBS USA Beef which turned in a 7% margin compared to negative levels a year ago as higher cattle availability brought down input costs and sales grew. Pilgrim's Pride (PPC) showed overall positive development from last year. Seara and Mercosul posted lower EBITDA over last year. The company ended the year with net debt/EBITDA at 4.1x with most debt denominated in USD. Free cash flow was solid at BRL 2.9bn in Q416. The company still awaits final approval to go ahead with the listing of JBS Foods International (JBSFI) in the US which will include all the assets outside Brazil. The transaction was earlier expected in Q217. However, the fairly encouraging fundamental results have been overshadowed by a recently announced federal investigation into an alleged bribery scheme between several meat processing companies and agriculture inspectors. The investigation apparently involves three of JBS' facilities, but the company has vigorously defended itself and claims they adopt rigorous quality standards with regard to food safety. Several countries considered some form of meat import bans from Brazil. While it is too early to quantify the potential implications for any of the producers involved, JBS is a diversified company and operates from many geographic regions, which could ultimately limit the impact of potential bans. It is probably reasonable to expect a postponement of the IPO of JBSFI. The investment case remains based upon an operational turnaround including a continued recovery in beef margins and better capital discipline which coincides with a multi-year low valuation of 5x EV/EBITDA forward multiples. Solid cash flow generation has the potential to pave the way for a net debt reduction towards 2.5x in the mid-term. We also think there is an opportunity for chicken producer Pilgrim's Pride to regain lost margin as capacity utilisation normalises.

Fact Net revenue fell by 11.7% to BRL 41.6bn while adjusted EBITDA was flat versus last year at BRL 3.1bn. Net income was BRL 694m versus a loss of BRL 275m last year.

China Telecom
(3.5% weight)

China Telecom is the second largest telecom service provider behind China Mobile, in a maturing industry with potentially massive growth in data downloads. In Q4, total operating revenue grew 6% YoY while operating expenses grew by 3% YoY and 11% QoQ (driven by tower rentals and network expansion). EBITDA increased 9% YoY while the margin expanded by 90bps. The mobile service segment (40% of sales) continues to be the main growth driver, up 18% YoY, driven by increased 4G penetration and an increased subscriber base. The fixed line service segment (60% of sales) declined 4% YoY due to declining voice revenues and lower broadband ARPU. Full year capex year was in line with guidance and management expects capex to decline further in 2017, indicating that the period with elevated capex levels is potentially coming to an end. This could bring attention to the company's attractive mid-term free cash flow dynamics. With improving operations and falling capex, management increased the dividend by 10% to HKD 0.105, implying a 43% pay-out ratio. The stock is attractive on current earnings power, and at a major discount to industry peers at EV/EBITDA of less than 4x.

Fact

In Q416, the company reported revenue of RMB 88.5bn. EBITDA decreased to RMB 19.1 bn. The company added 2.5m mobile subscribers to the current total base of 215m and added 2.4m wireline broad band subscribers to the current total base of 123m.

Key earnings releases and corporate news, March 2017 (cont.)

Telecom Italia

(4.5% weight)

Investment case update

Telecom Italia is a former state telecommunications monopoly. The company has two main operations: Domestic telecom (75% of revenues) and a majority stake in TIM Participacoes (25% of revenues, 67% owned) which is Brazil's second largest mobile operator. The company is in the midst of a turnaround led by the newly appointed CEO Cattaneo, following a multi-year contraction in core business segments. Released numbers for FY16/Q416 revealed signs that the company might be in the early stages of a turnaround where FY16 revenues in Domestic Telecom were flat over last year while Q416 showed an improvement compared to last year (+5%). The Brazilian unit was down sharply in FY16 compared to last year but there was a substantial sequential improvement in Q416. EBITDA in Domestic Telecom was up 20% over last year with a notable acceleration in Q416 while Brazil decreased by 4%. Capital expenditure was EUR 4.8bn in 2016, down EUR 320m over last year. A strategic plan for 2017-2019 was approved with focus on "substantial" transformation of the company's cost base and a return to growth in domestic telecom and halting the negative development in Brazil, indicating an overall implicit 2019 EBITDA level in excess of EUR 9bn. Investments in Italy will be around EUR 11bn (2017-2019) with 45% related to completing ultra-broadband networks. Net debt to EBITDA is targeted below 2.7x at the end of 2018. Even before these potential fundamental improvements the stock is trading at a substantial valuation discount at 5x EV/EBITDA and at a major discount to the peer group. We think that the gradual market realisation that competitive threats from new entrants are not as bad as perceived and solid cost-cutting potential in line with the company's strategic plan will pave way for a re-rating of the shares in the mid-term.

Fact

In FY16 overall revenues were down 3.5% over last year (EUR 19b) while EBITDA increased to EUR 8.0bn, up 14% over last year.

Infineon

(2.7% weight)

Investment case update

Infineon is a German semiconductor manufacturer founded in 1999 when the semiconductor operations of the parent company Siemens AG were spun off. The company produces semiconductors and systems solutions. Stronger than expected sales within its auto-related segment thanks to the raised guidance. More specifically, demand from Chinese OEMs in combination with acceleration in ADAS (Advanced Driver Assistance Systems) and electric vehicle-related demand explains the raised guidance. The company now expects 8-11% sales growth for FY17 and a mid-point of 17% segment margin. There was an earlier setback with their failure to acquire Wolfspeed, but the company indicated it made solid progress with its own technology in this area. We continue to believe that Infineon has a unique position with its enviable market position in the structural shift towards hybrid engines, auto electrification and the autonomous car (especially within radar applications) and the explosive growth from increased semi-content in these areas. This has gradually been discounted in the stock price as the share price has more than doubled since we entered the position. We still see upside on current valuations and a discount to higher quality industry peers, but position size has been lowered to reflect the current risk/reward balance.

Key earnings releases and corporate news, March 2017 (cont.)

Gold Fields

(2.5% weight)

Investment case update

Gold Fields Ltd is one of the largest gold exploration companies in the world with total production capacity of 2.2m ounces and reserves of 50m ounces. The company is headquartered in South Africa, but the bulk of the assets are located outside South Africa, in Australia (50%), South America (7%) and West Africa (35%). The one asset in South Africa is South Deep, which is one of the largest gold reserves in the world. The company updated its reserve and resource base with reassuring results. The overall Australian reserve/resource base increased 7% and 13% respectively. At the company's sole South Africa asset, South Deep, the reserves were flat at 37moz and resources fell marginally. The company recently announced a revised production outlook for South Deep, which we think might be conservative. The market's implicit perception of reserve life continues to be quite pessimistic, especially with regard to the Australian asset base. We think the market may underestimate the future potential of reserve conversions in the mid-term. The asset in South Africa, South Deep, may be at an inflection point and is currently valued at an implicitly negative value. The major investments into this asset are now largely behind the company and expectations for production guidance may be too depressed. The stock is trading at the same depressed valuation (3x EV/EBITDA at steady state gold price) as the other South African operators despite the fact that the asset base is outside South Africa.

Fact

In FY16 overall revenues were down 3.5% over last year (EUR 19bn) while EBITDA increased to EUR 8.0bn, up 14% over last year.

GCL Poly
(1.0% weight)

Investment case update

Slightly negative. Full year sales and revenues were lower than we expected due to lower wafer and electricity sales. We will review the holding given the weak earnings growth outlook due to ASP pressure and potential contraction in solar demand. Industry leadership should hold up margins through cost reductions, but given headwinds we might see better opportunities elsewhere.

Fact

GCL-Poly released 2016 results which were on the weak side. Revenues of RMB 22bn were up 7.5% YoY, while cost of sales were up only 2% YoY leading to gross profit up 23% to RMB 7.0bn. EBITDA was up 23% to RMB 9.5bn and net income of RMB 2.0 was down 16% YoY (explained by exceptionals/discontinued) while core profit grew by 22%.

Key earnings releases and corporate news, March 2017 (cont.)

Aryzta

(1.8% weight)

Investment case update

Aryzta, the Swiss baker, announced H1 results which were broadly in line with guidance given at the time of its profit warning in January. The share price has been weak this year following the disappointing performance and continuous mismanagement of the group. Under the new Chairman, former Smurfit Kapa CEO Gary McGann, changes are underway and a series of positive events have ensued recently, which are most welcome for the investment case. Management has resigned and non-core assets are being evaluated for sale. Due to the current management transmission, no forward-looking guidance was given together with the H1 results. Following the results, McGann met with investors for the first time and commented on a few important points. A new interim CFO from KPMG is currently in place and McGann expressed confidence in historical accounting in the company. The chairman also mentioned that the company does not see the need for a capital increase and expressed confidence that the company can deleverage by CHF 1bn over the next 4 years on disposals and from internal free cash flow generation. Regarding margin pressure, the chairman commented that he doesn't believe Aryzta has over-earned historically and there was no reason why margins shouldn't return to historical levels, based on his experience over the last few months. We believe that Aryzta is a mismanaged company with an underlying, highly cash generative, solid business model. As the capex cycle peak is behind them, FCF going forward looks attractive, offering a double digit yield for the midterm.

Fact

Aryzta reported group revenue of EUR 1.9bn, down 2.8% YoY. Group EBITA of EUR158.5m, down 31% YoY.

FFP
(1.0% weight)

Investment case update

FFP is a French investment company with a diversified portfolio of assets where approximately 90% of the assets are listed. The company is 80% controlled by the Peugeot family and the largest part of the company NAV is the legacy ownership stake in French automaker Peugeot (45% of NAV and 10% total ownership). Following a family dispute within the Peugeot family, FFP has gradually been diversifying away from the Peugeot stake and has invested in other sectors, such as French nursing home operator Orpea and turnaround situation Zodiac Aerospace, an aeronautical equipment supplier. The company announced a NAV value of EUR 131/share at the end of 2016 which is up 24% in H216. The primary positive contributor was Peugeot which rose 36% in the period. During the period, the company diversified into JAB CF Global (USD 50m) which holds major assets in the coffee industry and invested into a real estate project (USD 36m) in the US. There have been major positive developments post year end, with the Peugeot share rising another 30% and Zodiac was taken out by Safran. The stock has re-rated solidly since inception (+35%) but we still believe there is an unwarranted discount to fair value at current stock price of around EUR 89/share (FFP NAV probably closer to EUR 150 at this point). The discount may be a result of the scarce coverage of the stock, lower liquidity/free float or persistent scepticism around the company's core position in auto-maker Peugeot.

Fact

The company reported H216 net asset value of 131 EUR/share vs 106 EUR/share at the end of H116.

Key earnings releases and corporate news, March 2017 (cont.)

Fourlis

(1.0% weight)

Investment case update

Greek Fourlis has two main business activities: (1) operator of IKEA stores in Greece, Bulgaria and Cyprus and (2) operator of Intersport stores in Greece, Cyprus and Turkey. The company is operating seven IKEA stores (five in Greece, one in Cyprus and one in Sofia, Bulgaria). Currently about 70% of sales are derived from the IKEA operations. In Q416, the company produced total sales of EUR 116m, which was 2% lower than last year. IKEA sales fell 4% while Intersport sales climbed 4%. IKEA EBITDA margin was down from 14% to 12.7% while Intersport margins were lower by 260 bps to 10.1%. Total EBITDA was down 10% from last year to EUR 12.9m. Net debt compressed EUR 10m to EUR 115m which still is rather elevated at over 3x net debt/EBITDA, but the company has several non-core assets, including land plots in Bulgaria, that could be sold to reduce the debt pile. Management still expects to pay a small dividend for last year, widely expected to be around EUR 0.10/share. A new concept has been introduced in the form of Athletes Foot, where the first pilot phase has been completed and management intends to add another 2-3 stores in 2017. On an overall basis, the home furnishing market in Greece has lost more than 70% of its value since the peak of 2008 and is currently just 0.4-0.5% of GDP in Greece and competition has been substantially reduced in the ultra-long recession. We believe that there is a gradual improvement towards normalisation of the business environment which is combined with operating leverage, resulting in substantially higher earnings power in the mid-term.

Fact

Fourlis released Q416 numbers where IKEA sales were down 4% to EUR 82.3m over last year while Intersport increased 4% to EUR 33.7m. Overall EBITDA decreased 10% to EUR 12.9m while EBITDA margin fell from 12% to 11.1% over last year.

The 10 largest companies in SKAGEN Focus

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 USD 180bn bail out. The company has two core insurance holdings: Sun America and Chartis that it intends to keep.

Telecom Italia S.p.A., through subsidiaries, offers fixed line and mobile telephone and data transmission services in Italy and abroad. Telecom Italia is a former state telecommunications monopoly. The company has two main operations: Domestic telecom (75% of revenues) and a majority stake in TIM Participacoes (25% of revenues, 67% owned), Brazil's second largest mobile operator.

E-MART Inc. operates E-Mart discount stores. The Company retails food, clothing, household goods, electronics, and other items through several branch stores. Revenue breakdown: E-mart offline 70%, Traders 6% (wholesale), E-Mart mall/online 5%, Hotel 16%, With Me (convenience format/CVS) 3%. Market share 48% in core discount format in South Korea.

Tesoro Corporation refines and markets petroleum products and provides transporting services. The company operates refineries, as well as a network of retail and refuelling stations in the western United States. Tesoro also markets gasoline and diesel fuel to independent marketers and commercial end users.

Teva's history can be traced back to Jerusalem in the 1930s. Today Teva is the world's largest producer of drugs that have gone off-patent. HQ in Israel; presence in 60 countries; 45k employees. Teva's strategy is to focus on 1) Central nervous system (CNS) 2) Respiratory and 3) Improved versions of existing drugs (not just Teva drugs) and 4) Production of biosimilar drugs. In July 2016, The US Federal Trade Commission granted Teva approval for the acquisition of Allergan's generics business (Actavis).

The 10 largest companies in SKAGEN Focus (cont.)

PHILIPS Lighting

Philips Lightning was spun off from Royal Philips and is the global market leader in the c. EUR 70bn lighting industry. Total sales of EUR 7.5bn roughly split between 43% LED / 57% Conventional lighting (2015). Industry in the midst of a technology transition in which traditional lamps are being replaced by LED. As a result LED share of sales will be more than 50% in 2016. Business model is also changing from in-house production selling to distributors (old lamps) towards outsourced production and direct solution selling which includes professional services and long-term contracts.

SBI Holdings

Japanese company established in 1999 as an online financial services company, incubation arm of Softbank. Acquired E*Trade Securities in 2003, Softbank sold out in 2006. Three main businesses: i) Financial services; ii) Asset management, iii) Biotech Financial services. Building an ecosystem to offer full range of financial services: SBI Securities: Dominant provider of online securities services in Japan, #3 in new tax-saving NISA behind Nomura and Daiwa. SBI Sumishin Net Bank: pure-play internet bank. Also active within insurance (Life & Non-life), Mortgages (through securitisation), trading system and FX trading.

TAIHEIYO CEMENT GROUP

Largest cement company in Japan and 13th largest globally with approximately 40m tons total capacity (about 60% in Japan). Japanese cement market is an oligopoly with three players following consolidation. Geographic revenue mix: Japan 80%, US 15%, Other 5% (Singapore, Vietnam, HK, Philippines, Australia). Segment revenue mix: Cement 65%, Mineral resources 10%, Environmental business 8%, Construction materials 10%, Other 7%); private/public 50/50. Integrated with minerals business providing large part of internal raw material needs.

JBS

Brazil-based JBS has transformed itself from a mid-sized local beef producer to the world's largest animal protein processor in just a few years since its IPO in 2007. It is now the world's #1 beef, #2 poultry and #3 pork producer by sales. The company operates in six main segments: JBS USA Beef (40% of sales, US beef processing), Moy Park (14%, UK-based chicken and foodservice provider), Pilgrim's Pride (14%, 2nd largest chicken producer globally; separately listed in the US; PPC US, JBS ownership 75%), JBS Mercosul (13%, Brazil-based beef processing), JBS USA Pork (10%), JBS Foods (9%, prepared foods and poultry processing).

SoftBank

Japan-based Softbank is a telecom and internet conglomerate. The company's main assets are 1) the Chinese online giant Alibaba Group (32% holding). Alibaba is the leading online commerce platform in China, active both in retail and wholesale; 2) US-based telecom operator Sprint (80% ownership) which provides wireless services in the US and is the third largest wireless network operator after Verizon and AT&T; and 3) domestic telecoms (mainly Softbank Mobile, third largest telco in Japan after KDDI and NTT Docomo).

Unicredit (UCG IM) EUR 12.7

UniCredit

History, what they do and how case was found

Unicredit ranks as the no. 2 bank in Italy in terms of loans and controls one of the largest franchises in continental Eastern Europe (leading position in Croatia, Bosnia, Bulgaria and the Czech Republic). Unicredit owns 40% of Yapi Kredi in Turkey and 8% of Mediabanca and holds several other listed stakes in smaller banks across Eastern Europe. Like most Italian banks they have been plagued by bad loans issued over the last 10 years. New CEO Mustier initiated a re-capitalisation of the company in February including a EUR 13bn equity raise and announced an ambitious plan to bring down costs and simplify the company structure.

ESG – No major issues outstanding.

Rationale for investment

- **De-risking of the balance sheet** - the company will execute upon a plan to bring down non-performing loans and raise capital levels to adequate levels. The de-risking plan includes (1) de-consolidation of EUR 18bn assets via spin-off to two separate companies (Fortress and Pimco will be majority shareholders, while 49% retained by Unicredit), (2) asset disposals of EUR 6bn (3) write-offs and active recovery management.
- **Simplification of corporate structure** – the company has sold asset manager Pioneer and the 41% stake in Polish bank Bank Pekao to shore up the balance sheet and bring up capital levels. We think it is likely further divestments may be done in the mid-term.
- **Cost-cutting plan** – the company has set a target to close 20% of branches over the next few years to cut costs, including laying off another 7k.
- **New management with equity-related incentives** – the new CEO will not get paid on an annual basis but will get an equity reward if return and capital targets are met.
- **Consensus remains overly sceptical** on the current 2019 earnings target of 9% ROTE and sees net income well below the EUR 5bn targeted by the company.

Potential triggers

- Delivery on the mid-term capital and cost-cutting targets and the 2019 earnings target of 4.7bn – 5.0bn closer to the target of 9% ROTE.
- Gradual market realisation that the mountain of non-performing loans are levelling off through communicated measures.
- Further actions to simplify the corporate structure, which could involve the holdings in Mediabanca and Turkish bank Yapi Kredi.

Risks

- Italian macro/geopolitical uncertainty
- Franchise erosion following huge cost-cutting exercises
- Asset quality – failure to de-risk the loan book, for instance driven by worse macro environment
- Basel IV – if this is fully implemented it could potentially erase 150 bps in regulatory capital

Target price

We set a target price of EUR 22 which assumes normalisation of return on tangible equity and valuation in line with tangible book value/share.

KEY FIGURES:

Market cap	EUR	14.5bn
P/E 17E		8x
ROTE 18E		6%
Price/TE		0.6x
CET1		12.5%

Owners:

Capital Group	7.9%
Aabar Investments	5.0%
Blackrock	4.8%
Dodge&Cox	3.4%

UniCredit

Team Focus, February 2017
www.unicreditgroup.eu

3U addition to fact sheet

Unpopular

- Italian banks have in general been pressured by a mountain of non-performing loans and also political uncertainty. Several re-capitalisations have been carried out in Italy over the past year. We believe this has become a largely ignored investment area.

Under-researched

- Unicredit is a complex company with over 700 different entities which create difficulties for analysts to follow. You also need to look beyond the shorter term perspective to see the core earnings power of the company.

Under-valued

- At inception, the equity is trading at 0.6x tangible equity (post equity raise) with a normalised ROE potential of 9% in the mid-term. We set a EUR 22 price target of the equity which is close to 1x tangible book value.

For more information please visit:

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

Unless otherwise stated, performance data 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. KIIDs and Prospectuses for all funds can be found on our website.

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