SKAGEN Global

Statusrapport april 2017

The art of common sense

SKAGEN

Oppsummering – april 2017

- SKAGEN Global gjorde det bedre enn referanseindeksen i april. Fondet var opp 1,4 prosent, mens MSCI All Country World Index steg med 1,1 prosent. *

- Samsung Electronics, Unilever og Alphabet var de beste bidragsyterne i april, mens GE, China Mobile og AIG var de tre svakeste bidragsyterne i måneden.

- Fondet kjøpte seg inn i Marsh & McLennan, som er et ledende selskap innen forsikringsmegling, risikostyring og formuestjenester.

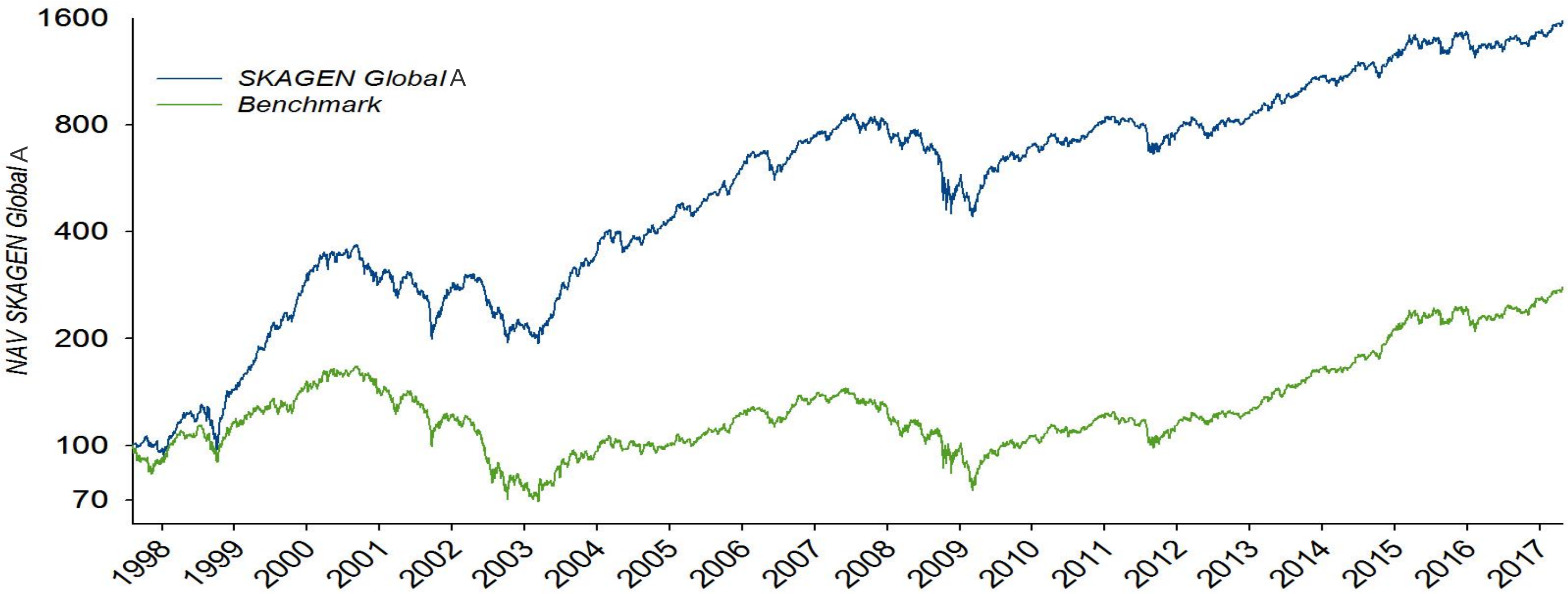
- Fondet solgte seg ut av amerikanske ServiceMaster og Amerco.

- De 35 største selskapene i fondet prises til en P/E på 15 (2017-estimat), og en Pris/Bok på 1,8x. For indeksen er tilsvarende tall 16,5x og 2,2x.

- Basert på kursmålene for fondets 35 største selskaper, beregnes oppsiden til å være 28 prosent.

** Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.*

SKAGEN Global avkastning i NOK i april 2017



	april	QTD	Hittil i år	1 år	3 år	5 år	10 år	Siden start*
SKAGEN Global A	1,4%	1,4%	8,3%	18,7%	12,7%	14,2%	7,2%	15,0%
Verdensindeks*	1,1%	1,1%	8,0%	22,4%	18,9%	18,1%	7,2%	5,3%
Meravkastning	0,3%	0,3%	0,3%	-3,8%	-6,2%	-3,9%	0,0%	9,7%

Alle tall utover 12 måneder er annualisert (geometrisk avkastning), Startdato 7. august 1997. Referanseindeksen var MSCI World i NOK fra 7. august 1997 til 31. desember 2009 og MSCI All Country World Index fra 1. februar 2010 og videre.

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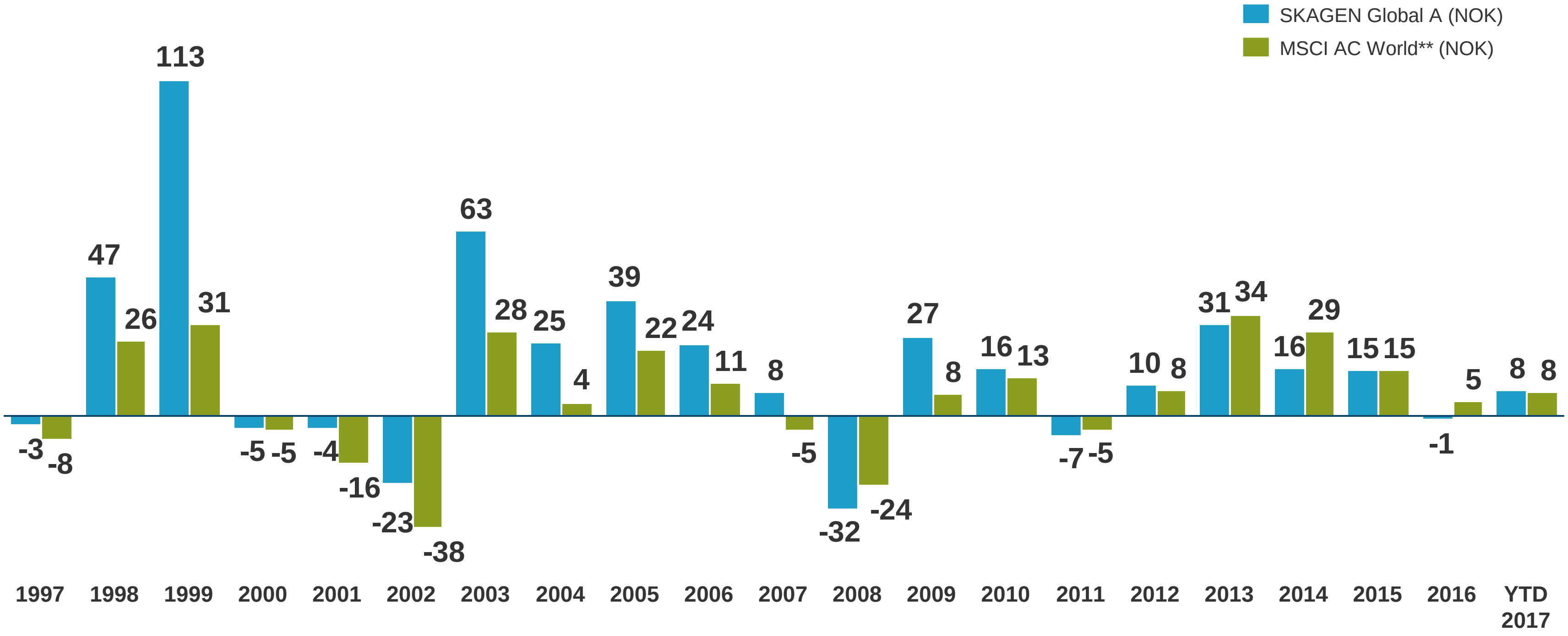
Årlig avkastning siden start (%)*

SKAGEN Global A har gjort det bedre enn indeks i 15 av 20 år



Note: Alle tall i NOK, etter gebyrer. ***** *Startdato: 7. august 1997* ****** *Referanseindeks var MSCI World i NOK fra 7. august 1997 til 31. desember 1997 og MSCI All-Country Index fra 1. februar 2010 og videre*

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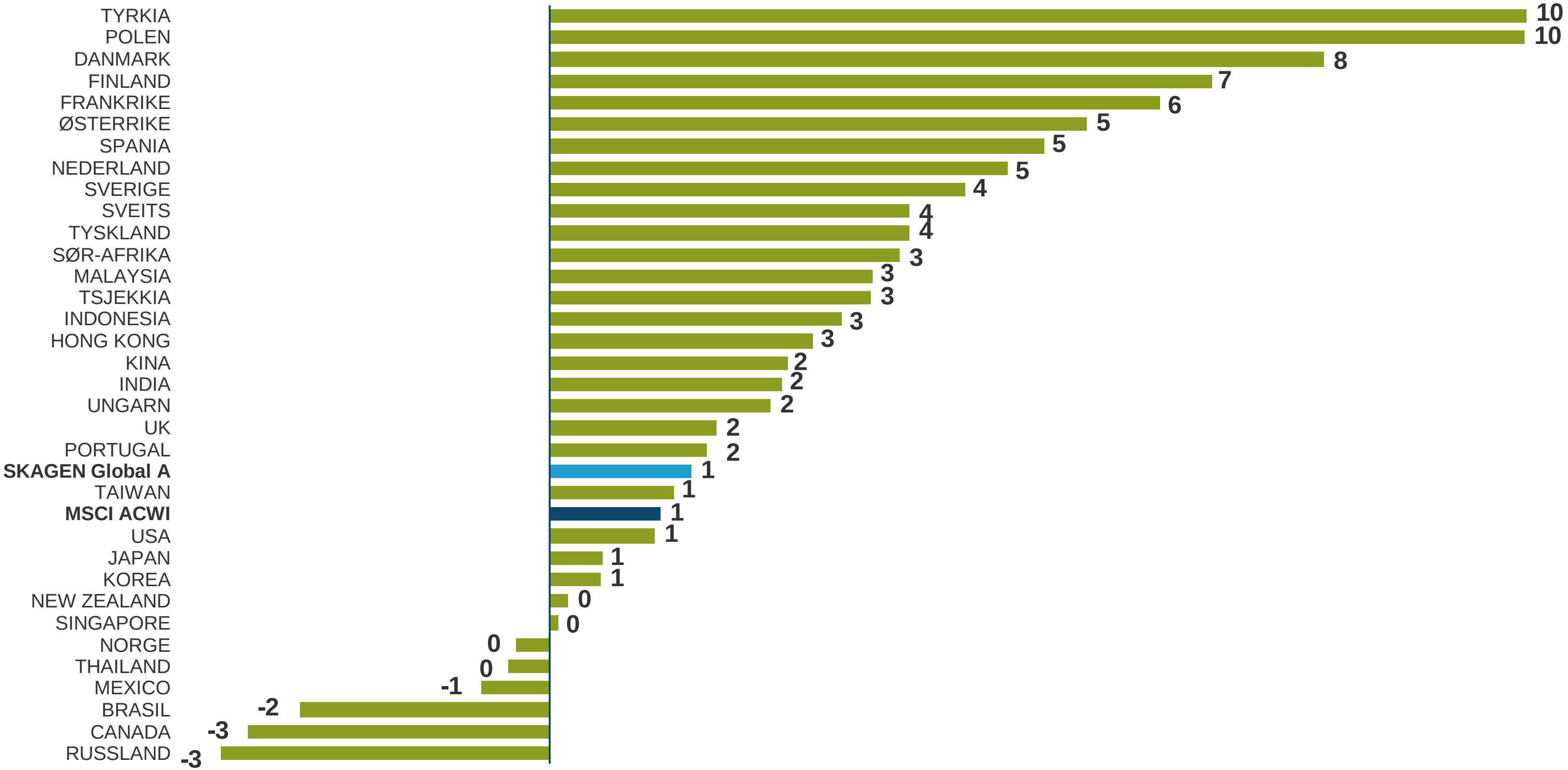
Markedsutvikling i april 2017, NOK (%)



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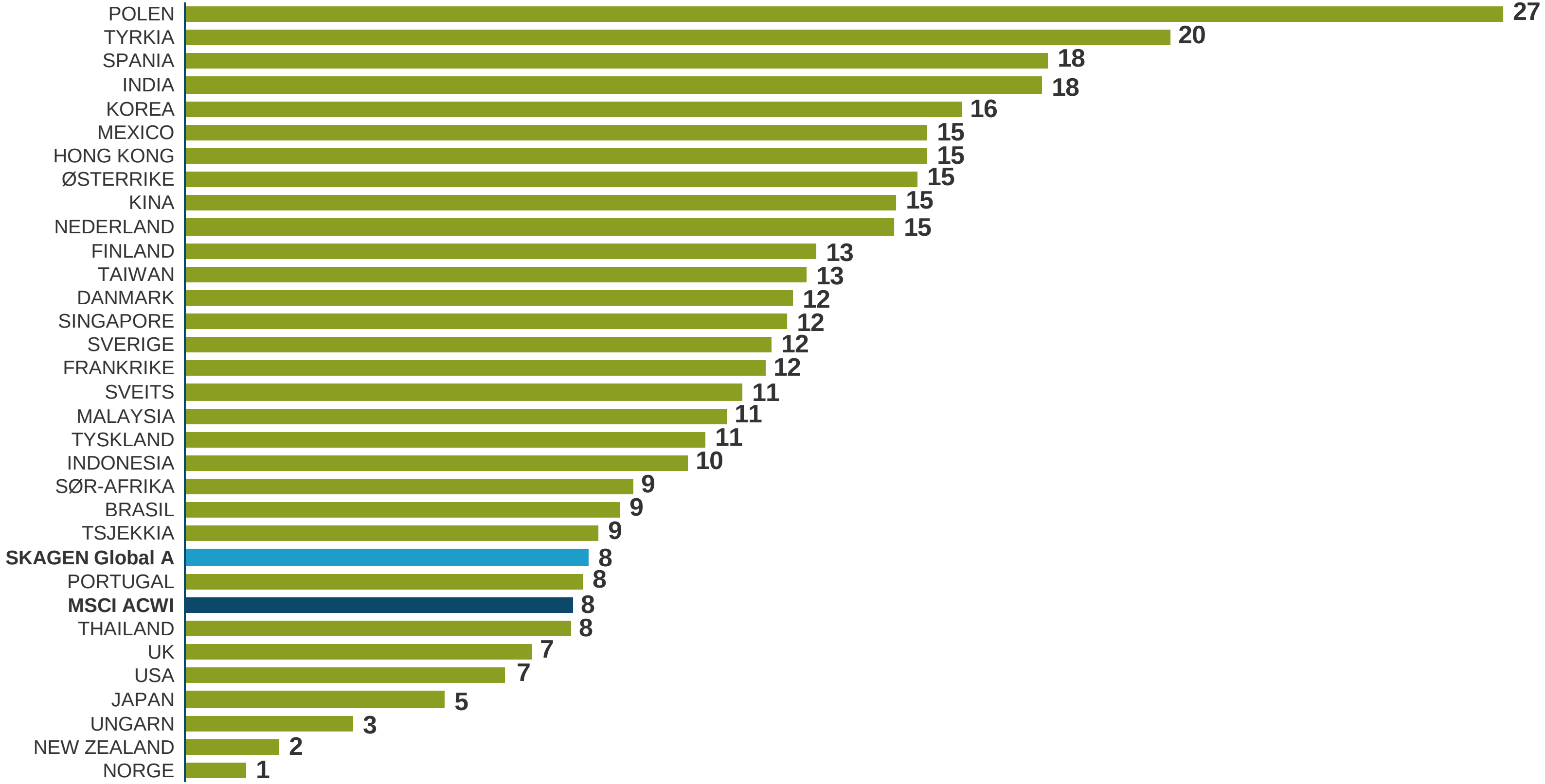
Markedsutvikling hittil i 2017, NOK (%)



Viktigste bidragsytere i april 2017

Største positive bidragsytere

Company	NOK Millions
Samsung Electronics	73
Unilever	68
Alphabet	63
Cap Gemini	62
Carlsberg	48
Microsoft	46
Novo Nordisk	38
Akzo Nobel	35
Kingfisher	32
G4S	32

Største negative bidragsytere

Company	NOK Millions
GE	-45
China Mobile	-36
AIG	-34
Skechers	-34
Teva	-32
Citigroup	-23
Hyundai Motor	-21
Merck & Co	-21
Autoliv	-14
Golar LNG	-9

Value Creation MTD (NOK MM): 429

NB: Bidrag til absoluttavkastning

Viktigste bidragsytere hittil i 2017

Største positive bidragsytere

Company	NOK Millions
Unilever	328
Samsung Electronics	294
G4S	255
Roche	199
Akzo Nobel	161
Cap Gemini	129
CK Hutchison Holdings	124
Medtronic	116
Microsoft	115
Alphabet	109

Største negative bidragsytere

Company	NOK Millions
Teva	-125
GE	-106
AIG	-90
Autoliv	-69
NN Group	-22
Lundin Petroleum	-12
Dollar General	-9
Citigroup	-3
Amerco	-2
Marsh & McLennan	-0

Value Creation YTD (NOK MM): 2311

NB: Bidrag til absoluttavkastning

Viktigste endringer hittil i år 2017

Økte poster

Q1	Red Electrica	(Ny)
	Hyundai Motor	(Ny)
	Golar LNG	(Ny)
Q2	Marsh & McLennan	(Ny)

Reduserte poster

Q1	Samsung Electronics	
	Unilever	
	G4S	
	AIG	
	Comcast	
Q2	ServiceMaster	(Ut)
	Amerco	(Ut)
	Teva	
	AIG	

Kjøp og salg i april 2017

Kjøp

- Fondet kjøpte seg inn i **Marsh & McLennan**, et ledende selskap innen forsikringsmegling, risikostyring og formuestjenester. Vårt syn er at aksjekursen ikke reflekterer ekspansjon innen vekstmarkeder og bedret profitabilitet i en kontantgenererende nisjeindustri.

Salg

- I april solgte vi oss gradvis ut av **ServiceMaster**, det ledende amerikanske selskapet innen skadedyrkontroll. De siste aksjene ble solgt den siste uken i måneden til rekordhøye kurser.

- I kampen om kapital måtte det amerikanske flytte og oppbevaringsselskapet **Amerco** vike for bedre ideer andre steder.

- Vi fortsatte med å redusere posten i det amerikanske forsikringskonglomeratet **AIG** og det israelske farmasiselskapet **Teva**. Dette på grunn av svakere utsikter, sett i lys av risiko, i våre siste fundamentale analyser av de to selskapene.

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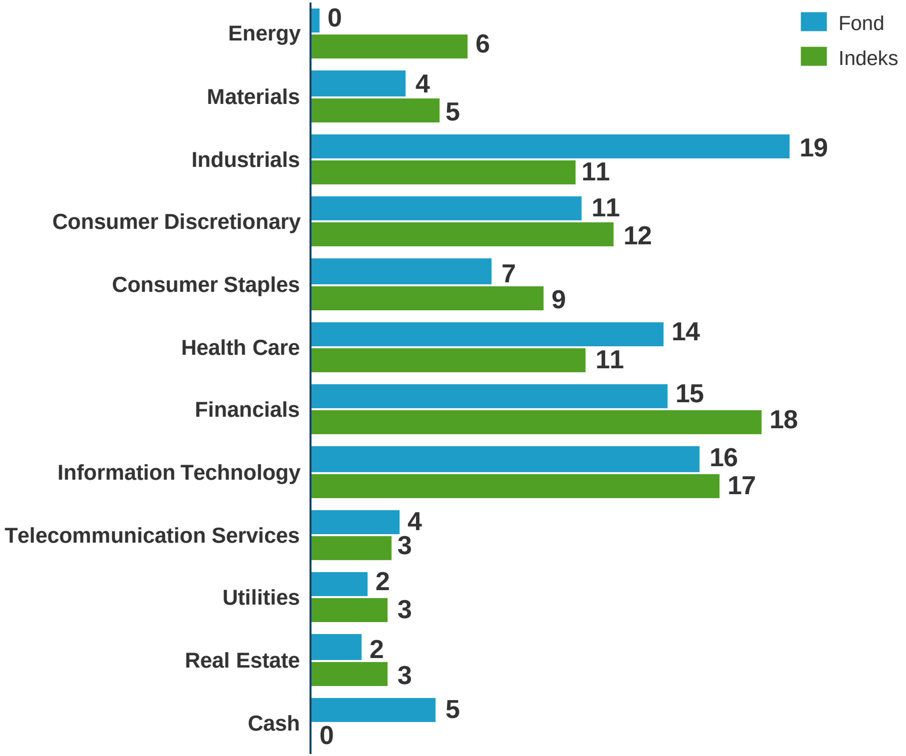
Største selskaper i SKAGEN Global

	Holding size, %	Price	P/E 2016a	P/E 2017e	P/BV last	Price target
CK HUTCHISON HOLDINGS	5.0	97.2	11.4	10.5	1.0	140
UNILEVER	5.0	48.1	25.6	22.3	8.4	57
ROCHE	4.9	260.3	17.9	16.8	9.3	360
CITIGROUP	4.5	59.1	12.5	11.4	0.8	70
MICROSOFT	4.4	68.5	24.5	22.8	7.6	77
GENERAL ELECTRIC	4.1	29.0	19.5	17.8	3.4	36
SAMSUNG ELECTRONICS	4.1	1,753,000.0	10.9	6.7	1.3	2,000,000
3M	4.0	195.8	24.0	22.0	10.6	230
MERCK	3.8	62.3	16.5	16.3	4.3	76
CHINA MOBILE	3.6	83.0	13.8	13.0	1.5	120
Weighted top 10	**43.4**		**16.1**	**13.9**	**2.1**	**26%**
Weighted top 35	**88.3**		**16.6**	**15.0**	**1.8**	**27%**
MSCI AC World			**20.7**	**16.5**	**2.2**	

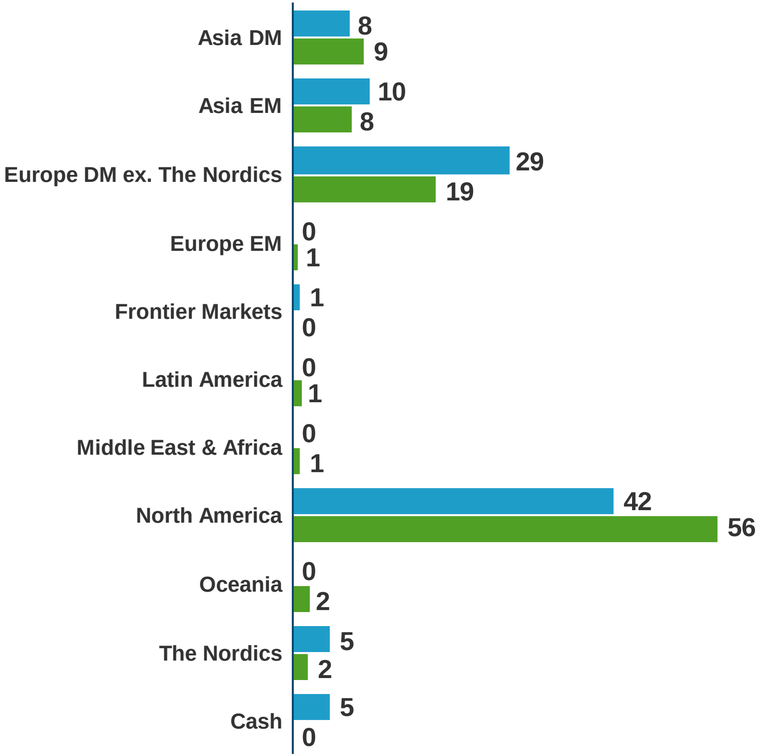
As of 30 April 2017

SKAGEN Global: Sektor- og geografisk fordeling

Sektorfordeling



Geografisk fordeling



Nyheter på engelsk

Key earnings releases and corporate news, April 2017

Unilever

(5.0%)

Improving margins, buying back shares, and optimising the portfolio

Summary: Unilever announced the results of its "comprehensive" review following Kraft-Heinz' "comprehensive proposal" to acquire Unilever. Specifically, the company plans to: (i) Accelerate cost cutting - announced a 2020 operating margin target of 20% (from 16% today); (ii) Increase financial leverage – targets 2x net debt/EBITDA (from slightly over 1x today), mainly used for buybacks (EUR 5bn in 2017) and higher dividends (+12% this year); and (iii) Accelerate portfolio evolution – specifically promising to exit the spreads business.

Investment case implications: Overall, the targets announced are in-line with our investment thesis (and what we have communicated to the company we would like to see) as Unilever plans to i) be more aggressive on cost cutting; ii) finally optimise its underleveraged balance sheet; and iii) accelerate portfolio transformation towards a purer HPC company. While the stock is increasingly pricing this in, looking at longer term earnings estimates, there is still scepticism around the company's ability to execute on its plans.

Citigroup

(4.5%)

Capital build-up continues

Summary: Revenues were up 3% YoY mainly driven by the investment bank (+14%) due to higher client activity. Both the domestic (+2%) and international (+3%) consumer bank grew modestly, while legacy asset rundown continues in the "other" segment (-40%). As operating expenses were flat YoY and cost of credit was down 19%, operating profit increased 20%. Tier 1 Capital ratio was 12.8% vs. 12.6% last quarter and tangible book value per share grew from USD 64.6 to USD 65.9. Thus, Citigroup grew capital ratios and book value per share despite returning USD 2.2bn to common shareholders in the quarter.

Investment case implications: We saw the developments we were hoping for in Q1 2017 with i) positive operating leverage (operating costs flat while revenues grew 3%); ii) continued reduction in legacy assets; and iii) significant capital generation that is increasingly returned to shareholders. The most interesting aspect of the Q1 result is confirmation of a more scalable cost structure with revenue growing 3% while costs were kept unchanged. Growth has never been part of our core thesis, but if it were to materialise, it would be very positive. During the conference call, management continued its commitment to return excess cash to shareholders (should run the bank at a 11% tier 1 ratio vs. 12.8% today). We would not be surprised to see Citi asking for a 100% pay-out ratio in the upcoming stress test (would put the stock at a double digit yield) and expect the pay-out ratio to move above 100% in the coming years. We have reduced the position as strong performance has removed some of the free optionality around higher interest rates.

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

Samsung Electronics (4.1%)

Strong preliminary Q117 result

Summary: Samsung Electronics reported a strong preliminary Q117 result with operating profit of KRW 9.9tr versus sell-side consensus of KRW 9.2tr, KRW 9.2tr in a seasonally strong Q416 and KRW 6.7tr in Q116. As usual, the numbers did not include any divisional split which will come in connection with the final results due on 5 May. However, it is very likely that the strength in memory business is the key driver. This strength will continue in Q217 with continuous gain in both DRAM and NAND throughout Q117. The result is also helped by KRW c1.5tr QoQ decline in provisioning for Note 7 to KRW 1tr, marking the last quarter of burden from costs related to recall of the model. There might also have been some minor positive impact from pre-sale of the new Galaxy S8, which has received strong reviews.

Investment case implications: Positive and should support continuous positive sell-side earnings revisions. Pre preliminary Q117 result, sell-side consensus expected operating profit of KRW 44tr for FY17 versus KRW 29tr for FY16 and KRW 35tr going into this year.

GE (4.1%)

Order intake strong, cash flow weak

Summary: Order intake +10% (o/w 7% organic) and industrial operating margins +130 bps to 12.6% YoY. Core equipment orders +5% and Service orders +9% YoY. Power and Aviation were the top performers. Operating cash flow USD 0.4bn (o/w Industrial -USD 1.6bn) was approximately USD 1bn lower than expected internally and mainly caused by working capital build. The overall backlog rose slightly to USD 324bn. The 2007 full year outlook with USD 18-21bn cash flow and 3-5% organic revenue growth remains intact.

Investment case implications: Neutral. GE posted solid revenue and order growth, but the weak cash flow detracted from the positives in the Q1 report. The first quarter of the year is normally weak on cash flow but the numbers should reverse as the year progresses, so it is mostly a timing issue. We note that GE has not taken part in the rally among industrial shares in the past few months, but better orders and higher margins bode well going forward. If GE can show progress on free cash flow the stock is well positioned to move meaningfully higher. Several triggers are imminent: closing of the Baker Hughes deal in the summer, divestments of Water, activist pressure on cost and finally good executive remuneration alignment with shareholders.

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

Alphabet

(2.5%)

Growing the business 20%+ while still generating USD 7bn of FCF

Summary: Alphabet reported very strong Q12017 results. Overall revenues grew 22% YoY (24% on an FX neutral basis) with continued strong growth in the core sites business (mainly Search but increasingly also YouTube) and "other bets". Despite worse mix (fastest growing areas like YouTube and "other bets" have lower/negative margins), operating income was up 24% YoY, due to significant operating leverage in the core search business. Capital intensity continues to decline, resulting in a 35% increase in FCF. To understand the scale of a dominant global online business, here are a few facts about Alphabet's 2nd largest business: YouTube viewers are now watching more than 1bn hours of video per day (a tenfold increase since 2012). Users upload 65 years of video each day (or 400 hours of video a minute).

Investment case implications: As margins and CAPEX have normalized (leading to a significant re-rating of the stock), the key for our investment thesis going forward is the combination of continued high growth and high incremental return on invested capital (growing 20% + and still generating significant FCF). Q12017 confirmed our thesis on both as a) growth, with revenues up 22% YoY and operating income +23%, and b) high incremental return on invested capital, with FCF up 35% YoY. The company trades at an FCF/EV yield of 3.5% (2017 numbers) with FCF growing 30%+.

Comcast

(2.4%)

Strong quarter at NBCU

Summary: Additional video (+42k) and broadband (+429k) subscribers suggest that customers continue to demand high-quality broadband and video services and, more importantly, content. X1 penetration at 52% by year end is expected to approach low-60% during 2017, before approaching saturation. Programming expenses increased by 11.7% to 13% due to timing of contract renewals, retransmission consent fees and sports programming costs. Cable margins to be flat to slightly down for 2017. NBCU with great results across all segments, with Film driving this (as in Q4). Film was up 43% with broadcast up 6%. Significant free cash flow generation of USD 3.1bn.

Investment case implications: Positive, Comcast delivered another set of solid results with better cable subscriber metrics and margins, and strong results from NBCU. Video and broadband benefitted from lower churn (10 year low) despite a weak industry backdrop and heavy competition. Revenue increased by 8.9% with adj. EBITDA +10.4%. Cashflow has been hampered by higher capex for 2017 but will be a tailwind for 2018. Company goes from strength to strength, but valuation is getting a bit stretched. 2019 PE of 17X + dividends leaves 10%+ upside.

The 10 largest companies in SKAGEN Global

Founded in 1950 as a plastics manufacturer by its current main shareholder Li Ka Shing, CK Hutchison Holdings is now a multinational conglomerate. The company holds the non-property businesses of the former Cheung Kong and Hutchison group. The group owns assets in (as % of 1H 2015 total EBITDA): Infrastructure (37%), Telecom (20%), Retail (15%), Ports 13%), and Energy (11%).

Unilever is a manufacturer of branded and packaged consumer goods. Main segments are food (24% of sales), refreshment (19%), personal care (38%), and home care (19%). The company operates in more than 180 countries and emerging markets now account for more than 50% of sales. We think the market underestimates the long-term organic growth in emerging markets and Unilever's ability to increase margins. Due to very high ROIC, growth will be produced with a minimal "growth" CAPEX, enabling the company to grow and maintain a high pay-out ratio.

Roche is a leading pharmaceuticals and diagnostics company based in Switzerland. Half of group sales and 2/3 of EBIT are derived from the company's Big 3 oncology franchises: HER2 (breast cancer), Avastin (colorectal cancer), and MabThera/Rituxan/Gazyva (blood cancer), each about USD 7bn of revenue. These businesses all come from Genentech, in which Roche has been a majority owner since 1990, and bought the last 46% in 2009.

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.

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 10 largest companies in SKAGEN Global (cont.)

Founded in 1892 by Thomas Edison et al., General Electric (GE) operates two divisions (GE Industrial and GE Capital) contributing approximately the same proportion of group earnings. GE is the world's 10th largest publicly-traded company and boasts the 6th most valuable brand. The industrial segment is a play on global infrastructure with a high-margin service business and a large installed base producing a wide variety of capital goods ranging from aircraft engines and power turbines to medical imaging equipment and state-of-the-art locomotives.

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.

3M is a US-based conglomerate selling products ranging from medical devices and office Post-it© notes to purification filters and safety harnesses. Since its inception in 1902, 3M has paid a dividend without interruption for 99 years and raised it for 58 consecutive years. 3M is headquartered in St. Paul's, MN and employs 90,000 people. Key objectives of 2016-2020 Strategic Plan: 2-5% Sales / 8-11% EPS CAGR, 20% ROIC and 100% FCF conversion.

Founded in 1891, Merck & Co is a US large-cap pharma company (and #7 worldwide by revenue) with a broad pharma portfolio and a solid pipeline (R&D 16-17% of sales). HQ in New Jersey and 70,000 employees. Sales by division (2014, USD 42bn): Diabetes (14%), Infectious Diseases (18%), Vaccines (13%), Animal Health (8%), Oncology (2%), Other (45%). Consensus expects legacy drugs sales to shrink by single-digit percent annually.

China Mobile is the leading mobile operator in China with more than 800 million subscribers. After losing out in 3G, the company is aggressively rolling out its 4G network. With USD 65bn in net cash (market cap is USD 220bn) and significant FCF generation, we expect a higher pay-out ratio to drive the share price higher – the stock is currently priced at a significant discount to peers.

Marsh & McLennan (MMC US) USD 74

Mean reversion	Special situation	Long-term value builder
0%	20%	80%

History, business model and source of investment idea

- In the late 1880s, Henry Marsh laid the groundwork for the insurance broker and consulting firm Marsh & McLennan, which now operates in 130 countries and employs 60,000 people. Marsh ranks #222 on the 2016 Fortune 500 list.
- Marsh has 2 divisions, each with 2 sub-divisions: 1) Risk & Insurance Services (RIS), specialising in risk analytics and insurance broking through its sub-divisions Marsh (USD 6.0bn sales, risk expertise) and Guy Carpenter (USD 1.1bn sales, reinsurance brokerage); and 2) Consulting, specialising in investment, healthcare, retirement, and financials advice through the sub-divisions Mercer (USD 4.3bn sales, retirement/health/investment services) and Oliver Wyman (USD 1.8bn sales, financial services). In revenue terms, Marsh is 60% which is 250% bigger than the industry #3 and #4 players.
- 2016 sales total USD 13.2bn with USD 2.7bn operating profit (20% adj. operating margin). Business mix breakdown by division on sales/operating profit: Risk & Insurance Services 54% / 61%; Consulting 46% / 39%
- Geographical sales breakdown (2016): 54% US/Canada, 16% UK, 16% Non-UK EMEA, 10% APAC, 4% LatAm
- CEO (2013): Dan Glaser (b. 1961, USD 19m in shares); CFO (2016): Mark McGivney (b. 1968, USD 1.6m in shares)
- Case identified through SKAGEN Global internal proprietary research

ESG

- Top marks across the board; but we closely monitor the FCA broker investigation of the aviation market (2017 Q1, UK)

Rationale for investment

Marsh is an underappreciated long-term secular growth story with a vast emerging markets opportunity in a niche segment that is partly misunderstood (and hence undervalued for long-term investors) for the following reasons:

- First, complex risk analytics capability with a unique global scale creates a moat that is wider than the market realises; we think the oligopolistic nature of the global reinsurance brokerage market (top-3 capture 82%) and the sticky Fortune 500 relationships will allow Marsh to uphold its 16%+ ROIC and >40%+ ROCE (!) and thus compound value over time;
- Second, Marsh offers a rare positive top and bottom-line trajectory underpinned by industry-leading balance sheet strength, a rare combination in today's global equity market after the 8+ year rally. Applying conservative calculations, we estimate Marsh can achieve mid-to-high single digit EPS/DPS growth until 2020 with considerable upside optionality from emerging markets, higher carrier r/i spend, bolt-on M&A and B/S optimisation;
- Third, while short-term valuation seems reasonable, the long-term opportunity is not yet priced in at 6.1% free cash flow yield (17.8x 2018 P/E), especially considering that Marsh controls its destiny in most macro scenarios (except for a severe recession) and boasts a best-in-class management team.

Triggers

- Lower tax rate (@29%), cash repatriation (c. USD 800m overseas) and higher r/i demand (short-term)
- Consistent revenue growth (3-5%), margin expansion (20%+) and capital return to drive TSR (medium/long-term)

Risks

- Economic recession. A global recession is the largest risk as it would impede the company's ability to grow
- Excessive M&A. An acquisition spree for growth could impair the B/S and lead to an exodus of key human capital
- Unexpected new technology cutting out the intermediary and commoditising the business model

Target price

We prefer a cash flow yield valuation method given Marsh's capital light, highly cash generative business model. Cross-checking with P/E, EV/EBITDA and relative P/E metrics, our 2019 fair value is USD 90/sh. In a blue-sky scenario, the stock is worth north of USD 110/sh. while a reasonable black-sky scenario points to USD 55/sh.

MARSH

Key Figures	
Market cap	USD 38bn
No. of shares	515m
Free float	100%
Debt/Capital 2016	43%
ND / EBITDA 2016	1.2x
S&P credit rating	A-
ROE / ROIC 2016	28% / 15%
FCFY 2018	6.1%
P/E 2018	17.8x
P/B 2016	5.4x
DY 2018	2.0%
PR 2018	36%
# of analysts	19
with Sell/Hold	37%

Largest Owners

1. Wellington 8.5%
2. T Rowe Price 8.3%
3. Blackrock 7.3%

Team Global 2017-04-27
www.mmc.com

3U acid test

Unpopular

- 37% SELL/HOLD analyst recommendations
- Soft pricing environment (re-insurance)
- FCA investigation into UK broker aviation market (2017 Q1)

Under-researched

- Given the low number of publicly listed insurance brokers, this niche market seems to attract disproportionately low attention from market participants
- While the business model itself is not inherently complicated at first sight, the apparent simplicity masks the true beauty of the underlying operations – a hard-to-compete-with free cash flow machine with a compelling structural growth opportunity that is yet to be discovered in full by the market

Under-valued

- Using a number of valuation methods to triangulate a 2-year fair value, we calculate a cum-dividend base case target price of USD 90/sh., equivalent to c. 5% free cash flow yield. Key assumptions in the base case are 2015-2020 revenue CAGR are 4.5% (Marsh), 1.0% (Guy Carpenter) and 1.0% (Mercer) with group operating margin exceeding 21% in 2020 (on average +34 bps annually post 2016).
- Our risk-reward scenario analysis spans from USD 110+/share (blue sky) to USD 55/share (black sky)

For more information please visit:

Our latest Market report
Information on SKAGEN Global 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.