

Corporate transformations on track

Following a strong start to 2019, SKAGEN Insight has not been able to keep up with the broader equity market during the past two quarters. This was in part due to difficulties faced by activist investors in an environment characterised by elevated uncertainty around the economic outlook. An escalation in trade war rhetoric over the summer negatively influenced the valuation of our portfolio and darkened the general near-term economic outlook. While we have seen the uncertainty manifest itself in weaker macroeconomic data readings, we remain convinced that the corporate transformation of our holdings remain on track.

We have seen very encouraging progress recently at our largest holding, ThyssenKrupp. The company is now proceeding with the sale of its prized Elevator division, in-line with our expectations, which will unlock material shareholder value. Clearly, the market has yet to appreciate the magnitude of value creation that we ultimately expect from this move. The ThyssenKrupp-situation is case in point that as share prices fall, the sense of urgency at board and management level increases, which helps activists to catalyse positive change.

We remain excited about the outlook for shadow activist-investing. Especially as the vast majority of our portfolio companies, and the progress they have made, are deeply misunderstood and underappreciated by the market. It is, however, important to remember that SKAGEN Insight is not an index fund, so it will outperform the market some years and likely underperform other years.

Top contributors

The fund's strongest positive contributors during Q3 were Newell Brands, which owns US household brands like Rubbermaid and Yankee Candle, and Kyushu Railway. At Newell, we have seen signs that the turnaround efforts are starting to gain traction. The new CEO is overseeing a cut-down in the number of items marketed and the opportunity to boost margins. Newell's stock responded positively to a hike in revenue guidance in connection with its latest earnings release. During Q3 the stock gained 30% in USD-terms.

The largest detractors in the quarter were Conduent and Armstrong Flooring. Conduent fell sharply following a somewhat disappointing Q2 earnings release. The company also announced a possible break-up, however, and the activist strengthened his grip on the situation, buying more shares and orchestrating further board changes – two positives in our view. We remain invested in this situation as the current valuation appears to be completely out of sync with reality. Given these developments, we would not be surprised to see strategic and/or financial buyers approaching the company with takeover proposals.

New holdings

The fund initiated two new positions in the third quarter: Nordea, the largest retail bank in the Nordics, and Quadient (formerly Neopost), a mail equipment company in the process of pivoting to become a software firm. These investments have got off to a good start and contributed positively to fund performance. Having said that, we continue to see material upside potential in both names.



Photo: Bloomberg

Quadient is often synonymous with franking machines in the minds of mainstream investors, who overlook the fact that it is quickly transforming into a software-driven BPO (business process outsourcing) firm. Importantly, even if the company never sells a single franking machine again (and its semi-recurring consumables business also goes to zero), the valuation of the emerging businesses makes little sense. It trades at around 4x EV/EBIT in this scenario, which clearly fails to discount the strong profit growth trajectory of its software businesses. Quadient is also one of the largest providers of parcel lockers in the world, a business that holds great potential in the world of e-commerce. We believe the activists that are involved in Quadient (Swiss-based Teleios recently became the company's largest shareholder) will play an important role in: i) making sure cash flow generated from franking machines sold historically under leasing contracts is put to good use; ii) designing structural changes to help the market understand that Quadient is in fact a software business that deserves a much higher valuation, and iii) driving efficiency at this traditionally quite sleepy company.

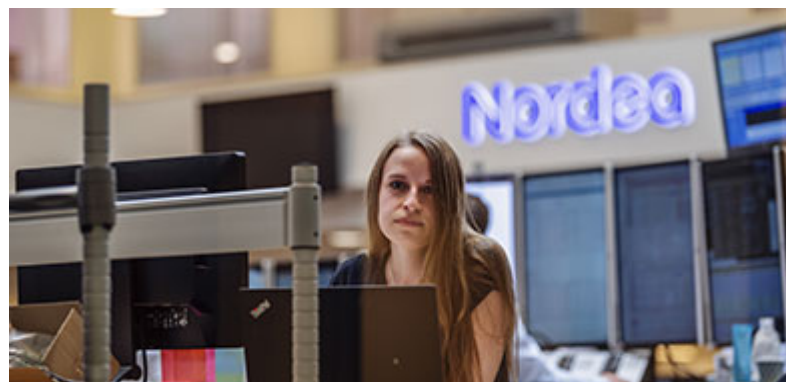


Photo: Bloomberg

Outlook

The universe of activist campaigns that we invest in is trading at a deep discount, both on an absolute and relative basis. In fact, the universe now trades at an estimated 25% discount to the broader equity market. In other words, these are fertile grounds for finding attractively valued situations. We also see a lot of value potential across the existing portfolio as many of our holdings have traded down due to nervousness of myopic investors and not deteriorating fundamentals. This is old news for those of you who have followed the fund over the past year. However, it is worth reiterating that Insight sits on a portfolio of deeply undervalued and underappreciated companies where fundamental trends are moving in the right direction and activists increasingly are becoming the catalyst for positive change.

SKAGEN Insight invests in a diversified and actively managed portfolio of companies exposed to some of the most attractive activist campaigns globally. Activists seek to unlock value by urging companies to make improvements. SKAGEN Insight "shadows" activists by investing in these companies. 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.

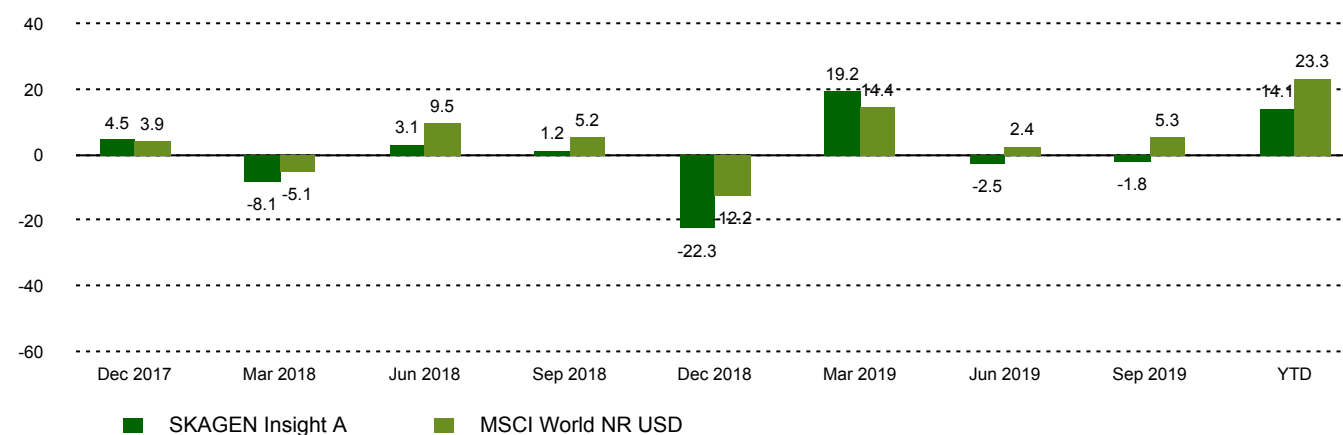
Historical performance (net of fees)

Period	SKAGEN Insight A	Benchmark index
Last month	5.5%	3.1%
Quarter to date	-1.8%	5.3%
Year to date	14.1%	23.3%
Last year	-11.3%	8.2%
Since start	-3.3%	12.2%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	21.08.2017
Morningstar category	Global Large-Cap Blend Equity
ISIN	NO0010801558
NAV	10.01 EUR
Fixed management fee	1.5%
Total expense ratio (2018)	1.50%
Benchmark index	MSCI World NR USD
AUM (mill.)	21.32 EUR
Number of holdings	32
Portfolio manager	Tomas Johansson

Quarterly Performance



Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Newell Brands Inc	2.91	0.84
Kyushu Railway Co	4.00	0.66
Pasona Group Inc	6.11	0.54
Maxell Holdings Ltd	4.51	0.53
Telecom Italia SpA/Milano	3.95	0.49

Largest detractors

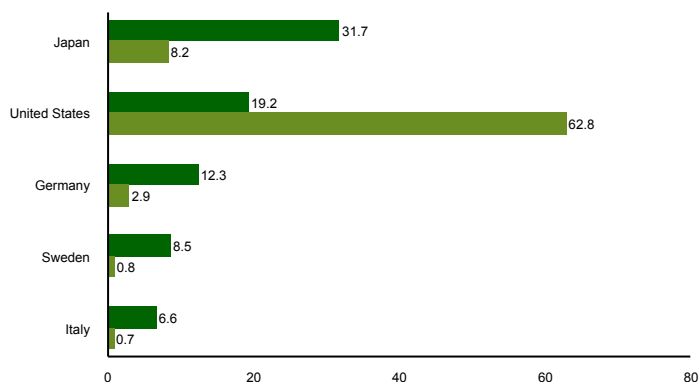
Holding	Weight (%)	Contribution (%)
Conduent Inc	3.78	-1.38
Armstrong Flooring Inc	3.60	-1.33
Teikoku Sen-I Co Ltd	6.84	-0.72
Eitel AB	5.88	-0.57
Assertio Therapeutics Inc	0.52	-0.48

Absolute contribution based on NOK returns at fund level

Top ten investments

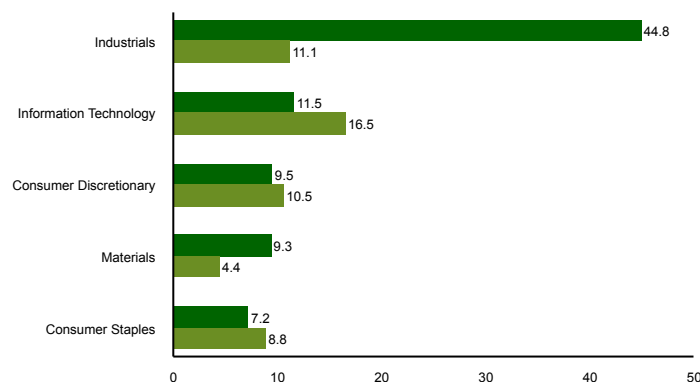
Holding	Sector	Country	%
Thyssenkrupp AG	Materials	Germany	7.8
Teikoku Sen-I Co Ltd	Industrials	Japan	6.8
Pasona Group Inc	Industrials	Japan	5.9
Eitel AB	Industrials	Sweden	5.8
Katakura Industries Co Ltd	Industrials	Japan	4.6
Maxell Holdings Ltd	Information Technology	Japan	4.6
Telecom Italia SpA/Milano	Communication Services	Italy	4.3
Kyushu Railway Co	Industrials	Japan	3.9
Stock Spirits Group PLC	Consumer Staples	United Kingdom	3.8
Rexel SA	Industrials	Portugal	3.6
Combined weight of top 10 holdings			51.1

Country exposure (top five)



■ SKAGEN Insight A ■ MSCI World NR USD

Sector exposure (top five)



■ SKAGEN Insight A ■ MSCI World NR USD

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Important information

Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as of the end of the previous month. Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skills, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. You can find more information including subscription/redemption forms, full prospectus, Key Investor Information Documents (KIID), General Commercial Terms, Annual Reports and Monthly Reports from our local websites or branch office. Statements reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. This report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN AS does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this report. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this report or are part of a fund's portfolio.

