

All data in EUR as of 31.12.2017 unless otherwise stated.

## A continuation of trends in the quarter

Despite some volatility during the period, Q4 displayed a continuation of the trends already observed during 2017. Emerging Markets (EM) equities continued to perform strongly, rising by 7.3%<sup>[1]</sup> during the quarter, outpacing the 5.8% gain for global equities. The fundamental backdrop for equities remains positive, with synchronised and accelerating global growth and still accommodating monetary policy across most major economies. Coupled with continued strengthening of commodity prices and a relative weakening of USD, EM earnings expectations have continued to rise and are forecast to have risen by c20% in 2017<sup>[2]</sup>. For 2017 as a whole, EM equities returned 37.5% compared with a 24.6% gain for the MSCI AC index. Although we are satisfied with the fund's absolute performance, we are disappointed with the relative performance, which was largely due to the team's underweight position in the technology sector and operational challenges faced by Hyundai Motor.

While value continued to underperform growth in Emerging Markets in Q4, Kon-Tiki's absolute and relative performance improved significantly from the third quarter. The key positive contributors to the fund's performance were Naspers, Samsung Electronics and Golar LNG. Naspers continued to benefit from the value accretion from its 33% stake in Chinese internet company Tencent, which has more than doubled in value during 2017. We are mindful of rising expectations and valuation multiples for Chinese internet stocks in general but continue to believe that Naspers' non-Tencent value remains under-appreciated by the

market. Samsung Electronics also contributed positively during the quarter on the back of strong earnings developments, capital returns<sup>[3]</sup> and a strengthening Korean won. Finally, rising oil price and spot rates for large LNG carriers as well as a positive Q3 update, including the Hilli FLNG project being on track for 2018 start-up, drove a significant re-rating in Golar LNG, which rose by 35% during the quarter.

The three weakest performers in the fourth quarter were X5, Banrisul and Indosat. While X5 and Banrisul have both performed well during the year as a whole, disappointing operational results and rising pricing pressure have weighed on the Indonesian telecom operator Indosat since May. Russian food retailer X5's weakness during the period was driven by temporary margin pressure in Q3 and a capital raising by one of its competitors. Capital markets activity was also behind the temporary weakness in Brazilian bank Banrisul where controlling shareholder State of Rio Grande do Sul announced its intention to conduct a public offering to reduce its ownership down from 57% of capital to minimum control. However, in December, the company announced that the proposed offering had been postponed due to market conditions.

[1] All returns are expressed in USD, net of fees

[2] Based on the latest consensus data

[3] Final dividend based on SKAGEN estimate



Naspers continued to benefit from the value accretion from its 33% stake in Chinese internet company Tencent. Photo: Bloomberg

### Portfolio activity

Lenta is a new position in Kon-Tiki this quarter and follows on the back of our successful investment in competitor X5. Lenta is the largest hypermarket operator in Russia and a low-cost operator with strong logistics operations and price image. The hypermarket format is unpopular with investors, as it has been losing share over the past few years. However, with improving consumer confidence, rising real incomes and abating industry space growth, we believe that Lenta's prospects are improving. We see nearly 50% return potential based on 2019 earnings delivery and a sustained EV/EBITDA multiple of 7.5x.

We also initiated a position in Hollysys, a Chinese automation and control systems manufacturer listed in the US. We believe that the company is a beneficiary of increased process and factory automation in China as well as a cyclical upswing in Chinese High Speed Rail (HSR) developments over the next 2 years. Despite these favourable drivers, the shares trade on just 12x 2018 earnings, a significant discount to relevant peers.

We continued to trim the number of holdings in the portfolio, ending the year with 44 holdings, down from 60 at the start of the year. During the fourth quarter we exited Japanese financials and investment group SBI Holdings, dry bulk operator Golden Ocean Group and CNH Industrial following strong performance. We also sold out of a number of smaller holdings including Norwegian Air Shuttle, Massmart and Tech Mahindra where the risk/reward proposition has deteriorated.



Lenta is a new position in Kon-Tiki this quarter and follows on the back of our successful investment in competitor X5. Photo: Bloomberg

### Outlook

Despite two years of outperformance versus developed markets, EM equities continue to trade at a major discount relative to earnings with a 2018 P/E of 12.7x vs 16.3x. That is despite an expectation of higher company earnings growth in 2017 (20% vs 16%) and higher expectations for 2018. We therefore continue to believe that EM equities offer a favourable risk/reward proposition with the Kon-Tiki portfolio attractively valued on 9.5x 2018 earnings and 1.1x P/B, offering 30% upside to our bottom-up price targets.

We enter 2018 with a highly concentrated portfolio focused on our best ideas. The 35 largest positions account for 90% of the fund's assets. Value has been out of favour for several years with low interest rates and mediocre global economic growth having favoured growth stocks. We see some signs of reversal and our portfolio is well positioned for this, with aggregate valuation multiples well below average.

The fund selects low-priced, high-quality companies, mainly in emerging economies.

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.

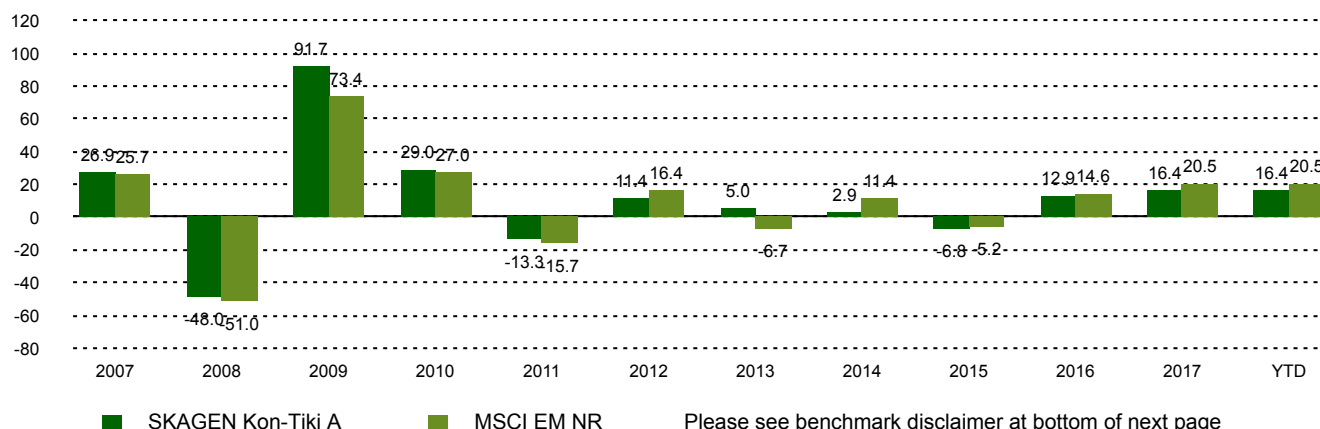
## Historical performance (net of fees)

Period	SKAGEN Kon-Tiki A	Benchmark index
Last Month	3.4%	2.6%
Quarter to date	6.2%	5.5%
Year to date	16.4%	20.5%
Last year	16.4%	20.5%
Last 3 years	7.0%	9.4%
Last 5 years	5.7%	6.3%
Last 10 years	5.1%	3.7%
Since start	13.3%	8.3%

## Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	93.53 EUR
Fixed management fee	2.00%
Total expense ratio (2017)	1.59%
Benchmark index	MSCI EM NR
AUM (mill.)	3331.09 EUR
Number of holdings	44
Lead manager	Knut Harald Nilsson

## Performance last ten years



## Contributors in the quarter



### Largest contributors

Holding	Weight (%)	Contribution (%)
Naspers Ltd	4.58	1.39
Golar LNG Ltd	2.54	0.93
Samsung Electronics Co Ltd	7.68	0.87
Hyundai Motor Co	6.85	0.86
Mahindra & Mahindra Ltd	3.74	0.84

Absolute contribution based on NOK returns at fund level



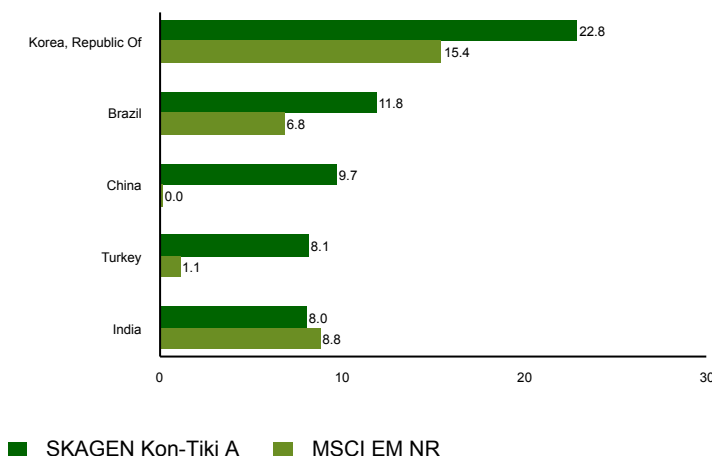
### Largest detractors

Holding	Weight (%)	Contribution (%)
X5 Retail Group NV	3.91	-0.62
Banrisul	2.61	-0.51
Indosat Tbk PT	1.30	-0.33
Norwegian Air Shuttle ASA	0.32	-0.10
Great Wall Motor Co Ltd	2.15	-0.04

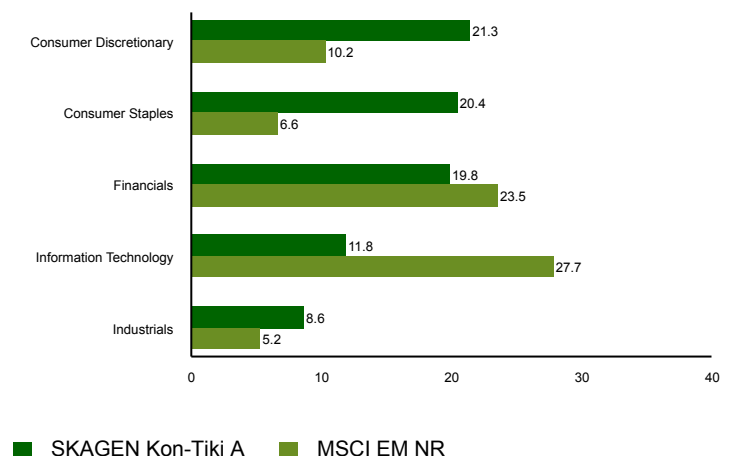
## Top ten investments

Holding	Sector	Country	%
Hyundai Motor	Consumer Discretionary	Korea, Republic Of	6.8
Samsung Electronics	Information Technology	Korea, Republic Of	6.5
Naspers	Consumer Discretionary	South Africa	4.6
Haci Omer Sabanci Holding	Financials	Turkey	4.3
Mahindra & Mahindra	Consumer Discretionary	India	4.1
LG Electronics	Consumer Discretionary	Korea, Republic Of	3.6
Golar LNG	Industrials	United States	3.5
X5 Retail Group	Consumer Staples	Russian Federation	3.5
Cia Brasileira de Distribuicao	Consumer Staples	Brazil	3.2
Gree Electric Appliances Inc of Zhuhai	Consumer Staples	China	3.1
Combined weight of top 10 holdings			43.2

## Country exposure (top five)



## Sector exposure (top five)



## Contact



020 799 74 34



info@skagenfunds.nl



SKAGEN AS, Gustav Mahlerplein 2,  
1082 MA Amsterdam

## Important information

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 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.

The benchmark index is the MSCI EM Index (net total return), this index did not exist at the inception of the fund and consequently the benchmark index prior to 1/1/2004 was the MSCI World AC Index. This is not reflected in the table/graph above which shows the MSCI EM Index since the funds inception.

