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A mixed quarter

The first quarter of 2023 is best described as a mixed bag; a very strong start supported by the Chinese reopening came to an abrupt halt as the collapse of SVB and a couple of other US banks sent shockwaves through the market and led to a big rotation. This was followed by the arranged emergency marriage of Credit Suisse and UBS in order to protect the world economy from the looming failure of a systemically critical bank. However, markets recovered again towards the end of the quarter following the prompt response of central banks to the turmoil.

During the quarter, SKAGEN Kon-Tiki outperformed the MSCI EM index, while EM underperformed DM. We continue to see the current market environment as more conducive to active stock-picking. The global economy's adjustment to the end of the "decade of free money" was not expected to be straightforward. Interest rates are still rising, and inflation remains unchecked in the developed world, and we expect markets to continue to be dictated by the Fed's actions in the near term. However, EM central banks in general were at or close to the end of their rate hiking cycles, and they have carried out credible policy responses throughout the heightened inflation period at the same time as they have built up historically high nominal interest rate buffers. As a result, major EM countries appear well placed to start unwinding the tightening, which should support economic activity.

Contributors and detractors

The Chinese energy company CNOOC was a strong outperformer within the sector. They have released solid results in the period, which yet again show the quality of the operations as well as how cheap they are on various valuation metrics. With a net cash position approaching 20% of the market cap combined with a 12% dividend yield and strong free cash flow generation, the company deserves to trade at more than the current 4x P/E.

Foxconn is a good example of what can happen to a cheaply valued company exposed to the right trends. The company's share price almost doubled during the quarter as focus shifted towards their strong positioning to secular data infrastructure demand from generative AI, metaverse, ADAS and smart manufacturing growth.

Alibaba has been strong after founder Jack Ma resurfaced. This is seen as a sign that they are through the worst of their regulatory woes, with the focus switching to a potential value unlock from separately listing various operating segments. Naspers and Prosus were also strong contributors

as Tencent reported solid results with signs that earnings growth is finally resuming.

LG Electronics saw a strong share price recovery after last years' underperformance, while Hyundai is benefiting from a manufacturing recovery, a better product mix and less incentive spending which reaffirmed a positive outlook for the company.

TSMC, a new position in Kon-tiki at the end of 2022, was also a strong contributor as recent high inventories and cyclical concerns seem to be correcting as we move towards a second half rebound.

Most of the negative contributors for the quarter are reasonably new positions. We have been able to take advantage of their share price weakness to increase some of the positions at even more attractive levels. Raizen, the Brazilian sugar and ethanol producer, is a good example where we doubled the position on weakness around a share price placing and concern around taxes and ethanol prices. Assai, the Brazilian cash and carry operator, was also weak on the back of a big placing by its majority shareholder Casino. We see their reduced stake as a positive in the long run since corporate governance concerns should abate.

Sibanye Stillwater released a disappointing set of numbers, where falling commodity prices and operational issues led to downgrades. Headline multiples remain supportive however, and we continue to like the shift towards EV battery materials and recycling operations.

Portfolio activity

KB Financial, a new position this quarter, has been impacted by the general bank sell-off after the recent bailouts in the US and Switzerland. This led to market concerns around unrealised loss risk on securities and the government considering higher capital ratios, which could in turn hurt dividends and share buybacks. We see limited company-specific risk for KB Financial given their limited exposure and a strong balance sheet.

We have also added two new positions in Brazil. Simpar is a logistics conglomerate with very attractive positioning within logistics services; most of its businesses are exposed to segments with very low penetration and high fragmentation which supports strong organic growth. Stability is provided from a high proportion of revenues from long-term contracts and despite this, the company trades at a very appealing valuation.



Photo: Shutterstock

Tres Tentos is a fully integrated agriculture company with exposure to agricultural input retail, sourcing, and trading of agri produce as well as soybean crushing and biodiesel production amongst other things. It is an asset light business with strong growth potential and an impressive track record.

We exited China Life after strong recovery as we saw better investment opportunities elsewhere.



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Outlook

The portfolio is well balanced and diversified to withstand various macro scenarios. It consists of very attractively valued companies trading at an aggregate 0.8x P/B and 7x 23e P/E which is a substantial discount to EM despite strong quality characteristics.

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. Subscriptions are made in fund units and not directly in stocks or other securities. The fund has risk profile 6. The benchmark reflects the fund's investment mandate. Since the fund is actively managed, the portfolio will deviate from the composition of the benchmark.

Historical performance (net of fees)

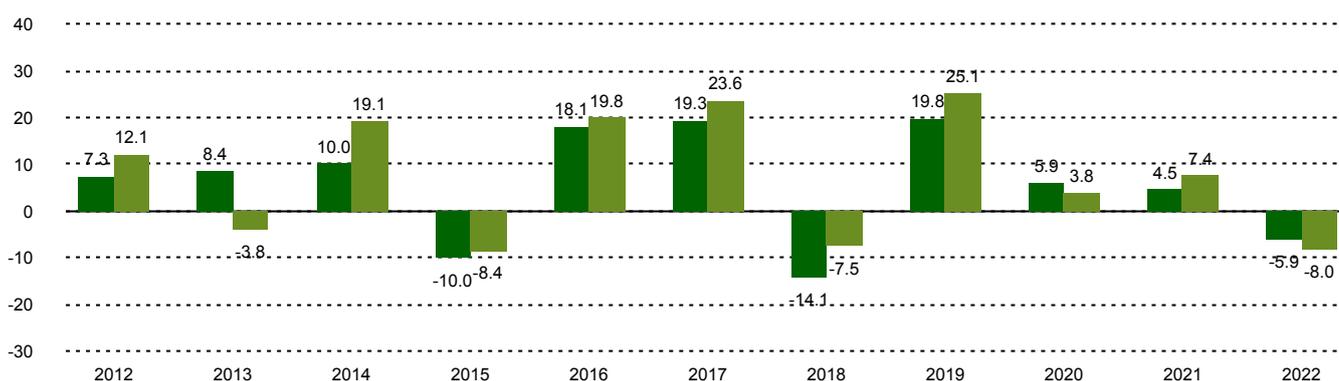
| Period | SKAGEN Kon-Tiki A Benchmark index | |
|-----------------|-----------------------------------|-------|
| Last month | 2.3% | 2.4% |
| Quarter to date | 5.2% | 3.5% |
| Year to date | 5.2% | 3.5% |
| Last 12 months | 8.0% | -0.6% |
| Last 3 years | 12.2% | 9.1% |
| Last 5 years | 2.5% | 3.7% |
| Last 10 years | 5.5% | 6.9% |
| Since start | 10.9% | 7.6% |

Fund Facts

| | |
|----------------------------|-------------------------------------|
| Type | Equity |
| Domicile | Norway |
| Launch date | 05.04.2002 |
| Morningstar category | Global Emerging Markets Equity |
| ISIN | NO0010140502 |
| NAV | 1035.81 SEK |
| Fixed management fee | 2.00% + performance fee* |
| Total expense ratio (2022) | 2.17% |
| Benchmark index | MSCI EM NR USD |
| AUM (mill.) | 14601.29 SEK |
| Number of holdings | 50 |
| Portfolio manager | Fredrik Bjelland Cathrine Gether |

*10.00% performance fee calculated daily and charged annually if the fund's value development is better than the benchmark. The total management fee charged represents a maximum of 4.00% p.a. and a minimum of 1.00% p.a. The performance fee may be charged even if the fund's units have depreciated in value if the value development is better than the benchmark.

Performance last ten years



■ SKAGEN Kon-Tiki A ■ MSCI EM NR USD The benchmark is MSCI EM Index. This index did not exist at the fund's inception, consequently the benchmark prior to 1/1/2004 was MSCI World AC Index. This is not reflected in the graph above which shows MSCI EM Index since the fund's inception.

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 management fees. The return may become negative as a result of negative price developments. There is a risk associated with investing in the fund due to market movements, currency developments, interest rate levels, economic, sector and company-specific conditions.

Contributors in the quarter



Largest contributors

| Holding | Weight (%) | Contribution (%) |
|-----------------------------|------------|------------------|
| CNOOC Ltd | 6.12 | 1.25 |
| Foxconn Industrial Internet | 1.43 | 1.17 |
| Alibaba Group Holding | 4.17 | 1.16 |
| Hyundai Motor Co | 3.41 | 0.95 |
| LG Electronics Inc | 5.21 | 0.91 |



Largest detractors

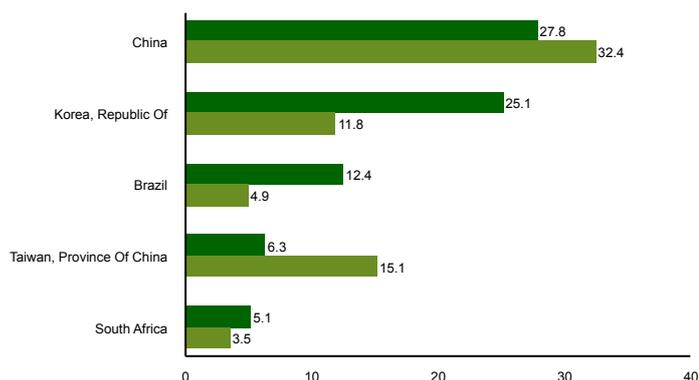
| Holding | Weight (%) | Contribution (%) |
|------------------------|------------|------------------|
| Sibanye Stillwater Ltd | 2.37 | -0.32 |
| KB Financial Group | 1.46 | -0.30 |
| Sendas Distribuidora | 2.37 | -0.26 |
| Raizen SA | 1.92 | -0.23 |
| Media Nusantara Citra | 1.11 | -0.14 |

Weights shown are the average for the period. Absolute contribution based on NOK returns at fund level.

Top ten investments

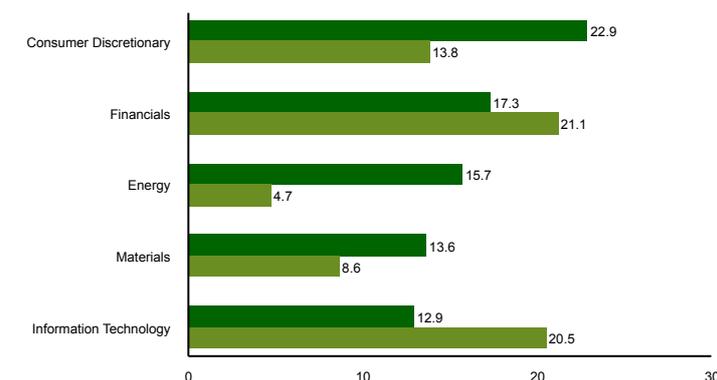
| Holding | Sector | Country | % |
|---|------------------------|---------------------------|------|
| Cnooc Ltd | Energy | China | 6.7 |
| Ping An Insurance Group Co of China Ltd | Financials | China | 6.5 |
| LG Electronics Inc | Consumer Discretionary | Korea, Republic Of | 5.4 |
| Samsung Electronics Co Ltd | Information Technology | Korea, Republic Of | 5.2 |
| Alibaba Group Holding Ltd | Consumer Discretionary | China | 4.9 |
| Taiwan Semiconductor Manufacturing Co Ltd | Information Technology | Taiwan, Province Of China | 3.7 |
| Hyundai Motor Co | Consumer Discretionary | Korea, Republic Of | 3.6 |
| Prosus NV | Consumer Discretionary | China | 3.6 |
| UPL Ltd | Materials | India | 3.6 |
| Naspers Ltd | Consumer Discretionary | South Africa | 3.0 |
| Combined weight of top 10 holdings | | | 46.1 |

Country exposure (top five)



■ SKAGEN Kon-Tiki A ■ MSCI EM NR USD

Sector exposure (top five)



■ SKAGEN Kon-Tiki A ■ MSCI EM NR USD

Important information

All information is based on the most up-to-date data available. Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as per the end of the previous month. Except otherwise stated, the source of all information is SKAGEN AS. 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.



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