SKAGEN VEKST FUND

Norwegian domiciled open-end investment fund; Ucits
Fund owner: Skagen
Fund manager/adviser: Skagen

Named portfolio manager/adviser(s):
Beate Bredesen (since March 2010)
Peer group: Global mainstream equities

Location: Stavanger
Launch date: December 1993
Fund size (June 2011): NKr9.7bn
Contact group: +47 51213858 or www.skagenfunds.com

Further information on S&P's fund coverage can be found at www.FundsInsights.com

STANDARD & POOR'S A FUND MANAGEMENT RATING

Report date August 2011

Investment style

	Value	Blend	Growth
Large-Cap			
Mid-Cap			
Small-Cap			

Performance statistics

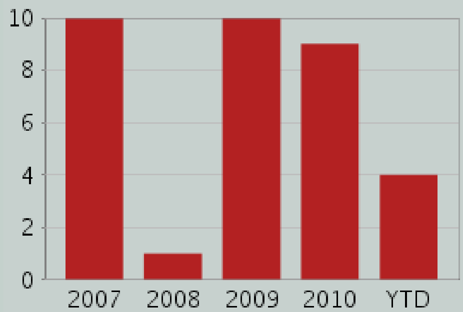
	Three years
Fund	-10.7%
Standard & Poor's peer median	-8.6%
Index**	-3.1%
Fund rank	2819/4768
Volatility adjusted ranking	2192/4768

Note: returns are cumulative

Three-year risk characteristics

Maximum monthly drawdown (%)	-26.8
Volatility	34.1
Correlation	0.9
Beta	1.3

Calendar year decile ranks



Decile ranking in discrete annual periods. First decile shown as rank 10, second decile as rank nine, with tenth decile as rank one.

 All statistical data on this report has been run to 31 May 2011 on NAV to NAV basis, with gross income reinvested, in USD.

Standard & Poor's opinion (July 2011)

This fund's mandate is unique in the S&P global equities peer group. Aimed at Norwegian investors seeking international diversification, it holds at least 50% in Norwegian stocks, with the balance in global equities. The Norwegian exposure typically results in a small-cap bias overall, with the concomitant liquidity risk.

Manager Beate Bredesen has faced a number of challenges since taking over from Kristian Falnes in March 2010. Initially performance was solid, with both the Norwegian and global components outperforming their respective benchmarks, but 2011 to date has proven difficult due to specific stock issues. Bredesen strengthened the team by recruiting Ole Søeberg (who has a strong background in investor relations but no fund management experience) but has lost full-time co-manager Ross Porter, who is moving back to the Skagen Kon-Tiki team. Bredesen can still call on Porter's sector input, but it will take time for the new partnership to settle down.

Her aim of reshaping the portfolio by reducing stock numbers is a work in progress, but is being executed pragmatically. Her bottom-up approach remains disciplined and fundamentals-driven, targeting out-of-favour, undervalued names with re-rating potential.

Last year the fund was rated TR as Bredesen did not have 12 months' fund management experience, but we noted her four years on the fund in an analytical capacity and her contribution to previous successful performance. A year on, our confidence in her stockpicking and portfolio construction skills is sufficient for the fund to achieve an S&P A (New) rating.

Fund manager & team

Beate Bredesen took over as lead manager in March 2010. At that time she had over 13 years' analytical investment experience and had worked with preceding manager Kristian Falnes on the Skagen Vekst Fund. This is her first solo fund management mandate. On a day-to-day basis in 2010-2011 she co-managed the fund with Ross Porter, and in early 2011 recruited Ole Søeberg, whose background is in investor relations, to the team. Later this year Ross Porter will transfer to the Skagen Kon-Tiki fund.

Beate Bredesen - MSc business (BI Norwegian School of Management), was an analyst at Orkla from 1997 until joining the team in May 2004. She was number two on the Skagen Vekst Fund and took over the fund in March 2010.

Ole Søeberg - MBA Finance & Management (Copenhagen Business School) began his career in equity analysis and sales (1984-1988), moving to Carnegie (1989-1992) and then Alfred Berg (1992-1999) as head of non-domestic equities. From 1999 he focused on investor relations before joining the Skagen Vekst team in 2011.

Kristoffer Stensrud - business (Copenhagen Business School), has over 30 years' investment experience via Borsinformation, SR Fonds and Carnegie-Jensen. He co-founded Skagen in 1993.

Management style

The fund is structured to hold at least 50% in Norwegian equities with the balance in global developed and emerging markets. The portfolio is built bottom-up without reference to any index. As of January 2010, the benchmark, for performance comparison only, is 50% Oslo Benchmark index and 50% MSCI All Country World index (it was formerly 100% Oslo Benchmark index). The split between domestic and global equities rarely deviates more than +/-5%.

Stock selection is value-oriented, focusing on out-of-favour companies with solid balance sheets, strong management and solid franchises, but with a catalyst to release the hidden value. Individual stock weights reflect their perceived risk-adjusted potential. Portfolio construction is based on company fundamentals, but can reflect long-term, top-down trends.

The manager intends to continue divesting smaller, illiquid names, with the target number of holdings now reduced from around 150 to 120; ideally 50 names will comprise 75% of the fund. Risk is controlled through highly detailed initial research, continuous monitoring of positions and diversification. Currency is not normally hedged.

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Portfolio & performance analysis (June 2011)

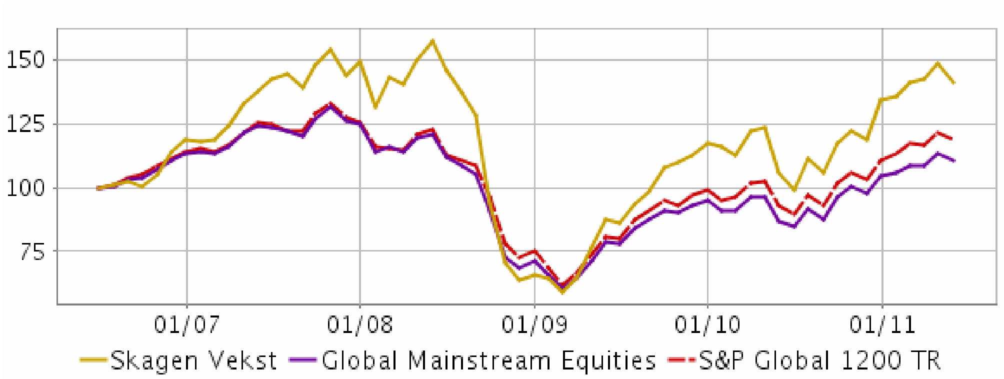
Performance has been mixed since Beate Bredesen took over the fund in March 2010 (previous performance relates to former manager Kristian Falnes). Given the unique nature of the fund's mandate within the S&P peer group, we consider benchmark-relative performance more pertinent. On that basis, both the Norwegian and global components of the portfolio marginally outperformed their relevant indices on a gross basis in 2010 (Norway +20.2% versus 18.4% for the OSEBX and global 14.3% versus the MSCI AC World's 13.8%). This would indicate that stock selection added value. Year-to-date 2011 has been shaky, however, with the Norwegian portion underperforming by -1.1% and the global by -3.1%. The most notable detractor has been Sevan Marine, a holding which Bredesen inherited but increased on weakness.

On taking over, Bredesen signalled her intention of reducing holding numbers to around 150 by year-end. Given the illiquidity of some of the smaller tail-end names, this has proven a slow process, with 173 names still in the portfolio at our review date. However, Bredesen has postponed selling names that she believed capable of significant price appreciation, seeking to optimise the exit. For the medium-term the target for holding numbers has been further cut to 120; the eventual aim is for the top 50 holdings to make up 75% of the portfolio.

The large Norwegian caps, such as Telenor and Statoil, are deemed overvalued and inevitably this lends the Norwegian portion of the portfolio a distinct small-cap tilt; larger-caps are represented in the global portion. At end May 2011, 74% of the fund was in stocks capitalised below $10bn. Geographically, there was around 19% exposure to emerging markets.

At stock level, there had been a number of divestments and switches, for example in the travel subsector where Royal Caribbean Lines was switched into Carnival, which became a top 10 holding. The largest individual position in absolute terms was Konsberg Gruppen at just over 5%.

Cumulative performance



Discrete performance (calendar years)

	2007		2008		2009		2010		YTD 31-05-11	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	26.0	145/3562	-56.3	4375/4496	79.5	30/5429	14.7	1139/5982	4.6	4281/6275
Index**	10.2		-40.1		31.7		11.9		7.3	
Median	10.9		-43.7		32.7		10.0		5.9	

** S&P Global 1200
Fund benchmark: OSEBX/MSCI World (Daily Traded Net measured in NOK) 50/50
Share class screened: NO0008000445 (Ord)

Portfolio characteristics (1 June 2011)

No. of holdings	203
Turnover ratio (%)	N/A
% in top 10	27

Asset allocation

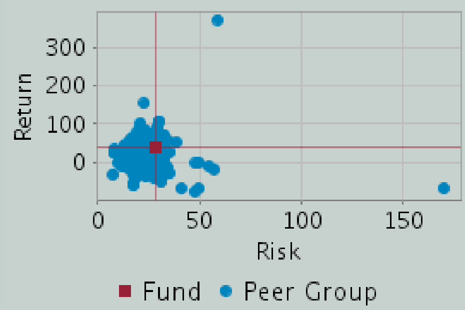
	%
Basic materials	5.7
Consumer goods	18.3
Financials	12.0
Healthcare	6.6
Industrials	20.7
Oil & gas	20.5
Technology	7.0
Telecoms	5.1
Utilities	2.9
Cash	1.2

Top 10 holdings

	%
Kongsberg Gruppen AS *	5.2
Samsung Electronics Co *	3.0
Eletrobras *	2.9
Carnival Corp	2.5
Norsk Hydro ASA	2.5
DOF ASA	2.4
Solstad Offshore ASA *	2.3
Gjensidige Forsikring ASA	2.0
Teva Pharmaceutical Industries	2.0
TGS Nopec Geophysical Co ASA	2.0

* In top 10 holdings a year ago

Risk return over five years (standard deviation)



Symbols and definitions

Long-only fund ratings

AAA The fund demonstrates the highest standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

AA The fund demonstrates very high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

A The fund demonstrates high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

Fund-of-hedge-funds ratings

Absolute return fund ratings

Specialist fund ratings

AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

Ucits III flexible beta fund ratings

AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

All fund ratings

Not Rated (NR) Funds designated as Not Rated currently do not meet the requisite performance standards and/or the minimum qualitative criteria to achieve a fund rating.

Under Review (UR) Ratings are placed Under Review when significant management changes occur at the fund manager or fund management team level and Standard & Poor's Fund Services has not had the opportunity yet to evaluate their impact on the qualitative appraisal.

(New) Signifies where a major event has occurred for which there is no fund-specific track record available. This includes: funds recently launched, the implementation of a new investment process or mandate and may include structural changes within a fund team.

Tenure Review (TR) The fund manager/team involved in the management of the fund does not currently have the minimum 12 months' relevant investment management experience required to be eligible to be considered for a rating.

Long-term fund management rating LTFMR The fund has been rated in the A/AA/AAA fund rating band for five consecutive years or more, and continues to hold a rating.

Bond fund volatility ratings

The bond fund volatility rating is our current opinion of a fund's sensitivity to changing market conditions. Volatility ratings evaluate the fund's sensitivity to interest rate movement, credit risk, investment diversification or concentration, liquidity, leverage and other factors. For V1-V4 categories, risk is considered relative to a portfolio composed of government securities and denominated in the base currency of the fund.

V1 Bond funds that possess low sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within one to three years, and denominated in the base currency of the fund. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising the highest quality fixed income instruments with an average maturity of 12 months or less. Within this category, certain funds are designated with a plus sign (+), indicating extremely low sensitivity to changing market conditions.

V2 Bond funds that possess low to moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within three to seven years, and denominated in the base currency of the fund.

V3 Bond funds that possess moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within seven to 10 years, and denominated in the base currency of the fund.

V4 Bond funds that possess moderate to high sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing beyond 10 years and denominated in the base currency of the fund.

V5 Bond funds that possess high sensitivity to changing market conditions. These funds may be exposed to a variety of significant risks including high concentration risks, high leverage, and investments in complex structured and/or less liquid securities.

V6 Bond funds that possess the highest sensitivity to changing market conditions. These funds include those with highly speculative investment strategies with multiple forms of significant risks, with little or no diversification benefits.

Absolute return fund N ratings

The N rating is Standard & Poor's indication of a fund's potential capital stability in normal markets. It is a qualitative rating but is based on annualised weekly downside deviation. N1 is the most stable and N9 the least.