

From the moor north of Skagen, 1885
By P.S. Krøyer, one of the Skagen painters.
The picture is owned by the Skagens Museum.

The art of common sense

SKAGEN Global

January 2012

**A world of
opportunities**



Summary January 2012

- SKAGEN Global outperformed the benchmark index in January. The fund was up 6.4 percent measured in EUR, while the MSCI All Country World Index was up 4.8 percent.
- In 2011, SKAGEN Global was down 6.0 percent (in EUR), or 1.7 percentage points behind the MSCI AC World Index (in EUR).
- The German property company GSW Immobilien and the Norwegian oil service company EMGS were new portfolio companies in January. We sold the remaining shares in Transocean and continued reducing our position in Pfizer.
- The SKAGEN Global portfolio has attractive valuation multiples. Top 10 holdings weighted: Price/Earnings ('12e): 7.5x and Price/Book: 0.9x
- Valuations of equities remain attractive on an absolute basis. Dividend yields relative to returns on cash look very interesting. We also remain puzzled by the valuation of global large caps.
- Macroeconomic indicators in the US have clearly been better than expected in the last couple of months. It seems that the liquidity aid from the ECB to the European banking system announced in December is removing a lot of stress in the European financial markets. We do not rule out a recession in the US/Southern Europe, but believe a global recession is less likely. A key factor will be how European politicians handle the current financial crisis in the southern European countries.
- Brimful corporate coffers, coupled with relatively attractive valuations lead us to believe that M&A activity will remain a key theme going forward.

Results as of 31 January 2012 in EUR

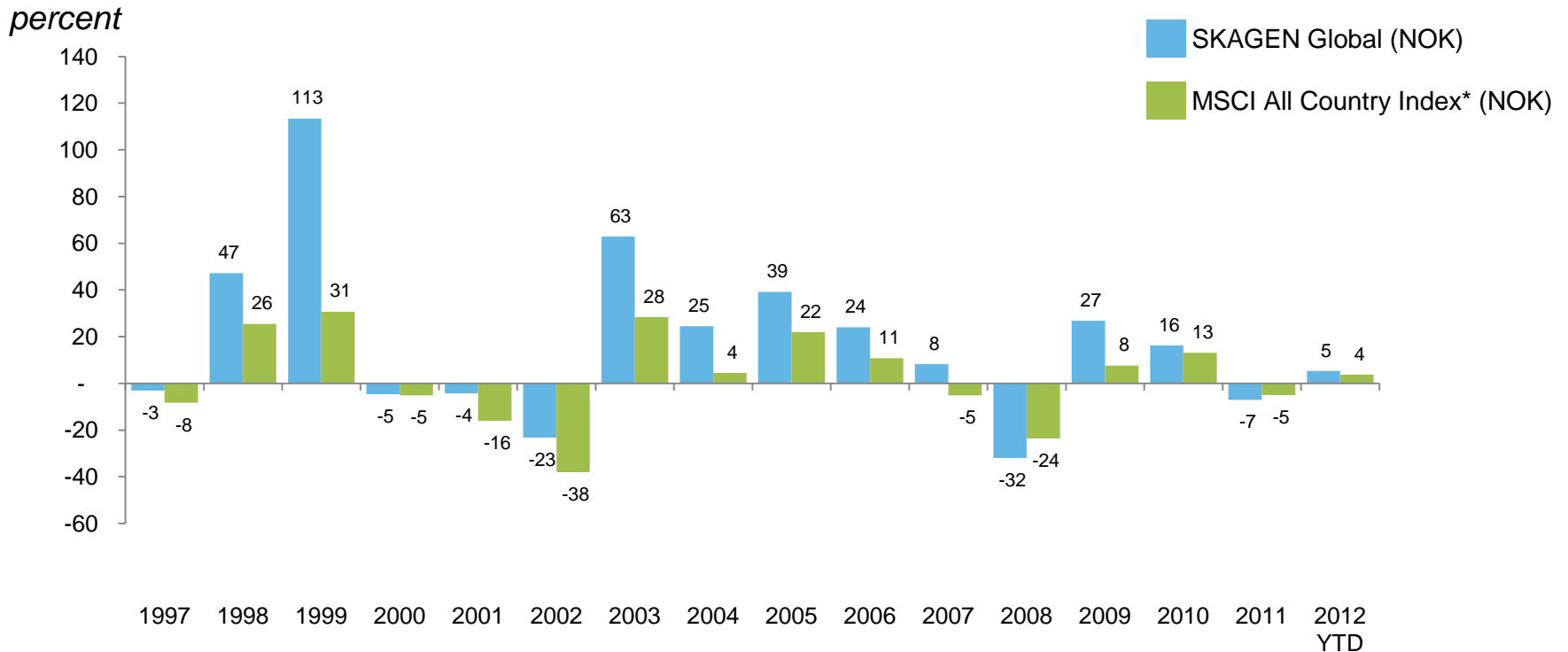


	QTD	2011	Last 3 years	Since inception
SKAGEN Global	6.4 %	-6.0 %	22.7 %	15.9 %
World Index (EUR)*	4.8 %	-4.3 %	15.5 %	1.6 %
Excess return	1.6 %	-1.7 %	7.2 %	14.3 %

* Before 01.01.2010 the benchmark was MSCI World Index, after this date it is MSCI AC World Index.

SKAGEN Global has beaten the benchmark index 13 out of 15 years

SKAGEN Global and benchmark index* yearly returns since inception**



*) Benchmark index is MSCI World in NOK from 7/8/1997-31/12/2009. From 01/01/2010 onwards it is MSCI All-Country Index

**) Date of inception 7/8/1997



Markets in January 2012 in EUR

Hungary	19%	Mexico	7%
India	18%	SKAGEN GLOBAL	6%
Brazil	17%	Belgium	6%
Turkey	17%	Sweden	5%
Poland	15%	Italy	5%
Russia	13%	MSCI AC Index	5%
China (Hong Kong)	13%	Canada	5%
Singapore	12%	Denmark	5%
MSCI EM Index	10%	France	4%
Austria	10%	Norway (OSEBX)	4%
Hong Kong	10%	Japan	4%
Germany	10%	Indonesia	4%
South Korea	9%	USA (S&P 500)	4%
South Africa	8%	China (Local)	3%
Taiwan	8%	United Kingdom	3%
Finland	8%	Netherlands	2%
USA (Nasdaq)	7%	Switzerland	2%
Thailand	7%	Spain	0%

Markets in 2011 in EUR

Venezuela	85%	Singapore	-15%
USA (Nasdaq)	6%	China (local)	-16%
Indonesia	4%	MSCI Emerging Markets	-16%
USA (S&P 500)	3%	South Africa	-16%
Thailand	-3%	France	-17%
United Kingdom	-3%	Hong Kong	-17%
MSCI AC World	-4%	China (Hong Kong)	-19%
Switzerland	-6%	Belgium	-19%
SKAGEN GLOBAL	-6%	Russia	-20%
Japan	-10%	Taiwan	-22%
Canada	-10%	Estonia	-24%
South Korea	-11%	Italy	-25%
Norway (OSEBX)	-12%	Brazil	-25%
Netherlands	-12%	Hungary	-30%
Mexico	-12%	Finland	-30%
Spain	-13%	Poland	-31%
Sweden	-14%	Turkey	-34%
Denmark	-15%	India	-35%
Germany	-15%	Austria	-35%

Portfolio update

Summary

- SKAGEN Global outperformed the benchmark index in January. The fund was up 6.4 percent measured in EUR, while the MSCI All Country World Index was up 4.8 percent.
- In 2011, SKAGEN Global was down 6.0 percent in EUR, 1.7 percentage points behind MSCI AC World Index.
- The best contributor in January was Citigroup. While its fourth quarter results came in lower than expected, share prices in most US banks recovered substantially in January. The bank continues to strengthen its balance sheet and expects to start returning capital to shareholders in 2012. Citigroup's shares were up 16 percent in January in USD.
- The worst contributor of the month was Tesco. The company delivered a poor Christmas Trading Statement and reduced profit expectations for the upcoming year. The stock fell 21% measured in GBP during January.
- The net cash position at the end of January was 1.2% (down from 2.4% at the end of December).
- The top 10 positions make up 35.5% of the fund (down from 36.2% end of December).
- The SKAGEN Global portfolio consists of 92 companies.

Key earnings releases and Company news in January

- **Citigroup** delivered a disappointing set of numbers. EPS was USD 0.38. The poor performance was largely driven by weak results in its capital markets businesses where revenues were down 30% y-o-y. Encouragingly, the company saw good progress in its consumer banking both in North America and in the Emerging markets. Transaction services also continues to see progress. Credit continues to improve and assets in Citi Holdings now make up 12% of total assets. The company expects to reach a Basel 3 Tier 1 ratio of 8-9% in 2012 as well as starting to return meaningful amounts of capital to shareholders.
- **Tyco International** delivered Q2 results that were slightly better than anticipated. The company also raised its guidance for the full year. Overall, the company saw strong order intake at plus 8% and strong margin expansion. Revenues were a touch light at USD 4.2bn. EPS was USD 0.84 versus 0.77 guided. Security solutions continues to perform well thanks to ARPU expansion and subscriber growth in the US. Markets outside US are weaker. Overall EBIT grew 7%. Fire protection continues to improve margins but still suffers from a weaker construction market. Organic revenue growth was 1.6% while EBIT grew 16%. Flow control was the strongest performer in terms of revenue growth with a 9.9% increase as demand for valves remains very strong. EBIT was up 13%. The company will file papers with the SEC for its announced spin-off in March and the separation process continues to be on track.

Portfolio update

Key earnings releases and corporate news in January cont.

- **Microsoft** delivered better Q2 numbers than expected with EPS of USD 0.78, flat y-o-y. Revenues came in at USD 20.9bn which was broadly in-line with expectations. The Windows and Windows Live units saw revenues fall more than the overall PC market. This caused a weaker operating margin. The Server and Tools units saw very strong revenue growth of 11%, with a similarly strong expansion of margins to 41.8%. Encouragingly, Online services continues its double-digit growth and also saw a reduced operating loss for the quarter. The Microsoft Business Division grew nicely, largely on the back of a strong business market but with some weakness in the consumer area. The Entertainment division did very well with revenues up 159% on the back of a strong product line-up (X-Box and Kinect).
- **Goldman Sachs** delivered fourth quarter results that were slightly stronger than expected. Much of this was attributable to lower costs due to lower compensation. Revenue was down 30% in the quarter due to very low capital market activity. EPS was USD 1.84. Investment Banking saw some improvement over a weak Q3 with revenues up 10%. The company also highlighted an exceptionally strong deal pipeline. Institutional Client Services saw a material drop in activity due to lower trading activity by clients, with revenues down 25%. The company also announced further cost cutting and expects to return further capital to investors through buy-backs and dividends in 2012 as its balance sheet remains very strong. Basel III is pro forma at 8% but is expected to reach 11% by 2013.
- **Siemens** reported Q1 sector profits that were weaker than expected due to higher operating costs, project charges and “Agenda 2013” in Health Care. Sector profits were down 23% y-o-y at EUR 1.6bn. EPS was EUR 1.53, only slightly below expectations. Net profit was saved by better than expected results from Financial Service, investments and one-offs. Total revenue was up 3% y-o-y and new orders declined 4%. The book-to-bill ratio was still at a solid 1.11. The company reported weak cash flow due to higher working capital. The CEO maintained the outlook for 2012 of net income of EUR 6bn, but stated that the target is more challenging to reach. Siemens still has ambitions to IPO Osram later this year.
- **Baker Hughes** reported EPS before non-recurring items for 4Q11 of USD 1.20, below consensus estimate of USD 1.32 due to supply chain constraints and cost pressure in North America. Cash flow was also weak in the quarter, as in the previous three quarters, amid working capital increases, in-line with its peers. On the positive side, the company met its goal in international operations, with a margin of 15.6% versus guidance of 15%. Management also highlighted strong growth in the Middle East going forward, which was encouraging. They also guided positively on pricing for international operations in 2012.

Portfolio update

Key earnings releases and corporate news in January cont.

- **SCA** reported clean EPS for Q4 of SEK 2.35 vs. SEK 2.20 expected. EBIT came in as expected at SEK 2.5bn, The hygiene margin was 10.9%, 100 bps higher than expected (9.2% in Q3). EBIT margins in Packaging (6.8%) and Forest products (10.6%) were lower than expected. The margin surprise in Hygiene was a positive catalyst for the share price as following the Georgia Pacific acquisition and divestment of Packaging, Hygiene will account for 80% of group revenue. SCA reported one-off costs of SEK 5.7bn which includes goodwill impairment in packaging (sold to DS Smith), restructuring charges and the write-down of an Australian JV. Net debt improved from SEK 38.5bn to SEK 36.6bn in the quarter and the dividend was raised by 5% to SEK 4.20/share.
- **TE Connectivity** delivered disappointing Q1 numbers with net income and sales below consensus. EPS, after stripping out tax items and other restructuring charges, came in at USD 0.66 vs. an estimated USD 0.70. The Transportation segment delivered strong numbers with good margins and better sales but this was off-set by both Consumer & Industrial Solutions and Network Solutions which saw lower margins and sales. Cash flow from operations was also a bit light. Management expects margins and sales to be better in 2H 2012, but they lowered the 2012 guidance and expect sales to drop 4% for the year while EPS guidance was taken down by 10%.
- **Time Warner Cable** reported very good Q4 numbers as better High Speed Data (HSD) off-set Video Subscriber losses. Revenue was up 4% helped by better ARPU development. The company has rebranded as a broadband company, rather than a cable TV business and this new strategy seems to have paid off as they have been able to attract more internet users. Free cash flow was a little light due to higher capex. The company raised the dividend and a USD 4bn buy-back program was authorised. During Q4 the company returned USD 520m (buy-backs/dividends) to shareholders, representing a 10% yield.
- **Kyocera(SMC)** reported soft 3Q results, as expected. The four divisions of the component business all posted lower sales and profit, mainly due to continuing inventory adjustment by customers and a down-turn in the business environment for solar cells. However, the company also guided for weaker Q4 results than the market had expected. Thus, Kyocera expects continued lower operating rates to reduce inventories and the company also forecasts only a mild recovery in component orders from February, after bottoming out in January. The company is now valued at 0.8x P/B with net cash and investments making up more than 50% of the current market cap.

Portfolio update

Key earnings releases and corporate news in January cont.

- **Afren** started the year by announcing it had achieved a year-end exit production rate much higher than most sell-side analyst had expected – confirming our investment case that the company will comfortably be able to finance its exploration program with internally generated cash-flow. In mid-January, Afren announced a material new oil discovery less than 2km from one of its producing fields, enabling a quick tie back into the existing platform. The shares are now up more than 50% since we bought the company in November and December last year.
- **Tesco** delivered a very disappointing Christmas Trading Statement, causing the shares to drop sharply. Two pieces of very negative news were given by the company. Firstly, UK LFL sales were -2.3% over the period. This was due to an aggressive response by competitors to Tesco's decision to drop prices. Secondly, the company announced that the company would see flat profits for the next fiscal year due to investment in its UK business. The company stated that it had under-invested in its UK business over the last few years and that the business was therefore lagging the competition in terms of customer experience. The lower margins in the UK were not expected by us or the market. The international business continues to do well. We are reviewing our Tesco position after this very negative news as it has materially impacted the fundamental value of the company.
- **Stolt Nielsen** reported Q4 income from operations in-line with expectations at USD 43.7m. Operating income from Chemical Tankers came in a touch weaker than expected, but this was off-set by better than expected results from Terminals and Tank Containers. The sailed in T/C index was unchanged q-o-q at 1.08. The company expects that continued weak demand will also lead to a weak market for chemical tankers in 2012, but highlighted that the nearly-empty order book for sophisticated chemical tankers will result in a tighter market once the global economy recovers, hopefully in 2013.
- **Pfizer** reported Q4 adj. EPS of USD 0.50 vs. USD 0.47 expected. Revenues were down 4% y-o-y, but adj. net income rose 6%. The main reasons for the earnings beat were lower costs (17% reduction in R&D spending), better results from the animal health division and higher sales than expected for Lipitor (lost patent in Q4). The 2012 EPS guidance range was lowered by USD 0.05 to 2.20-2.30 due to the expected FX impact as Pfizer has more than 60% of sales from international markets. Pfizer reduced diluted shares outstanding by 4.5% last year. In addition, it currently has a dividend yield >4%. In 2012 the company is committed to paying USD 6bn in dividends (40% payout strategy) and buying back shares for worth at least USD 5bn.

Contributors YTD in 2012 in MNOK

Largest positive contributors in 2012

Company	MNOK
Citigroup	+144
Tyco International	+124
Petrobras	+116
LG Corp	+ 99
Goldman Sachs	+ 94
Gazprom	+ 87
Oracle	+ 77
SCA	+ 71
Weatherford	+ 67
Ternium	+ 62

Largest negative contributors in 2012

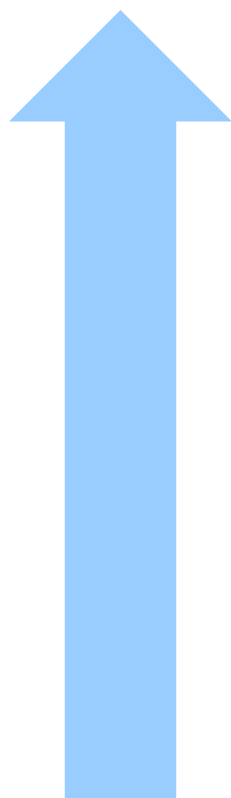
Company	MNOK
Tesco	- 174
Unilever	- 30
Pfizer	- 22
Bunge	- 16
Indosat	- 14
Gjensidige Forsikring	- 12
Yahoo	- 12
Vivendi	- 11
Television Broadcasts	- 10
Roche	- 9

Total value change in 2012: 1687 MNOK

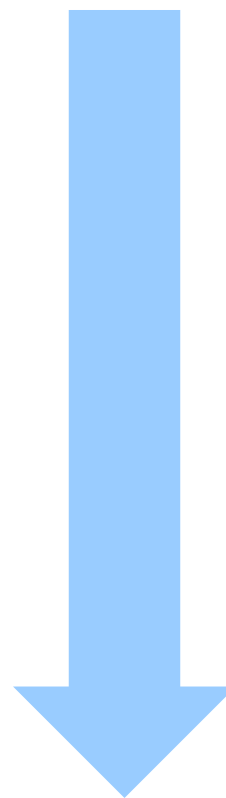
SKAGEN Global – most important changes in Q1 2012

Holdings increased (in no particular order)

Holdings reduced (in no particular order)



EMGS (New)
GSW Immobilien (New)



Transocean (Out)
Pfizer

Why did we buy and why did we sell

Key buys during period

- The Norwegian oil service company **EMGS** entered the portfolio with a weight of 25 bps. EMGS is a clear market leader in using electromagnetic data to explore for hydrocarbons. The technology has in recent years been generally accepted by the oil industry and in 2012 EMGS should be highly profitable and a possible take-over candidate.
- The German residential property company **GSW Immobilien** entered the portfolio with a weight of 32 bps. The company is focused on Berlin and the shares trade at a discount to NAV of ~20%. The Berlin residential property market has been flat since the beginning of 1990's and is today the European capital with lowest rental levels and prices per square metre.

Key sells during period

- **Transocean** was completely sold out from the portfolio after the company decided to implement a value destructive issue of new equity. The company had a poor operational performance in 2011 due to their relatively old rig fleet.
- **Pfizer** was reduced after a period of strong share price performance. The share price is about to meet our fundamental value of the company.

Largest holdings as of 31 January 2012

	Holding	Price	P/E	P/E	P/B	Price-
	size		11E	12E	Last	target
SAMSUNG ELECTRONICS-PREF	6.9 %	660 000	7.3	5.1	1.0	780 000
TYCO INTERNATIONAL LTD	5.8 %	51.0	14.0	12.3	1.7	70
CENTRAIS ELETRICAS BRAS-PR B	4.2 %	25.6	9.7	9.0	0.4	50
CITIGROUP INC	3.6 %	30.7	7.7	6.5	0.5	75
ORACLE CORP	2.9 %	28.2	12.0	11.0	3.4	45
GAZPROM OAO-SPON ADR	2.6 %	12.1	3.6	3.7	0.6	20
CHINA MOBILE LTD	2.6 %	79.3	12.8	12.4	2.6	95
PFIZER INC	2.5 %	21.4	9.4	9.1	1.8	22
SVENSKA CELLULOSA AB-B SHS	2.2 %	113.6	12.1	11.3	1.3	130
PETROLEO BRASILEIRO- ADR	2.2 %	27.9	8.2	8.0	1.0	40
Weighted top 10	35.5 %	-	8.6	7.5	0.9	51 %
MSCI AC Index	-	-	11.9	10.4	1.7	-

- Petrobras was added to the top 10 positions in December, replacing Tesco
- The portfolio remains attractively valued versus the overall market

The largest companies in SKAGEN Global



Samsung Electronics is one of the world's largest producers of consumer electronics, with 155000 employees. The company is global #2 in mobile phones, the world's largest in TV and a global leader in memory chips. Samsung also produces appliances, cameras, printers, PCs and air conditioning.



Tyco International is a Switzerland-based and NYSE-listed fire security and engineered product company. The company has five main segments: ADT Worldwide (security), Fire Protection Systems, Flow Control, Electrical and Metal Products and Safety Products. Roughly 40% of the revenue is monitoring and servicing revenue – this will increase further with the recent acquisition of Brink's.



Eletrobras is Brazil's largest electricity company with a 39% share of generation. The company has installed capacity of 39 TWh where 87% is hydro power, and 59000 km transmission lines (55% market share). The federal government owns 66% of the equity and 78% of the voting rights.



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. Today the company consists of two units: Citi Holdings which is a vehicle for ca USD 500 bn of 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 in emerging markets.



Pfizer is the world's largest pharmaceutical company based on sales. It is based in the US. Ca 40% of sales are derived from the US. The company has key franchises in cardiology (42%), central nervous system and anti-infectives. The company produces some of the world's most well known drugs including Lipitor, Celebrex and Viagra. It recently acquired Wyeth, adding presence in biologics and vaccines.

The largest companies in SKAGEN Global (cont.)



Oracle is one of the largest software companies in the world and specializes in enterprise software. From a core in database management systems the company has made a number of acquisitions and is now present in a number of different areas including: Business applications, Databases, Middleware, and Hardware. The business is focused around four key pillars: New software licences (27% of revenues), Software licence updates and product support (48% of revenues), Hardware/Products (6% of revenues), and Consulting and services (19% of revenues).



Petrobras is among the top ten energy producers in the world with a production of 2.5m boe and proven reserves of 16 bn boe (57% deepwater, 24% ultra-deep, 10% shallow, 9% onshore). It plans to increase production to 3.9m in 2014 and 5.4m by 2020 through a CAPEX program of USD 224 bn during 2010-2014. The Brazilian government owns 49% of the capital and 56% of votes.



中国移动通信
CHINA MOBILE

China Mobile is the world's largest mobile operator with 601mn subscribers in China. The company runs GSM on its 2G network and home grown TDSCDMA as its 3G network. In 2010 China Mobile added 62 million new subscribers and 31% of revenue came from value added services. However, 2G subscribers still comprised 96% of total at the end of last year, but 28% of new subscriber in 2010 were 3G.



Gazprom is the world's largest gas producer with proven gas reserves of 550bn m³ (10% of global and equal to 30 years reserve life). The company controls 160k km of gas pipelines and significant storage capacity, it owns and operates Russia's entire high pressure gas transportation network and accounts for 28% of gas supply in Europe. Gazprom is also the 5th largest oil producer in Russia with production of 0.87m boe (9% of Russian output) and the country's largest power utility with 36GW of installed capacity (16% of Russian total).

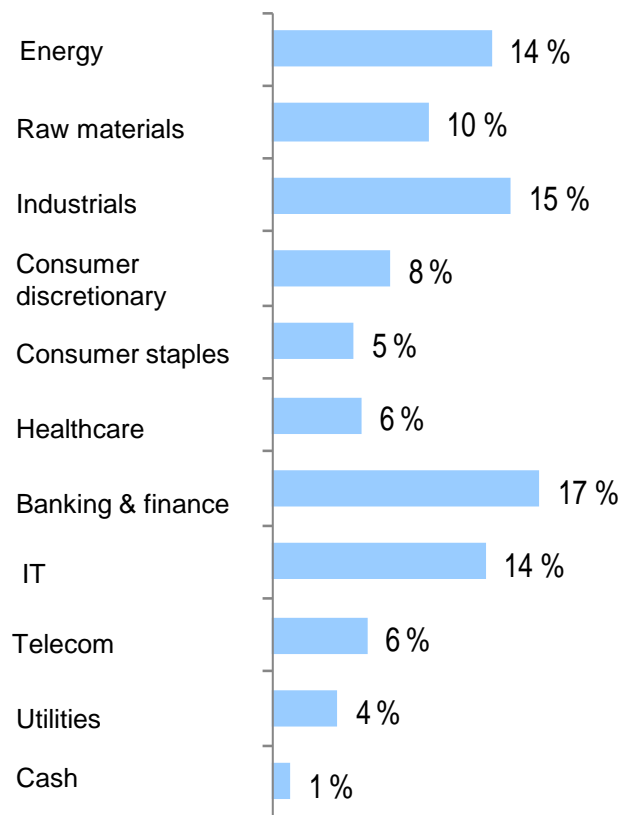


SCA is one of the world's largest companies in personal care products, the world's third-largest supplier of tissue, Europe's second-largest packaging company and one of Europe's most profitable producers of forest product. The company is targeting a ROCE of 13% over the business cycle, from 8% today by selling some non-core capital intensive assets and increase focus on hygiene products. Growth will come from product innovation and emerging markets (which is currently 19% of total sales).

Sector and geographical distribution in SKAGEN Global

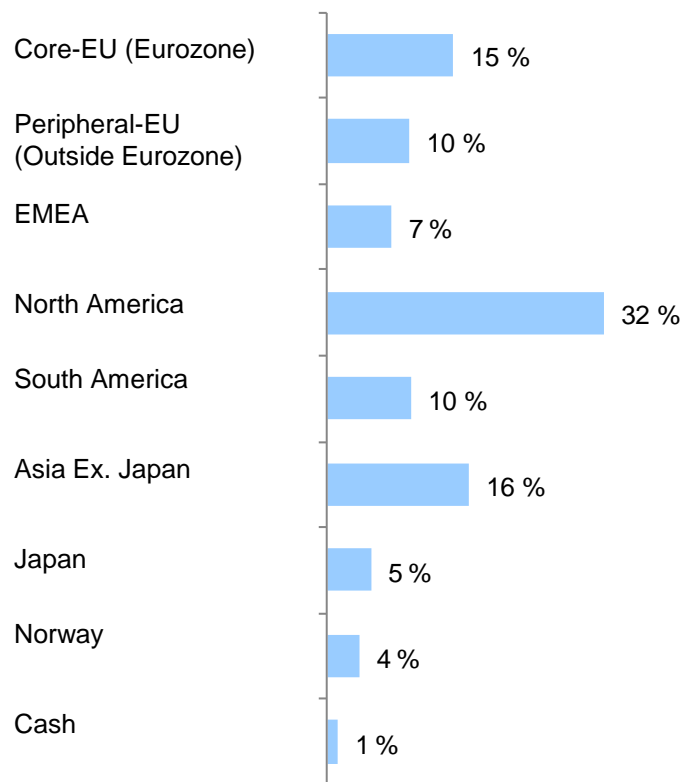
Sector distribution

% of total portfolio



Geographical distribution

% of total portfolio



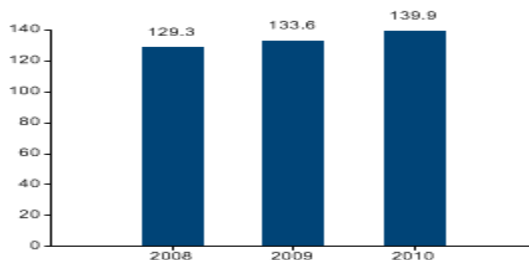
Key numbers:

MCAP:	€ 950mn
Net debt:	€1.500mn
Shares out.:	41.1mn
P/E (2011e):	15
P/E (2012e):	14
Price/book:	0,8
Dividend:	3,8%

Total market value of property portfolio (€ m)



Net rental income



- GSW is a Berlin-focused residential property company with a portfolio of 53,000 residential units (3.3 mn sqm). In addition GSW manages 17,350 residential and commercial units for third parties.
- Average rent per unit: €4.95/sqm/month (35% regulated rent)
- Average apartment size: 62 sqm
- Vacancy rate: 3.6%
- Loan to value: 62% (long debt maturities)
- NAV=€28,20/share
- The former major shareholders (PE funds) have sold their stakes and the company now has an open shareholder structure
- Recently bought 4,800 apartments from Gagfah for €330mn.
- German residential property prices have been broadly flat in the last 15 years, and Berlin offers lowest sqm prices for apartments among European capitols.
- Value per unit based on current stock price; €48,000 per unit or €800/sqm.
- Triggers:
 - Appreciation of Berlin rental level/property prices
 - Take over candidate
 - Higher share liquidity = reduced discount to NAV
- Risk:
 - Higher property transfer tax in Berlin (currently 4.5%)
 - Credit crunch
 - Equity issue (have used funds raised in IPO)

Electromagnetic Geoservices (EMGS NO) NOK 15



Key numbers:

Market Cap: NOK 3 bn

Net debt: NOK 0 bn

Shares outst.: 197,4 mn

P/E (2011e): n.m.

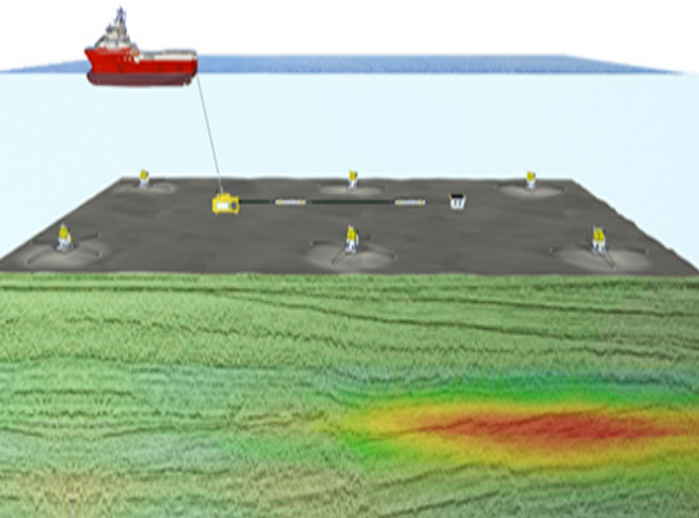
P/E (2012e): 12

EV/Ebitda (2012e): 7

P/B: 5

Largest shareholder: Fugro @14%

- EMGS is a world leading provider of Electromagnetic (EM) data to oil companies (>80% market share). The company has patent protected technology for sending electricity into the seabed. The data is complementary to seismic (sound waves). EM technology has been used in the mining industry for decades.
- EM data can determine whether there is water or hydrocarbons in the reservoir (electricity travels through water, not hydrocarbons).
- Won patent dispute with Schlumberger in London and Amsterdam court. Schlumberger recently signed a partner agreement with EMGS.
- EMGS founded in 2002, but technology invented by Statoil in the 90's.
- Demand has picked up strongly in recent years and EM is now adopted by several oil majors. Exxon, Pemex, Petrobras, Shell, Saudi Aramco, Statoil and Petronas have all been buying EM data from EMGS lately.
- Currently 5 vessels operating collecting data (4 crew)
- Order book Q3 2011: USD 163 mn
- Guidance for 2011: Revenue: USD 160 mn, +ve EPS
- Triggers:
 - EM is a game changer in oil exploration
 - Oil discoveries from using EM data (according to Statoil EM was important in connection with recent Skrugard/Havis discoveries)
 - More capacity (1 new vessel adds ~ NOK 5/share in equity value)
 - New contracts at high rates
 - Open shareholder structure – take over candidate
- Risks:
 - Operational performance
 - Competition (PGS and CGG Veritas have stated ambitions)



SKAGEN
Funds

For more information

- Please refer to:
 - Our latest [Market report](#)
 - Information on [SKAGEN Global](#) on our web pages

• 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.

• SKAGEN seeks to the best of its ability to ensure that all information given in this report is correct, however, makes reservations regarding possible errors and omissions. Statements in the report reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. The report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of the 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 the fund's portfolio.