

Skagen reef's lightship, 1892  
By Carl Locher, one of the Skagen painters.  
The picture is owned by the Skagens  
Museum.



Leading the way  
in new waters

report KAGEN

## SKAGEN Kon-Tiki

- January 2012 -

*From “risk off” to “risk on”;  
a strong start for EM equities*

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## Highlights in January 2012

- SKAGEN Kon-Tiki rose 9.1% in EUR for January versus a gain of 10.2% for our benchmark index.
- We added Ipek Dogal Enerji Kaynaklari (grandmother of Koza Gold) and Orascom Construction to the portfolio during the month and did not sell out of any companies.
- We have marginally raised our estimates for Samsung Electronics and Hyundai Motor, while reducing our estimates for Baker Hughes. We have raised our target price for Samsung Electronics (KRW 780k to 800k) and cut Baker Hughes from USD 100 to 85.
- The 35 largest companies (77% of the fund) trade at a weighted P/E of 6.2x for 2012e versus 10.3x for EM. The trailing P/BV is 1.0x versus 1.7x for the EM universe.
- We see a weighted upside of 53% for the portfolio, which would put valuation at a P/E 9.5x for 2012e and P/BV at 1.7x which are in line with the EM universe.

# Investment results

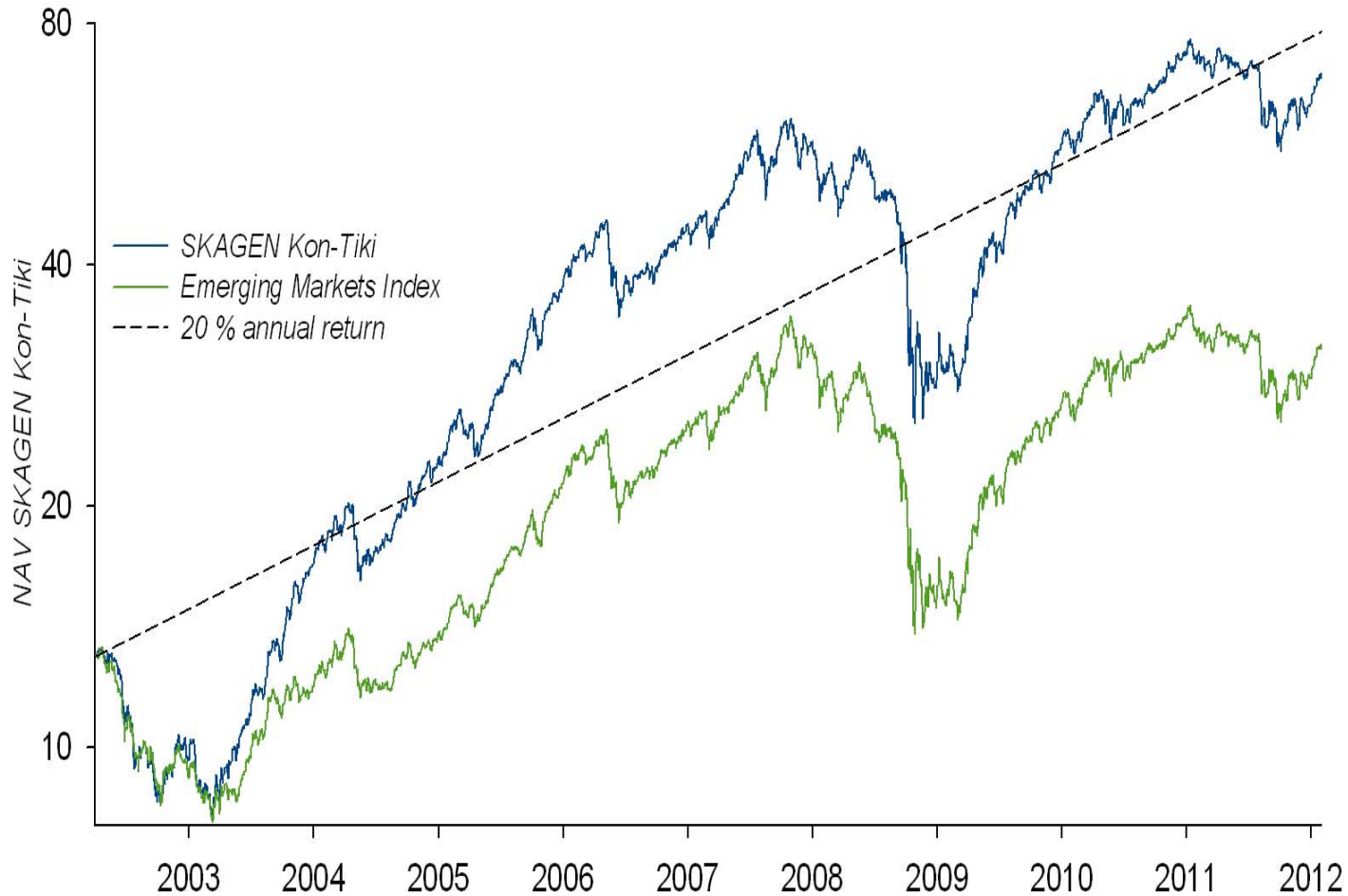
## Results in EUR as of 31 January 2012

	QTD	2011	Past 3 years	Since Inception
SKAGEN Kon-Tiki	9,1 %	-13,3 %	31,9 %	18,5 %
MSCI EM Index	10,2 %	-15,7 %	26,3 %	9,5 %
Excess return	-1,1 %	2,5 %	5,6 %	9,0 %

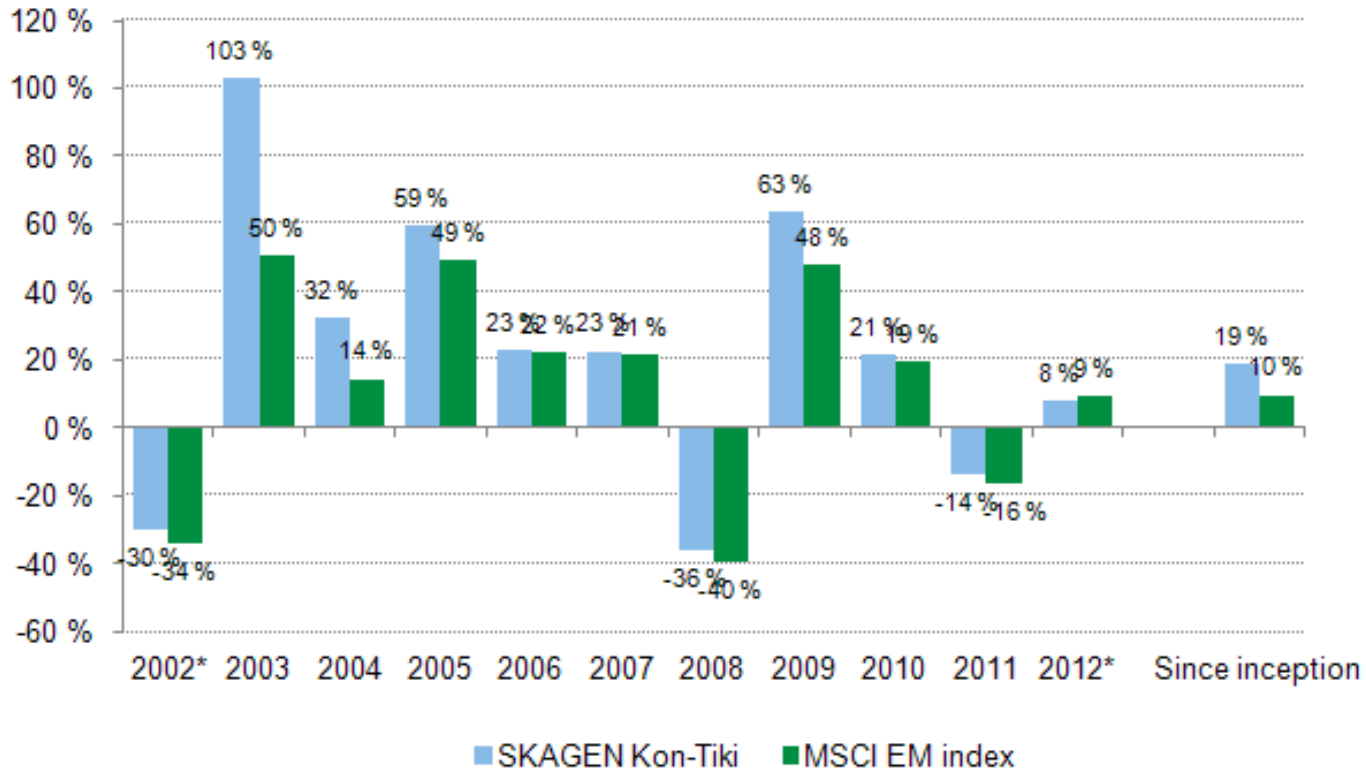
*Start date: April 5 2002*

*All returns beyond 12 months are annualised (geometric return)*

# SKAGEN Kon-Tiki performance in EUR since inception



# Strong relative returns in every calendar year since inception and almost double EM return since inception

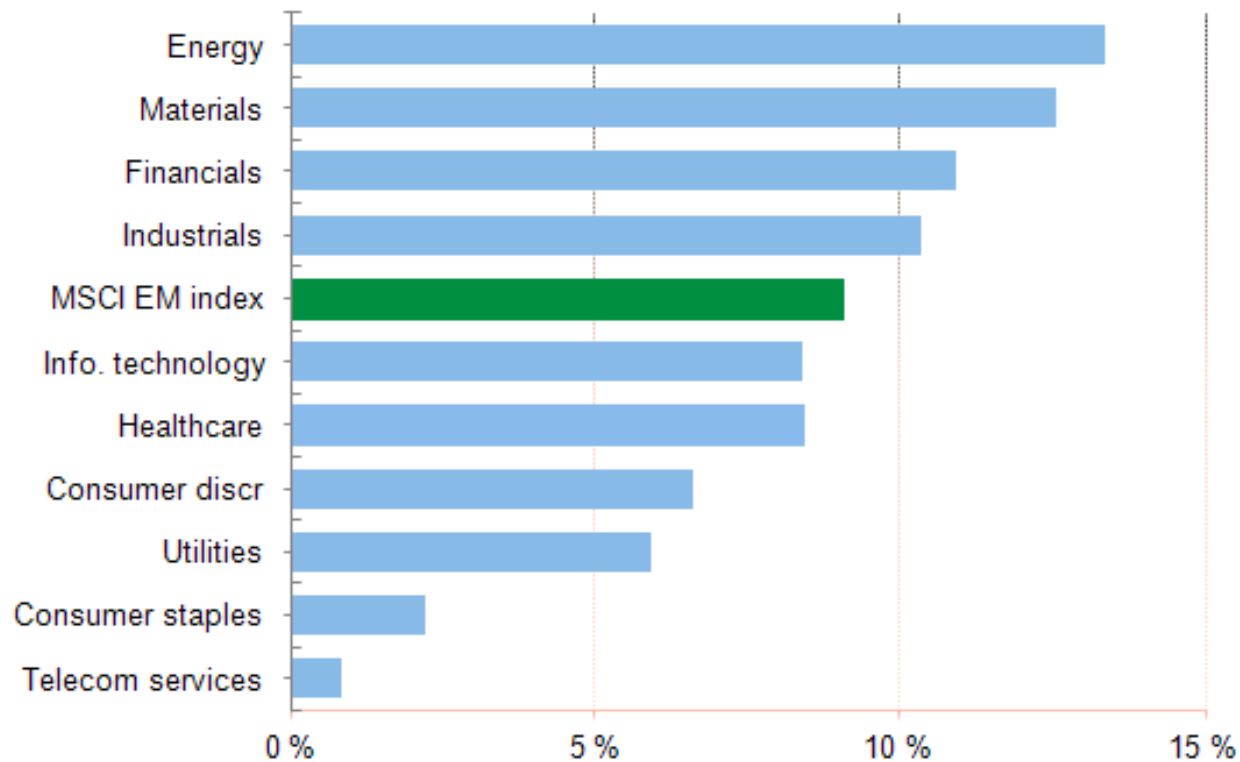


The fund was launched on 5 April 2002. \*) Returns in NOK as of 31 January 2012.

## Emerging Markets in January 2012 in EUR

Egypt	27	Taiwan	8
Hungary	19	Thailand	7
India	18	Czech	7
Brazil	17	Mexico	7
Turkey	17	Chile	7
Colombia	16	<b>MSCI World Index</b>	<b>4</b>
Poland	15	Indonesia	4
Russia	13	Ukraine	4
China (International)	13	USA	4
Singapore	12	China (lokal)	3
Peru	12	Pakistan	3
Argentina	11	Malaysia	2
<b>MSCI EM Index</b>	<b>10</b>	Slovenia	1
Vietnam	10	Kenya	1
Hong Kong	10	Nigeria	1
<b>SKAGEN KON-TIKI</b>	<b>9</b>	Croatia	-1
South Korea	9	Ghana	-3
Phillippines	9	Slovakia	-3
South Africa	8		

# MSCI EM sector return in 2012\*; the recovery of cyclical sectors which were the 2011 losers



Source: MSCI \*) as of 31 January 2012

## Main contributors in January 2012 (in NOKm)

• Sabanci Holding	265	• Indosat	- 38
• VTB Bank	201	• PZ Cussons	- 36
• Petrobras	198	• Archer	- 30
• Vale	169	• Softbank	- 26
• Hon Hai Precision	165	• Golar LNG	- 24
• Sistema	149	• Eletrobras	- 18
• Gazprom	145	• Air Asia	- 16
• State Bank of India	142	• Korean Re	- 12
• Great Wall Motor	139		
• Richter Gedeon	112		
• Empresas ICA	103		
• Banrisul	100		
• Cosan Ltd.	91		
• ABB	91		
• Bharti Airtel	89		

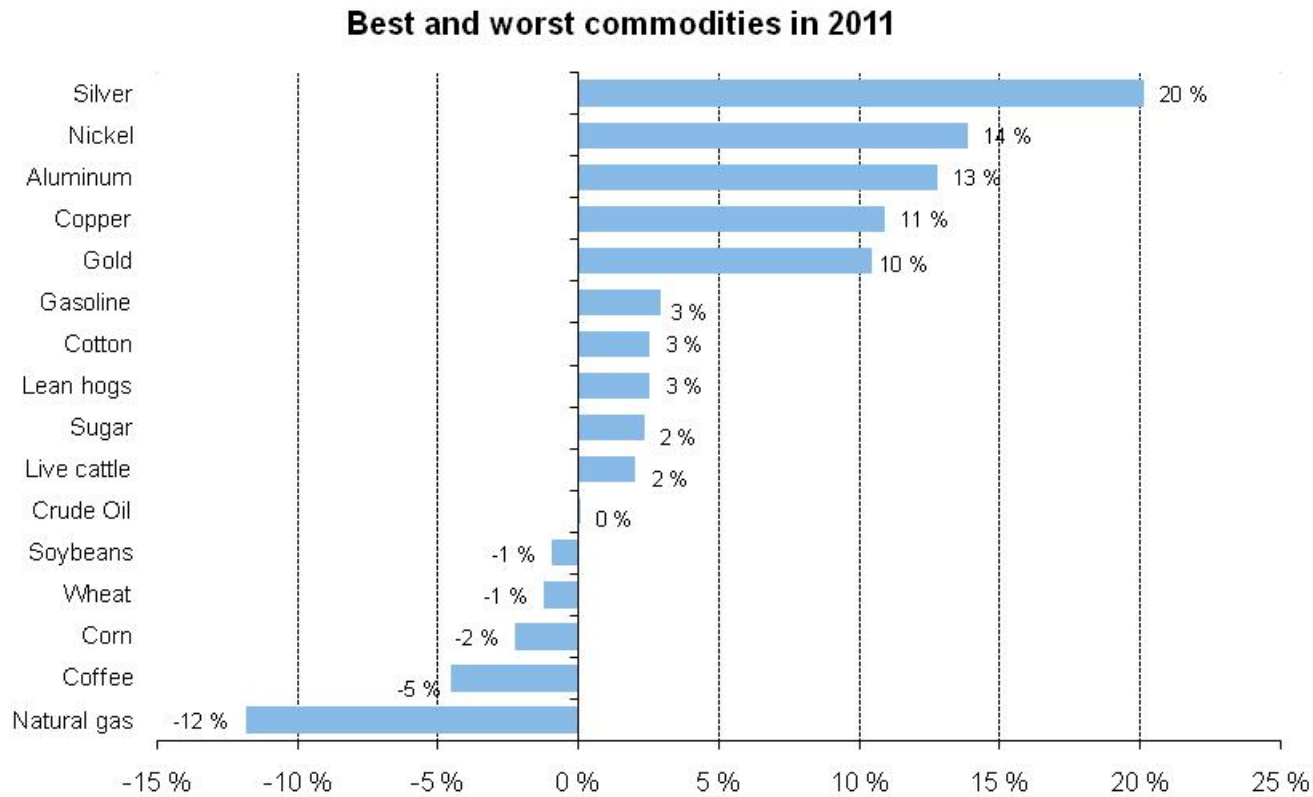
Total value creation in January 2012: NOK 3 281m

## Emerging market currencies in 2012 (versus NOK)

• Hungarian Forint	+ 6 %	• Taiwanese Dollar	0 %
• Mexican Peso	+ 5 %	• Philippine Peso	0 %
• Colombian Peso	+ 5 %	• Czech Koruna	0 %
• Indian Rupee	+ 5 %	• Thai Baht	0 %
• Polish Zloty	+ 5 %	• Euro	- 1 %
• Turkish Lira	+ 5 %	• Indonesian Rupee	- 1 %
• Brazilian Real	+ 5 %	• Hong Kong Dollar	- 2 %
• Russian Rouble	+ 4 %	• Peruvian New Sol	- 2 %
• Chilean Peso	+ 4 %	• US Dollar	- 2 %
• Malaysian Ringgit	+ 2 %	• Egyptian Pound	- 2 %
• South African Rand	+ 1 %	• Chinese Renminbi	- 2 %
• South-Korean Won	+ 1 %	• Argentine Peso	- 3 %

*As of 31 January 2012*

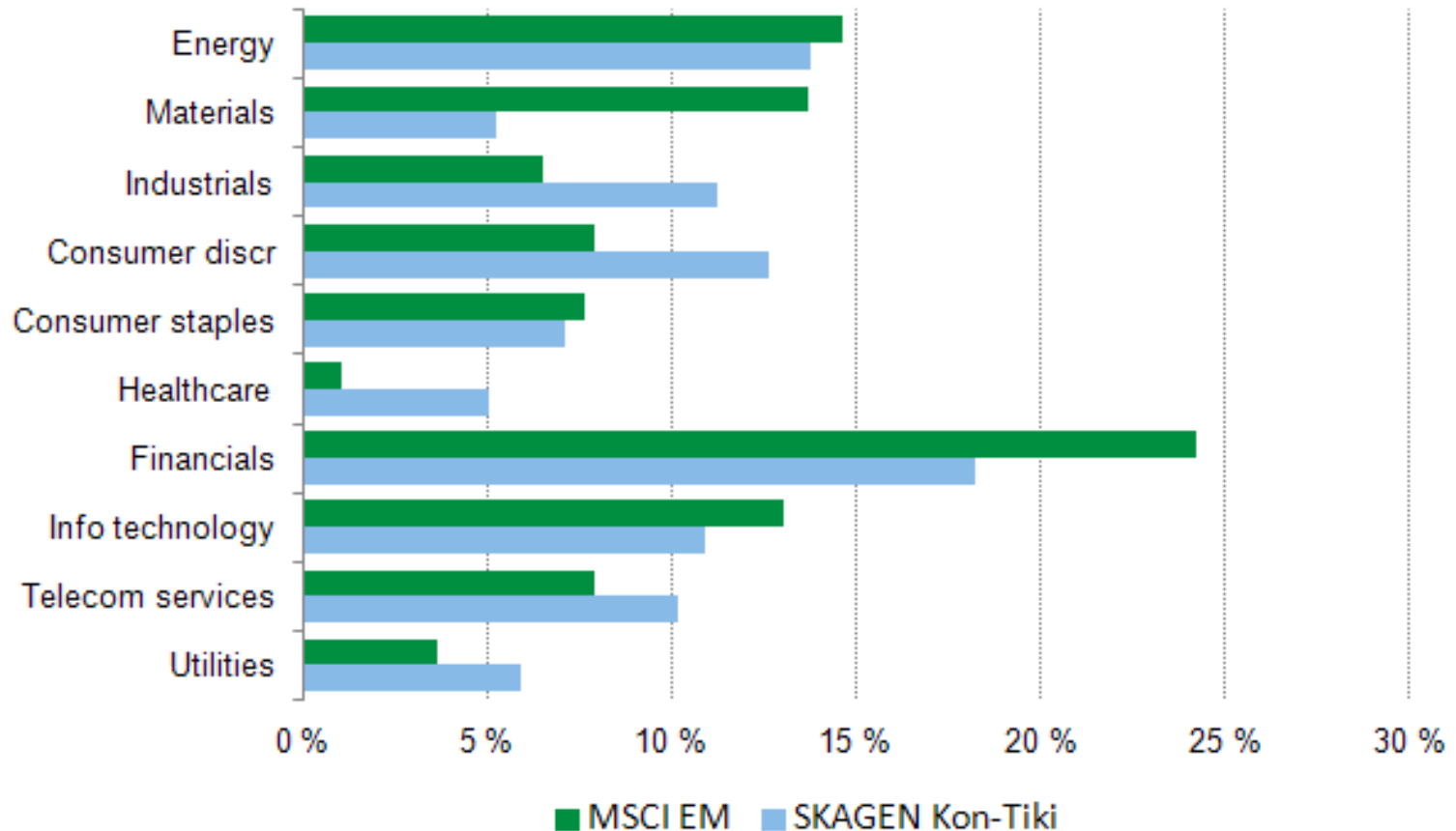
# Commodity prices in January 2012



Source: Bache Commodity Index, rolling contracts

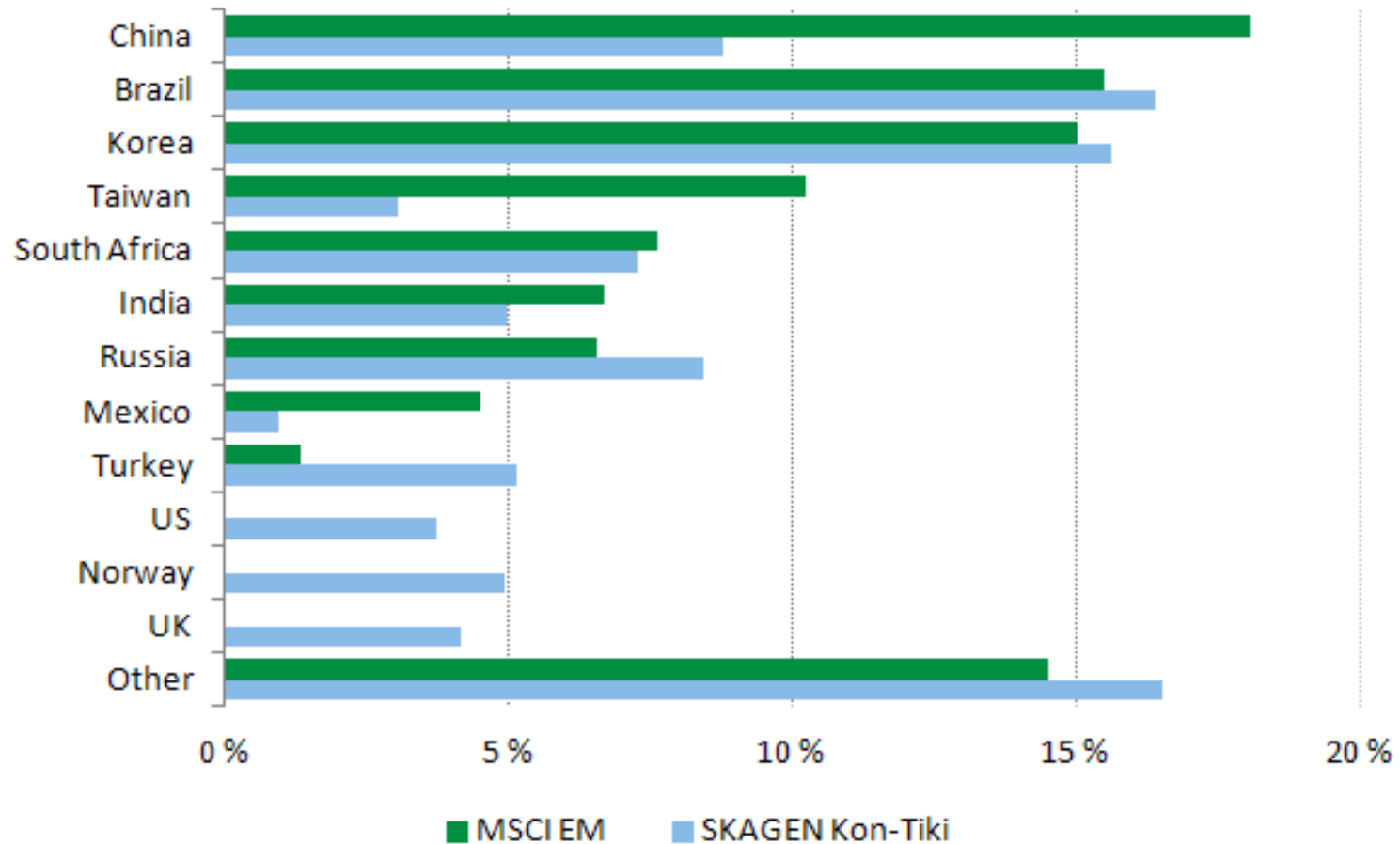
# Portfolio update

## Sector distribution for SKAGEN Kon-Tiki versus MSCI EM Index



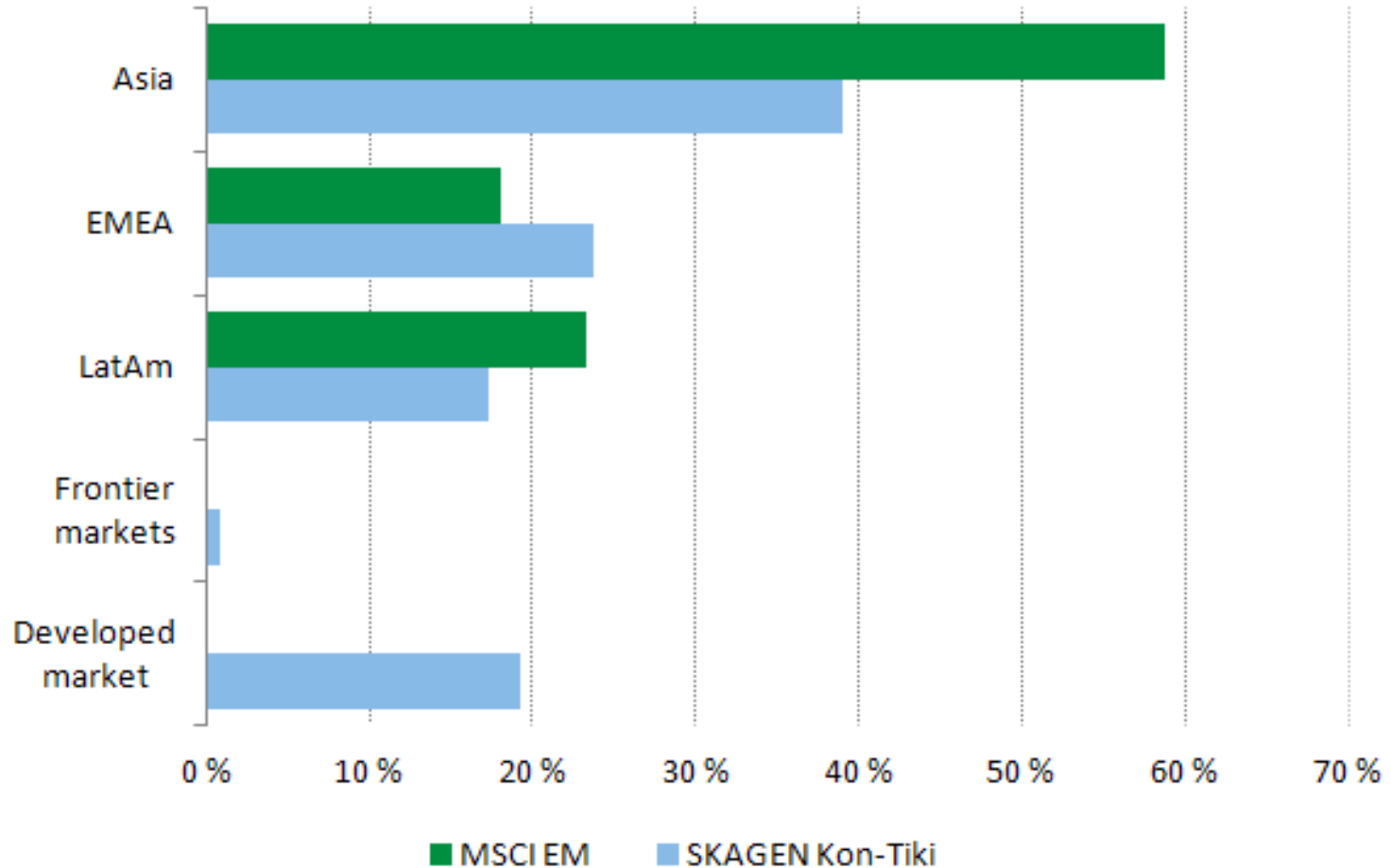
Source: MSCI, SKAGEN Funds. Updated as of 31 January 2012

## Country distribution for SKAGEN Kon-Tiki vs. MSCI EM Index



Source: MSCI, SKAGEN Funds. Updated as of 31 January 2012

## Regional distribution for SKAGEN Kon-Tiki vs. MSCI EM Index



Source: MSCI, SKAGEN Funds. Updated as of 31 January 2012

# Main changes in SKAGEN Kon-Tiki in January 2012

## Buy

- Ipek Dogal Enerji Kaynaklari (new)
- Orascom Construction (new)
- Archer
- Tullow Oil
- Hengdeli

## Sell

- Asya Bank
- Standard Chartered

*\*) Transactions above NOK 25m for existing holdings*

## Why did we buy in and sell out in January?

- **Ipek Dogal Enerji Kaynaklari** is the grandmother of Koza Gold, which is a holding in SKAGEN Vekst. We started to buy this at a 70 percent discount to the value of their shares in Koza Gold. Koza is a low cost producer of gold in Turkey with an ever increasing reserve base. A 100 percent rights issue gave us an opportunity to buy hugely discounted shares. There could also be emerging opportunities for the company in a copper joint venture with Canadian Teck Resources where details are not yet disclosed.
- **Orascom Construction** is an Egyptian construction group which is in the process of using its construction arm to build a top global fertilizer manufacturer with 7.3m tons of capacity based on attractive long-term gas supply agreements in Egypt and Algeria. The construction and fertilizer activities will be separated into two listed companies in 1Q12. This will create M&A options. Management has a strong track record. In 2007, OC sold its cement assets to Lafarge for more than the current market cap, after using its construction arm to build a very sizable operation. By separating the two activities, we expect the holding company discount to disappear and see an upside of at c.30%. In the meantime, we get a dividend yield of >5%.

## News from our portfolio companies (1)

- **Samsung Electronics** (6.2% weight) announced an operating profit of KRW 5.3tr for 4Q11 versus guidance of 5.2tr, and versus 4.25tr in 3Q11 and 3.1tr in 4Q10. 4Q11 includes a non specified net non-recurring gain of KRW 0.8tr. The Semiconductor area saw continuous decline in underlying margin but the continuous double digit margin demonstrates the industry leading cost position in an environment where the majority of its competitors in DRAM and NAND are loss making. Management foresees a tough 1Q12 for Semiconductor but seemed more constructive on 2H12 outlook amid better market balance as competitors have reduced investments. For Telecommunication, sales grew 20% QoQ while operating profit grew 5% with margins down 190bp due to 1) margin decline for network products; and 2) seasonally high marketing spending. Smart phone shipment grew 28% QoQ to 37m units (98m for FY2011). This was in line with Apple, which more than doubled volumes in CY4Q11 after a very weak 3Q dragged down by model transition. Display results were still weak on depressed panel prices, while Digital media more than doubled its results and posted a 3.4% margin on strong sales of high-end TV and impressive growth for appliances. The company announced its CAPEX budget for 2012 at KRW 25tr which is up from 23tr in 2011 or 9% growth. Despite higher CAPEX, we are disappointed with the almost 50% cut in dividend for 2011 at KRW 5550 as the company is still FCF positive after high CAPEX and it sits on a KRW 12.2tr cash position.
- **Hyundai Motor** (5.2% weight) released net profit of KRW 2.0tr for 4Q11 versus 1.92tr in 3Q11 and 1.45tr in 4Q10. Although still up and holding impressive operating margin of 10.4% (-10bp QoQ), this was below market expectations but in line with our expectations. EPS for FY2011, excluding treasury shares) was KRW 30,197 versus 22,358 in FY2010. The 4Q11 result was burdened by 1) factory inventory restocking of 93k units not yet delivered to dealers (sales out of dealers was higher than sales to dealers); and 2) weaker margin at the financing arm due to some year-end provisioning and bond losses (margin -5pp QoQ to 9.3% but this line is volatile). HMC sold 4.1m units in 2011 or +12.4% (retail sales were 1% higher than ex-factory sales leading to a further decline in dealer inventory). For 2012, HMC expects sales of 4.3m or +6% YoY, mainly driven by strong boost in Europe due to new models and broader product portfolio amid the new i40, i30 hatchback and improved sales coverage in Germany and France (its European market share of 2.8% is still well below its global share of 5.3% although up from 1.8% in 2008).

## News from our portfolio companies (2)

HMC also reported January sales figures of 321,757 units or +3.5% YoY with domestic sales (14% of total) - 19% and sales outside Korea +8%. This is somewhat below the FY 2012 target of 6% growth but mind that January was a tough comparison as January 2011 sales grew 14%.

- **Baker Hughes** (3.6% weight) reported an EPS before non-recurring items (US GAAP) for 4Q11 of USD 1.20 versus USD 1.62 in 3Q11 and 86c in 4Q10. This was below the consensus estimate of USD 1.32 due to supply chain constraints and cost pressure in North America. For the year EPS ended at USD 4.27 which is below our earlier “dream” of USD 5.0 and our estimate of USD 4.5. Cash flow was also weak in the quarter, as was the case in the previous three quarters amid a working capital increase, in line with its peers. BHI has been de-rated from a P/E 20-25x to 8-9x stock on lowered 2012 expectations. As with Archer in 3Q/4Q11, ramping up of the pressure pumping business has been the main problem. BHI believes these problems will abate in 2H12. On the positive side, the company met its goal in the 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 positive on pricing for the international operations in 2012.
- **Gazprom** (3.2% weight) released a great 3Q11 result with EBITDA of RUB 396bn or 22% above market expectations at 325bn and up from 254bn in 3Q10. It was also only slightly down QoQ which is impressive as gas demand in 3Q is seasonally weak. Export prices rose 38% YoY and domestic prices by 8%. CAPEX plans for 2012 looks benign at RUB 777bn (RUB 1,277bn in 2011) but there is upside risk to this estimate. Gazprom is accelerating the development of the Jamal field which will account for 50% production in 2020. This project will be launched later this year. Negotiations with China on a long-term supply agreement continue and Gazprom expects a new Chinese proposal regarding price. A deal will probably be another important catalyst for the stock. The 25% dividend payout policy also seems to be segmented, providing a yield of 4.3% which is above the EM average of 3%. The current very cold weather in Europe is clearly supportive in the short-term with spot prices having firmed notably by 20% in the past few weeks, which is also supportive for negotiation with clients on long-term contract pricing.

## News from our portfolio companies (3)

- **Vale** (2.9% weight) announced a minimum dividend for 2012 of USD 6bn. Last year, the company announced a minimum dividend of USD 4bn, so this is a positive surprise given the fact that cash flow will likely decline this year while CAPEX will increase. Vale spent USD c17bn in 2011 (much less than initial plans of USD 24bn) and has announced CAPEX of USD 21.4bn for 2012. For 2011, Vale ended up paying USD 9bn in dividends and also did USD 3bn in share buy-backs. In our recent conversation, management stated that it has a preference for a dividend payment versus a share buyback, which is something we applaud. USD 6bn in dividends corresponds to a yield of c.5%.

Vale is considering a disposal of its oil and gas assets in Brazil this year, which could improve FCF generation and, hence, dividend capacity. Vale has invested a total of USD c2bn in nine blocks since 2007.

Vale also received an unfavorable ruling from the administrative court regarding potential back taxes for income from foreign subsidiaries of USD 5.6bn or USD 1.7 per share (7% of share price). This was not unexpected. Vale appealed the decision to the higher court. It also asked for an injunction, which was granted. The case will likely go to the supreme courts (two levels up from administrative court) and take 3-4 years. It also involves other companies in Brazil with significant foreign profits. Vale argues that part of this claim is related to changes in tax law with backward impact which is illegal according to the Brazilian constitution.

- **Petrobras** (2.8% weight) announced that the Chairman and Minister of Finance will propose to the board to replace CEO Jose Gabrielli (62) with its head of Natural gas and Energy, Maria das Gracas Foster (58). Gabrielli has been CEO since 2005. Ms. Foster has close ties to president Rousseff, having held the position as head of oil and natural gas when Rousseff was energy minister from 2003 to 2005. The proposed change was taken positive by the market with the share price gaining 4% on the day of the announcement.

Petrobras also announced year-end reserves of 12.9bn barrels (under SEC criteria) or an increase of 1% YoY. This was slightly ahead of market forecasts. Under Brazilian reserve calculation (SPE), PBR added a net of 1.3bn barrels and produced 889m leaving net nominal increase at 426m barrels to 16.4bn (+2.7% net). Reserve replacement was thus 148% under SPE calculation and reserve/production ratio was 18.5 years. This excludes the 5bn barrels the company has the rights to following the capitalization in 2010.

## News from our portfolio companies (4)

- **Great Wall Motor** (2.4% weight) reported December unit sales of 51.4k which was up 4% YoY. Domestic sales fell 6% YoY with export sales +147% to 8.1k units. For 2011, unit sales rose 28% to 464.4k units. The slowdown in domestic sales in 4Q11 hurt FY sales.
- **ABB** (2.5% weight) announced a definite agreement to acquire US listed Thomas & Betts for USD 3.9bn or a 24% premium and representing 8% of market cap. The company produces components for low voltage power with North America representing 80% of sales. It is close to debt free and ABB will finance the acquisition through cash reserves. The acquisition represents a rather high consensus P/E of 18x for 2012, but ABB expects to realize USD 200m in synergies by 2016 or 8% of 2012e sales. This would bring the P/E down to 11-12x and the acquisition should be accretive to EPS for 2012e, excluding integration and transaction costs.
- **Seadrill** (1.7% weight) plans to sell 48m new shares in its Brazilian subsidiary, Seabras, ahead of a listing in Brazil. The shares are offered at a range of BRL 20 to 26 with proceeds of BRL 1-1.2bn. Seadrill will retain c.71% in Seabras after the capital raising (68.4% including green shoe). Seabras will consist of the three Brazil-operated sixth generation ultra deepwater semi rigs, West Eminence (with Petrobras to July 2015), West Orion (with Petrobras to July 2016) and West Taurus (with Petrobras to February 2015) and 50% in the JV with Sapuracrest which has three pipe laying vessels under construction. We would strongly expect more assets to be included in Seabras, i.e. new contract wins, the Sevan Drilling units and/or the Deep Sea Supply vessels. We believe the Brazil listing could be positive for further contract wins in Brazil as it clearly shows commitment to the country. Valued at USD 1.2bn per unit based on mid-price of IPO which is at a premium to Seadrill itself. The deal was set to close mid-February, but has now been delayed to April amid “agreement with Petrobras to make certain changes to its corporate structure”.
- **Mahindra & Mahindra** (1.6% weight) reported January auto sales volume of 44,718 or +22% YoY (+28% last 10 months) and tractor volume of 19,354 or -6% (+16% last 10 months). The weak tractor sales were due to -8% for domestic operations (93% of total) with export sales +31%. The run rate year-to-date is well ahead of management guidance for FY2012 of 15-18% for auto and 11-13% for tractor.

## News from our portfolio companies (5)

- **Shoprite** (1.5% weight) announced a solid trading update for 2Q FY 2012. For November and December sales momentum accelerated with a growth of 15.7% with same store sales +7.9%. However, LFL volume growth moderated to 1.7% from 4% in July-October as contribution from space rose from 3% to 9%, driven by non-SA expansion.
- **Exxaro Resources** (1.4% weight) announced an offer for African Iron Ltd, an iron ore mining company with operations in the Republic of Congo. The deal would value AKI on a fully diluted basis at AUS 302-338m (ZAR c2.7bn) or 4% of its market cap., so its relatively small. The proposed purchase has the support of AKI's board and the cornerstone shareholder Cape Lambert has agreed to sell 19.99% to Exxaro.
- **State Bank of India** (1.3% weight) announced that the government will infuse about INR 79bn in new equity by way of preferential allotment. This works out at a c.6% increase in the number of shares and will increase the Tier 1 capital by 80bp to 8.4%. It marginally enhances BVPS and slightly reduces EPS (within +/- 3%). SBI and the government (owns 59.4% pre infusion and 61.9% post) has stated that the bank will conduct a public offering during 2012 but timing is unclear.
- **LG Electronics** (1.3% weight) announced promising 4Q11 results with regards to handsets and TV units. Sales were KRW 13.8tr or -6% YoY and an operating margin of 0.2% is weak and not far from consensus, but this included some restructuring costs and negative results from solar and air conditioning. The handset division delivered its first positive operating result in 7 quarters (margin of 0.4%). LGE guided for smart phone sales up from 20m units in 2011 to 30-35 m in 2012 and a much better mix of handsets which should lead to higher ASP and margins. Success with the US launch of 4G phones which started in January is another potential trigger. The TV business showed an even better turnaround with operating profit in the home entertainment business of KRW 150bn. With 50% of volume being 3D TVs, which is supposed to grow from 18m to 40m units in 2012, this should give a huge boost to 2012 earnings as 3D TVs still have a 30% price premium over the same size LED TVs. Other business (Solar, ODD etc.) is a big mess but we can at least hope for cost cutting.

## News from our portfolio companies (6)

- **Aberdeen Asset Management** (1.2% weight) released its 1Q FY 2012 interim statement. AuM was GBP 173.9bn at the end of 2011 versus GBP 169.9bn the previous quarter. Net outflow was GBP 2.8bn versus outflow of 1.7bn in 4Q FY 2011. However, importantly, higher margin equity products saw an inflow of GBP 0.9bn while fixed income products had an outflow of GBP 2.1bn, mainly as a result of the loss of a GBP 1.5bn mandate with very low margins. Despite an outflow, the company noted that the change in asset mix towards higher margin products will still lead to a GBP 10m increase in fees for FY 2012. Our investment case on ADN rests on 1) its strong EM equity franchise with solid performance; 2) mix change to higher margin pooled equity products from segregated debt mandates; 3) cost reductions through integration of acquisitions; and 4) strong cash flow and dividend capacity. We now see our investment case unfolding.
- **Tullow Oil** (1.0% weight) announced a further delay at its Jubilee field in Ghana. Peak production of 120k bbl a day is now expected to commence in 2013, which is a year delay versus original plans and the partners, Tullow, Anadarko Petroleum and Kosmos Energy, will need to invest about USD 400m to fix mechanical issues related to well design, according to the company. Tullow stressed that reserves and resources are unaffected. The company expects production at Jubilee to range between 70k and 90k for 2012. Tullow also confirmed that they are working hard to finalize the sale of 1/3 of its share in Lake Albert in Uganda to Total and CNOOC.
- **Korean Reinsurance** (0.8% weight) reported a net loss of KRW 14.7bn for 3Q FY2012 versus +52bn for 2Q and +29bn for 3Q FY 2011. The result included a KRW 40bn loss related to the flooding in Thailand. This was communicated in the profit warning in December when this loss was estimated at KRW 70bn, but there might be losses coming in 4Q as well. The company has reinsurance for losses above USD c50m (KRW 60bn) related to a single event. The result also included a one-time tax cost of KRW 12bn related to changes in the tax rate for catastrophe reserves. Premium growth was solid with a 13% YoY increase. We expect a firming of reinsurance premiums during 1H12 on the back of several severe natural catastrophes in 2011, which should widen underwriting margins. This is the key catalyst to focus on, when the effects of the Thai flood are behind.

## News from our portfolio companies (7)

- **Golar LNG** (0.7% weight) announced that it has signed a three year contract for the second of their current four modern LNG carriers in operations with start up in March. The day rate is USD 140k/day which is up from the previous fixture in October 2010 of USD 125k. GOL has announced two modern vessels coming off contract in the middle of this year. No uncontracted LNG newbuild will enter the market in 2012. GOL also announced that it has acquired the remaining 50% of 1977 built LNG carrier Gandria for USD 19.5m. The vessel is currently laid up but a candidate for conversion to FSRU or storage. GOL also announced that it will reactivate the 1975 built Hilli after completing a USD 15m makeover in March. Management said it has received bids for Hilli and will decide over the coming weeks if the vessel will be deployed for trading, storage or conversion. The next catalysts are long-term contracts for its two newer LNG vessels expected in the coming months, contracts for its two new build FSRUs and contracts for conversion of the two reactivated vessels to FSRU.
- **Softbank** (0.7% weight) announced 3Q FY 2012 EBITDA of JPY 247bn versus 241bn in 3Q FY 2011 and down from 279bn the previous quarter. ARPU in the mobile unit declined amid discounts related to loss of its iPhone monopoly in Japan. This and higher handset subsidies led to a decline in margin for the mobile operations. The key catalyst is a clarification on the ownership situation in Alibaba.com, where Softbank owns 29%, as this will put a focus on the significant values related to its internet assets, which can justify close to the current share price at recent market multiples of similar companies.
- **AP Møller-Maersk** (0.6% weight) announced that it is seeking to raise the rate for 20 foot containers from Asia to Europe by USD 775 from 1 March from the current very depressed level of about USD 739 and average rate (spot and contract) of USD c900 which is close to industry cash break-even. This follows the recent hike from Hapaq-Lloyd.

## News from our portfolio companies (8)

- **Bangkok Bank** (0.6% weight) reported 4Q11 net profit of THB 5.9bn which was modestly up from 5.6bn in 4Q10 but down sharply from 7.6bn in 3Q11. Revenues were slightly down QoQ amid lower non-interest income while costs rose sharply versus 3Q11 on the flood impact. BBL booked BRL 7bn in provisions in 4Q11 versus 1.7bn in 3Q11 equal to 199bp of the loan book (5.8% of total loans). This resulted in a sharply lower pre-tax profit. Provision coverage rose 15pp QoQ to 199% and NPL declined 10bp to 2.9%. Thus, it seems provisioning in 4Q11 was partly due to kitchen sinking, as results were nevertheless dragged down by the flood impact. Excess provisioning at the end of 2011 represented 19% of equity.
- **Kiatnakin Bank** (0.5% weight) reported a 4Q11 net profit of THB 554m which is down from 874m in 3Q11 and up from 491m in 4Q10. EPS was THB 0.87 and THB 4.5 for FY2011 versus THB 5.2 for FY2010.
- **PZ Cussons** (0.5% weight) announced a 1H 2012 net profit of GBP 28.4m versus 31.5m in 1H 2011 or -11% YoY. Sales rose 10% YoY while operating profit declined 13% on raw material pressure, unfavourable FX movements, as well as challenging market conditions in especially Australia, Thailand and the Middle East (Asia sales -11% YoY). The margins for Asia lost 7.1pp YoY to 2.8%. Cash flow was very weak (CFFO GBP 6m versus 37m) with a market increase in inventories (GBP +35m YoY versus a sales growth of GBP 39m YoY) mainly explained from working capital build up in Africa.
- **Norwegian** (0.3% weight) has ordered 222 new airplanes for total gross proceeds of USD 21.5bn (discounts likely 30-40% of gross price) with delivery starting in 2016 (likely delivery over a 10-year period), which represents 51x its current market cap and is the largest order ever made by any European carrier!! The order includes 100 x Boeing B737 MAX8 (starts commercial delivery in 2017), 100 x Airbus A320neo (starts commercial delivery last 2015) and 22 of its existing Boeing B737-800. The current fleet consists of 61 aircrafts of which 44 are B737-800. It marks the first bulk order from any carrier of B737 MAX8 and A320neo. NAS also has orders for 6 x Boeing Dreamliner with first delivery late 2012. The order also includes options on a further 100 B737 MAX8 and 50 A320neo. The first B737-800 was delivered in 1H09 and will, hence, be seven years old in 2016.

## News from our portfolio companies (9)

NAS has a strategy of operating the most fuel, and hence cost-efficient, fleet (newer than seven years) and part of the announced order is obviously to replace the aging fleet of B737-800, but with the magnitude of the order, NAS obviously has plans to expand its route network outside of the Nordic region and its current point-to-point destinations in Europe. A brave move, but history shows that it was wrong to write them off when they started operations in 2002. It is now equal size as SAS on comparable routes in Norway and gaining traction in the other Nordic countries.

- **Barloworld** (0.2% weight) released a trading update for its 1Q FY 2012 ending stating December that the company has seen a continuation of the positive momentum in FY 2011 (ending September). The order backlog for its key South Africa equipment division (25% of sales) is up by ZAR 0.8bn to 6bn during the quarter with an increase also for the Siberian equipment operations. The release includes limited tangible performance information but the statement points to improvements for most divisions, expect equipment demand in Spain. The CEO statement of “improved profit in 2012 versus 2011” is nothing new as market expects a 30% increase in trading profit.
- **Tisco Financial Group** (0.1% weight) reported a 4Q11 net profit of THB 676m which was down from 899m in 3Q11 and on par with 4Q10, pressured by a deferred tax provision of THB 127m. FY2010 EPS was THB 4.43 versus 4.49 in 2010. The net interest margin saw a significant 75bp QoQ decline to 2.77% due to a decline in both asset yield and funding costs. NPL rose 16bp to 1.41% with the coverage ratio down from 203% to 170% in the quarter. Tier 1 declined 60bp to 9.5%.
- **Nordic American Shipping** (0.1% weight) conducted a private placement of 5.5m shares (11.6% of pre issue outstanding) at USD 14.1 or a 9% discount to previous close. The share issue, in isolation, enhances NAV slightly. We did not participate in the placement.

## News from our portfolio companies (10)

- **Proton Holding** (0.1% weight) received a bid at MYR 5.5 per share from one of our other portfolio companies, DRB-Hicom (0.5% weight), after majority shareholder Khazanah Nasional (42.7% stake) agreed to sell its stake to DRB. DRB-Hicom is clearly interested in the production capacity of Proton which is 300k/year with utilization of c.50%. Its ties with Volkswagen, producing their models in Malaysia, could possibly result in a sale of Proton's Lotus sport car operation to Volkswagen, we believe, which would significantly improve the near-term profitability of Proton.

# The largest companies in SKAGEN Kon-Tiki



Eletrobras is Brazil's largest electricity company with a 39% share of generation. The company has installed a capacity of 39 TWh where 87% is hydro power, and 59 000 km transmission lines (55% market share). The federal government owns 66% of the equity and 78% of the voting rights.



Samsung Electronics is one of the world's largest producers of consumer electronics, with 155 000 employees. The company is global #2 in mobile phones, the world's largest in TV and a global #1 in memory chips. Samsung also produces appliances, cameras, printers, PC's and airconditioners.



Sistema is a Russian conglomerate with focus on telecom and other consumer related business, in addition to oil. The majority of the value is linked to a 54% holding in MTS, which is Russia's largest mobile phone company with a market share of 38% and 102m subscribers. The oligarch Vladimir Evtushenkov owns 64%.



Banrisul is a Brazilian savings bank in the Rio Grande do Sul state with its 11m inhabitants. The company has about 20% market share in the state and 2.8m customers, with 700 branches/service offices. Good solidity and deposit coverage. Local authorities own 53%.



China Mobile is the largest mobile operator in China with 580m subscribers and a market share of 69% in a market with 63% penetration and 3 players. It is the only operator with mobile-only operation. It has a strong focus on the corporate segment and has the highest ARPU in the industry and has a 98% population coverage.



Petrobras is among the top ten energy producers in the world with a production of 2.5m boe and proven reserves of c23bn boe. It plans to increase production to 3.9m in 2014 and 5.4m by 2020 through a CAPEX program of USD. 224bn during 2010-2014. The Brazilian government owns 49% of capital and 56% of votes.

## The largest companies in SKAGEN Kon-Tiki (cont.)



Hyundai Motor is the world's 4th largest car maker, including their 39% stake in Kia Motor. Sold 3.6m cars in 2010 (+16% YoY) and has approx. 5% global market share. Focus on smaller/less expensive cars. Strong position in several countries and in emerging markets such as India and China.



Baker Hughes is the third largest oilfield services company in the world with 55 000 employees. Sales is split evenly between drilling/evaluation and completion/production. Following the merger with BJ Services in April 2010, BHI also has a leading position within pressure pumping.



Hon Hai Precision Industry is the largest electronics contract manufacturer in the world with 1,200 000 employees and USD 110bn in sales. Almost all production commence in China. Major customers include Apple, Cisco, Dell, HP and Intel. Hon Hai also provides design engineering and mechanical tooling services.



Vale is the world's largest producer of iron ore with about 35% global market share, which is 54% of sales. They also produce nickel (#2 globally), copper, aluminium, coal and other products. 62 000 employees. All extraction of iron ore in Brazil. Vale plans to double its total production from 2009 to 2015. Government controlled Valepar owns 33.3%.



Gazprom is the largest gas producer in the world with representing 9% of global supply and has reserves of 550bn m<sup>3</sup> or 10% global reserves. The company also controls a wide pipeline network of 160k km, the largest power utility company in Russia, the #5 oil producer as well as drilling assets and a bank. Russian federation owns 50.002%.



Sabanci is Turkey's leading conglomerate with 55 000 employees in 69 subsidiaries in 18 countries. Its largest asset is a 41% holding in the country's #2 bank, Akbank, which represents more than 50% of NAV. Sabanci also has operations within retail, cement and energy generation.

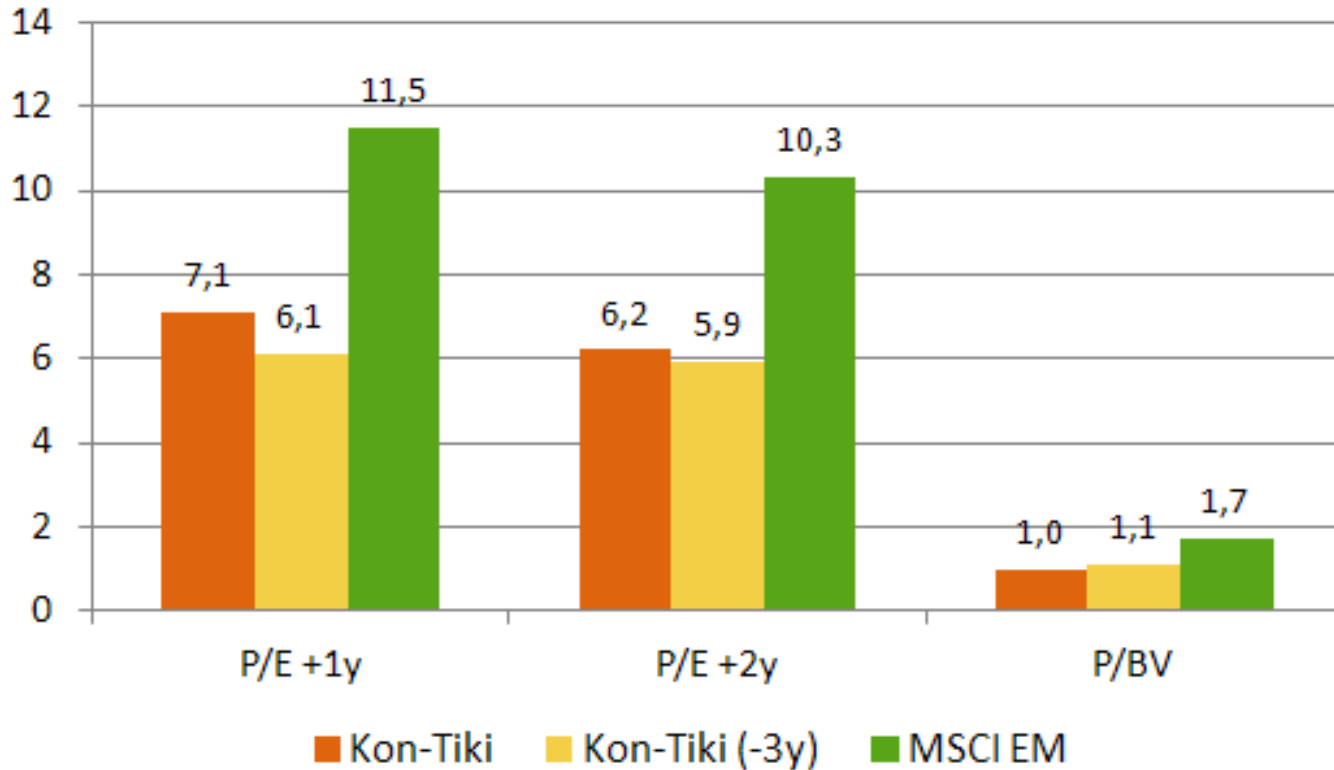
## Portfolio composition and changes

- Company focus drives portfolio composition, but we are cautious with sector and country exposure exceeding 20% in order to balance portfolio risk.
- Our 12 largest holdings now represent 44% of the portfolio value compared to 42% at the end of 2010. The 35 largest positions represent 77% which is up from 74% at the end of 2010.
- Our portfolio consists of 99 companies, down from 101 at the end of 2010.
- We added Ipek Dogal Enerji Kaynaklari (grandmother of Koza Gold) and Orascom Construction to the portfolio during the month and did not sell out of any companies.

# SKAGEN Kon-Tiki: key figures as of 31 January 2012

	Holding size	Price	P/E 2011e	P/E 2012e	P/BV Last	Div. yield 2011e	Price target	Upside
Samsung Electronics	6,2 %	660 000	7,2	6,0	1,0	0,8 %	800 000	21 %
Elektrobras	5,7 %	25,4	7,3	6,4	0,4	7,1 %	70	175 %
Hyundai Motor	5,2 %	65 200	2,2	2,0	0,4	2,8 %	110 000	69 %
Baker Hughes	3,6 %	49,6	12,4	9,0	1,4	1,2 %	85	71 %
China Mobile	3,4 %	79,3	10,6	10,2	2,1	4,2 %	100	26 %
Gazprom	3,2 %	12,1	4,0	3,5	0,6	4,5 %	22	82 %
Banrisul	3,0 %	20,9	9,3	8,4	2,0	4,3 %	22	5 %
Vale	2,9 %	42,2	5,3	6,0	1,5	4,6 %	65	54 %
Sistema	2,9 %	19,4	4,9	4,9	1,2	2,1 %	32	65 %
Petrobras	2,8 %	24,5	8,2	7,4	1,0	4,1 %	40	63 %
Hon Hai Precision Industry	2,8 %	95,3	13,6	11,2	1,9	1,0 %	110	15 %
Sabancı Holding	2,5 %	6,80	6,8	6,2	1,0	2,9 %	10	47 %
<b>Weighted top 12</b>	<b>44,0 %</b>		<b>5,6</b>	<b>5,1</b>	<b>0,8</b>	<b>3,3 %</b>		<b>63 %</b>
<b>Weighted top 35</b>	<b>77,1 %</b>		<b>7,1</b>	<b>6,2</b>	<b>1,0</b>	<b>3,0 %</b>		<b>53 %</b>
<b>Emerging market index</b>			<b>11,5</b>	<b>10,3</b>	<b>1,7</b>	<b>3,1 %</b>		
<b>Weighted top 35 @ target prices</b>			<b>10,9</b>	<b>9,5</b>	<b>1,7</b>	<b>2,0 %</b>		

## SKAGEN Kon-Tiki is valued in line with January 2009 despite a 129% gain since then in EUR and at a major discount to MSCI EM

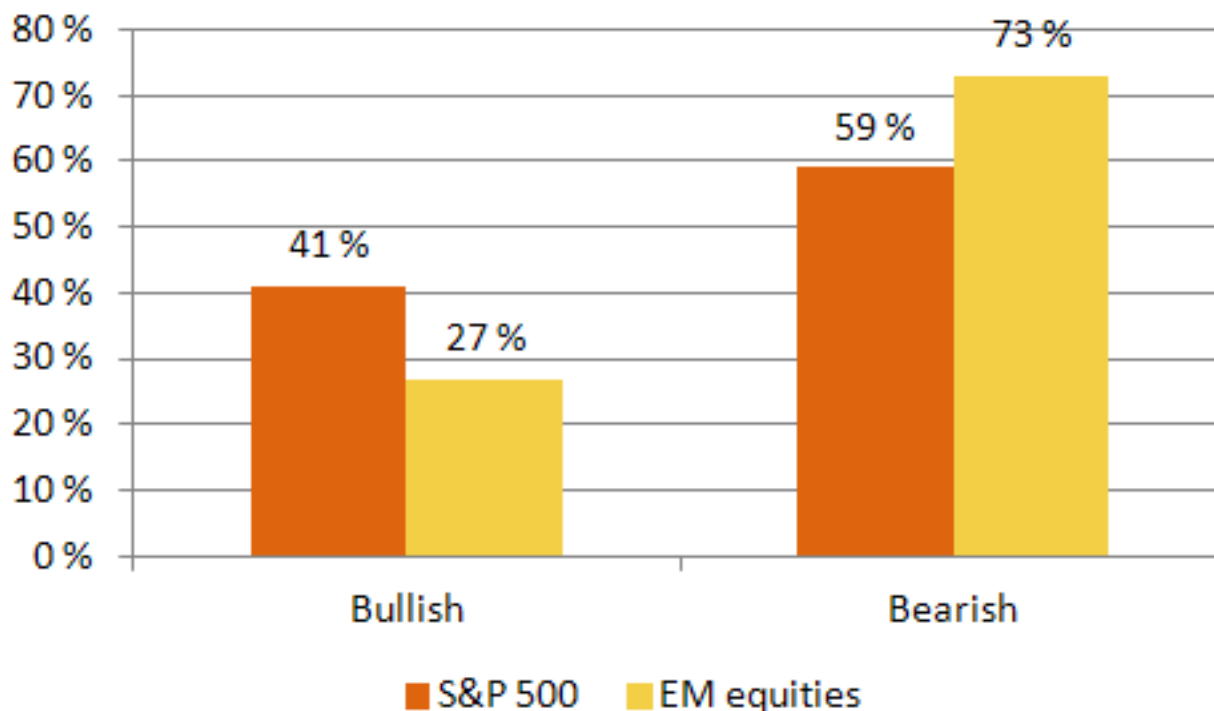


## Valuation of the SKAGEN Kon-Tiki portfolio

- We expect our 35 largest holdings to report a median earnings growth of 25% for 2011e and 17% for 2012e, versus a consensus forecast for the EM universe of 10% for both 2011 and 2012.
- The 35 largest positions now trade at a weighted P/E of 6.2x for 2012e. This is a considerable discount to Emerging Markets trading at a P/E of 10.3x for 2011e.
- The weighted trailing P/BV for the 35 largest positions is 1.0x. This is substantially lower than the P/BV of 1.7x for the emerging markets index.
- We see a weighted upside of 53% for the portfolio which would put the portfolio at a P/E of 9.5x for 2012e and at a trailing P/BV of 1.7x or in line with the EM universe.
- The portfolio is now valued in line with January 2009, despite a 129% gain in the SKAGEN Kon-Tiki unit price in EUR. This demonstrates the continuous value focus in the portfolio.

# Outlook and conclusion

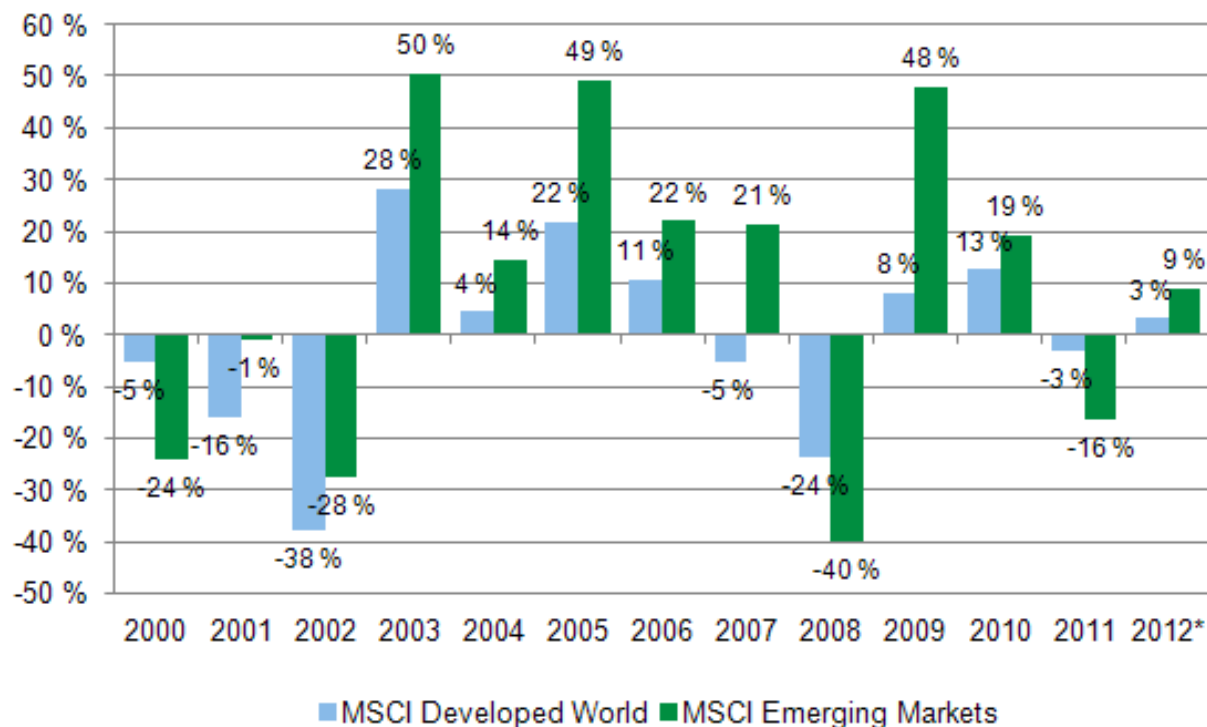
**In a survey conducted by Morgan Stanley, 73% of their institutional clients interviewed are bearish on EM equities which is a bullish sign and they have been wrong so far**



Source: Morgan Stanley January 2012

# Returns in EM have been unmatched since 2000 despite a tough 2011: accumulated +101% for EM and -21% for DM

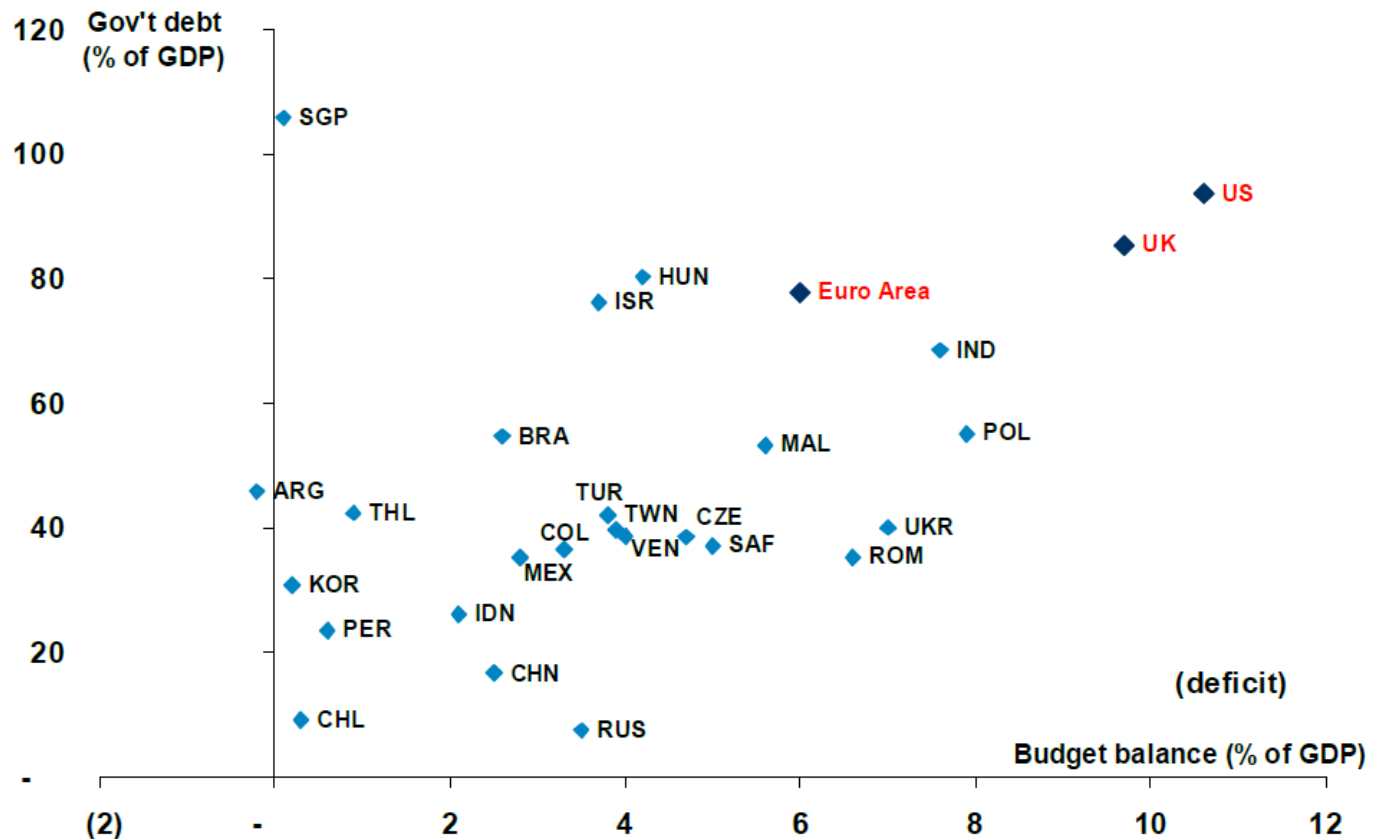
Performance of EM and developed markets (in NOK)



\*) As of 31 January 2012

# The debt problem is isolated to developed countries

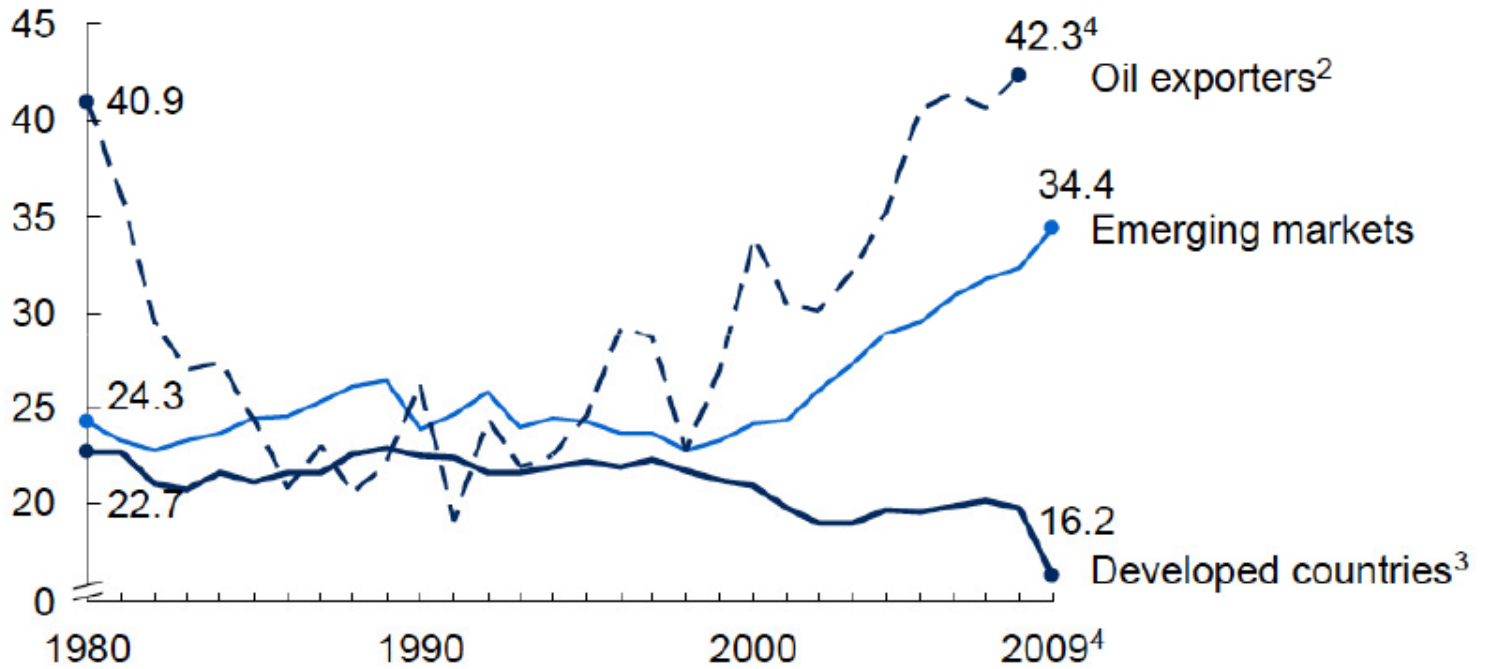
## EM's superior fiscal position – Government Debt and Budget Balance, 2010



Source: MS Economics Team, Morgan Stanley Research

# EM have significant potential to increase consumption

Gross national saving rate as % of GDP



Global saving rate %

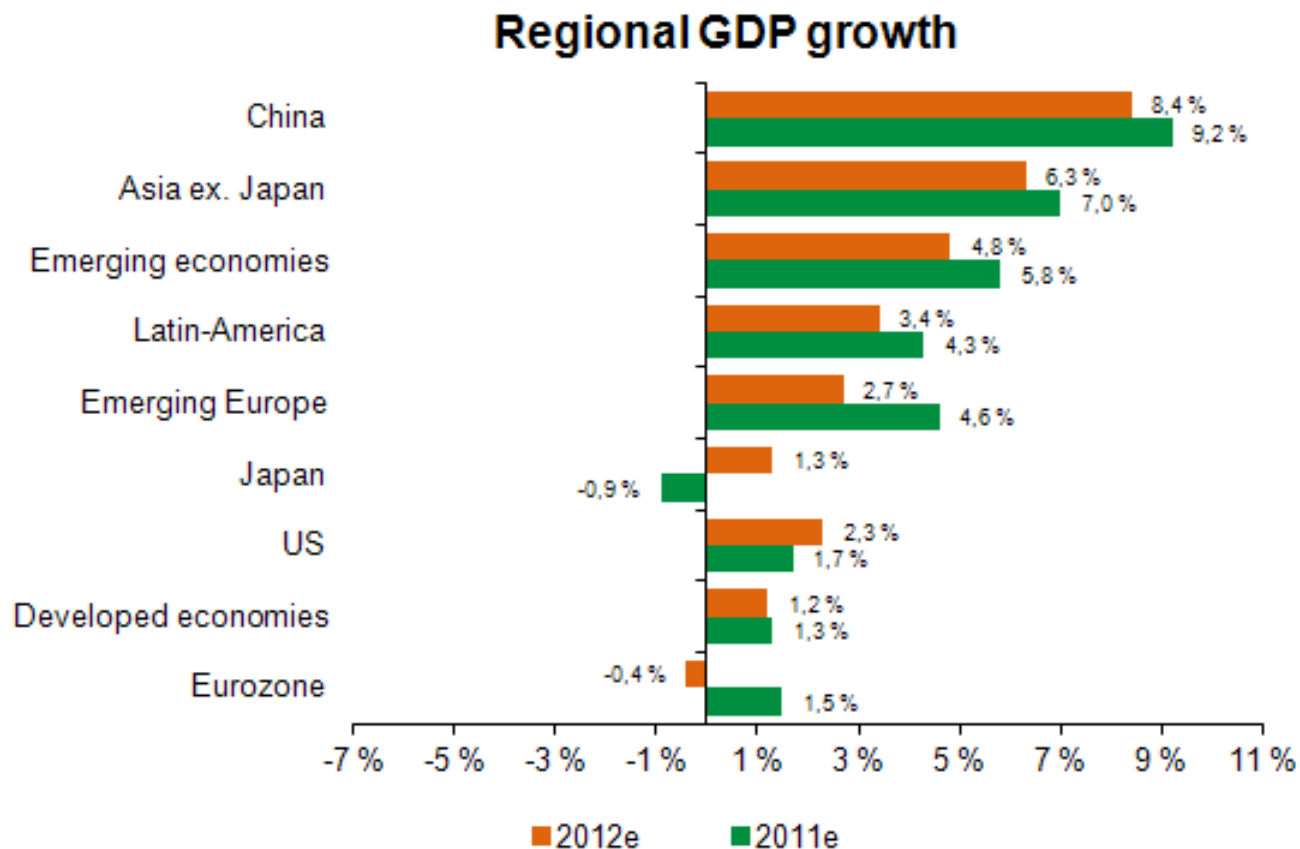


McKinsey Global Institute 2010: Farewell to cheap capital?



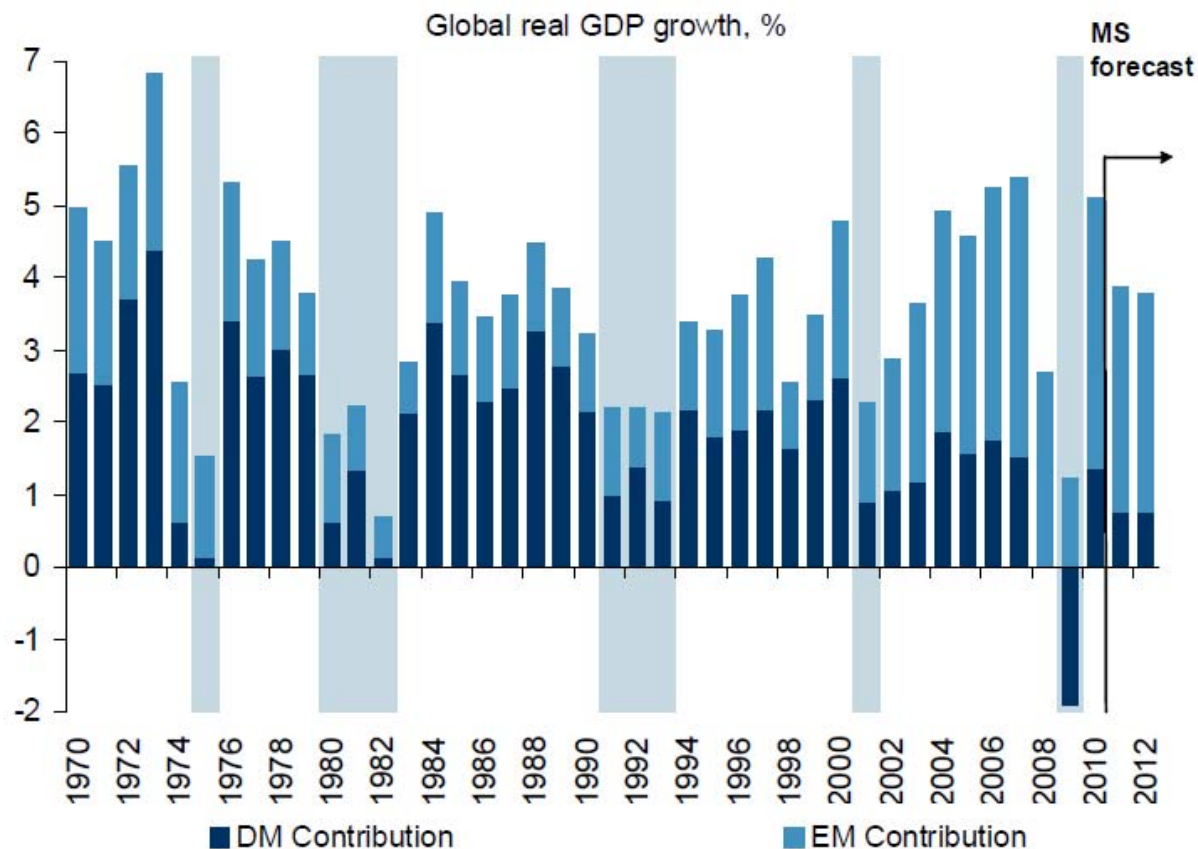
**SKAGEN**  
Funds

# Small upward revisions to GDP forecasts in January for Eurozone, Emerging Europe and China



Source: JPMorgan Markets, 27 January 2012

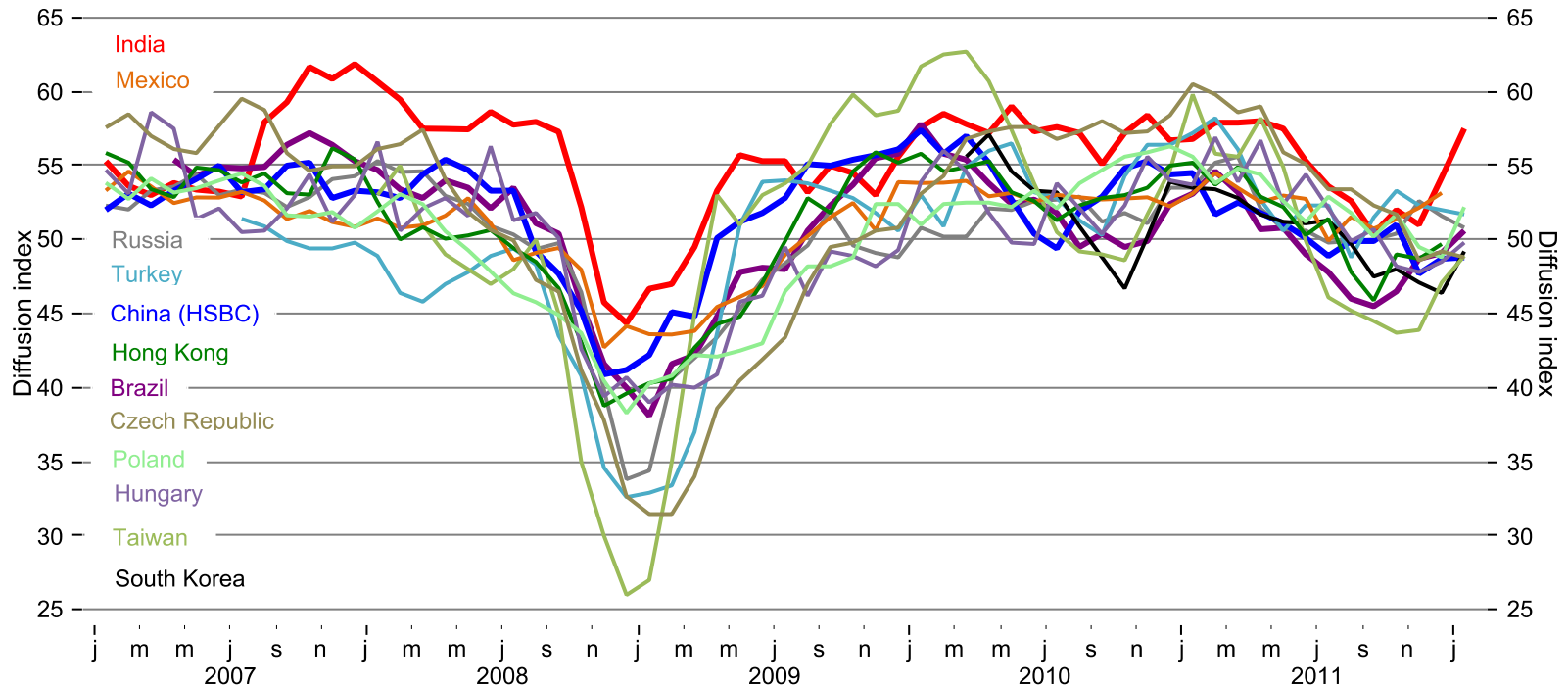
# EM expected to generate 80% of global GDP growth in 2011 and 2012



Source: IMF, Haver, Morgan Stanley Research estimates. \*Shaded areas indicate recessions. See Joachim Fels and Manoj Pradhan's "Global Economics: Dangerously Close to Recession" dated August 17, 2011.

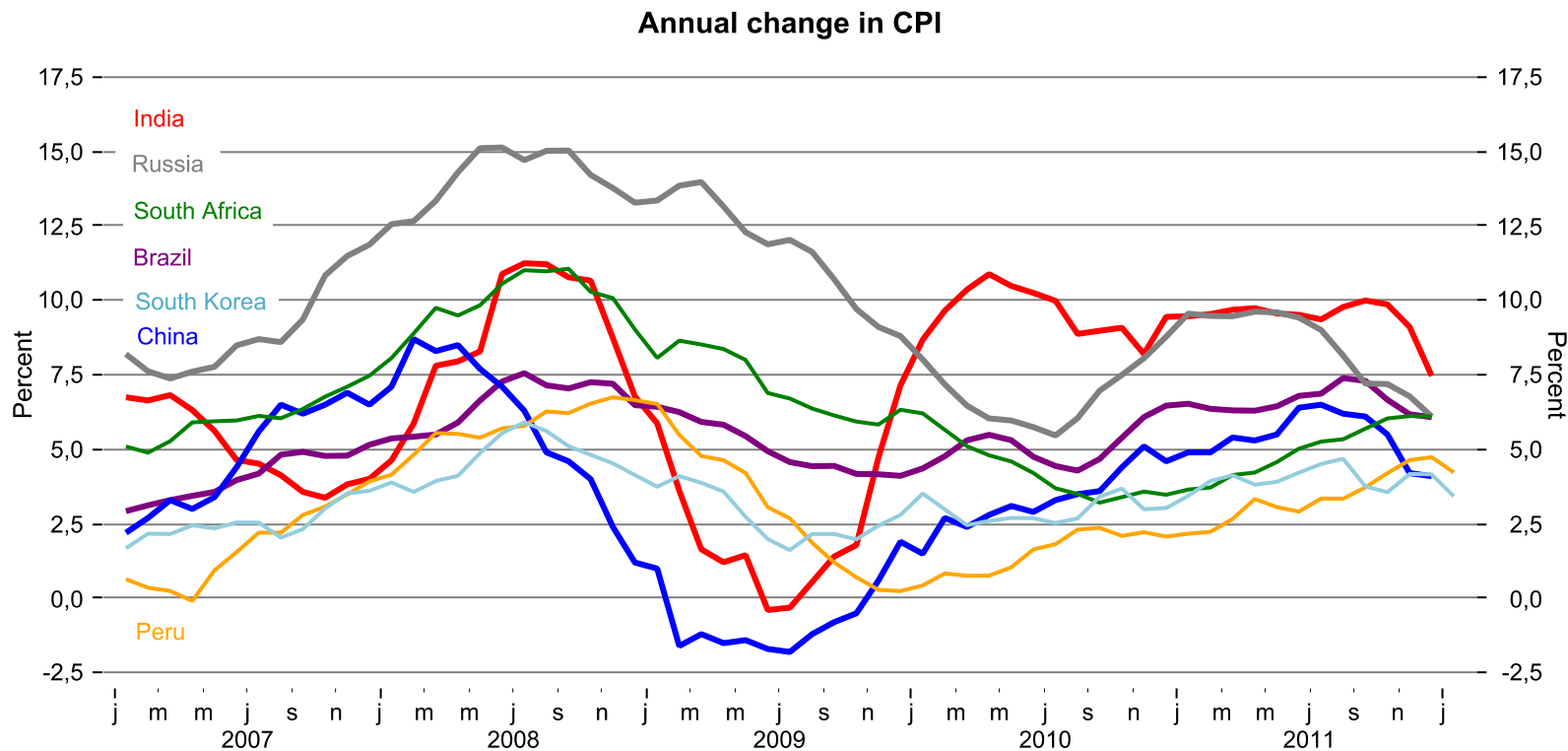
# Purchasing managers' expectations in EM shows stabilisation or growth; notice India

PMI manufacturing



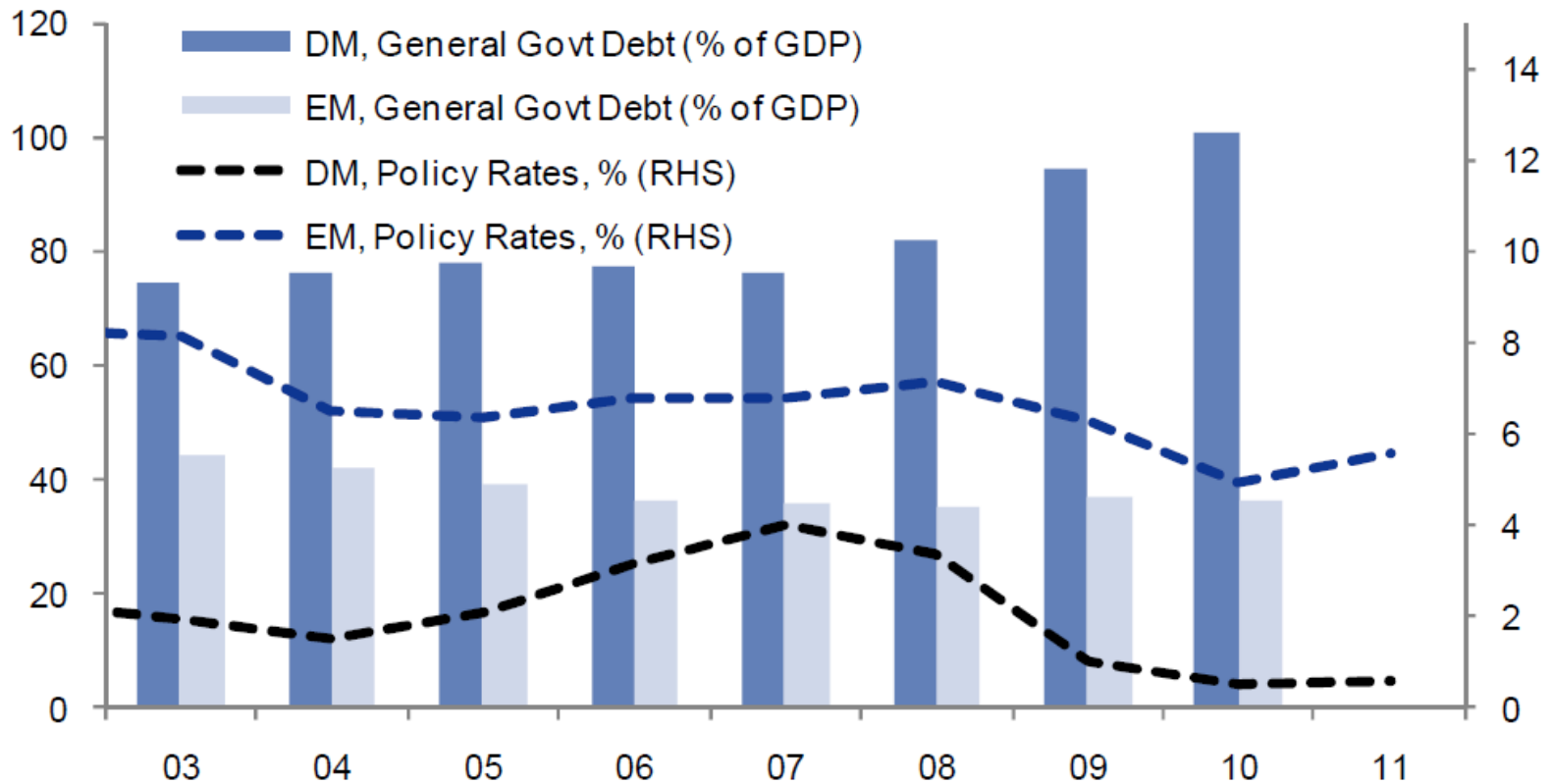
Source: **Macrobond**

# Inflation fear killed the party in EM in 1H11, but is now tapering off rapidly even in India . . .



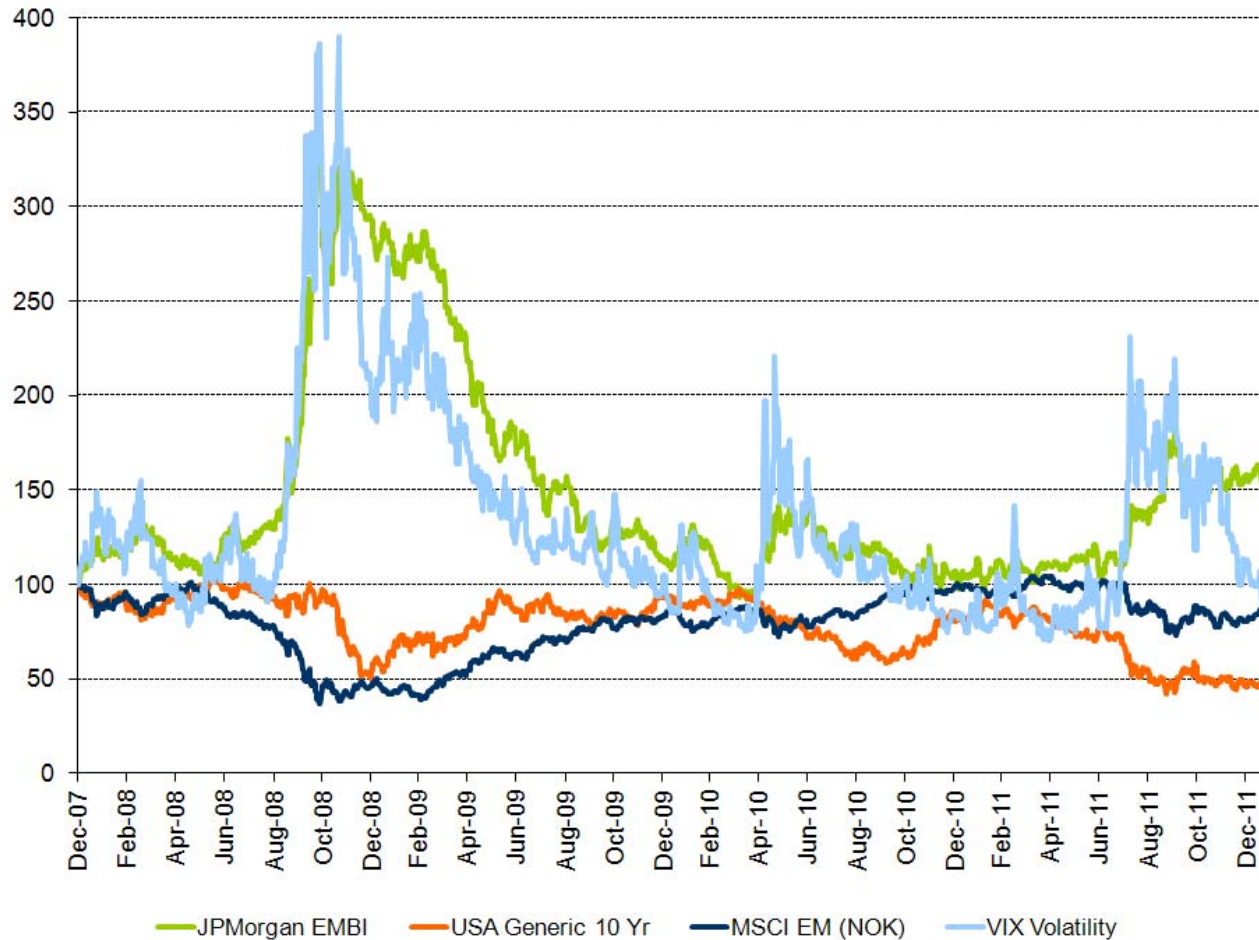
Source: **Macrobond**

## ... with EM having meaningful room for monetary easing

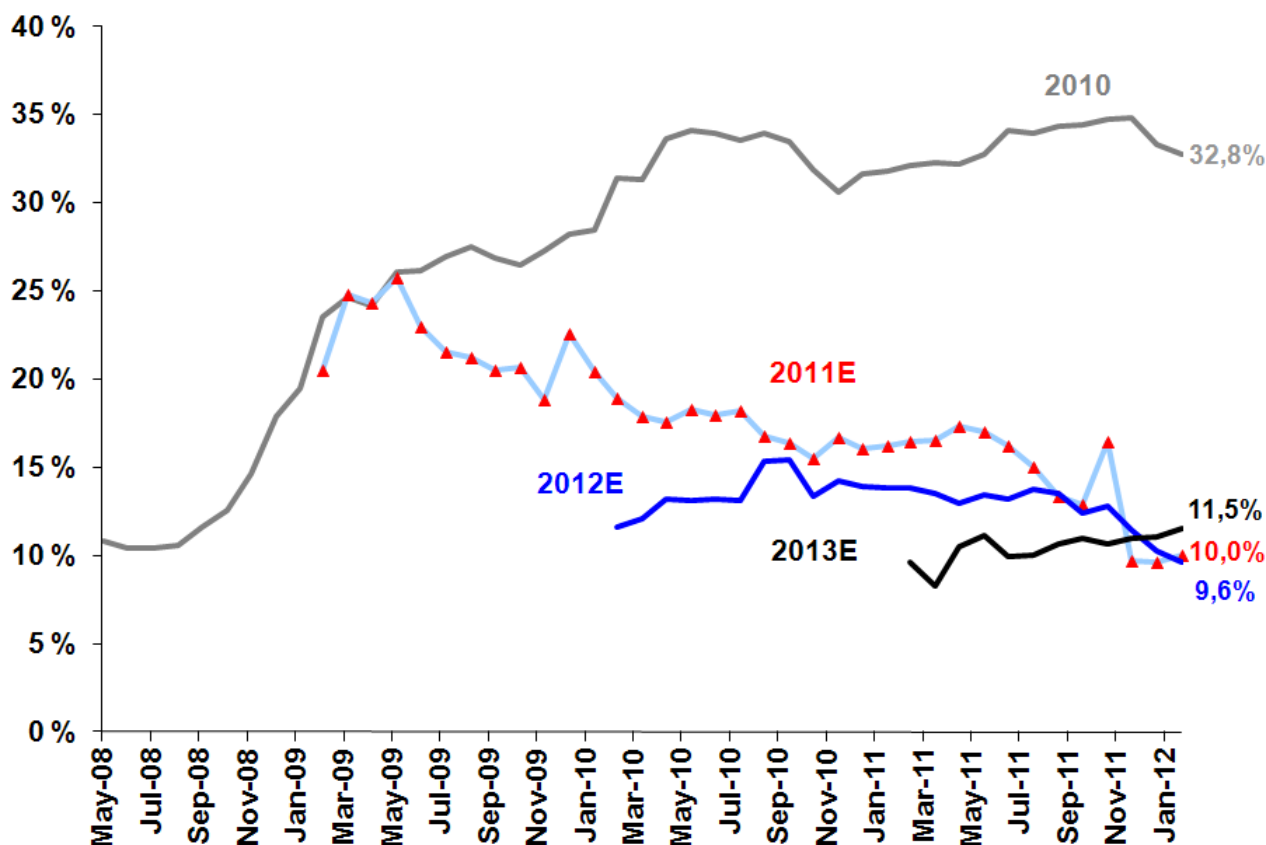


Source: Datastream, Goldman Sachs Global ECS Research.

# EM spreads slightly down and volatility down to near 2011 low



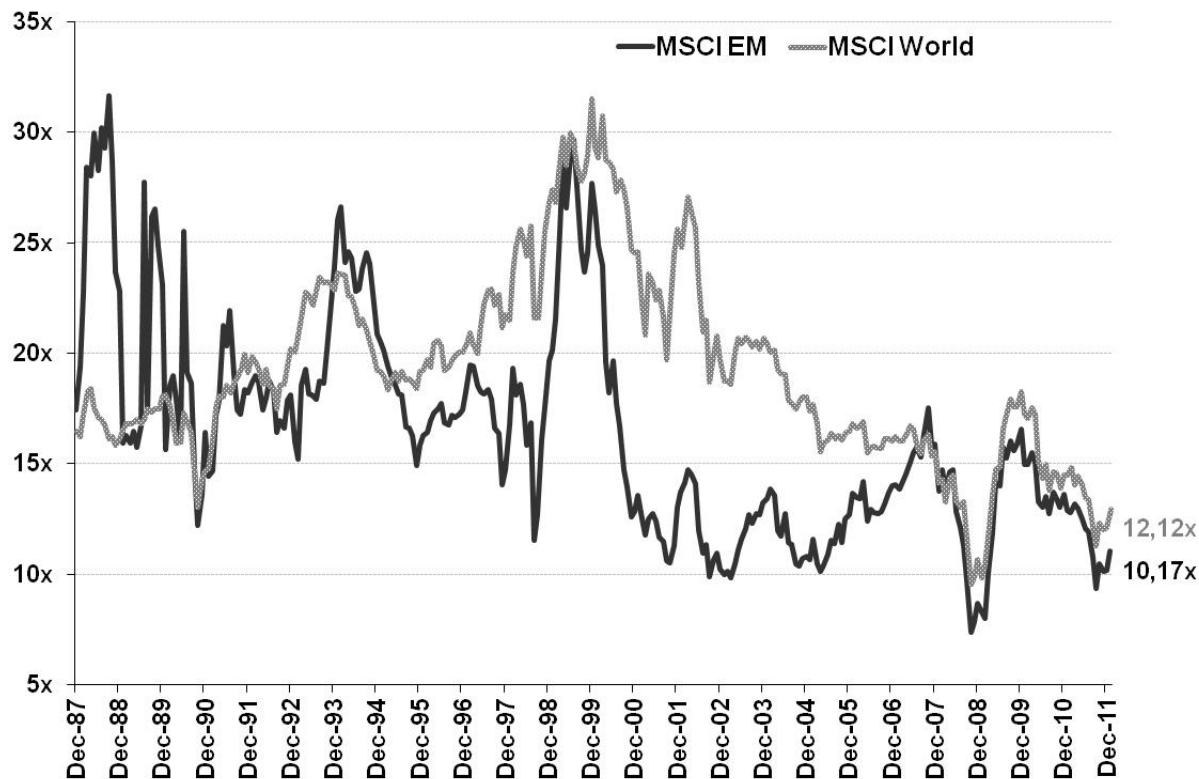
## EM consensus earnings growth expectations seems to have stabilized ahead of the 4Q11 reports



Sources: IBES, FactSet, Morgan Stanley Research

# A trailing P/E ratio for EM is still at a low historical level and at a discount to global markets

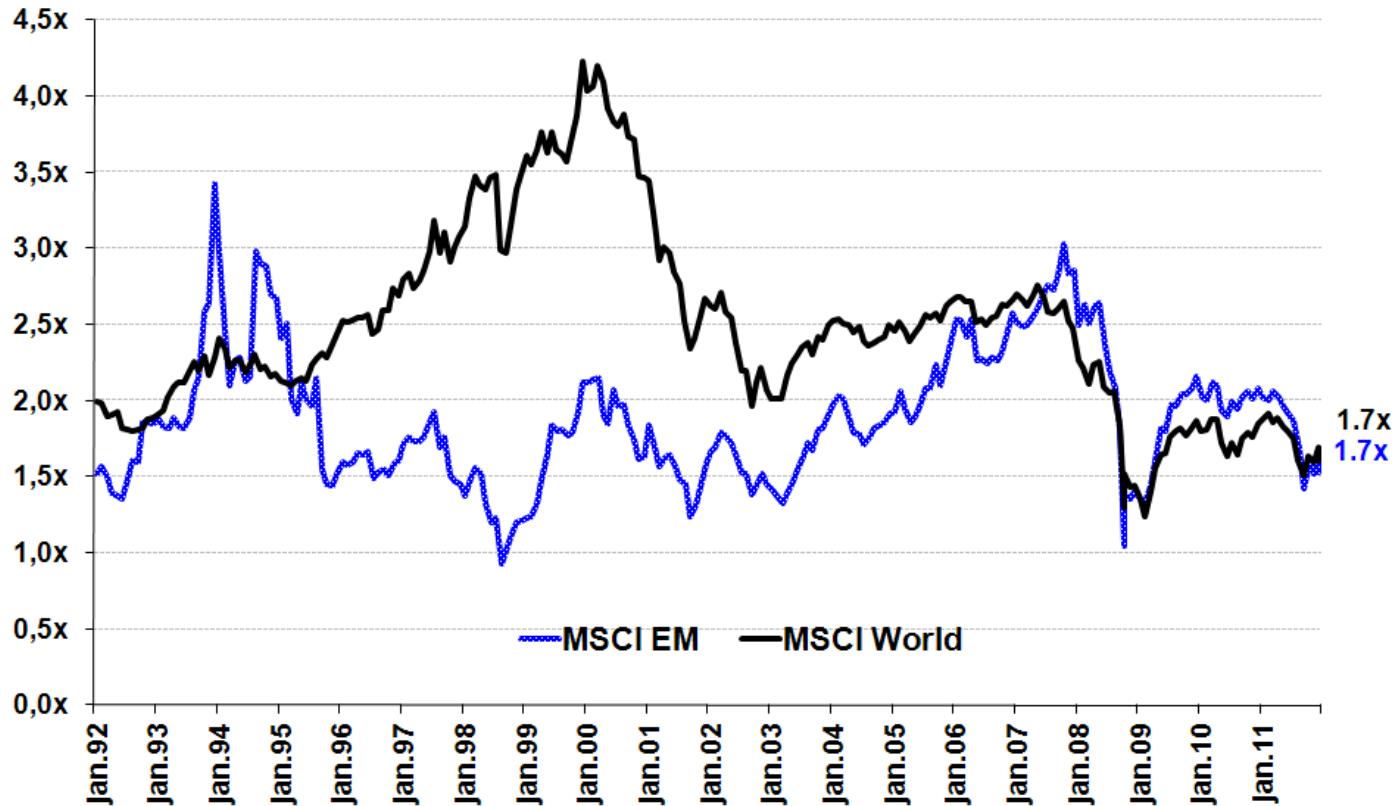
IBES trailing P/E MSCI EM versus MSCI World



Source: MSCI, Morgan Stanley Research. Data as of 31 January 2012

# P/BV for Emerging Markets is at a discount to the long term average and in line with MSCI World . . .

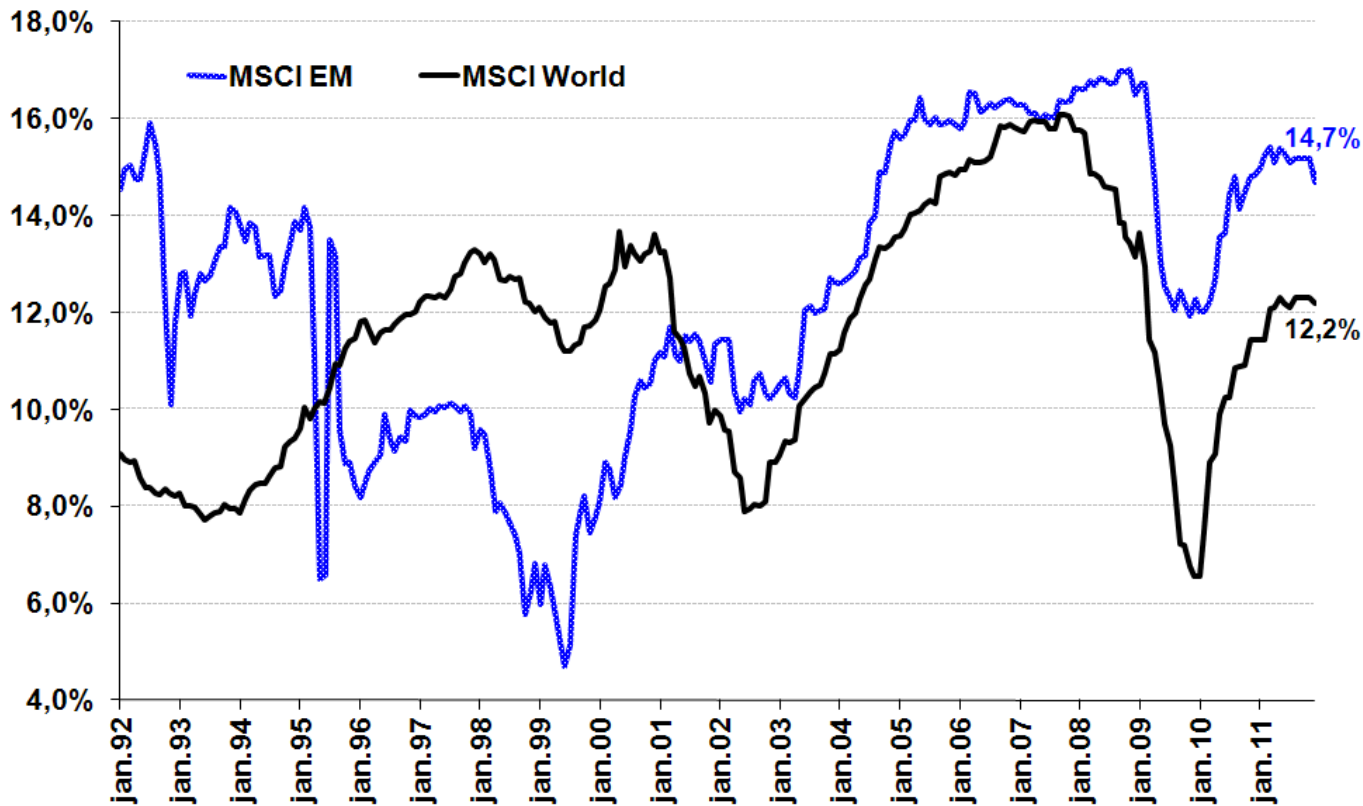
## Historical P/BV 1992-2011: MSCI EM versus MSCI World



Source: MS GEM Strategy Team

... despite a higher Return on Equity and stronger balance sheets than in industrialised markets

Historical return on equity for Emerging Markets versus MSCI World



Source: Morgan Stanley research, MSCI.

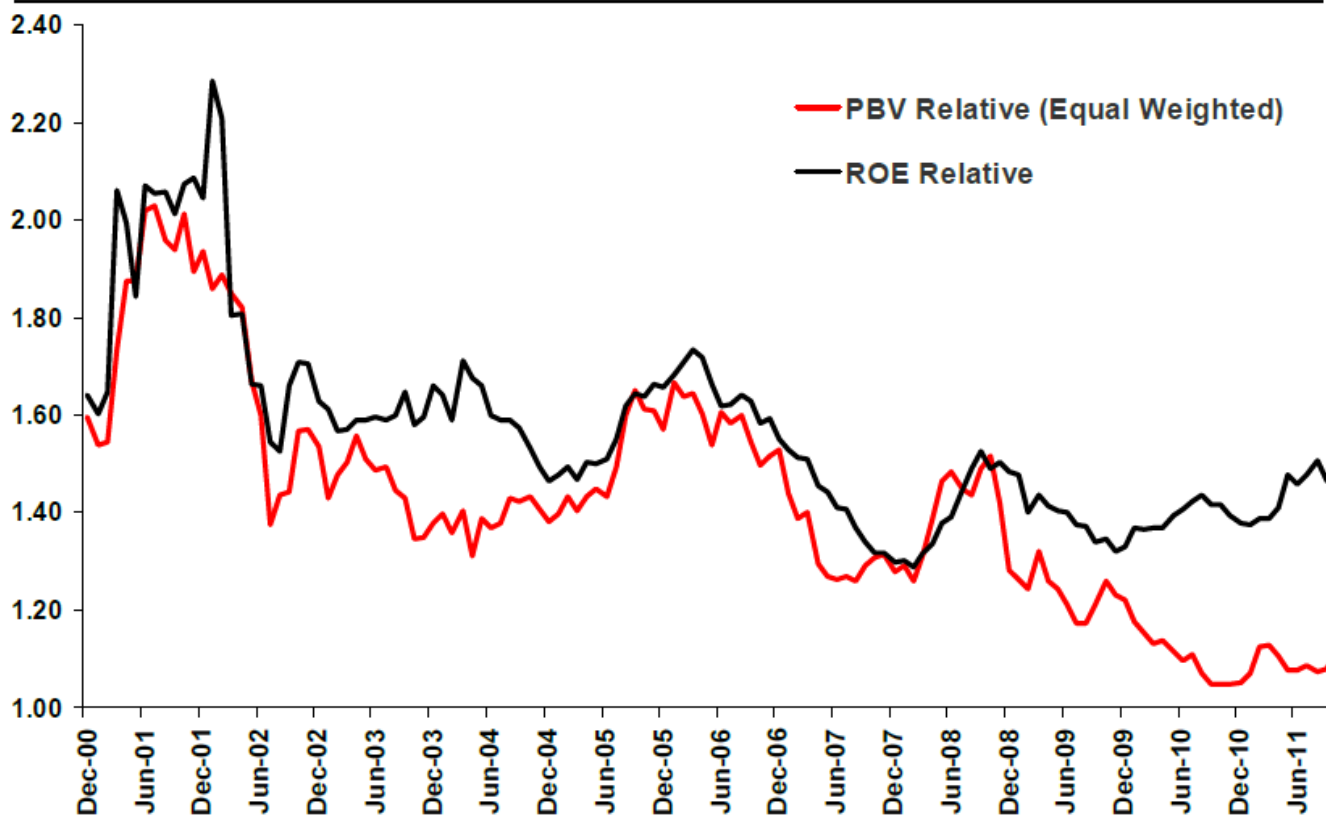
## No talk of potential EM market bubble anymore on P/BV



Source: CIRA, MSCI, Factset

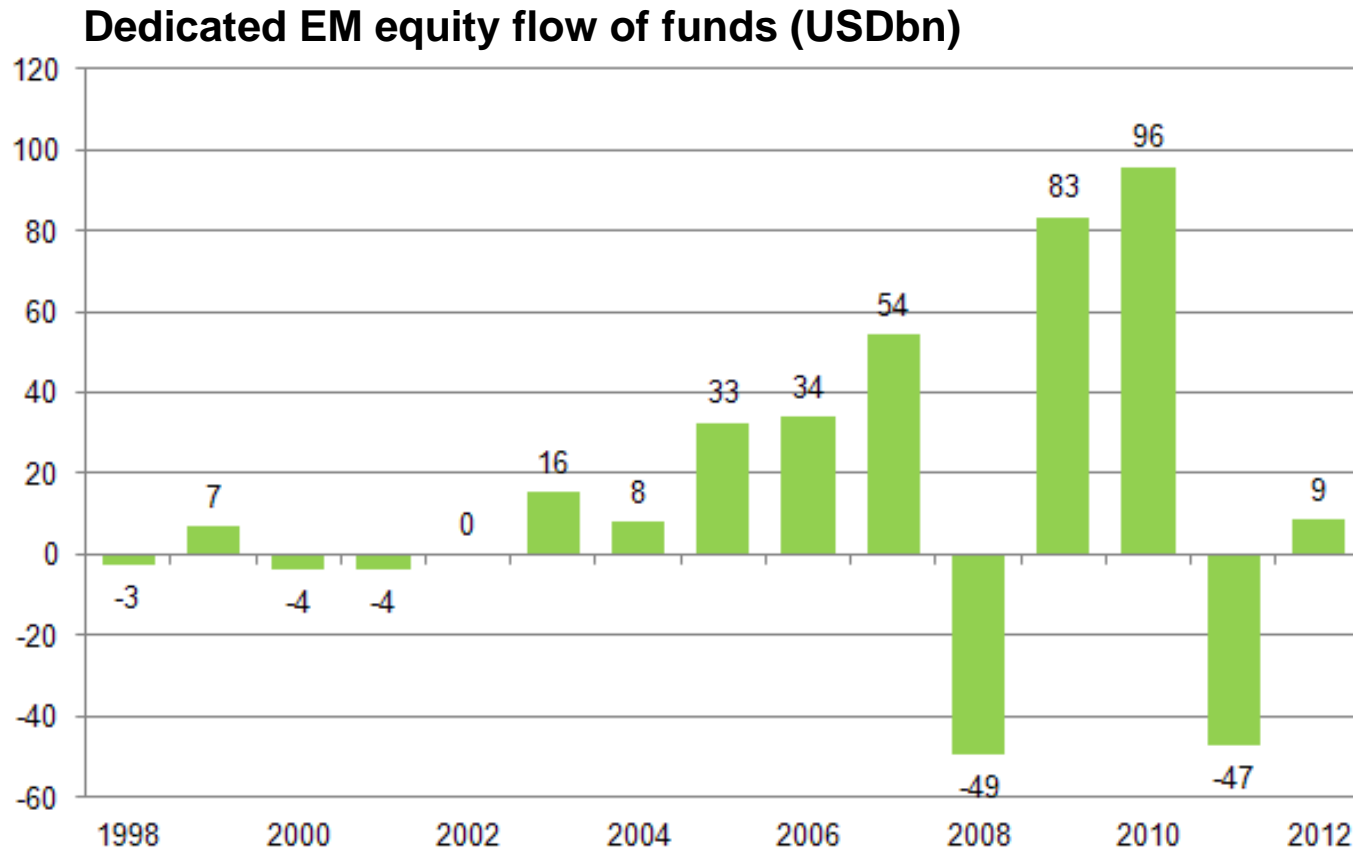
# We have raised exposure to large caps in 2011 as these have become good value from a bottom up perspective

## Top 25 EM stocks relative to rest of EM universe



Source: FactSet, MSCI, Morgan Stanley

# Strong EM in January after significant outflow in 2011



Source: MDSW, EPFR Global, as of 1 February 2012

## Outlook for emerging markets (1)

- The decoupling of the world has become increasingly clear with Asia in the driver's seat when it comes to global economic growth. Emerging markets has proved that they were more dependent on intra-EM trade and less dependent on demand from industrialised countries.
- This development is fuelled by Brazil, China, India and Indonesia. Convergence in standard of living continues with rapid increase in real incomes in emerging markets and increased savings rates in the industrialised countries.
- Domestic consumption will continue to be the most important drivers of growth in the Asian countries.
- Inflation picked up dramatically in EM in 1H11, driven by a leap in soft commodity prices, which drove inflation to 6% YoY versus sub 3% for industrialised countries. However, soft commodity prices are now declining and EM inflation seems to have peaked in 2H11.
- In EM, we are now entering a rate cut mood as inflation is on its way down, policy rates are relatively high and, thus, high real interest rates leaving room for monetary stimulus.

## Outlook for emerging markets (2)

- Earnings growth for EM companies moderated in 2011 and expectations came down significantly during the year. continued at a strong pace in 2010 and has also been strong in 1H11. Expectations for 2011 and 2012 have however come down in recent months, to a growth rate of 10% due to global growth concerns.
- Emerging markets are now priced at a P/E and P/BV discount to the historical average and a discount to developed markets. It does not reflect the higher return on equity and higher growth rates of emerging markets equities.
- Low interest rates globally boost the hunt for good investments and yield.
- Flows to EM equities was weak in 2011 amid fears of global growth and EM inflation with a general flight to what is perceived as low risk assets. With declining inflation and lower benchmark rates, we believe the scene is set for better flow of funds this year. The structural underweight of global equity portfolios to EM equities still provides room for good inflow.

## Risk factors for emerging markets

- Signs of stress within the financial system in China, stemming from lending boom and tight liquidity within property and local government agencies.
- Loss of government control over the property sector in China due to off balance sheet debt (Shadow banking system).
- Lack of credible solutions to dampen the effect of the European Sovereign Debt crisis can result in a broad based banking crisis
- The new world order may cause increased systemic friction. Increased protectionism and a tendency towards regulating currency markets after a strong rise in emerging markets currencies. High unemployment in industrialised countries and an “undervalued” Chinese currency may lead to protectionism pressure and measures.
- Tumbling commodity prices can be a risk to commodity rich countries like Brazil and Russia but that is already mitigated through a severe fall in the EM currencies.

# Companies in SKAGEN Kon-Tiki

# Orascom Construction (OCIC EY) EGP 245



- Construction and fertilizer company with global operations and 84k employees.
- Sales/EBITDA/assets: Fertilizer 44%/68%/28%, construction 56%/32%/72%.
  - **Fertilizer:** #3 globally in terms capacity with 7.3m tons/year at end 2012.
    - Capacity by product: urea 38%, ammonia 27%, CAN 20%, UAN 8%, ammonium sulphate 4%, melamine 3%.
    - Capacity by region: Egypt 40%, Netherland 31%, Algeria 28%, Asia 1%.
  - **Construction:** Back log of USD c7bn or 2y sales. 80% of sales outside Egypt; well spread.
    - Order back log by client: government 60%, private companies 40%.
    - Order back log by sector: infrastructure 56%, commercial 32%, industrial 12%.
    - Order backlog by region: Egypt 23%, Abu Dhabi 14%, Qatar 14%, Europe 12%, Asia 10%, Saudi Arabia 9%, Dubai 3%, other 15%.
    - Structural high historic margins with EBITDA at 13% 2007-2011.
- Strong track record in using construction business to build manufacturing operations and then exit. Sold cement and container handling in 2007 for combined EGP 73bn.
- Net debt of USD 2.5bn or 2x EBITDA LTM provides war chest for growth/dividend.
- Sum-of-parts of EGP c300 with 70% related to fertilizer assets.
- 20y gas contracts in Egypt at USD 1.5/MMBtu increasing to USD 2.0 in 2018.
- **Catalysts:**
  - Forthcoming 1Q12 spin off of construction division to reduce holding company discount and increase likelihood of M&A within both companies.
  - Start up of new capacity provides structural earnings support; 4 new plants in 2012.
  - Reduced country risk premium for Egypt provides revaluation.
  - Recovery in order back log for construction driven by middle East (4Q11 uptick likely).
- **Risks:** political unrest, fertilizer prices, contract gas price hike in Egypt.

## Key figures:

Market cap: EGP 51bn  
NOK 39bn

No. of shares: 207.4m

P/E (2011e): 11.3x

P/E (2012e): 8.7x

P/Sales (12e): 1.6x

P/BV: 2.5x

P/TBV: 5.8x

RoE (2012e): 27%

Div. yield: 5.2%

Daily trading volume of 97k shares or USD 4m and 128k GDR (1-1) total of USD 9m.

Sawiris family controls 55% of shares and Abraaj Capital 6%.

# Eletrobras (ELET6 BS) BRL 26.4



- #1 electricity producer in Brazil with 25k employees. 10 largest electricity company globally and #4 on renewable energy.
  - Generation (66% of sales): 6 units with 42k MW capacity (incl. 50% of Itaipu) or 36% of national capacity. 85% is hydro power. 31% EBIT margin in 2010.
  - Transmission (21% of sales): 61,000 km of grid with 55% market share. EBIT margin of 8% in 2010.
  - Distribution (13% of sales)/other: 3.3m clients and 160k km lines. -14% EBIT margin in 2010. BRL 1.1bn in HQ costs.
  - Owns 50% of Itaipu on Paraguayan border with 14k MW capacity. Currently limited P&L impact but BRL 1bn CF per year. Itaipu will enter free market in 2023.
- 23.7 MW generation capacity under construction (BRL 80bn) by 2016.
- CAPEX 2011 of BRL 9n and 13.3bn for 2012 (D&A 1.6bn) of which 53% generation and 32% transmission.
- BRL 27bn in loans/financing to subsidiaries/others of which 12bn (in USD) to Itaipu. Net debt of BRL 7bn (incl. financing) with 3% margin on BRL 28bn. Funding cost 4.3%.
- Targets 10% real RoA on new projects. RoE of 3% in 2010 versus 20% of Cemig.
- Pref. shares (non vote) carries BRL 1.63 minimum dividend and 10% higher than Ord.
- Assuming reasonable RoE, generation assets alone could be worth BRL +50 per share.
- **Catalysts:**
  - Improved governance and transparency of result reporting.
  - Cost reduction in distribution and HQ, as well as balance sheet optimisation. Promised to go from -1.5bn in 2011 to break even in 2014 (EPS effect BRL 0.83).
  - Concessions renewal at reasonable term (12.5k MV capacity expires in 2015)..
- **Risk:** dilutive CAPEX, international expansion, governance, concessions.

## Key figures:

Market cap:	BRL 26bn
	NOK 82bn
No. of shares:	1352.6m
P/E (11e):	7.5x
P/E (12e):	6.6x
P/BV:	0.5x
P/TBV:	0.5x
RoE (11e):	6%
Div. yield:	6.8%

1087.1m Ord., 146.9m Pref A and 265, 4m Pref. B shares.

Avg. daily trading volume of 696k Pref. B and 317k Pref. B ADR (1 for 1) total USD 14.6m.

Government owns 50.9% of Ord. shares (40.9% of total), Gvt. and related agencies owns 67.4% of shares and 79.6% of Ord. shares.

# Hon Hai Precision Industry (2317 TT) TWD 93.8



- Global #1 electronics manufacturing supplier (EMS) with c33% market share. Founded in 1974 by Terry Gou. Trade name Foxxcom more commonly known.
- 1.3m employees of which c1m in China. Relocated majority of workers from costal areas to inland China in 2010/2011 to reduce salaries.
- Also provides design engineering, mechanical tooling services and expanding further into component manufacturing as uniform casing.
  - 2010 sales (e): PC 27%, iPhone 14%, handset 12%, networking 8%, notebook 6%, game console 6%, TV 4%, iPad 4%, components 4%, other 15%.
  - Major customers (e): Apple 35%, HP 15%, Sony 15%, Dell 10%, Cisco 6%.
- Consolidated net debt of TWD 156tr or 1.3x EBITDA LTM.
- Consensus operating margin forecast of 2.1% for 2011 and 2.5% for 2012 (was 5.6% in 2006). 50bp margin surprise for 2012 lifts EPS by TWD 1.5 of by 18% on 2012.

## Catalysts

- Continued EMS outsourcing trend by global brand names. EMS still only account for 1/3 of addressable market and growth is 4x total product output.
- Margin recovery/surprise on back of better cost structure after completion of relocation and absorbing wage hikes.
- Sales/margin recovery/surprise fuelled by new products as iPad3, iPhone 4S/5, 3D TV and better efficiency of certain products due to volume/learning curve.
- Announcements of broadening relationship with new and/or smaller customers.
- Better earnings momentum leads to increased FII interest; foreign holding now 47.5% versus 61% in July 2007.
- Improved IR with more transparent company information.

**Risks:** margin disappointment (wage hikes/moving costs), FX.

## Key figures:

Market cap. TWD 1002bn  
NOK 197bn

No of. shares: 10,688m

P/E (11e): 13.4x

P/E (12e): 11.0x

P/Sales (11e): 0.3x

P/BV: 1.8x

P/TBV: 1.8x

ROE (12e) 16%

Div yield (11e): 1.3%

Daily trading of 47m shares or  
USD 148m.

CEO Terry Gou owns 11%. FII  
holding 47.5%.

# Investment mandate



# SKAGEN Kon-Tiki and Global Emerging Markets

- Investment mandate: Minimum 50 percent in GEM, the rest predominantly in companies with activity largely directed towards emerging market economies.
- What is included under Global Emerging Markets (GEM)?
  - Asia ex Japan, Singapore, Hong Kong
  - South Africa, Eastern Europe including Turkey (EMEA)
  - South America, including Mexico
- High growth, good demographics, cheap companies, higher risk
- Benchmark index: MSCI Emerging Markets (Daily TR Net in NOK)
- Our investment focus: **U**ndervalued, **U**npopular, **U**nder-researched companies
- Sensible sector balance – oriented towards companies' value creation
- Variable, relative, asymmetrical fee structure. Minimum 1% management fee with relative value drop of 8% or weaker, increasing to maximum 4% with relative return of 22%. Charged annually. No high watermark.

## Company exposure versus place of listing

- There is a substantial difference between place of listing and where the company has its exposure
  - Taiwan and South Korea have credit penetration on a level with continental Europe. Hence, banking penetration is very high and growth options limited.
  - Standard Chartered Bank is listed in London (plus Hong Kong and Mumbai) while more than 95% of the activity is in growth markets in Asia, the Middle East and Africa. Its largest profit contributors are China and India.
- What company provides best exposure to global emerging markets?
  - It is more important to look at the value drivers than the place of listing.
  - This is the main reason why SKAGEN Kon-Tiki can invest in equities listed in both industrialised and global emerging markets.

## Good results in terms of awards – and good returns for the investors

Fund rating	SKAGEN Kon-Tiki
Standard & Poor's (AAA = best qualitative rating)	<b>AAA</b>
Citywire (5 year performance) Fund manager rating	No. 1 of 79
Lipper Fund Awards	Europe 2010: Best Fund 5 years Equity Emerging Markets Global
Morningstar Quantitative Rating (5 = best quantitative rating)	★★★★★
Morningstar Qualitative Rating	
Wassum (5 = best rating)	

Updated as of 28 February 2011.

# Investment philosophy

# Criteria in selecting companies

The ideal investments are

- **U**ndervalued
- **U**npopular
- **U**nder-researched

Focus for company selection

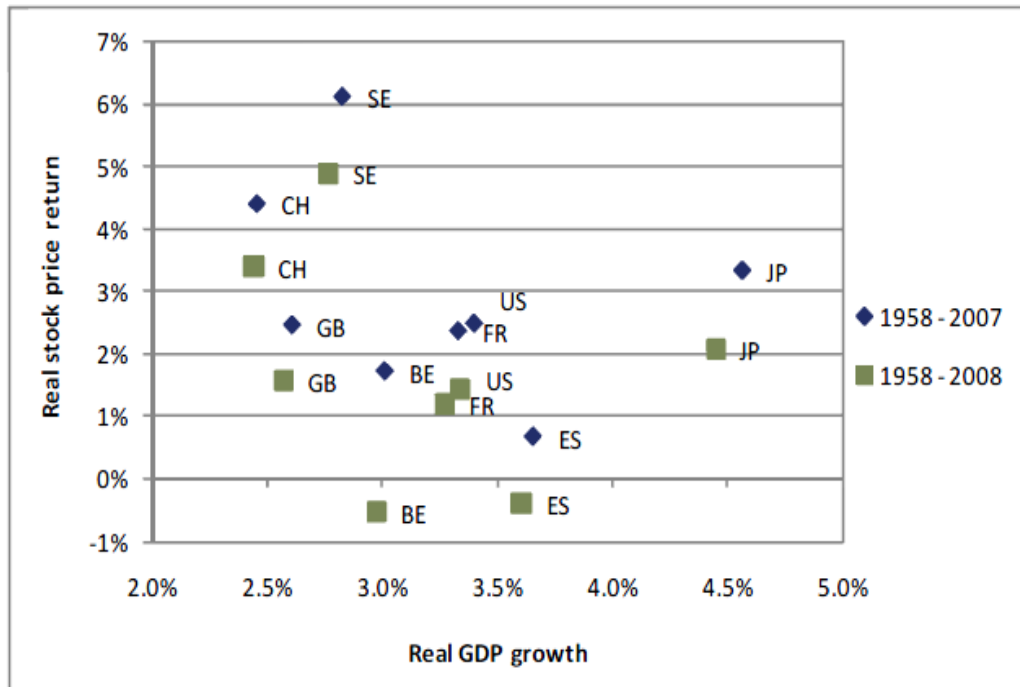
- Revaluation catalysts
- Value creation at low price
- Debt and risk
- Simple and proven business model
- Willingness to create shareholder value

# An explanation of our three Us with examples

- **Undervalued**
  - A temporarily unprofitable division; is implicitly evaluated at negative value
  - The company has a diversified business portfolio; large discount to total value
  - The company is out of the spotlight due to the sector to which it belongs
    - **Examples;** Yazicilar Holding
- **Unpopular**
  - Negative historical merits
  - Unsatisfactory or hard-to-access information from the company
    - **Examples;** Eletrobras, Harbin Power Equipment, VTB Bank
- **Under-researched**
  - The company has little or no analysis coverage
    - **Examples;** Provida, DRB-Hicom
  - Analysts' perceptions about the company are erroneous; wrongly analysed or misunderstood
    - **Examples;** Eletrobras, Samsung Electronics

# Economic growth is not a good indicator of stock market returns – *maybe it is still about valuations?*

Annual real GDP growth versus annual real stock returns, 1958 – 2007 and 1958 – 2008



- Academic work has found few correlations between economic growth and stock market performance over the long run
- Worth noting the difference between Sweden/Switzerland and Spain

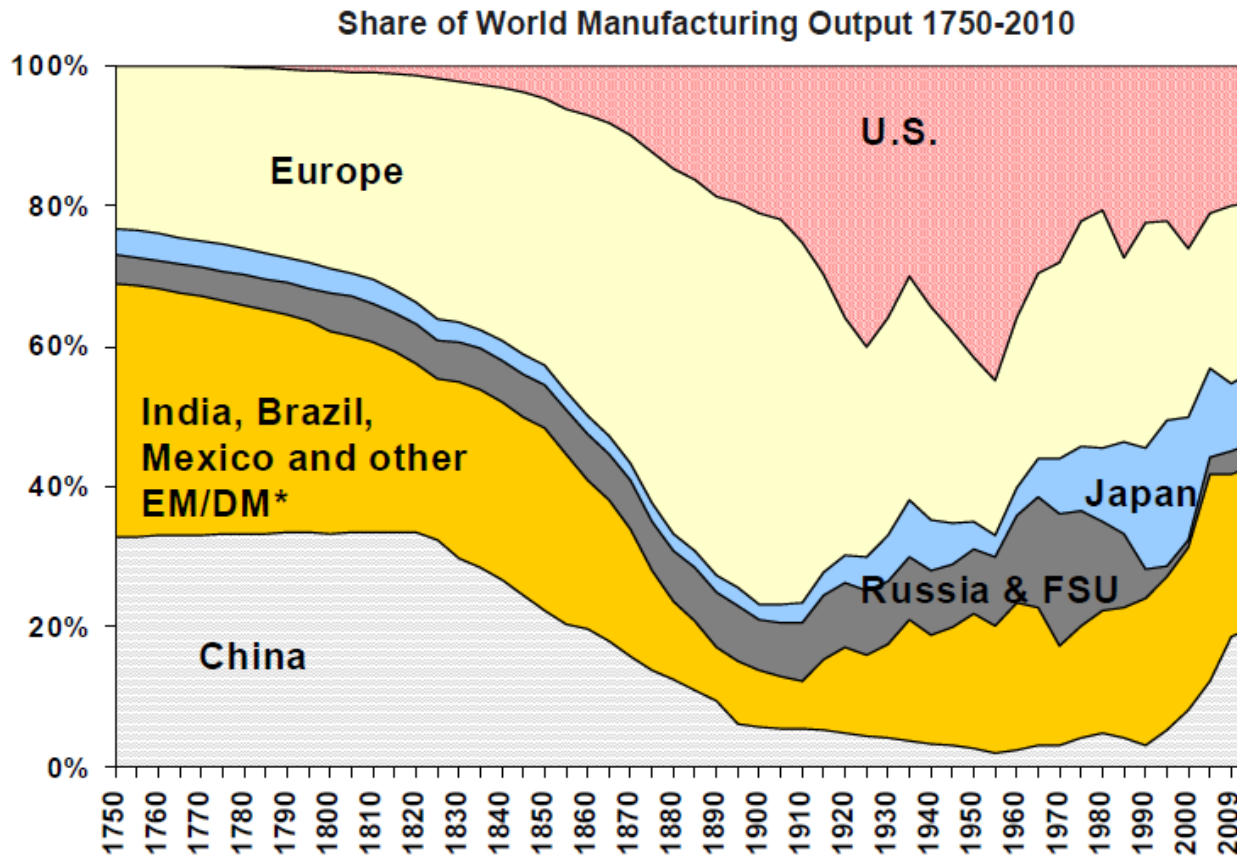
Source: MSCI Barra, IMF, OECD. Growth rates are annualized.

# How do we identify portfolio companies?

- **Objective search**
  - Focused on P/E, P/BV, RoE, solidity/liquidity, cash flow and dividends
- **Analysis of total value**
  - Often based on conglomerates
  - Net asset value, value of unprofitable divisions
- **Ideas generated through existing ownership**
  - Competitors, suppliers, customers, parent company
- **Geographical imbalance in valuation**
  - Mispricing due to a lack of understanding about the industry in the market in which the company is listed
- **Macro perspective**
  - Company value/sector value as compared to the market potential relative to other markets in relation to the degree of maturity/market penetration
- **Review of the most unpopular companies**
  - Companies where the consensus amongst analysts is predominantly negative; expectations are often too low

# Global Emerging Markets

# The third and fastest transition in world output since 1750

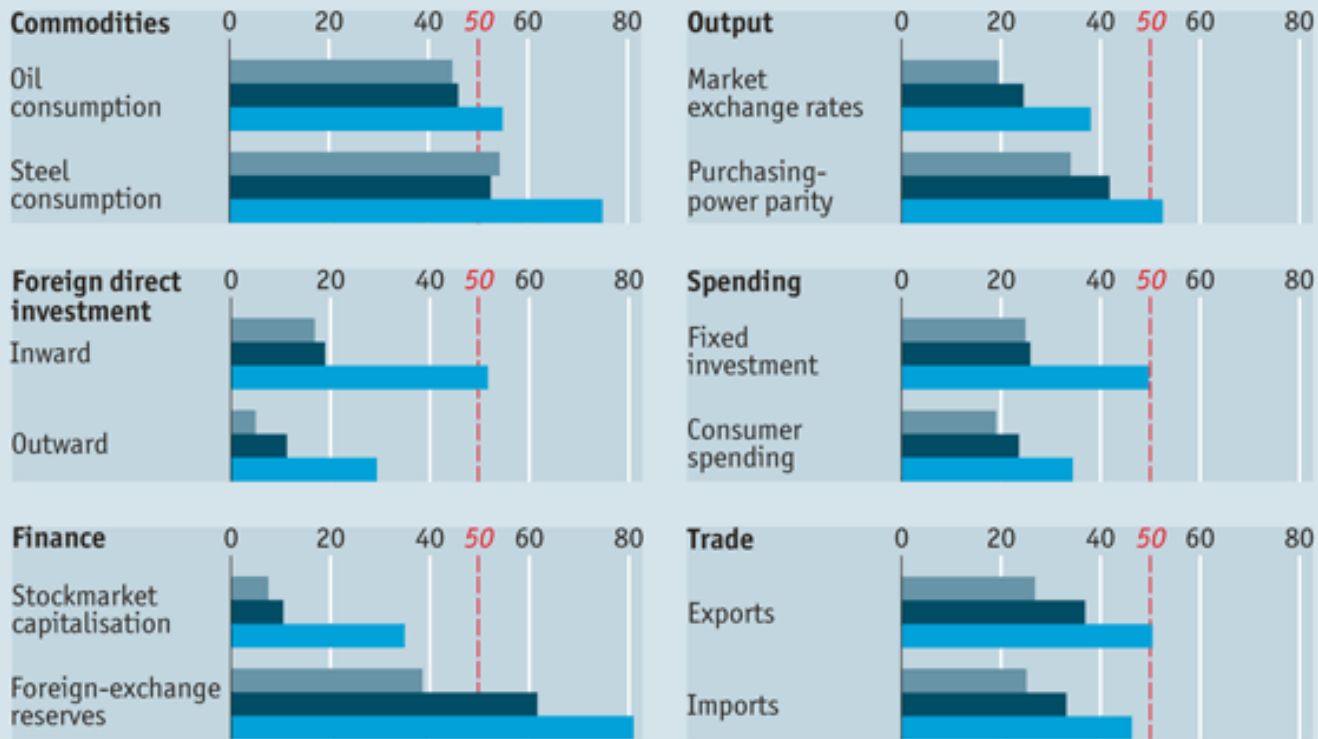


Source: Paul Bairoch, "International Industrialization Levels from 1750-1890" Journal of European Economic History; Samuel P. Huntington, "The clash of civilizations and the remaking of world order; Manufacturing Value added from International Yearbook, United Nation Statistical Database, Euromonitor, IHS Global Insight, Morgan Stanley Research. \*In 2010, all non-China EM countries (ex Russia & FSU) combined accounted for 19.3% of manufacturing output versus 3.7% for smaller DM markets. Since 1970, Europe comprises Developed European countries only

# Progression of EM in the global arena

## Emerging economies

World share by year, %:

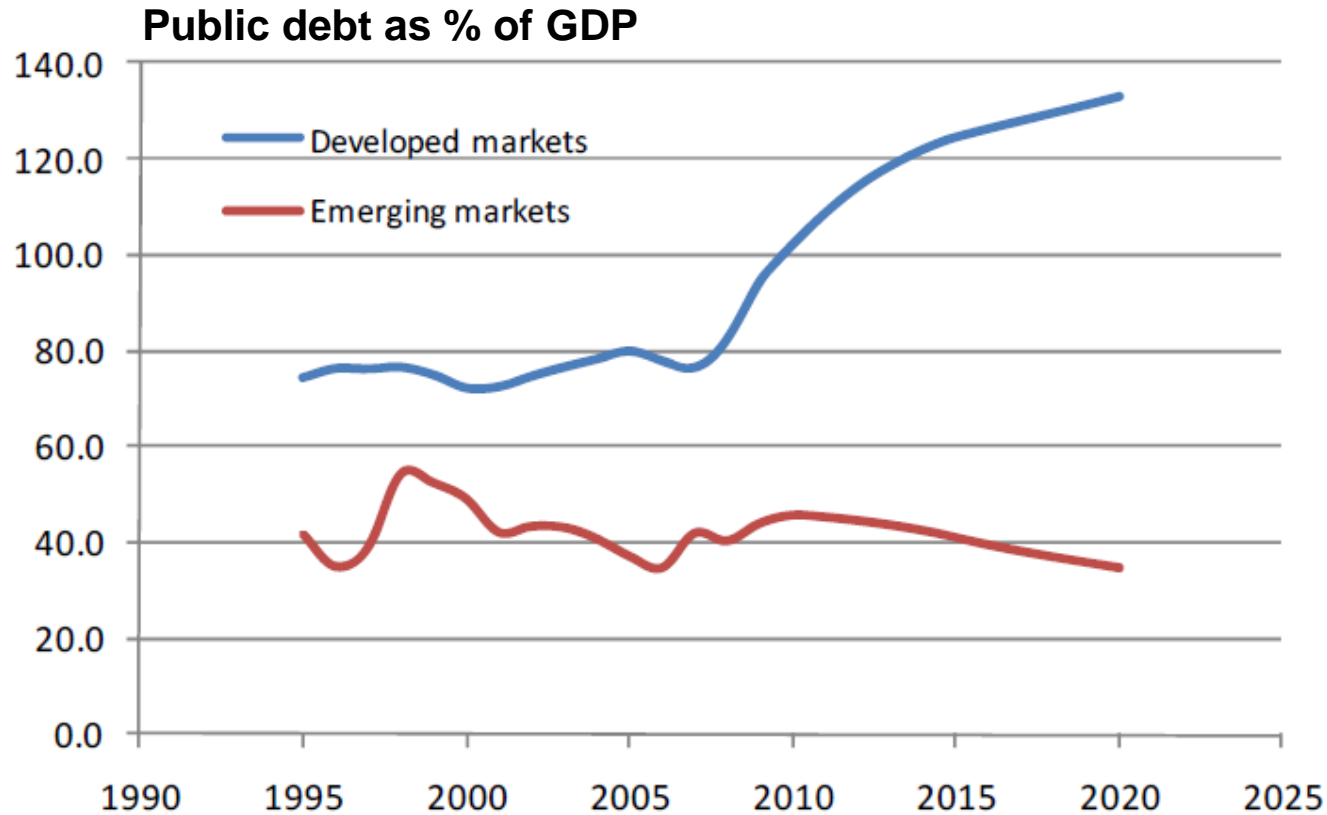


Sources: Bloomberg; BP; IMF; UBS; UNCTAD; World Steel Organisation; WTO

# Emerging countries versus developed world today



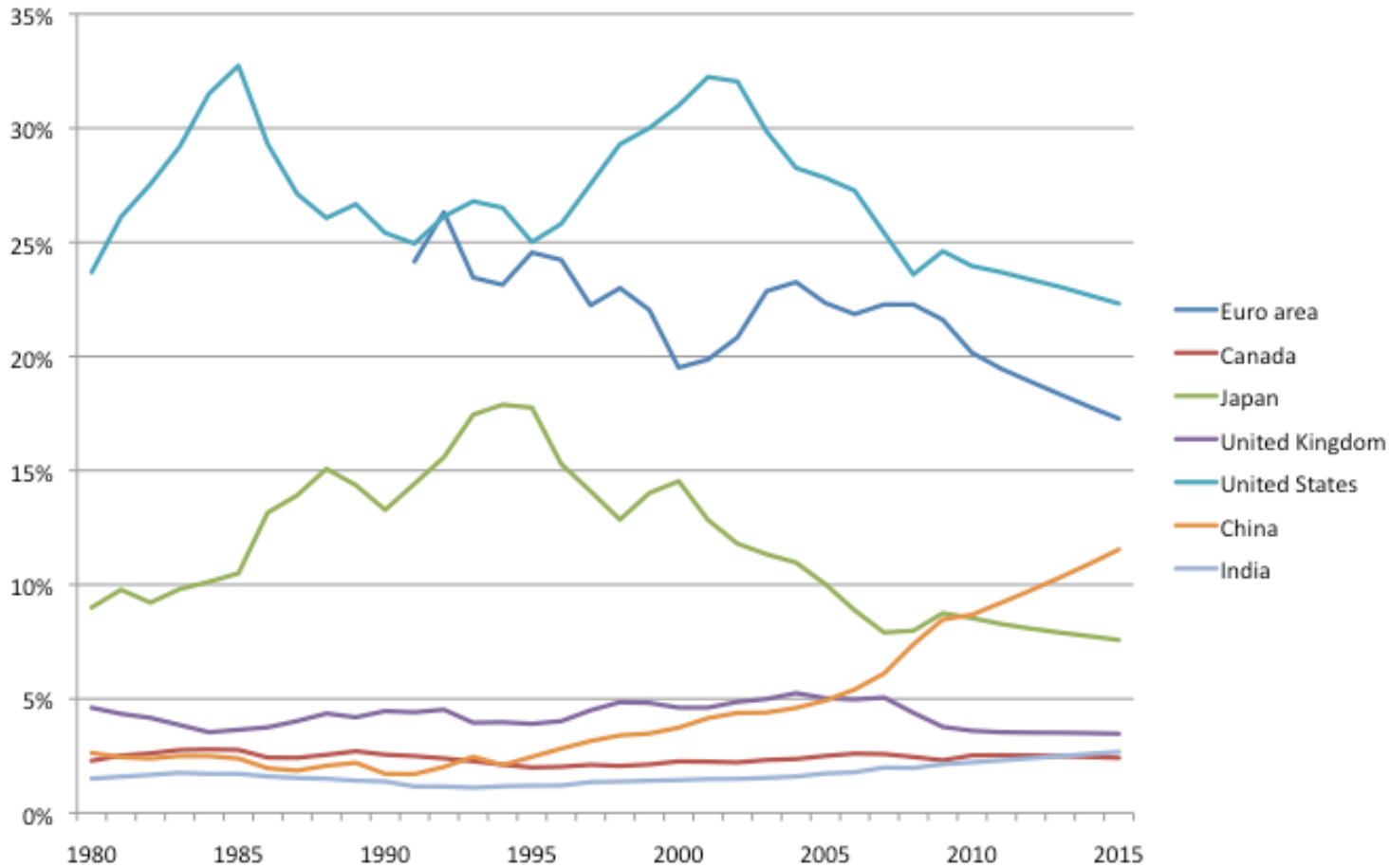
## Public debt to GDP substantially lower in EM and expected to decline slightly while DM set to accelerate



Source: Deutsche Bank Research

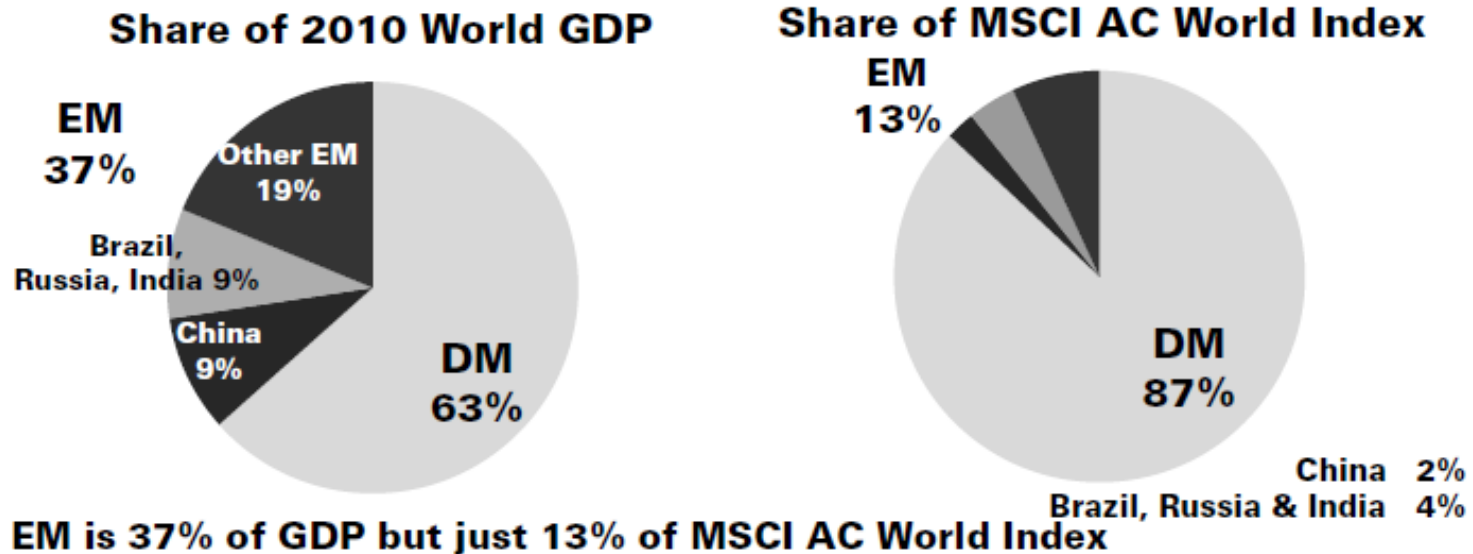
# The shift from West to East will continue . . . . .

Eurozone, United States, China and others: Shares of world GDP



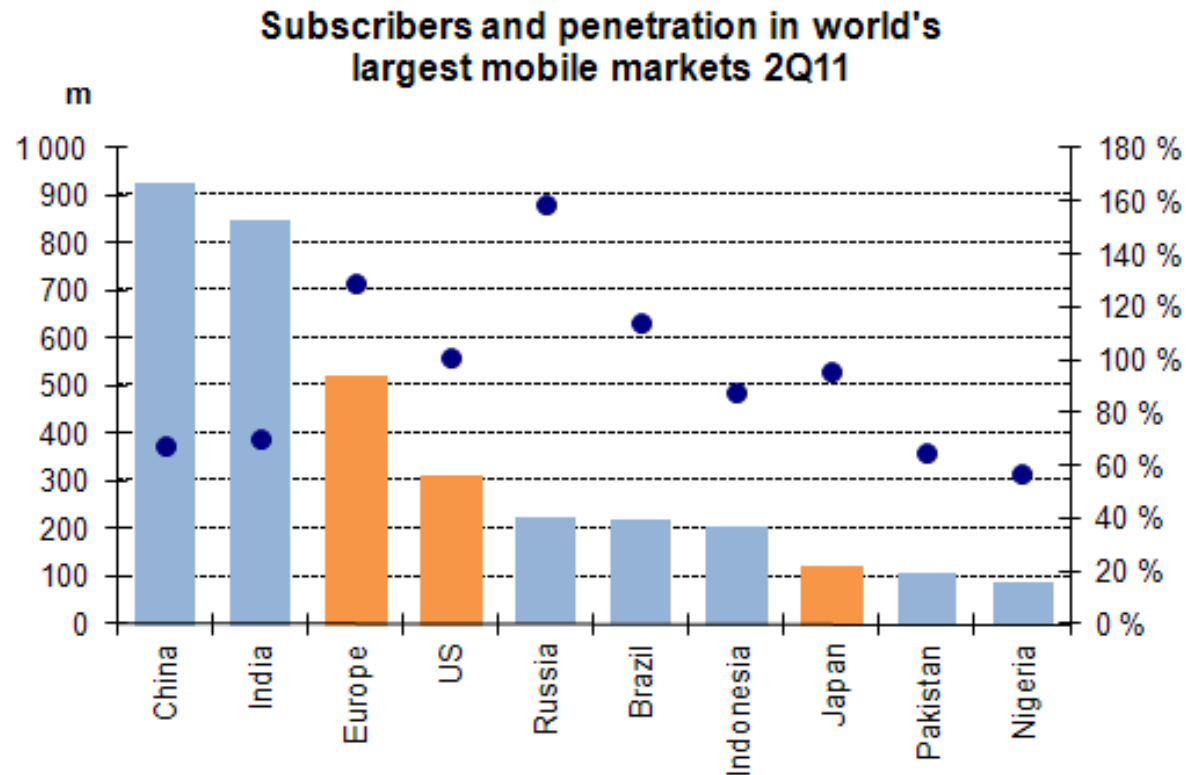
Source: IMF

# Global emerging markets are undercapitalised relative to the developed markets



Source: MSCI, FactSet, World Federation of Exchanges, Goldman Sachs Global ECS Research estimates.

# 7 of the world's 10 largest mobile phone markets are in emerging markets despite relatively low penetration



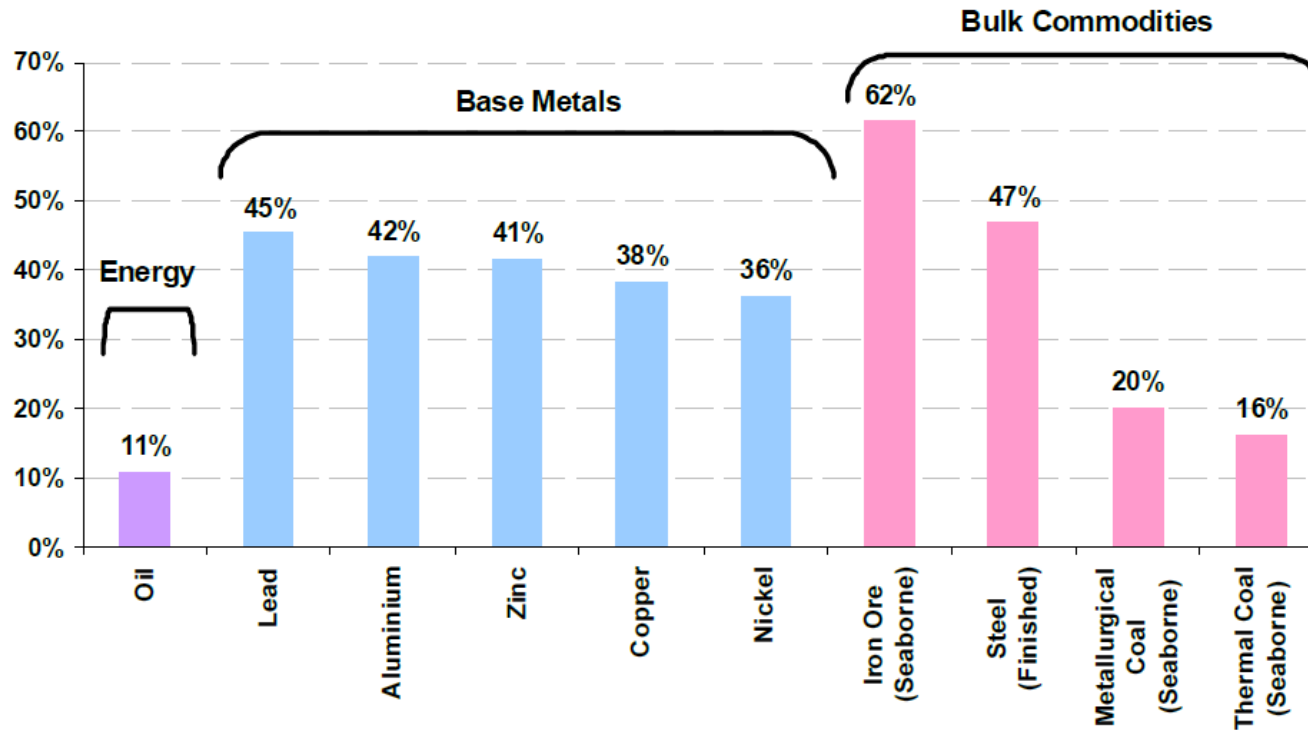
Source: ML, 09/11

■ Subscribers (m) ● Penetration (rhs)

# Chinas growing appetite for commodities

## China's dominates many commodity markets

China as a Percentage of Global Commodity Demand in 2011E



Source: Morgan Stanley Global Commodities Team

## For more information:

- Please refer to:
  - Our latest [Market report](#)
  - Information about SKAGEN Kon-Tiki 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.

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