



January – a good start
for the 2012 tour

SKAGEN Vekst

January 2012

Monthly performance: + 9.4 %

2012 performance: + 9.4 %

Highlights for January 2012

Macro factors

Oil prices were stable during the month, while other commodities that can function as 'canary birds in a coal mine' showed strength. Aluminum was up 10% as expensive production was announced and copper was up 13% to summer 2011 levels.

Economy

Economic indicators point to a modest expansion in the US and good growth in Emerging Markets with Europe as the drag as long as the remedy to sort out the imbalances remain unsettled. The IMF lowered the global growth from 4.0% to 3.3% for 2012.

Interest rates and CPI

In the latter part of January the US FED said they will keep interest rates low until 2014. Also, the upward inflation pressure for some Emerging Markets in 2011 seems to be abating as 2012 progresses, so all in all the view of continued low and lower interest rates remain unchanged.

Company performance

The 4Q 2011 reporting season is in full swing in many countries. In the US the annualized 4Q performance shows 6% revenue growth (4% excl Apple) and 9% EPS growth (13% ex Financials). However, the guidance for 2012 is cautious as media headlines about European challenges apparently have their effect on their guidance courage.

Flow of funds

January 2012 was the best start of a year since 1994. Almost by tradition, the flow in markets in January was towards small cap. companies, and as a group this part of the market performed very well.

Valuation

The 3-4% increase in stocks in January has not changed the earnings yield of the MSCI World much. It's still above 9% and this compares with 10-year government bonds yields of around 2%. The dividend yield of stocks is 3.2% and hence also on attractive metrics versus bonds.

Results as of 31 January 2012 in EUR

	QTD	2011	Past 3 years	Since Inception
SKAGEN Vekst	9,4 %	-19,3 %	21,0 %	15,6 %
MSCI AC/OSEBX 50/50	4,6 %	-8,2 %	27,7 %	9,3 %
Excess return	4,8 %	-11,2 %	-6,7 %	6,2 %

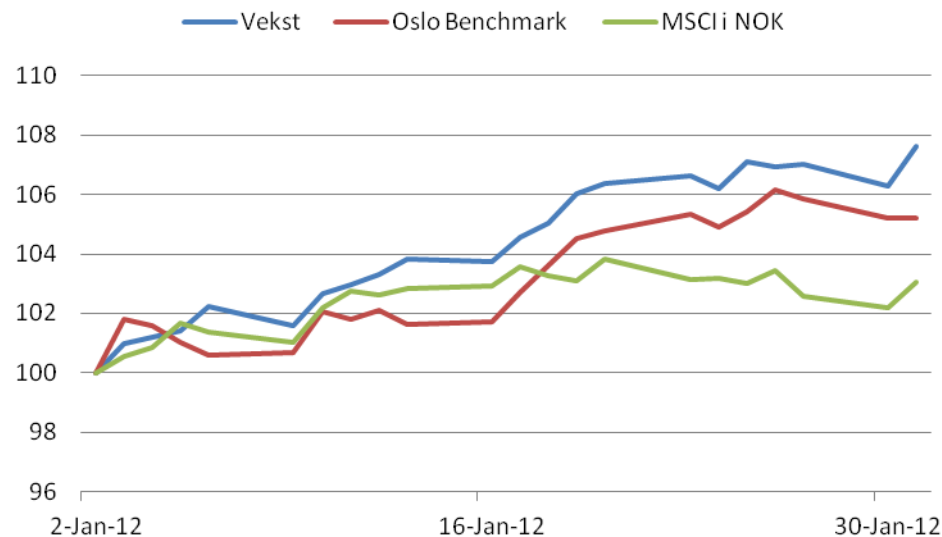
*Numbers before 01.01.2010 are OSEBX, after this date the benchmark is OSEBX and MSCI AC World Index 50/50

*1 December 1993

All returns beyond 12 months have been annualised (geometric return)

SKAGEN Vekst compared with Oslo and MSCI World in NOK

2012 – return for the year. End 2011 = 100



- SKAGEN Vekst up 8.2% in 2012
- MSCI World up 3.7%
- Oslo index up 3.2%

Performance impacted by solid price increases in stocks which were priced down in 2011, which to a large extent has benefitted small cap. companies in 2012

Performance in NOK

Norwegian and International part of portfolio

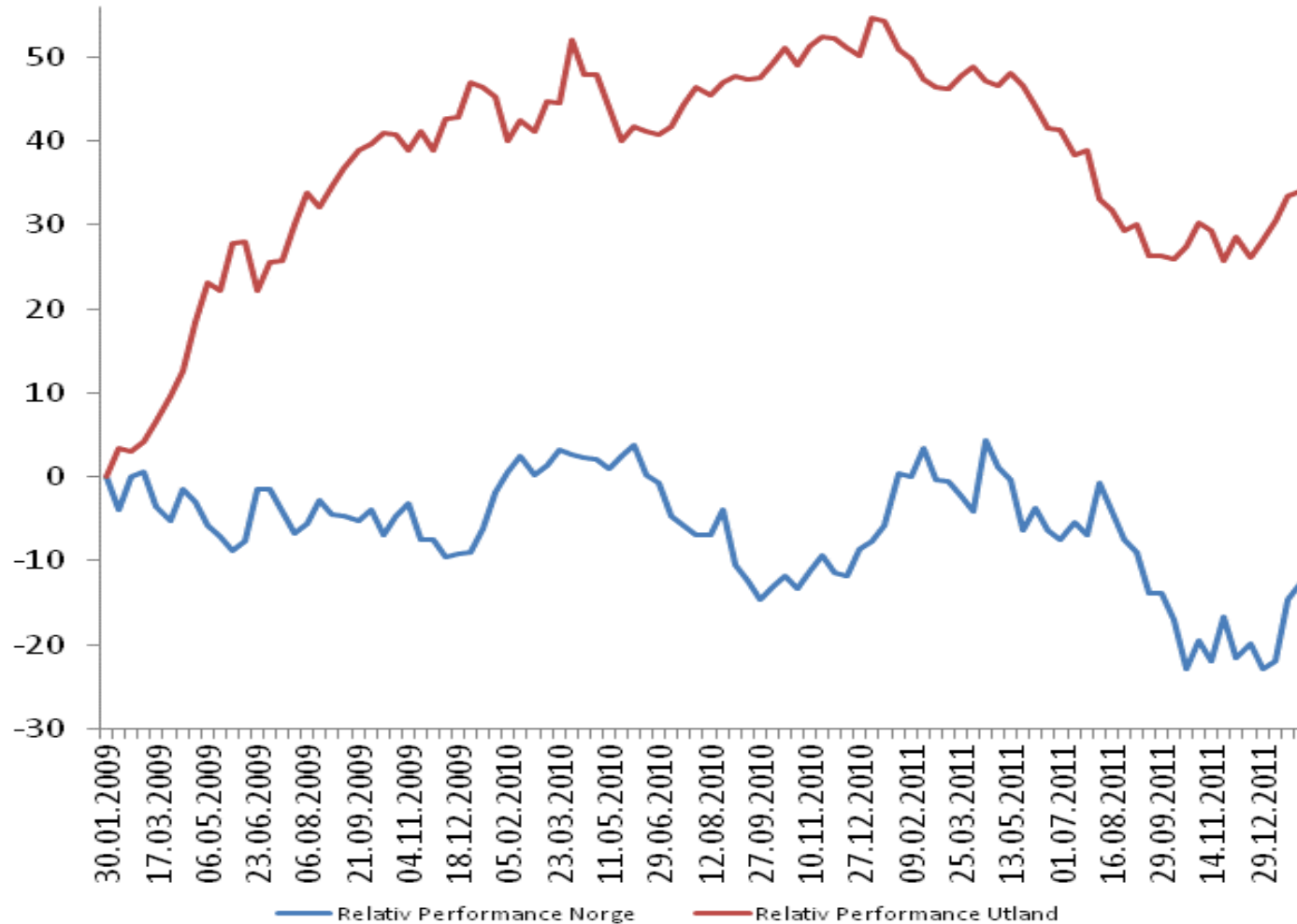
	Hittil i 1.kv.	2011	Siste 3 år
Norsk del av SKAGEN Vekst	10,4 %	-21,6 %	63,1 %
Oslo Børs Hovedindeks	3,2 %	-12,5 %	76,0 %
Meravkastning	7,1 %	-9,1 %	-12,8 %
Global del av SKAGEN Vekst	6,8 %	-16,5 %	67,5 %
Verdensindeks (NOK)	3,7 %	-4,9 %	33,5 %
Meravkastning	3,1 %	-11,6 %	34,0 %

Gross return i.e before fees, net interest etc

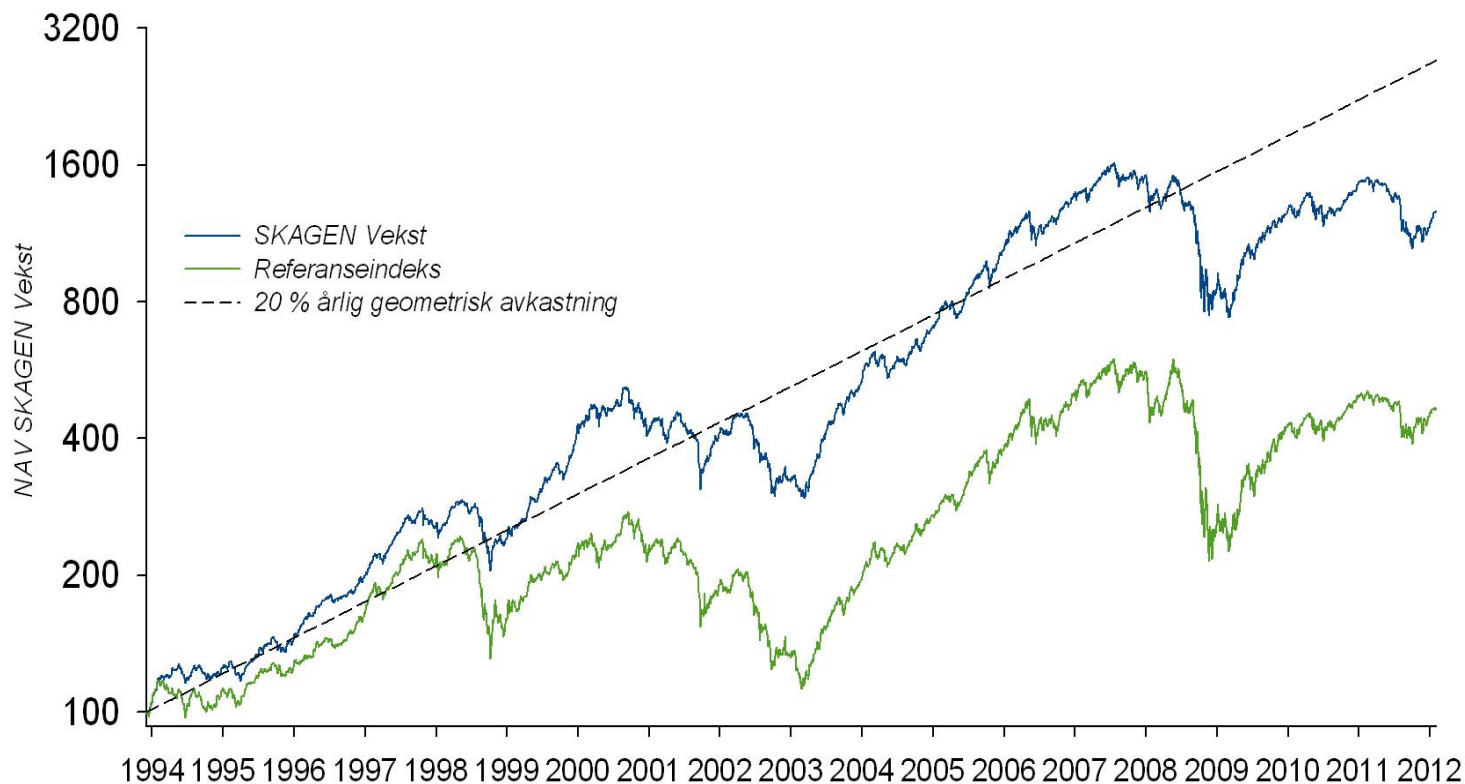
All data updated as of 31 January 2012

SKAGEN Vekst

Relative performance Norway/international – 3 years



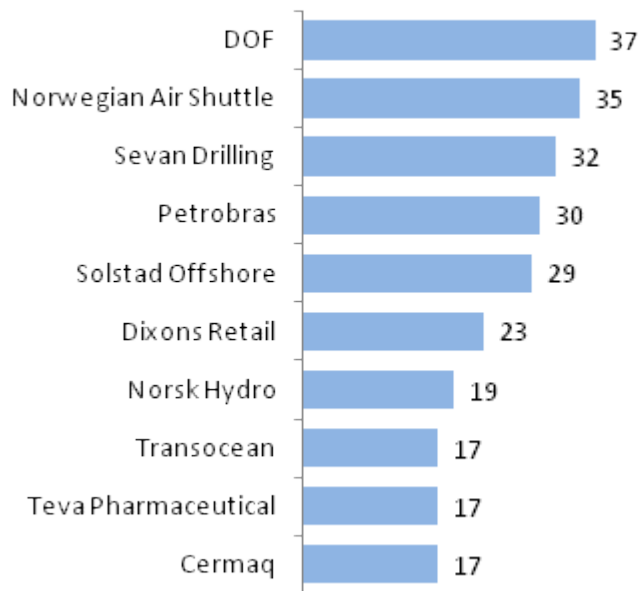
Performance since inception in NOK



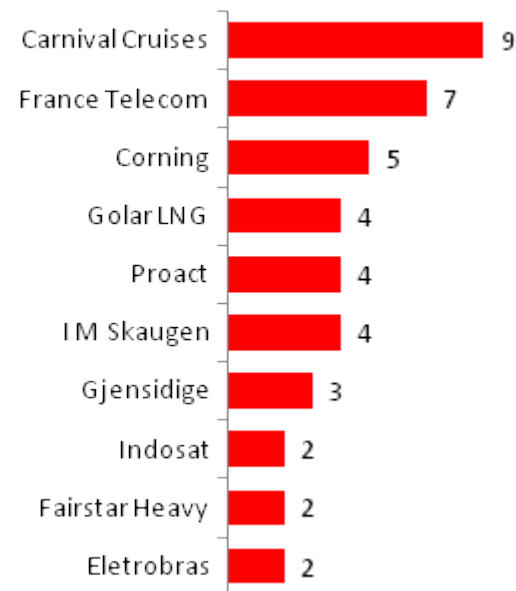
*Numbers before 01.01.2010 are OSEBX, after this date the benchmark is OSEBX and MSCI AC World Index 50/50
All figures are after management fee. Updated as of 31 January 2012

Winners and losers in NOKm in January 2012

Winners



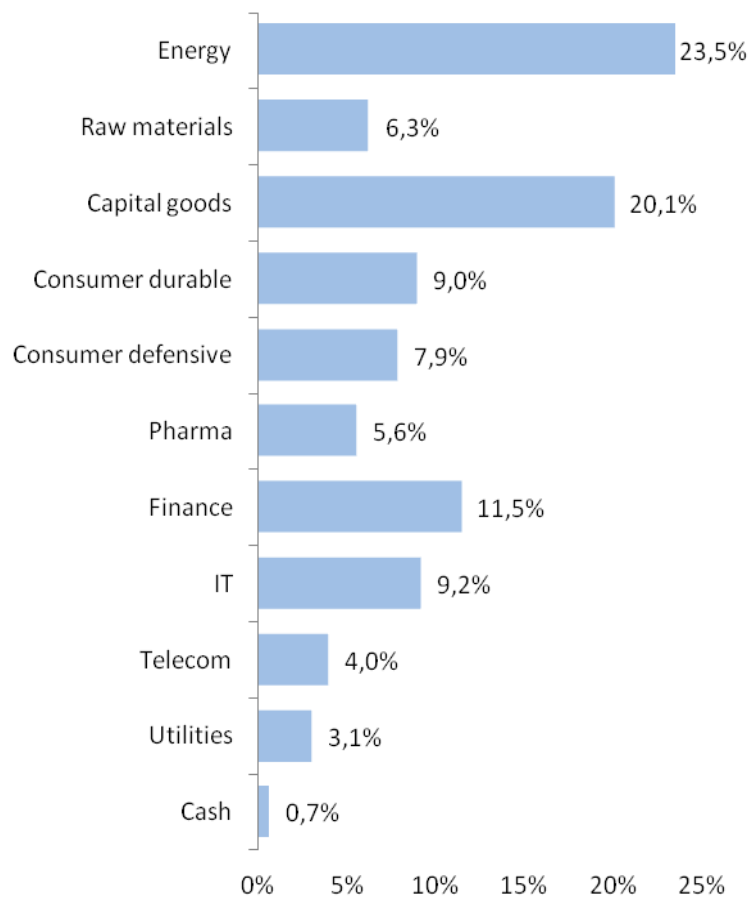
Losers



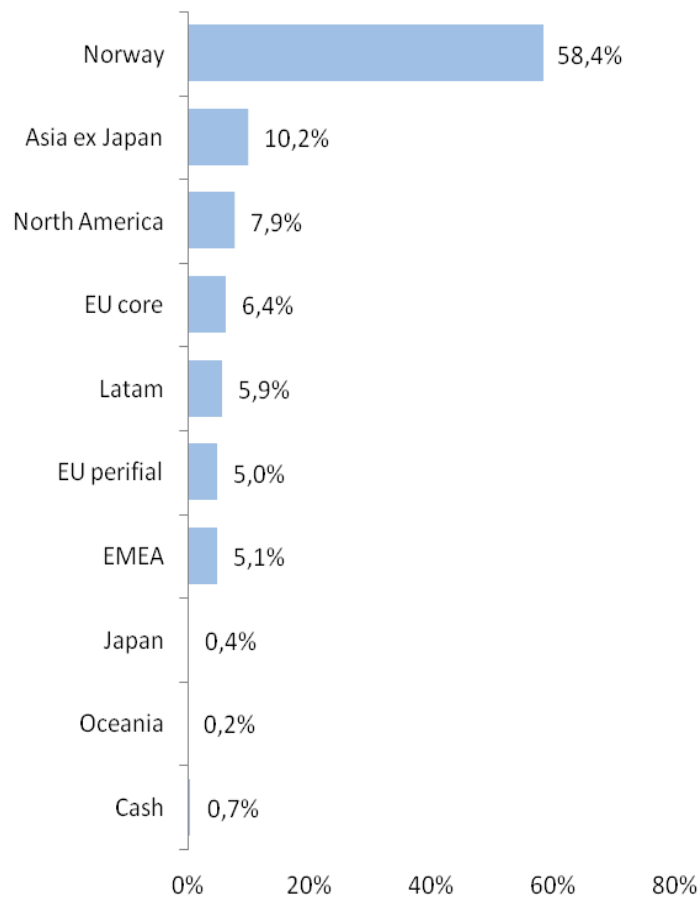
Gross result for the period was 635m NOK

Sector and geographical distribution

Sector distribution
Percentage of portfolio



Geographical distribution
Percentage of portfolio



SKAGEN Vekst - 12 largest positions by end January 2012

Company	Weight in portfolio	Price	P/E 2012	P/E 2013	Price/book trailing	Target price
Kongsberg Gruppen	4,8%	118,50	10,1	9,7	2,7	180
Samsung Electronics	4,4%	660 000	5,7	5,2	1,0	950 000
Elektrobras	3,1%	25,60	8,7	6,7	0,4	55
Petrobras	2,5%	24,57	8,3	7,8	1,0	40
Teva Pharma	2,4%	45,14	8,0	7,5	1,7	60
W. Wilhemsen	2,3%	143,00	5,5	4,2	0,9	220
Solstad Offshore	2,3%	98,50	11,3	9,2	0,8	160
Norsk Hydro	2,3%	31,00	17,2	11,5	0,8	60
TGS Nopec	2,0%	146,80	11,5	10,5	2,7	200
DOF	2,0%	28,00	9,3	5,6	0,8	45
Gjensidige	2,0%	67,85	10,9	10,2	1,5	75
Ganger Rolf	1,9%	119,50	8,5	8,5	0,8	150
Weighted average top 12	32,1%		8,5	7,2	1,0	56 %
Weighted average top 56	77,8%		8,9	7,2	1,0	48 %
MSCI AC			11,2	10,4	1,7	
Oslo Benchmark Index			9,9	8,7	1,4	

Portfolio valuation and upside potential is weighted and calculated as the reference index

P/E 8.5x for 2012 equals an earnings yield of 12%

Commentary on individual companies in portfolio - 1



Norwegian Air Shuttle

Norwegian said they had ordered 222 Airbus and Boeing planes for delivery from 2016. Longer-term the move positions Norwegian as one of the largest European low-cost carriers. The earnings impact will only be visible in many years from now, however the stock rose 15% on the news.



Cruise companies

Our positions in Carnival Cruise and Royal Caribbean Cruise were impacted by the Italian accident with Costa Concordia. EPS estimates have been revised down by 5-15%, however 2012 summer bookings showed no signs of weakness after the accident.



DOF

DOF was among the best performers in January, driven by a successful roll-over of debt to 2017. DOF has 74 supply vessels including eight deliveries in 2012 and two in 2013. The company's operating cash flow after financing is expected to grow significantly in 2013 and beyond.



Dixons

Dixons, the electronics retailer, which among others owns Elkjøp, Lefdal og El-Giganten, reported reasonable Christmas sales and better profitability. With GBP 8bn in sales and GBP 0.7bn enterprise value even smaller profitability improvements in the coming years will have big effect on its value .



Norsk Hydro

Hydro said in early January that it will shut down production in their Australian aluminum smelter. No 1 in the World, Alcoa, will do something similar, so the balance in the market is set to improve. Aluminium prices rose 10% which helped.



France Telecom

France Telecom was one of the worse performers in January. Iliad, a French low cost competitor with a 4G mobile license, launched its offer at lower price than expected and hence investors got worried about FT's dividend paying ability. We see the cash flow and potential disposals as sufficient to support the 11% dividend yield.

Commentary on individual companies in portfolio - 2

CORNING

Corning

Corning, the US advanced glass maker, reported 2011 results in line with expectations. However, their guidance for 2012 disappointed as they see faster price declines in TV screen glass than normal. Demand is expected to go up later in 2012. 1Q difficulties seem to be priced in.

PROACT

Proact

The Swedish data storage service provider, reported preliminary 2011 sales and earnings. Due to cost issues related to three acquisitions in 2011 the pre-tax results disappointed. The growth in their industry is however expected to keep up speed later in 2012.



Norske Skog

One of the best percentage movers in January was Norske Skog with a 55% share price gain. After a difficult 2011 the outlook for input costs and FX looks to provide more tailwind and hence the stock price reacted positively.

Largest changes in period

Bought

Norwegian
EMGS
Norsk Hydro
Agrinos
Nordic Mining

International
Corning

Sold

Norwegian
Transeuro Energy
IM Skaugen
Kongsberg Automotive
Sparebanken Øst
Gjensidige

International
East Asiatic (out)
Lannen Tehtaat (out)
Data Modul (out)
AP Møller Mærsk
Benetton
Winn Dixie
People Food

Bought in the period



Norsk Hydro

At the industry level, 30% of aluminium producers are losing money when aluminium is around 2.000 USD/ton. During January a number of production facility closures have been announced and a future reduction in supply is expected to bring the aluminium price closer to the equilibrium price of the 10% marginal player i.e. 2.400-2.500 USD/ton. At that aluminium price level Hydro would likely be trading at 45-50 NOK compared with 31 NOK at present.

Norsk Hydro

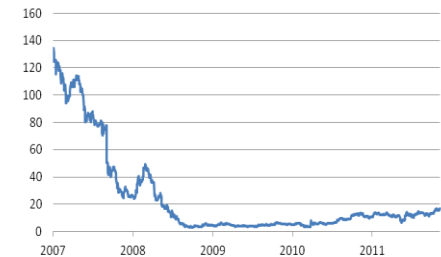


EMGS

We increased the exposure in EMGS, the Norwegian specialist in 3D electromagnetic seismic surveys. EMGS has been instrumental in the 2011 discoveries in the Norwegian part of the North Sea.

EMGS qualities are recognized as Schlumberger made a license agreement in December. EMGS is going to be very busy in the coming years and with a 2013 P/E of around 9x, the stock is cheap.

EMGS



Markets in January 2012 in EUR

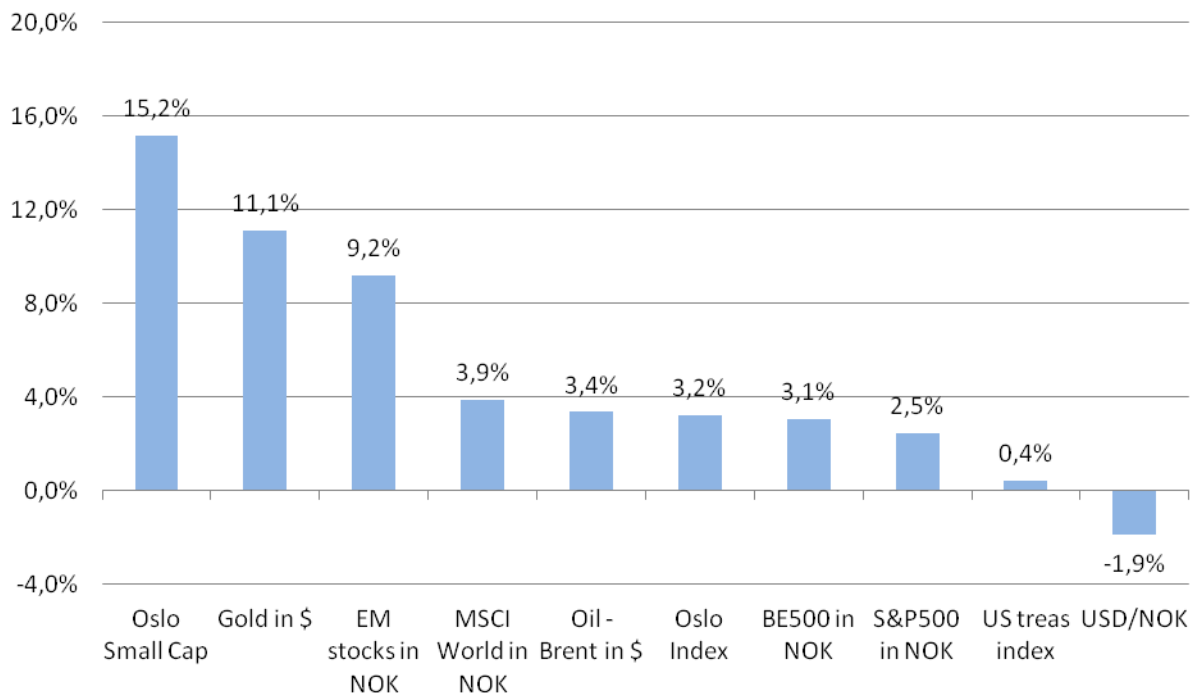
Hungary	19	Thailand	7
India	18	Mexico	7
Brazil	17	Belgium	6
Turkey	17	Sweden	5
Poland	15	Italy	5
Russia	13	MSCI AC Index	5
China (Hong Kong)	13	Canada	5
Singapore	12	Denmark	5
MSCI EM Index	10	France	4
Austria	10	Norway (OSEBX)	4
Hong Kong	10	Japan	4
Germany	10	Indonesia	4
SKAGEN VEKST	9	USA (S&P 500)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

Markets 2011 in EUR

Venezuela	85 %
USA (Nasdaq)	6 %
Indonesia	4 %
USA (S&P 500)	3 %
Thailand	-3 %
United Kingdom	-3 %
MSCI AC World	-4 %
Switzerland	-6 %
Japan	-10 %
Canada	-10 %
South Korea	-11 %
Norway (OSEBX)	-12 %
Netherlands	-12 %
Mexico	-12 %
Spain	-13 %
Sweden	-14 %
Denmark	-15 %
Germany	-15 %
Singapore	-15 %
China (local)	-16 %

MSCI EM Index	-16 %
South Africa	-16 %
France	-17 %
Hong Kong	-17 %
China (Hong Kong)	-19 %
Belgium	-19 %
SKAGEN VEKST	-19 %
Russia	-20 %
Taiwan	-22 %
Estonia	-24 %
Italy	-25 %
Brazil	-25 %
Hungary	-30 %
Finland	-30 %
Poland	-31 %
Turkey	-34 %
India	-35 %
Austria	-35 %

Return of major asset classes in January 2012



Cyclicals outperformed Stables significantly in January. In Europe, Automotives rose 23% and Healthcare and Telco's declined 1-2%. In the US, Materials and products rose 11%, while utilities and consumer stables declined 2-4%.

Theme of the month

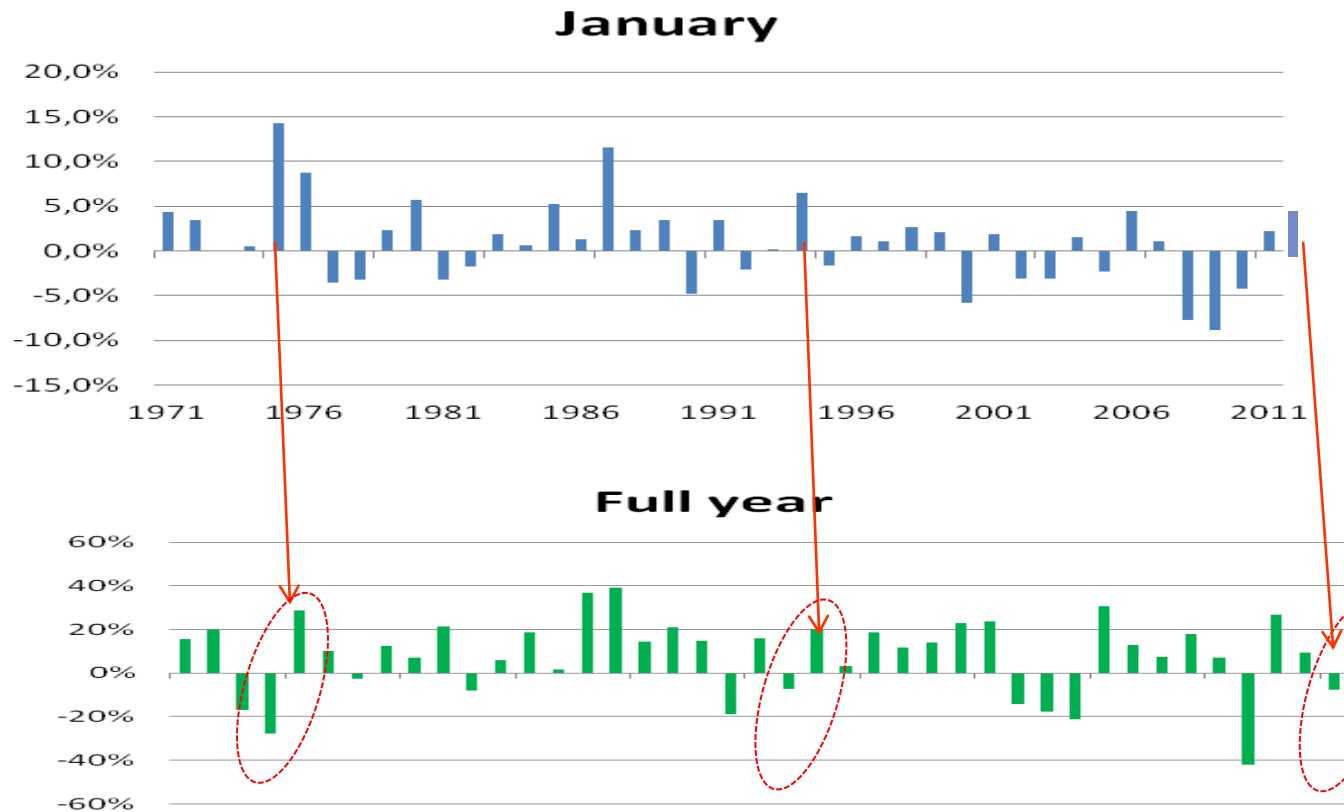
Does January work as an indicator for the rest of the year?

The saying is, as January goes, then goes the latter part of the year

- According to Stock Traders Almanac and other statistics looking at past performance, then a strong January bodes well for the full-year.
- January 2012 gave a return of 4.9% for MSCI World in USD. The performance into 2012 follows a 8% loss in 2011 and in the similar cases since 1970 (1975 and 1991) then the average return for the full-year was 23%.
- Statistics are nice to keep in mind, but the back-drop in 1975 was the 1974 oil crises after the Arabian oil embargo and in 1991 the backdrop was the Iraq invasion of Kuwait and the allied attack on 16 January 1991, which lifted stocks 6% in 24 hours.
- Now the Arabians are not involved and the 2011 pains are credited to indebted European nations. In 2012 the corporate world has prepared for difficult times, which was not the case in 1975 and 1991. And even despite this, the corporate world (stocks) are valued with earnings yields of 9%, which compares to 2% interest yield on 10-year bonds.
- To conclude, history and statistics will not give precise guidance for 2012 performance, but the few similar cases bode well for this year. Bon voyage!

MSCI World in USD since 1970

January and full year performance

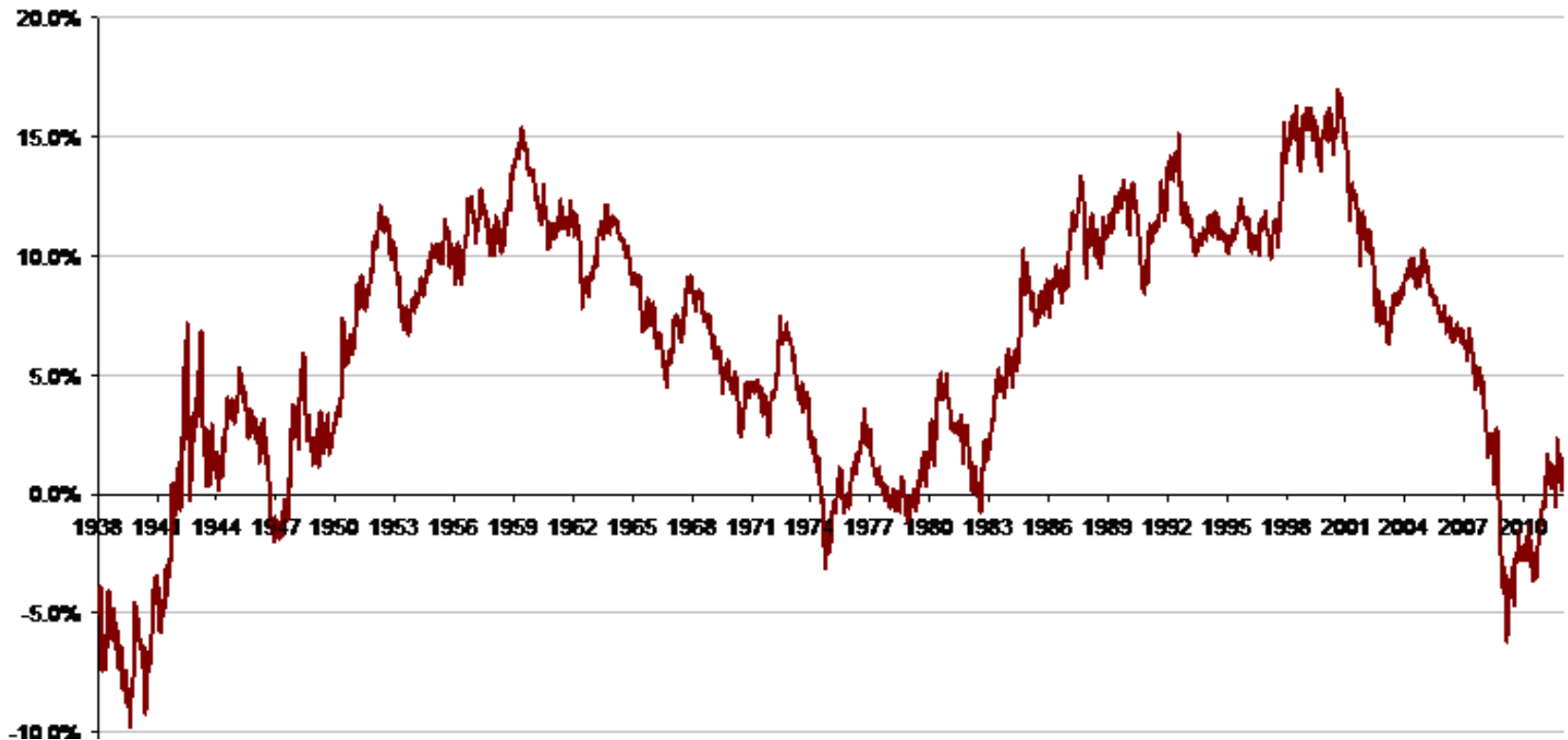


Another good year ahead?

And the 10-year cycle is supportive as well

(US data)

S&P 500 Index Rolling Annualized Rolling



About SKAGEN Vekst

- SKAGEN Vekst is an absolute return-focused long-only equity fund. Vekst was established in 1993 and has provided a 15% annualised return since inception.
- The portfolio consists of a mix of Norwegian and international companies. The company selection is based on the same principles as all equity funds in SKAGEN. We focus on companies with solid and proven business models, which can be bought at a discount to their fair value. In the process we also use the SKAGEN investment philosophy – the 3 'U's i.e. under-researched, unpopular and undervalued.
- The mindset in SKAGEN Vekst is to structure the portfolio of companies with an above average return on invested capital, solid cash flow over the business cycle and a net debt/leverage situation which is balanced to the company volatility in operating earnings.
- SKAGEN Vekst has a higher proportion of assets under management exposed to the oil and energy markets as the Oslo Børs has a higher component of this segment of companies than the global stock markets in general.

For more information

- For more information please visit:
 - Latest [Markedsrapport](#)
 - Information about [SKAGEN Vekst](#) on our website

• 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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