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

SKAGEN Global

Portfolio Manager Torkell Eide

Fishermen launching a rowing boat. 1881. Detail.
By Michael Ancher, one of the Skagen painters.
The picture is owned by the Skagens Museum.

SKAGEN Funds: The company

- Norwegian investment management company, established in 1993
- Independent, partner owned
- 150 employees. Main office in Stavanger, 5 branch offices in Norway, in addition to London, Stockholm, Gothenburg and Copenhagen
- Around EUR 12.5 billion assets under management
- Around 150 000 direct clients

SKAGEN's funds

(in EUR per 30 September)

SKAGEN Vekst (1993)

Investment mandate:

Norwegian equity: minimum 50%

Global equity: rest < 50%

Annual return since 1993: **16.7%**

SKAGEN Global (1997)

Investment mandate :

Global equity: 100%

Annual return since 1997 : **16.6 %**

SKAGEN Kon-Tiki (2002)

Investment mandate:

Emerging Markets: minimum 50%

Global equity: rest <50%

Annual return since 2002 : **21.1 %**

SKAGEN Tellus (2006)

Investment mandate:

Global Bonds:100%

Annual return since 2006 : **6.3 %**

Equity fund SKAGEN Global

- Inception date: 7 August 1997
- Mandate: 100 percent global equities
- Reference Index: MSCI AC (in NOK)
- Bloomberg ticker: STGLOBS NO
- AUM: approx EUR 3 500 million
- 104 000 unitholders
- Denominated in NOK
- NAV calculated in NOK,EUR, USD, GBP, CHF

Investment director
& portfolio manager
Kristian Falnes

Portfolio manager
Torkell Eide

Portfolio manager
Søren M. Christensen

Trader
Chris-Tommy Simonsen

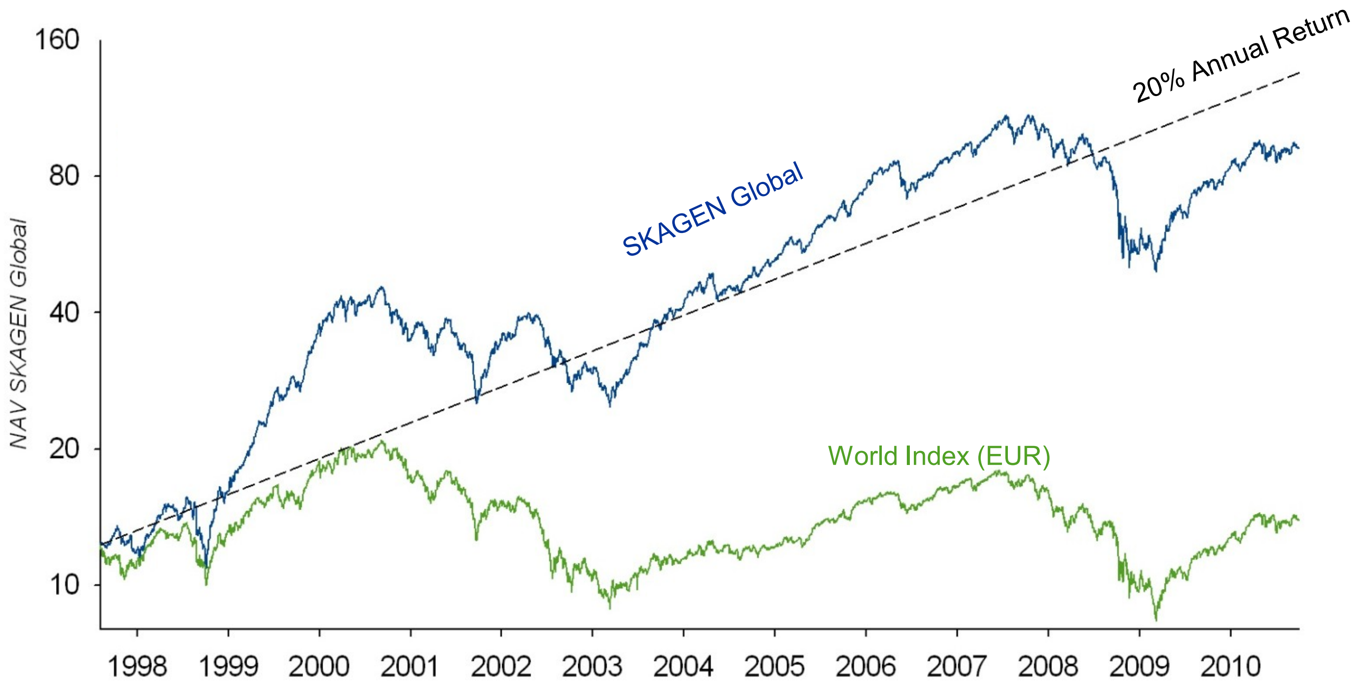
LIPPER
FUND AWARDS 2010
EUROPE

Best Fund over 10 years,
Equity Global

STANDARD &POOR'S AA FUND MANAGEMENT RATING

SKAGEN funds

Results as of 30 September 2010 in EUR



	Quarter to date	YTD	Last 3 years	Since inception
SKAGEN Global	4.8 %	9.9 %	-4.1 %	16.6 %
World Index (EUR)*	3.3 %	9.1 %	-6.6 %	0.9 %
Excess return	1.5 %	0.7 %	2.5 %	15.6 %

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

What makes SKAGEN different?

Company selection

The ideal investment idea

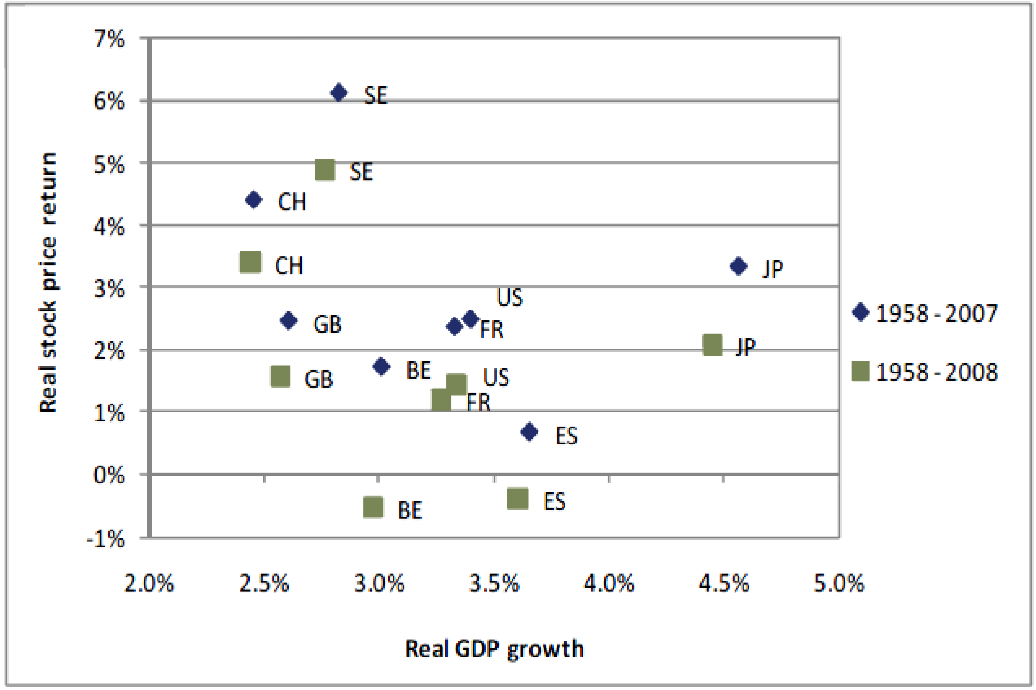
- ***U***ndervalued
- ***U***npopular
- ***U***nder-researched

Focus on company selection

- Re-valuation triggers
- Value creation at low price
- Debt and risk
- Simple and proven business model
- Willingness to create shareholder value

Economic growth doesn't predicate great stock market returns – *maybe it is still about valuations?*

Exhibit 1: Annual real GDP growth versus annual real stock returns, 1958 – 2007 and 1958 – 2008

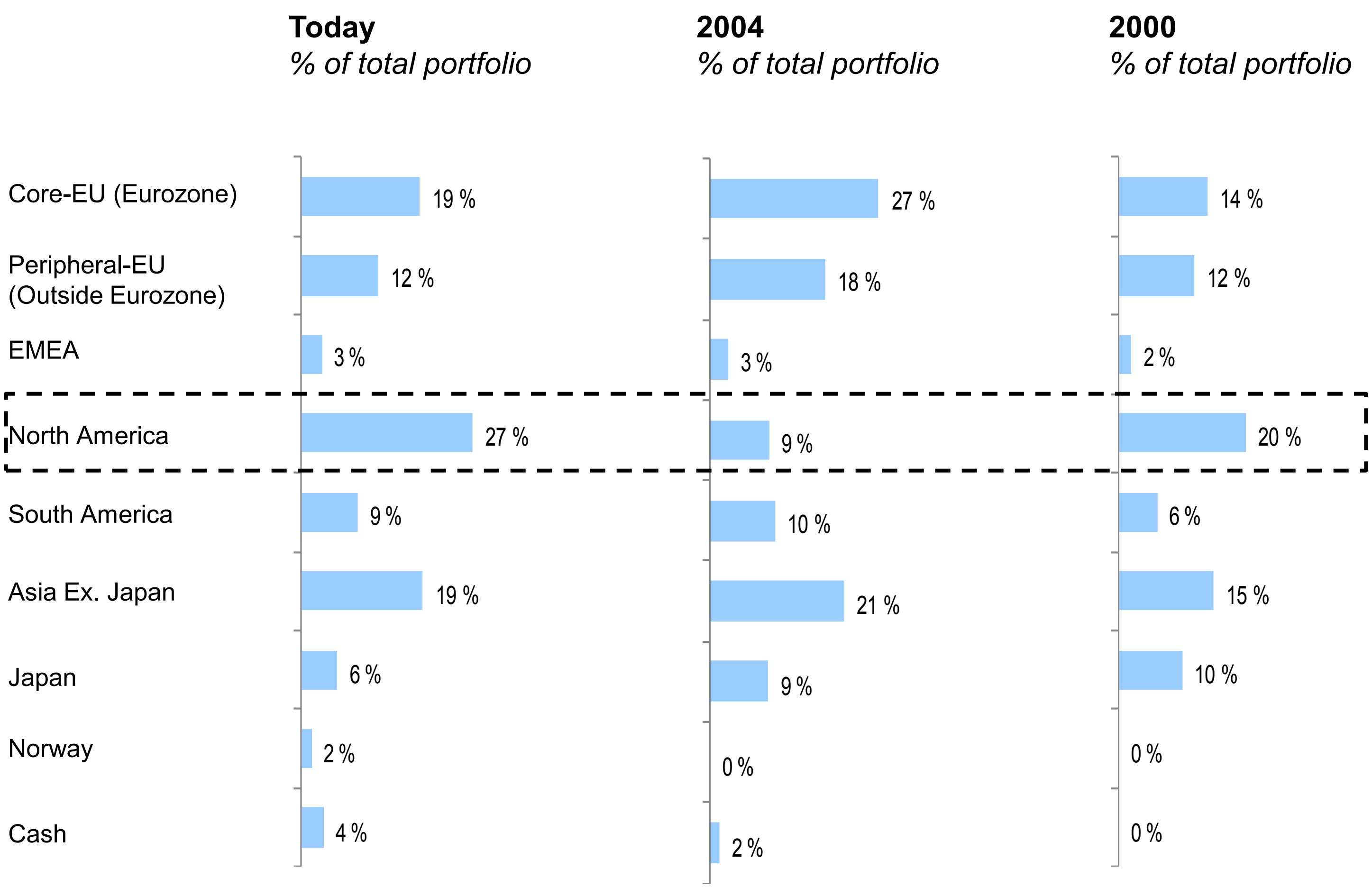


Source: MSCI Barra, IMF, OECD. Growth rates are annualized.

- **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**

SKAGEN funds

Our geographical and sector exposure is driven by where we find cheap companies



Our focus on value often leads us to areas of the world and sectors that are less popular. This is because value and being out of favour often go hand in hand.

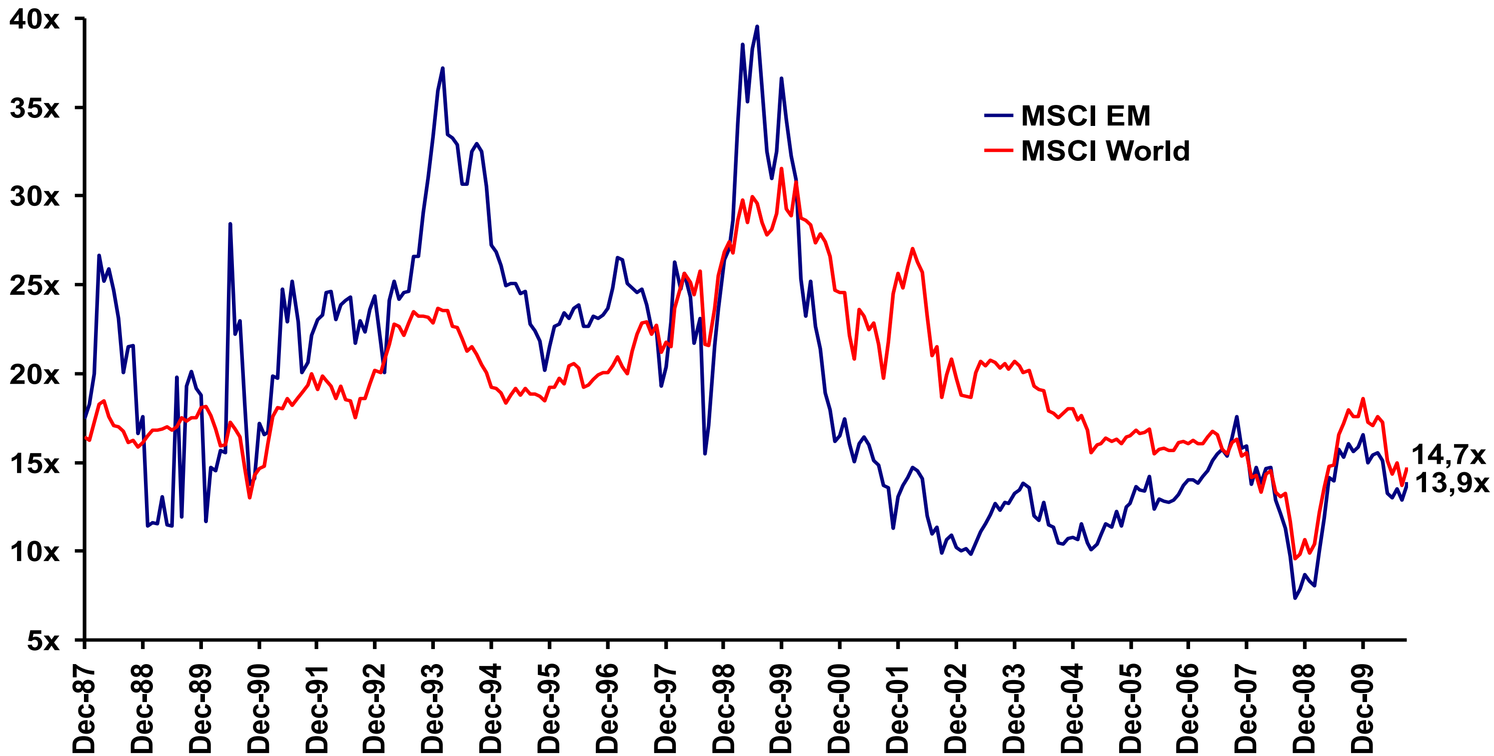
SKAGEN funds

Three reasons why this is a good environment in which to be a long-term stock picker

Broadly speaking today’s markets look reasonably valued

Price/Earnings for both Emerging markets and developed markets are in line with historical averages

Trailing P/E for MSCI EM and MSCI World based on IBES estimates

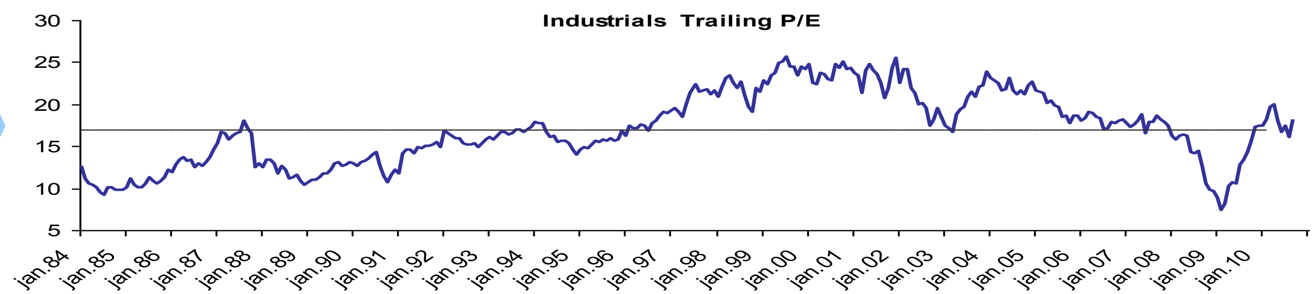


SKAGEN funds

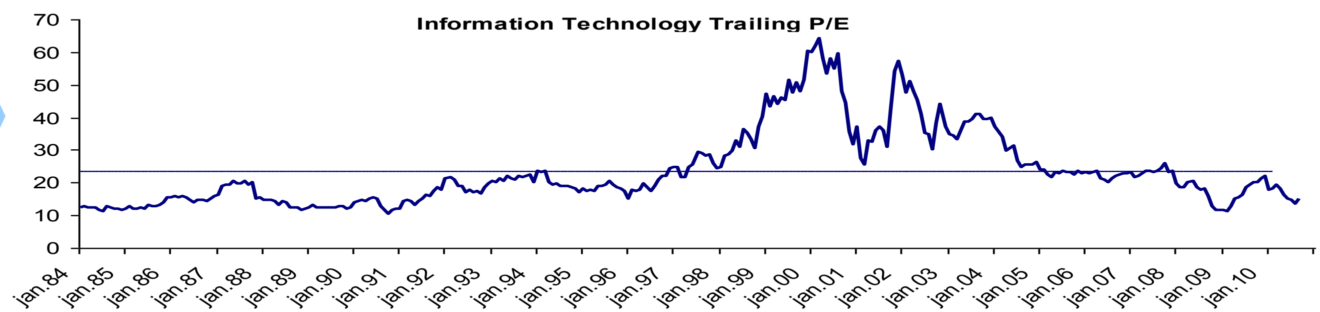
Data as of end of September. Source: Morgan Stanley

Reason 1: There are still sectors and companies that are unpopular – however some have made a comeback

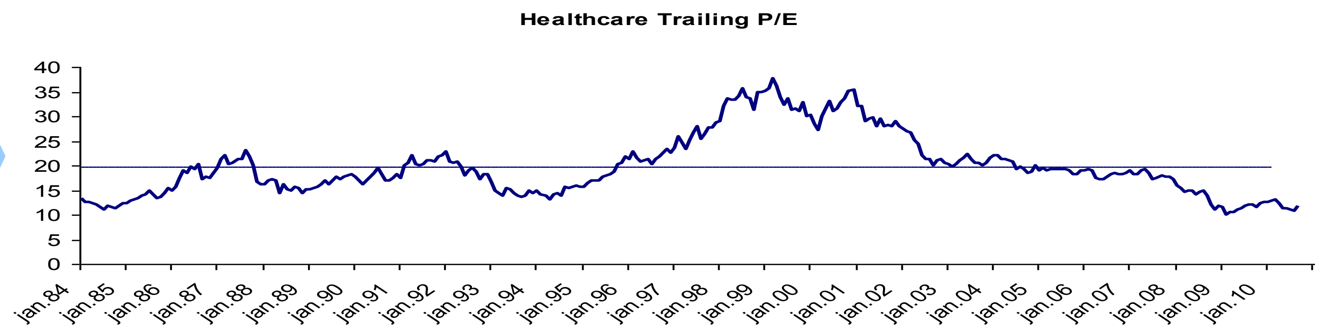
Popular?



Unpopular?



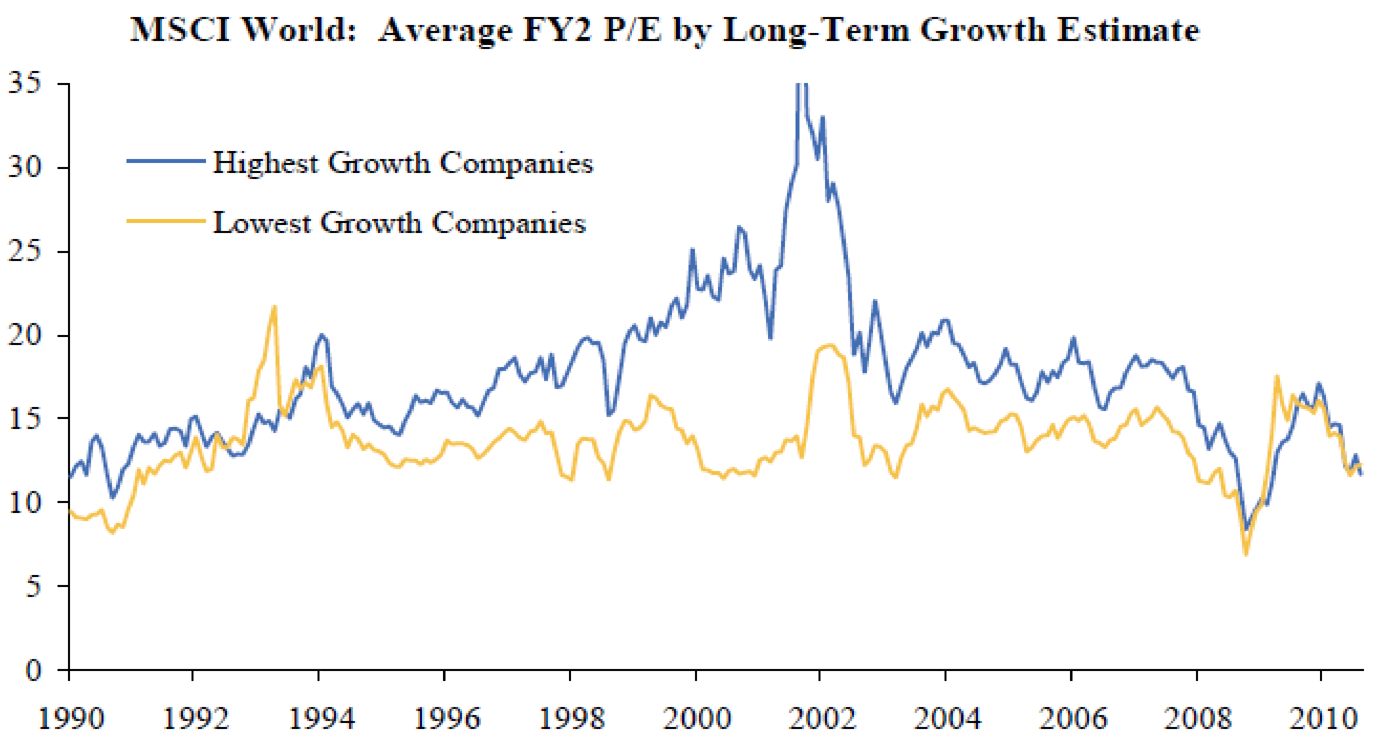
Hated?



All data for Trailing S&P 500 earnings. Source: Morgan Stanley

Reason 2: The high intra market correlations within equities throw up quality companies at bargain prices

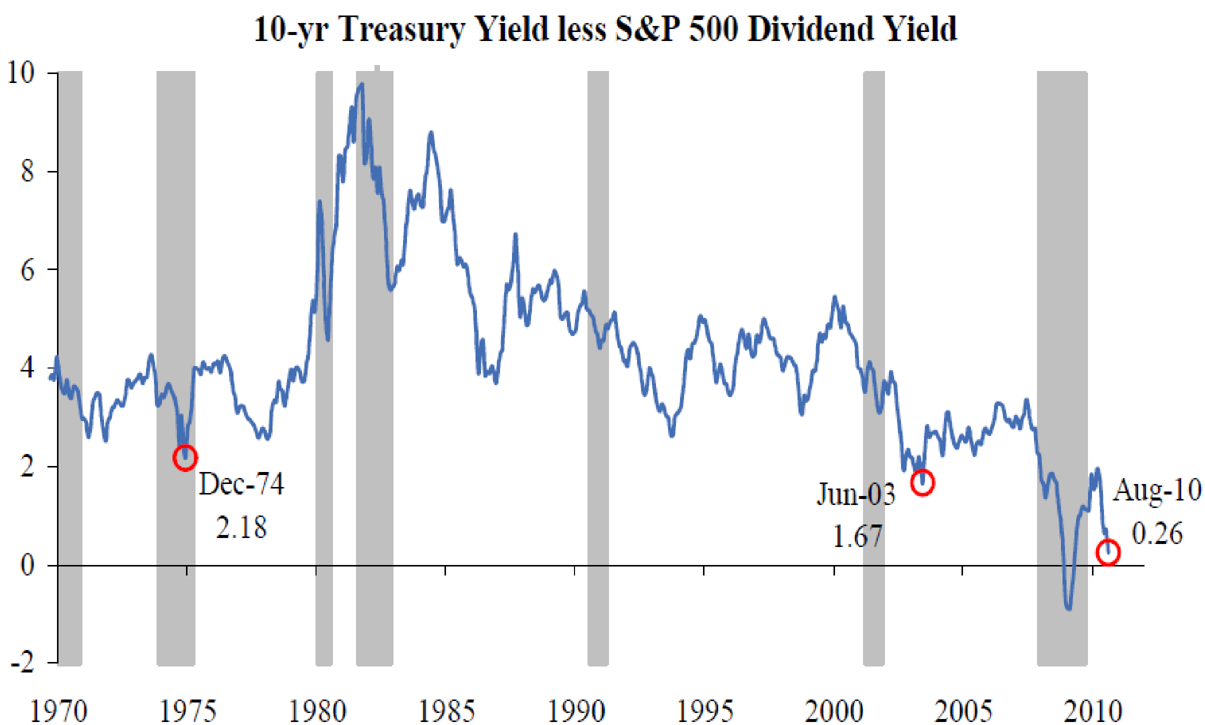
The market no-longer differentiates between growth and no growth i.e. high quality companies are now cheaper than they have been for decades



Data as of 10 August 2010. Source: Morgan Stanley

Reason 3: It is easier than normal to make money when you wait – yields are attractive relative to bonds

The difference between the yield on the S&P 500 and 10 year US government bonds is now on par – hence equities are very likely to outperform cash going forward



- **Today you can buy high quality companies with 3-5% dividend yield vs. 2.4% on 10 year US Treasuries**
- **In other words you get paid 2x the "interest" coupon plus a growth option if you hold equities instead of cash**

Data as of 10 August 2010. Source: Morgan Stanley

The SKAGEN Global portfolio

SKAGEN Global
Largest holdings as of 30 September 2010

	Holding size	Price	P/E 10E	P/E 11E	P/B last	Price-target
Samsung Electronics	8,0 %	557k	5,4	5,5	1,1	780k
Tyco International	4,6 %	36,7	14,3	12,0	1,3	50
Bunge	4,0 %	59,2	17,2	10,6	0,8	70
Eletrobras	3,9 %	25,4	9,5	8,3	0,4	50
Pfizer	3,7 %	17,2	7,8	7,5	1,6	20
Renault	3,5 %	37,7	9,1	6,2	0,5	60
Pride	3,3 %	29,4	19,0	10,6	1,2	35
Parmalat	3,2 %	1,9	17,7	16,0	1,0	3
Kyocera	3,0 %	7 890	15,1	14,7	1,1	11k
Accenture	2,8 %	42,5	14,9	13,4	10,0	55
Weighted top 10	**39,9%**	**n.a.**	**12,0**	**9,8**	**1,6**	**42 %**
MSCI AC Index	**n.a.**	**126,0**	**12,6**	**10,8**	**1,8**	**n.a.**

- **Accenture replaced LG Corp in the top 10 holdings after we reduced our position on the back of strong performance**
- **Portfolio remains attractively valued versus the overall market – Accenture's asset light business model distorts the P/B valuation**

Parmalat (PLT IM) EUR 1.99

How an Italian success story went sour

- Started in 1961 as a small pasteurisation plant. Built into a global powerhouse in milk and dairy products through M&A.

- In December 2003 a black hole appears in the balance sheet:
  - turns out that the company does not have the cash it was claiming to possess in its September financial statements,
  - creates a great unravelling – with debts totalling EUR 12.8 billion the company files for bankruptcy within days - dubbed the Enron of Europe,
  - The founder and CEO Calisto Tanzi is arrested and found guilty of fraud.

- The post-bankruptcy investigation reveals that its bankers including Citigroup and JP Morgan and its accountants Grant Thornton have allplayed a role in the fraud.

What is it today?

- Fully restructured by new CEO Enrico Bondi
- A leading global dairy (93% of sales) and juice company with strong brands across multiple markets.
- Geographical exposure:
  - Canada (36% of sales)
  - Italy (29% of sales)
  - Australia (11% of sales)
  - America (11% of sales)
  - Africa (9% of sales)
- Is engaged in multiple lawsuits against former advisors – has netted the company several billion Euros in proceeds.

parmalat

SKAGEN funds

Parmalat (PLT IM) EUR 1.99

The vital stats – very cheap

Market capitalisation:	EUR 3.3bn
Net cash:	EUR 1.5bn
Enterprise Value	**EUR 1.8bn**
P/E (09):	26x
P/E (10e)	18x
P/B (10e):	1.0x
ROE (10e):	6.4%
Dividend yield:	2.7%
EV/EBITDA(10e):	**5.2x**

EV/EBITDA 10e multiples for peers are substantially higher

Nestle	12.2
Danone	11.4
Dairy Crest Group	6.1
Saputo	9.8
Dean Foods Co.	7.5

Data as of end of 15 October 2010

Plenty of triggers

- Decision on what to do with cash – some legal snags
- Enhancement of growth profile through new products and growth in emerging markets
- Further productivity improvement – company is currently run by lawyers and accountants
- Take out – very open shareholder structure

But the milk can be spilled again

- Pressure from private label
- Value destructive acquisitions

SKAGEN funds

AkzoNobel (AKZA NA) EUR 42.97

Info:	
Market cap:	EUR 10.0 bn
P/E (10e):	12.8 x
P/E (11e):	11.2 x
P/B	1.2 x
EV/EBITDA (10e)	6.3 x
Net debt (10e):	EUR 1.3 bn
RoE (10e):	9.9 %
Div. Yield:	3.4 %

- AkzoNobel is the world's leading coatings supplier. It is active in three key areas: performance coatings, decorative paints and specialty chemicals.
  - The company has strong positions in all key mature markets globally.
  - The company also holds an extremely strong portfolio of emerging markets assets including top 3 positions in China, India, Brazil, India
  - Emerging markets make up 37% of sales with higher growth and profitability than the rest of the company
- Post the acquisition of ICI the company has focused on centralizing operations including logistics, purchasing and manufacturing, allowing the company to set ambitious targets for the next few years:
  - EBITDA margin > 14% in 2011
  - Annual improvement in operating working capital of 0.5% p.a.
- The company has a strong track record for value creation, cash generation and willingness to return cash to shareholders – including re-leveraging the company to maintain an optimal capital structure
- Company earnings growth should be high teens next 3 years. Long-term growth probably high single digit to low teens.
- Market seems to underestimate the strength of the EM franchise, long-term growth prospects and cash generation abilities. Free cash flow to equity holders on an under-levered balance sheet is approx 8% even with current growth rate.
- Triggers
  - Re-institution of buyback/re-leveraging program
  - >50% EM sales – would give re-rating
  - Structural solution for speciality chemical area
- Risks
  - Pension liabilities
  - Slower growth in EM
  - Change in competitive landscape

Microsoft (MSFT US) USD 24.3

Info	
Market cap:	USD 207.1 bn
Net cash (10e):	USD 45.8 bn
P/E (10e):	10.1x
P/E (11e):	9.0x
EV/EBITDA* (10e)	5.9x
ROE (10e %):	40.6%
Dividend yield:	2.2 %

- Microsoft is the world's largest software company and delivers software to a number of applications from PCs to servers and cell phones – its most famous product is Windows and the affiliated Office Software Suite.
  - In recent years the company has also diversified into video game consoles, ERP systems, internet search and cloud based computing

- Despite a strong push towards diversification, 80% of the company's revenue and nearly all its profits come from three main areas:
  - Windows OS, Windows Server and business division (Office Suite)

- The stock price has been a victim of increased worries about the strength and sustainability of the PS software franchise and its rather unsuccessful endeavour to enter adjacent business areas such as search.

- The company continues to enjoy a strong performance in Enterprise on the back of upgrades.

- Triggers
  - Further increase in payout ratio
  - New product launches (mobile, gaming, etc.)
  - Increased confidence in online and cloud strategy (Yahoo acquisition)
  - Successful upgrade cycle enterprise could push up EPS estimates

- Risks:
  - Structural replacement of PCs with alternative devices such as iPads and smartphones
  - Failure to capture shift to cloud computing
  - Free alternative software to Office/Windows package

Microsoft

SKAGEN funds

Data as of end of September

For more information

- Please refer to:
  - Our latest Market report
  - Information on SKAGEN Global on our web pages

SKAGEN funds