

## Corporate transformations on track

Following a strong start to 2019, SKAGEN Insight has not been able to keep up with the broader equity market during the past two quarters. This was in part due to difficulties faced by activist investors in an environment characterised by elevated uncertainty around the economic outlook. An escalation in trade war rhetoric over the summer negatively influenced the valuation of our portfolio and darkened the general near-term economic outlook. While we have seen the uncertainty manifest itself in weaker macroeconomic data readings, we remain convinced that the corporate transformation of our holdings remain on track.

We have seen very encouraging progress recently at our largest holding, ThyssenKrupp. The company is now proceeding with the sale of its prized Elevator division, in-line with our expectations, which will unlock material shareholder value. Clearly, the market has yet to appreciate the magnitude of value creation that we ultimately expect from this move. The ThyssenKrupp-situation is case in point that as share prices fall, the sense of urgency at board and management level increases, which helps activists to catalyse positive change.

We remain excited about the outlook for shadow activist-investing. Especially as the vast majority of our portfolio companies, and the progress they have made, are deeply misunderstood and underappreciated by the market. It is, however, important to remember that SKAGEN Insight is not an index fund, so it will outperform the market some years and likely underperform other years.



Foto: Bloomberg

Quadient is often synonymous with franking machines in the minds of mainstream investors, who overlook the fact that it is quickly transforming into a software-driven BPO (business process outsourcing) firm. Importantly, even if the company never sells a single franking machine again (and its semi-recurring consumables business also goes to zero), the valuation of the emerging businesses makes little sense. It trades at around 4x EV/EBIT in this scenario, which clearly fails to discount the strong profit growth trajectory of its software businesses. Quadient is also one of the largest providers of parcel lockers in the world, a business that holds great potential in the world of e-commerce. We believe the activists that are involved in Quadient (Swiss-based Teleios recently became the company's largest shareholder) will play an important role in: i) making sure cash flow generated from franking machines sold historically under leasing contracts is put to good use; ii) designing structural changes to help the market understand that Quadient is in fact a software business that deserves a much higher valuation, and iii) driving efficiency at this traditionally quite sleepy company.

### Top contributors

The fund's strongest positive contributors during Q3 were Newell Brands, which owns US household brands like Rubbermaid and Yankee Candle, and Kyushu Railway. At Newell, we have seen signs that the turnaround efforts are starting to gain traction. The new CEO is overseeing a cut-down in the number of items marketed and the opportunity to boost margins. Newell's stock responded positively to a hike in revenue guidance in connection with its latest earnings release. During Q3 the stock gained 30% in USD-terms.

The largest detractors in the quarter were Conduent and Armstrong Flooring. Conduent fell sharply following a somewhat disappointing Q2 earnings release. The company also announced a possible break-up, however, and the activist strengthened his grip on the situation, buying more shares and orchestrating further board changes – two positives in our view. We remain invested in this situation as the current valuation appears to be completely out of sync with reality. Given these developments, we would not be surprised to see strategic and/or financial buyers approaching the company with takeover proposals.

### New holdings

The fund initiated two new positions in the third quarter: Nordea, the largest retail bank in the Nordics, and Quadient (formerly Neopost), a mail equipment company in the process of pivoting to become a software firm. These investments have got off to a good start and contributed positively to fund performance. Having said that, we continue to see material upside potential in both names.

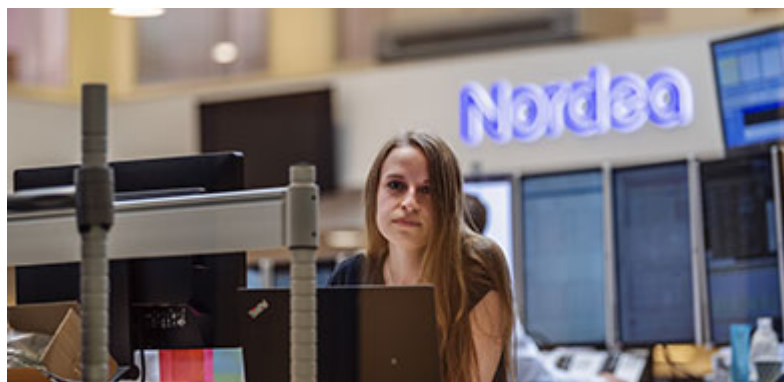


Foto: Bloomberg

### Outlook

The universe of activist campaigns that we invest in is trading at a deep discount, both on an absolute and relative basis. In fact, the universe now trades at an estimated 25% discount to the broader equity market. In other words, these are fertile grounds for finding attractively valued situations. We also see a lot of value potential across the existing portfolio as many of our holdings have traded down due to nervousness of myopic investors and not deteriorating fundamentals. This is old news for those of you who have followed the fund over the past year. However, it is worth reiterating that Insight sits on a portfolio of deeply undervalued and underappreciated companies where fundamental trends are moving in the right direction and activists increasingly are becoming the catalyst for positive change.

SKAGEN Insight investerer i en bred og aktivt forvaltet portefølje av selskaper knyttet til noen av de mest attraktive aktivistkampanjer i verden. Aktivister ønsker å skape verdier gjennom å forbedre selskaper. SKAGEN Insight «skygger» aktivistene ved å investere i disse selskapene. Målet er å gi best mulig risikojustert avkastning. Fondet passer for dem med minst fem års investeringshorisont.

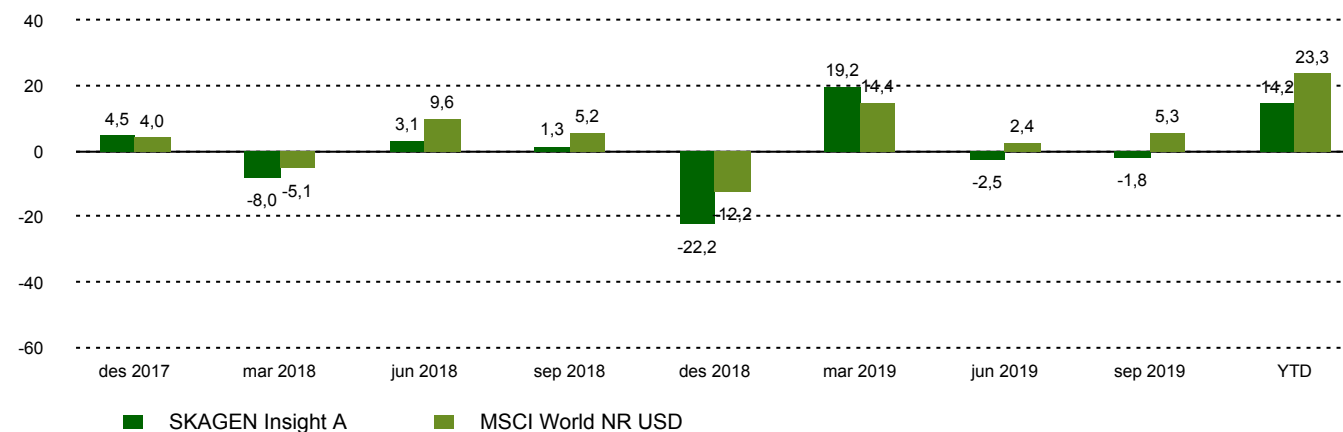
## Historisk avkastning

Periode	SKAGEN Insight A	Referanseindeks
Siste måned	5,6%	3,3%
Hittil i kvartal	-1,8%	5,3%
Hittil i år	14,2%	23,3%
Siste år	-11,2%	8,3%
Siden start	-3,1%	12,4%

## Fondsfakta

Type	Aksjefond
Domisil	Norge
Start dato	21.08.2017
Morningstarkategori	Globale, Store selskaper, Blanding
ISIN	NO0010801558
NAV	74,73 DKK
Årlig forvaltningshonorar	1.5%
Totalkostnad (2018)	1,50%
Referanseindeks	MSCI World NR USD
Forvaltningskapital (mill.)	159,21 DKK
Antall poster	32
Porteføljeforvalter	Tomas Johansson

## Kvartalsvis avkastning



## Bidragsytere i kvartalet

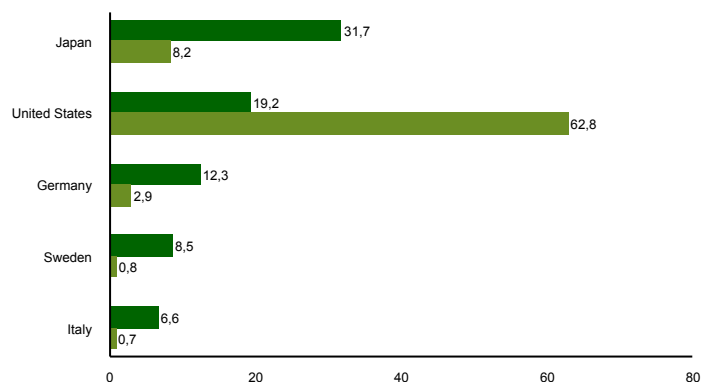
Største positive bidragsytere			Største negative bidragsytere		
Navn	Vekt (%)	Bidrag (%)	Navn	Vekt (%)	Bidrag (%)
Newell Brands Inc	2,91	0,84	Conduent Inc	3,78	-1,38
Kyushu Railway Co	4,00	0,66	Armstrong Flooring Inc	3,60	-1,33
Pasona Group Inc	6,11	0,54	Teikoku Sen-I Co Ltd	6,84	-0,72
Maxell Holdings Ltd	4,51	0,53	Eitel AB	5,88	-0,57
Telecom Italia SpA/Milano	3,95	0,49	Assertio Therapeutics Inc	0,52	-0,48

I NOK for alle andelsklasser

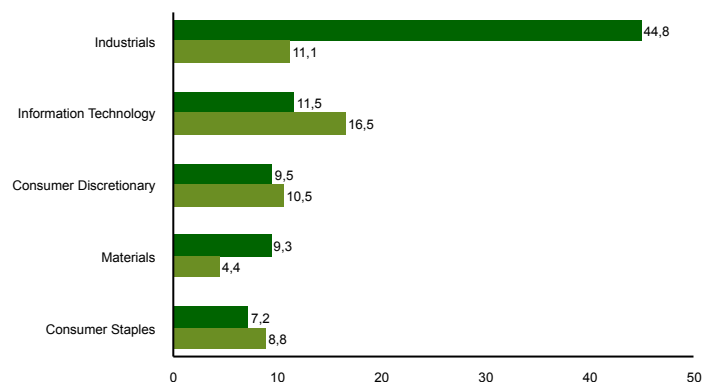
## 10 største investeringer

Navn	Sektor	Land	%
Thyssenkrupp AG	Materials	Germany	7,8
Teikoku Sen-I Co Ltd	Industrials	Japan	6,8
Pasona Group Inc	Industrials	Japan	5,9
Eltel AB	Industrials	Sweden	5,8
Katakura Industries Co Ltd	Industrials	Japan	4,6
Maxell Holdings Ltd	Information Technology	Japan	4,6
Telecom Italia SpA/Milano	Communication Services	Italy	4,3
Kyushu Railway Co	Industrials	Japan	3,9
Stock Spirits Group PLC	Consumer Staples	United Kingdom	3,8
Rexel SA	Industrials	Portugal	3,6
Samlet vekting			51,1

## Landeksponering (topp 5)



## Bransjefordeling (topp 5)


■ SKAGEN Insight A    ■ MSCI World NR USD

■ SKAGEN Insight A    ■ MSCI World NR USD

## Kontakt



+45 7010 4001



kundeservice@skagenfondene.dk

SKAGEN AS, Bredgade 25A 1260  
København K

## Viktig informasjon