ANNUAL FUND UPDATE 2017

SKAGEN

ANNUAL UPDATE FOR
SKAGEN'S EQUITY FUNDS 2017

CONTENTS

5

Several of our South Korean holdings performed very well in 2017. Photo: Bloomberg

10

Samsung Electronics was a positive contributor in several of the funds. Photo: Bloomberg

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Photo: Bloomberg

SKAGEN Global

A world of opportunities

- Broad-based economic recovery despite geo-political turmoil
- Brisk portfolio activity in SKAGEN Global
- Focus on companies with strong balance sheets

1	2	3	4	5	RISK	7

Fund start date	7 August 1997
Return since start	1299.1%
Average annual return	13.8%
AUM	EUR 3 181 million
Number of unitholders	72 184

PERFORMANCE IN EUR	12M	Since start
SKAGEN Global	7.7 %	13.8 %
MSCI ACWI	8.8 %	4.6 %

** As of 29 December 2017*

PORTFOLIO MANAGERS

Knut Gezelius, Søren Milo Christensen, and Chris-Tommy Simonsen

P.S. Krøyer, From the moor north of Skagen, 1885. This painting is manipulated and belongs to The Art Museums of Skagen.

Rising markets despite geopolitical turmoil

2017 was characterised by generally rising share prices in most regions. Investors in SKAGEN Global also benefited from this as the fund generated an absolute return of 7.7 percent, as measured in euro.

Although 2017 was characterised by significant political turmoil in the US, a geopolitically tense situation in North Korea as well as uncertainty around the Brexit negotiations, these events gave rise to unusually small fluctuations in the stock markets. The political backdrop did not just result in negative news, however; Emmanuel Macron's election victory in France in particular had a positive effect on European stocks.

During a year in which politics failed to seriously ruffle the feathers of the stock markets, Mother Earth made more of an impact. We saw numerous natural disasters around the world which had a major impact on the share prices of a number of insurance companies.

Despite natural disasters and substantial political turmoil, the macroeconomic developments continued steadily in the right direction in all the major economies. The broad economic recovery is also the main reason that 2017 was a strong year for global equities in general.

Positive developments in Europe and emerging markets

In Europe and the emerging markets in particular, the economic growth indicators started to point in the right direction. This drove the performance of a number of our European holdings with significant exposure to emerging markets; companies such as Unilever, Philips, DSM, and Carlsberg were positive contributors to the portfolio's return.

In the US, the focus was on the interest rate hikes by the Federal Reserve and a new tax reform, which at the end of the year fuelled hopes of higher future economic growth. There is no better cocktail than higher interest rates, higher economic growth and lower taxes for banking stocks. That is why, despite already having performed well for several years, the fund's largest holding, Citigroup, continued to yield a good return in 2017.

In pursuit of well-run undervalued companies

We have found a number of new undervalued companies in the past year and 2017 was therefore a relatively busy year in terms of portfolio activity. We made several changes in the financial sector in particular. In light of the market's overreaction to the above-mentioned natural disasters, we found a rare opportunity to buy into some of the world's most well-run insurance companies. For more extensive information about this, please read the article written by Portfolio Manager Knut Gezelius which is published on our website[1].

[1] Read the article "Insurance opportunities in a year of natural disasters".

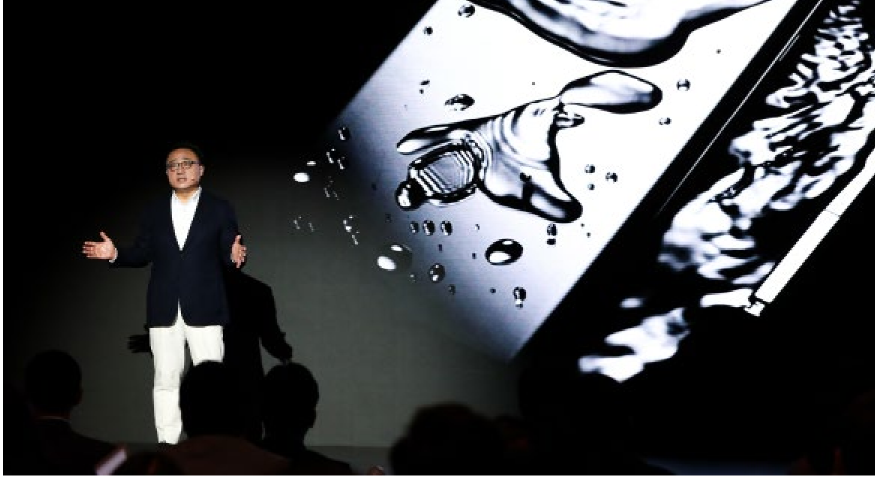


Photo: Bloomberg

The large positions in the portfolio generally performed well in 2017. For example, Samsung delivered strong numbers throughout the year which surprised the market positively.

Good contributions from major positions

The global technology company Samsung Electronics once again made a positive contribution to SKAGEN Global in 2017. Throughout the year, the company continuously delivered financial figures that surprised the market positively. In addition, we saw that the company continued to reward shareholders in the form of dividends as well as share buybacks.

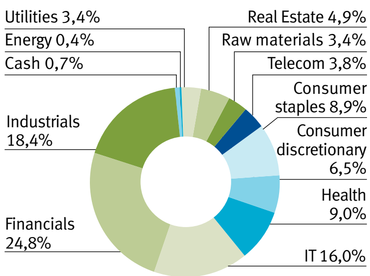
Unilever was another positive contributor last year. The company's US competitor, Kraft-Heinz, made a bid for the company in February that caused the stock to rise sharply. The bid was not accepted by Unilever, but management instead proposed a plan to meet shareholders' wishes. Specifically, they proposed accelerating the ongoing restructuring process, and using the company's strong balance sheet to buy back shares. Management has generally delivered on this plan in 2017, which has resulted in a steady increase in the share price.

A number of our other major positions also contributed to the strong absolute return throughout the year. Microsoft continued its positive transition towards more cloud-based products in addition to enjoying generally robust operational development. Similarly, the conglomerate 3M has delivered strong operational results through 2017 focusing on a continuously increasing free cash flow.

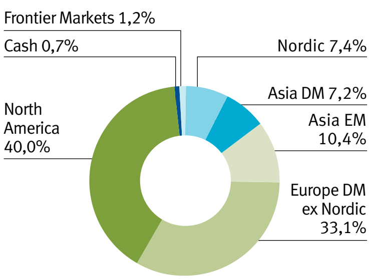
General Electric and Teva pulled down

The largest detractor from the fund's performance in 2017 was the American multinational conglomerate General Electric. The company's management failed to satisfy expectations of improved earnings and, in particular, an improvement in the free cash flow. This also led to the resignation of the CEO in mid-2017. We decided to sell the stock in July, mainly due to the company's failure to generate free cash flow.

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



SKAGEN GLOBAL CHANGES IN 2017 (AS PERCENTAGE OF AVERAGE AUM)

5 largest contributors	
Samsung Electronics Co Ltd	2.13
Unilever NV	1.55
Microsoft Corp	1.48
3M Co	1.13
Citigroup Inc	1.03

5 largest detractors	
General Electric Co	-1.09
Teva Pharmaceutical Industries	-0.63
American International Group I	-0.43
Kingfisher PLC	-0.30
Henkel AG & Co KGaA	-0.22

5 largest purchases	
Intercontinental Exchange Inc	3,07
Beazley PLC	2,88
Marsh & McLennan	2,67
Waters	2,41
Henkel	2,27

5 largest sales	
AIG	-5,23
Roche Holding	-4,44
General Electric	-3,66
Merck & Co	-3,56
G4S	-3,25

Absolute contribution based on NOK returns at fund level

The Israeli pharmaceutical company Teva was the second largest detractor of the year. Like GE, the company suffered from poor operational development and also failed to generate free cash flow. Having made a number of unsuccessful acquisitions, the CEO also had step down at the beginning of 2017. The combination of poor operational development and a high debt burden caused us to sell the stock in May.

Necessary focus on financial risk in 2018

Bond investors are generally poorly rewarded for taking on risk in the current environment. Similarly, we believe that the stock market does not take into account the financial risk that exists in companies with high debt when pricing a company. It is therefore a common characteristic among the companies in SKAGEN Global that they generally have strong balance sheets with little or no financial debt.

After many years of lagging behind Europe and the US, a number of emerging markets economies now seem to be on the road to recovery. In SKAGEN Global, almost 40% of total revenue from our underlying companies comes from markets outside Europe and the US. While we have significant exposure to these regions, this exposure is via western companies with strong management, strong brands and good corporate governance. The reason for this indirect exposure is that these shares trade at a significant discount to locally listed companies with the same characteristics.

US equities have stood out among the leading global stock markets since the financial crisis. While the market generally looks expensive after the strong upturn, we are still able to find opportunities in the US. Nonetheless, we have significantly less exposure to the US than the general market.

SKAGEN Global's portfolio consists of fundamentally undervalued holdings that are positioned to provide solid absolute return, but which have good downside protection. SKAGEN Global's portfolio is attractively valued and offers approximately 20% upside from a 2-year perspective. We continue to strictly adhere to SKAGEN's time-tested value-based investment philosophy in our pursuit of undervalued companies with attractive long-term potential.

SKAGEN Kon-Tiki

Leading the way in new waters

› Best year for emerging market equities since 2010

› The fund was boosted by the performance of its South Korean holdings

› Lack of exposure to Chinese internet stocks negatively affected relative performance

1	2	3	4	5	RISK	7

Fund start date	5 April 2002
Return since start	615.5%
Average annual return	13.3%
Assets under management	EUR 2 850 million
Number of unitholders	56 391

PERFORMANCE IN EUR	12M	Since start
SKAGEN Kon-Tiki	16.4 %	13.3 %
MSCI Emerging Markets	20.5 %	8.3 %

**As of 29 December 2017*

PORTFOLIO MANAGERS

Knut Harald Nilsson, Cathrine Gether and Fredrik Bjelland.

Carl Locher, Skagen reef's lightship, 1892. This painting is manipulated and belongs to The Art Museums of Skagen.

Several of our South Korean holdings performed very well in 2017. Pictured here is a ceremony marking the first trading day of the year at the Korea Exchange in Seoul, South Korea.

Photo: Bloomberg

Good year for emerging markets equities

2017 was the best year of returns for emerging markets equities since 2010. It was the second consecutive year that the asset class delivered better returns than developed markets.

The key driving force behind the outperformance was improved corporate earnings, which had bottomed out during the first half of 2016. Earnings across the emerging markets universe are set to exceed 20 percent for 2017.

We are not satisfied with the fund's relative return, which was negatively affected by our underweight in the technology sector and operational challenges faced by our second largest holding, Hyundai Motor.

South Korean holdings delivered

Barring Hyundai Motor, our South Korean holdings performed very well in both absolute and relative terms. The share prices of Samsung Electronics, LG Electronics and Samsung SDI were all up more than 50 percent in the year.

Our investments in Brazil also provided strong relative and absolute return and the share price of the rail operator Rumo Logistica more than doubled. Efficiency and profitability gains are now coming through from the previous years' investment plan, and towards the end of the year Rumo strengthened the balance sheet through a successful equity raising which makes them even better positioned to take advantage of future volume increases.

Only one stock in our portfolio suffered a permanent loss of capital and that was the Russian conglomerate Sistema. We disposed of the holding in the second quarter on litigation risk following a large claim from Rosneft. In addition, the Indonesian telecommunications services and network provider Indosat experienced temporary loss of capital having suffered from weakening pricing in its domestic market, which led to a re-basing of earnings expectations.

Despite owning the Chinese technology and investment holding conglomerate Tencent indirectly through our position in Naspers, our general lack of ownership in the emerging markets technology sector was a key reason for our underperformance versus our benchmark index in the year. Our exposure to Turkey was also a detractor from relative performance, partly due to foreign exchange weakness.

Focusing on our best ideas

During the year, we further concentrated the SKAGEN Kon-Tiki portfolio by reducing our holdings from 60 to 44. We have sold out of 23 companies and added 7 new holdings to the portfolio.

One of the new positions in 2017 was Gree Electric; our first investment in Chinese A-listed equities. Gree is the world's largest air conditioner manufacturer, operating in a growing market with penetration and upgrade demand. The industry

Photo: Bloomberg

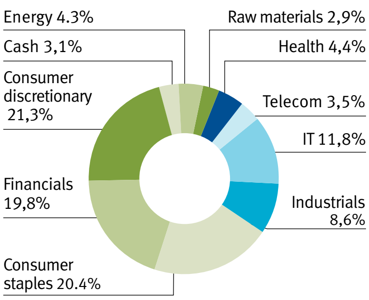
Lenta, the biggest hypermarket operator in Russia, is a new position. With consumer confidence returning, real incomes increasing and food inflation at a low level, we think prospects for the hypermarket format in Russia are improving.

is characterised by a high degree of consolidation and stable market share. Despite strong returns since we initiated the position, we still see around 50% return potential including dividends over the next 2-3 years, even without a major re-rating from today's level of around 13x P/E.

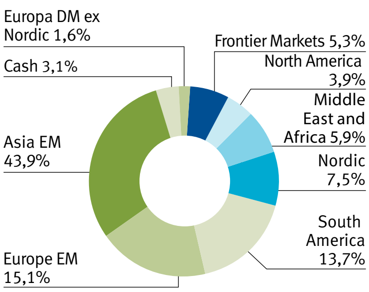
Another recent new position is in Lenta, the biggest hypermarket operator in Russia. Lenta is a low cost operator with strong logistic operations, a strong price image and is known for quality fresh produce and targeted promotions through a well-developed loyalty card scheme. Russia has been through a period of weak consumer confidence, declining real income levels and high food inflation. The hypermarket format is unpopular with investors, as it has been losing share over the past few years. With consumer confidence returning, real incomes increasing and food inflation at a low level, we think prospects for the hypermarket format in Russia are improving. Other hypermarket operators have stopped expanding. Lenta is also more selective, ramping up expansion in supermarkets instead. The supermarket format is underpenetrated in Russia, and we believe this is an exciting opportunity as we expect an evolving customer sophistication to drive a shift to value supermarkets over time. Lenta trades on an attractive valuation, has strong asset backing (equivalent to 2/3 of the market cap less net debt) and we expect LFLs and traffic to improve.

We enter 2018 with a highly concentrated portfolio focused on our best ideas. The 35 largest positions account for 90% of the fund's assets.

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



SKAGEN KON-TIKI CHANGES IN 2017 (AS PERCENTAGE OF AVERAGE AUM)

5 largest contributors	
Samsung Electronics Co Ltd	3.77
Naspers Ltd	3.23
LG Electronics Inc	1.96
Samsung SDI Co Ltd	1.65
Banrisul	1.25

5 largest purchases	
Gree Electric Appliances Inc of Zhuhai	2,34
Ericsson	2,27
China Unicom Hong Kong Ltd	2,15
Bangkok Bank	1,56
Borr Drilling	1,42

5 largest detractors	
Indosat Tbk PT	-0.49
Sistema PJSC FC	-0.42
China Unicom Hong Kong Ltd	-0.25
Norwegian Air Shuttle ASA	-0.23
Shineway Pharma	-0.22

5 largest sales	
Samsung Electronics	-4,63
Naspers	-3,02
SBI Holdings	-2,98
CNH Industrial	-2,96
Richter Gedeon	-2,85

Absolute contribution based on NOK returns at fund level

Opportunities from improved corporate governance

Corporate governance is increasingly in focus with shareholder activism gaining traction. This trend has also started in South Korea, were the new government has been vocal about taking steps to make improvements in a country with historically low dividend pay and minority shareholder abuse being common. SKAGEN Kon-Tiki is well positioned for change here with almost a quarter of the fund's assets deployed in Korean companies valued well below emerging markets in general and selling at a major discount to intrinsic value.

Outlook for 2018

The outlook for emerging market equities looks reasonably good as we expect earnings recovery to continue helped by contained inflation in most emerging countries and proof of economic recovery in hard-hit countries such as Russia and Brazil. Despite the narrowing of valuation over the past two years, emerging market equities still trade at a meaningful discount to developed markets.

However, the emerging markets span a number of countries, which are very diverse in terms of economic development, growth, interest rates, inflation, governance and indebtedness. Furthermore, a company's country of listing and the location of its headquarters are becoming increasingly less important as many companies continue to grow outside their home turf. It is therefore increasingly important to look at a company's exposure, in other words, to maintain a bottom-up focus.

Value has been out of favour for several years with low interest rates and mediocre global economic growth having favoured growth stocks. We see some signs of reversal and our portfolio is well positioned for this, with aggregate valuation multiples well below average.

Photo: Bloomberg

SKAGEN Focus

Hunting for exceptional investments

- Generated solid absolute performance during the year as the fund's NAV rose 8.0%
- Brisk activity in the fund with 14 new names added to the portfolio. The same number of positions were sold out, the majority of which had reached the set target price
- Reduced exposure to industrial metals and increased exposure to Japan and Energy

1	2	3	4	5	RISK	7

Fund start date	26 May 2015
Return since start	8.0%
Average annual return	3.0%
AUM	EUR 255 million
Number of unitholders	4 945

PERFORMANCE IN EUR	12M	Since start
SKAGEN Focus	8.0 %	3.0 %
MSCI World AC TR Index	8.8 %	4.5 %

** As of 29 December 2017*

PORTFOLIO MANAGERS

Filip Weintraub, Jonas Edholm and David Harris

P S Krøyer, Krøyer´s dog, Rap, 1898. This painting is manipulated and belongs to The Art Museums of Skagen.

Big in Japan

SKAGEN Focus delivered another set of solid absolute return numbers in 2017 as the fund's NAV rose 8.0% in EUR in 2017. The fund's benchmark index rose 8.8% in the year.

Company-specific drivers impacted the fund's performance, which is to be expected in a highly concentrated portfolio. There was brisk activity in the fund in 2017 as 14 newcomers entered the portfolio while the same number of positions left. The majority of the outgoing positions had reached our share price targets.

Best contributors

The largest positive contributors in the year were represented by a diversified set of positions, driven by unrelated company specific value-drivers. The Japanese financial conglomerate SBI Holdings was the largest contributor in absolute terms. We increased the position during the year and it is the fund's largest position at year-end. While being a complex entity, we believe the company is trading at a large discount to its underlying value. Samsung SDI was sold out in the year as it reached our price target. Surprisingly strong earnings and stabilising market shares caused the share price of beverage company Stock Spirits to increase further. Our top-10 position in US based refiner Andeavor has performed strongly in the year. The severe weather-related natural disaster season in the US boosted refining margins and the company produced a strong set of results in the last quarter. The company has also been able to generate substantial synergies through its merger with Western Refining. Our Dutch holding Philips Lighting reached our price target as the company delivered solid earnings reports in the year and a sell-down in shares by the former sole owner Royal Philips.

Increased positions on weakness

Global pharmaceuticals company Teva detracted from performance, but staged an impressive recovery towards year-end. The company appointed a new CEO, Kåre Schultz, who, following a string of negative events and poor execution by the former management, announced a restructuring plan. Teva's cost base will be reduced by 20% by 2019, which includes cutting up to 25% of the overall workforce. Primarily the high balance sheet risk but also the recent generic introduction of Copaxone have forced the implied risk premium in the stock to extreme levels. While a deep restructuring process brings increased execution risk, the market should gradually start to appreciate the actions taken to reduce balance sheet risk. We took advantage of the intra-year weakness to increase our position.

The highly depressed intra-year environment in the energy sector uncovered another opportunity and we accumulated shares in US-based contract driller Helmerich & Payne. Our position in Brazilian food company JBS was negatively affected by issues mainly related to the holding company and its owners. However, the company's fundamental performance is currently producing record results as margins in the core operations are increasingly rapidly. Interestingly, the JBS Foods International IPO in the US is back on the table for 2018. We believe the market is attributing an extremely low valuation to the shares, especially when taking into account the listed asset in Pilgrim's Pride in the US. Consistent with our investment

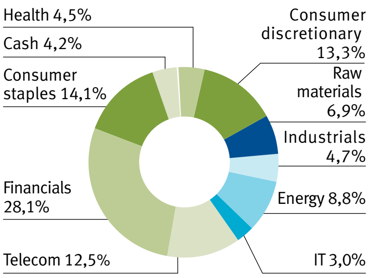
Photo: Bloomberg

Big in Japan

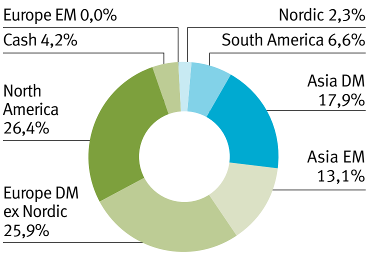
Our exposure towards the Japanese equity market increased meaningfully to around 20% of fund assets at year-end. Three positions in the top-10 holdings are Japan-related. The Japan-based financial conglomerate SBI Holdings has moved up to become the largest position in the fund. Despite its current business momentum and several catalysts for re-rating, we believe the stock is trading at a substantial discount to our base net asset value estimate of the company's combined asset base. The net asset value segment split is roughly between 70% financial services, 20% asset management and 10% biotech. Without taking into account recent promising investments, we see our required equity upside. The company's most recent investments target emerging areas, such as blockchain payment services and cryptocurrency trading infrastructure solutions, and we believe potential value-creation in this area represents a free option in the investment case. It is, however, worth highlighting that we diversify the fundamental risk exposure in our Japanese positions, which range from cement, domestic banking, disaster prevention equipment to online/telecom conglomerate giant Softbank. Softbank is driven by factors primarily determined outside the domestic market. The stock still trades at a remarkable discount to underlying asset values. We should also highlight our fairly recent position in regional bank, Bank of Kyoto, which has risen more than 30% since entering the fund this summer.

Recently added positions make up about 30% of the total portfolio at year-end. At the end of the year, SKAGEN Focus consists of 34 stocks with a wide range of market cap sizes, where 17.6% are small cap and 42.5% are mid-cap stocks, with the common denominator being that they are all substantially undervalued with company-specific potential to re-rate over a 2-3 year time horizon.

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



SKAGEN FOCUS CHANGES IN 2017 (AS PERCENTAGE OF AVERAGE AUM)

5 largest contributors	
SBI Holdings Inc/Japan	2.04
Samsung SDI Co Ltd	1.61
Philips Lighting NV	1.46
E-MART Inc	1.38
Andeavor	1.26

5 largest detractors	
Teva Pharmaceutical Industries	-2.45
Whiting Petroleum Corp	-1.61
American International Group	-1.07
JBS SA	-0.67
TerraVia Holdings Inc	-0.53

5 largest purchases	
Bank of Kyoto	3,56
Gold Fields Ltd	3,24
Brighthouse Financials	3,16
Helmerich & Payne	3,12
Hyundai Motor	3,11

5 largest sales	
E-MART	-4,37
Philips Lighting	-3,60
Taiheiyo Cement	-2,95
Alphabet	-2,82
Adient	-2,77

Absolute contribution based on NOK returns at fund level

SELECT PORTFOLIO POSITIONS

Tachi-S | Japanese car seat-maker Tachi-S is a small cap company at only USD 650m. The company is executing well on its 2020 plan to reach a higher operating margin and increased sales. The company has a substantial opportunity to increase its footprint in the Toyota Group as Toyota Boshoko, one of the largest Toyota suppliers, recently bought a 5% stake in Tachi-S and is launching several joint business initiatives with Tachi-S.

Korean cement | We initiated two new positons in Asia Cement and Hanil Cement during the year, and they have since delivered solid performance as analysts have gradually started to factor in cement price hikes in the more consolidated Korean market place. Asia Cement's acquisition of Halla Cement was confirmed, triggering a more than 50% rise in the share price.

Unicredit | We initiated a position in Italian bank Unicredit in February 2017 and participated in the re-capitalisation of the company in an equity raise. The shares performed solidly in the year as the company executed on cost savings and dramatically reduced non-performing assets.

Gold Fields | South Africa based gold miner Gold Fields is one of the largest gold exploration companies in the world with a total production capacity of 2.2m ounces and reserves in excess of 50m ounces. Interestingly the bulk of the assets are located outside South Africa. The one asset in South Africa is South Deep, one of the largest gold reserves in the world. We think the company's asset base is not well understood as the market values the company in line with or even below pure South African operators.

Synchrony Financial | US private label card provider and lender Synchrony Financial was a positive contributor during the fourth quarter 2017 as Warren Buffet's Berkshire bought a stake in the company. Berkshire built a USD 520m stake and is currently one of the top-10 shareholders. We believe the current perception of the consumer credit sector is overly depressed and view the current increase in credit costs largely as a normalisation from an extremely low base. The company remains substantially overcapitalised in our view, paving the way for above average capital returns for many years to come.

Photo: Bloomberg

Vestas Wind Systems was one of the detractors from the fund's performance in the year, but recent signals from the US indicate that 2018 could be a considerably better year for the company.

SKAGEN Vekst

Exploring the narrow path to prosperity

- › Best return in global markets
- › Technology and health-care best contributors
- › Positioned for continued growth in 2018

1	2	3	4	RISK	6	7

Fund start date	1 December 1993
Return since start	1984.6%
Average annual return	13.4%
AUM	EUR 870 million
Number of unitholders	59 334

PERFORMANCE IN EUR	12M	Since start
SKAGEN Vekst	9.1 %	13.4 %
MSCI Nordic/MSCI AC ex. Nordic	9.5 %	9.8 %

** As of 29 December 2017*

PORTFOLIO MANAGERS

Øyvind Fjell and Alexander Stensrud

Einar Hein, *Beach cyclists.* 1894. This painting is manipulated and belongs to The Art Museums of Skagen.

A year of growth

"Bull markets don't die of old age alone and we are positioning ourselves accordingly," says portfolio manager Øyvind Fjell on the outlook for SKAGEN Vekst in 2018.

2017 was a good year for unit holders in SKAGEN Vekst. The fund ended the year up 9.1 percent as measured in euro, 0.4 percentage points behind its benchmark index. Performance was generally positive in all the markets the fund is invested in, but the Nordic markets delivered somewhat lower returns than the global markets in the year.

The stock market was largely characterised by low volatility in 2017, supported by continual stimulus from the central banks. In some countries, such as the US, we see that this period of stimulus is coming to an end; the interest rate was hiked three times in the US in the course of the year.

Growth in the global economy and on the Oslo Stock Exchange was solid in 2017. In the Nordic markets, where the majority of the fund's assets are invested, performance was on the whole good. The materials and industrials sectors performed particularly well, especially in Sweden, driven by higher commodity prices amongst other things. The consumer and technology sectors were among the losing sectors as old favourites such as Hennes & Mauritz and Nokia failed to live up to previous glory.

At company level, performance was generally solid. Strong macroeconomic development and demand – which in many cases came up from relatively moderate levels – contributed to an earnings growth increase in most sectors. The industrials and materials sectors amongst others benefited from this development. The technology sector was the best performing sector globally, driven by solid developments for the largest companies in particular.

Samsung and healthcare

SKAGEN Vekst's heavyweight holding Samsung contributed most to the portfolio's performance in the period. The company reported excellent figures as a result of strong performance, particularly within the company's semiconductor division. Demand for the company's products is in many cases motivated by large secular drivers such as fast-growing data volumes and the need for greater data power accordingly. These are trends that will continue also in the years to come.

The Danish pharmaceuticals manufacturer Novo Nordisk also had a very good year after we bought into the company following a steep drop in share price in 2016. The company's earnings throughout the year have in general been better than the market expected and expectations of further pricing pressure on Novo's product portfolio are now more moderate. The company's clinical portfolio has also delivered according to plan throughout the year, and this forms the basis for higher growth going forward. As we assessed that risk in the company is falling, we increased our holding in the company throughout the year.

Newcomer Lonza was the third best contributor to the fund's performance. The Swiss company specialises in manufacturing drugs and speciality chemical ingredients and delivered extremely good results and guided for higher long-term earnings over the course of the year.

Other positive contributors to the fund's performance included the dry bulk

Photo: Bloomberg

Samsung Electronics was the best contributor of the year and the company's semiconductor division performed particularly well. Important technology trends, such as demand for ever greater data volumes, mean that the outlook for 2018 is good for Samsung.

company Golden Ocean, which benefited from increased demand for the freight of iron ore and coal in China. After a few difficult years, the company is on track to being able to make dividend payments again, something we think will be appreciated by the market. Our position in the Russian bank Sberbank also made a very good contribution to the fund's return after having delivered solid numbers on most parameters. The Russian economy is recovering slowly at the same time as Sberbank is very successfully operating its business. This resulted in a solid share price lift for the bank in 2017.

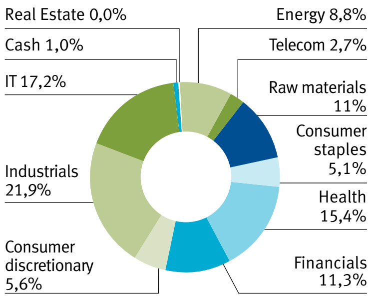
The laggards

On the negative side, Norwegian Air Shuttle was the company that detracted most from the portfolio's return. Strong competition and weak deliveries on the cost side, in combination with high levels of borrowing, were among the reasons for the company's poor performance. During the course of the year we chose to divest the holding for the time being.

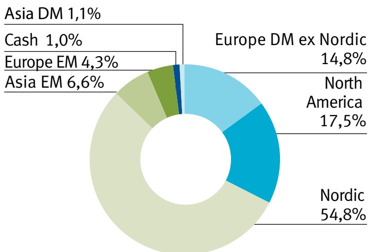
Vestas Wind Systems also detracted from performance in 2017. Increasing price competition and lack of clarity around the political situation in the US meant that the short-term outlook became extremely unclear during the autumn. Towards the end of the year we saw indications that the wind industry would keep its subsidy schemes in the US, which could mean that 2018 will be a significantly better year for the company.

The Israeli pharmaceuticals company Teva was also a negative contributor in 2017. Weaker than expected earnings in addition to an overextended financial situation meant that the company had to cut the dividend for the year amongst other things. We also exited Teva during the course of 2017.

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



SKAGEN VEKST CHANGES IN 2017 (AS PERCENTAGE OF AVERAGE AUM)

5 largest contributors		5 largest purchases	
Samsung Electronics Co Ltd	3.04	Vestas Wind Systems	5,35
Novo Nordisk A/S	2.72	Lonza Group AG	5,14
Norsk Hydro ASA	1.88	DSV	5,07
Carlsberg A/S	1.64	Novo Nordisk	4,92
Kinnevik AB	1.41	Applied Materials	4,90
5 largest detractors		**5 largest sales**	
Norwegian Air Shuttle ASA	-2.18	Continental	-5,74
Vestas Wind Systems A/S	-1.51	SAP	-4,12
Teva Pharmaceutical Industries	-0.84	Hennes & Mauritz AB	-3,21
Hennes & Mauritz AB	-0.53	Roche Holding	-2,77
Cal-Maine Foods Inc	-0.31	Norwegian Air Shuttle	-2,72

Absolute contribution based on NOK returns at fund level

Making room for the best ideas

Changes were made to the portfolio management team in SKAGEN Vekst in 2017, which meant that some changes were also made to the portfolio. During the process we also chose to reduce the number of positions somewhat in order to be able to focus even more intensely on our best ideas. We parted ways with a few longer term holdings such as Hennes & Mauritz, Ericsson, Norwegian and Continental, amongst others. The reason for exiting these positions was partly as a result of price targets being attained and partly a wish to create room for new companies.

The most noteworthy newcomers include the above-mentioned Lonza, the US technology companies Applied Materials and Broadcom, the German airline company Lufthansa and the Danish charter company DSV. We see an attractive upside in all the above-mentioned companies and look forward to following their future journey.

Good odds for 2018

For 2018, we see many of the same drivers and risk factors as we did for 2017. Most importantly, we see solid demand across geographies and sectors, and we believe that the central banks will continue to operate a broadly stimulatory policy. There are currently few signs of inflationary tendencies, but should inflation start to increase, the interest rate market will have to react quickly. This may represent the most important risk such as we see it. Companies' valuations are not cheap – in many cases they are rather expensive – at the same time as earnings in many industries are high. This is not an attractive combination.

At the same time, we are able to find sectors and industries which are still awaiting an upturn and which are priced at extremely attractive levels. For example, several of our shipping companies such as Golden Ocean, FLNG and Wilh Wilhelmsen Holding are in the early phases of an upturn and will be able to provide significant returns going forward if our assessment is correct.

All in all, we believe that SKAGEN Vekst is equipped to provide good returns in 2018 also. We have a healthy mix of companies in the portfolio, which are trading at a clear discount to the market as a whole. The long upward trend behind us represents a challenge to future returns, but at the same time, the odds are good for 2018 to be another year of positive returns. We do not believe that bull-markets die of old age alone and are positioning ourselves accordingly.

SKAGEN m²

A share in the global property market

- 2017 was a year of strong stock picking and the fund celebrated five years with the best relative return since inception
- Undervalued companies within logistics, hotels and rental housing performed particularly strongly
- The outlook for 2018 is good, with stronger balance sheets than we have seen for a long time

1	2	3	4	5	RISK	7

Fund start date	31 October 2012
Return since start	49.2%
Average annual return	8.1%
AUM	EUR 128 million
Number of unitholders	6 854

PERFORMANCE IN EUR	12M	Since start
SKAGEN m²	13.0 %	8.1 %
MSCI ACWI Real Estate IMI	7.2 %	10.3 %

** As of 29 December 2017*

PORTFOLIO MANAGER

Michael Gobitschek

Johan Peter von Wildenradt, *Architect Ulrik Plesner`s first extension to Brøndum`s hotel.* 1892. This painting is manipulated and belongs to The Art Museums of Skagen.

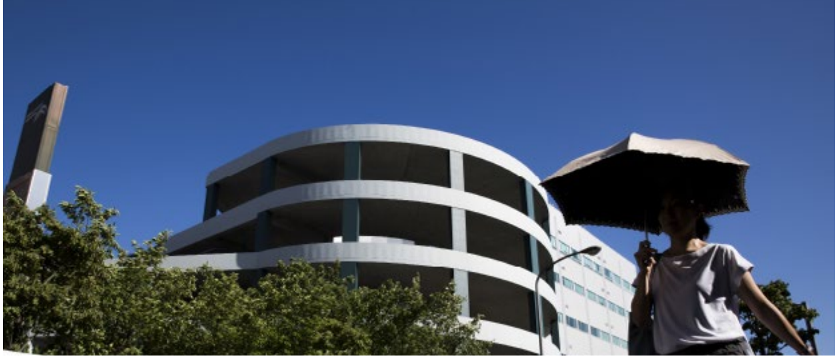


Photo: Bloomberg

Chinese consortium Nesta agreed to pay USD 11.6bn for Global Logistic Properties in Asia's biggest buyout. GLP was the best contributor to the fund in 2017.

Stellar year for SKAGEN m²

SKAGEN m² performed well in 2017, generating an annual return of 13.0 percent, as measured in euro. The benchmark index returned 7.2 percent in the same period. The fund's return is similarly good from a three-year perspective.

Conditions for real estate companies were favourable last year, with stable and to some extent synchronised global growth, low inflation and continued monetary policy stimulus.

The value of real estate has risen in line with strong demand-driven rental growth and diminishing required rates of return. An increasing number of more expensive transactions and continued strong demand for property have contributed to this good performance. Balance sheets are stronger thanks to the still low interest rates and many companies have been able to refinance their loans at very low costs and longer maturities.

For the first time in several years, emerging markets' performance has been good, which has also contributed to making it a positive year for SKAGEN m²'s holdings in these markets. India, Argentina and China, for example, all had strong performance. Argentinian company IRSA performed well after the mid-term election in Argentina, with a favourable outcome for future city project developments of its land bank. The company also presented positive operating numbers both in the retail and office segments in addition to positive refinancing.

Ten new companies were added to the portfolio in 2017 while eight were sold out.

Hotel and logistics

The fund was able to capture the growth in the global economy by investing in undervalued companies, regions and sectors where the market has misjudged the potential of rental growth or the revaluation of assets. Examples of this are the fund's positions in hotel companies, such as the Asian Shangri-La. The company has benefited from better economic developments in Asia driven by both business and private travellers. With greater purchasing power and increased travel activity, middle class travellers from China account for an increasing number of hotel nights. In addition, the hotel sector is in a consolidation phase, particularly in Europe.

Logistics is also an area which is naturally enough experiencing a boom thanks to the rise of e-commerce. Companies such as the Swedish Catena and the year's best contributor to the fund, Global Logistic Properties (GLP), which is the world's second largest logistics company, are riding the wave. The latter company has half of its operations in China and was bought by the Chinese consortium Nesta during the year. The Swedish logistics company Catena was a positive contributor in 2017. Catena is a logistics leader in Scandinavia and is benefitting from the growing e-commerce trend. E-commerce companies have realised that being successful relies on having a well-ordered logistics chain that provides fast and secure delivery. The logistics trend is very strong globally, but has not been focused on in Scandinavia. During the year, the company performed according to expectations and acquired additional properties, consolidating its position. Globally, the market consolidated further during the year, including through the GLP and Logicore mega transactions, and this is set to continue. Catena is well positioned to take advantage of these trends.

In control of their own destiny

Another important success factor is that SKAGEN m2 has at an early stage bought into companies that take an active approach towards their assets. By renovating and developing, they have been able to influence their growth positively beyond the usual rental growth. In many cases, the companies have been reasonably priced and we have not had to acquire highly priced assets.

We believe that this will continue to be a success factor in 2018. These companies will be better able to handle interest rate hikes as they will have the possibility to increase their revenue and cash flow and thus partially compensate for a potential drop in asset values. One example is Spanish Colonial, with the best located properties in Madrid, Barcelona and Paris, which continued to deliver good results in 2017. Rental growth in Spain is driven by a rapidly decreasing number of vacancies. The company has strong growth in the form of new projects that will contribute to good income in addition to organic rental growth. In the autumn, Colonial put in a bid (ongoing) for the former SKAGEN m2 holding Axiare, which would be a good fit for them. The company is also better positioned for positive capital allocation decisions, that is, share buybacks or increased dividends, something that will also increase in 2018.

Institutional investors enter

Another strong trend during the year has been that institutional investors with long investment horizons have increasingly put capital into directly-owned properties. The increasing transaction values are also reflected in listed property companies. The value difference between direct and listed real estate companies remains high, with listed real estate companies trading at a discount.

During the year, SKAGEN m2 was in several bidding situations and was well rewarded for these. Finnish Sponda was bought by the US property fund Blackstone; the Austrian rental company Buwog is at the time of writing being acquired by the German rental housing company Vonovia; and there was the above-mentioned GLP acquisition.

During the autumn of 2017, a number of transactions occurred within the mall market segment which has long been depressed. As a result of the transactions, players in the real estate industry and the private equity sector acquired assets or companies within the segment at a substantial discount. This is something that is likely to continue in 2018; there is still a lot of money on the side-lines that is earmarked for real estate investments. In addition, we have seen an increasing level of activism in the sector.

Cities in strong demand

The undervalued companies that SKAGEN m2 invests in are often located in cities or regions where there is strong growth and frequently where there is structural imbalance between supply and demand. Examples are Stockholm, Berlin, Madrid and Hong Kong. With good economic growth, low funding costs and demand driven rental growth, countries like Sweden, Norway and Germany still have strong real estate markets, despite all the negative headlines in the autumn. The reason is that the housing market has a different dynamic to commercial real estate. It may also be wise to differentiate between rental properties and, for example, tenant-owned apartments.

Outlook 2018

On the whole, the outlook appears stable for global real estate markets driven by good growth, low inflation and supportive stimulus of the economy. Transparency is reasonably good in the real estate sector in terms of profits and cash flow developments due to leases and tied credit. Rental growth and increasing occupancy will be value-driven also in 2018. Increased transaction volume and wise capital allocation initiatives will also affect the values positively, for example companies that sell their assets at a premium over substance and use the money for dividends or share buybacks. All of this benefits us as shareholders. It will be even more important in 2018 to invest in companies with good earnings potential in addition to normal rental growth, since market-driven valuation based on lower interest rates can no longer be counted on. Balance sheets are stronger than in a very long time and companies continue to be cautious, with the financial crisis still fresh in their memory. Selective opportunities will be found in regions or sectors benefiting from mega trends such as urbanisation, the growing middle class, primarily in Asia, and e-commerce.

However, there is a risk of faster than expected interest rate hikes, which usually has a temporarily negative effect or causes lower economic growth. We should not forget that we have had rising stock markets for many years. All the ingredients are in place for 2018 to be an exciting year!

SKAGEN M2 CHANGES IN 2017 (AS PERCENTAGE OF AVERAGE AUM)

5 largest contributors	
Global Logistic Properties Ltd	2.37
IRSA Inversiones y Representac	2.12
Inmobiliaria Colonial Socimi S	1.98
Shangri-La Asia Ltd	1.90
Deutsche Wohnen SE	1.86

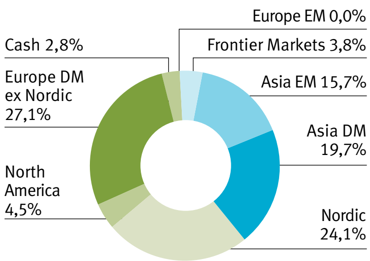
5 largest purchases	
CK Asset Holdings	4,24
Sun Hung Kai Properties	4,06
BUWOG	3,76
Self Storage Group ASA	2,90
Far East Consortium International Ltd	2,62

5 largest detractors	
CBL & Associates Properties In	-0.79
Ashford Hospitality Trust Inc	-0.57
SL Green Realty Corp	-0.46
Mercialys SA	-0.44
Mitsui Fudosan Co Ltd	-0.37

5 largest sales	
Mercialys	-3,27
CBL & Associates Properties	-2,99
Axiare Patrimonio	-2,66
PS Business Parks	-2,57
Big Yellow Group	-2,51

Absolute contribution based on NOK returns at fund level

GEOGRAPHICAL DISTRIBUTION



Home market, or under home market supervision
International market
Marketing permission

SKAGEN AS markets the following funds in countries where the funds have been registered with the respective regulator:

Country	SKAGEN Global	SKAGEN Kon-Tiki	SKAGEN Focus	SKAGEN Vekst	SKAGEN m2
Norway	X	X	X	X	X
Sweden	X	X	X	X	X
Denmark	X	X	X	X	X
UK	X	X	X	X	X
Netherlands	X	X	X	X	X
Luxembourg	X	X	X	X	X
Iceland	X	X	X	X	X
Ireland	X	X	X	X	X
Germany	X	X	X	X	X
Belgium	X	X	X	X	
France	X	X	X	X	
Switzerland	X	X	X		

Head Office:
SKAGEN AS
Post Box 160, 4001 Stavanger
Norway
Tel: +47 51 80 37 09
Fax: +47 51 86 37 00
Company reg number: 867 462 732
contact@skagenfunds.com
www.skagenfunds.com

UK Office:
SKAGEN AS
22 a St. James's Square
London SW1Y 4JH
United Kingdom
www.skagenfunds.co.uk
FCA Firm No.:
SKAGEN AS 469697
Company No: FC029835
UK establishment No:
BR014818

Dutch Office:
Gustav Mahlerplein 2
1082 MA Amsterdam
The Netherlands
www.skagenfunds.nl
Registration number:
52328686

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Editorial team
Parisa Kate Lemaire, editor
Ole-Christian Tronstad
Anna S Marcus
Christian Sigersted Larsen

Front page:
Michael Ancher, After the last battue, 1905. This painting is manipulated and belongs to The Art Museums of Skagen.

SKAGEN
funds