SKAGEN funds

Investment Director

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Many analysts are now predicting a period in which shares outside the US will create better returns than US shares.

The relatively strong recovery of the US economy in the aftermath of the financial crisis saw investors returning to the US. However, the US stock market is starting to show signs of becoming overvalued.

SKAGEN's equity funds have little direct exposure to the US.There has been renewed interest in American shares over the last five years, as a result of an increased focus on US investment markets. While US shares have generated a total return of 152 percent in US dollar terms since the beginning of 2009, the global index (excluding US shares) has only increased by around 80 percent.

As US shares increase in value, the American stock market seems to be reaching new all-time highs on a regular basis. The current valuation is almost 65 percent higher than the past average, based on Shiller's index (an index that compares average prices of shares to their profits).

Tough times ahead for US companies

The seasonal reports of US companies in the S&P 500 index have thrown up a number of unfavourable surprises so far for Q4 2014. Four out of five companies, which submit profit forecasts, have scaled down their projected profits, one of the highest numbers ever. We have for a long time seen a substantial appreciation of the US dollar against other currencies, gradually hampering the competitiveness of US companies and their potential to increase future profits. The US Federal Reserve has also hinted at a more stringent monetary policy than previously, even though an interest rate increase still seems to be some way off.

Ole Søeberg, investment director at SKAGEN, believes that it is unclear as to exactly when US shares will start to fall.

"It is more than likely that the positive trend which has been typical of the US stock market in 2014 will continue well into 2015, if the American market continues to attract investors like bees to a honeypot. However it is clear that global European and Asian companies present a more attractive option than their North American counterparts," says Søeberg.

The pros are starting to get cold feet

Many analysts share SKAGEN's view that US stocks in general are starting to become overvalued. American economist Robert Shiller, the man behind Shiller's P/E index, is one of them. In a recent interview with US financial TV channel CNBC he revealed that he is actually considering selling a large number of his US shares in order to buy shares in European companies which, in his opinion, are more reasonably priced. Hedge fund manager George Soros has also been raising his negative bet on US shares, with Soros Fund Management reporting net sales of US shares during Q4 2014.

Even the Canadian Research Institute, Bank Credit Analyst (BCA), that for a long time has favoured the US stock market, is now predicting that shares outside of the US will start to perform better than US shares. BCA points to the fact that US companies' earnings growth, as well as their capacity to deliver dividend and their P/E ratios, have been moving in the wrong direction over the past six months and therefore urges investors to reduce their overall exposure to the US market.

SKAGEN seeks to invest in value stocks

All SKAGEN's equity funds have the same underlying investment philosophy, based on investing in companies which are undervalued, under-researched (or wrongly researched) or unpopular, where there are potential triggers which may release hidden values.

There are no set limits on how much of our funds' capital can be invested in specific geographic regions or industries. Instead it is the individual companies' ability to generate profit which determines the focus of our investments. The distribution of the funds' portfolios between countries and sectors will therefore vary over time, depending on where the investment managers can find reasonably valued shares.

Low direct exposure to US companies

Based on SKAGEN's investment philosophy, it would be fair to say that the US cannot be counted among the world's hotspots of undervalued stocks. All SKAGEN's funds have a very low exposure to the US, compared to their respective benchmark indexes* (see table below).

Global property fund SKAGEN m^2 has the most equity exposure to the US market of all SKAGEN's funds, with 34% of its investments in US companies. This figure is still noticeably lower than 51% for its benchmark index. In second place we have SKAGEN Global, a global fund with a 27% holding in US companies, compared to 52% for its benchmark index. Nordic global equity fund SKAGEN Vekst has the least US exposure at only one percent, in stark contrast to 27% for its benchmark index.

Some of the major US holdings in SKAGEN's equity funds currently include global financial services companies, such as the bank Citigroup and the insurance company AIG, as well as real estate companies such as Ashford Hospitality Group and General Growth Property. These companies all have one thing in common: They have been identified by SKAGEN's fund managers as companies with considerable potential and hidden values, relative to many of their competitors on the market.

To summarise, SKAGEN's investment managers are at this time looking elsewhere in the world to invest their money, and in doing so are in particular turning to companies in Europe and the emerging markets where valuations are considerably lower than in the US equity market.

	US exposure, fund	US exposure, benchmark index
SKAGEN Global	27%	52%
SKAGEN Kon-Tiki	2%	-
SKAGEN Vekst	7%	27%
SKAGEN m^2	34%	51%

As of 31 January 2015

** With the exception of the global emerging market fund SKAGEN Kon-Tiki. Its benchmark index MSCI EM, an emerging market index, has no exposure to the US at all. The fund invests two percent of its assets in US companies.*

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.