

Third consecutive year of outperformance

SKAGEN m2 closed the fourth quarter by generating better full-year performance than its benchmark index for the third year running. However, the fund's Q4 result was negative in both relative and absolute terms. During the quarter, SKAGEN m2 was "Highly Commended" as runner up in the real estate category at the Investment Europe Fund Manager of the Year Awards.

The quarter was extremely volatile and although real estate stocks were no exception, they held up somewhat better than most other sectors. Trade war, recession fears and interest rate hikes were the main reasons for the stock market turmoil. Although the central banks are still in the driver's seat, job creation and income growth continue to provide a strong anchor for demand growth in many parts of the world. This gives central banks time to react and avoid real policy errors.

Key contributors and detractors

The best contributor during the quarter was Swedish logistics operator Catena, which is benefiting from strong growth in e-commerce. Catena has built up its operations in the shadow of its larger European peers but has lately attracted more international investors' attention as they seek cash flow producing assets in alternative segments. The Swedish real estate market was among the best performing markets in the year due to attractive valuations and currency.

The Brazilian residential developer MRV was also a strong contributor in the quarter, mainly riding the strong real estate market rebound in Brazil but also due to strong results.

After a strong run in the first half of the year, Swedish residential rental

operator Hembla (previously named D.Carnegie) took a breather and lagged the overall local real estate market in the quarter. Nonetheless, the company was a good performer for the year as a whole. The Finnish residential operator Kojamo has so far been a disappointment in absolute terms and came in as the second largest detractor for the quarter. Still, the company is significantly outperforming its local index since its IPO. In the last few months of the year, the US real estate sector was impacted by fears of slowing growth, too fast interest rate hikes and accelerated international trade conflicts. Manhattan-based SL Green followed the market and was a detractor in the quarter.

Portfolio activity

During the quarter, SKAGEN m2 initiated a position in the largest European self-storage company Shurgard, which runs 228 stores in seven countries. We find this sub segment interesting due to its high cash flow generation and resilient earnings profile. In December, we also initiated a position in Swedish company Stendörren Fastigheter, which mainly manages and develops warehouses as well as logistics and industrial premises in the Stockholm region. The Swedish PE company EQT currently tenders the company. We believe that Stendörren is undervalued and its share price does not reflect the fair value of the company nor its potential.

To fund these purchases, the fund reduced its position in Swedish office operator Atrium Ljungberg at good levels. In late December, the fund received shares in the Brazilian logistics company LOG Commercial properties as part of the demerger from the fund's holding in residential operator MRV.



Photo: Catena



Photo: Hembla

Outlook

2019 looks set to pose some challenges for global real estate space due to a shifting policy environment and heightened political uncertainty. However, this environment will also provide a number of opportunities. The short-term outlook is generally good with above-trend global GDP, a rising occupier market and falling vacancy. Rental growth continues to be positive but slower given historically low interest rates and high occupancy. There is still good rent reversion potential in many companies, meaning the spread between the companies' current rent-roll and market rents. Rising interest rates and upward pressure on the risk premium from policy uncertainty means yield compression is set to slow further. It will be increasingly important to select companies able to grow with internal cash flow generation.

SKAGEN m2 maintains its philosophy of investing in companies with embedded growth and strong balance sheets, which are less vulnerable to rapid interest rate movements. In a tighter lender market, balance sheets will also become more important and cash flow generation trumps market driven capital value growth. However, use of leverage is lower than might be expected late in a cycle. M&A transactions are likely to increase further due to late cycle growth ambitions, but more importantly driven by investors' appetite for alternative assets. After the correction in Q4, valuations in the global real estate space are still backed by good fundamentals. Slowing global GDP growth constitutes the highest risk. Concerns that the cycle may turn needs to be balanced against ongoing opportunities to take on additional risk and capitalise on favourable market momentum. All the ingredients are there for 2019 to be another exciting year within real estate!

The fund gives access to a normally inaccessible global real estate market. The fund selects low-priced, high-quality real estate companies from around the world.

The objective is to provide the best possible risk adjusted return.

The fund is suitable for those with at least a five year investment horizon.

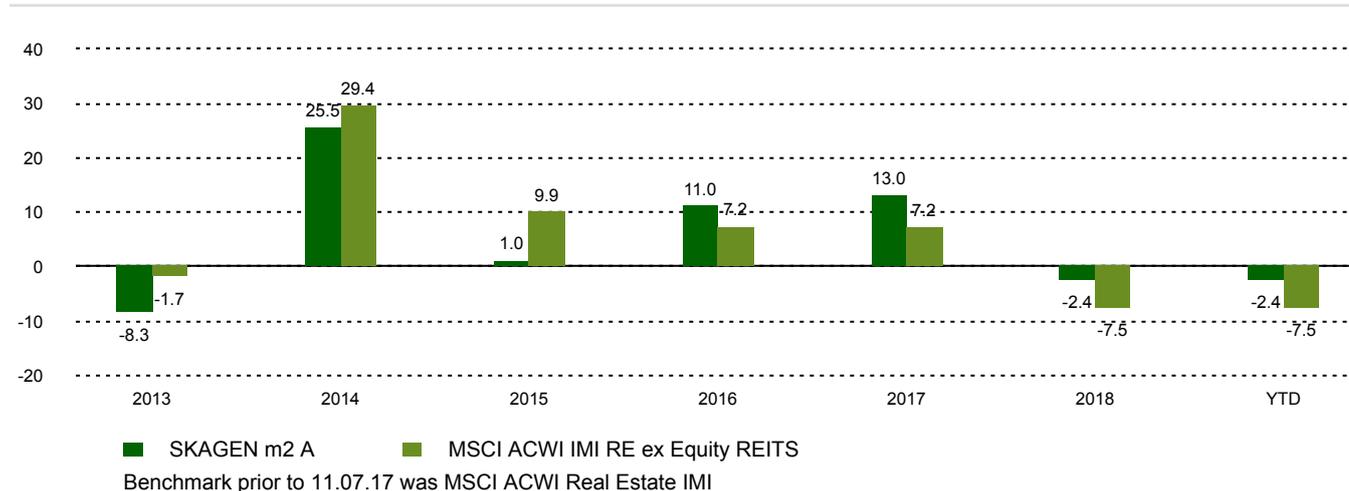
Historical performance (net of fees)

Period	SKAGEN m2 A	Benchmark index
Last month	-3.0%	-3.9%
Quarter to date	-5.0%	-3.7%
Year to date	-2.4%	-7.5%
Last year	-2.4%	-7.5%
Last 3 years	7.0%	2.1%
Last 5 years	9.2%	8.6%
Last 10 years	n/a	n/a
Since start	6.3%	7.2%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	19.69 EUR
Fixed management fee	1.50%
Total expense ratio (2017)	2.05%
Benchmark index	MSCI ACWI IMI RE ex Equity REITS
AUM (mill.)	128.87 EUR
Number of holdings	35
Portfolio manager	Michael Gobitschek

Performance last ten years



Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Catena AB	7.74	1.33
MRV Engenharia e Participacoes	2.11	0.63
Phoenix Mills Ltd/The	1.90	0.24
Ascendas India Trust	2.09	0.19
Hembla AB	5.51	0.17

Largest detractors

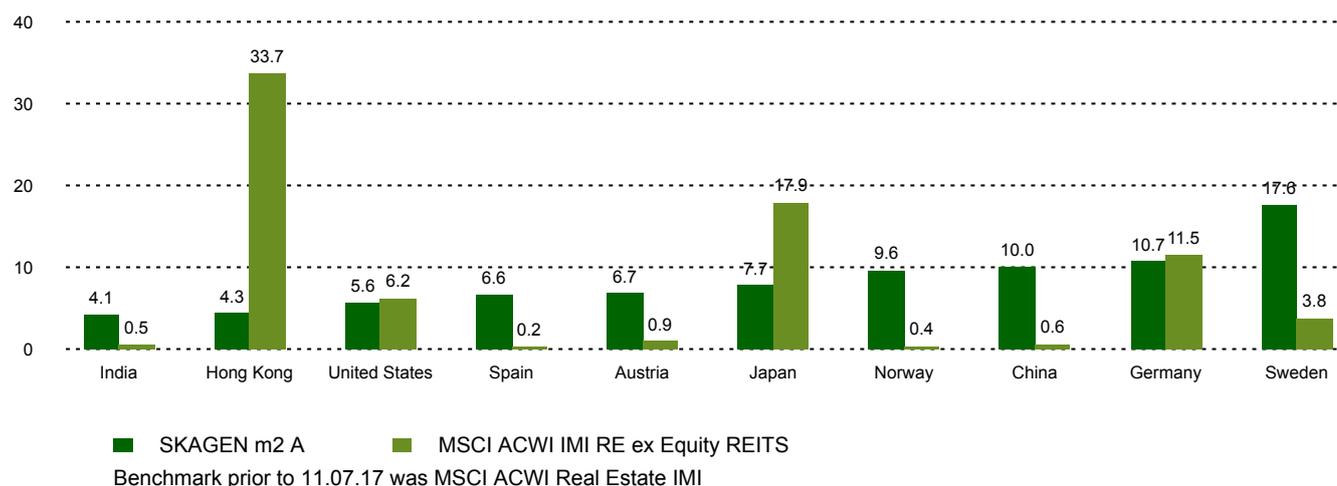
Holding	Weight (%)	Contribution (%)
D Carnegie & Co AB	2.05	-0.76
Columbia Property Trust Inc	3.02	-0.38
Kojamo Oyj	3.62	-0.37
SL Green Realty Corp	2.76	-0.37
FE CONSORT INTL	2.64	-0.34

Absolute contribution based on NOK returns at fund level

Top ten investments

Holding	Sector	Country	%
Catena	Real Estate	Sweden	8.3
Hembla AB	Real Estate	Sweden	7.4
Deutsche Wohnen	Real Estate	Germany	5.8
Mitsui Fudosan Co	Real Estate	Japan	5.3
Aroundtown SA	Real Estate	Germany	4.8
CA Immobilien Anlagen	Real Estate	Austria	4.4
CapitaLand	Real Estate	Singapore	3.7
CK Asset Holdings	Real Estate	Hong Kong	3.5
Olav Thon Eiendomsselskap	Real Estate	Norway	3.4
Kojamo Oyj	Real Estate	Finland	3.3
Combined weight of top 10 holdings			50.1

Country Exposure (top ten)



Contact



+47 51 80 37 09



contact@skagenfunds.com



SKAGEN AS, Post Box 160, 4001, Stavanger, Norway

Important information

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