SKAGEN m2 A

All data in EUR as of 28/06/2019 unless otherwise stated.

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Strong relative second quarter

SKAGEN m2 demonstrated resilience during the quarter with a more or less flat absolute return despite strong market headwinds. This was mainly down to our Scandinavian holdings. Much of the volatility in the quarter was caused by concerns around the effects of a full-blown trade war and various geopolitical conflicts. However, on the last day of June, a truce was reached at the G20 meeting, alleviating the fear of negative shocks.

Despite the turbulence, the real estate market has been rather resilient, driven by a combination of favourable market fundamentals and macro driven news. In June, the US government bond yields hit a new all-time low and the Fed kept the interest rate unchanged, indicating that they would lower it twice over the course of the year. The US real estate space in particular benefited from the news. The ECB also raised the prospect of expanding quantitative easing if inflation fails to increase. This had a positive effect on the European real estate space and is of special interest for SKAGEN m2 given its overweight in the area.

An increasing number of real estate companies raised equity in the quarter, including SKAGEN m2's holding Self Storage Group. The company acquired its largest Norwegian competitor Eurobox, hence strengthening its leading position in Norway. We participated as we acknowledge the rationale behind the acquisition and we like the company and segment. We also increased our position in another Norwegian holding Entra, after the Norwegian state sold down its position substantially, something we consider to be positive.

Winners and losers

The best performer in Q2 was Swedish warehouse operator Catena, driven by continuous demand for logistics assets. The sector is enjoying structural growth driven by the rapid penetration of e-commerce. Catena has a strong position in the Swedish market with modern and well-positioned assets, in addition a large land bank for development. The second best performer was the Finnish rental residential operator Kojamo after confirming that the growth strategy is on track driven by urbanisation and higher employment rates. Kojamo also announced it will change the valuation technique of its investment properties. This is positive as it makes the company more comparable to its peer group. We reduced our position in the Brazilian homebuilder MRV Engenharia after it delivered the third strongest contribution in the quarter.

On the negative side, the German rental operator Deutsche Wohnen continued to perform poorly. The problems started a couple of months ago with the general public calling for expropriation of Deutsche Wohnen and other large apartment owners in Berlin. The outcome this quarter came as a surprise with the Berlin Senate agreeing to implement a five-year rental freeze in Berlin, to be decided later this year. It is highly likely that this law will be considered unconstitutional, meaning that state law cannot replace federal law. Deutsche Wohnen has responded by committing to tenant and society-friendly initiatives. Even though cash flow generation would be affected if the law is eventually passed, the assets of Deutsche Wohnen are now even more undervalued and the fundamental facts about housing shortage have not changed. We expect the level of "noise" around this topic to remain high.

The Hong Kong real estate market was affected by the protests around the further involvement of the Chinese government. The Hong Kong based hotel operator Shangri-La was no exception. In addition, fears over hotel price growth, supply and the resignation of the CFO weighed on the stock. The stock is trading at deep discount, and we believe that Shangri-La is well positioned to benefit from the structural growth of rising middle-class consumers in Asia.

Portfolio activity

In June, we took a position in a Swedish rental apartment operator, John Mattson. The company has a defensive characteristic given its Stockholm location, which is a highly regulated and undersupplied market. It has a visible pipeline to grow the number of units over the five next years, which will in turn lead to rental and capital value growth. Since the IPO, the stock has performed very well.

Photo: Bloomberg

Photo: Bloomberg

Outlook

Powerful structural forces are shifting the real estate landscape. The disruptive impact of technology is catalysing change across a host of sectors and real estate is not immune. The sector has become more polarised, both in terms of geography and segments. Alternative assets such as logistics and data centres have benefited unlike more cyclical office stocks and the structurally declining retail sector. We take a longer-term view of areas of structural growth and focus on sectors with secular tailwinds.

The sector has been priced higher since the beginning of 2019 along with the stock market in general. Despite this, there are many exciting opportunities in the global real estate space. We continue to consider the volatility in the equity markets as an opportunity as much as a frustration. The real estate sector remains attractive due to its stable and rising top-line, low cost financing and solid cash flows. SKAGEN m2 is well positioned thanks to its philosophy and is disciplined in its stock selection.

Quarterly Report

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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.

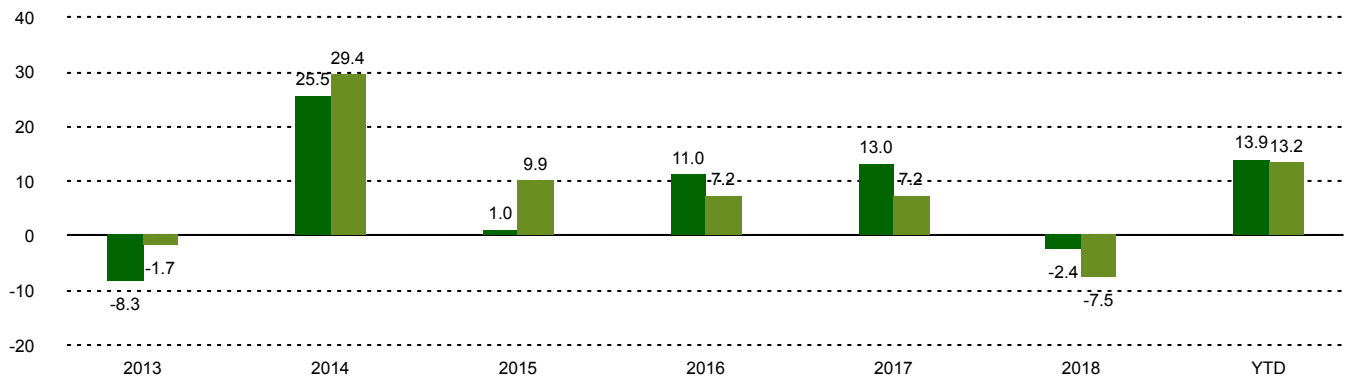
Historical performance (net of fees)

Period	SKAGEN m2 A	Benchmark index
Last month	1.6%	1.4%
Quarter to date	-0.2%	-3.6%
Year to date	13.9%	13.2%
Last year	9.1%	5.2%
Last 3 years	11.0%	4.4%
Last 5 years	9.6%	9.0%
Last 10 years	n/a	n/a
Since start	7.9%	8.6%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	22.42 EUR
Fixed management fee	1.50%
Total expense ratio (2018)	2.06%
Benchmark index	MSCI ACWI IMI RE ex Equity REITS
AUM (mill.)	164.66 EUR
Number of holdings	37
Portfolio manager	Michael Gobitschek

Performance last ten years



Benchmark prior to 11.07.17 was MSCI ACWI Real Estate IMI

Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Catena AB	6.02	0.86
Kojamo Oyj	3.85	0.83
MRV Engenharia e Participacoes	1.80	0.61
Self Storage Group ASA	2.90	0.43
Ascendas India Trust	2.19	0.34

Largest detractors

Holding	Weight (%)	Contribution (%)
Deutsche Wohnen SE	4.73	-1.17
CK Asset Holdings Ltd	3.22	-0.39
Shangri-La Asia Ltd	2.48	-0.30
Kyushu Railway Co	2.30	-0.29
Columbia Property Trust Inc	2.87	-0.23

Absolute contribution based on NOK returns at fund level

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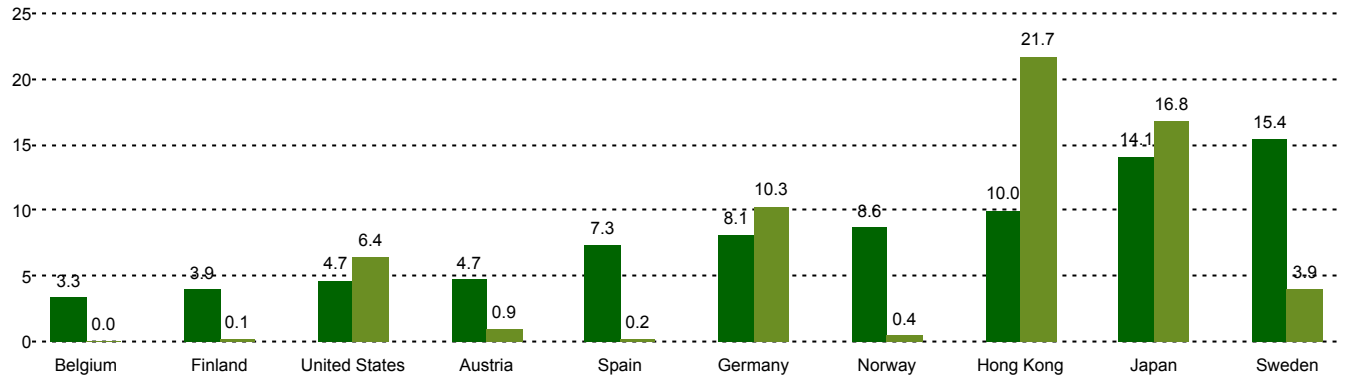
Top ten investments

Holding	Sector	Country	%
Hembla AB	Real Estate	Sweden	6.7
Catena AB	Real Estate	Sweden	5.6
Mitsui Fudosan	Real Estate	Japan	4.9
CA Immobilien Anlagen AG	Real Estate	Austria	4.7
Aroundtown SA	Real Estate	Germany	4.2
KOJAMO OYJ	Real Estate	Finland	3.9
Deutsche Wohnen SE	Real Estate	Germany	3.9
Self Storage Group ASA	Industrials	Norway	3.7
Entra ASA	Real Estate	Norway	3.3
Shurgard Self Storage SA	Real Estate	Belgium	3.3
Combined weight of top 10 holdings			44.0

Country Exposure (top ten)



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Important information

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