Quarterly Report

SKAGEN m2 A

All data in EUR as of 30/09/2020 unless otherwise stated.

SKAGEN
Part of Storebrand

Real estate sector slowly rises from the ashes

There was a great deal of volatility in the global markets in the third quarter, including in the real estate space which ended the period in positive territory. During Q3, economies slowly started to open, but with big differences, leading to positive consequences for the sector. Despite the risk of asset inflation further ahead, the central banks' message now is that interest rates will remain low for longer, which is clearly positive for the real estate sector.

The sector continues to become more polarised between segments which is reflected in the huge NAV spreads. The market continues to try to assess the correct value of underlying assets and is currently pricing in uncertainty about the future outcome in certain segments. During the quarter, this spread started to narrow, particularly in the office segment where we have increased portfolio exposure. An increased number of people are now returning to work from the office. It is too early to say how this will pan out going forward, but the office as a workplace will certainly continue to exist. This longer-term perspective is also confirmed by several transactions in the listed office space by private equity firms.

Activities during the quarter

We initiated a position in Canadian Allied Properties Real Estate at a good discount. Allied specialises in operating and developing urban office space near Canadian central business districts at lower occupancy costs than traditional skyscrapers. It also owns three urban data centres in Toronto. We also initiated a new holding in Japanese office operator Hewia Real Estate, which is present in several cities but primarily in Tokyo where it is redeveloping the financial district. The company has a great deal of unrealised value within its portfolio, trades at a deep discount and has an interesting and dynamic ownership structure.

Office is a sector that has been overly punished during the pandemic. One reason is that the working from home trend has been extrapolated as a future disruptor. We believe these fears are overstated in relation to the pricing of the sector. The other reason is the risk of a prolonged recession that will hurt commercial real estate and all other sectors. It is more important than ever to be selective when it comes to stock picking.

Despite a very attractive valuation, we sold out of New York based office landlord SL Green to invest in other more promising office names. During the quarter we also exited Japanese housing developer Sekisui House since we believe they are in a less attractive segment in Japan than Heiwa going forward. This was confirmed by negative guidance that came after we had sold out. We also exited our Brazilian housing developer MRV.

Photo: Unsplash

Photo: Shutterstock

Best and worst contributors

The best performer in the quarter was Keihanshin Building with its significant exposure to strong performing data centres. The domestic activist Strategic Capital also increased its stake to 9.4%, sending a strong signal to the company that they approve of the proposals to enable value to be crystallised, something we also support. The pan European operator Shurguard Self-Storage contributed positively in the period after delivering a solid report, acquiring several building permits and being included in the EPRA index.

The worst contributor in the quarter was Hong Kong conglomerate CK Asset Holdings after the company cut its interim dividend, mainly as a result of UK pub chains and hotels suffering on the back of the pandemic. Other recurring income remains resilient so far, but the performance of the hospitality segment will have a close correlation to the further development of the pandemic. Meanwhile the founder and largest owner continues to buy shares at very discounted levels. CA Immobilien, the Austrian office operator, also suffered along with all other office companies. The company delivered a decent second quarter report despite the circumstances.

Strong long-term prospects for real estate

Volatility is likely to persist during the fourth quarter with the upcoming US election, evolving economic outlook and ongoing pandemic. Most of the reporting announced during the quarter was solid in terms of occupancy, rental collections and balance sheets. These fundamentals provide comfort for the future if we assume we have passed the worst peak in the pandemic. The real estate landscape is constantly evolving, now more than ever with changing consumer patterns, rapid technology development and the declining need for physical workspace. Regardless of where these trends will take us, it is more important than ever to be selective when stock picking. SKAGEN m2 continues to focus on companies that we consider to be resilient in trend-driven subsegments and with good cash flow generation and balance sheet structure. The long-term prospects are positive, given all the economic stimulus and continued low interest rate environment. However, real estate will not be immune to the challenges caused by the deteriorating macroeconomic environment.

SKAGEN m2 A

All data in EUR as of 30/09/2020 unless otherwise stated.

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.

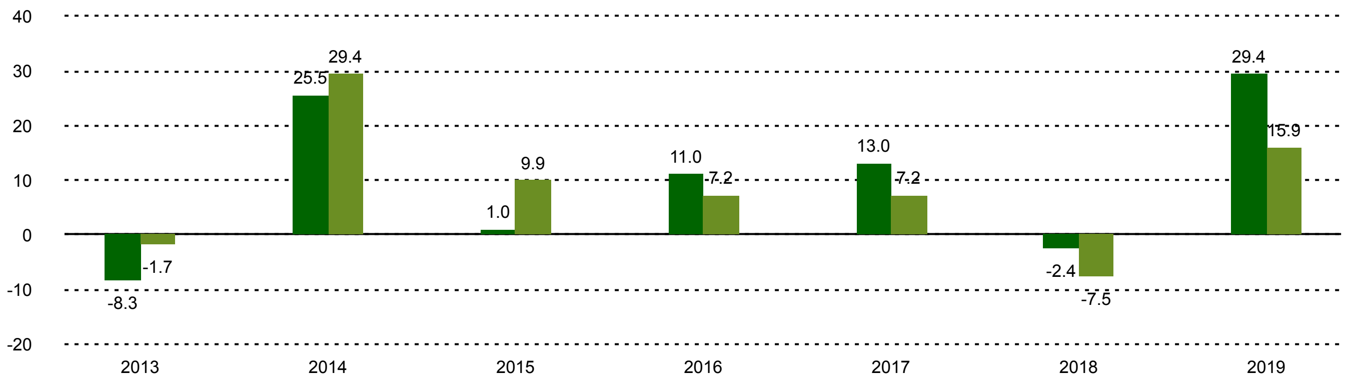
Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	20.22 EUR
Fixed management fee	1.50%
Total expense ratio (2019)	2.68%
Benchmark index	MSCI ACWI IMI Real Estate NR
AUM (mill.)	161.70 EUR
Number of holdings	30
Portfolio manager	Michael Gobitschek

Historical performance (net of fees)

Period	SKAGEN m2 A	Benchmark index
Last month	-1.2%	-0.7%
Quarter to date	-1.8%	-1.0%
Year to date	-20.6%	-18.8%
Last year	-14.9%	-18.5%
Last 3 years	1.6%	-3.6%
Last 5 years	6.0%	1.5%
Last 10 years	n/a	n/a
Since start	5.2%	4.8%

Performance last ten years



SKAGEN m2 A   MSCI ACWI IMI Real Estate NR

In the period from 11 July 2017 to 30 September 2019, the benchmark was the MSCI ACWI Real Estate IMI ex REITS

Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Keihanshin Building Co	4.32	1.02
Shurgard Self Storage	4.16	0.58
LEG Immobilien AG	4.97	0.55
Catena AB	5.58	0.53
ESR Cayman Ltd	1.59	0.41

Largest detractors

Holding	Weight (%)	Contribution (%)
CK Asset Holdings	2.73	-0.62
CA Immobilien Anlagen	4.46	-0.55
Aroundtown SA	2.85	-0.44
Equity Residential	2.62	-0.42
Switch Inc	2.50	-0.35

Absolute contribution based on NOK returns at fund level

Quarterly Report

SKAGEN m2 A

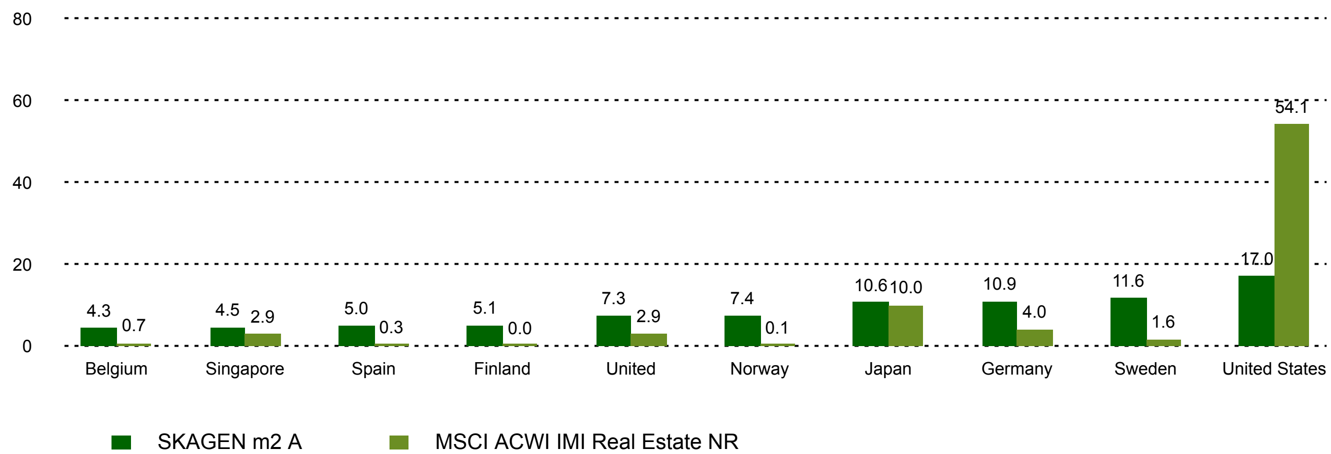
All data in EUR as of 30/09/2020 unless otherwise stated.

SKAGEN
Part of Storebrand

Top ten investments

Holding	Sector	Country	%
Catena AB	Real Estate	Sweden	6.0
Keihanshin Building Co Ltd	Real Estate	Japan	5.4
EQUINIX INC	Real Estate	United States	5.2
KOJAMO OYJ	Real Estate	Finland	5.1
Self Storage Group ASA	Industrials	Norway	5.0
LEG Immobilien AG	Real Estate	Germany	4.9
Shurgard Self Storage SA	Real Estate	Belgium	4.3
CA Immobilien Anlagen AG	Real Estate	Austria	4.3
Mitsui Fudosan Co Ltd	Real Estate	Japan	4.2
Grainger PLC	Real Estate	United Kingdom	4.0
Combined weight of top 10 holdings			48.4

Country Exposure (top ten)



In the period from 11 July 2017 to 30 September 2019, the benchmark was the MSCI ACWI Real Estate IMI ex REITS

Contact

+47 51 80 37 09

contact@skagenfunds.com

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

Important information

This report is intended for investment professionals only. The content is not to be viewed by or used with retail investors. Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as of the end of the previous month. Except otherwise stated, the source of all information is SKAGEN AS. Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager’s skills, the fund’s risk profile and subscription and management fees. The return may become negative as a result of negative price developments. You can download more information including subscription/redemption forms, full prospectus, Key Investor Information Documents (KIID), General Commercial Terms, Annual Reports and Monthly Reports from our local websites or our local representatives. Statements reflect the portfolio managers’ viewpoint at a given time, and this viewpoint may be changed without notice. This report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN AS does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this report. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this report or are part of a fund's portfolio.