

Strong start to a quarter which ended in volatility

A strong start for the global real estate market in the quarter ended in market volatility. This was driven by a number of factors but general growth concerns in combination with higher inflation, supply chain problems and the Chinese energy crisis stood out. The problems surrounding the heavily indebted Chinese developer Evergrande also affected the stock markets, mainly over fears of contagion effects on the global economy.

SKAGEN m2 was not directly affected by Evergrande, but rather indirectly by holding stocks listed in Hong Kong. Inflationary pressure is intensifying, which is generally a good thing for real estate that has long been viewed as a partial inflation hedge. Inflating prices can be passed on through rent, while rising property values are also beneficial, giving individual property assets and real estate stocks critical roles in portfolio strategies. Rent growth has historically outpaced inflation, while property values may benefit as higher costs for land, labour and materials raise the economic threshold for new supply. The Federal Reserve's Chair Jerome Powell indicated early in the quarter that the Fed would start tapering its asset purchases later this year, but timing depends on economic development. He again stated that sharply higher inflation is temporary, implying continued low interest rates in the near future.

Contributors and detractors

The best performer in the quarter was the US data centre company Switch after they announced plans to convert to REIT status, which would enable pure REIT investors to invest. In addition, Switch has been trading at much lower multiples than peers. Activist Elliot also announced that they hold a stake in the company, something that normally speeds up positive changes for shareholders.

The warehouse operator CTP was the second-best performing stock in the period. CTP had an initial public offering earlier this year, in which the fund participated. The majority of the company's assets are in Eastern Europe, but they entered the Netherlands through an acquisition earlier

this year. We expect to see the company continue to expand.

The largest detractor in the quarter was US-based cold storage operator Americold. Problems in the supply chain led to lower volumes handled and affected Americold's top line. On the cost side, the company was also affected negatively by higher wage inflation since they are labour intensive. Both parameters led to negative guidance but will, according to the company, be transitory as this cost will eventually be forwarded to end clients.

Portfolio activity

During the quarter we initiated a position in the US-based Marcus Corporation, which operates cinemas, hotels and other leisure-related businesses. Marcus Corporation is a well-positioned recovery play and we estimate that the value of the real estate exceeds the company's enterprise value.

Another new position that is benefiting from the pandemic recovery is the French office and health care operator Icade. The company holds a large stake in one of the major health care operators in Europe, a sector we like due to increasing demand on the back of an aging European population and a sector that needs consolidation. Recently, Icade announced that they will float part of the health care business.

Key sells

Columbia Property Trust, the US office operator that has been in strategic review since the beginning of the year following a takeover attempt, received a competing offer from Pimco. We exited our position in the company after the bid. We are now hoping for the same faith in our holding in Paramount Group, which is another undervalued US office operator with a New York focus. We also sold out of the pan-European tower company Cellnex and the Brazilian mall operator Iguatemi at a good profit.



Photo: Unsplash



Photo: Switch

Maintaining our approach

SKAGEN m2 continues to focus on investing in resilient companies in trend-driven subsegments, companies that we consider mispriced and which will benefit from a recovery in the economy, and companies that are well-positioned for inflation, such as those with CPI-linked rents. Valuation multiples still seem relatively attractive in some segments or cities, such as office space and diversified segments after the decline in 2020, especially as most multiples have not expanded along with the broader equity markets. Since the pandemic hit the stock market, global real estate still lags other global sectors on an aggregate basis, a gap that is likely to narrow as economies normalise.

Outlook

We continue to monitor and differentiate between temporary versus structural changes – i.e. the impact of Covid-19 versus more secular trends in the real estate landscape. We continue to focus on sustainability issues since these considerations are gaining in importance both in terms of income but also overall as a risk factor. As we have seen in the portfolio, M&A activity is continuing to increase as a result of discounted levels in certain segments and geographies. As listed space valuations have widened away from the private market space, this will push valuations in a positive direction. The long-term prospects are positive given all the economic stimulus and the fact that a continued low interest rate environment in combination with some inflation is beneficial for real assets.

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.

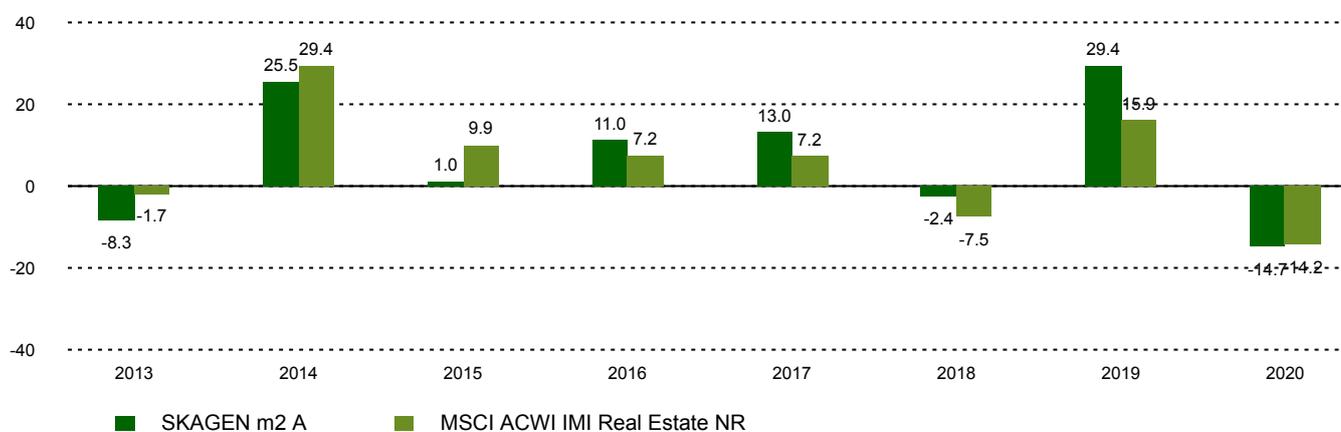
Historical performance (net of fees)

Period	SKAGEN m2 A	Benchmark index
Last month	-4.4%	-3.4%
Quarter to date	1.6%	1.0%
Year to date	18.0%	19.1%
Last year	26.8%	26.0%
Last 3 years	7.3%	4.5%
Last 5 years	8.1%	3.4%
Last 10 years	n/a	n/a
Since start	7.4%	6.9%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	25.63 EUR
Fixed management fee	1.50%
Total expense ratio (2020)	1.37%
Benchmark index	MSCI ACWI IMI Real Estate NR
AUM (mill.)	178.19 EUR
Number of holdings	36
Portfolio manager	Michael Gobitschek

Performance last ten years



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 (%)
Switch Inc	3.35	0.65
Shurgard Self Storage	3.99	0.56
CTP NV	3.87	0.35
Capitaland Investment Ltd	0.33	0.31
Prologis Inc	4.05	0.27



Largest detractors

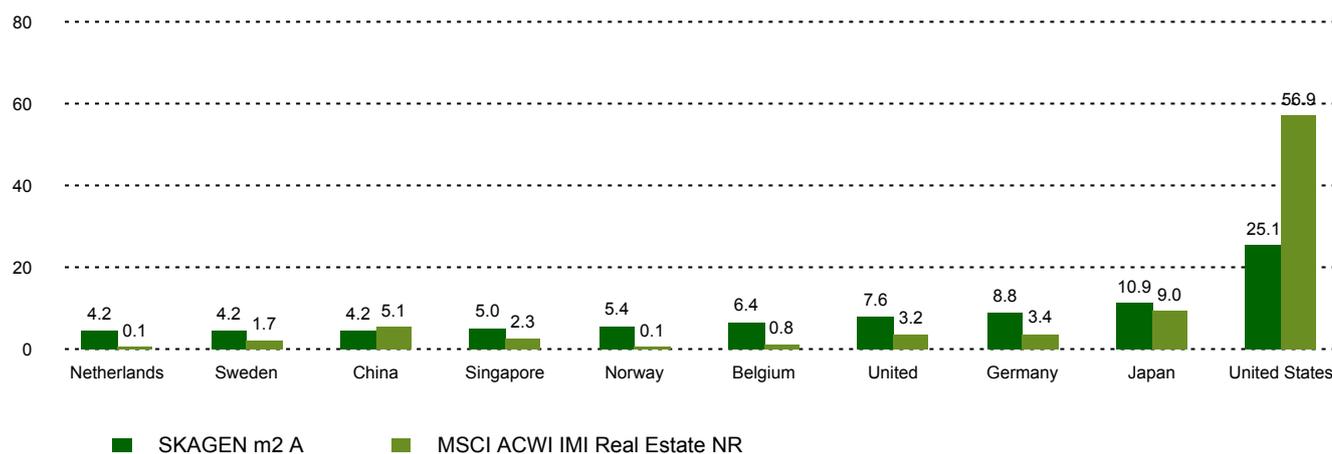
Holding	Weight (%)	Contribution (%)
Americold Realty Trust	3.48	-0.75
LOG Commercial Properties	2.48	-0.66
Allied Properties Real Estate	3.02	-0.33
CK Asset Holdings Ltd	2.24	-0.33
Kojamo Oyj	3.80	-0.28

Absolute contribution based on NOK returns at fund level

Top ten investments

Holding	Sector	Country	%
Self Storage Group ASA	Industrials	Norway	5.4
Grainger PLC	Real Estate	United Kingdom	4.3
UMH Properties Inc	Real Estate	United States	4.2
Shurgard Self Storage SA	Real Estate	Belgium	4.2
Catena AB	Real Estate	Sweden	4.2
CTP NV	Real Estate	Netherlands	4.2
Prologis Inc	Real Estate	United States	4.1
Switch Inc	Information Technology	United States	3.9
LEG Immobilien SE	Real Estate	Germany	3.6
KOJAMO OYJ	Real Estate	Finland	3.5
Combined weight of top 10 holdings			41.5

Country Exposure (top ten)



■ SKAGEN m2 A ■ MSCI ACWI IMI Real Estate NR

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