

**IMPORTANT INFORMATION:** This is marketing communication. The report should not be perceived as a recommendation to buy or sell fund units. Prior to subscription, we encourage you to read the fund's prospectus and key investor information document which are available at [www.skagenfunds.com](http://www.skagenfunds.com), from our local representatives and from our distributors.

## SKAGEN m2 weathered the storm in the quarter

The quarter got off to a good start as the European real estate market embarked on a strong recovery following the post-Covid opening of economies. The positive outlook evaporated overnight, however, when Russia invaded Ukraine. Given their high geopolitical risk, SKAGEN m2 did not own any positions within these two countries. However, we decided to sell down some of our holdings with assets in Eastern Europe to mitigate the risk of a cross-border escalation and increasing risk premiums. The stock markets reacted instantly and have since been volatile. The volatility is set to continue given the increased geopolitical uncertainty, slower economies and higher inflation pressure. Central banks continue their hawkish rhetoric around monetary tightening to manage inflation expectations. However, the likely outcome is that decisions will be in favour of financial stability and in practice there will be less aggressive tightening.

Inflationary pressure continues, which is mainly positive for real estate assets which can be viewed as a partial inflation hedge, as rent growth has historically outpaced inflation. Inflating prices can be passed on through rents, giving real estate assets a critical role in portfolio strategies. Property values may benefit as higher costs for land, labour and materials raise the economic threshold for new supply. Real estate in general is well positioned for this environment, and SKAGEN m2 holds many positions in resilient segments like health care, self-storage and residential housing. The fund was slightly negative at quarter end but outperformed its benchmark index significantly.

### Contributors and detractors

The best contributor in the quarter was Brazilian logistics operator LOG, which is recovering from a weak 2021 due to the macro turmoil in Brazil. After last year's M&A bonanza in the portfolio, the US office operator Paramount Group was subject to a bid from a private equity firm. This was something we had anticipated due to its depressed valuation along with more positive signals from the office markets. The bid was later rejected by the board as it did not reflect fair value and the situation is still pending. The Asian real estate investment manager CapitaLand Investment was

the third strongest performer in the quarter. CapitaLand got off to a strong start to the year after a restructuring process last year to streamline the company.

The largest detractor in the period was the Dutch-listed logistics operator CTP. The majority of the company's assets are located in Eastern European countries adjacent to the Ukraine and investors sold down on escalation fears. Norwegian Self Storage Group also detracted after a strong end to last year. The company's main shareholder, the private equity firm Centerbridge, increased its majority stake at low levels. The German residential operators LEG and Vonovia also detracted mainly on increasing German bonds lowering the yield spread.

### Portfolio activity

During the quarter the fund initiated a position in the US manufactured home operator Sun Communities at good levels. We also bought into the US hospitality name Sunstone Hotel Investors that is lagging its peers and has a strong position in the post-Covid recovery era targeting normalised earnings. We participated in the successful IPO of Swedish Logistic Property but sold out again at very good levels as we consider its peer, our portfolio company Catena, to have a stronger business model and long-term position.

At the end of the quarter, the European logistics company Warehouse de Pau initiated a position in Catena, something we consider as positive given the client synergies and complementary knowhow. We also bought a small position in the US light industrial operator Plymouth Industrial REIT but sold out after question marks arose in connection with the report.

We sold out of our long-term Hong Kong holding Far East Consortium which is struggling with continuing Covid lockdowns. We exited Hospitality Trust of America which reached fair value after activist Elliott took a position last year and initiated a strategic review.



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### Outlook

The valuation of global real estate is increasingly compelling both geographically and within sub-segments. Last year's relative laggards – Asia and Europe – continue to have attractive price tags in most segments and markets. However, there are big uncertainties for Europe given the ongoing war and its consequences. After last year's record performance for the US real estate sector, valuations were very stretched. The market is now less expensive following pressure from investors calibrating upcoming interest rate hikes and lower growth, however, it is not yet cheap on a general basis. Real estate continues to attract investors' money in the current inflationary environment, something that will have a positive effect on asset valuations. Record dry powder for the sector will drive M&A activity up further and push valuations in a positive direction.

Besides geopolitical risks, the biggest short-term risks for the sector are unexpected and fast-rising real rates, a rapid decline in economic growth or stagflation. We remain positive and conclude after the first quarter that our philosophy is solid and has once again served our clients well in turbulent times. The fund is well positioned for most scenarios thanks to our investment philosophy and disciplined stock selection. 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 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. Subscriptions are made in fund units and not directly in stocks or other securities. The fund has risk profile 6. The benchmark reflects the fund's investment mandate. Since the fund is actively managed, the portfolio will deviate from the composition of the benchmark.

## Historical performance (net of fees)

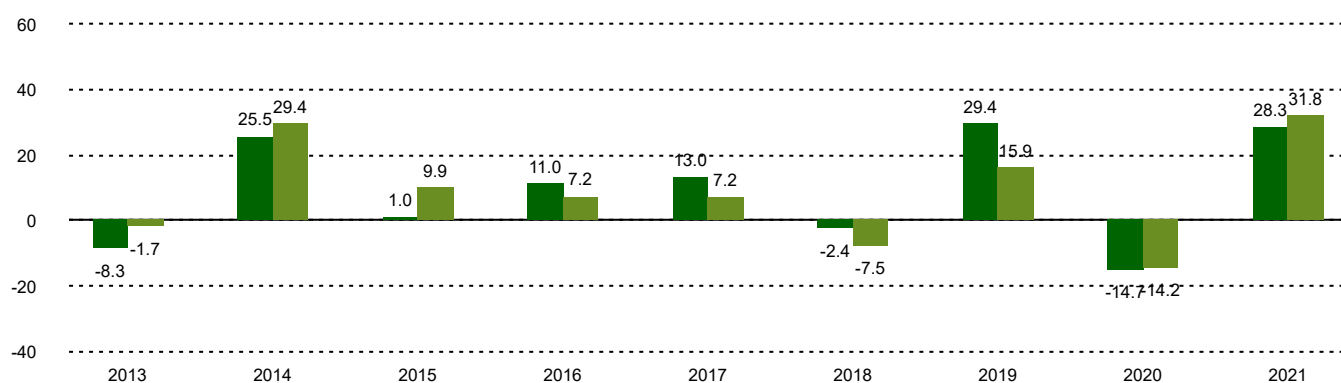
Period	SKAGEN m2 A	Benchmark index
Last month	5.2%	4.9%
Quarter to date	-0.9%	-3.1%
Year to date	-0.9%	-3.1%
Last year	21.2%	16.0%
Last 3 years	7.2%	2.7%
Last 5 years	8.6%	4.1%
Last 10 years	n/a	n/a
Since start	7.9%	7.4%

## Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	27.64 EUR
Fixed management fee	1.50% + performance fee*
Total expense ratio (2021)	1.19%
Benchmark index	MSCI ACWI IMI Real Estate NR
AUM (mill.)	189.66 EUR
Number of holdings	33
Portfolio manager	Michael Gobitschek

\*10.00% performance fee calculated daily and charged annually if the fund's value development is better than the benchmark. The total management fee charged represents a maximum of 3.00% p.a. and a minimum of 0.75% p.a. The performance fee may be charged even if the fund's units have depreciated in value if the value development is better than the benchmark.

## 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

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 management fees. The return may become negative as a result of negative price developments. There is a risk associated with investing in the fund due to market movements, currency developments, interest rate levels, economic, sector and company-specific conditions.

## Contributors in the quarter



### Largest contributors

Holding	Weight (%)	Contribution (%)
LOG Commercial Properties	3.23	1.04
Paramount Group Inc	3.25	0.85
Capitaland Investment	3.13	0.45
Switch Inc	4.20	0.37
Mitsui Fudosan Co	3.08	0.25



### Largest detractors

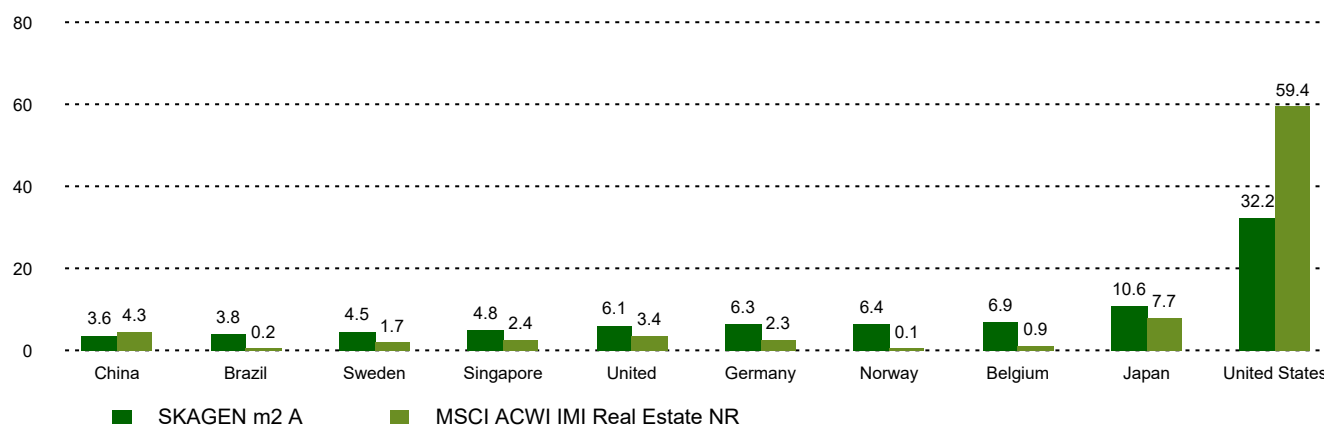
Holding	Weight (%)	Contribution (%)
CTP NV	3.50	-0.92
Self Storage Group	6.55	-0.78
LEG Immobilien	3.03	-0.61
UMH Properties Inc	4.76	-0.52
Vonovia SE	3.44	-0.49

Weights shown are the average for the period. Absolute contribution based on NOK returns at fund level.

## Top ten investments

Holding	Sector	Country	%
Self Storage Group ASA	Industrials	Norway	6.4
UMH Properties Inc	Real Estate	United States	4.9
Switch Inc	Information Technology	United States	4.7
Prologis Inc	Real Estate	United States	4.6
Catena AB	Real Estate	Sweden	4.5
Shurgard Self Storage SA	Real Estate	Belgium	4.4
Grainger PLC	Real Estate	United Kingdom	3.9
LOG Commercial Properties e Participacoes SA	Real Estate	Brazil	3.8
ESR Cayman Ltd	Real Estate	China	3.6
Marcus Corp/The	Communication Services	United States	3.3
Combined weight of top 10 holdings			44.0

## 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

## Important information

This report is intended for investment professionals only. All information is based on the most up-to-date data available. Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as per the end of the previous month. Except otherwise stated, the source of all information is SKAGEN AS. 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.



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