SKAGEN m2 A

All data in EUR as of 30/06/2021 unless otherwise stated.

Strong absolute and relative performance

The second quarter was once again positive for global real estate, which continued to catch up with the broader equity market. Revised economic growth prospects and falling long-term yields drove the sector higher in the quarter. The US real estate market continues to show strength and, after lagging initially, the European market is benefiting from the continued reopening of the economy and easing of travel restrictions. The spread between the US and European markets will likely close further over the next few quarters if economies normalise. Global real estate continues to benefit from strong growth and low interest rates as it recovers from the pandemic. Inflationary pressure is intensifying, which is mainly positive for real estate that has long been viewed as a partial inflation hedge. Inflating prices can be passed on through rents, while rising property values are also beneficial, giving individual property assets and real estate stocks a critical role in portfolio strategies. Rental 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. SKAGEN m2 had a very strong quarter both in absolute and relative terms.

Activity and contributors

The fund's best performer in the quarter was the Swedish social infrastructure company Adapteo on the back of a bid from a Goldman Sachs-linked infrastructure fund at a premium of more than fifty percent. Another strong contributor in the period was Swedish warehouse operator Catena as tenant and investor demand remains high globally, also in Scandinavia. Catena also raised capital to source into a ramp-up of their land bank going forward.

Our long-term holding Deutsche Wohnen announced a merger with the German residential giant Vonovia at a decent premium in the quarter. We switched our investment into Vonovia as the share price came down to interesting levels on the announcement. This a diversification since Vonovia holds rental apartments in several European countries, including Sweden. Despite the political turmoil over the last couple of years, the German residential segment still offers very interesting investment opportunities.

So far this year, there have been five bids for or potential take-outs of companies in our portfolio. This confirms our view that M&A activity is likely to continue to increase thanks to the discounted pricing levels still to be found within listed real estate.

Key buys

Another new position in the fund is the discounted US office operator Paramount Group with assets in San Francisco and New York. Both cities were hard hit by the pandemic but are slowly recovering. We also added the London-focused office operator Great Portland Estates for the same reason. So far, the 'hybrid model' of working remotely and in the office does not seem to have had as large an impact on office space needs as many has feared.

Another new and interesting holding is the Japanese conglomerate Tokyu Fudosan, with upside in the pandemic-hit segments of office, retail and leisure, amongst others. The company also has large developments and holdings within renewable infrastructure such as solar energy plants. Tokyu Fudosan trades at a deep discount to NAV, with the opportunity to recycle assets to crystallise hidden values. The largest detractor in the quarter was Japanese data centre and office operator Keihansin Building, due to a failed bid in the first quarter.

Photo: Shutterstock

Photo: Unsplash

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 after the decline in 2020, especially as most multiples have not increased along with broader equity markets. Since the pandemic hit the stock market, global real estate still lags other global sectors, 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. 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.

Quarterly Report

SKAGEN m2 A

All data in EUR as of 30/06/2021 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.

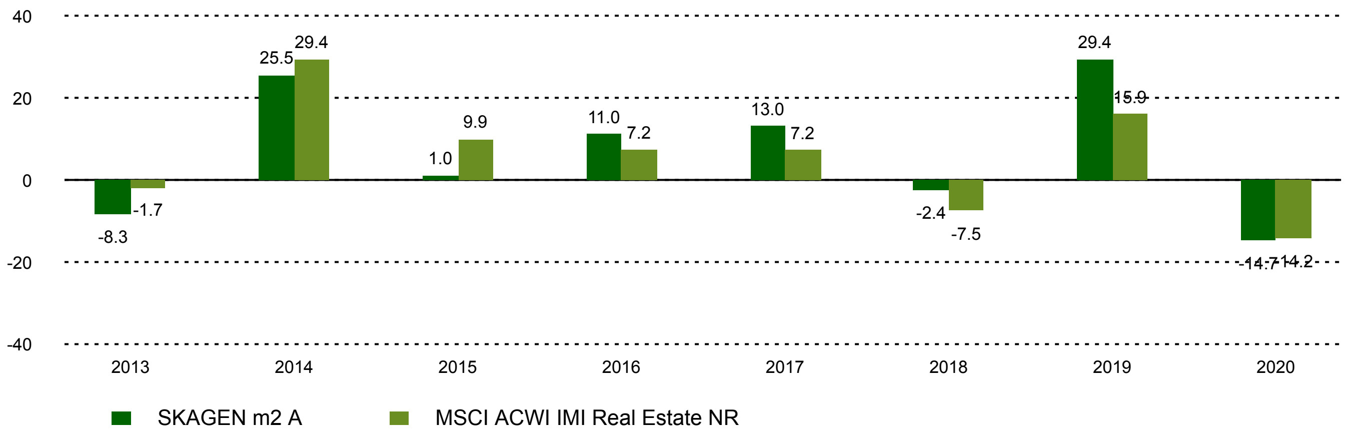
Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	25.23 EUR
Fixed management fee	1.50%
Total expense ratio (2020)	1.37%
Benchmark index	MSCI ACWI IMI Real Estate NR
AUM (mill.)	178.77 EUR
Number of holdings	36
Portfolio manager	Michael Gobitschek

Historical performance (net of fees)

Period	SKAGEN m2 A	Benchmark index
Last month	3.3%	4.1%
Quarter to date	10.6%	7.2%
Year to date	16.1%	17.9%
Last year	22.5%	23.5%
Last 3 years	7.1%	2.9%
Last 5 years	9.0%	3.4%
Last 10 years	n/a	n/a
Since start	7.5%	7.0%

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 (%)
Adapteo Oyj	3.93	2.58
Catena AB	4.59	0.99
Switch Inc	3.47	0.96
Deutsche Wohnen SE	1.57	0.75
Self Storage Group	5.05	0.63

Largest detractors

Holding	Weight (%)	Contribution (%)
Keihanshin Building Co	2.98	-0.27
China Resources Land Ltd	0.94	-0.14
Ascendas India Trust	2.05	-0.12
Paramount Group Inc	0.52	-0.11
Tokyu Fudosan Holdings	0.45	-0.08

Absolute contribution based on NOK returns at fund level

Quarterly Report

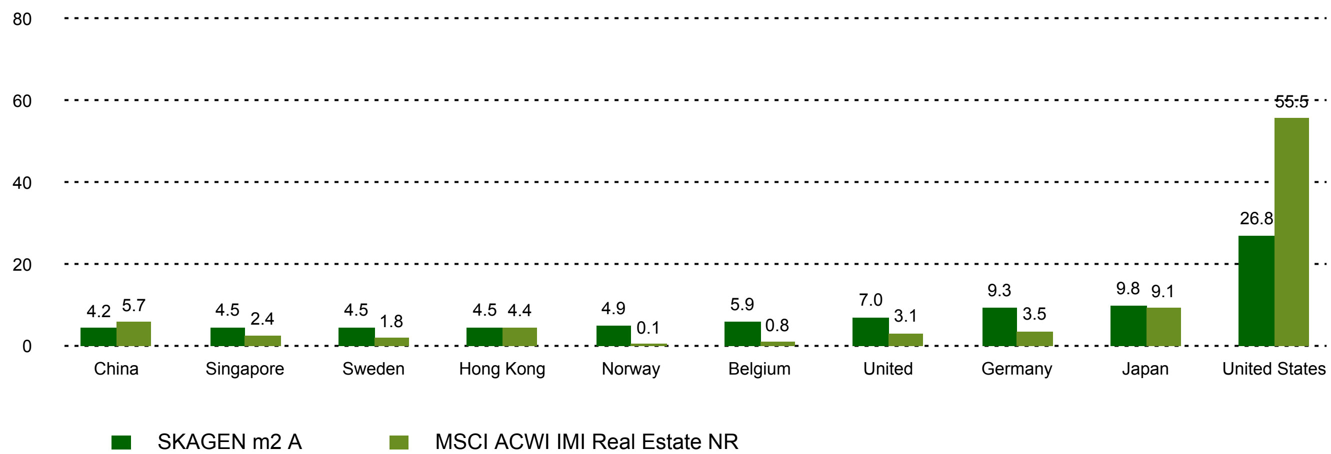
SKAGEN m2 A

All data in EUR as of 30/06/2021 unless otherwise stated.

Top ten investments

Holding	Sector	Country	%
Self Storage Group ASA	Industrials	Norway	4.9
Catena AB	Real Estate	Sweden	4.5
UMH Properties Inc	Real Estate	United States	4.0
Prologis Inc	Real Estate	United States	3.9
KOJAMO OYJ	Real Estate	Finland	3.7
Americold Realty Trust	Real Estate	United States	3.7
Grainger PLC	Real Estate	United Kingdom	3.6
CTP BV	Real Estate	Netherlands	3.6
LEG Immobilien SE	Real Estate	Germany	3.6
Shurgard Self Storage SA	Real Estate	Belgium	3.6
Combined weight of top 10 holdings			39.2

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