

A record year for SKAGEN m2's unit holders

Both the fourth quarter and the year ended on a high note for SKAGEN m2 and its unit holders. The fund generated a record high absolute and relative return in 2019, which is the fourth consecutive year that the fund has outperformed its benchmark index.

The global economy appears to have moved into a more synchronised slowdown and geopolitical issues still abound. While this is also filtering through to real estate markets, fundamentals remain healthy with momentum only easing gradually. The yield curve has flattened as institutions struggle with negative bond yields, so long-let, yielding real estate remains in vogue. This is evidenced by the listed market performance during the year, direct investment volumes, as well as the significant amount of capital raised for real estate investments. It seems clear that central banks will only raise rates when growth and inflation are guaranteed, and when that becomes the case, real estate will benefit through higher rental growth. Hence, in this lower-for-longer environment, real estate continues to appear well supported. The current spread between property yields and bond yields is wider than historical averages, suggesting there is room for yield compression, or a buffer should 10-year government bond yields move higher. However, yield compression is more likely in some specific real estate segments benefiting from structural growth rather than in general.

An active year

The fund added ten new positions and sold eleven over the course of the year. In December, SKAGEN m2 added the US-based residential

apartment owner Equity Residential after a period of weakness. The company owns and operates over 80 000 units, with a focus on high density urban and suburban locations in the US. The company targets a younger, affluent and more demanding market; hence digital service is a strong competitive edge in their offering. We also added two new US healthcare names in the quarter, namely Health Care Trust of America and Brookdale Senior Living. Both companies have assets within different segments of the health care industry and are aligned with our focus on long-term secular trends, in this case the ageing US population. The fund also initiated a position in the North Rhein Westphalia based residential operator LEG Immobilien. This was financed by trimming our position in Deutsche Wohnen given the continued uncertainty regarding the potential Berlin rental regulations.

Contributors

The best contributor in the quarter was the Swedish logistics operator Catena driven by further asset transactions as well as the strong e-commerce trend. The Norwegian Self Storage Group came in as second-best contributor after continuing to report growth mainly on acquisitions and extensions. The UK residential rental operator Grainger also did well, especially after the Conservative party election victory in December which removed the threat of rental regulation advocated by the Labour party. The largest detractor in the quarter was the US digital real estate company, Colony Capital. The company reported numbers in-line with expectations but took a larger than expected goodwill impairment which hurt shareholders.



Photo: Shutterstock

Backdrop

Returns for private real estate have remained stable during 2019 while public real estate continues to outperform other major asset classes at a global level. Government bond yields have declined further throughout the year, and real estate continues to offer a premium to most other asset classes despite yields being at record lows in many markets. The volume of capital held by funds yet to be deployed is near an all-time high level and investors, though cautious and selective, remain keen to access the sector.



Photo: Shutterstock

Outlook

Going into 2020, there are several themes worth highlighting. We believe that stock picking matters more than ever as dispersion increases with earnings growth and financial health being important considerations. The fund will continue to prioritise more defensive subsectors with positive secular themes driving growth, such as rental residential and self-storage. We will continue to focus on the increasingly important matter of environmental sustainability. Companies that fail to meet the right criteria will sooner or later struggle to attract the right tenants. We will continue to see increased capital raising as listed real estate companies take advantage of cheaper capital in the lower-for-longer environment. The single biggest short-term risk for the sector, besides unexpected and fast rising real rates, is still a rapid decline in the economic growth numbers or a recession. Another risk that should not be overlooked is political influence. This is an increasing factor that is hard to predict but exists. Good examples are the rental freeze discussions in Berlin or the government-controlled land supply in Hong Kong. Overall, the real estate sector remains attractive due to its stable and rising top-line, low cost financing and solid cash flows. Whatever the near-term future for the economy and listed real estate may hold, longer-term, urbanisation and demographic shifts will provide a helpful tailwind for global real estate. SKAGEN m2 remains well positioned to benefit from this thanks to its philosophy and disciplined stock selection.

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.

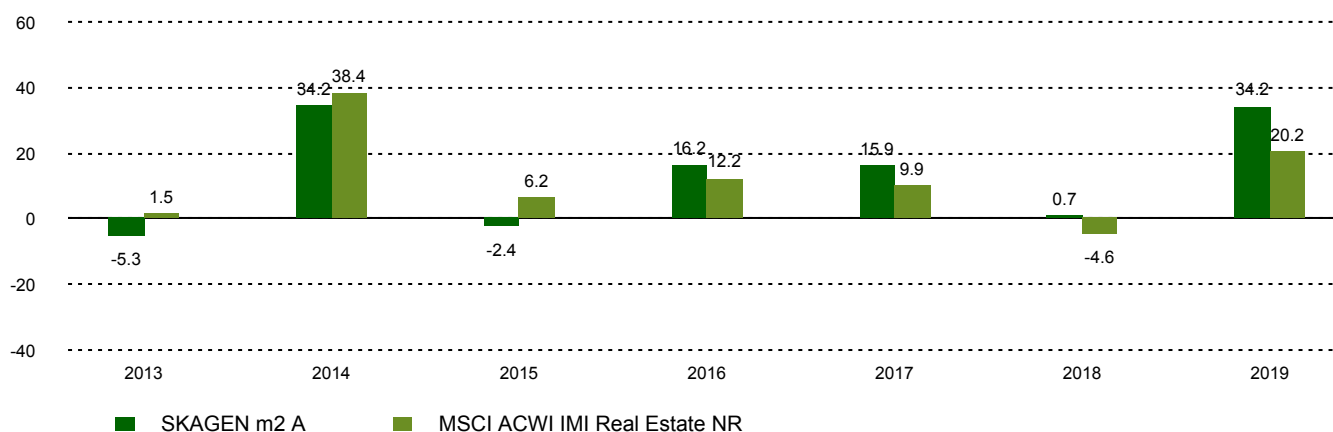
Historical performance (net of fees)

Period	SKAGEN m2 A	Benchmark index
Last month	2.8%	-0.1%
Quarter to date	5.3%	-1.4%
Year to date	34.2%	20.2%
Last year	34.2%	20.2%
Last 3 years	16.1%	8.0%
Last 5 years	12.2%	8.5%
Last 10 years	n/a	n/a
Since start	12.3%	11.5%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	267.67 SEK
Fixed management fee	1.50%
Total expense ratio (2018)	2.06%
Benchmark index	MSCI ACWI IMI Real Estate NR
AUM (mill.)	2172.16 SEK
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 (%)
Catena AB	5.00	1.36
Self Storage Group	3.86	1.00
Grainger PLC	2.57	0.77
CA Immobilien Anlagen	4.85	0.67
Stendorren Fastigheter	2.58	0.57



Largest detractors

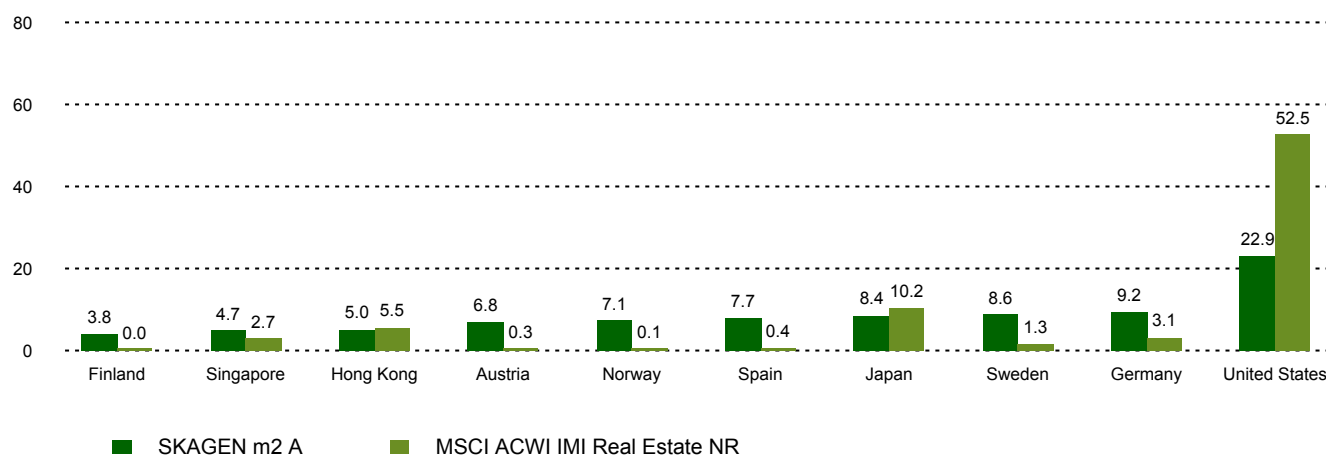
Holding	Weight (%)	Contribution (%)
Colony Capital Inc	2.77	-0.61
Equity Residential	0.63	-0.18
IMMOFINANZ AG	2.46	-0.16
Mitsui Fudosan Co	3.84	-0.13
Columbia Property Trust	2.62	-0.11

Absolute contribution based on NOK returns at fund level

Top ten investments

Holding	Sector	Country	%
EQUINIX INC	Real Estate	United States	4.9
CA Immobilien Anlagen AG	Real Estate	Austria	4.7
Catena AB	Real Estate	Sweden	4.5
Self Storage Group ASA	Industrials	Norway	4.3
VICI Properties Inc	Real Estate	United States	4.0
Aroundtown SA	Real Estate	Germany	3.9
KOJAMO OYJ	Real Estate	Finland	3.8
LEG Immobilien AG	Real Estate	Germany	3.4
Mitsui Fudosan Co Ltd	Real Estate	Japan	3.4
Shurgard Self Storage SA	Real Estate	Belgium	3.0
Combined weight of top 10 holdings			39.9

Country Exposure (top ten)



■ 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

Contact



0200-11 22 60



kundservice@skagenfonder.se



SKAGEN AS, Box 11, 101 20
 Stockholm

Important information

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.