

Second quarter offered some relief for real estate

Centrals banks and governments continued to support the economy and companies in the second quarter. This, in combination with a cautious reopening of most economies, fuelled a stock market rally from mid-May until the end of the quarter. Despite this, global real estate continued to lag the broader equity market. During this spring's market distress, the sector did not demonstrate the same resilience as it has done during many previous corrections. The most obvious explanation for this is some of the subsegments' direct exposure to the virus spread (e.g. hotels, gaming, student housing, malls) which suffered from physical shutdowns and a halt in sales for their tenants. This created uncertainty around their viability and willingness to pay their contractual rent. Governments have in many instances provided aid and relief, but the extent of their leniency towards landlords has varied across countries. There are still large disparities between the various subsegments, although the worst affected rebounded during the second quarter.

SKAGEN m2 continues to focus on the more resilient subsegments and companies with strong and growing cash flow generation, driven by strong underlying trends. Real estate occupancies had a strong starting point going into the recession, something that may limit the damage ahead. A continuous global and synchronised recovery and favourable monetary policy will serve the real estate sector well.

Activities during the quarter

The fund invested in one new holding in the quarter, the US based data centre operator Switch. The company has a strong position in its core markets offering high reliability and power density, served by renewable energy. Switch is one of the purest plays to capture the proliferation of the cloud. The current crisis has amplified the need for data traffic leading to huge new investments in IT-infrastructure.

In June, the German residential operator LEG acquired 7500 apartments from another portfolio holding, Deutsche Wohnen, partly financed by an equity raise. The deal was positive and reinforced the growth strategy outside of LEG's core area. The diversified German operator Aroundtown announced a share buy-back programme with a volume of up to EUR

500m to be finalised this year. On a positive note, the company also disposed of many retail assets that came aboard with the TLG acquisition.

Best and worst contributors

The best contributor in the quarter was the Swedish logistics operator Catena, demonstrating the resilience of industrial real estate during this pandemic. The sector was boosted by the strong increase in e-commerce during the crisis. The Brazilian logistics operator LOG Commercial Properties also performed well for the same reasons. Another resilient segment is self-storage and the pan European platform operated by the Belgian company Shurguard was the second best performer in the portfolio during the quarter, helped by its defensive operations and strong balance sheet.

On the negative side, CA Immobilien was the largest detractor mainly due to its exposure to the office segment. This is a much talked about segment at present, with some people assuming that in-office work will decline in favour of the working from home trend, and others assuming that all will return to normal. The truth is probably somewhere in between and some of the lower demand will be offset by the requirement for more space per person due to the new social distancing requirements. However, we also acknowledge the difficulty of taking a clear stance either way while we are in the midst of the crisis in many countries. We reduced our office exposure in the first quarter, mainly due to concerns around economic developments rather than an anticipation of dramatic changes in office usage patterns.

The Hong Kong based Far East Consortium suffered during the period, mainly due to its Hong Kong listing and hotel exposure. It is worth remembering, however, that the majority of the asset's exposure is outside Hong Kong. The US rental housing operator Equity Residential also detracted on fears of negative rental collections due to increasing unemployment numbers and its exposure to New York. Rental collections have so far been close to normal.



Photo: Shutterstock

Strong long-term prospects for real estate

The real estate landscape is constantly evolving, now more than ever with changing consumer patterns, rapid technological developments and the declining need for physical workspace. It is not clear what the final outcome will be, but it is more important than ever to be selective.



Photo: Bloomberg

Outlook

SKAGEN m2 closes the quarter with a strong cash position and 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 financial stimulus and the fact that both a continued low interest rate environment and an inflationary environment are beneficial for real estate assets. In the short term, however, real estate will not be immune to challenges caused by the deteriorating macroeconomic environment.

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.

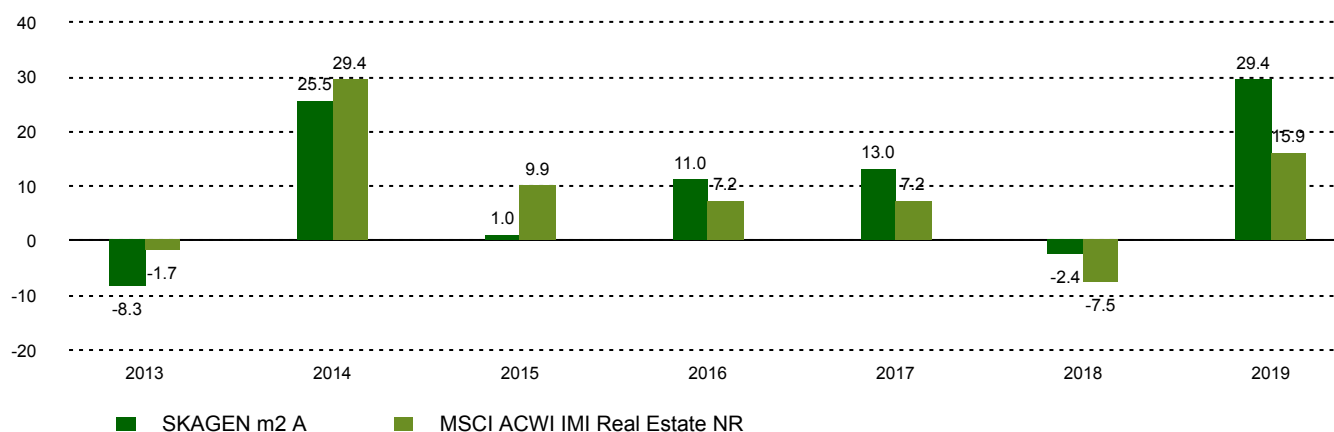
Historical performance (net of fees)

| Period | SKAGEN m2 A | Benchmark index |
|-----------------|-------------|-----------------|
| Last month | 0.9% | 1.0% |
| Quarter to date | 8.1% | 8.6% |
| Year to date | -19.2% | -18.0% |
| Last year | -8.2% | -16.0% |
| Last 3 years | 3.0% | -2.1% |
| Last 5 years | 4.6% | 0.7% |
| Last 10 years | n/a | n/a |
| Since start | 5.6% | 5.1% |

Fund Facts

| | |
|----------------------------|------------------------------|
| Type | Equity |
| Domicile | Norway |
| Launch date | 31.10.2012 |
| Morningstar category | Property - Indirect Global |
| ISIN | NO0010657356 |
| NAV | 20.59 EUR |
| Fixed management fee | 1.50% |
| Total expense ratio (2019) | 2.68% |
| Benchmark index | MSCI ACWI IMI Real Estate NR |
| AUM (mill.) | 172.11 EUR |
| Number of holdings | 31 |
| 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 | 4.77 | 1.10 |
| Shurgard Self Storage SA | 3.52 | 0.62 |
| LOG Commercial Properties e Participacoes SA | 1.66 | 0.51 |
| Deutsche Wohnen SE | 2.94 | 0.28 |
| Equinix Inc | 7.51 | 0.27 |



Largest detractors

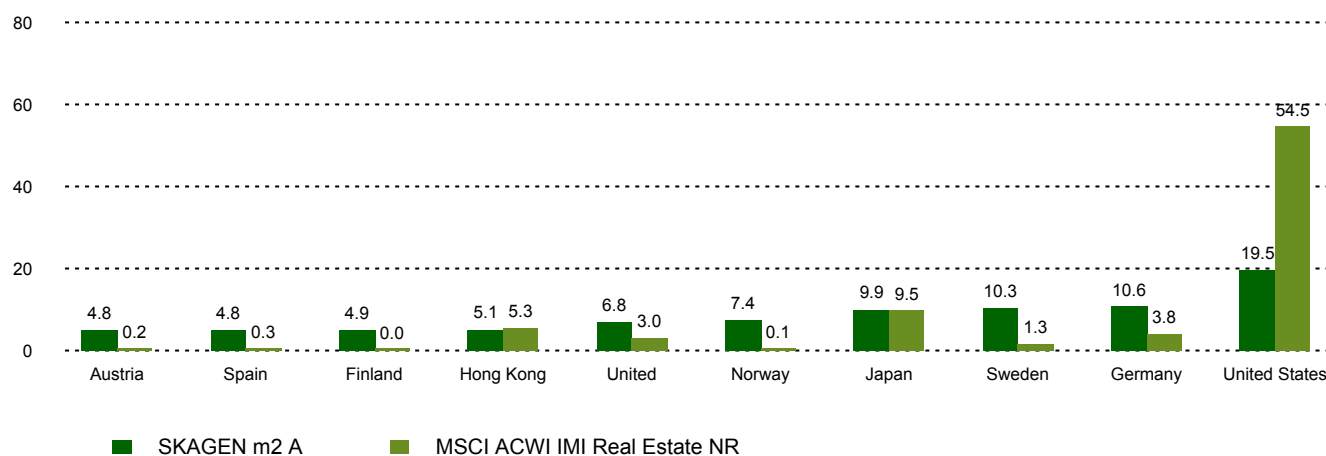
| Holding | Weight (%) | Contribution (%) |
|---------------------------------------|------------|------------------|
| CA Immobilien Anlagen AG | 4.82 | -0.46 |
| Far East Consortium International Ltd | 2.20 | -0.43 |
| Equity Residential | 3.09 | -0.37 |
| Inmobiliaria Colonial Socimi SA | 2.25 | -0.36 |
| Assura PLC | 2.96 | -0.29 |

Absolute contribution based on NOK returns at fund level

Top ten investments

| Holding | Sector | Country | % |
|------------------------------------|-------------|---------------|------|
| EQUINIX INC | Real Estate | United States | 6.7 |
| Catena AB | Real Estate | Sweden | 5.3 |
| Self Storage Group ASA | Industrials | Norway | 5.2 |
| KOJAMO OYJ | Real Estate | Finland | 4.9 |
| CA Immobilien Anlagen AG | Real Estate | Austria | 4.8 |
| LEG Immobilien AG | Real Estate | Germany | 4.7 |
| Mitsui Fudosan Co Ltd | Real Estate | Japan | 4.2 |
| Shurgard Self Storage SA | Real Estate | Belgium | 4.0 |
| Keihanshin Building Co Ltd | Real Estate | Japan | 4.0 |
| Healthcare Trust of America Inc | Real Estate | United States | 3.7 |
| Combined weight of top 10 holdings | | | 47.6 |

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

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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.