SKAGEN m2 A

All data in EUR as of 31.12.2017 unless otherwise stated.

5-year anniversary - most successful year yet

At the end of fourth quarter SKAGEN m2 had delivered an annual return to its unitholders which was almost twice that of its benchmark index. The quarter was also positive in both absolute and relative terms. In October the fund celebrated its five-year anniversary and since start the fund has almost doubled in value. SKAGEN m2 retained its position as the leading global real estate fund in Europe for the second year in a row.

The quarter, like the full year 2017, was defined by a near-perfect combination of steady global growth, low inflation, and accommodative monetary policies. Almost all of the world's major economies were in some phase of expansion, leading to a self-reinforcing global acceleration and the most synchronised global upturn in several years. Perhaps more importantly, the synchronised recovery in global growth has translated into better earnings for real estate stocks.

The best contributor during the period was the Argentinian company IRSA which performed well after the mid-term election in Argentina, with a favourable outcome for future city project developments of its land bank. The company also presented positive operating numbers both in the retail and office segments in addition to positive refinancing. The Indian mall operator Phoenix Mills continued to perform well on the back of a generally bullish Indian real estate market.

During the quarter, the fund had only two negative contributors, the Swedish mall and office operator Atrium Ljungberg and Norwegian peer Olav Thon. The latter only made a marginal loss, however. Both companies were punished by the overall turmoil in the housing markets in their respective countries – unfairly so as the dynamics and drivers are different for commercial assets. In addition, the scepticism around the future of the mall industry that started a year ago has continued to be evident. Nonetheless, both companies recouped some of the losses during the last month of 2017.

Portfolio activity

In December, the fund experienced its third take-over event of the year after those involving Global Logistic Property and Sponda. This time, the German residential giant Vonovia placed an all-cash bid for the Austrian residential operator Buwog. The latter was a decent sized position in SKAGEN m2 and became second best contributor for the quarter.

One new holding during the period was Norwegian Self Storage Group, present in Scandinavia with an untapped potential for this segment. The market is lagging in terms of storage space per capita and user behaviour. The segment is primarily driven by life changing events, but also the trend towards smaller living space and urbanisation. Self-storage generally has resilient characteristics over the business cycle. Another new holding was the Hong Kong based, but geographically diverse, Far East Consortium. The business includes investment properties, mainly hotels, and development. It is trading at a deep discount.

The Indian mall operator Phoenix Mills continued to perform well. Photo: Unsplash

New holding: Norwegian Self Storage Group. The market is lagging in terms of storage space per capita and user behaviour. Photo: Unsplash

Outlook

The global stock markets have been in climbing mode for many years, although with big differences in return. Looking at the global real estate markets, the general conditions for real estate continue to be very favourable with low interest rates and expanding economies synchronised globally. High demand in certain cities and segments will continue to drive rents and capital values even though yield compression has slowed in most places, putting the brakes on increases in prices and capital returns from yield compression. SKAGEN m2 maintains its philosophy of investing in companies with embedded growth less affected yield movements. There is still good rent reversion potential in many companies, meaning the spread between the companies' current rent-roll and market rents. High demand and low vacancies will likely continue to drive earnings and cash flow this year, and visibility is unique in the sector due to leasing and credit maturities. Balance sheets are solid, credits diversified and refinanced at low levels with long duration. The spread between valuations in direct and listed real estate are still wide, implying that we will see further M&A transactions on the stock exchange especially in the mall industry.

Ingredients in place for an exciting 2018

There is still a lot of money seeking opportunities in the real estate market as an alternative to low yielding bonds. In general, valuations are not too stretched and are still trading at a discount to substance, especially considering the strong overall conditions and real estate fundamentals. Valuations are backed by good demand driven rental growth and low vacancies. Strong earnings development in emerging markets are set to continue in 2018 especially in Asia. Hong Kong is expected to continue to have a positive development despite elevated asset prices driven by high investment demand and low company valuation. Japanese non-REITS, also trading at a discount to substance, are well positioned if inflation starts to take off. The hotel sector will be a beneficiary of Chinese and European consumption growth. Europe will continue to be a natural hunting ground for SKAGEN m2 also in 2018 due to the growth prospects and value found there in selected companies. UK names trading at a big discount could also rerate when the Brexit outcome becomes more visible. All the ingredients are there for 2018 to be an exciting year!

Quarterly Report

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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.

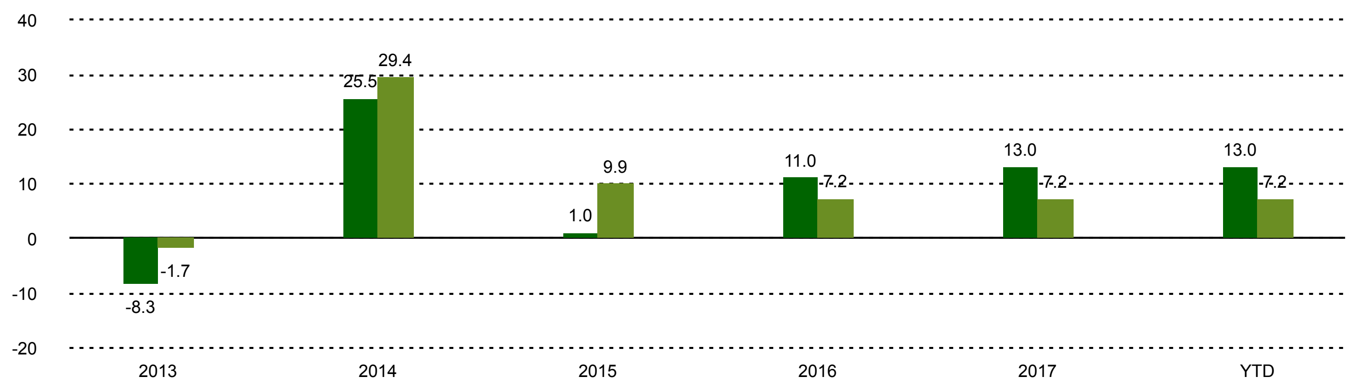
Historical performance (net of fees)

Period	SKAGEN m2 A	Benchmark index
Last Month	3.1%	2.1%
Quarter to date	4.7%	3.0%
Year to date	13.0%	7.2%
Last year	13.0%	7.2%
Last 3 years	8.2%	8.1%
Last 5 years	7.9%	10.0%
Last 10 years	n/a	n/a
Since start	8.1%	10.3%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	20.17 EUR
Fixed management fee	1.50%
Total expense ratio (2017)	2.05%
Benchmark index	MSCI ACWI IMI/Real Estate NR
AUM (mill.)	123.33 EUR
Number of holdings	31
Lead manager	Michael Gobitschek

Performance last ten years



SKAGEN m2 A   MSCI ACWI IMI/Real Estate NR   Benchmark prior to 11.07.17 was MSCI ACWI Real Estate IMI

Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
IRSA Inversiones y Representac	3.82	1.03
BUWOG AG	3.15	0.71
Shangri-La Asia Ltd	2.17	0.61
DIC Asset AG	3.57	0.61
Phoenix Mills Ltd/The	2.05	0.59

Largest detractors

Holding	Weight (%)	Contribution (%)
Atrium Ljungberg AB	2.78	-0.18
Olav Thon Eiendomsselskap ASA	4.23	-0.03
Melia Hotels International SA	2.29	0.00
Mercialys SA	0.00	0.00
Ashford Hospitality Trust Inc	0.00	0.00

Absolute contribution based on NOK returns at fund level

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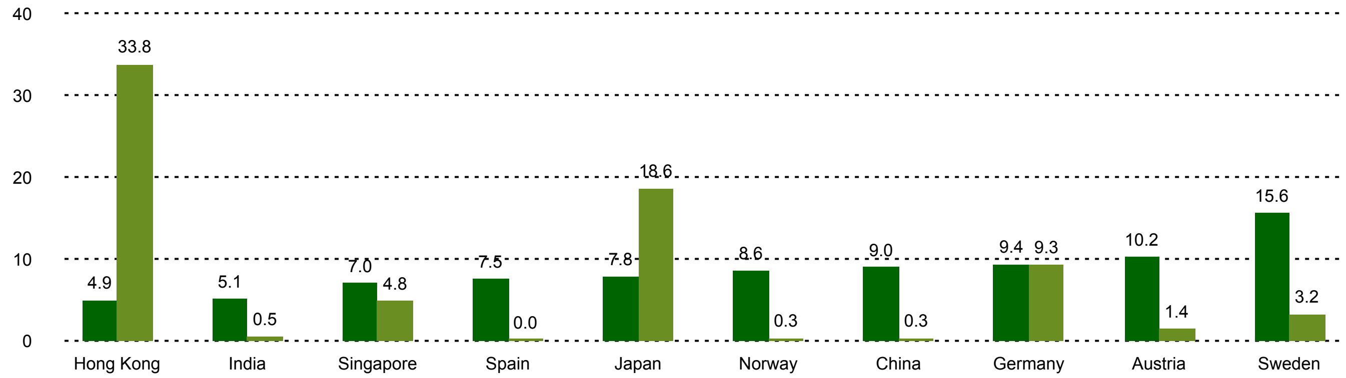
Top ten investments

Holding	Sector	Country	%
Catena	Real Estate	Sweden	6.9
D Carnegie & Co	Real Estate	Sweden	6.0
Deutsche Wohnen	Real Estate	Germany	5.9
Mitsui Fudosan Co	Real Estate	Japan	5.5
Inmobiliaria Colonial	Real Estate	Spain	5.1
Olav Thon Eiendomsselskap	Real Estate	Norway	4.0
Global Logistic Properties	Real Estate	Singapore	3.8
CA Immobilien Anlagen	Real Estate	Austria	3.8
CK Asset Holdings	Real Estate	Hong Kong	3.8
IRSA	Real Estate	Argentina	3.8
Combined weight of top 10 holdings			48.5

Country Exposure (top ten)



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Contact

+47 51 80 37 09

contact@skagenfunds.com

SKAGEN AS, Post Box 160, 4001, Stavanger, Norway

Important information