

A strong second quarter

SKAGEN m2 had a strong second quarter in both absolute and relative terms. The fund continues to show strength among real estate peers, but also versus other sectors.

In the quarter, volatility continued primarily in emerging markets, mainly driven by a higher oil price, higher interest rates and a higher US dollar in addition to the overhanging fear of a trade war. The US central bank continued to hike its interest rates and announced the next step in their balance sheet normalisation policy. Yield movements were not as strong as in the first quarter, leading to some positive signs in the US real estate names. European real estate stocks continued to deliver well driven by solid rental growth numbers, lower vacancy and increased asset values, especially in capital cities. The European real estate sector has performed better than other sectors in the first half of the year, something only seen in Japan on a global basis.

Key contributors

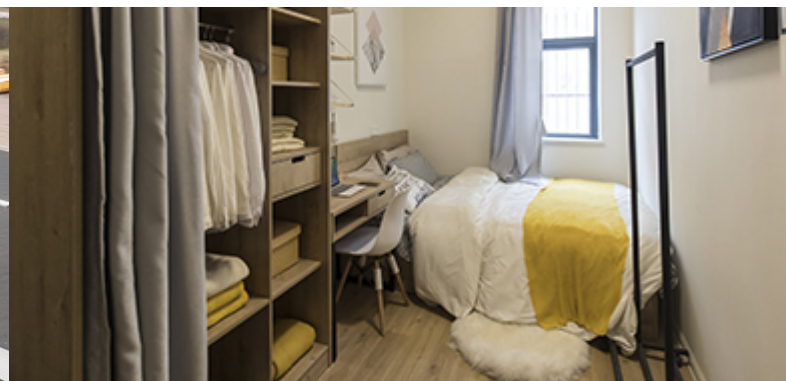
The best contributors during the quarter were the Swedish holdings D. Carnegie and Catena, despite the negative currency effect. D. Carnegie continued to acquire rental apartments in the Stockholm region. The stock was also helped by competing bids for its main peer Victoria Park from

Starwood Capital and German Vonovia, indicating a continued interest in the sector in Sweden. The logistics operator Catena also continued to add assets and is performing well. Logistics and warehousing is still the most attractive segment within real estate, driven by the rapidly growing ecommerce expansion. Catena is the hidden Nordic gem trading below its European peers despite good performance over the last year.

The worst contributor was Argentinian IRSA despite good operational performance and positive corporate news. The reason for the unfavourable outcome for the stock is the Argentinian macro and currency environment. However, at the end of the quarter it was announced that Argentina will be a member of the MSCI Emerging Market Index in 2019, which is very positive. Operationally IRSA is performing well and trading at very depressed valuations. The next catalysts for Argentina's equity market are likely to be central bank's ability to stabilise the currency, the government's approach to gathering support for the 2019 budget, fiscal compliance with the IMF and the start of a new monetary easing cycle. There was no negative company news from the second worst performer of the quarter, Brazilian MRV Engenharia either. Rather the negative macro and currency developments have affected performance.



The logistics operator Catena also continued to add assets and is performing well. Photo: Unsplash



SKAGEN m2 added the Chinese developer Vanke to the portfolio in Q2. Photo: Bloomberg

Portfolio activity

SKAGEN m2 added two new positions during the quarter. The first is the Chinese developer Vanke, which replaces the Indian Oberoi Properties that we exited earlier this year. Given its size and strong balance sheet, Vanke is one of the dominant developers in China focusing on Tier 1-2 cities. It is trading at a deep discount mainly due to its prudent land banking strategy and the uncertainty in shareholder structure. The long-term case is that Vanke is slowly building up a recurring rental income business to mitigate the inherent volatility risk in the developer business. Vanke recently participated in the privatisation of former SKAGEN m2 holding Global Logistic Properties. The company also plays a central role in consolidating the Chinese residential market, both in the owner and rental segments. The fund has taken a minor position due to the overall risk profile.

The second new position is Kojamo that we entered in connection with the IPO in June, the largest in Finland so far this year. SKAGEN m2 took a decent position at a good discount to NAV. Kojamo is the largest and most well-known Finnish rental residential operator, mainly focused on the Helsinki metropolitan area. The company has a visible growth pipeline combined with a strong supporting cash flow stream from rental contracts, in other words a lower risk profile with growth opportunities. The company has performed well since inception.

Favourable outlook for real estate

The general conditions for real estate continue to be favourable with low interest rates and expanding economies globally. For real estate companies in general, underlying EPS and net asset value growth remain positive, supported by robust operating performance, falling financing rates and deleveraging. An increasing trend of capital management initiatives, like share buy backs or hiked dividends is also positive. SKAGEN m2 maintains its philosophy of investing in companies with embedded growth models less affected by yield movements. There is still good rent reversion potential in many companies, meaning the spread between the companies' current rent-roll and market rents. The difference between valuations in direct real estate and listed real estate are still wide, implying that we will see further M&A transactions in the listed market during the year. Company valuations in m2 are mainly in line with or lower than historical average in relation to substance value. This is backed by solid balance sheets, demand driven rental growth and low or improving vacancies.

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.

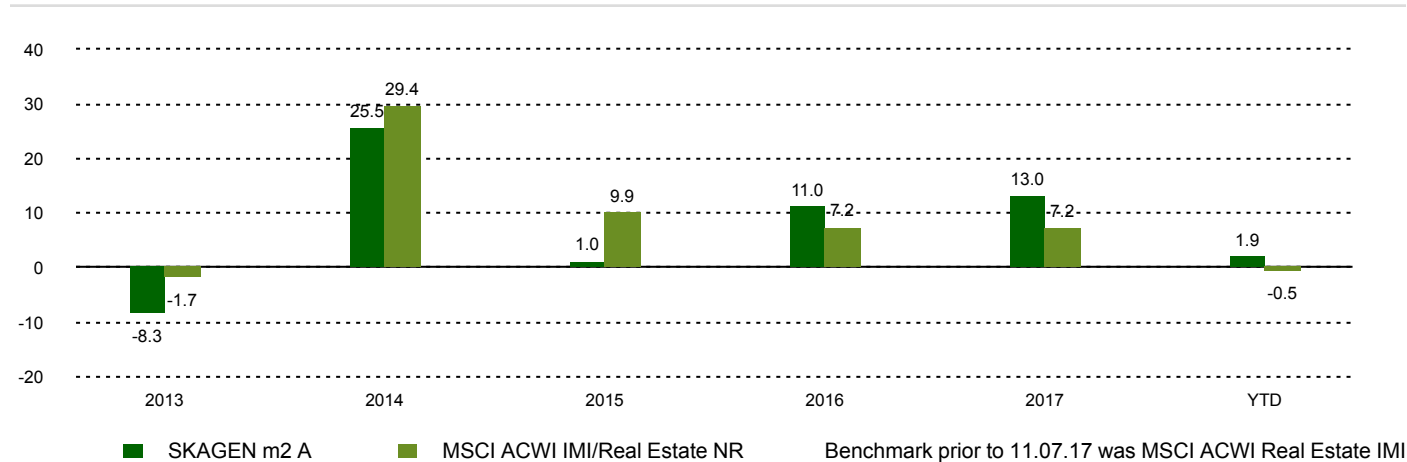
Historical performance (net of fees)

Period	SKAGEN m2 A	Benchmark index
Last month	-2.3%	-3.8%
Quarter to date	6.4%	2.6%
Year to date	1.9%	-0.5%
Last year	9.2%	6.4%
Last 3 years	7.7%	5.5%
Last 5 years	7.8%	9.1%
Last 10 years	n/a	n/a
Since start	7.7%	9.3%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	20.56 EUR
Fixed management fee	1.50%
Total expense ratio (2017)	2.05%
Benchmark index	MSCI ACWI IMI/Real Estate NR
AUM (mill.)	141.01 EUR
Number of holdings	30
Portfolio manager	Michael Gobitschek

Performance last ten years



Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
D Carnegie & Co AB	6.90	1.03
Catena AB	7.10	0.83
Deutsche Wohnen SE	6.78	0.75
Mitsui Fudosan Co Ltd	6.52	0.48
Columbia Property Trust Inc	2.66	0.47

Largest detractors

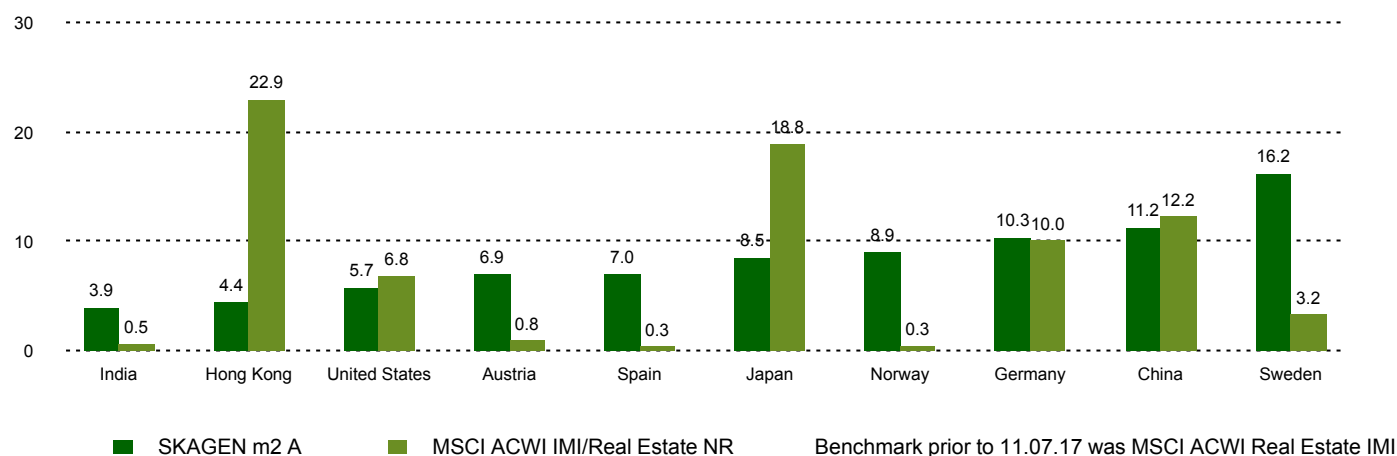
Holding	Weight (%)	Contribution (%)
IRSA Inversiones y Representac	2.91	-0.64
MRV Engenharia e Participacoes	1.83	-0.62
CapitaLand Ltd	3.53	-0.23
China Vanke Co Ltd	1.05	-0.17
SOHO China Ltd	0.80	-0.03

Absolute contribution based on NOK returns at fund level

Top ten investments

Holding	Sector	Country	%
Catena	Real Estate	Sweden	6.9
D Carnegie & Co	Real Estate	Sweden	6.5
Mitsui Fudosan Co	Real Estate	Japan	6.2
Deutsche Wohnen	Real Estate	Germany	6.2
CA Immobilien Anlagen	Real Estate	Austria	4.5
Aroundtown SA	Real Estate	Germany	4.2
Inmobiliaria Colonial	Real Estate	Spain	4.1
Olav Thon Eiendomsselskap	Real Estate	Norway	3.4
CapitaLand	Real Estate	Singapore	3.4
Kojamo Oyj	Real Estate	Finland	3.4
Combined weight of top 10 holdings			48.7

Country Exposure (top ten)



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