

All-time high

SKAGEN m2 ended the quarter with an all-time high NAV, delivering a strong absolute return. The benchmark performed better in the period due to strong Asian markets like Hong Kong and Japan, where the fund has a relative underweight. Weak currencies, particularly in Sweden, also contributed negatively to the relative performance, mainly driven by the Swedish central bank's unwillingness to hike interest rates. During the quarter, both the US and European central banks also announced more dovish signals, putting interest rate hikes on hold and taking a more flexible approach to unwinding their quantitative easing policies. What is important is that the euro area economy appears well placed to surprise on the upside in the coming quarters, with the market potentially being forced to reassess interest rate expectations for 2020. This is important for SKAGEN m2 which has the majority of its holdings in the Eurozone. The global real estate markets have got off to a good start to the year, having outperformed the global all sector index by a wide margin year to date.

Winners and losers

Overall, the reporting season during the quarter was in line with or better than expectations. The reports confirm the fundamental strengths of some of the geographical markets and segments where the fund is positioned. The best performer in the quarter was the Swedish rental apartment operator Hembla, which confirmed its low operational risk and solid growth outlook. The Finnish company Kojamo rebounded during the quarter after presenting a good report and positive guidance. We think the company is a long-term structural winner with its Helsinki-focused residential portfolio. An interesting observation is that the portfolio's FY18 valuation implies a five percentage point EPRA Net Initial Yield, which is much higher than recent comparable portfolio transactions, according to management. The third best performer was Hong Kong-based CK Asset

Holdings, which is benefiting from a rebounding Hong Kong real estate market and has also announced strong recurring earnings with positive guidance and hiked dividend.

The worst contributors in the period were both hotel operators but with different geographical focus. However, both positions made only minor negative contributions. Last year Shangri-La was one of the worst contributors mainly on Chinese growth, the Hong Kong real estate market and interest hike concerns. This year the stock has been volatile but is trading at a deep discount and old concerns are starting to dissipate. We believe that Shangri-La is well positioned to benefit from the structural growth of the rising middle-class consumers in Asia and the outbound and domestic tourism growth in China. Spain-based Melia Hotels guided for a weaker first quarter but increased full year guidance. The market took most notice of the short-term outlook, rather than the longer term positive guidance.

New positions

SKAGEN m2 entered two new positions, both Japanese. The first company, Keihanshin Build, mainly operates commercial facilities like office and datacentres, primarily in Osaka. This is a very cheap way to get exposure to the growing segment of data centres normally trading at high multiples. The second position, JR Kyushu, stands out in the portfolio as although real estate is a major part of its earnings, it also provides railway transportation services. The company is present on the island of Kyushu, with the majority of its assets in the city of Fukuoka – a city with low vacancies and tight supply – in addition to three cities near Tokyo with growing populations. Both companies have an interesting asset base and pipeline, but low valuation.



Photo: Bloomberg

During the quarter, we visited Japan to get an impression of the real estate market and its outlook. We concluded that the real estate market is still very attractive due to a stable economy and low interest rates for growing alternative asset classes. In Tokyo, office yields and vacancies are record low and rents are still growing but have a way to go to reach last cycle levels. While there are still many opportunities to be found in Japan, it is important to be selective as some segments have become expensive. One area of interest is logistics, where only five percent of the assets are considered modern, something that is crucial to e-commerce and automation. Only six percent of all trade is e-commerce in Japan today, which is low compared to Europe or the US.



Photo: Bloomberg

Outlook

The real estate sector remains attractive due to its stable and rising top-line, low cost financing and solid cash flows. The sector has been priced higher since the beginning of 2019 along with the stock market in general, however there are still interesting cases to be found with good value and specific triggers. The underlying fundamentals are still strong in the sector in general, especially within certain cities or sub segments. SKAGEN m2 is well positioned to take advantage of this.

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.

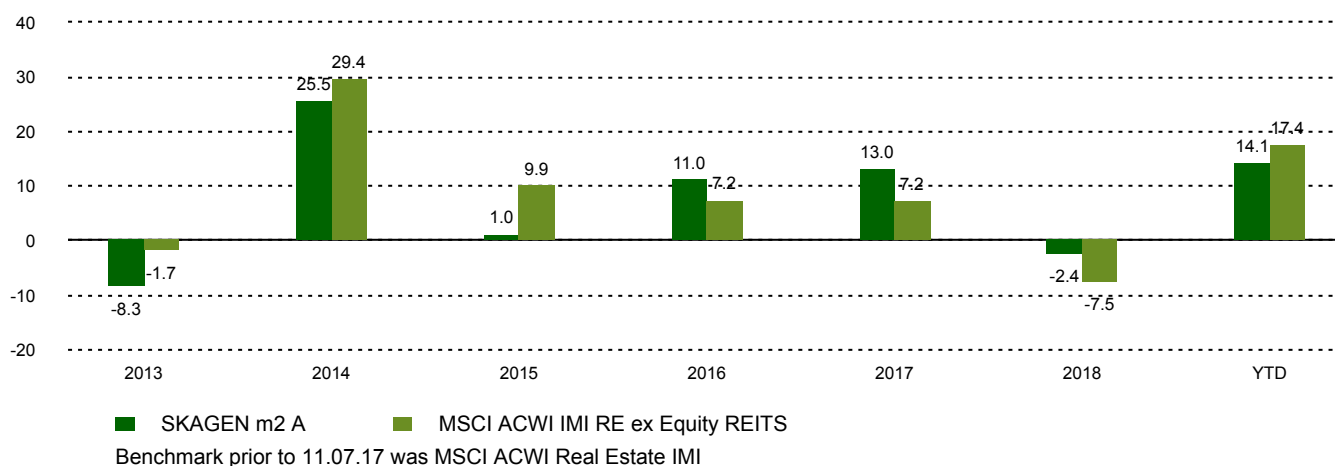
Historical performance (net of fees)

Period	SKAGEN m2 A	Benchmark index
Last month	4.9%	6.6%
Quarter to date	14.1%	17.4%
Year to date	14.1%	17.4%
Last year	16.3%	12.0%
Last 3 years	12.6%	7.9%
Last 5 years	11.3%	11.5%
Last 10 years	n/a	n/a
Since start	8.2%	9.6%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	22.46 EUR
Fixed management fee	1.50%
Total expense ratio (2018)	2.06%
Benchmark index	MSCI ACWI IMI RE ex Equity REITS
AUM (mill.)	145.67 EUR
Number of holdings	35
Portfolio manager	Michael Gobitschek

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Hembla AB	7.42	1.17
Kojamo Oyj	3.43	0.97
CK Asset Holdings Ltd	3.54	0.71
Mitsui Fudosan Co Ltd	5.25	0.68
Catena AB	6.78	0.67



Largest detractors

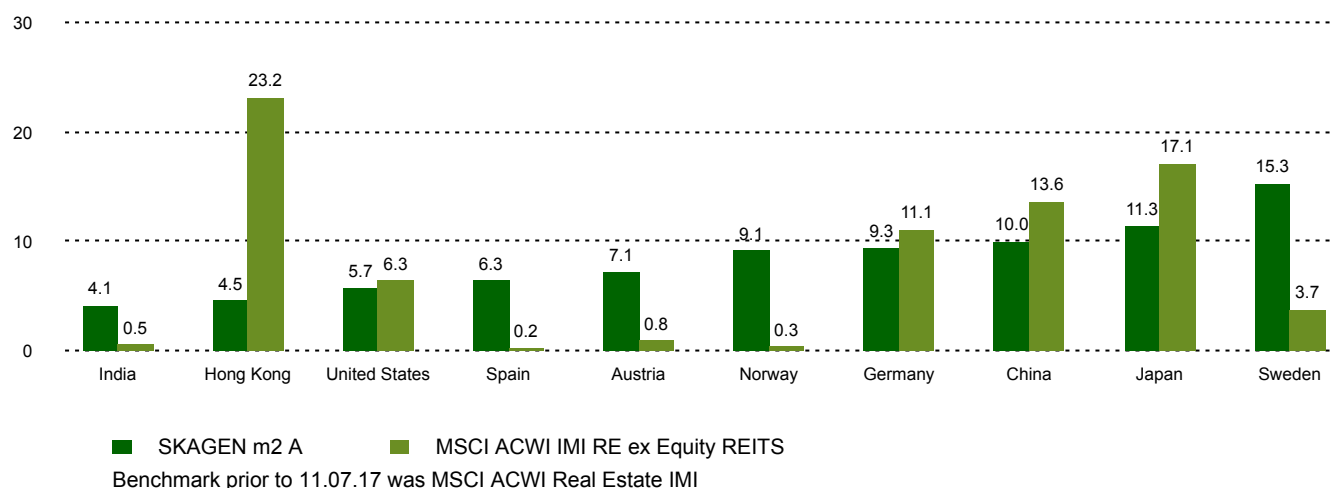
Holding	Weight (%)	Contribution (%)
Shangri-La Asia Ltd	2.48	-0.13
Melia Hotels International SA	2.66	-0.05
LOG Commercial Properties e Pa	0.20	-0.01
Kyushu Railway Co	1.22	0.00
Atrium Ljungberg AB	0.02	0.00

Absolute contribution based on NOK returns at fund level

Top ten investments

Holding	Sector	Country	%
Hembla AB	Real Estate	Sweden	7.5
Catena	Real Estate	Sweden	6.0
Mitsui Fudosan Co	Real Estate	Japan	5.2
Deutsche Wohnen	Real Estate	Germany	5.1
CA Immobilien Anlagen	Real Estate	Austria	4.8
Aroundtown SA	Real Estate	Germany	4.2
Kojamo Oyj	Real Estate	Finland	3.7
CK Asset Holdings	Real Estate	Hong Kong	3.6
CapitaLand	Real Estate	Singapore	3.6
Shurgard Self Storage Europe	Real Estate	Belgium	3.3
Combined weight of top 10 holdings			47.2

Country Exposure (top ten)



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Important information

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