

A challenging and unprecedented year for real estate

The year ended with the pandemic continuing to exert its unprecedented influence across global real estate markets. The pandemic has accelerated a number of trends that were largely in motion already, widening the gap between real estate winners and losers.

Real estate in all markets significantly underperformed the broader equity market in 2020, but positive coronavirus-vaccine news fuelled a rally that may persist in 2021. The optimism also drove the rotation from the corona winners to the loser segments, narrowing the gap in valuations. While the pandemic's net impact on the top line (i.e. rent) may be downward, it also reinforces the environment of secular stagnation, as inflation remains absent despite renewed optimism. For structurally supported sectors, real estate's income profile should continue to look attractive. In a world of continued low rates and a scramble for yield, quality real estate with good tenant covenant has remained well bid, supporting cap rates, asset prices and therefore NAVs. Hence, despite the pandemic's impact, the stock reaction is more contained, at least at a global level. However, if growth and inflation should improve, this will drive demand and therefore be supportive for real estate stocks.

SKAGEN m2 had a strong quarter both in absolute and relative terms. The fund ended the year slightly behind benchmark for the first time in five years as we, like most investors, did not anticipate the fast recovery in March. As for our company selection, we continue to focus on the long term and hopefully the picture will be brighter than last year.

An active year

During the year the fund entered 13 new positions and sold out of 16. In

December, we bought the US-based cold storage operator Americold. The company operates within the fast-growing food infrastructure supply chain, with strategically located temperature-controlled warehouses in many global geographies. We also initiated a small position in the Chinese company 21 Vianet Group, one of the leading carrier-neutral internet data centre service providers in China with strong demand driven by digitalisation and the prioritised "new infrastructure" initiative from the government. We initiated a small position in China Resources and Land to benefit from the strong Chinese post-pandemic consumer recovery. We also bought back into the US office operator Columbia Property Trust, which we had exited in the first quarter.

The best contributor was the German office and hotel operator Aroundtown, which rebounded strongly on vaccine news. The company struggled with lockdowns in all its markets during the year but was supported by a huge share buyback programme. The Norwegian office operator Entra was a strong performer after receiving multiple bids from Swedish admirers. We exited the position at good levels to recycle the money into other ideas. The Austrian office operator CA Immo also rebounded on the vaccine news. All three names were trading at deep discounts entering the quarter.

The worst contributors in the period were mainly names within the pandemic resilient subsegments, such as the data centre operator Equinix and self-storage company Shurgard. There were no company-specific reasons, rather they were sold down by investors recycling money into stocks within long-suffering sectors like office, malls and hotel names.

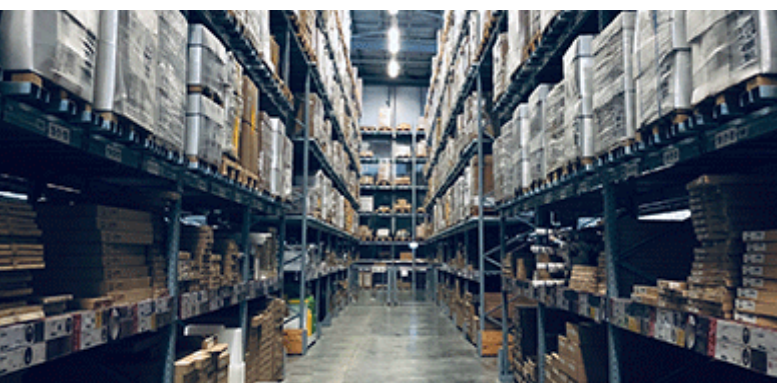


Photo: Unsplash



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Outlook

SKAGEN m2 will continue to focus on stocks with sustainable growth and long-term undisrupted value stocks, rather than disrupted value stocks. Valuation multiples are relatively attractive after the decline in 2020 as most multiples have not increased along with the broader equity markets. Earnings and dividend yield spreads continue to be wide in relation to bond yields. Sector fundamentals vary greatly but overall earnings have held up better than expected.

Entering next year there are some themes that are worth highlighting. As before, we believe that stock picking is becoming ever more important as the dispersion increases with earnings growth and financial health being important considerations in light of the pandemic. We continue to monitor temporary versus structural changes, the impact of COVID 19 and the more secular trends in the real estate landscape.

Constantly evolving landscape

We will continue to focus on sustainability issues since these considerations are gaining in importance both in terms of income but also overall as a risk factor. M&A activity will pick up as a result of discounted levels, as listed space valuations have widened from the private market space, and this will push valuations in a positive direction. The single biggest short-term risk for the sector, besides unexpected and fast rising real rates, is still a rapid decline in economic growth or a longer recession. This is not something we anticipate given the huge stimulus measures implemented during the year. The real estate landscape is constantly evolving, more now than ever with changing consumer patterns, rapid technology developments and the declining need for physical workspace. SKAGEN m2 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 economic stimulus and the fact that a continued low interest rate environment is beneficial for real assets. SKAGEN m2 is well positioned for most scenarios thanks to our investment 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.

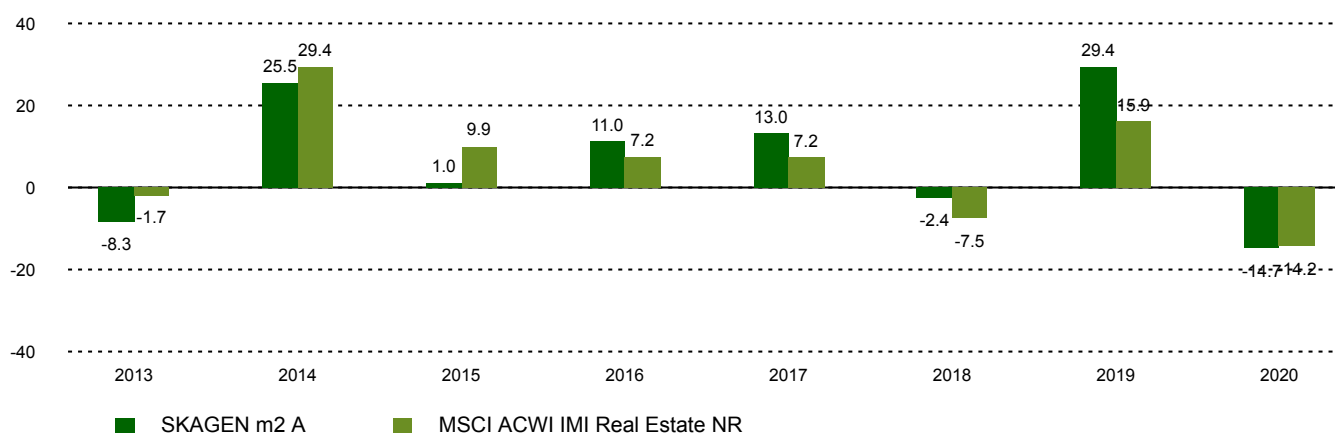
Historical performance (net of fees)

Period	SKAGEN m2 A	Benchmark index
Last month	2.1%	0.3%
Quarter to date	7.5%	5.7%
Year to date	-14.7%	-14.2%
Last year	-14.7%	-14.2%
Last 3 years	2.5%	-2.7%
Last 5 years	6.2%	1.1%
Last 10 years	n/a	n/a
Since start	6.0%	5.3%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	21.73 EUR
Fixed management fee	1.50%
Total expense ratio (2019)	2.68%
Benchmark index	MSCI ACWI IMI Real Estate NR
AUM (mill.)	161.49 EUR
Number of holdings	35
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 (%)
Aroundtown SA	3.01	1.00
Entra ASA	1.64	0.90
CA Immobilien Anlagen	4.60	0.78
Adapteo Oyj	3.87	0.63
Self Storage Group ASA	5.40	0.46



Largest detractors

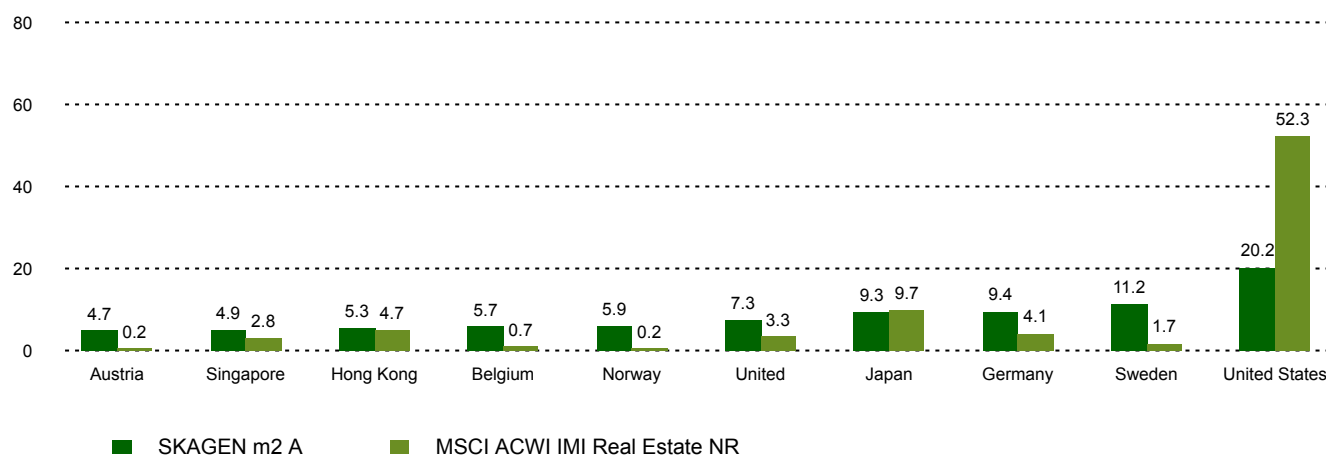
Holding	Weight (%)	Contribution (%)
Equinix Inc	3.94	-0.61
Shurgard Self Storage	4.14	-0.38
Kojamo Oyj	4.56	-0.29
John Mattson	2.23	-0.27
Grainger PLC	3.93	-0.26

Absolute contribution based on NOK returns at fund level

Top ten investments

Holding	Sector	Country	%
Self Storage Group ASA	Industrials	Norway	5.9
Catena AB	Real Estate	Sweden	4.8
CA Immobilien Anlagen AG	Real Estate	Austria	4.7
Keihanshin Building Co Ltd	Real Estate	Japan	4.4
Adapteo Oyj	Industrials	Sweden	4.4
LEG Immobilien AG	Real Estate	Germany	4.4
KOJAMO OYJ	Real Estate	Finland	4.4
Grainger PLC	Real Estate	United Kingdom	3.9
Shurgard Self Storage SA	Real Estate	Belgium	3.8
Healthcare Trust of America Inc	Real Estate	United States	3.8
Combined weight of top 10 holdings			44.4

Country Exposure (top ten)



■ SKAGEN m2 A ■ MSCI ACWI IMI Real Estate NR

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Contact



+47 51 80 37 09



contact@skagenfunds.com



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

Important information

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