

Growth expectations drive the real estate sector

The first quarter of the year was an eventful one. The US Senate passed an enormous relief bill and Biden announced plans for a vast infrastructure package and hiked taxes to finance it. Vaccination picked up pace, fuelling the recovery race, particularly in subsegments that have lagged during the pandemic. In certain markets, hotel and some retail names are trading at pre-pandemic levels. The US real estate market soared on the tailwinds of a stronger than expected economy and a faster than expected return to normal sentiment. Asia followed with strong performance in the sector. Inflation expectations have been elevated, leading to rising bond yields as a result. Again, a strong economic outlook is more important for the real estate market than inflation fears and the anticipation of higher interest rates. European real estate markets lagged in Q1 due to continued lockdowns and vaccine delays, leading to a postponed recovery for the stock market.

Portfolio activity

The first quarter was a rather active period for the fund with four new positions initiated and four exited. The fund participated in the IPO of the logistics company CTP. This is one of the largest owners and developers of logistics assets in the CEE area, mainly in the Czech Republic, Romania and Slovakia. The company has a clear growth path ahead offering exposure to the growing industrial and logistics sectors in the region, benefitting from growing local consumer markets and strong e-commerce growth. CTP's markets appear set to catch up with the more advanced economies. We also bought into the Brazilian mall operator Iguatemi at a huge discount. The company has the best quality assets in the country, concentrated around the San Paulo area.

The fund also invested in a new segment, namely towers. After mediocre performance in the quarter for some of the winning segments during the pandemic, price tags have come down to more reasonable levels and we took the opportunity to invest in two tower companies. The first is the Spanish operator Cellnex which has operations in several European

countries. Cellnex has a clear growth profile and has already been very active in acquisitions over the last few months. We also bought into the tower giant American Towers, a global leader within the segment.

We sold out of the US holding Equity Commonwealth as our thesis of this cash rich company buying distressed assets did not materialise. We also exited 21 Vianet Group at a profit after very strong performance. We sold out of the Swedish residential company John Mattson to take profit and source the money into new ideas.

In March, a consortium of investors announced an unsolicited bid for the US office operator Columbia Property Trust. The bid is currently pending and the outcome is still unclear. The Singapore-based company CapitaLand also announced a corporate restructuring at a premium well above the stock price. So far this year, four bids have been made for companies in the portfolio.

Contributors

The fund's best contributor was the US manufactured homes operator UMH Properties, lifted by a strong US real estate market driven by strong economic recovery. CA Immo was the second best contributor after the company received a bid from Starwood. We sold out of the position and switched into CTP. Both companies have assets in the CEE but in different segments. The Swedish listed social infrastructure operator Adapteo, the comeback kid so far this year, has performed strongly on the back of a brighter outlook for new public procurements.

The fund's largest detractor was Japanese Keihanshin Building after a failed bid and subsequent sell-out by activist Strategic Capital. On a positive note, at the end of February, the board announced several shareholder-friendly measures including share buybacks. The German residential rental operator LEG Immobilien also performed poorly as Covid winners went out of fashion.



Photo: Unsplash

A barbell approach

SKAGEN m2 continues to follow its barbell approach, either investing in resilient companies in trend-driven subsegments, or companies that we consider mispriced and which will benefit from a recovery in the economy. Valuation multiples continue to appear relatively attractive after the decline in 2020, as most multiples have not increased along with broader equity markets. We continue to monitor and differentiate between temporary versus structural changes – i.e. the impact of Covid-19 versus more secular trends in the real estate landscape.



Photo: Unsplash

Outlook

We 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. As we have seen in the portfolio, M&A activity is continuing to pick up as a result of discounted levels. As listed space valuations have widened away from the private market space, this will push valuations in a positive direction. 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.

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.

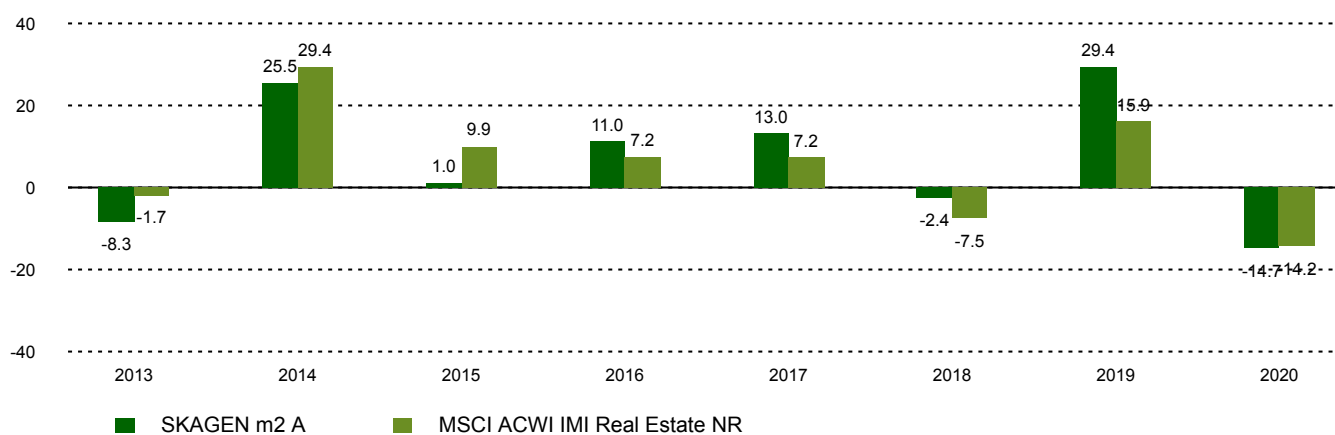
Historical performance (net of fees)

Period	SKAGEN m2 A	Benchmark index
Last month	5.1%	5.7%
Quarter to date	5.0%	10.0%
Year to date	5.0%	10.0%
Last year	19.7%	25.2%
Last 3 years	5.7%	1.5%
Last 5 years	7.7%	3.2%
Last 10 years	n/a	n/a
Since start	6.4%	6.4%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	22.81 EUR
Fixed management fee	1.50%
Total expense ratio (2020)	1.38%
Benchmark index	MSCI ACWI IMI Real Estate NR
AUM (mill.)	151.49 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 (%)
UMH Properties Inc	2.43	0.67
CA Immobilien Anlagen	4.59	0.54
CK Asset Holdings Ltd	3.02	0.50
Adapteo Oyj	4.61	0.49
CapitaLand Ltd	2.72	0.34



Largest detractors

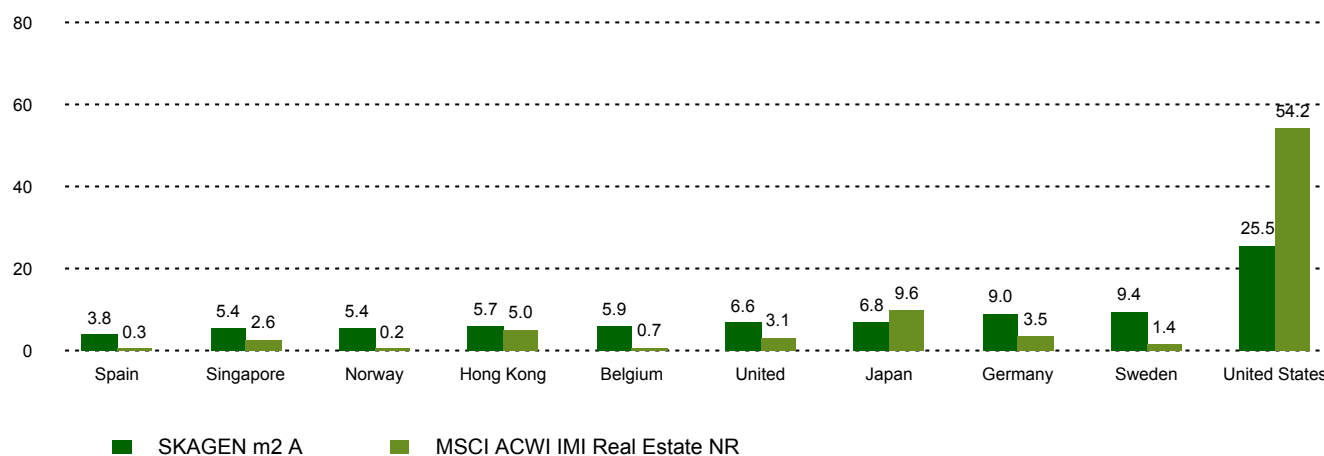
Holding	Weight (%)	Contribution (%)
Keihanshin Building Co	3.85	-1.12
LEG Immobilien SE	4.01	-0.69
Self Storage Group ASA	5.71	-0.46
Kojamo Oyj	3.85	-0.43
LOG Commercial Properties	1.60	-0.41

Absolute contribution based on NOK returns at fund level

Top ten investments

Holding	Sector	Country	%
Self Storage Group ASA	Industrials	Norway	5.4
Adapteo Oyj	Industrials	Sweden	5.4
Prologis Inc	Real Estate	United States	4.3
Americold Realty Trust	Real Estate	United States	4.3
Catena AB	Real Estate	Sweden	4.1
Grainger PLC	Real Estate	United Kingdom	3.9
Shurgard Self Storage SA	Real Estate	Belgium	3.9
LEG Immobilien SE	Real Estate	Germany	3.8
KOJAMO OYJ	Real Estate	Finland	3.7
Switch Inc	Information Technology	United States	3.6
Combined weight of top 10 holdings			42.4

Country Exposure (top ten)



■ SKAGEN m2 A ■ MSCI ACWI IMI Real Estate NR

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