Quarterly Report

SKAGEN m2 A

All data in EUR as of 30/06/2022 unless otherwise stated.

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Few places left to hide

Global equities declined in June on recession concerns, falling during the month to cap off the worst first half of a calendar year since 1987. Inflation caused central banks to maintain their hawkish stance, with the Federal Reserve delivering its biggest hike since 1994. This was followed by several other central banks hiking rates more than expected. Policy tightening on the one hand and slowing growth on the other put investors in a quandary, driving up volatility across asset classes. Among the larger real estate markets, Asia fared better than other regions, ending the second quarter on a slightly positive note. Europe was the poorest performer in the quarter with the ongoing war amplifying all other negative economic concerns. There was indiscriminate sell-off across the real estate sector with almost no place to hide (except M&A targets) given the huge shift in government yields, financing costs and bond yields.

The quarter was much about leverage, company debt profiles and worries that property yields will shoot up in the coming months. Leverage is something we always monitor carefully in SKAGEN m2, favouring companies that have strong balance sheets with the cash flow to withstand financial turmoil. Valuations have come down dramatically, however volatility is likely to continue for some time, at least until there is some clarity regarding the inflation and growth trajectory. This provides interesting long-term buying opportunities for us, as the pool of cheap quality stocks increases on an almost daily basis.

Attribution
The best contributor in the quarter was the US data centre operator Switch that was acquired by a consortium after initiating a strategic overhaul last year. We anticipated this, not only because it is a small player in a consolidating market, but also because it is an innovative ESG champion deriving all its power from renewables.

The second-best contributor was also US based, namely the cold storage operator Americold. The company has been struggling over the past couple of years with global supply chains hurting both volumes and asset growth. Cold storage is currently a hot investment topic among institutional investors as the trend is slowly reversing to smoother operations.

The Hong Kong based conglomerate Cheung Kong Asset Holding was also a good performer in the quarter thanks to its diversification and strong balance sheet.

On the negative side, the Swedish warehouse operator Catena came out worst. The company delivered only good news during the quarter, but the Swedish real estate market ended the first half of the year as the poorest performer globally after Russia. Catena did well on a relative basis in the Nordic real estate space. The second largest detractor was also within logistics, namely Brazilian LOG. The company lost some ground after a strong start to the year and negative macro numbers in Brazil also contributed.

Portfolio activity
In the logistics space, our US holding Prologis acquired domestic peer Duke Reality in a USD 26bn transaction, something we consider as good for Prologis with its strong track record in previous acquisitions.

The fund initiated a position in the US real estate service operator CBRE. The company is a global leader with scale and diversification and increased institutional ownership in real estate is driving demand in all segments. In a volatile macro environment, CBRE's solid balance sheet allows for capital management initiative and consolidation.

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Outlook
Rising real rates do damage to values, while higher inflation is benign. That this year's rate spike has been primarily a function of higher real rates explains the weak start to the year. Seldom has the range of economic possibilities been as varied as it is today. Recession odds are up even as interest rates have jumped in reaction to the release of the inflation genie. The spike in yields has clobbered real estate share prices this year, and property prices have begun to drift lower. Looking at the leading global real estate market, the US, interest rate spikes have, on average, been harmful to real estate over the last twenty-five years. Real estate has delivered positive, but lacklustre, returns when rates have jumped, and they have lagged the S&P 500. There is no evidence that rate spikes have impacted property pricing. By contrast, when inflation expectations have been elevated, real estate has performed well. Subsequent returns have been higher than normal and better than equities in general. Property prices have also fared well, as cap rates have almost always declined. The differences in performance may seem discordant, since interest rates and inflation are joined at the hip, but they are not.

Going forward, a slightly elevated level of inflation is not a concern for real estate, rather the opposite. A long-term investment horizon is key for investors in this environment. SKAGEN m2 continues to focus on companies that we consider to be resilient in trend-driven subsegments, with good cash flow generation and balance sheet structure. SKAGEN m2 is well-positioned for most scenarios thanks to our investment philosophy and disciplined stock selection.

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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. Subscriptions are made in fund units and not directly in stocks or other securities. The fund has risk profile 6. The benchmark reflects the fund's investment mandate. Since the fund is actively managed, the portfolio will deviate from the composition of the benchmark.

Historical performance (net of fees)

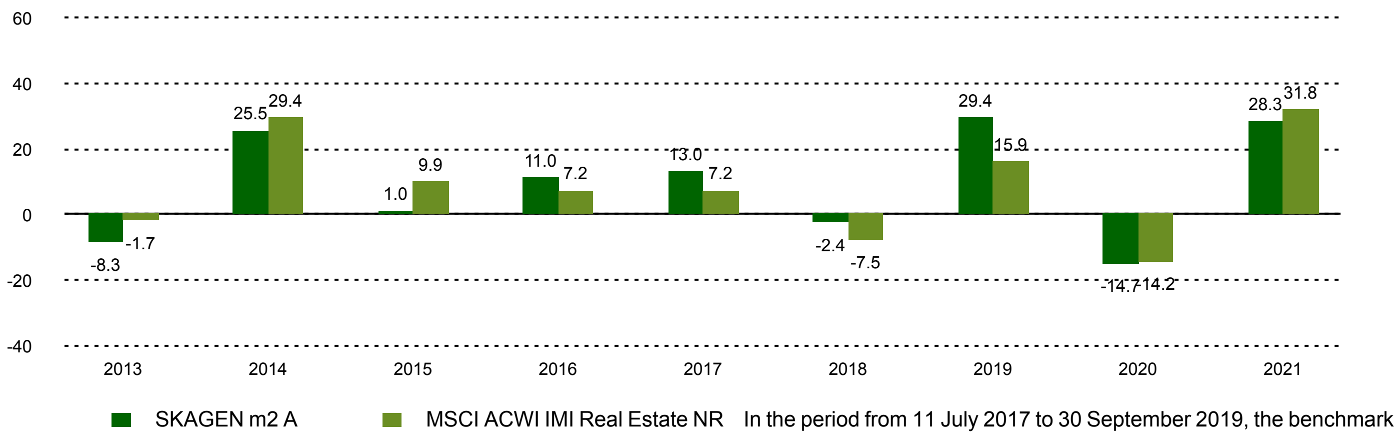
Period	SKAGEN m2 A	Benchmark index
Last month	-6.8%	-5.8%
Quarter to date	-13.3%	-10.3%
Year to date	-14.1%	-13.1%
Last 12 months	-5.0%	-2.9%
Last 3 years	2.2%	0.2%
Last 5 years	4.9%	2.4%
Last 10 years	n/a	n/a
Since start	6.1%	6.0%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	23.96 EUR
Fixed management fee	1.50% + performance fee*
Total expense ratio (2021)	1.19%
Benchmark index	MSCI ACWI IMI Real Estate NR
AUM (mill.)	163.99 EUR
Number of holdings	33
Portfolio manager	Michael Gobitschek

*10.00% performance fee calculated daily and charged annually if the fund's value development is better than the benchmark. The total management fee charged represents a maximum of 3.00% p.a. and a minimum of 0.75% p.a. The performance fee may be charged even if the fund's units have depreciated in value if the value development is better than the benchmark.

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

Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager’s skill, the fund’s risk profile and management fees. The return may become negative as a result of negative price developments. There is a risk associated with investing in the fund due to market movements, currency developments, interest rate levels, economic, sector and company-specific conditions.

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Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Switch Inc	2.54	1.05
Americold Realty Trust	3.02	0.64
CK Asset Holdings	2.23	0.42
Mitsui Fudosan	3.45	0.40
Capitaland Investment	3.47	0.29

Largest detractors

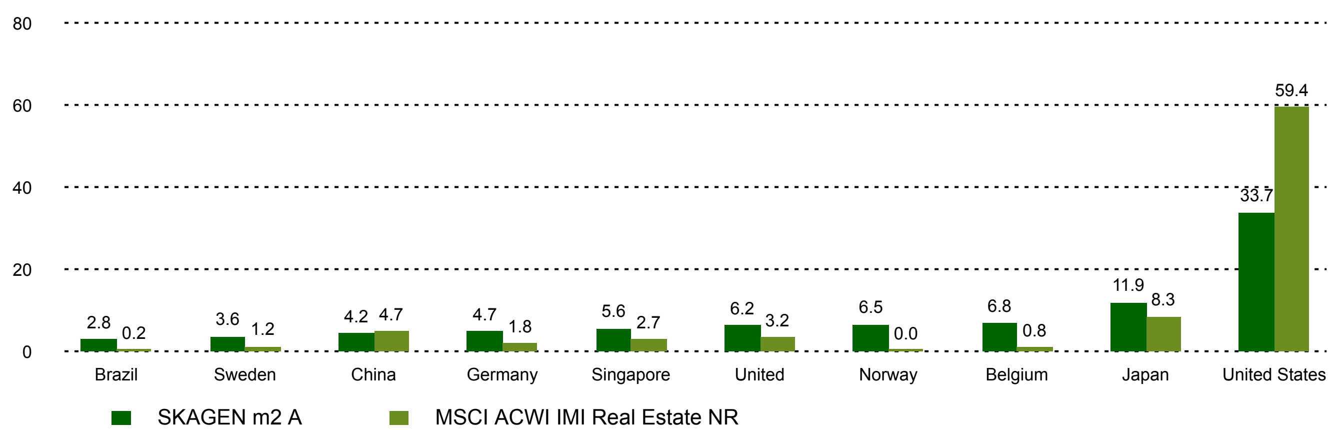
Holding	Weight (%)	Contribution (%)
Catena AB	3.84	-1.50
LOG Commercial Properties	3.28	-1.38
UMH Properties	4.72	-0.95
Hudson Pacific Properties	1.77	-0.84
Prologis Inc	4.79	-0.83

Weights shown are the average for the period. Absolute contribution based on NOK returns at fund level.

Top ten investments

Holding	Sector	Country	%
Self Storage Group ASA	Industrials	Norway	6.5
Prologis Inc	Real Estate	United States	5.2
UMH Properties Inc	Real Estate	United States	4.5
Sun Communities Inc	Real Estate	United States	4.4
Grainger PLC	Real Estate	United Kingdom	4.3
ESR Cayman Ltd	Real Estate	China	4.2
Shurgard Self Storage SA	Real Estate	Belgium	4.0
Marcus Corp/The	Communication Services	United States	4.0
Mitsui Fudosan Co Ltd	Real Estate	Japan	3.8
Capitaland Investment Ltd/Singapore	Real Estate	Singapore	3.7
Combined weight of top 10 holdings			44.7

Country Exposure (top ten)



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Important information

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