

**IMPORTANT INFORMATION:** This is marketing communication. The report should not be perceived as a recommendation to buy or sell fund units. Prior to subscription, we encourage you to read the fund's prospectus and key investor information document which are available at [www.skagenfunds.com](http://www.skagenfunds.com), from our local representatives and from our distributors.

## A rollercoaster first quarter

The optimism evident at the beginning of the year, with investors starting to price in less hawkish central banks and a slightly more positive economic outlook came to an abrupt halt in the quarter. Persistently strong macro numbers and high inflation in the US led to even tougher rhetoric and interest rate hikes. The failures seen in the global banking sector sent shock waves through the financial system. The real estate sector was primarily affected in the form of more restrictive lending. More importantly, the situation may lead to a less tight monetary policy with central banks having second thoughts before hiking interest rates.

Fourth quarter reporting is coming to an end for most of the fund's holdings, and the results have generally been good. However, we are seeing more cautious guidance for 2023, mirroring the market uncertainty. As stated previously, investors with a long investment horizon could take advantage of the correction to carefully increase their real estate exposure before the cycle turns positive again.

A lot of bad news has been absorbed into the prices in the listed real estate sector. This will eventually unwind as valuations will be recalibrated with lower cost of capital expectations. We are not out of the woods yet, especially the most leveraged companies, and selectiveness is key. Another risk is that central banks have been too aggressive with their interest rate hikes, doing too much damage to the economy. The US was the strongest real estate market in the first quarter while Europe was the weakest in local currency terms.

### Contributors and detractors

The largest contributor to the fund's absolute return was the US hotel and theatre operator Marcus Corporation, which delivered a solid report. The company is heading towards earnings normalisation and approaching pre-pandemic levels, especially in its hotel operations. The logistics operator and developer CTP also performed well in the quarter also after a solid report confirming continued demand-driven growth with sustained development gains. The largest detractor in the quarter was the pan Asian

asset manager ESR Cayman despite a solid report.

### Key buys

During the quarter we reinitiated a position in the Spanish tower operator Cellnex which has an interesting cash flow profile. As a bonus, we think that the company could be a consolidation target given its valuation and geographical presence. Cellnex is indebted and the market has punished the stock in the current interest rate hike environment, allowing us to enter at a good price. Structural demand is high in Europe as digitalisation – mainly 5G – continues to be rolled out at a high pace.

Another newcomer from the same segment is the US based Digital Bridge. This is a company we sold out of at the start of the pandemic as they had numerous disposals to be executed, hence a big risk in that environment. Today the company has made the transition, is well capitalised and is primarily focused on digitalisation real estate. Amongst other things, they acquired last year's portfolio winner, the US data centre company Switch.

We also initiated a position in Swedish Castellum, which is trading very cheaply. It is a diversified company but with a focus on office space in Scandinavia and has a large holding in Norwegian Entra. Castellum is a sustainability champion but has had some difficulties in recent years with governance issues; something that is improving rapidly. Castellum has suffered a lot due to overleveraging, so has halted the dividend and announced a fully guaranteed equity raise in the second quarter which will help.

### Key sells

We sold out of two office operators Hudson Pacific Properties and Paramount to reduce our overall office exposure in the US where the segment has been struggling, especially in New York and San Francisco. This is unlike the Scandinavian office market, which is in good shape for now.



Photo: Shutterstock

### Outlook

Listed real estate has historically performed well in the environments we are now anticipating, with lower growth and lower real yields, the end of the rate hiking cycle and the transition to an early cycle environment. It is worth remembering that a long-term horizon is key for any investor in this environment given the uncertainty around the extent of a potential economic slowdown due to elevated interest rate levels. Real estate is trading at a historically deep discount.



Photo: Shutterstock

It is fair to say that a lot of bad news has already been discounted, but things can always get worse before they get better. SKAGEN m2 continues to focus on companies that we consider to be resilient in trend-driven subsegments, with good cash flow generation and solid balance sheet structure. Importantly, our holdings have manageable balance sheets, a high proportion of fixed or hedged debt and inflation-adjusted rent structures. These are interesting markets for us, as the pool of cheap stocks increases almost daily, providing good long-term buying opportunities.

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)

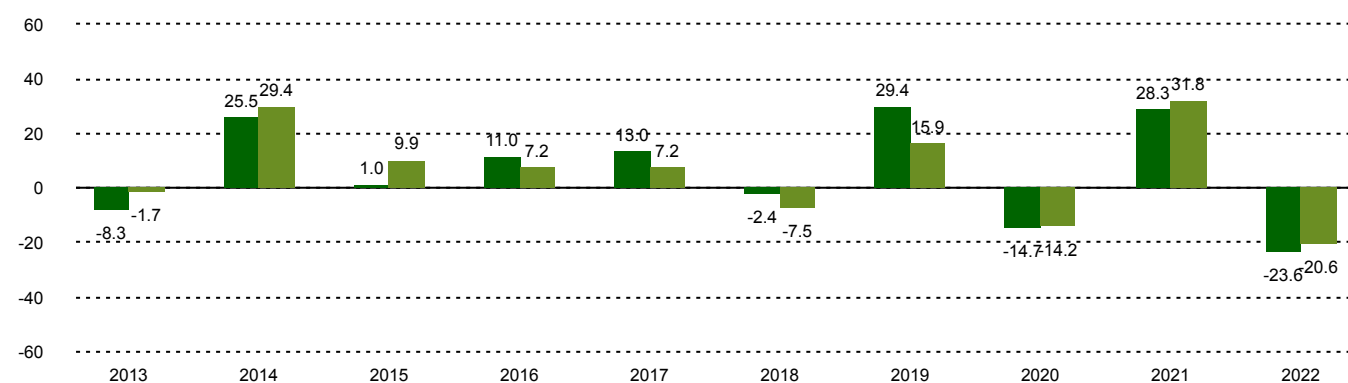
Period	SKAGEN m2 A	Benchmark index
Last month	-5.3%	-5.0%
Quarter to date	-1.9%	-1.6%
Year to date	-1.9%	-1.6%
Last 12 months	-24.4%	-19.4%
Last 3 years	3.1%	5.4%
Last 5 years	1.6%	-0.5%
Last 10 years	3.2%	3.3%
Since start	4.3%	4.4%

## Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	20.90 EUR
Fixed management fee	1.50% + performance fee*
Total expense ratio (2022)	1.03%
Benchmark index	MSCI ACWI IMI Real Estate NR
AUM (mill.)	131.55 EUR
Number of holdings	31
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



■ SKAGEN m2 A ■ MSCI ACWI IMI Real Estate NR 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.

## Contributors in the quarter



### Largest contributors

Holding	Weight (%)	Contribution (%)
Prologis Inc	5.26	0.94
Equinix Inc	4.04	0.66
Marcus Corp	3.41	0.59
Shurgard Self Storage	4.64	0.51
CTP NV	2.98	0.42



### Largest detractors

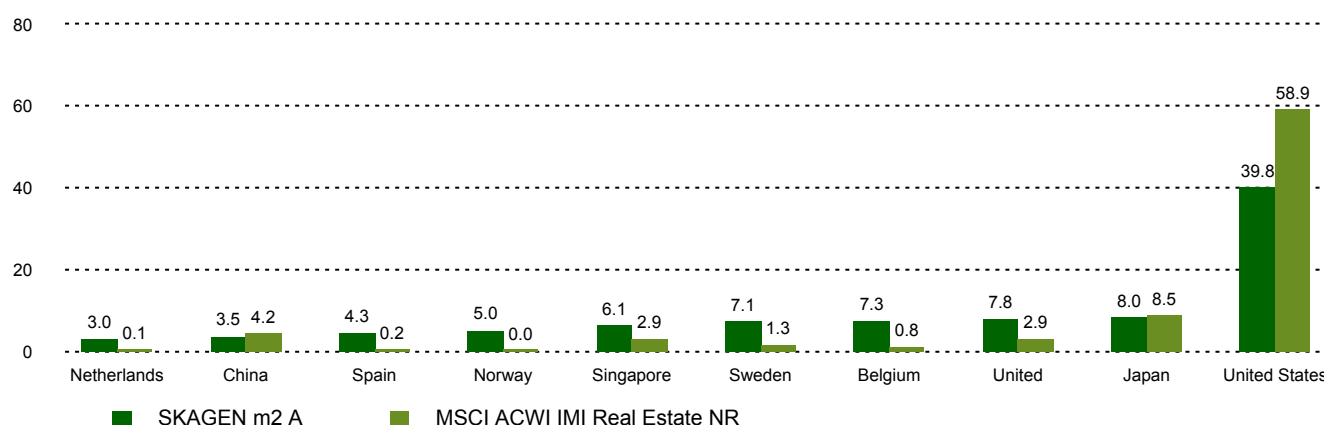
Holding	Weight (%)	Contribution (%)
DigitalBridge Group	1.40	-0.35
ESR Group Ltd	3.52	-0.32
Paramount Group	1.20	-0.22
Castellum AB	0.87	-0.20
UMH Properties Inc	4.02	-0.05

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

## Top ten investments

Holding	Sector	Country	%
Prologis Inc	Real Estate	United States	5.4
EQUINIX INC	Real Estate	United States	5.2
Catena AB	Real Estate	Sweden	5.1
Self Storage Group ASA	Industrials	Norway	5.0
Shurgard Self Storage Ltd	Real Estate	Belgium	4.5
Grainger PLC	Real Estate	United Kingdom	4.3
Sun Communities Inc	Real Estate	United States	4.2
Capitaland Investment Ltd/Singapore	Real Estate	Singapore	4.1
Tokyu Fudosan Holdings Corp	Real Estate	Japan	4.1
CBRE Group Inc	Real Estate	United States	3.9
Combined weight of top 10 holdings			45.8

## Country Exposure (top ten)



In the period from 11 July 2017 to 30 September 2019, the benchmark was the MSCI ACWI Real Estate IMI ex REITS

## Important information

This report is intended for investment professionals only. All information is based on the most up-to-date data available. Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as per the end of the previous month. Except otherwise stated, the source of all information is SKAGEN AS. SKAGEN AS does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this report. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this report or are part of a fund's portfolio. CACEIS Ireland Limited, One Custom House Plaza, International Financial Services Centre, Dublin is the Paying Agent in Ireland.



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