Quarterly Report

SKAGEN m2 A

All data in SEK as of 30/09/2022 unless otherwise stated.

Macro news overshadows fundamentals

Central bank and bond market activity dominated headlines in the third quarter, with most regions experiencing outsized rate hikes in September and guidance of further tightening ahead. Policy tightening on the one hand and slowing growth on the other put investors in a quandary, driving up volatility across asset classes. Central banks appear to have collectively decided that a recession is acceptable in order to anchor inflation expectations.

The main driver for equity markets at the end of the quarter was the revision of the interest rate outlook following extremely hawkish policy meetings by the Fed and ECB. Monetary tightening has yet to fully hit the economy, but September saw the first clear signs that it is starting to bite. Global liquidity has started to dry up with surging US mortgage yields, falling house prices and widening credit spreads. In addition, there are signs of stress in the European banking system, the UK bond market had a melt-down after new fiscal plans were announced and Asian currencies declined sharply despite intervention attempts. This is reflected in a renewed tightening of financial conditions globally, which is how policy gets transmitted to the real economy.

In September, there was indiscriminate sell-off across the real estate sector with almost no place to hide given the huge shift in government yields. Again, Asia fared relatively better than other regions in the quarter, which is reflected in the fund's top performers list. Europe was the largest detractor with the ongoing war amplifying all other negative economic concerns. Inflationary pressure is expected to fade over the next few months as recession bites and the real economy is affected. This will allow for a more visible and predictable monetary policy that will allay some of the markets' concerns.

Contributors and detractors

The best contributor in Q3 was the Brazilian warehouse operator and developer LOG, which is executing as planned despite tougher conditions. Brazil is also the top real estate market globally so far this year. Another top performer was American Tower, which is in vogue due to its inflation-adjusted growth profile. Another relatively strong geography has been the Japanese real estate market as inflation has been fairly muted as have interest rates so far. The diversified conglomerate Tokyo Fudosan performed well after delivering better than expected numbers in the quarter.

The worst contributor was Norwegian Self Storage Group, despite having delivered solid results including record occupancy numbers. The UK rental housing operator Grainger also underperformed, mainly due to the unfavourable macro and currency environment in the UK.

Portfolio activity

We bought into the US multifamily operator Independence Realty Trust in the quarter. The company is primarily focused on the US sunbelt areas targeting more resilient B-class tenants. The company has an extensive pipeline with refurbishments that can be financed by the current cash flow generation. Another new holding is the UK self-storage operator, Big Yellow, which is trading at a historically large discount. The sector is typically resilient in declining economical cycles due to its cash flow profile. Finally, we also initiated a position in the UK student housing company Unite. The segment is growing and has a defensive profile as the student population typically grows in recessions. The company also trades at an attractive discount.

We sold out of the UK office operator Great Portland due to the sector's correlation to the economic cycle that we expect to gradually worsen. We also exited the diversified German company Aroundtown due to the company's overall risk profile as well as the Finnish rental residential company Kojamo for the same reason.

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Outlook

The long-term horizon is key for investors in the current environment. Real estate is now trading at a historically deep discount. Some segments and geographies are trading at an unwarrantedly high implied value loss, so far unseen in history. A good example of this is the German residential space, which also faces its own challenges. However, the picture is nuanced and there are large discrepancies between segment and geography. 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.

When signs of fading inflation start to appear, the market will likely react instantly and start to price in the first-rate cuts and the beginning of a new stronger economic cycle. Real estate is well positioned for that scenario, whenever it comes, as historically all early cycle sectors have benefited. SKAGEN m2 continues to focus on companies that we consider to be resilient in trend-driven subsegments, with good cash flow generation and a solid balance sheet structure. It is more important than ever that our holdings have manageable balance sheets, a high proportion of fixed or hedged debt and inflation-adjusted rental structures. SKAGEN m2 is well positioned for the current scenario thanks to our value-based investment philosophy and disciplined stock selection. These are interesting markets for us, as the pool of cheap stocks increases almost daily, providing good long-term buying opportunities.

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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)

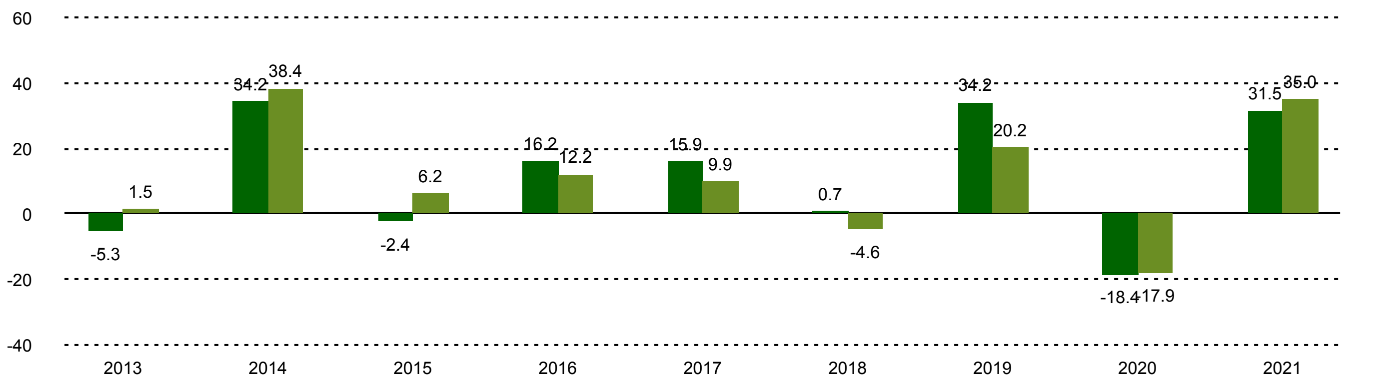
Period	SKAGEN m2 A	Benchmark index
Last month	-10.7%	-10.1%
Quarter to date	-6.4%	-6.2%
Year to date	-16.3%	-15.2%
Last 12 months	-7.5%	-4.8%
Last 3 years	-1.9%	-2.5%
Last 5 years	5.2%	2.4%
Last 10 years	n/a	n/a
Since start	7.6%	7.5%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	240.24 SEK
Fixed management fee	1.50% + performance fee*
Total expense ratio (2021)	1.19%
Benchmark index	MSCI ACWI IMI Real Estate NR
AUM (mill.)	1829.05 SEK
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



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.

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Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
LOG Commercial Properties	3.45	1.20
Tokyu Fudosan Holdings	3.66	0.35
Marcus Corp	4.30	0.15
ESR Group Ltd	4.12	0.14
Heiwa Real Estate Co	1.91	0.14

Largest detractors

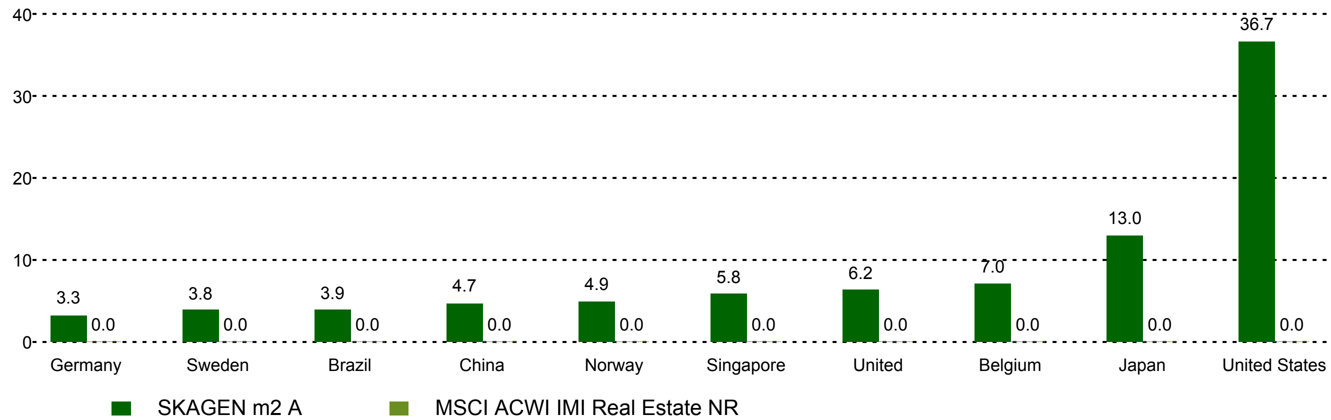
Holding	Weight (%)	Contribution (%)
Self Storage Group ASA	5.96	-1.25
Grainger PLC	4.07	-0.74
Vonovia SE	2.12	-0.48
Allied Properties REIT	2.71	-0.41
Catena AB	4.16	-0.35

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	5.3
Self Storage Group ASA	Industrials	Norway	4.9
UMH Properties Inc	Real Estate	United States	4.9
ESR Group Ltd	Real Estate	China	4.7
Sun Communities Inc	Real Estate	United States	4.5
Tokyu Fudosan Holdings Corp	Real Estate	Japan	4.3
Shurgard Self Storage SA	Real Estate	Belgium	4.2
Marcus Corp/The	Communication Services	United States	4.0
LOG Commercial Properties e Participacoes SA	Real Estate	Brazil	3.9
Grainger PLC	Real Estate	United Kingdom	3.8
Combined weight of top 10 holdings			44.6

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

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.

0200-11 22 60

kundservice@skagenfonder.se

SKAGEN AS, Box 11, 101 20 Stockholm