

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, from our local representatives and from our distributors.

A lost year for real estate; favourable environment ahead

The yearend sell-off in December was fuelled by hawkish central banks, which continued to add upward pressure on bond yields, which is typically negative for real assets. 2022 was a challenging year with the invasion of Ukraine, persistently high inflation, rising interest rates and the prospect of recession in many advanced economies. The Federal Reserve and other central banks engaged in some of the most aggressive rate-hiking cycles ever to tackle inflation. In the US this appears to be having the intended effect, if the inflation numbers reported in the quarter are any guidance. Policy tightening on the one hand and slowing growth on the other put investors in a quandary and continued to drive up volatility across assets in the quarter.

During the year, investors have priced in a very negative outlook for listed real estate. We believe it to be too negative and think that we are entering a more favourable environment for listed real estate. Inflation pressure is expected to continue to ebb over the next few months as recession bites and the real economy is affected. This will allow for a more foreseeable monetary policy which will calm some of the market's concerns. Although financing costs are higher and growth will be slower, the listed space enters this recessionary period in a position of relative strength, buoyed by tight supply and healthy cash flows.

All major real estate markets globally ended the year in negative territory, in particular Scandinavia which lost almost half of its listed value on average. Asia was the best performing geography, only slightly down for the year. The year of 2022 highlights the importance of diversification both in terms of geography, but also sub segments. SKAGEN m2 held up well during the year, thanks to its holdings outside of Europe but also due to its focus on resilient and defensive segments and companies.

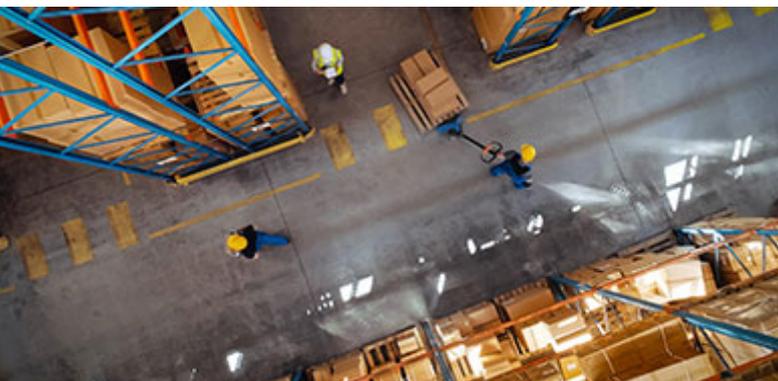


Photo: Shutterstock

Outlook

Listed real estate has historically performed well in environments of lower growth and lower real yields, where we see an end to the rate hiking cycle and the transition to an early cycle environment. During the fourth quarter, markets reacted instantly to lower inflation numbers, discounting a first rate cut and the beginning of a stronger economic cycle. Real estate is well positioned for the above scenario, whenever it comes, as historically all early cycle sectors have benefitted.

Contributors and detractors

The fund's largest contributor in the quarter was Swedish logistics operator Catena which recouped its losses after the long-awaited positive market movements in the Swedish real estate market, but also thanks to a solid report. Catena raised equity during the quarter, taking advantage of the slight premium valuation. The company is now well capitalised and will benefit from any opportunities that arise in this difficult market. The second best performer in the quarter was the UK-based rental operator Grainger which delivered a strong report driven by increased demand and strong rent growth, correlated to wage inflation. Rising mortgage costs are expected to drive rental demand up further, something we think will benefit all the rental operators in the portfolio.

The largest detractor in the quarter was the Brazilian logistics operator and developer LOG. A rather positive year for Brazilian equity markets ended with election-related macro turbulence. Real estate was punished due to elevated uncertainty surrounding the interest rate path in connection with the election.

Portfolio activity

In the quarter we sold out of the German rental residential names LEG and Vonovia to bring down overall risk. The reason for this is lack of visibility around communicated disposals which is a concern as values are expected to decline somewhat. The companies are trading cheaply with a lot of implicit value decline in the stock prices, however not without risk as leverage is high in the current environment. We exited the US-based office operator Hudson Pacific Properties to mitigate some recession risk as the office segment has a strong correlation to economic development. We continued to add to conviction cases during the quarter.



Photo: Shutterstock

Having a long-term horizon is key for any investor in environments where the extent of a potential recession is uncertain. Real estate is trading at a deep discount relative to long-term history. Some segments and geographies are trading at a huge, implied value loss that seems very unlikely. It is fair to say that a lot of bad news is already 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. It is more important than ever that our holdings have manageable balance sheets, a high proportion of fixed or hedged debt and inflation-adjusted rent structures. SKAGEN m2 is well positioned for the current scenario thanks to our investment philosophy and disciplined stock selection. These are interesting markets for us, as the pool of cheap stocks broadens 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)

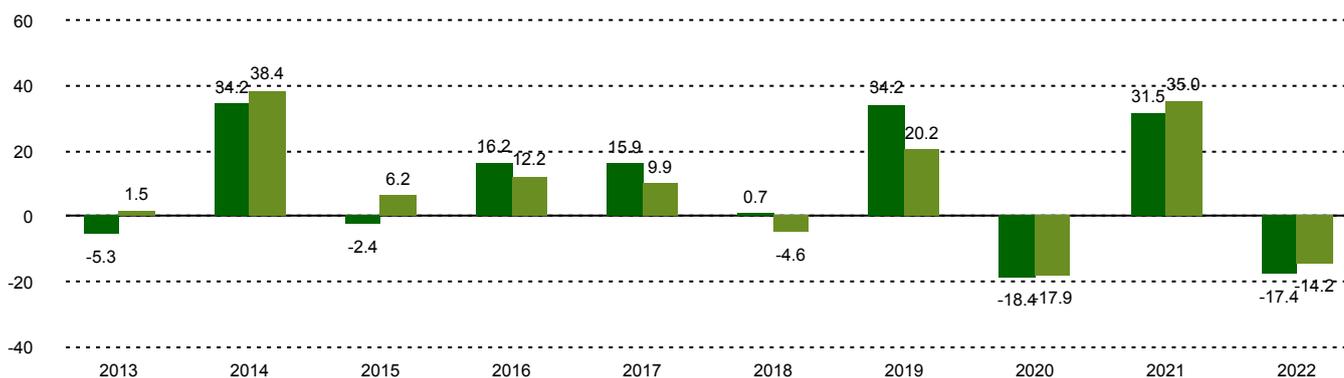
Period	SKAGEN m2 A	Benchmark index
Last month	-4.4%	-5.3%
Quarter to date	-1.3%	1.2%
Year to date	-17.4%	-14.2%
Last 12 months	-17.4%	-14.2%
Last 3 years	-4.0%	-1.7%
Last 5 years	3.6%	1.7%
Last 10 years	7.2%	7.2%
Since start	7.3%	7.4%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	237.03 SEK
Fixed management fee	1.50% + performance fee*
Total expense ratio (2021)	1.19%
Benchmark index	MSCI ACWI IMI Real Estate NR
AUM (mill.)	1628.60 SEK
Number of holdings	30
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 (%)
Catena AB	4.43	0.58
Grainger PLC	4.05	0.35
Americold Realty Trust	3.61	0.18
Big Yellow Group PLC	2.30	0.15
Capitaland Investment Ltd	3.79	0.12



Largest detractors

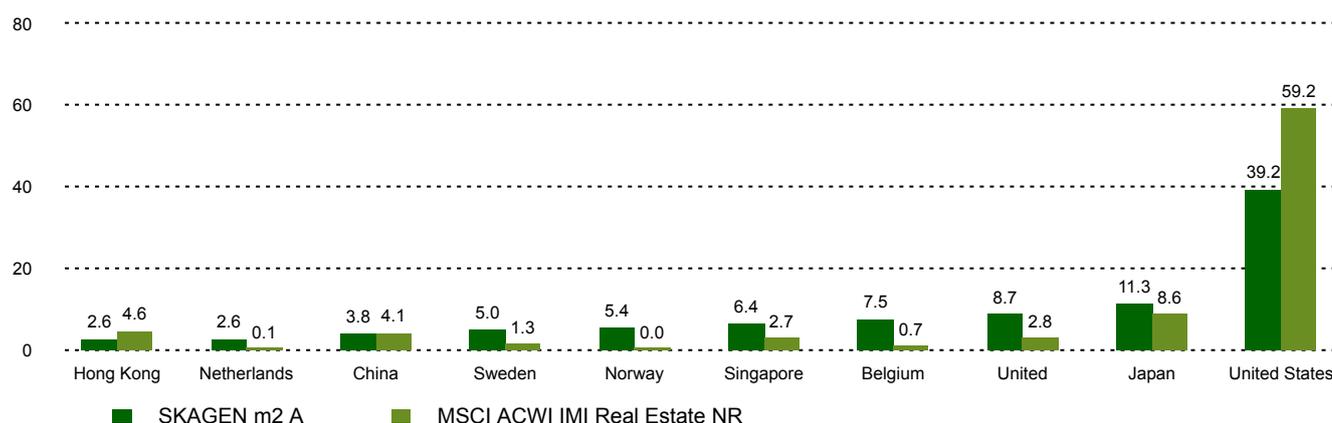
Holding	Weight (%)	Contribution (%)
LOG Commercial Properties	3.01	-1.49
ESR Group Ltd	3.90	-1.22
Tokyu Fudosan Holdings	4.20	-0.78
Mitsui Fudosan Co Ltd	3.43	-0.47
UMH Properties Inc	4.57	-0.41

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
Self Storage Group ASA	Industrials	Norway	5.4
Catena AB	Real Estate	Sweden	5.0
Shurgard Self Storage SA	Real Estate	Belgium	4.6
Grainger PLC	Real Estate	United Kingdom	4.4
Capitaland Investment Ltd/Singapore	Real Estate	Singapore	4.2
UMH Properties Inc	Real Estate	United States	4.2
Sun Communities Inc	Real Estate	United States	4.1
CBRE Group Inc	Real Estate	United States	4.1
Tokyu Fudosan Holdings Corp	Real Estate	Japan	4.0
Combined weight of top 10 holdings			45.4

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