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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.

SKAGEN m2 investerer i en aktivt forvaltet og diversifisert portefølje av finansielle instrumenter utstedt av selskaper eller utstedere som har sin virksomhet rettet mot fast eiendom over hele verden. Målet er å gi andelseierne best mulig risikostjert avkastning over tid. Fondet passer for investorer som har minst fem års investeringshorisont. Det tegnes i fondsandeler, og ikke direkte i aksjer eller andre verdipapirer. Fondet har risikoprofil 6. Referanseindeksen reflekterer fondets investeringsmandat. Siden fondet er aktivt forvaltet vil imidlertid porteføljen avvike fra indeksens sammensetning.

Historisk avkastning

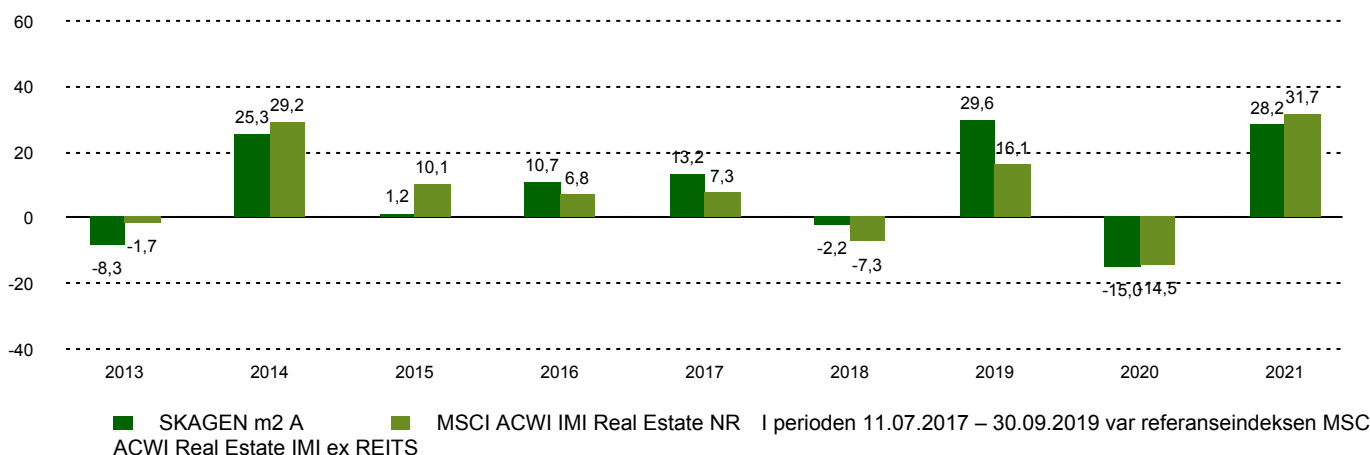
Periode	SKAGEN m2 A	Referanseindeks
Siste måned	-12,2%	-11,6%
Hittil i kvartal	-7,8%	-7,6%
Hittil i år	-20,8%	-19,7%
Siste 12 måneder	-13,8%	-11,2%
Siste 3 år	-2,5%	-3,2%
Siste 5 år	2,8%	0,0%
Siste 10 år	n/a	n/a
Siden start	5,0%	4,9%

Fondsfakta

Type	Aksjefond
Domisil	Norge
Start dato	31.10.2012
Morningstarkategori	Eiendom, Indirekte - Global
ISIN	NO0010657356
NAV	164,31 DKK
Årlig forvaltningshonorar	1.50% + resultatavhengig forvaltningsgodtgjørelse*
Totalkostnad (2021)	1.19%
Referanseindeks	MSCI ACWI IMI Real Estate NR
Forvaltningskapital (mill.)	1272,25 DKK
Antall poster	33
Porteføljeforvalter	Michael Gobitschek

*10,00% resultatavhengig forvaltningsgodtgjørelse beregnes daglig og belastes årlig hvis relativ verdiutvikling er bedre enn referanseindeksen. Samlet belastet forvaltningshonorar utgjør maksimalt 3,00% og minimum 0,75% p.a. Resultatavhengig forvaltningsgodtgjørelse kan belastes selv om fondets andeler har gått ned i verdi dersom verdiutviklingen er bedre enn referanseindeksen.

Avkastning siste 10 år



Historisk avkastning er ingen garanti for fremtidig avkastning. Fremtidig avkastning vil blant annet avhenge av markedsutviklingen, forvalterens dyktighet, fondets risikoprofil og forvaltningshonorar. Avkastningen kan bli negativ som følge av kurstap. Det er knyttet risiko til investeringer i fondet på grunn av markedsbevegelser, utvikling i valuta, rentenivåer, konjunkturer, bransje- og selskapsespesifikke forhold.

Bidragstyttere i kvartalet



Største positive bidragstyttere

Navn	Vekt (%)	Bidrag (%)
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



Største negative bidragstyttere

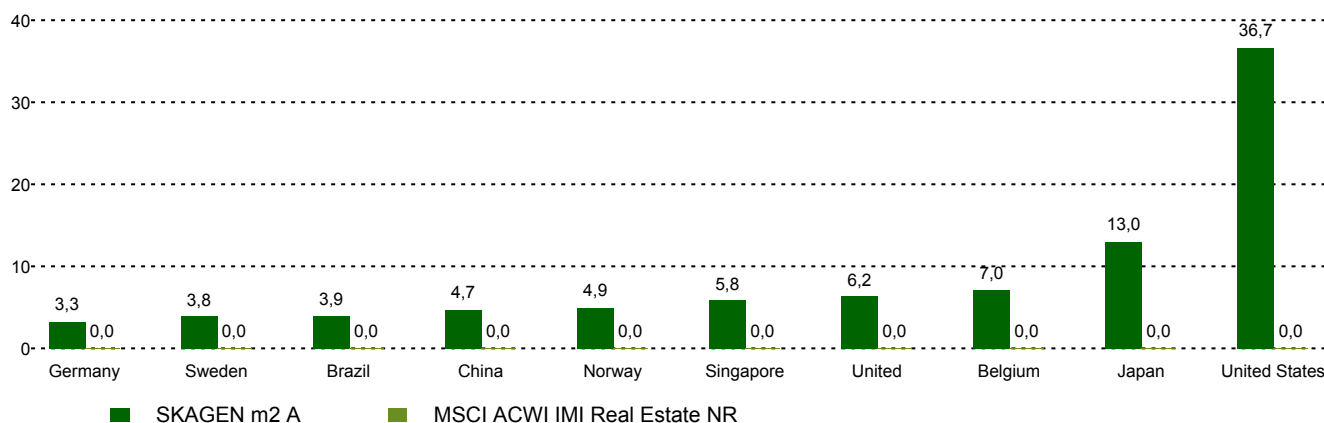
Navn	Vekt (%)	Bidrag (%)
Self Storage Group ASA	5,96	-1,25
Grainger PLC	4,07	-0,74
Vonovia SE	2,12	-0,48
Allied Properties REIT	2,71	-0,41
Catena AB	4,16	-0,35

Veksten viser gjennomsnittet for perioden. I NOK for alle andelsklasser

10 største investeringer

Navn	Sektor	Land	%
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
Samlet vekting			44,6

Landeksponering (topp 10)



I perioden 11.07.2017 – 30.09.2019 var referanseindeksen MSCI ACWI Real Estate IMI ex REITS

Viktig informasjon

All informasjon er basert på mest oppdaterte tall tilgjengelig. Med mindre noe annet er opplyst, vil avkastningsdata være relatert til andelsklasse A og vises etter fradrag for honorarer. Forvaltningskapital per utgangen av forrige måned. All informasjon er fremstilt av SKAGEN AS (SKAGEN) med mindre noe annet er opplyst. SKAGEN fraskriver seg ethvert ansvar for direkte- og indirekte tap samt utgifter pådratt i forbindelse med bruk av eller forståelsen av innholdet i rapporten. Ansatte i SKAGEN vil kunne eie finansielle instrumenter utstedt av selskaper som er omtalt i rapporten eller som fondene har i sine porteføljer.



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