SKAGEN m²

Status Report – January 2017

The art of common sense

SKAGEN

Summary – January 2017

- In January, SKAGEN m2 fell 1,1% (measured in SEK), while the MSCI Real Estate IMI Index (RE) fell 2,3%. The fund thus outperformed its benchmark by 1.2 percentage points in the first month of the year.

- The two largest positive contributors in January **were Global Logistic Properties (GLP)** and **IRSA**. Late last year, GLP announced that the company is in preliminary discussions with various parties in connection with a possible sale of the company following the strategic review initiated. If the transaction takes place, it will rank as one of the biggest ever buyouts in Asia Pacific. IRSA was one of our winners last year, and some of the performance is related to strong performance in their indirectly owned Israeli companies. The performance is also linked to improvements in Argentina which seems to be on a long and sustainable path to recovery.

- The largest detractors in January were CBL Properties and Mercialys, mall owners in the US and Europe respectively. CBL Properties is an unpopular company with a strong cash flow, but no growth. However, the cash flow is impressive, and if they are able to turn the company around, a lot of value should appear. Retailers are struggling in the US. Macys have reported weak sales which has scared the market. Mercialys presented strong growth in preliminary rental numbers for FY16, but was hurt by the recent negative retail sentiment.

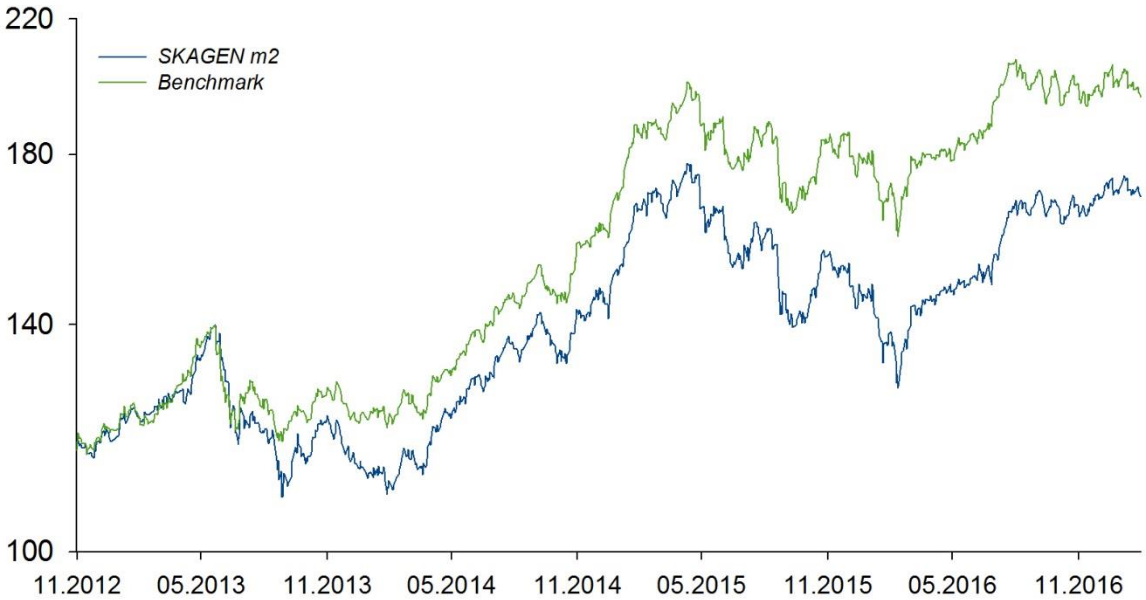
- **Two new holdings were added in January, Austrian Buwog and Norwegian Entra**. Buwog has a mid-market residential portfolio of 52k units in Germany and Austria. The company also engages in residential development with a focus on Berlin and Hamburg. Entra, the Norwegian office operator is a previous holding that we have re-entered. We sold out of Ashford in January in order to concentrate the portfolio. This was a small position and we own the company's subsidiaries, Trust and Prime.

- The top 10 and 35 positions constitute 49% and 96% of the fund, respectively. SKAGEN m2 currently invests in 37 companies and the cash position is 3.6%.

** Unless otherwise stated, all performance data in this report is in EUR, relates to class A units and is net of fees.*

Results as of January 2017

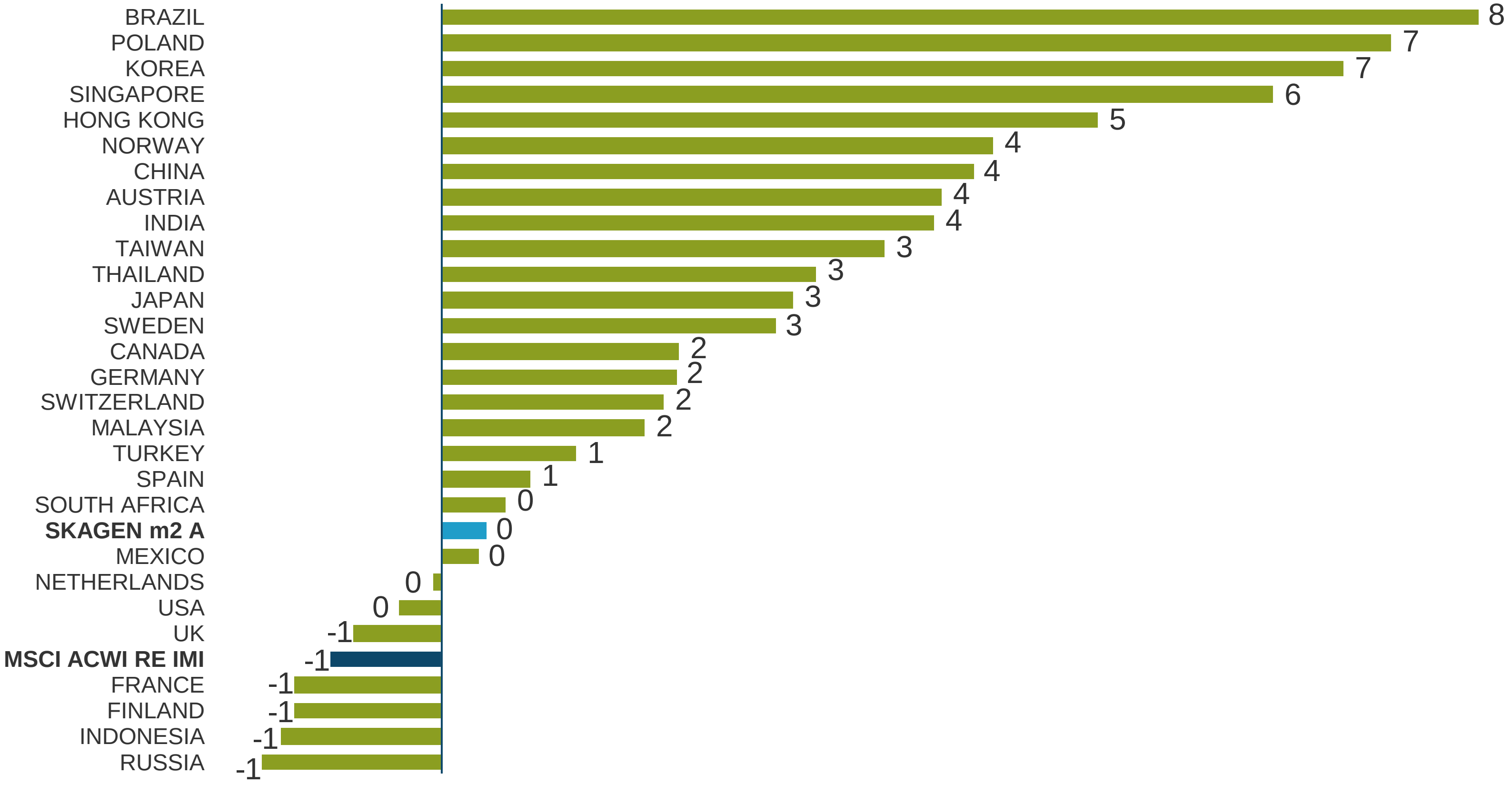
SEK, net of fees



	January	QTD	2016	1 year	3 years	Since inception*
SKAGEN m2 A	-1,1%	-1,1%	16,2%	20,3%	15,2%	9,2%
MSCI ACWI Real Estate	-2,3%	-2,3%	12,2%	12,8%	16,9%	13,1%
Excess return	1,2%	1,2%	4,0%	7,7%	-1,7%	-3,9%

*Note: All returns beyond 12 months are annualised (geometric return), * Inception date: 31 October 2012*

Markets in January 2017 in EUR (%)



Main contributors YTD 2017

Largest positive contributors

Company	NOK (000)
Global Logistic Properties	7 069
IRSA	4 040
Melia Hotels	1 059
Catena	1 014
CapitaLand	950
Inmobiliaria Colonial	584
D Carnegie	408
CA Immobilien	335
Grivalia Properties	253
Shangri-La	219

Largest negative contributors

Company	NOK (000)
CBL Properties	-4 651
Mercialys	-2 908
Phoenix Mills	-1 980
British Land	-1 849
Mitsui Fudosan	-1 737
PS Business Parks	-1 682
General Growth Properties	-1 342
Ashford Hospitality Trust	-1 329
SL Green	-1 248
Atrium Ljungberg	-1 139

Value Creation YTD (NOK MM): -11

NB: Contribution to absolute return

Main contributors with comments, January 2017

Largest contributors

Company	NOK (000)	Comments
Global Logistic Properties	7 069	Pending strategic review of the company, bid for the company likely
IRSA	4 040	Strong performance in Israeli owned companies
Melia Hotels	1 059	Strong Spanish summer and Spanish hotel market in general
Catena	1 014	No company specific news
CapitaLand	950	No company specific news, but may be affected by general improvement in EM
Inmobiliaria Colonial	584	No company specific news
D Carnegie	408	No company specific news
CA Immobilien	335	Cheap company with strong performance
Grivalia Properties	253	Grivalia Hospitality announced its first investment
Shangri-La	219	See Capitaland

Main detractors with comments, January 2017

Largest detractors

Company	NOK (000)	Comments
CBL Properties	-4 651	Weak retail sale in US during Christmas period and general fear of e-commerce
Mercialys	-2 908	Weak retail sentiment
Phoenix Mills	-1 980	No company specific news
British Land	-1 849	Strong result and relatively good performance, but uncertainty regarding Brexit creating volatile share price
Mitsui Fudosan	-1 737	No company specific news
PS Business Parks	-1 682	The winner last year and some sellers are profit takers
General Growth Properties	-1 342	See CBL, strong result
Ashford Hospitality Trust	-1 329	Sell-off after strong performance and some FX loss (USD down)
SL Green	-1 248	FX, strong result and performance

Most important changes Q1 2017

Q1 Holdings increased

Buwog	(New)
Entra	(New)
General Growth Properties	
SL Green Realty	
Atrium Ljungberg	

Q1 Holdings reduced

Emlak	(Out)
Ashford Inc	(Out)
Nomura Real Estate	
Global Logistic Properties	
Ashford Hospitality Prime	
First Real Estate Trust	
IRSA	
Axiare Patrimonio	
Melia Hotels International	
Olav Thon Eiendomsselskap	
Grivalia Properties Reic	

Key earnings releases and corporate news January 2017

General Growth Properties, US (3.0%)

GGP provided better than feared Q4 results

Implications for Investment Case: General Growth announced better results than the market had feared, and Simon Property Group also announced solid results. Mall owners have been dragged down by weak retailer performance. Sale per square feet declined from USD 584 to USD 581. Despite weaker sales, same store NOI increased 5.1%. The company claimed that the a-malls still meet strong demand for space. The company bought back 1.9m (960m total count) shares at USD 24.47 (at today's share price) during the quarter.

Colombia Property Trust, US (2.9%)

Colombia completes its disposition program

Implications for Investment Case: Neutral to negative. The assets were sold 7% below book value. These assets were the last to be sold in their disposition program and the market may be relieved that the process is finally over. The price was, however, significantly lower than Q3 book value. The increase in interest rate level since Q3 has been significant and it has most likely been harder to achieve bid price even for this class A office tower. The sale process has an impact on their recurring income, and this property has a 6% net operating income cash yield to be replaced. The market is waiting for an announcement regarding dividends. The good news is that acquisition is cheaper too and, with low gearing, they are able to buy assets to replace the loss in recurring income.

SL Green, US

(5.4%)

Q4 results in line with significant debt reduction.

Implications for Investment Case: Slightly positive. The company announced results in line with expectations and improved the balance sheet significantly last year by selling parts of its portfolio and by creating joint ventures. The market has improved due to expectations of better earnings from banks after the latest "bank run".

FFO 2016 was USD 8.29 after some positive one-offs. Even though the recurring FFO going forward is somewhat lower, it is cheap when you live in midtown Manhattan. They expect recurring FFO17 of USD 6.50 after reducing their balance sheet. SS Manhattan occupancy was 97.1% compared to 97.2% a year ago, meaning that the offices are full. Suburban occupancy has improved to 85.1% from 83.3% YoY, showing strong improvement. The debt and mortgage investments (used to acquire assets) stand at USD 1.64bn, yielding 9.3%, and up USD 200 QoQ.

Key earnings releases and corporate news January 2017 (cont.)

Big Yellow Group, UK (2.4%)

Strong performance in a changing market (London)

Implications for Investment Case: Positive. Performance was strong. Like-for-like occupancy increased to 76.0%, up 2.4 bp, and like-for-like revenue was up 5%. The lettable area increased 3% due to capex. Big Yellow is the dominant player in self-storage in London, with an “irreplaceable” portfolio of London assets. The company has a favourable model. The longer customers stay, the higher price they are charged.

British Land, UK (2.1%)

Q3 update ahead and confirmed dividend increase of 3%

Implications for Investment Case: British Land provided an update at the end of December 2016 which confirmed the strong investment case. Retail letting and renewals were 8.7% ahead of ERV (Estimated Rental Value). Sales in stores were up 0.6%, 200 bp over benchmark. Office was in line with ERV. The company confirmed a 3% increase in dividend and ended the year at an LTV of 31%.

Ashford Prime, US (1.9%)

Refinance a USD 334m loan with a new loan of USD 365, and increase dividend from 12c/Q to 16c/Q

Implications for Investment Case: Slightly positive. The luxury segment is not necessarily profitable and is also more exposed to economic cycles. The hiked dividend and refinancing are positive, and free up cash. The new loan of USD 365m replaces a USD 334m loan at Libor + 258bp with interest payments only. The hike in dividend increased the dividend yield to 4.5%. We already own the sister company, Ashford Trust, which is more opportunistic in its approach.

Mercialys, France (3.7%)

Strong LFL rental growth FY16.

Implications for Investment Case: Positive. French mall operator Mercialys delivered another strong trading update with LFL rental up 3.4% for FY16. Valuation is below peers and the company has a defensive balance sheet and income stream.

Largest holdings as of January 2017

	Holding size	Price	P/NAV	Div. Yield 2017e	EBITDA 2017e/EV
D Carnegie & Co AB	5,7 %	110,5	114%	0%	3,7%
SL Green Realty Corp	5,4 %	109,53	75%	2,9%	5,6%
Inmobiliaria Colonial SA	5,3 %	6,8	93%	3,2%	3,3%
Catena AB	5,2 %	132	99%	4,2%	5,3%
Olav Thon Eiendomsselskap ASA	5,2 %	158	75%	1,3%	6,6%
Global Logistic Properties Ltd	5,0 %	2,6	87%	2,7%	3,6%
Mitsui Fudosan Co Ltd	4,8 %	2616,5	67%	1,4%	6,6%
Deutsche Wohnen AG	4,7 %	30,18	108%	2,8%	3,8%
Irsa Sa ADR	3,8 %	21,52	60%	0%	8 %
Mercialys SA	3,7 %	18,12	85%	6,6%	5,3%
Weighted top 10	48.7 %		87%	2.4%	4.8%
Weighted top 35	96 %			3.1%	5.4%
Benchmark				3.9% actual	

The largest companies in SKAGEN m2 as of January 2017

D. CARNEGIE & CO.

D. Carnegie & Co is the largest listed residential real estate company in Sweden specialising in residential properties. The company owns and manages over 16k units concentrated in the Stockholm region. Strategy is to refurbish and revitalise apartments and areas in the "miljon program" (residential blocks that were built between 1960-75 in Sweden that became famous for building away the housing shortage in an effective, fast and not very aesthetic way). Current units are expected to be refurbished in 10 years. The company does not clear all buildings, rather refurbishes when each unit is empty avoiding income loss. Total portfolio valuation is SEK 13.6bn. Huge asset revaluation, building rights value and privatisation potential. Apartments are valued in the books at SEK 11 500/sqm. In June 2016 Blackstone acquired a majority of shares, a bid for all shares to come.

SL GREEN REALTY CORP.

SL Green Realty Corp. is a fully integrated, self-administered and self-managed REIT. The company is focused on owning and operating office buildings in Manhattan. It owns equity or debt in 92 properties totalling 41.6m square feet. In addition to Manhattan, they also have interests in Manhattan's surrounding suburban areas. Its Manhattan properties have an occupancy rate of 95.9% compared to 83.5% (Q1'15) for its properties in suburban areas.

Colonial

Colonial is a leading Spanish prime property company present in Spain (Barcelona and Madrid) and France (Paris). The presence in France is structured through a 53.1% stake in the French listed company Société Fonciere Lyonnaise. Majority of assets are high quality CBD (75%) offices (94%). Colonial is the only liquid Spanish listed Real Estate company that managed to remain listed and successfully navigate through the turbulent waters of the recent economic crisis. The company rebuilt its capital structure in 2014 via a combination of a debt raising and a EUR 1.26bn capital increase. Geographical breakdown by GAV: Paris 48.5%, Madrid 28.1% and Barcelona 23.4%.

CATENA

Catena is a Swedish logistics owner, operator and developer that actively manages portfolio and development projects in Sweden. Company recently acquired Tribona and became leading logistics operator in Sweden. Catena's assets are mainly located in fast growing regions: Stockholm, Gothenburg and Öresund. Portfolio value of approximately SEK 10bn. Strong e-commerce trend driving demand for more and faster logistics, especially city logistics.

OLAV THON GRUPPEN

Olav Thon owns a portfolio of 65 shopping malls and manages an additional 27 malls for external owners. In addition, the company owns office buildings, restaurants and hotels (2 NOT Thon Hotels) located primarily in the Oslo area. 76% of its income is from malls and the rest from commercial real estate (mainly office and retail). Listed on the Oslo Stock Exchange in 1983. Gross (inclusive JV) lettable space: Shopping malls: 1m square metres and commercial estate 263 000 square metres. Diversified into Sweden in Q3 '14 after buying five shopping malls with 122 000 square metres of space for NOK 3bn.

The largest companies in SKAGEN m2 as of Jan. 2017 (cont.)

GLP is Asia's largest provider of modern logistics facilities. The company owns, manages and leases over 700 completed properties spread across 77 cities in China, Japan, Brazil and US, forming an efficient network with assets strategically located in key hubs, industrial zones and urban distribution centres. The USD 27bn property portfolio consists of 28m sqm serving more than 800 customers. The Japan portfolio is mostly completed and stabilised, providing strong operating cash flows to fund the group's growing business in China. The company also set up a China fund at the end of 2013 to enable capital recycling in the Chinese market in line with the Japanese model. This business model leads to a more effective capital structure, recurring income and capital recycling (listing of J-REIT & CLF fund).

Established in 1941, Mitsui Fudosan has been an active leader in the Japanese real estate industry, successfully developing new business opportunities and establishing a dominant position. The company is an integrated firm involved in office leasing, commercial facilities, condominium development, investment property development and REITS. 8% of MF's assets are located on other continents. Well-integrated and balanced growth model with development and investment properties diversified among different real estate sub-segments. Management business (car park leasing, property management) provides stable earnings growth over time, and together with other recurring earnings from commercial assets, mitigates the volatility in the development segment.

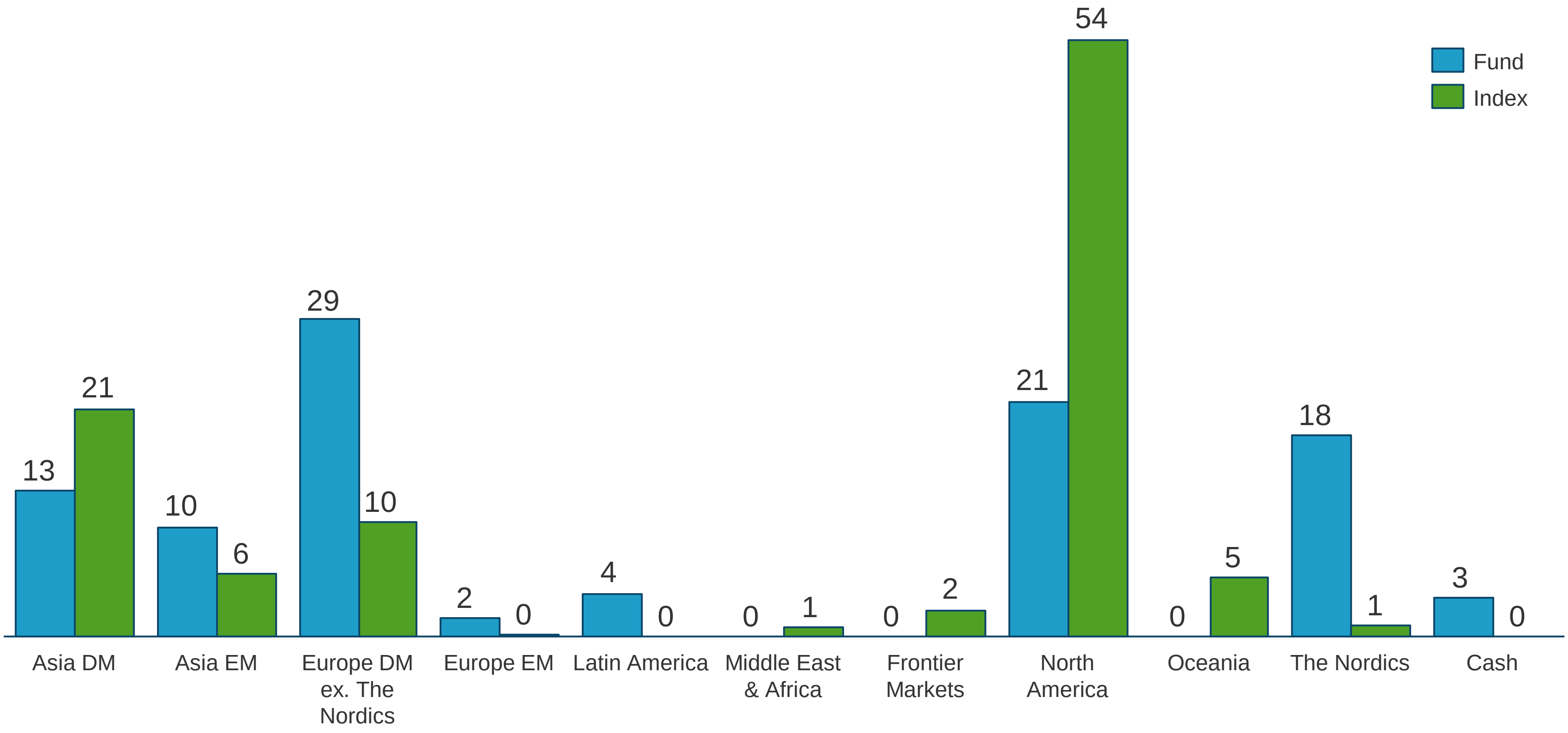
Deutsche Wohnen is one of the leading listed residential companies in Germany with its main focus in Berlin. Its operational focus is on managing and developing its residential property portfolio, currently comprising 161k units in total, of which 159k are residential units and 2,200 are commercial properties. Units are situated in core regions like Greater Berlin, Rhine-Main, Rhineland, Dresden, Hannover as well as in medium-sized German cities like Brunswick and Magdeburg.

Irsa Inversiones y Representaciones S.A. (IRSA) is Argentina's leading real estate company in terms of total assets. Engaged, directly and indirectly in the acquisition, development and operation of shopping malls, office buildings, residential properties, luxury hotels, undeveloped land reserves for future development or sale, and selected real estate investments outside Argentina.

Founded in 2005 by Casino, Mercialys is one of the top real estate companies in France and Europe, specialising in the enhancement, transformation and promotion of shopping centres. Mercialys owns a real estate portfolio of over 50 centres, with more than 800,000 square metres of retail space throughout France. Mercialys is positioned in the convenient range of the shopping centre industry, as well as within the experience malls or destination malls segment. Mercialys is well established in France and has been very skilled in its active management of its assets. Casino is still the majority owner.

Geographical distribution vs. benchmark January 2017

Percent



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Unless otherwise stated, performance data relates to class A units and is net of fees.

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 subscription and management fees. The return may become negative as a result of negative price developments. KIIDs and prospectuses for all funds can be found on our website.