



Portrait of Holger Drachmann in a red jacket, 1903-07. Detail. By P.S. Kroyer, one of the Skagen painters. This image belongs to the Skagens Museum.

SKAGEN m²

Status Report – July 2016

The art of common sense



Summary – July 2016

- July was a strong month for SKAGEN m²* both in absolute and relative terms. The fund was up 7.7% (in SEK), while the index gained 5.7%. SKAGEN m² was up 12.8% year to date, while the global Real Estate (RE) equity market was up 15.0%.
- For SKAGEN m², the best performing markets were Hong Kong, France and Sweden. Lately, we have seen improving performance in Asia and emerging markets generally. None of the markets that we've invested in contributed negative during the month.
- The largest contributors to the fund's return in NOK terms were CBL, SL Green and Olav Thon. It took CBL 1 month to claw back losses from 1H16. This was mainly due to its 2Q earnings report significantly beating market expectations. The Manhattan market is still strong, which helped SL Green continue to outperform.
- The largest detractor in July was Big Yellow Group, UK. The company had been a safe haven, outperforming the local market up to the Brexit referendum, then losing in the rally afterwards. The Japanese company Mitsui Fudosan suffered during the month from the negative sentiment surrounding the Japanese macro environment and dwindling faith in Abenomics. Our Turkish holding Emlak also contributed negatively, following the failed military coup attempt.
- There were no new investments in SKAGEN m² during July. We sold out of BR Properties after accepting a partial bid and we sold the remaining shares in the market. The top 10 and 35 positions constitute 43% and 93% of the fund respectively. SKAGEN m² currently consists of 40 holdings and the cash position is 2.8%.

* 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 July 2016

SEK, net of fees

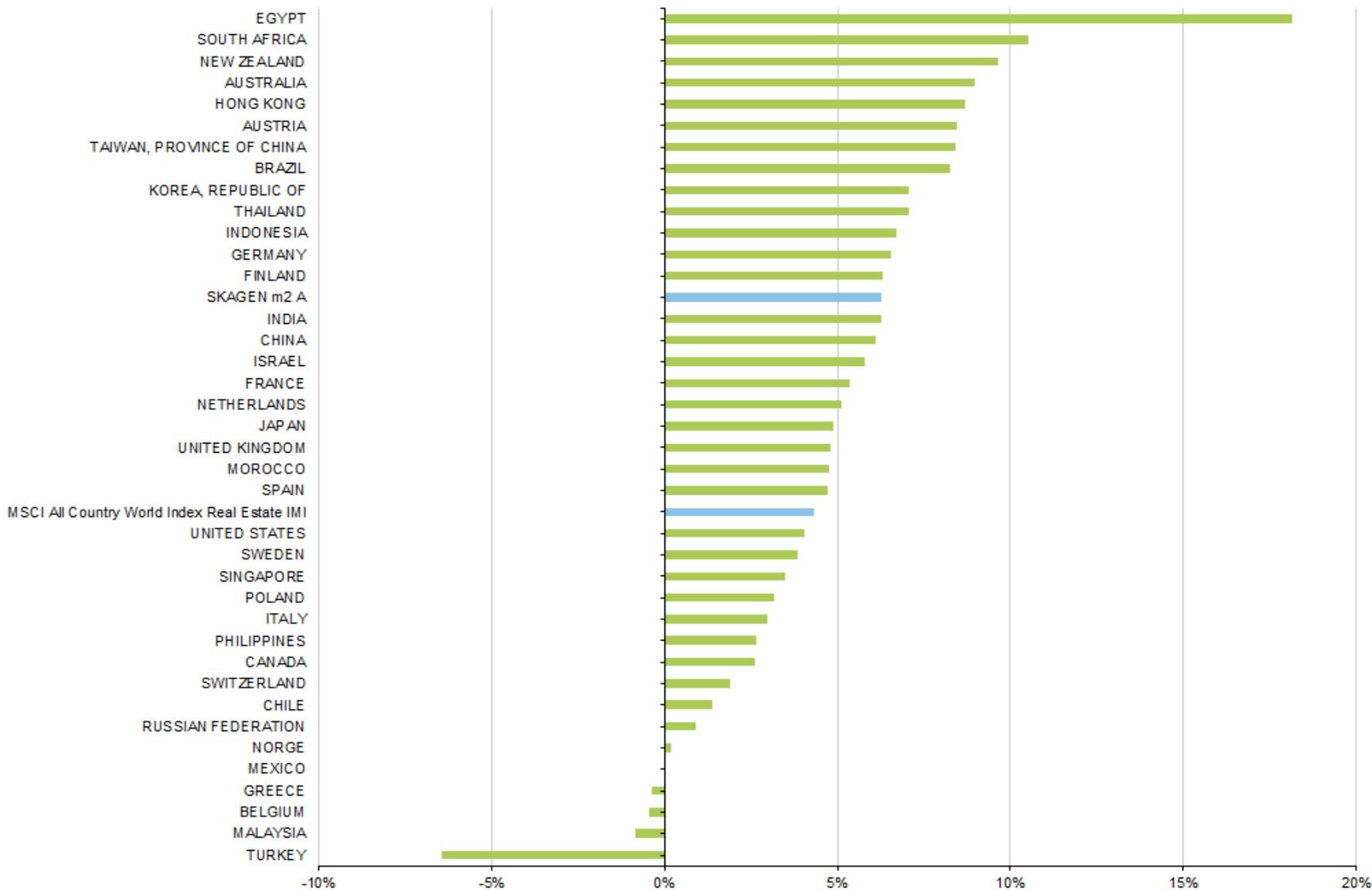


	July	QTD	YTD	1 Year	3 years	Since inception*
SKAGEN m2	7,7%	7,7%	12,8%	4,4%	11,7%	10,0%
MSCI ACWI Real Estate	5,7%	5,7%	15,0%	10,8%	18,5%	16,4%
Excess return	1,9%	1,9%	-2,2%	-6,4%	-6,8%	-6,5%

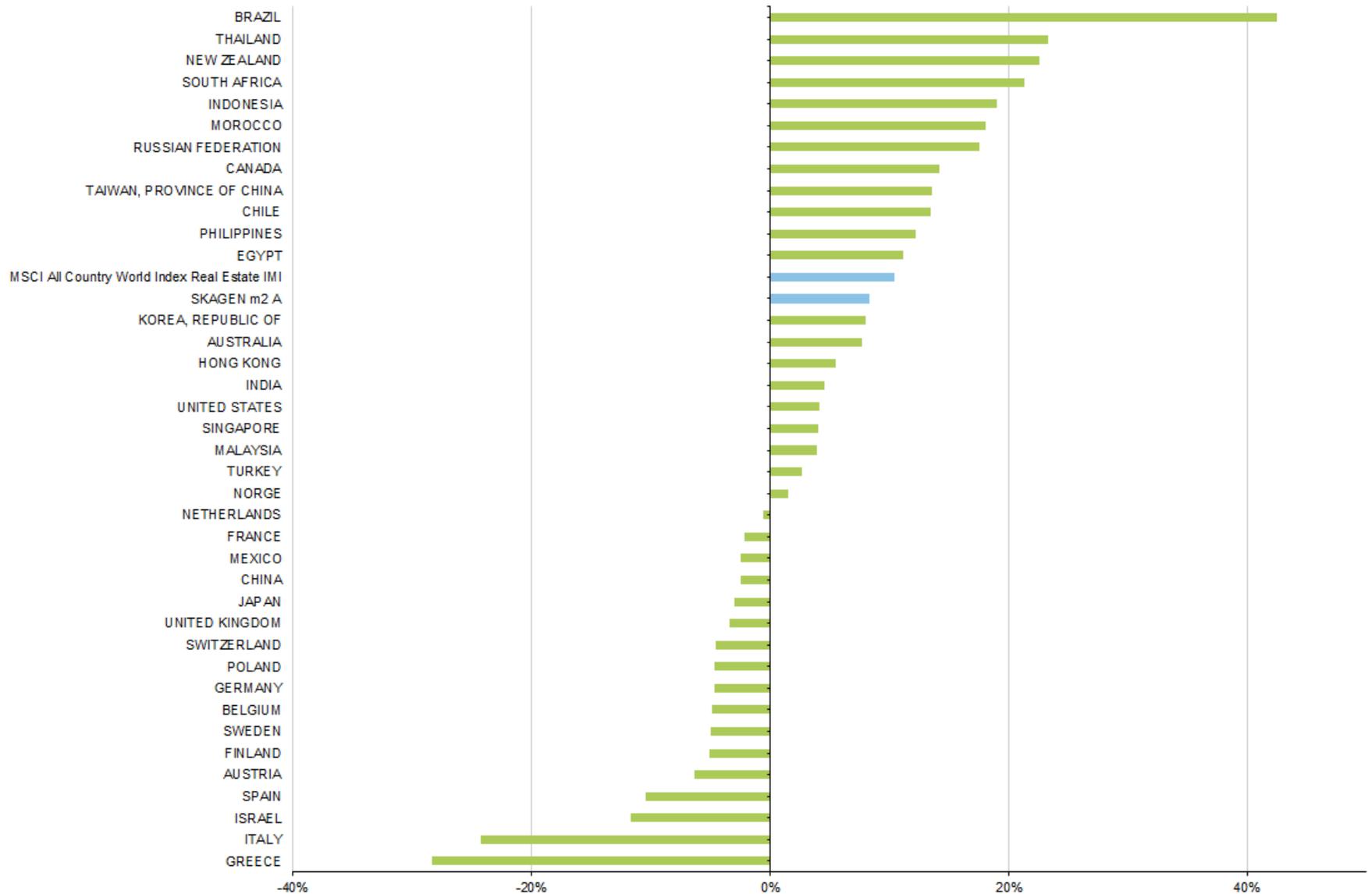
Note: All returns beyond 12 months are annualised (geometric return)

* Inception date: 31 October 2012

Markets in July 2016 in EUR (%)



Markets 2016 YTD in EUR (%)



Main contributors July 2016

Largest positive contributors

<i>Company</i>	<i>NOK (000)</i>
CBL & Associates Properties	8 721
SL Green Realty Corp	6 665
Olav Thon Eendom	5 460
D Carnegie & Co	4 463
Columbia Property Trust	3 973
Mercialys	3 799
Inmobiliaria Colonial	3 507
Deutsche Wohnen	3 158
HCP	3 112
Global Logistic Properties	3 059

Largest negative contributors

<i>Company</i>	<i>NOK (000)</i>
Big Yellow Group	-1 886
Emlak	-1 360
Mitsui Fudosan Co	-1 135
SOHO China	-508
Keck Seng Investments	-454
Ashford	-444
BR Properties	-1

Value Creation MTD (NOK MM):

74

NB: Contribution to absolute return

Main contributors with comments, July 2016

Largest positive contributors

Company	NOK (000)	Comments
CBL & Associates Properties	8 721	Very strong 2Q results and rebound after a lot of bad news
SL Green Realty Corp	6 665	Strong 2Q and upward guidance
Olav Thon Eiendom	5 460	No specific news, but valuations got too low
D Carnegie & Co	4 463	Blackstone acquire 40% of the company. Strong q2 report.
Columbia Property Trust	3 973	Delivered strong 2Q15 report
Mercialys	3 799	Delivered strong 1H16 report
Inmobiliaria Colonial	3 507	Delivered strong 2Q16 report
Deutsche Wohnen	3 158	No company specific news, ongoing strength in the German residential market
HCP	3 112	No company specific news, declining US rate yields and declining likelihood of an interest rate hike anytime soon pushed sector
Global Logistic Properties	3 059	No company specific news

Main contributors with comments, July 2016

Largest negative contributors

Company	NOK (000)	
Big Yellow Group	-1 886	A relative safe haven and winner before Brexit, losing in subsequent rally
Emlak	-1 360	Military coup attempt and subsequent unrest hit the market and FX
Mitsui Fudosan Co	-1 135	No company specific news, macroeconomic headwind and market doubt of Abenomics
SOHO China	-508	No company specific news
Keck Seng Investments	-454	No company specific news
Ashford Inc	-444	No company specific news

Main contributors YTD 2016

Largest positive contributors

<i>Company</i>	<i>NOK (000)</i>
D Carnegie & Co	14 694
IRSA Inversiones y Representac	10 100
Deutsche Wohnen	8 418
Inmobiliaria Colonial	7 589
Olav Thon Eendom	6 614
Brandywine Realty Trust	5 793
Nomura Real Estate Master Fund	4 716
PS Business Parks	4 689
Mercialys	4 632
SM Prime Holdings	4 621

Largest negative contributors

<i>Company</i>	<i>NOK (000)</i>
Mitsui Fudosan Co	-8 778
Global Logistic Properties	-4 719
Melia Hotels International	-3 001
Big Yellow Group	-2 899
Ashford Hospitality Trust	-2 712
Apartment Investment & Managem	-2 627
Columbia Property Trust	-2 062
Vista Land & Lifescapes	-1 926
Ananda Development	-1 616
HCP	-1 556

Value Creation YTD (NOK MM): 60

NB: Contribution to absolute return

Most important changes Q1 2016

Holdings increased

Holdings reduced

Q1

Inmobiliaria Colonial SA (New)
 Big Yellow Group Plc (New)
 D Carnegie & Co AB
 SL Green Realty Corp
 Ashford Hospitality Prime Inc
 Axia Real Estate SOCIMI SA
 Catena AB
 IRSA Inversiones y Representac
 Mercialys SA
 Dic Asset AG
 Emlak Konut Gayrimenkul Yatirim
 Ortakligi AS
 Brandywine Realty Trust
 Grivalia Properties Reic AE
 Global Logistic Properties Ltd
 BR Malls Participacoes SA
 Olav Thon Eendom A/S
 Melia Hotels International
 CBL & Associates Properties Inc
 Deutsche Wohnen AG
 Ashford Hospitality Trust Inc
 Ashford Inc
 Keck Seng Investments

Q1

Apartment Investment & Managem (Out)
 BR Malls Participacoes SA (Out)
 Entra ASA (Out)
 Ananda Development PCL-Nvdr (Out)
 Etalon Group Ltd (Out)
 Unibail-Rodamco SE (Out)
 Vista Land & Lifescapes Inc (Out)
 Rockwell Land Corp (Out)
 Parque Arauco SA (Out)
 Columbia Property Trust Inc
 PS Business Parks Inc
 Gecina SA
 Bumi Serpong Damai PT
 General Growth Properties Inc
 Ashford Hospitality Trust Inc
 Nomura Real Estate Master Fund
 Inc
 Mercialys SA
 SOHO China Ltd
 Phoenix Mills Ltd
 HCP Inc
 First Real Estate Investment Trust

Most important changes Q2 2016

Holdings increased

Q2

Inmobiliaria Colonial SA
Catena AB
CBL & Associates Properties Inc
Mercialys SA
Ashford Hopsitality Prime Inc
Big Yellow Group Plc
Mitsui Fudosan Co Ltd
D Carnegie & Co AB
Axiare Patrimonio SOCIMI SA
Olav Thon Eindom A/S
Atrium Ljungberg AB
CapitaLand Ltd
Ashford Hospitality Trust Inc
Grivalia Properties Reic AE
First Real Estate Investment Trust
Rockwell Land Corp
Vista Land & Lifescapes Inc
BR Malls Participacoes SA
Bumi Serpong Damai PT
SM Prime Holdings Inc
Gecina SA
Deutsche Wohnen AG

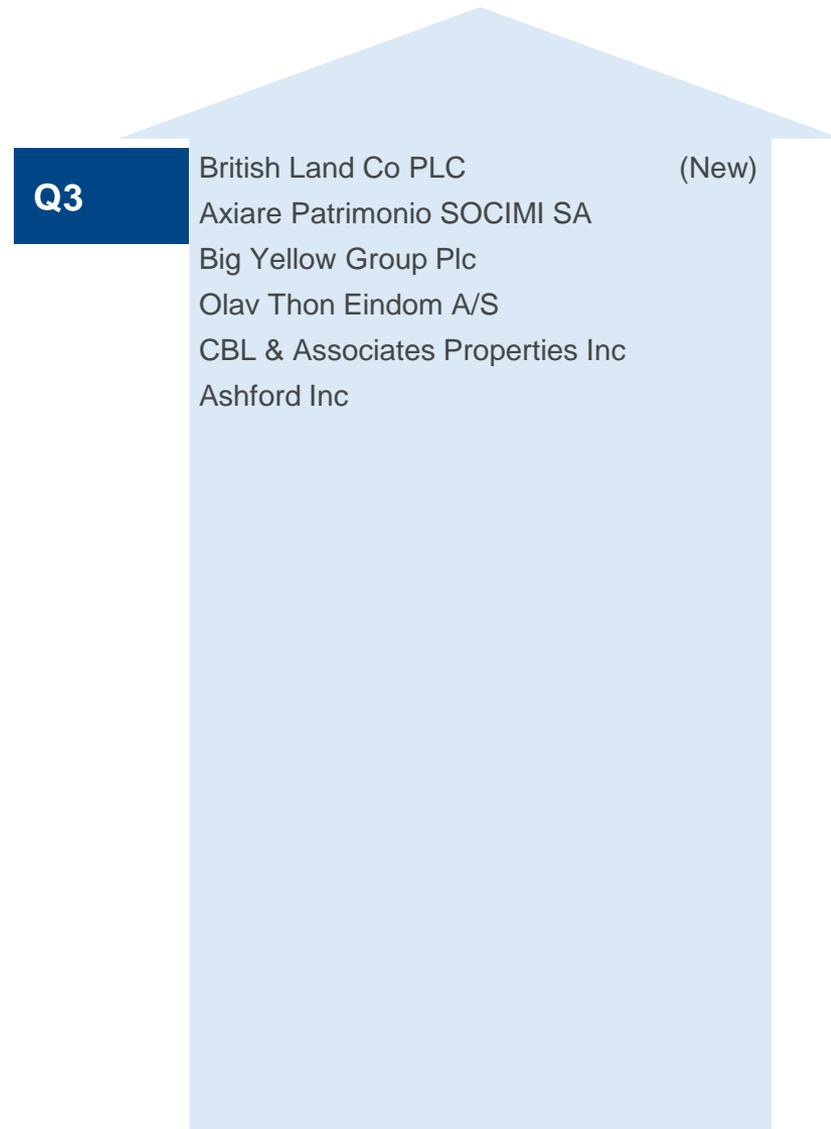
Q2

Holdings reduced

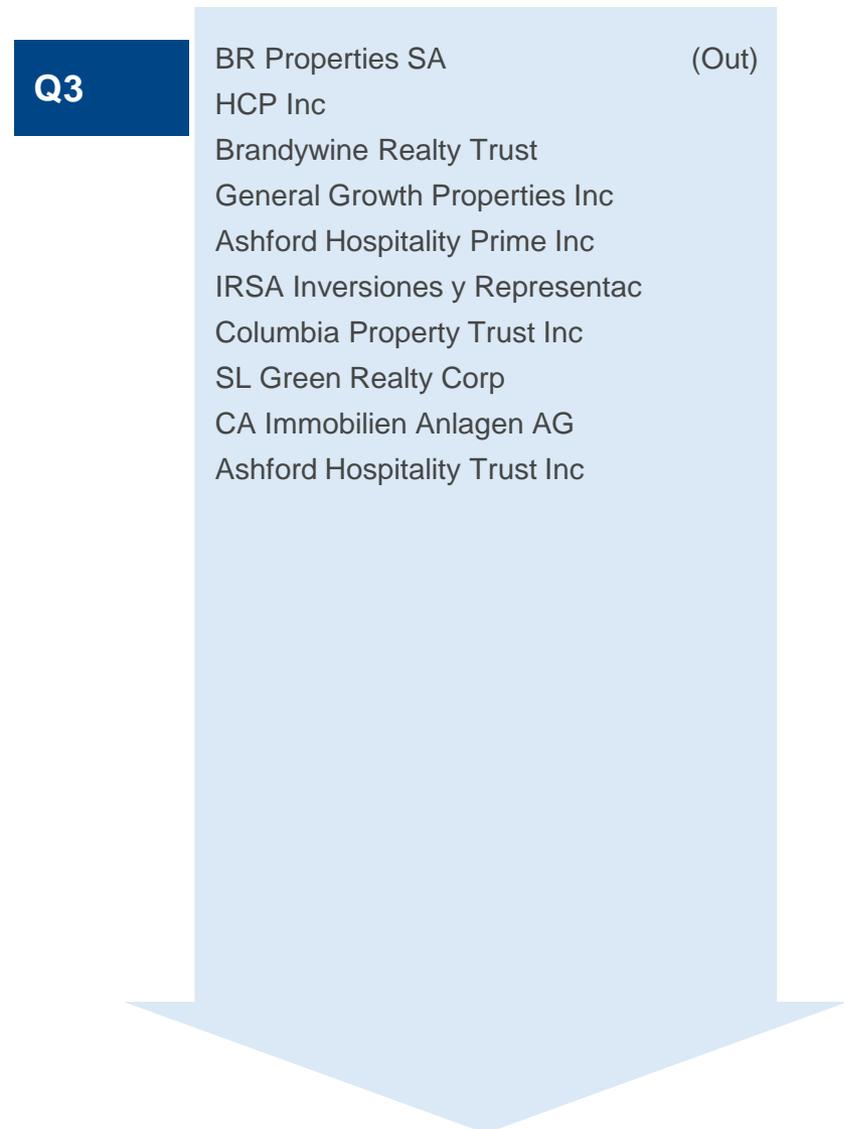
Gecina SA (Out)
Bumi Serpong Damai PT (Out)
Deutsche Wohnen AG
Brandywine Realty Trust
HCP Inc
BR Properties SA
General Growth Properties Inc
SM Prime Holdings Inc
PS Business Parks Inc
Melia Hotels International
Bekasi Fajar Industrial Estate
Ashford Hopsitality Prime Inc
Ashford Hospitality Trust Inc
IRSA Inversiones y Representac
Ashford Inc
Dic Asset AG

Most important changes Q3 2016

Holdings increased



Holdings reduced



Key earnings releases and corporate news

Mercialys,
France (4.2%)

1H16 Solid rental and capital value growth

Implications for Investment Case: Positive. French mall operator Mercialys delivered another strong report with robust growth in both rental- and capital values above expectations. Mercialys guidance for FY seems conservative (FFO +2%) but enough to give comfort in further earnings and dividend stability/sustainability. The company continues its diversification strategy of more “high street” assets, buying Monoprix stores, enabling them to increase overall rental growth after redevelopment. Since Casino is the main shareholder, tenant and main source of deal origination, the relationship is worth monitoring closely. Casino under pressure might feed in more assets into Mercialys (pricing issue), but so far the transactions have been fair. Mercialys core operations are performing above expectations and Casino’s French operations are in good shape.

D. Carnegie,
Sweden (4.1%)

Strong 1H16 report and Blackstone sees further potential acquiring majority stake

Implications for Investment Case: Positive. Our Stockholm focused residential operator delivered a solid 1H16 report with strong value and NOI growth. Company intends to continue with co-op conversions to highlight the value potential and to free up capital. Due to acquisitions, the earnings capacity has increased markedly. Company also announced that Blackstone has made an arrangement with 3 shareholders to acquire part of their shares. Deal is positive in the sense it confirms the investment case and there is more potential identified. However the offered price to the controlling shareholders seems to be at the lower end and does not reflect the full value potential of the company also in respect to the current unique Stockholm housing environment, in our view. Bid to the shareholders will be announced before October. YTD company is the most contributing stock in the portfolio.

Colonial,
Spain (4.6%)

Strong operational performance and capital value growth

Implications for Investment Case: Positive: The Spanish office operator confirmed our thesis of an entry into a rental growth cycle, driven by higher occupancy, due to lack of supply (prime) in Spain. Paris CBD office market is slowly growing and supportive of the case. Report confirmed strong capital value growth mainly coming from yield compression, however management expects growth in coming quarters to be driven mostly by rental increases across all markets, this would be very positive and an evidence of rental growth trend is here. Company is in line with delivering guided project pipeline, with the acquisition of Alpha the remaining commitment is EUR 270m. Further (value added tilted) projects will be important for adding capital value and rental growth, the sooner the better to catch the expected recovery.

Key earnings releases and corporate news (cont.)

Shangri-La,
Hong Kong
(2,0%)

Shangri La issued profit warning due to fair value adjustment

Implications for Investment Case: Neutral. The company is currently trading at 60 % discount to NAV, meaning that the market “knows” that NAV is too high. The trouble with Chinese hotels is well known and it is expected that the profit warning will cause minor movements in the share price. Shangri La book their properties at fair value based on valuations carried out by independent companies. The valuation report has not been available for the company yet, but based on the company’s own expectation, they issued a profit warning prior to the report.

IRSA,
Argentina
(3.3%)

IRSA made its first partial sale from IBDB

Implications for Investment Case: Very positive. Our investment thesis is confirmed. IRSA should be able to make significant cash consideration from partial sales of some holdings in IBDB. The share was already on an upward trajectory, but has continued to perform after the announcement. Discount Investment Corporation, controlled 76.4% by IBDB, has accepted an offer by ChemChina to sell 40% of the shares of Adama Agricultural Solutions Ltd. ('Adama'), controlled indirectly by IBDB through DIC for a total consideration of a cash payment of USD 230 million plus cancellation of the non-recourse loan and interests that had been provided to DIC by a Chinese bank.

British Land,
UK (1.1%)

Buying back our holding and strong performance thereafter

Summary: British Land has been punished due to closing of the hard asset owning real estate funds. The company is now trading at 25 % discount to NAV. It might not be relevant but the real asset price in prime areas are not down 25 % since Brexit occurred. British Land has bought back land at the same price level that prevailed at our fund’s inception in October 2012. Some liquidity concerns from REITS investors towards the hard asset owning real estate funds pushed down the share prices even more. The day after we bought shares, they announced a big sale.

Implication for the investment case: Positive, the share increased 5% + initially. British Land has since 1Q sold £500m in assets (total owned £14b). The LTV is declining fast, now at 29.7 %. The company has on average achieved sale proceeds of 3.1 % before the 1Q16 valuation.

Largest holdings as of July 2016

	Holding size	Price	P/NAV	Div. Yield 2016e	EBITDA 2016e/EV
SL Green Realty	5,4%	117,82	85%	2,5%	6,2%
Olav Thon Eiendomselskap	5,3%	160	80%	1,2%	6,0%
Inmobiliaria Colonial	4,6%	7,07	103%	2,9%	3,5%
Global Logistic Properties	4,6%	1,91	65%	3,5%	3,6%
Mitsui Fudosan	4,3%	2253,5	56%	1,4%	6,6%
Mercialys	4,2%	20,9	102%	5,5%	4,6%
D Carnegie	4,1%	108,5	128%	0%	3,6%
CBL Properties	3,7%	12,29	60%	8,7%	9,6%
Catena	3,7%	129,75	99%	3,0%	5,4%
Deutsche Wohnen	3,3%	33,46	133%	2,3%	3,5%
Weighted top 10	43,2%		90%	2.9%	5.3%
Weighted top 35	93%			3.1%	6.0%
Benchmark				3.6%actual	

The largest companies in SKAGEN m² as of July 16



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.



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.



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.



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 comprises of 28m sqm serving more than 800 customers. The Japan portfolio is mostly completed and stabilized, 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).



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 Foncière 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%.

The largest companies in SKAGEN m² as of July 16 (cont.)

MERCIALYS

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.



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.

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.



CBL & ASSOCIATES PROPERTIES, INC.

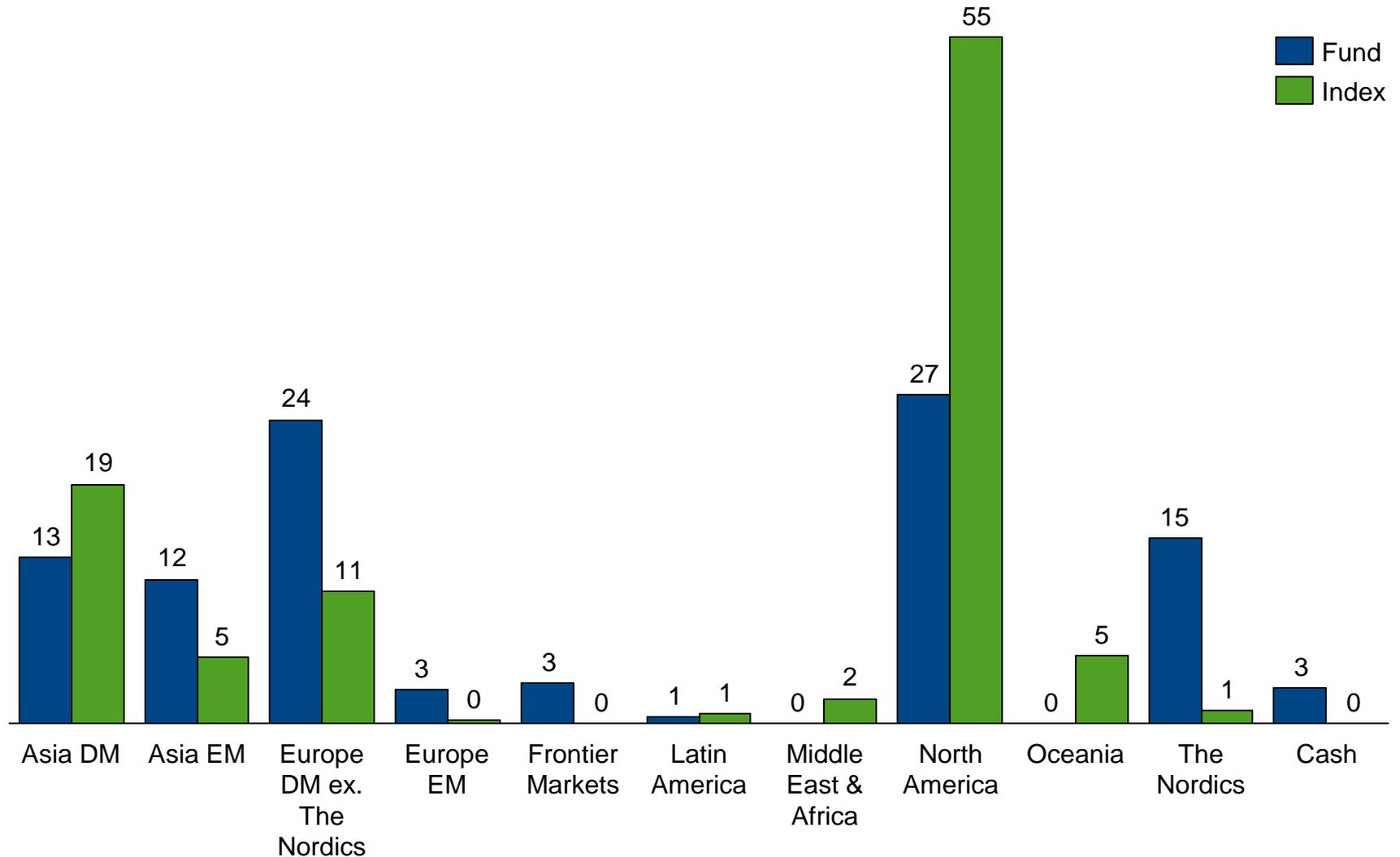
CBL, founded in 1978 and listed in 1992, is a real estate investment trust (REIT) that owns, leases, manages, and develops shopping centers. The company held interests in 127 building, including 75 malls plus 24 adjacent associated center, 5 outlet centers, 10 Community Centers and 13 Office Buildings. CBL also manage 20 properties for 3rd parties.



Deutsche Wohnen is one of the leading listed residential companies in Germany with main focus in Berlin. Its operational focus is on managing and developing its residential property portfolio, currently comprises 144,000 units in total, of which 141,900 are residential units and 2,100 are commercial properties. Units are situated in core regions like Greater Berlin, Rhine-Main, Rhineland, Dresden, Hanover as well as in medium-sized German cities like Brunswick and Magdeburg. Strategy is to keep core holdings i.e. better quality and locations and sell of non-core units.

Geographical distribution versus benchmark July 2016

Percent



For more information please visit:

Our latest [Market report](#)

Information about SKAGEN m2 on our [web pages](#)

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.

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