Portrait of Holger Drachmann in a Tent, 1903-07, Detail. By P.S. Krøyer one of the Skagen paintings. This image belongs to the Skagens Museum.

SKAGEN m²

Status Report – June 2016

The art of common sense

SKAGEN

Summary – June 2016

- June was a relatively weak month for the fund; SKAGEN m2* was up 1.3% (in EUR), while the index gained 3.3%. SKAGEN m^2 is up 2.0% YTD, while Global Real Estate (RE) equity is up 5.8%.

- The relatively weak performance occurred mainly after the surprising Brexit result, causing a flight to safety, which led USD, JPY and CHF as well as blue chip stocks to strongly outperform. We were heavily underweight UK, owning only one company, Big Yellow Group, a self-storage company with low leverage.

- The UK and other European countries were hurt by Brexit in June. Japan also declined on a stronger year versus the euro. The best performing market was again Brazil followed by Indonesia and other Asian emerging markets.

- The best performing stock, measured in absolute contribution in NOK, was Ashford Prime that received an unsolicited bid for the company. Other strong performers were General Growth and IRSA. General Growth is a blue chip US company benefiting from lower interest rate expectations following Brexit. IRSA continues to make progress on its Israeli investment firm, IBDB.

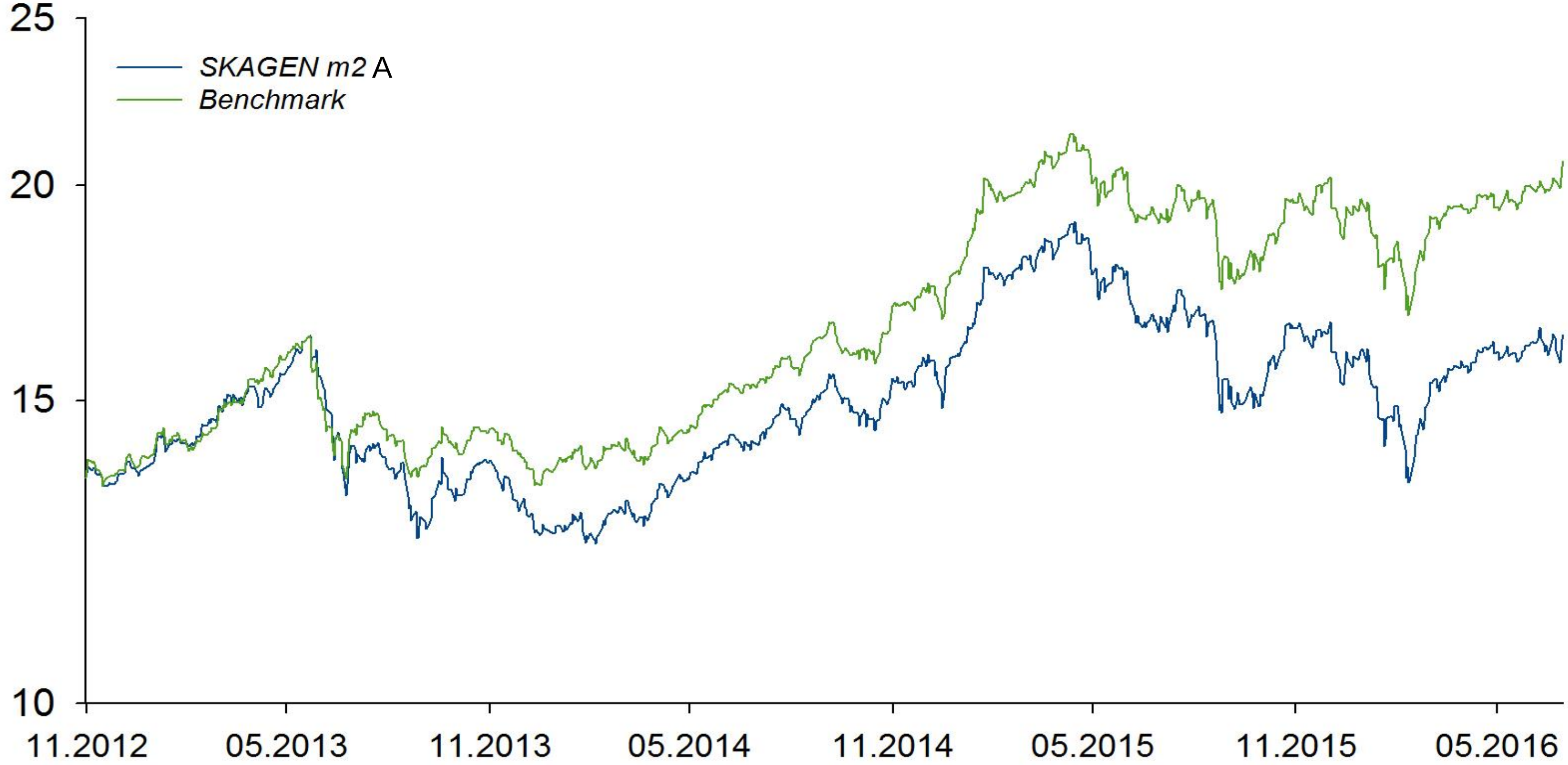
- The worst performing stocks in June were Mitsui Fudosan, Japan, and Big Yellow Group, UK, which are our holdings in the underperforming markets.

- We did not add any new investments to m2 during June, and continued to concentrate the portfolio. The top 10 and 35 positions in the fund constitute 42**%** and 95% of the fund respectively and the fund currently consists of 40 holdings. The fund's cash position is 2%.

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 30 June 2016

EUR, net of fees



	June	QTD	YTD	1 year	3 years	Since inception*
SKAGEN m2 A	1,3%	4,1%	2,0%	-0,3%	5,1%	5,4%
MSCI ACWI Real Estate	3,3%	6,4%	5,8%	8,6%	12,7%	12,3%
Excess return	-2,0%	-2,2%	-3,9%	-9,0%	-7,7%	-6,9%

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

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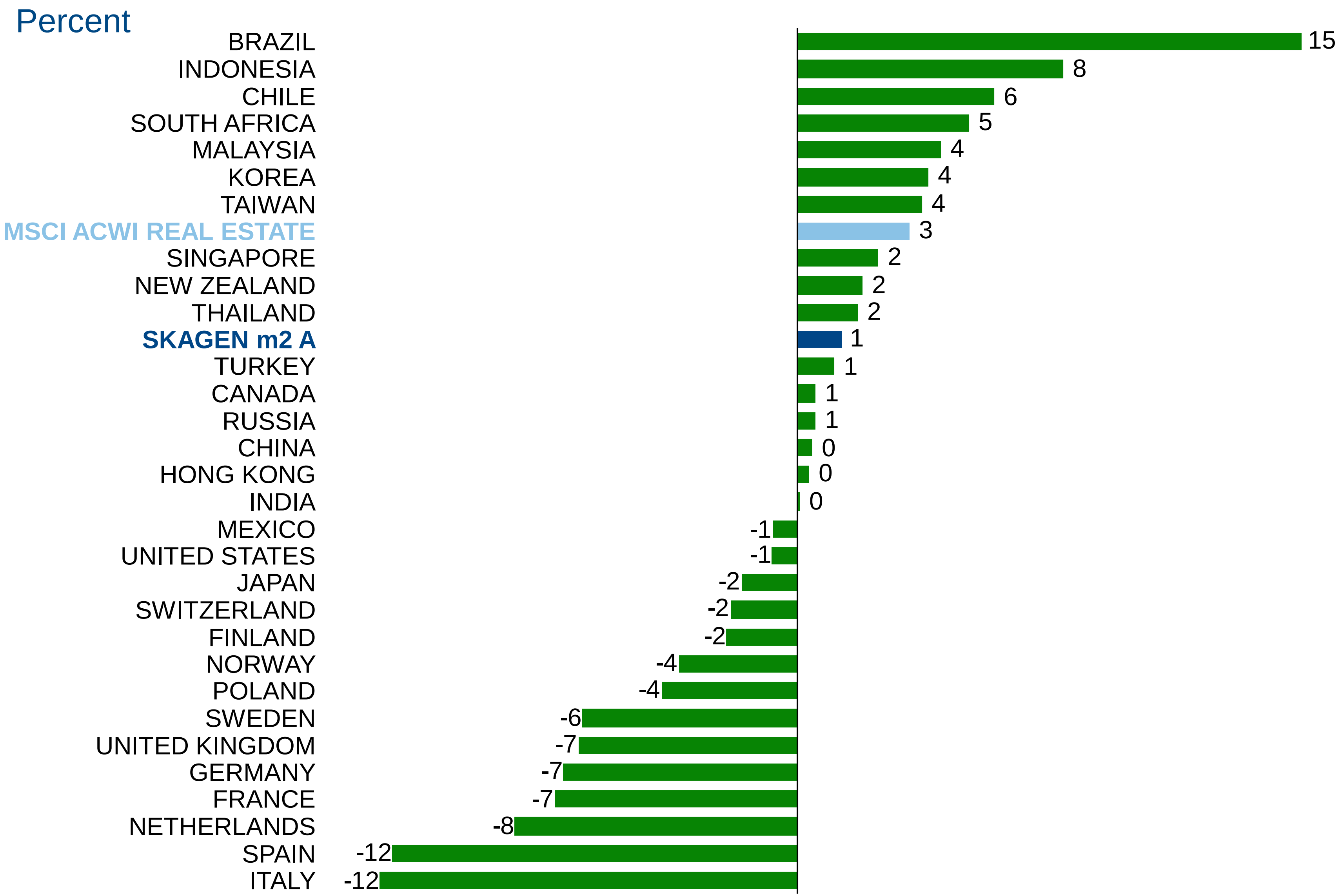
Markets in June 2016 in EUR (%)



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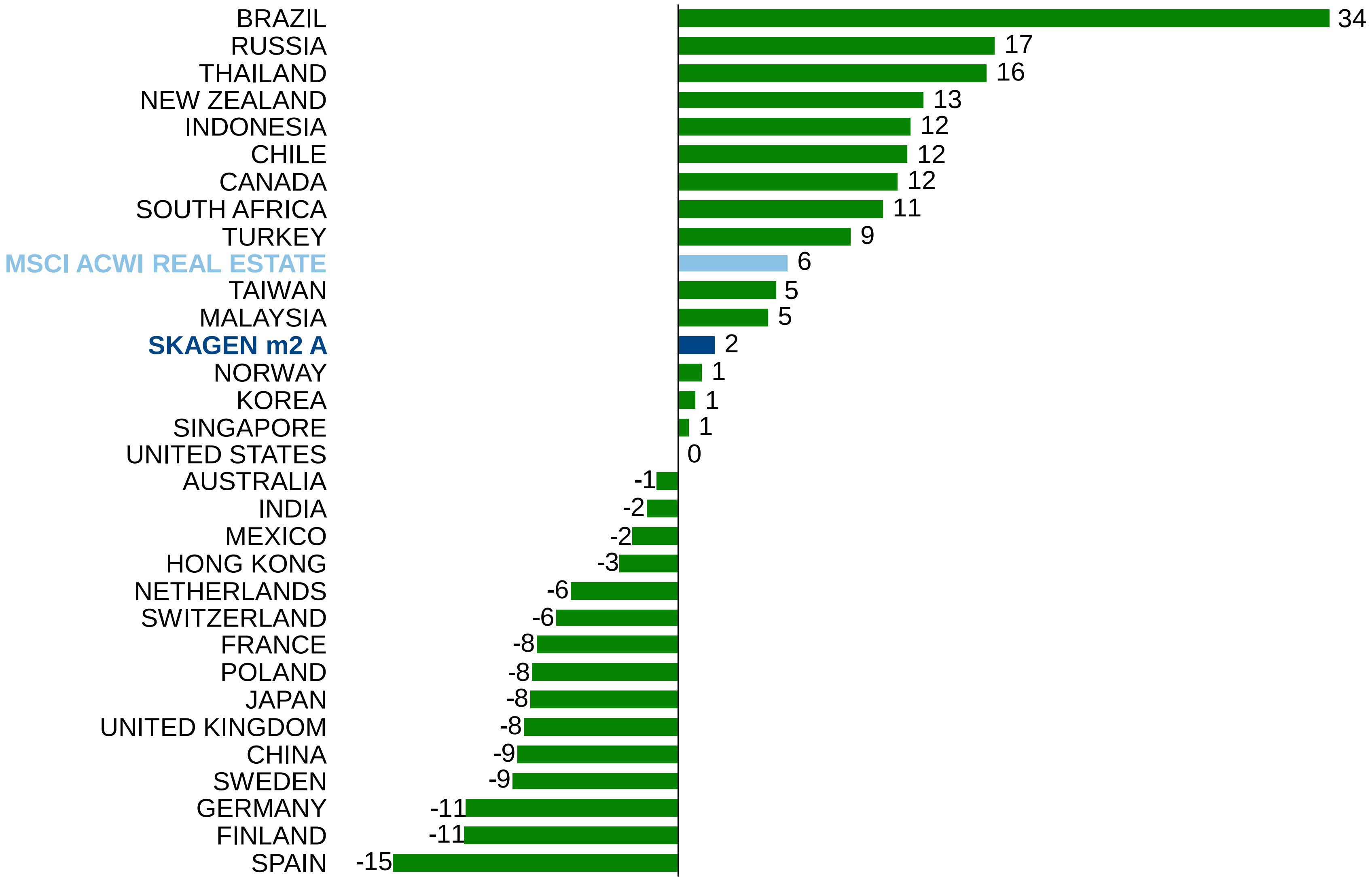
Markets 2016 YTD in EUR (%)

Percent



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Main contributors June 2016

Largest positive contributors

Company	NOK (000)
Ashford Hospitality Prime	4 283
General Growth Properties	2 726
IRSA	2 440
Deutsche Wohnen	2 238
SM Prime Holdings	2 105
Phoenix Mills	1 983
HCP	1 860
Ashford Hospitality Trust	1 668
Brandywine Realty Trust	1 661
SL Green	1 559

Largest negative contributors

Company	NOK (000)
Mitsui Fudosan	-3 505
Big Yellow Group	-3 141
Axiare Patrimonio	-2 492
Inmobiliaria Colonial	-2 448
Shangri-La	-2 443
Olav Thon	-2 113
Melia Hotels	-2 046
CA Immobilien	-1 281
Grivalia Properties	-703
Mercialys	-583

Value Creation MTD (NOK MM): 8

NB: Contribution to absolute return

Main contributors, June 2016

Largest positive contributors

Company	NOK (000)	Comments
Ashford Hospitality Prime	4 283	Bid for the company after proxy fight undermined the share price.
General Growth Properties	2 726	Winner in the aftermath of Brexit due to lower US interest rates.
IRSA	2 440	Continues to work well with its Israeli investment along with improved macro in Argentina.
Deutsche Wohnen	2 238	Very strong Q1 report due to continuous strong Berlin market and flight to safety position during Brexit.
SM Prime Holdings	2 105	Announced they are on track to meet 2018 guidance target of doubling profit. When new president Dutere took office, domestic trading was high on perception of market-friendly reforms for the market.
Phoenix Mills	1 983	No company specific news.
HCP	1 860	No company specific news. Strong due to lower probability of fast and sharp interest rate hike.
Ashford Hospitality Trust	1 668	No company specific news.
Brandywine Realty Trust	1 661	No company specific news, but positive Q1 may continue into June.
SL Green	1 559	No company specific news. US interest rate level improved after Brexit.

Main contributors, June 2016

Largest negative contributors

Company	NOK (000)	
Mitsui Fudosan	-3 505	No company specific news. Japanese market weak due to strong yen and Brexit but also over disappointing announcement from BoJ not to stimulate economy further at last meeting.
Big Yellow Group	-3 141	Brexit, short-term effect.
Axiare Patrimonio	-2 492	Spanish election. Slightly disappointing Q1.
Inmobiliaria Colonial	-2 448	Brexit and Spanish election volatility.
Shangri-La	-2 443	No company-specific news.
Olav Thon	-2 113	No company-specific news.
Melia Hotels	-2 046	Spanish election. Short-term noise. Strong RevPar growth
CA Immobilien	-1 281	May be a second war with Immofinanz.
Grivalia Properties	-703	Brexit. No company-specific news.
Mercialys	-583	Brexit. No company-specific news.

Main contributors YTD 2016

Largest positive contributors

Company	*NOK (000)*
D Carnegie & Co AB	10 232
IRSA Inversiones y Representac	7 156
Deutsche Wohnen AG	5 260
Brandywine Realty Trust	4 839
Inmobiliaria Colonial SA	4 082
Nomura Real Estate Master Fund Inc	3 702
BR Malls Participacoes SA	3 694
SM Prime Holdings Inc	3 158
PS Business Parks Inc	3 088
Ashford Hopsitality Prime Inc	2 249

Largest negative contributors

Company	*NOK (000)*
CBL & Associates Properties Inc	-8 705
Global Logistic Properties Ltd	-7 778
Mitsui Fudosan Co Ltd	-7 643
Columbia Property Trust Inc	-6 035
Ashford Hospitality Trust Inc	-5 632
Melia Hotels International	-4 904
HCP Inc	-4 669
SL Green Realty Corp	-3 140
Dic Asset AG	-2 836
Apartment Investment & Managem	-2 627

Value Creation YTD (NOK MM): -15

NB: Contribution to absolute return

Most important changes Q1 2016

Holdings increased

Q1

Inmobiliaria Colonial, Spain	(New)
Big Yellow Group, UK	(New)
D Carnegie & Co, Sweden	
SL Green, US	
Ashford Hospitality Prime, US	
Axia Real Estate, Spain	
Catena, Sweden	

Holdings reduced

Q1

Apartment Investment & Man, US	(Out)
Columbia Property Trust, US	
BR Malls, Brazil	(Out)
Entra ASA, Norway	(Out)
Ananda Development, Thailand	(Out)
PS Business Park, US	
Gecina, France	
Bumi Serpong, Indonesia	
Etalon, Russia	(Out)
Unibail-Rodamco	(Out)
Vista Land, Phillipines	(Out)
Rockwell Land Corp, Phillipines	(Out)
Parque Arauco SA, Chile	(Out)

Most important changes Q2 2016

Holdings increased

Q2

- Inmobiliaria Colonial, Spain
- Catena, Sweden
- CBL Properties , US
- Mercialys, France
- Big Yellow Group, UK
- Mitsui Fudosan, Japan
- D Carnegie, Sweden
- Ashford Hospitality Prime, US

Holdings reduced

Q2

- Gecina, France (Out)
- Bumi Serpong Damai, Indonesia (Out)
- Deutsche Wohnen, Germany
- Brandywine Realty Trust, US
- HCP, US
- BR Properties, Brazil
- General Growth Properties, US
- SM Prime, Philippines
- PS Business Parks, US

Key earnings releases and corporate news

Nomura REMF, Japan (2.1%)

Merger with Top REIT

Implications for Investment Case: Positive. Our Tokyo-based diversified JREIT is to absorb Top REIT. The merger will create the second largest JREIT in terms of asset scale (of 54 listed). According to NMF, the purpose of the merger is to: (1) obtain a rare opportunity for external growth; (2) increase the prospects for internal growth by securing an office sector portfolio with a high weighting of central Tokyo properties; and (3) further improve liquidity by increasing market capitalisation. For Top REIT, meanwhile, which had been seeking a developer as a sponsor, the aim of the merger is to strengthen the pipeline and improve portfolio quality. The merger is positive due to the above-mentioned strategic reasons, the price seems fair and DPU will rise. The Tokyo RE office market currently has high momentum and most merged assets are in the region. This enables NMF to trade old assets to sponsor against newer/repositioned assets, which benefits both REIT and sponsor.

Grivalia, Greece (1.6%)

Acquisition mode continues to drive rental growth

Implications for Investment Case: Neutral. Our Athens-based holding Grivalia issued a 1Q16 report in line with expectations. No information on leasing progress, but should be some step-up going forward to improve margins. Margins have improved but mainly due to lower cost base. The company will continue its investment program expanding the asset base and driving top line further. Success is dependent on finding good assets at right yields to acquire. Grivalia´s balance sheet is strong, meaning there is room for further acquisitions. Eurobank as major owner (20%) may create some ownership dynamics, but also a risk as large tenant. Grivalia has set up an SPV targeting hospitality industry mainly in Greece, but still no information around strategy here.

D. Carnegie, Sweden (4.0%)

First co-op conversion and 6.7% stake taken in Amasten

Implications for Investment Case: Positive. Our Stockholm-focused residential operator did its first co-op conversion as a test on a un-privatised market, Rinkeby. As expected this was a success and has been one of our triggers. There are a lot of hidden future values in this type of transaction; D Carnegie holds 16k+ units in the Stockholm region. During the week, D Carnegie also bought 6.7% in Swedish residential rental operator Amasten from Balder. Amasten is today trading at a discount and D Carnegie at a premium to NAV. For D Carnegie there could be lot of synergies as Amasten has similar assets in many areas close to D Carnegie´s.

Key earnings releases and corporate news (cont.)

CBL Properties, US (3.0 %)

Repeated that the allegation regarding manipulated numbers was baseless with no root in reality .
Implications for Investment Case: Positive. The allegations are from an ex-employee, but have still not been disclosed. After meeting with management and other investors, our feeling is that this may be political revenge related to management's relationship with Bob Corker, a potential vice president under Trump. The management of the company has ties to Senator Bob Corker who traded CBL stock making "millions in gains" (stock down 50% last year, so quite impressive). Corker met Donald Trump the day before the article in the WSJ and said that it is a political campaign. Lebowitz, the founder, CEO and Chairmann of CBL, supports Corker. Corker is known to be against the deal with Iran. The company confirmed that operations are solid. The disposition activity will reduce debt by USD 500m this year. Dividend yield is currently >10 % and the company generates a cash yield of 11 % for development and debt payment. They expected that the cash flow will not be reduced after disposition! Our cheapest US investment, hopefully.

IRSA, Argentina (3.3%)

May sell controlling stake in an Israeli insurance company (Clal).
Implications for Investment Case: Positive. The company continues to make progress with its investment in Israel, and this is the second time they have got a non-confirmed bid for their stake in this insurance company that will most likely solve the debt issue. The share price has already taken off. They were close to a sale of a majority stake in an Israeli insurance company, but were stopped by regularity obstructions in January. However, they have now received a new bid from a New York developer, although they decline to confirm this. If this sale is approved, it will reduce debt significantly, leaving a huge upside going forward.

Ashford Prime, US (1.8%)

Gross bid of USD 20.25 per share including termination fee
Implications for Investment Case: Positive. The company has been through a strategic review outlining a new strategy and concluded not to sell the company. However, this bid was at a 79% premium and was well received by shareholders, but financing was not confirmed and unsolicited, meaning a lot of uncertainty. The company is externally managed and the management company is entitled to a termination fee. The bid was USD 20.25 gross, but unsolicited. The share price rose from USD 11 to USD 15 reflecting the uncertainty regarding the bid and termination fee. However, management responded that they will engage and the bidder has opened up for a higher price. The company's assets may be valued at USD 25 freestanding in the real market.

Largest holdings as of June 2016

	Holding size	Price	P/NAV	Div. Yield 2016e	EBITDA 2016e/EV
SL Green Realty Corp	5,1 %	103,74	75%	2,8%	5,8%
Olav Thon Eiendomsselskap ASA	5,1 %	143,5	70%	1,3%	6,3%
Mitsui Fudosan Co Ltd	4,8 %	2331,5	58%	1,4%	6,5%
Global Logistic Properties Ltd	4,6 %	1,8	61%	3,6%	3,7%
Inmobiliaria Colonial SA	4,6 %	0,66	86%	3,5%	3,5%
Mercialys SA	4,1 %	19,2	94%	6,4%	4,8%
D Carnegie & Co AB	4,0 %	96,75	108%	0%	3,8%
Catena AB	3,7 %	122,5	85%	3,0%	6,8%
Irsa Sa ADR	3,2 %	16,27	55%	1,3%	12%
Deutsche Wohnen AG	3,2 %	30,56	122%	2,4%	3,7%
Weighted top 10	**42.6%**		**80%**	**2.4%**	**5.5%**
Weighted top 35	**95%**			**3.3%**	**6.2%**
Benchmark				**3.6%actual**	

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The largest companies in SKAGEN m^2 as of June 16

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.

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.

MITSUI FUDOSAN

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.

Global Logistic Properties 普洛斯

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

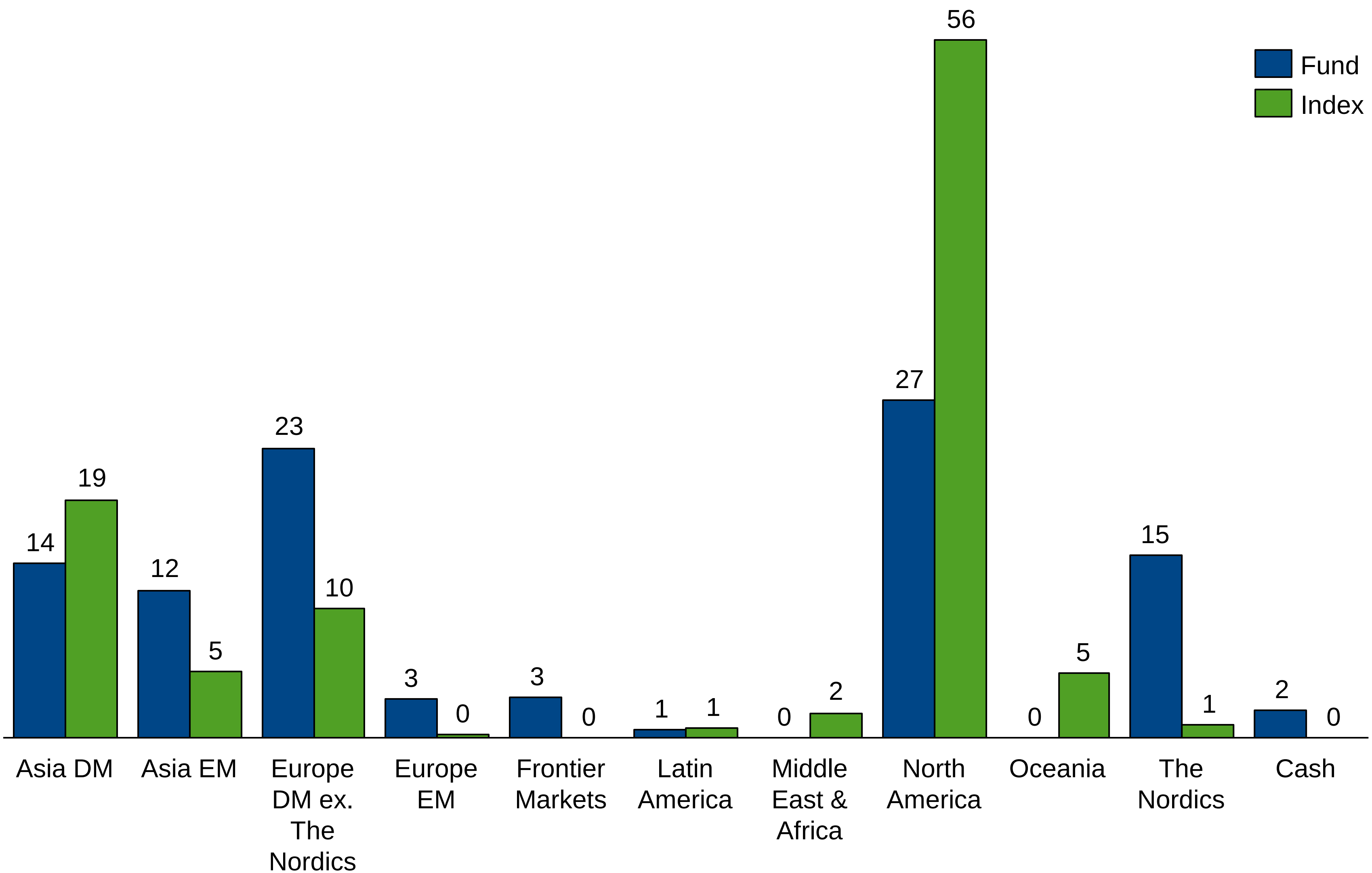
Colonial is a leading Spanish prime property company present in Spain (Barcelona and Madrid) and France (Paris). The presence in France is structured through a 53.1% stake in the French listed company Société Fonciere Lyonnaise. Majority of assets are high quality CBD (75%) offices (94%). Colonial is 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%.

The largest companies in SKAGEN m^2 as of June 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.
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.
IRSA	IRSA is one of Argentina’s leading real estate companies in terms of total assets. They are engaged, directly and indirectly through subsidiaries and joint ventures, in a range of diversified real estate related activities in Argentina, including: the acquisition, development and operation of shopping centres, the acquisition and development of office and other non-shopping centre properties and luxury hotels, the development and sale of residential properties, amongst other things. IRSA is the only Argentine real estate company whose shares are listed on the Buenos Aires Stock Exchange and whose GDSs are listed on the New York Stock Exchange.
Deutsche Wohnen	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 June 2016

Percent



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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.