The architect Ulrik Plesner's first extension to Brøndum's Hotel. 1892. Detail. By Johan Peter von Wildenradt, one of the Skagen Painters. This image belongs to the Art Museums of Skagen.

SKAGEN m^2

Status Report – September 2016

The art of common sense

SKAGEN

Summary – September 2016

- September was the weakest month in the third quarter for SKAGEN m2. The fund lost 2.4% (in EUR), while the index lost 1.5%, meaning an underperformance of 0.9% for the month. However, since July and August were strong months for the fund, the third quarter in aggregate yielded an absolute and relative gain of 5.9% and 4.9% respectively. As of 30 September, SKAGEN m2 was up 8.0% year to date, while the MSCI Real Estate IMI Index (RE) was up 6.8%.

- The Global Industry Classification Standard (GICS) introduced real estate as the 11th GICS sector in September. This was the first time a new sector has been created since the standard was established in 1999. Real estate was split out from the broader Financials grouping. We believe this change will be positive, drawing more attention, transparency and coverage from the market in the long term. So far technical reallocations have been notable in the US, but negligible in Europe.

- Speculation around potential rate hikes made September a hard month for real estate equity investors. On top of this, equities experienced a sector rotation from defensive stocks into cyclicals, driven by a hike in the oil price and other commodities. As a result, there were no absolute contributors in the fund during the month.

- The largest detractors in September were our American holdings CBL, SL Green and Ashford Trust. This was due to sector rotation, and also a technical correction after recent strong performance, combined with USD depreciation.

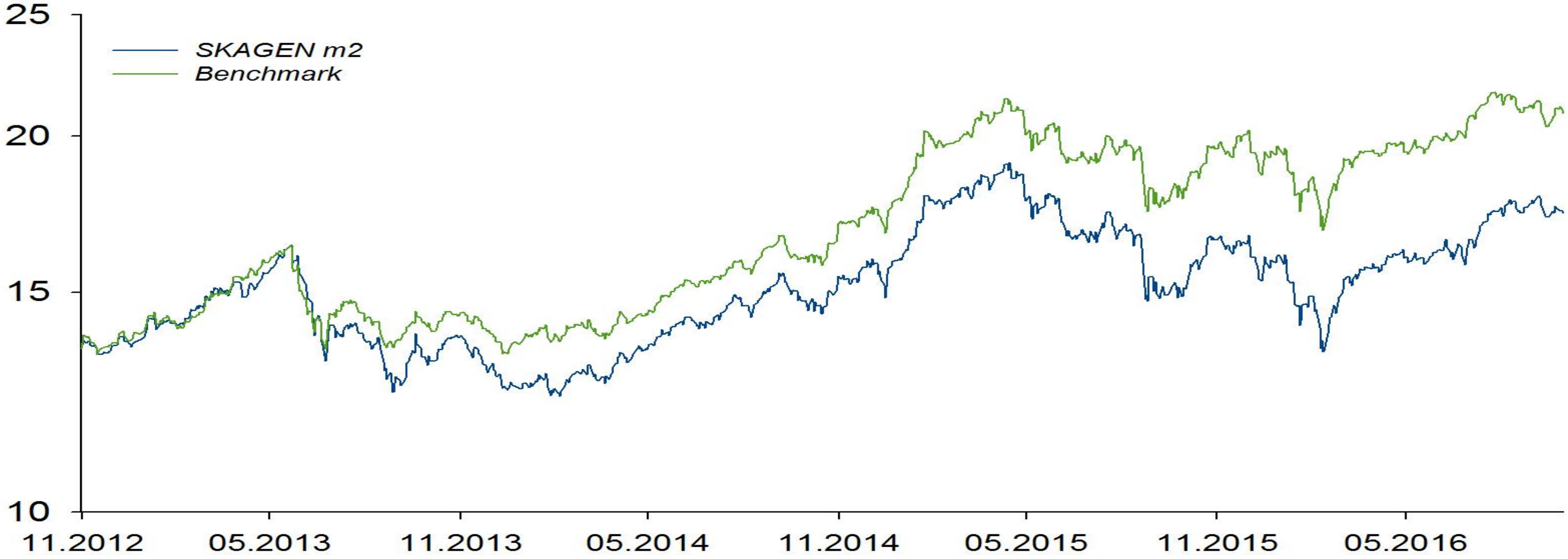
- For SKAGEN m2, the best performing market in September was Hong Kong, up 2%, while the weakest was Philippines, down 6% last month, after strong performance YTD.

- There were no new holdings in SKAGEN m2 during September. The top 10 and 35 positions constitute 45% and 92% of the fund respectively. SKAGEN m2 currently invests in 39 companies and the cash position is 4.9%.

** 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 September 2016

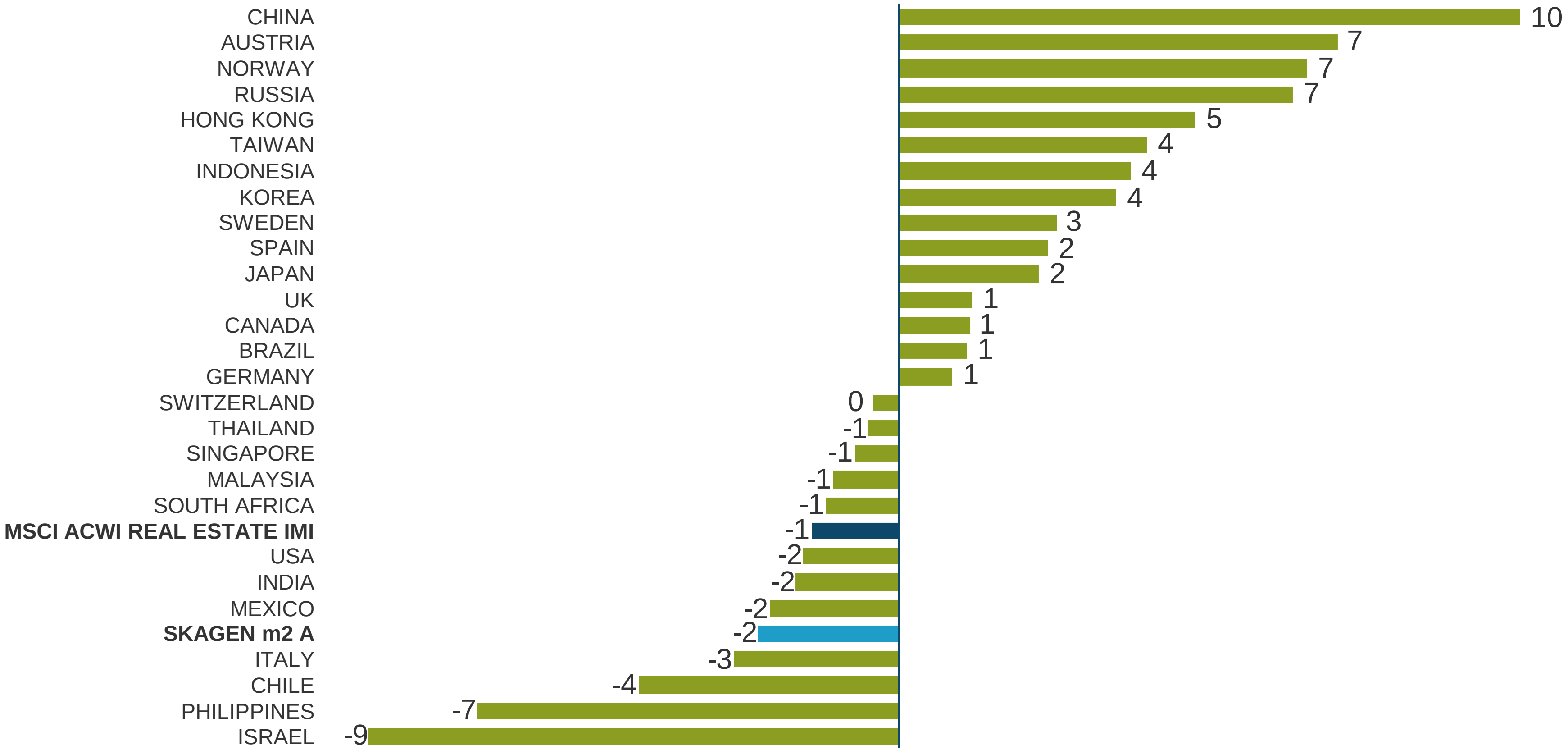
EUR, net of fees



	September	QTD	YTD	1 year	3 years	Since inception*
SKAGEN m2 A	-2,4%	5,9%	8,0%	14,8%	9,8%	6,6%
MSCI ACWI Real Estate	-1,5%	1,0%	6,8%	14,9%	14,0%	11,7%
Excess return	-0,9%	4,9%	1,1%	-0,2%	-4,2%	-5,1%

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

Markets in September 2016 in EUR (%)



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Main contributors YTD 2016

Largest positive contributors

Company	NOK (000)
D Carnegie	12 898
Irsa	10 769
Olav Thon	8 278
Deutsche Wohnen	6 238
Nomura Real Estate	4 117
PS Business Parks	4 014
Mercialys	3 741
BR Malls	3 694
Brandywine Realty Trust	3 635
Catena	3 518

Largest negative contributors

Company	NOK (000)
Mitsui Fudosan	-12 668
Global Logistic Properties	-7 311
Columbia Property Trust	-5 241
SL Green Realty	-3 234
Axiare Patrimonio	-3 149
Melia Hotels	-3 077
Apartment Investment & Man	-2 627
Big Yellow Group	-2 616
Ashford Hospitality Trust	-2 556
Keck Seng	-2 287

Value Creation YTD (NOK MM): 18

NB: Contribution to absolute return

Main detractors with comments, September 2016

Largest detractors (there were no positive contributors in September)

Company	NOK (000)	Comments
CBL Properties	-6 993	Pullback after strong performance in July and August
SL Green Realty	-6 050	No company-specific news, large position hurt by USD depreciation
Ashford Hospitality Trust	-3 825	No company-specific news, volatile hotel cycle
Inmobiliaria Colonial	-2 771	No company-specific news, upcoming election creates uncertainty
Columbia Property Trust	-2 717	Investor day may create uncertainty regarding sustainability of the dividend
Mitsui Fudosan	-2 603	Good 1H16 report with strong operational performance, but macroeconomic headwinds and stimulus speculation continue
SM Prime	-2 596	No company-specific news, big outflow of foreign money out of the market due to uncertainty created by the new outspoken president and his recent initiatives
Deutsche Wohnen	-2 205	No company-specific news, sector rotation from defensive to cyclical stocks. Negative analysis on German RE sector from Bank of America/Merrill Lynch. Momentum still strong for company and market
General Growth Properties	-2 012	No company-specific news
Ashford Hospitality Prime	-1 994	Waiting for the potential sale of the company. No news regarding the bid

Most important changes Q3 2016 (>2m)

Q3 Holdings increased

British Land	(New)
Inmobiliaria Colonial	
Axiare Patrimonio	
Mitsui Fudosan	
D Carnegie	

Q3 Holdings reduced

BR Properties SA	(Out)
Bekasi Fajar	(Out)
HCP Inc	
Brandywine Realty Trust	
Soho China	
General Growth Properties Inc	
CA Immobilien	
Deutsche Wohnen AG	
Ashford Hospitality Trust	

Key earnings releases and corporate news September 2016

Shangri-La, Hong Kong (2.0%)

Weak 2Q result with lower RevPAr in China and Thailand.

Implications for Investment Case: Neutral and in line with up front profit warning, possibly not as bad as expected. The company is currently trading at 50-60% discount to NAV, meaning that the market “knows” that NAV is too high. Shangri-La reports their properties at fair value, and issued a profit warning up front in July. They are still investing and burning some cash this year before going cash flow positive next year, but keeping dividend at same level, 5 cents. The company will become more asset light going forward, meaning that they intend to sell some of their branded hotels with long term management contracts. They will also reduce investments from 2017 onwards. RevPAr was down 8% YoY, led by China and Thailand, down 7% and 21%, respectively.

CA Immobilien, Austria (2.0%)

CFO resigns, replaced by ex-Immofinanz lawyer Volckens.

Implications for Investment Case: Neutral. Moves from Immofinanz are expected and priced in. The big question for us is whether we are prepared to be part of this unfortunate process that may spoil a very good and cheap company. The main issue will continue to be the merger discussion with Immofinanz, a company of lower quality with traditional Russian corporate governance. NAV per share is EUR 25, trading at EUR 17. Discount is mainly due to the merger discussion with Immofinanz. No relief party can be expected before the merger discussion concludes eventually, and we may give up before that happens. Immofinanz acquired 26% of CA Immofinanz from Boris Mints O1 group. The proceed from sales to Boris will most likely be used to acquire Russian assets from Immofinanz. The new CFO increases the probability that the merger is concluded on unfair terms.

GLP, Singapore (4.5%)

GLP to acquire USD 1.1bn US logistics portfolio

Implications for Investment Case: Positive. With the transaction GLP solidifies position as 2nd largest logistics property owner and operator in the US after Prologis. Transaction is expected to be accretive in the first year after syndication of 90%. Historically GLP has been successful at syndication in all markets meaning risk is limited. An acquisition cap rate of 5.7% is fair in today’s market environment. Strategy is to grow asset-light platform further in all markets; the segment generates high margin revenue streams and enables the company to monetise developed assets.

Largest holdings as of September 2016

	Holding size	Price	P/NAV	Div. Yield 2016e	EBITDA 2016e/EV
Olav Thon Eiendomsselskap ASA	5,7 %	165	80%	1,1%	5,9%
SL Green Realty Corp	5,0 %	107,71	80%	2,7%	6,0%
Inmobiliaria Colonial SA	4,8 %	6,44	84%	3,0%	3,2%
Mitsui Fudosan Co Ltd	4,6 %	2135,5	58%	1,5%	6,7%
Global Logistic Properties Ltd	4,5 %	1,87	63%	3,6%	3,8%
D Carnegie & Co AB	4,4 %	109,75	123%	0%	3,9%
Mercialys SA	4,2 %	21,37	100%	5,5%	4,5%
Catena AB	4,2 %	141,5	106%	2,5%	5,0%
CBL & Associates Properties Inc	3,8 %	12,15	50%	8,7%	9,4%
Irsa Sa ADR	3,4 %	19,07	60%	0%	12%
Weighted top 10	44,6%		81%	2.8%	5.8%
Weighted top 35	92%			3.1%	6.0%
Benchmark				3.7% actual	

The largest companies in SKAGEN m2 as of Sept. 16

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.

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 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%.

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 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).

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

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.

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.

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
CBL & ASSOCIATES PROPERTIES, INC.

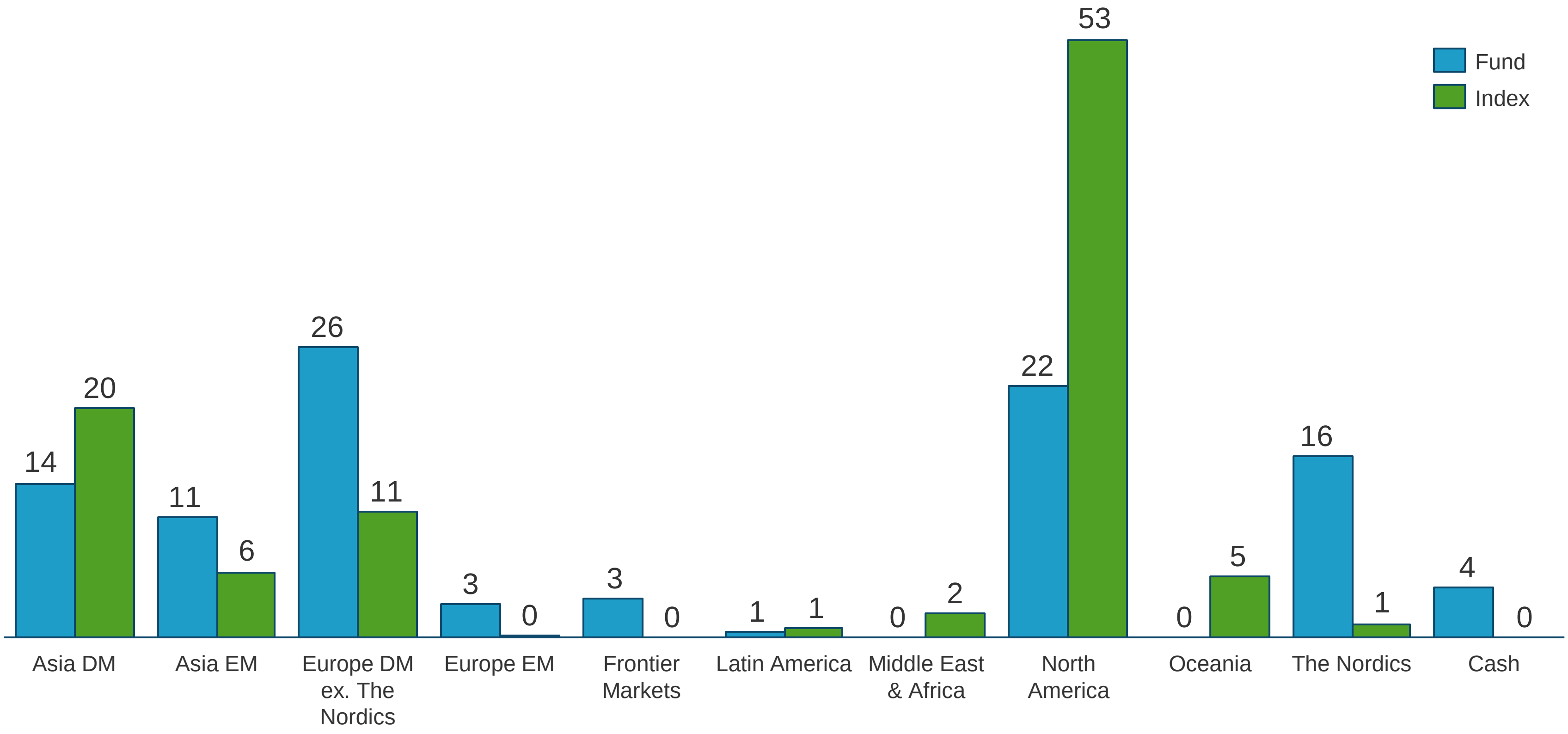
CBL, founded in 1978 and listed in 1992, is a real estate investment trust (REIT) that owns, leases, manages, and develops shopping centres. The company held interests in 127 building, including 75 malls plus 24 adjacent associated centres, 5 outlet centres, 10 community centres and 13 office buildings. CBL also manage 20 properties for third parties.

IRSA

Irsa Inversiones y Representaciones (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.

Geographical distribution versus benchmark September 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.