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 m²

Status Report – March 2017

The art of common sense

SKAGEN

Summary – March 2017

- In March the fund fell 1.6% as measured in euro while the MSCI Real Estate IMI Index (RE) lost 1.4%. Year to date SKAGEN m2 is up 2.3% and benchmark 2.8%. During the month, SKAGEN m2 received a 4 out of 5 globe Morningstar sustainability rating.

- The two largest positive contributors in March were IRSA and Shangri-La. IRSA has seen both operational and financial performance trending in the right direction. The Israeli operations in particular were better than expected. Hotel operator Shangri-La also improved operations but gained mainly on expectations of a better Chinese lodging market.

- The largest detractors in March included last month's best performer, Olav Thon, on no new company specific news. The second worst performer was Ashford Hospitality Prime which announced that it will be raising equity to finance the purchase of two luxury hotels. The Ashford system has been a drag on SKAGEN m2 this year. First Ashford Hospitality Trust made a dilutive bid for Felcor; the bid will increase the number of shares by 150%. Second, Ashford Hospitality Prime issued equity for an expensive acquisition. We have sold out or decreased our exposure significantly to this company group due to the unexpected events and poor governance.

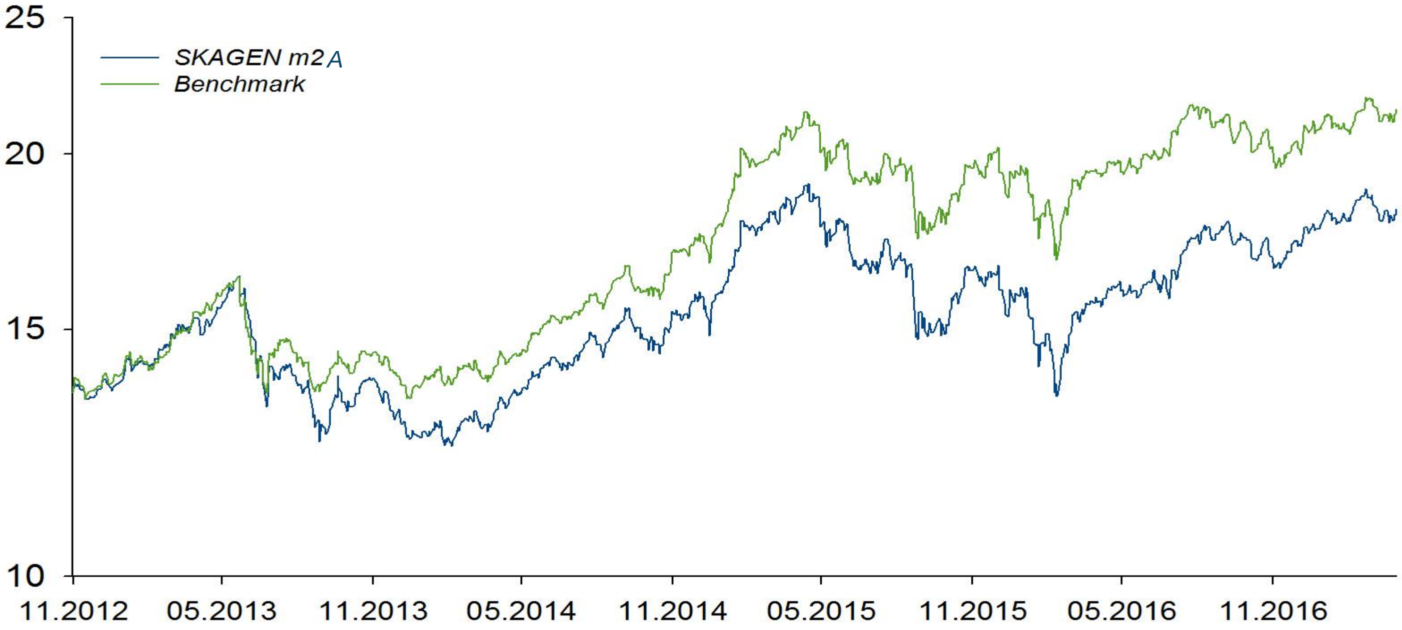
- One new holding was added in March, Finnish commercial operator Sponda. The company focuses on office and retail mainly in central Helsinki. Sponda is in an asset rotation process, aiming to streamline the company with a focus on prime quality assets within the Helsinki and Tampere area. Sponda is trading at a deep discount to its substance due to its weak history and the Finnish economy. During the month we sold out of CBL Properties on very weak retail sentiment in the US. We also exited Mercialys on weaker FFO guidance and the risk of spill-over effects from the US. Sponda was added to replace Mercialys.

- The top 10 positions constitute 49% of the portfolio. SKAGEN m2 currently invests in 36 companies and the cash position is 4.8%.

** 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 31 March 2017

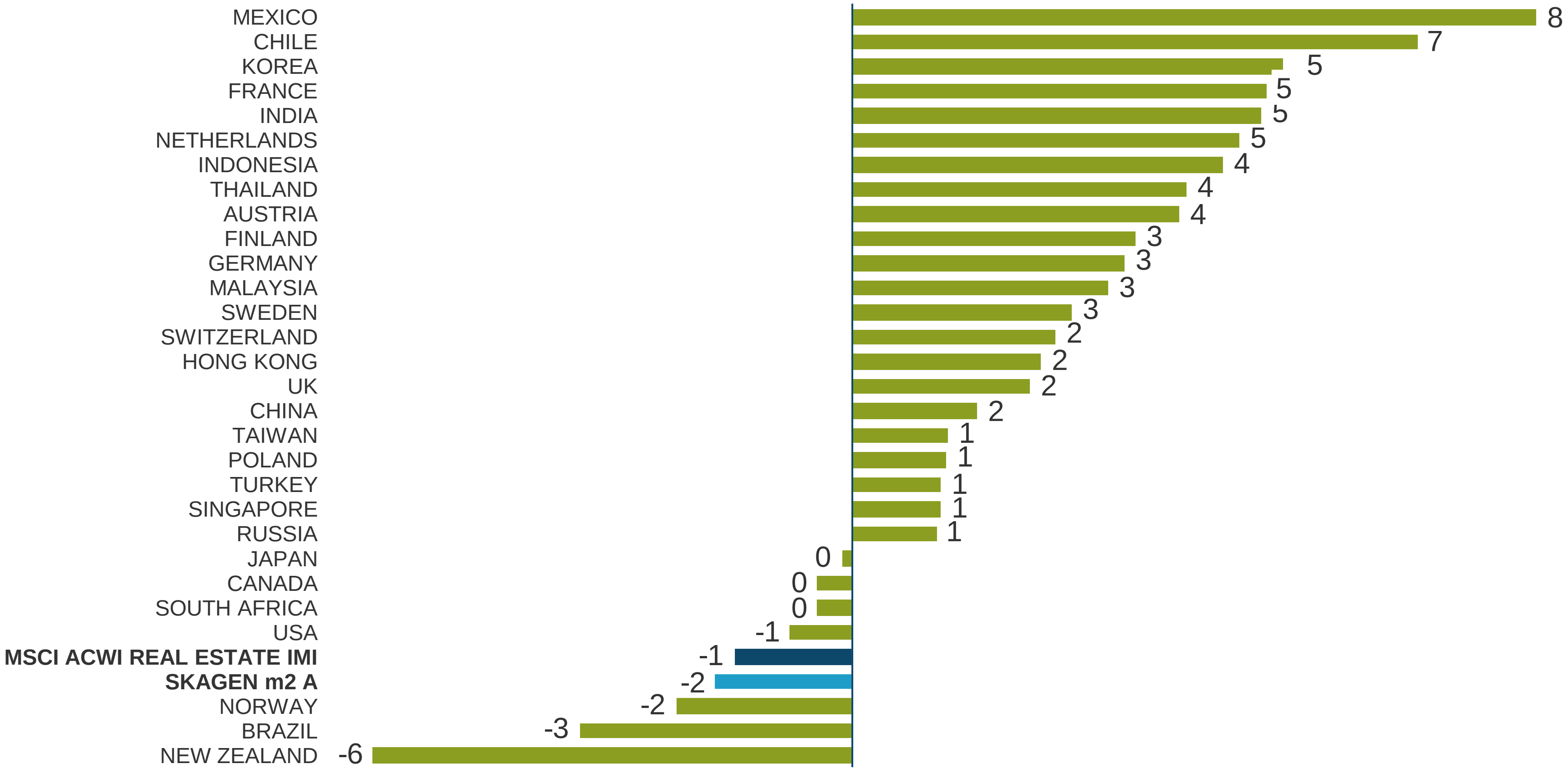
EUR, net of fees



	March	QTD	2016	1 year	3 years	Since inception*
SKAGEN m2 A	-1,6%	2,3%	11,0%	16,1%	11,5%	7,0%
MSCI ACWI Real Estate	-1,4%	2,8%	7,2%	10,8%	15,0%	11,1%
Excess return	-0,2%	-0,5%	3,8%	5,2%	-3,5%	-4,1%

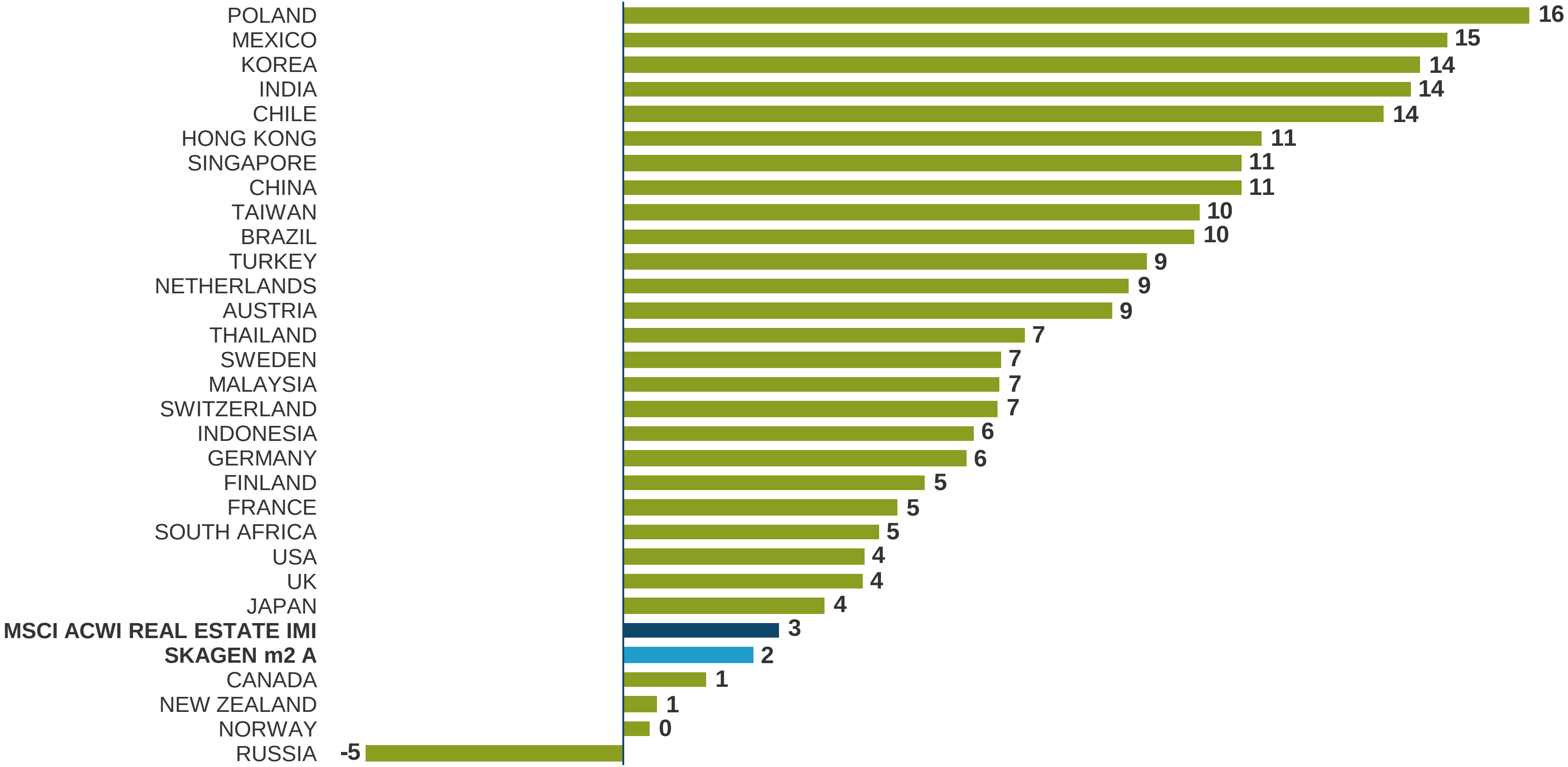
*Note: All returns beyond 12 months are annualised (geometric return), * Inception date: 31 October 2012*

Markets in March 2016 in EUR (%)



SKAGEN

Markets YTD in 2017 in EUR (%)



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Main contributors March

Largest positive contributors

Company	NOK (000)
IRSA	5 113
Shangri-La Asia	3 583
CA Immobilien	3 041
Global Logistic Properties	2 873
Inmobiliaria Colonial	1 856
Oberoi Realty	1 779
Axiare Patrimonio	1 591
Melia Hotels International	1 509
Grivalia Properties	1 243
Phoenix Mills	990

Largest negative contributors

Company	NOK (000)
Olav Thon	-3 255
Ashford Hospitality Prime	-1 886
Mitsui Fudosan Co	-1 448
SL Green Realty	-1 348
General Growth Properties	-1 195
CBL & Associates Properties	-1 046
D Carnegie & Co	-1 027
Deutsche Wohnen	-897
Catena	-731
Columbia Property Trust	-412

Value Creation MTD (NOK MM): 17

NB: Contribution to absolute return

Main contributors YTD 2017

Largest positive contributors

Company	NOK (000)
Global Logistic Properties	12 137
IRSA	11 455
Shangri-La Asia	6 558
CA Immobilien	3 805
CapitaLand	3 124
Melia Hotels International	3 102
Inmobiliaria Colonial	3 072
Oberoi Realty	2 441
Deutsche Wohnen	2 018
Catena	1 938

Largest negative contributors

Company	NOK (000)
CBL & Associates Properties	-6 754
Ashford Hospitality Trust	-3 852
Mercialys	-3 796
Mitsui Fudosan Co	-3 627
Ashford Hospitality Prime	-2 834
D Carnegie & Co	-2 136
General Growth Properties	-2 062
SL Green Realty	-641
Emlak	-501
Atrium Ljungberg	-448

Value Creation YTD (NOK MM): 36

NB: Contribution to absolute return

Main contributors with comments, March 2017

Largest contributors

Company	NOK (000)	
Global Logistic Properties	12 137	Pending strategic review may lead to bid on the company
IRSA	11 455	Improving operational and financial metrics, expectations around Argentinian economy
Shangri-La Asia	6 558	Expectations around rebound in the Chinese lodging industry
CA Immobilien Anlagen	3 805	Strong report with hidden values in land bank
CapitaLand	3 124	Rebound on the Singapore RE market, strong EM sentiment
Melia Hotels International	3 102	No company specific news
Inmobiliaria Colonial	3 072	Report with strong rental and capital growth. Rental reversion potential
Oberoi Realty	2 441	Indian RE market bounce, strong EM sentiment
Deutsche Wohnen	2 018	Strong growth prospects, acquired rental portfolio in Berlin
Catena	1 938	Refinancing, acquisitions and change of CEO. Strong momentum

Main detractors with comments, March 2017

Largest detractors

Company	NOK (000)	Comments
CBL & Associates Properties	-6754	Pressure on department store chains, weak retail sales hurt mall operators especially high tier quality players
Ashford Hospitality Trust	-3852	Made a dilutive bid (share float will increase 150 %) for Canadian Felcor
Mercialys	-3796	Downguided FFO for FY17. Pressure on retail in Europe. French election.
Mitsui Fudosan Co	-3627	No company specific news
Ashford Hospitality Prime	-2834	Issued equity to acquire two expensive hotels in luxury segment.
D Carnegie & Co	-2136	No company specific news
General Growth Properties	-2062	Retail pressure hurt malls
SL Green Realty	-641	No company specific news
Emlak	-501	No company specific news

Most important changes Q1 2017

Q1 Holdings increased

Sponda	(New)
Immofinanz	(New)
BUWOG	(New)
Entra	(New)
General Growth Properties	
CA Immobilien	
Beni Stabili	
Deutsche Wohnen	
SL Green Realty	
Ashford Hospitality Trust	
Catena	
Atrium Ljungberg	

Q1 Holdings reduced

Mercialys	(Out)
CBL & Associates Properties	(Out)
Nomura RE Master Fund	(Out)
Emlak	(Out)
Ashford Inc	(Out)
Global Logistic Properties	
Ashford Hopsitality Prime	
First RE Investment Trust	
Axiare Patrimonio	
Big Yellow Group	
Grivalia Properties	
IRSA	
Inmobiliaria Colonial	
Melia Hotels International	
CapitaLand	
Olav Thon Eiendomsselskap	
Columbia Property Trust	

Key earnings releases and corporate news March 2017

CA Immo, Austria (3.0%)

Solid NAV growth continues and potential recurring income (FFO) from development going forward.

Implications for Investment Case: Positive, the result was strong. Merger discussion with Immofinanz is still a hangover, but it seems more and more likely that this will not be done in an unfavourable manner to shareholders. SKAGEN m2 has initiated an investment in Immofinanz and will own a significant position if the companies merge. CA Immo has a significant development pipeline in Munich and Berlin, where they own a land bank that is a potential trigger for further NAV and earnings growth (near to EUR 27 if tax assets included, EUR 23+ if not). LTV is still low at 37%, and further earning growth is likely not to be diluted by a potential equity issue. Recurring earnings (FFO yield of 5 %) have the potential to increase together with a discount to NAV. This company is one of our favourites for the time being.

SOHO China, China (1.3%)

Further special dividend gives 13% FY16 dividend yield

Implications for Investment Case: positive: Beijing/Shanghai focused office/retail company announced FY16 numbers. On the positive side was the special dividend arising from previous disposals. Company also reiterated the disposal of 3 non-core assets in Shanghai, enabling them to issue further special dividends. Another positive and important piece of news was that the debt is now refinanced at a lower level FX risk (7%). Previously there was too much USD exposure. Occupancy has increased to 96%. Monetisation seems to be a good short-term strategy due to the hot Shanghai market and many local institutions looking to invest in prime assets. The disposal strategy is also a way to make underlying values visible and bring the NAV discount closer to the stock price. However, monetisation is no long-term strategy for serving dividend and cash flow. Core earnings are still too week for comfort and one question mark is still whether the rental levels will be sustainable in a softer trending market. However, SOHO still benefits from location and quality. The new business concept SOHO 3Q involving "shared working space" is a way to mitigate potential vacancies and might even generate substantial earnings in the future (interestingly, Softbank's Vision fund recently invested USD 3bn in office sharing company "We Work"). SOHO 3Q concept now has >16k seats occupied (85% occupancy) and SOHO is the largest shared office community in Beijing and Shanghai.

Inmobiliara Colonial, Spain (5.2%)

A good year on the operational side with rental growth to accelerate from upcoming rent roll revisions

Implications for Investment Case: Positive. The Spanish office operator confirmed our thesis of an entry into a rental growth cycle, driven by higher occupancy and upcoming rental revisions to market levels. Paris CBD office market was surprisingly strong and supportive of the case. FY strong capital value growth during the year is not only coming from yield compression, but also a strong L-f-L rental growth from a combination of higher occupancy and repositioning of assets (confirmed in Q4). Even though rental growth for the year outstripped all peers, growth is expected to increase even more over coming years due to the reversionary potential. Some 74% of the rent roll (~30% in 2017) will be revised to market rent over the next 3 years. Valuation of colonial assets is still conservative and well below transaction yields (~100 bps), giving some reassurance on the downside. Further the share buyback program is on track (so far 0.9% is bought back at 12% discount to FY16 NAV). Committed pipeline is now EUR 600m, this will help revenues even more than the organic rental growth.

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

AHP, US (0.4%)

Issued equity to buy two luxury hotels.

Implications for Investment Case: Negative. The company issued equity (USD 12.15) at a significant discount to NAV (USD 18) to acquire luxury hotels. They acquired Hotel Yountville in the Napa Valley area north of San Francisco. The hotel consists of 80 rooms and is priced at USD 1.2m per room. Net operating income is USD 6.3m meaning a yield of approximately 6.5% before capex that is expected to be low. However, by issuing equity at this level (USD 12 per share compared to bid at USD 20+ a half year ago), the external manager seems to be more focused on increasing AUM rather than creating shareholder value. The company also disclosed that they are in final negotiations to buy another luxury resort for USD 150m.

DIC Asset, Germany (2.7%)

4Q report confirms the positive development with increased management income and lower leverage

Implications for Investment Case: Positive. The company continues to perform in line with positive momentum from 3Q. The company raised outlook for 2017 with expected FFO yield of 9% and increased the dividend to 40c/share. Fund management fees have increased from EUR 7.3m to EUR 21.5m YoY, and have now become a strong contributor to a more asset light model. FFO from fund management is 21.2, meaning nearly all flow through. NAV stands at EUR 12.8, meaning the shares continue to trade at a significant discount. Currently, the asset management business is expected to increase further from EUR 1.2bn to more than EUR 1.7bn. The next trigger will be even lower LTV, after having been reduced below 60% last year.

Axiare, Spain (2.0%)

Strong NAV and rent growth and introducing regular dividend

Implications for Investment Case: NAV ended the year at EUR 13.8 per share. The company disappointed the market at the beginning of the year, but has since increased momentum and the more focused strategy seems to be a success. The company expects to provide a dividend of EUR 0.3/share in 2 installments. Occupancy increased by 560bp to 88%. The company has significant buying power to reach its LTV goal of 50% (now 29% LTV) and has a lot of dry powder to continue to acquire more assets which they also announced that they intend to do. The company has already bought 3 office buildings YTD and seems to be able to find attractive assets to reposition.

CapitaLand, Singapore (1.7%)

Improvement observed in 3Q results continued in 4Q

Implications for Investment Case: The result was strong, and the share price has moved significantly upwards due to both the results and improved EM climate. ROE increased from 6.1% to 6.6% YoY and the management is on track to improve profitability as they outlined a year ago. Operating profit was up 28% YoY excluding gains from development sold to fund businesses, and the company continues to increase its fund business and recurring income. The Singapore market observed some improvement and the sold residential units increased. They reduced their exposure to the Singaporean residential market and the focus is to improve their asset light business going forward. The number of units in China increased and CapitaLand continues to expand into Vietnam. The dividend was increased from 9 to 10 cents. NAV is approximately USD 4-4.8 depending on calculation model.

Largest holdings as of March 2017

	Holding size	Price	P/NAV	Div. Yield 2017e	EBITDA 2017e/EV
Olav Thon	5,3 %	161,0	75%	1.4%	6,6%
SL Green	5,5 %	105,6	75%	3,0%	5,4%
D Carnegie	5,5 %	103,0	88%	0%	4,1%
Catena	5,5 %	131,50	91%	4,2%	5,9%
Deutsche Wohnen	5,0 %	30,82	104%	2,7%	3,5%
Inmobiliaria Colonial	5,2 %	6,92	81%	3,2%	3,4%
Global Logistic Properties	4,2 %	2,78	93%	2,5%	3,7%
Mitsui Fudosan	4,5 %	2374	61%	1,4%	6,7%
Irsa	4,3 %	25,0	63%	0,6%	7,8 %
GGP	3,9 %	23,19	72%	4,0%	6,0%
Weighted top 10	49,0%		80%	2.3%	5.3%
Weighted top 35	95,1 %			3.2%	5.8%
Benchmark				3.5% actual	

The largest companies in SKAGEN m2 as of March 2017

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.

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.

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.

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 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, Hanover as well as in medium-sized German cities like Brunswick and Magdeburg

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

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%.

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 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).

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.

IRSA

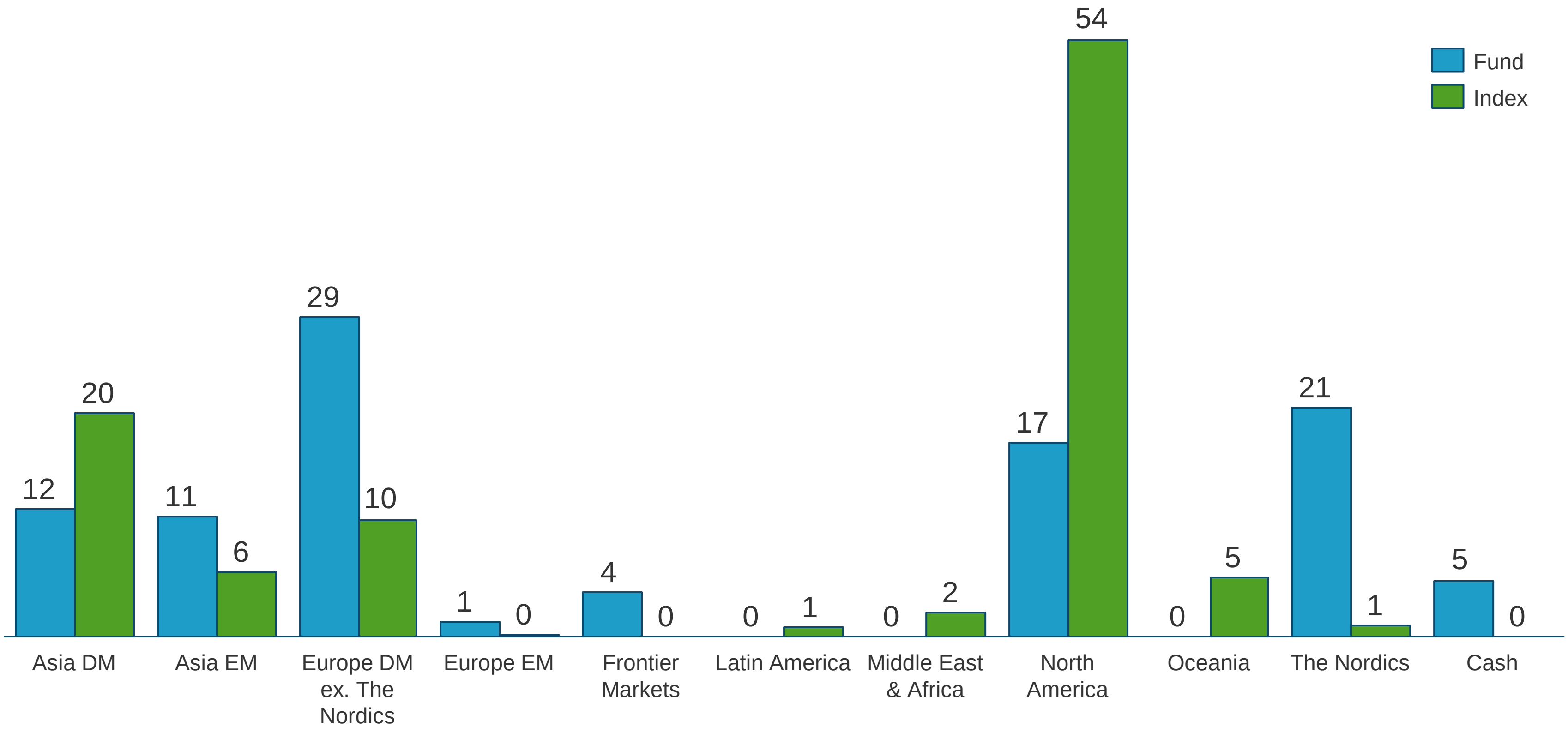
Irsa Inversiones y Representaciones S.A.(IRSA) is Argentina`s leading real estate company in terms of total assets. Engaged, directly and indirectly in the acquisition, development and operation of shopping malls, office buildings, residential properties, luxury hotels, undeveloped land reserves for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

GGP

General Growth Properties (GGP), founded in 1954, is a real estate investment trust (REIT) that owns, leases, manages, and develops shopping centres. The company is the second largest mall operator in the world. The company held interests in 128 malls and retail properties generating an average of USD 600 in tenant sales per square foot (malls).

Geographical distribution versus benchmark March 2017

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.