



The architect Link Plesner's first extension to Brandum's Hotel, 1892. Detail. By Joachim F. W. von Willebrand.  
One of the Skagen Painters. This image belongs to the Art Museums of Skagen.

# SKAGEN m<sup>2</sup>

## Status Report – October 2016

The art of common sense



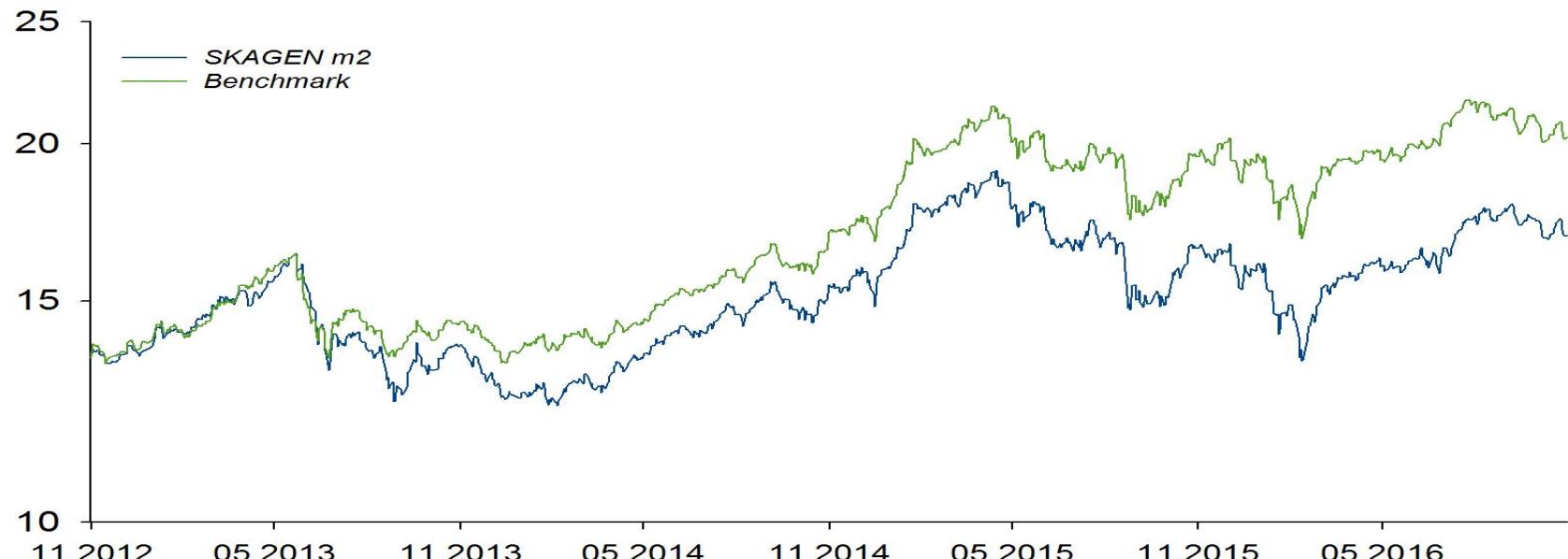
# Summary – October 2016

- SKAGEN m2\* lost 2.7% (in EUR) in October, while the index lost 3.0%, meaning a positive relative performance of 0.3% for the month. As of October 31, SKAGEN m2 was up 4.2% year to date, while the MSCI Real Estate IMI Index (RE) was up 2.7%.
- The end of October was fairly negative. At the time of writing, the probability of Trump becoming the next US President is increasing and interest rates are rising, causing headwinds for the stock market in general. During October we experienced a sector rotation due to increasing yields and the likely interest rate hike in the US in December. Profit was taken from high yielding stocks like REITS and allocated to other sectors like commodities.
- One of the winners in the m2 portfolio was Japanese developer and owner, Mitsui Fudosan, which rebounded on the back of rumours of long-awaited share buybacks among some of its peers as well as a weaker yen. Another winner included Axiare, the Spanish office owner. Colonial, an office owner in Madrid, Barcelona and Paris, bought 15% of Axiare at 12% above the latest traded share price, boosting the share price on speculation of a buyout.
- The largest detractors in October were all European companies. D.Carnegie the Swedish residential rental operator delivered a strong 3Q16 report and Blackstone announced the awaited mandatory bid. However, the Swedish real estate market corrected during the month after strong performance. This also affected Swedish logistics player Catena. During the month Catena issued new capital representing 7.5% of market capitalisation. Mercialys was also a detractor, but there was no company-specific news driving this.
- For SKAGEN m2, the best performing markets in October were India and Japan, up 3% and 2%, respectively in EUR, while the weakest were Sweden and the UK, down 1% and 2%, respectively. There were significant differences between markets.
- No new holdings were added to SKAGEN m2 in October. The top 10 and 35 positions constitute 47% and 95% of the fund respectively. SKAGEN m2 currently invests in 38 companies (+1 bond) and the cash position is 2.2%.

\* 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 October 2016

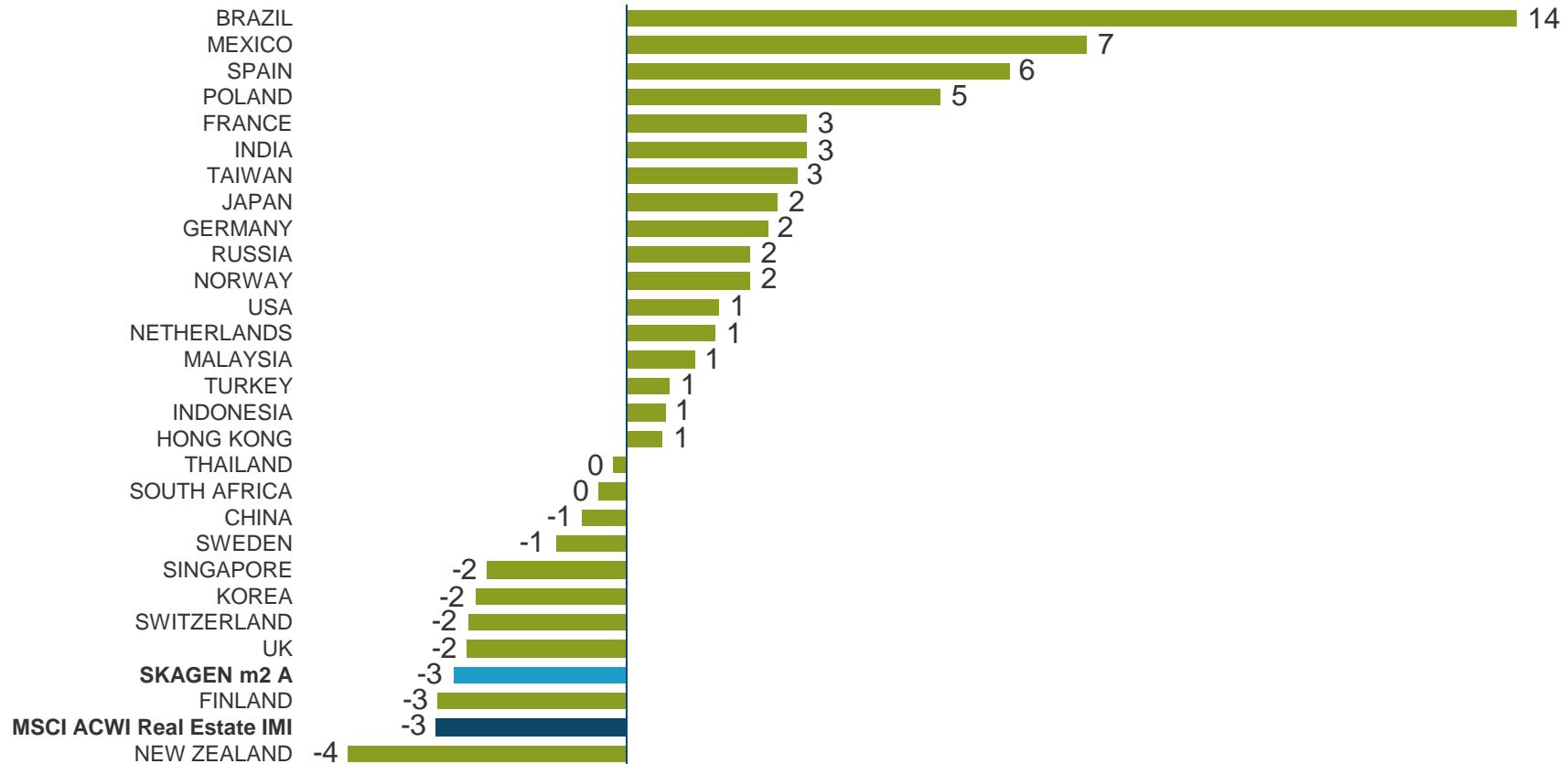
EUR, net of fees



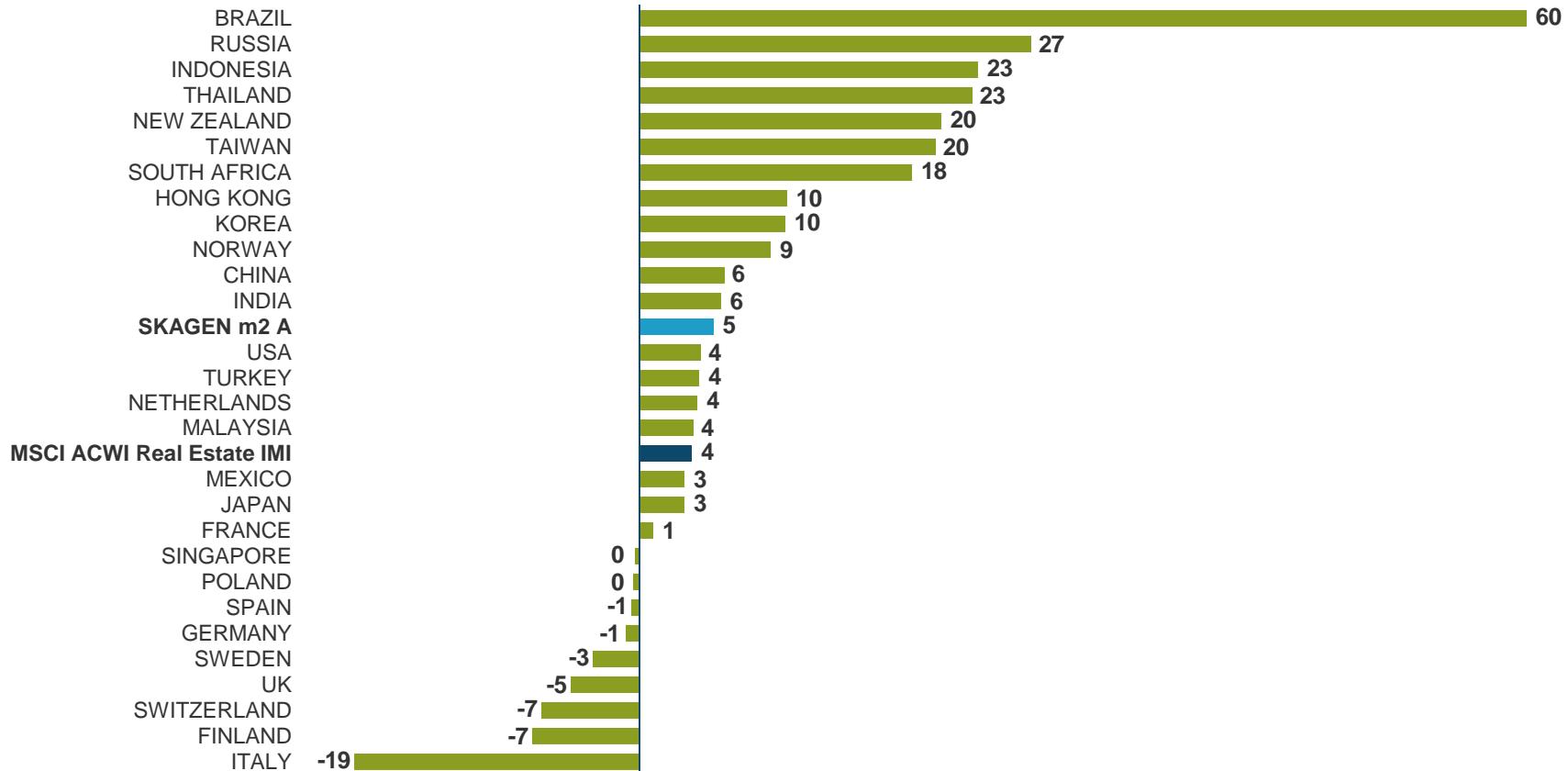
	October	QTD	YTD	1 year	3 years	Since inception*
SKAGEN m2 A	-2,7%	-2,7%	5,1%	2,3%	6,9%	5,7%
MSCI ACWI Real Estate	-2,9%	-2,9%	3,7%	3,7%	12,0%	10,6%
Excess return	0,3%	0,3%	1,4%	-1,4%	-5,1%	-4,9%

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

# Markets in October 2016 in EUR (%)



# Markets YTD in 2016 in EUR (%)



# Main contributors October 2016

## Largest positive contributors

Company	NOK (000)
Mitsui Fudosan Co	5 052
Axiare Patrimonio	3 116
Oberoi Realty	2 561
Grivalia Properties Reic	753
Shangri-La Asia	721
Keck Seng Investments	714
Emlak	580
General Shopping Brasil SA	423
Melia Hotels International	385
Phoenix Mills	242

## Largest negative contributors

Company	NOK (000)
D Carnegie & Co	-4 044
Mercialys	-3 649
Catena	-3 594
SL Green Realty	-3 387
Big Yellow Group	-3 003
CBL & Associates Properties	-2 873
Deutsche Wohnen	-2 777
Global Logistic Properties	-1 653
British Land	-1 599
Atrium Ljungberg	-1 585

Value Creation MTD (NOK MM): -17

NB: Contribution to absolute return

# Main contributors YTD 2016

## Largest positive contributors

Company	NOK (000)
IRSA	10 953
D Carnegie & Co	8 854
Olav Thon Eiendomsselskap	7 468
Nomura Real Estate Master Fund	4 182
PS Business Parks	3 955
Brandywine Realty Trust	3 863
BR Malls	3 694
Deutsche Wohnen	3 461
SOHO China	2 410
Oberoi Realty	2 354

## Largest negative contributors

Company	NOK (000)
Global Logistic Properties	-8 964
Mitsui Fudosan	-7 616
SL Green Realty	-6 621
Columbia Property Trust	-6 067
Big Yellow Group	-5 618
CBL Properties	-3 601
Melia Hotels	-2 691
HCP	-2 647
Apartment Investment & Man	-2 627
Ashford Hospitality Trust	-2 526

Value Creation YTD (NOK MM): -2

NB: Contribution to absolute return

# Main contributors with comments, October 2016

## Largest contributors

Company	NOK (000)	Comments
Mitsui Fudosan Co	5 052	Rebound for Japanese developers on rumours of buybacks and weakening yen
Axiare Patrimonio	3 116	Colonial bought 15% of the company
Oberoi Realty	2 561	Good report with continued strong pre-sales numbers building up order book to be recognised in P&L over the next few years
Grivalia Properties Reic	753	Continue to buy back shares, Greek economy slowly improving
Shangri-La Asia	721	The declining operational trend in China seems to be coming to an end
Keck Seng Investments	714	Delivered strong 1H16 report and is extremely cheap
Emlak	580	Stronger than expected report, positive revision of profit guidance
General Shopping Brasil SA	423	It is a bond, but fundamentals in Brazil are improving
Melia Hotels International	385	Extremely good summer performance in Spain due to disruptive tourist industry in Turkey, Algeria, Tunisia and Morocco
Phoenix Mills	242	Upcoming rental renewals, and strong Indian RE market

# Main detractors with comments, October 2016

## Largest detractors

Company	NOK (000)	Comments
D Carnegie & Co	-4 044	Bid was announced by Blackstone, which put a floor on the stock price. Strong Q3 report. Lot of negative sentiment around real estate sector in Swedish media brought down whole sector in October after a strong year.
Mercialys	-3 649	No company-specific news, sector rotation in October
Catena	-3 594	Placing of 2.5m shares. Lot of negative sentiment around real estate sector in Swedish media brought down whole sector in October after a strong year.
SL Green Realty	-3 387	No company-specific news, but continue with softer guidance and fear that Trump may be coming
Big Yellow Group	-3 003	Hit by FX after Brexit
CBL & Associates Properties	-2 873	Retail has become generally weaker in US, and some bankruptcies create uncertainty
Deutsche Wohnen	-2 777	No company-specific news, bond proxy name losing on fast movements in the Bund
Global Logistic Properties	-1 653	No company-specific news
British Land	-1 599	Suffering from FX
Atrium Ljungberg	-1 585	Good Q216 report. Lot of negative sentiment around real estate sector in Swedish media brought down whole sector in October after a strong year.

# Most important changes Q3 2016 (>2m)



# Most important changes Q4 2016 (>1m)

**Q4**

**Holdings increased**

Deutsche Wohnen  
Catena  
D Carnegie & Co  
CBL Properties  
British Land  
Ashford Hospitality Prime  
SL Green Realty  
Big Yellow Group

**Q4**

**Holdings reduced**

Brandywine Realty Trust  
Oberoi Realty  
Dic Asset  
Emlak

# Key earnings releases and corporate news October 2016

D.Carnegie &  
Co, Sweden  
(4.9%)

## D. Carnegie (Sweden 4.9% weight): High operational leverage confirmed with strong NOI and revaluation growth

**Implications for Investment Case:** Positive. Our Stockholm-focused residential operator delivered another solid report with strong value and NOI growth, confirming the business model and its positive operational leverage. Company intends to continue with co-op conversions to highlight the value potential and free up capital. Due to acquisitions, the earnings capacity has increased markedly. Blackstone has announced its mandatory tender offer at SEK 100, however it is unlikely they will get acceptance at these levels. Blackstone holds 32% of capital and 53% of votes. Further yield compression is likely off the table, but the company independently has very good value-creating potential, mainly from refurbishment, co-op conversions and building rights. Only 10% of total assets are refurbished so far.

Atrium  
Ljungberg,  
Sweden (1.8%)

## 3Q16 report in line with expectations. Guidance unchanged.

**Implications for Investment Case:** Neutral: Stockholm-focused retail and office player Atrium Ljungberg reported a 3rd quarter report in line with expectations and without any surprises. Guidance for FY16 was kept unchanged. Despite weaker Swedish YoY retail sales growth for Jan-Aug versus Jan-May, growth for Atrium's larger retail parks remains unchanged at a strong 4.9%. The project portfolio is superior to its Nordic peers and looks promising with a pipeline of ca. SEK 9bn. However, we will need to have patience waiting for it to materialise. Market value of the current project portfolio is roughly SEK 1.3bn, which only represents 4% of the total property portfolio. The company and its portfolio appear to be robust and continue to benefit from a strong Swedish real estate market.

Oberoi Realty,  
India (1.0%)

## Operationally steady report, building up for the best still to come

**Implications for Investment Case:** Positive: Oberoi delivered an operationally steady report, building up for the best still to come. Despite the fact that overall residential demand is still weak, the Mumbai market is showing signs of slow recovery. Oberoi has been able (to a certain degree) to bridge this weakness as it has a number of advantages in terms of location, quality, brand, product mix and execution. Oberoi continues to take market share with higher pre sales numbers than its competitors. The company has a strong high-value launch pipeline, not yet contributing to revenues or earnings. Both earnings and cash flow over the next 2-3 years should see a meaningful scale-up as contribution from these high margin projects reaches revenue recognition (unrecognised order book of INR 46bn in presales comes into P&L). Commercial assets are progressing with positive office leasing, but still small part of business. A strong balance sheet (and cash flow visibility) enables Oberoi to make value accretive transactions, either to strengthen recurring income portfolio or to buy new land (as most of the land bank is in current projects) to develop, both of which are likely triggers.

# Key earnings releases and corporate news October 2016 (cont.)

CBL Properties,  
US (4.0%)

## Strong operational performance continues into 3Q.

**Implications for Investment Case:** Positive. The company continues to deleverage and dispose of assets without diluting earnings, which is quite impressive. The general retail market has been weak, also for the big names. The company has 49% LTV and is considered to be overleveraged and the negative market reaction is most likely due to the rising interest rate level rather than to company specific news.

PS Business  
Parks, US  
(2.4%)

## Solid 3Q results and issued preferred share at record low yield (5.2%).

**Implications for Investment Case:** Strong result and positive market reaction. The debt-free company continues to improve performance and the result was applauded by the market. The company is a safe haven, but also a long-term value creator exceeding 13% p.a. over the past 23 years. Same store net operating income increased 5.1%. Occupancy increased 50 basis points to 94.1%. The company issued preferred equity at 5.2% yield to redeem an older preferred share at 6.45%.

Colombia  
Property Trust,  
US (2.8%)

## 3Q result in line with expectations, but the market fears a reduced dividend and is waiting for assets sales to end.

**Implications for Investment Case:** Neutral minus. Indications of a softer market in San Francisco create headwinds, but this story has been in the market for some time. Same store cash NOI was negative due to termination of a lease. No clarification around dividend cut that will hopefully occur in early 2017, and then cause a positive reaction going forward. The 3Q report was in line with expectations, and normalised FFO is to come in the range USD 1.62-1.64/share, which is quite solid for a low leveraged company in CBD areas. The company may try to acquire one or two assets in NY or West LA to increase presence in prime areas. The CEO also commented that buybacks are an optional use of capital. Disposal of assets will most likely end by 1Q17 (assets announced for sale in this round).

# Key earnings releases and corporate news October 2016 (cont.)

SL Green, US  
(5.0%)

## 3Q report in line with expectations, but some noise.

**Implications for Investment Case:** Slightly negative. The company outperformed, but with a lot of noise from one-offs (on the positive side). The company warned after 4Q that there would be a softer market in 2H. The market is still strong, but the company was not able to increase its SS cash NOI in a convincing way, meaning that high expectations may not be met. The company is cheap, however, and their business model of including debt investment for acquisition purposes is strong, resulting in a lot of one-off gains. SL Green, which was hard hit after 4Q, when they announced that they expected a softer job creation market in 2H16, reported a number of positive one-offs, but also slightly disappointing ordinary operations. They were hit by a lost tenant (Aeropostale), which is always a risk in real estate business, and decreased vacancy in sub areas. The increase in SS NOI cash was only 1.6%, but would have been above 3 % if they had not lost the tenant. They still expect FFO above USD 8, which is due to some high one-offs.

Brandywine, US  
(0.7%)

## 3Q report in line with expectations. Confirmed guidance and increased disposition goals.

**Implications for Investment Case:** Slightly positive. The company has had a good run in share price lately and is developing operations in a good way. However the 3Q report confirms the dilution from a lot of asset sales, and we have reduced the position since 1Q (3.5% to 0.7%). The company has been a turnaround case and we may be seeing the end of this and hence our ownership. Brandywine is a dominant player in the Philadelphia area developing a project that will transform a significant area of the city. The company has been through a repositioning phase that now seems to be coming to an end.

Axiare, Spain  
(2.8%)

## Colonial acquired 15.1% of the company at EUR 12.5/share.

**Implications for Investment Case:** Positive. Colonial will most likely acquire the whole company at some point in time. The price was 12% above the last traded price. Axiare, a Spanish real estate company, mainly within the Madrid office space, is a good combination with Colonial (which we also own). The company is still debt free (net 5% LTV) and has a lot of dry powder. The buyer could easily finance the potential acquisition. NAV is EUR 13, and a bidder is expected to pay at least NAV.

# Largest holdings as of October 2016

	Holding size	Price	P/NAV	Div. Yield 2016e	EBITDA 2016e/EV
Olav Thon Eiendomsselskap ASA	5,6 %	162,5	80%	1,2%	5,9%
Mitsui Fudosan Co Ltd	5,3 %	2390,5	65%	1,4%	6,5%
Inmobiliaria Colonial SA	4,9 %	6,4	83%	3,0%	3,3%
SL Green Realty Corp	4,9 %	96,85	70%	3,0%	6,8%
D Carnegie & Co AB	4,9 %	101,5	106%	0%	3,8%
Catena AB	4,9 %	131,75	99%	2,7%	5,4%
Global Logistic Properties Ltd	4,4 %	1,77	60%	3,7%	3,9%
Deutsche Wohnen AG	4,1 %	29,54	115%	2,7%	4,0%
CBL & Associates Properties Inc	3,8 %	10,84	50%	9,9%	9,8%
Mercialys SA	3,8 %	18,88	88%	6,4%	5,2%
Weighted top 10	46,6%		82%	3,0%	5,4%
Weighted top 35	95%			3,2%	5,9%
Benchmark				3,9% actual	

# The largest companies in SKAGEN m2 as of Oct. 16

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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.

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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.

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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%.

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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.

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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 is expected.

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

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Global Logistic Properties

普洛斯



CBL

CBL & ASSOCIATES PROPERTIES, INC.

MERCIALYS

Catena is a Swedish logistics owner, operator and developer that actively manages portfolio and development projects in Sweden. The company recently acquired Tribona and became the 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.

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GLP is Asia's largest provider of modern logistics facilities. The company owns, manages and leases over 700 completed properties across 77 cities in China, Japan, Brazil and the 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).

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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, which currently consists of 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.

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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 buildings, including 75 malls plus 24 adjacent associated centres, 5 outlet centres, 10 community centres and 13 office buildings. CBL also manages 20 properties for third parties.

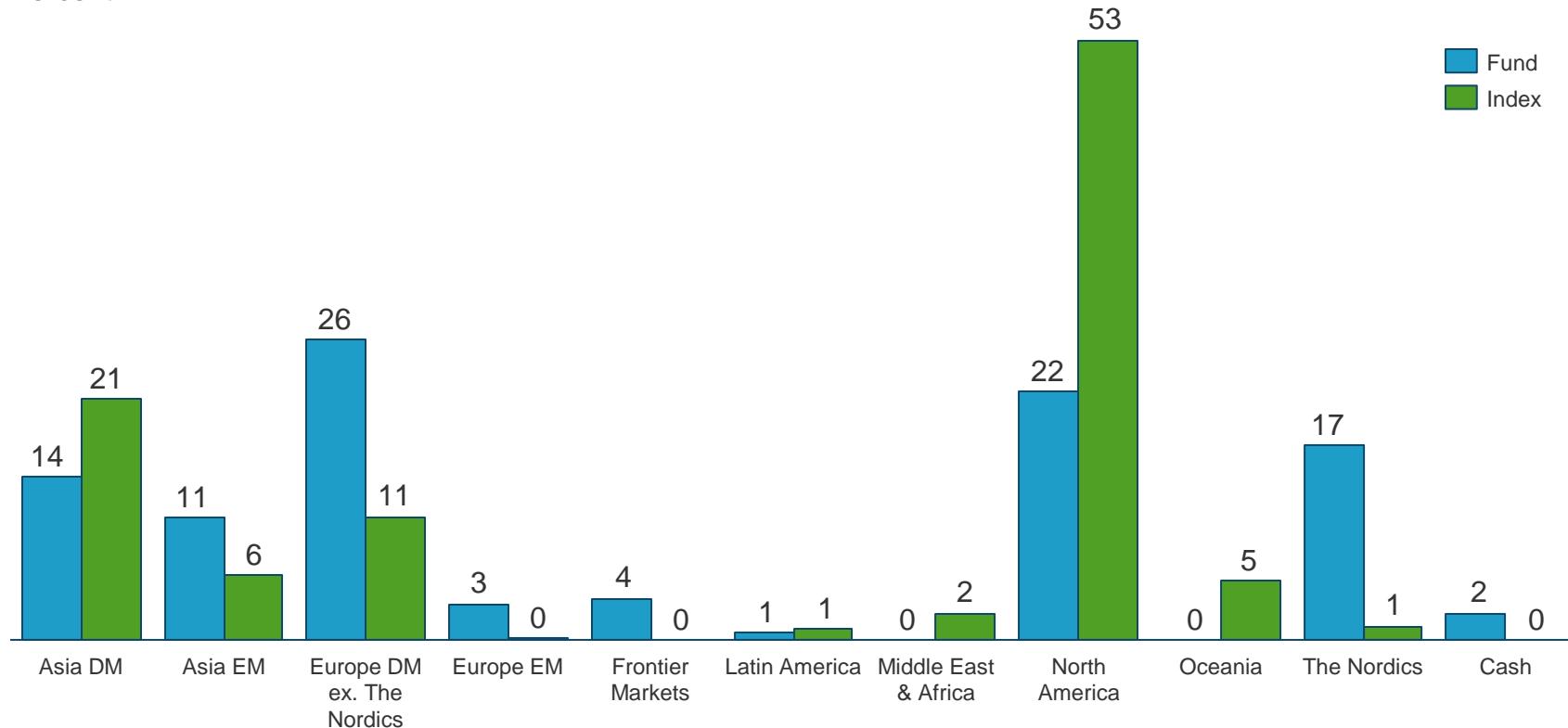
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Founded in 2005 by Casino, Mercialys is one of the top real estate companies in France and Europe, specialising in the enhancement, transformation and promotion of shopping centres. Mercialys owns a real estate portfolio of over 50 centres, with more 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.

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# Geographical distribution versus benchmark October 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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