Quarterly Report

SKAGEN m2 A

All data in EUR as of 30.06.2017 unless otherwise stated.

A record quarter

The second quarter was one of the best since inception for SKAGEN m2 in relative terms. Over the past 12 months SKAGEN m2 has outperformed its benchmark by 13.3 percentage points.

During the quarter the macro noise was fairly muted. The US central bank hiked its rate as expected and the European Central Bank left policy rates and QE stimulus unchanged. This added positive investor sentiment to the French post-election relief rally.

Our European holdings and a strong euro were the main factors behind the good results in the fund as we have a valuation-driven overweight in this region. The fund's six key contributors in absolute terms were all European. Real estate markets in Austria, Germany and Spain – where the fund has good exposure – were among the best in Europe. Asia was also a strong performer with Singapore and Hong Kong as the best real estate markets.

The best contributor in the quarter was the Finnish commercial real estate operator Sponda. We bought a position in this unpopular stock in the first quarter this year when we saw progress being made in its asset rotation and profitability program, in addition to signs of recovery in the Finnish economy. Early in June, the American giant private equity firm Blackstone announced a takeover offer for the company. The bid was in line with the company's net asset value, implying a bid premium of around 21 percent.

This is the third SKAGEN m2 case that Blackstone has shown an interest in over the past 12 months. D. Carnegie was the second best contributor in the quarter, which is another Blackstone majority owned company since last year. The Swedish real estate market continued its recovery from the first quarter, but more importantly, D. Carnegie announced a strong first quarter report. In addition, the company has had positive reviews in the financial press, highlighting their unique business model and the hidden values in their land bank.

Another of the top five contributors in the fund was the Spanish company Inmobiliaria Colonial. During the quarter, the company raised 10 percent new equity at a discount to NAV to finance its extensive and profitable asset enhancement pipeline, primarily in Madrid and Barcelona. The company also announced that they are going to convert to the REIT tax system, one of the triggers we identified that will increase earnings and cash flow significantly.

External factors pull down

Some of the biggest losers in the second quarter were IRSA, Ashford Hospitality Trust and SL Green. Argentinian IRSA was the biggest detractor, but more on external factors than company specifics. IRSA has been a strong performer over the past twelve months, but the profits were taken off the table when MSCI delayed its decision to reclassify Argentina as an emerging market. IRSA also announced an equity issue during the period, which was fairly well received by the market. Ashford Hospitality Trust is another of the worst performers this year and has continued to suffer due to a failed and irresponsible bid for Felcore, as well as a slower hospitality market in US. However, both Ashford and SL Green made only very small losses in the quarter.

Singapore and Hong Kong were the best performing Asian real estate markets in the quarter. Photo: Bloomberg

Cheung Kong Property, a Hong Kong based diversified property company, was a new position in the quarter. Photo: Bloomberg

Portfolio activity

The fund bought into two new positions. The first, Cheung Kong Property, is a Hong Kong based diversified property company with a strong market position. Given its solid balance sheet, extensive share buyback program and accelerating development projects, its financial metrics are set to improve. The second new position is MRV Engenharia, a Brazilian housing developer which targets the low to mid income segment. The company has a very strong brand in Brazil. Upcoming project launches in combination with high demand will drive cash flow developments, supported by a strong balance sheet.

Six companies (all REITS) were sold out during the quarter due either to the index change or because they had reached fair value. The US names GGP, Ashford Hospitality Prime and PS Business Parks exited the portfolio as did British Big Yellow Group, Greek Grivalia Properties and Singaporean First Real Estate Trust.

SKAGEN m2 is now more concentrated than ever, consisting of 32 holdings, of which all our conviction cases have higher weighting.

Outlook

SKAGEN m2's strategy stands firm: we invest in companies that actively apply their assets and balance sheets to meet potential interest rate hikes and an implicitly higher required rate of return. The foundations for real estate are still solid and transparent. Earnings and cash flow visibility for the sector as a whole is unique due to leasing contracts and refinanced credits with long duration. In many cases, companies have good rent reversion potential, meaning the difference between current rent-roll and market rents.

The spread between valuation in physical real estate and listed property is still wide, implying that we will see further M&A transactions like the Sponda deal. In general, valuations are not stretched, with many companies trading at discount to substance and there is still good demand driven rental growth potential. Balance sheets are solid and credits refinanced at very low levels.

After a very strong first half year, the fund has set sail for another interesting second half.

Quarterly Report

SKAGEN m2 A

All data in EUR as of 30.06.2017 unless otherwise stated.

The fund gives access to a normally inaccessible global real estate market. The fund selects low-priced, high-quality real estate companies from around the world.

The objective is to provide the best possible risk adjusted return.

The fund is suitable for those with at least a five year investment horizon.

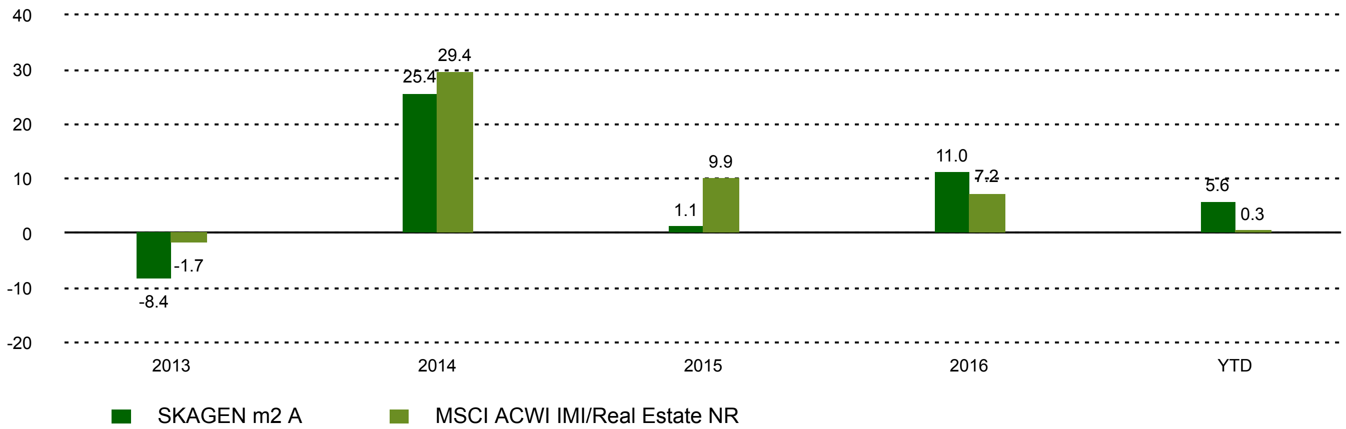
Historical performance (net of fees)

Period	SKAGEN m2 A	Benchmark index
Quarter to date	3.2%	-2.5%
Year to date	5.6%	0.3%
Last year	15.0%	1.6%
Last 3 years	10.0%	11.3%
Last 5 years	n/a	n/a
Last 10 years	n/a	n/a
Since start	7.4%	9.9%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	18.85 EUR
Fixed management fee	1.50%
Total expense ratio (2016)	1.85%
Benchmark index	MSCI ACWI IMI/Real Estate NR
AUM (mill.)	103.57 EUR
Number of holdings	32
Lead manager	Michael Gobitschek

Performance last ten years



Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Sponda	3.32	1.05
D Carnegie & Co	6.27	0.83
Deutsche Wohnen	5.66	0.73
Inmobiliaria Colonial	5.72	0.72
Immofinanz	3.16	0.51

Largest detractors

Holding	Weight (%)	Contribution (%)
IRSA	3.88	-0.30
SL Green Realty	5.36	-0.07
Oberoi Realty	1.06	-0.06
Ashford Hospitality Trust	2.19	-0.05
Columbia Property Trust	3.02	-0.05

Absolute contribution based on NOK returns at fund level

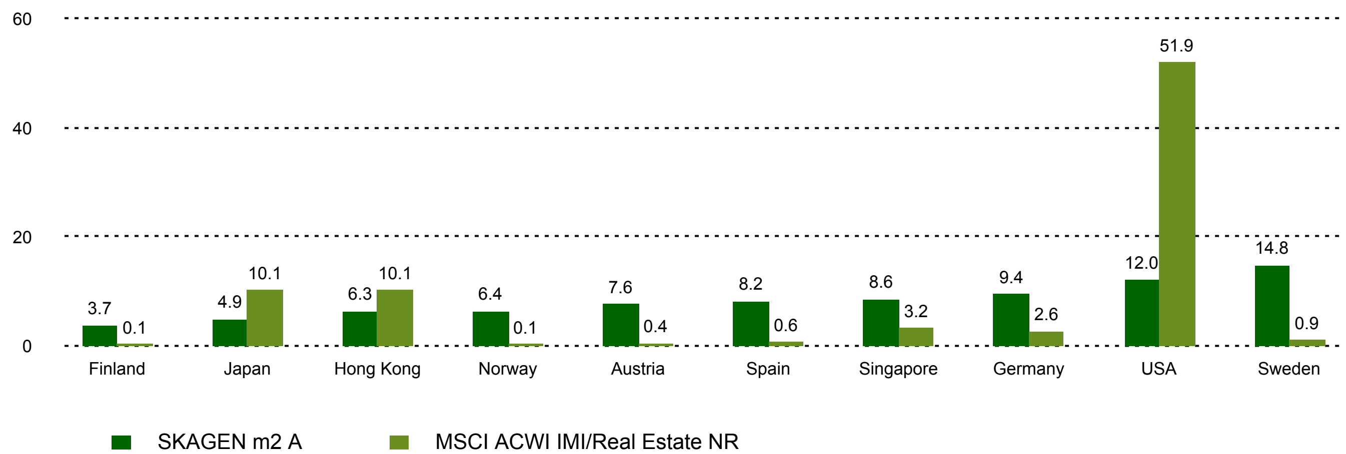
SKAGEN m2 A

All data in EUR as of 30.06.2017 unless otherwise stated.

Top ten investments

Holding	Sector	Country	%
D Carnegie & Co	Real Estate	Sweden	6.07
Catena	Real Estate	Sweden	5.86
Inmobiliaria Colonial	Real Estate	Spain	5.67
Deutsche Wohnen	Real Estate	Germany	5.47
Olav Thon Eiendomsselskap	Real Estate	Norway	5.21
Mitsui Fudosan Co	Real Estate	Japan	4.87
SL Green Realty	Real Estate	USA	4.12
Global Logistic Properties	Real Estate	Singapore	4.03
Dic Asset	Real Estate	Germany	3.94
Cheung Kong Property Holdings	Real Estate	Hong Kong	3.84
Combined weight of top 10 holdings			49.06

Country Exposure (top ten)



Contact

+47 51 80 37 09

contact@skagenfunds.com

SKAGEN AS, Post Box 160, 4001, Stavanger, Norway

Important information