SUSTAINABILITY REPORT
Second Quarter 2020

SKAGEN

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IMPORTANT INFORMATION

SKAGEN seeks to the best of its ability to ensure that all information given in this report is correct, however, makes reservations regarding possible errors and omissions. The report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of the report. SKAGEN recommends that anyone wishing to invest in our funds contacts a qualified customer adviser by telephone on +47 51 80 39 00 or by email at contact@skagenfunds.com.

SKAGEN AS was bought by Storebrand Asset management AS in 2017 and is now part of the Storebrand Group. Storebrand Asset Management owns 100% of SKAGEN AS and Storebrand ASA owns 100% of Storebrand Asset Management AS. SKAGEN AS remains a separate company within the group, reporting to its own board.

A green, but jobless, recovery?

Why the nature of work matters for a sustainable future.

The idea of a green recovery has been centre-stage recently and enthusiasm around this continues to gain momentum. At the same time, the notion of a 'jobless recovery'[1] has also come to the fore. In times of crisis, companies strive to enhance their competitive position by adjusting their operations. In aggregate, this leads to periods of jobless recovery for the economy until capacity again becomes constrained and expansion or new businesses soak up the unemployed.

From an ESG perspective, should we be concerned about a green – but potentially jobless – recovery?

The death of the Phillips Curve?[2]

To be precise, the issue is not necessarily the absolute employment numbers, but rather the nature of the modern job. The US labour market offers a cautionary tale as to why the quality of a job matters for the overall wellbeing of both an economy and its citizens. The Phillips Curve argues that when employment rises, so do wages. Until recently, US unemployment was at a 50-year low[3]. Yet, wages continue to remain stagnant, which are in turn hitting aggregate demand[4].

In part, the transformation from a manufacturing to a services-led economy has created greater inequality in our society. As large numbers of unskilled manufacturing jobs have been replaced by fewer skilled employees, the unskilled have flocked into the services sectors and competed for jobs at dwindling relative wages.

At the same time, decent work, economic growth and reduced inequalities are equally pivotal for a sustainable future and are Sustainable Development Goals in their own right. The structural importance of these indicators is becoming increasingly apparent.

Blue collar work and automation

The fact of replacing jobs or enhancing efficiency and optimising costs is not a corporate vice in and of itself. Automation is often necessary as well as considered complementary to the existing workforce – by further improving productivity and safety. Yet, COVID-19 has also elevated the differential impact the crisis has had on different actors in the labour market. Whereas white collar workers have been largely shielded from the most adverse effects, blue-collar and frontline workers have been exposed to several risks. Moreover, these workers are at greater risk of being replaced through automation[5].

What does this mean for investors?

There is, therefore, a need to understand and manage the externalities (both positive and negative) that occur in the labour market - in the form of good, high quality jobs versus bad, low quality jobs. Alongside a push to increase the importance of workplace democracy and representation[6], we are clearly seeing pressure on companies to address both their environmental and socio-economic exposures.

The strong correlation between unemployment and inflation was based on data first observed by New Zealand economist William Phillips in 1958. The resulting 'Phillips Curve' is still part of the standard policy doctrine of most central banks. Photo: Bloomberg

As investors, we are as concerned with social externalities as we are with environmental externalities arising from corporate activities. Therefore, we also believe that companies that ensure the wellbeing of their workforce in the form of a fair wage that provides a decent standard of living and safe working conditions will in turn be rewarded by a more motivated and healthier workforce. Value cannot be created in the long run through the exploitation of workers.

Company engagement

As investors, we can participate by engaging with and maintaining pressure on companies, industry bodies and governments. In 2019 and during the first half of 2020, we have engaged with several portfolio companies on improving the social exposures that we believe are material in terms of having a potentially negative and

[1] A jobless recovery is defined as when economies grow, particularly after a financial crisis, but GDP growth is not followed by increased employment
[2] https://voxeu.org/article/phillips-curve-dead-or-alive
[3] https://www.forbes.com/sites/stevedenning/2019/12/05/understanding-the-us-economy-lots-of-rotten-jobs/#20da3082d970
[4] https://d3n8a8pro7vhmx.cloudfront.net/prosperousamerica/pages/5467/attachments/original/1573727821/U.S._Private_Sector_Job_Quailty_Index_White_Paper.pdf?1573727821
[5] https://policynetwork.org/opinions/blogs/the-future-of-work-and-robots-after-covid19/
[6] https://www.theguardian.com/commentisfree/2020/may/15/humans-resources-coronavirus-democratise-work-health-lives-market

Last year, SKAGEN successfully engaged with Hyundai, a holding in SKAGEN Kon-Tiki. This resulted in the company formalising a freedom of association policy and improving labour relations dialogues and routines. Photo: Bloomberg

positive impact on their business. We are, for example, in ongoing dialogue with several companies on their management of human rights exposures.

Last year, we successfully engaged with Hyundai, which resulted in the company formalising a freedom of association policy and improving labour relations dialogues and routines. As we write elsewhere in this report, we have also engaged closely with Samsung Electronics to encourage them to improve labour relations.

On the other hand, we are witnessing a deterioration of labour relations and undertaking challenging dialogues with companies in the US food industry that we are engaging with in the wake of the COVID-19 crisis.

An important long-term trend

We are currently at a time of reckoning where we must, through regulation and responsible employment take workers health more seriously, both through providing wages that cover the cost of living and health and safety in the workplace. We believe that societal externalities that are either produced by companies or that influence them will emerge as an important long-term trend in the wake of the current crisis.

As with most sustainability issues, these cannot be addressed without broad collaboration and cooperation. Beyond rules-of-the-game enforcement, governments can, for example, provide support for skill enhancing and retraining. Governments should also ensure that a green recovery also encompasses labour-intensive jobs – this is one of the few elements that the Green Deal has been criticised for not addressing sufficiently[7].

Corporations can, in turn, leverage on public partnerships to innovate and further expand their labour capabilities, ensure that they and their supply chains operate in accordance with global norms and best practices, as well as put in place appropriate mechanisms to cater for the wellbeing of their workforce.

The consumer – or customer – is often said to be the most important actor in the economy. In that case, every company has an incentive to make sure that their workers, in their capacity as consumers, can continue stimulating the aggregate demand of the economy. Thriving supply and demand conditions in the real economy should be of interest to investors too.

Alexandra Morris
Investment Director

[7] https://www.project-syndicate.org/commentary/new-social-contract-must-target-good-job-creation-by-dani-rodrik-and-stefanie-stantcheva-2020-06

Active ownership and Samsung: Targeted sustainability work pays off

Following a prolonged period of targeted sustainability work and active engagement with Samsung, the company has been removed from the Storebrand Group observation list and is now fully included in the Group's investable universe.

Samsung was placed on the Group observation list* in January 2019, when the Storebrand Group launched its joint sustainability policy. While SKAGEN had already been in dialogue with Samsung over a longer period to address various ESG-related issues, we first initiated dialogue with Samsung at Group level in October 2018 to address the controversies that led to Samsung being placed on the observation list.

"As long-term investors in Samsung Electronics we have witnessed encouraging developments in management's engagement with various stakeholders across multiple ESG issues," says Fredrik Bjelland, Portfolio Manager of SKAGEN Kon-Tiki.

Pushing for improvements

As an active owner, we have been in dialogue with the company on several occasions with the aim of improving corporate governance, stressing our expectation of compliance with international laws and promoting good structures to prevent new breaches from occurring. The first stage of the engagement was largely shaped by external forces. This involved international investors - including SKAGEN and Storebrand Asset Management – the South Korean government and judiciary as well as NGOs urging Samsung to change their corporate governance practices.

One of the portfolio managers in SKAGEN Kon-Tiki, Fredrik Bjelland, was active in the engagement dialogue with Samsung and notes that: "As long-term investors in Samsung Electronics we have witnessed encouraging developments in management's engagement with various stakeholders across multiple ESG issues. By listening to minority shareholders and through a credible strengthening of routines, policies and corporate governance mechanisms, we believe the company is well positioned to continue to deliver significant value for its various stakeholders."

As an active and long-term investor, we believe in the importance of communicating and cooperating with our holdings to manage our fiduciary duty and to leverage our position as an asset manager

* The Storebrand Group observation list consists of companies that are not excluded from our investment universe, but where we have reason to believe they may be in breach of our sustainability criteria, and purchase restrictions are placed on them. We work with these companies in a targeted manner to encourage them to make positive change within a pre-defined period or risk exclusion.

Following close monitoring and regular engagement, dialogue, and cooperation, we have seen Samsung improve against almost all our predefined criteria to resolve the controversies over the past 18 months. Photo: Bloomberg

Years of cooperation pay off

SKAGEN has been invested in Samsung Electronics for over 20 years, and as our Investment Director, Alexandra Morris, says: "This is a good example of active ownership in practice. Although the conversations we have had with Samsung have been direct and sometimes challenging, we have built upon years of cooperation with and underlying trust in the company to turn a negative situation around."

Following close monitoring and regular engagement, dialogue, and cooperation, we have seen Samsung improve against almost all our predefined criteria to resolve the controversies over the past 18 months. Most notably, Samsung has announced an end to family successions in the future and to end its 'no unions' stance.[1] Samsung has also made clear improvements over the last few years in terms of understanding the importance of ESG factors on their business, and while there is always room for further improvement, we look forward to our continued cooperation with them going forward.

Background

Prior to being put on the observation list in January 2019, Samsung Electronics had previously been excluded by the Storebrand Group on the basis of a corruption case involving bribery from the company's leader to the President of South Korea. Both were subsequently convicted and jailed for this. After a new assessment in late 2018 we also included anti-union activities from the top-level management and occupational health and safety issues to the company analysis. Samsung's initial unwillingness to acknowledge these allegations led Storebrand to conclude that the risk of recurrence for similar issues was high, and that the company should be excluded.

[1] https://www.koreatimes.co.kr/www/tech/2020/05/133_289079.html

Voting activities

Voting is an important tool for investors, allowing us to signal what we believe to be the best course of action for a company and for us as a shareholder. For SKAGEN, voting is part of our active ownership work and enables us to address concerns and influence companies in a direction that we believe is sustainable without necessarily being present at meetings.

Increase in voting activities

During the second quarter of 2020, there were 122 voteable meetings and 282 voteable ballots at our portfolio companies, with 1,730 voteable items on the agenda. SKAGEN voted on 98.67% of the items, which is up from the second quarter of last year, where we voted on 95.64% of the items.

Votes were in line with management recommendations 94.02% of the time, while 5.98% of the time we voted against management recommendations on one or more items on the agenda. All voting activities can be found in the proxy voting dashboard on our website. All votes are published the day after they have been cast, and in the cases where we have voted against management recommendations, an explanation is provided.

Year	Q2 2020	Q2 2019	Q2 2018
Number of meetings voted	**120/122**	**146/152**	**150/154**
% of meetings voted in	*98.36%*	*94.59%*	*97.40%*
Number of ballots voted	**276/282**	**220/228**	**236/242**
% of ballots voted on	*97.87%*	*96.49%*	*97.52%*

Use of active ownership through voting

During the second quarter, Sinotrans Limited, the largest integrated logistics integrator in China and a holding in SKAGEN Kon-Tiki, held one voteable meeting, with 16 voteable items on the agenda. We voted against management recommendations on four items relating to:

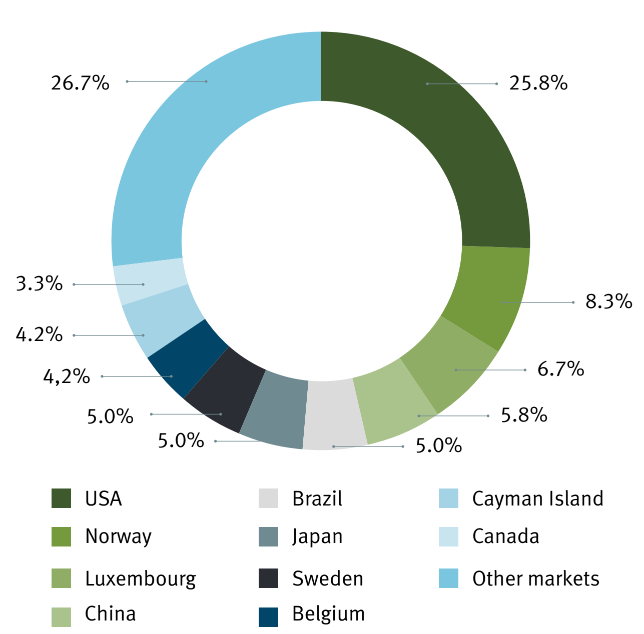
- proving issuance of equity or equity-linked securities without pre-emptive rights
- approving estimate guarantees of the company,
- approving 2020 financial budget,
- election of a director.

SKAGEN voted against the three first items based on our evaluation and review of the disclosures and practices of the company. We voted against the fourth item, regarding the election of a director, as the proposed candidate attended less than 75 percent of board meetings in the most recent fiscal year, without any good explanation.

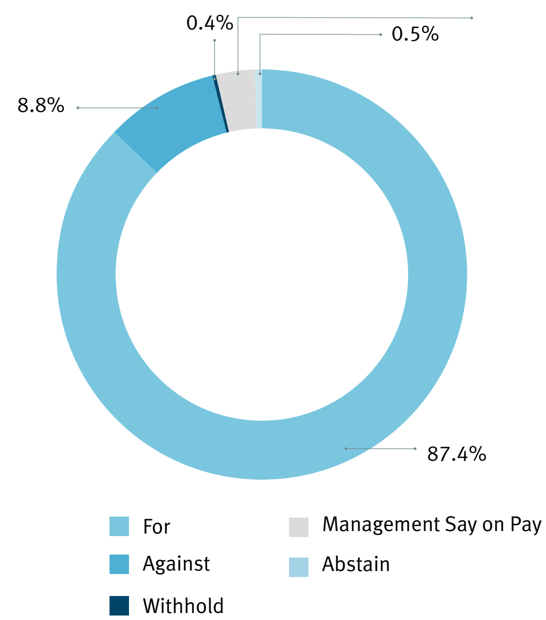
All voting decisions are made by the fund in question, with the objective of securing the best possible risk-adjusted returns for their unit holders.

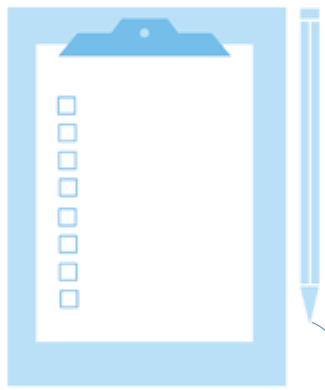
[Our full voting record is available here]

Meetings voted by market



Votes cast statistics





Second quarter engagement report

As long-term investors, we regularly engage with our portfolio companies to support and push for improvements.

Our engagement activity increased considerably in the second quarter. We entered into dialogue on a total of nine new cases in addition to continuing discussions on existing cases.

Five of the nine new cases focused on social issues and they all involved companies in North America. Some of the new discussions were short in duration and came to a rapid conclusion. These types of engagement often emerge in connection with AGMs – e.g. feedback on remuneration policy and composition of the board. Nonetheless, these types of discussion are an important part of our fiduciary duty to exercise our active ownership rights. Here, we tend to focus on the rationale, process and Key Performance Indicators (KPIs) that inform the remuneration of executives.

Continued pandemic response

As mentioned in our previous quarterly report, we spent the first quarter mapping what we believe would be the long-term topics emerging on the back of the COVID-19 crisis. We clearly see social issues emerging that all companies, including our portfolio holdings, will have to address as part of their material ESG exposure.

During the second quarter, we engaged with companies on several of these issues; notably on labour relations and working conditions in the food industry in the US. Whilst these discussions are at an early stage, and we remain hopeful that we will enter into a constructive dialogue in future, they have got off to a slow and somewhat challenging start.

Social and environmental topics

We have also been in dialogue with a North American petrochemical and materials company where we have covered social and environmental matters in more depth. On the social aspects, we sought greater insight into their human rights' due diligence and their processes in high risk areas. We were satisfied to note that these potential risks were identified as strategic to their operation in the areas.

We also noted their environmental commitments. We have encouraged them to disclose these in alignment with the Transition Pathway Initiative to allow for comparable peer data on associated climate change risks and opportunities as well as overarching progression towards their long-term low-carbon objectives.

Our approach to sustainable investments is built upon three main pillars: Exclusion, Integration and Active Ownership. Each method is applied in different circumstances and leads to different investment outcomes. The full potential of a sustainable investment strategy is only realised when applying the methods together. Read more here

Canadian mining company Roxgold, a holding in SKAGEN Focus, is a success story when it comes to value creation, both in terms of shareholder returns and the extent of care they demonstrate for their workforce as well as environmental protection. Photo: Henri Koskinen, Shutterstock

Roxgold engagement

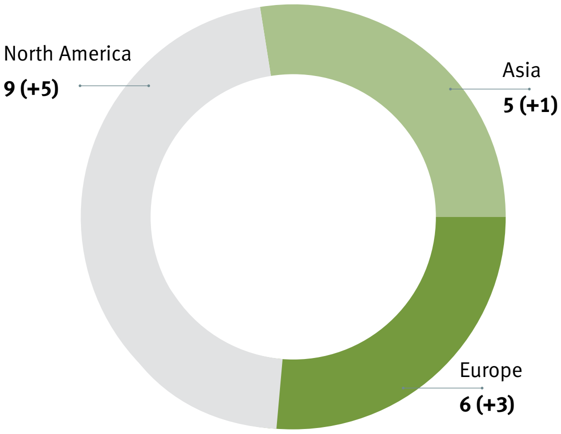
We have also been engaging with Roxgold, a SKAGEN Focus holding. Roxgold is a Canadian mining company operating in Burkina Faso and the Ivory Coast. We believe it is pivotal that companies engaged in resource extraction have a strong relationship with the local communities they impact – especially when operating in developing countries. Roxgold certainly lives up to that expectation, and this is one of the reasons behind the investment case.

As COVID-19 started to spread in Africa, Roxgold showed strong stakeholder engagement and responsibility by ensuring the wellbeing of their employees and the surrounding communities in mitigating the impacts of the virus. They did this by introducing comprehensive protocols at all sites and offices, demonstrating both foresight and initiative. They also engaged the services of an epidemiologist to support the quarantine and isolation of people displaying symptoms and others who have been in contact with those displaying symptoms.

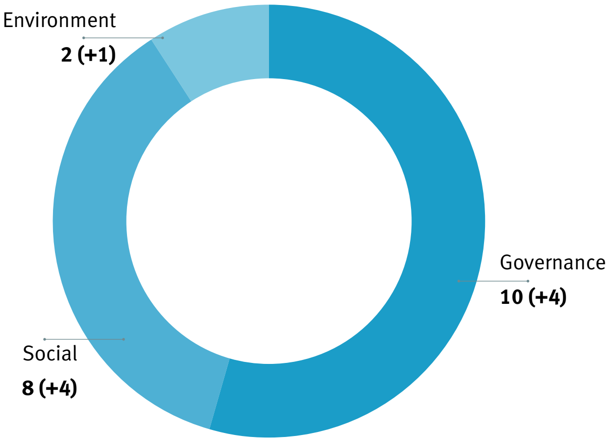
David Harris, one of the portfolio managers of SKAGEN Focus comments:

“So far, Roxgold has been a very rewarding investment for SKAGEN Focus. Roxgold is a success story when it comes to value creation, both in terms of shareholder returns and the extent of care they demonstrate for their workforce as well as environmental protection. In our discussions with the company and their CEO, we continue to encourage Roxgold to better communicate the important work they do with the communities where they operate.”

Current engagements by region



Current engagements by ESG category



Corporate sustainability news

SKAGEN is dependent on our clients' and employees' trust and respect as a socially responsible asset manager. We endeavour to uphold sound ethical principles and be a trustworthy company. This also entails encouraging high standards in our supply chain and day-to-day business. We strive to make a difference, not only through our investments but also in how we contribute to the communities where our firm is present.

- During the second quarter, SKAGEN's Corporate Sustainability Group (CSG) provided input to the company's sustainability strategy for 2020-2025. As part of our initiative to strengthen corporate sustainability (see our Annual Sustainability Report for 2019), the focus is on monitoring and reducing our own carbon and environmental impact, increasing our external and internal communication, as well as strengthening the internal efforts around corporate sustainability towards 2025.

- SKAGEN prioritises continuous learning for all employees and welcomes individual input regarding personal and professional development. As part of our effort to increase competence around business sustainability in SKAGEN, two members of the CSG recently attended the Business Sustainability Management course at Cambridge University's Institute of Sustainability Leadership (CISL). This nine-week long intensive learning journey encompassed themes including the system pressures on our planet, the business case for sustainability, communication and innovation, and responsible production and consumption, amongst others. The course provided in-depth insight into some of the major sustainability challenges facing businesses today and is highly recommended.

- In June SKAGEN attended its first Global Compact Norway's general assembly for all signatories and participants of Global Compact in Norway.

The TPI enables assessment of how companies are managing climate change and the risk it poses to their business. In turn, this enables better-informed investment processes and decisions, and can also shape engagement activities and proxy voting decisions. Photo: Bloomberg.

SKAGEN supports important sustainability initiative: TPI

During the second quarter, SKAGEN became a supporter of the Transition Pathway Initiative (TPI), an investor-led initiative to assess companies' preparedness for the transition to a low-carbon economy.

TPI provides investors with data on the carbon performance and climate governance of the world's largest listed companies in high emitting sectors. Developed with investors in mind, TPI provides an online tool with data to support investment research and enable better-informed and more effective investment processes, engagement activities and proxy voting decisions.

The TPI will support SKAGEN's efforts to further integrate and manage climate change-related risk and opportunities in our investment activities. We will use the TPI tool as a reference point to collaborate with companies on the areas they need to improve on in order to be part of a sustainable future.

Data from the TPI will enable SKAGEN as an investor to monitor and measure progress in line with the transition to a low-carbon economy.

Read more about the TPI here

Whilst the ESG risk of a company provides an assessment of current ESG risk, it does not necessarily capture future momentum and positive potential. Photo: Karsten Würth, Mölsheim, Germany, Unsplash.com

ESG Risk Rating: Assessing the full picture

To understand companies' exposure to material ESG issues and how they may impact shareholder value, SKAGEN uses the ESG risk ratings compiled by the research and rating firm Sustainalytics. These ratings are expressed as absolute scores between 0 and 100, with 100 indicating the highest level of ESG-driven financial risk. These scores fall into five levels of risk: negligible (0-10), low (10-20), medium (20-30), high (30-40) and severe (40-100). The ESG risk rating is made up of two components: the general ESG risk exposure that a company has (ESG exposure), and how well that risk exposure is managed (ESG management).

A company may have high exposure to ESG risk by virtue of the industry it operates in (e.g. oil & gas) but also have good practices to manage those risks, thereby bringing down the overall ESG risk.

SKAGEN's ESG integration framework is built on three pillars:

1. **Exclusion:** Negative screening against our ESG policy where we exclude companies that fail to meet our initial threshold and sustainability standards.
2. **Integration:** Incorporating ESG information into the investment process and making sure our portfolio managers have access to required and relevant ESG information about companies.
3. **Active ownership:** Direct dialogue with companies to manage and improve material ESG risk.

Large caps provide more disclosure

The ESG management score tends to favour larger and/or older companies, as smaller and/or newer ones rarely have the resources or capability to provide solid management programs and policies. Younger companies also tend to have less experience in conducting materiality consultations and integrating ESG factors into their corporate strategy. We therefore often see that these companies receive a low ESG management score, despite being involved in few controversies. As some of our funds tend to invest a significant proportion of their portfolios in small cap companies, this should be kept in mind when considering the score.

Future potential

Whilst the ESG risk of a company provides an assessment of current ESG risk, it does not necessarily capture future momentum and potential. Returning to the oil & gas industry as an example, a snapshot assessment of the exposure companies in the industry face might not capture the renewable energy efforts that are being developed and the gradual pace of sustainable transitioning. Active ownership and our engagement with companies can help us identify such dimensions.

Importantly, there are no objectives or expectations for the funds to have a specific ESG risk at portfolio level or to be better than the benchmark. ESG integration in the investment processes is used to prioritise and execute active ownership as a tool to influence the risk and reward profile of an investment. ESG data provides crucial input in our investment processes and serves as guiderails for investment decisions. It thus informs our sole purpose: to provide the best possible risk-adjusted return to our clients.

ESG RISK RATING

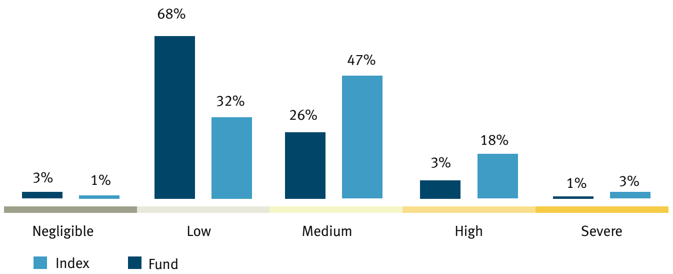
All risk ratings on this page are powered by Sustainalytics.

SKAGEN Global

SKAGEN Global remains at a low ESG risk rating at fund level and is 21% lower than the benchmark compared to 18% lower in Q1. A notable driver is the improved category ESG management of portfolio holdings which increased from medium to strong.

	SKAGEN Global	MSCI ACWI
Coverage rate:	98%	99%
ESG Risk Rating:	18.8 (Low)	23.9 (Medium)
ESG Exposure:	34.9 (Low)	41.2 (Medium)
ESG Management:	50.1 (Strong)	44.8 (Average)

ESG Risk Category by aggregate portolio weight %

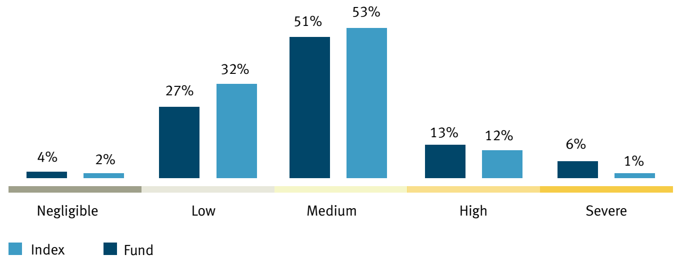


SKAGEN Vekst

Whilst still lagging the benchmark in terms of absolute ESG risk rating (11% higher than benchmark), SKAGEN Vekst has reduced the spread during Q2. The decrease in ESG risk is driven by a slight reduction in the ESG exposure and a slight improvement in ESG management of its holdings.

	SKAGEN Vekst	MSCI Nordic/ ACWI ex Nordic
Coverage rate:	99%	99%
ESG Risk Rating:	25.1 (Medium)	22.7 (Medium)
ESG Exposure:	44.4 (Medium)	41 (Medium)
ESG Management:	46.3 (Average)	47.4 (Average)

ESG Risk Category by aggregate portolio weight %

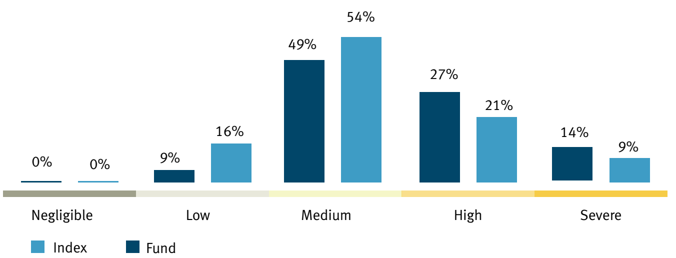


SKAGEN Kon-Tiki

SKAGEN Kon-Tiki has reduced both its absolute ESG risk rating and its relative ESG risk compared to the benchmark. The ESG risk exposure has slightly declined from Q1 whilst management of ESG risk amongst its constituents has improved slightly – accounting for the overall reduction in ESG risk rating. The fund is close to being considered medium ESG risk (20-29.99).

	SKAGEN Kon-Tiki	MSCI EMI
Coverage rate:	94%	99%
ESG Risk Rating:	30 (High)	27.4 (Medium)
ESG Exposure:	45.8 (Medium)	42.6 (Medium)
ESG Management:	37.3 (Average)	37.5 (Average)

ESG Risk Category by aggregate portolio weight %

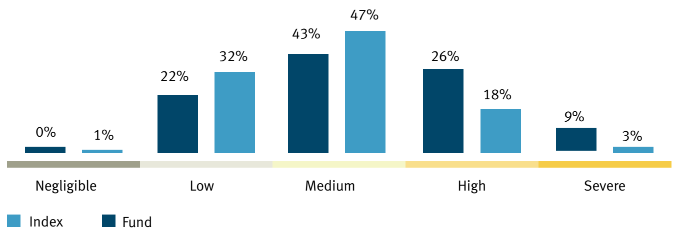


SKAGEN Focus

Both SKAGEN Focus and the benchmark have further reduced their respective absolute ESG risk levels during Q2, but both remain in the medium risk category. The ESG risk in SKAGEN Focus is 16% higher than the ACWI, which is a minor reduction from Q1.

	SKAGEN Focus	MSCI ACWI
Coverage rate:	90%	99%
ESG Risk Rating:	27.7 (Medium)	23.9 (Medium)
ESG Exposure:	43.8 (Medium)	41.2 (Medium)
ESG Management:	38.8 (Average)	44.8 (Average)

ESG Risk Category by aggregate portolio weight %

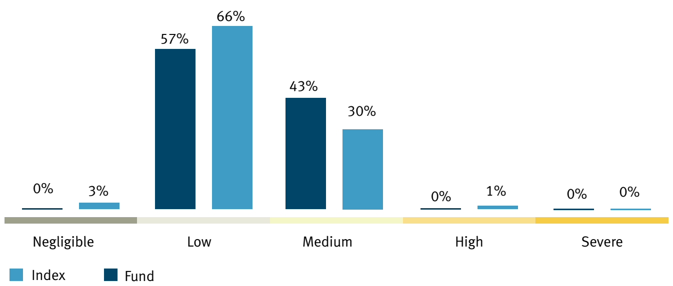


SKAGEN m²

The ESG risk ratings of both SKAGEN m2 and the benchmark remain largely unchanged – and both still maintain a low ESG risk categorisation.

	SKAGEN m²	MSCI Real Estate
Coverage rate:	86%	98%
ESG Risk Rating:	19.4 (Low)	17.7 (Low)
ESG Exposure:	29.1 (Low)	27.4 (Low)
ESG Management:	34.4 (Average)	36.3 (Average)

ESG Risk Category by aggregate portolio weight %



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Exclusion as a last resort

As an active and value based investment manager, SKAGEN has a distinct investment philosophy and process that builds on common sense and a belief that companies which understand and incorporate sustainability in their business strategy will outperform their peers over the longer term. SKAGEN excludes the following activities from our funds:

Corporate behaviour:

- Systematic breach of international laws and norms and human rights
- Systematic corruption and financial crime
- Serious environmental degradation (deforestation)
- Companies that produce or sell controversial weapons (nuclear, land-mines, cluster munitions, etc.)

Products/activities:

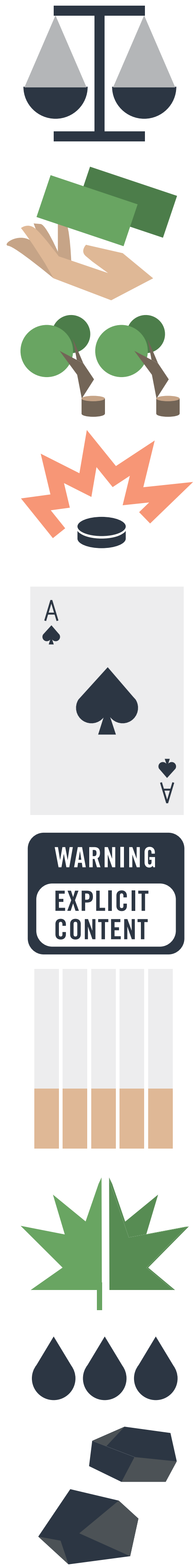
- Gambling (more than 5% of revenue)
- Adult Entertainment (more than 5% of revenue)
- Tobacco (more than 5% of revenue)
- Recreational cannabis – THC (more than 5% of revenue)
- Coal (5% of revenue)
- Oil Sand (5% of revenue)

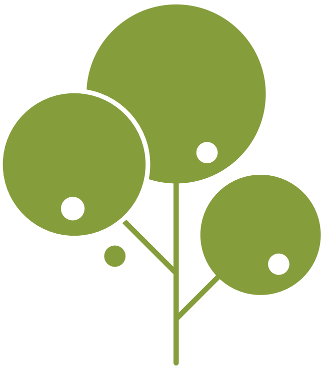
Exclusion is to be used as a last resort, and should only be applied when companies clearly fail to demonstrate change or improvements. If an excluded company demonstrates positive change that reduces the risk of recurrence, the company may be re-included.

Read more in our Sustainability policy

Exclusion list: Exlusion category	No. of companies
Conduct-based exclusions – Environment	**14**
Conduct- based exclusions – Corruption	**10**
Conduct-based exclusions – Human Rights and International Law	**34**
Tobacco	**28**
Gambling	**39**
Controversial weapons	**26**
Climate – coal	**72**
Climate - oilsand	**6**
Unsustainable palmoil	**13**
Cannabis	**3**
Total:	**249***
Observation list:	**2**

* Some companies are excluded on the basis of several criteria.
We do not invest in companies that have been excluded by Norges Bank from the Government Pension Fund – Global.





How does SKAGEN work with sustainability?

How can a fund manager contribute to sustainable development? Here, sustainability expert Sondre Myge Haugland talks about corporate social responsibility, credibility and why company involvement is the way to go.

Sustainability expert Sondre Myge Haugland answers questions about materiality, how SKAGEN influences development and what makes a difference over time.

Q: How can a fund management company contribute to sustainable development?

Through SKAGEN's funds, our clients are part-owners of many different companies around the world. If we choose to invest in companies that have a sustainable business model or that demonstrate positive change, then we are part of driving the development. Fund management companies, banks and other players in the financial market that influence how capital is distributed and used in society have an important and fundamental role to play.

Q: How do SKAGEN's funds work with sustainability?

Our portfolio managers and sustainability team work together to conduct thorough company analysis of all investment cases. This is at the heart of SKAGEN's active and value-based investment philosophy. They have a variety of tools and sustainability data they can use in this process from Sustainalytics, TPI and Refinitiv amongst others.

Our Group-wide policy sets a strict framework for what type of companies we can, and cannot, invest in. Some sectors and products are excluded from the investment universe. When we own a company, we follow it up on a quarterly basis, and engage with management if we see that it is needed. We are very committed owners who push when needed and help a company make positive change. We also see voting as an important way to influence companies in a more sustainable direction. We usually vote at 90-100 percent of meetings and general meetings.

Q: Would you say that active ownership is where SKAGEN makes the biggest difference?

Yes absolutely. We put a lot of effort into this and also like to invest in undervalued companies, where we can support their efforts to become more sustainable. We can make a big difference by doing this, in addition to using voting rights. As a last resort, we exclude companies, although we would prefer to be involved in changing companies.

Q: How might an engagement with a company play out in practice?

The dialogue starts with an issue we believe it is important for a company to address. These are issues that we believe could impact the company's reputation, for example, but that could also increase the risk to our investment. This type of engagement can take a long time to implement and accommodate. That is why we often have several status meetings along the way to ensure that a company is on the right path towards the goal.

As an active owner, we engage with each portfolio company and work with them to reach their goals.
"We can make a big difference this way," says Sondre Myge Haugland, ESG specialist. Photo: SKAGEN Funds

Q: Which questions are most important?
Important sustainability factors are those that affect a company's bottom line, and what these factors are vary from industry to industry. In the energy sector, for example, CO_2 emissions are an important factor, while for a software company, data security and privacy are crucial.

Furthermore, we believe that all companies should comply with global norms and standards.

We also work extensively on corporate governance issues. A good management team that has a long-term and sustainable business strategy and treats its owners fairly is the basis for our clients to get the best possible return. And not least, it is important that companies treat their employees well and do not have a detrimental impact on the environment.

Q: Is it important for clients that the funds invest sustainably?
We see increased demand for responsible investments in all client segments and in all markets. We are convinced that sustainability and long-term, risk-adjusted returns go hand in hand. Companies with sustainable business models are what will give our clients the best returns over time. Integrating sustainability into investment decisions also helps us reduce the risk in our investments. Inadequate sustainability work, for example in environmental matters, can lead to increased costs, lower demand for a company's products and damage the value of the company.

Q: Does SKAGEN work with sustainability as a company as well, in addition to the funds?
Yes. As a fund management company, we make the biggest difference through the funds' investments, but we would not be credible in the long run if we did not contribute positively as an employer, buyer and participant in the community. We are striving to become a more sustainable company, promote diversity and gender equality and raise awareness about climate challenges.

We use the UN Global Compact principles as guidelines when it comes to human rights, labour law, the environment and anti-corruption, in addition to the UN's 17 sustainability goals. We have chosen to focus on three of the latter: equality, decent working conditions and economic growth, as well as combating climate change.

Q: How can one follow your sustainability efforts?
The easiest way is to subscribe to news on our web site and to read this report, that we publish every quarter. We've also developed our sustainability web pages, where we describe in more detail how we work with sustainability and publish news and articles. In addition, we've included a section where you can see how SKAGEN has voted in the companies we invest in, the day after the votes have been cast.

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Michael Ancher, Portrait of a young woman, 1922. This painting is manipulated and belongs to The Art Museums of Skagen.

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