SUSTAINABILITY REPORT
Second Quarter 2021

SKAGEN

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IMPORTANT INFORMATION

Except otherwise stated, the source of all information is SKAGEN AS as at 30 June 2021.

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ESG is no holy grail that will provide abnormal returns forever, but helping to change companies for the better will always be relevant, both to long-term excess return and to leaving the world a better place. This kind of change is hard, but it is work that SKAGEN is pleased to do and has done for nearly twenty years. Photo: Kalen Emsley, Unsplash.com

The honest road is the hardest road

A recent report from Edhec Business School[1] claims to have found signs that the ESG market is reaching maturity and could become a victim of its own success. Over the past decade, ESG stocks have fared well, but much of that excess return came in 2020 due to a significant multiple expansion. So, there is a basic logic that buying into ESG right now might infer lower expected returns over the short-term – when P/E multiples hit 100, probabilities begin to narrow. And it is also true that there is, as yet, no firm consensus that ESG is a factor equivalent to value, momentum etc.

Either way, neither of these observations are of any great concern to SKAGEN. As an active owner, the SKAGEN approach is to focus on change when engaging with our portfolio companies where we see there is a need for improvement. Since companies that improve their approach to sustainability will flourish and their price will go up. And the simple fact is that price still matters. ESG is no holy grail that will provide abnormal returns forever, but helping change companies for the better (either in terms of financials or sustainability) will always be as relevant as ever, both to long-term excess return and to leaving the world a better place.

Of course, changing companies for the better is hard work and, over the past quarter, SKAGEN has held a high number of dialogues with portfolio companies. In this, it is evident that companies feel the pressure to be as competitive as possible on sustainability against their peers to please customers, investors, and other stakeholders

[1] Chasing the ESG factor by Abraham Lioui and Andrea Tarelli

alike. This is encouraging. I like to think this represents a maturing of the corporate model that reflects greater appreciation of what constitutes value creation; money and capital as means to an end and not an end in themselves. Being competitive is not just about transformational change; most positive change is incremental if not invisible – an observation well-made by the late Hans Rosling, a great friend of SKAGEN. This kind of incremental change is hard, unglamorous, and often eclipsed by the noise around both transformational change and negative outcomes. It requires continuous engagement and follow-up, and it requires a skill and capacity not easily replicated. It is work that SKAGEN is pleased to do and has done for nearly twenty years.

On gender

One area where the finance industry needs to change is that of gender balance. Even in Norway, females are under-represented in the key investment and leadership roles. SKAGEN is therefore pleased to be amongst the founder signatories to the recently launched Women in Finance Charter here in Norway. This scheme, that originated in Great Britain in 2016, aims to engender a better gender balance in finance through explicit and measurable commitments. And, besides being the right thing to do, anything that improves diversity across the industry will improve both delivery and service to clients.

Enjoy the report.

Timothy Warrington
CEO

Going underground: Fredrik Bjelland, Portfolio Manager of SKAGEN Kon-Tiki, tours Ivanhoe Mines' DRC project which is expected to be powered by permanent renewable energy. Photo: SKAGEN Funds

Ivanhoe's Net-Zero Crusade

Mining company held by three SKAGEN funds to ensure flagship project becomes first net-zero operational carbon emitter among world's largest top-tier copper producers.

Ivanhoe Mines, the Canadian mining company whose shares are owned by three SKAGEN Funds, vowed in May to achieve net-zero operational greenhouse gas (GHG) emissions from its Kamoa-Kakula copper mine. Production at the reserve in the Democratic Republic of Congo (DRC) started up ahead of schedule on 26 May. The miner, which operates in Southern Africa, has committed to work with its joint venture partners – which include the DRC government – to ensure it becomes the first net-zero carbon emitter among the world's largest copper producers.

The initiative is in support of the 2015 Paris Agreement which sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C by 2050. While no time frame has been given by Ivanhoe for reaching its net-zero target, the pledge was welcomed by investors with its share price rising over 3% on the day of the announcement.

Strong performer

Ivanhoe's shares have now risen over 30% this year[1], boosted by the Kamoa-Kakula mine opening ahead of schedule and significant rises in the price of commodities, which the company mines across its different projects (see below)[2]. The company is amongst the largest positive contributors for Kon-Tiki and Focus in 2021 and among the top ten for SKAGEN Vekst where it is a smaller position (0.9% of the portfolio versus 2.6% and 4.1% for the other two funds, respectively[3]). This follows a share price rise of over 60% last year and a gain of 80% in 2019. SKAGEN Kon-Tiki and SKAGEN Focus both first bought Ivanhoe shares in 2018.

Ivanhoe's net-zero commitment covers GHG emissions under their direct control (Scope 1) and indirect ones from purchased energy (Scope 2). The mine is already powered by renewable hydro-generated electricity, so its efforts will focus on electrifying its mining fleet with new equipment powered by electric batteries or hydrogen fuel cells.

Fredrik Bjelland, Portfolio Manager of SKAGEN Kon-Tiki, visited the DRC in 2019 when the project was under construction and highlighted the company's green credentials: "Due to their high-grade metals, all Ivanhoe projects are developed as underground mines. In addition to reducing the visible impact on nature, this technique also reduces the amount of waste generated and makes it easier to rehabilitate the area when production is complete. The company is also improving the infrastructure around the mines in order to access renewable energy to power the mining operations."

Industry challenge

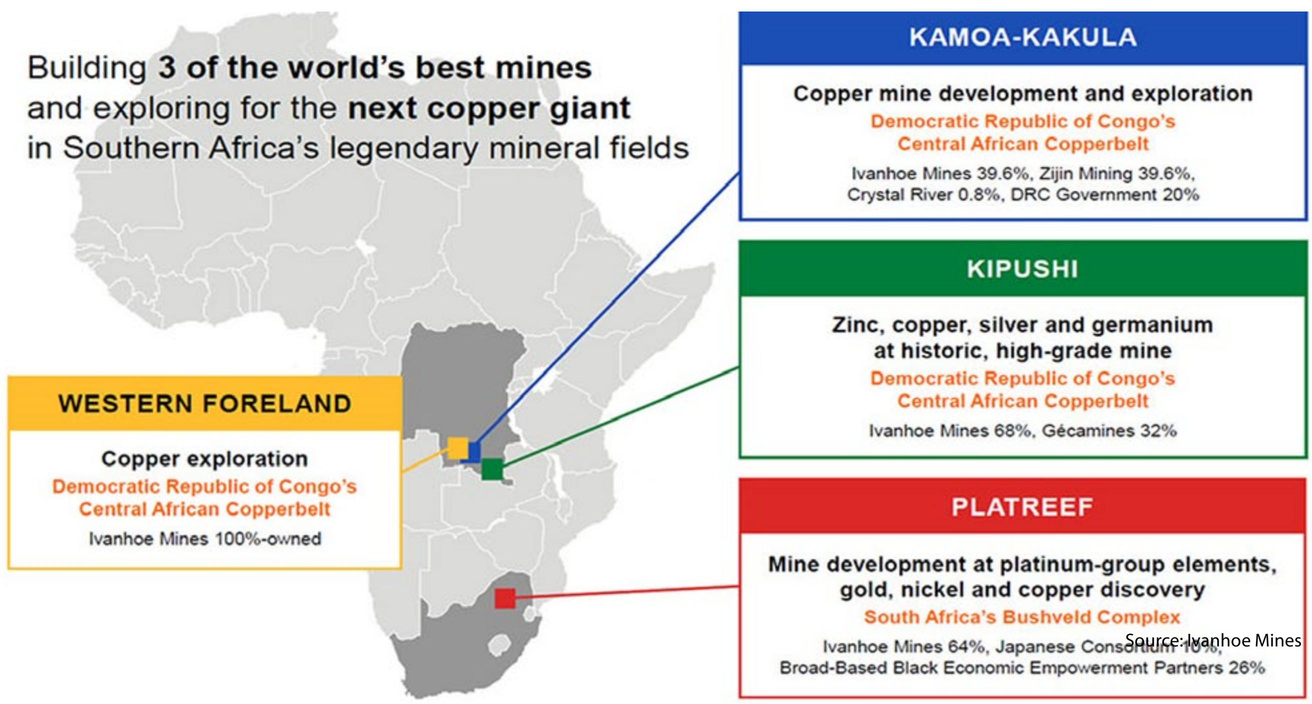
In future Ivanhoe also hopes to neutralise indirect emissions from its entire value chain (Scope 3), which is important as some analysts estimate that these account for as much as 95% of the mining sector's overall emissions and are one of the biggest issues facing the industry[4].

Robert Friedland, Ivanhoe's Executive Co-Chairman, outlines the challenge: "Once we achieve net-zero Scope 1 and 2 emissions, we will turn our focus on achieving a net-zero total emissions project, which will include Scope 3 emissions. We have the opportunity to be an industry leader in the fight against climate change, and we look forward to spearheading the drive for a future free of fossil fuels, initially at Kamoa-Kakula, but eventually at all of our mines."

The copper mined from Kamoa-Kakula will also play an important role in the battle against global warming. It is a key input in producing the electric cars and renewable energy hardware required for transitioning to a low carbon future, particularly as the world faces potential shortages of the metal critical for infrastructure and economic development. Ivanhoe believes that Kamoa-Kakula will become the world's second-largest copper mine producing over 800,000 tonnes annually if the project's phased expansion goes to plan.

Bjelland concludes: "The sustainability challenges facing the mining industry are highly complex and involve sensitive environmental, social and governance issues. Metals will inevitably play a key role in the energy transition and Kon-Tiki has long held the view that more copper is needed for the world to become greener as we will see a re-engineering of transportation, power generation and information storage."

Ivanhoe has three principal, joint-venture projects in Southern Africa



Source: Ivanhoe Mines

[1] As at 30 June 2021
[2] 31/12/2020 ($6.86) – 11/05/2021 ($9.37) (TSX: IVN)
[3] As at 31 May 2021
[4] Source: FT, Miners face up to climate challenge, January 2021

Gender equality and the importance of having women on boards and at executive level are clearly social topics for investors, but ones which can be effectively improved through better governance. Photo: Gabrielle Henderson, Unsplash.com

Second quarter engagement report

As long-term investors, we regularly engage with our portfolio companies to promote and encourage improvements. There was a particular focus on governance-related ESG topics during the second quarter.

We initiated seven new engagement cases during the second quarter, bringing the number of current engagement dialogues to a total of 18 with 14 different companies.

During the quarter, there was a particular focus on governance-related ESG topics. Engaging on governance topics does not mean neglecting discussions of a more environmental or social nature, but rather improving the latter two parameters through improved governance.

By way of example, gender equality and the strategic importance of having women on boards and at executive level are clearly social topics for investors, but ones which can be effectively improved through better governance. During the quarter, SKAGEN Kon-Tiki signalled its expectation to Gedeon Richter and X5 Retail Group to improve their governance plan to increase the number of women on their respective boards.

ATLANTIC SAPPHIRE CASE STUDY

High conviction and disruptive ESG

SKAGEN Kon-Tiki and the ESG team undertook a more in-depth and proactive collaboration with Atlantic Sapphire in the quarter to support the company's endeavour to enhance their ESG profile. Atlantic Sapphire is a high-conviction case in the fund. It has a highly disruptive and innovative business model directly seeking to mitigate the traditional ESG risk exposure and economic externalities facing the fish farming industry. In revolutionising fish farming by bringing it onshore, Atlantic Sapphire seeks to circumvent the traditional and critical ESG risks facing the industry.

The first set of risks relate to operational ESG risk. Traditional fish farms struggle with fish escapees, lice and parasites and the use of antibiotics, to name but a few problems. Second, transport-related emissions are traditionally high in the industry as the fish are caught far away from the end-market where they are consumed.

Circumventing traditional ESG risk

Land-based farming, or the Bluehouse concept, circumvents these crucial ESG risks by building a salmon farm in the biggest final end-market, something that is not possible through conventional salmon farming methods. This not only revolutionises salmon farming, it extends to global protein production in general. The sector struggles with its credentials on a wide range of environmental and social factors such as the use of antibiotics, deforestation, water management, water consumption, emissions, working conditions, animal welfare and food safety.

However, like most relative newcomers in listed equity markets, there are considerable hurdles facing smaller companies when it comes to seeking a balanced and fair ESG assessment and coverage from third parties, even for those seeking to capitalise on ESG-friendly business models.

In the case of Atlantic Sapphire, it was our view that the ESG analysis conducted by the third-party provider, and the quantitative score affixed to the company were flawed. First, it was clear that the third party had not taken the business model of the company into account and instead largely based their ESG risk assessment on the ESG risk exposure of the industry category they had assigned to it (agriculture).

Second, because Atlantic Sapphire is a small cap company, is not yet fully operational and is a recent entry on the global listed equity stage, its ESG disclosure is less extensive than its larger and older peers on some measures. This is interpreted by ESG vendors as a 'Pandora's box' ESG risk, further elevating the supposed ESG risks that investors might face when investing in the company. In our ESG analysis, lack of disclosure is not necessarily 'bad ESG' in the same way that extensive ESG disclosure is not necessarily the same as 'good ESG'.

Flawed third-party ESG analysis

Any enlightened investor deploying fundamental analysis will uncover the significant analytical errors in the approach deployed by the third-party ESG provider and the ESG credentials embedded in the business model of Atlantic Sapphire. As an early investor in the company, we have supported the company through various critical junctures. SKAGEN Kon-Tiki is also one of the largest shareholders in the company, and currently holds an unrealised gain of almost 70% - or NOK 200 million - on its investment in Atlantic Sapphire. This is a significant return for our unit holders from a company that is positively disrupting fish farming in a more sustainable direction.

SKAGEN Kon-Tiki and the ESG team undertook a more in-depth and proactive collaboration with Atlantic Sapphire in the quarter to support the company's endeavour to enhance their ESG profile. Photo: Atlantic Sapphire

proportion of the third-party vendor perceived ESG risk. The company's risk classification has thus been changed from 'severe' to 'high'.

Naturally, our rationale was not to engage to improve the ESG score, but rather to ensure that the assessment leading to the score was an accurate reflection of the actual risks taken and the company's business model. This is a basic premise for any investor seeking to make informed investment decisions. With the correction in place, we believe the overall ESG risk picture is more accurate as a starting point for improved ESG management and disclosure once the company is fully operational.

Engagement pays off

We have engaged both directly with the management of Atlantic Sapphire to understand the different pain points they experienced when seeking to improve external ESG assessments and reviews, as well as directly with the third party data provider to share our arguments as to why we believed their ESG assessment was inaccurate and, in some places, incorrect.

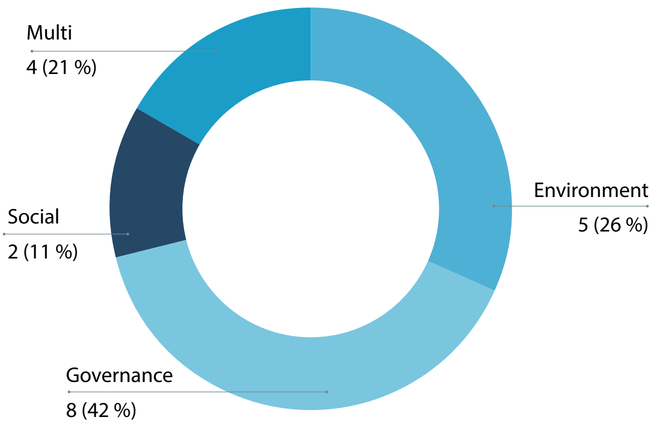
The key analytical error in our view was that the assigned industry ESG exposure risk contributed most significantly to the company level ESG risk. As the business model of Atlantic Sapphire clearly avoids these, it made no sense to penalise the company for not having policies in place to address inapplicable 'industry risks'.
The market capitalisation of the company further compounded the poor ESG Risk Assessment. Following discussions, the ESG data

vendor recognised our arguments and recategorized the company from "agricultural industry" to "packaged foods industry". We agree that this is a more accurate industry categorisation for the company and this industry re-classification alone has removed a significant proportion of the third-party vendor perceived ESG risk. The company's risk classification has thus been changed from 'severe' to 'high'. Naturally, our rationale was not to engage to improve the ESG score, but rather to ensure that the assessment leading to the score was an accurate reflection of the actual risks taken and the company's business model. This is a basic premise for any investor seeking to make informed investment decisions. With the correction in place, we believe the overall ESG risk picture is more accurate as a starting point for improved ESG management and disclosure once the company is fully operational.

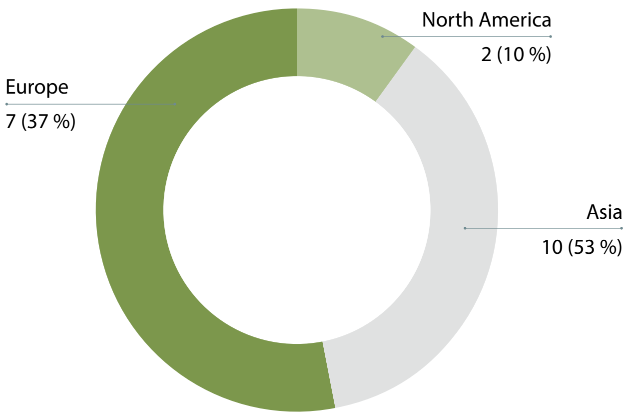
The importance of 'do-it-yourself' ESG analysis

The challenges facing disruptive and future-oriented companies like Atlantic Sapphire are yet another example of why it is critical that ESG analysis is done at a fundamental and bottom-up level, which is an approach that SKAGEN has taken since inception. Overreliance on quantitative ESG scoring can lead to a dangerously skewed and misinformed view – for better or worse – about the supposed ESG risks and opportunities facing companies and their business models. Company-specific ESG due diligence and analysis is and will remain essential in order to make meaningful investment decisions.

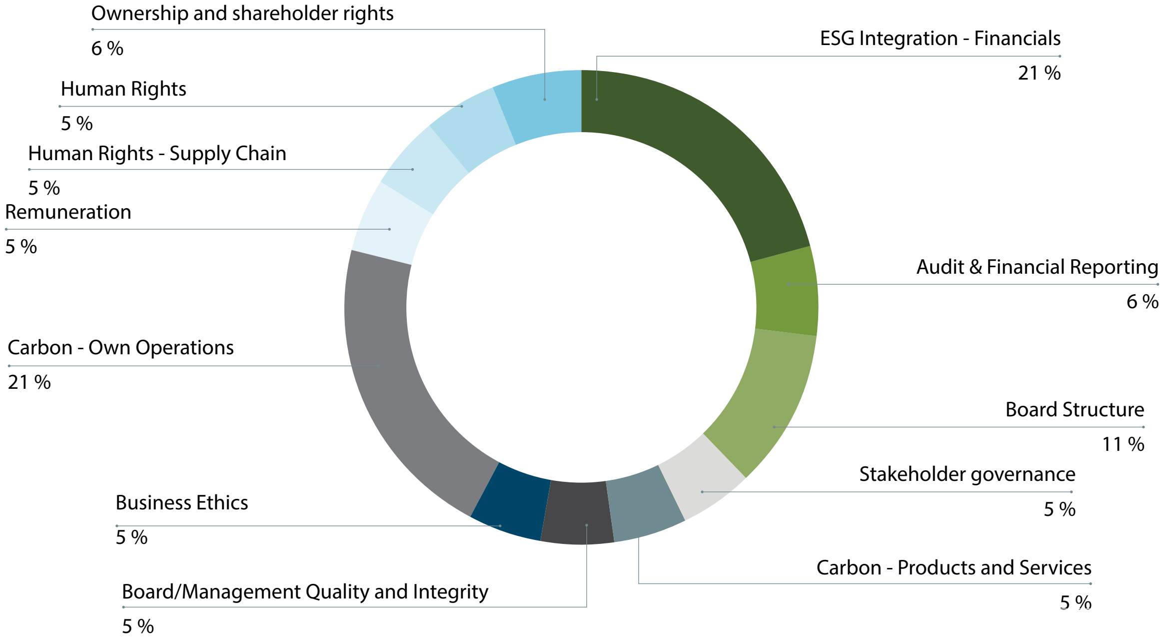
Engagements by ESG category YTD



Engagements by region YTD



Engagements by topic YTD



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. Voting gives us an additional channel through which 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 2021, there were 141 voteable meetings and 311 voteable ballots at our portfolio companies, with 1,914 voteable items on the agenda. SKAGEN voted on 100% of the items, the same as in the second quarter of last year.

Votes were in line with management recommendations 94.57% of the time, while 5.43% 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 the votes have been cast, and in the cases where we have voted against management recommendations, an explanation is provided.

Year	Q2 2021	Q2 2020	Q2 2019
Number of meetings voted	141/141	120/122	146/152
% of meetings voted in	100.00%	98.36%	94.59%
Number of ballots voted	305/311	276/282	220/228
% of ballots voted on	98.07%	97.87%	96.46%

Active ownership through voting

During the second quarter, Pilgrim's Pride, a leading global provider of food products and a holding in SKAGEN Focus, held one votable meeting, with seven votable items on the agenda. SKAGEN Focus voted against management recommendations on two items relating to:

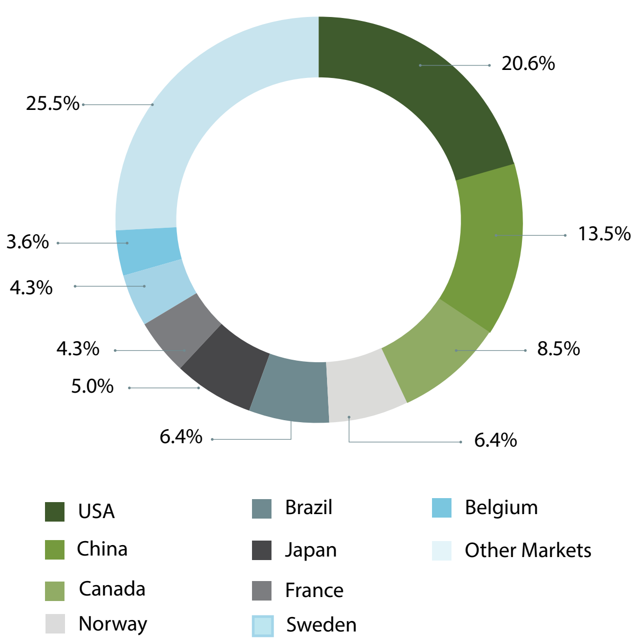
- Report on reduction of water pollution
- Report on integrating ESG metrics into executive compensation program.

SKAGEN Focus voted in favour the first item as Pilgrim's Pride does not currently disclose policies addressing water pollution beyond regulatory compliance. We believe that such a disclosure would improve the company's overall ESG profile and operations. We voted in favour of the second item because the company has been involved in several ESG-related controversies, and because several peers have started to integrate ESG metrics into executive compensation programmes. We believe this to be beneficial and would encourage Pilgrim's Pride to do the same.

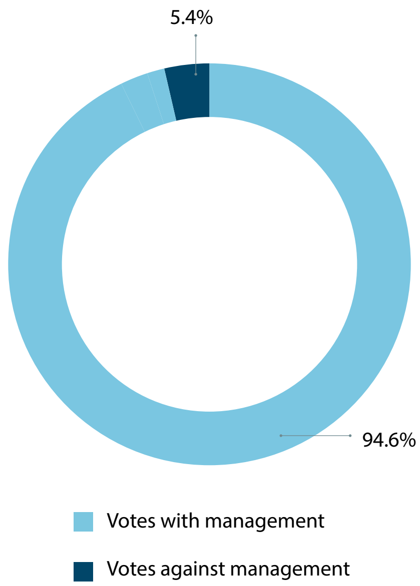
All voting decisions are made by the fund in question, with the objective of securing the best possible risk-adjusted returns for their unit holders.

Our full voting record is available here

Meetings voted by market



Votes cast statistics



"The time for talking is over – we now need radical steps to pursue what we all agree is strategically important."
- Alexandra Morris, CIO

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.

The World Day for Cultural Diversity:
21 May 2021 was the World Day for Cultural Diversity for Dialogue and Development, which is a United Nations–sanctioned international holiday for the promotion of diversity issues. This year, SKAGEN marked the day together with Equality Check, a platform developed by Marie Louise Sunde and Isabelle Ringnes. Equality Check allows employees to anonymously review their employer on how their workplace promotes equal opportunities, and addresses career opportunities, culture, leadership and so on. The answers are open to the public, so it really puts workplaces on the spot, which is something SKAGEN welcomes. All SKAGEN employees have been encouraged to submit an assessment of their workplace in order to identify further areas of improvement.

You can check out how SKAGEN is doing, and compare us with other companies here

Alexandra Morris spearheads Women in Finance Charter

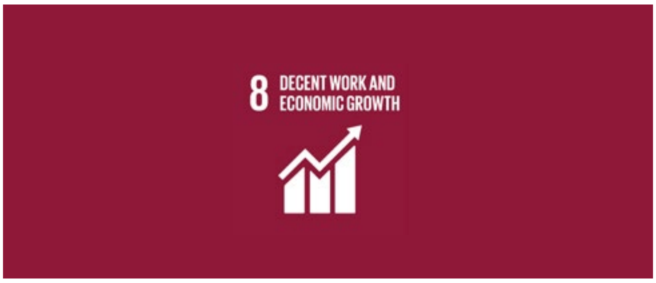
Our CIO Alexandra Morris has long been an advocate of more women in leadership positions in the finance industry. Now she has taken it one step further and, together with Turid Solvang in Futureboards, has founded the Women in Finance Charter in Norway, based on the similar UK initiative from 2016. The aim of the charter is to increase the number of women in specialist and managerial positions in the finance industry. Despite there having been much talk of wishing to improve the industry, very little has changed in recent years. Now – backed by the Norwegian Finance department – financial institutions are encouraged to formally commit to increasing the number of women in leadership positions.

"The time for talking is over – we now need radical steps to pursue what we all agree is strategically important," says Alexandra. The research clearly shows the advantages of diverse management teams, so there is no reason to wait.

The charter is based on four principles:

1. A member of the executive committee to have dedicated responsibility for gender balance and inclusion.
   - Ensure commitment from the organisation's leadership, either the CEO or a person reporting to them
2. Set internal targets for gender balance in leadership and senior positions.
   - Set concrete and realistic goals, reflecting the size, situation and needs of the organisation, as well as initiatives to follow them up
3. Have an ambition to reflect the achievement of targets in leadership remuneration.
   - Establish a plan for linking the realisation of targets to executive compensation
4. Publish the status of and progress towards targets on own website
   - Support transparency and commitment by publishing targets, status and annual progress on own website together with the Women in Finance logo

Please view the Women in Finance website for more information: www.kvinnerifinans.com



Behavioural Ethics

SKAGEN is bound to both Norwegian and international laws and regulations with regard to business and organisational ethics. Each year, all employees must undergo compulsory training on anti-corruption, ethics and anti-money laundering, and of course adhere to SKAGEN's Ethical guidelines.

Nevertheless, how would we behave in an actual critical or challenging situation? Why do some people behave unethically when they know better? These are just a couple of the questions asked by the renowned behavioural finance specialist, international speaker and co-author of The Trust Mandate Herman Brodie at SKAGEN's most recent quarterly in-house training session. Brodie guided us through how to face an ethical dilemma without being at a systematic disadvantage and gave us tips on how to introduce changes in our work processes to remind us of our values. The session provided us all with food for thought, and a valuable reminder to always do the right thing.

Linn G. Eriksen
Responsible for
Corporate Sustainability

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.

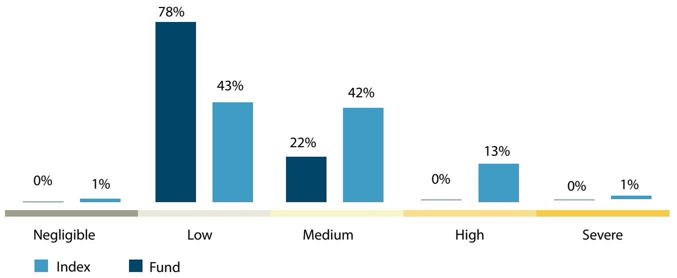
ESG RISK RATING

All risk ratings on this page are powered by Sustainalytics.

SKAGEN Global

	SKAGEN Global	MSCI ACWI
Coverage rate:	100%	100%
ESG Risk Rating:	16.8 (low)	22.1 (medium)
ESG Exposure:	32.7 (low)	40.3 (medium)
ESG Management:	52.6 (strong)	48.1 (average)

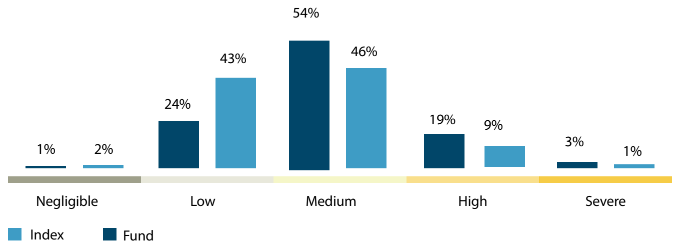
ESG Risk Category by aggregate portolio weight %



SKAGEN Vekst

	SKAGEN Vekst	MSCI Nordic/ ACWI ex Nordic
Coverage rate:	97%	100%
ESG Risk Rating:	25.0 (medium)	21.3 (medium)
ESG Exposure:	45.7 (medium)	40.0 (medium)
ESG Management:	48.3 (average)	49.7 (average)

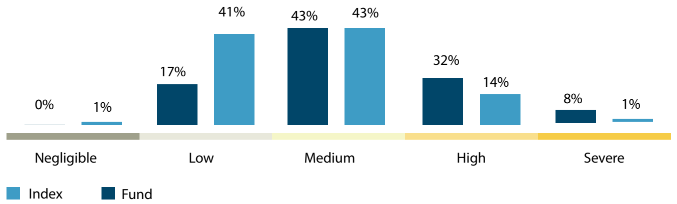
ESG Risk Category by aggregate portolio weight %



SKAGEN Focus

	SKAGEN Focus	MSCI ACWI
Coverage rate:	87%	99%
ESG Risk Rating:	28.3 (Medium)	22.5 (Medium)
ESG Exposure:	46.2 (Medium)	40.5 (Medium)
ESG Management:	41.7 (Average)	47.3 (Average)

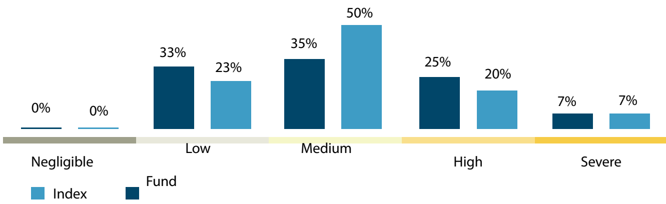
ESG Risk Category by aggregate portolio weight %



SKAGEN Kon-Tiki

	SKAGEN Kon-Tiki	MSCI EMI
Coverage rate:	91%	99%
ESG Risk Rating:	26.6 (medium)	26.3 (medium)
ESG Exposure:	44.1 (medium)	42.2 (medium)
ESG Management:	42.5 (average)	39.8 (average)

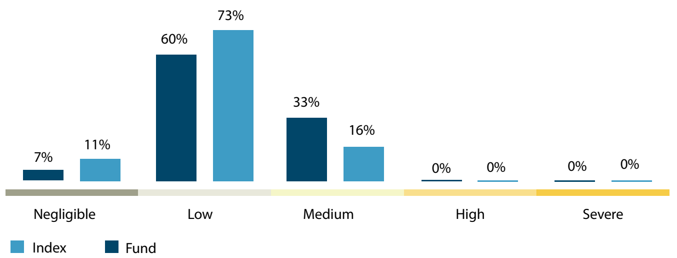
ESG Risk Category by aggregate portolio weight %



SKAGEN m2

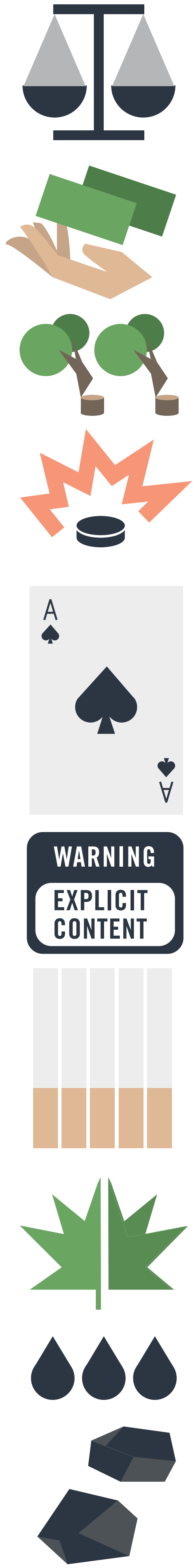
	SKAGEN m²	MSCI Real Estate
Coverage rate:	97%	99%
ESG Risk Rating:	17.4 (low)	15.4 (low)
ESG Exposure:	28.7 (low)	26.8 (low)
ESG Management:	40.5 (average)	43.5 (average)

ESG Risk Category by aggregate portolio weight %



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:

- Owners of palm oil plantations with unsustainable business practices
- Companies that deliberately and systematically work against the goals and targets enshrined in the Paris Agreement
- 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 as of 30.06.2021 Exlusion category	No. of companies
Conduct-based exclusion - Environment	18
Conduct-based exclusion - Corruption	10
Conduct-based exclusion - Human Rights and International Law	37
Tobacco	24
Controversial weapons	25
Climate - Coal	124
Climate - Lobbying	6
Climate - Oilsand	9
Unsustainable Palmoil	11
Gambling	38
Cannabis	1
Total number of companies	284*

* 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.

Offices

Norway:
Skagen 3, Stavanger, Norway
Tel: +47 51 80 37 09
Company reg number: 867 462 732
kundeservice@skagenfondene.no
www.skagenfondene.no

Fridtjof Nansens plass 6, 0160 Oslo

Vaskerelven 39, 5011 Bergen

Beddingen 8, Solsiden kjøpesenter,
7014 Trondheim

Langelandsvegen 1, 6010 Ålesund

Sweden:
Vasagatan 10,
111 20 Stockholm, Sweden
www.skagenfonder.se

Denmark:
Bredgade 25A, 1. sal
1260 København K
www.skagenfondene.dk

United Kingdom:
48 Dover Street
London W1S 4FF, United Kingdom
www.skagenfunds.co.uk
FCA Firm No.:
SKAGEN AS 469697
Company No: FC029835
UK establishment No:
BR014818

Germany:
Barckhausstrasse 1
60325, Frankfurt
www.skagenfunds.de
Trade org. no.: 06412000

Editor: Parisa Kate Lemaire
Contributor: Sondre Myge Haugland
Layout: Karoline Finsnes

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Michael Ancher, Girl from Skagen, 1883. This painting is manipulated and belongs to The Art Museums of Skagen.

The art of common sense

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