

SUSTAINABILITY REPORT
First Quarter 2022

SKAGEN



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IMPORTANT INFORMATION

SKAGEN AS (SKAGEN) is a fund management company authorised by the Norwegian supervisory authority, Finanstilsynet, for the management of UCITS under the Norwegian Act on Securities Funds. SKAGEN is part of the Storebrand Group. Storebrand Asset Management AS owns 100% of SKAGEN.

This is marketing communication and should not be perceived as solicitation or investment advice. Please refer to the fund's prospectus and KIID available in Norwegian, Danish, Swedish, Dutch, English, French, German and Icelandic at www.skagenfunds.com before making any final investment decision. This report is only directed at investors in countries where the SKAGEN funds have marketing approval.

Subscription is made in fund units and not directly in shares or other securities. The decision to invest in a fund should take into account all the characteristics of the fund. Information about the funds' ESG aspects is provided at [Sustainable investing | SKAGEN Funds - SKAGEN Funds](#).

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 management fees. The return may become negative as a result of negative price developments. There is a risk associated with investing in funds due to market movements, currency developments, interest rate levels, economic, sector and company-specific conditions. The funds are in risk category yellow in Denmark. The value of a fund with risk class 6-7 may increase or decrease significantly. The funds are denominated in NOK. Returns may increase or decrease as a result of currency fluctuations.

A summary of investor rights, such as the right to certain information, voting rights and the right to complain, is available at [Investor protection - SKAGEN - SKAGEN Funds](#). SKAGEN may terminate arrangements for marketing under the Cross-border Distribution Directive denotification process.

All information is based on figures and information as of 31 March 2022. Except otherwise stated, the information in this report is produced by SKAGEN. Statements reflect SKAGEN's viewpoint at a given time, and may be changed without notice. SKAGEN makes reservations regarding possible errors and omissions, and does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this report.

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We continue to put our clients first in SKAGEN. If our clients are at the centre of everything we do, then open and honest communication must be a fundamental way of working. Photo: S Migaj, Unsplash.com

Open and honest communication is key

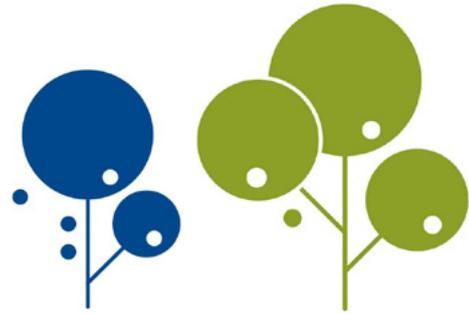
When it comes to sustainability, the truth is rarely a marketing strapline; it is rather steady, incremental efforts to improve practical matters and secure outcomes.

I respect people who stand for elected office. This is not because I necessarily admire them, nor because I share their political views; it is rather because it is a job that needs doing and I am not inclined to do it, despite having been a public servant for much of my working life. Such a position does not prevent me from offering unsolicited advice to or criticism of our elected leaders, however. And right now, despite the welcome European unity towards Ukraine and condemnation of Russia, I am disappointed at the evident short-termism and opportunism of many politicians around the globe.

The current energy price shock is a clear example of this. The hard-pressed consumer is being punished for the hubris of political leaders across Europe who regarded energy markets as a surplus

commodity that could be taken for granted; it could not, the conflict in Ukraine has put paid to that. Ongoing events – aside from the tragedy they represent to the good people of Ukraine – are a painful reminder that energy is first and foremost a matter of society, stability and security, and its absence brings insecurity and instability. Securing society is a fundamental duty of government and such priorities must inform long-term energy and sustainability strategies, especially when governments rightly seek to execute the vital green transition. These processes are challenging and complex. They cannot be allowed to become an exercise in virtue signalling – as has too often been the case.

Politicians are not alone in being guilty of short-termism and

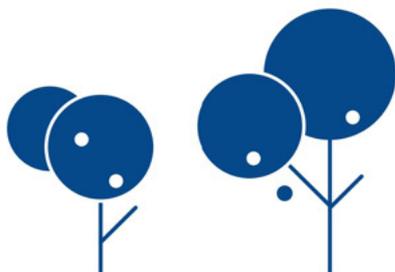


opportunism. So it is sometimes with active engagement on ESG matters. Too often, in corporate actions and at company AGMs, we hear loud public demands from self-declared sustainability leaders that, for example, company X needs to implement a sustainability policy. And very often we oppose these calls. Why? Because company X already has a sustainability policy – perhaps even one that we have helped them to prepare. A fact that should have been known to those seeking to virtue signal had they bothered to look. Any half-decent sustainability policy must be based upon hard work and thorough analysis if it is to be both credible and coherent. Marketing straplines, no matter how compelling, are not an end in themselves. Investors need to look beyond the advertising and the spin if they are to even begin to make the changes they are seeking. You can read more about our active engagement efforts and reflections on AGMs from page 6 of this report.

We continue to put our clients first in SKAGEN. If our clients are at the centre of everything we do, then open and honest communi-

cation must be a fundamental way of working. And in sustainability matters, the truth is rarely a marketing strapline; it is rather steady, incremental efforts to improve practical matters and secure outcomes. This is the SKAGEN fiduciary promise and this report seeks to capture some of that activity so that our clients can accurately judge if we are meeting their expectations when it comes to promoting more sustainable business practices and the green transition. This is why we take the time to write and publish it. I hope you find it of value.

Timothy Warrington
CEO





SKAGEN Focus entered an engagement dialogue with a Japanese position in the fund on corporate governance related matters in the quarter. The fund addressed the board structure ahead of the upcoming AGM. Photo: Masaaki Komori, Unsplash.com

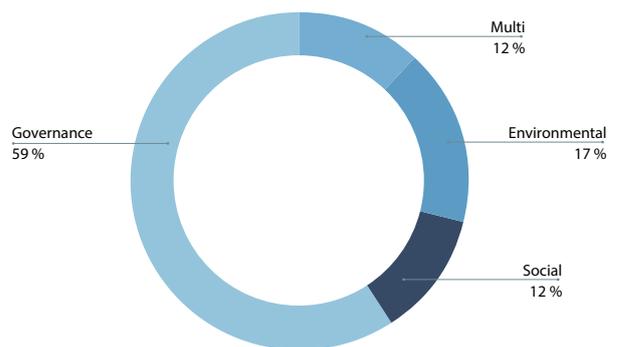
First quarter engagement report

As long-term investors, we regularly engage with our portfolio companies to promote and encourage improvements.

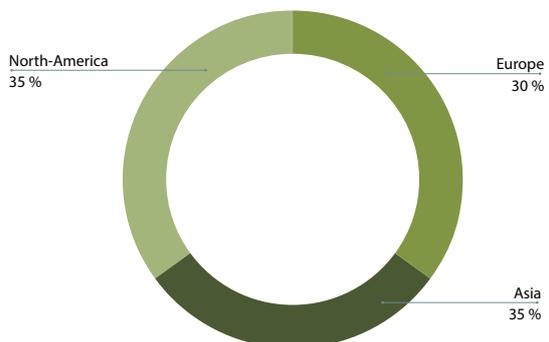
Engagement activity on ESG topics in the equity funds was lower than usual in the first quarter of 2022. Since our last ESG report, we have continued engaging with an emerging market position in SKAGEN Kon-Tiki regarding progress made towards mitigating a pollution incident following a fire at the company’s storage facility. We are pleased to see steady, committed, and open progress in remedying the incident as well as strong stakeholder communication and improved governance in the wake of the incident.

SKAGEN Focus has also entered an engagement dialogue with a Japanese position in the fund on corporate governance related matters. In discussions with the company’s Investor Relations team, SKAGEN Focus addressed the board structure ahead of the upcoming AGM. While the holding company structure comes with many improvements, SKAGEN Focus pointed out that they would like to see more diversification and independence among board members in future and that the current structure does not meet global standards.

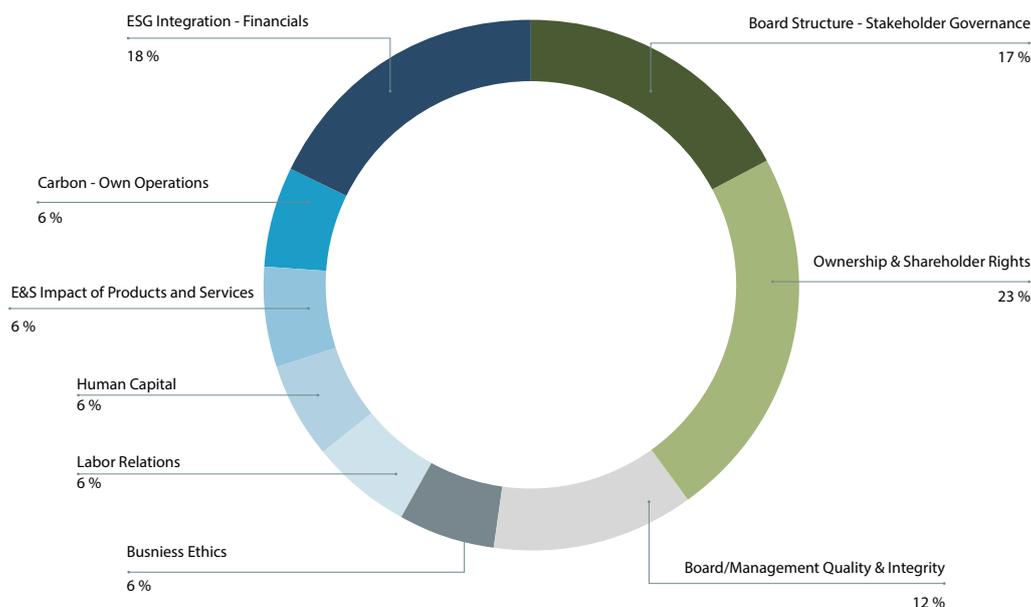
Engagement cases by category Q1 2022



Engagement cases by geography Q1 2022



Engagement cases by topic Q1 2022



Reflections on the upcoming AGM season

With the AGM season now underway, we offer some reflections on what to expect, especially on the increasing trend of shareholder resolutions, the nature of ESG-specific items on AGM agendas, and our general approach to and agenda for AGMs.

SKAGEN’s voting record for 2021 was 100%. Last year, we voted at 247 unique meetings that had 3090 unique voting items on the agenda. We have now done a thorough analysis of our voting records, removing the governance-related items such as opposing directors and remuneration policies, as well as general donations related items, and picked out the items specifically targeting environmental and social considerations. In total, these amounted to 27 unique items, or 0.874% of all items voted on in 2021. Needless to say, whilst shareholder resolutions are becoming increasingly popular, they still make up a very small part of annual and extraordinary general meeting agendas.

ESG items – the details

93% of the ESG-specific items voted on were shareholder resolutions, while the remaining 7% (two unique items) were proposed by management directly. The first ESG item proposed by management came from Moody’s, asking investors to approve the 2020 Decarbonization Plan – which we did. The second ESG item came from the management of Shell, asking shareholders to approve the Shell Energy Transition Strategy – which we also did. At the same meeting, SKAGEN, Shell

and our proxy adviser opposed a shareholder resolution to request Shell to set and publish targets for GHG emissions as they have already been doing so for decades.

Moreover, for almost 20% of the items, SKAGEN and management both voted in support of shareholder resolutions on ESG. For example, both SKAGEN Vekst and Carlsberg voted in support of a shareholder resolution instructing the Carlsberg Board to complete an assessment of the company’s ability to publish corporate country-by-country tax reporting in line with the Global Reporting Initiative Standards. In another case, both SKAGEN and DSV voted in favour of a shareholder resolution to report on climate-related financial risks and opportunities.

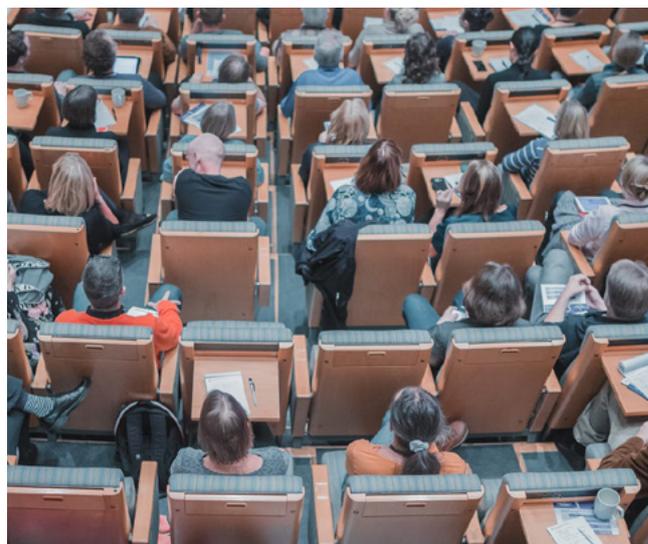
In four cases, we voted in support of the shareholder resolution and against management and provided a rationale for each of the items. At the Pilgrim’s Pride AGM, SKAGEN Focus supported the shareholder resolution instructing the Board to report on the reduction of water pollution, explaining that “SKAGEN votes FOR this item because the company does not disclose policies to address water pollution, so this would improve their overall ESG profile and operations.” At the same AGM, SKAGEN Focus supported another shareholder resolution on integrating ESG metrics into the executive compensation program, explaining that “SKAGEN votes FOR this item as the company faces several ESG issues. The integration of ESG items in the incentive policy – as several of their peers have done – would be a very welcome development.”

The final two items came up at the AGM of Tyson Foods. SKAGEN Vekst and SKAGEN Global supported a shareholder proposal instructing the company to report on human rights due diligence, stating that “SKAGEN votes FOR this proposal, as additional information regarding the processes the company uses for human rights due diligence would allow shareholders to better gauge how the company is managing human rights related risks. We find this particularly important in this case given the history of the industry in general and of Tyson Foods in particular.” Lastly, SKAGEN voted for a report on lobbying payments and policy, stating “SKAGEN votes FOR this proposal, as additional disclosures would help shareholders assess the risks and benefits associated with the company’s comprehensive lobbying activities.”

Concluding remarks

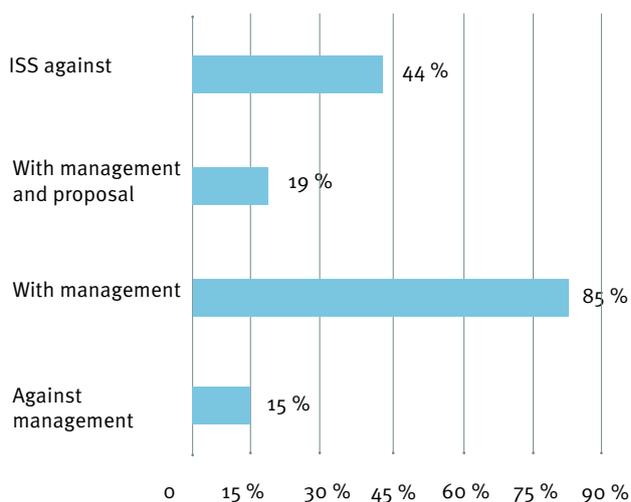
Based on our experience so far, we can draw the following conclusions:

- Specific ESG items make up a very small proportion of the agenda items at AGMs and EGMs
- Management is generally supportive of onboarding shareholder resolutions – also when it comes to ESG; management supported shareholder and own resolutions in almost 20% of the cases last year
- However, shareholder resolutions are also used opportunistically without regard for and insight into actual measures taken by the company in question, and they often seem to be proposed to virtue signal to one’s own stakeholders. Alternatively, which is worse, the shareholder behind the proposal displays a lack of knowledge about the company. This is also evidenced by ISS opposing 44% of the ESG items in our dataset (but they supported those proposed by management of the company).
- SKAGEN’s equity funds frequently support shareholder resolutions on ESG – 33% in favour in 2021 – and voted against management on 15% of the ESG items.
- SKAGEN’s portfolio managers exercise their voting rights in an informed manner that takes primary consideration of the interests of unit holders, also in accordance with the voting guidelines in our Sustainable Investment Policy.



Specific ESG items make up a very small proportion of the agenda items at AGMs and EGMs. Photo: Mikael Kristenson, Unsplash.com

Voting dynamic on ESG items for all equity funds in 2021



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.

Voting activities

During the first quarter of 2022, there were 40 voteable meetings at our portfolio companies, with 404 voteable items on the agenda. SKAGEN voted on 100% of the items, which is in line with the first quarter of last year, where we voted on 100% of the items.

Votes were in line with management recommendations 95.54% of the time, while 4.46% 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.

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](#)

Year	Q1 2022	Q1 2021	Q1 2020
Number of meetings voted	40/40	43/43	31/33
% of meetings voted in	100.00%	100.00%	93.94%
Number of ballots voted	404/404	584/584	422/433
% of ballots voted on	100%	100%	97.46%

Active ownership through voting

Tyson Foods Inc., one of the world’s largest meat processors and marketers and a holding in SKAGEN Vekst, held its annual meeting during the first quarter of 2022. SKAGEN Vekst voted against management regarding one item on the agenda:

- Report on Sustainable Packaging Efforts

Tyson Foods Inc. management voted against the agenda item, stating that it is already undertaking efforts designed to reduce plastic and packaging waste and the proposed report would not provide any material benefits to shareholders. SKAGEN Vekst voted in favour of the item, as the fund believes that additional disclosure on the company’s metrics and targets related to the use of plastic packaging would allow shareholders to better assess its management of associated financial, environmental, and reputational risks.

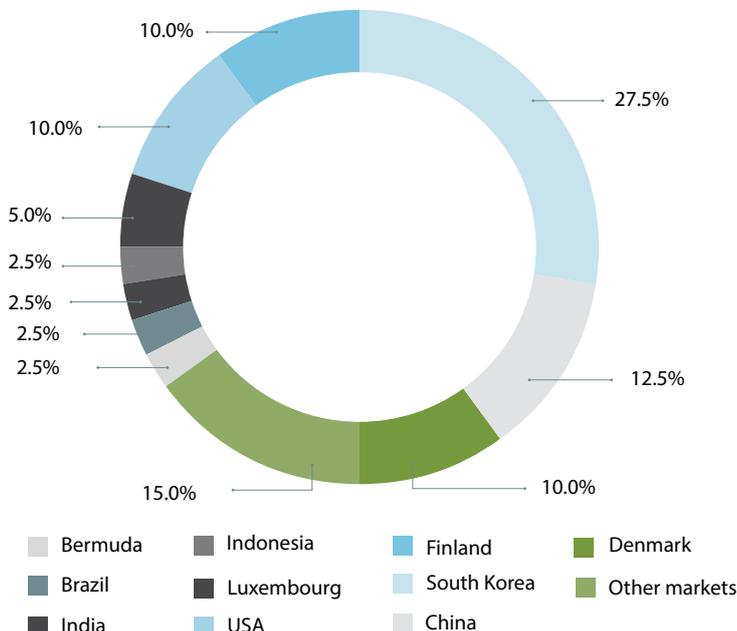
During the first quarter, SKAGEN also voted against management on governance-related items, such as electing directors and remuneration proposals.

Kojamo Oyj, a real estate investment company and a holding in SKAGEN m2, held its annual meeting during the first quarter of 2022. SKAGEN m2 voted against management regarding one item on the agenda:

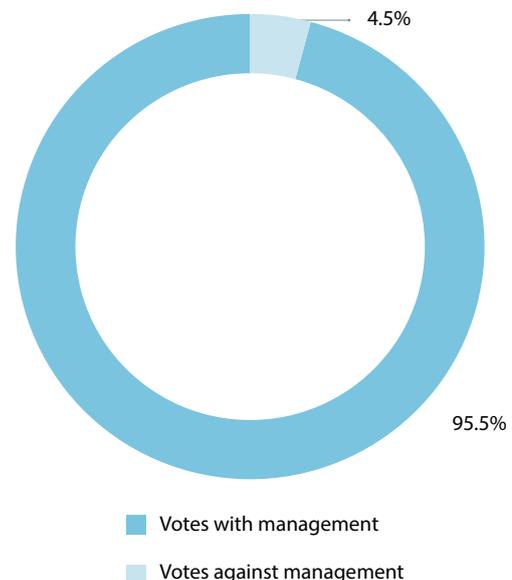
- Elect Directors

SKAGEN m2 voted against the proposed directors for election due to the lack of gender diversity on the board.

Meetings voted by market



Votes cast statistics



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.



Women's Finance Day at NHH

On 25 March, NHH (The Norwegian Business School) arranged their "Women's Finance Day", an event focusing on equality and opportunities for women within the finance industry. The main purpose is to enlighten female students about the finance sector and inspire more women to choose a career in finance. This chimes well with SKAGEN's wish to contribute to expanding the "female talent pool" and attracting more women to finance. There is still a substantial gender gap in the sector, and by participating at events like this, SKAGEN hopes to help mitigate this in the future.

Our Investment Director Alexandra Morris as well as Midhat Syed, Janine Andresen and Øyvind Braathen attended the event on behalf of SKAGEN. Alexandra spoke about equal opportunities in the industry, while Midhat and Janine led a workshop on Practical Portfolio Management.



International Women's Day

SKAGEN marked the day together with Storebrand via an 8 March broadcast, which included interviews and updates from the whole group on how the work on gender equality is progressing.

As a founder of the Women in Finance Charter initiative, Alexandra Morris participated at the event and explained the purpose of the charter, as well as highlighting that as a sector, we still have a way to go to achieve full gender equality.

The Women in Finance Charter was also the theme at the International Women's Day event hosted by Finans Norge and Finansforbundet which was attended by Alexandra Morris. Together with the CEO of KLP, Sverre Thornes, she discussed how the charter can act as a necessary catalyst to promote equality in the sector. Since inception, 44 organisations have signed up to the charter, and the aim is that this will encourage women to seek careers in companies which commit to gender equality via the WFC.





Donation to SOS Children's Villages

Along with the rest of the world, SKAGEN has watched in horror the tragedy taking place in Ukraine. Our thoughts go out to the innocent victims, and especially to the most vulnerable of all, the children. SKAGEN decided to contribute by donating NOK 100 000 to the SOS Children's Villages in Ukraine. They are in need of funds to help care for the children and families affected by the war, by providing food, healthcare, trauma treatment and family reunification. They are active both in Ukraine, and in the neighbouring countries, working around the clock to provide crucial help to those in need. SOS Children's Villages is an organisation that SKAGEN has a close and long-standing relationship with and we appreciate being able to support their outstanding work.

[Visit SOS Children's Villages website here](#)

13 CLIMATE ACTION



SKAGEN towards climate neutrality

Since 2019, SKAGEN has been conducting carbon audits on our own emissions. SKAGEN's main carbon emitting activity is business travel, which, due to Covid-19, has decreased substantially since 2019. SKAGEN has introduced stronger restrictions on air travel in our travel policy and we aim to stay well below the benchmark year of 2019 in future.

While the most important aspect of conducting a carbon audit is to identify areas where we can reduce and cut emissions, we acknowledge that we will never be able to completely eradicate our carbon footprint. During 2022, SKAGEN will therefore initiate efforts towards a formalised reduction path and compensation for the remaining emissions via a credible climate partner.

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 four pillars:

1. **Exclusion:** All investments are screened and approved against our Sustainable Investment Policy.
2. **Enhanced due diligence for companies in high emitting industries:** In order to identify and assess potential climate risk.
3. **ESG factsheet identifying ESG factors:** Produced for each investment case and includes a dedicated ESG overview.
4. **Active Ownership:** Engage and collaborate with companies by voicing our views on how to achieve ESG improvements over time.

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.

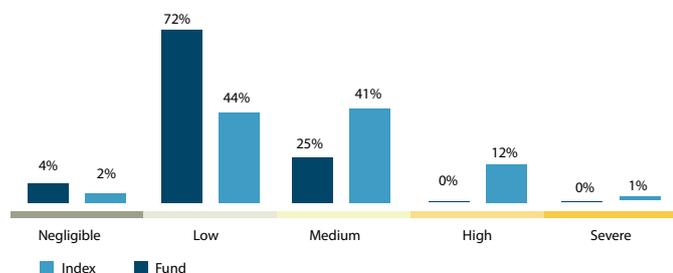
ESG RISK RATING

All risk ratings on this page are powered by Sustainalytics.

SKAGEN Global

	SKAGEN Global	MSCI ACWI
Coverage rate:	100%	100%
ESG Risk Rating:	17.7 (Low)	21.7 (Medium)
ESG Exposure:	35.1 (Medium)	41.1 (Medium)
ESG Management:	53.8 (Strong)	50.5 (Strong)

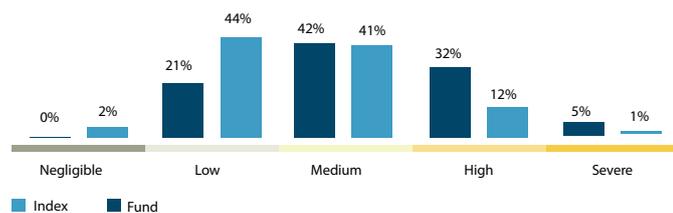
ESG Risk Category by aggregate portfolio weight %



SKAGEN Focus

	SKAGEN Focus	MSCI ACWI
Coverage rate:	94%	100%
ESG Risk Rating:	28.1 (Medium)	21.7 (Medium)
ESG Exposure:	45.6 (Medium)	41.1 (Medium)
ESG Management:	40.6 (Average)	50.5 (Strong)

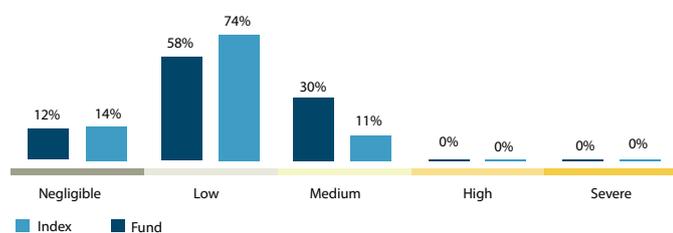
ESG Risk Category by aggregate portfolio weight %



SKAGEN m2

	SKAGEN m2	MSCI Real Estate
Coverage rate:	100%	99%
ESG Risk Rating:	16.4 (Low)	14.5 (Low)
ESG Exposure:	28.4 (Low)	26.6 (Low)
ESG Management:	43.6 (Average)	46.6 (Average)

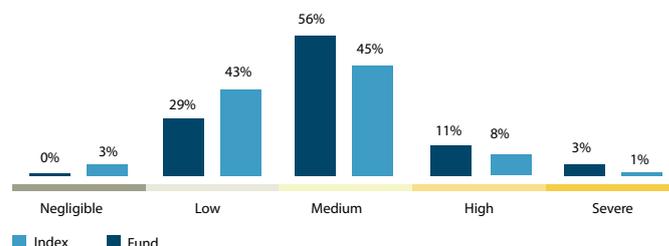
ESG Risk Category by aggregate portfolio weight %



SKAGEN Vekst

	SKAGEN Vekst	MSCI Nordic/ ACWI ex Nordic
Coverage rate:	95%	100%
ESG Risk Rating:	24.2 (Medium)	21.1 (Medium)
ESG Exposure:	45.1 (Medium)	40.9 (Medium)
ESG Management:	49.3 (Strong)	51.7 (Strong)

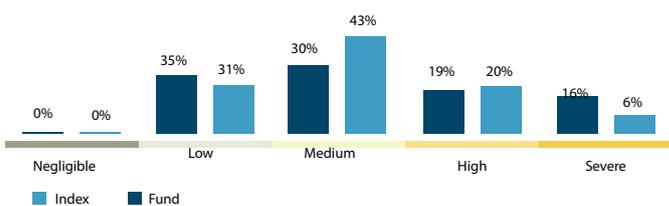
ESG Risk Category by aggregate portfolio weight %



SKAGEN Kon-Tiki

	SKAGEN Kon-Tiki	MSCI EMI
Coverage rate:	97%	99%
ESG Risk Rating:	27.3 (Medium)	25.3 (Medium)
ESG Exposure:	45.1 (Medium)	43.1 (Medium)
ESG Management:	42.8 (Average)	44.0 (Average)

ESG Risk Category by aggregate portfolio 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:

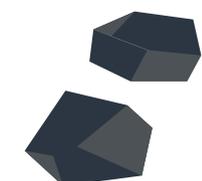
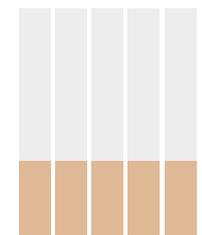
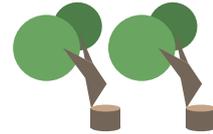
- Owners of palm oil plantations with unsustainable business practices
- Companies that deliberately and systematically work against the goals and targets enshrined in the Paris Agreement
- Gambling (more than 5% of revenue)
- Adult Entertainment (more than 5% of revenue)
- Tobacco (more than 5% of revenue)
- Recreational cannabis – THC (more than 5% of revenue)
- Coal (more than 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 category	No. of companies
Conduct-based exclusion - Environment	18
Conduct-based exclusion - Corruption	10
Conduct-based exclusion - Human Rights and International Law	40
Tobacco	26
Controversial weapons	29
Climate - Coal	138
Climate - Lobbying	5
Climate - Oilsand	9
Deforestation	12
Cannabis	1
State-controlled companies	3
Gambling	43
Total number of companies	310*

* 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.



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Michael Ancher, Danish violinist. This painting is manipulated and belongs to The Art Museums of Skagen.

The art of common sense