SUSTAINABILITY REPORT
Annual Report 2020
SKAGEN

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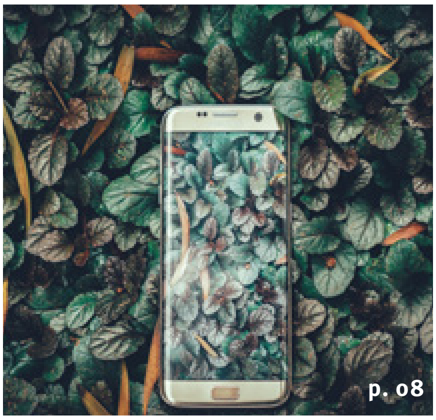

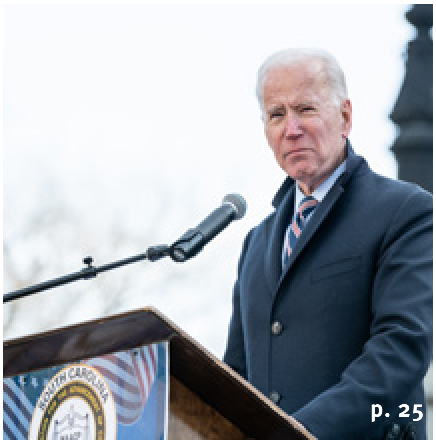

IMPORTANT INFORMATION

Except otherwise stated, the source of all information is SKAGEN AS as at 31 December 2020.

SKAGEN AS is a management company authorised by the Norwegian supervisory authority, Finanstilsynet, for the management of UCITS under the Norwegian Act on Securities Funds (Act of 25 November 2011 n.o. 11). SKAGEN AS is part of the Storebrand Group and owned 100% by Storebrand Asset Management AS. Storebrand Asset Management AS is owned 100% by Storebrand ASA. Storebrand Group consists of all companies owned directly or indirectly by Storebrand ASA.

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SKAGEN AS recommends that anyone wishing to invest in our funds contacts a qualified client adviser. No offer to sell, or solicitation to buy, will be made in any jurisdiction in which such offer or solicitation would be unlawful.

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Human incursions are now so massive in scope that they have already entered, and will endure, in geological time. Photo: © Edward Burtynsky, courtesy Nicholas Metivier Gallery, Toronto / Flowers Gallery, London

Values fit for the Anthropocene

In his recent body of work *The Anthropocene*[i] *Project*[ii], the highly regarded Canadian contemporary photographer Edward Burtynsky investigates human influence on the state, dynamic, and future of the Earth. It is far from a pretty picture; human incursions are now so massive in scope that they have already entered, and will endure, in geological time. We are now experiencing, first-hand, the symptoms of this in the form of the climate emergency, the catastrophic loss of biodiversity, the effects of pollution, even the present global pandemic, the list goes on. Many of the treatments to these ills exist, at a technical level; what remains is the will to develop and use them. The carbon expert, Mike Berners-Lee (professor and fellow of the institute for social futures at Lancaster University), presents this challenge as being the adoption of the value system required to flourish in the Anthropocene[iii].

Companies and investors alike have embraced this opportunity with relish, eagerly clothing themselves in the garb of sustainability or environmental and social governance (ESG). While this is generally good, in the stampede to a net zero carbon footprint, quality matters. And for a good number of professional investors, the purpose claimed is not reflected in the products made. Too many alleged green funds have been found to contain all manner of not so green companies; but there is good news coming.

Honesty and transparency

The long-heralded EU action plan on Sustainable Finance begins to come into effect in 2021. This new legislation will impose common standards of transparency and fiduciary duty upon the investment industry. This is overdue. A more level playing field will prevent some of the more exaggerated claims from occurring and reduce the incidence of green-washing; but investors will still need to know precisely in what they are investing, and not just what it aims to achieve.

Coming from the West Coast of Norway, here in SKAGEN we have few secrets. We were founded on the principles of honesty and

[i] The current geological age, viewed as the period during which human activity has been the dominant influence on climate and the environment.
[ii] The Anthropocene Project is a multidisciplinary body of work combining fine art photography, film, virtual reality, augmented reality, and scientific research www.edwardburtynsky.com
[iii] SKAGEN New Year Conference; 12 January 2021

transparency. We are direct and blunt. We eschew over-bold claims and prefer to be judged on our actions. This sustainability report seeks to do exactly that. It lays out what we have done towards meeting the ambition of our sustainability policy. It is factual and reflects significant efforts by both the investment team and the ESG analysts to engage closely with the companies we own, over the long-term. We aim to help through our support and collaboration. We do not expect to change the world; but we do expect our portfolio companies to understand and incorporate sustainability in their business strategy as a competitive advantage.

Active engagement – the SKAGEN way

Our purpose remains to help secure our clients' financial security, and in a way that leaves the world a better place. We aim to do this through the delivery of superior investment returns and advice, while actively engaging with the companies that we own in line with our declared sustainability policy. Our portfolio managers have made a firm commitment to this, reflected in their personal statements contained within this report. SKAGEN offers sustainability in the funds, and the policies, execution, engagement, and reporting that delivers this will continue to improve, including further tightening of the policy.

Values matter

Purpose and values matter not unless they are lived. I have seen our values lived more than ever by my SKAGEN colleagues over the period of this current pandemic. So, this year we have tried also to report openly our progress towards to the Sustainable Development Goals (SDGs)[iv] to which we have committed in our day-to-day operations. Whether it is gender equality, sustainable economic growth, or climate action, in our corporate life here in SKAGEN we seek to be judged not by our words, but by our actions towards supporting the end of poverty, protecting the planet and ensuring all people enjoy peace and prosperity.

Enjoy the report.

SKAGEN seeks to be judged not by our words, but by our actions towards supporting the end of poverty, protecting the planet and ensuring all people enjoy peace and prosperity. Photo: © Edward Burtynsky, courtesy Nicholas Metivier Gallery, Toronto / Flowers Gallery, London

Timothy Warrington
CEO

[iv] SKAGEN's three highlighted SDGs are SDG 5: Gender Equality, SDG 8: Decent Work and Economic Growth, and SDG 13: Climate Action.

No such thing as a free lunch

Our goal is clear and simple: to provide our clients with the best risk adjusted returns. The businesses we invest in strive to deliver long-term value creation, not short-term profit maximisation. Environmental, societal and governance issues play an important role in our portfolio companies.

All our companies have a carbon footprint, all employ hundreds if not thousands of people, and all look after enormous values in terms of dollars and cents. This demands strong stewardship.

We have to continue improving all sides of the ESG equation. We are under no illusion that our portfolio companies are utopian with no controversial issues regarding these important topics. However, we are optimistic and have faith in people's ability to apply their creativity and cooperate at a global level to take on the necessary battles.

A level playing field

International and local regulations are needed to ensure guardrails for market participants and a level playing field for global operators. Regulation is not a solution on its own, however. International regulation takes years to agree on and the interests of different nations often delay progress. Europe has taken the lead in developing a taxonomy to define which economic activities may be considered sustainable. The taxonomy will provide investors with clear operational guidance on what is green and what is not. The proposal has encountered hurdles, however, with 10 EU nations disagreeing with the recommendation that natural gas be considered a "transitional" fuel, even when it replaces coal in power plants. The taxonomy will eventually be agreed upon and help guide investors, even if the final outcome is a watered-down version.

Nonetheless, capital markets do not stand still and wait for regulation to be enforced before they act. Companies are developing and adopting new technologies at a breath-taking rate. Be they within energy, agriculture, buildings & infrastructure, staples or textile industries. Without a healthy climate, biodiversity, clean air and water we all know just how much future generations will suffer.

Everyone has an important role to play in the transition we are in. There is not only push from regulations, but also pull from consumers, governments, employees and investors. And as we have seen in some nations during this pandemic, we can do wonders when we all pull in the same direction.

Holistic approach to ESG

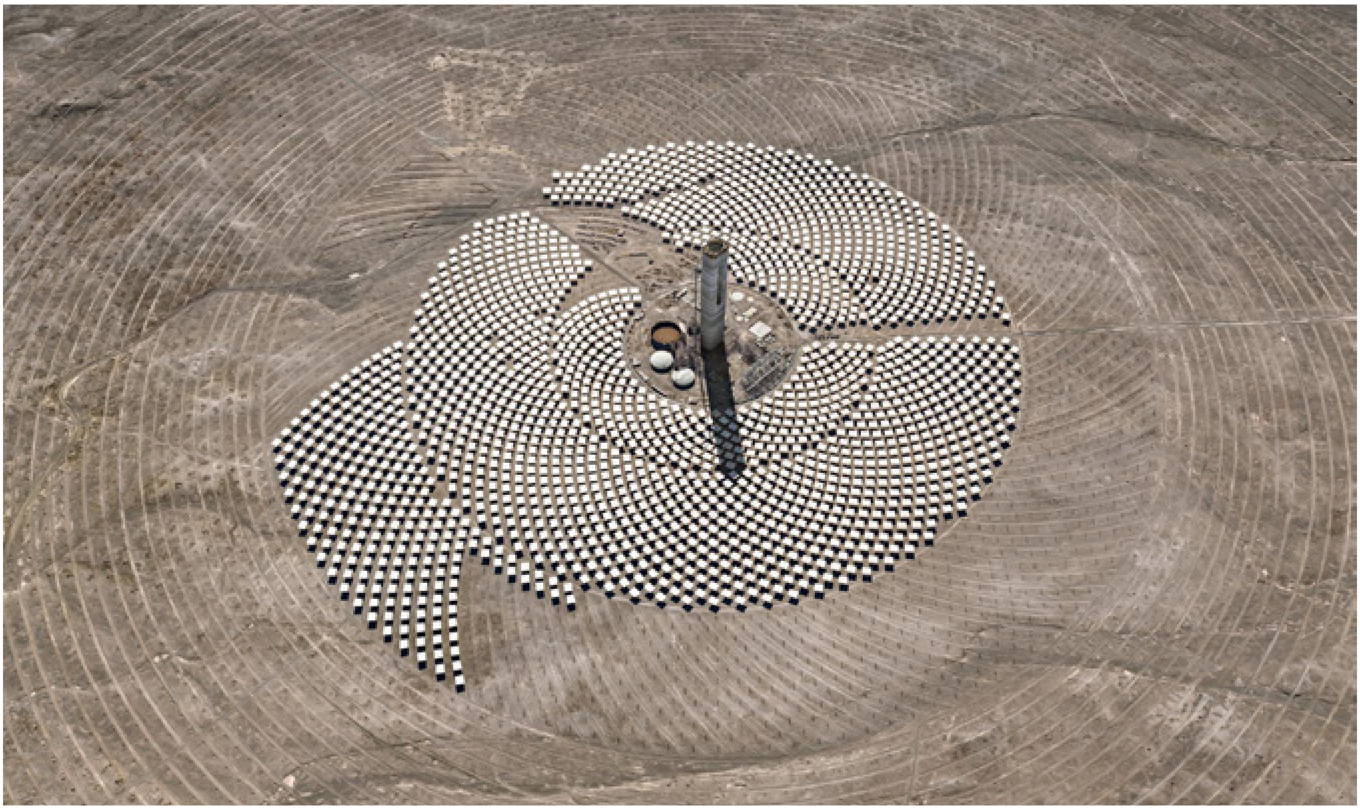
At SKAGEN we take a holistic view of ESG. For us, it is paramount that companies have a strong culture for pursuing improvements and set clear targets which are followed up and reported on regularly in a transparent way. The "E" for environment is critical, but with the accelerating rise in inequalities, we also engage in the "S" and encourage our companies to align themselves with international labour laws and provide fair living wages to their employees.

As stewards of our clients' wealth, we are firm believers that we will find winners in those companies that pursue ambitious targets and contribute to the Paris Agreement and the United Nations Sustainable Development Goals. We are less concerned whether our portfolio companies are defined as "green" today, and more focused on clear improvements tomorrow, looking ahead to 2030 and 2050.

Without a healthy climate, biodiversity, clean air and water we all know just how much future generations will suffer. Photo: mrjn Photography. Unsplash.com

The environmental crisis is a result of companies and individuals being allowed to pollute for free. Nature has been exploited beyond its capability to rejuvenate. Not from intent, but out of ignorance. Pollution can no longer be free; there must be a price to pay. Equally, paying our workers a fair living wage is a cost we cannot suppress. There is no such thing as a free lunch.

Alexandra Morris
CIO



We encourage companies, particularly those with a material carbon emission footprint, to set concrete targets to reduce their carbon intensity (carbon emissions / $million sales) over time. Photo: © Edward Burtynsky, courtesy Nicholas Metivier Gallery, Toronto / Flowers Gallery, London

ESG Engagements in 2020

Engaging with companies is a key part of an active investment manager's responsibility and ESG topics regularly feature on the agenda. We get to know the companies we invest in and offer our advice on improvements. Before deciding to invest in a company, we must have conviction in what that company is doing and trust that it will deliver value.

It is a common misconception that engaging with companies involves investors using their shareholder position to exert leverage to influence companies to change something they would otherwise have been unaware of or unwilling to address. This has been far from true in our experience.

By and large, companies are aware of the pitfalls, challenges and opportunities facing their business. The aim of the shareholder-company dialogue is therefore to create an understanding; why does a company approach an issue a specific way? Why do they focus on one specific problem when we might think there are other more pressing battles to address?

For us, the purpose of engagement is to understand priorities around capital allocation, dividend policies, climate change strategies and product development. This provides us with crucial information about a company and informs our view of an investment.

In having these discussions with companies, our aim is to come up with suggestions that the company can take on board to create joint value or improve risk management. Second, when companies encounter negative controversies that might put them at odds with global norms and standards, we see it as our responsibility not to act as judge or prosecutor, but rather to be a constructive partner by offering clear advice, guidance and expectations on how to remedy a negative event and re-align with best practice.

Our 2020 engagement activity

The volume of our engagement activities increased in absolute terms in 2020 compared to 2019. We saw a slight increase in the number of companies that we engaged with – up from 18 to 20 – but we also witnessed a rise in the number of unique ESG cases across these 20 companies – up from 20 in 2019 to 29 in 2020. We continue to engage with companies from around the world.

ESG cases covering environmental topics made up roughly 10% of our total engagements and focused on strategies to address carbon in the businesses' operations. Here, we encourage companies, particularly those with a material carbon emission footprint, to set concrete targets to reduce their carbon intensity (carbon emissions / $million sales) over time. In 2020, we endorsed the Transition Pathway Initiative, and cite their transition pathway method in discussions with companies to build awareness and promote a commitment to decarbonise their revenues and become environmentally leaner.

Social issues made up the bulk of our engagement activity this year, the most significant of these pertaining to human rights, including in our holdings' supply chains. There are different reasons for entering into a dialogue on these topics. First, the company might directly be linked to a negative controversy where human rights - as enshrined in international customary law - have potentially been infringed. Second, we may seek to understand how a company manages potential risks. Labour relations is a topic that we have researched extensively over the years, and the standards vary greatly; Western economies are not necessarily better than emerging markets when it comes to managing labour relations. We believe that a strong workplace democracy is important for the long-term development of a company; workers that are treated well, perform better.

In 2020, we were invited by companies to participate in dedicated sessions to share our feedback and advice on ESG disclosures. As these engagements and dialogues cover the full spectrum of environmental (E), social (S) and governance (G) factors, we categorise these cases as 'Multi' (10% of engagements). Participating in these sessions is important for companies for at least two reasons. First, it demonstrates clear commitment and initiative by the company to seek investor feedback to ensure that their disclosures are accurate and valuable. Second, the feedback loop facilitates further incremental development and engagement in the long run. The company may announce tweaks to their programme or introduce a metric or goal to be met over the coming years, which we as investors can monitor and guide them on.

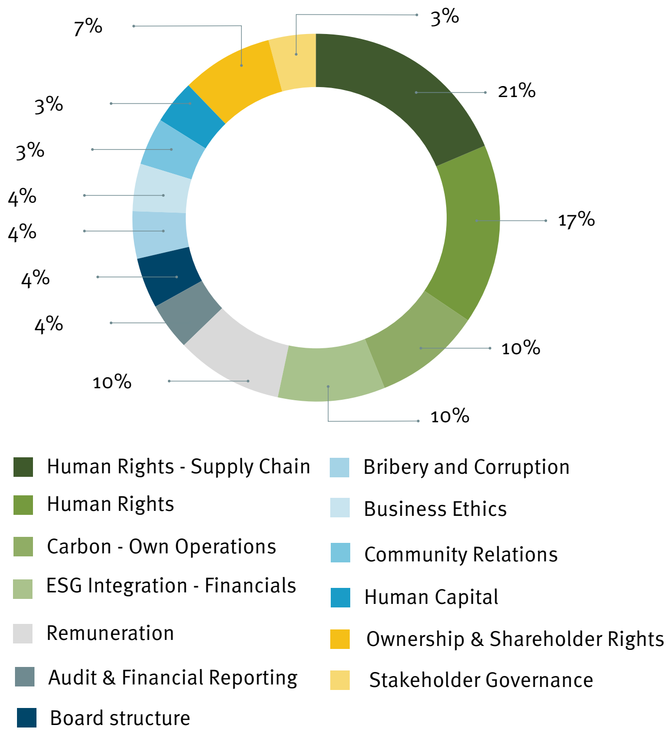
Governance continues to be an important part of our engagement activity. It is often through corporate governance that companies credibly commit to environmental or social improvement of their operations. Governance is a broad category. As a boutique active manager and minority shareholder in companies from all over the world, we frequently advocate for shareholder democracy – transparency and voice of minority shareholders, dividend policies, capital allocation and board structure improvements. Last year, remuneration and remuneration policies were the governance issue we engaged most on.

Slow and steady wins the race

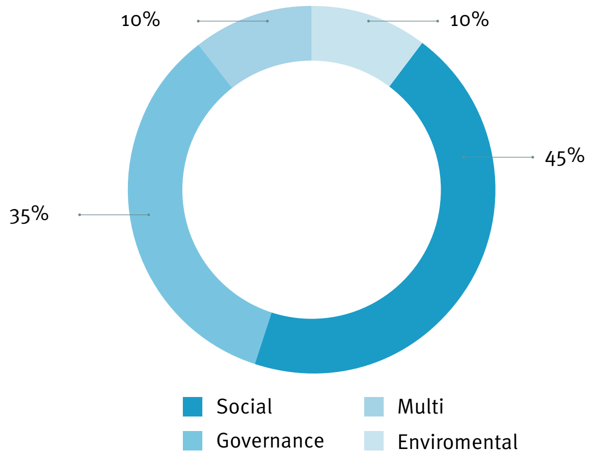
Engagements are fundamentally about promoting agency, accountability and responsibility, for us as investors and for the companies we are invested in. Not only is it the right thing to do, we also see it as an important premise for long-term value generation. We are convinced that profit and losses are not merely the result of making or breaking earnings and sales targets; they are also influenced by intangible elements and externalities.

As an asset manager, our objective is to provide the best risk adjusted returns to our clients. By engaging with our holdings and keeping abreast of management plans, we are in a better position to make informed decisions about our investment cases. We monitor developments over time, using concrete ESG metrics that are subject to longer term objectives, in order to help our portfolio companies incrementally improve and better manage ESG risks and opportunities.

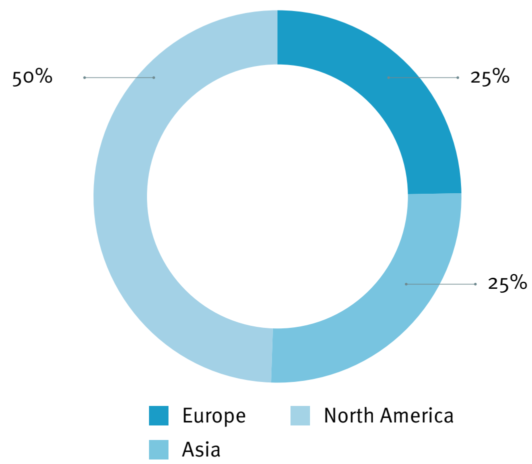
ESG issues engaged on:

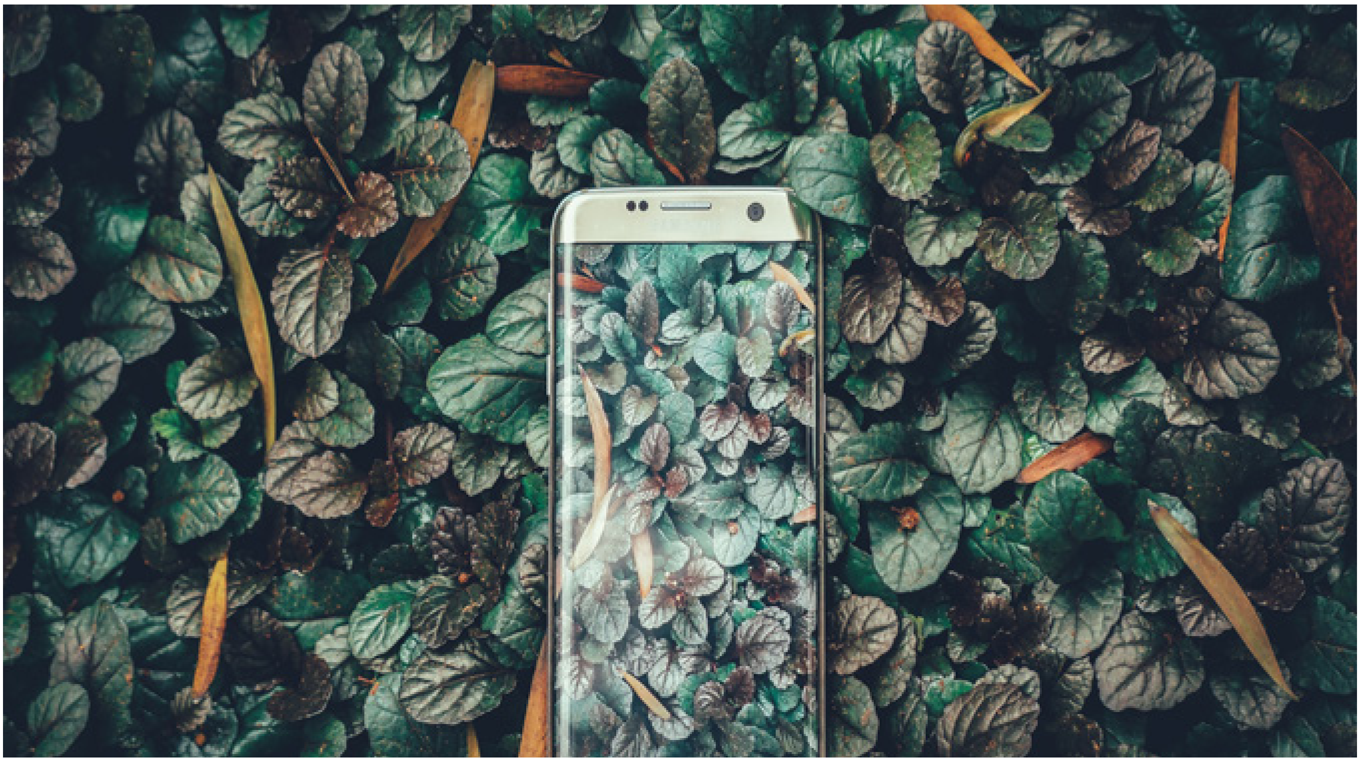


Cases by ESG Category



Engagement by region





Over the years, we, and other global investors, have engaged with Samsung Electronics to encourage them to improve transparency, corporate governance and their dividend policy. Photo: Ravi Kumar, Unsplash.com

The value of long-term active investing: Our ESG engagement with Samsung

In late 1997, SKAGEN made our first investment in Samsung Electronics. Since then, it has become a well-known and sizable staple in our equity funds and we have remained a loyal, committed but also vocal shareholder over the years.

As a boutique active value manager, one might well think that our ability to influence a company would be limited. However, being a long-term and committed shareholder enables us to build the trust and collaboration that is essential in promoting continuous improvements in the companies we invest in. Samsung Electronics is a case in point. It is against this backdrop of trust and conviction that we have set out our clear expectations to the company, and this has in turn led to dialogue and impact on numerous occasions. The size of our stock ownership has not mattered.

Collaboration, not pressure

Indeed, we believe that the key reason why our most recent engagement with Samsung Electronics on ESG matters at Storebrand Group level was resolved successfully, was not investor pressure, but rather investor collaboration and trust.

During the early days of our active ownership dialogue with Samsung Electronics, the themes were defined by the times. With Samsung expanding to become a global company in the early 2000s, they also needed to raise the bar on corporate governance, for example by publishing an English version of their annual report and broadening their corporate governance metrics to cater to global shareholders.

Over the years, we, and other global investors, have engaged with Samsung Electronics to encourage them to improve transparency, corporate governance and their dividend policy, amongst other things, in order to ensure that they continuously adhere to corporate governance standards globally.

An active partner

As active and long-term shareholders, we believe it is our responsibility to partner with the companies we invest in and not to selectively associate in good times and disassociate in bad times. That is not to say that we have not set clear expectations for improvement – we have. Long-term ownership provides us with

The company is in a position to make significant contributions to a more sustainable future, be that within energy efficiency, components for renewable energy or use of materials in their product stewardship. Photo: Nathan Dumlao, Unsplash.com

the invaluable opportunity to build trust and cooperation over time to incrementally improve business operations.

Recent engagement

The most recent Samsung controversies occurred in 2016 in relation to bribery and family succession and control of the Samsung Group, with Samsung Electronics being the crown jewel. In parallel to the bribery scandal, we also engaged with Samsung on a union sabotaging controversy. When the controversies unfolded, we benefitted from already understanding the broader historic context of the controversies, which in turn informed the required route of action needed to remedy them. More importantly, we also understood the importance of having a dialogue that was based on cooperation rather than conflict, especially when considering the real risk that we would have to liquidate our position if Samsung did not significantly improve over a two-year period.

We defined firm expectations and KPIs that we believed were necessary to remedy the situation and travelled to meet the company for discussions and status updates in South Korea as well as during roadshows in Europe. Trust in management to address and rectify the issues was always present as was our belief that we could collaborate to realise that change through our long-standing shareholder relationship.

ESG is centre stage in South Korea

The positive outcome of our engagement with Samsung Electronics is an important example of how we as an active value manager can create positive impact – for our investments, for the premises of the investments and consequently, for stakeholders.

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

As a result of this engagement, Samsung Electronics is now on a positive and more committed stakeholder trajectory. The company is in a position to make significant contributions to a more sustainable future, be that within energy efficiency, components for renewable energy or use of materials in their product stewardship. Our conviction in the company remains steadfast and we look forward to continuing to engage with them in 2021 and beyond.

Notable outcomes:

- Separation of Chairman and Chairman of the Board
- Introduction of an Independent Compliance Committee consisting of independent members and headed by a former Supreme Court judge
- End of 'no-union' policy

Voting activities

In SKAGEN we believe in exercising our rights as shareholders. Proxy voting gives us the opportunity to vote without being physically present at meetings. As active investors we feel that it is important to vote in order to address concerns and influence companies in a direction that we believe is sustainable.

In all cases where we vote, the portfolio managers familiarise themselves with the case being voted on, before arriving at a proxy vote decision that follows our voting guidelines and is believed to be in the best long-term interest of our funds, and therefore also of our unit holders.

SKAGEN attends several shareholder meetings in person but we also have the opportunity to vote electronically through Institutional Shareholder Services ("ISS"). ISS delivers notices of general meetings, information about the companies, the voting items on the agenda and provides recommendations for each case. Each fund also has a custodian bank which provides information related to general meetings. Each custodian is approved by the Financial Supervisory Authority of Norway.

Proxy voting dashboard

We value transparency highly in SKAGEN, which is why we have implemented a proxy voting dashboard on our website. This solution provides an overview of our holdings and voting activities. All votes are published on our website the day after the vote has been cast, which is in line with best practice on voting disclosure. In the cases where we cast votes that do not align with our voting policy and/or with company management, a full explanation will be provided on the dashboard.

Voting is monitored by SKAGEN's compliance function to make sure that we vote in as many instances as possible and in accordance with our policy. We seldom need to make exceptions to the policy. Reports are sent to SKAGEN's Board of Directors with an overview of voting activities.

Voting in 2020

In 2020, there were 205 voteable meetings at our portfolio companies, with 2,664 voteable items on the agenda. SKAGEN voted on 97.8% of the items, which is more than two percent up from last year. Votes cast were in line with management recommendations 94% of time, while 6% of the time we voted

Year	2020	2019	2018
Number of meetings voted	200/205	231/242	217/223
% of meetings voted in	98%	95%	97%
Number of ballots voted	446/462	369/384	336/345
% of ballots voted on	97%	96%	97%

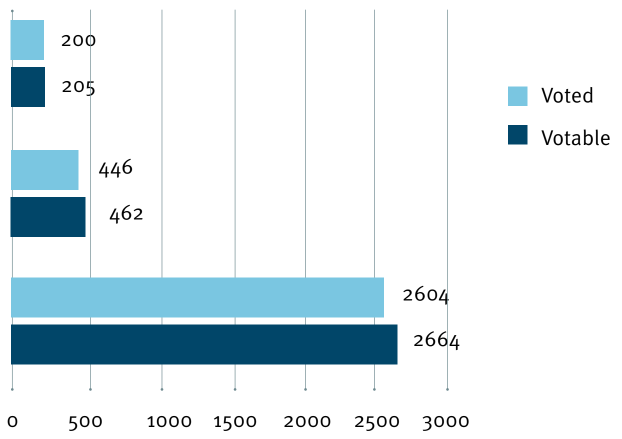
against management recommendation on one or more items on the agenda. Cases in which we voted against management were typically related to:

- Insufficient information ahead of meeting
- Quality of the board and its members
- Anti-takeover mechanisms
- Needless or unfair changes in capital structure
- Excessive executive compensation
- Disclosure proposals related to climate change

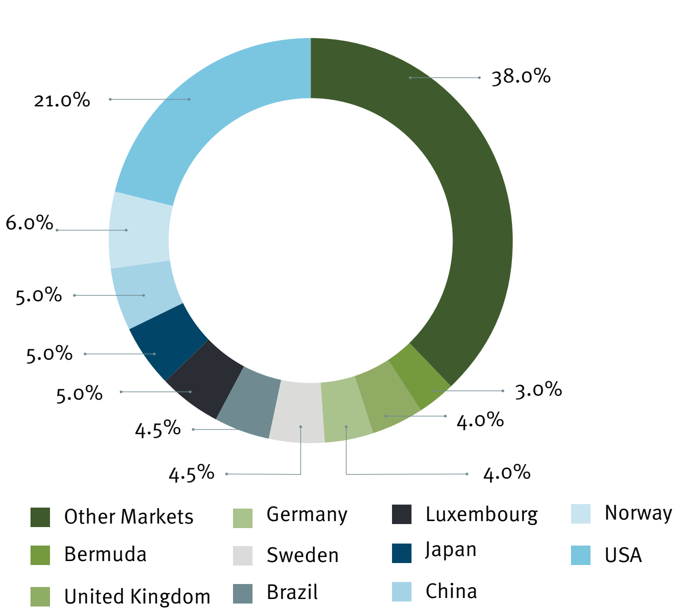
As active investors with a broad global footprint, we recognise that all cases are unique. How we handle cases and issues is very much dependent on the geographical area, sector, industry and individual company in question.
[Our full voting record is available here]

An overview of our voting activity in 2020 is illustrated below:

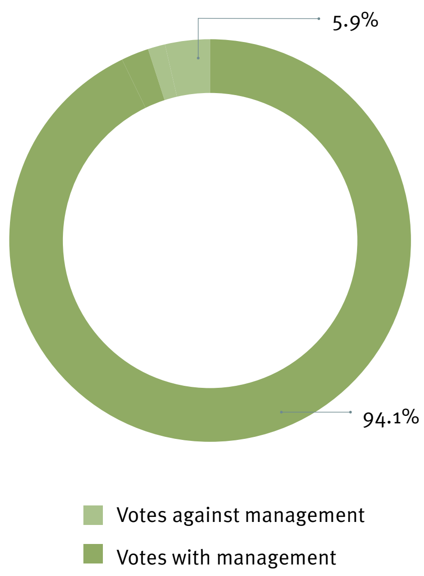
Meetings voted by market



Meetings voted by market



Votes cast statistics



We have increased exposure to electrification as a theme via our investments in copper mining companies – copper being essential for electrification – as well as EV battery producers. Photo: Andrew Roberts, Unsplash.com

SKAGEN Kon-Tiki: ESG in Emerging Markets

Consistent with SKAGEN Kon-Tiki's long-term investment approach in emerging markets (EM), ESG considerations have been part of our fundamental research process when picking portfolio companies long before ESG became a buzzword. As minority investors, this is essential to enable us to make informed decisions about the value of a company.

By having an understanding of a company's principle ESG issues ahead of investing, we can better understand not only how sustainable a business model is but also, what the major risk factors are.

A good example here would be the risk of disruption, perhaps best exemplified by the auto industry which is at the onset of transitioning to a more sustainable future. In 2020, "everything related to electric vehicles (EV)" seemed to have been given a boost in the stock market. While we have significantly reduced Kon-Tiki's exposure to the auto sector in recent years, we have increased exposure to electrification as a theme via our investments in copper mining companies – copper being essential for electrification – as well as EV battery producers.

ESG: a source of new ideas

By integrating ESG into our research, we have also found it to be a good source of new idea generation. Examples include portfolio companies Atlantic Sapphire with its sustainable protein production through land-based salmon farming, and Orbia, one of the leading companies within precision drip irrigation systems, with its focus on water retention.

An integrated research approach to ESG also helps us to assess the quality of management and their strategic positioning. Depending on the industry, it can, for example, give us a better understanding of branding opportunities, customer perception, product safety, culture, employee retention, incentives and benefits, etc. Overall,

By integrating ESG into our research, we have also found it to be a good source of new idea generation. Examples include portfolio companies **Atlantic Sapphire with its sustainable protein production through land-based salmon farming.** Photo: Atlantic Sapphire

we believe an ESG focus helps us make better informed investment decisions, and provides us with a better safeguard against uncertainties.

EM versus DM

From an ESG perspective, there are several key differences between investing in emerging markets (EM) versus developed markets (DM). More mature markets with higher institutional ownership and more developed governance codes tend to be stronger at addressing agency risks for example. In EM, we commonly meet with dominant shareholders (often founders or state-owned enterprises) which means there is often a greater divergence between minority investor and majority owner interests.

The companies we invest in should, in general, have a structure that demonstrates stewardship of assets and value over time, as well as protection for minority shareholders. We seek to understand the decision makers, whether there are conflicting motives, how risk and reward are assessed and whether returns made on incremental capital fall back to us as shareholders. These are issues which can be difficult to judge without actively meeting the companies. We have found that company accessibility has improved greatly since the onset of COVID-19, helped by technology.

Historically, reporting on ESG issues has been inferior in EM. There remains a lack of universal reporting standards, but we have seen great strides in improved transparency within many EM companies, particularly over the past couple of years, and this puts pressure on others to follow suit. Stock exchanges initially played an important role in encouraging clearer reporting and disclosures, but we believe investor attention is now pushing companies to improve standards.

Focus on engagement

We have intensified our focus on engagement over recent years, something that enables us to raise management awareness of how ESG factors can help shape a company's operations and thereby increase its valuation. In 2020, we engaged with companies directly on ESG matters in more than 10 unique cases. Our experience is that companies are increasingly willing to listen to long-term shareholders like us. In general, companies are very receptive when we engage with them on issues such as reporting standards, improving governance standards to industry/global best practice, connected transactions disclosure, potential conflicts of interest resolution, minority interest protection, shareholder return/balance sheet management, human rights practices, and feedback on the nature and quality of ESG disclosures. There seems to be a genuine interest, at a general level, to use informed and long-term investors as sounding boards for improved governance practice in EM. Our dedicated in-house ESG experts have been very helpful in our engagement work as this adds credibility to our process.

Sustainability is key to long-term investing

Academic research has proven that sustainability matters for long-term investing. The mainstream view in the past was that sustainability was something that restricts the ability to generate returns; the evidence now is that it enhances it. While we subscribe to external vendors for ESG updates and reports, we exercise our own judgement and make our own decisions about the sustainability of a business and its attractiveness. Some ESG consultants still appear too backwards looking and often focus on ticking boxes and assigning scores which do not necessarily reflect today's reality. Active management is therefore all the more important in EM where the improvement potential is greater with regard to all E, S and G factors.

Cathrine Gether
SKAGEN Kon-Tiki,
Portfolio Manager

During the past five years, Canadian Pacific has gone from laggard to leader in the ESG space among the North American railways according to Sustainalytics. Photo: Andy Holmes, Unsplash.com

SKAGEN Global: Three-sixty ESG

SKAGEN Global believes that ESG is an area that long-term investors need to include as part of the bottom-up due diligence and integrate in the overall risk-reward assessment.

Intuitively, many investors think of ESG analysis as a tool to limit downside risk by unmasking poor practices that may not have shown up in financial statements yet. This reasoning is sound, but it does not capture the full value afforded by a 360-degree ESG assessment. Crucially, there is also upside risk that ESG analysis may help uncover. That is to say, companies with good (or improving) ESG practices can be seen as providing a type of optionality that the market has not yet begun to value properly.

In SKAGEN Global, we take a long-term view of our investments and seek out undervalued companies that ideally have the ability to control their own destiny rather than having exogenous factors determine their fate. The ESG aspect becomes particularly enticing when it offers meaningful optionality to an investment case that is already fundamentally attractive. One of our investments that fits this line of thinking is the railway company Canadian Pacific (CP) that we also classify as an ESG impact case.

CP has been part of the North American landscape since 1881 and serves customers through its transcontinental rail network that spans 20,000 km. It hauls a range of goods ranging from grain and lumber to autos and chemicals. Over the past few years management have improved operations by better use of precision performance and its innovative railway performance monitoring system. As long as global trade continues to grow, we believe CP is in an enviable position with access to ports facing both Asia and Europe while controlling a vast network of railroad tracks that is virtually impossible for a competitor to replicate in today's world. This competitive advantage

CP points out that trains are four times more fuel efficient than trucks with 75% less greenhouse gas emission. Photo: Adam Bixby, Unsplash.com

combined with a robust balance sheet, solid cash flow generation and opportunities to deploy capex towards incremental value-enhancing growth opportunities while trading at an appealing valuation point to a strong underlying value proposition.

From ESG laggard to leader

On top of these features, there is an ESG angle that we argue is only partially appreciated by the wider market. During the past five years, CP has gone from laggard to leader in the ESG space among the North American railways according to the third-party analytics firm Sustainalytics. We view this development as a tangible sign that CP recognises the importance of ESG. More broadly, a key benefit of railroads versus other modes of transportation is that metal wheels on metal tracks constitute a highly economically and environmentally advantaged method for long-distance freight hauling. In practice, this means low carbon intensity. CP points out that trains are four times more fuel efficient than trucks with 75% less greenhouse gas emission. The company also highlights that a single-unit train is the equivalent of 300 trucks. In this context it is not surprising that CP's scope 1 emissions are low both in absolute and relative terms in the transportation sector. Building on that point, we see significant upside optionality from a scenario where shippers begin to consider emissions in their choice of transportation mode.

No imminent threat from self-driving trucks

The more recent focus of ESG investments has concentrated on battery technologies and electric vehicles. It is increasingly clear that the car industry is heading toward electrification, although the timeframe for wide adoption remains unclear. As far as electric trucks with autonomous driving capabilities are concerned, we do not see them becoming an imminent threat to CP in this decade, or possibly even in the next one. The speed by which trains can transport goods across vast land areas is unlikely to be matched by self-driving electric trucks on public roads for many years. In our view, the more likely debate to ensue is not whether electric vehicles will outcompete trains but how valuable the low-emission transportation mode offered by railroads is to society at large. It is therefore conceivable that the next phase in the public ESG debate will encompass transportation in a wider sense. CP would be particularly well positioned in such a scenario that could afford the company a premium valuation that is meaningfully higher than the multiples implicitly assigned to the company today by the market. We are excited by this opportunity and have climbed onboard for the ride!

Knut Gezelius
SKAGEN Global,
Portfolio Manager

Befesa, the European market leader in the recycling of hazardous waste, was a solid contributor to SKAGEN Focus during 2020 and a unique value creator for all its stakeholders. Photo: oneSHUTTER oneMEMORY, Shutterstock.com

SKAGEN Focus: ESG in small and mid-cap value stocks

Contrary perhaps to conventional wisdom, companies with a business model that directly contributes to more sustainable outcomes need not have a premium price tag. That is at least the experience from our global equity fund with a bias towards small and mid-cap companies.

Befesa, the European market leader in the recycling of hazardous waste, was a solid contributor to SKAGEN Focus during 2020 and a unique value creator for all its stakeholders. Our investment in Befesa serves as a good example of how value opportunities can arise even among ESG pearls like Befesa, as temporary market dislocations continuously create opportunities for contrarian investors.

Role in the circular economy

Befesa plays a vital role in the circular economy as a provider of hazardous waste recycling services to steel and aluminium recycling companies. Befesa recycles around 1.5m tonnes of hazardous residues annually, avoiding landfill and recovering and reintroducing around 1.2m tonnes valuable new materials. As such, Befesa holds a key position in the value chain of the steel and aluminium circular economy and the company's core business is focused on sustainability.

The company operates in a niche market and has an "implicit" monopoly with solid underlying trends while it provides a critical service with high barriers to entry. Steel dust and aluminium salt slag recycling is a highly regulated and necessary service. Befesa is therefore uniquely positioned to benefit from the long-term secular

With about 100m tonnes of EAF steel produced in 2019, China generated approx. 2m tonnes of EAF dust, most of which would not have been recycled. Photo: Annie Spratt, Unsplash.com

trends in the demand for EAF steel and aluminium production, driven by a stable commercial construction outlook and the ongoing lite-weighting of vehicles in both Europe and Asia.

A full-service approach

Befesa's business model is based on a full-service approach offering waste management solutions to its customers in the steel and aluminium industries. The services cover timely and efficient collection and treatment of hazardous waste – mainly steel dust and salt slags – from customers' facilities. This enables Befesa's customers to meet its environmental and regulatory obligations, namely, to recycle the hazardous waste generated in their operations. The company has several sources of revenue as it charges service fees for the treatment and collection of residues as well as a fee for returning the metals/selling them on the market, exposing them partly to the cyclicality of raw material prices.

We have followed Befesa since their IPO in 2017 but first established a position in mid-2019 at a significant discount, when overcapacity within the European steel sector and lower commodity prices clouded the company's short-term prospects. We later added to our position during the outbreak of the Covid pandemic in 2020 when shares unjustly sold off in line with other European industrial producers, not giving credit to the rigidity of the business model and its operations, which are regarded as a critical service.

Expansion potential in China

A second leg to the investment case of Befesa is their significant expansion potential in China, a market in great need of their services. With about 100m tonnes of EAF steel produced in 2019, China generated approx. 2m tonnes of EAF dust, most of which would not have been recycled. In 2016-17, China declared EAF dust a hazardous waste, providing momentum for steel dust recyclers in China. Befesa is still the only international player moving into the market and will have its first plant up and running by the end of Q1 2021, giving them a unique advantage. China has also introduced measures that are favourable to the long-term production of EAF steel, which is further supportive for the growth in EAF dust volumes.

Befesa entered the fund when the share price discounted a permanent collapse in demand, while we believed Befesa was exposed to positive structural long-term growth opportunities, especially from environmental legislation, rising zinc content in steel dust and international expansion. Its market-leading position, favourable competitive environment and high capacity utilisation, coupled with a de-risked strategy of long-term raw material hedging, leads to strong margins and high-quality cash conversion. The company benefits from the growing awareness of sustainability, as Befesa's business model is a vital part of the circular economy.

David Harris
SKAGEN Focus,
Portfolio Manager

The inability of consumers to make use of rented real estate during the Covid-19 lockdown has resulted in tenants demanding increased flexibility of contractual terms and alignment of interests from their landlords. Photo: Aaron Huber, Unsplash.com

SKAGEN m2: Incremental ESG change in the real estate sector

Real estate is of growing importance to society, both in terms of how the built environment tackles climate change and how it interacts with its customers, community and other stakeholders.

Covid-19 has turned what tenants need from a building on its head, with sustainability, health and wellbeing now firmly at the top of the agenda. Environmental concerns are acute and need to be addressed before regulation forces the hand of the landlords. For SKAGEN m2, ESG considerations have long been one of the key metrics we look at when investing. It is not just the wish to contribute to a better planet; we also see it as increasingly important to avoid unnecessary company specific risks. A company's most elevated risks are those linked to reputation, regulatory change, change in consumer preferences and corporate governance.

Reputation

The inability of consumers to make use of rented real estate during the Covid-19 lockdown has resulted in tenants demanding increased flexibility of contractual terms and alignment of interests from their landlords. There are several positive examples in SKAGEN m2 of landlords having voluntarily facilitated tenants' rental payments. This desire for flexibility may alter the balance between tenants and landlords. Reputational risk may exist for those landlords not willing to offer such flexibility.

Government regulation

An increasing regulatory burden can raise costs and/or constrain revenue growth. Environmental legislation passed by many European nations (e.g. MEES in the UK) require measures such as limits on acceptable levels of emissions and mitigation technologies associated with these. There measures are likely to result in increased development costs within the sector, by requiring adherence to sustainable building standards. We have previously commented with regard to our holding in German residential operator Deutsche Wohnen on how government regulation targeting housing affordability within the residential sector (e.g. rent controls) may also impact the sector.

Changing consumer preferences

Increased emphasis from tenants and investors on companies to align with environmental standards may result in pressure on demand and occupancy levels. This may be the case, specifically for those companies deemed to fall short of compliance. Rent premiums are not yet paid to landlords for "Green" buildings, however downside risk may exist for those companies without such an offering. The pressure from tenants and investors may also accelerate the sector's adoption of environmental standards.

Corporate governance

Alignment of management and shareholder interests through pay structures and anti-takeover measures is a consideration for the sector. A good corporate governance structure is crucial to any company to ensure long-term value creation. Transparency, responsible board/management, and alignment of management and shareholder interests through pay structures are key pillars of a sound corporate governance strategy. SKAGEN m2 has a 100% voting record at AGMs, demonstrating our engagement and active management. If necessary, we engage more deeply either to create long-term change, or to discuss specific events.

Physical risks

These are mainly risks involving climate, weather and extreme events that affect assets and people. A common example is the increasing number of floods taking place around the world.

Sustainability as an investment theme

Sustainability is one of the main investment themes for SKAGEN m2. Our long-term thesis is simple: the more sustainable the asset, the higher the occupancy and the rent that tenants are willing to pay. We are convinced of the positive direction of this trend, and we believe the penalty for doing nothing will be material.

The E (environment) is the most dominant ESG factor from a real estate perspective, with buildings accounting for more than 33% of global greenhouse gas (GHG) emissions and global energy consumption. It is therefore reasonable to state that real estate is heavily accountable for contributing to global warming and climate change. Looked at another way, real estate has the scope to drive positive change, not just in terms of leading by example, but also in terms of reducing global emissions.

Innovative solutions

The significant potential within the real estate sector to improve energy efficiency is well known and real estate companies opt for a variety of innovative solutions. One example from the m2 portfolio is the Finnish residential rental operator Kojamo, which deploys AI to optimise the energy consumption of its residents and generate increased awareness of their consumption of water, heat and electricity. Improved data gathering and user-awareness also leads to lower costs for residents and companies alike.

The E (environment) is the most dominant ESG factor from a real estate perspective, with buildings accounting for more than 33% of global greenhouse gas (GHG) emissions and global energy consumption. Photo: Connor Houtman, Unsplash.com

Paving the way in logistics

Meanwhile, in the logistics real estate industry, landlords are paving the way towards energy consumption optimisation, improving both the environmental footprint of their properties as well as reducing costs for their tenants. Our portfolio holdings Prologis and Catena are two good such examples. Prologis offers more than 200MW of solar energy capacity in ten countries and customers only pay for the solar energy they use. They have also led the way in making LED lighting the industry standard. Lighting accounts for up to two thirds of electricity use in the logistics real estate space and LED lights can deliver better light at a lower cost. Catena have gradually been implementing an energy-tracking system since 2015 which provides great opportunities for identifying problems and savings potential. Heating and electricity are the largest operating cost for their tenants, so optimising their energy consumption not only improves their environmental footprint but also has a positive financial impact for both Catena and their tenants. They take advantage of geothermal energy where possible and deploy photovoltaic cells on the roofs of their properties.

Within healthcare related real estate we have noted strong commitment to advance positive social impact. Photo: Jonathan Borba, Unsplash.com

Tackling energy-intensive data

The data centre industry is another good example of a real estate segment where there is a high need to tackle the energy intensity of data and the internet – the internet industry contributes to emissions in line with the aviation industry on a global basis. Data centre providers have increasingly realised the importance of sourcing renewable energy to run their operations – not only because it is the right thing to do, but because it attracts new clients.

SKAGEN m2 is invested in Switch, a US data centre provider which has been running on 100% renewable energy since 2016. The company's efforts were recognised by Greenpeace in its latest Clicking Clean Report, where Switch received the highest rating for any class of company. In our portfolio we also have the world's largest data centre operator, US company Equinix. Since 2015, Equinix has increased its renewable energy coverage from 33.5% to 92% globally in 2019 even as the portfolio has doubled.

Recognising social responsibility

Increasingly we are seeing companies in the real estate space recognising their social responsibility, particularly in the residential sector. One of our investments, Deutsche Wohnen, a German residential landlord has written five promises to their tenants, one of which is to let one in four apartments to tenants entitled to social housing. During the Covid pandemic we have also seen several of our portfolio companies engaging with their tenants and providing them with rent deferrals to help them through the challenging period.

Within healthcare-related real estate we have also noted strong commitment to advance positive social impact. One example is Assura, our UK medical office provider, which launched a new "six by six" strategy, where their ambition is to have six million people benefit from improvements to and through their buildings within six years. They launched a community fund to support health improving projects in the communities around their buildings and issued their first social bond, raising £300m over 10 years with 1.5% interest. The bond will be used to further scale and deploy publicly accessible primary care and community healthcare centres. 2021 should certainly provide further impetus for innovation within the real estate sector and stimulate the engagement of potential tenants and investors alike.

Michel Gobitschek
SKAGEN m2,
Portfolio Manager

Instead of simply labelling sectors as either good or bad, investors will start to focus on individual companies making real ESG improvements. This should result in lower risk premiums for **companies such as the Swedish specialty steel company SSAB.** Photo: Christophe Dion, Unsplash.com

SKAGEN Vekst: ESG in the Nordics

SKAGEN Vekst considers ESG factors to be an essential part of our research process, in the same way that we analyse all elements which could impact a company's fundamental value.

We believe many investors currently have an overly simplistic approach to ESG which focuses predominantly on a company's current sustainability rating, rather than expected improvements in ESG factors. In addition to ensuring that our holdings meet SKAGEN's existing ESG requirements, our research almost entirely focuses on the future. Our view is that ESG is no different to other components of valuation; what is already known is typically reflected in the share price and it is the factors that change future earnings and/or risk premiums that drive fundamental value creation.

SSAB – Swedish steel company

In this regard, the Nordics are a fantastic hunting ground for unappreciated long-term ESG winners in what are often perceived as problem sectors. The Swedish specialty steel company SSAB is a good example. It operates in a typical "problem" sector but scores significantly better than peers on most ESG parameters. Importantly for us, this aspect is not captured in either future earnings estimates or the current risk premiums (the stock trades on the same implied cost of capital as its peer group).

In terms of future earnings, we believe the continued focus on the environment and associated changes in taxation, such as carbon taxes, should allow companies producing "greener" steel to charge a premium price for their products. However, future earnings estimates suggest that the market currently fails to recognise such premiums, which means that this could be a significant share price trigger for SSAB.

On a similar note, we believe that ESG investing will become more refined as it matures. Instead of simply labelling sectors as either good or bad, investors will start to focus on individual companies making real ESG improvements. This should result in lower risk premiums for companies such as SSAB. Firstly, its new production technology would make a real difference from an environmental perspective. Secondly, it will reduce the risk of SSAB being subjected to higher taxation as well as the substitution threat from more environmentally friendly products.

Important to be selective

This doesn't mean we won't invest in obvious ESG winners, but we will remain selective as a higher sustainability rating is often reflected in a higher share price. Here, the IT sector offers an important lesson. While its eventual development met and arguably surpassed even the most bullish projections made in 2000, the majority of the largest IT stocks performed poorly over the following 20 years. We think the market is making a similar mistake today for many environmentally focused companies.

It is still early days for many "green" sectors and the current pioneers are by no means certain to be the long-term-winners, as investors in many fledgling technology companies have painfully discovered. While the market was correct in forecasting massive overall growth, it similarly failed to see how competitive pressure would lead to minimal value creation and often destruction for many companies in the process.

One green champion that has made its way into the SKAGEN Vekst portfolio is the Danish windmill producer Vestas. Photo: Efe Kurnaz, Unsplash.com

Vestas – Danish windmill producer

One green champion that has made its way into the SKAGEN Vekst portfolio is the Danish windmill producer Vestas. However, we do not own Vestas for the significant growth expected in the windmill sector – everyone can see this and it is fully reflected in current earnings estimates. Instead, we invested as we see similar characteristics to those we saw in Samsung Electronics 20 years ago. Vestas has an established technological advantage over its peers and is the only company currently making money in this fast-growing industry.

Importantly, its larger scale and stronger balance sheet enables Vestas to vastly outspend competitors in R&D. On the back of this, we expect the company to continue strengthening its competitive position, leading to continued market share gains and ultimately industry consolidation – something that is not reflected in the current valuation.

It is also useful to remember that the manufacturing of windmills is a commodity business with low margins and a fairly high degree of cyclicality. However, Vestas' service business is a completely different story with high margins, low capital intensity, and high visibility due to long contract structures. As the service business becomes a larger part of total earnings in the coming years, we expect the market to reward Vestas in the form of a higher earnings multiple. In conclusion, while the green revolution will expand Vestas' market opportunity significantly, the incremental share price appreciation will come from earnings upgrades and lower risks, driven by industry and competitive specific factors – like in any other sector.

Søren Milo Christensen
SKAGEN Vekst,
Portfolio Manager

The core of our investment philosophy is to try and identify the countries where we see the greatest potential for sustained economic growth. Photo: Marc Ruaix, Unsplash.com

SKAGEN Fixed Income: ESG and the importance of strong institutions

As is the case for all of SKAGEN's funds, sustainability is an integrated part of the investment process for SKAGEN Avkastning and SKAGEN Tellus and we are bound by the exclusion lists covering companies and countries.

The core of our investment philosophy is to try and identify the countries where we see the greatest potential for sustained economic growth. And while there are many determinants of economic growth, one important enabler is to have strong and sustainable institutions (where institutions are defined broadly and include areas such as central banks, educational systems, health care, rule of law, etc.).

By identifying countries where we see relatively strong and improving institutional frameworks, we seek to increase the probability of picking the best performers for the long term. Strong and sustainable institutions are also important factors for the assessment of credit risk. This is partly because of the relationship to economic growth highlighted above, but also because of the importance of trust and transparency for credit investors.

The relationship between sustained growth and institutions does not just flow one way, however, and strong economic growth will typically also help foster strong and sustainable institutions such that you ideally get a virtuous circle with continuous improvement. And, of course, the most important result of strong economic growth is to move people out of poverty which is arguably key to achieve most development goals.

Sondre Solvoll Bakketun
SKAGEN Fixed Income,
Portfolio Manager

ESG is an essential and explicit selection and deselection criteria for funds within our fund-of-funds. Photo: Yair Mejía, Unsplash.com

SKAGEN Select: Engaging with other asset managers on ESG

ESG is an essential and explicit selection and deselection criteria for funds we use within our fund-of-funds. The funds we invest in have concentrated portfolios, where any inadequate assessment of risk can have significant consequences.

Every meeting we hold with any fund manager involves a conversation on how they assess ESG risks within their holdings. We expect them to be both aware of controversial issues, and have taken steps to engage with the companies where possible. We prepare for these meetings by screening the portfolios in advance and using the resources of our ESG team to discuss holdings that are in the group's standard exclusion lists or are thematic areas of concern. For some meetings, we ask our ESG analysts to join us to facilitate the conversation. The knowledge we gain from these conversations helps us in turn with future engagement. Where we find the engagement efforts by the fund manager to be unsatisfactory, we divest from the fund in question.

Midhat Syed
SKAGEN Select,
Portfolio Manager

Under President Biden, the US administration might commit to a greener transatlantic trade relationship with the EU, by potentially embedding carbon taxes in the flow of goods. Photo: Crush Rush, Shutterstock.com

United [in] States of Emergency

Ever since the formation of basic state apparatuses, there have been exceptional moments and situations that have warranted a suspension of normal proceedings and legal rights by sovereign powers in order to combat an existential threat; such as invasions by other states, pandemics, or natural disasters. As Europe enters 2021 on a new wave of lockdowns, last year really cannot be summed up as anything other than a global state of emergency.

While the current pandemic and national emergency responses will abate at some point, the global order will continue to be in multiple and often overlapping states of emergency such as (geo)political instability, poverty and rising inequality and decline in biodiversity, for the next few decades. However, the declared climate emergency is the ultimate state of emergency, superseding and informing all others. The consequence of operating in a quasi-permanent state of multiple emergencies will lead to messy policy responses and ensuing uncertainty – including in the financial markets. It will be more important than ever that states, markets, and people are united in our efforts to address and overcome these emergencies.

Unpacking states of emergency

The response to a state of emergency is often the implementation of martial law – suspension of civil law and introduction of military control by a state. This allows for the necessary and expediated response to an exceptional crisis. However, more modern examples show that while responses to emergencies might result in military mobilisation, they can also take on a distinctly political characteristic; the framing and narrative deployed in the normal democratic process and in the rhetoric of political agenda setting.

A recent example of this sort of dynamic was highlighted by Jonathan White in his paper *Emergency Europe*[1]. This gave rise to the concepts of 'Emergency Europe' and 'Emergency Politics' during the Eurozone crisis and the pressure from other euro economies to deny a Greek referendum on the rescue packages and ensuing policy reforms which culminated in the well-known 'austerity' regime.

The new normal

As a rule, emergencies and emergency politics relate to very specific events and their relatively imminent closure; they are not supposed to last for a protracted length of time. However, the duration of the climate emergency should be understood as the new normal – it will be with us for the next decades and shape politics, public

[1] White, Jonathan (2015), 'Emergency Europe', Political Studies, 63 (2), pp. 300-318, available at: http://eprints.lse.ac.uk/52841/1/__lse.ac.uk_storage_LIBRARY_Secondary_libfile_shared_repository_Content_White%2C%20J_Emergency%20Europe_White_Emergency%20Europe_2015.pdf

As investors, we need to balance urgency with prudential risk management of the issues facing the planet and the capital that we manage on behalf of our clients. Photo: © Edward Burtynsky, courtesy Nicholas Metivier Gallery, Toronto / Flowers Gallery, London

discourse and financial markets alike. The exceptional aspect of this emergency relates to both its magnitude and duration. What is not clear is whether emergency politics lead to sub-optimal solutions or whether they, through the narrative of existential exceptionalism, introduce the necessary requirements that in a normal state of function would be hard to press through given the political tit-for-tat compromises. Others stress that it is the extent to which responses to the emergency are too singular minded or whether they consider the structural barriers that might obstruct progress towards a singular 'carbon numbers'[2] goal.

From Emergency to Emergence: The Start of a Sustainable Trajectory?

Over the past year, we have shared our view on the near-term future in our quarterly reports – covering topics such as 'a green but jobless recovery' and impetus for a new social contract. Whilst the cautionary tale of a state of emergency is that its response can sow the seeds of a future crisis, it may well also be the case that the crisis itself brings with it a positive and corrective force – history certainly offers many reasons for optimism. The Black Plague caused the feudal system to collapse and paved way for a more evenly distributed system. Out of the ashes of the Great Depression rose the New Deal, and the post-war reconstruction is notably referred to as the Golden Age of Growth; a quarter of a century of steadily rising living standards that modernised economies and developed global institutions to underpin and support further economic development.

We are already seeing the first signs that we may see a similar positive dynamic after COVID-19. In 2021, the first steps of the EU Action Plan on Sustainable Finance will come into force. The regulations will provide the finance industry with strong guiderails to help investors allocate capital to activities that address or work towards environmental objectives. Further reforms underpinning and enforcing the EU Green Deal will be introduced to align the next decades of EU growth with green parameters. Strong institutional coordination between public and private actors and transparent rules of the game will be a sound premise for successfully moving capitalism towards a more sustainable trajectory in future.

Whilst the US is currently facing a profound challenge to reconcile its deep divide, the significant win by incoming US President Joe Biden and the equally significant win by Democrats in Georgia to secure a blue majority in the US Senate will catalyse similar efforts in the US over the coming four years. The administration might also commit to a greener transatlantic trade relationship with the EU, by potentially embedding carbon taxes in the flow of goods. During a UN general assembly in September, China's President Xi Jinping committed China to reach peak carbon before 2030 and reach virtual zero levels by 2060, adding to political commitments by Beijing to introduce a nationwide emissions trading scheme sometime between 2021-2025. Whilst increasing protectionism might lead to a more regionally focused form of globalisation, it might well bring about improved management of globalisation[3] by better balancing national and international interests[4].

How to balance urgency and prudence?

It is crucial that the urgency of action maintains momentum in order to avoid kicking the proverbial can further down the road. As investors, we need to balance urgency with prudential risk management of the issues facing the planet and the capital that we manage on behalf of our clients. Embedding ESG into the investment process helps reduce downside risk[5], but we also strongly believe in the power of shareholder-company collaboration to work together for clear and measurable improvement and impact on sustainability factors over time. In a time of great turmoil, cooperation must triumph over conflict.

Sondre Myge Haugland,
ESG Specialist

[2] Hulme, Mike (2019, 'Climate Emergency Politics Is Dangerous' Issues in Science and Technology 36, no. 1, pp. 23–25, available at: https://issues.org/climate-emergency-politics-is-dangerous/

[3] Jacoby, Wade, Meunier, Sophie (2010), 'Europe and the management of globalization', Europe and the Management of Globalization, 17:3, available at: https://www.tandfonline.com/doi/full/10.1080/13501761003662107?scroll=top&needAccess=true

[4] Rodrik, D. (2019). Globalization's Wrong Turn, And How It Hurt America. Foreign Affairs 98(4): 26-33.

[5] Hoepner, Andreas, Oikonomou, Ioannis, Sautner, Zacharias, Starks, Laura, Zhou, Xiao (2020), ESG Shareholder Engagement and Downside Risk, ECFI Working Paper Series in Finance

Corporate Sustainability in 2020

2020 was – to put it mildly – an interesting year. The pandemic was of course the main global event which made its mark across the globe. It is hard to sum up just how much it has affected us: as individuals, as a society, and for SKAGEN; as a company.

It certainly shook us from a (perhaps?) comfortable status-quo, and forced us to view the world, and our business environment, in a different light. ”WFH” (working from home) became a familiar abbreviation as well as a new normal work situation for most of us. It challenged us on many areas, not least how to keep up the SKAGEN spirit, when we mostly communicated through screens. A conscious decision was made early on in the pandemic that our main focus – apart from managing our funds and company in the best possible way – would be to make sure our employees were well taken care of. You can read more of this below (SDG 8).

2020 was, even before the pandemic broke out, going to be the year when SKAGEN made true on our decision to heighten and accelerate our corporate sustainability efforts, and so it was. Becoming a signatory of the UN’s Global Compact principles was an important milestone for us, committing to strategically work on potential problematic areas, and also to communicate and report on our progress. Corporate sustainability – in other words all our in-house sustainability efforts – is now a fixed feature of the quarterly sustainability reports, and more visible on our webpages. We continue to work on our three highlighted Sustainable Development Goals (SDGs), namely SDG 5: Gender Equality, SDG 8: Decent Work and Economic Growth, SDG 13: Climate Action. You can read more about our specific efforts below.

We acknowledge that we have only reached the starting point, and that some of our efforts may seem small in the larger scheme of things. That is precisely why we wish to communicate to our stakeholders. SKAGEN wants to contribute where we can and play an albeit small part in the common work we all must do to reach the UN’s Sustainability Goals.

Linn G. Eriksen
Responsible for Corporate Sustainability Group

5 GENDER EQUALITY

SDG 5

Gender Equality

For SKAGEN, SDG 5 includes all aspects of equality, diversity and inclusion.

Background:
It is a well-known fact that gender equality has long been under scrutiny in the financial sector. Research has shown time and again that there is still a real gender gap in this industry, with many complex – and often contradictory – explanations as to why this is. We are proud to report that SKAGEN is ahead of the industry in many areas, a fact that has been recognised by independent reviewer SHE Index (see more below). Gender and diversity were a heightened focus area during 2020, with significant effort put into raising awareness and mitigating inequality. A more detailed account of this work can be found in our upcoming report on SKAGEN Diversity & Inclusion for 2020.

Efforts and implementation:
For SKAGEN, equality has long been a priority, and we are delighted that our targeted efforts have been recognised. We participated in the Norwegian SHE Index for 2020 – a Norwegian gender equality initiative provided by EY. Scoring 87 out of 100 possible points, SKAGEN ranks 12th nationally in 2020. Compared to the average score for banking and capital markets (67 points), SKAGEN is one of the best performing companies in the sector in the SHE Index.

Diversity, Equity and Inclusion strategy
In recognising that there is still room for improvement both in SKAGEN and the finance industry, we have started work on drafting a separate strategy and report on diversity, equity and inclusion (DE&I). This strategy includes how SKAGEN plans to approach, increase awareness and take advantage of diversity issues, and further develop a culture of belonging and inclusion throughout the employee experience cycle. The final D,E&I strategy will be finalised in 2021.

Mind the (pay) gap
The data for 2020 (see table below) shows that in SKAGEN women earn 80% the amount of men's total salary. However, if we look more closely at these numbers, we find that when comparing similar roles, competency and experience levels, the gap narrows to between 97%-100%. A contributing factor to the 20% difference is the impact of having an overweight of male managing directors internationally and portfolio managers on a small organisation (<100). Seniority and tenure are also factors which contribute to the above-mentioned pay gap. Fixed salary and profit-split remuneration are evaluated annually for gender, seniority and other biases by the HR department and leader group, and the aim is to mitigate and minimise any real pay discrepancy based on gender alone.

50|50 LIKESTILLINGS PROGRAM

50/50
As of 2020, SKAGEN has signed up to 50/50, an initiative launched in connection with the Norwegian Chamber of Commerce in Stavanger. This program provides businesses with the tools and guidelines to strategically work towards a more diverse workforce. As a signatory, SKAGEN will commit to reporting on a list of criteria demonstrating progress and openness in terms of diversity.

Development and learning
For our internal SKAGEN School in September, we invited Marie Louise Sunde, founder and author of #shegotthis who highlighted how unaware we are of our intrinsic biases, and how to overcome these. We were all challenged on our perceptions, and this is something SKAGEN will continue to work on, also as a part of the aforementioned Diversity, Equity and Inclusion-strategy.

FEMALE INVEST

SKAGEN DK + Female Invest

With SKAGEN's focus on helping to close the gender gap in finance in mind, combined with an increased number of women showing an active interest in investing, a partnership between SKAGEN and Female Invest in Denmark seemed almost inevitable. And now it's a reality! Female Invest is the largest online universe in Northern Europe centered around investing and personal finance targeted at women. The goal is to create financial equality. Offering webinars, courses and articles, Female Invest has helped more than 25,000 women take their first steps in investing – and recently Female Invest also ventured into the UK. Through sponsored posts, webinars and more, this partnership will help SKAGEN's Danish office reach more female clients and hopefully help pave the road towards financial equality between the genders.

Gender Distribution statistics for 2020:

Gender representation	Leader group	43%
	Board	50%
	Board with deputies	56%
	Board: election committee	66%
	All employees	35%

Aims for 2021

The main aim for 2021 will be to start implementing the Diversity, Equity and Inclusion strategy goals. This includes new recruitment procedures to mitigate unconscious biases, focus on learning and awareness training and further actions to improve work-life balance.

		Norway only	All offices
Remuneration	Gender pay gap: leader group	98%	98%
	Gender pay gap: all employees (uncontrolled)	88%	80%
	Gender pay gap: employees (excluding PMs and LG and MD) (uncontrolled)	90%	90%
	Gender pay gap: controlled (mean salary for men and women with the same job and qualifications)	97%-100% *due to sample size, there are diff in tenure and experience	97%-100% *due to sample size, there are diff in tenure and experience

SDG 8

Decent Work & Economic Growth

Background:

This SDG is twofold for us as it concerns us both as a buyer of goods and services and as an employer. Both entail responsibilities, as SKAGEN wishes to be a good and secure workplace for our employees, as well as an ethically aware procurer. By signing up to the UN Global Compact, we formalise these commitments.

Efforts and Implementation:

Employee welfare, development and satisfaction

2020 was a challenging year and put SKAGEN's mission to be a "great place to work" to the test. In the space of just a few weeks people's working reality changed entirely, and established measures for providing our colleagues with a good workplace were thrown up in the air.

SKAGEN decided quickly that - aside from continuing to provide our clients with the best possible risk-adjusted returns – our main focus would be to ensure that all employees were cared for and safe. This included encouraging employees to keep mentally and physically fit, and to maintain a social environment, albeit a virtual one.
In our monthly employee survey, we included questions concerning mental health as a part of keeping track of employee health during unprecedented times. SKAGEN's Covid-19 measures were scored highly throughout the year, and the total participation rate was 78%.

Although SKAGEN has long had a flexible work environment, the pandemic solidified and perhaps outlined this more clearly. A good work-life balance is important and has been actively encouraged throughout the year.

Employee satisfaction and engagement is vital for SKAGEN, as human capital is our main asset and our business model is grounded in the excellent skills of its workforce. SKAGEN employees are encouraged to develop through new work experiences, courses, conferences and networks. In 2020, 63% of employees participated in external courses and six employees pursued extensive development courses. All employees are also required to undertake anti-corruption, anti-money laundering and anti-terrorist financing training annually.

Procurement

SKAGEN has both a responsibility and opportunity to make sure our procurements are sustainable and ethically sound.

Although SKAGEN has followed all necessary legal requirements, we recognised that there were some problem areas that we could improve on. At our head office in Stavanger, all coffee and tea purchases must now be Fairtrade/organic, to minimise the risk of purchasing a product produced unethically. The same applies for any flowers delivered to SKAGEN and associates.

Aims for 2021

- In 2021 we will increase our efforts towards suppliers and aim to have a separate procurement policy, ensuring that the products we procure do not harm the environment, contribute to unfair working conditions or violate human rights.
- In our employee satisfaction survey we will from 2021 include 15 additional questions focusing on Health and Safety issues, enabling SKAGEN to more closely monitor our colleagues' welfare, and subsequently implement targeted actions.
- There is continued support for ongoing professional development for SKAGEN employees for 2021.

Statistics People:

Leave*	**Total sick leave NO**	**1.19%**
	Gender NO	F = 1.77% M = 0.77%
Nationalities	**Nationalities**	**12**
	No. of countries employees live in	5
Age distribution	**Average age**	**44**
	20-29	8%
	30-39	24%
	40-49	36%
	50-59	31%
	Women under 30	5 (16%)
	Men under 30	6 (11%)
	Women over 50	12 (39%)
	Men over 50	14 (26%)
	Average tenure	9

* Comment; the real figures are likely to be somewhat higher, but as most employees have been working from home during large parts of 2020 some underreporting for mild sickness must be expected.

		Uncontrolled only	All turnover
Turnover**	**Total**	**5.60%**	**11.30%**

** Comment, the total turnover is 11.3%, this includes controlled resignations due to organisational restructuring

13 CLIMATE ACTION

SDG 13

Climate Action

Background:

In selecting which of the SDGs SKAGEN was to focus its efforts on internally, this SDG, representing one of the most pressing challenges facing the world, was a given. SKAGEN is not an enterprise emitting large quantities of greenhouse gas, but we believe that all businesses, regardless of size or business model, must take responsibility for their own actions, and contribute in any way they can. Small contributions already made include reducing meat consumption in our canteen, discontinuing all single use plastics, and using only eco certified cleaning supplies at our head office.

Efforts and implementation:

Development and training

An important aspect of accelerating SKAGEN's commitment to becoming more sustainable is learning and gaining sustainable insight and sharing this with the rest of the organisation.Several employees have undertaken courses relating to sustainability, including an ongoing Master of Science in Climate Change, and a course in Business Sustainability Management.

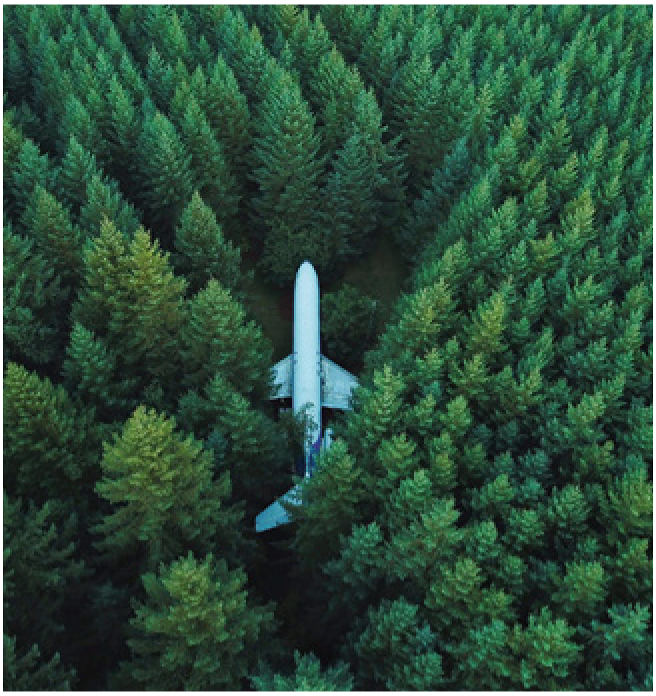
Tracking our emissions

In the autumn of 2020 SKAGEN initiated a climate audit for the company, starting with 2019. We signed up to CEMAsys' platform with the aim of raising awareness and transparency around our own carbon footprint, and further identifying areas of improvement. The audit identified that business travel (in a "normal" year) is our largest carbon-emitting factor constituting over 85% of total emissions in 2019. One step to reduce this has been to update our travel policy (see below), aiming to reduce business travel involving flights.

At the time of writing, we do not yet have all the data to communicate a full disclosure of our carbon emissions for 2020. This will be updated and communicated as soon as possible. What we do have is our data on employee travel for 2020, and as expected, travelling decreased by over 80% compared to 2019.

Travel

During 2020 we updated the SKAGEN travel policy. Here we strongly encourage alternatives to physical meetings which require air travel, and that employees consider the necessity of travel altogether. If a physical meeting is required, travel by train is encouraged. Flying for a single meeting must be approved by its leader. At the destination, public transport should be the prioritised transport. To make sure that we track our emissions stemmed from travelling, all employees in Norway and Sweden should book via our travel agents.

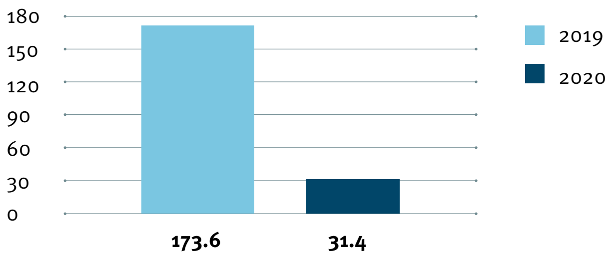


One step to reduce our carbon footprint has been to update our travel policy. We strongly encourage alternatives to meetings which require air travel. Photo: David Kovalenko, Unsplash.com

Aims for 2021

- In 2021 SKAGEN will continue to track and monitor our own carbon-emitting activities and reduce where possible.
- Identify other areas of our business where environmental improvements can be made.
- Part of our procurement policy involves ensuring that our suppliers also adhere to Global Compact's environmental principles.

Business travel:



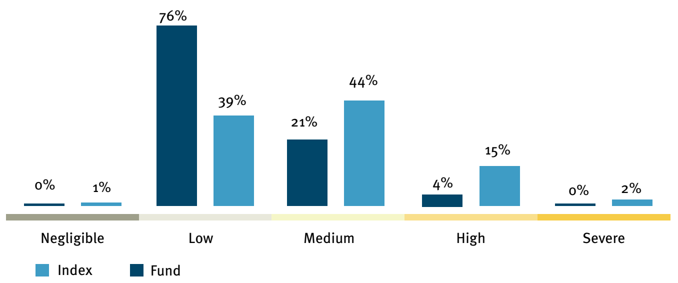
ESG RISK RATING

All risk ratings on this page are powered by Sustainalytics.

SKAGEN Global

	SKAGEN Global	MSCI ACWI
Coverage Ratio	100%	100%
ESG Risk Rating	17.3 (low)	22.7 (medium)
ESG Exposure	33.2 (low)	40.4 (medium)
ESG Management	52.0 (strong)	46.4 (average)

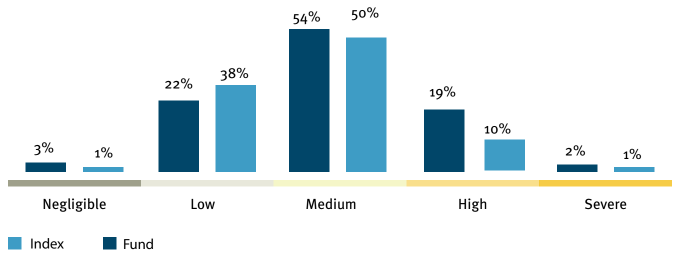
ESG Risk Category by aggregate portolio weight %



SKAGEN Vekst

	SKAGEN Vekst	MSCI Nordic/ ACWI ex Nordic
Coverage Ratio	98%	100%
ESG Risk Rating	25.2 (medium)	21.9 (medium)
ESG Exposure	45.8 (medium)	40.1 (medium)
ESG Management	47.9 (average)	48.1 (average)

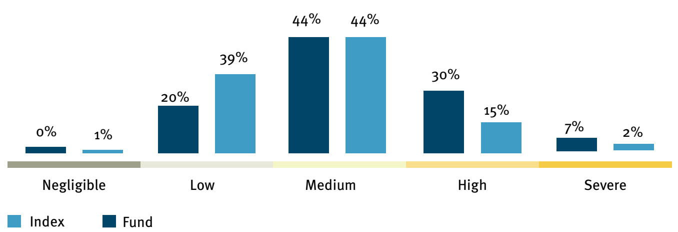
ESG Risk Category by aggregate portolio weight %



SKAGEN Focus

	SKAGEN Focus	MSCI ACWI
Coverage Ratio	86%	100%
ESG Risk Rating	27.2 (medium)	22.7 (medium)
ESG Exposure	46.0 (medium)	40.4 (medium)
ESG Management	42.6 (medium)	46.4 (medium)

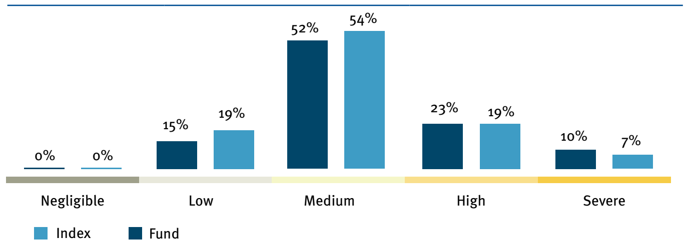
ESG Risk Category by aggregate portolio weight %



SKAGEN Kon-Tiki

	SKAGEN Kon-Tiki	MSCI EMI
Coverage Ratio	92%	98%
ESG Risk Rating	28.6 (low)	26.8 (medium)
ESG Exposure	45.5 (medium)	42.6 (medium)
ESG Management	39.6 (average)	39.9 (average)

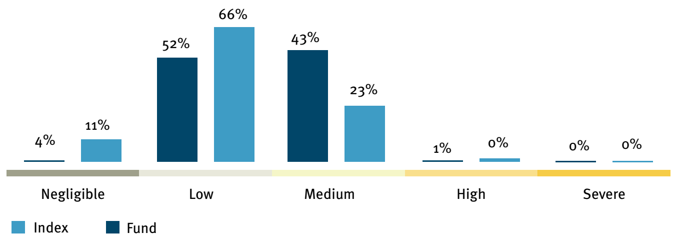
ESG Risk Category by aggregate portolio weight %



SKAGEN m2

	SKAGEN m2	MSCI Real Estate
Coverage Ratio	95%	99%
ESG Risk Rating	19.1 (low)	16.5 (low)
ESG Exposure	29.1 (low)	27.1 (low)
ESG Management	35.3 (average)	46.4 (average)

ESG Risk Category by aggregate portolio weight %



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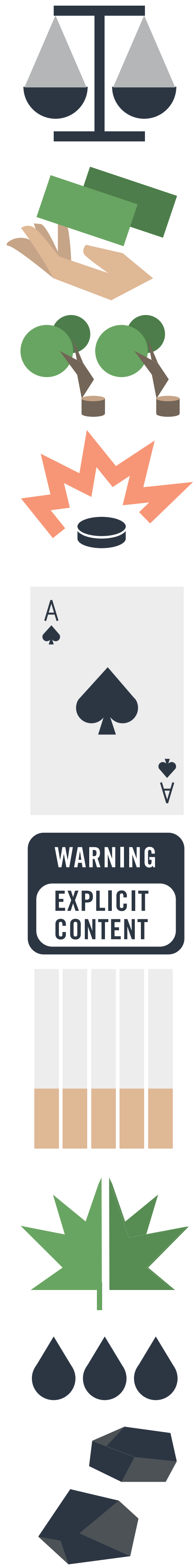
Exclusion as a last resort



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:

- 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 31.12.2020 Exlusion category	No. of companies
Conduct-based exclusion - Environment	18
Conduct-based exclusion - Corruption	10
Conduct-based exclusion - Human Rights and International Law	38
Tobacco	25
Controversial weapons	24
Climate - Coal	96
Climate - Lobbying	6
Climate - Oilsand	6
Unsustainable Palmoil	13
Gambling	40
Cannabis	2
Total number of companies	278*
Observation list:	

* 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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Holger Drachmann, Sørfjord. Hardanger, 1886. This painting is manipulated and belongs to The Art Museums of Skagen.

The art of common sense

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