SUSTAINABILITY REPORT
Annual Report 2021

SKAGEN

CONTENTS


p. 07


p. 15

p. 24

IMPORTANT INFORMATION

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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.

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The Sami people's semi-nomadic livelihood demands close contact to nature, and even slight changes in the environment can have a profound impact on their lives and financial security. Photo: Shutterstock.com

Keeping it real

It is important to remember that sustainable finance regulations are not a sales opportunity, rather they offer an opportunity to redress past inaction and improve sustainability in investing while offering clients greater choice.

Recently, I spent time in Finnmark in North Norway, including some time with the indigenous Sámi people. A good number of those we met were the proud owners of impressive reindeer herds. This semi-nomadic livelihood demands a close and intimate connection to nature, and it was sobering to hear how even slight changes in the environment, mostly driven by climate change, can have such a profound impact on their lives and their financial security.

This is the reality of unsustainable behaviour, very often in other parts of the world. It is some distance from the sweeping and ambitious claims of marketeers now flooding the market with all manner of green or sustainable products or solutions. Indeed, there is a prevailing sense that some may have lost sight of the intention behind sustainable finance regulation; it is not a sales opportunity, it is an opportunity to redress past inaction and improve sustainability in investing, while offering clients greater choice.

Active ownership is key

In SKAGEN, we strive always to keep a firm grasp on reality – and we are close enough to our clients to ensure that this reality matches their own. This final report for 2021 details the nuts and bolts of our active engagement activity – an activity we are skilled and experienced in. Working together with portfolio companies is arguably one of the very best ways to achieve real change and improvement, and more sustainable investing. And our record of active voting on a range of items, across the spectrum of environmental, social and governance areas, ensures that the fiduciary responsibility that we exercise on behalf of unit holders is the best that it can be. Read more from page 7 onwards.

An important change for SKAGEN during 2021 has been the expansion of our ESG integration framework, together with the provision of additional ESG data and analysis capacity. This four-pillar

approach (illustrated opposite) allows SKAGEN to better evaluate potential and existing investments for their sustainability risk and opportunity. This does not fundamentally change SKAGEN's position on sustainable investing, but it does enable us to do it better and with better data – which is arguably the greatest challenge nowadays.

Corporate sustainability efforts

At a corporate level, one unwished for benefit of the global pandemic has been an improved carbon footprint for the firm – driven mostly by a reduction in air travel. SKAGEN is not a large firm, but doing our utmost to live and operate well, and sustainably, matters to colleagues. We have therefore chosen to focus our efforts into three main areas as defined by the UN sustainable development goals, relating to gender equity (and wider aspects of diversity), decent work and economic growth, and climate action. In each area, we have taken active, tangible measures to set objectives and achieve them. Read more from page 23 onwards.

As I close this leader this morning, war has returned to the continent of Europe. Having served in the Balkans in the latter part of the previous century, it is something I had hoped might be behind us. As the father of a serving soldier, it is a matter of grave concern. And for the good people of Ukraine, it is nothing short of a tragedy, and they are surely in our thoughts and prayers at this time.

Slava Ukraina! 

Timothy Warrington
CEO

ESG integration built on four pillars

1. EXCLUSION

- Negative screening
- First step of filtering potential investments
- Ensures all holdings aligned with SKAGEN's Sustainable Investment Policy

2. ENHANCED DUE DILIGENCE

- Greater scrutiny of companies within high-emitting industries
- Analysis of relevant principal adverse indicators
- Minimum expectation that companies within scope have articulated a clear transition pathway

3. ESG FACTSHEET

- Produced for each investment
- Details ESG considerations, actions performed and results achieved
- Traffic light system to indicate risk / opportunity

4. ACTIVE OWNERSHIP

- Collaborate with companies to achieve sustainable change that creates shareholder value
- Exercise voting rights in line with SKAGEN's Sustainable Investment Policy for benefit of unitholders

With ESG disclosure set to increase this year we look forward to providing greater ESG insight into our holdings alongside their investment performance – both their words and actions. Photo: Nik Shuliahin, Unsplash.com

Walking the walk

In our Q3 ESG report I talked about SKAGEN's approach to sustainability, so this time I want to focus on our holdings – the businesses we hope will change how we live in the future. I also want to highlight some of their actions and achivements which speak much louder than sustainabiliy plans or ambitions.

Across our portfolios we have companies from many countries and sectors. While such diversification is key to reducing risk for our clients' investments, it inevitably means we have exposure to industries producing greenhouse gas (GHG) emissions into our atmosphere. As this diagram shows, if we only selected companies from low emitting sectors, our opportunity set would be significantly restricted and not particularly diverse.

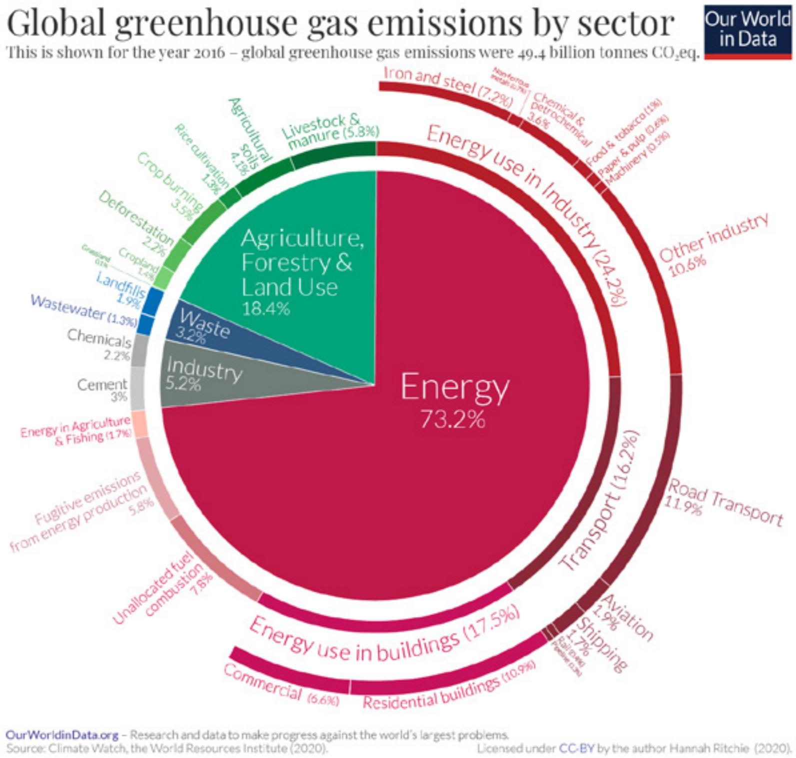
As this diagram shows the extent to which change must come within sectors contributing the greatest emissions for us to have any chance of achieving the Paris Agreement. In SKAGEN we have long-championed incremental change within companies and the need for strong corporate governance to enable this. But I am also delighted to report that many holdings within the redder industries above are also delivering rapid changes, almost before our eyes.

Positive energy

Let's start with energy use in buildings. Residential property developer Kojamo has committed to the UN Sustainable Development Goals and using carbon-neutral energy in its properties by 2030. The Finnish company is well on track, cutting its carbon footprint by 20% and improving energy efficiency by 15% in 2020[1]. Meanwhile in the commercial segment, US data centre operator Switch has run its operations on 100% renewable energy since 2016 – equivalent to eliminating 265,000 carbon tonnes of emissions or 50,000 cars from the environment. It recently ranked first among all companies in Greenpeace's Clicking Green Report.

Another energy-hungry sector is transport. Flex LNG is a Norwegian transporter of natural gas, which is the cleanest burning and most environmentally sustainable fossil fuel according to BP. By applying

[1] Source: Kojamo Annual Report 2020



the latest technology to its fleet, the company emits 30% less CO^2 than an average fleet of tankers[2]. On land, rail emissions are between 5 and 10x lower than those from trucks and lorries. The Canadian rail company Canadian Pacific can replace 300 heavy duty trucks with one haul and has reduced the fuel efficiency of its trains by 44% since 1990[3].

Elsewhere, Ivanhoe Mines is working hard to cut industrial energy use, which is the largest source of GHG emissions. Ivanhoe's Kamoa Kakula project in the DRC operates with renewable hydropower and is currently electrifying all transport vehicles as part of its plans to be the world's first CO^2 neutral miner of copper – a metal key to powering the green energy transition.

Another industrial energy user is Cascades, a US paper and pulp business. The company has reduced the intensity of its GHG emissions by 51% since 1990 and uses 2.4 times less energy to manufacture its products than the North American industry average. In a related segment, Yara is a Norwegian chemical company with ambitious targets to provide clean ammonia as a new environmentally friendly power source. It has also reduced its own annual energy consumption, contributing to a drop in CO^2 emissions of 800,000 tonnes[4].

Finally, another holding UPL is actively reducing energy use in agriculture and fishing. The Indian company, which recently launched 'The Gigaton Challenge' to cut one gigaton of carbon emissions by 2040 – equivalent to the total CO^2 produced by Brazil over two years – last year reduced its water consumption, waste disposal and carbon emission intensities by 22%, 31% and 15%, respectively[5].

All of these portfolio companies are walking the walk and contributing positively to our transition towards a greener future. Fortunately, we believe that all are also great investments from a financial perspective. With ESG disclosure for companies and investors set to increase this year we look forward to providing greater ESG insight into our holdings alongside their investment performance – both their words and actions.

Alexandra Morris
CIO

[2] Source: Flex LNG ESG Report 2020
[3] Source: Canadian Pacific Sustainability Report 2020
[4] Source: Yara Sustainability Report 2020
[5] Source: UPL Sustainability Report 2020-21

Environment-related engagements were the second largest engagement category in 2021. Carbon was the predominant ESG topic last year, making up 20% of all ESG issues engaged on. Photo: Luca Bravo, Unsplash.com

ESG Engagements in 2021

Engaging with companies is a key part of an active 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.

Our 2021 engagement activity

Our engagement activity in 2021 was on a level with 2020. We engaged with 21 separate companies on 25 different ESG cases. Our engagement activity mirrors our global investment activity whereby the majority of our engagement dialogue was held with companies in Asia and 68% of the engagement activity took place outside Europe.

Governance-related engagement

Governance-related ESG engagements made up the largest category of dialogues in 2021 with the main focus being on topics that are generally of importance to minority shareholders. As an example, SKAGEN Vekst achieved successful engagement outcomes with Norwegian holding company Bonheur and Korean reinsurance company KoreanRe. SKAGEN Vekst has repeatedly encouraged Bonheur to improve shareholder communication, and was pleased to note that the company finally started to communicate in English and improve accessibility by offering online earnings calls and providing regular market communication. With regard to KoreanRe, SKAGEN Vekst benefited from its experience with other investments in Korea to encourage the company to provide clearer and more direct shareholder communication. The company announced a 15% share buyback program in February and made firmer commitments regarding its dividend policy. These are positive steps for shareholders as through these, the company commits to rewarding long-term shareholder loyalty and support.

Environment-related engagement

Environment-related engagements were the second largest engagement category in 2021. These dialogues broadly centred around carbon and environmental topics of concern to our investments. In fact, carbon was the predominant ESG topic last year, making up 20% of all ESG issues engaged on.

SKAGEN Global engaged with Canadian Pacific Railway (CP) to discuss their environmental strategy. The ESG case of this investment rests on two pillars: i) attractive low-carbon transportation relative to trucking and ii) the opportunity to pivot freight volumes towards North American decarbonisation efforts and renewable energy and infrastructure deployment. CP's environmental efforts span the entire organisation. The company is actively educating its sales staff and clients on the ESG merits of its services and is catering to client preference to retain and win new business opportunities. CP is also delivering on its plans communicated to SKAGEN Global to launch a hydrogen train, which is expected to be on the rails this year. The combination of operational improvements and long-term targets – including science-based emission reduction targets – as well as the improved efficacy of their services to clients will benefit our investments in the long-term.

ACTIVE OWNERSHIP

In another environmental engagement dialogue, SKAGEN Kon-Tiki contacted West China Cement to discuss their approach to the carbon emission trading scheme currently under development in China. The company is positive to the scheme, believing that it adds further momentum and a public carrot/stick approach to decarbonisation and incentives to reduce emissions. Our impression is that the company has a high level of awareness when it comes to their emissions profile and are seeking ways to improve their environmental efforts and efficiency over time.

Social engagement

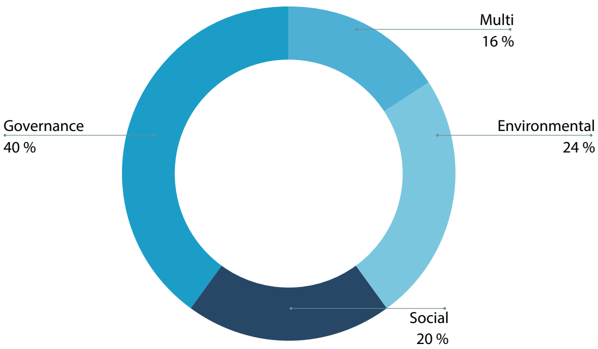
Human rights – both directly in the companies and in the supply chain – continue to be the key ESG topic discussed under Social issues. In one instance, while building our investment case, we engaged with an Asian company on legacy human rights issues related to working conditions. Our dialogue with the company revealed that it had taken considerable steps and made tangible improvements that had not yet been recognised more broadly by the market. Diversity and inclusion were notable topics of discussion that SKAGEN Kon-Tiki had with the Hungarian multinational pharmaceutical and biotechnology company Gedeon Richter and SKAGEN Vekst had with the Danish brewer Carlsberg. In both cases, the funds encouraged the companies to improve their gender diversity performance at board and executive level respectively. Both companies have been forthcoming and proactive in their response, and we will monitor their progress accordingly.

Multi-category engagement

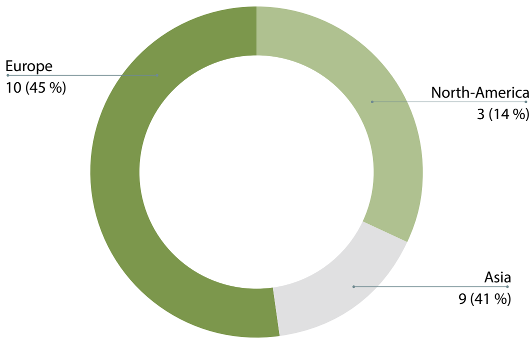
Lastly, multi-category dialogues are becoming a more central feature of our engagement with companies. This type of engagement is more holistic as it spans the full range of ESG topics. These dialogues are sometimes also multi-tiered in the sense that we will not only engage with the company but also with third parties, in particular ESG data providers. There are select opportunities whereby SKAGEN, as a value investor with small and mid-cap exposure, is able to provide companies with guidance and recommendations on how to improve ESG disclosure scores vis-à-vis these data providers and the market more broadly. This has been the case with land-based aquaculture company Atlantic Sapphire, where SKAGEN Kon-Tiki and the ESG team have discussed and collaborated with top level management on how to attain better recognition for their ESG credentials through improved reporting.

Sondre Myge Haugland,
Head of ESG

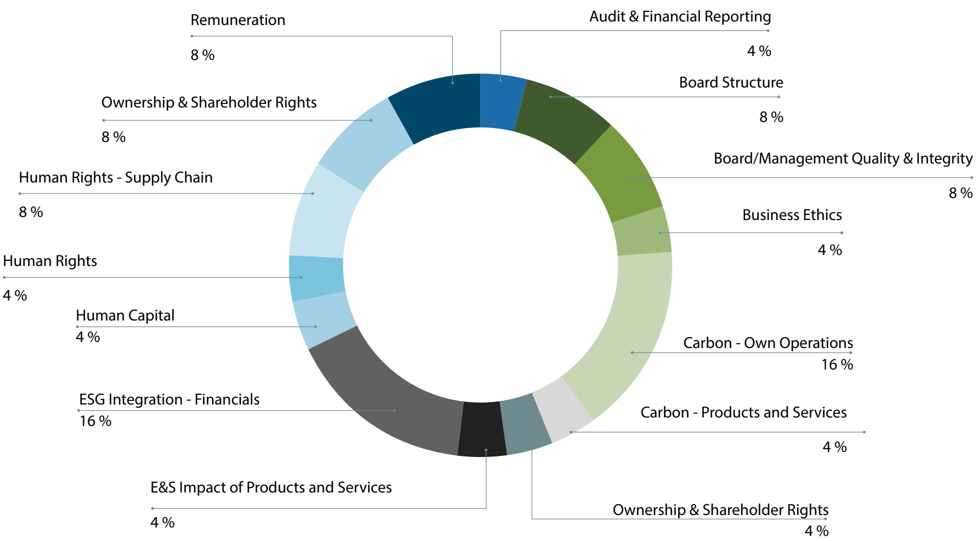
Engagement cases by category 2021



Engagement cases by geography 2021



Engagement cases by topic 2021



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 interests of our funds, and therefore also of our unit holders.

SKAGEN attends 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.

Year	2021	2020	2019
Number of meetings voted	247/248	200/205	231/242
% of meetings voted in	99.6%	98%	95%
Number of ballots voted	508/522	446/462	369/384
% of ballots voted on	97.3%	97%	96%
Number of items voted	2,933/2,936	2,604/2,664	2,791/2,945
% of items voted on	99.9%	97.8%	94.8%

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 2021

In 2021, there were 248 voteable meetings at our portfolio companies, with 2,936 voteable items on the agenda. SKAGEN voted on 99.9% of the items, which is more than two percent up from last year. Votes were cast in line with management recommendations 94% of time, while 6% of the time we voted against management recommendations 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, including diversity of board members
- Anti-takeover mechanisms
- Needless or unfair changes is in capital structure
- Excessive executive compensation
- Insufficient disclosure proposals related to climate change
- Insufficient disclosure proposals related to human rights
- Insufficient disclosure proposals related to environmental harm, such as deforestation, plastics, etc.

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. There will therefore be cases where we cast votes that do not necessarily align with our voting policy and/or with company management.

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 2021. SKAGEN Vekst voted against management regarding two items on the agenda:

- Report on Human Rights Due Diligence
- Report on Lobbying Payments and Policy

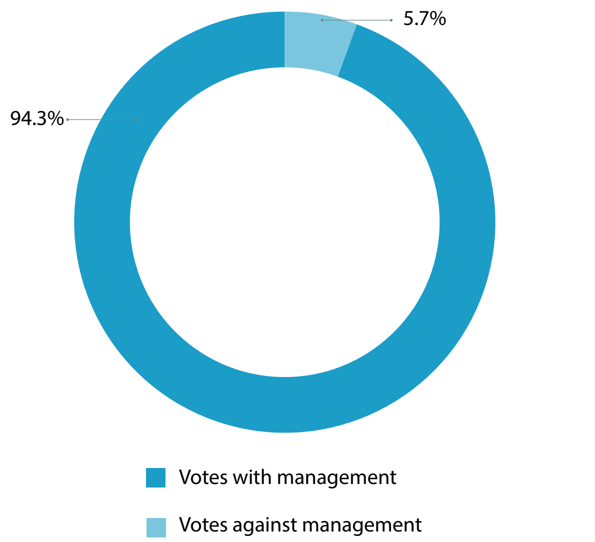
SKAGEN Vekst voted in favour of the first item as additional information regarding the processes the company uses for human rights due diligence would allow shareholders to better understand how the company manages human rights related risks. This item is particularly important given the history of the industry in general. SKAGEN Vekst also voted in favour of the second item, as additional disclosure around the company's comprehensive lobbying activities would help shareholders better assess the risks and benefits related to this.

Hermes International, a world-renowned luxury goods company, held its annual meeting during the second quarter. The company is a holding in SKAGEN Global, and the fund voted against management on two items:

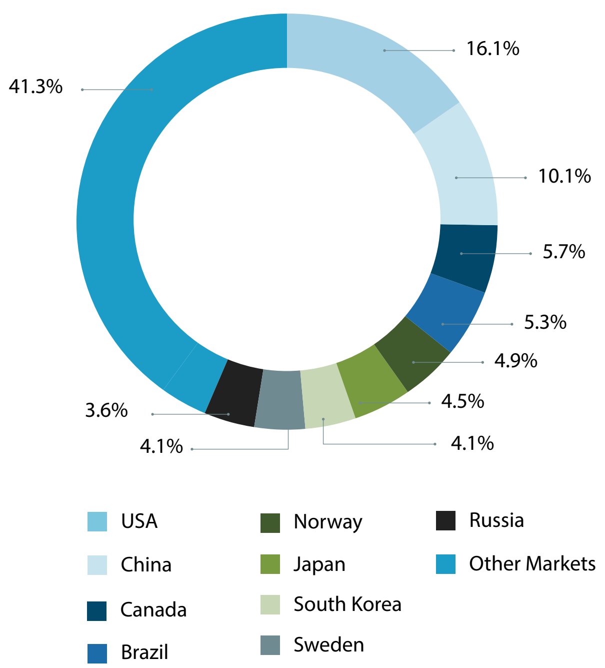
- Authorise Issuance of Equity or Equity-Linked Securities without Preemptive Rights up to 40 Percent of Issued Capital
- Approve Issuance of Equity or Equity-linked Securities up to 20 Percent of Issued Capital Per Year for Private Placements

SKAGEN Global voted against these items as the fund does not support equity issuance, or the equivalent, without pre-emptive rights.

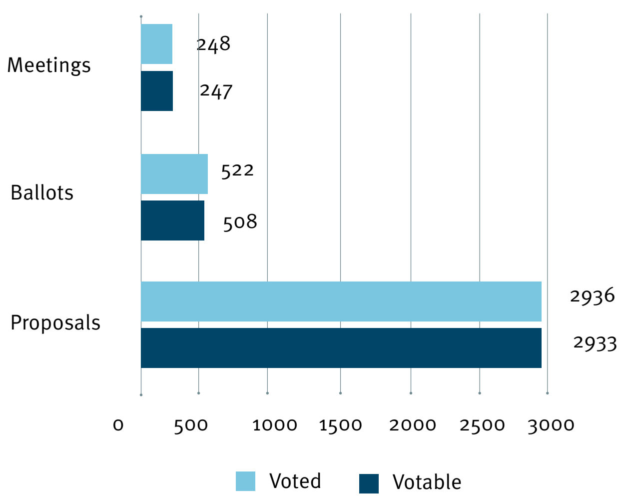
Votes cast statistics



Meetings voted by market



Meeting activity in 2021



We see Cascades as an undiscovered and ignored gem, from an environmental investment perspective as its operations are largely circular, which we think deserves a valuation premium over time. Photo: Cascades, Kingsey Falls

SKAGEN Focus: Cascades – an undiscovered gem in the circular economy

In SKAGEN Focus we apply a strict bottom-up, value-based investment philosophy whereby we require a substantial discount to fair value for any position to make it into the fund's portfolio. As contrarian and price-driven investors, we focus on identifying assets that trade substantially below our estimate of fair value with tangible catalysts for re-rating from a mid-term investment perspective.

We believe our investment in Cascades fulfils both these requirements. In addition, we view the company as an undiscovered and ignored gem from an environmental investment perspective as its operations are largely circular, which we think deserves a valuation premium over time.

Cascades is a Canadian mid-tier manufacturer that offers sustainable, innovative, and value-added solutions for packaging, hygiene and recovery needs. The company employs approximately 10,000 women and men working in almost 80 facilities across North America. The company is positioned as a second-tier producer, behind larger peers, and its main operations are managed in three segments: Containerboard, Specialty Products (Packaging Products) and Tissue Paper.

A circular company

In many respects, Cascades was a pioneer of the circular economy long before people understood the value of sustainability in the way that they do today. The company has been demonstrating the potential in all kinds of residual materials since 1964, recycling and transforming them into new products, and this continues to underpin their business model today.

Today the company is a leading paper collector in Canada, which enables them to derive more than 80% of their fibre input from recycled fibre. For the third consecutive year, Cascades has been recognised as one of the world's 100 most sustainable corporations, according to the Global 100 index by Corporate Knights. It ranked 18th out of the world's 6914 public companies with more than USD1 billion in revenues and first among the 34 other organisations in the Packaging category.

We believe there is an opportunity for the company to address the currently suboptimal operating structure by separating the Tissue and Containerboard businesses. Photo: Julian Paolo Dayag, Unsplash.com

Substantially undervalued

Cascades' currently depressed equity valuation and discount to peers is striking in light of the substantial structural progress that the company has made over the past decade. Cascades has concentrated its portfolio, sold off non-core assets, de-risked its balance sheet and boosted the dividend pay-out. Despite these achievements, the stock trades at roughly the same levels as at the beginning of 2016. We believe this unwarranted discount to fair value of the company's share price is still a result of an overly diversified operating structure with sub-par returns and scale prospects in specific lines of the business.

Several ways to win

There are numerous opportunities for the company to make improvements, as well as potential tailwinds from a post-pandemic normalisation. This could improve profitability in line with the peer group average and drive a rerating of its shares. While internal cost improvements are ongoing, we believe there is an opportunity for the company to address the currently suboptimal operating structure by separating the Tissue and Containerboard businesses, similar to successful transformations that we have seen elsewhere in the industry.

One of the most recent examples is the break-up of the Swedish forestry giant SCA, which sold its Containerboard business and separated its Tissue and Hygiene operations ("Essity") from its Forest Product operations. Given Cascades' smaller size, we do not believe the company has the financial power or operational capability to simultaneously invest in both businesses successfully, especially as larger investments and/or acquisitions may be required in the Tissue segment. A separation of these businesses could therefore unlock higher operating efficiency as well as substantial value for shareholders. Our research also indicates that the current value of the company's real estate portfolio represents a third of their entire enterprise value, which we think adds an additional valuation backstop and offers further possibilities to crystallise value.

Active engagement

We initiated our position in Cascades towards the end of 2020 and have spent a year in dialogue with management and fellow shareholders, during which time our conviction in the attractiveness of the current risk/reward has increased. We recently stepped up our engagement towards the company. As one of Cascade's ten largest owners, we approached the company regarding its current strategy and drafted a letter to its board of directors expressing our view on the opportunities that lie ahead. We therefore welcome the company's recent announcement that they will hold a strategic update for investors following their next earnings release at the end of February 2022 to discuss the strategic path ahead.

Yet to be discovered

Our position in Cascades serves both to illustrate our investment process – whereby we strive to identify ignored assets that trade at a substantial discount to fair value and offer tangible catalysts for re-rating in the midterm – as well as our active ownership and engagement activities. While shares currently trade at a significant discount to fair value and peers, we believe that Cascades is in a unique position to increase shareholder value through various self-help measures and a focus that we believe will be gradually recognised by the market. Given investors' growing interest in sustainability and solution-providers, Cascades is a company that is yet to be discovered and rewarded for its significant progress and leading position in recycling and sustainability, which is a core part of their circular business model and identity.

David Harris
SKAGEN Focus,
Portfolio Manager

Waste Management: We think running landfills with strict environmental protocols is a valuable contribution to society. Under certain conditions it can also be a fine business model. Photo: Waste Management, Media Room

SKAGEN Global: ESG an important piece of the puzzle

As a long-term investor, SKAGEN Global considers ESG an important piece of the due diligence puzzle that is part of our analysis for all investments. The reason is simple: a company is likely to deliver shareholder value for decades if – and only if – it operates in a manner that benefits all stakeholders in its wider ecosystem.

We consistently encounter companies that bring gains, sometimes considerable, to some players in the ecosystem but largely sidestep other constituents. In the short run, these companies may be able to downplay or outright disguise some of these ill-conceived practices and still see a rising share price. Eventually reality catches up with them, however, at which point they typically face a brutal reckoning.

It is for this reason that SKAGEN Global strives to shine a light on its portfolio companies from different ESG angles to spot any cracks in the façade early on. Considering how rare it is to identify companies with the desired attributes, is it not reasonable to bestow a premium on the few who truly stand out from the crowd?

Waste Management: solid ESG credentials

One of our investments that has demonstrated solid ESG credentials over time is Waste Management (WM), North America's largest provider of comprehensive waste management and environmental services. With roots dating back to 1968, WM now has a market cap just north of $60 billion and 45,000 employees serving over 20 million customers. The business model of waste collection, recycling and disposal is straightforward, but the equity story also features several ESG aspects that in our view remain underappreciated. One of them is landfills.

WM is the largest operator in the industry with 263 active solid waste landfills. At first glance, operating landfills under environmentally safe conditions may seem like an unglamorous and thankless task that only comes with downside risk. We do not share this perception. On the contrary, we think running landfills with strict environmental protocols is a valuable contribution to society. Under certain conditions it can also be a fine business model. The reputation risk is obviously real but must always be put in perspective. It is equally important to communicate how landfills relate to sustainability. One multi-faceted example includes renewable energy where WM's landfills have several touchpoints with existing and emerging technologies.

WM is the final part of the value chain for wind energy as recycling technologies for wind turbine blades are not yet economically viable so they have to be disposed of in landfills. Photo: Jason Blackeye, Unsplash.com

Disposal of wind turbine blades: a critical role

First, the deployment of wind power stations has exploded across the globe in recent years. Many parts of a wind turbine can easily be recycled after the plant reaches the end of its typically 25-year useful life – but not the blades. The giant turbine blades are made of fibreglass and can reach up to 100 metres in length. Recycling technologies for the blades are under development but are not yet economically viable at scale, so the de facto solution today is simply to chop up and bury the old blades. WM is therefore the last integrated part of the value chain for wind energy as its landfills become the final resting place for worn out blades. This role is critically important because the combined volume of decommissioned blades in Europe and the US already exceeds 10,000 per year, a number that will likely rise materially in coming years given the massive build-out of wind power.

Landfill gas: a renewable energy source

Second, landfill gases can be extracted for electricity and renewable natural gas (RNG) production. Organic material in the landfill decomposes and generates methane that is then collected through wells in the ground and routed to an RNG processing facility. This biogas is classified by the US Environmental Protection Agency as a renewable energy resource. It has the unique advantage of providing the electricity system with baseload-like capacity since it does not vary with wind or solar conditions. Creating a closed-loop, WM's collection trucks increasingly use RNG instead of diesel as fuel. Compared to the 2010 baseline, WM has reduced its fleet emissions by 36% and currently around 30% of the routed fleet run on RNG.

Further highlighting the potential of this energy source, WM recently announced a plan to invest over $800 million between now and 2026 to expand its footprint of RNG facilities. As an aside, it is worth noting that WM has started piloting an electric collection truck where weight limits have so far exceeded the capabilities of existing battery technologies. In terms of electricity generated from the landfills, WM is the largest gas-to-energy operator in the US and generates five times more clean electricity than it uses for internal consumption. The leftover electricity is used to power more than 460 000 homes in local communities.

A commendable mindset

We recognise that these ESG initiatives comprise a small part of WM's $15+ billion in annual revenue, but they nonetheless illustrate a mindset that we find commendable. It is imperative that companies communicate ESG initiatives without embellishing their actions. Under the successful leadership of CEO Jim Fish, WM has struck a good balance not only in communicating the overall strategy, but also in operating the business in a commercially responsible manner with value accruing across multiple dimensions while collecting trash for cash.

Knut Gezelius
SKAGEN Global,
Portfolio Manager

The UPL investment case is clear and suits ESG and theme-based investors: agricultural land and water are going to be constrained resources in the future. Photo: Phoenix Han, Unsplash.com

SKAGEN Kon-Tiki: Active ownership in emerging markets

As active investors in Emerging Market (EM) equities, we see an opportunity to positively influence the development and urgency of ESG issues where change can really make an impact.

EM companies have, in general, not only lagged Developed Markets (DM) from a reporting and management priority perspective, but EM companies have also been slower to adopt ESG targets and policies than their counterparts in DM where customers, investors and regulators have traditionally exerted more influence. However, we are now starting to see steady improvements on the back of increased awareness in EM.

For us, as long-term investors, it is important to see ESG ambitions formed on paper being followed through and ingrained in more than disclosure; they must be rooted in strategy and execution. We believe that companies that understand and pay attention to ESG tend to have a stronger culture and be more innovative. The topic creates engagement, and with more engaged employees, firms also tend to be more productive.

Excluding companies from the investment universe based solely on current (lower) levels of sustainability can limit their ability to develop. It is by investing in these companies that we as investors can take the opportunity to engage with management and help influence real positive change. Furthermore, it is often the development trajectory that provides an interesting investment case for us. Positive ESG development can in and of itself help reduce the risk premium of a company and thereby increase its value.

A good example of a company that in many ways has transformed itself on the back of a top-level decision to put ESG at the core of everything they do, is our long-term holding UPL. This is a company which had a poor ESG reputation when we initiated the position in 2014. We have engaged with them on multiple topics and issues over the years, and it is therefore even more gratifying to reflect on how far they have come in most areas. This is also a good example of the dilemmas and challenges that can arise when investors blindly trust in ESG ratings.

UPL – ESG compliant or not?

Indian-listed UPL is the world's fifth largest agriculture solutions company. They cater to the whole spectrum of a farmers' needs from crop protection to seed treatment and post-harvest solutions, with a presence in around 140 countries.

The investment case is clear and suits ESG and theme-based investors: agricultural land and water are going to be constrained resources in the future. At the same time, the world population is set to increase, consequently increasing the demand for food. It is therefore more important than ever to enhance agricultural productivity worldwide in a sustainable manner.

However, for many investors there are two major reasons why it could stop there. First, UPL is categorised as an agricultural company within the chemical industry. The chemical industry has long suffered from a poor reputation due to its potentially adverse effects on the environment, health and safety. While not all chemicals are hazardous, exposure to some chemicals can cause serious human health and environmental damage.

With its new strategy, UPL is determined to be a change agent in the quest to ensure food security in a resource-constrained world. Photo: Paz Arando, Unsplash.com

Second, the company was recently involved in an unfortunate incident where a fire at a warehouse in Cornubia (South Africa) rented by UPL resulted in severe environmental damage and significant impact to the surrounding area due to fumes and contaminated runoff water from fighting the fire. As a result of this, UPL was recently downgraded by an ESG rating agency.

The circumstances in this case were unprecedented; the fire was set by rioters using firebombs at many sites in the province during civil unrest. We have been in contact with various people within UPL, ranging from top level management to Head of the SA business as well as their lawyers in order to get a more accurate picture of the incident than that portrayed in local papers. We are always supported by our internal ESG experts during these types of meeting with portfolio companies, which is helpful not only for our research process, but is also appreciated by the companies as we are in many instances used as a sounding board. This is a good illustration of how we work as active investors.

In this particular case, we questioned how the ESG rating agency had done their research and reached their overly negative conclusion. Sources cited are almost entirely local press. There are straightforward factual flaws in the ESG rating report, which had not been corrected ahead of the release. In addition, despite the seriousness of the ensuing environmental damage, one accident does not make a case for systemic issues within the company.

We have engaged with UPL on their clean-up and rehabilitation efforts and see that they are doing their best to mitigate the effects of the incident. Furthermore, there are no legal claims or proceedings against UPL at present. If the facts change, we would consider the new information carefully, but as of now we have come to a different conclusion about the incident than the rating agency rate.

Sustainability drives smarter innovation and profitable growth

This accident notwithstanding, UPL has made significant progress when it comes to ESG. The company has undergone a major transformation over recent years where they have followed a structured approach towards sustainability through many dimensions:

1. **Environmental:** their first Sustainability Report (2016/17) revealed a plan to reduce their environmental footprint by 30% over three years. This covered four focus areas, and waste disposal has been reduced by 45%, carbon emissions by 26% and water consumption by 21%. For 2025 they have set a target of further reductions of around 30%.
2. **Social:** as a signatory to the World Council for Sustainable Development, they are committed to achieving the UN's 17 Global Goals for Sustainable Development. This commitment is ingrained throughout the organisation, with a strong emphasis on certain goals in particular.
3. **Governance:** integration of policies, aiming for strong international standards.
4. **Economic:** The company's core focus on ESG reflects their view that it will also improve financial performance as it drives innovation, helps them remain competitive and gain market share over time. ESG has guided their transformation from a products company to a solutions company with a focus on helping farmers.

Change agents to ensure food security

With its new strategy, UPL is determined to be a change agent in the quest to ensure food security in a resource-constrained world. They see their core business as helping farmers achieve greater yields and contribute to the global agenda of enhancing food security. UPL has devised their Open AG strategy as they see close collaboration between all stakeholders in the food network as imperative. This comes in the form of many initiatives, such as carbon sequestration, reducing stubble-burning by providing farmers with a bio-enzyme that enables quick decomposition, reducing freshwater consumption in agriculture via the use of its water conservation product Zeba, providing spraying services, etc.

The company's focus on newer, sustainable and differentiated products is at the same time aimed at driving up margins and capturing market share. They claim to be the market leader within bio-solutions. Becoming a best-in-class sustainable producer de-risks the business from a regulatory standpoint as they can phase out more of the non-sustainable and hazardous chemicals that are increasingly being banned in various countries. This helps their brand perception, and also improves their standing in the investment community.

Incentivising achievement of ESG targets

UPL has deployed a structural framework to incentivise the achievement of ESG targets. Key Performance Indicators (KPIs) of each employee include certain links to ESG targets, with a monthly review process of all manufacturing units in order to achieve targets.

In addition, they endeavour to make their supply chain more sustainable, with a target of deriving more than 60% of their raw materials from sustainable sources by 2025. They also put pressure on their supply chains, for example, initiatives carried out to stop the use of child labour within the industry. Their dedication encourages competitors and the whole value chain to respond in order to stay competitive and relevant.

UPL is a good example of a company that has embraced ESG opportunities, and they are reaping the benefits through solid financial performance; UPL was the strongest contributor to SKAGEN Kon-Tiki's performance in 2021. Interestingly, UPL was ranked #1 for sustainability performance amongst its peers for the second year running by the same rating agency that downgraded it. Given UPL's significant improvements across multiple categories, the rating agency said it recognises the work they are doing to reimagine sustainability within the global food system. This includes their success in managing corporate governance, community relations, business ethics and their carbon footprint. FTSE Russell has also given them a strong score, and UPL has been included in the Dow Jones Sustainability index Yearbook under the chemical sector which is a distinction awarded only to the top 15% of companies.

Important role of active managers

ESG ratings now have a significant impact on capital flows, especially due to their role in ESG benchmark construction. Evaluations are normally used as filters on an index. There has been exponential growth in passive ESG investing, and for us the lack of transparency and consistency around ESG rating methodologies is a point of concern. However, this also emphasises the important role that we as active investors play as well as the opportunities this can create. We do invest in companies that are exposed to ESG risks, so engagement with management is essential. It might require a long-term trust-based relationship for us to be heard, but this can also make a real difference for the direction a company takes into a more sustainable future.

Cathrine Gether
SKAGEN Kon-Tiki,
Portfolio Manager

Following three years of engagement with Bonheur, the company has become much more transparent and forward leaning when it comes to disclosure and company-related information. Photo: Vista Wei, Unsplash.com

SKAGEN Vekst: Focus on governance pays off closer to home

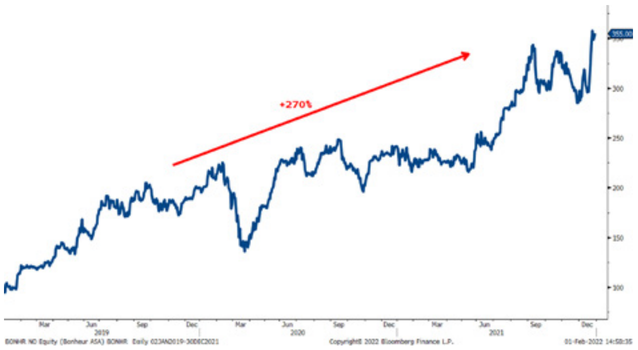
For SKAGEN Vekst, ESG factors are an essential part of our research process, in the same way that we analyse all elements which could impact a company's fundamental value.

We believe that many investors currently have an overly simplistic approach to ESG, focusing 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 valuation components; 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.

Open and transparent communication is key

Over the years, we have found that companies which tend to be unpopular in the public market are often so due to deficient or insufficient communication with other stakeholders. SKAGEN has since inception placed an emphasis open and transparent communication both with clients and the companies we are shareholders in. In our view, a company's openness towards shareholders is an essential part of good governance. Improving and strengthening governance has yielded good results both in the form of returns to clients and when it comes to risk management.

As owners of companies, there have been a number of instances where we have been able to either help companies develop their business or to apply pressure when things needed to be changed. As a result, we have witnessed openness and transparency gradually improving over time and we see that management and boards are open to shareholders' comments when they are addressed in the right manner.



Bonheur: active engagement to improve transparency

Over the past three years we have been engaged in a closer dialogue with the management and main owner of our long-term holding, Bonheur, a Norwegian holding company which has ownership in numerous companies within energy, shipping and other sectors. The company has made fundamental, positive changes to their business over the past decade. Nevertheless, Bonheur continued to be somewhat misunderstood by a large part of the market. Many of the adverse opinions surrounding the company were partly due to their historic engagements, complicated cross ownership and lack of general information to shareholders. We started to address this lack of information at our meetings with management, also highlighting the somewhat unusual operational structure of the company as well as the unconventional board setup compared to other Norwegian listed companies.

Following three years of engagement, the company has become much more transparent and forward leaning when it comes to disclosure of related parties' transactions and company-related information. At the request of shareholders, Bonheur published clearer information about their election committee and board composition in their annual report for 2019, which assisted in clarifying the governance structure of the company.

Over the past year, the company has also launched their eagerly awaited and much appreciated quarterly presentations. These have been available on-line and with presentations of underlying companies and holdings provided in English for their growing audience of international shareholders. Although Bonheur has come a long way in their disclosure and willingness to share information with stakeholders, we still believe there is more to be done, and the market would continue to appreciate even more information provided in a timely manner.

In conclusion, great companies are not made from brilliant governance or corporate information, but good engagement can assist in lifting these elements and thus increasing the value of the company in the broader market.

Alexander Stensrud
SKAGEN Vekst,
Portfolio Manager

SKAGEN m2 holding Switch works to ensure the sustainable growth of the internet, and for this the company has been awarded the highest rating for any class of company by Greenpeace. Photo: Taylor Vick, Unsplash.com

SKAGEN m2: The importance of sustainability for data centres

The carbon footprint of the internet – including the act of running it and the gadgets that use it – account for 3.7% of global greenhouse emissions according to Lancaster University[1] and this figure is expected to double by 2025. Data centres alone are estimated to make up 1% of global greenhouse gas emissions.

Sustainability has been a longstanding investment theme for SKAGEN m2, be that in the form of ownership dialogues or when it comes to selecting investments. When the team sought exposure to data centre companies, sustainability was naturally an important part of the screening and idea generation process.

Switch: Fully operated by renewable energy

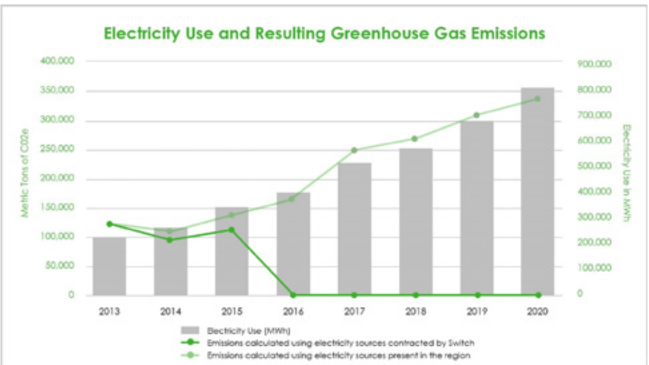
In 2020, SKAGEN m2 initiated a position in Switch Inc, a US company that engages in the provision of technology infrastructure through the ownership and operation of data centre campuses. The company has been seeking to decarbonise its scope 2 emissions – emissions from electricity used – for almost a decade. Since 2016, Switch has been able to fully mitigate its scope 2 emissions via renewable energy contracts and procurement agreements with local electricity providers and can therefore boast that its operations are now fully operated by renewable power. As of 2020, 0 m/t of CO2e is emitted by Switch, compared to the 340 million tons of CO2 it estimates it would have indirectly emitted by using electricity present in the region.

Reaching this important milestone was more arduous than simply setting up a contract with a local power provider. A considerable hurdle was first and foremost to ensure a more conducive policy framework. The company actively engaged with local government

[1] https://www.bbc.com/future/article/20200305-why-your-internet-habits-are-not-as-clean-as-you-think

to unbundle regulations and laws that complicated the broader adoption and rules surrounding energy use.

Switch set up the Energy Choice Initiative to advocate the right for consumers – be they companies or retail consumers – to choose their energy options. In 2020, this initiative was passed in Nevada, which now requires electric utilities to acquire a minimum amount of electricity from renewable energy sources and to reach a renewable portfolio standard of 50% by 2050.



Renewable energy a key requirement for tenants

Renewable energy is increasingly becoming a key requirement for tenants looking for data centre space as ESG concerns continue to proliferate. Increased energy efficiency is the best way to be sustainable as the greenest energy is the energy that is never used. Switch's patented innovations in design, power, cooling and density allow its data centres to operate with industry-leading power usage efficiency. Switch is a leader in Power Usage Effectiveness (PUE) in the industry with a stabilised sector average PUE of 1.23. PUE is a measure of energy efficiency determined by the ratio of the total amount of energy used in a data centre to energy delivered to computer gear, with the lower the number the better and a PUE of 1.0 being perfect.

Switch also looks at how its data centres may otherwise potentially impact local communities, such as water consumption. For example, at the Citadel Campus in Reno, Nevada (a high water risk region), Switch is leading the development of a 4,000 acre-foot effluent water pipeline in northern Nevada that will allow the company to run the campus on 100% recycled/effluent water, also eliminating chemicals from the water.

Awarded highest Greenpeace rating

Switch continues to work on ensuring the sustainable growth of the internet, and for this the company has been awarded the highest rating for any class of company by Greenpeace, the "Clicking Clean Report". Switch is also the only company to achieve the highest environmental rating in S&P's global telecom category which consists of 180 companies.

In SKAGEN m2 we see Switch as one of the "purest" plays to capture the proliferation of the cloud. As all data needs to be analysed, computed and managed, the additional computer capacity and densities will play to Switch's strengths. Thanks to its strong sustainable profile we think Switch is a potential M&A candidate, but more importantly has reduced risk, something that we value highly as fund managers.

In addition to excellent progress in terms of sustainability, Switch is also making good progress in its social responsibility and governance work. To illustrate this, Switch pays 100% medical insurance premiums for all employees and their family members and there is a strong gender and diversity mix among leaders and the board of directors.

Michel Gobitschek
SKAGEN m2,
Portfolio Manager

Sponsorship is an important part of our social responsibility efforts, and in 2021 we initiated a cooperation with an SOS Children's Villages' project called Digital Village. Photo: SOS Children's Villages

Corporate Sustainability in 2021

Apart from a few periods of respite, 2021 was another year dominated by the pandemic, which of course also had an impact on SKAGEN.

However, there were also numerous highlights for SKAGEN from a corporate sustainability perspective as we continued to strengthen our efforts around our three chosen Sustainable Development Goals (SDGs). These are outlined over the next few pages.

2021 was the first year that SKAGEN reported its Communication on Progress (CoP) for Global Compact, and thus formally communicated the aims and commitments we signed up for in 2020. The report can be found on our webpages and includes details about how SKAGEN works to uphold Global Compact's ten principles.

Sponsorship is an important part of our social responsibility efforts, and in 2021 we initiated a cooperation with an SOS Children's Villages' project called Digital Village. This project aims to close the digital gap by giving marginalised children and young people equal opportunities through technology. In practice this means building and operating IT centres, providing access to the internet and educating them on competence and safety online. This is a project that SKAGEN wholeheartedly supports and an important part of the UN's Sustainable Development Goals is to provide education to all children. In this era, digital knowledge is as vital as traditional schooling. Read more about this initiative here.

SKAGEN is proud of its work within corporate sustainability in 2021, as described above and over the next few pages. SKAGEN is a small company in relative terms, but we have high ambitions to be part of the collective effort needed to achieve the 17 Sustainable Development Goals. We look forward to playing our part, making both big and small contributions in 2022.

Linn G. Eriksen
Responsible for
Corporate Sustainability

SDG 5

Gender Equality

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

Background:

SKAGEN operates in the finance industry, which traditionally has a substantial gender bias. This is a well-established fact, and the reasons for it are complex and varied. SKAGEN has a clear vision not only to mitigate the gender bias in its own organisation, but also to work on recruiting more women into financial studies, and encouraging them to choose a career in finance in order to expand the talent pool.

As mentioned in the headline, diversity in SKAGEN is not solely a focus on gender, but an aim to have our workforce reflect society at large in all respects. One of SKAGEN's aims for 2021 was to release our first Diversity and Inclusion Report, communicating our aims and targets. The report can be found on our website. In addition, we finalised our Diversity, Equity & Inclusion strategy outlining SKAGEN's plan to leverage on diversity and further a culture of belonging and inclusion regardless of background, race, sexuality or religion. The focus has been on structuring, formalising, and communicating already established practices and procedures in addition to making improvements.

Efforts and implementation:

One of the most significant gender initiatives in 2021 was the newly founded Women in Finance Charter, spearheaded by SKAGEN's CIO Alexandra Morris, together with Turid Solvang, CEO of Futureboards. This is based on the UK initiative of the same name launched in 2016, with now over 400 UK financial institutions as signatories.

"For too long there has been talk about the gender imbalance in executive positions in the finance industry, now it's time to show action," commented Alexandra Morris. The idea behind the initiative is for leaders and companies to show real commitment to improving the gender balance, and the initiative is based on four principles:

1. One executive committee member must have dedicated responsibility for gender balance and inclusion
2. Set concrete and realistic internal targets for gender balance in leadership and senior positions
3. Aim to reflect the achievement of the targets in leadership remuneration
4. Communicate the status of and progress towards targets on the company's website

SKAGEN is of course committed to the above four principles. We also continue to support the local Stavanger-based initiative Stavanger 50/50, and participate in Equality Check and the She Index.

Implementation of D,E & I strategy

One aim for 2021 was to formally implement our Diversity, Equity and Inclusion strategy goals, including procedures to mitigate unconscious bias.

During 2021 several actions were formalised, including even more bias-aware texts in our recruitment process. This has had notable affect, with the types of applicants being much more diverse than previously. Whenever a head hunter is involved in recruitment, the agency must strive to find candidates of both genders.

To ensure a varied perspective of potential new candidates internally, employees from different parts of the organisation – including a representative from the internal DE&I group – participate in the selection process. In the final stages of any recruitment process, SKAGEN aims to have a diverse selection of final candidates.

A combination of these efforts resulted in five women being hired during the 11 hiring processes that took place during 2021 (with some positions not starting until 2022).

Parental Leave

SKAGEN strongly encourages all employees to take their allotted parental leave, and to ensure that they feel supported in doing so, SKAGEN initiates meetings before, during and after the leave period, to keep in touch and give support. If it is the first time an employee goes on parental leave, they are assigned a "buddy" for additional support. Employees on parental leave participate in the annual salary process as normal.

FEMALE INVEST

Female Invest:
In Denmark, SKAGEN continues to partner with Female Invest, Northern Europe's leading financial educator dedicated to promoting financial gender equality through education and knowledge sharing. Over the course of 2021, SKAGEN held eight webinars covering various financial topics which were attended by over 10,000 participants.

Expanding the female talent pool
As mentioned above, gender bias is a recurring issue in the finance industry. Even with dedicated efforts and clear targets in the hiring process, one of the recurring issues is too few female applicants for vacant positions.

SKAGEN would like to play its part in increasing the number of women choosing finance studies, and thus get to the root of the problem. In 2021, SKAGEN participated at events hosted by Women in Front End Finance (KIFF), the Norwegian University of Life Sciences (NMBU) and the Norwegian University of Science and Technology (NTNU) targeting female students and advocating the finance sector as an exciting and versatile career path. This is something SKAGEN will continue to promote in 2022.

Gender Distribution statistics for 2021:

Gender representation	**Leader group**	**43%**
	Board	50%
	Board with deputies	56%
	Board: election committee	100 %
	All employees	34%
Gender pay gap		
Mean salary for men and women with the same job and qualifications, including bonus	All employees	86 %

In 2021, SKAGEN participated at events specifically catered for female students, advocating finance as an exciting and versatile career path. Photo: SKAGEN

Aims for 2022

- SKAGEN will continue to implement and develop our Diversity, Equity and Inclusion Strategy goals, where eliminating unconscious bias in the hiring process is one of the goals
- SKAGEN will continue to partner with relevant organisations and visit educational institutions to encourage women to seek a career in finance
- SKAGEN will continue to work for an inclusive culture, and to be an employer who contributes to enabling employees to have a healthy, sustainable life

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.

Efforts and Implementation:

Training and development

Employee training and development continues to be a vital focus point for SKAGEN, and our internal employee survey proves the importance of this when it comes to employee satisfaction and engagement.

During 2021 all employees participated in some form of training and development. This includes our internal quarterly SKAGEN school program with speakers on various and relevant issues, as well as a mandatory annual training program encompassing areas such as ethics, anti-money laundering, anti-corruption and anti-terrorist funding. Approximately 30% of employees pursued additional training, including external courses of various duration and competence levels, as well as extensive learning programs such as formal degrees or studies.

Employee development and training benefit SKAGEN as a company, and competence within areas like digitalisation and sustainability in particular is vital.

Employee welfare

SKAGEN continues to prioritise employees' welfare, especially with the pandemic still ongoing. SKAGEN has a monthly employee satisfaction survey, which aims to identify areas of improvement or issues in the organisation. As per our aim for 2021, 15 additional questions relating to health, safety and well-being were included to help pinpoint this in even more detail. SKAGEN's employee satisfaction score increased from 8.3 to 8.4 during 2021.

Due to Covid 19 restrictions, working from home was the norm for employees in 2021. Some offices experienced intervals when restrictions were eased, and SKAGEN has focused on encouraging a flexible working environment, regardless of the lock-down situation. This has been welcomed by employees, and SKAGEN will continue to facilitate a hybrid solution for those who want it, depending on their work situation and tasks.

SKAGEN's annual sick leave rate in 2021 was 1.6%, a slight increase on 2020. One contributing factor was more cases of Covid-infection among employees in 2021 compared to the previous year.

Procurement

In 2021 the Norwegian Government passed the Transparency Act law, which requires companies to ensure that human and working rights are respected in their operations and supply chains. Companies must identify, address, prevent and limit violations of human rights and promote decent working conditions. They must report on all these activities to ensure transparency. This law will supplement SKAGEN's ongoing work with our own procurement policy as well as our commitment to Global Compact, and will be an area of priority during 2022.

Aims for 2022

- In 2022 SKAGEN will finalise a separate procurement policy, ensuring that our suppliers have a good environmental policy in place, and no human or working rights violations in their operations or supply chains.
- SKAGEN will continue to support and facilitate professional development for its employees.
- SKAGEN will ensure a smooth transition into a more normalised workplace situation, whilst facilitating more hybrid workplace solutions in future.

Statistics people:	**Total sick leave NO**	**1.60 %**	
	Gender NO F	3.00 %	
Leave	**Gender NO M**	**0.80 %**	
	Nationalities	13	
Age distribution	**No. of countries employees live in**	**6**	
	Average age	44	
	20-29	7	8 %
	30-39	20	23 %
	40-49	31	36 %
	50-59	28	33 %
	Women under 30	4	5 %
	Men under 30	3	3 %
	Women over 50	12	14 %
	Men over 50	16	19 %
	Average tenure	**10 years**	
	Turnover	**5.98 %**	

SDG 13

Climate Action

Background:
SKAGEN acknowledges that the most substantial climate impact will be through our investments and, as such, SKAGEN has a comprehensive sustainability policy which can be found on our website. However, all businesses, be they large or small, must have an awareness of their own negative impact on the environment, and strive to reduce this as much as possible. To fully understand how businesses impact society and the environment, SKAGEN focuses both on submitting factual emission data in our climate audit, and on heightening our knowledge around sustainability and climate change.

Efforts and implementation:
Development and training
An aim for 2021 was to continue to enhance our competence on climate change, sustainability and ESG.

A particular highlight was our Head of UK Institutional Business, Lauren Juliff, completing her Master of Science in Climate Change: Environment, Science and Policy at King's College London in the autumn of 2021, with Distinction. Her thesis entitled "Investing for the Climate Emergency? Exploring the management of climate-related investment risk in the UK Local Government Pension Scheme" won "Best Thesis Award" for her course and has been nominated by the university for the Royal Geographical Society's Economic Research Group Prize for the best postgraduate dissertation. Competence and expertise in the field of climate change is essential, and SKAGEN is proud to have Lauren on our team.

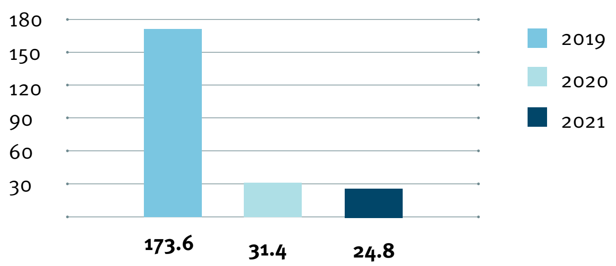
In 2021, SKAGEN started on a program founded by FutureBoards, DNV GL, UN Global Compact Norway and SKIFT called "SDGs for BoDs Network Program". The aim of this program is to strengthen the sustainability competence in board rooms. The program offers an arena for top managers and board members to exchange knowledge, experience and views on the SDGs, and go through the latest research on sustainability megatrends and challenges and how these will affect business and clients. This effective and useful program has contributed to an even better knowledge and understanding of the importance of the SDGs among our board members.

Tracking our emissions:
Since 2019 SKAGEN AS has been conducting carbon audits of the company with the aim of raising awareness and transparency around our own carbon footprint as well as identifying areas of the business where efforts to minimise carbon emissions can be made.

The full report will be available on our website, but as in previous years, we can report that our main carbon emitting factor is business travel. 2021 was yet another "abnormal" year with Covid still affecting our business. Still, it is good to see that our carbon emissions decreased from 34tCO2e to under 25 tCO2e.

Travelling to meet clients and companies in person is a vital part of how SKAGEN operates. However, the pandemic has demonstrated that many meetings can take place digitally. Our travel policy reflects this: all business travel must be approved by leaders, and SKAGEN continues to encourage employees to choose the most environmentally friendly mode of transport available.

Business Travel tCO2e



Business travel:
New office premises
In December 2021 SKAGEN signed a lease for new office premises for our headquarters in Stavanger. An extensive planning period is underway, and the premises will be built to the highest standard of environmental certification of BREEAM possible within the practical limitations of the existing building. This will mean more effective energy usage and offices designed for low impact and long-lasting usage. SKAGEN is excited to be embarking on this new chapter.

Aims for 2022
- In 2022 SKAGEN will continue to monitor our own carbon-emitting activities and identify areas to reduce
- During 2022 SKAGEN aims to compensate for our own emissions towards carbon neutrality
- During the planning of new office premises, SKAGEN will push for environmental excellence

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.

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.

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.

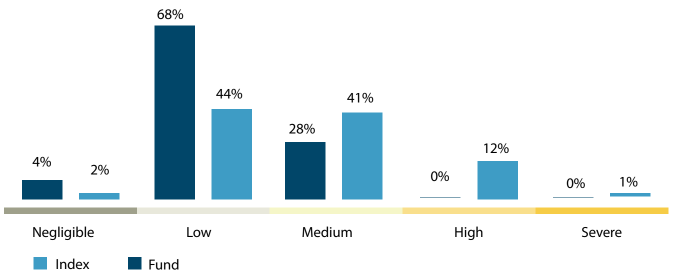
ESG RISK RATING

All risk ratings on this page are powered by Sustainalytics.

SKAGEN Global

	SKAGEN Global	MSCI ACWI
Coverage rate:	100%	100%
ESG Risk Rating:	17.4/100 (Low)	21.5/100 (Medium)
ESG Exposure:	34.4/100 (Low)	40.2/100 (Medium)
ESG Management:	53.5/100 (Strong)	49.6/100 (Average)

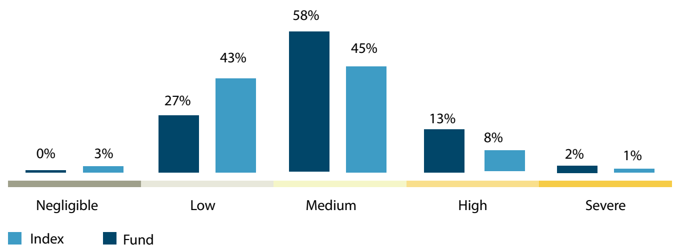
ESG Risk Category by aggregate portolio weight %



SKAGEN Vekst

	SKAGEN Vekst	MSCI Nordic/ ACWI ex Nordic
Coverage rate:	96%	100%
ESG Risk Rating:	24.0/100 (Medium)	20.8/100 (Medium)
ESG Exposure:	44.9/100 (Medium)	39.9/100 (Medium)
ESG Management:	49.4/100 (Average)	50.8/100 (Strong)

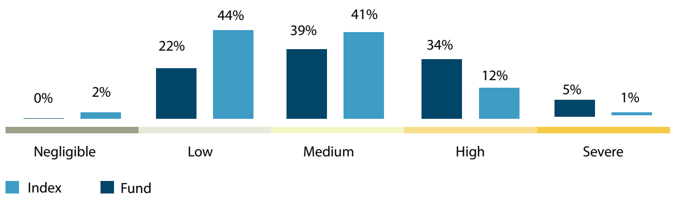
ESG Risk Category by aggregate portolio weight %



SKAGEN Focus

	SKAGEN Focus	MSCI ACWI
Coverage rate:	88%	100%
ESG Risk Rating:	28.3/100 (Medium)	21.5/100 (Medium)
ESG Exposure:	45.3/100 (Low)	40.2/100 (Medium)
ESG Management:	39.6/100 (Average)	49.6/100 (Average)

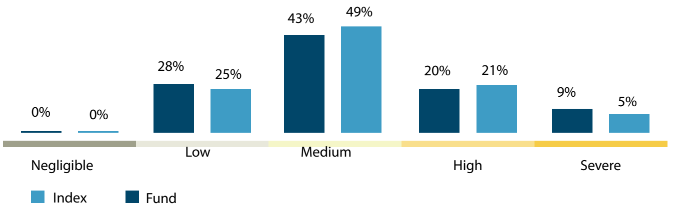
ESG Risk Category by aggregate portolio weight %



SKAGEN Kon-Tiki

	SKAGEN Kon-Tiki	MSCI EMI
Coverage rate:	95%	99%
ESG Risk Rating:	25.8/100 (Medium)	25.6/100 (Medium)
ESG Exposure:	43.6/100 (Medium)	42.7/100 (Medium)
ESG Management:	43.6/100 (Average)	42.3/100 (Average)

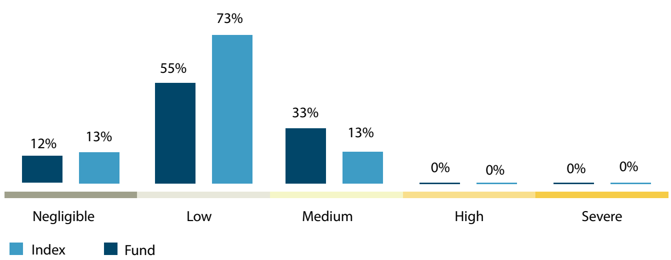
ESG Risk Category by aggregate portolio weight %



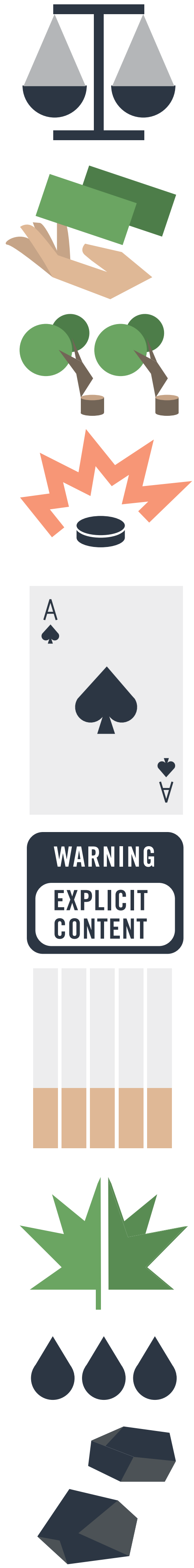
SKAGEN m2

	SKAGEN m2	MSCI Real Estate
Coverage rate:	97%	99%
ESG Risk Rating:	16.5/100 (Low)	14.7/100 (Low)
ESG Exposure:	28.8/100 (Low)	26.5/100 (Low)
ESG Management:	44.6/100 (Average)	45.8/100 (Average)

ESG Risk Category by aggregate portolio weight %



Exclusion as a last resort



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

Corporate behaviour:

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

Products/activities:

- Owners of palm oil plantations with unsustainable business practices
- Companies that deliberately and systematically work against the goals and targets enshrined in the Paris Agreement
- Gambling (more than 5% of revenue)
- Adult Entertainment (more than 5% of revenue)
- Tobacco (more than 5% of revenue)
- Recreational cannabis – THC (more than 5% of revenue)
- Coal (5% of revenue)
- Oil Sand (5% of revenue)

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

Read more in our Sustainability policy

Exclusion list as of 31.12.2021 Exlusion category	No. of companies
Conduct-based exclusion - Environment	18
Conduct-based exclusion - Corruption	10
Conduct-based exclusion - Human Rights and International Law	39
Tobacco	25
Controversial weapons	27
Climate - Coal	133
Climate - Lobbying	5
Climate - Oilsand	9
Unsustainable Palmoil	11
Gambling	1
Cannabis	43
Total number of companies	321*

* 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, Girl from Skagen, 1887. This painting is manipulated and belongs to The Art Museums of Skagen.

The art of common sense

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