SUSTAINABILITY REPORT
First Quarter 2021

SKAGEN

CONTENTS

IMPORTANT INFORMATION

The incoming Biden administration in the US has put sustainability and the treatment of the climate crisis front and centre in their legislative programme. Photo: Archna Nautiyal, Shutterstock.com

A good quarter for sustainability advocates

The year 2021 has begun with good progress in many areas of sustainability related to investing. The EU Sustainable Finance Disclosure Regulations (SFDR) have come into effect; and the incoming Biden administration in the United States has put sustainability and the treatment of the climate crisis front and centre in their legislative programme. Indeed, the US and China have recently stated that they are committed to working together and with other countries on tackling climate change. This comes after several meetings between Chinese climate envoy Xie Zhenhua and his US counterpart John Kerry in Shanghai last week.

SFDR – good news but needs time to settle

The newly introduced SFDR imposes long overdue and common standards of transparency and fiduciary duty upon the investment industry. As with all such early stage legislation, there are gaps and inconsistences. Perhaps as expected, the fund industry has seized this as an opportunity to increase sell ability. Products must now self-categorise as either Article 6 'responsible investing'[i], Article 8 'light green'[ii], and Article 9 'dark green'[iii]. Even a cursory examination of products against the criteria shows that in the Nordics many producers are overshooting and probably greenwashing, whereas others are more credible and cautious. Once the regulators take an interest this should correct itself; however, for the time being, investors would do well to ensure they really understand the claims being made and reassure themselves that this is, indeed, even possible for the funds in which they invest.

Coming from Rogaland, where people speak as they find, SKAGEN has adopted a more cautious approach. The fact is that the regulation is incomplete and developing. Once the full extent of the process to document categorisation is known, it will be possible to ensure

[i] Article 6 covers funds that are not Article 8 or 9, however sustainability may still be part of the portfolio manager's process, e.g. by assessing the sustainability risk. Note that this category covers all other products and will as a consequence include everything from funds that report sustainability as not relevant to funds that have good integrations of sustainability – only not as defined by the SFDR (for example, an index fund that excludes the worst companies from an ESG perspective).

[ii] Article 8 funds, also known as 'environmentally and socially promoting', applies where a financial product promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.

[iii] Article 9 funds, also known as 'products targeting sustainable investments', include products targeting bespoke sustainable investments and applies where a financial product has sustainable investment as its objective.

robust processes if sustainability focus and impact is the ambition. Within SKAGEN we have a strong record of incorporating sustainability into the funds in an active and credible way. I find it highly likely that our processes and outcomes will demand green categorisation of one shade or another.

Active ownership

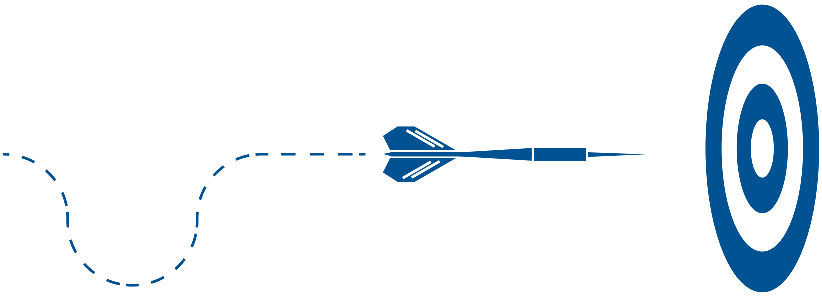
In this report we provide an overview of our active engagement and dialogue during the first quarter. We continue to target our engagement activities around issues we believe to be material for the company and for us as an investor as well as cases where we believe we can make a difference through a more focused dialogue and engagement.

The report also provides a review of the funds' voting activities. SKAGEN voted on 100% of the items at the votable meetings of our portfolio companies during the first quarter. Voting is an additional channel through which to address concerns and influence companies in a direction that we believe is sustainable.

Finally, we outline our corporate sustainability efforts during the quarter, including the publication of our first carbon audit reports and diversity and inclusion report.

We hope you enjoy the report.

Timothy Warrington
CEO



First quarter engagement report

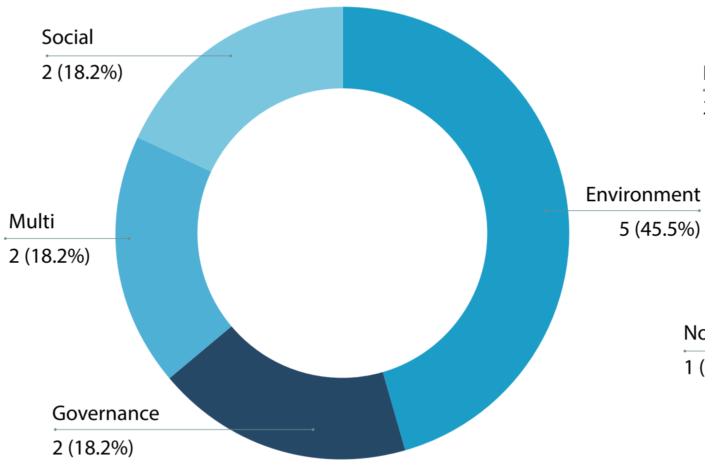
As long-term investors, we regularly engage with our portfolio companies to promote and encourage improvements.

It has been a busy start to 2021; we have engaged with eight companies on 11 unique cases. The majority of the engagement work has involved setting the scene for further dialogue and monitoring. We have covered a wide variety of topics, all of which are linked to company-specific strategies and ambitions.

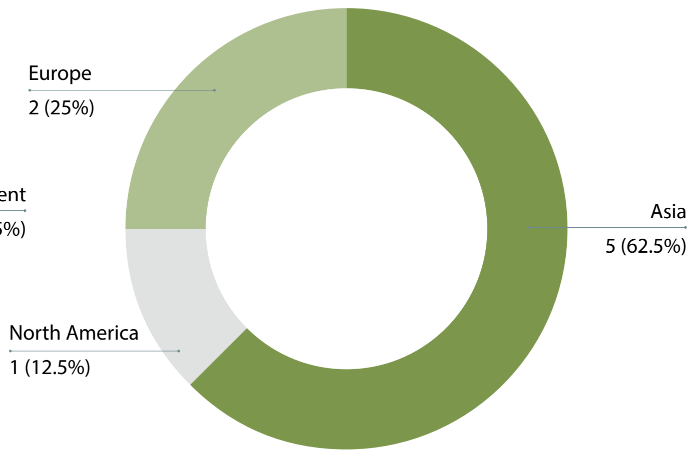
In one particular company engagement, we discussed the potential effects that the introduction of a cap and trade carbon market in China might have on their operations. In another, we sought to better understand the importance of the company's commitment to human capital for acquisition and retention of talent.

Another topic that featured in our dialogue with companies focused on their plans to add circular features to their business operations. Some actors see the potential to renovate, re-build and upgrade existing machinery for clients and second-hand buyers of their products. For other companies, the circular focus is related to further expanding innovation and investments in order to reduce operational emissions and greenhouse gases. In turn, this often also benefits the total cost picture as well as employee wellbeing and satisfaction.

Current engagements by ESG category



Current engagements by region



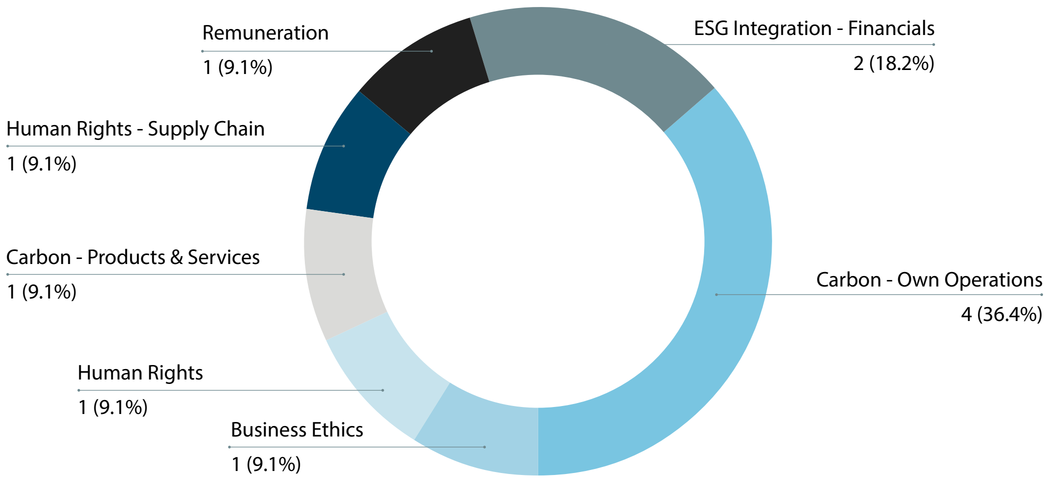
As active stock pickers

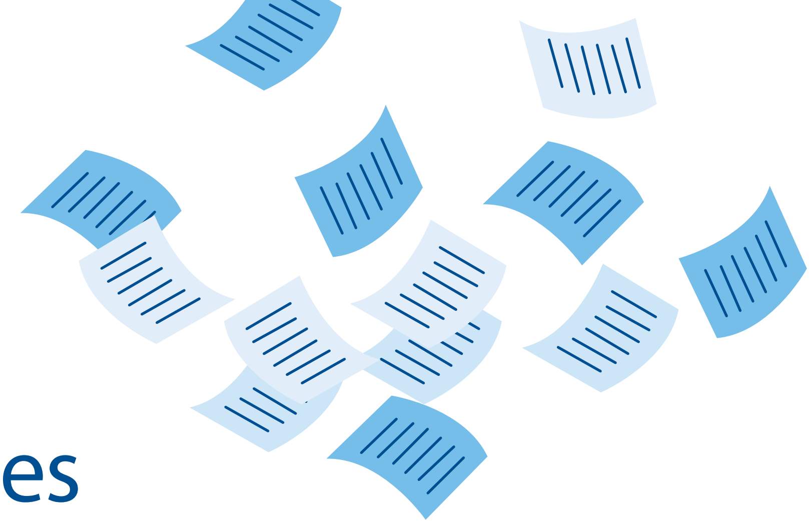
SKAGEN's portfolio managers have always sought out undervalued companies. While some of these may have a controversial past, they must also demonstrate a willingness to change. As such, we favour companies that create value through improvements related to environmental, social and governance (ESG) factors, amongst others.

Excess return can be generated when companies develop in a positive way, either through our engagement with them or their own improvements. As such, picking the right companies that are on a positive ESG trajectory can be a source of significant outperformance and is in line with SKAGEN's value-based investment philosophy of finding undervalued companies where we can see clear catalysts for revaluation.

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

ESG issues engaged on





Voting activities

Voting is an important tool for investors, allowing us to signal what we believe to be the best course of action for a company and for us as a shareholder. Voting gives us an additional channel through which to address concerns and influence companies in a direction that we believe is sustainable without necessarily being present at meetings.

Increase in voting activities

During the first quarter of 2021, there were 43 voteable meetings and 80 voteable ballots at our portfolio companies, with 584 voteable items on the agenda. SKAGEN voted on 100% of the items, which is up from the first quarter of last year, where we voted on 94.6% of the items.

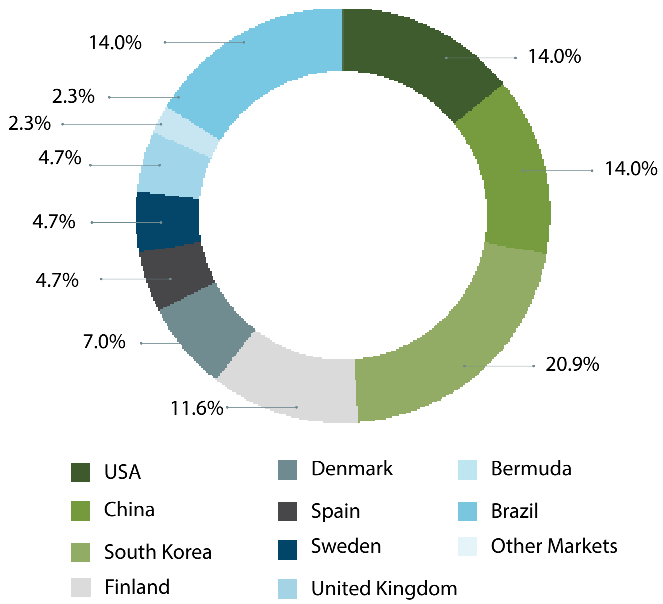
Votes were in line with management recommendations 96.4% of the time, while 3.6% of the time we voted against management recommendations on one or more items on the agenda. All voting activities can be found in the proxy voting dashboard on our website. All votes are published within one week of the votes being cast, and in the cases where we have voted against management recommendations, an explanation is provided.

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

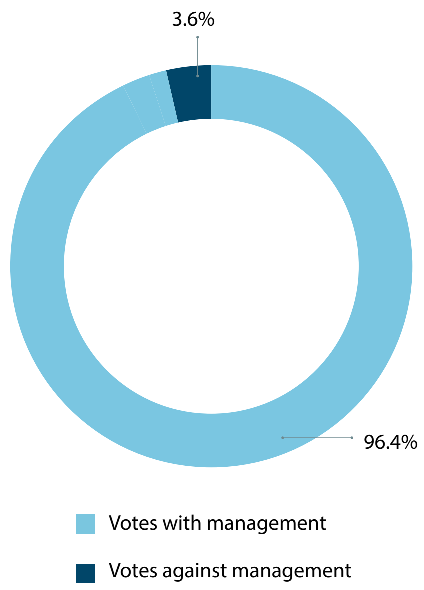
Our full voting record is available here

Year	Q1 2021	Q1 2020	Q1 2019
Number of meetings voted	43/43	31/33	35/37
% of meetings voted in	100.00%	93.94%	94.59%
Number of ballots voted	78/80	76/84	53/55
% of ballots voted on	97.50%	90.48%	96.36%

Meetings voted by market



Votes cast statistics



Corporate sustainability news

SKAGEN is dependent on our clients' and employees' trust and respect as a socially responsible asset manager. We endeavour to uphold sound ethical principles and be a trustworthy company.

SKAGEN's carbon audit reports available

SKAGEN has committed to joining the collective global effort to reduce greenhouse gas emissions. In September 2020, we decided to perform annual carbon audits on the company's direct operations, and we now have two full years to report on.

The carbon accounting process revealed that "Scope 3 Business Travel" is our highest greenhouse gas-emitting activity, and in 2019 (a "normal" year) this constituted over 85% of our total emissions. We can see a tCO2e/FTE (tonnes CO2 equivalents per employee) of 2.2 tonnes, which we consider to be too high, mainly generated by emissions due to travelling.

Updated travel guidelines

Due to Covid-19-related travel restrictions, our total emissions fell by over 80% in 2020. Nonetheless, SKAGEN has now added an environmental supplement to our company's travel guidelines to reduce the amount of business travel undertaken, also in a post-Covid-19 world.

The environmental supplement stresses that employees must be conservative when assessing the need to travel and encourages them to opt for less carbon intensive modes of transportation (i.e. choosing train over air travel for certain distances).

As the world has grown more accustomed to online meetings after one year (and counting) of corona restrictions, we predict that the amount of business travel will fall substantially going forward. Combined with the environmental restrictions now in place, SKAGEN will see a significant decrease in its future emissions compared to 2019.

8 March – International Women's Day

The fact that the finance industry still faces gender equality and diversity-related challenges is a theme we have discussed previously. This is a dedicated area and point of focus for SKAGEN, and as such, we have selected SDG 5 – Gender Equality – as one of our highlighted sustainable development goals.

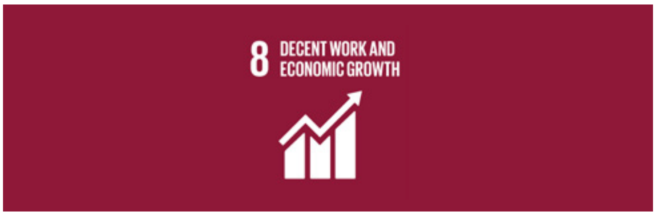
Our CIO Alexandra Morris has for many years been at the forefront of efforts to promote and increase the number of women working in the finance industry. This year, on International Women's day, Alexandra attended two virtual events to further highlight her – and SKAGEN's – focus on women in this sector.

The day started with an event hosted by the Oslo Stock Exchange "Ring the bell for Gender Equality". Alexandra was a speaker at the event, encouraging more women to seek a career in finance – "the most exciting career path available" – together with Nicolai Tangen, CEO of Norges Bank Investment Management.

The second event "Jentemiddagen" was held in collaboration with the University of Stavanger to promote female innovation and entrepreneurship. An impressive line-up of powerful women from many different sectors attended the event, including prime minister Erna Solberg.

Diversity & Inclusion report

In the first quarter, SKAGEN published our first Diversity and Inclusion Report, setting out our position, describing our efforts so far, and outlining our future plans and actions. The report also provides an overview of the current state of gender equality in the company. You can read the whole report here.



Employee health

As a part of our continued focus on employee health and wellbeing, this quarter SKAGEN initiated online training for all employees in collaboration with our physiotherapist partners Hinna Fysioterapi. Two mornings a week, all employees are invited to join an online live training session, one focusing on cardiovascular training, the other on stretching and core training. After one year of mostly working from home, this regular focus on employees' physical health has proven very welcome.

Another initiative to improve employee health, as well as to increase social interaction, is our six-week activity challenge. The interdepartmental team that logged the most hours of activity after six weeks received a sum to donate to a charity of their choice. 57 out of 85 employees signed up for the challenge, and by week six over 2000 hours of activity had been logged, which is an impressive amount of activity, and has no doubt been good for us all!

Linn G. Eriksen
Responsible for Corporate Sustainability Group

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

ESG Risk Rating: Assessing the full picture

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

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

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

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

Large caps provide more disclosure

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

Future potential

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

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

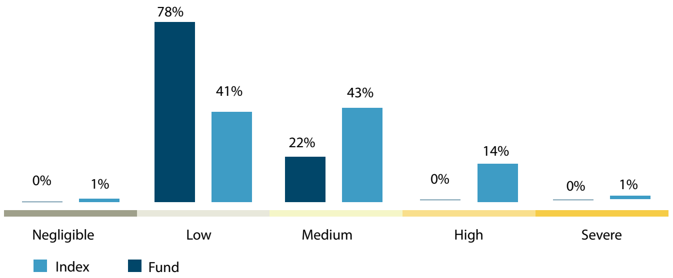
ESG RISK RATING

All risk ratings on this page are powered by Sustainalytics.

SKAGEN Global

	SKAGEN Global	MSCI ACWI
Coverage rate:	100%	99%
ESG Risk Rating:	16.8 (Low)	22.5 (Medium)
ESG Exposure:	32.7 (Low)	40.5 (Medium)
ESG Management:	52.7 (Strong)	47.3 (Average)

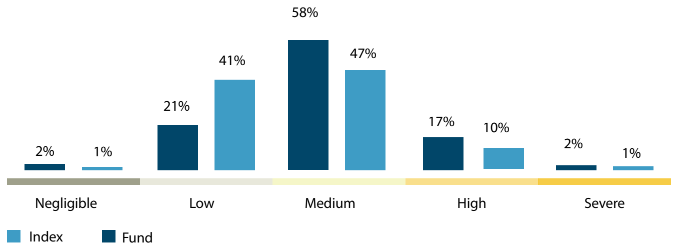
ESG Risk Category by aggregate portolio weight %



SKAGEN Vekst

	SKAGEN Vekst	MSCI Nordic/ ACWI ex Nordic
Coverage rate:	97%	100%
ESG Risk Rating:	24.9 (Medium)	21.7 (Medium)
ESG Exposure:	45.6 (Medium)	40.3 (Medium)
ESG Management:	48.2 (Average)	48.8 (Average)

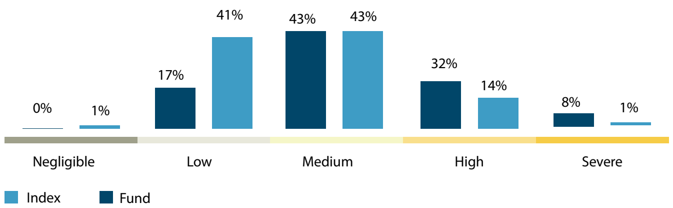
ESG Risk Category by aggregate portolio weight %



SKAGEN Focus

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

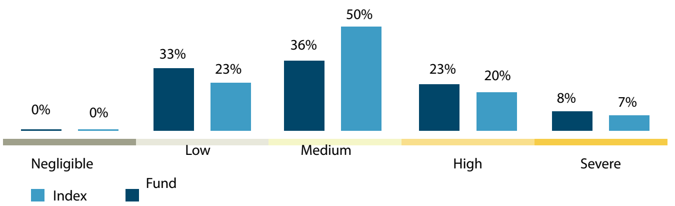
ESG Risk Category by aggregate portolio weight %



SKAGEN Kon-Tiki

	SKAGEN Kon-Tiki	MSCI EMI
Coverage rate:	90%	99%
ESG Risk Rating:	26.8 (Medium)	26.1 (Medium)
ESG Exposure:	44.1 (Medium)	41.8 (Medium)
ESG Management:	42.1 (Average)	39.7 (Average)

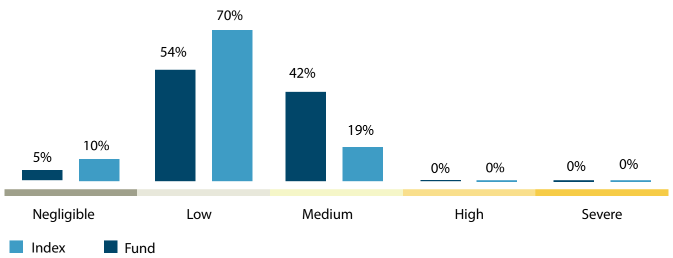
ESG Risk Category by aggregate portolio weight %



SKAGEN m2

	SKAGEN m^2	MSCI Real Estate
Coverage rate:	97%	99%
ESG Risk Rating:	18.7 (Low)	15.8 (Low)
ESG Exposure:	28.9 (Low)	26.9 (Low)
ESG Management:	36.6 (Average)	42.3 (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:

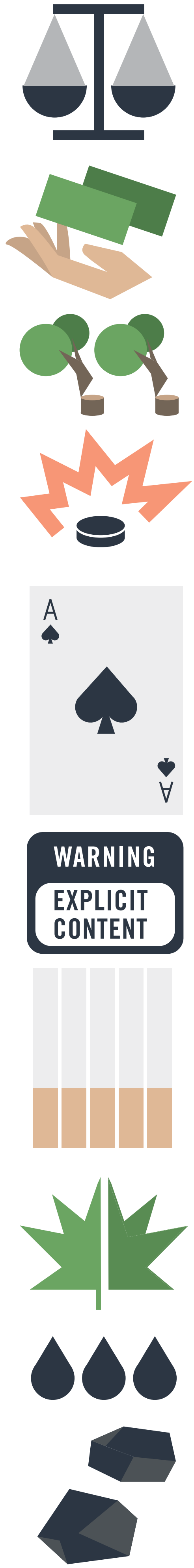
- Owners of palm oil plantations with unsustainable business practices
- Companies that deliberately and systematically work against the goals and targets enshrined in the Paris Agreement
- Gambling (more than 5% of revenue)
- Adult entertainment (more than 5% of revenue)
- Tobacco (more than 5% of revenue)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

Exclusion due to other controversies 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 31.03.2021 Exlusion category	No. of companies
Conduct-based exclusion - Environment	18
Conduct-based exclusion - Corruption	9
Conduct-based exclusion - Human Rights and International Law	37
Tobacco	25
Controversial weapons	24
Climate - Coal	122
Climate - Lobbying	6
Climate - Oil sand	8
Unsustainable Palm oil	11
Gambling	2
Cannabis	40
Total number of companies	282*

* Some companies are excluded on the basis of several criteria. We do not invest in companies that have been excluded by Norges Bank Investment Management (NBIM)



Offices

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

Fridtjof Nansens plass 6, 0160 Oslo

Vaskerelven 39, 5011 Bergen

Beddingen 8, Solsiden kjøpesenter,
7014 Trondheim

Langelandsvegen 1, 6010 Ålesund

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

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

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

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

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

Front page:
Michael Ancher, At the champagne toast, 1883. This painting is manipulated and belongs to The Art Museums of Skagen.

The art of common sense

SKAGEN
Part of Storebrand