SKAGEN

# ANNUAL SUSTAINABILITY REPORT 2022

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**Changing attitudes towards electric cars reflect the inconstant landscape** when it comes to sustainability. We don't trust the latest headlines or third party data, however, preferring to do our own assessment of the true situation. Photo: Bob Osias, Unsplash.com

# Navigating the changeable landscape of sustainable investing

When I first attended preparatory school – back in the Stone Age according to my colleagues – at the mid-morning break each day we were served a measure of fresh milk in a miniature version of the glass milk bottles then in use. Sometime later it was judged that glass was wasteful, and the bottles were replaced with rather awkward paper containers – made by a clever Swede, I think. Then later still, plastic was judged to be less wasteful, although that came with its own problems, so we learned. It seemed as if the science really couldn't make its mind up. Indeed, in recent years, even the benefits of fresh milk have been cast into doubt, such is the inconstancy of the world.

It seems to be much the same with sustainability. First, we were told that electric cars were the answer. Then we were told that this was only true if we drove them for more than 65 000 American miles[1] – which is some challenge given their generally parlous performance during the winter season. Then we were told it was all about the source of the energy, it had to be renewable – which was fine for Norway until the government stated prioritising exports to Europe over domestic consumption.

## Don't trust the science

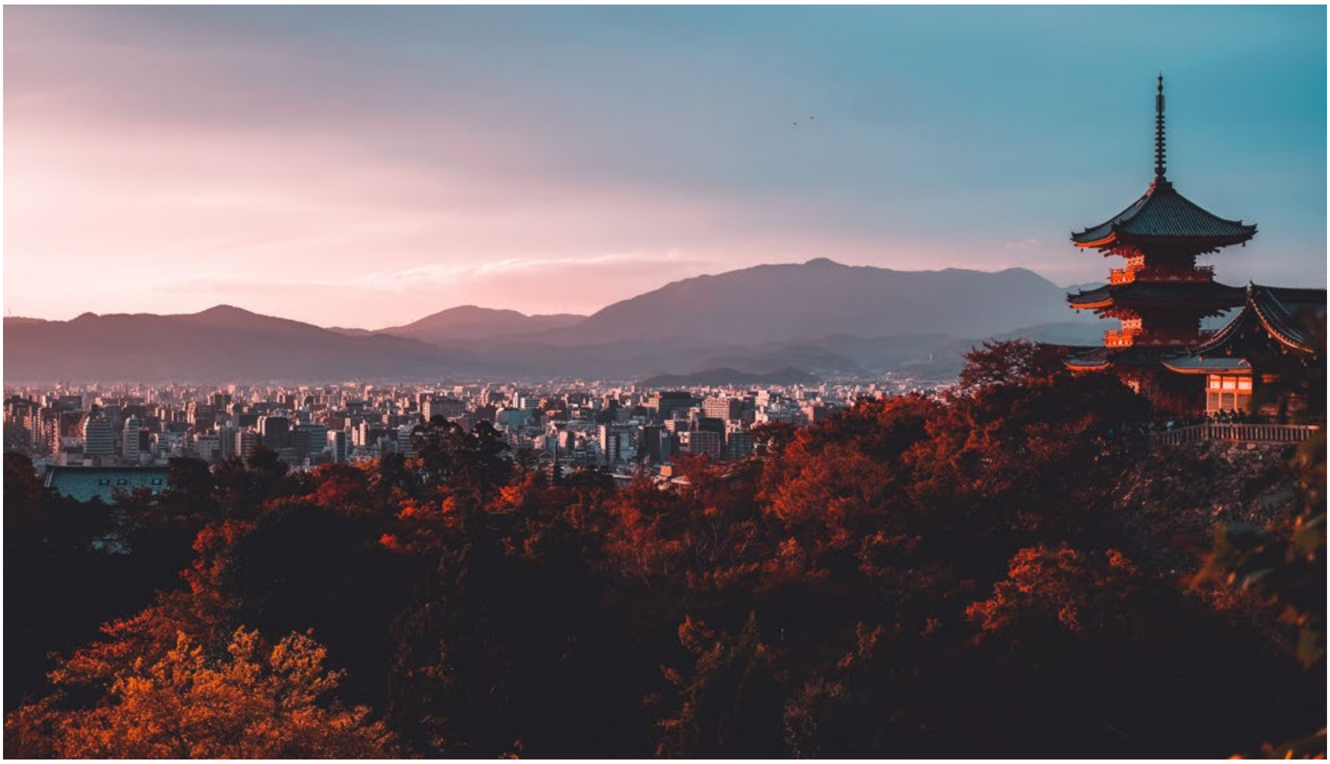
If the science cannot be trusted, how do we judge what is sustainable investing and what isn't? The simple truth here in SKAGEN is that we don't trust the latest set of supposedly science-based headlines screaming at us from the newspapers. We don't take at face value the data provided by companies and third-party providers and so-called experts. We do our own work to determine what our assessment of the true situation is. We have been doing this in respect of sustainability for more than a dozen years. What has changed this past year, with the advent of new regulation, is the extent to which we document this and report it to our clients and their advisors.

This report lays out our consolidated approach to sustainable investing. It is based not on marketing straplines or unfeasible claims; it is based on good honest work to really understand the (few) companies into which we put our and our clients' money to work. This is the SKAGEN fiduciary promise.

I hope you enjoy the report.

Timothy Warrington
CEO

[1] See Mark Mills speech on "The energy transition delusion" at SKAGEN conference on 11 Jan 23



**Japan has made big strides to improve governance –** notably through the reforms of Shinzo Abe – and tackle the lack of external Board oversight, in particular. Photo: Su San Lee, Unsplash.com

# It starts with good corporate governance

SKAGEN's focus on good corporate governance is long-standing. For almost 30 years we have recognised it as crucial for long-term profitability and invested in companies with responsible management teams overseen by strong and independent Boards with investors' long-term interests at heart.

Climate change is the biggest risk to the world as we know it. This was confirmed in the latest Global Risks Report of the World Economic Forum where environmental threats ranked as the top four most severe long-term risks facing the planet. The cost-of-living crisis, meanwhile, was a new entry at number one in the list of short-term dangers[1].

If global warming causes large areas of the world to become uninhabitable over the next twenty years, we should prioritise investments in innovation and new technologies to limit climate change. More immediately, many commentators believe companies should be doing more to protect their employees and customers against inflation.

Sadly, near-term profits usually trump longer or broader value creation as company Boards prioritise increasing today's cash flows above all else, but these dilemmas highlight how the three dimensions of ESG are closely linked rather than independent. And it always starts with good corporate governance – a well-run company is likely to have better environmental and social policies than a poorly controlled one.

For this reason, well-governed companies are usually expected to have lower risk – clearly important from an investor's perspective. A comprehensive study published in February which examined the relationship between governance and environmental and social (E&S) performance found that companies with more extensive Board risk oversight are more likely to institute E&S compensation, set environmental targets, establish an E&S committee/

**"He who stops being better stops being good"**

**- Oliver Cromwell**

[1] Source: 2023 WEF Global Risks Report, January 2023

team, adopt policies that address E&S risks and opportunities, issue an external E&S report, as well as achieve better environmental outcomes, specifically lower CO2 emissions and lower monetised environmental costs[2].

## Interest alignment

So what does good governance look like? At its heart, it is the protection of minority shareholders through a set of systems and processes to effectively monitor, control, and incentivise company management to create long-term value. Without it, regulation will eventually be forced upon corporates, increasing costs and administrative burdens.

SKAGEN's focus on good corporate governance is long-standing. For almost 30 years we have recognised it as crucial for long-term profitability and invested in companies with responsible management teams overseen by strong Boards with investors' long-term interests at heart. We similarly steer clear of those where we believe that weak corporate governance might jeopardise the financial interests of our unitholders. Over 70 companies are currently excluded from our investment universe for poor conduct in relation to the environment, corruption, or human rights – breaches closely associated with weak governance.

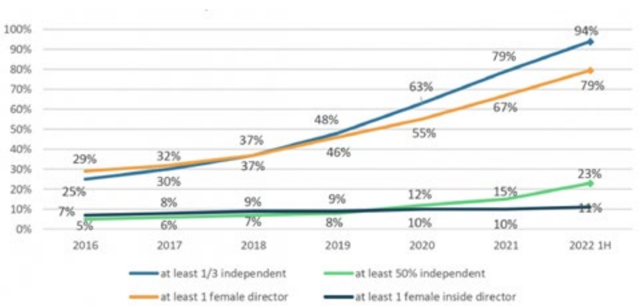
As active owners we also engage directly with our companies on corporate governance issues. In 2022, for example, we held discussions with a Japanese holding to seek improvements in its Board structure and recommended that it seek more diversification and independence among Board members in order to raise governance standards to a global level.

Japan has made big strides to improve governance – notably through the reforms of Shinzo Abe – and tackle the lack of external Board oversight, in particular. In 2021 its revised corporate governance code requires companies listed on the Tokyo Stock Exchange's Prime section to have at least one-third independent directors, a figure which has risen from 25% of firms in 2016 to 94% in 2022 according to ISS data[3].

Some progress has also been made in terms of gender balance with 79% of Prime-listed companies having at least one female director in 2022, up from 29% in 2016. This is clearly still well short of equal representation and also European comparisons where women typically make up around a third of Board members.

In October, the Asian Corporate Governance Association sent an open letter with proposals to further improve gender diversity on Japanese boards, while Japan also ranked 116th of 146 countries in the 2022 World Economic Forum's Global Gender Gap Report (I am happier to report that Nordic countries took the top three positions).

**Prime section listed companies board composition trend independence based on TSE definition**




Source: ISS Board Data

## Force for good

These developments highlight the positive role that stronger corporate governance can have in terms of value creation, as well as risk management. This is particularly important for active value managers like SKAGEN who seek revaluation triggers; catalysts that can include changing Board composition, shareholder policies or corporate structures. Indeed, there is research to suggest that companies which improve corporate governance mechanisms can increase the firm's value by 10–12% [4].

One interesting aspect of the recent study into Board risk oversight highlighted earlier was that despite the many positives linked to better governance, it is also associated with some worse social outcomes, namely lower community spending, fewer employee benefits and a higher likelihood of social risk incidents. This emphasises again that governance involves trade-offs and the need to prioritise different stakeholder interests.

It also underscores another important aspect of ESG – it is a journey rather than a destination. Learning is continuous and there is always room to improve, particularly as businesses become ever-complex. Although today's world is moving faster than Oliver Cromwell's, some things don't change.

Alexandra Morris
CIO

[2] Source: Board Risk Oversight and Environmental and Social Performance, Amiraslani, February 2023
[3] Source: ISS, Japanese Companies Improve on Board Independence and Diversity, August 2022
[4] Source: Stanwick & Stanwick, The Relationship between Corporate Governance and Financial Performance: An Empirical Study, 2002

**Environment-related ESG engagements made up the largest category** of dialogues in 2022 with the focus being on transition pathways and decarbonisation. Photo:Thammanoon Khamchalee, Shutterstock.com

# ESG Engagements in 2022

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 2022 engagement activity

Our engagement activity in 2022 was lower than in previous years. While Russia's illegal war against Ukraine would have been a very necessary catalyst for considerable engagement with Russian holdings, an early group-wide decision to divest from all Russian holdings negated the need for stewardship dialogue. In addition, the general market upheaval induced by the crisis, coupled with turbulent markets and labour-intensive efforts to implement SFDR requirements, further stretched the resources of the portfolio team.

In total, SKAGEN engaged with eight companies during 2022, whereby half of the engagement activity focused on direct carbon emissions.

## Environment-related engagement

Environment-related ESG engagements made up the largest category of dialogues in 2022 with the focus being on transition pathways and decarbonisation. Environment-related engagements made up 62.5% of all ESG engagements during 2022.

The ESG team is currently collaborating with SKAGEN Focus on a project to gain a deeper understanding of the top-emitting holdings measured by carbon intensity and their transition pathways. The aim of the engagement dialogues with these companies is to collect data and information, as well as deepen our knowledge of the companies' efficiency plans and targets. The engagement activity mirrors global investment activity, where engagement dialogue was held with companies in Asia, North America, and Europe.

### Governance-related engagement

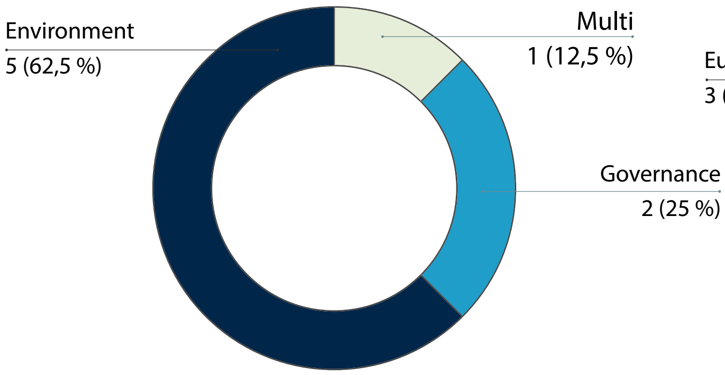
Governance-related ESG engagements made up 25% of dialogues in 2022 with the focus being on topics that are generally of importance to minority shareholders. The governance-related engagements in 2022 have been board structure related, namely proposing increased independence and diversity in board structures.

### Multi-category engagement

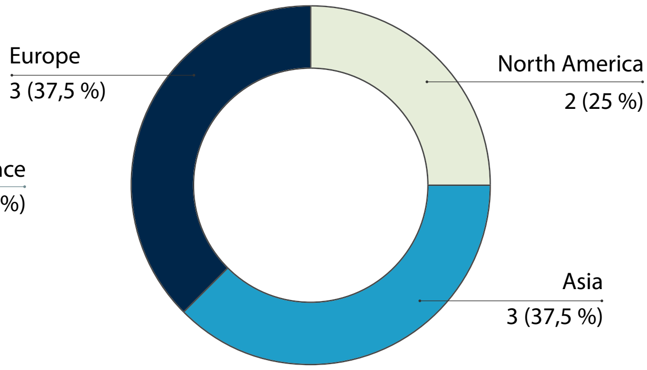
Lastly, multi-category dialogues are becoming a more central feature of our engagement dialogue with companies. These dialogues are more holistic, spanning the full range of ESG topics. These dialogues are sometimes also multi-tiered in the sense that SKAGEN will not only engage with the company but also with third parties e.g., ESG data providers. There are select openings where SKAGEN, as a value investor with small and mid-cap exposure, is able to provide added value for such companies by offering guidance and recommendations on how to improve ESG disclosure scores towards data providers and to the market more broadly.

Sondre Myge,
Head of ESG

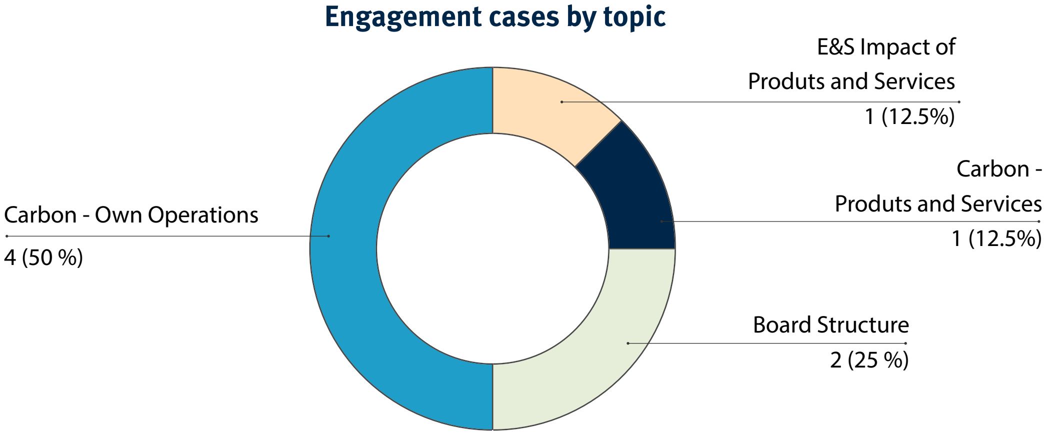
### Cases by ESG category 2022




### Cases by Region




### Engagement cases by topic



# 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.**

Despite the fact that there was less activity engaging directly with companies in 2022, SKAGEN was able to maintain our voting activity at Annual General Meetings and Extraordinary General Meetings. In 2022, there were 245 voteable meetings and 524 voteable ballots in the portfolio companies with 2,894 voteable items on the agenda. SKAGEN voted on 99.45% of the items and against management on 6.78% of all voted items.

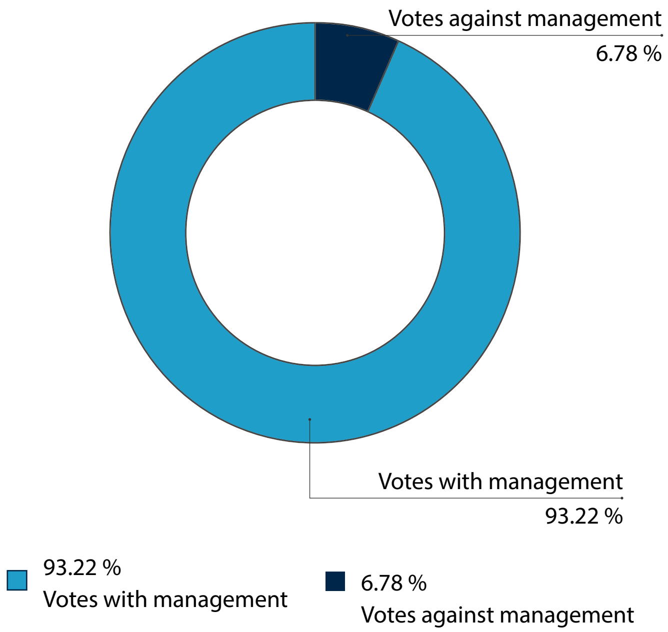
The 2022 voting season received a lot of attention with several parties noting the politicisation of shareholders in US listed companies. In general, it seems to be an emerging shift that shareholders are more on the offensive in filing shareholder resolutions on specific ESG matters, often as part of an escalation strategy in their stewardship activity.

SKAGEN often supports these resolutions but will also vote against them in cases where we believe the proposed resolutions are wrong-footed. Examples of the latter may include: 1) failing to disclose financial materiality/harming shareholder value, 2) micromanagement of Boards, 3) proposing items and efforts for which the company in question has already communicated targets and goals.

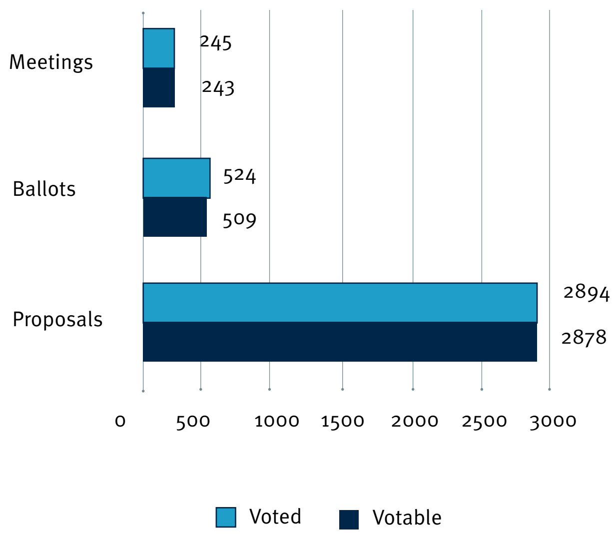
As an example of a case where we supported shareholder resolutions, we voted against the management of Citigroup and aligned with investors in instructing the Board to improve their human rights standards. Given Citi's poor ESG history, SKAGEN believes increased disclosure that evaluates the effectiveness of Citi's due diligence around Indigenous Peoples' rights for project-related financing and client portfolios will help reduce the financial risk from further reputational damage.

Irrespective of the broader trends, these more specific ESG shareholder resolutions make up a minute proportion of the total items voted on. In our experience, ensuring robust and effective governance is a prerequisite for companies to excel on more specific environmental or social targets. This is in turn vital in securing the long-term interests of shareholders.

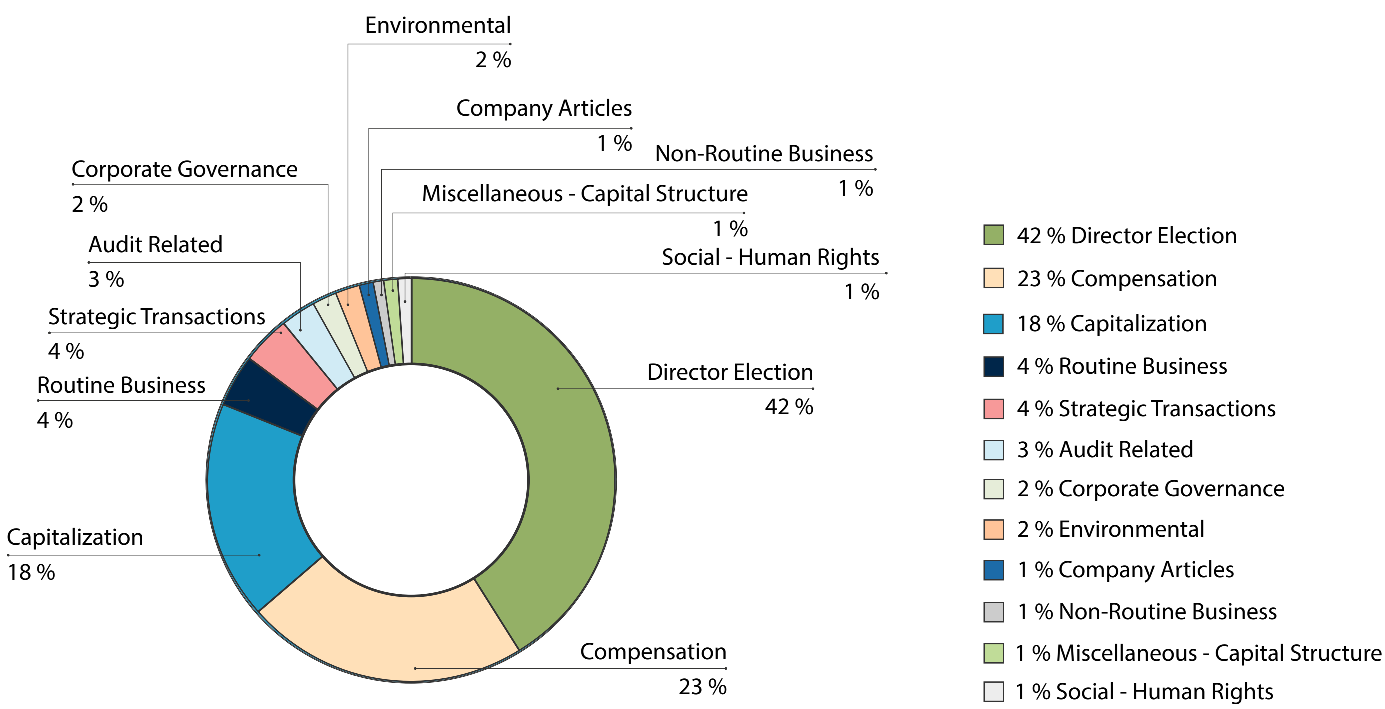
## Votes cast statistics




## Meeting activity in 2022




## Votes against management - categorized



# SFDR: What is it, and how will it affect me as a client?

You may well have heard about it already, the new EU sustainability regulation that is being introduced into financial markets. SFDR is an abbreviation for Sustainable Financial Disclosure Regulation, and it will to some degree impact all financial market participants.

The main purpose of the SFDR is to increase transparency related to sustainability, and to make it easier for you as a client to understand, compare and evaluate sustainability-related features and claims of different funds.

As a private investor, there are multiple considerations to take into account when choosing where to place your capital. Return on capital is for most people the main criteria when investing in fund products rather than in a savings account.

But have you given any thought to the part sustainability plays in your savings? The individual sustainability preferences of private investors vary tremendously. Hence, there is no ”one-size fits all” solution, and each investor should evaluate if they are comfortable with how sustainability is considered in their personal portfolio. Irrespective of whether you think sustainability considerations are very important, or could not care less, the SFDR helps you navigate between the two points, and everything in between.

### Level of ESG ambition

When navigating the world of sustainability, it is useful to know that the SFDR uses a classification system to differentiate between the levels of ESG ambition in a fund. All funds are assigned an in-scope disclosure requirement depending on their level of commitment to ESG and sustainability:

- At a minimum, all funds will be **Article 6**, i.e., funds that do not have any ESG ambition but nonetheless need to disclose how sustainability risks are – or are not – considered.
- **Article 8** funds, often described as ”light-green”, are funds that promote environmental or social characteristics in some way.
- **Article 9** funds are so-called ”dark green” funds that have a sustainable investment objective, meaning the main goal of the investment is to promote sustainable investments. Impact funds or thematic funds with a set objective, are typical examples of Article 9 funds.

**The main purpose of the SFDR is to increase transparency** related to sustainability, and to make it easier for you as a client to understand, compare and evaluate sustainability-related features and claims of different funds. Photo: Paula Prekopova, Usplash.com

We are proud to say that all SKAGEN's equity funds are classified Article 8, so-called "light-green". That implies that none of SKAGEN's equity funds have a sustainable investment objective per se. All of SKAGEN's equity products make investments with the main goal of providing clients with the best possible risk-adjusted return. Nonetheless, we promote environmental and social characteristics by having ESG and sustainability as an integrated part of our investment strategy as we believe ESG factors are key in generating long-term risk-adjusted returns.

### An integrated part of the investment process

ESG is integrated in all parts of SKAGEN's investment process. Prior to investing, all potential investments are subject to ESG screening and must be cleared before any investment is made. Once we have invested in a company, material ESG factors are tracked and analysed on a continuous basis. As an active value-based fund manager, we have the benefit of having a manageable number of companies in our portfolios so are able to do company-specific analysis on all our holdings. This gives us thorough knowledge of the sustainability-related risks and opportunities present in our funds. As an active owner, understanding these risks and opportunities forms the basis of ESG-related company dialogues and engagements.

SKAGEN has been incorporating ESG considerations ever since publicly stating our ESG guidelines in 2002 and will continue to do so in the future. One aspect of the SFDR is the obligation to disclose an increasing amount of information about the products' ESG integration. Our view is that this increased disclosure is a useful tool to help investors make-better informed decisions when selecting which funds to invest in.

Karoline Hatlestad
ESG Data Analyst

**The undervalued Italian company Cementir** is a holding in SKAGEN Focus. One of the catalysts identified for rerating is related to its emission reduction targets. Photo: Matt Reames, Unsplash.com

## Thematic Study:

# How should investors understand carbon intensity?

Investors and clients frequently refer to the importance of measuring the carbon footprint of funds to form a view of the climate risks, exposures, as well as purported performance of a fund in terms of being carbon lean. In some cases, it can even be used as evidence to claim a low-carbon portfolio and progress towards net-zero. But how helpful is this information for investors and does it contribute to real world outcomes? These were questions deliberated over by SKAGEN's portfolio team during 2022.

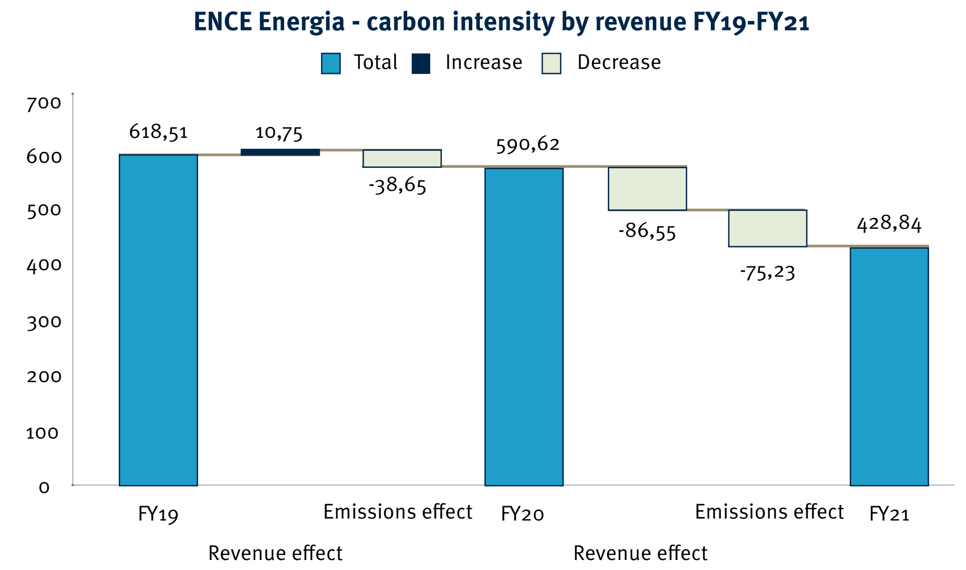
### Carbon Footprint

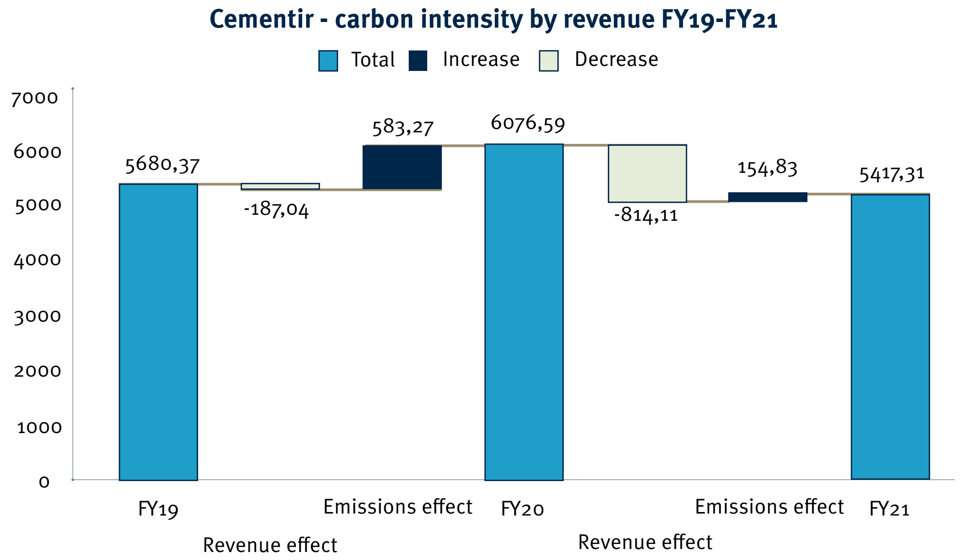
The most common way to assess the carbon intensity of a portfolio and the companies within it is to look at the weight-adjusted carbon footprint of the underlying investments. This is measured as: Scope 1 + Scope 2 emissions / USD million revenue for year 'x'. The number that is produced as a result is supposed to convey how much CO2 is required to produce USD one million in revenue. A relatively low number, especially if combined with a positive declining trend, indicates a relatively low carbon footprint and therefore better carbon performance of a fund.

Unfortunately, in practice, it is not that simple. In essence, the carbon footprint number that is produced can solely be determined by revenue changes which falsely convey the optics of a lower real-world carbon footprint. Moreover, lower scope 1 and scope 2 figures can be random and unintended year-on-year.

To exemplify this weakness more clearly, we analysed the carbon footprints (Scope 1 + Scope 2 / USD million revenue) of two SKAGEN Focus holdings, ENCE Energia and Cementir. We assess to what extent the year-on-year change (from 2019-2020 and 2020-2021) of the carbon intensity is driven by emissions or by revenues.

As the two examples below show, revenue change can have a significant effect and contribute to a lower carbon footprint and therefore, in our view, give rise to a false impression. From 2020-2021, the carbon footprint of ENCE Energia declined from 590 tons of CO2 per USD million in revenue to 428 – with more than half of that change attributed to changes in revenue, which can have many non-emission related explanations and not convey real-world emission reduction.




Overall, it is not possible to claim that the figure produced represents real-world emission reductions. From a portfolio perspective, this indicator is aggregated up according to weight-adjusted carbon footprints to indicate the carbon intensity of the fund. This fund level figure can in turn also be manipulated by adjusting weightings and therefore create the illusion of a declining carbon footprint year-on-year. Paper decarbonisation does not move the needle.

### A better way to understand and manage carbon intensity: Unit of production

In our view, therefore, measuring carbon intensity through the carbon footprint of funds and underlying investments in terms of units of CO2 emissions per unit of USD million in revenue provides very little tangible and useful information for investors and investment decision making. Nor does it provide real-economy insights to clients about whether a product is contributing to lower carbon emissions in the real world. The number produced is either intuitive – producers of emissions have a high carbon footprint and tech has a low carbon footprint (though, not really…). Or it is misleading: cyclical or abnormal returns (positive or negative) can significantly impact the carbon footprint figure produced irrespective of whether scope 1 and scope 2 emissions have decreased or increased. They therefore convey a false impression that climate risk and exposure is increasing or decreasing as a result.

Ultimately, it is very easy for any fund to construct a low carbon footprint portfolio by using this measure, even though the empirical contribution to decarbonisation is negligible at best. It does not help us to understand, manage, and contribute to real-world changes, risks and opportunities.

We, therefore, prefer to look at units of CO2 per unit of product produced. This number is much more helpful and actionable, especially for forward-looking investors focused on the companies' fundamentals. It takes more effort to calculate, but provides tangible insights into carbon performance and approach. Importantly, it is a measure where it is difficult to construct a portfolio KPI; it is inherently a sector and investment specific measurement.

### Transition Pathway Initiative (TPI)

To calculate this, SKAGEN uses the methodology and data from the Transition Pathway Initiative (TPI), which we have publicly supported since 2020. The purpose of the initiative is to enable investors to assess companies' preparedness for the transition to a low-carbon economy.

The initiative has developed a publicly available and replicable methodology which assesses companies on two dimensions. The first is the management quality of a company on governance of greenhouse gas emissions, as well as the risks and opportunities relating to transition. The second dimension tests this management quality assessment through an evaluation of carbon performance, which tests the alignment of company targets with the UN Paris Agreement goals. Uniquely, benchmarking the carbon intensity of production is sector-specific for the data to provide more precise and materially relevant insight. As such, the carbon intensity of cement companies is calculated as tonnes of CO2 per tonne of cementitious product. For automobile companies, it is calculated as the average new vehicle emissions (grams of CO2 per kilometre).

Returning to the two companies from SKAGEN Focus, the tables below compare the two carbon intensity measures. Having already covered what we believe is an inferior measure for investors – metric tonne CO2e per USD million revenue – we include the other intensity measure; tonnes of CO2 per tonne of relevant volume produced.

From an investment perspective, measuring CO2 emissions

Photo: Esteban Benites, Unsplash.com

by volume produced provides a vantage point for further inquiry. This measure provides an operational understanding of carbon intensity and can be compared against industry peers to assess whether they are lagging or leading their peer group today. It can also be combined with expected future development where management has made specific commitments and to determine whether those commitments are compatible with various climate scenarios.

**Ence Energia:**

| | FY19 | FY20 | FY21 |
|---|---|---|---|
| **Carbon intensity by revenue** (metric tonne CO2e per million USD revenue) | 618,51 | 590,62 | 428,84 |
| **Carbon intensity by production** (tonnes of CO2 per tonne of pulp, paper and paperboard) | 0,38 | 0,33 | 0,32 |

**Cementir:**

| | FY19 | FY20 | FY21 |
|---|---|---|---|
| Carbon intensity (metric tonne CO2e per million USD revenue) | 5680,37 | 6076,59 | 5417,31 |
| Carbon intensity by production (metric tonne CO2e per tonne grey cement) | 0,696 | 0,718 | 0,684 |

### SKAGEN Focus

In 2022, SKAGEN expanded its work on transition and climate-related risks, using the TPI as a key building block. The methodology is relevant throughout our investment process – from idea generation, analysis, construction of investment case to execution of the investment case. From a portfolio perspective, this enables the funds and portfolio managers to provide more precise advice and recommendations to companies, better and more contextual ESG insights, and a better alignment to contribute to real world outcomes.

For SKAGEN Focus, which explores discounts primarily among global small and mid-cap stocks, this methodology has supported the process of identifying contrarian and misunderstood opportunities in the market. The growing awareness of the need for a global transition has in recent years not only presented challenges, but its broad scope is also leading to significant business opportunities for companies that are willing to seek change and play key roles through the creation of new or evolving value chains. Meanwhile, the fundamental understanding of what is needed to achieve change is very dynamic and therefore also increases the likelihood of misunderstandings and unwarranted market perceptions. This allows the fund to find misunderstood gems that have embarked on a road to change and will contribute to a better tomorrow, while being perceived as laggards relative to those which already appear to be sustainability winners today. In combination with these companies' discounted share prices, the fund is able to capitalise on their evolution, as a catalyst for a rerating of the underlying share price.

Photo: Note Thanun, Unsplash.com

## Cementir: a good example

One of SKAGEN Focus's holdings which exemplifies the situation well is the vertically integrated cement producer Cementir. The cement industry produces about 5% of global CO2 emissions. As such, traditional construction material companies are working extremely hard to reduce their emissions. A few players have already reduced their carbon footprint significantly and until recently, it was unthinkable to imagine cement production attaining "net zero". Unlike plastics or metals, concrete is only recyclable under certain conditions and the original chemical process cannot be reversed. Nonetheless, there are opportunities to recover useful components from end-of-life cement to reduce the amount of new cement clinker needed.

When SKAGEN Focus built its position in the undervalued Italian company Cementir, the portfolio managers identified an underappreciated normalised earnings power with several potential catalysts for rerating, one of which is related to its emission reduction targets. While the company stood out as one of the worst in its peer group in terms of current carbon emissions, its management team had committed significant investments in technology and carbon capture facilities that enabled much more aggressive reduction targets versus its peers for the coming years. SKAGEN Focus believes that the past investment cycle will enable Cementir to climb up from the bottom of its peer group towards the top in terms of emission reductions. Following improved profitability and a real change in underlying production, we expect the market to reassess the way it sees the company's potential. We look forward to our unitholders being able to participate and benefit from that journey with us.

## Granularity matters

Neither measure elaborated on above will capture the full scope of a company's carbon footprint. Overall scope 3 emissions, environmental considerations in respective supply chains and potential negative externalities from the use of products, are just a few of the other elements that also need to be considered and analysed. Nevertheless, when it comes to understanding the carbon intensity of a company, we firmly believe that measuring the unit of production adds greater value in your ESG analysis of an investment compared to using USD million and eliminates confounding variables to a larger degree.

| Carbon Footprint: USD million | Carbon Intensity: Unit of production |
|---|---|
| Better data coverage | Challenging data coverage – requires fundamental analysis |
| Generalisable; can be used for all industries | Not generalisable; hard to compare across industries |
| Need not imply actual decarbonisation | Stronger link to operational efficiency improvements, emission performance and short-to-long-term targets |
| Can convey false impression: lower carbon footprint even if emissions increased / unchanged | Might omit other products – trade-off on which product to assess for a company / industry |
| Difficult to assess as a long-term KPI and real-world impact | Can meaningfully be assessed as a long-term KPI with more credible real-world impact |
| Catch-all portfolio KPI | Cannot be used as portfolio KPI |

Sondre Myge,
Head of ESG

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ESG Data Analyst

David Harris
Portfolio Manager
SKAGEN Focus

**This year we saw a shocking attack on Ukraine,** and SKAGEN made a special donation towards the work they do for the vulnerable children in Ukraine. Photo: SOS Children's Villages

# Corporate Sustainability in 2022

## 2022 was the year when we experienced a return to normal (or a post-pandemic normal), at least in the countries SKAGEN operates in.

The aftermath of the pandemic will continue to influence our society for a long time, and some things may have changed for good. Most of SKAGEN's employees have embraced returning to the office and meeting colleagues in person, and SKAGEN believes that physical presence is a key element when it comes to team belonging, and culture building. However, SKAGEN also recognises the wish for a hybrid solution, and thus strives to facilitate a healthy work-life balance.

SOS CHILDREN'S VILLAGES UKRAINE

SKAGEN has for many years collaborated with and sponsored SOS Children's Villages. This year saw a shocking attack on Ukraine, and SKAGEN made a special donation towards the work the organisation does for the vulnerable children in Ukraine, in addition to a Christmas donation on behalf of all SKAGEN employees.

UN GLOBAL COMPACT

United Nations Global Compact

SKAGEN is a proud participant of the world's largest corporate sustainability initiative, the UN Global Compact, and during 2022 submitted its Communication of Progress, which can be found here. SKAGEN has pledged its commitment to the ten principles of a responsible business, covering Human Rights, Anti-Corruption, Labour and the Environment. Over the next few pages, you can read more about how SKAGEN incorporates this in our organisation through our three selected Sustainable Development Goals.

Linn G. Eriksen
Responsible for
Corporate Sustainability

SDG 8

# Decent Work and Economic Growth

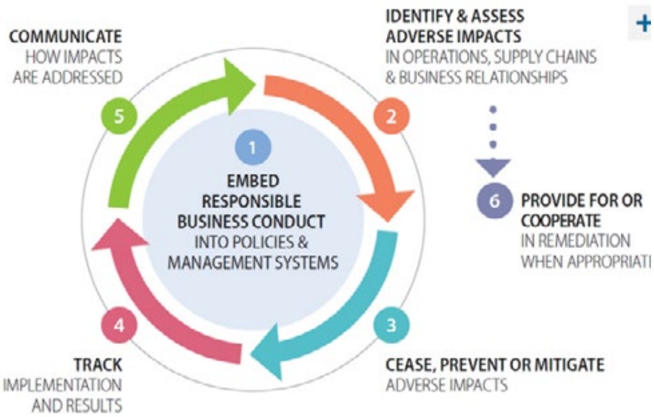
### Background

This SDG impacts SKAGEN both as a procurer of goods and services and as an employer. SKAGEN aims to be both a responsible and ethical buyer and to provide employees with a decent and secure workplace.

### Efforts and implementation

#### The Transparency Act – "Åpenhetsloven"

This new law entered into force in Norway on 1 July 2022 and requires that companies increase responsibility for and awareness of human and working rights in their supply chains, as well as in their own operations. To comply with this new law, companies must identify, address, prevent and limit violations of human rights, and report and communicate on these efforts annually.




SKAGEN, as a part of the Storebrand Group, will adhere to group guidelines, including carrying out agreed risk assessments and due diligence processes, in compliance with the OECD's Due Diligence Guidelines for Responsible Business Conduct.

The Transparency Act complements the already comprehensive work that Storebrand does to mitigate human rights breaches. More information about this can be found in the Human Rights Policy and Responsible Business Conduct document.

During the spring of 2023, SKAGEN will carry out a risk assessment of its suppliers and business in accordance with the group guidelines and will publish its first report by 30 June 2023.

You can find more information on how SKAGEN adheres to the information duty part of the Transparency Act here.

### NextGen

NextGen is a SKAGEN initiative whereby the CEO and young employees meet regularly in a Next Generation advisory group. The aim of this initiative is to create a platform to discuss various topics, challenge the current procedures and culture in the organisation and take into greater consideration the needs and expectations of younger clients and employees. The input from this advisory group will be shared with the leader group and will be an important part of SKAGEN's strategy.

### Training and Development

SKAGEN's business model and success are based on its employees' skills and competence. To continue to attract new talent and retain employees, SKAGEN prioritises developing and maintaining a nurturing and learning culture. Based on feedback received through the employee survey tool, continued development is identified as an area of great importance to the workforce, and during October 2022 this was a priority area for all leaders in SKAGEN. All leaders were encouraged to have dedicated one-to-one talks with their employees to map out each individual's plans, ambitions and expectations in SKAGEN.

Each quarter, SKAGEN organises its traditional 'SKAGEN School', where all employees gather (physically and virtually) for two hours of learning and development. The themes addressed vary, and the aim is for employees to gain deeper insight into different topics, both professional and personal. During 2022, school topics included climate risk, ESG in SKAGEN, professional creativity in user experience, internal department updates and information on data innovation.

As part of the Storebrand Group, SKAGEN employees also have access to internal courses at the Storebrand online campus, which offers a broad range of online courses, presentations, and development tools.

Each year, all employees are required to take six online courses and quizzes on the following topics: Ethics, Anti-Money Laundering, Anti-corruption, GDPR, Information Security and Sustainability.

More details about training and development on environmental and climate issues are provided on page 20.

## Employee welfare

2022 saw the return to a (new) normal working life with a return to the physical office for many of us. Both the pandemic and SKAGEN's focus on an optimal work-life balance have paved the way for a more hybrid workplace solution for most employees.

To measure and evaluate employees' health and wellbeing, SKAGEN added 15 HSE questions to the monthly employee survey in October. The results, and any potential issues raised, are discussed at the Occupational Environment Committee meeting in SKAGEN on a quarterly basis.

## Statistics People

| | **Total employees as of 31.12.2022** | **96** |
|---|---|---|
| **Leave** | Total sick leave NO | 5.60 % |
| | Gender NO F | 3.70 % |
| | Gender NO M | 1.9% |
| | Average number of weeks of parental leave - Women | 32 |
| | Average number of weeks of parental leave- men | 10 |
| **Nationalities** | Number of nationalities | 11 |
| **Age distribution** | Average age | 43 |
| | 20-29 | 13 |
| | 30-39 | 20 |
| | 40-49 | 31 |
| | 50-59 | 29 |
| | 60-65 | 3 |
| | Women under 30 | 6 |
| | Men under 30 | 7 |
| | Women over 50 | 10 |
| | Men over 50 | 22 |

5 GENDER EQUALITY

SDG 5

# Gender Equality

**Background:**
For SKAGEN, SDG 5 encompasses all aspects of equality, diversity, and inclusion. Our overall aim is to have a workforce that reflects society, and in 2022 we were involved in several initiatives to reach this goal.

As a participant in the finance industry, SKAGEN deems SDG 5 to be of particular importance. It is no surprise that the industry has and continues to struggle with gender disproportion issues. According to the Women in Finance Charter report from 2022, women constitute only 21% of the workforce in asset management in Norway, and only 14% of these are portfolio managers. Below you can read more about the efforts that SKAGEN has made to increase female participation, both internally and in the industry in general.

**Efforts and Implementation:**
As mentioned above, the finance industry is still very much male dominated. To increase the pool of female talent, SKAGEN has been participating in various initiatives to inform and encourage female students to pursue a career in finance. As was the case in 2021, in 2022 SKAGEN attended several career days at various universities, including the Women's Finance Day at NHH (Norwegian School of Economics), which resulted in us hiring a female intern for 2023.

SKAGEN has continued to focus on bias-aware texts in our job advertisements to ensure a more diverse pool of applicants. One tool used in this work is Textio, a workplace language guide to identify social and gender bias. Together with a thorough recruitment and interview process, it is positive that six of 11 new hires in 2022 were female. Women now constitute 40% of the total SKAGEN workforce, an increase from 34% in 2021.

**Female Invest and Women and Investments**
The gender gap in finance is not only reflected in the percentage of female employees working in the finance industry, but also in wider society, where men traditionally have more money invested in funds or equities. SKAGEN has for many years organised meetings specifically for women focused on investments and savings, and in 2022 we held two such meetings, one in Stavanger and one in Oslo, with 140 participants.


In Denmark, SKAGEN has continued its partnership with the Female Invest initiative, where SKAGEN contributed to 12 webinars during the year, which had over 4000 views.

Our CIO Alexandra Morris was in 2022 appointed Board Director of the Women in Finance Charter initiative, of which she is one of the founders. Throughout the year she has been active in promoting and advocating for better female representation in our industry, including participating both at the SHE Conference in Oslo in March and also at Arendalsuka in August where she took part in a debate about female leadership.

Photo: Clay Banks, Unsplash.com

**DE&I**

Diversity, Equity, and Inclusion has been a focus area for SKAGEN throughout 2022. In the summer of 2022, SKAGEN hired two summer interns to analyse how SKAGEN can improve its evaluation of DE&I factors in the investment processes, as well as internally in the organisation. Their analysis provided useful insight into why DE&I factors should be important indicators of a company's performance, and also highlighted a discrepancy regarding what DE&I actually entails and what it means for employees. There is clearly a need for a common understanding.

To follow up on this analysis, and to educate and develop SKAGEN as an organisation on DE&I leadership, a comprehensive leadership training course was introduced during the autumn of 2022. This included the extended leader group, a total of 20 employees. This course was held in collaboration with Skillhus and covered six topics: Commitment, Courage, Cognizance in bias, Curiosity, Cultural intelligence and Collaboration. Good feedback was received from the leaders who attended.

SKAGEN's monthly employee survey tool Peakon provides the management team with valuable insight into employees' welfare and sense of belonging. In September, ten additional questions concerning diversity and inclusion were added to the survey, to identify how employees perceive SKAGEN's efforts to maintain a diverse workforce and create an environment where all individuals feel included.

The same survey will be run next year and the scores from 2022 will be compared to those received in September 2023, as part of the strategic work of building a more diverse SKAGEN.

SKAGEN will publish its updated Diversity and Inclusion report later this year, please see the latest issue here.

**Gender distribution statistics 2022:**

| | | **Norway only** | **All offices** |
|---|---|---|---|
| **Fixed salary** | Gender pay gap: leader group (uncontrolled*) | 99 % | 99 % |
| | **Gender pay gap: all employees (uncontrolled*)** | **91 %** | 82 % |
| | Gender pay gap: employees (excluding portfolio managers, leader group and managing directors) (uncontrolled*) | 90 % | 93 % |
| | **Gender pay gap: controlled**** | **97-100%** | **97%-100%** |

**Uncontrolled: Average pay for all women, and average pay for all men. This number does not take into account the hierarchy or qualifications.*
***Controlled: Mean salary for men and women with the same work description and qualifications.*

SDG 13

# Climate Action

### Efforts and Implementation

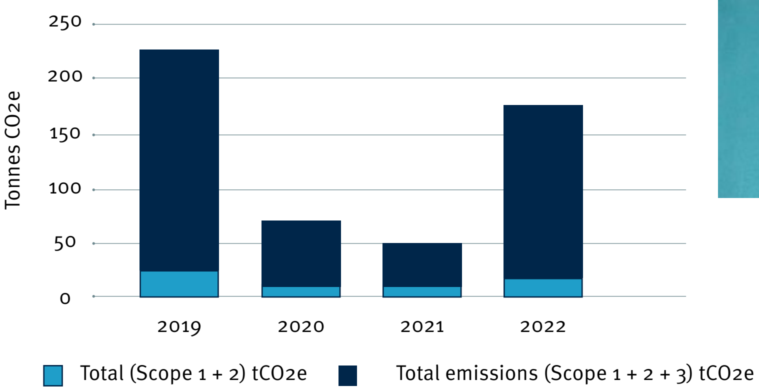
### Own Operations

SKAGEN is fully aware of the collective effort that is needed from all companies and organisations to reduce emissions, and is committed to taking responsibility for its own carbon footprint. Since 2019 SKAGEN has been conducting an annual carbon audit and has implemented several measures to reduce emissions where possible. A substantial part of SKAGEN's business activities involves meeting and visiting companies and clients, and business travel has therefore always been the largest contributor to our total emissions. Evidently the pandemic completely changed this, and both energy usage at our offices and business travel emissions were substantially reduced in 2020 and 2021. 2022 saw a return to the office and increased business travel, resulting in an increase in SKAGEN's total emissions compared to the previous couple of years. It is, however, good to see that the total emissions compared to our base year, 2019, have been reduced by more than 100 tonnes, indicating the effectiveness of the updated travel policy. For the full carbon report, please see here.

### Carbon offsets

Storebrand purchases carbon offsets for the wider group's Scope 3 emissions plus the remaining scope 2 emissions not covered by purchased Guarantees of Origins. These offsets also cover SKAGEN and as a result, SKAGEN's emissions are fully compensated for. For more information about the specific projects that Storebrand supports, please see here. Guarantees of Origins purchased for the electricity in 2022 can be found here.

**$CO_2e$ emissions**




### Energy Savings

In addition to a stricter travel policy, energy usage at our offices is another type of emission that SKAGEN can influence. During 2022, SKAGEN made changes to improve energy efficiency at its head office in Stavanger, including introducing motion-triggered lights, and automatic light and ventilation timers for the rooms which do not have motion sensors. In addition, all employees at the Stavanger office were reminded to become more energy aware and turn off screens and monitors when leaving rooms. Most of these initiatives were implemented late in the year, and we hope to see the effects in next year's report.

Photo: Pierre Châtel-Innocenti, Unsplash.com

### Environmental competence

In 2022, there were several training and development activities related to ESG and climate change.

In 2021 and throughout 2022 the board members of SKAGEN have participated in a program called "SDGs for BoDs Network Program". The program aims to strengthen board members' competence around climate change and other sustainability challenges. It covers the latest research on these topics and new megatrends, as well as providing a platform for exchanging knowledge and experience with other professionals.

All employees have to participate in a compulsory module about sustainability via Storebrand's online Campus as part of the annual employee training program. In addition, themes like climate change risk and the challenges of navigating the regulatory ESG space were covered in SKAGEN's own internal training program, SKAGEN school.

In September, SKAGEN participated in the Climate Challenge. This competition is developed by "Fremtiden i våre Hender", a Norwegian NGO promoting ethical consumption and sustainable production, and Ducky, the provider of the technical carbon emissions reduction platform.

The team-based challenge lasted two weeks, with the goal being to save the most Co2 equivalents. The competition was held online, and the ambition was to illustrate how all employees can decrease their environmental footprint and change consumption behaviour by making simple changes in their everyday lives. Each activity logged (e.g., reducing food waste, using public transport or eating a vegetarian meal) provided information on why and how this action made a minor environmental impact. This helped to raise our competence and awareness of the impact our daily lives have on mitigating climate change. In addition, this was a great team activity which SKAGEN can highly recommend to other companies.

In 2023, SKAGEN will relocate to new office premises, where energy efficiency and sustainability will be a focus area. Together with the Storebrand Stavanger branch, the aim is to work towards an Environmental Lighthouse certification of the whole building.

### Hjem-Jobb-Hjem

Hjem-Jobb-Hjem (Home-Work-Home) is a collaboration project in the Stavanger area between Kolumbus, City Bike, Norwegian Public Roads Admin and the local municipalities, with the aim of reducing the use of car transport and thus contribute to the Norwegian government's zero growth target. SKAGEN has been part of this initiative for several years, and all employees in Stavanger have been able to use public transport at a discounted price and rent communal electric city bikes for free/at reduced rates. As part of this initiative, SKAGEN employees who cycle to work are also offered free bike maintenance services.

Photo: Kolumbus

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.

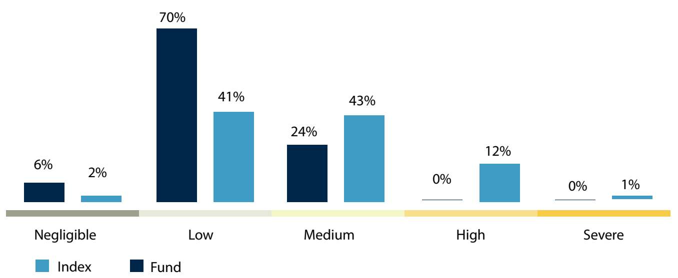
# ESG RISK RATING

All risk ratings on this page are powered by Sustainalytics.

## SKAGEN Global

| | SKAGEN Global | MSCI ACWI |
|---|---|---|
| Coverage rate: | 100 % | 100 % |
| ESG Risk Rating: | 17.2 (Low) | 21.9 (Medium) |
| ESG Exposure: | 35.1 (Medium) | 41.2 (Medium) |
| ESG Management: | 55.2 (Strong) | 51.7 (Strong) |

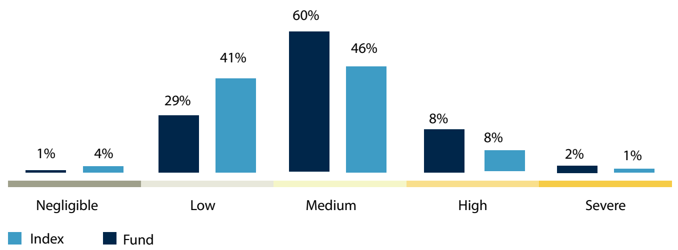
ESG Risk Category by aggregate portolio weight %




## SKAGEN Vekst

| | SKAGEN Vekst | MSCI Nordic/ ACWI ex Nordic |
|---|---|---|
| Coverage rate: | 98 % | 100 % |
| ESG Risk Rating: | 23.6 (Medium) | 21.2 (Medium) |
| ESG Exposure: | 45.2 (Medium) | 42.0 (Medium) |
| ESG Management: | 51.2 (Strong) | 53.0 (Strong) |

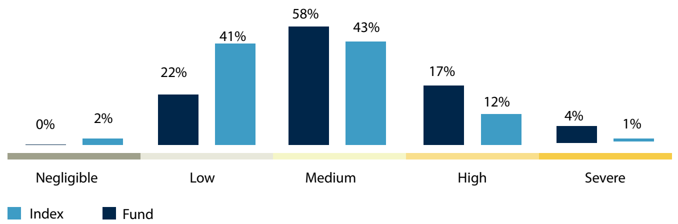
ESG Risk Category by aggregate portolio weight %




## SKAGEN Focus

| | SKAGEN Focus | MSCI ACWI |
|---|---|---|
| Coverage rate: | 95 % | 100 % |
| ESG Risk Rating: | 26.0 (Medium) | 21.9 (Medium) |
| ESG Exposure: | 44.1 (Medium) | 42.2 (Medium) |
| ESG Management: | 42.9 (Average) | 51.7 (Strong) |

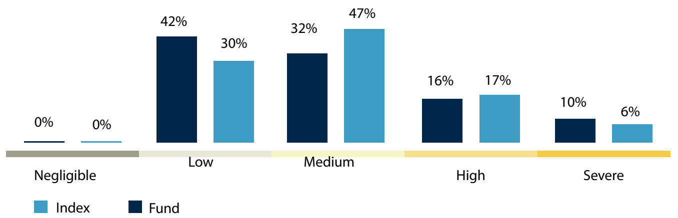
ESG Risk Category by aggregate portolio weight %




## SKAGEN Kon-Tiki

| | SKAGEN Kon-Tiki | MSCI EMI |
|---|---|---|
| Coverage rate: | 93 % | 99 % |
| ESG Risk Rating: | 25.5 (Medium) | 25.2 (Medium) |
| ESG Exposure: | 45.9 (Medium) | 43.3 (Medium) |
| ESG Management: | 47.4 (Average) | 44.4 (Average) |

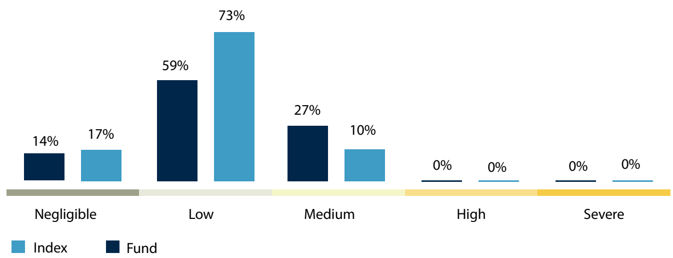
ESG Risk Category by aggregate portolio weight %




## SKAGEN m2

| | SKAGEN m2 | MSCI Real Estate |
|---|---|---|
| Coverage rate: | 100 % | 99 % |
| ESG Risk Rating: | 16.2 (Low) | 14.0 (Low) |
| ESG Exposure: | 27.9 (Low) | 26.8 (Low) |
| ESG Management: | 43.8 (Average) | 48.9 (Average) |

ESG Risk Category by aggregate portolio weight %



# Exclusion as a last resort

Exclusion is to be used as a last resort and should only be applied where 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 in the list of companies we invest in.

**SKAGEN excludes the following activities from our funds:**

**Norm-based exclusions:**

**Conduct-based norm-breaches:**

- Companies that contribute to serious and systematic breaches of international law and human rights
- Companies involved in serious environmental degradation, including the climate
- Companies involved in systematic corruption and financial crime

**Non-conduct-based-norm-breaches**

- Companies that produce or sell controversial weapons, including nuclear, land mines, cluster munitions, biological and chemical weapons
- Companies will be excluded if the breaches are considered serious and the risk of recurrence is assessed as high.
- We also exclude investments in companies within certain single product categories or industries that are unsustainable. These products or industries are associated with significant risks and liabilities from a societal, environmental or health-related perspective. In these product categories there is also limited scope to influence companies to operate in a more sustainable way.

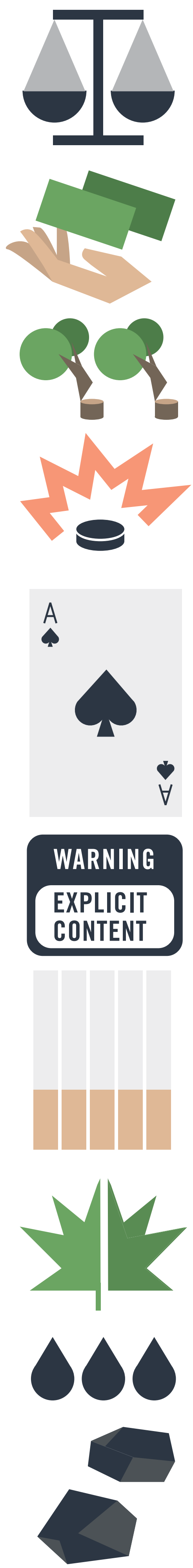
**These product-based exclusions include:**

- Companies with more than 5% of revenue from tobacco
- Companies with more than 5% of revenue from recreational cannabis
- Companies with more than 5% of revenue from gambling
- Companies with more than 5% of revenue from adult entertainment
- Companies with more than 5% of revenue from coal related activities as well as companies mining more than 20 million tonnes of coal annually or that have over 10,000MW coal power capacity
- Companies with more than 5% of their revenue from production and/or distribution of oil sands
- Owners of palm oil plantations with unsustainable business practices
- Companies that actively lobby against the goals of the Paris Agreement

Read more in our Sustainability policy

| Exclusion list as of 31.12.2022<br>Exlusion category | No. of companies |
|---|---|
| Conduct-based exclusion - Environment | 18 |
| Conduct-based exclusion - Corruption | 10 |
| Conduct-based exclusion - Human Rights and International Law | 44 |
| Tobacco | 24 |
| Controversial weapons | 32 |
| Climate - Coal | 142 |
| Climate - Lobbying | 5 |
| Climate - Oilsand | 9 |
| Deforestation | 14 |
| Cannabis | 0 |
| State-controlled companies | 3 |
| Gambling | 38 |
| Total number of companies | 315* |

* 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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Layout: Karoline Finsnes

Front page:
Jean Altamura, Self-portrait, 1873. This painting is manipulated and belongs to The Art Museums of Skagen.

**The art of common sense**

SKAGEN
Part of Storebrand