SUSTAINABILITY REPORT
First quarter 2020

SKAGEN

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IMPORTANT INFORMATION

Towards a new social contract

While it is fruitless trying to predict the future during a time of turmoil, we see clear signs that the COVID-19 pandemic could end up having a positive impact on environmental, social and governance (ESG) issues.

It has been widely asserted that the true litmus test for ESG-focused investing will come during a period of economic downturn; that is when we will find out whether ESG strategies are able to hold their own. Early evidence suggests that ESG-focused ETFs have held up well during the current crisis, both in terms of return and inflow[1], sending bullish signals of steady demand for ESG-oriented investing in the future.

A long stakeholder lens

ESG in investing is strongly influenced by public sentiment. One way that people have assessed ESG during the ongoing crisis, has been to consider the different governance models applied by companies. Microsoft, a SKAGEN Global holding, is ranked first among JUST Capital's stakeholder companies in the US[2]. In addition to collaborating with John Hopkins University on their coronavirus tracker, Microsoft has provided teachers with access and remote teaching through Microsoft Teams. Abbott Laboratories, also a SKAGEN Global holding, has launched three types of COVID-19 tests so far and is currently developing another – a diagnostic test that could be used for mass testing.

Other companies have come under fire for relying on the government and public provisions to take care of their employees or for neglecting the needs of laid-off workers along their supply chains who lack safety nets. Other companies have experienced political pressure. The US multinational conglomerate corporation 3M, for example, resisted President Trump's request for them to stop exporting their N95 respirator masks to Canada and Latin America[3].

Klaus Schwab, the founder of the World Economic Forum who earlier this year launched a manifesto for 'Stakeholder Capitalism', has gone on record stating that those companies who had embraced a stakeholder model of governing their company with a long-term stakeholder lens prior to the crisis have fared better than those who have not[4]. His view seems to be that the case for stakeholder modes of governing companies has been further legitimised by the current crisis.

Since the pandemic started spreading across the world in mid-March, people in many countries have only been allowed to leave their homes for essential journeys or exercise. Pictured: empty streets in Vienna, Austria by Philipp Lublasser, Unsplash.com

Mind the social gap

In Albert Camus's 'The Plague' (1947), the protagonist, Dr. Rieux states that "It may seem like a ridiculous idea but the only way to fight the plague is with decency". The notion of decency in crises is particularly apt at a time of great debate around social issues such as decent work, life and outlook as prerequisites for a sustainable future. People in lower income percentiles

[1] https://www.ft.com/content/dd47aae8-ce25-43ea-8352-814ca44174e3?mod=article_inline
[2] https://justcapital.com/rankings/
[3] https://www.bbc.com/news/world-us-canada-52161032
[4] https://www.ft.com/content/234d8fd6-6e29-11ea-89df-41bea055720b

Many have claimed that environmental considerations can no longer be addressed without taking the social issues that inform the political agenda into serious consideration. Photo: Sam Beasley, Sunset on the Li River, Unsplash.com

are, for example, much less likely to be able to work from home and many find themselves facing a dual economic and health risk[5]. Thus, the risk of being infected is not only influenced by the type of emergency response deployed by governments, but also by the political economy of different nations – epitomised by income inequality and the nature of public welfare provisions in different countries[6]. Naturally, this issue is very much linked to the cooperation and coordination between corporations and governments, but both have a responsibility to ensure progress when it comes to securing decent work and economic growth (Sustainable Development Goal (SDG) 8) as well as addressing damaging levels of income inequality (SDG 10).

"Fears eclipse hopes"

One silver lining emerging from the COVID-19 crisis, is that the importance of social issues will likely be elevated and addressed. The recent Public Trust Barometer by Edelman clearly shows that people's trust in key public institutions such as corporations and governments is low and on a downward trajectory[7]. 'Fears eclipse hopes' is one of their conclusions from the survey.

Social cleavages – low-income versus high-income, urban versus rural, globalist versus protectionist – are commonplace in any democratic political system and inform the politics that political parties front. Political parties in turn fight to secure provisions for their cohorts - often causing collective action problems for societies in addressing our challenges fairly and robustly. Many have claimed that environmental considerations can no longer be addressed without taking the social issues that inform the political agenda into serious consideration[8]. Securing a green transition will only be possible if people receive assurance that they too will benefit.

A new trajectory?

Following the devastation of WWII, an era of economic growth ensued where countries were rebuilt from the rubbles of crisis; an era that has been dubbed by historians as the 'Golden Age'.

Data from the International Energy Agency (IEA) shows that global energy-related emissions flatlined in 2019. Whilst the global economy grew by 2.9%, energy-related emissions remained at 2018 levels (33 gigatonnes) – largely due to wind and solar deployment, fuel-switching and nuclear energy[9]. These figures are so encouraging that the executive director of the IEA, Fatih Birol, believes that peak carbon might arrive 10 years before schedule[10]. Video technology will surely give rise to discussions about reducing physical business travel as well as smarter ways of working.

As we observe clouds of smog clearing from our cities and the ecosystem catching its breath from our climate emergency, this may well be the moment that the first foundations of a new sustainable growth trajectory are laid. Our hope is that one of the legacies of COVID-19 will be a progression in the debate in the Western world around a green new deal in addition to a revised and modernised social contract. Investors too need to play their part in this discussion.

Sondre Myge Haugland
ESG specialist

[5] https://www.bruegel.org/2020/03/how-covid-19-is-laying-bare-inequality/
[6] https://www.bruegel.org/2020/03/how-covid-19-is-laying-bare-inequality/
[7] https://cdn2.hubspot.net/hubfs/440941/Trust%20Barometer%202020/2020%20Edelman%20Trust%20Barometer%20Global%20Report.pdf?utm_campaign=Global:%20Trust%20Barometer%202020&utm_source=Website
[8] https://www.fiduciaryinvestors.com/wp-content/uploads/sites/61/2018/09/Statement-of-investor-commitment-to-support-a-just-transition-on-climate-change.pdf
[9] https://www.iea.org/articles/global-co2-emissions-in-2019
[10] https://www.iea.org/commentaries/this-is-our-chance-to-make-2019-the-definitive-peak-in-global-emissions

Company ESG data from research firm Sustainalytics is at the core of each of the pillars for SKAGEN's ESG work. 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 numeric 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. This is the case for e.g. Equinor (a holding in SKAGEN Global) and Shell (SKAGEN Vekst).

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 have 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 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 positive 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

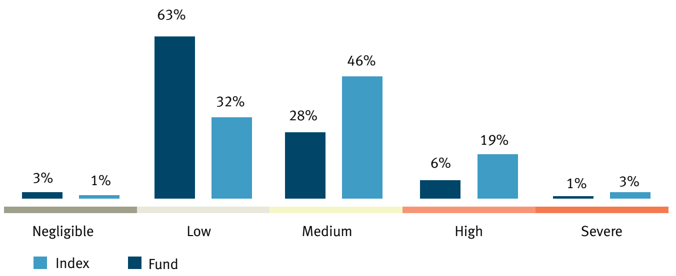
All risk ratings on this page are powered by Sustainalytics.

SKAGEN Global

SKAGEN Global's ESG Risk is considered low and is 18% lower than the benchmark. This is largely explained by the higher ESG Exposure in the benchmark and a stronger ESG Management score in SKAGEN Global.

	SKAGEN Global	MSCI ACWI
Coverage rate:	100%	100%
ESG Risk Rating:	19.8 (Low)	24.1 (Medium)
ESG Exposure:	35.9 (Medium)	41.6 (Medium)
ESG Management:	48.4 (Average)	44.7 (Average)

ESG Risk Category by aggregate portolio weight %

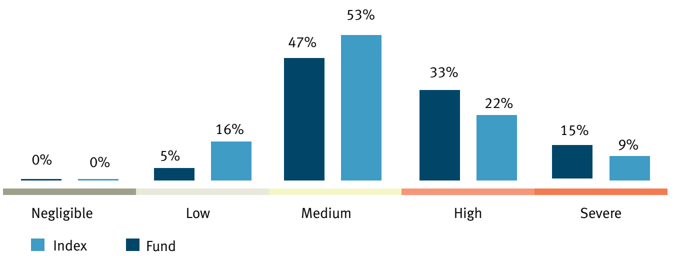


SKAGEN Kon-Tiki

SKAGEN Kon-Tiki's ESG Risk is considered high and is 15% higher than the benchmark. The fund's higher ESG Exposure score is the key driver, and this is elevated by higher ESG risk from companies listed in Europe.

	SKAGEN Kon-Tiki	MSCI EMI
Coverage rate:	91%	99%
ESG Risk Rating:	31.8 (High)	27.6 (Medium)
ESG Exposure:	47.6 (Medium)	42.8 (Medium)
ESG Management:	35.9 (Medium)	37.5 (Medium)

ESG Risk Category by aggregate portolio weight %

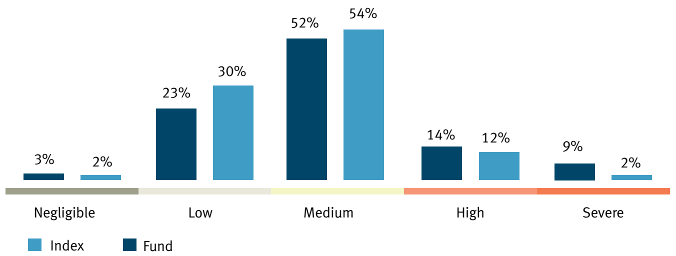


SKAGEN Vekst

SKAGEN Vekst's ESG Risk is considered medium and is 14% higher than the benchmark. The fund's higher ESG Exposure score is the key driver for the spread. Both the fund and the benchmark fall within similar categories of risk-levels.

	SKAGEN Vekst	MSCI Nordic/ ACWI ex Nordic
Coverage rate:	95%	99%
ESG Risk Rating:	26.1 (Medium)	22.8 (Medium)
ESG Exposure:	46.3 (Medium)	41.4 (Medium)
ESG Management:	47.4 (Average)	47.8 (Average)

ESG Risk Category by aggregate portolio weight %

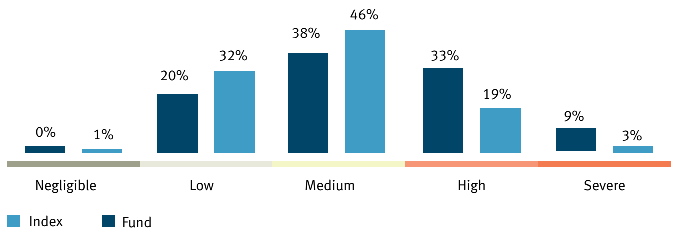


SKAGEN Focus

SKAGEN Focus' ESG Risk is considered medium and is 17% higher than the benchmark. This is due to the divergent ESG Management scores which can largely be explained by the fund's significant (70%) exposure to small and mid-cap companies.

	SKAGEN Focus	MSCI ACWI
Coverage rate:	93%	100%
ESG Risk Rating:	28.4 (Medium)	24.1 (Medium)
ESG Exposure:	43.8 (Medium)	41.6 (Medium)
ESG Management:	36.8 (Medium)	44.7 (Average)

ESG Risk Category by aggregate portolio weight %

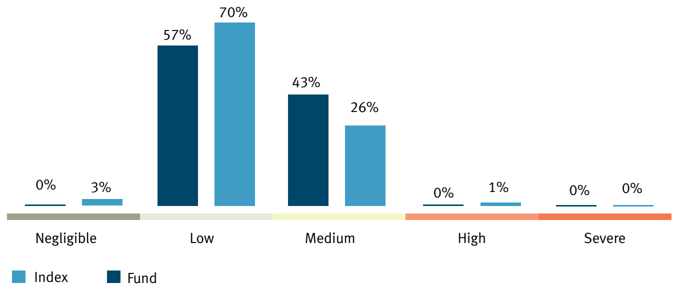


SKAGEN m²

SKAGEN m2's ESG Risk is considered low, although it is slightly higher than its benchmark. The fund's ESG Risk category is in line with the benchmark.

	SKAGEN m²	MSCI Real Estate
Coverage rate:	82%	78%
ESG Risk Rating:	19.2 (Low)	17.4 (Low)
ESG Exposure:	29.2 (Medium)	27.6 (Medium)
ESG Management:	35.2 (Average)	38.2 (Average)

ESG Risk Category by aggregate portolio weight %



Carbon Footprinting: Measuring companies' carbon efficiency

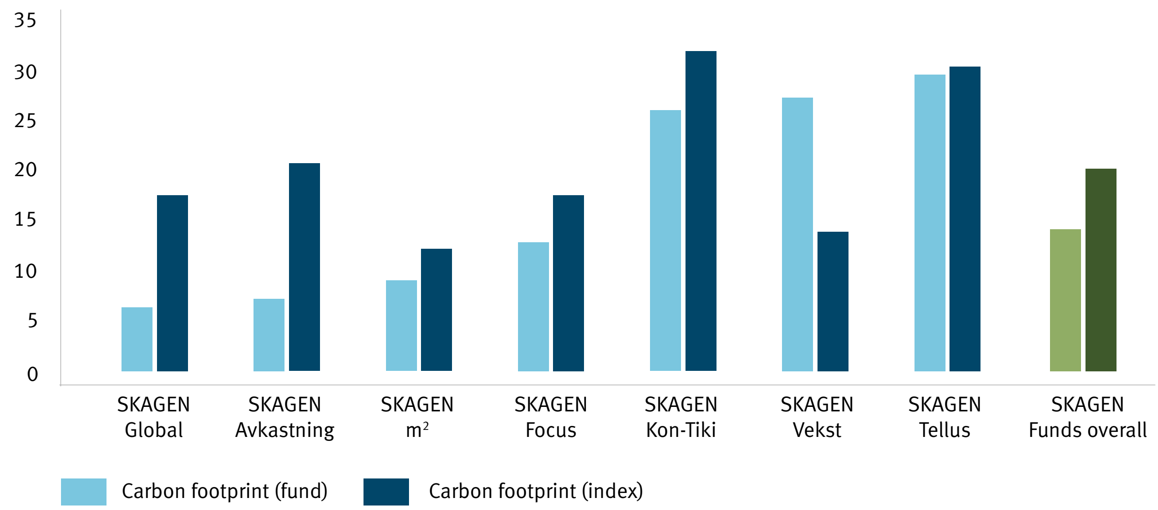
If a fund has a low carbon footprint, that means that the portfolio has a low exposure to carbon-intensive companies. Carbon Intensity is a measurement of the carbon dioxide and other greenhouse gases released annually by a company a given point in time, in relation to its revenue. In other words, it shows how carbon efficient the company is.

A fund's Carbon Intensity is the weighted average of the Carbon Intensities of the companies which constitute the fund. The Carbon Intensity of the funds' benchmark indices is calculated alongside that of the funds. Do note that Carbon Intensity is a point in time measurement which is constantly changing and does not fully represent the funds' carbon risk. The underlying companies' management quality, carbon emission trends, fossil fuel reserves and clean technology solutions are factors that should also be taken into consideration for a better understanding of the risk involved. These factors are not reflected in the Carbon Intensity metric.

Method of calculation

The Storebrand Group applies the Weighted Average Carbon Intensity as recommended by the Task Force on Climate-related Financial Disclosures (TCFD). Read more about how we calculate Carbon Intensity at Storebrand.no

Carbon Intensity in SKAGEN's funds – Q1 2020.



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.

During the first quarter of 2020, there were 37 voteable meetings and 55 voteable ballots at our portfolio companies, with 446 voteable items on the agenda. SKAGEN voted on 94.62% of the items. Votes were in line with management recommendations 92.89% of the time, while 7.11% of the time we voted against management recommendations on one or more items on the agenda.

Follow the votes on our website

All voting activities can be found in the proxy voting dashboard on our website. All votes are published the day after the votes have been cast, and in the cases where we have voted against management recommendations, an explanation is provided.

Tyson Foods: voted for improved disclosure

One example of SKAGEN voting against management recommendation, is Tyson Foods, one of the world's largest meat producing corporations and a holding in SKAGEN Global. Tyson held one voteable meeting during the first quarter, with 18 voteable items on the agenda.

We voted against three items as we see a need for:

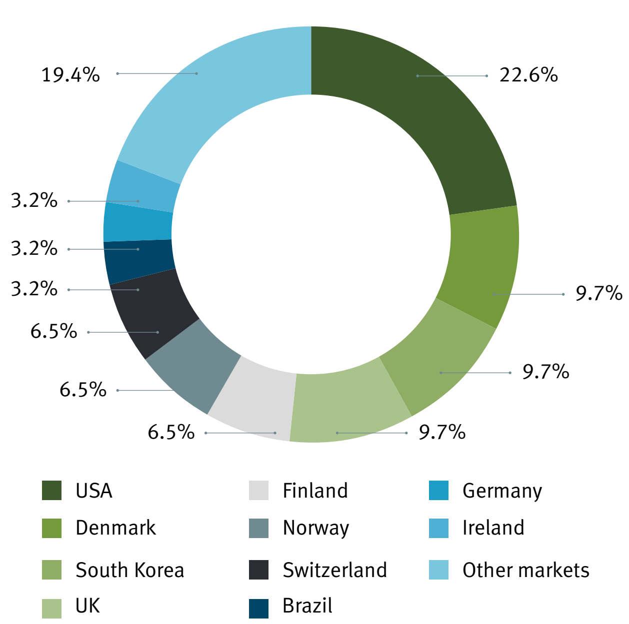
- more information on the company's lobbying expenditures and policies;
- more information on the company's supply chain impacts on deforestation;
- a report on the company's human rights due diligence process.

SKAGEN voted in favour of the above items as we would like the company to improve ESG disclosure on these topics.

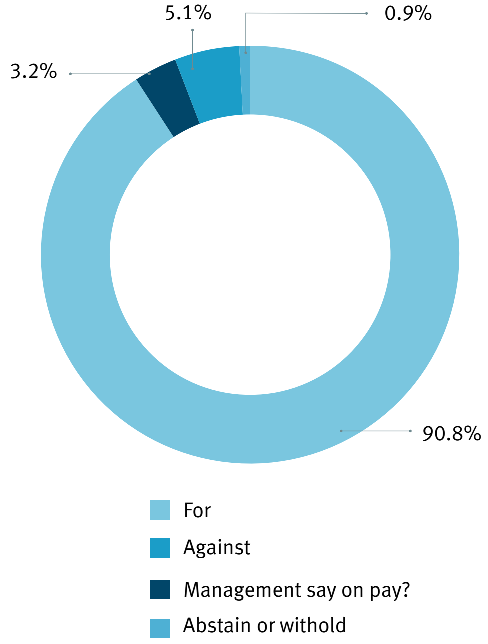
Our full voting record is available here

Year	Q1 2020	Q1 2019	Q1 2018
Number of meetings voted	**31/33**	**35/37**	**29/30**
% of meetings voted in	*93.94%*	*94.59%*	*96.67%*
Number of ballots voted	**76/84**	**53/55**	**49/50**
% of ballots voted on	*90.48%*	*96.36%*	*98.00%*

Meetings voted by market



Votes cast statistics



SKAGEN signs up to the UN Global Compact

During the quarter, SKAGEN became a signatory of the world's largest corporate sustainability initiative, the UN Global Compact.

As a signatory, SKAGEN undertakes to adapt its operations and strategy to the UN's global framework for sustainable enterprise. The framework is based on ten principles divided into four themes, namely the environment, human rights, labour and anti-corruption.

"We are committed to making the UN Global Compact and its principles part of the strategy, culture and day-to-day operations of our company, and to engaging in collaborative projects which advance the broader development goals of the United Nations, particularly the Sustainable Development Goals. SKAGEN will make a clear statement of this commitment to our stakeholders and the general public," says SKAGEN CEO Tim Warrington.

Global business movement

It was during the World Economic Forum in 1999 that the then UN Secretary General Kofi Annan took the initiative to establish the Global Compact to get the business community to engage in UN issues and take global responsibility. The following year, the treaty was officially launched. Today, the UN Global Compact is the world's largest corporate sustainability initiative with over 10,000 signatory companies and organisations from more than 160 countries.

"We are committed to making the UN Global Compact and its principles part of the strategy, culture and day-to-day operations of our company."

By becoming a signatory, SKAGEN commits to actively working on sustainability issues and reporting its work to the UN on an annual basis. The adherence also includes a responsibility to promote the UN's 17 global Sustainable Development Goals.

UN Global Compact

The world's largest corporate sustainability initiative

Over 10,000 signatory companies

More than 160 countries

Resposible to promote the UN's 17 SDGs

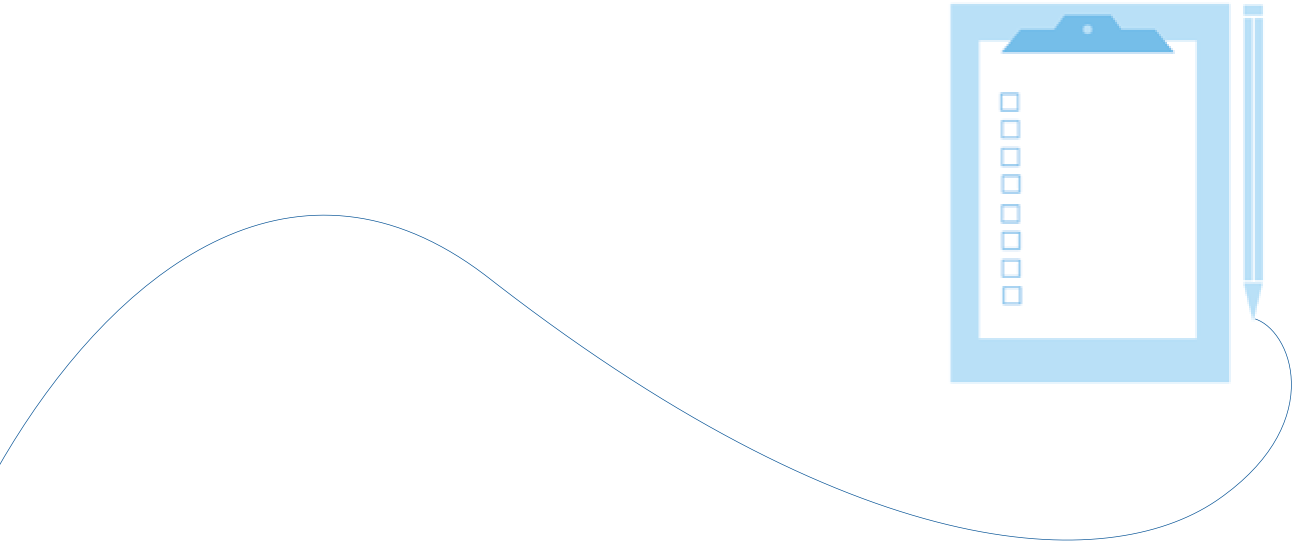
High score for diversity and inclusion

Scoring 87 out of 100 possible points, SKAGEN ranks as number 12 in the SHE index 2020 – a Norwegian gender equality initiative.

Compared to the average score for banking and capital markets (67 points), SKAGEN is one of the best performing companies in the sector in the SHE index.

A total of 129 organisations participated in the study. The SHE Index has two focus areas. 60% of the score is made up of the numbers that represent the current state of gender balance within the company. The remaining 40% measures the initiatives that the company has put in place to increase gender equality and embed diversity and inclusion in the corporate culture.

We acknowledge that this is still an area for improvement, and will work purposefully towards an even better result going forwards. Read more at shecommunity.no



First quarter engagements report

As long-term investors, we regularly engage with our portfolio companies to support and push for improvements.

Although our funds have highly concentrated portfolios and we own just a fraction of the world's publicly traded companies, we strive to contribute to and engage with every single company in our portfolios. We believe in being an active owner and that by engaging successfully with companies, we can attain both our financial and sustainable goals.

For us, active ownership means engaging and entering into dialogue with companies in order to influence them to make small or large improvements. Exclusion is used as a last resort as it can mean we no longer have the potential to influence the company.

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

A quarter dominated by pandemic response

We are currently in active dialogue on eleven ESG-related topics with our portfolio companies. We continue to engage with companies around the world and expect engagement volumes to increase throughout the year on all ESG categories.

During the quarter, we met with Samsung, which has had a positive start to the year with the formation of an outside compliance monitoring group. We also continued our dialogue with an automobile company on their human rights' due diligence framework, both in terms of their clients and suppliers. We also engaged with companies to promote shareholder democracy and minority shareholder interests.

The latter part of the quarter was dominated by the unprecedented disruption caused by the COVID-19 outbreak. With companies' attention understandably focused on responding to the economic and social implications of the pandemic, they had less capacity than usual to discuss longer-term ESG improvements. Since physical meetings have been out of the question, we have continued to engage with several of our holdings via video, email and phone.

During the quarter, SKAGEN engaged with Samsung, which has had a positive start to the year with the formation of an outside compliance monitoring group. Pictured: Hyun-Suk Kim, president and CEO of Samsung Electronics Co., speaks during an event in Las Vegas in January 2020. Photo: Bridget Bennett/Bloomberg

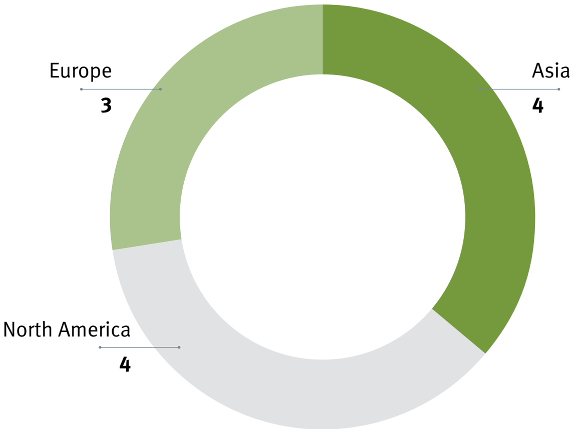
Mapping companies' response

Our focus at the end of the quarter has been mapping the corporate response to COVID-19. While many of the most serious effects (such as unemployment) are likely to be relatively short-lived and improve as societies gradually reopen, there will be a long-term legacy arising from the crisis. This will, amongst others, entail an increased focus on job quality and caring for one's workforce. We have identified several portfolio companies that we will engage with on these issues and are in the process of formulating an engagement strategy.

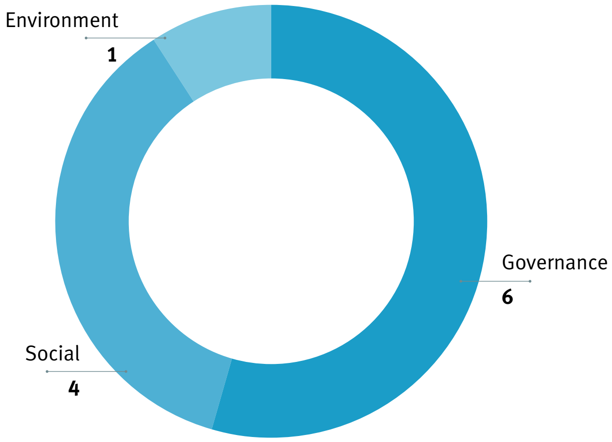
As active stock pickers, SKAGEN's portfolio managers have always sought out undervalued companies. While some of these may have a controversial past, they must also demonstrate a willingness to change. As such, we favour companies that create value through improvements related to environmental, social 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.

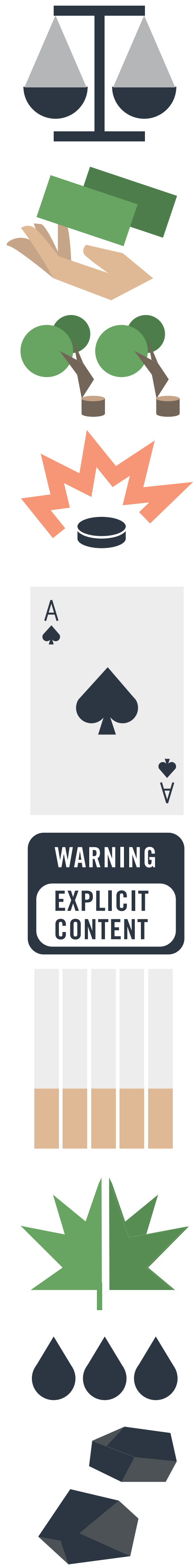
Current engagements by Region



Current engagement cases by ESG category



Exclusion as the 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:

- 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 (25% of revenue)
- Oil Sand (20% of revenue)

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.

Read more in our Sustainability policy

Exclusion list first quarter 2020: Exlusion category	No. of companies
Conduct-based exclusions - Envrionment	14
Conduct- based exclusions – Corruption	10
Conduct-based exclusions – Human Rights and International Law	34
Tobacco	28
Gambling	39
Controversial weapons	26
Climate – coal	72
Climate - oilsand	6
Unsustainable palmoil	13
Cannabis	3
Total:	249*
Observation list:	2

* 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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Project manager: Anna S Marcus

Front page:
P.S. Krøyer, Marie Krøyer. Danish painter, 1891. This painting is manipulated and belongs to The Art Museum of Skagen.

SKAGEN
Part of Storebrand

The art of common sense