Michael Ancher, Apple trees, 1907. This painting is manipulated and belongs to The Art Museums of Skagen.

SKAGEN'S APPROACH TO SUSTAINABLE INVESTMENTS

The art of common sense

SKAGEN
Part of Storebrand

CONTENTS

IMPORTANT INFORMATION

SKAGEN AS (SKAGEN) is a fund management company authorised by the Norwegian supervisory authority, Finanstilsynet, for the management of UCITS under the Norwegian Act on Securities Funds. SKAGEN is part of the Storebrand Group. Storebrand Asset Management AS owns 100% of SKAGEN.

This is marketing communication and should not be perceived as solicitation or investment advice. Please refer to the fund's prospectus and KIID available in Norwegian, Danish, Swedish, Dutch, English, French, German and Icelandic at www.skagenfunds.com before making any final investment decision. This report is only directed at investors in countries where the SKAGEN funds have marketing approval.

Subscription is made in fund units and not directly in shares or other securities. The decision to invest in a fund should take into account all the characteristics of the fund. Information about the funds' ESG aspects is provided at Sustainable investing | SKAGEN Funds - SKAGEN Funds.

Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and management fees. The return may become negative as a result of negative price developments. There is a risk associated with investing in funds due to market movements, currency developments, interest rate levels, economic, sector and company-specific conditions. The funds are in risk category yellow in Denmark. The value of a fund with risk class 6-7 may increase or decrease significantly. The funds are denominated in NOK. Returns may increase or decrease as a result of currency fluctuations.

A summary of investor rights, such as the right to certain information, voting rights and the right to complain, is available at Investor protection - SKAGEN - SKAGEN Funds. SKAGEN may terminate arrangements for marketing under the Cross-border Distribution Directive denotification process.

All information is based on figures and information as of 30 June 2022. Except otherwise stated, the information in this report is produced by SKAGEN. Statements reflect SKAGEN's viewpoint at a given time, and may be changed without notice. SKAGEN makes reservations regarding possible errors and omissions, and does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this report.

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Foreword

Since formation in 1993, SKAGEN has applied a simple investment philosophy to managing investments on behalf of our clients, based on working hard to find undervalued companies with the potential to generate outsized returns. We apply the same straightforward approach to sustainability – the art of common sense.

A formal ESG policy was first introduced in SKAGEN as far back as 2002, and it has been strengthened over the years as the investment industry and our funds have evolved. In 2017 SKAGEN was acquired by Storebrand and we have adopted its group-wide sustainability policy since then. Storebrand is widely recognised as a leading voice on sustainability with one of the most comprehensive and strictest ESG policies in the financial services industry.

Playing to our strengths

SKAGEN's approach to sustainability aligns with our investment philosophy in a number of ways.

As highly active investors, we believe our understanding of the companies we own and the challenges they face is unequalled. We are similarly very active shareholders – engagement is an important part of the investment philosophy we apply to maximise unitholder value and the cornerstone of our ESG activity. We work with holdings to help improve their ongoing business and financial performance or on specific ESG issues. Only when our ability to influence positive change is limited or we fail to see sufficient progress will we instead decide to divest.

We are long-term investors, often holding companies for several years, as we believe patience is required to maximise results. We apply the same logic to sustainability and use the fable of 'the tortoise and the hare' to illustrate how we find companies whose ESG credentials may be overlooked but which are often making the greatest strides towards a sustainable future.

Another important aspect of SKAGEN's investment approach is communication. We believe in transparency and providing the best-possible client service alongside financial returns. The same ethos is applied to our work on sustainability. We are outspoken and write regularly about companies whose business practices we do not want to be a part of and how we expect them to treat shareholders.

Our equity funds are all classified under 'Article 8' of the EU Sustainable Finance Disclosure Regulation (SFDR) which means they are considered to be 'environmentally and socially promoting'. Finally, we report regularly on our company engagement and voting activities, as well as our views on broader industry and environmental issues.

The ESG landscape is ever-changing and will remain so as regulatory pressures and client preferences continue to evolve. For those who entrust their capital with SKAGEN, we will continue to meet their sustainably needs while also delivering the best possible financial returns, centred on our active, value, common-sense approach.

Sondre Myge Haugland
Head of ESG

A long history of thinking sustainably

SKAGEN was among the first asset managers to recognise the importance of investing responsibly, ethically and sustainably.

We first applied negative screens in 1998 when we began excluding coal companies from our investment universe and have incorporated ESG into our investment processes since 2002. SKAGEN's approach has evolved over subsequent years – here are some of our key milestones and industry memberships along the way.

SKAGEN was acquired by Storebrand Asset Management in 2017 and follows its group-wide sustainable investment policy. Storebrand is regarded as a global leader in sustainability, applying an extensive exclusion list known as the Storebrand Standard and spearheading several investor coalitions to engage with companies and governments around the world.

As the first Norwegian company to establish a dedicated ESG team in 1995, Storebrand also has a long track-record of developing a wide-range of innovative sustainable investment solutions.

1998
- Coal Divestment

2002
- First ESG policy introduced

2006
- ESG specialist hired
- Policies strengthened

2012
- ESG process improved
- Signed UNPRI

2017
- Acquired by Storebrand

2018
- Coal, deforestation and climate policies strenghtened

2019
- First annual sustainability report published

2020
- Joined UN Global Compact
- Joined Transition Pathway Initiative

2021
- Funds classified Article 8 under SFDR
- First Diversity and Inclusion Report
- First carbon audit published
- SKAGEN CIO co-founds Norwegian Women in Finance Charter

SKAGEN's approach to sustainability

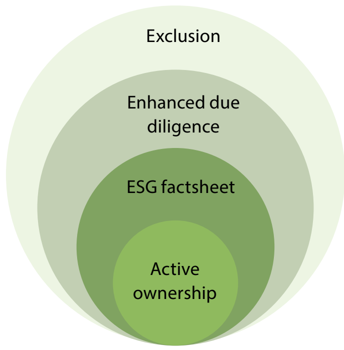
We take a common-sense approach to ESG while at the same time recognising the complexity of sustainability issues which often develop at a whirlwind pace. This means that we continue to learn and improve the integration of sustainability into the investment processes of our funds.

SKAGEN believes that companies which operate sustainably will outperform over the longer-term. Put simply, businesses which understand and can address environmental, social and governance factors are best-placed to identify the risks and opportunities arising from them.

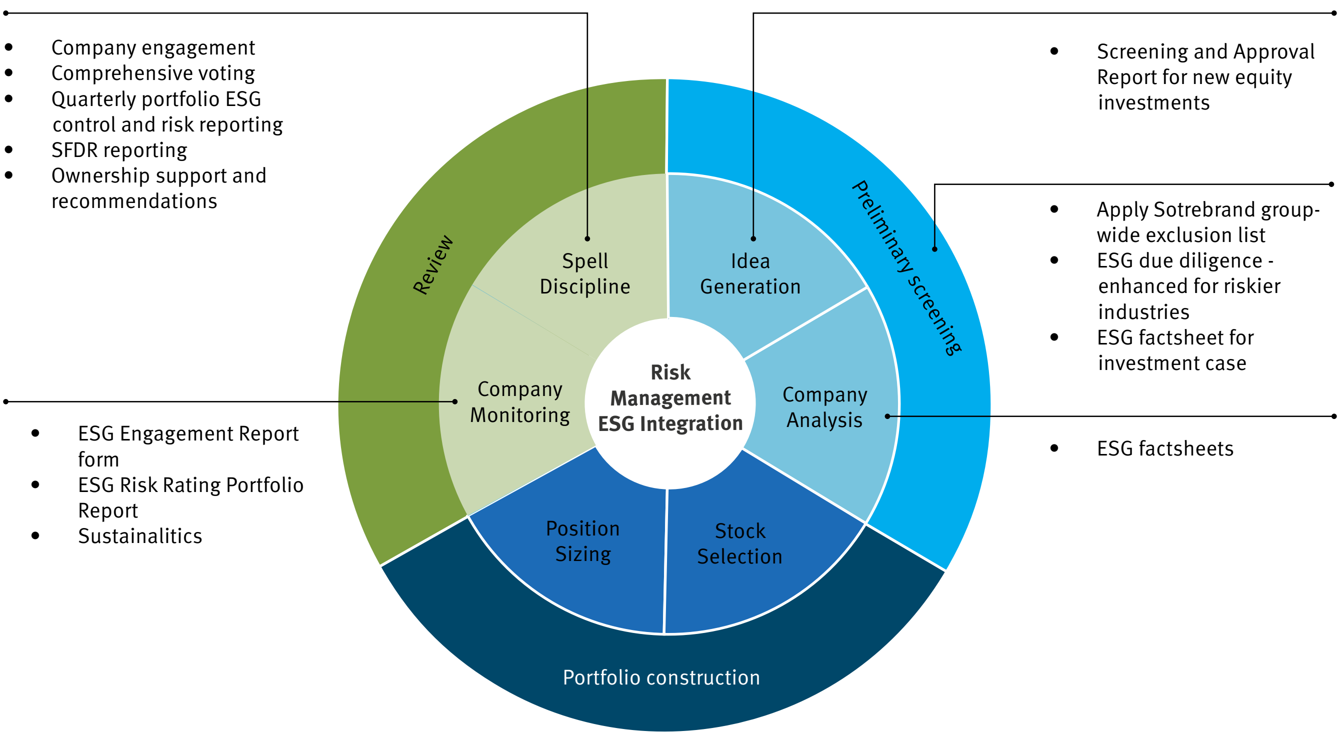
Investing in companies committed to operating sustainably is also important if we are to be good long-term stewards of our clients' capital. By integrating ESG analysis into our investment process – from initial screening to sell judgements – we make better informed decisions that achieve the best possible risk-adjusted returns for unit holders.

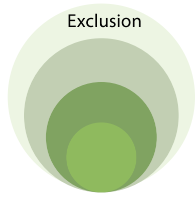
Our ESG approach is built on four pillars, with each applied in different circumstances and expected to lead to different investment outcomes.

In keeping with SKAGEN's active investment philosophy, our sustainability activities centre on active engagement with our holding companies, which is where we believe we can have the greatest impact. We recognise, however, that the full potential of a sustainable investment strategy is best realised when combining the different pillars.



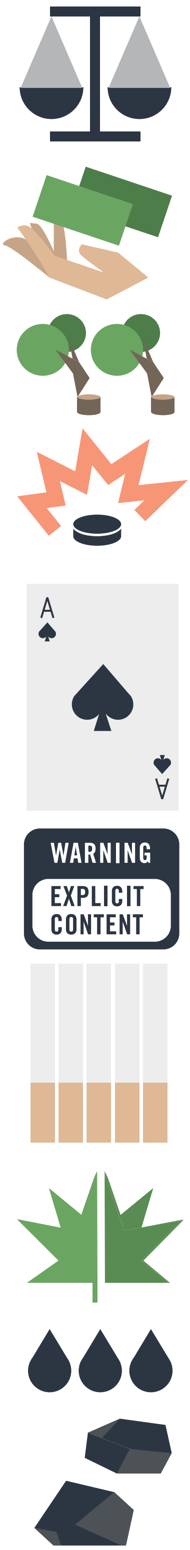
ESG integrated throughout investment process





Exclusion

We won't invest in unsustainable businesses, products or activities. Our exclusion criteria apply across all asset classes. It is of fundamental importance that companies we invest in follow international laws, norms and conventions.



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

Exclusion is used as a last resort and only 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.

Observation list

In some cases where we suspect the violation of our policies, it may be beneficial to follow a company over time in order to gather more information. There may also be circumstances where we see a company is working on corrective action, but such measures have yet to be fully implemented or are not yet verifiable. In these circumstances, we will place the company on an observation list and apply trading restrictions.

Companies that are under observation are strictly monitored and engaged with based on our existing ownership. We will maintain a close dialogue with the company and inform them of our expectations regarding measures and results. We will also expect the company to show improvement within a pre-determined time. Depending on the outcome, the company will either be excluded from our investment universe or removed from the observation list.

Enhanced due diligence

Greater scrutiny of companies in high-emitting industries.

All companies in high emitting industries are subject to enhanced due diligence with assessment made at our initial screening stage whether this additional scrutiny will be applied. Enhanced due diligence must be conducted ahead of any investment in companies in the industries listed in the table below.

The ESG team will compile relevant data for the portfolio manager to consider in their assessment of ESG-related financial risks. These sustainability metrics will form a key aspect of the measurements that will be monitored during the holding period. Information on the scope of strategic and management awareness to address climate risks will also be assessed.

Assessment parameters

The purpose of conducting an enhanced due diligence assessment is to uncover and document climate-related risks and understand their relative impact on double materiality. The following aspects will be assessed:

- Principle Adverse Impact emission indicators and their delta
- Transition Pathway: the scope and significance of the decarbonisation pathway
- Reputational and financial risks, with a corresponding engagement plan if required

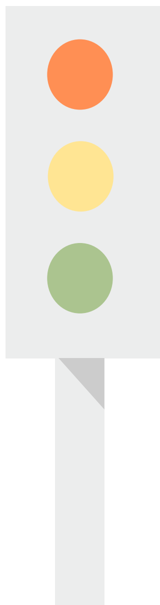
Sector	Industry	GICS Code
Energy	Energy Equipment & Services; Oil, Gas & Consumable Fuels	10101010-10102050
Materials	Chemicals; Construction materials; Containers & pckaging; Metals & mining; Paper & Forest Products	15101010-15104050
Industrials	Transportation	20301010-20305030
Consumer discretionary	Automobiles	25102010-20 (automobiles)
Consumer staples	Food Products	30202010-30202030
Utilities	Utilities	55101010-55105020
Real estate	Real estate	60101020 (Industrial REIT's), bespoke real estate investments for data centres.

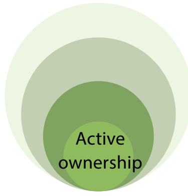
ESG factsheet

Produced for each investment case and includes a dedicated ESG overview.

Each investment must have an underlying ESG factsheet. This document plays an essential role in linking the ESG parameters of an investment from idea generation to execution.

It details a company's ESG considerations, actions undertaken and results achieved. A traffic light system is used to indicate sustainability risks and opportunities.





Active Ownership

We positively influence companies' behaviour through dialogue and voting.

SKAGEN believes in exercising our rights as shareholders and has always been an active owner. Throughout our history we have sought to influence holding companies in the right direction.

We employ two main ways of doing this – engaging through direct dialogue with companies and voting at shareholder meetings. Both tools can be very effective in addressing concerns regarding ESG matters. Combined they can strengthen one another and provide a clear signal to companies about where we stand on various important issues.

Active ownership is the key pillar for our equity products. We do not engage with our fixed income holdings which have no voting rights. Whilst our fund-of-funds products are similarly without voting rights directly, the investment team nonetheless engage with the underlying fund managers on ESG topics.

Engagement

Through engagement we make our views heard and try to influence companies to make improvements in any areas we believe they are needed. Dialogue can be exercised by expressing views, in writing or verbally, to the company's management at all levels, the Board of Directors and its advisers.

The decision to engage directly with companies is based on our assessment of the significance of a particular issue, holding size, scope to effect change and the opportunity to collaborate with other investors.

We will consider engaging with companies in the following cases:

- Serious or systematic breaches of human rights
- Corruption and bribery
- Serious environmental and climate damage
- Companies with a low sustainability rating in high-risk industries
- The company's strategy or results differ substantially from those previously communicated
- Governance issues such as:
  - Replacement of directors
  - Equity issues and dividend policies
  - Remuneration of key personnel
  - Transactions between related parties
  - Diversity issues

Climate change

We often seek to engage with companies on climate change. Given the value focus of SKAGEN's investment style, the carbon footprint of our funds may vary substantially over time. We are nevertheless committed to working with our holdings to reduce their carbon emissions and operate more sustainably over time. Climate change is one aspect considered when monitoring companies and we may engage with those lagging in their efforts to reduce emissions to encourage them to improve and reduce their carbon footprint.

Engagement alternatives

If the outcome of the company engagement does not meet our expectations, we may consider other actions. If a company is on the observation list, we will make an exclusion assessment. For other companies, our actions may include:

- Expressing our views publicly
- Proposing resolutions at the annual general meeting
- Suggesting an extraordinary general meeting

Collective engagement

We engage with companies in collaboration with other investors when we believe this is in the best interests of unitholders. When working with other investors to influence companies, we ensure any conflicts of interests are managed and seek to avoid situations when we may be put in an insider position.

SKAGEN is also a member of several influential investor coalitions which engage collectively with companies, governments and other stakeholders on a range of important issues:

Using our voting rights

SKAGEN typically votes against management in the following situations:

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

Specific situations may call for a unique response and we will always take market and company conditions into consideration. Our voting record is available on our website. To the extent that voting rights have been exercised in controversial cases or where we have voted against the Board's or management's recommended course of action, we will disclose the voting rationale.

PRI Principles for Responsible Investment

The PRI engages with global policymakers and works to understand the investment implications of ESG factors and supports investors in incorporating them into their investment and ownership decisions.

United Nations Global Compact

The UN Global Compact is a policy platform and practical framework for companies that are committed to sustainability and responsible business practices. It seeks to align business operations and strategies with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to catalyse actions in support of broader UN goals.

Transition Pathway Initiative

The Transition Pathway Initiative (TPI) is a global, asset-owner led initiative which provides investors with data on the carbon performance and climate governance of the world's largest listed companies in high emitting sectors. It enables better-informed and more effective investment processes, engagement activities and proxy voting decisions.

SKAGEN's ESG team

SKAGEN's three-strong ESG team oversee our sustainability policy.

They work closely with our portfolio managers to screen each potential portfolio company and liaise frequently with their counterparts in Storebrand's sustainability team to shape group policies and ensure they are being followed.

Sondre Myge Haugland, Head of ESG
Sondre joined SKAGEN in 2019 and specialised in sustainable investing. He was previously an Energy Broker at ICAP Energy. Sondre has an MSc in Political Economy of Europe from the London School of Economics and an MA in International Relations from the University of Edinburgh.

Silje Simonsen Viste, Portfolio Analytics – ESG & Equities
Silje joined SKAGEN in 2018 as a portfolio trainee. She was previously a Customer Advisor at DNB. Silje has an MSc in Business Finance from BI Norwegian Business School and a Bsc in Finance and International Business from the University of Tampa.

Karoline Hatlestad, Data Analyst
Karoline joined SKAGEN in January 2022 and works across different portfolio activities on ESG. She was previously a Senior Associate at PwC Stockholm where she worked in audit and financial due diligence roles. Karoline has a Masters in Economics and Administration from the Norwegian School of Economics, NHH.

Corporate sustainability in SKAGEN

In addition to our sustainability work as investors, we also seek to make a positive contribution as an employer, business and social participant. Having the trust of our clients and employees is crucial for us as a fund manager.

Ever since SKAGEN was founded in 1993, we have set ourselves the goal of being a socially responsible company. From the autumn of 2019, we have accelerated our transition to becoming a more sustainable fund company, promoting diversity and equality, and reducing our climate footprint. SKAGEN will be climate neutral by the end of 2022.

SKAGEN is also working closely with Storebrand to implement the new Transparency Act, a law regarding the production of goods and services concerning fundamental human rights and decent working conditions.

Guiding this work are the principles of the UN Global Compact in the areas of human rights, labour law, the environment and anti-corruption, as well as the UN's 17 global goals for sustainable development. We have chosen to focus on three of these in particular: Gender Equality, Decent Work and Economic Growth, and Climate Action.

Diversity and Inclusion

SKAGEN is committed to attracting and retaining a diverse work force which is actively aware of and encourages inclusion.

We seek diverse applicants who are evaluated on actual competencies, potential contributions and internal drive. SKAGEN looks to provide unbiased opportunities across all diversities such as culture, race, ethnicity, education, socioeconomic status, gender, age, political opinions, sexual orientation, language and health. To be fair and unbiased, recruitment involves several members across the organisation with differing roles and perspectives. All applicants for internal roles are considered on the basis of current and potential performance.

SKAGEN has a strong culture with employees given the freedom to express their opinions and autonomy – the best idea is always supported, irrespective of its source. Future leadership talent is identified and diverse department and leadership teams are encouraged. Young talent in the investment team is encouraged and developed through an annual trainee program and the department comprises over 25% women and a wide range of educational backgrounds.

SKAGEN launched a Diversity, Equity and Inclusion strategy and report in 2020, and strives for an inclusive culture that enables all employees to have a healthy, sustainable life.

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Customer Services is open from Monday to Friday from 9 am to 4 pm (CET). Please visit us at our office, send an e-mail or call us and we will do our best to help you.

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