SUSTAINABILITY REPORT FOR 2019

SKAGEN

Putting purpose alongside profit

In the annals of finance, the year 2019 will very probably be recorded as the year in which sustainability and environmental concerns went mainstream.

Over the past 12 to 18 months, we have seen a seismic shift, not just in financial products but also for capital flows. Purpose now sits firmly alongside profit in the corporate hierarchy, and sometimes above it. This is good. And the fact that much of the impetus for this comes from the coming generation Z is better still. Scandinavian leadership in this area is something to be proud of.

The purpose of SKAGEN is to help clients to meet their investment objectives and thereby achieve financial security, and to do this in a sustainable and responsible way. Sustainability is not a new fad; it is a necessary way of acting and investing to secure the best long-term financial outcomes. Fund managers are legally required to exercise corporate and fiduciary responsibility. What is now changing is the extent to which this responsibility is governed, and the means available to support it. New regulation will accelerate the move towards more sustainable finance. The UN Sustainable Development Goals (SDGs) are the blueprint to achieve this; however, it is plain common sense that the finance industry should be able to meet the demands of the next generation of savers and pensioners.

For SKAGEN, it is largely through our investment activity that we can make tangible impact towards the SDGs. We are committed to actively engaging with companies to ensure they act responsibly towards shareholders, employees, and the environment. We are also committed towards sustainable business activities ourselves. These are especially valued by our employees and reflect the principles that govern the way we think and act.

Society expects more from its finance industry. This renewed version of 21st century stakeholder capitalism is best placed to create value for the economy, for society, and for the environment. It is a future we can all believe in and we in SKAGEN are glad to commit to it.

Tim Warrington
Chief Executive Officer

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Complacency is not an option

As active investors, one of our most important priorities is to engage and collaborate with companies in working towards sustainable change.

SKAGEN has long recognised our responsibility as an investor to play our part with regard to the whole range of issues that need to be addressed to ensure a more sustainable future. Creating a sustainable future is a difficult and complex endeavour, but we hope that this report will shed some light on how we seek to play our part as investors.

As an asset manager, our portfolio managers work relentlessly towards our ultimate goal; delivering the best possible long-term risk adjusted returns to our clients. This entails finding businesses that have, or are developing, future-oriented business models that will meet our expectations for shareholder returns. Considering material environmental, social and governance (ESG) issues is an integrated part of that search. In this report we demonstrate how we look at the entire value chain of a product life cycle and how we seek to find responsible attractively priced companies that will benefit from the move towards a more sustainable planet.

Active owner

Ever since publicly stating our ESG guidelines in 2002, we have spoken and written about ethical companies; companies whose business practices we do not want to be a part of and how we expect companies to treat all shareholders equally. As society has evolved, as we have learned more and as the challenges the world is facing have grown, we have adapted as well.

The nature of the commitments that corporations make to society has evolved over time. As these now encompass wider stakeholder considerations, we diligently assess how our holdings manage the accompanying ESG risk and opportunities. We then use our position as an active owner to engage with companies to address these considerations. You can read case studies of our engagements in 2019 on page 8-9 of this report.

We have one clear goal with our engagement work; to create and make visible shareholder value. Companies with bad products or poor client service will most likely not create value for shareholders. Nor will companies that are engaged in environmental damage or that do not treat minority shareholders fairly. It is as simple as that. While we may find companies that do not behave as we would like, if we believe that we can engage with these companies and facilitate change, then we can unlock shareholder value at the same time as contributing to a more sustainable future. In this report you will find some specific examples of our engagement over recent years with companies in South Korea.

Battling climate change

Climate change will affect many sectors, most especially the energy sector where coal will be phased out and oil is set to peak. In addition, climate change will impact the car industry (combustion engine), the construction industry (energy efficiency), agriculture (changing eating habits, use of fertilisers) and consumer staples. There is also a risk that companies that do not consider how climate change will affect their business and take the measures needed, will lag behind financially.

There will inevitably be a policy response from governments to climate change as the impact on their citizens becomes ever greater. The United Nations-supported Principles for Responsible Investment (PRI) – of which we have been a member since 2012 – supports the Action Plan for Financing Sustainable Growth which has been developed by the European Commission. The Action Plan outlines reforms in three areas, two of which SKAGEN, as an active asset manager, is proud to have supported for many years already, namely:

- Fostering transparency and long termism in finance and economic activity by promoting stronger company disclosures, fostering corporate governance and attenuating short termism.

- Integrating sustainability in risk management, something that goes without saying in SKAGEN. With concentrated portfolios we seek to engage with our companies to promote long-term value and any danger to their success is looked upon and calculated as a risk.

We hope you enjoy this report and will join us on our common journey towards a more sustainable future.

Alexandra Morris
Investment Director

Our sustainability criteria

We believe that companies that understand and incorporate sustainability in their business strategy will outperform their counterparts over the longer term. Investing sustainably is thus essential in order to achieve the best possible risk-adjusted returns for unit holders.

Our Group-wide approach to sustainable investments is built upon three main pillars: Exclusions, Integration and Active Ownership. Each method is applied in different circumstances and provides different investment outcomes. The full potential of a sustainable investment strategy is only realised when applying the methods together.

1. Exclusions:

We will exclude the following activities from our funds:

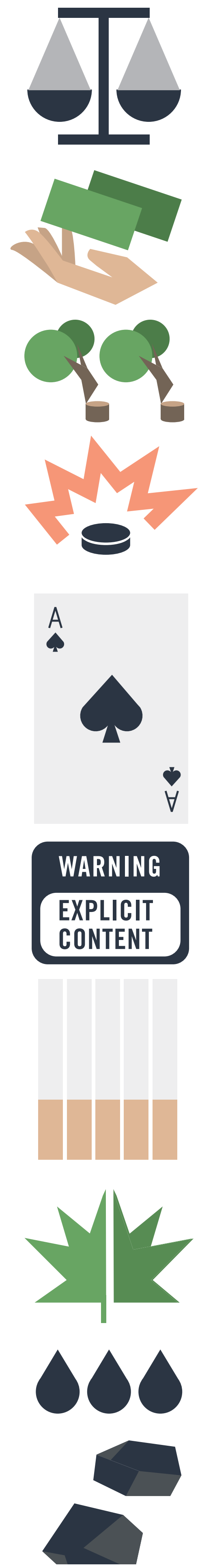
Corporate behaviour:

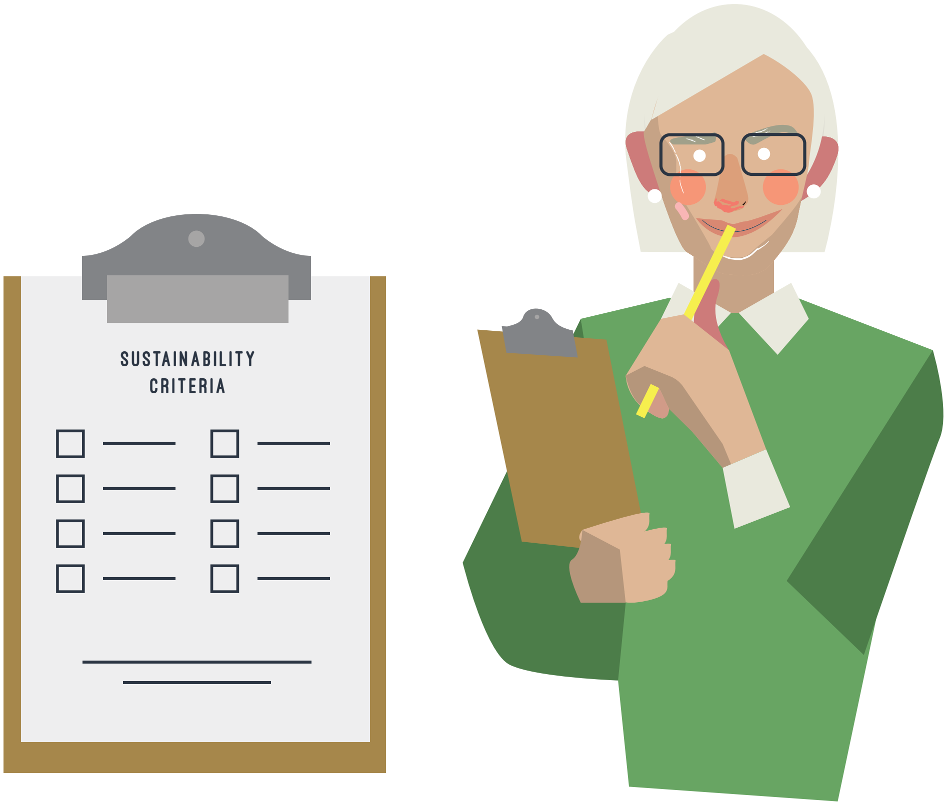
- Systematic breach of international laws and norms and human rights
- Systematic corruption and financial crime
- Serious environmental degradation (deforestation)
- Companies that produce or sell controversial weapons (nuclear, land-mines, cluster munitions, etc.)

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.





2. Integration

As sustainability is an essential factor in companies' long-term financial performance, it is vital to provide our fund managers with the necessary tools to integrate company specific risks and opportunities. Companies that provide sustainable solutions are rewarded, while companies that hinder the selected goals and face associated financial risk are penalised. ESG information is made available for portfolio managers to facilitate systematic integration into the investment processes.

3. Active Ownership

We believe in exercising our rights as shareholders and employ two main ways of doing this. Either through voting at shareholder meetings or engaging – through direct dialogue – with the management and board members of our various holdings.

Both tools can be very effective in addressing concerns regarding environmental, social and corporate governance issues. Combined they can strengthen each other and be an effective signal to companies on where we stand on various issues that are important. We will therefore use both methods to influence companies' behaviour over time.

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

Active owner, active engagements

We work rigorously to ensure that the returns of our clients are safeguarded by the companies we invest in. By engaging directly with our holdings, we leverage our voice as a shareholder to better manage company specific risk and return.

As an active manager, our fiduciary responsibility also includes ESG. We believe that sustainability has a financially material impact on the risk-adjusted returns we seek to provide for our clients. Engaging on sustainability and working with companies to improve their efforts is therefore simply common sense.

ESG is evolving rapidly, and at SKAGEN we strive to stay up-to-date with developments and to judiciously leverage ESG factors in our investments. One key challenge that we have sought to address is to better communicate and document the engagements and dialogues that we have with our portfolio companies on a continuous basis – be they by email, telephone, video conference or in face-to-face meetings. To better address this challenge, we have developed a proprietary tool, named the ESG Engagement Engine. The tool provides our portfolio managers, analysts and ESG team with low-threshold access to logging ESG engagements through an app on their phone whenever an ESG topic is discussed. The data is in turn aggregated into different visualisations so that we can maintain an overview of all our engagements and the different stages of each.

Proactive engagement

Addressing controversies when they occur in companies plays a key part in shaping our engagement strategies. However, good ESG engagement is not just about being reactive. By targeting financially material sustainability topics in the companies we engage with, we can promote sustainability improvements and thereby safeguard our investments. We determine what we believe to be financially material to a company based on input from the Sustainable Accounting Standards Board (SASB), company opinions and our own analysis. That is where we believe that companies should be paying extra close attention.

We do not just restrict our active ownership to companies. Like many other investors, we recently wrote to the Japanese Ministry of Finance formally voicing our concerns over a new legislative proposal that – at worst – would have caused a dramatic reversal in the recent corporate governance improvements made by Japanese companies. The proposal was later diluted, largely as a result of the internal and external pressure put on the sweeping and non-contextual nature of the proposal. We believe that the current

Photo: Bloomberg

Throughout 2019, we engaged with 18 companies. Although our engagement spans the globe, in 2019 we focused particularly on engaging with our Asian holdings, including Samsung Electronics, one of our largest and oldest investments.

form of the proposal maintains continued shareholder engagement and dialogue on improving corporate governance in Japan, which is highly important for active owners like SKAGEN.

Engagement disclosure

Throughout 2019, we have engaged with 18 different companies on more than 20 individual cases. Although our engagement spans the globe, in 2019 we focused particularly on engaging with our Asian holdings. The majority of our engagement takes place via physical meetings and email, in addition to letters, telephone calls and video conferences. We prioritise engaging with companies on issues that we consider to be financially material to our investments and which address serious controversies relating to human rights, corruption, and environmental degradation amongst other things. SKAGEN introduced new guidelines on deforestation in 2019, and we engaged with some of our South American holdings to ensure that their operations did not contribute to illegal deforestation of the Amazon.

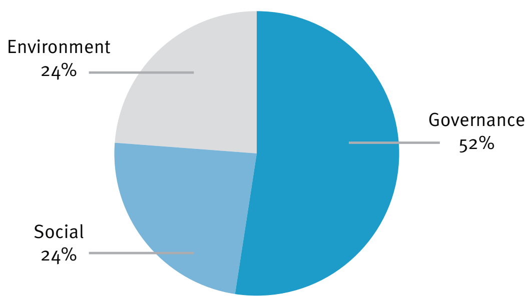
When engaging with companies on corporate governance issues, traditionally the focus has been on safeguarding minority shareholder rights, and this is still a crucial part of our engagements. However, the quality and integrity of the board and management are also highly important factors for us, as are sustainable remuneration policies.

When it comes to engaging on social issues, human rights, particularly labour relations, make up almost 20% of all engagements. We generally seek to ensure that the companies we have invested in adhere to global standards and norms (such as the International Labour Organisation (ILO) and Global Compact alignment) and that they have internal routines in place to ensure that potential issues are effectively dealt with and remedied.

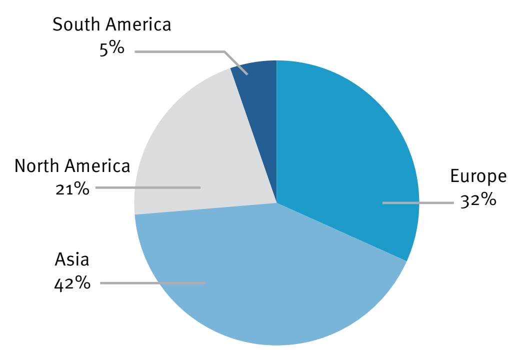
Our funds have very little exposure to energy, which is largely why engagements on environmental issues are lower than might be expected. In 2019, we requested information from a construction company to ascertain the carbon intensity of their production and to find out about the solutions that have been introduced to mitigate the carbon emissions related to their operations. We also engaged with an insurance company to understand how climate risk is incorporated into the underwriting process and to disclose these figures publicly.

ESG Engagements in 2019 according to ...

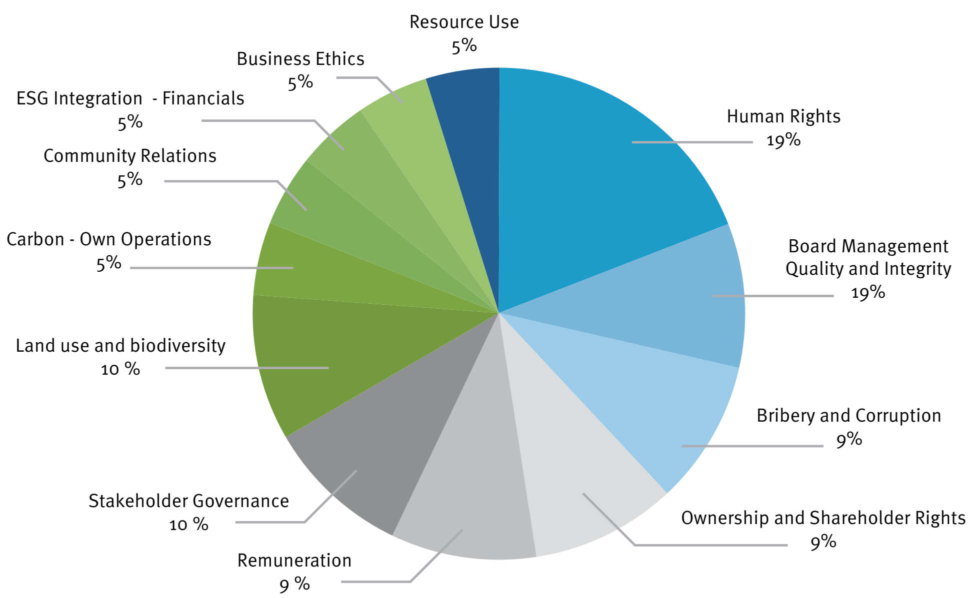
1) ESG category



2) Continent



3) Topic



Case Studies: Engaging with Asian companies on ESG

We have actively invested in South Korea almost since the formation of SKAGEN Funds. The so-called 'Korean discount' – i.e. South Korean companies trading at considerable discount because of corporate governance challenges – has proven to be very favourable for value investors.

South Korea is also an important market to engage in to bring companies up to best-practice sustainability standards. 2019 marks a year of exciting change in South Korea when it comes to ESG. The introduction of ESG minimum criteria for all investments made by the National Pension Fund (NPS) represents a critical juncture in this regard. We have also witnessed considerable progress in our South Korean holdings.

Engagements with holdings on our Observation List:
Samsung Electronics is one of our biggest and oldest investments. Since making our first investment in the company over 20 years ago, we have engaged with management countless times. Our engagement focus has largely revolved around corporate transparency and disclosure and urging Samsung to improve communication with their shareholders. However, following the corruption scandal and the suppression by executives of the formation of labour unions, the decision was made to place Samsung on the observation list in Q4 2018. We considered the breaches they were accused of to be serious and in violation of our ESG policy. There was also a systematic and reoccurring nature to these issues. Throughout 2019, SKAGEN has had a series of meetings with Samsung where we have worked with the company to highlight and address these issues.

Throughout the year, Samsung has demonstrated – alongside the general shift in South Korea – that they understand the relevance and importance of ESG for investors. Progress has been made, but there are still important hurdles to be addressed before we can consider removing them from our observation list. In terms of progress, positive steps made by Samsung include placing political donations under committee approval, splitting the role of CEO and chairman of the board and removing cross-holdings. We expect to see the company firmly address their labour relations challenges.

Photo: Bloomberg

Following successful engagements and considerable improvements, Hyundai Motor Company was removed from our observation list in December 2019. Pictured here Hyundai Motor displays an electric air taxi in partnership with Uber Technologies at CES 2020 in Las Vegas.

Hyundai Motor Company is the holding which has shown the most progress on the ESG front in 2019. They too, alongside Samsung, started the year on our observation list. Hyundai was placed on the observation list in Q4 2018 with defined criteria to be met before the status could be changed. We communicated our criteria through meetings, phone conferences and email, and spoke with them regularly throughout 2019. Specifically, we demanded that they deal with the human rights concerns arising from their labour relations management. We stressed the importance of implementing a standalone freedom of association policy that explicitly applied to all their operations as well as aligning with established ILO and Global Compact standards.

Throughout 2019, Hyundai has met several milestones and exceeded our initial expectations. They avoided what had become an unfortunate tradition of labour strikes in South Korea for the first time in eight years and introduced a standalone human rights policy in which freedom of association was one out of many other human rights commitments made. Moreover, they launched an ambitious strategy for 2025 which integrates sustainability at the core of their operations. Hyundai will invest $50bn on R&D to become a smart vehicle leader and to meet their ambition of becoming one of the top three EV producers by 2025. To steer Hyundai towards a more sustainable path, a dedicated ESG team will oversee and integrate sustainability as a core part of their corporate strategy, with the CEO having ESG as one of his KPIs.

Following successful engagements and considerable improvements within Hyundai, we were pleased to remove them from our observation list and re-include them fully in our investable universe in December 2019. We look forward to continuing our proactive engagement going forward.

Sun Hung Kai Properties was placed on the group-wide observation list in Q4 2018 due to the lack of transparency in the company. The company's CEO was involved in a bribery scandal over land deals in Hong Kong dating back to 2009. The CEO was found guilty in 2014 and resigned. However, we wanted to see more concrete measures to reduce the risk of reoccurrence. These measures focused on the importance of having a separate policy covering corruption and bribery, publicly disclosing occurrences and improving the reporting in their annual statement of the number of employees who receive anti-corruption and bribery training.

We also engaged independent ESG data provider, Sustainalytics to discuss these issues with the company in order to push for improved ESG communication and disclosure.

Following our discussions with Sun Hung Kai, they were removed from the observation list as they had implemented most of the measures required. In our view, these changes reduced the risk of similar controversies happening again. In addition, they helped cultivate the importance of an ESG mindset and the need for open disclosure and communication with investors on ESG issues.

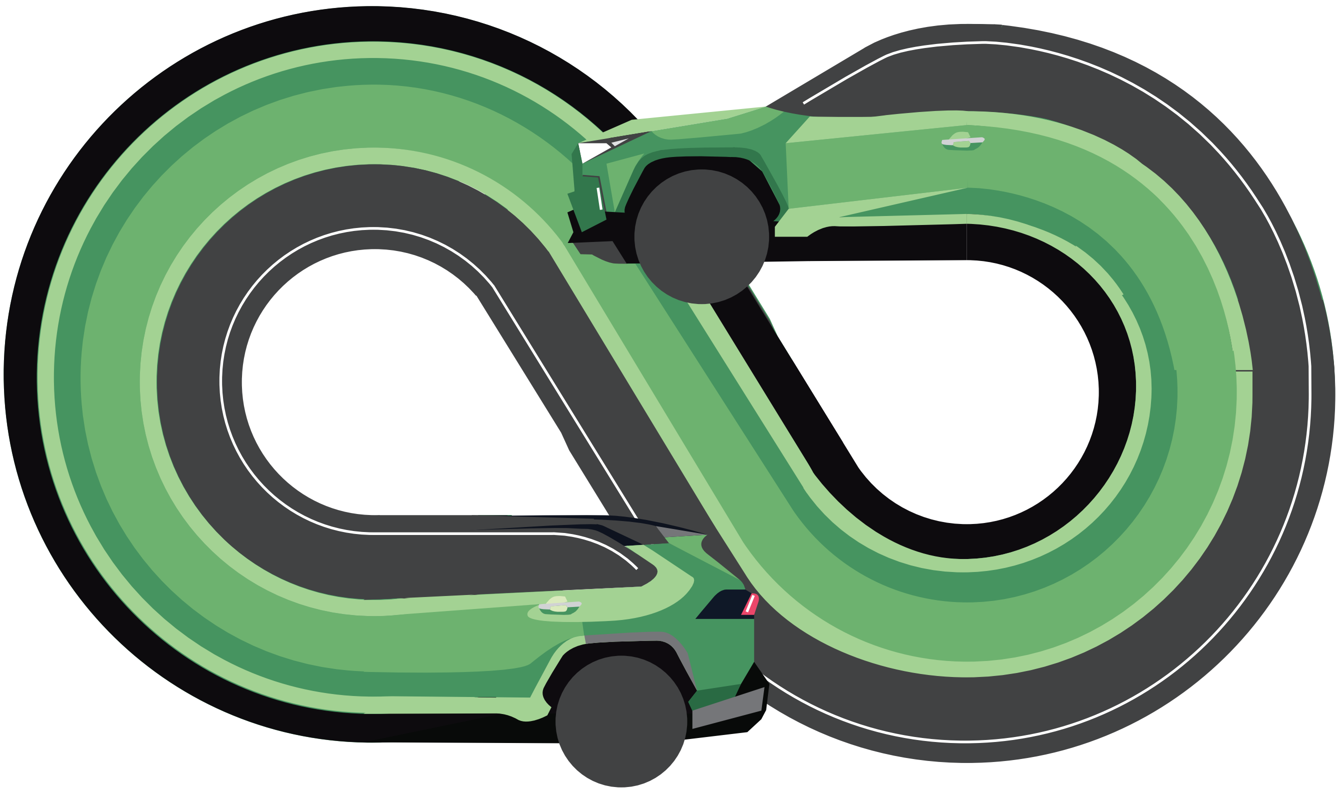
Other companies we have engaged with:

Korean Reinsurance improved their dividend policy following our engagements by ensuring a minimum 25% payout ratio and continuing to level up going forward. Boosting the dividend policy is an important step towards optimising the balance sheet and running the company in the best interests of shareholders. We have also engaged with them on climate risk and encouraged them to disclose financial risk estimates associated with natural catastrophes as well as communicate the approach taken to incorporate environmental risk into the underwriting process.

Samsung SDI develops world-leading battery technology and we have encouraged the company to further their battery recovery program by collaborating with their original equipment manufacturers (OEMs). Improving on this front would ensure that batteries could be recycled, and that hazardous waste is handled instead of potentially causing damage to the environment.

LG Electronics

Our dialogue with **LG Electronics** has followed the traditional focus we have had when engaging with South Korean companies. Given its strong balance sheet, we see little reason for the dividend policy of the company remaining flat. We have stressed the importance of LG Electronics improving their dividend policy as it would not only retain shareholders but also make the stock more attractive to other investors.



A circular economy: sustainability throughout the product lifecycle

By looking at the lifecycle of an individual product, from the assembly line to the landfill, we discover that while a company's individual actions do matter, the full potential of sustainability is only unlocked when each stage of the production chain is involved.

SKAGEN believes that markets are not always efficient. As a value investor, SKAGEN looks for investments that are misunderstood, overlooked, and mispriced, amongst other things. Our integrated ESG approach stipulates the scope of our investment horizon in search of companies that can provide value over time. The way we address ESG is therefore defined by and aligned with our value focus. As a result, we may at times invest in companies that are laggards or mediocre in how they address sustainability in their business operations. However, most of our portfolio companies show a clear commitment to change and embrace sustainability, and we believe that their potential to make material contributions to society can translate into financial return to us as shareholders over time.

For us, sustainability is not just about identifying those companies that are best at any point in time. Rather, it is also about embracing the fact that we all need to improve and change our ways in order to meet the challenges ahead.

Holistic thinking

Sustainability is a complex phenomenon, and it does not become less complex when thinking about the lifecycle of the products we use daily. To make the concept clearer, we have illustrated the importance of thinking holistically about sustainability. We have done this by highlighting the sustainability solutions within the companies we have invested in, represented through the fictional lifecycle of a Toyota Industries product. By taking a bird´s-eye view of sustainability, from the assembly line to the landfill, we better understand that while individual actions from companies matter,

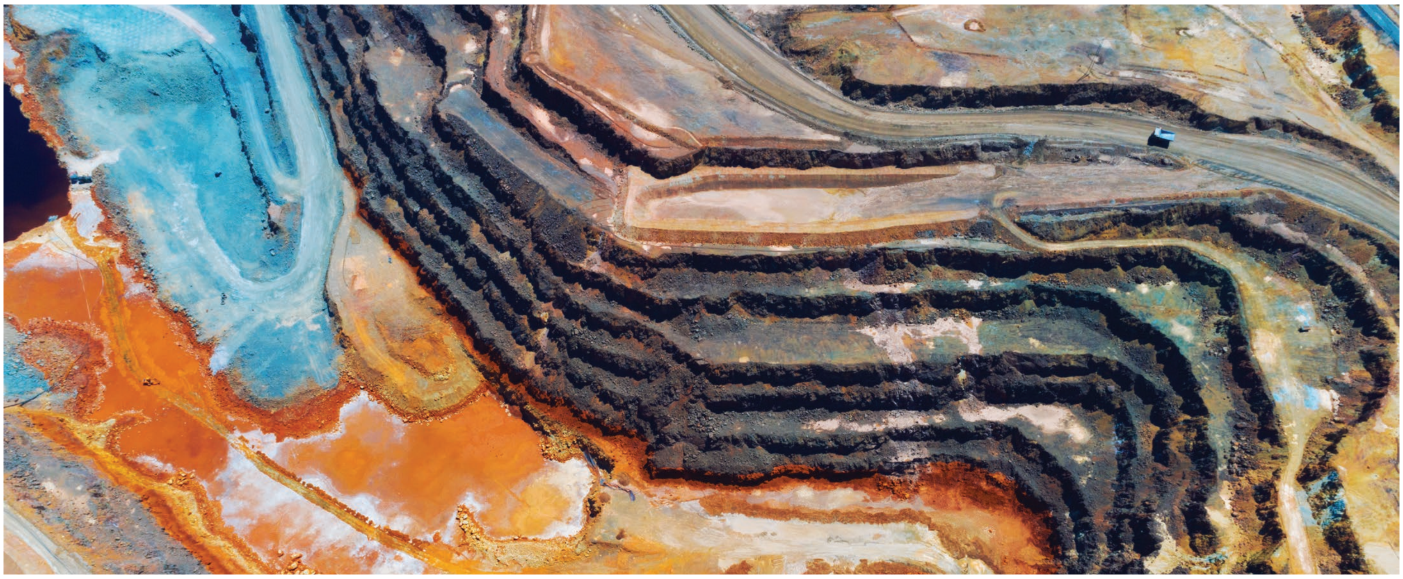


Photo: Shutterstock

Copper is a crucial component for automobiles, renewable energy and electronic hardware.

the full potential of sustainability is only unlocked by considering the entire lifecycle.

As the first step in our fictional product's lifecycle, we take a look at some of the key components that go into making modern vehicles, as produced by some of SKAGEN's portfolio companies.

Copper at Ivanhoe Mines

Copper is a crucial component for automobiles, renewable energy and electronic hardware. The importance of technology and software in modern automobiles to enhance safety, maintenance and even entertainment shows no signs of abating. One of our holdings, Ivanhoe Mines, is currently developing one of the world's largest greenfield copper mines and will provide some of the key commodities required for these crucial technologies (SDG 7 - Affordable and clean energy). One of the Portfolio Managers of SKAGEN Kon-Tiki, Fredrik Bjelland, visited the mine in May and says that; "Due to the high metal grades, all their projects are developed as underground mines. In addition to reducing the visible impact on nature, this technique also reduces the amount of waste generated and makes it easier to rehabilitate the area when production is complete. There will also be a high degree of automation in the mines, with a large part of the work carried out remotely."[1] Moreover, Ivanhoe is improving the infrastructure around the mines in order to access renewable energy to power the mining operations.

Battery technology at Samsung SDI

Most automobile manufacturers are expanding into the electric vehicle (EV) segment for which they inevitably need batteries. Samsung SDI is among the leading companies in revolutionising battery technology from cell-phones and cars to large-scale energy storage systems (ESS). The scope and applicability of their technologies can greatly contribute to stabilising the grid as we transition to a greener energy system where intermittency problems will need to be addressed. It is therefore a crucial technological solution in seeking to realise affordable and clean energy (SDG 7)[2]. While there is still room for improvement, Samsung SDI has taken ownership of its supply chain to ensure that the products they procure are sourced responsibly.

Lead recycling at Boliden

Naturally, no car can run without a chassis and bodywork – for which we need metals like steel, lead and aluminium. Amongst many other things, Boliden recycle the lead from more than four million car batteries, contributing to a circular economy of reusing existing resources in a sustainable way[3]. Recycling materials that would otherwise end up as waste is an active contribution towards a more circular economy (SDG 12 – Ensure sustainable consumption and production patterns). The recycled material can be used for many different purposes in the automobile industry.

Aluminium at Norsk Hydro

The automobile industry is the largest consumer of aluminium in the world. It is a light metal, which helps the automobile industry reduce the weight of their vehicles, which in turn helps reduce emissions. Beyond that, it is a fully recoverable and recyclable metal. Nonetheless, aluminium is extremely energy intensive to produce and the initial environmental footprint of producing it can be considerable. However, by using renewable energy, Norsk Hydro has a much lower environmental footprint than other producers which use coal or gas and is therefore well aligned with SDG 13 – Climate Action. Norsk Hydro has set a target of becoming carbon-neutral from a life-cycle perspective by 2020 – and they are on track to meet that target[4]. Two of their aluminium products: CIRCAL, which is comprised of recycled scrap aluminium, and REDUXA, which is produced with renewable energy, demonstrate the sustainable properties and impact of aluminium. Looking ahead, Norsk Hydro aims to accelerate their reforestation programs in Brazil, where most of the bauxite is extracted, and to increase the share of recycled material in their production.

All the aforementioned products are key components in modern cars. In this second stage, we consider the sustainability initiatives of the product itself.

[1] www.skagenfunds.com/topic/emerging-markets/skagen-kon-tiki-positioned-for-the-green-shift/
[2] www.samsungsdi.com/upload/download/sustainable-management/2018_Samsung_SDI_Sustainability_Report_English.pdf
[3] www.boliden.com/news/lead-recycling
[4] www.hydro.com/Document/Index?name=2018%20Annual%20report.pdf&id=8525

Products at Toyota Industries

One of our most recent holdings, Toyota Industries, manufactures the Toyota RAV4 in addition to other industrial vehicles such as forklifts. Toyota Industries has been recognised by the Carbon Disclosure Project (CDP) as one of the A-list companies demonstrating outstanding efforts to mitigate climate change and conservation of water resources[5], the latter being a clear commitment to SDG 6 – Clean water and sanitation – by using water resources more efficiently. They are also in the process of implementing their 'Vision 2030' strategy, which will replace the Vision 2020 strategy. The strategy specifically incorporates the SDGs as a key metric and is underpinned by a five-year environmental action plan to meet emission reduction and energy efficiency targets[6]. The plan will help focus the commitment of Toyota Industries to participate in a low-carbon society by 2050.

Most of our daily activities would not be achievable without energy, including fossil fuels. Automobile companies require electricity to be able to produce cars, most of which still run on petrol and diesel. Beyond that, hydrocarbon is an essential product in plastics. In this third stage, we consider one of the producers of the fuel needed by modern vehicles, and their efforts to contribute to a sustainable future.

Fossil fuels at Shell

There is no doubt that the oil and gas industry faces a considerable challenge if it wants to contribute to a more sustainable future – some even believe them to be incompatible with it. Shell has been embroiled in several controversies regarding their business activities and have a lot of work ahead of them to become more sustainable. However, they are also showing decisive leadership in an industry whose longevity is increasingly under the microscope. Shell openly recognises the paradoxical nature of their activities, and as such they took relatively early action within the industry to map long-term emission reduction targets that align with the Paris Agreement. They seek to achieve their targets by measuring their Net Carbon Footprint, not only by addressing their direct emissions, but also those passed onto their consumers (Scope 3). In doing so, Shell seeks to address the full carbon intensity of their products across the lifecycle. Accordingly, they seek to contribute to global climate action (SDG 13) by committing to reducing their net carbon footprint by around 50% by 2050[7]. This will involve a range of changes; from storing the carbon from their fossil production to venturing into renewable energy (SDG 7 – Clean and affordable energy). Moreover, Shell is cleaning up their industry associations and exited one alliance in the US which did not align with the sustainability mandate that they are seeking to adopt.

Finally, the environmental impact of the products we use does not end when we stop using them – sustainable practices are also needed for end-of-life treatment and final disposal. By striving to create a more circular economy, we can better ensure that waste is recycled and reused and reduce the risk of polluting our ecosystems.

Waste disposal at Waste Management

One of our holdings, Waste Management, has been recognised as an industry leader within this field by the Dow Jones Sustainability Index for several years. They have set science-based emissions targets by seeking to meet both SDG 7 and 13 by aiming to reduce on-road-fleet emissions by 45% by 2038[8]. They are also actively looking to expand the existing share of the fleet running on alternative renewable fuels to 90%.

Beyond collecting waste, Waste Management also operates landfills where waste is disposed and recycled. The potential of innovation within these areas can directly contribute towards a circular economy where our consumption and production patterns are sustainable (SDG 12). Last year, Waste Management recycled over 15 million metric tons, and collected more than 19 000 tons of e-waste. Moreover, landfills produce gases, and Waste Management has developed solutions alongside partners to capture these gases and convert them into fuel that can be used in their fleet or to use as a baseload energy for local communities. Using the gas instead of letting it seep into the atmosphere reduces emissions associated with the landfill gases whilst also reducing the demand for fuel or gas to power their vehicles.

[5] www.toyota-industries.com/news/release/2019/01/23/002353/
[6] www.toyota-industries.com/company/vision_2030/, [7] www.shell.com/energy-and-innovation/the-energy-future/what-is-shells-net-carbon-footprint-ambition.html
[8] *sustainability.wm.com/downloads/WM_2019_SR_Update.pdf*

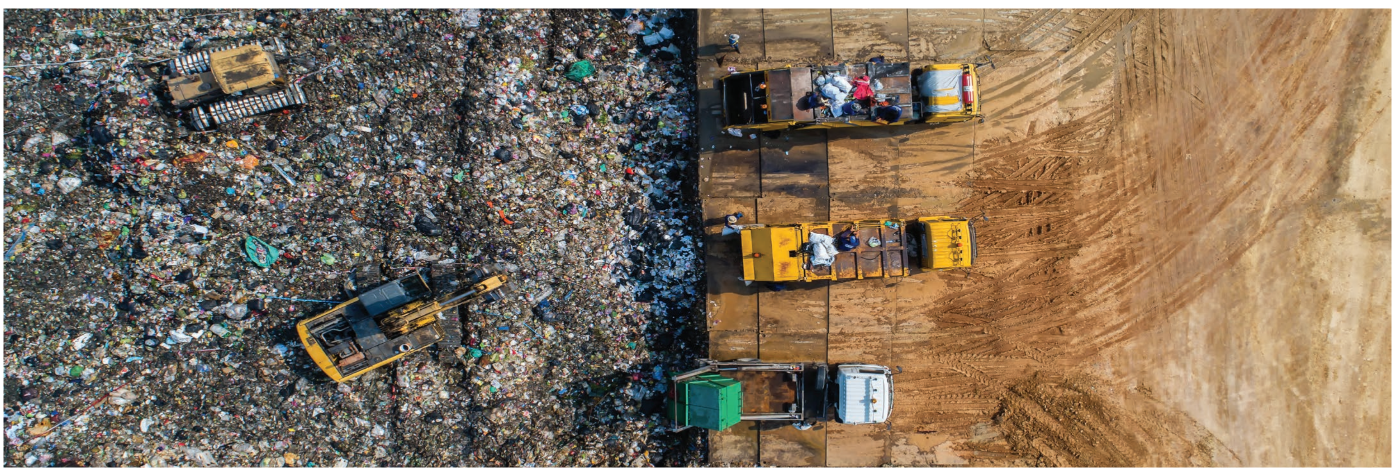


Photo: Shutterstock

Waste Management has worked with partners to develop solutions to capture gases produced by landfills and convert them into fuel. The picture is for illustrative purposes only.

Photo: SKAGEN

Pushing the frontier of battery technology

Battery technology is widely considered to be a vital component in creating a sustainable future. Valeria Nicolosi, Professor in Chemistry at Trinity College, Dublin has made significant scientific breakthroughs that can elevate battery technology to the next level. We were fortunate to hear her present at our New Year's Conference and sat down with her to learn more about her research and the potential of nanomaterials in this space.

Q: What is the status of current battery technology, and how can graphene push that technology to the next level?

"The technology, in its current state, is being used close to its theoretical potential. We are 'squeezing the lemon pips' out of lithium-ion technology. We can make smaller enhancements and improvements, but we need to start looking beyond this – and that is the next big challenge.

In terms of battery technology, the long-term challenge will be how to replace lithium. Lithium is not easily sourced, and it costs a fortune due to lack of availability. It can also be quite dangerous and is incompatible with oxygen – as we have seen with defunct lithium batteries on airplanes. The focus with other types of battery-technology is all on replacing lithium and most of the alternatives identified will not have the same negative environmental effects. It is about making things cleaner and workable even beyond lithium."

Photo: SKAGEN

To explain battery durability in layman's terms, Professor Nicolosi uses the classic Atari game 'Breakout' as a metaphor.

Battery durability and Atari games

Graphene, Nicolosi explains, can contribute in two key ways: "Firstly, graphene is a very good electrical conductor. It is able to conduct electricity better than copper, for example. Secondly, it can be used as a mechanical reinforcement of the electrode, which is significant for two reasons. It makes the battery more mechanically robust and we can make thicker electrodes and therefore store eight times more energy. "

Graphene can also make batteries more durable. To explain battery durability in layman's terms, Professor Nicolosi uses the classic Atari game 'Breakout' as a metaphor: "When we charge and discharge batteries, they get worn out over time, making them less and less durable. The charging and discharging of a battery can be compared to the ball hitting the blocks in the Atari game – the more blocks that are hit and destroyed, the more the battery wears out. By using graphene, you make these blocks considerably stronger and the battery much more durable."

Battery storage and transition pathways

When asked about her ultimate hope for the societal use of the technology, she replies: "Eventually I would like it to be used for large-scale storage and to open the pathway for the transition away from lithium-ion batteries."

Nicolosi enthusiastically describes the largest battery storage facility in the world currently. Even though it is the size of a football pitch, it is only able to provide power to roughly 12,000 people for about seven minutes. With the new technology that she and her colleagues are developing, only one fifth of the space would be required to achieve the same performance. Scaling up graphene for battery storage purposes would significantly improve both the storage of energy and the space required. It could have the potential to significantly mitigate the intermittency issues of renewable energy. According to Nicolosi, we might well see the technology making its entry within the next five years. We for one, certainly hope that will be the case.

Proxy Voting 2019

In SKAGEN we believe in exercising our rights as shareholders. Proxy voting gives us the opportunity to vote without being physically present at meetings. As active investors we feel that it is important to vote in order to address concerns and influence companies in a direction that we believe is sustainable.

In all cases where we vote, the portfolio managers familiarise themselves with the case being voted on, before arriving at a proxy vote decision that follows our voting guidelines and that we believe to be in the best long-term interest of our funds, and therefore also of our unit holders. SKAGEN attends several shareholder meetings in person but we also have the opportunity to vote electronically through Institutional Shareholder Services (”ISS”). ISS delivers notices of general meetings, information about the companies, the voting items on the agenda and recommendations.

Proxy voting dashboard

We value transparency highly in SKAGEN, which is why we have implemented a proxy voting dashboard on our webpage. This solution gives an overview of our holdings and voting activities. All votes are published on our website the day after the vote has been cast, which is in line with best practice on voting disclosure.

Voting is monitored by compliance to make sure that we vote in as many instances as possible and in accordance with our policy. We seldom need to make exceptions to the policy. Reports are sent to SKAGEN's Board of Directors throughout the year with an overview of voting activities.

YEAR	2019	2018	2017
Number of ballots voted	228/239	223/232	217/225
% of meetings voted in	95%	96%	96%
Number of ballots voted	362/377	336/345	350/358
% of ballots voted on	96%	97%	98%

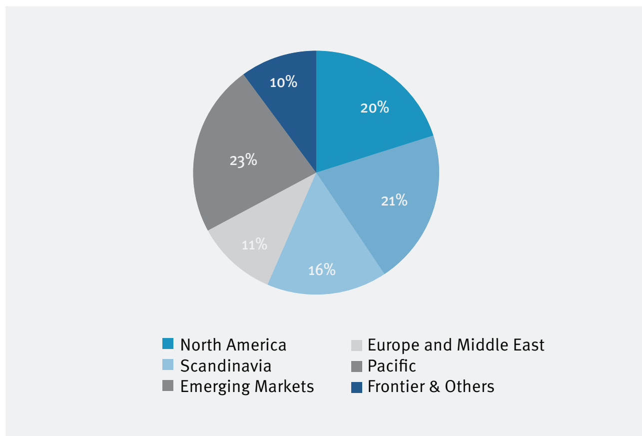
Voting in 2019

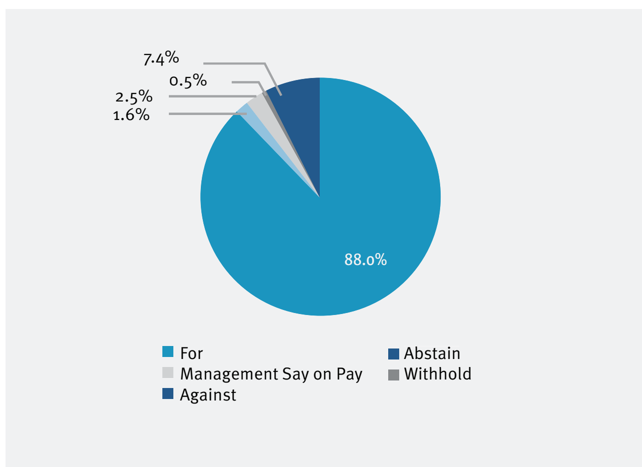
In 2019, there were 239 voteable meetings at our portfolio companies, with 2,934 voteable items on the agenda. SKAGEN voted on 95.4% of the items, which is less than one percent down from last year. Votes cast were in line with management recommendations 93% of the time, while 7% of the time we voted against management recommendations on one or more items on the agenda. The times when we typically voted against management, that was due to 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 changes

As active investors with a broad global footprint, we recognise that all cases are unique. How we handle cases and issues is very much dependent on the geographical area, sector, industry and individual company in question. There will therefore be cases where we cast votes that do not necessarily align with our voting policy and/or with company management.

An overview of our voting activity in 2019 is illustrated below:





Promoting sustainability in the workplace

SKAGEN is dependent on our clients and employees' trust and respect as a socially responsible asset manager. We endeavour to uphold sound ethical principles and be a trustworthy company. This also entails encouraging high standards in our supply chain and day-to-day business. We strive to make a difference, not only through our investments but also in how we contribute to the communities where our firm is present.

Incorporating sustainability in our work is nothing new; SKAGEN has always focused on conducting our business in a socially responsible manner and holding our employees and suppliers to a high ethical standard. In addition, SKAGEN has for many years focused on promoting women in the workplace, good health for our employees, and professional competence development.

Raising the bar

We are now formalising our efforts to align with the United Nations Sustainable Development Goals (SDGs). We aim to be a part of the solution both as a company, and as individuals.

In September 2019, SKAGEN initiated a corporate sustainability project with members from across the organisation, working to identify areas of development and improvement with regard to all aspects of sustainability.

We want to accelerate SKAGEN's transition to be a sustainable company, to promote diversity and equality, and to build environmental awareness for the long-term benefit of SKAGEN's stakeholders. This will be an ongoing focus going forward, and we look forward to reporting on our progress in 2021.

In order to concentrate the initial tasks for the Corporate Sustainability Group, we've selected three of the SDGs to focus on initially, namely, SDG 5: Gender Equality; SDG 8: Good jobs and Economic Growth; and SDG 13: Climate Action.

We only buy Fairtrade certified coffee and flowers at SKAGEN's head office.

Diversity in SKAGEN

Under this SDG, we include diversity of all kinds, not solely gender diversity.

SKAGEN would like our staff to mirror the society we live in and our clients. Colleagues of all races, religions and sexualities should feel included and appreciated. SKAGEN actively works to refine our recruitment policies and we are taking concrete measures to increase diversity in our workforce. This includes:

- Conscious wording in our job advertisements to avoid gender bias
- Openly encouraging persons from different backgrounds to apply
- Challenging headhunters and recruiters to find female applicants for positions in departments where the majority of employees are male and vice versa
- Encouraging both men and women to take full parental leave
- Offering flexible working hours
- Having an "equal pay for equal work" compensation policy

50/50 LIKESTILLINGS PROGRAM

50/50

As of 2020, SKAGEN has signed up to 50/50, an initiative launched in connection with the Norwegian Chamber of Commerce in Stavanger. This program provides businesses with the tools and guidelines to strategically work towards a more diverse workforce. As a signatory, SKAGEN will commit to reporting on a list of criteria demonstrating progress and openness in terms of diversity.

Women and Investment

Since 2001, SKAGEN has striven to encourage more women to take an active interest in their personal savings and finances. In SKAGEN's home markets of Norway, Sweden and Denmark, we have arranged and participated at seminars around savings, pensions, equities and funds. These events have been fully booked and we have received excellent feedback from attendees.

8 GOOD JOBS AND ECONOMIC GROWTH

Our business and supply chain

SKAGEN has a dual focus with this SDG both as a buyer of goods and services, and as an employer.

SKAGEN has long focused on being an attractive workplace. We measure employee engagement and satisfaction via a monthly survey, and take action accordingly.

As a responsible employer, SKAGEN strictly observes all applicable laws and regulations. Over the years we have taken extra steps to ensure a content and motivated workforce, including implementing flexible working hours to ensure a good work/life balance. Our strategy also includes supporting ongoing professional development for all employees including support for employees to move across the organisation via our internal job market.

SKAGEN has a responsibility to ensure that our procurements are sustainable. In future, we will increase this focus, ensuring that products we procure do not harm the environment, contribute to unfair working conditions or violate human rights.
Highlighted measures include:

- Compulsory training in code of ethics, AML, GDPR and anti-bribery
- Monthly employee satisfaction surveys
- Only Fairtrade certified coffee and flowers
- Increased focus on a work/life balance

13 CLIMATE ACTION

Under this SDG, we incorporate all types of environmentally-focused actions. The climate crisis is one of today's most pressing issues. SKAGEN wants to be a part of the collective effort required and expected throughout society.
During 2020, we aim to conduct an audit of our Co2 emissions with the purpose of defining the next steps in reducing our carbon impact. We will revise our travel policy and promote and accommodate for more environmentally friendly travelling.
Highlighted measures include:

- Environmental addition to our travel policy
- Reduced red meat consumption and minimal food waste
- Discontinuing all use of single plastics at our head office
- Reducing the use of plastic waste bags by approximately 10 000 per year
- Using only certified cleaning products to ensure no harmful substances are released into the water supply.

Although some of the initial actions may seem small, we believe that they are an important step in accelerating change in culture and behaviour and will lead to more material changes.

Other initiatives

Many of the measures we are taking can be pinned to several SDGs, and we do not limit ourselves to the above-mentioned three. One SDG that is particularly topical is SDG 17: Partnership. We can all do better together, and collaborating with other brands and businesses, even our competitors, will benefit us all in the long run. SKAGEN works closely with our owner Storebrand and is part of a large sustainability network locally to share experiences and challenges and find the best solutions for us all.

If you have any questions or comments on our corporate sustainability work, please send an e-mail to sustainability@skagenfunds.com

2019: The year responsible capitalism became mainstream

ESG is omnipresent in financial markets these days. We see this as a welcome invitation for change that we are eager to be a part of. The increasing importance and value of non-financial information in investment decisions would, until very recently, have been looked upon as a utopian and unwelcome market intervention. As we enter a new year, SKAGEN offers its viewpoints on the ESG dilemmas we face and the principled discussions we are having in-house, as well as offering our own view on the 2020 ESG horizon.

'To voice or to exit, that is the big ESG question'

In his book Exit, Voice, and Loyalty (1970)[1], Albert Hirschman presents a dilemma that originally referred to consumer choices, but which is also applicable to us as investors. The question central to his book is quite straightforward: How will consumers decide to act when the product they buy has increasingly depreciating utility for them as consumers?

In the context of ESG investing, this depreciating utility can be understood to be products and activities with negative externalities which consumers would prefer to avoid if possible. Beyond remaining neutral (or loyal), Hirschman's conceptualisation forces the consumer to choose between two alternatives: Either to voice their concerns to the producer in the expectation of changes being made to the product to mitigate its unwanted impact or to exit the product entirely, perhaps even finding a product which removes the externality altogether. Exit strategies demonstrate a clear stance against a product – a disassociation from unwanted consequences – whilst voice strategies are made in the hope of a producer taking on the challenge and making improvements.

At consumer level, these two alternatives can be exemplified by consumers refraining from owning a car and instead relying on public transportation (exit), or declaring their preference for Fairtrade coffee rather than coffee that cannot be verified to originate from a fair, open and transparent supply chain (voice).

A powerful combination

For investors, however, the story is slightly more complicated. If principles trump solutions, then surely exit should be the go-to strategy when it comes to a company that you consider as having unsustainable practices. If exclusions and divestment are done on a wide enough scale, producers will 'get the message' and thus change their ways – at least that is how the theory goes.

Whereas Hirschman's initial conceptualisation was framed as a binary choice, financial actors are able to leverage both voice and exit in powerful unison. It is through the fusion of the two that the full potential of incorporating ESG will come into force. Investors who believe in active ownership have the leverage to work with companies (voice) to not produce the unwanted plastic bag. They can also ultimately divest from the company (exit) if willingness to change is not present.

However, relying heavily on exit strategies will likely lead to minimal empirical changes at best in dealing with an unwanted externality. By divesting and selling on to investors whose preferences do not hinge on non-financial information (they still exist), it is likely that the only real effect achieved is that of disassociation or, crudely, sustainable avoidance. Therefore, using exit as a financial impact strategy is likely to have a minimal financial impact on the firm – and therefore also on the negative externality that you are trying to remove. Conversely, an overemphasis on 'voice' can make you naïve about – or too loyal to – the company and the real commitments being made, which might exacerbate the underlying societal problem caused by the company.

This brings us to the fundamental ESG conundrum. As investors with a fiduciary duty to be responsible in our investments as well as to deliver risk-adjusted returns to our clients, when do we exit and when do we stay put and voice our preferences? There is also an added complication: when is it the role of the market to sanction businesses and when is it a duty for public authorities?

The need for public-private collaboration

The EU taxonomy on sustainable finance has been the key talking point in 2019 when it comes to regulatory developments and is an important contribution to the sustainable transition. This is not necessarily because investors wish for yet another standard to adhere to, but because it sets clear expectations to market actors. It shifts the onus away from traditional negative screening to using our investments to contribute to sustainable impact and change.

Notwithstanding the empirical ambivalence over whether divestments and exclusions have a financial impact on companies, it could also be argued that we as investors are morally irresponsible by handing an asset over to investors who will most likely not work for sustainable change. There is a moral case to be made in favour of staying put in such companies and taking the discussion to their board rooms. There are fewer cases of something being fundamentally unsustainable than there are cases where lessons can be learned, and systems put in place. Ultimately, climate change will hit indiscriminately, and no one stands to gain from claiming to have already found the 'holy grail' of sustainable portfolios.

During 2019, market expectations seem to have increasingly moved away from solely engaging with sustainable leaders to also include those companies actively introducing more sustainable practices in their operations. The material impact of a company should be much more powerful in cases where they have started from a high emitting position and transitioned to a low-carbon position through engagement from and partnership with investors. A company's share price and corporate reputation is likely to be boosted, and its impact on issues such as global warming more visible, in these cases.

For us, excluding and divesting from companies is largely premised on moral principle. It is difficult to envisage a morally and ethically palatable and sustainable future for human rights abusers, controversial weapons producers, and even for coal. For example, it can be argued that it is not investor exclusion that has been the main reason for the dim outlook for coal, but rather supplementary regulatory enforcements such as the carbon tax making it an unattractive asset to hold. Markets alone do not drive sustainable change, they must be backed by rules-of-the-game enforcement by governments.

Looking into the ESG horizon

For several years, a wide variety of actors have been working to put the notion of 'stakeholder capitalism' on the agenda. Stakeholder capitalism fundamentally entails corporations taking responsibility for the impact they have on their stakeholders and participating in solving societal goals and objectives. 2019 might well go down as the year that these ideas finally became mainstream. The trend has the potential to redefine the role of the corporation in the 21st century away from its traditional focus on maximising shareholder return (profit) and rather more oriented towards stakeholder benefit (purpose) as the corporate raison d'être.

In that regard, it is worth revisiting the ideas that Karl Polanyi puts forth in his book The Great Transformation (1944)[2]. His book is a contribution to economic thought and argues that solely supporting left-wing economic policy (strong welfare state that safeguards the working class) or right-wing economic policy (such as maximising shareholder return) is a simplistic understanding of our economic system. Rather, Polanyi argues, left-wing and right-wing forces exist under one system which he refers to as the 'market society'. Within the market society, disembedding forces of the right and embedding forces of the left are in a perpetual state of competing influence. Whereas we have witnessed a dominance of neoliberal (or disembedded capitalism) in recent decades, embedding forces have made a real comeback and are pushing companies to prove their social legitimacy and contributions to global challenges.

These changes have been visible in 2019. The decision of the Business Roundtable, an NGO and forum for the CEOs of major US companies, to amend their declaration away from shareholder-centrism to a commitment to stakeholders is a significant case in point. These changes have been positive counterweights to a macro outlook tainted by political gridlock and rising geopolitical tensions. Anyone supporting this change hopes to see it develop further in 2020.

We would also welcome further developments in harmonising ESG disclosure standards and making them mandatory to enable investors to compare like with like. Ultimately, the move away from shareholder maximisation to broader stakeholder considerations is not that big of a leap. It is rather the case that as shareholders, we believe that caring about the impact on stakeholders and participating in addressing the broader global struggle should and will be rewarded going forward. The number of companies which do not make this commitment is shrinking rapidly. As investors, our objective is to participate in global efforts by working together with our portfolio holdings to encourage and push for change.

Sondre Myge Haugland
ESG specialist

[1] Hirschman, Albert O. (1970). *Exit, voice, and loyalty: responses to decline in firms, organizations, and states.* Cambridge, Massachusetts: Harvard University Press.
[2] Polanyi, Karl (1944). *The Great Transformation.* Foreword by Robert M. MacIver. New York: Farrar & Rinehart.

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Front page:

Viggo Johansen, Selfportrait, 1875. This painting is manipulated and belongs to The Art Museum of Skagen.

IMPORTANT INFORMATION

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SKAGEN AS was bought by Storebrand Asset management AS in 2017 and is now part of the Storebrand Group. Storebrand Asset Management owns 100% of SKAGEN AS and Storebrand ASA owns 100% of Storebrand Asset Management AS. SKAGEN AS remains a separate company within the group, reporting to its own board.

SKAGEN

Part of Storebrand