



Storebrand SICAV  
Shareholder Engagement  
2021

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## Corporate Governance

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## Corporate Governance

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### Important Information

Capital invested in a fund may either increase or decrease in value and it is not certain that you will be able to recover all of your investment. Historical return is no guarantee of future return. A fund with a risk class 6-7 can because of its composition and the fund company management methods reduce and increase significantly in value. For more information about our strategy for sustainable investments, please see [www.storebrandfunds.lu](http://www.storebrandfunds.lu)

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# Shareholder Engagement 2021

Storebrand SICAV is an investment company with variable capital (Société d'investissement à capital variable) incorporated under the form of a Société anonyme in the Grand Duchy of Luxembourg. It qualifies as a UCITS and falls under the supervision of the Luxembourg financial supervisory authority, Commission de Surveillance du Secteur Financier (the "CSSF").

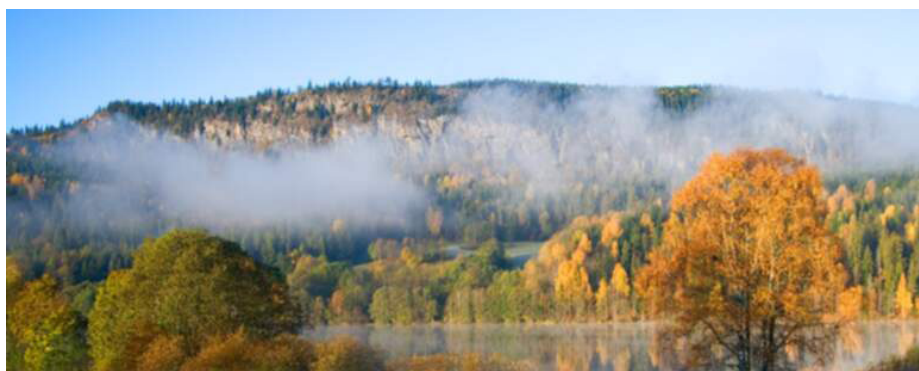
Storebrand SICAV enables Storebrand Asset Management (SAM) and SKAGEN to offer selected sub-funds for international distribution. Storebrand SICAV was incorporated on 18 April 2019 and approved by CSSF on 21 May 2019 (CSSF Code 12114). The Storebrand SICAV is registered with the Luxembourg Trade and Companies Register (RCS No.: B234106).

## Purpose of shareholder engagement

Active, business like, and responsible ownership is an essential part of the assignment from Storebrand SICAV's shareholders.

The exercise of ownership includes working for good corporate governance and also evaluation of sustainability-related risks and opportunities. Sustainability aspects are a fully integrated part of the management of our funds. The purpose of Storebrand SICAV's ownership is to promote good long-term development in the companies in which our funds invest. The ownership role must take advantage of the unit holders' common interest in ownership issues and contribute to a long-term sound development of the financial markets.

We want to protect shareholder value and help increase it. Through commitment, direct dialogue, dialogue through collaborations and voting, we strive to reconcile the interests between management and owners. Active ownership is a way for us to reduce risks and improve the quality of our funds, but also to contribute to a more sustainable development of our



world. Therefore, we not only address challenges that arise in our portfolio companies, but also work proactively to ensure that both we and the portfolio companies have a positive impact on the outside world.

## Guidelines for shareholder engagement

The investment managers Storebrand Asset Management AS and SKAGEN AS guidelines for shareholder engagement specify how the Storebrand SICAVs should act as owners of the companies in which the funds invest. The principles apply to all sub-funds in the Storebrand SICAV.

The purpose of our corporate governance work is to achieve the best possible return for the funds' unit holders regarding the funds' investment focus and objectives. Corporate governance can also be affected by external local regulations.

According to Luxembourg legislation an investment company must report each year on how the shareholder engagement guidelines have been applied. Storebrand SICAV hereby submits this statement re-

garding shareholder engagement in 2021, where we share the work we perform as active and responsible owners.

The exercise of ownership includes working for good corporate governance and evaluation of sustainability-related risks and opportunities and is a natural part of the day-to-day management of the Storebrand SICAV sub-funds.

The Annual Report 2021 contains information on the funds' turnover costs, in the form of transaction costs, see table Statement of Operations and Changes in Net Assets for the year ended 31 December 2021. The annual report also shows how the different sub-funds' investment strategies contribute to the development of the sub-funds' assets in the medium to long term. At [www.storebrandfunds.lu](http://www.storebrandfunds.lu) you will find the Annual Report 2021.

## Management of conflicts of interest

The Investment managers Storebrand Asset Management AS and SKAGEN AS did not encounter any conflicts of interest in relation to votes exercised in 2021.

# About Storebrand SICAV

The Storebrand SICAV has appointed FundRock Management Company S.A (FundRock) as its designated management company, and FundRock in turn has outsourced the investment management of its sub-funds to Storebrand Asset Management AS and SKAGEN AS.

- The SICAV has registered its 6 Sub-Funds:**
- Storebrand Global ESG Plus Lux
  - Storebrand Global Solutions Lux
  - Storebrand Global Multifactor Lux\*
  - SKAGEN Global Lux
  - SKAGEN Focus Lux
  - SKAGEN Kon-Tiki Lux
  - SKAGEN m<sup>2</sup> Lux

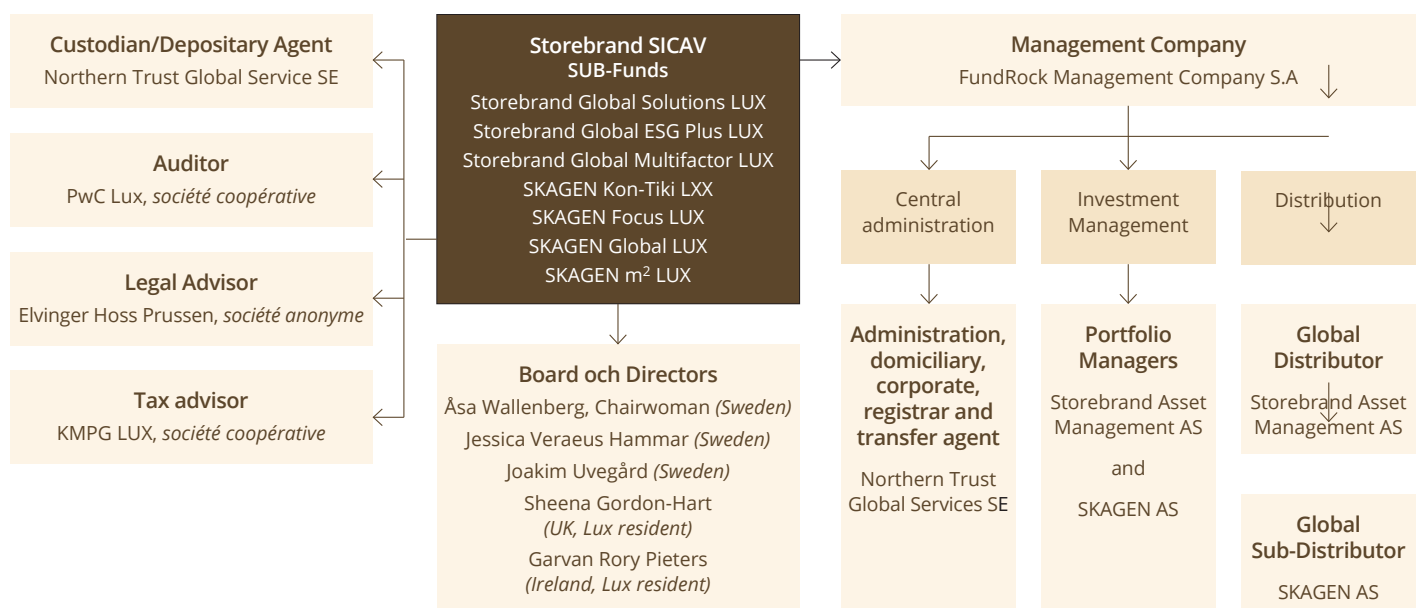
## About Investment Manager Storebrand Asset Management AS

Storebrand Asset Management is the largest private asset manager in Norway and provides a broad range of investment services to over 250 institutional clients in the Nordic region. Storebrand Asset Management manages approximately 1 097 bn NOK (EUR 100 bn) across all asset classes as of the end of December 2021. The assets are invested in funds, fund of funds and segregated portfolios on behalf of pension funds, insurance companies, foundations, fund management companies and public sector bodies as well as retail investors.

Storebrand Asset Management AS also manages a full range of savings and investment products for other parts of the Storebrand Group, including equities, bonds, real estate, private equity, and balanced mandates, as well as the investment portfolios of the life insurance company. In co-operation with our clients, we aim to provide solutions tailored to their investment needs, time horizons and risk profiles.

Storebrand Asset Management is a wholly owned subsidiary of Storebrand ASA, which is listed on the Oslo Stock Exchange (ticker: STB). The Storebrand Group has roots back to 1767 and is a leading player

## Organizational setup of Storebrand SICAV



\* Sub-Fund Storebrand Global Multifactor Lux was liquidated on 19 May 2021.

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in the Nordic market for long-term savings and insurance. Storebrand Asset Management's sole business is asset management. Asset management was a division within Storebrand's life insurance business until 1994 when Storebrand Investment Management became a subsidiary and separate business entity with a mandate to manage the financial assets of the Group.

Storebrand Asset Management was established in 1981 when it merged with Storebrand Investment Management and the company is now a leading Nordic asset manager of funds and discretionary portfolios in domestic and global equities, fixed income, real estate, private equity, and debt investments.

It has also established life insurance, asset management and health insurance activities in Sweden, through the acquisition of the Swedish life insurance and pensions provider SPP in December 2007. SAM also acquired Delphi Funds in July 2002, SKAGEN Funds in December 2017, Cubera in February 2019 and Capital Investment A/S and CI AM ApS in September 2021

### **About Investment manager SKAGEN AS**

SKAGEN AS is a management company authorised by the Norwegian supervisory authority, Finanstilsynet, for the management of UCITS under the Norwegian Act on Securities Funds. SKAGEN AS has its

registered office at Skagen 3, Torgterrassen, 4006 Stavanger, Norway.

SKAGEN AS is part of the Storebrand Group, following the acquisition by Storebrand Asset Management AS in 2017. Storebrand Asset Management AS is the largest private asset owner in Norway and owns 100% of SKAGEN AS.

SKAGEN AS (SKAGEN Funds) is an active value-based boutique asset manager based in Stavanger, Norway. Our primary offering is our equity funds, with an attractive mix of value mandates, complemented by fixed income and fund-of-funds products.



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# Pioneering Sustainable Investment

The main aim of our corporate governance is to have a real impact and contribute to long-term, sustainable value creation for the companies in which we are invested.

This means switching from a reactive approach, where dialogue is only held with companies once a controversial incident has occurred, to a more proactive approach that aims to identify potential sustainability risks and to encourage companies to address these risks before a controversial incident occurs.

Taking a proactive approach to corporate governance and advocacy does not dispense with the need for reactive dialogues (as these will always be necessary because nobody can predict all outcomes) but instead enables risks to be managed better in advance. This prevents them from escalating into controversies and also promotes a more long-term perspective and increased awareness of sustainability issues among the companies.

Real sustainable change requires sustainability issues to be addressed in a more systematic and structural manner, such as in the form of new governance structures, updated operating procedures and policies, and a change to the corporate culture. External issues that fall outside the scope of the companies' influence, such as legal, political or technical challenges, can also affect and limit the opportunities for positive change. Our role as an investor therefore involves engaging with other stakeholders in addition to the companies. We do this so as to establish the conditions and frameworks that the companies need in order to make the necessary decisions and to implement improvements.

In our experience, we can exert the greatest influence by targeting those companies where we have a significant shareholding (particularly in the Nordic region) and by focusing on issues where our internal

expertise and experience in ESG can be valuable to the company; issues such as human rights, conflict zones, climate, biodiversity and deforestation.

## Holistic perspective

Large global investors are continuing to take action on issues relating to climate change, but there is now also increasing attention on other environmental issues such as deforestation and biodiversity, with investors starting to escalate issues to the general meetings of companies that remain unresponsive. One such escalation is the shareholder proposal submitted by Storebrand Asset Management and other investors at Bunge's annual general meeting in May 2021, where we urged Bunge Ltd to eliminate deforestation in its supply chain. At the meeting, 98% of the shareholders voted in favour of this proposal. We placed Bunge Ltd. and Archer Daniels Midland on our observation list at

the end of 2021, as there is a risk that they are contributing to serious environmental damage in terms of deforestation and the conversion of indigenous ecosystems in Brazil.

There has been increased interest in social issues among investors over the past three years, partly as a result of the Covid-19 pandemic. Storebrand Asset Management has been working actively on social issues for over a decade and is only now finding it easier to engage with other investors and exert more influence together. One example of this is our recent investor statement urging pharmaceuticals companies to improve access to Covid-19 vaccines.

Having a focus on social issues can no longer be referred to as simply a trend; it is now a fundamental requirement for operating a sustainable business. This



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is particularly apparent in the number of initiatives within social governance: digital rights and cybersecurity; access to medicine, vaccines and nutritious food; forced labour; living wages; human rights in conflict zones, for example.

Thanks to a major investor initiative involving Storebrand Asset Management, awareness of forced labour in Xinjiang and the actions of companies in relation to this matter have received a lot of attention. The Fund Management Company also led an initiative following the military coup in Myanmar in 2021, mobilising over 75 investors representing assets under management totalling USD 3.9 trillion. A joint statement from the investor initiative urged companies to limit their risks of contributing to human rights violations in Myanmar. Some of the companies with links to the military regime in Myanmar have ended their operations in the country, thanks in part to the investors' involvement in the issue.

In 2021, Storebrand Asset Management joined the Platform Living Wage Financials (PLWF), an investor alliance of 15 financial institutions with EUR 2.6 trillion of assets under management. The PLWF encourages and assesses the companies in which we are invested, and it works to ensure that living wages are paid in their supply chains. Living wages are a good example of a systemic issue that requires an approach where we engage with many different stakeholders, not just with the companies. Progress may be slow, but we are seeing companies in various sectors take initiatives, such as the collection of wage data, which is considered best practice. We are also seeing more extensive legal requirements in this area, including within the EU. This means that the importance of formally recognising living wages as a key issue and finding effective ways of achieving the payment of living wages in both the companies' direct operations and supply chain, is no longer "nice to have" – it has become a must. Storebrand Asset

Management will continue to work actively on this issue in the future.

### **Achieving a returns in a sustainable way**

Responsible behaviour is a prerequisite for long-term value creation in a company. Through sustainable investments, we can help generate good financial returns on the investments our clients entrust to us to manage. Storebrand Asset Management invests in a large number of companies globally and in a number of industries. Our goal is to generate a good return on assets under management while also promoting sustainable development and a sustainable future. Sustainability analysis and active ownership are therefore a central element of Storebrand Asset Management and an important part of the promise we make to our customers.

### **Active ownership**

Storebrand Asset Management is an active owner. This means that we make use of the opportunities for ownership influence that the various shareholdings of the funds provide. The forms of advocacy can vary depending on what is most appropriate in the individual case. The aim is to improve both sustainability and profitability at the companies and to prevent negative consequences for people and the environment – our way of reducing the risks and improving the quality of our funds. Our main tools of influence are voting at general meetings and establishing a dialogue with the companies in question, either individually or in collaboration with others. We also take advantage of our potential for influence when investing in interest-bearing securities.

### **Long-term perspective**

As a fund management company, we act with a long-term perspective and proactively in relation to the companies in which we invest. By exercising ownership control in our portfolio companies, we strengthen the companies and their value. A long-term perspective is important in the role

of investor, in the relationship with our customers and the companies in which we invest, as well as in terms of our role in society. A long-term perspective is also the key to achieving good returns. As an asset manager, it is therefore natural for us to integrate sustainability in our investment analysis and in all our investment decisions. The overall goal of our management is to create the highest possible added value for our customers, in the form of good, long-term, risk-adjusted returns, with a focus on quality, sustainability and a long-term perspective.

As a sustainable asset manager, we have three main tools at our disposal: exclusion, integration, and active ownership.

One method does not solve everything and instead we use all the tools to bring about desirable change and long-term value creation in the best manner possible. Exclusion alone is not the whole solution, but exclusion does send a strong signal to the market; by driving opinion and being clear about why we are excluding, we continue to influence the companies and indicate the societal shift that we want to see.

Advocacy is an important tool for us and involves educating and driving change on important societal issues. This may mean working actively to influence political decisions and regulations that support sustainable development, or to increase consumers' understanding of and the importance of sustainable savings. However, it is also about highlighting issues and showing the companies in which we are invested what we expect from them and why.

Collaborating and mobilising multiple forces are absolutely vital for establishing change. The financial industry cannot act in a vacuum. Only when several stakeholders combine to work towards the same goal can we bring about real change.

# Exercising of voting rights in 2021

The general meeting is the companies' highest decision-making body and the forum where shareholders can exercise their influence.

Storebrand SICAV usually votes at annual general meetings and extraordinary general meetings of companies where the funds' holdings amount to such a size that it is deemed justified and otherwise at those general meetings which for other reasons are deemed to be significant. The Fund Management Company shall exercise its voting rights in a way that we deem leads to the best long-term development of the unit value of the funds.

We focus primarily on companies where we are large owners or companies that are identified as having deficiencies in their governance or in their sustainability work. We generally support shareholder motions that promote sustainable business and motions that strive for greater transparency in accounting and reporting of the company's sustainability work.

## Voting at general meetings

Voting takes place both through participation in general meetings and through electronic voting via proxies. Owing to

the pandemic, during 2021 we have only held votes using electronic voting via a proxy, ISS (Institutional Shareholder Services Inc). ISS votes according to our instructions and monitors company events. ISS presents the agendas of the meetings with recommendations on how the Fund Management Company's funds should vote.

At general meetings we normally vote by proxy voting with written instructions for all decision points. The Storebrand SICAVs sub-funds invest globally in a large number of companies across several markets. The Annual General Meeting is one of the main tools we have for influencing most of the companies that our funds own.

The Fund Management Company's conduct in votes is governed by the Group's overall common voting policy and is always based on what is in the interests of the funds and ultimately of the unit-holders. We often go further than ISS on sustainability issues in accordance with our policy. In the absence of a policy for a specific

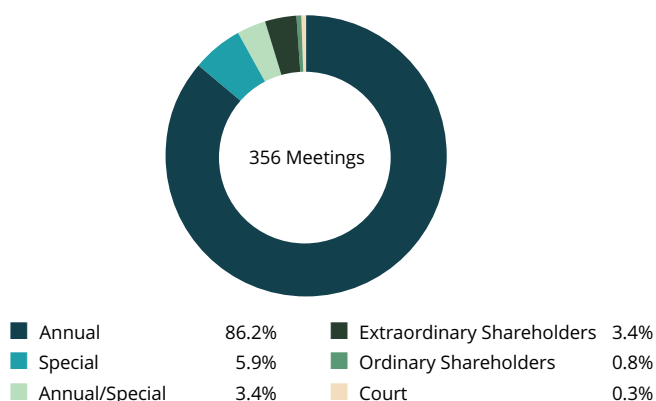
vote, we usually follow the recommendations of ISS.

## Storebrand SICAV is expected to vote against the management of portfolio companies in the following situations:

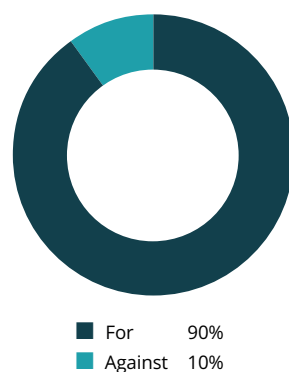
(Market conditions and the individual circumstances of the company are always taken into account)

- Insufficient information before a general meeting.
- Absence of majority of independent Board members or independent Board committees (remuneration, nomination and audit committees).
- If the Fund Management Company considers that the Board of Directors and/or Board members do not meet the requirements for sufficient competence and knowledge.
- Existence of mechanisms for preventing takeovers (poison pills, etc.) that counteract shareholders' final decision-making power in these matters.

Vote Meeting by Meeting type



Vote Alignment with Management





- Unnecessary or indefensible changes in capital structure. Storebrand Asset Management supports the principle of “one share, one vote”.
- Existence of remuneration structures for senior executives leading to conflicts of interest between management and shareholders.
- Proposals that have a negative impact on the climate.

We vote in line with our sustainable investment policy. When we voted against motions, it was on issues relating to excessive remuneration packages, shareholder decisions on disclosure and plans for climate risks, human rights risk reporting or the election of Board members, etc. If a unit-holder wishes to know all the positions taken by the Fund Management Company at the general meetings of the portfolio companies, such information is provided free of charge at the request of the unit-holder.

**Storebrand SICAV – Storebrand Asset Management AS Sub-funds: 2021 Voting Activity**

In 2021, we voted in 356 ordinary and extraordinary general meetings distri-



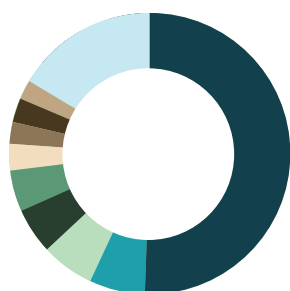
buted across 29 different geographic markets. Across 4,766 unique proposals available to vote, we voted 4,766 for which 0 proposals were voted in varying ways for the same meeting agenda item. Votes cast were in line with management recommendations 90 % of time, while 10 % of the time we voted against management

recommendation on one or more items on the agenda.

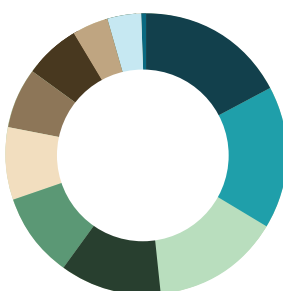
**Storebrand SICAV – SKAGEN AS Sub-funds: 2021 Voting Activity**

In 2021, there were 198 voteable meetings at SKAGEN's portfolio companies, with 2,156 voteable items on the agenda.

**Meetings Voted by Market**



**Meeting Voting by Sector**



SKAGEN voted on 96.24% of the items, which is more than one percent up from last year. Votes cast were in line with management recommendations 92.72% of time, while 7.28% of the time we voted against management recommendation on one or more items on the agenda.

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.

### Explanation of the most important votes Storebrand Asset Management

#### Bunge

Storebrand submitted a resolution at the Annual General Meeting of major soy producer Bunge, urging the company to eliminate deforestation in its supply chain. The shareholders voted overwhelmingly in favour of this resolution. Bunge followed up on the shareholder proposal by engage in dialogue with a group of investors, including Storebrand and Green Century

Capital's management, who were the two investors who promoted the shareholder proposal, Bunge wanted input into the company's plan to stop deforestation in its supply chain. Storebrand and the other investors contributed many concrete suggestions and as a result of the dialogue, Bunge has in 2022 announced several improvements of its plan to become deforestation-free by 2025.

#### Microsoft

Events at Microsoft's Annual General Meeting included the submission of two shareholder proposals. The first proposal stated that Microsoft should address sexual harassment claims in a transparent manner and report on the effectiveness of its policies. The second proposal stated that the company should report on its pay differences in relation to ethnicity and gender.

In line with our sustainability policy, Storebrand voted in favour of both proposals. The company's Board of Directors recommended that shareholders vote against these proposals, but the first proposal instead received the support of 40 percent of the shareholders, while a total of 80 percent of the shareholders

decided to vote in favour of the second proposal.

Majority votes on this kind of proposal are unusual, sending strong signals to the company. Following the results, Microsoft immediately committed to commissioning an independent third-party evaluation of its processes, as well as to improving its public reporting. Microsoft also agreed to publish its pay differences in relation to ethnicity and gender.

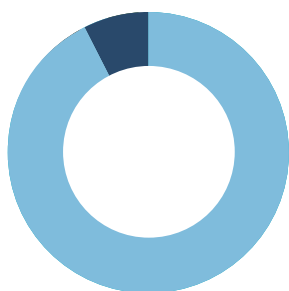
### Explanation of the most important votes SKAGEN AS

#### Hermes International

Hermes International, a world-renowned luxury goods company, held its annual meeting during the second quarter. The company is a holding in SKAGEN Global, and the fund voted against management on two items:

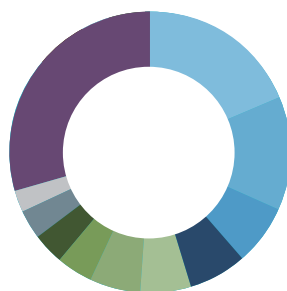
- Authorise Issuance of Equity or Equity-Linked Securities without Preemptive Rights up to 40 Percent of Issued Capital
- Approve Issuance of Equity or Equity-linked Securities up to 20 Percent of Issued Capital Per Year for Private Placements SKAGEN Global voted against these items as the fund does not support equity issuance, or the equivalent, without pre-emptive rights.

Vote Alignment with Management



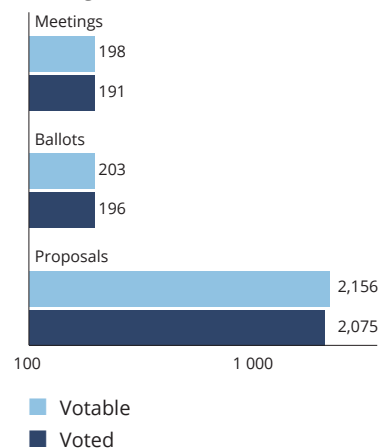
Votes With Mgmt 92.72%  
Votes Against Mgmt 7.28%

Voted by Market



USA 18.85%  
China 13.09%  
Canada 6.81%  
Cayman Islands 6.81%  
Brazil 5.76%  
Japan 5.76%  
France 4.19%  
South Korea 3.66%  
Belgium 3.14%  
Netherlands 2.62%  
Other Markets 29.32%

Voting Statistics



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## In 2021, Storebrand Asset Management AS voted at 356 Annual Meetings, of which 332 unique companies

- 3i Group Plc
- 3M Company
- A. O. Smith Corporation
- AAON, Inc.
- ABB Ltd.
- Abbott Laboratories
- AbbVie Inc.
- Accenture plc
- Acciona SA
- adidas AG
- Adobe Inc.
- Advanced Drainage Systems, Inc.
- Advanced Micro Devices, Inc.
- Afterpay Limited
- AGNC Investment Corp.
- Agnico Eagle Mines Limited
- AIA Group Limited
- Aker Carbon Capture AS
- Alphabet Inc.
- Amazon.com, Inc.
- AMERCO
- America Movil SAB de CV
- American Express Company
- American International Group, Inc.
- American Tower Corporation
- American Water Works Company, Inc.
- Amgen Inc.
- Annaly Capital Management, Inc.
- Anthem, Inc.
- Antofagasta Plc
- Aon plc
- Apple Inc.
- Applied Materials, Inc.
- ASML Holding NV
- AstraZeneca Plc
- AT&T Inc.
- Athene Holding Ltd.
- Aurubis AG
- Australia and New Zealand Banking Group Limited
- Autodesk, Inc.
- Automatic Data Processing, Inc.
- AutoZone, Inc.
- Aviva Plc
- Azelio AB
- B2Gold Corp.
- Badger Meter, Inc.
- Bank of America Corporation
- Bank of Montreal
- Barry Callebaut AG
- Bayerische Motoren Werke AG
- BCE Inc.
- Becton, Dickinson and Company
- Biogen Inc.
- BlackRock, Inc.
- BNP Paribas SA
- Booking Holdings Inc.
- Boston Scientific Corporation
- Brambles Limited
- Bristol-Myers Squibb Company
- Broadcom Inc.
- Brookfield Renewable Corporation
- BYD Company Limited
- Cadeler A/S
- Campbell Soup Company
- Canadian Imperial Bank of Commerce
- Cardinal Health, Inc.
- Casio Computer Co., Ltd.
- Central Japan Railway Co.
- Charter Communications, Inc.
- Chr. Hansen Holding A/S
- Chubb Limited
- Church & Dwight Co., Inc.
- Cigna Corporation
- Cisco Systems, Inc.
- Citigroup Inc.
- Citrix Systems, Inc.
- City Developments Limited
- CME Group Inc.
- CNH Industrial NV
- Colgate-Palmolive Company
- Comcast Corporation
- Comfort Systems USA, Inc.
- Commonwealth Bank of Australia
- Conagra Brands, Inc.
- Concord New Energy Group Limited
- Coty Inc.
- CrowdStrike Holdings, Inc.
- Crown Castle International Corp.
- CVS Health Corporation
- Dai Nippon Printing Co., Ltd.
- Daikin Industries Ltd.
- Daimler AG
- Daiwa House Industry Co., Ltd.
- Danaher Corporation
- Danone SA
- DaVita Inc.
- Deere & Company
- Delta Air Lines, Inc.
- Demant A/S
- Dexus
- Dollar General Corporation
- E.ON SE
- eBay Inc.
- EDP Renovaveis SA
- Edwards Lifesciences Corporation
- Electronic Arts Inc.
- Eli Lilly and Company
- Eni SpA
- Enphase Energy, Inc.
- Essential Utilities, Inc.
- Expedia Group, Inc.
- Facebook, Inc.
- FactSet Research Systems Inc.
- Falck Renewables SpA
- FAST RETAILING CO., LTD.
- Ferguson Plc
- Fidelity National Information Services, Inc.
- FirstGroup Plc
- Fisher & Paykel Healthcare Corporation Limited
- Ford Motor Company
- Fortescue Metals Group Ltd.
- Four Corners Property Trust, Inc.
- Geberit AG
- General Mills, Inc.
- Gilead Sciences, Inc.
- Givaudan SA
- GlaxoSmithKline Plc
- Greencoat Renewables Plc
- Greencoat UK Wind Plc
- H&R Real Estate Investment Trust
- Hannon Armstrong Sustainable Infrastructure Capital, Inc.
- Hewlett Packard Enterprise Company
- Hologic Inc.
- HP Inc.
- HSBC Holdings Plc
- Humana Inc.
- Hydro One Limited
- iA Financial Corporation Inc.
- Illinois Tool Works Inc.
- ING Groep NV
- Intel Corporation
- International Business Machines Corporation
- Intesa Sanpaolo SpA
- Intuit Inc.
- Intuitive Surgical, Inc.
- ITM Power Plc
- Itron, Inc.
- James Hardie Industries Plc
- JinkoSolar Holding Co., Ltd.
- Johnson Controls International plc
- JPMorgan Chase & Co.
- Kering SA
- KEYENCE Corp.
- Kimberly-Clark Corporation
- Kingspan Group Plc
- KLA Corporation
- Knorr-Bremse AG
- Kone Oyj
- Koninklijke Philips NV
- L'Oreal SA
- Lam Research Corporation
- Land Securities Group Plc
- Landis+Gyr Group AG
- Legrand SA
- Lenzing AG

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In 2021, Storebrand Asset Management AS voted at 356 Annual Meetings, of which 332 unique companies

- Linde Plc
- Loblaw Companies Limited
- Lowe's Companies, Inc.
- Magna International Inc.
- Manulife Financial Corp.
- Marsh & McLennan Companies, Inc.
- Mastercard Incorporated
- McDonald's Corporation
- Medtronic plc
- Merck & Co., Inc.
- Mercury NZ Limited
- MetLife, Inc.
- Micron Technology, Inc.
- Microsoft Corporation
- Mirvac Group
- Mitsubishi UFJ Financial Group, Inc.
- Mondelez International, Inc.
- Moody's Corporation
- Morgan Stanley
- Mowi ASA
- MTR Corporation Limited
- National Australia Bank Limited
- Nestle SA
- Netflix, Inc.
- Newmont Corporation
- NHOA SA
- NIKE, Inc.
- Nikon Corp.
- Nintendo Co., Ltd.
- Nokia Oyj
- NortonLifeLock Inc.
- Novo Nordisk A/S
- Nucor Corporation
- NVIDIA Corporation
- Okta, Inc.
- Old Mutual Ltd.
- Omnicom Group Inc.
- OMRON Corp.
- Oracle Corporation
- Orange SA
- Owens Corning
- Palo Alto Networks, Inc.
- Paychex, Inc.
- PayPal Holdings, Inc.
- Peloton Interactive, Inc.
- PepsiCo, Inc.
- Pexip Holding ASA
- Pfizer Inc.
- PPG Industries, Inc.
- Prologis, Inc.
- Proto Labs, Inc.
- Prudential Financial, Inc.
- Prudential Plc
- Prysman SpA
- PT Bank Rakyat Indonesia (Persero) Tbk
- QUALCOMM Incorporated
- Reckitt Benckiser Group Plc
- Regeneron Pharmaceuticals, Inc.
- Regions Financial Corporation
- RELX Plc
- Republic Services, Inc.
- ResMed Inc.
- Ricoh Co., Ltd.
- Rockwool International A/S
- Royal Bank of Canada
- S&P Global Inc.
- salesforce.com, inc.
- Sankyo Co., Ltd.
- Sanofi
- SAP SE
- SBI Holdings, Inc.
- Schneider Electric SE
- Seagate Technology Holdings plc
- Seek Limited
- Sekisui House, Ltd.
- ServiceNow, Inc.
- Severn Trent Plc
- Sharp Corp.
- Signify NV
- Sims Limited
- SoftBank Group Corp.
- SolarEdge Technologies, Inc.
- Sonoco Products Company
- Sony Group Corp.
- Square, Inc.
- Starbucks Corporation
- State Street Corporation
- Steel Dynamics, Inc.
- Stockland
- Stryker Corporation
- Subsea 7 SA
- Sun Hung Kai Properties Limited
- Suncorp Group Limited
- Sunrun Inc.
- Swisscom AG
- Sysco Corporation
- T-Mobile US, Inc.
- Take-Two Interactive Software, Inc.
- Target Corporation
- Telefonica SA
- Telenor ASA
- Telia Co. AB
- TELUS Corporation
- Tencent Holdings Limited
- Texas Instruments Incorporated
- The Bank of Nova Scotia
- The Charles Schwab Corporation
- The Chemours Company
- The Clorox Company
- The Coca-Cola Company
- The Cooper Companies, Inc.
- The Estee Lauder Companies Inc.
- The Go-Ahead Group Plc
- The Goldman Sachs Group, Inc.
- The Home Depot, Inc.
- The Iyo Bank, Ltd.
- The Kroger Co.
- The PNC Financial Services Group, Inc.
- The Procter & Gamble Company
- The Progressive Corporation
- The Sherwin-Williams Company
- The TJX Companies, Inc.
- The Toronto-Dominion Bank
- The Walt Disney Company
- Thermo Fisher Scientific Inc.
- Thomson Reuters Corporation
- Tokyo Electron Ltd.
- Toyota Motor Corp.
- TPI Composites, Inc.
- Trainline Plc
- Transurban Group
- Twitter, Inc.
- Tyson Foods, Inc.
- U.S. Bancorp
- Uber Technologies, Inc.
- UBS Group AG
- Umicore
- Unilever Plc
- United Airlines Holdings, Inc.
- United Parcel Service, Inc.
- United Therapeutics Corporation
- UnitedHealth Group Incorporated
- UPM-Kymmene Oyj
- Verizon Communications Inc.
- Vertex Pharmaceuticals Incorporated
- Vestas Wind Systems A/S
- Viatrix Inc.
- Vicinity Centres
- Visa Inc.
- Vodacom Group Ltd.
- Vodafone Group Plc
- W. R. Grace & Co.
- Walgreens Boots Alliance, Inc.
- Waste Connections, Inc.
- Waste Management, Inc.
- Watts Water Technologies, Inc.
- Wesfarmers Limited
- West Holdings Corp.
- Western Digital Corporation
- Westpac Banking Corp.
- Weyerhaeuser Company
- Xinyi Solar Holdings Limited
- Xylem Inc.
- Yamaguchi Financial Group, Inc.
- Zhuzhou CRRC Times Electric Co., Ltd.
- Zoetis Inc.
- Zoom Video Communications, Inc.

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## In 2021, SKAGEN AS voted at 191 Annual Meetings\*

- Abbott Laboratories
- Accenture plc
- Aedifica SA
- Albertsons Companies, Inc.
- Alibaba Group Holding Limited
- American Tower Corporation
- Arima Real Estate SA
- Aroundtown SA
- ASML Holding NV
- Atlantic Sapphire ASA
- Bakkafrost P/F
- Canfor Pulp Products Inc.
- Cascades Inc.
- Cementir Holding NV
- China Communications Services Corporation Limited
- China Life Insurance Company Limited
- China Mobile Limited
- China Resources Land Limited
- China Shineway Pharmaceutical Group Limited
- CK Asset Holdings Limited
- CNOOC Limited
- Companhia Brasileira de Distribuicao
- Deutsche Wohnen SE
- Dow Inc.
- DSV Panalpina A/S
- Edwards Lifesciences Corporation
- ENCE Energia y Celulosa, SA
- Equinix, Inc.
- ESR Cayman Ltd.
- Euronav NV
- Europcar Mobility Group SA
- Far East Consortium International Limited
- FFP SA
- GCB Bank Ltd.
- Gree Electric Appliances, Inc. of Zhuhai
- Guaranty Trust Bank Plc
- Haci Omer Sabanci Holding AS
- Heiwa Real Estate Co., Ltd.
- Hermes International SCA
- Hisense Home Appliances Group Co., Ltd.
- Intercontinental Exchange, Inc.
- Intuitive Surgical, Inc.
- Keihanshin Building Co., Ltd.
- Koc Holding A.S.
- Konecranes Oyj
- Korean Reinsurance Co.
- LG Corp.
- Lincoln National Corporation
- Log Commercial Properties e Participacoes SA
- LVMH Moet Hennessy Louis Vuitton SE
- Magnit PJSC
- Mastercard Incorporated
- Microsoft Corporation
- Nasdaq, Inc.
- Naspers Ltd.
- NIKE, Inc.
- Nova Ljubljanska Banka dd
- Oil Co. LUKOIL PJSC
- Ontex Group NV
- Orbia Advance Corporation SAB de CV
- Pilgrim's Pride Corporation
- Ping An Insurance (Group) Co. of China Ltd.
- Ping An Insurance (Group) Company of China, Ltd.
- Prologis, Inc.
- Prosus NV
- PT Media Nusantara Citra Tbk
- Sendas Distribuidora SA
- Shurgard Self Storage SA
- Sichuan Languang Justbon Services Group Co., Ltd.
- Sinotrans Limited
- Stagecoach Group Plc
- Switch, Inc.
- The Estee Lauder Companies Inc.
- The Home Depot, Inc.
- Turquoise Hill Resources Ltd.
- Tyson Foods, Inc.
- Ubisoft Entertainment SA
- UMH Properties, Inc.
- UPL Limited
- Vina Concha y Toro SA
- Visa Inc.
- West China Cement Limited
- WH Group Limited
- X5 Retail Group NV

\* A company may hold more than one meeting per year, i.e. EGM's.

# Dialogue

Dialogue is held primarily through our sustainability team or our fund managers and takes place directly with the companies or through a range of appropriate investment initiatives. The method we select depends on the advocacy option that helps achieve the greatest impact.

## Activities forming part of our dialogue work:

- Reactive advocacy in cases where we have identified deficiencies in a company's sustainability work, for example in the form of an incident.
- Proactive advocacy in cases where we identify opportunities for improvement in a company's sustainability work or as part of our company analysis.
- Thematic advocacy is a form of proactive advocacy where several companies are addressed simultaneously in areas that we have deemed particularly important, such as climate, health or the promotion of the UN's 17 global sustainability goals.

We work proactively to encourage companies to improve their sustainability work and reactively with companies that we believe do not live up to the international standards and conventions we value.

We carry out our advocacy work partly through direct contact with the companies and partly in cooperation with other capital owners, as well as through various industry initiatives.

Decisions about which companies may be suitable for advocacy are based on factors such as current issues, the size of the funds' holdings, the likelihood of having an impact and the possibility of interacting with other investors. Issues relating to serious or systematic violations of human rights, corruption and bribery, serious environmental and climate damage, and cases where the companies' strategy or results differ materially from what was previously communicated are prioritised in direct dialogue and collaborations.

In 2021, Storebrand Asset Management for the sub-funds managed by Storebrand

held 266 dialogues. The cooperation dialogues were conducted mainly within PRI, Climate Action 100+ and FAIRR. The direct dialogues were carried out mostly by our sustainability team but also by our fund managers. The main issues discussed with the companies concerned were human rights, corruption, and environmental issues.

**In 2021, we further refined our principles for engagement, which provide additional help in prioritising advocacy dialogues. We prioritise active ownership where we:**

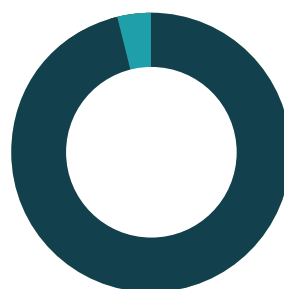
**Can create shareholder value** – We believe that companies which are able to proactively manage sustainability risks, as well as to adapt their strategies and business models to embrace sustainable solutions, will also create increased value for shareholders over time.

**ESG categories**  
(a dialogue can be noted on several criteria)



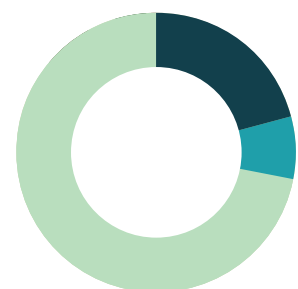
Environmental	165
Special	129
Governance	58

**Type**



Proactive	213
Reactive	8

**Conducted by**



Internal	52
Collaborative (leading role)	18
Collaborative non-leading role	179

**Can have a positive impact** – We strive for our investments to have a positive impact. We therefore not only work with companies to require them to remedy errors (reactive engagement), we are also committed to raising sustainability standards in a proactive manner so that potential sustainability risks can be addressed before they result in negative consequences, as well as to encourage good practice. Consequently, we allocate more resources to these proactive engagements, and we engage over a long period of time, where possible with other investors so as to achieve more leverage and better results.

**Are a strong Nordic player** – Being a Nordic player means we have greater influence in the Nordic region, where we are more well-known and where we can have significant exposure (size of holding). We will prioritise our proactive engagement with Nordic companies, where our Nordic position and knowledge of these companies enables a constructive and meaningful dialogue that generates value for these companies, for Storebrand and for our customers. This does not limit us, however, to engagement solely with Nordic companies, as aspects such as the

materiality and exposure of ESG risks and their potential major impact on ESG issues are still important factors to consider when prioritising our engagement with companies outside the Nordic region.

**We also prioritise engagement with stakeholders other than the companies, targeted where it will achieve the most benefit:**

**Engagement with multiple stakeholders** – We understand that many sustainability issues cannot be resolved solely by companies or investors, the involvement of other stakeholders is also needed. We also collaborate, therefore, with other stakeholders such as governments, industry associations, environmental and human rights organisations and trade unions. Engagement at political level is a particularly important factor for stimulating change, as we believe that regulation is often required in order to promote sustainability issues.

**Targeted engagement** – Our experience shows that targeted engagement in those companies where we are major shareholders is the best way for us to be involved on our own, whereas we otherwise achieve the best results by collaborating with other investors.

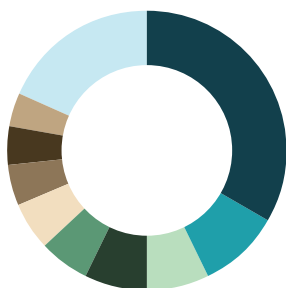
**The goal of direct dialogues and collaborations also includes the possibility of influencing the companies on Board issues such as:**

- Appointment of Board members
- Share issue and dividend policy
- Remuneration to key personnel
- Transactions between related parties
- Diversity issues

**Our sustainability team normally contacts companies that are at risk of exclusion due to breach of standards and tries to initiate a dialogue with them. Our active ownership work focuses on the following themes:**

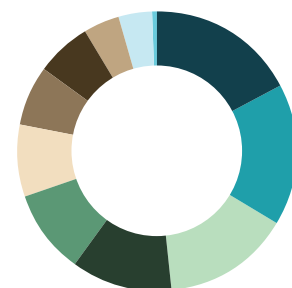
- Corruption and financial crime
- Human rights and international humanitarian law
- Climate, environment and biodiversity
- Value creation, incentive schemes and capital structure (governance)
- Composition of the Board of Directors

**Meetings Dialogues by Market**



United States	93	United Kingdom	16
Japan	27	Netherlands	13
France	20	Sweden	12
Norway	20	Switzerland	11
Germany	16	Övriga	51

**Dialogues by Sector**



Communication Services	17	Industrials	20
Consumer Discretionary	31	Information Technology	15
Consumer Staples	34	Materials	37
Energy	23	Utilities	10
Financial	38	Real Estate	2
Healthcare	28		

**Race to net zero** – We encourage the companies we own to draft and implement climate strategies that are in alignment with the goals of the Paris Agreement and to achieve net zero emissions by 2050 at the latest. Our active ownership therefore focuses in particular on the 20 players that account for the largest emissions in our funds.

• **Biodiversity and ecosystems** – We expect companies to prevent and reduce their impact on biodiversity and ecosys-

tems through commitments at organisational level and to respect international agreements, such as the UN Convention on Biological Diversity. Companies that have an impact on or are dependent on biodiversity and ecosystems should integrate relevant nature-related risks and opportunities into their corporate strategy, risk management and reporting.









• **Supply chain resilience** – We encourage companies to examine human rights in their supply chains and to identify, analy-

se, avoid and reduce risks of human rights violations by implementing guidelines and practices in areas such as: commitments and governance; traceability and risk assessment; purchasing practices; as well as recruitment and employment of workers.

• **Reporting sustainability information** – We expect the companies in which we invest to incorporate sustainability risks and measurable targets in their decision-making, to provide enhanced reporting in line with the TCFD recommendations where

## Sustainability goals

The following table illustrates the number of dialogues and which of the global goals they contribute to, %

	<b>Goal 1</b> No poverty	16		<b>Goal 9</b> Industry, Innovation and Infrastructure	7
	<b>Goal 2</b> Zero hunger	23		<b>Goal 10</b> Reduced Inequality	53
	<b>Goal 3</b> Good Health and Well-being	47		<b>Goal 12</b> Responsible Consumption and Production	39
	<b>Goal 5</b> Gender Equality	18		<b>Goal 13</b> Climate Action	127
	<b>Goal 6</b> Clean Water and Sanitation	2		<b>Goal 15</b> Life on Land	51
	<b>Goal 7</b> Affordable and Clean Energy	2		<b>Goal 16</b> Peace and Justice Strong Institutions	75
	<b>Goal 8</b> Decent Work and Economic Growth	54			



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applicable, to disclose their remuneration policy for senior management (which must also be consistent with the company's sustainability goals), to report on diversity at the company (such as the gender pay gap), and to report on their commitments to comply with international standards (such as the UN Global Compact principles or other similar frameworks).

## Direct dialogues

### Race to net zero

**Dialogue with the 20 largest emissions producers.** Storebrand Asset Management has devised a strategy to achieve emissions reductions in the real economy and to encourage companies to draft and implement climate strategies in line with the goals of the Paris Agreement; in other words to achieve net zero emissions by 2050 or earlier. Letters have been sent from the Group President of the Fund Management Company to all 20 companies (addressed to the respective CEOs of the companies) that account for the largest owned emissions in our funds. We have scheduled dialogue meetings with many of the companies and we are also collaborating with other investors (through Climate Action 100+ for example). Some of the companies we have held a dialogue with are: SSAB, Sabanci Holding, Waste Management, Yara, JFE Holdings, Jiangxi Copper, Holcim, Nippon Steel, Norsk Hydro, Angang Steel and O-I Glass. Out of these, the dialogues with three of the companies have achieved positive results, while there was a negative outcome for two of the companies, which have not given us a response.

### Biodiversity and ecosystems

**Deforestation risk.** Storebrand Asset Management has devised a method for assessing the risk of deforestation in our portfolios. This uses the databases of Forest 500 and Trase, which evaluate the risk exposure and policies of companies in relation to deforestation. During the initial screening of our equity portfolio in

December 2020, companies and financial institutions were identified that have a direct or indirect exposure to risks arising from the production, use or financing of raw materials with a particularly high deforestation risk (including palm oil, soy, timber, cattle, pulp and paper). Based on the companies identified, we have selected 50 companies for further engagement and have held dialogues with these companies where we communicated our expectations for improved forest protection in their operations and supply chains. One of the companies we are in dialogue with is AAK AB. Together with other Scandinavian investors (who in total own more than 10% of the shares in AAK), we hold regular meetings with the company about its work to avoid deforestation in its supply chains.

### Collaboration with others

Collaboration gives us additional strength and assists us in our dialogue with the companies. These dialogues are often triggered by suspected or confirmed cases of violations of international standards and conventions. The dialogues focus mainly on the principles of the UN Global Compact initiative, which fall under the following areas: human rights, labour law and working conditions, environment and anti-corruption. Company advocacy in collaboration with other investors is used in cases where it is possible to identify a clear common interest within an investor group and where the outcome in terms of bringing about change is deemed to be better than through separate engagement. Collaborating with several investors is often very effective.

We also support dialogues within the framework of international collaborations and industry initiatives such as PRI and FAIRR. These dialogues often focus on specific themes, such as the climate. Other collaborations and networks that we operate in are the Carbon Disclosure Project (CDP), Fossil Free Sweden, The Portfolio Decarbonization Coalition, Climate Action

100+ and the Net-Zero Asset Owner Alliance.

### Race to net zero

**Policy lobbying, climate lobbying and Toyota Motors.** Together with three other investors, we worked with Toyota Motors to urge them to review their lobbying activities and to increase transparency in their position on issues relating to climate change and CO2 emissions. The engagement proved successful, resulting in a commitment from Toyota in 2021. The company's sudden change of heart received a lot of attention internationally.

### Biodiversity and ecosystems

**Dialogue with authorities about deforestation.** In 2020, Storebrand Asset Management formed an investor alliance, The Investors Policy Dialogue on Deforestation (IPDD), which we have led ever since and which engages with the Brazilian authorities to demand better protection of the rainforest. It brings together 45 investors with USD 7 trillion in assets under management. The initiative has attracted a lot of attention, including in Brazil, where the Vice President, the Governor of the Central Bank, Congress and several ministers invited the investor group to a meeting to discuss its demands. Given the large-scale interest and significant attention surrounding the initiative, Storebrand Asset Management has set up a two-year working group tasked with handling government dialogues more systematically in countries where deforestation is a problem. In 2021, we have held several meetings about deforestation with the Brazilian and Indonesian authorities, as well as with the EU.

### Supply chain resilience

Human rights in Myanmar is an initiative that we launched and worked extensively on in 2021. Storebrand Asset Management instigated an initiative that brought together 80 asset managers representing over three trillion euros in capital. In a joint statement, we urged companies to

limit their risks of contributing to human rights violations in Myanmar. Storebrand has also written to many of the companies that have operations in the country. There were 30 companies that received the letter and 14 have responded (as of December 2021). As part of the overall Due Diligences review, one company, Adani Ports, was excluded. Dialogue is still ongoing with other companies that operate in Myanmar and further dialogue will continue, either directly or in collaboration with other investors through the investor initiative.

**Developments during the year:** Storebrand is responsible for the dialogues with three companies. Examples of developments: Telenor intends to divest its operations in Myanmar. We are in dialogue with the company to ensure that this takes place with respect for human rights. MSAB's software has been blocked and can no longer be used in Myanmar. In October, Adani announced that it would not proceed with plans to construct a container port in Myanmar. Facebook has announced that it will remove accounts with links to the military and two other companies have announced that they are pulling out of Myanmar. While all this is not necessarily attributable to or a direct result of our investor initiative, it is clear that it makes a big difference when we as investors join

with others to make our voices heard and put pressure on companies.

#### **Living wages in the textile and food industries.**

In 2021, Storebrand Asset Management joined the investor alliance Platform Living Wage Financials (PLWF). The PLWF consists of 15 financial institutions with EUR 2.6 trillion of assets under management that encourages and assesses how the companies in which we are invested work to ensure living wages in their supply chains. Members of the Food, Agriculture and Retail Working Group are in dialogue with 21 companies to discuss implementing living wages and increasing pay levels in the supply chain. Storebrand Asset Management is responsible for the dialogue with the food company Orkla and has also been engaged in dialogue with H&M.

#### **Addressing forced labour in Xinjiang together with the Alliance for Human Rights**

Another example of advocacy work with other investors relates to forced labour in the Xinjiang region of China. We work with other investors through the Investor Alliance for Human Rights and together engage in dialogue with several companies within the textile industry and the ICT sector, as well as with solar cell producers whose products may involve manufacturing in this

region of China and therefore have potential links to forced labour. The companies have been asked to map their supply chain to identify possible links to forced labour in Xinjiang and also to provide a report on the measures they have taken. Storebrand Asset Management is one of the investors tasked with maintaining the dialogue with H&M, which has taken responsibility for this issue and is acting to address it. The company now reports a catalogue of its suppliers and discusses transparently the measures taken. We are also maintaining a dialogue with two manufacturers of solar cell panels. At the end of 2021, Storebrand excluded two companies in Xinjiang, China: Daqo New Energy and GCL-Poly. These exclusions were made solely as the result of a risk-based approach.

#### **Reporting sustainability information**

##### **Fair access to medicine and vaccines – Access to Medicine.**

Storebrand Asset Management has been part of the Access to Medicine initiative for some time. In December 2021, we also chose to support an investor initiative to ensure fair pricing and access to vaccines/medicines globally in line with WHO recommendations, as well as to encourage companies to include targets for this in their remuneration schemes for senior personnel.



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# Dialogue process

Storebrand Asset Management records and assesses all engagements with companies on the following scale (contact with companies where we explain the problems that we see, as well as requests for a company to improve its practices):

**Level 1:** Company contacted, no response

**Level 2:** Company contacted, unsatisfactory response

**Level 3:** Company contacted, satisfactory response

**Level 4:** Company contacted, improvement in business practices

Before each engagement, specific goals are established for the engagement process to ensure clear communication with the investee companies and to enable the success of the engagement to be measured. ESG analysts on the risk and ownership team record the success factor of the engagement in each engagement process. There are four levels, with the fourth and highest level aligned with the UN Principles for Responsible Investment (PRI), improved business practices (in line with the PRI definition of success: “the actions taken were fully or mostly completed after Storebrand Asset Management contacted the company”). We can therefore assume that our efforts have contributed to improvement if this level is reached, although it is rarely possible to determine the exact extent.

The progress of engagement is discussed at a monthly meeting of the risk and ownership team, including minimum requirements, alternative methods for achieving or improving dialogue, and whether or not an engagement should be escalated.

An engagement is escalated if the company fails to meet our minimum requirements (or to communicate a plan and intention to begin taking action) following repeated attempts at dialogue. Escalation



can involve raising the matters at Board level if the management is not responsive, expressing our views publicly by issuing a public statement, collaborating with other investors if we have not already done so, proposing, submitting or jointly registering resolutions at the AGM, voting against the re-election of the relevant Board members or proposing an extraordinary general meeting. It may also include measures such as involving members of the Fund Management Company's management team in the dialogue or collaborating with other investors.

Where the process does not result in the necessary improvements, as a last resort the case in question will be presented to the Group's investment committee for a final decision on whether to exclude the company from the investment universe. The case presented to the investment committee is anonymised to enable the decision to be made as objectively as possible. A company is excluded immediately from the Fund Management Company's funds, without the case being referred to the investment committee, if the compa-

ny is given a red flag in ISS-Ethix or GSS. Otherwise the process is the same.

In some cases, companies are placed on an observation list before their potential exclusion. These are companies that qualitative analyses tell us are close to exclusion due to breach of standards but which are not subject to red flags in ISS-Ethix or GSS, which would result in immediate exclusion, and which we believe we can have an impact on through focused active influence. A company can remain on an observation list for a maximum of three years but progress is continuously evaluated and if there is no change then the company is excluded. To prevent the exclusion of the company, progress must be made towards a requirements specification that is followed up annually. While a company is on the observation list, we cannot increase our investment in that company (the portfolio weighting can be no more than 1.2 times what it was on the date when the company was placed on the observation list). A maximum of five companies can be on the observation list at any given time.

# SKAGEN AS – Engagement Activity

Engagement activities pertaining to the SKAGEN LUX sub-funds in 2021 consisted of 15 unique company engagements covering 19 unique engagement cases. We continue to engage with companies from around the world.

ESG cases covering environmental topics made up roughly 17 percent of SKAGEN's total engagements and focused on strategies to address carbon in the businesses' operations. Here, we encourage companies, particularly those with a material carbon emission footprint, to set concrete targets to reduce their carbon intensity (carbon emissions / \$million sales) over time.

Social issues made up roughly 25 percent of SKAGEN's total engagements activity in 2021, the most significant of these pertaining to human rights, including in our holdings' supply chains. There are different reasons for entering into a dialogue on these topics. First, the company might directly be linked to a negative controversy where human rights – as enshrined in international

customary law – have potentially been infringed. Second, we may seek to understand how a company manages potential risks. Labour relations is a topic that we have researched extensively over the years, and the standards vary greatly; Western economies are not necessarily better than emerging markets when it comes to managing labour relations. We believe that a strong workplace democracy is important for the long-term development of a company; workers that are treated well, perform better.

In 2021, SKAGEN was invited by companies to participate in dedicated sessions to share our feedback and advice on ESG disclosures. As these engagements and dialogues cover the full spectrum of environmental (E), social (S) and governance (G) factors, we categorise these cases as 'Multi' (13 percent of engagements). Participating in these sessions is important for companies for at least two reasons. First, it demonstrates clear commitment and initiative by the company to seek investor feedback to

ensure that their disclosures are accurate and valuable. Second, the feedback loop facilitates further incremental development and engagement over the long run. The company may announce tweaks to their programme or introduce a metric or goal to be met over the coming years, which we as investors can monitor and guide them on.

Governance continues to be an important part of SKAGEN's engagement activity. It is often through corporate governance that companies credibly commit to environmental or social improvement of their operations. Governance is a broad category. As a boutique active manager and minority shareholder in companies from all over the world, SKAGEN frequently advocates for shareholder democracy – transparency and voice of minority shareholders, dividend policies, capital allocation and board structure improvements. Last year, remuneration and remuneration policies were the governance issue we engaged most on.

## The challenges of building a sustainable real estate portfolio



### **Ratings, regulation, renovation and valuation can mean it's not always easy being green**

With most risk assets performing poorly and offering little protection against rising inflation, investors are increasingly turning to real estate to hedge the negative effects of rising prices on portfolio returns. Over a third (35%) of global investors recently surveyed<sup>1</sup> cited inflation as the most compelling driver for listed property while European real estate mutual funds received the second largest inflows of all asset types in the first quarter, according to Refinitiv<sup>2</sup>.

ESG is a longer-term driver of real estate investment and has been one of SKAGEN m2's portfolio themes for several years. It is also accompanied by a set of unique challenges. For those who can navigate its complexities to create a sustainable and attractively valued portfolio, the opportunities are clear.

### **Ratings riddle**

In keeping with the development of the broader sustainability 'industry', the number of ratings available to assess the green credentials of real estate assets has exploded in recent years. There are currently around 600 global systems for investors to navigate, as well as an alphabet soup of abbreviations and acronyms that has similarly spread across the broader ESG landscape.

The world's first was BREEAM (Building Research Establishment's Environmental Assessment Method), which has been used since 1990 to measure the operational energy, water, waste and air quality of commercial properties. NABERS (National Australian Built Environment Rating System) launched eight years later and is now used globally to assess the efficiency of offices, shopping

centres, hotels and data centres. Another widely used is GRESB (Global Real Estate Sustainability Benchmark) which provides a top-down view of portfolio ESG metrics.

A further challenge is that ratings can be highly subjective and should be treated with caution. Like any third-party analysis, it is important to understand the methodology and data quality – there's no substitute for doing your own research.

More welcome for investors and the environment is the growing number of real estate companies adopting science-based, independently-verified targets to reduce their carbon emissions. 160 firms are now signed-up to the Science-Based Targets Initiative (SBTi), more than double the figure 12 months ago.

### Cost pressures

Alongside investor attention, real estate companies face ever-increasing scrutiny from regulators, particularly relating to environmental disclosures. The SEC recently proposed rule changes requiring US companies to report on climate-related risks and emissions. The new legislation could even cover scope 3 emissions which would include the activities of builders, tenants, and others across the value chain, which would be particularly onerous for real estate companies.

Buildings currently contribute 37% of global CO<sub>2</sub> emissions<sup>3</sup> and the costs of making them greener to meet the demands of regulators, investors and tenants are often huge. Decarbonising commercial real estate requires significant investment, particularly in older buildings where retrofitting more sustainable materials and designs can be highly complicated, convoluted, and disruptive.

A recent report by Oxford Economics<sup>4</sup> estimated that renovating a property to extend its economic life by only 10-15 years cost between 7-30% of its capital value, depending on sub-sector (see chart). Portfolios that are overweight hotels – often older buildings in prime locations with high levels of energy intensity – face the steepest decarbonisation costs to be compliant with more stringent energy performance standards. Conversely, portfolios tilted towards industrial and retail assets would incur relatively smaller costs. On a country level, investors in the UK – where minimum EPC standards are set to rise from 2027 – are expected to bear the highest renovation costs due to labour market inflation. Nordic countries on the other hand will require the smallest investment given their lower obsolescence risk and capex ratios.

These costs are becoming increasingly embedded in real estate valuations with brown discounts for properties facing physical or transition risks. If banks begin restricting credit to brown buildings with inadequate plans or capital to decarbonise, investors could face additional financial and liquidity risks that cause further discounts to asset values.

### Green premiums

The opposite is also true with green buildings unsurprisingly commanding premium prices. Research<sup>5</sup> last year found sale prices were 8-18% higher in the UK and Australia for BREEM and NABERS-rated buildings. There are also significant income benefits; another 2021 study<sup>6</sup> concluded that London office buildings with the greenest ratings received rental premiums of 3-13% over the past decade.

The link between sustainability and profitability, which is perhaps stronger for real estate than any other asset class, also holds for equity performance. A 2015 study<sup>7</sup> of global REITs found that higher GRESB scores correlated with better returns on assets and equity as well as a significant link between sustainability and risk-adjusted stock market performance.

Finding the right companies at the right prices is the greatest challenge for building a sustainable real estate portfolio, particularly as the risks for those who fall short on ESG – and their investors – will only increase.

With valuations generally attractive (and likely to continue receiving support from inflation-hedging investors), the opportunities are also real. The keys to unlock the best portfolio returns are stock selection, diversification (across sub-sectors and geographies) and active engagement to help companies crystallise their ESG value and contribute to a greener planet.



By Michael Gobitschek,  
Portfolio Manager,  
SKAGEN m<sup>2</sup> Lux

1) Source: 2022 UBS Investor Survey, March 2022. 2) Source: Refinitiv, April 2022. 3) Source: Science Based Targets Initiative. 4) Source: Oxford Economic, The renovation race to net-zero, April 2022. 5) Source: Knight Frank, Active Capital Report 2021, September 2021. 6) Source: Knight Frank, The Sustainability Series, September 2021. 7) Source: Franz Fuerst, The Financial Rewards of Sustainability: A Global Performance Study of Real Estate Investment Trusts, June 2015

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# Collaborations and memberships

Storebrand and SKAGEN support international initiatives and guidelines, whose common purpose is to encourage and facilitate sustainable business. The guidelines for responsible investment are based on international standards for the environment, human rights, working conditions, corruption and controversial weapons. These standards are expressed in UN conventions and agreements and can be applied to the environmental and social responsibility of companies.

## New collaborations and memberships in 2021

### March 2021

Storebrand Asset Management joined the Net Zero Asset Manager Alliance.

### May 2021

Storebrand Asset Management joined Finance for Biodiversity. Through the investor group, we are also part of working groups and support joint statements.

### June 2021

TNFD (Taskforce on Nature-related Financial Disclosures) launched. Storebrand Asset Management has been represented in the working group that has worked actively to develop TNFD.

### November 2021

COP26, biodiversity and deforestation. Joint appeal to the world's governments in connection with COP26.

## Collaborations and memberships

- UNEP Finance Initiative
- PRI – Principles for Responsible Investment
- Carbon Disclosure Project (CDP)
- United Nations Global Compact
- SWESIF
- NORSIF
- The Montreal Pledge
- The Portfolio Decarbonization Coalition
- Climate Action 100+
- Tobacco-Free Finance Pledge
- Institutional Investors Group on Climate Change (IIGCC)
- Farm Animal Investment Risk and Return Initiative (FAIRR Initiative)
- KnowTheChain
- Investor Alliance for Human Rights
- Investors Policy Dialogue on Deforestation (IPDD)
- Finance for Biodiversity Pledge (FfB)
- Net Zero Asset Managers initiative
- Taskforce on Nature-related Financial Disclosures (TNFD)
- Task Force on Climate-related Financial Disclosures (TCFD)
- Platform Living Wage Financials
- Access To Medicine
- Green Bond Principles
- Access to Nutrition Index (various initiatives)
- Sustainable Blue Economy Finance Principles
- Corporate Human Rights Benchmark initiative

Reine, Skoltefossen, Norway,  
Photo: Anna Östman



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 **storebrand**