



SKAGEN FUNDS' COMPLIANCE WITH THE UK STEWARDSHIP CODE

This document describes SKAGEN Funds' approach to stewardship in the form of a response to the seven Principles of the Financial Reporting Council's UK Stewardship Code. If you wish to discuss our approach in further detail, please use the contact details provided at the end of this document.

The Principles of the Code

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

SKAGEN publishes its approach to its stewardship responsibilities on its website, including our approach to corporate governance, monitoring and engagement.

<https://www.skagenfunds.co.uk/about-us/responsible-investing/environmental-social-and-governance-policy/>

SKAGEN aims to invest responsibly because companies that bring sustainability into their business strategy tend to outperform their counterparts over the long-term. Integrating environmental, social and governance (ESG) assessment into our investment process allows us to make better-informed investment decisions and monitoring, and provides a more comprehensive view of risk and opportunities in the individual investment case.

SKAGEN finds that ESG factors are often a signal of management quality, particularly over the long term. A poorly governed company transforming into a well governed company may result in superior returns.

At SKAGEN, we believe that markets are not always efficient and companies can be wrongly priced at various times and for a multitude of reasons. We aim to find those companies that are mispriced and whose value is likely to be recognised in the future. Our philosophy is therefore active, value-based and contrarian in nature. We invest only in companies where the portfolio managers can clearly define a fair value, where the stock price is trading at a significant discount to fair value per share, and when we are able to point to coherent and realistic catalysts to drive a share price revaluation. ESG criteria can be important catalysts for revaluation, for instance new management might introduce a more shareholder friendly governance structure, leading to improved returns.

SKAGEN is convinced that investing responsibly is essential in order to achieve the best possible risk-adjusted returns for our clients. We believe that ESG is a vital part of the valuation of any company, both because it affects a company's ability to achieve its goals and because poor sustainability can undermine value creation.

We therefore integrate ESG into our investment decision-making process to uncover issues that may affect the long-term value of the investment. In the investment process, we strive to gain an in-depth understanding of the relevant issues and to identify these issues before they escalate into events that may reduce the value of the funds' investments. MSCI research shows that companies that are improving their ESG characteristics outperform the MSCI world index over time, leading to a source of alpha.

SKAGEN's policy has been prepared in accordance with recommendation by the Norwegian Fund and Asset Management Association on corporate governance, EFAMA's (European Fund and Asset Management Association) Code of external governance and is in line with the UN-supported Principles for Responsible Investment (PRI). The policy is approved by SKAGEN's Board of directors.

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

SKAGEN Funds is a privately owned asset management company and its only business is investment management. SKAGEN manages clients' assets and the company's existence is predicated on delivering the best risk-adjusted returns to clients together with the best service, follow-up and communication. In the event that a conflict of interest arises, we would take all reasonable steps to put the interest of the client first. This is in line with the Norwegian asset management standards, which stipulates that the only focus should be on the interests of the unitholders. According to VFF (the Norwegian Fund and Asset Management Association) best practice, fund managers are required to:

- Confirm a company's ability to deliver the highest possible return for shareholders.
- Confirm a company's adherence to appropriate and sensible principles of corporate governance.
- Consider and investigate annual reports, financial reporting and other information delivered to investors.
- Consider resolutions from the company's general assembly and confirm that they are implemented.
- Offer representation on the nomination of candidates for the board and other appointments as appropriate

These standards are also in accordance with § 4-2 of the Norwegian Securities Act, that states that SKAGEN is required to ensure that the interests of both funds and their unitholders are protected. As part of this, the exercise of ownership and creditors' rights must be adapted to the objective of giving the best possible return to unitholders in line with a given fund's investment mandate. Management companies are therefore required to act as active and responsible shareholders in the name of the funds they manage, including the appropriate application of voting rights. All this means that in case of a conflict of interest the unit holder wins.

Our policy is available for external viewing on <https://www.skagenfunds.co.uk/about-us/investor-information/policy-on-handling-conflicts-of-interests/>

Personal trading

SKAGEN's portfolio managers are subject to strict rules when it comes to personal investment in financial instruments. However, with prior approval, they may invest in companies which are part of the funds' portfolios. In cases where portfolio managers have co-invested, and seek to exercise voting rights, they must seek advice from the Managing Director on whether they are in a position to also exercise a voting right on behalf of the funds. In case of conflicting interests, the Managing Director must request new authorisation from the Board.

Employees of SKAGEN may not sit on the Board of companies quoted on a regulated market. In exercising corporate governance on behalf of the funds, SKAGEN may be represented in a company's corporate assembly and election committee. The decision of whether or not to seek such representation must be based on the specific assessment that this is in the unit holders' interests. SKAGEN may be represented by employees or by persons nominated by SKAGEN.

Inside information

SKAGEN is dependent on access to information about the company in order to assess any challenges companies have with their corporate governance. It is also important to retain flexibility with respect to funds' investments so that one can act in the best interests of the unit holders. SKAGEN should have a clear understanding of the information received in relation to the rules on inside information, also in relation to the exercise of corporate governance. It is expected that companies and their advisors also have an awareness of this legislation and do not put SKAGEN in an insider position without consent. If in doubt it should, as far as possible, be clarified by the declarant whether the relevant information is inside information before it is received.

Voting

There should not be conflicts in voting across funds and products at SKAGEN. We aim to vote in the best interests of unitholders and this should be consistent across funds.

We publicly disclose details of our voting activity and have a voting tool on our website, called our 'Proxy Voting Dashboard', in which we set out our voting record, sortable by proposal category, by market, and alignment with management.

Principle 3 – Institutional investors should monitor their investee companies.

As an active manager, bottom up company research is a vital element of our offering. We build concentrated portfolios of ~30-60 companies, where every position is the subject of detailed research and ongoing monitoring. In the company analysis part of our investment process, portfolio managers are required to record opportunities that will lead to value generation and risks to the investment case. They regularly monitor the companies to ensure that ongoing development and company performance is aligned with the investment thesis. As a result, the portfolio managers may deem it necessary to enter into an active dialogue with the companies.

As part of the continuous monitoring of portfolio companies, ESG matters are routinely reviewed using data from MSCI. ESG factors are an integral part of the initial investment analysis and all potential holdings are reviewed before investments are made. We believe that investing responsibly is essential to achieve the best possible risk-adjusted returns for the unit holders and will therefore analyse company information thoroughly, screen media and engage in direct dialogue with representatives from the companies. In addition, all holdings are reviewed on a quarterly basis to capture events that may have been missed by the portfolio managers. This ensures a comprehensive view on each holding's ESG profile. The input from the quarterly review is discussed in compliance meetings and followed up when needed

SKAGEN does not operate with exclusion lists and negative filtration. In applying our policy, SKAGEN draws on and works with various industry standards, organisations, initiatives and clients to promote active ownership and responsible investment.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

SKAGEN closely monitors the companies in which we are invested in order to determine when it is appropriate to escalate engagement. We apply this policy on a case by case basis. The situations where SKAGEN will engage range from concerns about a company's strategy and performance, its governance or capital allocation.

SKAGEN believes in the importance of being active and responsible owners. SKAGEN may engage on sustainability matters through direct communication with a company. The decision to engage is made based on our assessment of the significance of a particular matter, the risks it imposes to the fund, size of holding, scope to effect change and opportunities to collaborate. Dialogue with companies can be exercised by expressing SKAGEN's view, written or orally, to the company's management, advisers, and Board of directors.

SKAGEN prefers to engage in private, but may use the public voice. Further, SKAGEN prefers to carry out its engagement activities in confidence, to enable honest and open discussions to take place with companies. SKAGEN believes that continuous dialogue ensures the best possible development of the fund's investments, and thereby the best risk-adjusted returns to unit holders.

SKAGEN will consider engagement with companies in the following cases, among other areas:

- The company breaks basic human rights
- The company's strategy or results differ from those previously communicated
- Poor governance
- The proposed replacement of directors, equity issues, dividend policy or remuneration of key personnel
- Transaction between related parties
- Certain aspects of the company's business are no longer in line with the SKAGEN's guidelines for responsible investing
- There are aspects of the company's corporate governance that are contrary to the best risk-adjusted returns objective
- The company has the potential for reducing its carbon footprint and operating more efficiently, such as for utilities and industrial companies

If the outcome of the engagement does not meet SKAGEN's expectations, SKAGEN may consider implementing other actions, for example:

- Express its views publicly
- Propose resolutions to the general meeting
- Suggest an extraordinary general meeting

Ultimately, the success of company engagement can only be considered on a case by case basis and will depend on how much of a factor the engagement item actually plays in the investment case. In some circumstances the portfolio managers will have to determine whether an investment case remains valid or whether there are other remaining triggers for unlocking value in the company which justify holding on to the position.

Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate.

In line with the guidance, SKAGEN does, from time to time, collaborate with other investors when this is deemed the most effective manner in which to engage.

SKAGEN may exercise its engagements in partnership with other investors where this is believed to be in the interests of the unit holders. When working with other investors to influence companies, SKAGEN will be extra aware of conflicts of interests and of being put in an insider position. Consideration that the corporate governance is exercised for the benefit of the fund will govern in any relationship.

SKAGEN is a member of Norsif (Norway) and Swesif (Sweden), both independent associations of asset owners and asset managers, service providers and industry associations with interest in, and activities related to, responsible and sustainable investments.

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity.

SKAGEN seeks to vote on all shares held at shareholders' meetings. Our procedures are documented in our ESG policy on our website: <https://www.skagenfunds.co.uk/about-us/responsible-investing/environmental-social-and-governance-policy/>

The framework for the use of voting rights is set out in Norwegian Regulations on Securities Funds Section 2-24 and in the industry recommendations from the Norwegian Fund and Asset Management Association.

The responsibility for execution of corporate governance in SKAGEN's funds lies with the [Board of directors](#). The daily execution is delegated to the portfolio managers of each fund and the activities are reported on at every Board meeting. The Board annually evaluates the execution of corporate governance. It may be appropriate to engage corporate governance in several areas, such as:

- General corporate governance, i.e. Board composition, elections, compensation, dividend policy
- Execution of the company's strategy and results Corporate social responsibility and ESG issues
- The company's risk management

SKAGEN will as a fiduciary vote to secure the unit holder's interests at company annual general meetings and special meetings.

Guidelines for voting

Voting rights must be exercised to the benefit of the fund in question, with the objective of securing the best possible risk-adjusted returns for unit holders. Normally, the portfolio manager assesses how the voting rights are to be used. SKAGEN's goal is to vote in all general meetings of all companies in our portfolios. The portfolio manager familiarises him or herself with the matters to be discussed at the general meeting and decides how to vote. Voting rights are exercised either directly by SKAGEN or by SKAGEN giving a proxy, often to a custodian bank.

Whenever SKAGEN needs to assess whether to vote for or against a resolution, or to abstain, it must be considered whether the proposal is likely to increase the return on the shares issued by the company.

SKAGEN's voting guidelines are as follows:

Information

- We can support an item only if the accompanying information describing the proposal is deemed sufficient and timely.
- All proposals should be presented in separate agenda items. Shareholders should be able to propose binding resolutions and call a general meeting and we will vote against proposals limiting such rights.

Board of directors

- SKAGEN expects a majority of the Board members to be independent from management and business partners, fully independent Board key committees (i.e. compensation, nominating and audit); different persons as CEO and Chairman; number of directorships; and annual election of Board members. The Board should be competent and able to support the management in their daily operations.

Anti- takeover mechanisms

- Poison pills, unlimited capital authorisations, staggered boards, super voting shares, super majority vote requirements and golden shares all serve to enhance the power of management at the expense of shareholders. We vote against these mechanisms unless they are structured to give shareholders the ultimate decision in any take-over offer.

Capital structure

- Shareholders should have the right to approve the issuance of shares for corporate purposes in order to ensure that such actions serve a valid purpose. We will support the board's proposals on capitalization provided the measure balances corporate needs for flexibility against reasonable shareholder control and equitable treatment of shareholders.
- SKAGEN holds "one share – one vote" as a general principle, and will vote against other capital structures unless they are well-founded.

Executive compensation

- We assess the performance objectives established by compensation committees, and support well-designed compensation plans that can be effective in aligning management with shareholder interest.

SKAGEN encourages the Board and the management to buy shares at their own expense.

Specific situations may call for unique responses and we will always take market and company conditions into consideration. To the extent that voting rights have been exercised in controversial cases or where SKAGEN has voted against the board's or management's recommended course of action, SKAGEN will disclose the voting rationale.

A vote disclosure is sent to the Board and the unit holders are informed via SKAGEN's website. If SKAGEN has voted against the companies' proposal, the information will refer to the guidelines above. Unique responses will be explained.

Voting process

SKAGEN has access to an online service for voting, which also provides notices of general meetings and comprehensive information about the companies, the voting items on the agenda and recommendations.

Each fund has a custodian approved by the Financial Supervisory Authority of Norway. The custodian bank also provides information related to general meetings.

Where securities lending is taking place, our ESG policy will not be impacted, meaning that we will retain our ability to vote on and engage with companies when necessary. For example, SKAGEN will normally recall shares on loan so that the funds can vote for at least 50% of share ownership at the general meeting.

Our voting activity and policy does not differ by region. To overcome situations where there is limited transparency, SKAGEN will seek out information from proxy voting services and other sources. With a continued lack of transparency SKAGEN may abstain or vote against a proposal on the ballot.

Voting transparency and outcomes

All votes are published on SKAGEN's website the day after which the vote is cast, providing reasoning for voting against the management, where relevant. The online voting records are maintained through our proxy service and via a website plug in provided by ISS, which is our proxy voting service provider. SKAGEN's board of directors are also informed in each board meeting about votes cast and potentially controversial cases that may be of interest. Portfolio managers may also, in some instances, be in closer contact with companies to further explain our vote. In some cases the vote may form part of a closer engagement that we are conducting with a company.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.

SKAGEN endeavours to provide transparent reporting to our clients and we see this as one of our key strengths and differentiating features. We manage concentrated portfolios and as such we are able to discuss the opportunities and risks concerning individual company cases in significant detail, particularly with our institutional clients. In addition, we can provide reports on underlying portfolio exposures such as carbon, although we believe these offer limited insight into how companies are improving, perhaps as a result of engagement.

On a biannual basis, SKAGEN will publish on our website an overview of our ESG activities, including voting, engagement and other activities and collaborations. We have also published our full ESG policy on our website and we have introduced a voting tool on our website, called our 'Proxy Voting Dashboard', in which we set out our voting record in a clear and intuitive fashion, sortable by various fields including, for example; by proposal category, by market, and alignment with management. This is updated in real time; votes are recorded on the day following which they are cast. We seek to be receptive to our clients' reporting needs and to provide them with the most open, relevant and useful information.

When it comes to engagements with companies, SKAGEN prefers to do much of this activity in private, but may use the public voice. Further, SKAGEN prefers to carry out its engagement activities in confidence, to enable honest and open discussions to take place with companies. SKAGEN believes that continuous dialogue ensures the best possible development of the fund's investments, and thereby the best risk-adjusted returns to unit holders.

As part of our membership in the United Nations supported Principles of Responsible Investment organisation, SKAGEN will on an annual basis complete reporting and receive a review of our ESG activities. The most recent report shows that SKAGEN retained an A rating on Strategy & Governance and Listed Equity – Incorporation. In addition, we have taken a step up in Listed Equity – Active ownership and have an A rating. The focus going forward will be to retain our high standing and continue to improve our systems and processes.

IMPORTANT INFORMATION

This report is intended for investment professionals only. The content is not to be viewed by or used with retail investors.

Except otherwise stated, the source of all information is SKAGEN AS as at October 2017.

Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skills, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. Key Investor Information Documents (KIIDs) are Prospectuses for all our funds are available on www.skagenfunds.co.uk

SKAGEN AS seeks to the best of its ability to ensure that all information given in this document is correct but assumes no liability for possible errors.

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CONTACT DETAILS AND FURTHER INFORMATION

For further information, you can contact us by email at contact@skagenfunds.co.uk or by telephone on 0207 408 2500