Future Trends Equity Fund

Q2 2025 Commentary

Fund Manager

Alex Gunz

Investment Objective

The Fund aims to deliver consistent and sustainable long-term returns by investing in a concentrated portfolio of global equities.

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Opinions expressed whether in general or in both on the performance of individual investments and in a wider economic context represent the views of the contributor at the time of preparation.

The Heptagon Future Trends Fund ended Q2 up 12.3% in Dollar terms, 80 basis points ahead of its MSCI World Index benchmark. On a year-to-date basis, the Fund has gained 5.2%. Although this performance puts it behind the Index, we are optimistic that the underperformance is in the rearview mirror. Apart from February and March, the Fund has either outperformed or performed in-line with its benchmark in every month of the year. When we look forward, we believe that the portfolio is well-positioned to deliver further returns over the remainder of 2025.

All to play for

Forget the headlines and focus on the bigger picture. *Despite* conflicts in Europe, the Middle East and Africa, a trade war and deepening divisions over debt, **equity markets globally closed June at all-time highs**. The quarter's return for the MSCI World Index (and the S&P 500 Index) was the best since Q4 2023. This picture was mirrored by the gains achieved in the Future Trends Fund. Q2 marked a clear reversal after two prior quarters of negative returns for the Fund.

Looking forward, we believe that **the setup for the second half of the year looks attractive**, for both markets generally *and* Future Trends specifically. From a macro perspective, our base case is for economic slowdown as opposed to recession or stagflation. Given that markets tend to be effective discounting mechanisms and inherently forward-looking, we believe that many worst-case scenarios have already been reflected in assumptions. We are arguably past peak-tariff concerns. Were the Federal Reserve to cut interest rates *from a position of strength*, then this would be a clear positive for equities. A more detailed macro summary can be found here.

From a Future Trends perspective, the enhancements we have made to our investment process and related portfolio changes leave us optimistic for the remainder of the year. At heart, we continue to pursue a **multi-thematic approach that combines fundamental top-down and bottom-up analysis**. Where we have sought to concentrate our efforts is in respect of *focus* and *discipline*.

What this means practically is that we have **reduced the number of themes within the portfolio** and have exercised **more rigour in our decisions over when to exit from businesses**. Importantly in the last quarter, we sold out of two of our long-standing investments (Keysight Technologies and Thermo Fisher). Neither had delivered the returns we had hoped for. We used the cash proceeds from these investments to **initiate a position in Fortinet**, thereby increasing our exposure to the cybersecurity theme. We also added to several of our other high-conviction investments.

The Fund currently has ~10% exposure to the theme of cybersecurity and a further ~10% allocated to the theme of electrification. These are among our highest-conviction ideas, and we have *grown* exposure over the past six months. Our key contention is that the AI boom cannot endure without the support of both these trends. If AI is all about data, then these data will have no value unless they are secured – hence the case for owning cyber businesses. Further, given the power required to sustain AI (without even considering the need to upgrade existing ageing infrastructure), leading players within the electrification ecosystem should clearly benefit. Our latest thematic work can be found here.

The electrification theme has contributed more to Fund returns on a year-to-date basis than any other, via our investments in Quanta Services and EMCOR. Equally, it was the best-performing theme in Q2, with Quanta ranking as our #2 contributor and EMCOR placing fourth. Palo Alto has also been a significant contributor throughout the year. Elsewhere, other data deluge plays (ARM and Coherent) have been major drivers of performance, as has the investment we made in DoorDash, which we profiled in our last quarterly report.

Zoom out for a moment and our quest for new ideas remains undiminished. In the past quarter, we published two new thematic white papers, on the case for geothermal energy and for the commercialisation of the space sector. While we believe it is too early to invest in either theme just yet, it is important for us to understand the key secular drivers at this early stage to leave us well-positioned to allocate capital when the leading businesses meet all our strict criteria. Separately, we published 10 Blog posts over the past quarter, deepening our knowledge in a range of important topics.

We were predominantly London-based over the past quarter, other than travelling to see corporates in Switzerland and investors in several countries. We participated in 19 meetings in the three months to the end of June and met with 9 of our businesses. At 4 of these (Coherent, First Solar, MOWI and TeamViewer) we had access to C-suite management.

Several factors therefore give us confidence in the outlook for the remainder of 2025:

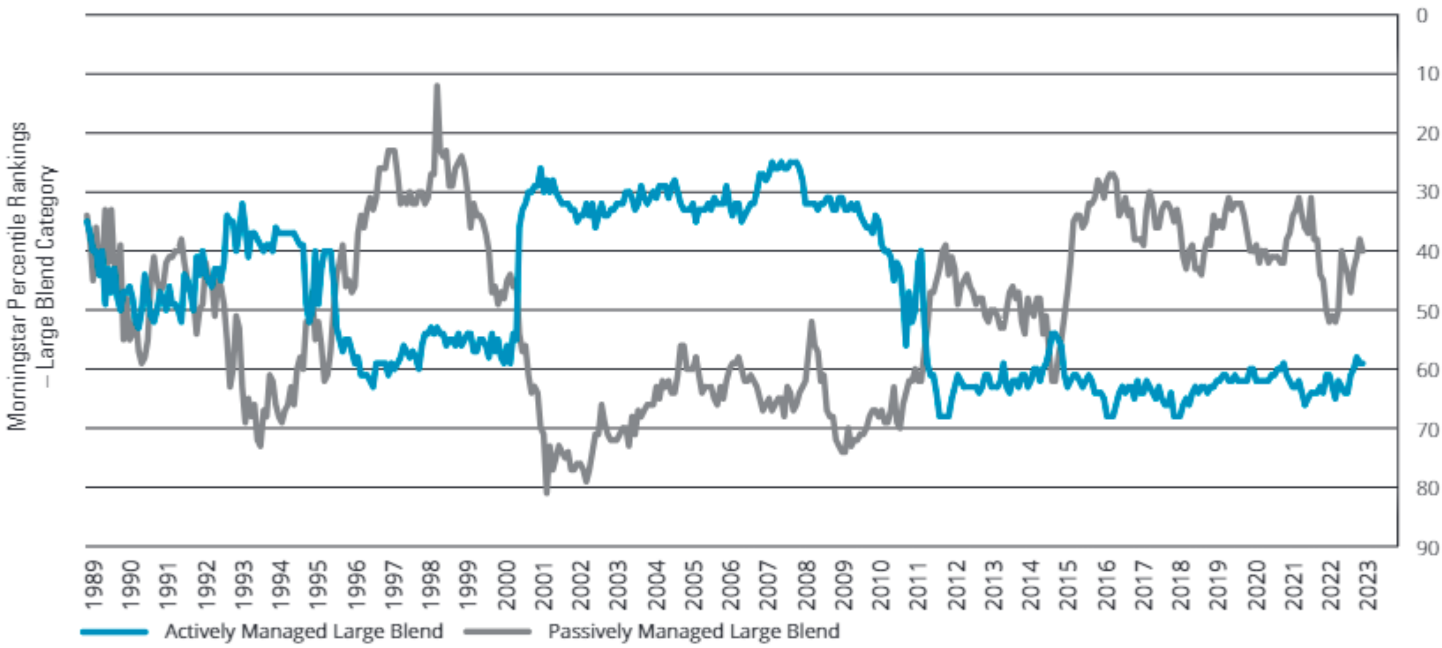
- **The top-down outlook for the themes in which we are invested continues to look attractive**. All the themes in which we are invested remain in their early innings, with long runways ahead. Cyber and electrification will remain significant growth opportunities *even without* AI developing further, in our view. At present, we are exposed to 12 major themes and have increased our thematic focus relative to a year prior.
- **Our bottom-up growth estimates remain solidly above those of the MSCI World Index**. On a three-year compound annual growth basis (our preferred approach), our portfolio is forecast to see weighted average revenue growth of 9.5% and free cashflow growth of 15.8%. The comparable figures for the MSCI World Index are 5.3% and 12.2% respectively, per Bloomberg. Even with all the macro uncertainties, the estimates for our Fund have not changed significantly since the start of the year.
- **Valuation remains reasonable in the context of growth**. Our average business is 27.6% undervalued on a long-term discounted free cashflow basis, which compares to a 29.9% average undervaluation since the Fund's inception. While this figure implies less upside than at the start of the year (36.4%), the forward P/E multiple for the Fund has fallen slightly over the last six months (from 30.2x to 29.8x). Although this constitutes a clear premium to the MSCI World Index (of around 9pp), we believe this is justified given the outlook for our businesses and their balance sheet health.
- **Our portfolio is now stronger than at the start of the year**. Although turnover has been slightly above historic levels, inclusions into the Fund since January comprise: American Express, Coherent, Fortinet and TeamViewer. Apart from the last of these, all have delivered positive returns. Equally, the Fund has exited from two laggards (Keysight and Thermo).
- **Macro trends will likely continue to be supportive**. The equity market rally has broadened over the course of 2025. Not owning the Magnificent Seven mega-cap tech businesses has proved beneficial for the Fund year-to-date. Looking forward, a move towards lower (US) interest rates should benefit longer duration businesses, such as owned in the Fund.

Past performance is no guide to future performance, and the value of investments and income from them can fall as well as rise

We recognise that the recent past has been a challenging period for truly active equity strategies, including the Future Trends Fund. Three-year annualised returns of 9.9% leave the Fund quite some way below its MSCI World Index benchmark (18.3%). To fix this underperformance will clearly take time, but we believe that the strategies we have put in place should enable this process.

For context, in the first six years of the Fund's life (through to the end of 2021), Future Trends delivered 16.8% annualised returns, versus 15.0% for the MSCI World Index. Such outsized returns were never likely to be sustainable. However, mean reversion is a powerful factor. As the chart below shows, active strategies can underperform passive ones for quite some time, but *when the tide turns, it can be significant*. Our top-down and bottom-up work gives us conviction in the businesses in which we are invested, and we look forward to the future with optimism.

Active and passive outperformances are cyclical (rolling monthly 3-year periods, 1989-2023)



Source: Morningstar, Hartford Funds

Please refer to the subsequent Appendices for more detailed commentaries on second quarter portfolio changes and performance as well as brief summaries of our top five holdings.

We are grateful for all the ongoing support and interest our investors have shown in the Future Trends strategy.

Alex Gunz, Fund Manager
July 2025

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Appendix One: Portfolio changes

During the second quarter, **the Fund added one new business to the portfolio and exited from two positions**. After the three names added to the Fund in Q1 (American Express, Coherent and TeamViewer – discussed in our prior publication), **the Future Trends portfolio comprises 24 holdings**.

We initiated a 4% position in Fortinet in April. Founded in 2000 and listed in 2009, Fortinet is now a $75bn company with a leading cybersecurity franchise. As we have highlighted previously, *data have zero value unless secured*, *stored and analysed*. With the advent of AI, the amount of data produced and consumed is set only to increase exponentially, reinforcing the importance of cybersecurity. We have written on the theme extensively (most recently here) and our position in Fortinet complements the existing holding we have in Palo Alto Networks.

Fortinet has expanded from its initial physical firewall product (FortiGate) to now providing a full suite of network security applications. The business has over 800,000 customers globally, highly diversified both by industry and geography. Fortinet believes that its products give it exposure to a total addressable market worth over $180bn in size. For context, Fortinet reported revenues of $6bn in 2024. Consensus discounts over 10% compound annual growth for Fortinet over the next three years, driven by market share gains and increased product adoption. For small and medium businesses, Fortinet represents a compelling solution since it is able to provide them with a unified platform for their security needs.

The business has a strong track record of value creation, having generated annualised returns of 30.5% over the last five years. This performance has been helped by clear market outgrowth combined with consistent margin expansion, enabled by operating leverage. Fortinet is a highly cash-generative business and has focused on returning excess cash to shareholders via buybacks ($1.6bn remains under its current authorisation). Investors are paying ~40x consensus earnings for Fortinet and our conservative discounted free cashflow valuation implies the business is up to 60% undervalued on our estimates.

Our position in Fortinet was funded through **a full sell of our investment in Keysight Technologies**. Similar to many name changes that we make within the Future Trends Fund, the principal reason for exiting from Keysight was simply a function of *higher relative conviction* in prospects for Fortinet. Keysight has a strong franchise within electronic testing and measurement but has slower growth prospects and less valuation upside potential on our analysis when compared to Fortinet.

While Keysight returned over 50% to the Future Trends in absolute share price terms from our initial investment in 2019, we note that the business has not fully translated its IP and competitive moat into shareholder returns. Annualised returns over the last five years have been below our benchmark MSCI World Index, reinforcing our decision to sell.

We took a similar approach in our decision to **exit fully from our position in Thermo Fisher Scientific**. The Fund initially invested in Thermo during the midst of the COVID-19 pandemic (September 2020). The business returned over 40% in both 2020 and 2021 but saw its share price decline in each of the three subsequent years. In 2025 to-date, Thermo's shares are down over 20% (and are now below the level at which we sold).

Thermo remains a leading player within the MedTech space and continues to outgrow the industry. However, it has struggled to deliver on its financial guidance (especially in the context of hard post-pandemic comparisons). In addition, the business will likely face headwinds in our view from potential cuts to healthcare and university funding, pressuring the growth outlook. We also felt that communication from the business had deteriorated relative to our initial investment. The sale proceeds from Thermo were deployed across the Fund to businesses in which we have higher conviction.

Appendix Two: Q2 leaders and laggards –

The Future Trends Fund saw a 12.3% gain in Q2, 80 basis points ahead of the MSCI World Index. We were pleased to see that performance was mostly consistent across the quarter, with strong gains in April and June and only mild underperformance in May. 10 of the Fund's businesses outperformed the MSCI World Index during Q2, and position sizing contributed positively – i.e. our biggest weights typically performed best.

ARM was the Fund's best performer in absolute terms in Q2, up 51.5%. This constitutes a major reversal of the 13.4% decline witnessed in Q1 and leaves ARM up 31.1% for the year through to the end of June. Among the Fund's holdings, only DoorDash (up 47.0%) has done better in absolute terms in 2025. **ARM was also the leading performer to the Fund in contribution terms** during Q2 (and ranks second for the full year behind only DoorDash). As a result, ARM ended the quarter as the Fund's fifth-biggest position.

Like many other businesses, ARM recovered strongly from the market's peak tariff fear nadir in April. Share price progress since then has been steady, while early May results saw a ~6% sell-off as guidance underwhelmed relative to high expectations. The shares quickly recovered. Company-specific news has been sparse, but as we describe in the brief company profile later in this report, ARM plays a critical role in the digital ecosystem. Given Softbank's 87% stake in ARM, a low free float may also be a contributory factor in driving returns.

Quanta Services ranked second in performance terms in Q2, up 48.7%, while its peer EMCOR placed third in the Future Trends Fund over this period, 44.7% higher. Both businesses sit within the Fund's top five performers on a year-to-date basis. Joining them and the previously referenced ARM and DoorDash, is Republic Services, a major performer and positive contributor in Q1, owing to its defensive characteristics.

As we noted earlier in this report, Quanta and EMCOR constitute our preferred way of playing the theme of electrification. Upgrades to existing grid infrastructure combined with new investments in data and AI represent enduring drivers. This explains why both businesses beat consensus estimates during the most recent earnings season, while Quanta *raised* its financial guidance despite the highly uncertain macro environment.

At the opposite end of the spectrum, **only two businesses witnessed drawdowns of 10% or more during the quarter** – SIG Combibloc and TeamViewer. Both businesses comprise relatively small weights within the Fund. With an average 3.5% weight over the quarter, SIG cost the Fund 30 basis points in terms of negative contribution. The comparable metrics for TeamViewer are 2.5% and 60 basis points, reflecting the greater magnitude of TeamViewer's drawdown.

TeamViewer's 20.0% drop in Q2 represents a reversal of the 25.2% gain recorded in Q1. Results released by the business in early May precipitated the decline, from which the business has yet to recover. The figures were in-line with prior expectations, but concerns arose in some quarters reflecting in the cautious guidance provided for the remainder of the year combined with the potential challenges relating to integrating a recent acquisition (1E). We met with the CEO of TeamViewer in June and were reassured by progress. We remain patient. Our position in SIG Combibloc (a play on sustainable packaging) is under review.

On a year-to-date basis, **Novo Nordisk is the Fund's biggest laggard** in terms of both share price performance and negative impact to contribution. The stock is down 29.6% year-to-date, although most of this drawdown occurred in Q1 (down 24.7%), with the stock only losing 6.4% in Q2. Position sizing – Novo has had an average weight of 2.8% throughout the year in the Fund – has helped limit downside. We stick with Novo since expectations are now set low, in our view. New management could be a positive performance catalyst and valuation metrics look compelling versus history.

Appendix Three: How we are positioned

Below follows a short summary of each of our current top five holdings:

Palo Alto Networks (5.6% weight): Palo Alto Networks is the leading next-generation global cybersecurity provider. It is the only cybersecurity business currently to provide a fully integrated set of solutions (all of which are cloud native and were built bottom-up) for customers. Palo Alto sees itself more as a cybersecurity partner to its customers than a vendor per se. A typical industry approach requires 12-15 principal products and up to 75 security products to monitor and manage assets versus the single integrated solution suite offered by Palo Alto. The business estimates that it is growing at around two times the rate of the broader market. This performance has translated into ~39% annualised shareholder returns in the last five years. *Palo Alto shares are up 12.5% YTD*.

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DoorDash (5.3% weight): Many readers will be familiar with DoorDash or its sister business Wolt. Both deliver food and groceries to customers in 30 countries around the world. The planned acquisition of Deliveroo (subject to regulatory approval) will further extend its geographic presence. DoorDash is the clear market leader in the US food delivery market with over two times the share of its closest rival. DoorDash has developed a leading delivery and logistics franchise owing to its early mover advantage, deep technology infrastructure, brand strength and consumer loyalty. There are clear network effects in a business such as DoorDash's which are quantifiable via superior order frequency, take-rates and driver retention levels versus peers. Attractive unit economics drive scope for margin improvement while significant free cashflow generation provides scope for accretive M&A. *DoorDash shares are up 47.0% YTD*.

Cheniere Energy (5.2% weight): Cheniere is a full-service liquefied natural gas (LNG) provider offering gas procurement, transportation, liquefaction and shipping. It is the largest producer of LNG in the US and the second largest globally (based on total production capacity of over 55mpta as of end 2024, equivalent to greater than 10% of global liquefaction capacity). Customers are integrated energy companies, utilities and energy trading companies. 95%+ of its revenues are contracted through to the mid-2030s, based on commercial agreements. Agreements are typically on long-term 20-year take-or-pay contracts. Revenues have grown at a 10%+ CAGR over the last five years during which time Cheniere has grown its margin to ~40%. Consensus assumes above-GDP forward revenue growth while the sunk cost of infrastructure implies significant operating leverage and cashflow generation over time. *Cheniere shares are up 13.3% YTD*.

Quanta Services (5.2% weight): Quanta is a leading energy transition infrastructure solutions provider for the utility, renewable energy, communications and energy industries. Think of Quanta as an enabler for system modernisation and resiliency, electrification and decarbonisation. The business has two complementary divisions – electric infrastructure solutions and utility infrastructure solutions – and is exposed to multiple future trends. Much of the spend being undertaken by Quanta's customers is non-discretionary resulting in annual recurring revenues of ~90%, primarily in the form of electric and gas utility spend. A $35bn+ order backlog provides excellent visibility. Since inception, Quanta has focused on superior execution and sought only to undertake profitable projects. This discipline has helped generate superior returns. *Quanta shares are up 19.6% YTD*.

ARM Holdings (5.1% weight): ARM is a unique business that sits at the heart of the digital ecosystem. Founded in 1990, the company is the leading player in semiconductor compute architecture. ARM has a portfolio of compute cores, graphic cores, system IP, physical IP, and security to address a variety of end device requirements. The breadth of the ARM portfolio combined with its licensing strategy allows the companies to select the most optimal compute, power, and cost requirements. ARM has evolved from providing the architecture for mobile phone CPUs to high-performance CPUs for data centres and GPUs. Most of the world's OEMs, cloud/hyperscale leaders and semiconductor companies are ARM licensees. Over 310bn ARM-based chips have been shipped since inception. The business has high recurring revenue streams and scope to grow margins as its business model pivots from licensing to royalties. *ARM shares are up 31.1% YTD*.

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SFDR

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