HEPTAGON
Capital

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FUTURE TRENDS EQUITY FUND

SUSTAINABILITY REPORT

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Fund Manager

A commitment to sustainable investing forms an integral part of the investment philosophy underpinning the Heptagon Future Trends Equity Fund. **Investing in the future means thinking responsibly about the future**. Our approach to responsibility runs all through Heptagon Capital. We became a signatory of the United Nations Principles for Responsible Investment in 2019, implying a clear commitment to integrate environmental, social and governance considerations into our investment practices and ownership policies.

The **Heptagon Future Trends Equity Fund** was launched in January 2016. The Fund is both pan-thematic in its investment approach and highly concentrated, with 25 businesses at present. The Fund has high active share (typically at least 95%) and is style, sector, size and geographic agnostic.

Introduction

Since the inception of the Future Trends Fund in 2016, we have sought to invest in **a diverse range of businesses offering exposure to the key trends which we believe will help shape the future. These trends naturally align with the Sustainable Development Goals** of the United Nations and are trends which we believe will grow in importance regardless of the economy and regulation.

We have now published sustainability reports on a quarterly basis for the last five years, starting at the beginning of 2020. Since then, the world has changed markedly from both a macro and an ESG perspective. In respect of the latter, we can assert that both **from a quantitative and qualitative perspective, sustainability efforts continue to show clear progress** (across all three pillars of environmental, social and governance).

We are pleased that our efforts are also recognised externally, including an AA rating from MSCI, one of the major providers of sustainability assessments. In addition, the Fund has retained for the third year running, the FNG label, the quality standard for sustainable investment funds in German-speaking countries as well as gaining a Silver Medal award from the Big Exchange Platform recognising the high positive impact it has in respect of sustainability.

Going forward, we will be integrating our ongoing important work on corporate engagement and broader sustainability initiatives into our regular quarterly reports on the Fund. A dedicated sustainability report will now only be released on an annual basis, close to the start of the calendar year.

Sustainability deep dives into our latest portfolio holdings

The Future Trends Fund has always emphasised low turnover. The Fund has, however, had a busy recent period, with three new businesses added and one sold since December. The decision to exit from **Vestas Wind Systems** was not motivated by sustainability considerations, and more by a loss of conviction in the company's positioning and prospects. The three new businesses added to the Fund – **American Express, Coherent** and **DoorDash** (listed alphabetically for convenience) – all have different thematic and fundamental drivers but are united in respect of their strong sustainability credentials. We profile each in more detail below.

American Express: Founded in 1850, American Express is a global integrated payment company offering credit card payment products and other related services to consumers and businesses globally. The business should benefit from the ongoing conversion of cash to digital payments (a theme we have discussed since 2013) and is differentiated versus Mastercard and Visa in partnering directly with consumers and businesses, as opposed to with issuer banks. As a result of Amex's subscription model, it has high recurring revenues. Amex is winning market share across multiple vectors (premium international and with small businesses).

Sustainability is integral to American Express as evidenced by its **mission statement, to "back people and businesses to thrive, and create equitable, resilient and sustainable communities globally."** Initiatives are led by the executive committee with oversight from the Board. The Amex Board is 92% independent. Crucially, there is a linkage at American Express between remuneration and sustainability objectives. For the last year, the strategic component of its annual scorecard included a metric (with a 10-30% weighting) to continue to progress on key ESG goals, linking executive compensation to them.

In terms of diversity, women represent 53% of the American Express global workforce (and 50% of its Board), while non-whites account for 50% of all employees. **The business has a formal commitment to 100% pay equity across genders globally, and across ethnicities in the US**. These objectives have been met for the last four consecutive years. American Express also actively supports under-represented suppliers and small businesses via a range of initiatives.

Climate is another important priority area in respect of sustainability at Amex. The business has committed to **net-zero emissions in alignment with the Science Based Targets Initiative**. Amex intends to be net-zero across its value chain by 2050. Nearer-term targets include reducing absolute Scope 1 and Scope 2 GHG emissions by 60% by 2033 from a 2019 base year, and to reduce absolute Scope 3 emissions by 35% using the same metrics. Amex's own operations have been powered globally by renewable energy sources since 2018.

One other point worthy of mention is the importance of charitable giving at Amex. The American Express Foundation was established in 1954 and has donated more than $1bn to charitable causes around the world since inception. In addition, American Express has provided more than $100m in support to over 1,300 small businesses globally.

The good work undertaken by Amex is reflected in its external assessment. MSCI rates the business AA, an achievement it has held since at least 2020. MSCI's last review occurred in September 2024, when the agency noted that the business leads most of its global peers in respect of corporate governance.

Coherent Corporation: While neither as well-known nor as long-established as American Express, the products manufactured by Coherent (founded in 1971) play a critical role in many industrial and technological end-markets. Coherent is a material science company with a heavy focus on optical networking technologies. The business is the market leader in optoelectronics, engineered materials and laser sources globally. As a result of its positioning Coherent is exposed to multiple future trends including the growth in AI and data, healthcare and electric vehicles. New management appointed last year have the potential to expand Coherent's franchise and accelerate growth.

Even with the other likely priorities of incoming management, we expect a strong emphasis to remain on sustainability initiatives at Coherent. In our engagements with the company, **how the business delivers long-term value for all stakeholders** is front of mind and core to how Coherent's sustainability strategy evolves. Beyond building on existing principles, Coherent is focusing on how to ensure that there is alignment across the group in terms of processes and employee buy-in prior to the establishment of more explicit sustainability objectives. As Coherent put it to us, it is "seeking to embed sustainability into everything."

When Coherent hosts its first Investor Day under the new team in May (which we hope to attend), management is likely to lay out more of its planned framework. Operationally, ESG is under the direction of Rob Beard, Coherent's Chief Legal and Global Affairs Officer, with whom we had a dedicated call last month. He highlighted how **sustainability is led from a senior level at Coherent**. All Board committees at Coherent are independent. ESG oversight is managed at the Board of Directors level through its ESG Committee. The company's Board is 93% independent, with 10 of its 14 members having joined in the last five years, bringing novel and diverse perspectives to the business. All new joiners over this period are either female or ethnically diverse, or both.

Coherent's current approach to sustainability is embedded in its 'I CARE' mantra – an acronym for integrity, collaboration, accountability, respect and enthusiasm. This is likely to provide the foundations for a further evolution of the strategy. In our conversations with Coherent, a lot of existing emphasis is on **making its products more sustainable** (more efficient, with less environmental impact) and in **developing responsible supply chains**. Coherent also has in place end-of-product-life recycling initiatives wherever possible.

In addition, Coherent's already has in place **environmental objectives**. The business has set a net zero target of 2040 for its Scope 1 and Scope 2 emissions. As of the end of its last fiscal year, Coherent said that it was over 65% of the way to achieving its target. Elsewhere, Coherent notes that it already obtains 75% of its global energy needs from renewable sources.

Looking forward, **more can be done in terms of the business improving its sustainability credentials**. However, we recognise that this will take time and that Coherent needs to establish firm foundations first. The company has not ruled out putting in place Scope 3 targets or diversity objectives. Further, at some stage in the future, parts of executive remuneration may be linked to certain of the above metrics, although this may not be imminent. Given Coherent's current leverage of over 3x net debt/EBITDA, green bonds may possibly feature in future refinancings.

MSCI's most recent rating of Coherent is BBB, issued in February 2025. The ratings provider notes that Coherent's overall governance practices are in-line with industry averages as is its workforce management. As new management undertakes more sustainability initiatives, we see scope for this rating to improve.

DOORDASH

DoorDash: Many readers of this piece will have received a food or grocery delivery from either DoorDash or Wolt (which it owns). The business operates in 30 countries globally and has over 42m active users, of whom greater than 50% pay for a monthly subscription, driving recurring revenues. The business has a significant runway ahead over a multi-year period as online food delivery, grocery and convenience remain under-penetrated in both the US and internationally. Improving product ranges have the potential to drive higher order frequency. We have made the case for growth in online and for platform business models for over a decade.

At the heart of DoorDash's operating philosophy is the idea of **empowering local economies and small businesses**. In 2023 (the last year for which information is available), DoorDash generated over $40bn in revenues for merchants across its platform. A recent study by the business founded that **67% of independent merchants agreed that DoorDash helped them to reach new customers that they would not otherwise have been able to reach**. DoorDash continues to work to understand and advocate for merchants and their unique needs.

In addition, **DoorDash provides equal opportunities to grow**. The company has developed partnerships with over 100 local and national economic development agencies to facilitate businesses. The DoorDash Merchant Benefits programme – an industry first – connects merchants with third-party providers of educational, healthcare and personal benefits as well as hiring and staff management platforms. DoorDash Capital provides convenient access to revenue-based finance.

Beyond being aligned with UN Sustainable Development Goal 8 (decent work and economic growth), Goal 2 of **zero hunger is important to DoorDash**. Via multiple community engagement and food partnerships, DoorDash has helped expand access. Through Project DASH, the business powers delivery on behalf of food banks and hunger relief organisations. Project DASH has surpassed 4m deliveries (or 60m meals) since its inception in 2018.

At a corporate level, there is a **strong commitment to diversity and inclusion**. Globally, 44% of DoorDash's leadership team comprise women, as do 48% of all employees. Under-represented people of colour comprise 40% of DoorDash's US team including 1-in-5 people managers. The business has also set diversity targets, aiming to increase the representation of people of colour to 40% across the group (versus 32% currently) by the end of this year. Over the same time period, DoorDash targets growing representation at a leadership level on this metric from a current 12% to 20%.

From an environmental perspective, in 2022, DoorDash completed full Scope 1, 2 and 3 measurements for the first time. The business says that it has been **net zero across its Scope 1 and 2 emissions globally since 2021**. DoorDash has invested in clean energy purchases and carbon renewal technologies. The business also supports switches to electric vehicles and promotes micromobility via various initiatives. In 2023, deliveries made on scooters, bikes and e-bikes grew 18% versus 2022. No 2024 data is available yet. DASH has, however, not committed to net neutrality across its group.

We are also impressed by the **total reward philosophy at DoorDash**. Here, all eligible employees are entitled to equity compensation at DoorDash. Equity is "part of our pay-for-performance philosophy and a foundational requirement to our broader diversity, equity and inclusion strategy," per its most recent report on the topic.

Despite all the positive initiatives undertaken by DoorDash, MSCI last rated DoorDash BBB (as of September 2024). The agency notes that the company's service quality initiatives continue to lead those of its peers and include background checks on its service providers and a customer complaints channel. Corporate governance policies remain "average" versus peers. We see scope for this rating to improve.

Other sustainability data points –

Corporate interaction in Q1

Engagement with the businesses in which we invest has always been an integral part of the Future Trends strategy. When we were last in the United States in December, we met with both American Express and DoorDash (two of our three latest investments). We have had multiple interactions with Coherent (our other recent addition) and hope to attend their pending Investor Day in New York in May.

Although we remained London-based throughout the first quarter, we met with management teams from around a third of the businesses in which are invested. Overall, we undertook 15 meetings during the quarter. As ever, we continue to get exceptional access to senior management, with notable highlights from the past quarter being time spent with C-suite executives from **Coherent, First Solar, MOWI, Republic Services** and **SIG Combibloc** among others. As noted earlier in the report, it was a particular privilege to speak with Coherent's Chief Legal and Global Affairs Officer, responsible for developing the company's sustainability strategy.

Over the course of 2025, our intention is to meet with management of all our holdings within the Fund. We have met with 9 of our current portfolio holdings year-to-date. For the record, in 2024, we took part in a total of 82 company meetings.

Proxy voting

We consider participation in proxy voting as an important duty and review all relevant literature before reaching our decisions. On occasions, this may require direct interaction with management/ investor relations.

We have only participated in three proxy votes year-to-date, after having been involved in over 20 during 2024. Most votes typically occur in the second or third quarters of the year, reflecting the typical December year-ends of our investments. Thus far in 2025, the proxies from Novo Nordisk and SIG Combibloc have been uncontroversial, and so Heptagon has voted in line with the company's outlined proposals. For Keysight Technologies, there was equally little of note other than a stockholder proposal for the company to elect its directors on an annual basis. Keysight offered no recommendation in respect of this suggestion. We voted *in favour*, since the process speaks to good governance in our view.

Our general impression is that most proxies are uncontroversial. Nonetheless, there have been several occasions when we have voted *against* certain proposals made by management teams. Instances include at Airbnb, Mastercard and Thermo Fisher, all of which were profiled in prior sustainability reports. We are happy to provide our rationale on request.

Relevant newsflow in Q1

The sustainability initiatives which specifically caught our eye over the past quarter include the following (listed in alphabetical order by company, for simplicity):

Airbnb: As a Californian business, Airbnb has played an active role in helping to provide free emergency housing for people recently displaced by the Los Angeles fires. Within 48 hours of launching its initiative, the business received more than 10,000 applications from Angelinos. To-date, Airbnb has provided support for more than 17,000 people, who have cumulatively booked more than 63,000 nights of free stays via the platform.

ASML: We are always interested to read Glassdoor's annual survey of the best places to work. Although subjective, it does speak to the culture at different organisations and, by implication, their approach to sustainability. ASML ranks as #12 on Glassdoor's list and places as the second-highest business in Europe (the remainder are American). Glassdoor summarises ASML's ranking by recognising its "nice people" and the opportunities provided to work on "really cool cutting-edge technology"

Intuitive Surgical: The leader in robotic-assisted surgery announced in January a $45m gift to the Intuitive Foundation, its charitable foundation. Since its formation in 2018, Intuitive has donated more than $170m. These monies are used to support the Foundation's mission of reducing the global burden of disease and suffering through philanthropy, research and education. STEM educational programmes and surgical fellowships are among the initiatives backed by Intuitive.

MOWI: Many of our interactions with MOWI (including recently meeting with the company's CFO, as noted above) have centred on the importance of smart farming initiatives. A January press release saw the company share further details on how these advancements are leading the way in sustainable salmon farming and food production. In particular, remote feeding operations can help optimise processes, improve biological performance and meet each fish's needs. Equally, advanced imaging technologies, sensors and AI can help MOWI understand better what is happening below the water's surface. These tools allow for real-time biomass monitoring, tracking of fish welfare and automatic lice counting. Fish can now be treated more effectively in real-time.

Republic Services: We were pleased to see that the US waste and recycling business, which we added to the portfolio in late 2024, was ranked as one of the world's most ethical companies, for the seventh year running. Ethisphere conducts an annual study that assesses businesses based on their robust governance, ethics and compliance as well as internal culture and other sustainability initiatives. This validation supports the conclusions we had drawn from our own analysis of Republic.

Thermo Fisher: When we saw Thermo's CEO present at the annual JP Morgan Healthcare Conference in San Francisco in January, he highlighted the company's strong positioning in and commitment to sustainability. What stood out as new was that during 2024, over 100,000 students were reached through STEM programmes funded by Thermo. Meanwhile, more than 100,000 hours were volunteered by Thermo employees last year. Separately, Thermo announced a new purchase power agreement with solar energy developer X-ELIO, which will allow it to accelerate its plans towards running all its European operations on renewable energy by 2030.

Xylem: World Water Day took place on 22 March 2025. As one of the largest players in the field of water solutions, Xylem employees were actively involved in a variety of projects. A press release from the business highlighted that in the last five years, Xylem has provided water education to over 12m people and responded to more than 150 water-related disasters. In the past year, Xylem employees and partners have dedicated more than 220,000 volunteer hours through almost 1,400 non-profit organization partnerships in 55 countries.

Conclusion

Investing in the future means thinking responsibly about the future. What this means practically is that the process of interacting with our businesses remains an ongoing one, centred on encouraging them to take greater account of their environmental and social responsibilities within a framework of good governance. We will continue to look for alignment with Sustainable Development Goals and increased transparency. While we are encouraged by the generally good levels of progress made by the businesses within our Fund, we also recognise that there is much work still to be done. We will continue to look to hold all our businesses accountable. As new data and analytical methodologies become available, we will also look to incorporate these into our investment process and analysis.

We welcome any feedback or questions you may have. Thank you for your interest in and support for the Future Trends Fund.

Alex Gunz, Fund Manager, Heptagon Capital

Signatory of:

Appendix 1: A reminder of our process

Since inception, the mantra of the Future Trends Fund has remained *unchanged*. **We seek only to invest in the businesses best exposed to themes which we believe will grow in importance in the future**, broadly regardless of the macro backdrop and the role that governments or regulators might play. Our approach has always been pan-thematic, since we believe no single trend will be responsible for shaping the future. Indeed, as trends overlap, they can become mutually reinforcing in our view. It has always been our opinion that the trends in which we invest naturally align with the Sustainable Development Goals of the United Nations.

Just as important as alignment with the Sustainable Development Goals, we believe it is critical to have clearly defined guidelines on areas in which the Fund will not invest. Since inception, the Future Trends Fund has had a very **clear exclusion list**, where the Fund aims to exclude businesses that are directly involved in and/or derive significant revenues from industries or product lines that include: adult entertainment, alcohol, civilian firearms, controversial weapons, conventional weapons, gambling, mining, nuclear, coal, oil, tobacco.

For every business under consideration for the Fund, we produce a detailed note (typically around five pages in length) making the investment case, which includes a specific section on its ESG positioning. Our assessment is derived from reading company reports, interacting with the company and taking into account the work done by external providers. We are happy to make these reports available on request.

The ranking of businesses based on objective ESG criteria is still an evolving practice. Further, we recognise that since our businesses do not all operate in the same industry (given our pan-thematic approach), factors may vary by business, as does disclosure of available data. To improve our process, we have continued to build out our **proprietary ESG database** (explained in more detail below) to support our corporate due diligence and to complement the regular engagement with corporates/ constant monitoring of newsflow across the Future Trends Fund. We believe this tool allows us to assess the progress of our businesses in respect of certain key, quantifiable metrics as well as informing us of certain crucial topics for discussion with management/ investor relations in our ongoing corporate dialogue.

Appendix 2: Insights from our database –

We first started building a sustainability database in 2021 to complement the existing important work we were already doing on the topic. Our database comprises a wide range of factors that consider sustainability from both a holistic, top-down perspective, as well as focusing in on specifics across the three branches on environmental, social and governance considerations. One of the additional benefits of having such a database is that it allows us to monitor the direction of travel for the Future Trends Fund.

Almost all the principal metrics we track show *either stable or improving trends*, notwithstanding the changes we have made to the portfolio discussed elsewhere. We are particularly pleased to see that **the number of management teams moving to link part of their executive remuneration with sustainability objectives has increased meaningfully** in the past year. Over 70% of the holdings within the Future Trends have now established such a linkage, versus less than two thirds a year prior.

There has also been **good progress on climate initiatives**, with a growing percentage of businesses setting emissions targets and committing to net neutrality (92% and 84% of the Fund's holdings respectively). Importantly, there has also been a huge 25 percentage-point improvement in the number of businesses whose climate objectives are backed by the Science Based Targets Initiative.

We are also encouraged that even with the changed political environment in the US, **there has been no change (thus far) in diversity commitments**. Every business in which we invest has made qualitative statements of intent in this respect, while more than 50% of our companies have established some form of quantitative metric too. How these evolve over time remains to be seen, but for now, the messaging broadly supports the idea of improving employee base diversity.

We will continue to monitor progress in all areas and also look to add further metrics to our database over time.

Appendix 3: Insights from MSCI

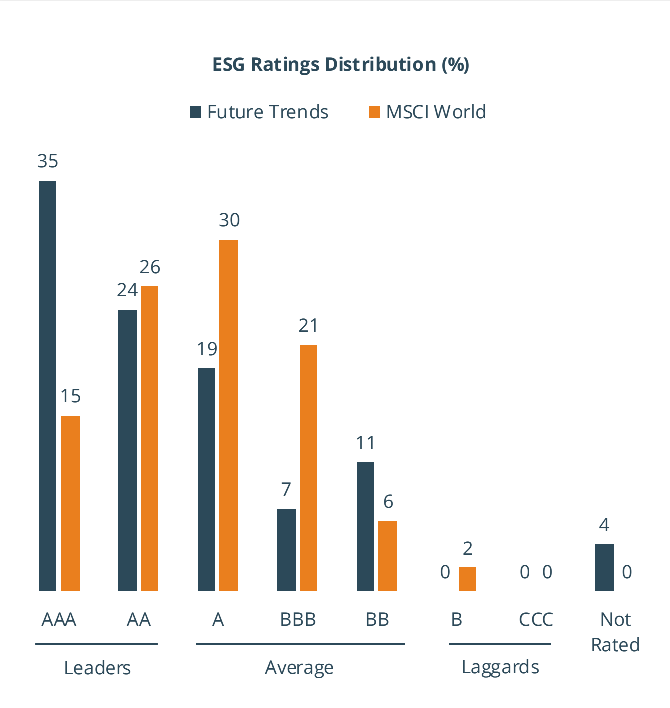
We are pleased to see that **60% of the Future Trends portfolio receive either AAA or AA ratings from MSCI as of quarter end** and so are considered as leaders in respect of sustainability. This figure is lower than both a quarter and a year prior (64% and 68% respectively) and reflects the changes we have made to the portfolio. As outlined earlier in this report, both Coherent and DoorDash are currently rated BBB by MSCI.

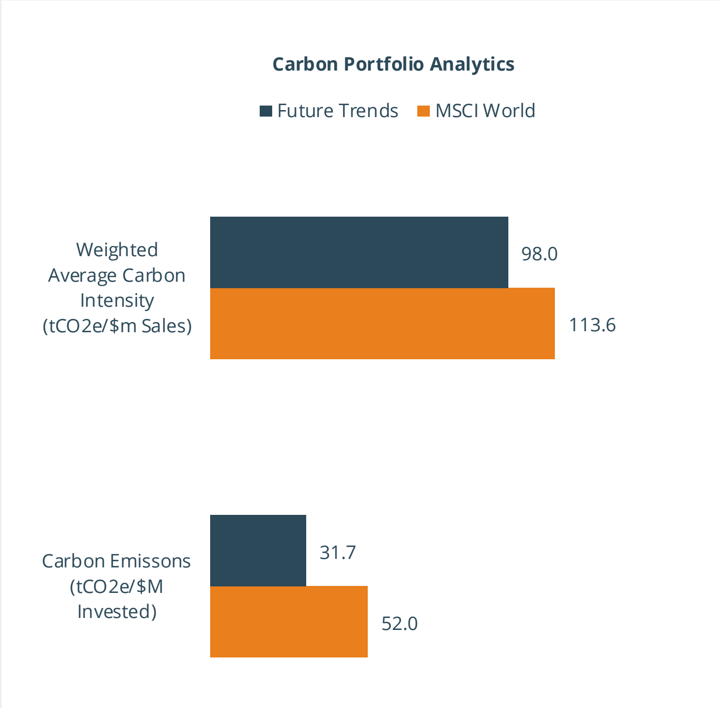
These assessments given by MSCI help inform our investment process and *complement* the other parts of our investment process that we have detailed elsewhere. By way of example, MSCI downgraded its rating in the past quarter on Quanta Services from AA to A. Its report cited a deterioration in safety standards as one of the factors behind its revised view. We have engaged regularly with Quanta on sustainability matters and remain impressed by their overall approach. We also met with management in London last month, reinforcing our conviction in the business.

Across the portfolio, we note that three of our top five holdings (Cheniere, Mastercard and Palo Alto) all receive leading ratings from MSCI. Meanwhile, none of our businesses across the Fund is rated lower than BB. This rating is accorded to Airbnb, Match Group and Thermo Fisher. In each case, **we are confident that management is making appropriate progress in respect of sustainability initiatives**.

As a matter of record, MSCI does not award a rating to one of our investments – ARM Holdings. This is a function of its low free float. MSCI has a minimum threshold of a 15% free float, whereas ARM's stands at 12.5%. Further, ARM is listed currently as an ADR in the US, without a primary listing in the UK. This lack of primary listing may also constrain MSCI from awarding a rating.

Beyond the downgrade to Quanta's rating, MSCI did not change any of its other ratings on Future Trends holdings over the past quarter. The chart below highlights that **when compared to its MSCI World benchmark, the distribution of sustainability ratings across the Future Trends is markedly superior**. In addition, the second chart illustrates that **the Fund's carbon footprint is substantially less than that of the benchmark**, which is perhaps unsurprising.





Source: Heptagon Capital, Calculated on MSCI Analytics, MSCI ESG Research as of 30/09/2024. ESG Ratings are on a scale of AAA to CCC. MSCI Carbon Metrics include Scope 1+2 emissions and are based on a $1,000,000,000 portfolio allocation. ESG Ratings and Carbon Analytics cover equities held in the portfolio only.

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Risk Warnings

The Fund is subject to special risk considerations including geographic concentration risk, portfolio concentration risk and operational risk. The investment return and principal value of an investment will fluctuate so that the investor's shares, when redeemed, may be worth more or less than their original cost. Any investor should consider the investment objectives, risks and charges and expenses of the fund carefully before investing. Where an investment is denominated in a currency other than the investor's currency, changes in rates of exchange may have an adverse effect on the value, price of, or income derived from the investment.

SFDR

This Fund has been classified as an Article 8 for the purposes of the EU's Sustainable Finance Disclosure Regulation ('SFDR'). The Fund promotes environmental and/or social characteristics but does not have sustainable investment as its primary objective. It might invest partially in assets that have a sustainable objective, for instance assets that are qualified as sustainable according to EU classifications but does not place significantly higher importance on the environmental objective of each underlying investment. Please see Prospectus for further information on the Funds environmental and/or social characteristics and relevant sustainability risks and principal adverse impacts which may impact the Fund's performance.

For all definitions of the financial terms used within this document, please refer to the glossary on our website: https://www.heptagon-capital.com/glossary

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