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 22 businesses at present. The Fund has high active share (typically at least 96%) and is style, sector, size and geographic agnostic. The Fund has generated 9.6% annualised returns since inception and has assets of $129m (and a total of $136m for the strategy) as of end September 2023.

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 themes 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.

This report is the 15th sustainability publication we have issued. The work detailed in these reports is complemented by our proprietary sustainability database. Throughout, our emphasis has always been on understanding the direction of travel being undertaken by our businesses. At a headline level, 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 provide further details later in this report.

We are pleased that our efforts are also recognised externally, in terms of receiving the **high ratings from the two major providers of sustainability assessments**: **AA from MSCI and 5 Globes from Morningstar**. In addition, the Fund has retained for the second 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.

E is for Engagement, 2023 edition

Good ESG principles begin with good governance has been a long-held view of ours. To this end, the leaders of the businesses in which we invest are the stewards of their organisations, not just responsible for setting corporate strategy but also for acting as internal and external role models. Our investment process has always been premised on combining top-down work on sustainable themes which we believe will grow in importance with detailed bottom-up due diligence on the businesses we see as best-placed to benefit from these trends. **Ongoing access to management is therefore crucial**.

We have detailed in previous sustainability reports that we seek to meet with the management teams of the businesses in which we are invested at least once a year. Engaging with peer businesses and prospects for future investments is also an ongoing part of our process. **Typically, we conduct around 25 meetings a quarter, or over 100 a year**.

Similar to our Q2 2022 Sustainability Report, the focus for this report is on engagement, since we undertook our annual visit to the US last month. On this trip, **we visited 11 businesses across 5 different states in just under a week. The roster included 6 of our investments in the Fund** as well as 5 prospect candidates. We also got incredibly good access to C-level management – something we value and are grateful for – and in 5 instances, we met with either the CEO or CFO. In the case of Quanta Services – one of our two latest additions to the Fund – we were privileged to meet the entire C-suite while in the US, at a drinks reception hosted for the investment community.

Beyond the US, we also travelled to Germany in the past quarter to meet with the full management team (Chief Executive, Finance Director and Chief Product Officer) of TeamViewer, our other most recent investment in the Fund.

Additionally, we had the opportunity to catch up virtually over the past quarter with senior management from two of our other investments, Cheniere Energy and Equinix. **Year-to-date, our corporate meeting tally stands at 64**.

Inevitably, **sustainability has been a key topic in almost all our meetings**. The cadence of the debate and management teams' awareness of its growing importance (especially in the US) has undoubtedly improved relative to a year ago.

Below follow some key highlights on what selected businesses have recently shared with us on their progress regarding sustainability matters. Please note, this list is *non-exhaustive* and only covers the discussions where we felt sustainability topics were particularly relevant. To keep things simple, we have listed our engagements in alphabetical order. Deep dives into Quanta and TeamViewer follow later in the report.

CHENIERE

Cheniere Energy: Our travels did not take us to Houston, where Cheniere is based, but we had the chance to have a 1-1 call with the company's Head of Investor Relations in August. This follows attendance at a group meeting with Cheniere's CFO in London during Q2. One of the main topics of discussion in our most recent conversation related to the environmental impact of liquefied natural gas (LNG) relative to other energy sources. Our engagement on this topic had been partially prompted by incoming questions from our clients over this matter. Cheniere highlighted to us that countries' energy priorities typically evolve as their GDP increases. Energy demand, evidently, grows. At the same time, so do environmental considerations. LNG provides a clean, secure and affordable energy source, which can serve to displace coal and other more emissions-intensive fuels. Per Cheniere, natural gas reduces GHG emissions by ~50% compared to coal when producing electricity. Cheniere shared data with us that more than 95% of global coal consumption occurs in countries that have net zero emissions pledges. Increased use of natural gas and LNG can help these countries transition away from coal in support of their environmental goals. As of year-end 2022, 91% of countries receiving Cheniere's LNG cargoes had GHG reduction targets. Of these countries, 59% have a net zero target set for 2050 or sooner. When asked, although Cheniere would not commit formally to a figure, the business estimated that a third of its shipped LNG volumes could *currently* be displacing equivalent coal volumes. On a different note, we were also highly encouraged to learn that 30% of compensation related to annual performance for all employees was tied to ESG metrics in 2022, up from 17% a year prior.

EQUINIX

Equinix: While we did not get a chance to meet Equinix face-to-face when we were in the US, we were able to interact with management virtually on two recent occasions. Sustainability is a crucial topic for the business and management is of the emphatic opinion that "it has to be real" since "customers can tell what greenwashing is." Its broad strategy is premised around the three pillars of ESG, namely doing "what it takes to protect the planet", doing "more for each other to unleash potential" and doing "what's right to lead the way." Equinix was able to demonstrate progress in each of these areas. Beginning with its environmental achievements, Equinix has now (as of end 2022) achieved a 23% reduction in operational emissions since 2019 and is on track to 100% clean and renewable energy coverage by its stated 2030 science-based target of carbon neutrality. In respect of social initiatives, Equinix highlighted the pride it has taken in launching the Equinix Foundation – partially funded with a $50m contribution from Equinix. The idea behind it is to advance digital inclusion, from providing access to technology and connectivity through to developing the skills required for technology careers. Multiple case studies are provided on its website. Elsewhere, Equinix continues to partner with local communities, evidenced by over $2m of donations and a 37% year-on-year increase in volunteering during 2022. Talent evolution is another stated priority of Equinix. The business achieved a "best places to work in 2023" ranking from Glassdoor, particularly for LGBTQ+ communities. Equinix remains a leader in respect of Governance, with the Board taking oversight on the company's ESG strategy. 91% of the Board is independent and 40% comprises women. One final achievement from Equinix worth noting is its $4.9bn cumulative issuance of green bonds, making it one of the top-five issuers of green bonds in the US.

First Solar: We spent a day in September at First Solar's Perrysburg manufacturing complex, where the business hosted its first Capital Markets Day in six years. Sustainability was a recurring theme throughout the presentations, with Mark Widmar, the group's Chief Executive, stating that "responsible solar embeds sustainability" and that "ESG is in our DNA." A strongly held belief of First Solar's is that it should lead by example and then "the rest of the industry will follow." We learned that the company's new Series 7 solar modules – which will be produced in Perrysburg – are "designed with sustainability in mind." They will feature as much as 16% recycled content, including semiconductor materials, glass, steel, busbar, and ribbon. The module will be First Solar's most eco-efficient product to date, featuring a carbon and water footprint nearly four times lower than conventional crystalline silicon modules manufactured in China, and an energy payback time approximately five times faster. Furthermore, Series 7 modules require just two months to produce more energy than was required to create them, corresponding to a 180-fold energy return on investment over a 30-year project lifetime. Located at Perrysburg is also apparently the world's first solar recycling facility. Beyond the US, we also learned about First Solar's Indian facility, which achieved its first commercial production during the quarter. Located close to Chennai, it is a region of high water stress. The facility was hence designed to be a net-zero water withdrawal solar manufacturing plant. Believed to be the first of its kind in the world, it will rely entirely on tertiary treated reverse osmosis water from the city's sewage treatment plant and have zero wastewater discharge.

GXO: Sustainability has been a recurring topic in all our conversations with GXO. Since we initiated a position in the business in April 2023, the subject has come up in each meeting, enabling us to see the company's ongoing efforts and progress. When we met with GXO's Chief Strategy Officer in New York last month, he highlighted recent progress in respect of both environmental and social objectives. With regard to the former, GXO is increasingly deploying LED lighting and solar in the warehouses it operates. As an indication of what's possible, two UK sites have, for example, been recently retrofitted with LED lighting, which can generate annual savings of £300,000. GXO's goal is to have 80% of its global operations using LED lighting by 2025. Solar is another area where the company continues to make progress, with ~100% of its Iberian-managed warehouses now using solar. In the UK, the figure is ~60%. At a higher level, GXO said that it intends to align with the Science Based Targets Initiative over the next 12-24 months. In terms of social initiatives, GXO reminded us that it has already made strong progress in terms of Board diversity (50% female) and across its North American workforce (high BAME representation). A current focus is on increasing outreach to bring certain groups (such as former military, those with Down's Syndrome and ex-inmates) into its workforce, particularly in the UK. We will be meeting on a 1-1 basis with GXO's Head of Sustainability during Q4.

Mastercard: Our meeting with Mastercard was centred on discussing business prospects and also spending time touring its New York Experience Centre. Nonetheless, there was an opportunity for Mastercard to flag the recent publication of its 2022 ESG Report. At a high-level, Mastercard's sustainability strategy remains centred on the three pillars of "people, planet and prosperity." Mastercard highlighted its strong progress in respect of its financial inclusion objectives. Mastercard had established a goal to connect more than 500m new people to the digital economy by 2025 (from a 2015 base). Last year, its reported figure was 780m, a 100m increase relative to 2021. Mastercard's next objective is now to reach 1bn by 2025. Conversely, Mastercard noted that there was more to do in terms of growing diversity at its business. While its Board scores well (two-thirds are racially/ ethnically diverse and one-third are female), Mastercard did note that it was lagging in respect of growing its US Black leadership roles by 50% by 2025 (from a 2020 base). The current figure is just 7%. We were told that steps are being taken in this respect and this subject will be an important one for future discussions with the business.

Xylem: Much of the focus at Xylem is currently concentrated on integrating Evoqua. In our meeting (where both legacy Xylem and recent Evoqua hires were present), the company emphasised the strong similarities in culture across the businesses, with both being "purpose driven." Many working groups have already been established, and management highlighted the "obvious chemistry" that it had witnessed across teams, with employees "speaking the same language." Xylem said it plans to host a Capital Markets Day in 2024 (most likely in Q2) where it will set out new financial targets for the group. This could also prove to be the forum for establishing revised ESG goals, although Xylem indicated that it might prefer to wait until 2025, once it had been able to collect a full calendar year of data – i.e., 2024 – of sustainability inputs. Pre-Evoqua, Xylem also noted that it had already started applying Science Based Targets to its operations, which will be implemented in respect of 2023. One other sustainability topic that came up (unprompted) in our discussion was the progress Xylem continues to make in respect of its Watermark initiatives. This is an internal scheme that allows for employees to volunteer with partners to be involved in charitable/ philanthropic/ voluntary water schemes. Examples Xylem cited included school education, stream cleaning and the delivery of food to flooded areas.

Zebra Technologies: We were impressed with the candour of management (we met with the company's CFO and Head of IR) in their acknowledgement that "we've been behind" in terms of sustainability. Zebra is indeed only one of two businesses currently in the Fund – the other being Airbnb – that is yet to publish a dedicated annual sustainability report. Management would not commit to this for the current financial year but noted that it had "made a lot of progress" within the last two years. Evidence of this can be seen on Zebra's website where there are detailed SASB and CDP disclosures, relating respectively to the Sustainability Accounting Standards Board and the Carbon Disclosure Project. Zebra noted that it is "on a trajectory" towards net zero but has "not yet taken the step" to formalise this objective. Management said that over time, all its current work would be integrated into one report. Beyond this, it could be possible to see Zebra linking remuneration to sustainability objectives. At present, there is only a qualitative element included in near-term remuneration with zero attached to Zebra's LTIP (long-term incentive plan). This matter is apparently being discussed by the Board.

A quick note on 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 did not participate in any proxy votes over the past quarter, but our year-to-date total stands at 22**.

While the vast majority of proposals denoted are uncontroversial in our view, **we did vote against recommendations from both IBM and PayPal**, although both these businesses are no longer positions within the Future Trends Fund. For IBM our concern related to the lack of separation of Chair and CEO roles, while in the case of PayPal we did not believe its proposed executive remuneration plans were appropriate given the disappointing share price performance. We will continue to be diligent in our reviews of proxy forms going forward.

Deep dive 1: Quanta Services

Founded in 1997 and now capitalised at $27.1bn, Quanta Services is **a leading energy transition infrastructure solutions provider** for the utility, renewable energy, communications and energy sectors. It is typically market leader in each area where it operates owing to its differentiated approach to project development (self-performing 80%+ of its work), deep customer relationships and strong safety record.

We have discussed power shortages in our thematic work since 2011 and wrote specifically on the case for smart grids last year, where Quanta was referenced. The business stands well-placed to be **a beneficiary from a range of long- term megatrends such as utility grid modernisation, renewable generation expansion and integration, EVs, electrification, communications/5G and outsourcing**. Many of these naturally align with the Sustainable Development Goals (SDGs) of the United Nations.

Quanta lists alignment with eight SDGs (good health and well-being; quality education; gender equality; affordable & clean energy; decent work & economic growth; industry, innovation & infrastructure; reduced inequalities; responsible consumption & production; peace, justice & strong institutions). More quantitatively, a *direct* alignment with sustainability is visible in terms of its renewable infrastructure division. This was responsible for 22% of group revenues last year. Quanta has helped directly to further the energy transition by constructing 4.9GW of utility-scale wind, solar and battery projects in 2022.

As with other businesses in which the Future Trends Fund invests, **sustainability is led from the Board at Quanta**. 8 of 9 Directors are independent (including Chair) and are elected annually. The Board is 40% diverse by gender/ ethnicity. All Quanta's sustainability efforts are detailed in an annual Sustainability Report, the fourth edition of which was published in September. Beyond alignment with the SDGs, the report is guided by several reporting frameworks, including the Global Reporting Initiative (GRI), the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB).

Integral to Quanta's success in respect of sustainability is its **alignment of objectives**. 20% of 2023 target annual cash incentive and 20% of 2023 target LTIP at Quanta are linked to achieving safety and sustainability goals. Senior personnel also have minimum ownership guidelines. Additionally, we have been impressed with our interactions with management on sustainability matters. The topic came up in several of our conversations with the Quanta C-suite when we met them in New York last month.

Most notably, **Quanta has helped set industry standards in respect of health and safety**. The business started to invest in training over ten years ago: this is a function of several of the senior management team having worked previous on-site and recognising the need for improved standards and clearer paths for career progression. ~35% of individuals (equivalent to 17,000+ people) trained last year at Quanta's campus centres (located across four states), a double-digit increase relative to 2021's figure. Over $150m (~1% of group revenues) were invested in training programmes in 2022. The business is ranked as one of the 10 healthiest workplaces in America and as a top-three 'world's most admired companies' within the engineering and construction category by Fortune.

From an external sustainability assessment, MSCI last reviewed Quanta in June 2023 and rated it AA, consistent with its prior review. Despite its achievements, we believe **there is more for Quanta to do in respect of sustainability**. In particular, while Quanta does measure Scope 1 and Scope 2 emissions (both of which point to declining levels), there is currently no detailed quantification of Scope 3 emission, with disclosure only on certain metrics. Furthermore, **no formal emissions reductions targets have currently been set**. We will continue to engage with the business on the topic of sustainability.

Deep dive 2: TeamViewer

TeamViewer is **a global technology company that provides remote connectivity:** anyone, anything, anywhere, anytime. Founded in 2006 and currently capitalised at €2.9bn, TeamViewer offers the industry-leading Remote-as-a-Service platform offering managed enterprise connectivity and digital workflows. The business had 633,000 customers as of the end of Q2 2023.

Sustainability is deeply embedded within TeamViewer. The company states that its purpose is to "create a world that works better." It believes its tools can help bridge distances, reduce environmental footprint, remove barriers to digital progress and democratise technology. TeamViewer estimates that 37m tonnes of CO2 are reduced annually through the use of its solutions.

This overall approach to sustainability was formalised in TeamViewer's CARE programme, launched in 2021. CARE is an acronym for **climate neutrality, access to technology, reduced emissions and equality**. It aims to bring business model, product proposition and corporate culture together to foster a sustainability leadership position. Throughout, there has been a strong emphasis on disclosure and transparency. Our own access to TeamViewer has seen us meet with the senior management team (CEO, CFO, Chief Product Officer) both virtually and at the company's German headquarters since we began engagement in Q2.

As we have stated in previous reports, **good sustainability practices begin at the top**. In this respect, TeamViewer scores well. Its Supervisory Board has 100% independence. A 'one share, one vote' principle aligns economic interests and the voting power of shareholders. Investor rights were also strengthened through the inclusion of the majority voting principle at time of 2022 AGM. For the Management Board, remuneration is linked to ESG objectives. First introduced in 2021, 10% of the TeamViewer LTIP is aligned in this respect. All employees get to participate in share ownership programme.

From an environmental perspective, **TeamViewer has committed to net neutrality by 2025 at the latest, underpinned by Science Based Targets**. Socially, Team Viewer has consistently placed a strong emphasis on education and training programmes, which it believes have been helpful in driving below-average group attrition rates. Looking forward, much emphasis by TeamViewer is being placed on growing diversity, both at a Board and managerial level. The company targets female representation in 33% of corporate management positions by 2024. Mei Dent joined as Chief Product and Technology Officer on 31 August.

In terms of external validation, TeamViewer achieves a AAA rating from MSCI as of October 2022 (and reiterated May 2023), upgraded from its prior AA rating. MSCI highlights its strong corporate governance and leadership in clean technology initiatives. TeamViewer also achieves a top sustainability ranking from Sustainalytics. Despite the company's generally strong positioning, we will continue to monitor progress, particularly in terms of diversity and environmental milestones.

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: PRI Principles for Responsible Investment

MSCI ESG RATINGS AA

Appendix 1: Insights from MSCI

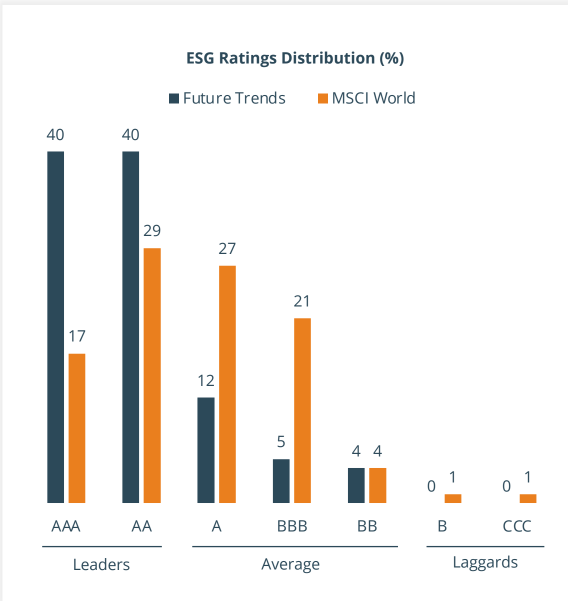
We are pleased to see that 80% of the Future Trends portfolio receive either AAA or AA ratings from MSCI and so are considered as leaders in respect of sustainability. This is consistent with recent figures (83% a quarter ago, 79% at the start of 2023) and markedly higher than a year prior (67%).

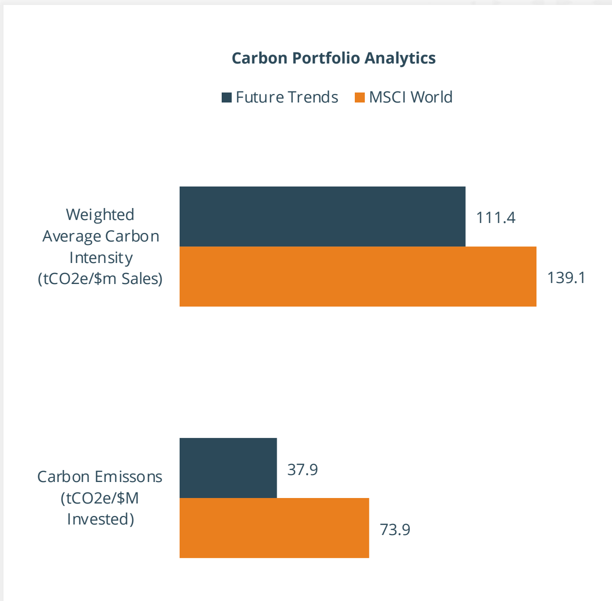
9 of our 22 businesses are currently rated AAA – the highest possible – from MSCI. This includes three of our top-five holdings. Over the past quarter, both **IDEXX Laboratories and Keysight Technologies received ratings upgrades** to this level. In the case of the former, MSCI attributed its upgrade to enhanced disclosures of its business practices, while for Keysight, strong and improving labour practices were the main driver for the positive revision.

As noted above, we are also pleased to see that our two newest Fund additions – Quanta and TeamViewer both receive high ratings from MSCI: AA and AAA respectively. Correspondingly, **only five businesses within the Future Trends Fund rank *below* AA for sustainability on MSCI's methodology**. These are Intuitive Surgical, Prologis, Zebra Technologies (all of which are scored A), Thermo Fisher (BBB) and Airbnb (BB). We are comfortable with the sustainability profiles of all these businesses and will continue to engage with them actively.

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.

Fund ESG positioning





Source: Heptagon Capital, Calculated on MSCI Analytics, MSCI ESG Research as of 30/09/2023. 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.

Appendix 2: 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** 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.

Our database monitors 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 of environmental, social and governance considerations. We are committed to making further enhancements to our database over time.

Important Information

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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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