Q4 2023

FUTURE TRENDS EQUITY FUND

SUSTAINABILITY REPORT

ALEX GUNZ
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 95%) and is style, sector, size and geographic agnostic. The Fund has generated 10.9% annualised returns since inception and has assets of $133m (and a total of $140m for the strategy) as of end December 2023.

2023 in review

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.

This report is the 16th sustainability publication we have issued. Our intention remains to release a similar document each quarter going forward. The insights we continue to uncover allow us to improve further our investment process and sustainability credentials. In terms of seeking to quantify some of the recent work we have done, over the past year, we have –

- Taken part in 81 company meetings, 68% of which occurred in-person. Beyond London, we travelled to Germany, Ireland, the Netherlands and the US. Many of these meetings were with C-level management and we were privileged to interact in particular with the Chief Sustainability Officers at GXO, Prologis and SIG Combibloc.
- Participated in 22 proxy votes. On several previous occasions we have voted against Board proposals. Instances include Cheniere Energy, First Solar, Xylem and Zebra.
- Conducted 92 meetings with investors across 13 different countries.
- Published four sustainability reports. Notable highlights include our Q1 document which profiled the exposure our businesses have to the circular economy and our Q3 review, which detailed our US trip and high levels of corporate engagement.
- Deepened the information in our proprietary sustainability database. New data added includes information on programmes to reduce water consumption and labour market controversies.

In terms of external recognition for our work on sustainability, the Future Trends Fund –

- Retained an AA rating from MSCI and 5 Sustainability Globes from Morningstar.
- Received the FNG-label – the quality standard for sustainable investment funds in German-speaking countries – for the second successive year.
- Gained a Silver Medal award from the Big Exchange Platform recognising the high positive impact it has in respect of sustainability.
- Shortlisted in the ESG Investing 2023 Awards in the Best Thematic Equities category.

Insights from our database

We first started building a sustainability database in 2021 in order to complement the existing important work we were already doing on the topic. 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. Notwithstanding the changes we have made to the portfolio (covered later in this report), it is evident that **the sustainability credentials of the Fund have improved over the past year**. We can track this quantitatively based on the data shown in the table below.

Key Sustainability Metrics

	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23	Q3 23	Q4 23	23 vs 22	23 vs 21
ESG, Sustainabilty or CSR report published?	83%	77%	82%	91%	91%	91%	91%	91%	100%	9%	17%
C-level management remuneration linked to ESG targets?	43%	41%	45%	50%	55%	59%	57%	64%	64%	9%	21%
Independent Board: average %	84%	85%	85%	86%	86%	86%	86%	87%	87%	1%	3%
Diversity Commitments	100%	100%	100%	100%	100%	100%	100%	100%	100%	0%	0%
Quantitative Diversity targets in place?	26%	55%	55%	57%	64%	64%	61%	59%	59%	-5%	33%
Emissions targets in place?	78%	68%	68%	73%	77%	77%	78%	77%	86%	9%	8%
Commitment to net neutrality	57%	59%	59%	64%	64%	64%	61%	61%	73%	9%	16%
Science-based targets	35%	36%	36%	41%	45%	55%	48%	57%	55%	9%	20%

Source: Company reports, Heptagon Capital

Almost all the principal metrics we track show *either stable or improving trends*. We are pleased to see that **every business within the Future Trends now publishes a dedicated annual sustainability document** detailing its quantitative and qualitative progress relative to prior periods. Airbnb and Zebra had been notable laggards in this respect.

Over the past 12 months, **key progress has also been made by our businesses in terms of putting in place emissions targets and reinforcing commitment to carbon reduction by setting science-based targets**. 86% of our businesses (or 19 of our 22 holdings) now have formal emissions targets, a marked improvement from the year-end 2022 figure of 77%. Furthermore, almost three-quarters of our businesses (73%) have committed to net neutrality. Just over half our businesses – 12 of our 22 – now link these objectives to science-based targets, a 10-point improvement relative to 12 months ago. Chegg, Cheniere and Intuitive Surgical are the Fund's laggards yet to put emissions targets in place.

Notable **progress was also made over the past year in terms of formally linking executive remuneration to sustainability objectives**. Almost two-thirds of our businesses now do this, and some (such as Mastercard) link the remuneration of *all employees* to such targets. There has been a 10-point improvement in this metric over the last 12 months. **Our businesses also continue to have high levels (approaching 90%) of independent board representation**.

Notably, **the only area where there has been some slippage relative to the end of 2022 is in the setting of quantitative diversity targets**. This metric showed a five point drop over 2023. All our businesses have *qualitative* objectives in this respect. When engaging with management on this topic, the main reason cited for not setting such targets is to avoid potential challenges relating to discrimination. The predominant thought process seems to be finding the best candidate for any role as opposed to selection on background.

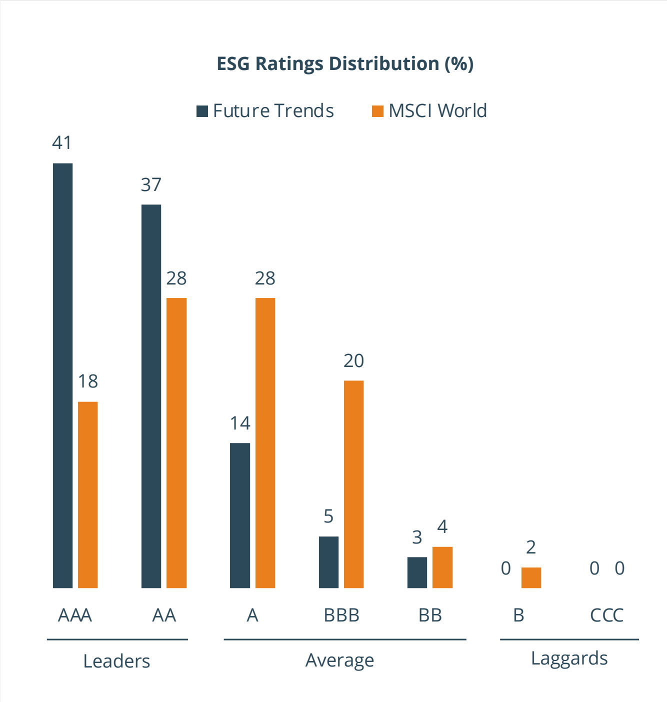
Insights from MSCI

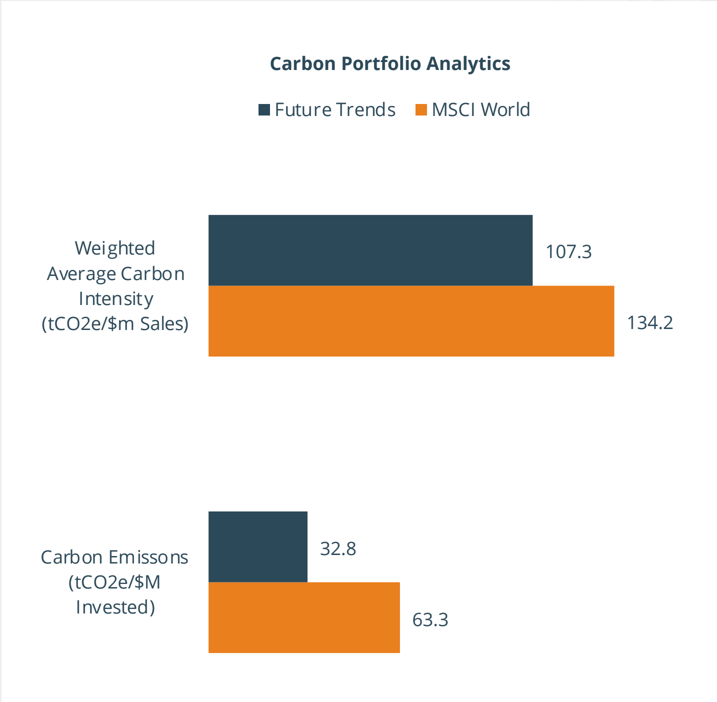
We are pleased to see that **78% of the Future Trends portfolio receive either AAA or AA ratings from MSCI and so are considered as leaders in respect of sustainability.** While this figure remains unchanged relative to a quarter prior, it shows a marked improvement since we started tracking the data a year ago, when the figure was 63%.

Five of our top-10 holdings (ASML, Xylem, Keysight, Vestas and Novo Nordisk) receive the top sustainability rating from MSCI. Other businesses in the Fund which also receive this rating include Chegg, IDEXX, SIG and TeamViewer. The only two businesses that receive ratings *below* an A are Thermo Fisher (BBB) and Airbnb (BB). The due diligence we continue to conduct on these businesses give us no cause for concern. Our engagement levels with both companies remain high. We met with Thermo management in Boston in December and will be visiting Airbnb's HQ in March.

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





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.

Other sustainability data points –

Corporate interaction in Q4

2023 was a busy year for corporate interaction, as noted earlier in this report. Over the past quarter we conducted 20 meetings, which compared to 22 in Q1, 22 in Q2 and 17 in Q3. In the past quarter, particular highlights included interacting with C-level management at First Solar and MOWI in small group meetings as well as attending the Capital Markets events of Prologis and SIG. Such opportunities provide deep insight into both the investment case and the sustainability positioning of the businesses we own.

We did not participate in any proxy votes in the past quarter, but our involvement in this respect is an important part of our sustainability process. Over the course of 2023, we were involved in 22 proxy votes. In the cases of Cheniere Energy, First Solar, Prologis, Xylem and Zebra we voted against certain proposals made by their respective management teams. Some of these have been detailed in our previous sustainability reports from the past year.

One good example of our engagement on sustainability matters from the past quarter was the **1-1 meeting we had with the Head of Sustainability at GXO**. As a reminder, GXO is the largest listed pure-play contract logistics provider in the world. Although the business was only listed in 2021 (when it was spun out of its parent company, XPO), GXO has already made strong progress in respect of ESG initiatives.

For GXO, sustainability is at the heart of what it does and by increasing efficiency within supply chains (and thereby helping to reduce emissions and/or wastage), the company can help its customers meet their own environmental objectives. In this context, it was no surprise that the culture within GXO was described to us as "innovative, fast-paced and values-driven." We were told that "no-one is wedded to the status quo." What this means practically is that all employees at each GXO-operated warehouse site are incentivised (via cash or voucher bonuses) to come up with new ideas for continuous improvement, which can then potentially be rolled out more broadly across the organisation. Safety, of course, remains paramount and GXO is rightly proud of its first-class record, with reported incidents well below industry-average levels.

At present, GXO's executives have a portion (15%) of their long-term remuneration linked to sustainability objectives. The business said that it was looking into extending a similar linkage to all employees over time. Our discussion also focused on how formal environmental targets were under constant review and that there could be scope to move forward the current objective of Scope 1 and Scope 2 carbon neutrality by 2040. Scope 3 objectives may also be included over the next year. A separate constant consideration for GXO is the challenge of monitoring (and reporting on) all the properties in its ~1,000 managed site portfolio. Robust procedures are in place, in our view, but reputational risk remains (rightly) front of mind for the business.

Relevant newsflow in Q4

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

- **Airbnb** recently issued a press release detailing its commitments to improving the energy efficiency of homes across Europe, helping its Hosts to implement more sustainable practices in their homes. Examples include a partnership in the UK with NatWest which provides grants for home retrofitting and with BBVA in Spain where an arrangement allows for assistance with solar panel installation. Other initiatives are underway in Austria, France and Germany. Many of these are detailed in Airbnb's third annual sustainability report, released in November 2023.
- **Aptiv** hosted its annual stewardship outreach event in November. The presentation it shared provided enhanced disclosure on its progress in respect of sustainability objectives. In particular, remuneration (up to 25% of annual bonuses for all staff) will be directly tied to sustainability objectives for the first time, starting in respect of end 2023. Previously, only a percentage of the senior team's long-term incentive plans were linked to such metrics. Elsewhere in the report, Aptiv highlighted its strong focus on attracting and retaining the best talent, with a 41% internal fill rate on open positions. This is helped by the fact that each employee currently receives 12.8 hours of annual safety training.
- **Mastercard** launched over the quarter 'Strive Women', a new programme that aims to strengthen the financial health and resilience of small businesses led by women in countries as diverse as Pakistan and Peru. The initiative is a joint venture with CARE, an international humanitarian organisation. It aims to reach 6m entrepreneurs through the campaign. Separately, we were invited by Mastercard to participate in an externally commissioned outreach study to understand how the business can communicate more effectively with the investment community.
- **Novo Nordisk** announced recently that it had extended its long-term partnership with UNICEF to help prevent childhood overweight and obesity issues. Novo says that over the next three years it will commit $8m to scale and accelerate efforts to create healthier environments for children through policy implementation and innovations that enable them to eat well, play and be physically active. The policy aims to positively impact at least 10m children.
- **SIG Combibloc** hosted a Capital Markets Day for investors in November 2023, which we attended. The business discussed its sustainability plans in detail at the event. Top of the agenda is its emphasis on research and development to allow for better (aseptic carton) packaging solutions. SIG aims for its products to comprise at least 85% paper content by 2025 and 90% by 2030, versus a current level of 75%. In addition, SIG highlighted the importance of driving recycling at scale through a combination of advocacy and partnerships.

- **Thermo Fisher** issued a press release in December highlighting its partnership with Project HOPE, a leading global health and humanitarian organisation. The idea is to improve the wellbeing and treatment outcomes of adolescents and young persons living with HIV in Nigeria. Thermo also works with Project HOPE in countries such as Ukraine.
- **Xylem** recently announced a partnership with Manchester City Football Club to drive water sustainability in football. Its water technology solutions enable the club to improve their water usage and efficiency by saving up to 1,000 cubic metres of drinking water every day. Part of the idea behind the partnership is also to raise awareness of action to support global water challenges.
- **Zebra Technologies** was awarded in December the highest score possible on the Human Rights Campaign Foundation's Corporate Equality Index. It also earned an award for receiving a top score as a leader in LGBTQ+ workplace inclusion. We believe these recognitions speak to the strong corporate culture developed at Zebra. This award is consistent with Zebra's formalised objectives to grow the percentage of under-represented minorities at the business over the coming years.

Portfolio changes in 2023 –

We added three new businesses into the Future Trends Fund in 2023: **GXO Logistics, Quanta Services** and **TeamViewer**. All three businesses helped improve both the thematic diversification of the Fund (giving exposure to automation and logistics, smart grids and internet of things) as well as its sustainability credentials.

We profiled GXO in detail in our Q2 sustainability report, and the latter two businesses in our Q3 report. Readers interested in GXO should also refer to the highlights mentioned earlier in this document relating to our conversation with their Head of Sustainability. From a sustainability perspective, GXO stands out to us for having a clear remuneration policy linked with delivery on sustainability objectives. It has also committed to 100% carbon neutrality by 2040. Similar to GXO, Quanta has a strong alignment between delivery on sustainability commitments and corresponding remuneration. As industry leader with the energy transition infrastructure space, the business has taken a lead in setting industry standards in respect of health and safety. TeamViewer can be considered another sustainability leader, both in terms of incentivisation plan and commitment to net neutrality by 2025.

From an external perspective, MSCI awards TeamViewer a AAA rating, while both GXO and Quanta receive AA ratings.

Deep dive: Prologis

PROLOGIS

Prologis has been a long-standing holding within the Future Trends Fund, since 2018. We believe the business is one of the best stewards of sustainability within the Fund and were reminded of this when attending the company's Investor Forum in New York last month. Among the executives presenting were Susan Uthayakumar, the Chief Energy and Sustainability Officer at Prologis.

As a reminder, Prologis is **the largest owner of industrial real estate (or 'big boxes') in the world**, with a portfolio of 5,500 buildings across 20 countries, equivalent to 1.2bn square feet of prime land. One key message we took away from hearing the Prologis team present last week is that the business is **seeking to "build an energy company within a real estate company."**

What this means at a practical level comprises six objectives: scaling its energy and sustainability business, adopting new construction standards, accelerating retrofits, addressing embodied carbon in construction, investing in climate technology solutions and digitalising data. Not all readers may be aware, but currently **Prologis is the second-largest business with on-site solar generation in the US** (only Walmart is larger). Solar installation is coterminous with customer leases on warehouses. Prologis invests the capital, maintains and operates the system and provides clean energy to its customers and nearby communities.

Prologis believes that its solar, storage and mobility pipeline could be a $1.4bn gross revenue business by 2030. This would be equivalent to 7000MW of energy output, more than 10 times current end 2023 levels (555MW), implying a significant scaling over the remainder of the decade. Overall, the business **aims to be net zero across its entire supply chain (scope 1-3) by 2040**.

There is, however, more to the Prologis sustainability story than just its energy ambitions. The business has been **at the forefront of training individuals** and has run its Community Workforce Initiative (CWI) programme since 2018. The idea behind this is to partner with local communities to train employees to work in its warehouses. This makes sense given that the biggest challenge for its customers is attracting and retaining labour (industry churn is 40-50%) and labour costs account for approximately five times warehouse leases costs. Implicitly, happy customers are more likely to stay with Prologis for longer, while the perception of Prologis as more than just a developer also improves in local communities. The CWI is present in around 15 markets, with over 13,000 participants, Prologis plans to have trained 25,000 individuals by 2025 and is now considering rolling the scheme into new geographies (and beyond the US).

Elsewhere, Prologis deserves recognition for being **the first logistics real estate business to issue green bonds**. Externally, Prologis also receives strong recognition, ranked in 2022 by Corporate Knights as being the most sustainable real estate business in the world (and #26 across its entire universe). MSCI currently rates the business A. While impressive, we are of the view that **there remains scope for improvement at Prologis**. Environmental objectives could be accelerated, but we would also like to see a clear codification linking sustainability objectives to remuneration.

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
CCC B BB BBB A AA AAA

FNG-SIEGEL 2023

THE BIG EXCHANGE

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** 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 on environmental, social and governance considerations. We are committed to making further enhancements to our database over time.

Appendix 2: What makes our businesses sustainable

We were recently asked by an investor to provide a one sentence summary for each of our holdings answering the above question. The aim of the exercise is to provide a high-level justification for our holdings. We reproduce the data below for our top-ten holdings:

Business	Weight	Key Sustainability Impact
ASML	6.6%	Contribution to six SDGs. Leading corporate governance and disclosure
Xylem	6.3%	Sustainability at centre of strategy - better water outcomes - and backed by data
Mastercard	5.7%	Focus on financial inclusion. All employees have remuneration linked to ESG goals
Equinix	5.6%	Strong corporate governance. Leading global issuer of green bonds
Zebra Technologies	5.0%	Focus on Science-Based Targets. High Board independence. Recycling leader
Prologis	5.0%	Leading with sustainable buildings (#2 in US with on-site solar). Top disclosure
Keysight Technologies	4.9%	Strong corporate culture, disclosure and governance
Vestas	4.9%	Renewable energy leader. Contribution to six SDGs
GXO Logistics	4.9%	Clear focus on all ESG metrics and relevant SDGs since July 2021 flotation
Novo Nordisk	4.7%	Healthcare solutions, direct contribution to SDG 3 and SDG 12

Source: Heptagon Capital, holdings as of 31/12/23

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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