Q1 2024

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 95%) and is style, sector, size and geographic agnostic. The Fund has generated ~11% annualised returns since inception and has assets of $130m (and a total of $137m for the strategy) as of end March 2024.

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.

This report is the 17th 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 **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.

WWF and ESG: a conversation with Thomas Vellacott

When we attended last November the Capital Markets Day of **SIG Combibloc**, our play on sustainable packaging solutions, we had the opportunity to hear from Thomas Vellacott. Thomas is the **Chief Executive Officer of the Worldwide Fund For Nature, Switzerland**. Established in 1961, the Fund (a non-governmental organisation, also referred to as WWF) has worked in the field of biodiversity preservation and the reduction of the negative impact on the environment. We were privileged to follow up with Thomas and host him for a 1-1 in our office in February. The conversation allowed us to understand how the WWF thinks about sustainability more generally and how businesses can work best with the WWF.

The role of the WWF, according to Thomas, is to speed up the transition to net zero and nature positive and "help provide tools" in order to allow businesses to be "credibly sustainable". The WWF's approach is a holistic one, combining "suits and boots", or promoting full C-level and Board buy-in as well as practical policies and on-the-ground projects. In his November presentation, Thomas talked of **the importance of "going beyond**."

This notion can be best expressed via practical actions in four distinct areas. Beyond "nice words" or qualitative objectives, he refers to the idea of seeking to quantify commitments via standards such as the Science Based Targets initiative (SBTi), in which the WWF has been involved since inception. Next, it is important to think "beyond carbon only." In the view of the WWF, (science-based) carbon targets are necessary, but not sufficient. Being nature positive and taking into account biodiversity impacts and risks also matters. Related is the principle of thinking "beyond supply chain" and considering broader ecosystems. Working with local communities is key in this respect. Finally, going "beyond business as usual" embraces the idea of taking the holistic perspective referenced previously. This involves critically examining current business models for their viability in light of the transition to net zero (and nature positive) and can relate to much broader implementation of sustainable practices on the part of businesses, such as sourcing 100% of energy needs from renewable solutions.

How can the WWF work most effectively with businesses to go beyond? Thomas provided a simple explanation based around what he termed the "three Cs of **convening, campaigning and co-operation**". We touched on the former above by way of the WWF's involvement in the SBTi. Other examples would include its pioneering work in respect of establishing the Forest Stewardship Council (FSC) and the Marine Stewardship Council (MSC). The WWF will also publish detailed industry reports and analysis of their supply chains. Co-operation typically takes the form of bilateral agreements with businesses that are willing to "push the envelope" in terms of sustainable innovation.

The move towards net-zero is happening, but "not quickly enough", according to Thomas. **Most corporates "want to change, but don't always know how**." Against this background, he sees **WWF as "part of the solution**." It is important to get "full buy-in" from both the C-suite and the Board. This matters, in part to ensure continuity in the event of management change. Sustainability commitments have to come from businesses who "get it... [rather than just see it as] a PR thing."

The partnership between SIG and the WWF represents a good case study. SIG and the WWF have exchanged dialogue for over a decade on a variety of initiatives including the voluntary FSC certification of its products. SIG also has clear net-zero targets, which are backed by the SBTi. Execution remuneration is partially linked to delivery on sustainability objectives. However, the specific 2022 agreement between SIG and the WWF 'goes beyond' in helping to build resilient forest ecosystems globally by strengthening and expanding sustainable forest management, protection and landscape restoration. Work is already underway to help secure a landscape of 100,000 hectares in Mexico that serves as a critical jaguar habitat. Further projects look set to follow.

We believe that the work being done by the WWF to "pull on all levers" by working with corporates and communities (as well as regulators and other relevant stakeholders) is the correct one. It is "not an either-or decision", and as Thomas put it in our discussion, "every little helps." Few companies within the Future Trends Fund have perhaps embraced working as closely with the WWF as SIG, but, as we continue to demonstrate in our quarterly sustainability reports, **the broad direction of progress is highly encouraging**.

Portfolio changes in Q1: Sustainability summaries of new additions

We added three new names to the Future Trends portfolio during Q1 that we have disclosed publicly: **Darktrace, Match Group** and **Palo Alto Networks** (one additional name was added towards the end of the quarter, which will feature in our next report). The primary motivation for these changes was based around conviction, seeing a stronger business case and secular thematic runway for these businesses than those we exited from (Aptiv, Chegg and Zebra Technologies). In none of the instances where we sold was the motivation based around specific concerns over sustainability credentials. At the same time, we believe that our three recent additions all constitute strong sustainability stewards.

Darktrace

DARKTRACE

The company is a global leader in cybersecurity technology and has built a differentiated model for threat detection based around AI since inception a decade ago. Darktrace listed in April 2021 and Future Trends was an investor between February 2022 and August 2022. Our decision to exit was based around a proposed take-over approach from a private equity group. Although a formal bid did not subsequently arise, the Fund made a 24.2% return on its trade. The opportunity arose in early 2024 to *reinvest* in Darktrace at a similar level to when the Fund first invested in 2022. Over a period of sustained due diligence dating over three years, we have had substantial access to and multiple interactions with management (both investor relations and C-level executives).

The broad mission of the group is to "empower society by freeing the world from cyber destruction." It also advocates the responsible advancement of AI. As a software business, which does not own data centres and produces no physical product or equipment, Darktrace's carbon footprint is very low. Nonetheless, Darktrace has in place a formal commitment to reach net zero by 2040. In the near-term, it targets a 38% reduction in Scope 1 and 2 emissions and a 63% reduction in Scope 3 emissions per Dollar of gross profit by 2030 (versus a 2021 baseline). These targets are currently awaiting validation by the SBTi.

As part of its broad social mandate, Darktrace is committed to building the next generation of cyber technologists. Beyond training and partnership, Darktrace recognises the need both to retain and promote diverse talent. The business has set no formal targets in this respect but points out that over a third of its employees are female, including its Chief Executive (and co-founder), Finance Director and Chief Strategy Officer. Additionally, 5 of its 11 Board members are female, ahead of the 40% objective set by the FCA (the UK regulator).

There is still work for Darktrace to do in respect of sustainability. Further disclosure would be welcome. It is also worth noting that the business does not currently issue a dedicated sustainability report, providing disclosure instead in its Annual Report. Similarly, Darktrace's Board independence, at 55% (or 6 of 11 members) is currently below average levels. Within the Future Trends Fund, the businesses we own typically average 80%+ Board independence. Nonetheless, it was pleasing to see that MSCI upgraded its rating of Darktrace from BBB to A in March, highlighting "improved business ethics practices." MSCI's report cited strong corporate governance practices (especially relative to global peers) and the formal adoption of a whistleblower policy. We will continue to engage with Darktrace on a broad range of sustainability matters.

Match Group

Match Group

The business may be familiar to many readers as the largest provider of dating products worldwide. Its broad portfolio includes Tinder (the most downloaded dating app in the world), Hinge, Match, OKCupid, Pairs, Plenty of Fish, The League, Azar, Meetic, Hakuna and others. Services are available in over 40 languages across the world. The group's mission statement is to "spark meaningful connections for every single person worldwide." Match Group last reported having over 15m paying customers worldwide.

The business was spun out of IAC (the parent company of Ticketmaster) in July 2020. In each subsequent year, Match Group has published a dedicated sustainability report with detailed KPIs as well as SASB (the Sustainability Accounting Standards Board) data. The group's sustainability strategy has consistently been led from Board level. 70% of its Board is independent and 50% comprises females. Match's priorities are safety, data security, diversity, people development and climate change.

Similar to Darktrace, as an asset-light software business Match has a low carbon footprint and achieved carbon neutrality – 100% renewable energy at its owned properties – in 2022. Safety is the group's foremost consideration. In the last year for which data are available (2022), Match invested $125m in this area. Match continues constantly to build enhanced safety features into its apps. It has also committed time to social advocacy (building partnerships to advocate for communities most impacted by violence and oppression) and to working with law enforcement operations and investigations. The business has also had a long-standing partnership with Garbo, a female-founded, non-profit background check platform, with the goal to help proactively prevent gender-based violence in the digital age.

Match hired its first-ever head of DEI in 2021. Globally, Match achieves 59:41 male/ female diversity and 61:39 in its global leadership team. Ethnic diversity data is provided only for the US. Match has no formal targets set but has committed to pay equity across the group. Ongoing training is key for all employees, with over 200 different programmes available. Match was ranked in the top-100 best places to work in 2022 as well as "one of the best places to work" for LGBTQ+ employees.

From an external perspective, Match receives a BB rating from MSCI (last reviewed in May 2023 and held since June 2022, when it was upgraded from B). MSCI cites the need to see better evidence in respect of employee training and ethics before reviewing its rating. Our dialogue with Match Group began in early 2024 and we will continue to engage with the business on this topic among others going forward. We would also like to see Match link executive remuneration to sustainability objectives. This is not currently the case, although Match says the discussion is “constantly reviewed” by the Board.

Palo Alto Networks

Listed in the US and capitalised at ~$100bn, Palo Alto Networks can be considered the leading next-generation global cybersecurity provider. The business has an exceptional track record in generating shareholder returns (~30% annualised in the last decade), having built out a fully integrated solution suite and consistently executed on its growth targets. over the last three years, sustainability has received increasing prominence within the group. Dedicated sustainability reports have been published since 2021 and executive remuneration tied to objectives since 2022.

The broad societal mission of the group is to protect customers from the threat of cyber and to promote data privacy, objectives consistent with those enunciated by Darktrace. Culturally, Palo Alto emphasises transparency in its strategy and advocates five core values of disruption, execution, collaboration, integrity and inclusion. The success of this approach is evident not only in terms of its value creation, but also strength in research and development and below-average levels of staff turnover.

There is a strong focus at Palo Alto on growing diversity across the organisation. 25% of all employees are female and 15% from under-represented minorities (URM). Palo Alto targets 40% women and 20% URM by 2025. A large additional emphasis is placed on ongoing training, flex-work arrangements and growing broader cybersecurity education programmes. The group’s target is to grow the latter to 20m students involved in such initiatives by 2025.

Palo Alto has clear environmental goals, committed to net zero by 2030 using Science Based Targets. Palo Alto has already achieved 85% LEED certification across its real estate portfolio. Further, 71% of its power is obtained from renewable energy sources. In addition, the company has a code in place relating to Supplier Conduct. 18% of suppliers have committed to SBT emissions reductions. Palo Alto does not own any data centres directly and instead relies on a digital supply chain comprising co-located data centres and cloud service providers.

From an external perspective, Palo Alto receives a AA rating from MSCI, upgraded in June 2023 relative to a prior BBB rating. MSCI notes that there have been major improvements in corporate governance (disclosures and voting) relative to its prior review.

Other sustainability data points –

Corporate interaction in Q1

Engaging with company management is an integral part of our investment process. We typically seek to meet with all the businesses in which we are invested at least twice a year (in London and at their HQ) in order to discuss sustainability and other matters. In addition, we take the time to meet prospective investment candidates and peer companies to our existing holdings. Annual meetings total between 80 and 100.

In Q1, we conducted 26 meetings, the majority of which were face-to-face. The highlight of the quarter was a **three-day business trip to California in which we met 13 companies**, including 7 of our Fund investments. Separately, we spent **a day in Denmark meeting with both Novo Nordisk and Vestas**. Our sustainability insights from these meetings will be discussed in more detail in our next quarterly report.

It was particularly important to spend time with the management teams of our newest investments. We met with Palo Alto Networks at their Santa Clara headquarters and with Darktrace in London during the past quarter. In addition, we held two calls with Match Group’s Investor Relations team and hope to be meeting with senior management in person later on this year. Overall, **we interacted with management teams at more than half our holdings during Q1.**

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 participated in two proxy votes over the past quarter – for Keysight Technologies and Novo Nordisk. Neither was controversial and we voted in-line with management's recommendations. There have, however, been several occasions over the past year when we have voted *against* certain proposals made by management teams. Instances include at Cheniere Energy, First Solar, Prologis and Xylem, all of which were profiled in prior sustainability reports.

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):

- **Mastercard:** The payments processor used its sponsorship of the recent GRAMMY music awards to raise the profile of its involvement within the Priceless Planet Coalition. This group aims to restore 100m trees in forests around the world. During February, Mastercard customers that transacted with ride share company Lyft or purchased a SiriusXM subscription saw additional trees planted.
- **Novo Nordisk:** The Danish drug maker was ranked as the best place to work in the world (per the Best Places to Work Organisation). The industry body provides an annual ranking of business around the world. Per its press release, "companies that made the top list this year demonstrated excellence in the workplace, by creating differentiated employee experiences and inclusive cultures that lead to stronger, more sustainable business results." Novo ticks all these boxes in our view.
- **Prologis:** We profiled Prologis and its sustainability efforts in detail in our last quarterly report. It was pleasing to see further granularity on this topic being shared by Prologis in the supplemental release accompanying its most recent set of results. Prologis has already highlighted that it was the #2 player in solar for onsite installations in the US. For the first time, Prologis provided its installed capacity (506MW) and broke it down by region and by ownership (direct vs third party). New Jersey/ New York City and Japan currently have the highest levels of installations.
- **Vestas:** Recognising the environmental impact of steel and iron components, Vestas announced in January that it had established a partnership with ArcelorMittal to launch a low-emission steel that has the potential to significantly reduce lifetime carbon dioxide emissions from the production of wind turbine towers. Steel and iron constitute 80-90% of a wind turbine's material mass, and approximately 50% of a turbine's total lifecycle emissions. By utilising low-emission steel in the top two sections of an offshore tower, this emission reduction would translate to approximately 25% reduction of emission compared to a tower made from steel made via conventional steelmaking. For an entire onshore tower, the CO2 reduction is at least 52%.
- **Xylem:** The US-listed water technology business has long-been committed to sustainability, allocating 1% of its net income annually to address a spectrum of water challenges. Xylem issued a press release in February highlighting its achievements over 2023, which included over 183,000 volunteering hours on the part of its employees across 56 countries. This was a record level of participation. In addition, Xylem provided humanitarian aid in response to 30 global disasters. A separate press release at the end of March detailed an extension of Xylem's partnership with UNICEF to deliver vital water solutions in the Horn of Africa.

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:

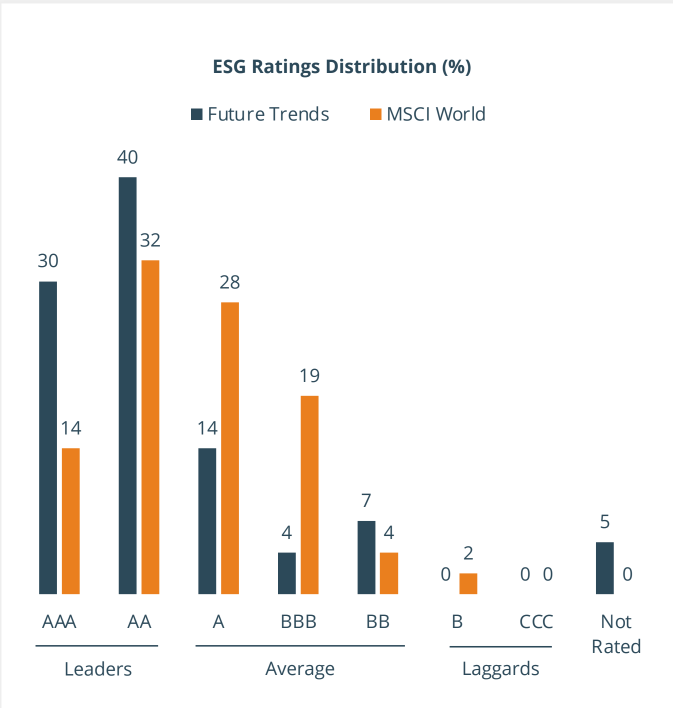
Appendix 1: Insights from MSCI

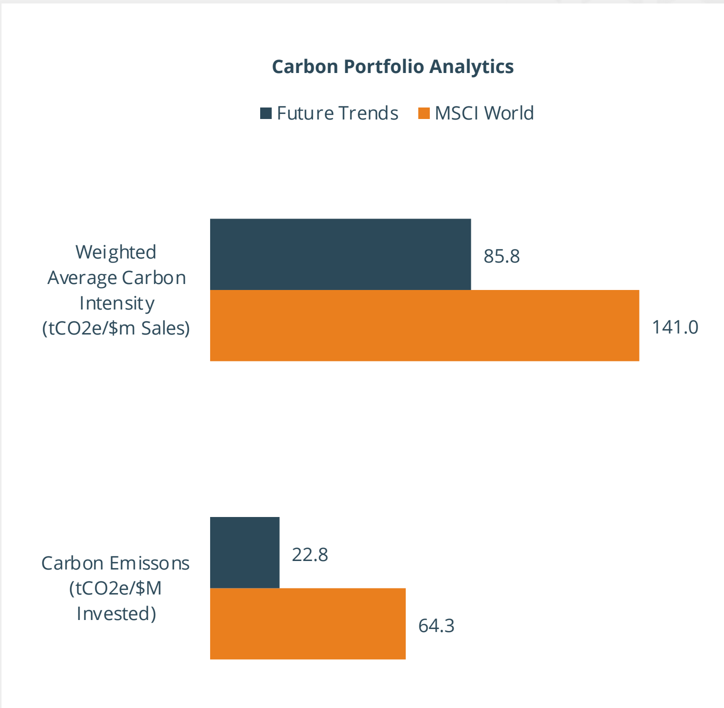
We are pleased to see that 70% of the Future Trends portfolio receive either AAA or AA ratings from MSCI as of quarter end, and so are considered as leaders in respect of sustainability. This figure is lower than a quarter prior and reflects recent changes to the portfolio including the addition of a new (non-disclosed) holding to the Fund at the end of March, which has yet to be rated by MSCI. Since we started using MSCI data, the Fund's percentage of businesses rated as sustainability leaders has averaged more than 70%.

7 of our 22 businesses are currently rated AAA – the highest possible – from MSCI. This includes two of our top-three holdings (ASML and Novo Nordisk). **Not a single business held in the Fund's top-ten receives an MSCI rating lower than A**. Only three businesses in the Fund (Airbnb, Match Group and Thermo Fisher) score *below* an A rating. We are comfortable with the sustainability profiles of all these businesses and will continue to engage with actively. We profiled Match earlier in the report and last met with Airbnb in March and Thermo in December.

Over the past quarter, there were no ratings changes to our businesses, with the exception of MSCI's upgrade of Darktrace (from BBB to A) discussed earlier in this report.

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 31/03/2024. 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.

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

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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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