HEPTAGON Capital

Q3 2021

FUTURE TRENDS EQUITY FUND

SUSTAINABILITY REPORT

ALEX GUNZ
Fund Manager

The **Heptagon Future Trends Equity Fund ("Future Trends Fund")** was launched in January 2016. The Fund is both pan-thematic in its investment approach and highly concentrated, with 23 businesses at present. The Fund has high active share (typically 95%+) and is style, sector, size and geographic agnostic. 17.4% annualised returns since inception compare to returns of 14.2% for the Fund's MSCI World Index benchmark. Fund AUM are $179m and strategy AUM $191m as of 30 September 2021.

Introduction

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 July 2019, implying a clear commitment to integrate environmental, social and governance considerations into our investment practices and ownership policies.

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** (see appendix one of this report for more details) and are trends which we believe will grow in importance regardless of the economy and regulation.

The Future Trends Fund is highly concentrated with low levels of turnover, and is sector, size and geography agnostic. Portfolio construction is conducted bottom-up, with an emphasis on quantitative and qualitative factors as well as ESG considerations. The Fund does not invest in areas such as gambling, weapons, or tobacco (a full list is provided later in this report) and engages in active dialogue with companies to foster good ESG practices and improve the sustainability profile of companies in the long-term.

This report constitutes our seventh publication about investing sustainably. We have sought to improve the quality of information and level of disclosure into our work in each report (our original May 2020 note can be found here). The Fund receives 5 Sustainability Globes from Morningstar and achieves a top percentile ranking versus its peers. MSCI currently ranks the Fund in the 89th percentile within its immediate peer group and in the 87th percentile within the global universe of the ~34,000 Funds it covers. **The Future Trends Fund is classified as an Article 8 Fund under the European Union's Sustainable Finance Disclosure Regulation.**

Our investment process

For every business under consideration for the Fund, we produce a detailed (3-5 page) note 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.

Our addressable universe of over 2,000 businesses is shrunk initially by applying a clear set of sectoral exclusion criteria, which we detail in the appendix to this report. In addition, the Fund will not invest in businesses that have committed serious violations of the UN's Global Compact. This shrinks our universe by **over 25%** to fewer than 1,500 potentially investable businesses. Further, the Future Trends Fund would be reluctant to invest in any business with fewer than 50% of its Board comprising independent directors and/or businesses that were deemed by external research providers to currently carry unacceptable levels of risk. No business within the Fund falls into this category.

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 (our Fund has always been pan-thematic), factors may vary by business, as does disclosure of available data. Factors we take into consideration include:

- alignment with UN Sustainable Development goals;
- environmental and social reporting, disclosures and transparency;
- material environmental and/or social controversies;
- human rights considerations;
- environmental practice
- employee and board-member diversity;
- anti-corruption policies;
- unethical business conduct;
- board structure; and
- executive compensation

Full information on our sustainability-related disclosures can be found here.

Our ESG database

We have built our own **proprietary ESG database** to support our corporate due diligence and to complement the regular engagement with corporates/ constant monitoring of newsflow (detailed below) 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.

At present, we monitor seven important factors, although we intend to grow this over time (as well as updating the existing information):

- **Publication of ESG, Sustainability or CSR report:** 19 of our 23 businesses publish literature documenting their progress in respect of sustainability, with IBM having done so for the last 29 years (which it believes to be an industry record). Of the 4 who have yet to do so, all have stated their intention to move forward in this respect. Two of these businesses (Airbnb and Chegg) are profiled in more detail later in this report, while the remaining businesses (Steris and Zebra) have been discussed in other publications on sustainability we have published earlier this year.

- **Membership of the UN Global Compact:** The Global Compact is a non-binding United Nations pact to encourage businesses worldwide to adopt sustainable and socially responsible projects and to report on their implementation. Over 14,000 companies have signed the Compact, per the UN. ~40% of the businesses within the Future Trends Fund are signatories. Many of those who have yet to sign have said in discussions with us on the topic that they believe their sustainability principles are closely aligned with the values of the compact, even if they are not currently signatories.

- **Board independence:** Good sustainability begins with good governance, in our view. Against this background, it is reassuring that the Boards of the businesses in which we are invested average 82% independence. In only one instance (Daifuku) does the Board comprise fewer than 50% independent Directors, while ASML counts a Board comprising 100% independent Directors. Daifuku has committed to growing the independence of its Board over time.

- **Emissions targets:** Beyond the governance metric mentioned above, we believe that one of the best ways of quantifying current ESG progress is in respect to whether or not our businesses have committed to emissions reduction targets. ~70% of our businesses have such commitments in place, while several of those who have yet to do so (for example, Airbnb and Zebra) have said verbally that they intend to establish such commitments within the next 12 months or so.

- **Commitment to net neutrality:** After emissions targets, the next step forward is to commit to net neutrality, in our view. The 70% success rate detailed above drops to less than 50% in this respect, with ASML, Daifuku, Equinix, First Solar, IBM, Kerry Group, Keysight, Mastercard, Novo Nordisk, Thermo Fisher and Vestas standing out in this respect. Going forward, we would like to see our remaining businesses go beyond near-term CO2 emission reduction targets, committing to bolder objectives.

- **Commitment to diversity:** While every business within the Future Trends Fund has made a qualitative statement endorsing the development of a more diverse workforce (including the Board and/or set of suppliers), very few have to establish formal quantitative targets in this respect. Indeed, just six of our businesses (Airbnb, Kerry Group, Keysight, Mastercard, MOWI and Vestas) have set out formal goals in terms of targeted diversity percentages within a specified time horizon. This will be an increasingly important metric to monitor over time in our view.

- **C-level remuneration linked to ESG targets:** The setting of sustainability objectives (in respect of the environment as well as social and governance matters) is necessary in our view, but not sufficient. In order to go further, we believe that it behoves companies to link (at least part) of their remuneration to ESG targets. At present, we believe that just 9 of our 23 businsses do this. We will be monitoring further progress in this respect and engaging with management teams to commit to such objectives.

Engagement with our businesses

Active and ongoing engagement with the management/ investor relations teams of all the businesses within the Future Trends Fund is an integral part of our strategy. It is also consistent with our commitment to being a socially responsible investor. Over the past 12 months we have participated in around 100 company meetings (almost all virtual owing to current circumstances) and completed over 25 proxy votes.

During the third quarter of 2021, we did 13 meetings including with 9 of our current 23 investments in the Fund. ESG considerations constitute a crucial discussion topic in almost all our meetings and we believe it behoves us as a responsible manager of assets to push our businesses on how and where they should be improving their strategies. **We had one-on-one interaction with C-level management and/or Senior Investor Relations at Airbnb, Aptiv, Chegg, Covetrus, Keysight and Orpea.** Our Orpea meeting took place face-to-face in Paris, the first time we had done such an event in over a year. In addition, over the past quarter we participated virtually in **small group calls with teams at First Solar, Kerry and MOWI** as well as engaging in dialogue with several peer/prospect businesses.

Having participated in around 100 meetings in the past 12 months (including with all our holdings but for Alibaba), several topics have recurred with regularity and we thought it interesting to share what we believe to be our top-five most frequently discussed areas below:

- In which areas do you see the most scope for improvement in respect of your current approach to sustainability?
- What is your timeline/ thought process for linking executive remuneration with ESG goals?
- To what extent do you believe your ESG objectives conflict with your commercial objectives; and how do you intend to redress?
- It's reasonably clear what your environmental objectives are, but please highlight where you have made the most impact socially?
- If there is no separation between Chair and CEO (as is often the case for many of our US-listed investments), why not and under what circumstances might you review?

We detail below three case studies that we believe best illustrate our interaction with businesses in respect of ESG matters.

Case study one: Aptiv

APTIV

Our April Sustainability Report included a deep-dive into Aptiv and its ESG positioning, which we believe is sector-leading. July saw the publication of its eighth annual report on its progress vis-à-vis sustainability initiatives, which included enhanced reporting aligned with GRI, SASB and TCFD reporting frameworks. In addition, Aptiv provided new disclosure on the diversity of its workforce: 49% of roles are occupied by women, including 22% of management roles and 19% technical roles. For minorities, these respective figures are 40%, 21% and 44%. When we spoke with Aptiv's Head of Investor Relations in September, she outlined that there is "a lot more to do" in respect of ESG initiatives. Aptiv's environmental targets (which include becoming carbon neutral by 2030) are "aggressive" and will require working with suppliers. Meanwhile, initiatives such as recruitment and training will "require time to marinade."

Case study two: Chegg

We first invested in Chegg in March 2020 and were attracted to the business given its unique positioning in the edtech space as a direct-to-student service provider. Since then we have had regular discussions with management and investor relations regarding Chegg's work in respect of ESG initiatives. The most recent of these calls was in September 2021. We have been generally pleased by the rate of improvement in Chegg's commitments, but believe there is still more to be done. Chegg does not currently publish a formal sustainability report, although its website has a dedicated ESG section and contains substantial disclosures in certain areas. We believe that Chegg's achievements in respect of diversity are most worthy of mention. Globally, 42% of Chegg's employee base comprises women, up 3pp in 2020 relative to 2019. More impressively, in the US, Chegg has equal representation when measured by gender and 44% of the Board comprises females. 48% of Chegg's employee base comprises ethnic minorities and Chegg has stated that it sees incremental opportunities to increase Black and Latinx group representation.

Where we see most work to be done is in respect of environmental initiatives. Chegg highlights only qualitative observations regarding its commitments to water reduction, recycling and LED lighting, but provides no quantitative disclosure. In our most recent conversation, Chegg said that it intended to detail its Scope 1 and Scope 2 emissions before year-end. We were also encouraged to hear that a more general linking of (partial) executive remuneration to hitting certain ESG targets was "under discussion."

Case study three: Keysight Technologies

We first profiled Keysight's sustainability credentials in our Q1 2021 report. A recent update call with the business' Chief Financial Officer and Senior Investor Relations reinforced our conviction in the strong ESG positioning of Keysight. When asked why the business had ranked so well (on both our own analysis and externally – MSCI awards Keysight an AA rating, for example), CFO Neil Dougherty attributed it to the business' uncompromising integrity, a legacy it inherited from originally being part of HP. The Keysight mantra has always been to "do no business rather than bad [i.e. with unethical standards] business." Despite having clearly outlined energy reduction targets and commitments to investing more in STEM education, Keysight was emphatic in highlighting that it believed there was more it could still be doing in respect of its ESG ambitions. While the business has committed that 35% of new global hires this fiscal year will comprise women and 45% of US hires will come from under-represented minorities, going forward, these targets will likely be stretched further.

Proxy voting

Although we only participated in two proxy votes in the past quarter (Alibaba and Steris, both of which have March financial year-ends), since the start of the year, **we have completed 22 proxy votes.** We take this process seriously and on several occasions voted against Board proposals. Instances include items proposed by Avast (we have now exited from this position within the Fund), Equinix, First Solar, IBM, Novo Nordisk, PayPal and Thermo Fisher. We have discussed many of these in previous commentaries, but from the above list, we were particularly pleased to see that our decision to vote in favour of increased disclosure by First Solar on diversity matters (relating to gender, race and ethnicity) was endorsed by a convincing margin (75:25) despite First Solar being against the proposal.

Monitoring progress

Beyond direct contact with our businesses, the quarterly earnings season provides us with the opportunity to learn what progress companies have made in respect of not just financial but also ESG objectives. Several of our businesses committed (in some cases, for the first time) to clear environmental targets. Improving diversity also remains top of mind. Rather than provide a full list of new information released by each of our businesses, we thought it more interesting to highlight some of the recent initiatives we have found most notable.

Case study one: Airbnb

As we discuss in more detail below, Airbnb announced on 24 August that it would help house up to 20,000 Afghan refugees (with this target doubled to 40,000 on 23 September). The company will coordinate with Aribnb hosts who wan to offer their homes to refugees for free, or at a discounted rate, with the firm's charitable arm picking up the rest of the bill. Co-founder and CEO of the business, Brian Chesky, described the displacement and resettlement of refugees as "one of the biggest humanitarian crises of our time." This move by Airbnb is a continuation of its response to similar disasters, which began with Hurricaine Sandy in 2012.

Case study two: Alibaba

Alibaba announced on 3 September that it would invest RMB100bn (~$15.5bn) to "promote common prosperity". The company highlighted that this sum would be spread across ten initiatives and several priority areas (including technology innovation, high-quality employment creation, care for vulnerable groups). Alibaba states that "if society is doing well, then Alibaba will do well." While this is clearly a positive development, the move does need to be seen partially as an attempt to defuse the Chinese government's scrutiny of the tech sector. For reference, Alibaba made RMB133bn of net profit in its most recent fiscal year.

Case study three: Covetrus

We were pleased to see the publication of Covetrus' initial ESG report in August 2021. This followed our conversation with the company's Global Chief Ethics & Compliance Officer (which we profiled in our previous quarterly sustainability report), where we were asked to provide our input to Covetrus on this important topic. We see the report as being a positive step in the right direction and the documentation highlights the clear independence of the Board as well the company's progress in respect of diversity initiatives. However, we believe there is more work to be done in respect of Covetrus' environmental initiatives. There is only disclosure for Scope 1 and 2 carbon emissions in the company's North American operations but not for the rest of the world, while no environmental targets relating to CO_2 reductions (and similar) have been currently set.

Case study four: Thermo Fisher

The joint largest holding in the Future Trends Fund hosted its 2021 Investor Day in September. While the primary focus of the event was on providing a framework for its financial guidance through to 2025, Thermo also highlighted its progress in respect of ESG initiatives. The business detailed a commitment to achieve net-zero carbon emissions by 2050, building on a previous target of 30% reduction by 2030 (relative to a 2019 baseline). It also established a goal to obtain Accountancy, Consistency and Transparency labelling for its entire core temperature storage portfolio by the end of 2021. Over time, the idea is to migrate more and more products over to this labelling in order to drive more environmentally sustainable lab practices. Thermo said its pending 2020 Sustainability Report will provide further details on both these topics and more. Separately, **ASML** (the Fund's other largest holding) also hosted an Investor Day last month. The business provided some brief comments on its sustainability strategy, including a reiteration of its commitment to achieve net zero emissions by 2040.

Deep-dive into Airbnb

Airbnb, capitalised at over $100bn, and the owner of the world's largest two-way travel platform, is the newest investment within the Future Trends Fund. We initiated a position in the business in August 2021 and the full rationale for our investment is detailed in our most recent quarterly commentary. Although we have been following the themes of online society and the sharing economy for some time (see our initial respective theme pieces from 2014 and 2016), Airbnb only listed in December 2020.

Prior to our investment, we engaged with management, including the company's Chief Financial Officer. We have also subsequently spoken with members of both the Finance and Investor Relations teams at Airbnb, including most recently at the end of August. This access helped reinforce our conviction in the investment case for Airbnb. ESG considerations are of undoubted importance to Airbnb, and have formed part of our discussions. While we are encouraged by the progress made to-date by the business, we believe there is substantially more still to be done in respect of the business improving its ESG credentials.

Key positive actions that Airbnb has taken in respect of ESG initiatives include:

- **A Board which comprises a diverse set of members,** two-thirds of whom are independent;

- **A clear commitment across the organisation to diversity, with further targets in place.** ~50% of Airbnb's US employees are women and over 13% are from under-represented minorities. The proportion of under-represented minorities on Airbnb's leadership team reached15.2% as last reported, versus just 2.6% in 2019. By 2025, the company targets that 50% of its global employees will be women and 20% of its US workforce will comprise under-represented minorities. Hiring policies have also been adjusted to reflect these objectives;

- **Strong track record of community support.** Starting with Hurricane Sandy in 2012, Airbnb hosts in ~100 countries have housed over 75,000 people recovering from natural disasters and international refugees. Most recently, Airbnb announced that it would house up to 40,000 refugees recently displaced from Afghanistan; and

- **Business model supports localism and diversity.** Airbnb believes that the majority of the economic activity (as measured by host income and guest discretionary spending) remains in the neighbourhoods where guests stay. Separately, Airbnb also helps facilitate the collection of city taxes for local authorities. Additionally, the company has also worked significantly with local authorities to establish ways for helping to rebuild tourism following the end of recent lockdowns.

Despite these initiatives, we believe there are a number of areas in which Airbnb still needs to demonstrate its credentials better:

- **Current absence of ESG documentation.** Admittedly, Airbnb has been listed for less than a year, but even prior to being a public company, no materials on ESG information have been published. Further, Airbnb has not signed up to the UN Global Compact (UNGC). In our recent discussion with Airbnb, management said that its "full intention" was to deliver a sustainability report before the end of 2021. Additionally, Airbnb believes its stakeholder approach is "aligned with the principles" behind the UNGC;

- **Management has yet to commit to any environmental targets.** Airbnb has not set any objectives in respect of reducing carbon emissions or waste levels. However, Airbnb confirmed to us that it plans to set such targets in the near future. Elsewhere, it is worth noting that (1) Airbnb became a member of the LEAF coalition (along with businesses such as Amazon, Nestlé and Salesforce) earlier this year. The organisation seeks to offset carbon emissions via repopulating the Amazon rainforest; and (2) in a 2019 survey conducted by Airbnb, over 80% of its hosts said that they used one or more green practices in their hosting, such as the use of bulk toiletries or the promotion of recycling;

- **No portion of the remuneration of C-level management is linked explicitly to hard ESG targets:** Airbnb's proxy filings highlight that there is a clear link between executive pay and stakeholder priorities, with the idea being to create "alignment and accountability" to all stakeholders. While we applaud this approach, no hard targets are detailed. Soft targets apparently include certain recruiting milestones and diversity initiatives, but these have not been disclosed publicly. On the positive side, we do however find it encouraging that Airbnb states that the CEO intends to donate the net proceeds from his multi-year awards (from vesting shares) to community and philanthropic causes; and

- **No independent Chair:** despite the Board's independence noted above, co-founder Brian Chesky currently occupies both Chairman and CEO roles. This looks unlikely to change any time soon, per the company. It is also worth noting that the three founders of the business together own over 45% of Airbnb's common outstanding shares.

In terms of external assessment, MSCI awards Airbnb a B rating (its second lowest), which was last reviewed in September 2021. We note that this rating is relative to the hotel and travel industry. MSCI highlights the areas of corporate behaviour and human capital development as being those where it sees most scope for the company to improve. As our own analysis details, Airbnb has made clear progress, although there is still more work to be done. Sustainalytics assesses Airbnb relative to internet and software peers and on this basis it ranks in the 31st percentile (or 65th out of 209). Its overall risk rating of 25.2 (last reviewed in July 2021) places it in a medium risk category. Sustainalytics notes a moderate level of controversies. These relate primarily to customer and to community incidents. Airbnb has been generally keen to address these concerns and has improved its policies regarding both guest and host screening.

We will continue to monitor the progress made by Airbnb in respect of its ESG undertakings and to interact with management/ investor relations on these topics. Further information will follow in our subsequent Sustainability Reports.

Conclusion

As we noted at the start of this report, 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

Morningstar Sustainability Globes

Appendix One: Alignment with Sustainable Development Goals

The United Nations launched its 2030 Agenda for Sustainable Development in 2015, at which time it was adopted by all members. The agenda provides a shared blueprint for peace and prosperity for the planet. At its heart lie 17 Sustainable Development Goals (SDGs).

When we think about the future **our starting point is to consider how to allocate scarce resources efficiently.** This premise is fundamental to classic economics but it is also highly significant when one considers how to balance the needs of a growing global population (the United Nations predicts a ~25% increase in the world's population between now and the end of the century) with shrinking natural resources (water, food, energy). An ageing population in many geographies – with additional healthcare needs – and an urbanising population in others – with different needs – will also likely pressure the system.

It is against this background that we have consistently argued that **technology is an enabler;** a tool for enabling more efficient resource allocation. Think about **how a powerful combination and application of data can result in improved resource optimisation.** Data have no value, we believe, unless they are stored, secured and analysed. When applied appropriately, data can help enable health innovation and improve waste management, to name just two examples. Data insights can also promote better air, water and food quality. They may further drive more responsible and sustainable consumption as well as reducing inequalities. Start to consider the potential for how data can be leveraged and you can see immediate alignment with the SDGs.

We are confident that **every business within the Future Trends Fund has alignment to multiple SDGs,** even if this is not always quantifiable. Furthermore, it is worth noting that certain of the goals overlap (for example, those of no poverty and zero hunger), while others (such as peace, justice and strong institutions, or partnerships for the goals) may be of limited explicit focus for the businesses within our universe. Goals 12 and 13 – responsible consumption and production, and climate action – provide some good examples of where many of our businesses have developed policies that are consistent with the objectives established by the United Nations. Alignment with other goals will be profiled in subsequent Sustainability reports.

Companies as diverse as Aptiv (a systems integrator for the auto industry), MOWI (a salmon farmer) and Prologis (a provider of industrial warehouses) stand out as industry leaders in respect of responsible consumption and production. Product innovation at **Aptiv** has reduced the weight of materials used for building electric vehicles, resulting in more energy conversion efficiency and driving better range, thereby accelerating the likely customer transition away from conventional internal combustion engines. **MOWI** highlights that 1.8m tonnes of carbon dioxide emissions are avoided annually by replacing the corresponding amount of land animal protein production with salmon. This is equivalent to removing 380,000 cars from the road every year. **Prologis** owns over 4,900 buildings in 19 countries across the world, equivalent to around 1bn square feet. All of its properties are targeted to be equipped with LED lighting by 2025 and an increasing percentage of its portfolio have solar panels installed. Indeed, Prologis ranks third in the US – where ~60% of its properties are based – in terms of solar installations, behind only Walmart and Amazon.

Almost all businesses within the Future Trends Fund have set out targets to reach net-zero carbon emissions over the next 10-20 years. Some of these announcements have been relatively recent (for example, **PayPal**), while others remain laggards and have yet to establish targets, even if there is an intention to do so (at **Covetrus** or **Zebra Technologies**). **Vestas**, the world's leading producer of wind turbines, is a strong case study of what other businesses may seek to achieve. At the start of 2020, it committed to reduce its global carbon footprint by 55% within a 2025 timeframe, aiming to become 100% carbon neutral by 2030. In addition, Vestas announced in January 2020 that it would eliminate all waste in the production of its wind turbines by 2040. Other businesses with strong commitments in this respect include **ASML** (machines that make semiconductor chips) and **Novo Nordisk** (diabetes treatment), highlighting that climate action is an objective that cuts across sectors/ themes.

Appendix Two: What we don't invest in

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 –

- X adult entertainment;
- X alcohol;
- X civilian firearms;
- X coal;
- X controversial weapons;
- X gambling;
- X mining;
- X nuclear;
- X oil;
- X tobacco;
- X weapons

Appendix Three: Ranking our businesses on external data

As our work on sustainability has continued to expand, we have increased our emphasis on the proprietary parts of our process. We believe these allow us to form the best impression of the overall direction of travel. Nonetheless, we provide below a quantitative overlay. We currently use Sustainalytics as our data provider. Based on its methodology, the Future Trends Fund continues to exhibit a high correlation between ESG rankings and portfolio weightings. Four of the Fund's top-five holdings (and eight of our top-ten) as of 30 September 2021 receive low-risk ratings from Sustainalytics.

Company	Portfolio Weight	Risk Category	Risk Rating	Last Report
ASML	5.9%	Low	14.2	May-21
Thermo Fisher Scientific	5.9%	Low	11.8	May-21
IBM	5.4%	Low	17.7	Aug-21
PayPal	5.0%	Low	10.1	Jun-21
MOWI	4.9%	Medium	26.3	Apr-21
Fund Average			19.3	

Source: Heptagon Capital, Sustainalytics, data as of 30 September 2021. For more Sustainalytics methodology see discussion below.

Methodology

Sustainalytics emphasises good governance as the starting point for any discussion about SRI priorities.

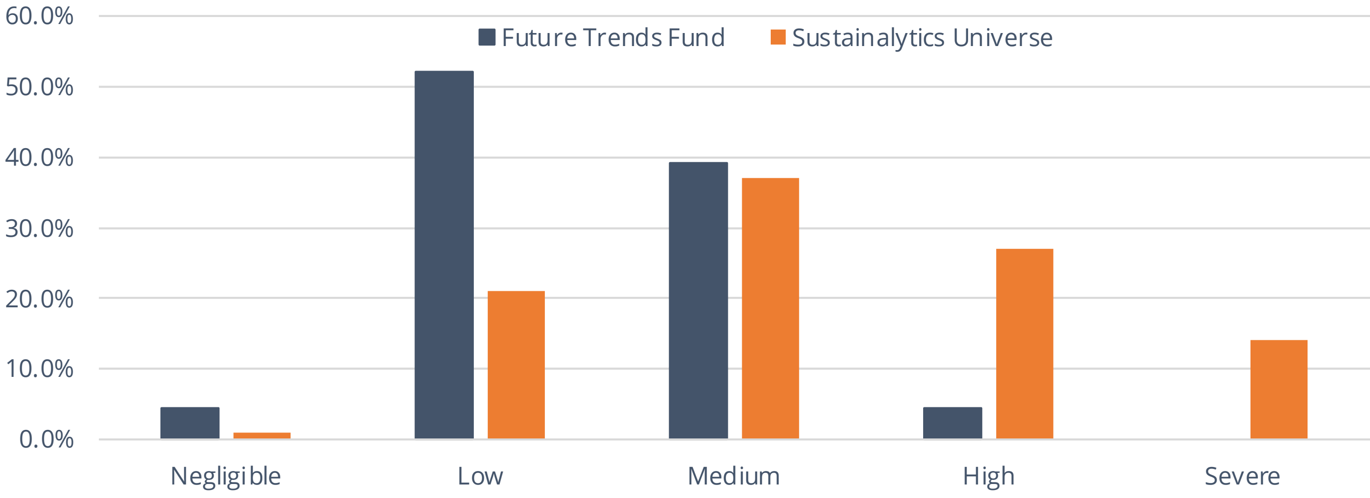
- **Businesses are given a 'risk' rating.** These are derived from deep insights into multiple exposure factors including corporate governance, human capital, product governance, ESG integration of financials and business ethics. This results in a composite risk score (or measure of a company's unmanaged ESG risk), where the **lower the risk rating, the better.** Note these ratings – and all others within Sustainalytics – are on an absolute basis rather than being industry/ sector-relative.

- Sustainalytics also awards businesses **a 'momentum' score.** This is centred around direction of travel; whether businesses are getting better in their governance practices and their practical application. Scores here should be considered in conjunction with risk ratings. As a general rule, positive momentum should be seen as encouraging and vice versa. Low-risk ratings combined with stable (or positive) momentum could be seen as an ideal scenario.

- **Companies are additionally assessed on the extent of the controversies in which they have been involved.** These could relate to factors such as anti-competitive practices, data breaches or animal welfare among others. Businesses are scored on a ranking of 1-5, where lower is better.

Sustainalytics groups businesses into five categories of risk ratings ranging from negligible through to severe via low, medium and high. A negligibly rated business is one whose enterprise value is considered to have a negligible risk of material financial impacts driven by ESG factors, and vice versa.

Across our portfolio of 23 companies, one of our businesses – Keysight – receives an unmanaged risk rating of 10 or lower from Sustainalytics (meaning the enterprise value of the business is considered to have a negligible risk of material financial impacts driven by ESG factors) and none of our businesses carries a rating of over-40 (considered as severe). Indeed, as the table below shows, the Future Trends Fund has a markedly superior distribution of risk ratings relative to the broad universe of business covered by Sustainalytics. Relative to the start of the year, the average risk rating for the portfolio has improved slightly; from 19.8 to 19.3.



Source: Sustainalytics, Heptagon Capital. Data as of 30 September 2021.

In terms of **momentum,** a bigger percentage of our businesses are demonstrating positive momentum relative to negative, currently (56% vs 39%, with the remainder unchanged) based on information provided in the most recent reviews issued by Sustainalytics. Combined with the above risk scores, this suggests to us that the management teams of our businesses are generally mindful of their ESG imperatives and are continuing to implement appropriate policy.

Finally, with regard to **controversies,** 10 of our 23 businesses are considered by Sustainalytics to be subject at present to no or low levels of controversy, while only four of our businesses receive a controversy designation of either 'high' or 'significant.' The businesses subject to controversy per Sustainalytics are Alibaba, Mastercard, MOWI and Novo Nordisk (ordered alphabetically). Having dug into the matters raised, we consider the topics of controversy to be well-understoosd issues, which although require careful monitoring, do not change our investment view on the business. Anti-competitive practices are the main (general) source of concern. An additional issue for MOWI is animal welfare. While there is work to be done in this respect, MOWI ranks ahead of almost all its agriculture peers, as we have discussed in previous sustainability reports.

Important Information

Past performance is not an indication or guarantee of future performance and no representation or warranty is made regarding future performance. This communication is for information purposes only. It is not an invitation or inducement to engage in investment activity.

The document is provided for information purposes only and does not constitute investment advice or any recommendation to buy, or sell or otherwise transact in any investments. The document is not intended to be construed as investment research. The contents of this document are based upon sources of information which Heptagon Capital believes to be reliable. However, except to the extent required by applicable law or regulations, no guarantee, warranty or representation (express or implied) is given as to the accuracy or completeness of this document or its contents and, Heptagon Capital, its affiliate companies and its members, officers, employees, agents and advisors do not accept any liability or responsibility in respect of the information or any views expressed herein. Opinions expressed whether in general or in both on the performance of individual investments and in a wider economic context represent the views of the contributor at the time of preparation. Where this document provides forward-looking statements which are based on relevant reports, current opinions, expectations and projections, actual results could differ materially from those anticipated in such statements. All opinions and estimates included in the document are subject to change without notice and Heptagon Capital is under no obligation to update or revise information contained in the document. Furthermore, Heptagon Capital disclaims any liability for any loss, damage, costs or expenses (including direct, indirect, special and consequential) howsoever arising which any person may suffer or incur as a result of viewing or utilising any information included in this document.

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.

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.

Heptagon Capital LLP, 63 Brook Street, Mayfair, London W1K 4HS
tel +44 20 7070 1800
email london@heptagon-capital.com

Partnership No: OC307355 Registered in England and Wales
Authorised & Regulated by the Financial Conduct Authority (FRN: 403304)