HEPTAGON
Capital

2022

HEPTAGON EUROPEAN FOCUS EQUITY FUND

Sustainable Finance Disclosures Regulation (SFDR) - Article 8 Website Disclosures

1. Summary

The Fund employs a high conviction, bottom-up, low turnover, research driven strategy with a focus on companies that exhibit sustainable long-term growth. Rigorous fundamental analysis is utilised to identify companies believed to have intrinsic value greater than market valuations.

ESG considerations are essential to the investment process, the Fund aims to exclude companies that are directly involved in, and/or derive significant revenue from industries or product lines in areas such as gambling, weapons, or tobacco and engages in active dialogue with companies to foster good ESG practices and improve the sustainability profile of companies in the long-term. The Fund also avoids commodity or energy stocks and does not generally invest in purely financial sectors as these are deemed to be closely integrated with a slow-growing economy. The Fund favours large-capitalised stocks with adequate free-float liquidity and more concentrated business models over those widely diversified. Fund Manager, Christian Diebitsch, joined Heptagon in 2014 and has been managing European Equity funds with the same investment style since 2007.

2. No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective a sustainable investment.

3. Environmental or social characteristics of the financial product

The characteristics promoted by the Fund consist of investing in companies that may exhibit E/S characteristics such as:

• Improving greenhouse gas (GHG) emissions;
• Improving energy/electricity usage development;
• Transparency and disclosure of environmental and social reports;
• Lack of material environmental and/or social controversies;
• Human rights considerations;
• Overall good environmental practices;
• Employee diversity; and
• Alignment with UN Sustainable Development goals.

4. Investment strategy

In addition to the environmental and social characteristics promoted, the Fund aims to exclude companies that are directly involved in, and/or derive significant revenue from, industries or product lines that include:

• fossil fuel extraction;
• tobacco;
• adult entertainment;
• gambling; and
• weapons.

To qualify as an investable stock in the Fund, each company is subject to a comprehensive in-house due diligence process where analysis is performed on areas such as business strategy, market position, long-term growth prospects in conjunction with necessary ESG criteria.

Implementation of selection criteria

The initial investment universe has approximately 6,000 stocks. As a result of an elimination phase that includes the above screening criteria, mentioned restricted activities, as well further ESG filters and strict governance criteria, roughly 5,200 companies are excluded. The Sub-Investment Manager ("Heptagon Capital LLP") will then do further research on approximately 800 companies, out of which generally 35-45 companies qualify to go on the Fund's list. The final portfolio will normally consist of approximately 20-25 companies.

The Sub-Investment Manager screens investments according to the following environmental and social criteria which may vary depending on the sector as well as data availability:

Environment:
• *Greenhouse gas (GHG) emission development;*
• *Improving energy/electricity usage and development;*
• *Improving renewable energy/electricity usage development; and*
• *Improving waste and water consumption development.*

Social:
• *Fair wages/salaries;*
• *Ethical supply-chain product sourcing and outsourcing to 3rd party supplies;*
• *Employee diversity;*
• *Women's participation to units of sales and in terms of overall headcount; and,*
• *Women's executive participation in terms of the overall management structure.*

When assessing these metrics, the Sub-Investment Manager initially looks for improving companies´ absolute data, or for ongoing improvement in E/S productivity, and analyses data points, where measurable, as a percentage of sales and by employee, for e.g.:

• **Environment:** improvement of GHG/water/waste per unit of sales and per employee
• **Social:** improvement of women/female executives per unit of sales and per employee

Good governance practices of investee companies

The Sub-Investment Manager is a signatory to the UN Principles for Responsible Investment (the "**UNPRI**"). As a signatory to the UNPRI the good governance practices of investee companies are assessed prior to making an investment and periodically thereafter, the Sub-Investment Manager screens:

• the size and experience of the board;
• number of independent directors;
• board compensation; and
• largest shareholders to see if they are institutional, private or shares held through trusts and similar.

5. Proportion of investments

Under normal circumstances, in order to meet the environmental or social characteristics promoted, the Fund is generally expected to invest at least 80% of its equity exposure in companies aligned with the E/S characteristics of the Fund but that may not be classified as sustainable investments as defined under SFDR. The remainder could be held in companies that may not match the Fund's ESG criteria in its entirety or in cash or cash equivalents, nevertheless,all investments excluding cash and equivalents go through the same screening process and are made with ESG considerations. The Fund is mostly exposed to the following sectors; consumer discretionary, consumer staples, health care, industrial, information technology and materials.

Derivative instruments are not used for investment purposes, however, the Fund may employ techniques and instruments for the purposes of efficient portfolio management and hedging under the conditions and within the limits laid down by the Central Bank.

6. Monitoring of environmental or social characteristics

The Sub-Investment Manager screens investments according to the following environmental and social criteria which may vary depending on the sector as well as data availability:

Environment:
- *Greenhouse gas (GHG) emission development;*
- *Improving Energy/electricity usage and development;*
- *Improving Renewable energy/electricity usage development; and*
- *Improving Waste and water consumption development.*

Social:
- *Fair Wages/Salaries;*
- *Ethical Supply-chain product sourcing and outsourcing to 3rd party supplies;*
- *Employee diversity;*
- *Women's participation to units of sales and in terms of overall headcount; and,*
- *Women's executive participation in terms of the overall management structure.*

7. Methodologies

When assessing these metrics, the Sub-Investment Manager initially looks for improving companies´ absolute data, or for ongoing improvement in E/S productivity, and analyses data points, where measurable, as a percentage of sales and by employee, for e.g.:

- **Environment:** improvement of GHG/water/waste per unit of sales and per employee
- **Social:** improvement of women/female executives per unit of sales and per employee

Together with internal analysis, the Sub-Investment Manager uses an independent global ESG provider to enhance the ranking of businesses based on ESG criteria, and looks at ESG risk ratings, "momentum" scores, and controversies.

- Exclusion criteria that eliminates non-grata industries;
- Seeking to avoid businesses regarded as harmful to society – a belief that 'doing well and doing good is mutually dependent' for being a good long term-investment;
- Seeking investment candidates which prioritise ESG-friendly products and whose goal should comply with a circular economy.

8. Data sources and processing

Through comprehensive in-house due diligence the Sub-Investment Manager analyses the business strategy, market position, long-term growth prospects and ESG credentials of investee and prospect companies. The Sub-Investment Manager supports its in-house models with various data sources and ESG data providers. The Sub-Investment Manager takes an active part in processing ESG data. Data gathered from third-party sources is used to, amongst other things, understand what each indicator measures, how these have evolved over time and what factors may be the most relevant to certain industries or companies. This data is then incorporated into the Sub-Investment Manager's proprietary research process which is complemented with company management engagement.

The data sources used to analyse each of the environmental or social characteristics promoted by the Fund are:

- Bloomberg data;
- MSCI: provides insights on company's "risk" ratings, "momentum" scores and controversy screening;
- Analysis is further complemented by ESG scores from providers such as Refinitiv;
- Various company reports; and
- Monitoring of articles and news.

Data quality is enhanced through the use of varied data sources, company management engagement and performing internal research to validate such external sources.

9. Limitations to methodologies and data

Limitations on methodologies and ESG data include the lack of consistency, reliability, comparability, and quality of the data available. This is driven by issues including, but not limited to:

• Lack of common methodology across providers of ESG ratings;
• Lack of standardised reporting by companies;
• Different estimation models for unreported data;
• Difficult to quantify factors and unverified or unaudited information; and
• Backward looking information that fails to capture “direction of travel”.

These limitations are addressed by:

• Use of varied data sources;
• Company engagement to understand data at source; and
• Reliance on internal research and analysis using third party data as complementary information.

10. Due diligence

The Sub-Investment Manager assesses sustainability risks at the pre-investment stage and on an ongoing basis as follows:

Pre-investment - due diligence assessment

Any business identified as having a high probability of a potential sustainability risk impacting future returns would not be included in the final portfolio. As a result of this pre-investment due diligence assessment, together withadherence to the exclusion criteria and selection process described, the Sub-Investment Manager believes that the potential impact of sustainability risks on returns are significantly decreased at the outset.

Ongoing assessment

Where there is a marked deterioration in sustainability of a business, evidenced both by quantitative factors such as a decline in ESG risk ratings noted by an independent global provider and factors such as negative perceptions over a business’ operating practices, the Sub-Investment Manager will seek to engage with the business’ management, and if unsatisfactory, potentially exit from the investment.

11. Engagement policies

The Sub-Investment Manager engages investee and universe companies. This involvement helps to develop an in-depth understanding of the individual companies and supports the company’s management conversations around ESG concerns.

The Sub-Investment Manager regularly attends meetings and/or conference calls with company management, attends investor days, as well as thematic events and industry conferences, which provide the Sub-Investment Manager the opportunity to engage with investee companies.

The focus of analysis of possible issues with investee companies may include, amongst other factors, business structure and strategy, performance, capital structures, management, ESG factors, as well as internal controls and risk management.

12. Designated reference benchmark

The Fund does not have a sustainable designated reference benchmark.

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.

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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.

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