HEPTAGON Capital

Q3 2022

FUTURE TRENDS EQUITY FUND

SUSTAINABILITY REPORT

ALEX GUNZ
Fund Manager

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. 9.1% annualised returns since inception compare favourably to returns of 8.4% for the Fund's MSCI World Index benchmark. Fund AUM are $116m and strategy AUM $126m as of 30 September 2022.

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 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 and are trends which we believe will grow in importance regardless of the economy and regulation. This report constitutes our eleventh publication about investing sustainably.

The Fund receives an AA rating from MSCI and 5 Sustainability Globes from Morningstar. **The Future Trends Fund is classified as an Article 8 Fund under the European Union's Sustainable Finance Disclosure Regulation**. We were also pleased that the Future Trends Fund was awarded the FNG-label (the quality standard for sustainable investment funds in German-speaking countries) for the first time in 2021.

S is for sufficient sustainability

Running a global equity strategy called Future Trends is never dull. Rather, your Fund Manager considers it to be a privilege. Not only is there an opportunity to focus on something different each day – since our approach has quite explicitly been a pan-thematic one since inception – but there is also the knowledge that we are *trying to make a difference*. Sustainability has always been an implicit part of our mandate (since we are investing in businesses that are trying to shape the future for the better) and engagement is critical to our investment process. Our last quarterly report focused on this topic in detail and our **interaction with management teams remains an active part of how we spend our time**. Year-to-date, we have conducted 81 meetings with companies, 57% of which have been in-person.

We also spend much of our time meeting with investors (both existing and prospect) to explain to them the merits of our strategy. We have conducted over 60 such meetings so far in 2022 across 12 different countries. We value dialogue and interaction, learning always from these encounters. One such meeting that particularly sticks in your Fund Manager's mind occurred in Zurich in early June. While on the topic of sustainability, the investor asked, **"what do you do in your personal life that can be considered sustainable?"**

This got us thinking. First, why might an investor even want to ask such a question? Fortunately, the client in question provided an answer: they were looking to invest *not just* in a sustainable strategy, but also in **a firm and in a manager that pursued sustainable practices**. Put another way, in the client's view, **simply labelling a Fund as 'sustainable' is necessary but not sufficient;** they wanted to see a genuine commitment to sustainability at all levels.

This opens up a broader discussion about the potential differences that *may* arise between a business announcing a formalised sustainability strategy and how it is then implemented *on a practical basis*. Like with much of any discussion around sustainability, the research on and answers to this broad topic are constantly evolving. Nonetheless, we thought it highly instructive to have a conversation with executives from several of the businesses in which we are invested to hear their perspectives. These appear below as well as a profile of how Heptagon Capital and your manager of the Future Trends Fund implement sustainability practically.

Company profiles –
We selected four businesses in which the Futures Trends Fund is invested – two from Europe and two from the US – which operate across a range of industries. For simplicity, they are listed in alphabetical order:

ASML: Marcel Kemp, a 30+ year company veteran, was the perfect person with whom to discuss practical sustainability at ASML, the world's largest producer of the lithography machines that make semiconductor chips. Having worked on two continents for the business and occupied both sales and investor-facing roles, his perspectives on the ASML proved invaluable. While ASML has always had a clear purpose – "to unlock the potential of people and society by pushing technology to new limits" – Marcel was adamant that ASML remained "on a journey" and that it needed to continue to "step up" and be a good corporate citizen. As with many growth businesses, ASML has changed significantly in recent years, with c50% of its 35,000 employees having been recruited since 2019. With 120+ different nationalities spread around the world, it is crucial to disseminate consistent cultural values to all staff. ASML's values are clear and simple: "challenge, care and collaborate." There is a circularity attached to these: challenges can only be solved through collaboration, while there is a duty of care to all stakeholders as well as the planet. The engrained Dutch mindset of being "beautifully direct" (in the words of Marcel) helps ensure that these values work practically on a day-to-day basis; dissent is encouraged. Given such a large influx of new employees, mentoring and training matters. New employees are assigned a 'buddy' and overall training hours (per full-time employee) increased to 29 last year. The diverse needs of all employees also need to be recognised, per Marcel. A good example is appropriate support networks for workers at the business with autism spectrum disorder (ASD). The Veldhoven-Eindhoven-Brainport area of the Netherlands where ASML has its headquarters, has the highest concentration of people with ASD in the world, and ASML has worked for a long time in supporting them. Elsewhere, Marcel highlighted the strong culture of charitable giving and volunteering work at ASML. Employees are allowed to take up to eight hours of paid leave annually to help work on volunteering projects (such as outreach to the local elderly). Meanwhile, the ASML Foundation made donations of over €10m in 2021, up 40% versus the prior year. Of course, there is always room for improvement. ASML highlighted that going forward it would seek to increase and make more visible its efforts in respect of the circular economy (the business has a target to be at zero waste from packaging and materials by 2030). Expect more disclosure from the business going forward too.

IBM: With a 39-year career at the company, Patricia Murphy's perspectives on how IBM implements sustainability on a practical basis were invaluable. As VP of Investor Relations, she interacts with a wide range of both internal and external stakeholders. Good values and ethics are "so engrained" within IBM, according to Patricia. Much of this is a function of its legacy, being a pioneer in employing and supporting people from diverse and disabled backgrounds ahead of many of its peers. A walk through its Armonk headquarters (which your author visited again in May) has many visuals depicting key relevant moments of this sort in IBM's history and serves as an ongoing inspiration for employees. The impact of good leadership is also highly visible. Arvind Krishna has done markedly less flying than previous IBM CEOs and encourages video calls as opposed to carbon-intense travel wherever possible. Strong support for flexible working arrangements also means fewer employees need to drive to head office. For those who do travel, two different IBM-sponsored bus services from Manhattan to Armonk (roughly an hour's drive) also help in this respect and reduce emissions. The office also has a "live on the glass" policy which discourages the use of paper and printing – another easy sustainable win for the business. Overall, IBM has 21 internal environmental sustainability goals in place at present, which cover a broad range of objectives embracing not only the above, but also ideas as diverse as planting up to 50 pollinator gardens at IBM locations globally by the end of next year in order to support biodiversity. Elsewhere, we were told that corporate citizenship was "really important" to IBM. Charitable donations by employees are generally matched by the business and volunteering opportunities (often, up to 20 different ones at any given time) are readily available. IBM has been a long-standing supporter of P-TECH, a public education model that provides high school students from underserved backgrounds with the academic, technical and professional skills and credentials needed for STEM jobs. Many employees (Patricia included) have assisted in schools in this respect. Despite such enviable progress on sustainable matters, of course, there remains room for improvement, per IBM. One area that the business is committed to focusing on is using its research for good. Better artificial algorithms can help eliminate bias, while quantum innovation could help deliver more sustainable materials. In each case, IBM is 'client zero', trialling a novel technology internally before rolling it out more widely to customers.

Keysight Technologies: We were privileged in our discussions with Keysight on the topic of sustainability to have three senior members of the organisation on a call. That all of them had been at the firm (and its predecessor entities) for over 25 years is strong testament to the working culture embedded within the organisation. For those less familiar with the business, prior to being a listed entity, Keysight's operations constituted a unit within Hewlett Packard and then Agilent. This background is instructive since the 'HP way' drives much of the Keysight's approach to how it operates in general and with regard to sustainability in particular. Each of the three Keysight people with whom we spoke (its Treasurer, Director of Investor Relations and Director of Corporate Social Responsibility) described passionately how at Keysight there was a deeply embedded respect for the individual, a willingness to listen to other's perspectives and a recognition that the sum of the organisation was greater than its parts. We were told that "you need diversity [of people and perspectives] in order to make progress." Beyond thoughtful recruitment at the outset, every employee is issued with an annual 'value creation plan', which details a broad range of appropriate ongoing training. Internal promotion and movement are actively encouraged, as the varied roles undertaken by the three Keysight individuals with whom we spoke in their time at the business indicate. Much of this proactive ethos originates right from the top. The senior team sits in an open-plan office, are regularly seen walking around and directly interacting with other employees, or even taking them for lunch. Keysight's Chief Financial Officer was apparently recently spotted at a cornhole game with summer interns. Across the business, there remains the notion of continuous improvement – another HP legacy – and always thinking where Keysight can do better. Much of our conversation revolved around the idea of quantifying or codifying the good work the business is already doing. We were struck by the volunteering activity Keysight employees (including, again, its corporate leaders) does in local communities. A final impressive anecdote that resonated from our call was learning more about Keysight's beautiful Santa Rosa headquarters (which we last visited in 2019). The 200-acre property has its own recycling centre on site, a vegetable garden which employees tend and is populated by many native trees and grasses. At any given time, around 200 sheep and goats can be found grazing at Keysight, as pictured below. Beyond being part of the business' broader rewilding project, they also help mitigate wildfire hazard risks too.

Source: Keysight Technologies

MOWI: Who better to learn about sustainability at the world's largest producer of farmed salmon than both their Chief Human Resources Officer and Chief Technology & Sustainability Officer? The two members of the senior MOWI team, each with around a decade of experience at the company, described with passion to us how 'the MOWI Way' has been inspirational in shaping the direction of sustainability at the business. Beyond an emphasis on operational excellence, the qualitative ideas embedded within the MOWI Way relate to ethics and values as well as the topic of health and safety (fundamental for any business operating in the food industry). MOWI's team highlighted to us that while broad sustainability initiatives were formed at a senior level, individuals throughout the organisation were "empowered" to run with dedicated, more local projects. As a reminder, MOWI operates in a wide range of geographies (from Canada to Chile via Norway and the British Isles) and across the whole of the salmon industry value chain. Examples of localised initiatives include the installation of wind turbines at facilities in Chile, while solar has been preferred in Canada. Many sites have installed charging stations for electric vehicles and MOWI's processing plant in Belgium also recently initiated a programme to encourage bike usage over other forms of travel. Community engagement is another area on which significant emphasis is placed at MOWI. Over 400 different events of this nature have been undertaken in the past 12 months. Local barbecues in Scotland (with a travelling MOWI wagon) can help highlight the health benefits from eating salmon, while a partnership with the World Wildlife Foundation (which also included a travelling vehicle with fishing nets attached) has helped raise awareness about the impact of plastic pollution in the ocean. MOWI is also acutely conscious of the importance of growing diversity within its business. A 60:40 male-female ratio across the firm constitutes good progress, but with an equal split targeted, there is more to be done, particularly in terms of bringing women into salmon farming, per MOWI. To this end the company is "doing everything it can" to raise profile in this area whether via social media, outreach to schools or internal promotion. Much relates to changing perceptions. Not all the job of a salmon farmer pertains to standing in the cold and wet at sea; rather, a strong IT background is an increasingly relevant and valuable skill set for the role. Training for all employees in certain areas (such as health and safety) is mandatory on an annual basis, but new programmes are constantly being introduced. A focus on human rights and the elimination of bias in recruiting are currently top of mind.

One further take on the topic of practical sustainability was kindly shared with us by Martin Scott, a Client Service Partner at EY. Working for a leading business and professional services organisation that provides strategic advice to many other businesses on topics such as sustainability, it was encouraging to learn that a distinct sense of purpose is deeply engrained within EY.

Martin made the valid observation that **purpose-led organisations tend to outperform their peers**. Having a purpose matters, not just from a top-down sustainability perspective, but also when it comes to recruiting new talent, particularly given the highly competitive labour market. For EY, it is all about "building a better working world" and Martin highlighted how he was proud of the ability of the firm's employees to articulate precisely what this (broad) mission statement means. Ongoing training to reinforce EY's values is paramount. Regular team-based games with groups of up to ten employees randomly paired together constitute a great case study in practical implementation. EY, per Martin, "feels a lot more open and less status-heavy" than roughly a decade prior when he joined. Regular town hall meetings present an opportunity for all employees to make their voices heard. More importantly, the *nature* of the firm has changed with more emphasis in the recruitment process on diversity (some 35% of EY's London intake, for example, now comprise school leavers). All joiners have not just a line manager but also a dedicated 'councillor' or mentor with whom they can have richer discussions. Beyond these positive developments, Martin highlighted the mindset (throughout EY) that "if you want to make a change, it's not about buying a heap of trees – it's about changing behaviour." Put another way, although EY is set to be carbon negative in 2022 (owing to carbon offsets it procured), the *more important* dynamic has been the introduction of a tool, currently in beta phase, which allows teams across the organisation to assess the theoretical carbon footprint attached to any planned travel. The hope is that its rollout will "prompt people to think" about the necessity of getting on a plane (or train) when business could alternatively be conducted remotely via Teams or similar. EY may also roll this tool out to its clients over time. The EY Foundation, its charitable arm, funded by the firm's Partners, also serves as a strong role model. Much of their purpose, beyond encouraging time off for volunteering and matching employee donations to good causes, is to partner with other organisations to drive change through promoting appropriate learning tools and work experience programmes to drive increased workplace diversity.

The Heptagon Capital perspective –

As mentioned above, we thought it highly relevant to share with readers how sustainability works practically at Heptagon Capital. To this end, we spent time discussing this topic with Rupert Davies, Head of ESG, as well as a number of other employees.

Prior to joining Heptagon in 2021, Rupert spent his career most recently with Morgan Stanley. Our discussion began with him highlighting the contrast between large organisations and a business such as Heptagon. For the former group, one of the fallouts from the last financial crisis was a wake-up call: big banks needed to become better corporate citizens. Also, by definition, such organisations have proportionately larger carbon footprints based on energy consumption, employee travel and so on. Heptagon's footprint is substantially smaller, but the visibility of its actions is, conversely, much *more tangible* for employees. Many minor changes can add up to make a difference. Examples in this respect would include switching out plastic water bottles for glass ones, coffee pods for coffee beans, cow's milk for plant alternatives, using recycled paper in the printer and so on. Old IT equipment is either repurposed or recycled. Further, the firm-wide switch from desktops to laptops across all four of Heptagon's offices over the last year has resulted in a major reduction in carbon intensity. Per our Head of IT, the focus at Heptagon is on "ordering what people need rather than want." Talk to the firm's marketeers and they will tell you that there is a growing preference for digital presentations over physically printed ones, which generates a clear carbon saving (as well as a lighter bag with which to travel). Train journeys over planes for business travel are preferred wherever possible. Much of the good work done by an organisation such as Heptagon begins at the top. The Founding Partners act as strong role models in every respect. They are also deeply involved in the promotion of charitable giving (with recent support, for example, to Champions for Children, a London-based charity focused on helping children living in poverty or donating to food banks in both Malta and the UK) and in team-building exercises. One event that remains fondly remembered at Heptagon was the firm's 2018 Survival Weekend which saw many employees camping together, being forced to eat bugs and going on night-op exercises. It constitutes a great way to drive bonding. As Rupert put it, "you can't grow a culture just through social drinks." More recent events have included a London to Brighton bike ride and a team of runners successfully competing in a 5K charity challenge. A possible Three Peaks walk is being considered for 2023. Of course, there always remains room for improvement. More mentoring and career development plans, especially for younger employees, was seen as valuable by many. Towards the end of this year, Heptagon hopes to have put in place a formalised sustainability policy. Per Rupert, "we have to practise what we preach."

In terms of your Fund Manager's specific actions, he neither owns nor drives a car and lives in a meat-free household (having been married to a vegetarian for almost 15 years). He donates regularly to several charities (related to alleviating poverty in developing economies, homelessness in the UK and Alzheimer's disease) and has done so for over a decade. He also worked as a volunteer for a major charity operating in the latter area on a part-time basis while studying for his Masters Degree.

Conclusions –

The above diverse case studies demonstrate tangible sustainability in action. To the extent that there was common ground across our conversations, the following observations are pertinent –

- **Once you get people talking about practical sustainability matters, they quickly become *passionate* on the topic.**
- **Beneath the hood, there is a lot going on in respect of sustainability at every business. Further, many small wins can quickly add up to much larger contributions.**
- **Positive actions often begin at the top, but good leaders are effective in spreading a positive ethos across their entire organisations.**
- **Even with good progress made, there is still a lot more that can be done.**

Other sustainability data points

As mentioned above, our work on sustainability remains an ongoing process. We are regularly meeting with management teams from businesses both within the Fund and our broader universe, participating in proxy voting and following relevant ESG newsflow. Below follows a summary of our recent activity in each of these areas.

Corporate engagement: We noted at the start of this report that engaging with businesses is an integral part of our investment process. Year-to-date, we conducted 81 corporate meetings, either in-person or virtually. The 2022 highlight so far, which we discussed in last quarter's sustainability report, was meeting 23 businesses face-to-face across six states in the US in May. The past quarter has inevitably been somewhat quieter from a corporate access point of view, but we still interacted with 16 businesses, 10 of which are (or were, in the case of Darktrace) Fund constituents. We were privileged to meet **face-to-face with the CEOs of both Darktrace and Kerry Group** as well as with senior management from **MOWI** and **Xylem**.

Proxy voting: As part of our ongoing engagement with businesses, we take the process of proxy voting seriously. Year-to-date, we have completed 22 proxy votes, including two over the past quarter (for Steris, which has a March year-end, and a special resolution supporting Prologis' acquisition of Duke Realty). On several previous occasions we have voted *against* Board proposals. In the past year, we have objected to **IBM's** proposal *not to* separate the roles of Chief Executive and Chair of the Board and also *against* **PayPal's** planned executive remuneration scheme. In the former case, we believe separation promotes independence in decision making and provides appropriate checks and balances. In the latter, we felt that context mattered: share price performance over the past 12 months had been disappointing, as was a negative reset to financial guidance and the announcement of the CFO's departure.

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

- **First Solar:** the leading US solar provider issued its most recent sustainability report in July. Beyond the useful reminder that its solar modules have the lowest carbon and water footprint and fastest energy payback time of any comparable commercially available technology today, we were impressed to learn that the business said that it had achieved a 13% year-on-year decrease in GHG emissions and a 32% decrease in water intensity over the past 12 months.
- **Novo Nordisk** highlighted on its recent quarterly earnings call that despite war in Ukraine, it remained strongly committed to making insulin available across as much of the country as possible. Working with various humanitarian agencies, over 90% of those in need continue to receive access. Other Future Trends companies that have made notable efforts to support those in need in Ukraine include Airbnb and PayPal.
- **SIG,** a leading player within the aseptic carton packaging space, demonstrated the progress it had made on increasing the use of renewable energy at its production plants. Energy production from solar panels has doubled in the past year, while wind turbines are also being deployed in Germany. Additionally, SIG said that it hopes to have exited from natural gas usage within the next two years.
- **Thermo Fisher** announced in September that it had signed an agreement with Enel North America (a leading utility company) which will allow it to source half of its US electricity needs in the form of renewable wind power. This is a positive step, in our view. The business has committed to net neutrality by 2050.
- Finally, **Mastercard** joined the list of businesses we invest in that have now recruited a Chief Sustainability Officer, while **Zebra** has become the ninth business in our Fund to see its emissions objectives validated by the Science Based Targets Initiative.

Deep dive: Xylem

xylem Xylem became the newest investment in the Future Trends Fund, added to the portfolio in August 2022. Listed in the US with a market capitalisation of $16.6bn, Xylem is a leading pure-play water technology business that addresses the water cycle across its three business units (water infrastructure, applied water solutions, and measurement & control solutions).

With over a third of the world's population currently living under some form of water stress and this figure only likely to rise given increasing water demand, **there is a clear logic in improving the efficiency of water supply through intelligent innovation**. We first highlighted the importance of this future trend in June 2011 and made the specific case for digitalising the water sector in February 2022. Our dialogue with Xylem first began in 2016 and our more recent due diligence included a visit to the company's New York headquarters to meet with senior management, a trip to Xylem's UK research and development centre in Cambridge, England and a conversation with the procurement manager at one of Xylem's significant customers.

Throughout, we have been impressed by the **access and transparency** that Xylem has provided as well as the passion the whole team (from the CEO downwards) brings to the business. Listen to Xylem and it becomes evident that sustainability is integral to what it does: namely, helping customers to build solutions to water and energy challenges, while trying to solve the world's 'big' problems – water scarcity, climate change and affordable access for all. When asked to describe the three values around which Xylem's culture is centred, the answer is **people, products and planet**.

Begin with people. **Strong corporate governance is evident at Xylem**. 92% of its Board is independent, or 11 of its 12 members (the CEO being the exception). Some 40% of Directors are female and/ or ethnically diverse. Across the group, Xylem targets that 35% and 25% of its US leadership positions will be occupied by females and minorities, respectively, by 2025. Global targets may follow. Senior management remuneration has been tied to sustainability objectives since 2021.

People and planet perhaps best overlap when considering the Xylem goal of allocating 1% of its net income annually to address a spectrum of water challenges. These include emergency response, water stewardship and water education. Additionally, Xylem Watermark is an internal scheme which allows employees to participate in helping to solve these problems, by volunteering, for example, with partners such as UNICEF.

Other planet-based objectives include reaching **net zero by 2050**, with the introduction of Science Based Targets from 2030. Prior to this date, Xylem is currently targeting at least a 2.8m metric ton reduction in its water carbon footprint by 2025 as well as using 100% renewable energy and process water recycling at all its major facilities. Currently 8 out of 22 have reached this level.

From a product perspective, sustainability is integrated throughout Xylem's product design process using a proprietary life cycle assessment (LCA) methodology. Numerous case studies are provided in its annual sustainability report. Going forward, Xylem has said it will seek to further implement LCA in evaluating product design decisions to manage its product portfolios to support customer sustainability targets.

It is pleasing to see that the positive assessment we have of Xylem's sustainability efforts is shared by MSCI. **Xylem is rated AAA** by the organisation, a score it has held since February 2019. Xylem is cited as being a leader in governance as well as in the management of toxic emissions and waste and also in pursuing opportunities in clean technology. Of course, even with such strong positioning, there always remains more that can be done. We would look to see increased disclosure and potentially even greater alignment of remuneration with targets over time.

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

FNG-SIEGEL 2021

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 been building over the past year **a proprietary ESG database** to support our corporate due diligence and to complement the regular engagement with corporates/ constant monitoring of newsflow (detailed later in this report) 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. Some of the key elements documented comprise:

- Publication of ESG, Sustainability or CSR report
- Board independence
- Emissions targets
- Commitment to diversity
- C-level remuneration linked to ESG targets

We are committed to making further enhancements to our database over time. Other factors currently under consideration for inclusion are: programmes for managing water consumption and packaging waste as well as how our businesses manage labour issues across their workforce. Look out for more information in future sustainability reports.

Appendix 2: Ranking our businesses on external data

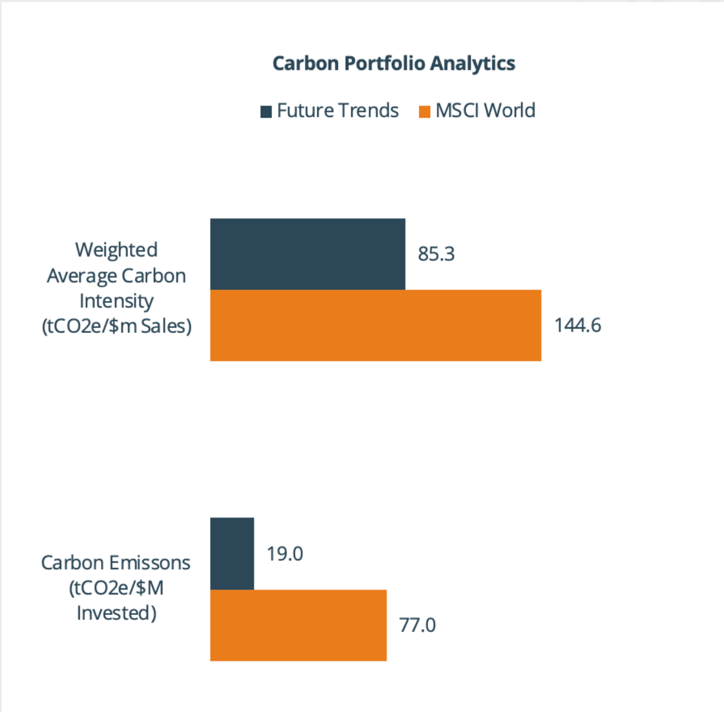
As our work on sustainability has continued to expand, we have increased our emphasis on the proprietary parts of our process. We believe these allow us to form the best impression of the overall direction of travel. Nonetheless, we provide below a quantitative overlay. We currently use MSCI as our data provider. MSCI's database covers over 8,500 businesses across the world and rates them on a scale of AAA (best) through to CCC (laggard), consistent with the approach taken to its corporate credit ratings.

We are pleased to see that **63% of the Future Trends portfolio receive either AAA or AA ratings from MSCI** and so are considered as leaders in respect of sustainability. This figure has been broadly consistent (i.e. typically, at least at 60%) since we started tracking the data.

Five of the businesses in the Fund (ASML, Kerry Group, Novo Nordisk, Vestas and Xylem) receive the 'gold standard' of a AAA rating. Meanwhile, only three businesses in our Fund (Airbnb, Chegg, and Thermo Fisher) are currently rated below A. As we have discussed elsewhere, we are comfortable with the sustainability positioning of all these businesses. It is also notable that Airbnb received a rating upgrade in the quarter – from B to BB – reflecting improvements to its board structure.

The charts below highlight, **when compared to its MSCI World benchmark, the distribution of sustainability ratings across the Future Trends is markedly superior**. Whereas 63% of our portfolio businesses have leadership status, the comparable figure for the MSCI World is just 27%.

The other data of note that MSCI provides is the highlighting of the carbon footprint of the Future Trends Fund. Perhaps unsurprisingly given the themes to which the Fund is exposed and the areas in which it does not invest, **the Fund's carbon footprint is substantially less than that of the benchmark**. The charts below illustrate this point clearly.



Source: Heptagon Capital, Calculated on MSCI Analytics, MSCI ESG Research as of 30/09/2022. 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.

Going forward, we will look to derive additional insights from MSCI's sustainability databases and to share these accordingly with investors.

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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.

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