HEPTAGON Capital

Q4 2024

FUTURE TRENDS EQUITY FUND

SUSTAINABILITY REPORT

ALEX GUNZ
Fund Manager

A commitment to sustainable investing forms an integral part of the investment philosophy underpinning the Heptagon Future Trends Equity Fund. **Investing in the future means thinking responsibly about the future**. Our approach to responsibility runs all through Heptagon Capital. We became a signatory of the United Nations Principles for Responsible Investment in 2019, implying a clear commitment to integrate environmental, social and governance considerations into our investment practices and ownership policies.

The **Heptagon Future Trends Equity Fund** was launched in January 2016. The Fund is both pan-thematic in its investment approach and highly concentrated, with 22 businesses at present. The Fund has high active share (typically at least 95%) and is style, sector, size and geographic agnostic. The Fund has generated ~10% annualised returns since inception and has assets of ~$110m as of end December 2024.

Introduction

Since the inception of the Future Trends Fund in 2016, we have sought to invest in **a diverse range of businesses offering exposure to the key trends which we believe will help shape the future. These trends naturally align with the Sustainable Development Goals** of the United Nations and are trends which we believe will grow in importance regardless of the economy and regulation.

This report is the 20th quarterly sustainability publication we have issued. Throughout, our emphasis has always been on understanding the direction of travel being undertaken by our businesses. At a headline level, we can assert that both **from a quantitative and qualitative perspective, sustainability efforts continue to show clear progress** (across all three pillars of environmental, social and governance).

2024 was a busy year for the Fund. *We made several changes to our portfolio and provided detailed deep dives into the sustainability credentials of our latest additions*: Darktrace (now sold, on positive M&A activity), Match Group, Palo Alto Networks, ARM, EMCOR and, in this report, Republic Services Group. We have spent time with all these businesses in the last 12 months and conducted **more than 80 meetings with management teams** across the UK, Europe and the US. Around 50% of these have been with C-level management.

Our reports also seek regularly to uncover new angles relating to sustainability, whether it is promoting **the importance of our corporate engagement or interviewing significant stakeholders** (such as the Chief Executive of the Worldwide Fund for Nature, Switzerland in our Q1 report). This quarter's report highlights another engagement case study (with Quanta Services) and also details how the Fund can benefit from the use of a new sustainability database, now that it has become **a signatory to the Carbon Disclosure Project**.

We are pleased that our efforts are also recognised externally, in terms of receiving **high ratings from the two major providers of sustainability assessments: AA from MSCI and 5 Globes from Morningstar**. In addition, the Fund has retained for the third year running, the FNG label, the quality standard for sustainable investment funds in German-speaking countries as well as gaining a Silver Medal award from the Big Exchange Platform recognising the high positive impact it has in respect of sustainability.

Future Trends and the Carbon Disclosure Project

Heptagon Capital became a signatory to the **Carbon Disclosure Project** in October 2024. This further bolsters our sustainability credentials and demonstrates progress in our ESG efforts. For those unfamiliar, the Carbon Disclosure Project (or CDP) is a non-governmental organisation founded in 2000 that **seeks to promote transparency in sustainability reporting.** There are over 700 signatories to the CDP, representing trillions of Dollars in investments.

The CDP operates by sending a letter annually to companies asking them to fill out a questionnaire comprising more than a hundred metrics surrounding the climate, forestry and water. These **metrics are aligned with the TCFD** (Task Force on Climate-related Financial Disclosures) and will be aligned with the TNFD (the same, but for Nature) from 2025. More than 30,000 companies were written to last year.

As a signatory, **Heptagon Capital now has access to an additional pool of ESG data** provided directly by companies. These data are also aligned to market standards. The information available in the CDP database can serve as an additional mark of progress (or direction of travel in respect of sustainability) for the businesses within the Future Trends Fund as well as serving as a potential information source for sustainability engagement.

The CDP's annual information requests are sent in October and so the information that is *currently* available via the CDP's website demonstrates progress in respect of 2022/2023. Nonetheless, we were pleased to see that 20 of the 22 businesses we own in the Fund had submitted responses to CDP in respect of climate change that are publicly available. Even more encouragingly, **90% of those businesses that did respond received top-quartile scores from CDP in respect of their climate initiatives.** This is consistent with the outputs from our sustainability database (see Appendix 2 for more detail).

Water security metrics constitute a more recent dataset on which CDP has asked businesses to submit responses. Fewer than 50% of the businesses owned by the Future Trends Fund provided information in respect of 2022/2023, although we anticipate the figure will be higher when the next round of CDP data is released. While the spectrum of ratings was wide (perhaps reflecting the relative immaturity of the category), we were encouraged to see **both First Solar and MOWI awarded top water security ratings by CDP**. Going forward, CDP will also seek to obtain responses from businesses on their positioning regarding forestry, even if this may be less relevant for many businesses within the Future Trends universe.

Engagement case study, with Quanta Services

QUANTA

We have been investors in Quanta Services since June 2023. We were attracted to the business owing not only to its strong fundamentals and exposure to multiple overlapping future trends, but also given its leading sustainability credentials. We initially profiled Quanta in a deep dive in our substantiality report Q3 2022.

The publication of Quanta's most recent annual sustainability report (released right at the beginning of October, in respect of the 2023 calendar year) proved to be a catalyst for engaging again with the business on a number of topics. Our conversations included dialogue with both Quanta's Vice President, Investor Relations and Director of Sustainability.

Quanta's level of disclosure and reporting has consistently impressed us. The business conducts an annual full materiality assessment and the figures it shares are guided by several reporting frameworks, including the United Nations Sustainable Development Goals, the Global Reporting Initiative (GRI), the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB).

In its 2023 report, **Quanta established of Scope 1 and Scope 2 targets for the first time**. Quanta aims to reduce Scope 1 CO2 intensity by at least 30% by 2040 or earlier (versus a 2019 baseline). For Scope 2, it aims to source renewable energy equivalent to the electricity consumption utilised at its North American facilities.

Despite these commitments, we put the question to Quanta **why it had not aligned its objectives with the Science Based Targets Initiative** (SBTI) **and why it had not provided any Scope 3 objectives**.

Quanta responded to the initial question by highlighting that SBTi targets "do not work" for a business such as theirs. Put another way, Quanta is growing organically and also acquiring companies, which means de facto 'acquiring' their emissions too. Against this background, were Quanta to set SBTi targets, then this could impose a constraint on the business in terms of pursuing growth. Reducing absolute emission levels would reduce revenues. Given Quanta's growth dynamics and the necessity of investing in the equipment it needs to perform the work it does, **Quanta believes that reducing its emission intensity is the most appropriate approach**, as outlined in its sustainability report.

In further discussions, Quanta noted that its Scope 2 target – outlined above – would be potentially qualifying for approval by the SBTi, since the business did immediately purchase renewable energy credits to offset its North

American electricity consumption. Were there sufficient interest from stakeholders, then Quanta has said that it could go through the process of getting SBTi approval here.

With regard to Scope 3, Quanta highlights that it does already measure some categories. These outputs may grow further as the business makes more acquisitions. Nonetheless, Quanta is undertaking an internal exercise to review additional other categories, such as purchased goods and services but highlights the complexity attached to measurement. First priority, then, is to **strengthen internal reporting mechanisms and consolidate existing data.**

We believe Quanta's approach makes sense. From our perspective, **the direction of travel regarding sustainability matters most**. We will continue to engage regularly with Quanta and our other investments on their progress.

Deep dive into Republic Services, our latest portfolio holding

Founded in 1996, Republic Services is the second largest listed business in the North American waste industry, as measured by revenues. It has a customer base of 13m and conducts 5m average daily pick-ups. The business had been on our radar for some time given its exposure to the dual themes of decarbonisation (via renewable energy) and circularity. We have focused on these themes since 2018 and most recently in 2023. Over 30% of municipal waste in the US is currently recycled and/or composted, per the Environmental Protection Agency.

Republic's business is naturally aligned with a more sustainable and circular economy. Senior management has focused on developing a corporate sustainability strategy since 2014. This programme is centred around **four pillars of safety, talent, climate leadership and communities**, and continues to provide the foundations for its 2030 objectives.

Begin with safety. Republic is proud that its performance is 33% better than industry average levels over the last decade, as measured by its total recorded incidents ratio, the benchmark for the industry. Republic is committed to reducing this ratio to below 2.0 by 2030, with zero fatalities. Last year, it was 2.8, a marked improvement relative to the 3.9 reported five years prior. Republic attributes its performance to ongoing training, with 1.4m cumulative hours of training completed in 2023. The business recently opened a dedicated training facility in Dallas.

With regard to talent, Republic places a significant **emphasis on an engaged workforce** and polls its employees annually on this metric. Around 99% of its workforce took part in the 2023 survey. When the responses were collated, employee engagement ranked at 86 (out of 100), below the company's long-term target of 88, but 7 percentage points above the national average.

Republic is also **committed to improving and diversifying talent across the organisation**. It aims to have 50% diversity in all leadership roles by 2030, versus 44% currently and has set objectives across the business to enhance the representation of women and minorities. Ethnic minorities currently comprise 48% of the workforce and females 20%. At a senior level, the metrics are 20% and 30%, respectively. Republic also has policies in place to grow the diversity of its supply chain.

Climate comprises a significant part of Republic's sustainability strategy. The business has established 2030 targets backed by the Science Based Targets Initiative that **aim to reduce Scope 1 and Scope 2 GHG emissions by 35% relative to a 2017 baseline**. Through to the end of 2023, Republic had achieved a 15% reduction. In addition, Republic has set specific objectives relating to increasing the recovery of key circular economy materials (such as cardboard and paper) and growing the beneficial use of biogas.

In respect of communities, **charitable giving has been an ongoing priority for Republic**, with an explicit aim to create sustainable neighbourhoods through strong community partnerships. Republic aims to have created such environments for 45m people by 2030, relative to a 2017 base year. More than 900 charitable grants were made by Republic last year.

We are pleased to see that **Republic's sustainability strategy is led from the top**. Crucially, its long-term incentive programme contains an explicit linkage to ESG targets (along with return on invested capital and free cashflow objectives). We also note that 92% of its Board is independent, with the Chair and CEO comprising separate roles. Our engagement with Republic has been highly positive, with the company providing us access both to its Chief Financial Officer and its Vice President of Investor Relations.

Across all the businesses in which we invest, **we always see scope for improvement in respect of sustainability** and reached out to Republic specifically on two topics. Republic has not issued any green bonds to-date, but in our discussions on this matter, the company noted that certain sustainability metrics and goals do form part of its credit facility. When asked about the need for a dedicated Chief Sustainability Officer, Republic highlighted how its focus was on providing solutions and strategies to support its customers achieve their sustainability goals. The responsibility of sustainability is therefore "part of everyone's role." We find this perspective encouraging and will continue to engage across a variety of topics.

Other sustainability data points –

Corporate interaction in Q4

We discussed the importance of corporate interaction earlier in this report. **In Q4, we conducted 18 meetings.** The highlight of the quarter was a trip to the US, where we met with management of four of our portfolio holdings (GXO Logistics, Mastercard, Match Group and Prologis) as well as several other businesses in our investment universe. We also travelled to the Netherlands to meet with the entire ASML senior management team at its biennial Capital Markets event.

Over the past year we have taken part in 82 company meetings. Beyond London, we travelled to Denmark, Germany, the Netherlands, Norway and the US. Around 50% of these meetings were with C-level management. We have met face-to-face **with management at 21 of our 22 current portfolio holdings**. The exception was Thermo Fisher, although the business recently hosted a Capital Markets Day event, which we attended virtually. Our last in-person meeting occurred at their Boston headquarters, in December 2023.

Proxy voting

We consider participation in proxy voting as an important duty and review all relevant literature before reaching our decisions. On occasion, this may require direct interaction with management/ investor relations.

We participated in 19 proxy votes during 2024. The vast majority of these are uncontroversial, and we have voted *in-line* with Board proposals. Nonetheless, there have been several occasions when we have voted *against* certain proposals made by management teams. Instances include at Airbnb, Mastercard and Thermo Fisher, all of which were profiled in prior sustainability reports. We are happy to provide our rationale on request.

Relevant newsflow in Q4

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

CHENIERE

Cheniere Energy: At the time of its third quarter results in November, Cheniere announced that it had established a methane intensity target for its business. This is another example of Cheniere seeking to take a lead and drive industry standards within the liquefied natural gas space. The business has committed to maintain Scope 1 annual methane emissions intensity of 0.03% per tonne of LNG produced across its two main sites (Sabine Pass and Corpus Christi) by 2027. This ambition aligns Cheniere with the Oil & Gas Methane Partnership 2.0 Gold Standard, considered in the industry as the flagship reporting and mitigation programme.

EQUINIX

Equinix: The US data centre business is one of the largest issuers of green bonds in the United States. During November, it issued a further $1.2bn, taking its total cumulative issuance to almost $7bn. The funds raised will be used to enhance the operational efficiency of its global business.

Mastercard: We were asked by Mastercard to participate in their most recent investor perception study. This exercise, which took around 30 minutes of our time, allows us to provide feedback to the business how and where they can improve their interactions with the investment community and enhance their disclosure, particularly around sustainability metrics.

MOWI: For the sixth consecutive year, MOWI has been named as the number one animal protein producer by the Coller FAIRR Protein Producer Index. This benchmark is the most detailed assessment of the world's largest meat, dairy and aquaculture companies. Businesses are ranked across critical ESG factors. Our September 2024 visit to several MOWI sites confirmed its robust policies on responsible sourcing, animal welfare and environmental sustainability.

Novo Nordisk: "Environmental challenges have never been more critical or urgent than they are today", says a recent publication on Novo's website. Novo has committed to net zero across its full value chain by 2045. To get there, Novo believes that it must do its part to minimise the use of virgin fossil-based plastic. ReMed is a pilot programme now underway in seven geographies (Brazil, France, Germany, Italy, Japan and the UK) where users of Novo's injection pens can return their used devices to give the plastic a new life. Novo says "we are only just getting started", so watch this space.

Thermo Fisher: We were impressed to learn about the Thermo Fisher Scientific Junior Innovators Challenge, an initiative undertaken by the life sciences group in order to inspire middle school students to pursue STEM subjects and subsequent relevant career paths. The winner, a 14-year-old from California, developed a water filtration system using animal bone waste to facilitate access to clean water. Third-party testing has supported the viability of the project. Thermo is active in its ongoing engagement with schools and universities and continues to partner with Society for Science, a leading non-profit organisation in the space.

Xylem: Even football clubs care about sustainability, as a recent press release from Xylem reminded us. Its water solutions can help irrigate sports pitches while minimising the use of municipal water. Xylem points to the case of Manchester City, where its pitches are irrigated using captured rainwater (stored in an attenuation tank) and water extracted from a borehole. Together, these can fulfil up to 100% of irrigation requirements for the club's training pitches. The Xylem system has reduced energy use by 25% relative to the prior solution. Other sports clubs may wish to take note.

Conclusion

Investing in the future means thinking responsibly about the future. What this means practically is that the process of interacting with our businesses remains an ongoing one, centred on encouraging them to take greater account of their environmental and social responsibilities within a framework of good governance. We will continue to look for alignment with Sustainable Development Goals and increased transparency. While we are encouraged by the generally good levels of progress made by the businesses within our Fund, we also recognise that there is much work still to be done. We will continue to look to hold all our businesses accountable. As new data and analytical methodologies become available, we will also look to incorporate these into our investment process and analysis.

We welcome any feedback or questions you may have. Thank you for your interest in and support for the Future Trends Fund.

Alex Gunz, Fund Manager, Heptagon Capital

Signatory of: PRI Principles for Responsible Investment

MSCI ESG RATINGS AA

FNG-SIEGEL 2024

THE BIG EXCHANGE

Appendix 1: Insights from MSCI

We are pleased to see that 66% of the Future Trends portfolio receive either AAA or AA ratings from MSCI as of quarter end, and so are considered as leaders in respect of sustainability. This figure is consistent with a quarter prior (68%), even if it may *understate* the quality of our portfolio, since one of our holdings is not currently rated by MSCI. Crucially, **over a third of the businesses we are invested in (or 8 out of 22) are currently rated AAA – the highest possible – from MSCI**.

Most notably, during the past quarter, **Equinix received an upgrade** (from its prior AA rating) reflecting improvements in its human capital and business management practices. By contrast, **Thermo Fisher was downgraded** from its prior BBB rating to a BB rating. This decision was a function of concerns raised by MSCI relating to Thermo's audit committee not being independent of management. MSCI also notes that Thermo's business ethics framework lags that of its global peers.

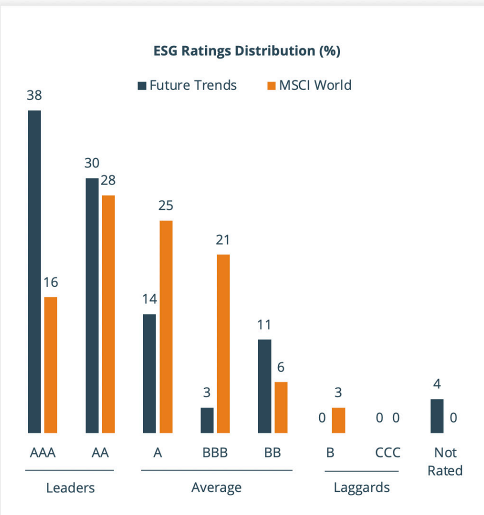
We reached out to Thermo to discuss this topic. The business noted the standards MSCI uses for its ratings are, arguably, much stricter than the New York Stock Exchange, proxy advisors or the norms for (US based) companies. More importantly, Thermo confirmed that nothing had changed in its board composition relative to MSCI's prior rating, hence it could be argued that MSCI has altered its goalposts rather than Thermo Fisher doing anything differently. Thermo also said that the company has tried to engage in constructive dialogue with MSCI in the past but unfortunately "we have had little success". Notably, MSCI's rating stands in marked contrast to that issued by Sustainalytics, which rates the business as having a 'low' level of sustainability risks.

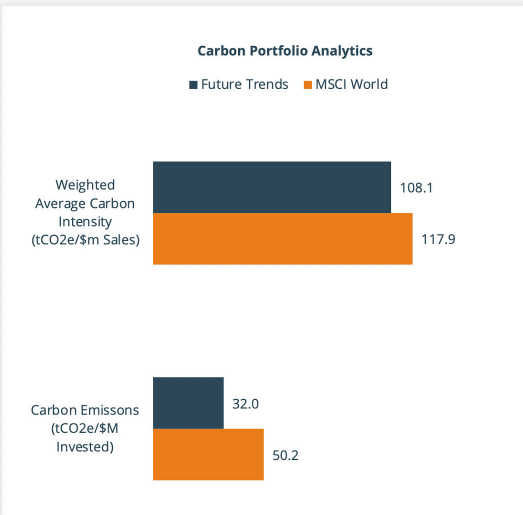
For reference, Thermo's rating by MSCI is consistent with the score it awards to Airbnb and Match Group. In our own interactions with all these businesses, **we are confident that management is making appropriate progress in respect of sustainability initiatives**. We last met with Match Group in New York in December and were impressed with their broad approach to ethics across the group. Our last in-person interaction with Airbnb was in March.

These three companies are the only businesses in the Fund that currently score *below* A in the ratings awarded by MSCI. **Republic Services, our most recent publicly disclosed addition to the Fund, receives an A rating**, with the business last assessed in September 2024. MSCI notes that Republic continues to lead its peers in staff management and most global peers in business ethics practices.

As mentioned above, **MSCI does not award a rating to one of our investments – ARM Holdings**. This is a function of its low free float. MSCI has a minimum threshold of a 15% free float, whereas ARM's stands at 12.5%. Further, ARM is listed currently as an ADR in the US, without a primary listing in the UK. A current lack of primary listing may also constrain MSCI from awarding a rating. We profiled ARM in detail in our sustainability report Q2 2024 and believe the business demonstrates strong sustainability credentials.

The chart below highlights that **when compared to its MSCI World benchmark, the distribution of sustainability ratings across the Future Trends is markedly superior.** In addition, the second chart illustrates that **the Fund's carbon footprint is substantially less than that of the benchmark**, which is perhaps unsurprising.





Appendix 2: Insights from our database –

We first started building a sustainability database in 2021 in order to complement the existing important work we were already doing on the topic. One of the additional benefits of having such a database is that it allows us to monitor the direction of travel for the Future Trends Fund. Notwithstanding the changes we have made to the portfolio discussed elsewhere, it is evident that **the sustainability credentials of the Fund have improved over the past year**. We can track this quantitatively based on the data shown in the table below.

Future Trends Sustainability Database highlights

	Q4 21	Q4 22	Q4 23	Q4 24	vs 1Y
ESG, Sustainabilty or CSR report published?	83%	91%	100%	100%	0%
C-level management remuneration linked to ESG targets?	43%	55%	64%	77%	13%
Independent Board: average %	84%	86%	87%	84%	-3%
Diversity Commitments	100%	100%	100%	100%	0%
Quantitative Diversity targets in place?	26%	64%	59%	50%	-9%
Emissions targets in place?	78%	77%	86%	91%	5%
Commitment to net neutrality	57%	64%	73%	82%	9%
Science-based targets	35%	45%	55%	82%	27%

Source: Heptagon Capital, Company Reports

Almost all the principal metrics we track show *either stable* or *improving trends*. We are particularly pleased to see that **the number of management teams moving to link part of their executive remuneration with sustainability objectives has increased meaningfully** in the past year. Over three quarters of the holdings within the Future Trends have now established such a linkage, versus less than two thirds a year prior.

There has also been **good progress on climate**, with a growing percentage of businesses setting emissions targets and committing to net neutrality (91% and 82% of the Fund's holdings respectively). Importantly, there has also been a huge 27 percentage-point improvement in the number of businesses whose climate objectives are backed by the Science Based Targets Initiative.

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

We will continue to monitor progress in all areas and also look to add further metrics to our database over time.

Appendix 3: 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 futur**e, broadly regardless of the macro backdrop and the role that governments or regulators might play. Our approach has always been pan-thematic, since we believe no single trend will be responsible for shaping the future. Indeed, as trends overlap, they can become mutually reinforcing in our view. It has always been our opinion that the trends in which we invest naturally align with the Sustainable Development Goals of the United Nations.

Just as important as alignment with the Sustainable Development Goals, we believe it is critical to have clearly defined guidelines on areas in which the Fund will not invest. Since inception, the Future Trends Fund has had a very **clear exclusion list**, where the Fund aims to exclude businesses that are directly involved in and/or derive significant revenues from industries or product lines that include: adult entertainment, alcohol, civilian firearms, controversial weapons, conventional weapons, gambling, mining, nuclear, coal, oil, tobacco.

For every business under consideration for the Fund, we produce a detailed note (typically around five pages in length) making the investment case, which includes a specific section on its ESG positioning. Our assessment is derived from reading company reports, interacting with the company and taking into account the work done by external providers. We are happy to make these reports available on request.

The ranking of businesses based on objective ESG criteria is still an evolving practice. Further, we recognise that since our businesses do not all operate in the same industry (given our pan-thematic approach), factors may vary by business, as does disclosure of available data. To improve our process, we have continued to build out our **proprietary ESG database** (referenced earlier) to support our corporate due diligence and to complement the regular engagement with corporates/ constant monitoring of newsflow across the Future Trends Fund. We believe this tool allows us to assess the progress of our businesses in respect of certain key, quantifiable metrics as well as informing us of certain crucial topics for discussion with management/ investor relations in our ongoing corporate dialogue.

Our database monitors a wide range of factors that consider sustainability from both a holistic, top-down perspective, as well as focusing in on specifics across the three branches on environmental, social and governance considerations. We are committed to making further enhancements to our database over time. Almost all key metrics within the database showed sequential and year-on-year improvement. Further details are available on request.

Important Information

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Risk Warnings

The Fund is subject to special risk considerations including geographic concentration risk, portfolio concentration risk and operational risk. The investment return and principal value of an investment will fluctuate so that the investor's shares, when redeemed, may be worth more or less than their original cost. Any investor should consider the investment objectives, risks and charges and expenses of the fund carefully before investing. Where an investment is denominated in a currency other than the investor's currency, changes in rates of exchange may have an adverse effect on the value, price of, or income derived from the investment.

SFDR

This Fund has been classified as an Article 8 for the purposes of the EU's Sustainable Finance Disclosure Regulation ('SFDR'). The Fund promotes environmental and/or social characteristics but does not have sustainable investment as its primary objective. It might invest partially in assets that have a sustainable objective, for instance assets that are qualified as sustainable according to EU classifications but does not place significantly higher importance on the environmental objective of each underlying investment. Please see Prospectus for further information on the Funds environmental and/or social characteristics and relevant sustainability risks and principal adverse impacts which may impact the Fund's performance.

For all definitions of the financial terms used within this document, please refer to the glossary on our website: https://www.heptagon-capital.com/glossary

Heptagon Capital, 63 Brook Street, Mayfair,
London W1K 4HS
Tel: +44 20 7070 1800
(FRN 403304)

Authorised & Regulated by the Financial Conduct Authority in the UK
12 Endeavour Square, London