HEPTAGON
Capital

Yacktman U.S. Equity Fund

Q4 2023 Commentary

Fund Manager

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Investment Objective

The Fund aims to achieve capital growth by investing predominantly in a concentrated portfolio of U.S. Equities.

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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.

The **Heptagon Yacktman US Equity Fund** (the "Fund") is a sub-fund of Heptagon Fund ICAV, which is an open-ended umbrella-type investment vehicle authorised pursuant to UCITS regulations. Heptagon Capital Limited ("Heptagon") is the Investment Manager, and Yacktman Asset Management LP ("Yacktman") is the Sub-Investment Manager meaning Yacktman exercises discretionary investment authority over the Fund. The Fund was launched on 14th December 2010 and had AUM of 633m USD as of 31st December 2023. During Q4 2023, the Fund (I USD share class) outperformed its benchmark, returning 9.9% compared to 9.3% for the Russell 1000 Value NR USD Index. For the full year 2023, the Yacktman US Equity Fund returned 12.1%, outperforming the Russell 1000 Value Index 10.7% and lagging the S&P 500 Index 25.7%.

Contributors and Detractors

Contributors to the year's performance include Microsoft and Alphabet. These technology companies benefited from the enthusiasm in the market for artificial intelligence ("AI") and represent two of the "Magnificent Seven"[1] that drove the broad market performance for the year. Canadian Natural Resources, an oil sands producer in Canada, was also a leading contributor to performance, continuing its strong capital allocation discipline with growing dividends and share repurchases.

Detractors to performance for the year include Charles Schwab and U.S. Bancorp. We exited our position in U.S. Bancorp during the acute, but short-lived, banking crisis in March of 2023. Concerns about the leverage and underlying risk in the loan portfolios of many financial institutions remain. We redeployed the capital added to the investment in Charles Schwab.

High Conviction Names

There are two companies that we think are poised for a substantial period of performance. They trade at large discounts to their fundamental value, and we see unlocks to realizing that value on the horizon. Samsung Electronics ("Samsung") is one of them. Samsung's memory chip business is emerging from a cyclical trough, plus memory chips play a critical role in supporting memory-hungry AI and machine learning ("ML") applications.

[1] *Amazon, Apple, Google (Alphabet), Facebook (Meta), Microsoft, Nvidia, and Tesla.*

Past performance is no guide to future performance, and the value of investments and income from them can fall as well as rise

The foundry business is strategically important to the U.S. with its (largest ever in the U.S.) semiconductor production facility not far from our offices in Austin, Texas set to open later this year. Samsung will also participate in the regulatory and access unlocks that are underway.

On December 14, 2023, South Korea abolished the 30-year-old foreign registration requirement plus other measures aimed at encouraging greater foreign investor participation in the market. Hundreds of Korean companies are preparing to adopt dividend payment processes that better align with global standards. We anticipate further regulatory and governance changes in 2024 that should make South Korea a more accessible and investable market for foreign investors. Eventually, we expect the country to be re-rated by MSCI as a developed market.

Bolloré is another company that we firmly believe continues to set up well. They own a large stake in Universal Music Group (UMG), traded on the Amsterdam stock exchange but headquartered in California. UMG performed very well in 2023 translating into additional value for Bolloré that was not reflected in the stock price. They also own about 30 percent of Vivendi, a French media conglomerate, which is actively exploring opportunities to simplify its structure and unlock value. Last year, Bolloré signed a purchase agreement for the sale of its European logistics business which is expected to close later this year. (This follows on the sale of its African logistics business in 2022.) Once this occurs, Bolloré will effectively own two major media businesses plus a large pile of cash. Historically considered to be valued with a 'conglomerate discount,' Bolloré will have simplified its structure significantly.

Conclusion

Morningstar recently released a report entitled *Index Funds Have Officially Won*[2]. Passively-managed fund assets now exceed actively-managed fund assets, while just ten years ago, actively-managed fund assets were twice that of passively-managed fund assets. We maintain that most investors' portfolios belong with active managers, especially those keen on managing risk. With numerous risks present in today's world (geopolitical, interest rates above zero for consumers and companies alike, and expanding government balance sheets, to name a few), we believe that active fund management plays a vital role in protecting investors' capital in challenging markets. While none of us knows the source of the next trigger that will impact the equity markets or when. At Yacktman, we constantly think about what could go wrong and when.

We are excited about the Funds' portfolio, and we believe that the companies we own are resilient and well-positioned in the current market. We remain focused on generating strong risk-adjusted returns over time.

Sincerely,
Heptagon Capital and Yacktman Asset Management

[2] Source: Morningstar, 13 February 2024

Annualized Total Returns As of 31st December 2023

	Q4 23	YTD	1-Year	3-Year	5-Year	10-Year
Yacktman US Equity Fund (UCITS)*	9.9%	12.3%	12.3%	7.3%	11.5%	8.8%
Russell 1000 Value NR USD	9.3%	10.7%	10.7%	8.1%	10.1%	7.6%

** Class I Shares*
Source: Morningstar

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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

The Fund takes sustainability risks into account within the investment process, and this is disclosed in accordance with Article 6 requirements of the Sustainable Finance Disclosure Regulation ('SFDR') in the Fund's Prospectus. However, the Fund does not have as its objective sustainable investment and does not promote environmental or social characteristics for the purposes of the SFDR. Sustainability risks may occur in a manner that is not anticipated by the Sub-Investment Manager, there may be a sudden, material negative impact on the value of an investment and hence the returns of the Fund. As a result of the assessment of the impact of sustainability risks on the returns of the Fund, the Sub-Investment Manager aims to identified that the Fund may be exposed to sustainability risks and will aim to mitigate those risks.

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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

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