

Kopernik Global All-Cap Equity Fund

Q3 2022 Commentary

Fund Manager



David Iben



Alissa Corcoran

Investment Objective

The Fund seeks to provide long-term capital appreciation by investing primarily in equity securities of U.S. and non-U.S. companies. The research driven investment process seeks to add value through active management and by selecting securities of companies that, in the manager's opinion, are misperceived and undervalued by the market.

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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 **Kopernik Global All-Cap 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 Kopernik Global Investors LLC ("Kopernik") is the Sub-Investment Manager meaning Kopernik exercises discretionary investment authority over the Fund. The Fund was launched on 16th December 2013 and had AUM of USD 1,011m as of 30th September 2022.

Quarter Review

For the second quarter in a row, the materials sector was the largest detractor from strategy returns. Within materials, many of the strategy's holdings were down significantly. The largest single detractor was **Newcrest Mining Ltd ("Newcrest")**, a senior gold producer in Australia and one of the strategy's largest positions. Newcrest added to its negative returns from Q2 and was down 23.1%. Other negative performers included several Canadian gold companies with large reserve bases: **Equinox Gold Corp ("Equinox")**, down 17.9%; **Artemis Gold Inc**, down 26.8%; **IAMGOLD Corp**, down 33.5%; and **Centerra Gold Inc ("Centerra")**, down 33.9%. Other companies detracted as well: **Pan American Silver Corp ("Pan American")**, one of the largest silver mining companies globally, which has mines in Mexico, Peru, Bolivia, and Argentina, was down 18.0%; **Harmony Gold Mining Co Ltd ("Harmony")**, a senior gold producer based in South Africa, was down 22.4%; and **Perpetua Resources Corp**, which owns the Stibnite Gold Project in Idaho, was down 39.0%. We trimmed Centerra in order to be able to buy other gold mining companies that have more upside to their risk-adjusted intrinsic values and added to Pan American, Newcrest, Equinox and Harmony.

We remain positive on the fundamentals for gold and other precious metals. As we have discussed before, the fundamentals for mining companies are appealing even without inflation, and additionally, it is highly likely that the central banks' unprecedented money printing are an incremental positive for gold. Currently, roughly 23% of the portfolio is invested in the

materials sector, diversified across companies, geographies, and management teams. We see significant upside to the risk-adjusted intrinsic value of the strategy's mining stocks.

Most portfolio holdings in Korea were down and contributed negatively to total strategy returns. **KT Corp ("KT")**, Korea's dominant fixed line and second-largest mobile phone provider, and one of the strategy's largest positions, was down 12.4%, while **LG Uplus Corp ("LG Uplus")**, the third-largest provider of fixed line, mobile phone, broadband, and television services in that country, was down 23.2%. Other Korean companies contributing negatively included **Korea Electric Power Corp ("Kepeco")**, the country's dominant integrated electric utility, down 19.3%; **Hyundai Motor Co**, a Korean auto manufacturer with 6% of global market share, down 13.1%; **LG Corp**, a holding company with multiple business segments, down 13.8%; and **Hyundai Department Store Co Ltd ("Hyundai Dept Store")**, one of three department store brands in that country, down 29.6%. We added to Hyundai Dept Store and Kepeco.

Other companies in Asia were down as well, and the region is currently presenting us with many opportunities to buy industry-leading companies at low prices. In Japan, **Suzuken Co Ltd/Aichi Japan**, the third-largest pharmaceutical distributor, was down 18.2%. Hong Kong-based conglomerate **CK Hutchison Holdings Ltd ("CK Hutchison")** was down 16.8%, while **China Communications Services Corp Ltd ("China Comm")**, which provides telecom infrastructure services and business process outsourcing (maintenance, supply chain, and facilities management), was down 18.8%. We added to CK Hutchison and China Comm.

Other positive contributors included companies with exposure to uranium. **NAC Kazatomprom JSC ("Kazatomprom")**, the world's largest uranium miner, was up 4.1%, while **Cameco Corp ("Cameco")**, the second largest, was up 26.1%. Two uranium holding companies also contributed positively; the **Sprott Physical Uranium Trust ("Sprott Uranium")** was up 9.7%, while **Yellow Cake PLC ("Yellow Cake")** was up 14.8%. **Electricite de France SA ("EDF")**, the world's largest electricity generating company with a global nuclear fleet, was up 42.8%. The stock price rose significantly after France announced plans to nationalize EDF. We trimmed our position sizably and reduced our exposure by half on these higher prices. We trimmed Kazatomprom and Cameco and added to Yellow Cake and Sprott Uranium on lower prices mid-quarter.

Although the majority of the strategy's precious metals names detracted, there were several positive contributors. The largest was **Turquoise Hill Resources Ltd ("Turquoise Hill")** which was up 10.4%. While the price increased following Rio Tinto's offer to purchase the remaining shares of Turquoise Hill, the stock still trades below our risk-adjusted intrinsic value. We trimmed Turquoise Hill.

The strategy initiated 8 new positions during the quarter as markets continued to present opportunities in multiple sectors. In Industrials, the strategy initiated positions in **Air Lease Corp**, an aircraft lessor which also provides fleet management services, maintenance, and sales and marketing of aircraft, and **Hyster-Yale Materials Handling Inc**, a global manufacturer of lift trucks and lift truck attachments. In materials, the strategy initiated positions in **Ivanhoe Electric Inc**, which owns the Santa Cruz mine, a large copper exploration project in Arizona; **BASF SE**, the largest vertically integrated chemicals producer in the world, headquartered in Germany; and **Lotte Chemical Corp**, one of the largest petrochemical manufacturing companies in Korea. Other new positions include **Carrefour SA**, a global food retailer headquartered in France; **SJM Holdings Ltd**, which operates casinos in Macau; and **Medipal**, Japan's largest pharmaceutical and medical device distributor. The strategy also re-initiated a position in **MEG Energy Corp** that it had previously eliminated at higher prices. These companies are inexpensive on multiple metrics and trade at a significant upside to our risk-adjusted intrinsic value.

The strategy eliminated a position in **Banco do Brasil SA** as prices appreciated.

In closing, we continue to be focused on appraising businesses and mitigating risk through diversification across sectors and countries. Bear markets and swift downdrafts are painful, but it is important to keep in mind that they create excellent buying opportunities, which enhance future returns. Our investment process is centred on buying and holding companies trading at significant discounts to their risk-adjusted intrinsic value, and we view volatility as an opportunity to add and trim. You can count on us to employ our disciplined, fundamentals-based, long-term approach that has produced a proven track record throughout full market cycles.

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

Why Kopernik? By Kopernik Global Investors, LLC

Philosophically, we view ourselves as owners of businesses. Our job is to appraise these businesses and take advantage at times when an inefficient, emotional marketplace offers securities at a price that is significantly different from our appraisal. Like our namesake, Kopernik (better known by his Latin name – Copernicus), we trust the results of our own analysis even when (especially when) it generates vastly different conclusions from those of the crowd and/or those taught by many academics. Similarly, we commonly question the data issued by governments, central bankers, and companies themselves. We understand that bargains appear often because people focus on fear or panic, and other forms of risk that are not relevant to the investment portfolio. High tracking error, bad headlines or unpopular stocks/countries/ regions/industries can present a degree of risk to a manager's career, while often lowering the potential of permanent loss of capital (due to lower initiation prices and higher potential upside) to the portfolio. Similarly, Kopernik believes volatility and other measures of past price movements are not relevant to long-term investors' assessment of risk. It can be indicative of potential risk to short-term speculators or to highly levered players, but can often present opportunity for true long-term investors.

As always, we appreciate your patience and support.

Sincerely,

Heptagon Capital & Kopernik Global Investors

The views expressed represent the opinions of Kopernik Global Investors, LLC as of 30th September 2022, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

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Annualized Total Returns as of 30th September 2022, net of fees, C USD share class

	Q3 22	YTD	1-Year	3-Year	5-Year	7-Year
Kopernik Global All-Cap Equity Fund	-6.2%	-24.8%	-24.0%	10.1%	4.8%	10.7%
MSCI ACWI NR USD Index	-6.8%	-25.6%	-20.7%	3.7%	4.4%	7.4%

Source: Morningstar

I Important Information

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I 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.

I 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 identify that the Fund may be exposed to sustainability risks and will aim to mitigate those risks.

Authorised & Regulated by the Financial Conduct Authority (FRN: 403304)

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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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