HEPTAGON
Capital

European Focus Equity Fund

Market commentary and attribution analysis as of 30th September 2022

Fund Manager

Christian Diebitsch

Investment Objective

The Fund aims to deliver long-term capital appreciation by investing in European equities. The Fund employs a high conviction, bottom-up, low turnover, research driven strategy with a focus on companies that exhibit sustainable long- term growth.

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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.

Performance and executive summary

The first three quarters (9M22) was a weak period for international equities and for the Heptagon European Focus Equity Fund. The Portfolio's CE share class fell by -29.09% vs. benchmark MSCI Europe NR (EUR) index which dropped -17.38% in comparison. Closer analysis shows that although the Fund lost in absolute value in 3Q22, it outperformed the benchmark for the quarter in isolation.

Market dynamics and price action of most financial assets have gone through many more loops just in 2022 than over the past few years. Three major topics have been on investors' attention-list. *First*, Vladimir Putin's invasion of Ukraine on 24th February has overshadowed all other news items. The war raised other potential geopolitical concerns, such as China's territorial ambitions in respect of Taiwan, which in turn affected other segments in the equity markets, like the semiconductor sector, given the prominent locations of TSMC and other leading 'fabs'.

Secondly, notwithstanding the sharp rise in the price of energy, which has been exacerbated by Russia's war with Ukraine, the brisk escalation in inflation of most other commodities that prior to the war were impacted primarily by companies' supply-chain constraints has become more deep-rooted across society. The fact that inflation and inflation expectations are now to some extent embedded when households make purchases or companies invest have exposed the leading central banks in Europe to be sleepwalking given their prior reluctance to raise interest rates at a much earlier stage under the pretext that price pressures were likely to be *'transitory'*. As of late, however, the region's central banks have cornered themselves into an unenviable position as they now have to scramble to push through rate hikes at the same time as households' cost-of-living expenses are rising at possibly the fastest pace in living memory.

Thirdly, the concoction of these economic events and realities has convinced most investors that the Fed and the other central banks are unlikely to avoid recession, but the jury is still out as to whether economic contraction will be mild or severe.

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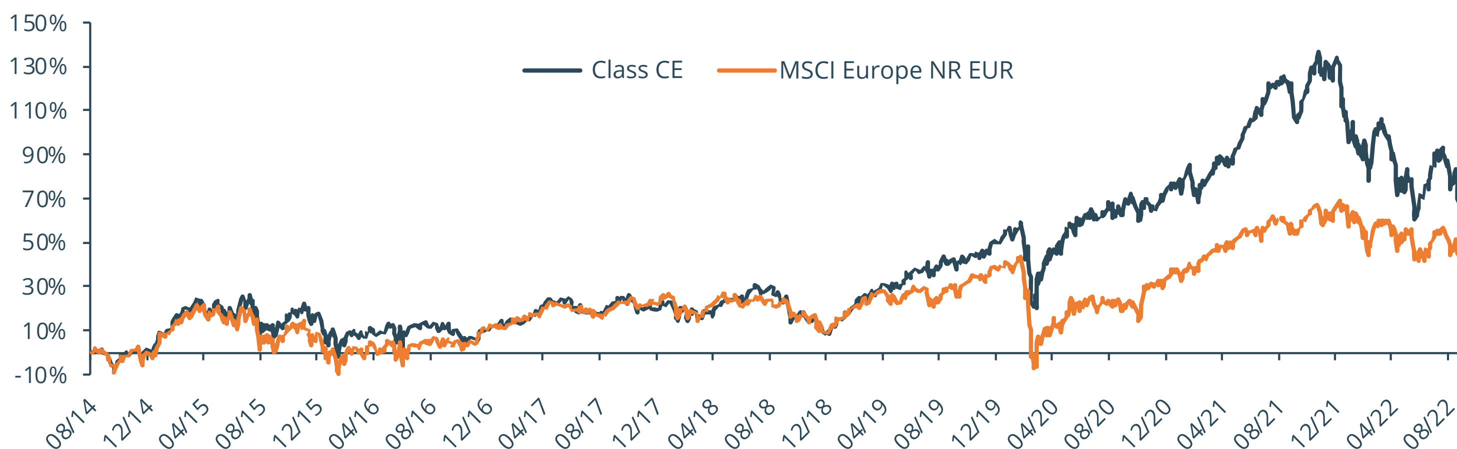
The European Focus CE share class performance since inception on 26 August 2014



**From Fund launch 26/08/2014*
Source: MSCI, Bloomberg 30/09/2022

Equity markets have responded to the above realities by pushing the Energy sector sharply higher. In fact, Energy and their ancillary industries are the only businesses to have generated a continuously positive investment returns year-to-date (YTD) and their dichotomy with the rest of the stock market is so great that they are unlikely to bear any similarity when comparing them with history. During 9M22, the European Energy sector has strengthened by nearly +20% in EUR terms while the broader MSCI Europe benchmark index has fallen by more than -17%, i.e. an amplitude of nearly 37 percentage points. The number two and number three 'best-performing' sectors over the 9M22 period are the Consumer Staples and the Healthcare industries, which have fallen by nearly -12% respectively. The implication of this dichotomy for investors is that unless they were solely invested in Energy, it has been nearly impossible to generate positive investment returns YTD.

The table below sets out the quarterly investment return of the main European industry sectors as well as the benchmark MSCI Europe index and European Focus.

Sector performance of the MSCI Europe NR (EUR) index and European Focus in 9M22

Sector	1Q22	Sector	2Q22	Sector	1H22	Sector	3Q22	Sector	9M22
Energy	16.9%	Energy	1.5%	Energy	18.6%	Energy	0.7%	Energy	19.5%
Comm. Services	1.1%	Comm. Services	-2.6%	Comm. Services	-1.6%	Cons. Staples	-2.4%	Cons. Staples	-11.6%
Healthcare	-0.2%	Cons. Staples	-3.2%	Healthcare	-4.6%	Industrials	-2.6%	Healthcare	-11.8%
Materials	-0.8%	Healthcare	-4.4%	Cons. Staples	-9.5%	Information Tech.	-3.0%	Comm. Services	-16.1%
Financials	-3.5%	**MSCI Europe**	**-9.0%**	Utilities	-12.9%	**European Focus**	**-3.1%**	Financials	-18.5%
Utilities	-3.7%	Utilities	-9.5%	**MSCI Europe**	**-13.8%**	Cons. Disc.	-3.1%	Utilities	-19.6%
MSCI Europe	**-5.3%**	Cons. Disc.	-11.1%	Financials	-14.8%	Financials	-4.3%	**MSCI Europe**	**-17.4%**
Real Estate	-5.5%	Financials	-11.7%	Materials	-17.7%	Materials	-4.5%	Materials	-21.4%
Cons. Staples	-6.5%	**European Focus**	**-15.3%**	Cons. Disc.	-25.8%	**MSCI Europe**	**-4.1%**	Industrials	-28.0%
Industrials	-11.8%	Industrials	-16.2%	Industrials	-26.1%	Healthcare	-7.6%	Cons. Disc.	-28.1%
European Focus	**-13.7%**	Materials	-17.0%	**European Focus**	**-26.8%**	Utilities	-7.7%	**European Focus**	**-29.1%**
Information Tech.	-15.0%	Information Tech.	-20.7%	Real Estate	-31.4%	Comm. Services	-14.7%	Information Tech.	-34.6%
Cons. Disc.	-16.4%	Real Estate	-27.4%	Information Tech.	-32.6%	Real Estate	-17.5%	Real Estate	-43.4%

Source: Bloomberg 30/09/2022

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The table on the previous page makes for sober reading as far as European Focus' YTD performance is concerned, but closer analysis shows that the Fund outperformed the benchmark in Q3 as 12 out of the 22 Portfolio holdings beat the benchmark. We construe that this reversal is due to the underlying pricing power and overall business durability of our Portfolio companies in the face of higher bond yields. As far as we can tell, these different price dynamics became apparent from the second half of June when we construe investors' inflation-worries switched to perceived recession-risk.

Jerome Powell's Jackson Hole speech set the framework for likely Fed-action

Many market observers have commented on Jerome Powell's speech at the Jackson Hole symposium (26th August), which led to a significant equity market reaction (S&P 500 fell by -3.4% on the day but the yield-impact on the 2-year and the 10-year bonds was less severe). In our opinion, this communiqué set the tone for what is likely to come. Powell's speech focused one central issue – inflation – but it was broken down into two topics:

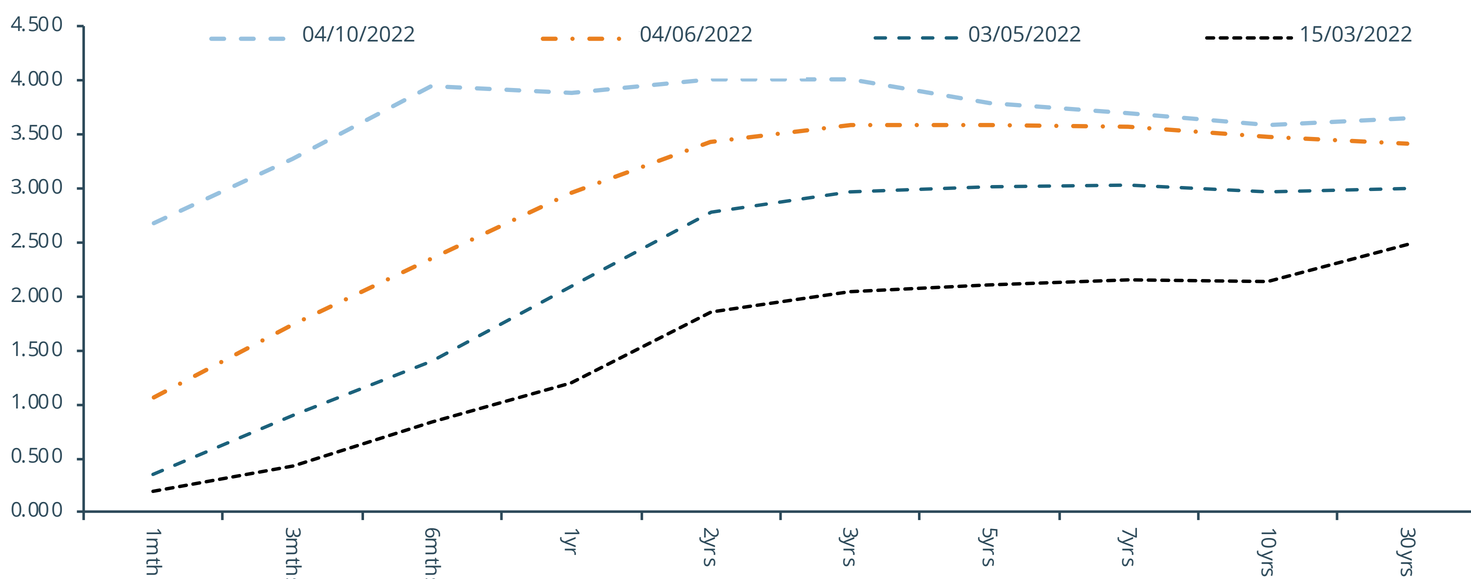
- the Fed's overarching focus is to bring inflation back to the 2% target;
- restoring such price stability will take some time.

The first aim of bringing inflation back to the 2% target is straight-forward, but the second objective was a bitter pill for investors to swallow as it is likely to require a *'sustained period of below trend growth'*. One of the main points of what the Fed was trying to convey is that it needs to create worse labour market conditions for wage growth to slow down.

Jerome Powell and the Fed went on to explain that if the Bank cannot restore price stability, it will mean greater pain in the longer term since the public's expectations about future inflation is likely to play an important role in setting the path of inflation over time. In other words, if the public expects inflation to continue to be high, it builds a different attitude into society's wage and pricing decisions and that ultimately influence consumption and investment patterns.

We construe that what the Fed is saying is that to knock inflation expectations on the head, the Bank will need to keep interest rates higher for longer. Hence, the Fed's most probable course of action is to create a recession, but as we have already discussed, it is anybody's guess as to whether it will be mild or severe as arguments can be made either for or against each scenario. This is to some extent illustrated in the US yield-curve, which now clearly shows an inversion. Observers of this important graph will have noticed that over the past few weeks, the expected peak in bond yields has moved further out from a duration of around two to three years. In other words, investors are factoring in inflation to stay higher for longer.

US yield curves in 2022



Source: Bloomberg and Heptagon 04/10/2022

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At the time of writing, according to the futures market, investors anticipate US interest rates to peak in Q1 2023, which means that it will have taken the Fed around one year from the first (+25bps) interest rate hike (4th March) for bond yields to peak. Our analysis on Fed-action in respect of the Fed Funds rate changes (data going back to 1971) and its effect on CPI suggests that it normally takes the Bank an average of 30 months (i.e. 2.5 years) for the Fed Funds rate to go from trough to peak and over that time, the Bank generally succeeds in eradicating 80% of CPI.

Against this backdrop, we believe investors may be too optimistic in their assessment for interest rates to peak in Q1 2023, but on the other hand, inflationary pressures were arguably more sudden this time around than in prior years (exacerbated by Russia's invasion of Ukraine), which has put unduly high price pressures on most commodities.

Looking ahead

Since mid-June we believe *'smart consensus'* has adopted the view that a recession is more or less unavoidable. Consequently, most countries are facing an economic environment where unemployment will rise and consumption will at least moderate. Seen from this perspective, central banks are likely to continue to raise interest rates for some time. A comparison between the leading central banks suggests that until now, the Fed has been the most aggressive in terms of rate hikes followed by a distant number two, the Bank of England, and an even further distant number three, the ECB.

However, as far as European equities are concerned, European macro-economics are largely irrelevant to the price-action of the region's stock markets. What does matter is the state of the US economy since this country is considerably more consumption-oriented than export-driven and a large part of the global output ends up in North America. Hence, European shares are ultimately highly correlated with the US economy and thus the US stock market. Consequently, irrespective of Europe's leading central banks (such as the ECB, BoE, SNB etc.), it is ultimately the Fed which sets the European (and global) framework for economic conditions and therefore Europe's equity markets. Against this backdrop, we believe it is paramount to follow the narrative of the Fed's individual FOMC members, who generally give an indication of what is to come, and thus when the Bank will turn more dovish in its narrative. In our view, that will be the time to tilt the Portfolio to a recovery and growth mode.

Short-term outlook

In the short-term – say the next 4-6 weeks – we believe investors will focus on the Q3 22 reporting season which got under way from mid-October. We anticipate companies to say that: *(i)* input costs are still rising albeit at a slower pace than earlier in 2022; *(ii)* price increases are being passed on to customers and; *(iii)* the implementation of such price increases is likely to continue until the summer of 2023. Furthermore, management teams are also likely to guide for a continued slowdown in economic activity and a highly uncertain outlook given the war in Ukraine, supply-chain issues etc. Irrespective of all these concerns, however, we note that the strength of the USD against most European currencies (bar the CHF), will act as a backstop to European companies' sales and profit outlook given their export-dependency and high percentage of USD-denominated invoicing.

Why European Focus should perform well once economic activity has slowed

Despite the underperformance of European Focus in 9M22, we are hopeful that the market rout and quality-growth investing tides have turned. One of our previous analyses of equities' price action in June showed that although only three sectors outperformed the benchmark (Healthcare, Consumer Staples and Communication Services) and while European Focus only invests in two out of three of these sectors, the Portfolio beat the benchmark that month and it also had its best relative month in June during the 1H22. In our experience, such changes are important milestones as they often give an indication of what is to come. In fact, the strong performance in June was further enhanced in July, which was the Fund's best-ever absolute month since its inception (+11.8%) and one of its strongest-ever relative months (+424bps over its benchmark index).

Looking ahead, although we believe that many European companies will be forced to cut their market guidance for the remaining three months of FY22 and FY23, this is less likely for the high-quality companies in European Focus since they

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tend to be international leaders with global footprints and widely diversified customer-spreads. These companies also have strong balance sheets which implies that higher interest rates will not impact their profitability as much as less well-capitalised businesses. Moreover, the Portfolio companies of European Focus have strong moats, they have stood the test-of-time (their average age of foundation is 1931). Last but not least, they have pricing-power which is essential during phases when inflation has become embedded in society.

The power of compounding

We first introduced the below table in April 2021 which illustrates the significant benefits of compounding. The top-part of the table illustrates how sales, EBITDA and EBIT growth have developed and are expected to progress for the European Focus Fund and for Europe (the MSCI index) during FY20 to FY23.

The lower part illustrates how the impact of the growth rates of sales, EBITDA and EBIT affect the revenue base and thus the earnings power based on current consensus expectations for FY22e and FY23e since before the pandemic. In short, the table shows the impact and importance of not losing sales or profits during economic weakness.

Projection of sales and profit growth of European Focus and MSCI Europe index)

HEFEF	FY19	FY20	FY21	FY22e	FY23e	MSCI	FY19	FY20	FY21	FY22e	FY23e
Sales		1.5%	19.9%	12.2%	9.6%	**Sales**		-19.3%	13.1%	17.1%	1.4%
EBITDA		4.7%	31.0%	17.0%	12.5%	**EBITDA**		-21.8%	38.5%	25.0%	0.3%
EBIT		3.6%	60.7%	23.9%	13.6%	**EBIT**		-38.7%	104.7%	35.3%	1.7%

HEFEF	FY19	FY20	FY21	FY22e	FY23e	MSCI	FY19	FY20	FY21	FY22e	FY23e
Sales	100	101.5	121.7	136.5	149.6	**Sales**	100	80.7	91.3	106.9	108.4
EBITDA	100	104.7	137.2	160.5	180.6	**EBITDA**	100	78.2	108.3	135.4	135.8
EBIT	100	103.6	166.5	206.3	234.5	**EBIT**	100	61.3	125.5	169.8	172.7

Source: Bloomberg dated 30/09/2022

The above tables show that European Focus grew its sales by +1.5% while the MSCI index saw sales fall by -19.3% during the Covid-19 crisis in FY20. In a similar fashion, the Portfolio's EBITDA increased by +4.7% while the MSCI index saw EBITDA fall by -21.8% with the Portfolio's EBIT rising by +3.6% while the MSCI index saw EBIT fall by -38.7%.

Since profits (and cash flows) are generated from revenues, turnover is paramount to any business. Although some commentators still argue that: *'While sales are vanity, profits (and cash flows) are sanity'*, we tend to disagree with this remark, but we believe it essential to analyse sales in a *'correct'* fashion. Hence, sales need to be split up into 'organic growth' (the price and volume components) and 'residual growth' (M&A and foreign exchange rate movements). If companies continuously grow their sales organically (which is one of the core tenets for the companies in European Focus), it creates an ever-larger platform from where they can generate and compound their profits – year in and year out.

What happens when sales decline which was the case for Europe (the MSCI index) in FY20? Europe 'lost' -19.3% of its revenue base that year which means that the region needed to grow its revenues by +23.9% in FY21 to get back to square one. Since the region only grew its revenues by +13.1% in FY21, according to Bloomberg's data, its sales base has shrunk to 91.3 of its pre-pandemic potential. Consequently, Europe needed to 'run faster' to stand still, i.e. to generate similar levels of profits and cash flows compared with its pre-pandemic levels. In profit terms, profits needed to grow at even higher rate than sales since the region's profit decline was more severe than the sales decline.

While the above table shows that this is indeed the case for EBITDA and EBIT of the MSCI index (assuming that consensus current growth rates are correct). This implies that the region regained its poise to its pre-pandemic levels in 2021.

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However, given that our Portfolio companies on average did not lose revenues or profit during the pandemic, they have a much more advantageous starting point from which to continue to grow.

Although the MSCI has higher sales and profit recoveries in FY22 than the Portfolio companies in European Focus, the European market still does not have same revenue and earnings power in comparison with European Focus. Put differently, lower-quality businesses, which are more prevalent in the MSCI index, are merely playing catch-up albeit from a lower base. However, since the underlying shares of these businesses tend to trade on lower valuation-multiples than higher-quality businesses, they tend to do well during periods when bond yields are rising (such as in 2022).

Going into FY23 and basing the sales and profit outlook of the Portfolio companies and the MSCI index on Bloomberg's consensus figures illustrate these points even more. While the sales base of European Focus is nearly 50% higher compared with its pre-pandemic level and more than 130% higher in EBIT capacity, MSCI's aggregation of businesses is only 8% higher than their pre-pandemic level in terms of sales and some 70% higher in terms of EBIT.

Current high-level conviction positions (as of 30th September)

Below is a summary of European Focus' highest-level conviction positions. In our view, of these top-six positions (all which have a weighting of more than 5%) only one is a 'non-defensive' holding, ASML. In the Portfolio changes section below, we highlight in more detail the rationale for holding on to this stock despite its poor performance YTD.

- **Novo Nordisk (9.6% exposure):** insulin is crucial for people suffering from diabetes. The diabetes market grows by 5-7% annually (of which 3-4% is through volume and 2-3% from higher prices due to product improvements). Novo Nordisk holds an estimated 50% global market share across all relevant types of insulin (and obesity) treatments; the other leading players in the diabetes industry are: Sanofi and Eli Lilly. We estimate that these three companies jointly control approximately 80-85% of the relevant world market for insulin.

- **Diageo (6.6% exposure):** is the world's largest distiller with a multitude of brand names under its umbrella (such as Johnnie Walker, Gordon's, Tanqueray, Smirnoff and Captain Morgan to mention a few). In a recessionary environment, *'alcohol stocks'* typically perform well as most consumers rarely give up on 'bad habits' – they merely continue to do them in a less costly manner.

- **Lindt & Sprüngli (5.8% exposure):** the Swiss and the world's largest producer of premium chocolate, which we de facto classify as *'affordable luxury'*. Lindt & Sprüngli holds a unique position in this industry which is expected to show long-term growth of 6-8% per annum. The core strengths of this company are its strict focus on premium chocolate, where the small players tend to be family-owned businesses which do not have the aspiration to grow internationally and the large players (such as Nestlé, Mondelez etc.) are too large to focus on the premium chocolate segment in isolation. Put in simplistic terms, it is more important for Nestlé (and its likes) to sell higher volumes of *'KitKats'* than to sell its premium *'Cailler'* brand.

- **Nestlé (5.7% exposure):** is the world's largest food manufacturer. Irrespective of the economic climate *'you have to eat'*. The Nestlé share has historically performed well during periods of economic contraction. Through activist investors and management execution, Nestlé is currently reorganised so that its long-term growth rate of +4-6% per annum has been restored and the company has tilted its brand portfolio to higher-priced and faster-growing categories.

- **ASML (5.2% exposure):** the Dutch and world-leading supplier of machinery for semi-conductor manufacturing is currently the only large exposure which we regard as a true 'growth-stock'. While consensus sales and profit revisions were positive throughout 2022 until the release of the 2Q22 set of results (20th July), they have since come off as management has commented that supply-chain issues continue to force the company to defer sales into FY23 and lockdowns in China has limited access to customers which are located in this market. ASML will host an investor day at their main manufacturing plant and HQ in Veldhoven in 4Q22 (11th November) when management is expected to raise the long-term guidance.

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- **Tomra (5.0% exposure):** the Norwegian leading supplier of 'RVMs' (reverse vending machines), which are used for the recycling of glass, plastic bottles and beverage cans is also a great proponent of the circular economy. The company's core competence is not the provision of machinery, but the know-how of how to best implement deposit systems in different countries depending on specific national legislation. Given Europe's *'single-use plastics directory'* from March 2019, which states that all single-use plastic bottles should be made from 77% recycled plastics from 2025 and 90% from 2030, implies that the underlying long-term fundamental drivers look thrilling.

ESG considerations are continuously gaining higher priority

European Focus has an exclusion list which prevents it from investing in businesses, such as fossil-fuel, nuclear, weapons, tobacco, gambling etc. ESG as a concept has always been integrated into our strategy given the mantra that it is essential for businesses that *'doing well and doing good is mutually dependent'*. In other words, it is not good business to cut corners in any of the 'ESG-dimensions' given potential repercussions – be it financial risk, such as becoming liable to fines and/or damages, reputational risk etc. (which is ultimately likely to have financial implications). As investors and companies are continuously re-prioritising various aspects of ESG, we note that most of our Portfolio companies have aligned part of their managers' remuneration to measurable ESG targets. We estimate that such ESG-related targets affect individual managers' variable compensation by up to a range of 10-20%.

Risks and uncertainties

Below are a few bullet points regarding risks and uncertainties which we are currently considering in terms of priority.

- **Inflation and bond yields:** will higher inflation and bond yields lead to excessive wage pressures and ultimately push the US and other economies into recession? The majority of the Portfolio holdings in European Focus have a high level of refinement in their product and service offerings which goes hand-in-hand with their superior pricing power. This implies that their product offerings are generally price inelastic, i.e. when the price of their products rise, the level of demand stays broadly the same.

- **Vladimir Putin's war with Ukraine:** the impact has already been noted given sharply higher prices of oil, gas and other commodities (such as wheat). There is also a risk that Putin will escalate the scope of his war-efforts by using tactical nuclear weapons.

- **High level of corporate indebtedness:** higher interest rates may continue to affect the valuation of equities and companies' profitability. However, the balance sheet strength of an average European Focus company is considerably better than that of an average MSCI Europe company. The Portfolio currently shows a net debt to EBITDA ratio of around 0.5x including lease debt obligations as well as pension liabilities, which compares with the 3-3.5x average of the constituents in the MSCI index.

- **The Delta, Omicron, BA... variants (and more) spiralling out-of-control vs. vaccine-rollouts:** While most economies appear to have partly discarded the pandemic given the calamities in Ukraine and governments seem to have control of new variants, such as Omicron and BA. However, we cannot exclude re-emergence of Covid-19 clusters which will continue to affect businesses' end-markets and/or supply-chains – especially now when the colder weather is approaching the northern hemisphere. Nonetheless, we believe most countries are now much better equipped to tackle such new variants in a more efficient manner as science has gained a better understanding of the virus.

- **China's debt crisis and relationship with Russia:** We believe the current credit-crisis in China's largest construction companies and its contagion to the rest of the Chinese real-estate market and banking sectors continues to pose a threat. Moreover, Russia's invasion of Ukraine has exposed the obvious dilemma between where China's geopolitical heart sits and where its economic interests lie. The EU and the US rank as Beijing's most crucial economic partners in terms of trade, investment and capital market linkages. However, China is yet to officially condemn Vladimir Putin's Russia for invading Ukraine. Given the strong worldwide opinion against Russia,

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and the severe sanctions which have been imposed on the country, it is possible that China will be adversely affected by not taking a clear side against the invasion.

Attribution analysis for the first three quarters of 2022

9M22 was a weak period for the Heptagon European Focus Equity Fund. The Portfolio's CE share class fell by -29.09% vs. benchmark MSCI Europe NR (EUR) index which dropped -17.38% in comparison. Closer analysis shows that the Portfolio outperformed the benchmark in Q3 2022 (-3.09% vs. -4.11% of the benchmark, i.e. +109bps) as 12 out of 22 holdings in the Fund outperformed the market over this period.

The aforementioned industry analysis (see page 2) shows that Energy was the only European sector to generate a positive return in 9M22. In fact, Energy is the only sector to have shown a positive return in each of the three quarters 2022. In order not to style-drift and by sticking to our mantra of not investing in price-takers, the odds for European Focus to make money has so far been slim in 2022.

Although we construe that several factors, such as higher bond yields, have affected the valuation of technology and growth-like stocks, the overriding factor is that Energy stocks have completely stolen the show in terms of investors' preference in 9M22. The sector performance table on page 2 shows that this sector outperformed the benchmark index in the three quarters in 2022 and in seven out of nine months YTD (it only underperformed the benchmark index in June and July). Moreover, on an individual month-by-month basis, the Energy sector had two stunning months; one was in January when the sector advanced by +13.0% (benchmark +1.9%) and the other was in May when the sector leapt by another +10.3% (benchmark -0.8%).

When looking at the top-performing stocks in European Focus, there were only minor changes in 9M22 compared with 1Q22, 1H22. Five stocks beat the benchmark in 9M22: **Beiersdorf, Novo Nordisk, Diageo, Nestlé and LVMH** (we purchased LVMH in August). This compares with 1H22 when only three stocks outperformed the benchmark: **Beiersdorf, Novo Nordisk** and **Nestlé. Diageo**, the British and world-leading distiller slightly underperformed the benchmark during 2Q22 but as the GBP lost ground against the EUR, closer analysis shows that this stock fell by -8.6% in GBP terms in 2Q22 (vs. -9.0% of the benchmark) but converted into EUR, the DGE share fell by -10.5% (i.e. it lost -1.5 percentage points on a relative basis in EUR terms). In other words, four best-performing stocks in the Fund have been remarkably consistent over the 9M22 period.

In terms of the worst-performing stocks in the Portfolio, there was some consistency with prior quarters YTD but not to the same extent as the top-performers. Three stocks have been consistently poor in 9M22 (**Zalando, Tomra** and **Adyen**), while the bottom number 4 and bottom number 5 in the Portfolio have varied from quarter to quarter.

Despite our mantra that: *'stocks which perform well tend to perform well for longer and stocks which perform poorly tend to perform poorly for longer'*, we have decided to hold on to the bottom-performing stocks as we regard them as unique businesses with durable business models. However, we have reduced the exposure of each position in the Fund (see further comments under Portfolio changes below).

Contributors

Beiersdorf (BEI GY)

Beiersdorf

Beiersdorf (Germany: +11.70%), the owner of the world's largest skincare brand, *Nivea*, was the best performing stock in the Portfolio in 9M22 (as well as in 1H22 and 1Q22). Vincent Warnery, who took over as CEO of the group on 1st May 2021, and Astrid Hermann, who became CFO a few months beforehand, appear to have eradicated investors' belief of BEI's inability to grow e-commerce, which the previous management appeared inept in achieving. BEI's FY21 report was solid and reflected sequential growth-rates in some regions, but more importantly – significantly more information was provided in respect of the group's online and e-commerce accomplishments. Furthermore, management announced the acquisition of the US skincare

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brand, *Chantecaille*, a US business, in March which should enhance BEI's overall growth rate. BEI's management has accelerated the *'Digital Fast Forward'* program which was announced in March. Its objective is to further expand the group's business in the digital space – from e-commerce to *'co-innovation platforms and various digital service offerings for its consumers'*.

BEI's 1Q22 revenues (28th April) were ahead of market expectations and the management team came across as confident that the business outlook will structurally improve given ongoing e-commerce investments and market share gains in all geographies. The 1H22 report (4th August) resembled the strong momentum that was presented in 1Q22; not only did the 2Q22 top-line beat consensus expectations by a wide margin but BEI's profitability was comfortably ahead of market expectations. Although BEI's conservative management so far has only maintained the FY22 guidance from earlier this year, we believe the company is still one of the opening-up winners as the luxury and high-margin, *La Prairie*, should boost the company's overall profit margin. Moreover, since the company's base numbers for comparison in 3Q21 and 4Q21 were still subdued, we believe BEI is one of only a few companies that will show acceleration in LfL growth in 2H22. BEI's next 3Q22 revenue report is due on 27th October.

Novo Nordisk (NOVOB DC)

NOVOB (Denmark: +3.61%), the world's largest manufacturer of insulin, was the second-best performing stock in the Portfolio in 1H22 (as well as in 1H22 and 1Q22). NOVOB remains the largest Portfolio holding in European Focus (30th September: 9.6% exposure). The NOVOB share has been a solid performer and more or less went from relative strength-to-strength since 2Q21 except when management referred to supply-chain issues relating to the anti-obesity drug, *Wegovy*. This prompted a negative reaction to the stock (3rd August), which gave us an opportunity to top-up the position (see Portfolio changes below). However, last year such a supply-chain related issue with Wegovy forced NOVOB to issue a cautionary statement (17th December 2021) and at that time management expected the supply of Wegovy to have restored to normality by 2H22.

Notwithstanding the Wegovy-related problems, the 4Q21 set of results (2nd February) indicated that NOVOB would deliver a strong financial performance in FY22. NOVOB's 1Q22 set of results was pre-announced (29th April as opposed to the original date 4th May) as management made a substantial upgrade to the FY22 guidance. LfL revenue growth was raised to +10-14% (vs. +6-9% at this stage) while LfL EBIT growth was projected to grow by +9-13% (vs. +4-8% at this stage). The 2Q22 set of results was also pre-announced (3rd August as opposed to 4th August) with the pretext that another upgrade to the FY22 guidance was on the cards (LfL sales growth now raised to +12-16% and LfL EBIT growth to +11-15%). However, the pre-announcement backfired as management commented that the aforementioned supply-chain issues regarding Wegovy would persist until the end of 2022. NOVOB is due to announce 3Q22 results on 2nd November.

Diageo (DGE LN)

DGE (UK: -9.79%), the world's largest distiller (and the owner of world-renowned brand names like Johnnie Walker, Gordon's, Tanqueray, Smirnoff and Captain Morgan, among others), was the third best-performing stock in the Portfolio in 9M22 (and fourth best performer in 1H22 and 1Q22). Last year, global lockdowns caused a significant slowdown in DGE's on-channel business to pubs, bars and restaurants compared with virtually non-existent duty-free shopping caused by air-traffic and cruise restrictions. However, as 2H21 progressed and various lockdown restrictions were lifted, the DGE share sprang back to life. The 1H21/22 set of results (27th January) was comfortably ahead of market expectations driven primarily by a strong recovery in North America. Volume growth accelerated to +9% (-2%) in 1H21/22 while average prices were raised by +11% (+3%). Management maintained what seemed like a conservative organic top-line growth guidance of +5-7% for FY21/22 (end-June) arguing that base numbers for comparison would become more difficult during 2H21/22. However, the FY21/22 numbers substantially exceeded management's guidance; volume growth reached +10% (+11%) while price increases were solid at more than +11% (+5%).

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DGE's management has resorted to a long-term guidance as base numbers for comparison are getting increasingly difficult. Throughout FY22/23 to FY24/25, DGE is expected to generate annual LfL top-line growth of +5-7% and corresponding LfL EBIT growth of +6-9% as consumers around the world are expected to trade higher; meanwhile the company is implementing a 10-year sustainability plan which involves educating consumers in 'positive drinking'. DGE's 1H22/23 report is due in January but no date has been confirmed.

Nestlé (NESN SW)

NESN (Switzerland: -9.89%), the world's largest food-producer, was the fourth best-performing share in the Portfolio in 9M22 (and third best performer in 1H22 and 1Q22). In many ways, the traditional and extremely defensive characteristics of the NESN share have come to fore YTD. In a nutshell: *'You have to eat irrespective of the economic and geopolitical environment.'*

Throughout 2022, NESN's financial announcements have been strong. The FY21 set of results (17th February) was solid. At the webcast, management came across as confident regarding the FY22 prospects as price increases were being gradually introduced. The organic growth guidance for the year was set at +5% with an underlying EBIT margin of 17-17.5% (FY21: 17.4%). NESN's 1Q22 revenues (21st April) were also ahead of market expectations and when the 1H22 set of results was published (28th July), the company's top-line number reflected the highest growth rate in 16 years. Management again came across as confident regarding the FY22 prospects as price increases were being implemented across the product-range and that such price increases would continue until the summer of 2023. While NESN has maintained the FY22 guidance YTD, the key message from the company is that the underlying long-term top-line LfL revenue growth range of +4-6% has been restored. NESN 3Q22 revenue report (19th October) was in line with market expectations; its FY22 report is due on 16th February.

LVMH (MC FP LN)

MC (France: -16.04%), the world's largest luxury goods company, is a new position in the Portfolio since 1st August (see Portfolio changes below). The company has been delivering strong LfL growth numbers throughout 2022 as well as last year. While revenue growth decelerated to a Y/Y growth rate of +15% in 2Q22 from +24% in 1Q22, this should be put into context that the base numbers for 2021 were extremely high: +35% and +86% in 1Q21 and 2Q21 respectively. However, we are confident that June was a strong month given that many Chinese cities reopened (this was confirmed by MC's French peer, Hermès, which is another Portfolio holding). Since the investment in MC, the stock has performed broadly in-line with the benchmark index. However, like all other European luxury goods companies, MC is a major beneficiary of a strong USD and a weak EUR. MC's 3Q22 revenue report (11th October), was solid reflecting 19% LfL revenue growth (unchanged sequentially from 2Q22) with the Fashion & Leather division (49% of group sales) registering 22% LfL growth. The company's FY22 set of results will be the next reporting event. While the date for this release has not been confirmed, it is normally published in the latter part of January.

Detractors

Zalando (ZAL GY)

ZAL (Germany: -71.56%), Europe's largest online fashion retailer, was the worst-performing stock in the Portfolio in 9M22 (as well as in 1H22 and 1Q22). This poor performance sharply contrasts with 2020, when the ZAL share was by far the best performing share in the Fund (+101.6% vs. -3.3% of the benchmark) as the business was considered to be a clear *'lockdown winner'*. ZAL is the smallest position in European Focus (30th September: 1.0% exposure). Despite the dismal performance YTD, we are reluctant to part ways with this business since we consider the structural and long-term fundamental shift away from brick-and-mortar apparel retailing to e-commerce has been completely disregarded in the face of flagging consumer confidence and higher interest rates.

Although we fully understand the market's current concerns, we still find the harsh reaction on the ZAL share in 9M22 somewhat bizarre. Our initial purchase of ZAL (26th June 2017) was around €41 per share. At the end of 1Q22, the

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ZAL share was priced around €46 (or +12% from our original purchase price), down from an all-time high of €104.65 (7th July 2021) and by the 30th June it was around €25. Over the five years we have held the stock, the company has shown organic CAGR sales growth of around 23% while EBIT has compounded by 21%. In other words, the business is now some 2.5x larger in terms of sales and EBIT compared with what it was in 2017 while at the same time its balance sheet remains net cash positive. Meanwhile, ZAL's market shares across Continental Europe are considerably higher and its product range is vastly bigger partly due of the extended Partner Program with 3rd party retailers.

Moreover, ZAL's product offering now includes the cosmetics category, which we believe lends well for online shopping given the repetitive behaviour of consumers' purchases of such products. The company has a close cooperation with cosmetics-retail giant, Sephora (owned by LVMH). At the 3Q22 results release (4th August), ZAL's management reiterated its earlier stance that Putin's war with Ukraine has had a significant adverse effect on European consumer confidence. As ZAL does not expect European consumer confidence to recover in the short-term, management issued a profit-warning (24th June), when the company revised the FY22 LfL guidance as follows: GMV (gross merchandise value) growth is expected in the +3-7% range (from +16-23%) and net revenue growth is expected in the range of +0-3% (from +12-19%). Meanwhile, FY22 EBIT is expected to be in the range of €180-260m (down from €430-510m), corresponding to a -53% reduction from the mid-range. ZAL is due to publish 3Q22 results on 3rd November.

Adidas (ADS GY)

ADS (Germany: -53.05%), the world's second largest producer of sports-shoes after US Nike, was the second weakest performing stock in the Portfolio in 9M22. Financially and operationally ADS has not had a great year in 2022 primarily because the widespread lockdowns in China and to some extent corporate communication. The 1Q22 results (6th May) were in-line with market expectations reflecting -3% LfL top-line growth (unchanged sequentially from 4Q21). Management did a decent job in explaining where momentum in the business was strong/weak. With the exception of China (19% of ADS sales), the company showed double-digit growth elsewhere as management commented that 45 Chinese cities were either in complete or partial lockdown and those cities had an approximate 40% adverse impact on Chinese consumer spending. In our view, the mistake management made was to reiterate the FY22 guidance which implied a necessary +20% LfL sales growth rate for 2H22 to meet the guidance.

The 2Q22 set of results (4th August) were in-line with lowly set market expectations, but this was due to the fact that management had to concede to an embarrassing profit-warning (27th July) because of: *(i)* protracted difficulties in China and; *(ii)* deteriorating consumer confidence in Europe. Furthermore, since the shortfall in sales growth and profitability in 1H22, CEO, Kasper Rorsted announced his resignation (22nd August) which will become effective in 2023. ADS will release the 3Q22 set of results on 9th November.

Straumann (STMN SW)

STMN (Switzerland: -49.15%), the global leader in dental implants and ancillary orthodontal materials, was the third weakest performing stock in the Portfolio in 9M22 (the fifth weakest performer in 1H22 and the third weakest performer in 1Q22). Despite excellent and consensus-beating results YTD, the market has taken a dislike to the stock given concern that higher bond yields will affect home-equity withdrawals which was a common way to fund dental implant surgeries prior to the Great Recession in 2008-09. Nonetheless, STMN's 1Q22 sales report (28th April) showed extremely strong LfL top-line growth of +27.9% (vs LfL growth of +34.0% in 1Q21) and in our view, the 1H22 set of results was equally good albeit with a slowdown in LfL growth to +15.1% for 2Q22 in isolation (vs. +103.0% in 2Q21). Management has maintained the FY22 guidance of *'low double-digit organic sales growth and EBIT of around 26%'* (FY21: 26.8%), where the lower EBIT margin is explained by the start of business travelling and the participation at trade exhibitions which will push OPEX higher.

While STMN's consensus sales and EBIT estimates for FY22 and FY23 were raised by around +1% in 2Q22, consensus has cut the FY23 estimates by -3% to -4% since the 1H22 set of results to reflect deteriorating consumer confidence and a stronger CHF. Meanwhile, STMN's solid 2030 long-term guidance indicates the strong fundamentals of the dental

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implant and orthodontal industries. Management has set a 2030 revenue target for STMN of CHF5bn (which implies a CAGR of 13.3% from the FY20 base year and 10.6% from revenues generated in FY21). STMN will publish 3Q22 sales on 2nd November.

Eurofins Scientific (ERF FP)

ERF (France: -43.82%), the leading testing-services group which provides bioanalytical services in the food, pharmaceutical and environmental markets, was the fourth worst performing stock in the Portfolio in 9M22. Since the outbreak of Covid-19, ERF's business has been supported by an unsatiable demand for testing services, but as economies and healthcare authorities have gradually managed to get on top of the pandemic, the ERF share has fallen out-of-favour with investors. Unfortunately, we consider the management team to have cornered themselves as they have a tendency to continuously raise the financial guidance to the extent that if it is not raised, investors take fright. Nonetheless, the medium-term FY24 guidance remains unchanged, and it seems probable that the company will continue to generate 5-7% LfL sales growth and achieve the stated adjusted EBITDA margin of 24%. ERF's 3Q22 sales figures (18th October) were broadly in-line with market expectations. ERF next report will be the FY22 set of results, which is due in on 22nd February.

Adyen (ADYEN NA)

ADYEN (Netherlands: -43.68%), the leading provider of payment solutions, was the fifth weakest performing stock in the Portfolio in 9M22 (the fourth weakest in 1H22 and the fifth weakest performer in 1Q22). The ADYEN share has shown significant volatility throughout 2022. While it was one of the worst performing stocks in the Portfolio in January and one of the best performing stocks in February and in July when many growth stocks rebounded. The sharp rise in treasury yields in January, which typically has a direct impact on credit-card payments, caused the ADYEN share-price to have a poor performance along with other businesses that are perceived to be affected by consumer-spending (such as Mastercard and Visa). However, when ADYEN published its FY21 set of results (9th February), the stock bounced back strongly as the company reported 46% organic revenue growth and 59% organic EBIT growth. The 1H22 statement (18th August) was strong, but the Y/Y LfL net sales growth decelerated to 36% (vs. a very high base number for comparison of +46% in 1H21).

ADYEN offers merchants an integrated platform to seamlessly process payments online, over mobile devices and through POS (Point-of-Sales terminals) in physical stores. Against that backdrop, ADYEN must be regarded as a truly *'unique business'* where competition is thin. On both reporting occasions in 2022, Adyen has clearly explained that the investment story is not predicated on consumers' credit-card spending but based on the penetration (and growth) of merchants that are signing up with the company's integrated payment system (*'unified commerce'*). Management's medium-term 2024 financial objectives are to generate 25-30% net sales growth and to reach an EBITDA margin of more than 65% (FY21: 62.9%). Given the concept of 'unified commerce' alongside other digital solutions, we believe ADYEN should reach these targets as the market penetration remains low. The company hosted a well-orchestrated investor day (31st March). ADYEN's FY22 set of results is due in February but no exact date has been set as of yet.

European Focus Portfolio changes

The '5/10/40' UCITS rule states that: *(i)* positions over 5% cannot have an aggregate weighting which exceeds 40% and; *(ii)* an individual position cannot have a weighting which exceeds 10%. As trades of less than 1% are too small to have any meaningful impact on the Fund's performance, we only generally comment on trades exceeding this level.

Over-and-above smaller changes to the Portfolio, which primarily relate to market opportunities and/or correction of passive UCITS breaches, we have primarily rebalanced the Portfolio by making 'indirect' changes to our Portfolio exposures during 9M22 by using subscriptions and/or redemptions whenever possible. However, we made 4 active changes to the Portfolio during 9Q22 (9M21: 5 active changes), all of which were done in 3Q22.

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- We sold **Intertek** (2.8% to nil) on 1st August: The company appeared to have lost momentum in the important Product testing division (62% of 1H22 group sales) as LfL sales decelerated from 4.5% in 4M22 to 4.3% during 1H22, i.e. implying that the months of May and June must have been weaker. Since Intertek's Product testing division is fairly China-centric, we considered the slowdown to be peculiar as the country partially reopened during April-June.

- We bought **LVMH** (nil to 4.0%) on 1st August: The company had a strong 1H22 set of results reflecting ongoing positive LfL revenue growth across nearly all major geographies and categories. Moreover, a cross-read from one of our existing Portfolio holdings, the French luxury goods peer, Hermès (4.7% exposure on 30th September), indicated that this company generated double-digit LfL revenue growth in Mainland China during June, when the country accelerated its reopening efforts.

- We added to **Novo Nordisk** (7.9% to 9.0%) on 3rd August: The company pre-announced 2Q22 results under the pretext that it was raising its FY22 guidance, which in some ways were true. However, management also commented that the supply-chain issues in the anti-obesity business operated under the flagship drug, *Wegovy*, is likely to last until the end of 2022 as opposed to be limited to 1H22, which was originally the case. Against this backdrop, the Novo Nordisk share fell by -9.4% on the day of the announcement (vs. +0.4% of the benchmark index). From the company's explanation, we construe that the opportunity-loss of Wegovy-sales in FY22 will be deferred to FY23 and against that backdrop, the profit-taking in the share seemed excessive.

- We added to **Adidas** (2.9% to 3.9%) on 16th August: The company profit-warned on 27th July, i.e. six trading days before the scheduled 2Q22 report (4th August). Management commented that it expected LfL revenue growth for FY22 to be in the *'mid-to-high-single-digit range'* (from *'lower end of the 11-13% range'*) primarily reflecting a double-digit decline in China. Our reasoning for adding to Adidas is that to even reach the revised revenue target, the company will need to show acceleration in LfL growth in 3Q22 as well as 4Q22. Hence, in an environment where the world economy is expected to slow down, we believe acceleration in top-line growth will be regarded an attractive attribute.

Despite these direct Portfolio changes, the net effect of stock movements in the Portfolio is that we have continued to make the Fund's exposures more defensive. The table below shows the evolution of the 10 largest exposures in European Focus, i.e. those positions where we have the highest level of conviction since year-end. We have used four points in time to illustrate how these ongoing changes have impacted the robustness of the Fund: the end of 4Q21, the ends of 1Q22, 2Q22 and 3Q22.

End-of-quarter 10 largest Portfolio holdings in European Focus

4Q21	% exposure	1Q22	% exposure	2Q22	% exposure	3Q22	% exposure
ASML	6.9%	Novo Nordisk	8.2%	Novo Nordisk	9.4%	Novo Nordisk	9.7%
Tomra	6.6%	ASML	6.7%	Diageo	6.4%	Diageo	6.6%
Novo Nordisk	6.0%	Tomra	5.8%	Nestlé	5.8%	Nestlé	5.8%
Straumann	5.7%	Diageo	5.0%	ASML	5.6%	Lindt & Sprüngli	5.7%
Coloplast	4.5%	Coloplast	5.0%	Lindt & Sprüngli	5.3%	ASML	5.5%
Eurofins Scientific	4.4%	Lindt & Sprüngli	4.9%	Tomra	4.9%	Tomra	5.0%
L'Oréal	4.4%	EssilorLuxottica	4.8%	EssilorLuxottica	4.9%	EssilorLuxottica	4.7%
Dassault Systèmes	4.4%	Hermès	4.8%	L'Oréal	4.6%	Beiersdorf	4.7%
Lonza	4.3%	Straumann	4.7%	Beiersdorf	4.6%	Hermès	4.6%
Atlas Copco	4.3%	Lonza	4.6%	Givaudan	4.3%	L'Oréal	4.6%
Total	51.5%		54.4%		55.7%		56.7%

Source: Heptagon Capital and Bloomberg 30/09/2022

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Another '*qualitative way*' of looking at this is to categorise the Portfolio holdings into three different 'buckets', i.e. stocks with:

- Technology and/or growth-like characteristics
- Medium defensive characteristics
- Defensive characteristics

When looking at the top-ten positions since the beginning of 2022, the defensive and medium-defensive buckets has increased at the expense of Technology/growth-like businesses in European Focus, but there was an uptick in for Technology/growth-like stocks at the end of 9M22 from 1H22 as the Tomra share recovered towards the end of September while several other stocks in the Portfolio and the market saw profit-taking. In a similar albeit opposite fashion, Givaudan, which is in the defensive bucket, share did not have a good relative performance in September and thus slipped out of the top-ten largest positions in the Fund.

Quarterly exposures of the top-ten largest holdings in European Focus

	4Q21	1Q22	2Q22	3Q22
Tech/growth-like	23.5%	22.0%	10.4%	15.1%
Medium-defensive	17.6%	14.3%	4.9%	4.7%
Defensive	10.4%	18.1%	40.4%	36.9%
Total	**51.5%**	**54.4%**	**55.7%**	**56.7%**
Technology/growth	ASML, TOM, STMN, DSY	ASML, TOM, STMN, RMS	ASML, TOM	ASML, TOM, RMS
Medium-defensive:	COLOB, ERF, LONN, ATCOA	COLOB, LONN, EL	EL	EL
Defensive:	NOVOB, OR	NOVOB, LISP, DGE	NOVOB, OR, DGE, NESN, LISP, BEI, GIVN	NOVOB, OR, DGE, NESN, BEI, LISP

Source: Heptagon Capital and Bloomberg 30/09/2022

When looking at the Fund in its entirety, however, there is more consistency. As the below table shows, Technology/growth-like stocks have seen an overall decline in their combined exposure from 36.0% (7 stocks) at the beginning of 2022 to 26.7% (7 stocks) at the end of 3Q22. Meanwhile, Defensive and Medium-defensive positions have seen their combined exposure rise from 60.1% (15 stocks) at the beginning of 2022 to 71.1% (15 stocks) at the end of 3Q22.

Quarterly exposures of stock categories in European Focus

	4Q21	1Q22	2Q22	3Q22
Technology/growth-like	36.0%	33.5%	27.4%	26.7%
Medium-defensive	31.4%	31.8%	29.3%	29.8%
Defensive	28.7%	34.3%	40.4%	41.3%
Total	**96.1%**	**99.6%**	**97.2%**	**97.8%**
Cash	3.9%	0.4%	2.8%	2.2%
Total incl cash	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Heptagon Capital and Bloomberg 30/09/2022

Despite the weak performance of Technology/growth-like stocks, we have held on to these positions but as already described with lower exposures. Over-and-above the facts that these companies in our view have excellent management teams; show continuous market share gains; have strong balance sheets; display healthy cash flow streams; have overall clean accounts and are ESG-friendly, they are truly outstanding businesses in the widest sense which are not easily replicable. They have superior moats and their businesses have also stood the test-of-time (their average age of foundation is currently 1946 and excluding Hermès – the oldest company in the Fund – 1973). In short, they are unique companies and each of them commands a European scarcity value (i.e. premium-rating) should any acquirer decide to launch a bid.

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- **ASML (year of foundation: 1984; end 3Q22 exposure: 5.2%):** there is currently a structural shortage of semi-conductors in the world which is unlikely disappear in the medium-term. ASML holds a de-facto monopoly in the EUV technology, which is the most advanced, smallest (and thus the most energy-efficient) technology to manufacture semi-conductors. Upcoming this year, ASML's management commented that the company will raise the long-term growth target at the investor day at the headquarters in Veldhoven on 11th November.

- **Tomra (year of foundation: 1972; end 3Q22 exposure:** 5.0%): holds a unique position in the environmental field where its core competence focuses on how to most efficiently collect beverage cans and bottles. The company's traditional flagship product is the RVM (Reverse Vending Machine), i.e. a machine which facilitates collection of beverage cans/bottles in aluminium, glass and plastics. Tomra's expertise is not only concentrated around the RVMs; rather it is how different countries should most efficiently: *(i)* implement collection-points for beverage cans and bottles and; *(ii)* how to best finance such *'circular-systems'*. At the recent investor day in Koblenz (23rd June), management raised the long-term (2027 guidance) to show LfL top-line growth of 17% per year (from +10% traditionally) and to grow the EBITA margin towards 18% (FY21: 16.2%). Consensus sales and profit expectations have been raised since the start of the year and since Russia's invasion of Ukraine.

- **Dassault Systèmes (year of foundation: 1981; end 3Q22 exposure: 4.2%):** holds unique positions across a multitude of 3D-software applications that are used for industrial designs (such as in the aviation, marine and automotive industries), simulation of workflows, PLM (Product Lifecycle Management) solutions and much more. As the world's computing-power has accelerated and become considerably more sophisticated, the company's product suite has been dramatically expanded to include simulation of molecular structures in life-sciences and biotechnology and other high-tech solutions. Dassault Systèmes' has an extremely stable management structure (where the current CEO Bernard Charlès joined the company in 1983). Dassault Systèmes guides for individual quarters and full years, but management typically guide for gradual increases in current full-year forecasts as each quarter in the year progresses. Consensus sales and profit expectations have been raised since the start of the year as well as since Russia's invasion of Ukraine.

- **Straumann (year of foundation: 1954; end 3Q22 exposure: 3.4%):** has evolved from a distant #3 or #4 to become the world's undisputed leader in dental implantology and orthodontics. This achievement has been accomplished by an unsurpassed focus on the core competence – dental implants and ancillary technologies. As Straumann's business has grown and gained global prominence so has its product suite, which now includes biomaterials and digital solutions for use in tooth correction and much more. Straumann hosted an impressive investor day (16th December 2021), where management issued a long-term LfL revenue target of CHF5bn by 2030, which implies a CAGR of 13.3% from the base-year 2020. Consensus sales and profit expectations have been raised since the start of the year and since Russia's invasion of Ukraine.

- **Hermès (year of foundation: 1837; end 3Q22 exposure: 4.7%):** is by far the most focused European luxury goods company, which is targeting the ultra-high-end consumer group. Unlike its other European luxury goods competitors, Hermès is an organic grower as opposed to a consolidator of brand names. Not only has this been reflected in the stock's much stronger long-term performance compared with its peers, but it is also reflected in the valuation of the Hermès share, which over time has been approximately 2x its peer group. What also differentiates Hermès from its competitors is its hard-core focus on controlling the entire value-chain – from the sourcing of raw materials to the interaction with the end-consumer. This implies that none of its businesses go through 3rd party wholesale channels. Consensus sales and profit expectations have been raised since the start of the year and since Russia's invasion of Ukraine.

Thank you for your interest in the fund and for any questions please don't hesitate to contact us at Heptagon Capital.

Christian Diebitsch, Fund Manager, Heptagon Capital

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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

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