

WCM Global Equity Fund

Q3 2023 Commentary

Portfolio Management



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Investment Objective

The Fund aims to achieve long-term capital growth by investing primarily in equity securities of large cap global companies located throughout the world.

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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 **WCM Global 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 WCM Investment Management ("WCM") is the Sub-Investment Manager meaning WCM exercises discretionary investment authority over the Fund. The Fund was launched on 18th January 2017 and had AUM of USD 2,002m as of 30th September 2023.

Performance review

During the third quarter of 2023, the Fund (C share class) underperformed its benchmark, returning -4.9% compared to -3.4% for the MSCI ACWI NR USD index. For the trailing twelve months, the Fund is ~-400 bps (net of fees) behind that benchmark. Over a longer time period, the five-year excess (relative to the benchmark) return stands at ~+150 bps (annualised).

Following three consecutive quarters of gains, global equity markets were negative in Q3. The stocks comprising of the "Magnificent Seven" paused in Q3 but still account for ~60% of YTD returns in the MSCI ACWI Index. Higher interest rates, a stronger dollar, surging energy stocks, and the relative strength of "low quality" all conspired to create renewed style headwinds for the Fund. Amidst this backdrop, the Fund gave up some ground, but maintains its calendar year lead over the benchmark. While pessimism seems to have returned as the prevailing mood among investors, we see exciting and abundant investment opportunities for those with a long-term focus.

Attribution

Sector-based attribution showed roughly equal levels of detraction from both allocation and selection. Regional attribution revealed a similar story as both allocation and selection were headwinds to performance.

Contributors:

By sector, the (all modest) allocation contributors were our underweights to Utilities (worst in benchmark), Staples (4th worst), and Real Estate (2nd worst). For sector selection, Technology was the standout contributor, followed by Health Care, Industrials, and Staples. By geography, there were no contributors vis-à-vis allocation. For regional selection, Asia/Pacific and the Americas were both solid contributors.

Detractors:

For sector allocation, the dominant detractor was our underweight to Energy (best in the bench). Our underweight to Communication Services (2nd best) and overweight to Industrials (5th worst) also worked against us. The prevailing detractors vis-à-vis sector selection were our picks in Financials and Discretionary. By geography, our allocation overweight to Europe worked against us. For regional selection, Europe was the lone detractor.

Other Factors:

In Q3, the simple market factors were clear headwinds for the Strategy: Small Cap matched Large Cap, Low Quality beat High Quality ("Quality" uses ROE as a proxy), and Value crushed Growth.

Comments

In the third quarter, most global equity markets saw a reversal in their year-to-date gains, as the vast majority of global benchmarks experienced declines. Apart from Energy, there was really no good place to be for the most recent 3-month period. But we don't take that as bad news. In fact, most of our portfolio holdings continue to execute at a high level and are posting growth above expectations. At the same time, the P/E multiple for the portfolio has compressed to the lowest level we've seen in many years. We are confident that the Fund's companies will continue to successfully navigate this uncertainty, and will ultimately be rewarded with strong returns. Our confidence stems from what we see as our edge: the focus on owning positive-moat-trajectory businesses with well-aligned, adaptable cultures.

And that edge is, as always, the main reason we remain sanguine about our outlook. Challenges in the world – our nominee for a "new normal" – separate the wheat from the chaff.

Portfolio Activity**No new Buys****Sell: Pernod Ricard SA**

We exited our position in Pernod Ricard, the second-largest spirits brand globally, to finance our investments in Corteva and Canadian Pacific Kansas City. During our initial underwriting, we anticipated a cultural and operational transformation that would spur faster growth, especially in the US, China, and India. Execution has been disappointing, bringing the strength of the culture and management team into question. We see better opportunities elsewhere.

Sell: BILL Holdings, Inc

We eliminated our position in BILL - a leading B2B financial technology company - late in the quarter to finance our add to Adyen, a higher-conviction secular growth idea in the portfolio. Although Bill's competitive position and future growth prospects remain largely intact, we believe that Adyen has more upside from here.

Buy and Manage:

We added to **Canadian Pacific Kansas City Limited**, **Corteva, Inc.**, and **Adyen NV**, rounding into fuller position sizes.

As always, we appreciate your patience and support.

Sincerely,

Heptagon Capital and WCM Investment Management

The views expressed represent the opinions of WCM Investment Management as of 30th September 2023, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

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

Annualized Total Returns as of 30th September 2023, net of fees

	Q3 23	YTD	1-Yr	3-Yrs	5-Yrs	10-Yrs
WCM Quality Global Growth Strategy	-4.9%	11.2%	16.8%	0.9%	7.9%	10.0%
MSCI ACWI NR USD Index	-3.4%	10.1%	20.8%	6.9%	6.5%	7.6%

Source: Morningstar, WCM

Fund performance prior to 31.03.2017 relates to the WCM Quality Global Growth Composite ("Composite"), thereafter, it relates to the UCITS Fund (IE00BYZ09Q19). MSCI represents the MSCI AC World Index (net).

WCM manages the Irish regulated WCM Global Equity UCITS Fund according to the same investment principals, philosophy and execution of approach as it manages the WCM Quality Global Growth Composite, however it should be noted that due to different regulation, fees, taxes, charges and other expenses there can be variances between the investment returns demonstrated by each fund. The WCM Quality Global Growth Composite (net of fees) (the "strategy") is provided in the table above to show a longer track record for the underlying strategy.

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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

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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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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