HEPTAGON Capital

WCM Global Equity Fund

Q3 2022 Commentary

Fund Manager

Paul Black

Pete Hunkel

Mike Trigg

Sanjay Ayer

Jon Tringale

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.

Contact

Heptagon Capital
63 Brook Street, Mayfair,
London W1K 4HS

Tel: +44 20 7070 1800
email london@heptagon-capital.com

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"), 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 1,706m as of 30th September 2022. During the third quarter of 2022, the Fund (I share class) outperformed its benchmark, returning -3.6% compared to -6.8% for the MSCI ACWI NR USD Index.

Performance review

For 2022's 3rd Quarter, the Quality Global Growth composite (gross of fees) portfolio returned −3.2%, outperforming the MSCI ACWI index by ~+350 basis points (bps). For the trailing twelve months, the strategy is ~−900 bps behind that benchmark.

July's rise in global equity prices proved to be short lived as the quarter quickly soured with more doom and gloom fears on a whole host of topics including escalating geopolitical unrest, sustained inflation, and a relentless Federal Reserve, just to name a few. Similar to Q2, there was nowhere to hide in global equities as every sector in the benchmark was down. In a continuation of year-to-date trends, Energy fared the best while conventional growth sectors – Tech and Health Care – lagged the benchmark. Stock selection was strongly positive in the quarter and drove strategy's outperformance. While pessimism seems to be the prevailing mood among investors, we remain sanguine about our long-term outlook. Turmoil in the world creates exciting and abundant investment opportunities for those with a long-term focus.

Keeping an eye on the longer term (all gross returns), the three-year excess (relative to benchmark) return now stands at ~+190 bps (annualized), the five-year is ~+440 bps (annualized), the ten-year excess is ~+370 bps (annualized), and the since-inception (over 14 years) is ~+510 bps (annualized).

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

Attribution

Sector-based attribution showed a modest contribution from allocation and a more significant contribution from selection. Regional attribution revealed a similar story; allocation contributed slightly, meaning selection was the primary source of outperformance.

Contributors:
Sector-wise, the primary *allocation* contributor was our underweight to Communication Services (worst in the benchmark), followed by our underweight to Real Estate (2nd worst). For sector *selection*, the largest contributor was Industrials, followed by Financials, Health Care, and Tech. By geography, our allocation underweight to Asia/Pacific helped. Regional *selection* was a more meaningful contributor thanks primarily to picks in the Americas, but also Europe.

Detractors:
For sector *allocation*, the primary detractor was our underweight to Energy (best in the benchmark). There were no material detractors vis-à-vis the sector *selection* angle. By geography, our allocation overweight to Europe worked against us. For regional *selection*, Asia/Pacific was the sole detractor.

Other Factors:
In Q3, the simple market factors were (overall) slightly beneficial for the strategy: Small Cap outdid Large Cap, but High Quality topped Low Quality ("Quality" uses ROE as a proxy), and Growth edged out Value.

Comments

The US Fed-led global tightening cycle continued in Q3 while throwing cold water on the hopes of a pause and pivot in August. As inflation remains elevated, Central Banks have aggressively raised interest rates, fueling fears of a global hard landing. As such, there is currently a bull market on pessimism. Market sentiment indicators have plummeted, and buyers are on strike. But as Roman philosopher Lucius Seneca once said, "Our fears are always more numerous than our dangers." Headlines are likely to remain downbeat and the sentiment negative over the short term. But Warren Buffet reminds us, "When investing, pessimism is your friend, euphoria the enemy."

While the market's downturn wreaks havoc for many, it spells opportunity for some. Our portfolio companies are steadfast in playing offense in this environment by reinvesting in their businesses to strengthen and expand their moats. It is this classic 'take advantage while your competitors are challenged' tactic that will propel the best companies further once we're through the market's malaise.

Portfolio Activity

Buy: Arthur J. Gallagher & Co
Illinois-based AJG operates in the boring but essential business of insurance brokerage and acts as a tollbooth on global commercial insurance and benefits. Its moat stems from sticky customer relationships, scale, service breadth, and brand safety. AJG's moat is expanding with technology investments, compounding data & analytics expertise, and ongoing M&A to further consolidate its strong position.

Buy: McKesson Corporation
Texas-based McKesson is the largest drug distributor in the US. Tailwinds come from an aging population that needs more medicine, as well as innovations in treatments (i.e., biosimilars and specialty drugs) that also drive volume growth. McKesson's relationships and scale advantage form a massive barrier to entry and the basis of its moat. The moat is growing as the company continues to expand its footprint in medical-surgical distribution, a highly profitable and margin-enhancing market.

Buy: Amazon.com, Inc
Seattle-based Amazon and its Amazon Web Services (AWS) platform is one of the strongest moat trajectories in tech, and we are still very early in the market adoption curve. We're convinced that the economics of scaled cloud players will look comparable to railroads at maturity. While there are clearly macro challenges at play in e-commerce, recent events will only strengthen Amazon's moat trajectory (see logistics investments). Amazon has both the culture and operational prowess to get retail quickly back to profitability, aided by multiple high-margin revenue streams such as digital ads and Prime subscription fees.

Buy: Atlassian Corp
Australia-based Atlassian is an enterprise tech company that specializes in collaboration software. The company's flagship product, Jira, is used by software developers to track and manage code changes, bugs, etc. Atlassian's large installed base and sticky customer relationships form the basis for its moat, which is growing as the company takes share from legacy players.

Sell: NIKE Inc
We exited NIKE shares given moat trajectory concerns, particularly around a possible diminished long-term opportunity in China. The rise of local brands combined with the lingering effects of China's Zero-COVID19 policies give us pause.

Sell: Sherwin-Williams Co.
We sold our shares to make room for other, higher conviction ideas in the portfolio. We used a portion of our sale proceeds to increase our weighting in Floor & Décor, a specialty retailer levered to some of the same long-term positive tailwinds as Sherwin, but with a more visible and robust growth runway.

Sell: Church & Dwight Co. Inc
We sold our shares to make room for other, higher conviction ideas in the portfolio.

Sell: Shopify, Inc
Shopify has experienced several blows to its business including Apple's iOS privacy policy change and a dramatic pullback in e-commerce spending. Amazon's "Buy with Prime" button roll-out, Shopify's mission to invest aggressively in fulfillment (where they have less of a competitive edge), and the company's recent board approved super-voting structure for its CEO leaves us with less conviction in the company's moat trajectory and culture-strategy alignment.

Sell: AutoStore Holdings Ltd
We sold our shares to make room for other, higher conviction ideas in the portfolio.

Sell: Taiwan Semi. Manufacturing Co., Ltd
We sold Taiwan Semi on escalating geopolitical concerns.

Buy and Manage:
We added to **UnitedHealth Group Inc.**, **LPL Financial Holdings Inc.**, and **Floor & Décor Holdings, Inc.**, rounding into fuller position sizes. We trimmed **ServiceNow, Inc.** as position-size management.

As always, we appreciate your patience and support.

Sincerely,
Heptagon Capital and WCM Investment Management

Annualized Total Returns as of 30th September 2022, net of fees

	Q3 22	YTD	1-Yr	3-Yrs	5-Yrs	10-Yrs
WCM Quality Global Growth Composite	-3.3%	-33.9%	-29.7%	5.4%	8.7%	10.9%
MSCI ACWI NR USD Index	-6.8%	-25.6%	-20.7%	3.7%	4.4%	7.3%

Source: Morningstar, WCM

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.

Important Information

Past performance is not an indication or guarantee of future performance and no representation or warranty is made regarding future performance. This communication is for information purposes only. It is not an invitation or inducement to engage in investment activity.

The document is provided for information purposes only and does not constitute investment advice or any recommendation to buy or sell or otherwise transact in any investments.

The contents of this document are based upon sources of information which Heptagon Capital believes to be reliable. However, except to the extent required by applicable law or regulations, no guarantee, warranty or representation (express or implied) is given as to the accuracy or completeness of this document or its contents and, Heptagon Capital, its affiliate companies and its members, officers, employees, agents and advisors do not accept any liability or responsibility in respect of the information or any views expressed herein. 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. Where this document provides forward-looking statements which are based on relevant reports, current opinions, expectations and projections, actual results could differ materially from those anticipated in such statements. All opinions and estimates included in the document are subject to change without notice and Heptagon Capital is under no obligation to update or revise information contained in the document. Furthermore, Heptagon Capital disclaims any liability for any loss, damage, costs or expenses (including direct, indirect, special and consequential) howsoever arising which any person may suffer or incur as a result of viewing or utilising any information included in this document.

Heptagon Capital Limited has issued this communication as investment manager for Heptagon Fund ICAV, and is licensed to conduct investment services by the Malta Financial Services Authority. Heptagon Capital LLP, acting as Distributor, is authorised and regulated in the UK by the Financial Conduct Authority.

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.

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

Disclaimers

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and S&P Global Market Intelligence ("S&P") and is licensed for use by Heptagon Fund ICAV. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

.

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

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