Driehaus Emerging Markets Sustainable Equity Fund

Q4 2023 Commentary

Portfolio Management

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Investment Objective

The investment objective of the Fund is to achieve long-term capital growth. The Fund's Sub-Investment Manager, Driehaus Capital Management LLC, is a privately-held boutique asset management firm located in Chicago, USA. The firm was founded in 1982 and has USD 15.1 billion of assets under management.

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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 **Driehaus Emerging Markets Sustainable 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 Driehaus Capital Management LLC ("Driehaus") is the Sub-Investment Manager. Driehaus exercises discretionary investment authority over the Fund. The Fund was launched on 25th June 2012 and had an AUM of USD 179m as of 31st December 2023. Driehaus Capital Management LLC was appointed Sub-Investment Manager of the Fund on 6th December 2016. Prior to this OFI Global Institutional, Inc. was the Sub-Investment Manager from 25th June 2012 to 5th December 2016.

Performance

The Heptagon Driehaus Emerging Markets Sustainable Equity Fund – Class I USD (Fund) returned +9.2%, net of fees, during the fourth quarter compared to the +7.9% rise in the MSCI Emerging Markets Index. For the year-to-date, the Fund returned +11.3%, ahead of the 9.8% rise in the index.

Emerging Markets (EM) as a whole benefited from the easing in financial conditions which was ignited by the decline in US bond yields. The one conspicuous part of the market that did not see that benefit was again China, whose equity market languished under the continued absence of confidence in economic and political conditions.

In the quarter, the Fund's largest relative contributor came from a continued large underweight position in China and Hong Kong. Being underweight to an underperforming market was additive, as was stock selection, with a few very strong performing stocks within China. Beyond China, relative returns were greatest from Mexico and South Korea. In Mexico, investments in the banking and real estate sectors boosted returns as growth continues to benefit from nearshoring investments and subsequent spillover benefits. The Mexican Peso also continued to boost USD-based returns. In South Korea, the Fund's overweight position added to returns, as did stock selection. Positions tied to information technology, notably semiconductors & semiconductor equipment-oriented companies were the best performers for the Fund.

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During the quarter, the Fund's largest detractor at a country level was Taiwan where the Fund was underweight to an outperforming market. While the Fund has several positions in the tech-supply chain, which are beneficiaries of the ongoing artificial intelligence buildout, the gains in those names were somewhat offset by technology exposures to the electric vehicle (EV) supply chain, which lagged in the quarter as questions arose over the sustainability of demand trends and inventory levels in many parts of the automotive supply chain. Lastly, the Fund lost performance from an overweight position to the United Arab Emirates (UAE) and an underweight position in Poland. Within the UAE, the Fund's underweight to utilities and real estate were the largest detractors to relative performance. Within Poland, elections in the country brought a surprising outcome and caused the market to rally significantly in its wake.

Outlook and Positioning

In the Q3 2023 commentary, Driehaus discussed the mispricing of US long-term interest rates and how it was likely to be a primary driver of EM returns if rates normalized to fundamentals. The US bond supply story that was carrying the day in the third quarter has all but disappeared (even though supply dynamics remain just as egregious as they were previously) and rates have retraced to a level more in keeping with Driehaus's perception of fair value. The clear improvement in inflation trends in the US along with a more dovish-sounding Federal Reserve has both moved short term rate expectations lower and also dramatically reduced term premiums for longer duration interest rates. (Exhibit 1)

US Term premium estimates declined roughly 100 basis points from November until the end of the year

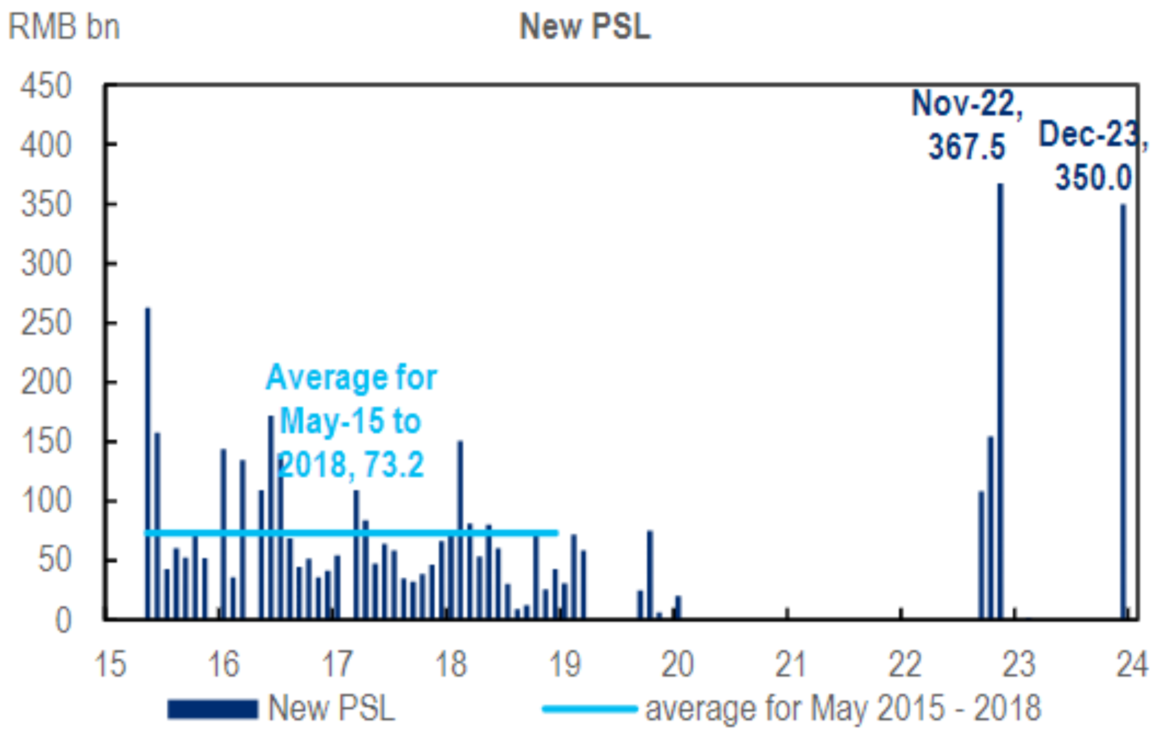
Source: Bloomberg, Driehaus Capital Management

As Driehaus look to 2024, they see interest rates broadly remaining supportive for Emerging Market assets as a whole. The reason is simply that Driehaus believe US interest rates will soon be in the early stages of easing, and easing in financial conditions almost always benefits investments perceived as higher-risk, especially those denominated in non-USD terms. Driehaus do have a few caveats to this view, however. The first is that there is a wide variance of expectations any time the Fed commences easing in terms of what is priced in, this typically increases rate volatility and can be bad for risk. Driehaus think, ultimately, the most important point is that rates have likely peaked, and policy rates will be substantially lower a year from now than they are today. But much of that initial easing is priced in already and there's no guarantee exactly when cuts will begin. Second, one of the main channels that boosts Emerging Markets in cutting cycles is a weaker dollar. Driehaus are moderately dollar bearish but would highlight that a large depreciation has already happened and many Emerging Market currencies have been quite strong for a while already. As of writing, there are roughly 150 basis points in cuts priced in over the next year. This is significant and the market being willing to price in much more will likely require worse economic data, which wouldn't necessarily be positive for the market.

For Emerging Markets, the elephant in the room remains the situation in China which unfortunately has changed very little in recent months aside from one policy measure. At a high-level, policy efforts have not been working well as confidence remains absent. Surveys, data from consumer companies, property sales, all say the same thing which is that Chinese consumers and businesses remain in an extremely risk-averse position. Whether that is a result of weak economic activity over the past few years or from lack of confidence in government and policy direction overall, Driehaus cannot definitively say, though they suspect it's a combination of those factors. For the past 15 years or so, the primary thing we've followed is monetary policy and liquidity metrics, because when the economic model was working, it was clear that looser liquidity would result in better activity and higher asset prices, and that's no longer the case. For Driehaus, data related to sentiment is now primary.

The one policy metric that has changed is a monetary one, and one that would have made Driehaus very positive in previous years. The People's Bank of China (PBOC) has restarted the closest thing they do to quantitative-easing (QE), with their Priority Sector Lending (PSL) restart (Exhibit 2). In contrast to all the other large central banks globally, the PBOC doesn't do large scale asset purchases and in that way has acted in a more orthodox way to its developed market peers. The closest thing they do to permanent asset purchases is the PSL program which provides liquidity (generated out of thin-air, the key attribute of QE). Through this program the central bank provides liquidity to targeted policy areas. In the past, this has been an extremely effective tool but Driehaus suspect now it will be used primarily for reducing liquidity risk in problem areas (property developers, small banks) and thus would have a low multiplier on economic activity. In the end, it's more ammunition if sentiment ever does turn, but as before, the Fund will likely await that time before taking a more positive stance toward Chinese equities. Exhibit 2.

The People's Bank of China has restarted its most aggressive quantitative monetary policy tool



Source:Citi, PBOC

The final major consideration as Driehaus look to the year ahead is the significant election calendar. There is an unusually heavy dose of major political contests this year. From an EM investor's perspective, the contests in India, Taiwan, Indonesia, Mexico and South Africa likely loom the largest for equities, with India the most important. Driehaus

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are relatively sanguine on the outcomes of all of those for the Fund's current positioning and anticipate the election in India to continue the positive momentum we have seen in many areas driven by public sector CapEx. While there is scope for some volatility in Indonesia, Driehaus anticipate continuation of the status quo there with a likely Prabowo victory. Ultimately, the most impactful election for the asset class will more than likely come in the US which will impact global policy and possibly the currency and rates. The simple shorthand conclusion that more elections mean more uncertainty and more uncertainty benefits the US dollar is likely the right one. For now, other factors are more important for FX markets but Driehaus suspect that could change into the second half of the year.

Sincerely,
Heptagon Capital and Driehaus Capital Management

Sector performance attribution- Q4 2023

	Driehaus Emerging Markets Sustainable Equity Fund (Port) (%)			MSCI Emerging Markets Index (Bench) (%)			
GICS Sector	Port Avg. Weight	Port Total Return	Port Contrib. To Return	Bench Avg. weight	Bench Total Return	Bench Contrib. To Return	Total Effect
Communication Services	10.32	2.40	0.27	9.38	0.05	0.01	0.17
Consumer Discretionary	14.52	4.13	0.36	13.26	0.83	0.07	0.33
Consumer Staples	3.75	8.78	0.27	6.11	6.12	0.39	0.17
Energy	1.82	6.40	0.11	5.18	6.69	0.34	0.04
Financials	21.48	8.56	1.82	22.31	8.26	1.86	0.07
Health Care	3.19	-0.63	-0.01	3.82	7.31	0.29	-0.19
Industrials	5.43	10.76	0.62	6.69	5.33	0.31	0.36
Information Technology	24.63	20.25	5.03	21.21	17.90	3.70	0.81
Materials	0.63	12.81	0.08	7.75	7.54	0.58	0.05
Real Estate	5.08	12.18	0.68	1.66	-0.21	-0.01	0.38
Utilities	4.77	11.36	0.53	2.63	12.77	0.34	0.04
Cash	4.38	-0.50	-0.02	0.00	0.00	0.00	-0.35
Unassigned	0.00	-0.03	-0.03	0.00	0.00	0.00	-0.03
Total	**100.00**	**9.71**	**9.71**	**100.00**	**7.86**	**7.86**	**1.84**

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance
Data as of 31st December 2023

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Country performance attribution- Q4 2023

	Driehaus Emerging Markets Sustainable Equity Fund (Port) (%)			MSCI Emerging Markets Index (Bench) (%)			Attribution Analysis (%)
Country	Port Avg. Weight	Port Total Return	Port Contrib. To Return	Bench Avg. weight	Bench Total Return	Bench Contrib. To Return	Total Effect
Argentina	0.29	30.32	0.07	0.00	0.00	0.00	0.05
Australia	0.52	9.08	0.05	0.00	0.00	0.00	0.01
Brazil	10.04	15.75	1.59	5.59	17.84	1.01	0.24
Canada	0.63	12.81	0.08	0.00	0.00	0.00	0.04
China	15.18	-4.93	-0.94	25.22	-3.99	-1.13	1.16
Czech Republic	0.62	15.07	0.11	0.16	4.57	0.01	0.04
France	0.73	19.63	0.14	0.00	0.00	0.00	0.08
Greece	0.74	22.81	0.16	0.47	13.10	0.06	0.07
Hong Kong	3.42	1.11	0.35	3.41	-5.98	-0.22	0.56
Hungary	0.87	25.85	0.21	0.25	16.96	0.04	0.12
India	20.97	12.39	2.52	16.06	11.90	1.88	0.28
Indonesia	2.16	5.65	0.11	1.90	1.97	0.03	0.07
Japan	0.08	-10.18	-0.04	0.00	0.00	0.00	-0.03
Kazakhstan	0.78	-3.04	-0.03	0.00	0.00	0.00	-0.09
Mexico	6.83	17.56	1.27	2.54	18.60	0.48	0.38
Netherlands	0.76	54.30	0.37	0.00	0.00	0.00	0.29
Panama	0.27	-12.85	-0.12	0.00	0.00	0.00	-0.09
Peru	0.30	-4.40	-0.04	0.26	23.45	0.06	-0.07
Philippines	1.30	-5.46	-0.09	0.62	6.40	0.04	-0.17
Qatar	0.33	-8.69	-0.04	0.89	4.72	0.04	-0.03
Saudi Arabia	1.06	28.04	0.29	4.09	8.82	0.36	0.17
South Korea	9.59	22.05	2.18	12.39	15.26	1.83	0.35
Taiwan	11.57	14.66	1.72	15.46	17.40	2.61	-0.67
Thailand	2.03	-1.85	-0.12	1.80	3.87	0.06	-0.15
Turkey	0.36	-1.85	-0.01	0.69	-12.17	-0.10	0.12
United Arab Emirates	3.28	-5.74	-0.21	1.31	-3.11	-0.05	-0.33
Uruguay	0.93	19.86	0.18	0.00	0.00	0.00	0.12
[Cash]	4.38	-0.50	-0.02	0.00	0.00	0.00	-0.35
[Unassigned]	-	-0.03	-0.03	0.00	0.00	0.00	-0.03
Other countries in benchmark	-	0.00	0.00	6.87	0.84	0.84	-0.28
Total	**100.00**	**9.71**	**9.71**	**100.00**	**7.86**	**7.86**	**1.84**

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance. Data as of 31st December 2023

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Annualized Total Returns as of 31st December 2023, (I USD share class)

	Q4 23	YTD	1-Year	3-Year	5-Year
Driehaus Emerging Markets Sustainable Equity Fund	9.2%	11.3%	11.3%	-4.5%	7.4%
MSCI Emerging Markets NR Index	7.9%	9.8%	9.8%	-5.1%	3.7%

Source: Morningstar

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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)

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