

Driehaus US Small Cap Equity Fund

Q1 2025 Commentary

Portfolio 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 US Small Cap Equity Fund** (the “Fund”) is a sub-fund of Heptagon Fund ICAV which is an open-ended umbrella type investment vehicle authorised pursuant to UCITS regulations. Heptagon Capital Limited (“Heptagon”) is the Investment Manager and Driehaus Capital Management LLC (“Driehaus”) is the Sub-Investment Manager meaning Driehaus exercises discretionary investment authority over the Fund. The Fund was launched on 31st July 2019 and had AUM of USD 763m as of 31st March 2025. During the first quarter of 2025, the Fund underperformed its benchmark, the Russell 2000 Growth Index TR USD (the “Index”), returning -17.1% (C USD share class) compared to -11.1% for the Index.

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 18.3 billion of assets under management.

Market Overview

The U.S. equity market declined sharply during the March quarter. Initially equities held up well and were up on a year-to-date basis entering the second half of February. However, in late February stocks broadly began to decline as concerns surrounding President Trump’s massive tariffs grew. At the same time, U.S. economic trends were strong heading into February, but conditions became more mixed during the second half of the quarter as consumer and business sentiment weakened and net imports and industrial activity became front loaded ahead of the implementation of expected tariffs in April. Investor anxiety steadily grew about the negative ramifications of the tariffs as rhetoric from the Trump Administration ramped up ahead of so-called April 2nd Liberation Day.

Selling in late February and March was intense and historic. According to the large prime brokers, hedge fund de-risking and associated performance of certain risk factors (such as Beta and Medium-Term Momentum) were among the most extreme on record as policy uncertainty rose and concerns about the tariffs increased. To illustrate the intensity of the selling, here is just a sample of prime broker comments/sentiment from the late February to early March period:

- Both the Morgan Stanley and Goldman Sachs Momentum indices through mid-March saw their worst performances in over 15 years.

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- The Bank of America beta risk factor basket saw its worst 14-day return in 10 years.
- “Hedge funds sold global equities at their fastest pace ever recorded” per Goldman Sachs, as it saw “unprecedented de-risking.”

This intense selling and de-risking in late February and early March occurred between two other historically volatile periods. First, the debut of DeepSeek’s lower cost Open Source AI Large Language Model (LLM) on January 27th caused extreme selling and unwinding of stocks related to the AI infrastructure data center capex theme. This dynamic caused many market leaders in technology and industrials to fall sharply. We believe the introduction of DeepSeek effectively ended the promising AI infrastructure investment theme as concern rose about the sustainability of the AI capex growth. Second, the days following Trump’s April 2nd “reciprocal tariff” announcement saw some of the most extreme daily market declines in decades as the markets attempted to price in the impact of the proposed tariff increases which were greater than the 1930 tariff rates implemented with the passage of the disastrous Smoot-Hawley Tariff Act.

I Trump Tariff Turmoil

On April 2nd, Trump announced “reciprocal” tariffs that were much higher and more severe than expected. He proposed tariffs of at least 10% on all countries globally and much higher tariff rates on 60 countries with some rates approaching 50%. The day after Trump’s “Liberation Day” announcement became “Obliteration Day” for the market as the S&P 500 fell nearly 5%, the Nasdaq Composite nearly 6% and the Russell 2000 and Russell 2000 Growth 6.4%. Then the following day, the S&P 500, and the Nasdaq both declined by over 5.8%, the Russell 2000 fell nearly 4.5% and the Russell 2000 Growth 4.7%. It was the U.S. market’s steepest two-day decline since the Covid lock down period of 2020. The dollar, crude oil and long-term treasury yields also all fell sharply.

Investors are clearly concerned about the path forward and what the tariffs mean for U.S. and global economic growth and corporate earnings. The tariffs will likely increase the cost of goods sold and overall prices, and will slow global trade dramatically. There was immediate concern about a growth slowdown and a possible recession.

The perplexing tariff formula used by the Trump Administration defies conventional economics. The “reciprocal” tariff rates were far above rates charged by other countries and were determined by taking the bilateral trade goods deficit, divided by the U.S. annual goods imported from that country then dividing it by two, arriving at the new tariff rate. To ensure global reach, a 10% minimum base tariff was also implemented on all countries regardless of whether there is a trade deficit or a surplus. The tariffs violate at least twenty existing free trade agreements with various nations and are dubious legally as they may violate the Constitution as well as the International Emergency Economic Powers Act of 1977 (IEEPA) which was used to justify the tariffs as an emergency.

Then on April 9th, after four days of sharp declines, as the equity market was falling into the abyss and the credit and bond markets were starting to show cracks, Trump pivoted. He announced a 90 day pause, setting all tariff rates at 10%, with the important exception of China where he increased that tariff to a stunning 145%. While still suboptimal, the market let out a sigh of relief and reversed sharply higher. The U.S. market had one of its largest single up days on record as sentiment set in that perhaps a near certain recession could be avoided and negotiations with up to 70 countries would soon begin. The Nasdaq rose over 12%, the S&P 500 8.5% and the Russell 2000 Growth over 9.5%.

Still there is tremendous uncertainty and many questions regarding the tariffs and their impact on the economy. What are Trump’s real objectives, as he has stated multiple perplexing and sometimes conflicting goals? Will negotiations lead to reduced tariff rates? Trump and dozens of trading partners have expressed a desire to negotiate, and Trump loves to “make a deal.” Will additional tariffs on various sectors be announced? Can the US-China relationship be repaired? The 145% tariff rate on China is so high that it is essentially a \$400 billion embargo. The economic impact and dislocation will likely be immense if these tariffs remain in place for even a modest length of time.

Trump’s stated goals are complex and often conflicting. He wants the impossible goal of balanced trade by eliminating all trade deficits. He wants to end non-tariff trade barriers that he calls “unfair” trade practices by trading partners, but

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these practices are often subjective and difficult to negotiate. He wants to punish or isolate China and to correct the massive trade deficit and many of their trade practices. He wants to return manufacturing back to the U.S. For context, a great deal of U.S. manufacturing shifted to China in the years after China joined the World Trade Organization in 2001. The U.S. saw thousands of manufacturing plants close, and millions of jobs disappear in that following decade, and it went from being the largest global manufacturer to now the second largest. This decade, since Covid, reshoring or the return of manufacturing in the U.S. has been accelerating, which we view as a sustainable multi-year theme. Still, Trump wants to reverse the offshoring that occurred over the past few decades. He also wants to “re-order the global trading system,” a system that has been in place for many decades with origins dating back to the end of World War 2. Which of these goals has the highest priority is unclear as his messaging and rhetoric keeps shifting. This dynamic is confusing market participants and business leaders who are seeking clarity on how this crisis can be resolved.

Now that Trump has ordered a 90 day pause, there is optimism that the peak tariff rates could be off the table and that tariff rates will be reduced below 10% (excluding China which are now at 145%). The market’s ultimate concern is the impact of the tariffs on the economy and on earnings. Any avoidance of a recession and dollar, credit, and interest rate stress will be a huge relief to the market.

This has been one of the most volatile and policy driven markets ever. Still there are multiple silver linings and potential positive outcomes that are important to consider:

- The 10% tariff rates (excluding China) are likely a high-water mark and could be negotiated lower as Trump and many key trade partners have said they want to make a deal.
- Trump has a long history of changing his mind and pivoting if there is too much market stress.
- While the tariffs will certainly pressure economic growth, the U.S. economy was relatively strong heading into this crisis with a solid labor market.
- Tariffs will be inflationary, but inflation has been trending favorably heading into April.
- Much of the U.S. economy is a service economy which could hold up relatively well as the tariffs take effect on the goods economy.
- The price of crude oil has fallen sharply acting as an offset to goods inflation and a cushion for the economy overall.
- It is possible that a court or Congress could step in to halt Trump’s executive actions on the tariffs.
- While the Fed is currently on the sidelines, it is still expected to cut the federal funds rate several times this year.
- The equity market has declined sharply, and investor sentiment is extremely negative already so any positive resolution regarding tariff rates and notable bilateral or multi-lateral deals will be viewed very positively by the market.
- Deregulation and lower taxes could serve as favorable pro-business catalysts this year.

I Performance Review

The Driehaus US Small Cap Equity Fund underperformed its benchmark by 600 basis points for the March quarter, declining 17.1% versus a decline of 11.1% for the Russell 2000 Growth. Additionally, the Russell 2000 fell 9.5%, and the S&P 500 4.3% for the quarter.

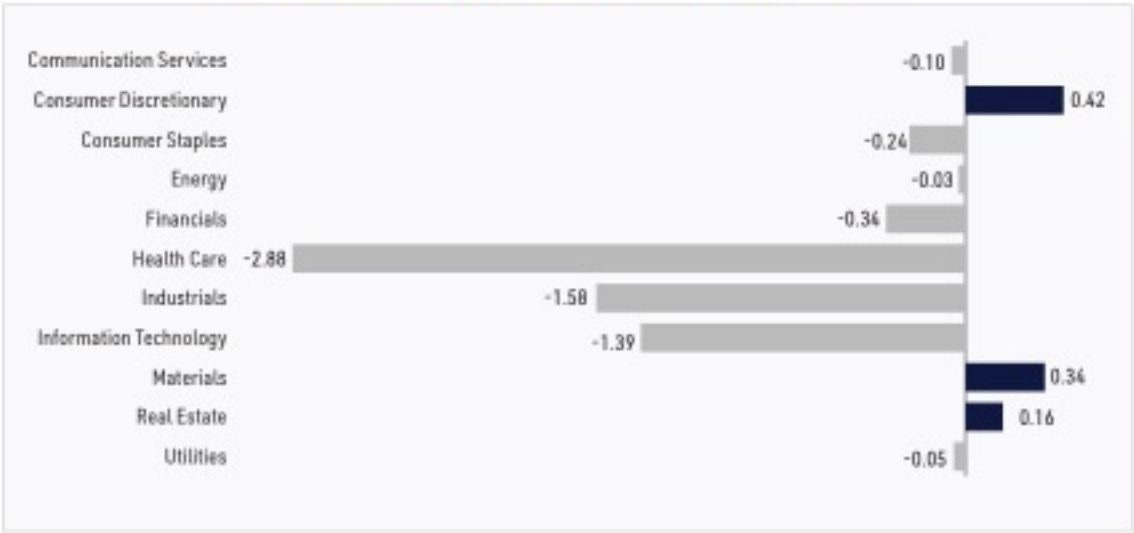
It was a challenging quarter as the market’s breadth was extremely poor. As mentioned above, the unraveling of the AI infrastructure theme, followed by the panic surrounding Trump’s tariff turmoil has been a deep one-two punch. Additionally, the controversial appointment of RFK Jr (Robert F Kennedy Jr) as the new Secretary of HHS (Health and Human Services) which oversees the FDA (Food & Drug Administration) has been an overhang on the healthcare sector.

From a sector perspective, the top two contributing sectors on a relative basis for the quarter were consumer discretionary and materials. The bottom two performing sectors on a relative basis in the March quarter were healthcare and industrials.

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The performance data below represents the strategy's composite of small cap growth accounts managed by Driehaus Capital Management LLC (DCM). These returns are estimated for the period, as the underlying accounts' data has yet to be reconciled with the custodian bank. Net-of-fee returns reflect the deduction of advisory fees and, in some instances, other fees and expenses such as administrative and custodian fees, while the gross of fee returns do not. Both figures are net of brokerage commissions charged to the accounts and reflect the reinvestment of income and other earnings. The performance data shown below represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted.

Exhibit 1: Sector Attribution Relative to Benchmark

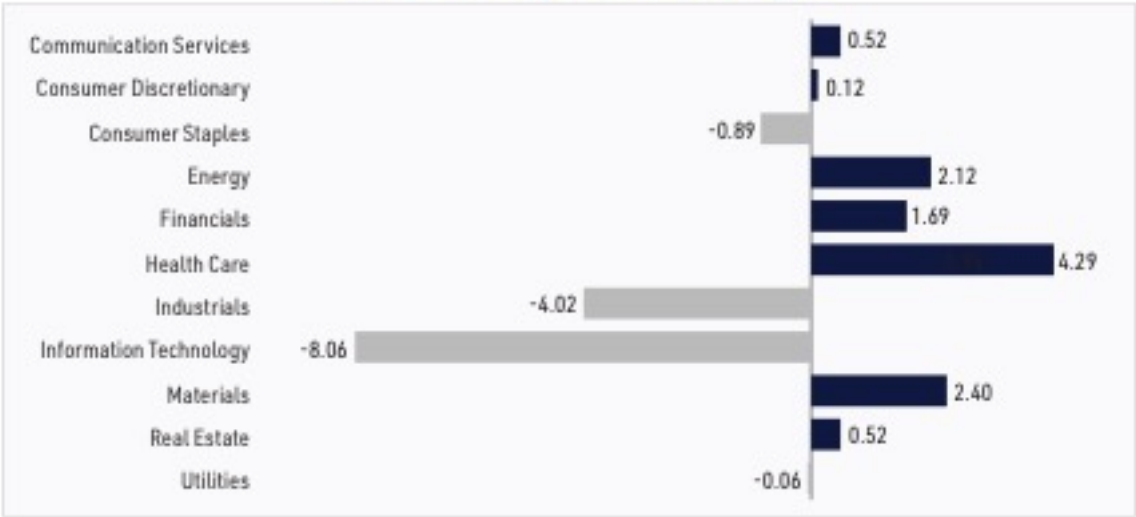


Source: Driehaus. Note: The sector attribution relative to benchmark for each MSCI/GICS Sector is equal to the sum of the individual Attribution Effects for that MSCI/GICS Sector. This exhibit is ex-cash. The cash weighting at 3/31/2025 was 1.9%.

Strategy Overview and Positioning

The largest overweights in the portfolio in the March quarter were the Healthcare and Energy sectors. The largest underweights during the March quarter were Information Technology and Industrials. The biggest shifts in the portfolio during the quarter was a decrease in its active weight to Information Technology and an increase in its active weight to Healthcare. Detailed information about sector performance is below.

Exhibit 2: Change in Relative Weight



Source: Driehaus. Note: Change in relative weight is the difference between the change in ending weight from the previous quarter. This exhibit is ex-cash. The cash weighting at 3/31/2025 was 1.9%

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Sectors detracting from relative returns during the quarter (in order of relative impact):**Healthcare**

Healthcare underperformed by 288 basis points and detracted 455 basis points on an absolute basis. Our holdings declined 18.1% versus a decline of 6.2% for the index. We increased our exposure from 21.2% to 26.8% during the quarter, versus the index at 24.8%. The portfolio finished the quarter overweight biotech, equal weight medical devices and pharmaceuticals while maintaining an underweight in the other smaller healthcare sub-industries within the benchmark. Our biotech holdings detracted 302 basis points in absolute terms and 113 basis points in relative terms. Our biotech positions declined 17.8% versus 10.8% for the index. We also saw underperformance within medical devices as strong quarterly earnings reports saw weak reactions largely due to the overall weak market environment.

The Healthcare sector saw widespread multiple compression before and after the appointment of RFK Jr. As mentioned earlier he is controversial, and the market fears he will have a negative impact on the approval process for new drugs and medical devices. We believe RFK Jr's actual impact remains to be seen. A lot will depend on the actions of the new FDA commissioner, Dr. Martin Makary, whose appointment is generally viewed as positive by the biotech industry and healthcare sector overall. While large layoffs (around 18%) of full-time staff at the FDA were recently announced, we have been carefully monitoring for any potential negative impact. We believe the reductions are related to Trump's effort to reduce the size of the federal government much as other departments have seen via Elon Musk and DOGE (the Department of Government Efficiency) with the goal of reducing the annual federal deficit. Thus far it is unclear how many of the eliminated positions are actual drug reviewers and investigators versus other roles such as inspectors and general administrative functions. There is also little visibility in terms of how many of the reductions have occurred within drug regulation versus food regulation. There have been multiple high-profile departures of high-ranking regulators and directionally it is understandable why the market is concerned that this dynamic will slow down drug approvals and decision making. However, on a positive note, we have checked in with numerous biotech management teams of the companies we hold and more broadly we have heard from well over 100 companies and thus far 100% of those biotech companies have reported very normal dialogue and communication with the FDA and no sign of any slowdown or delay. We believe our portfolio holdings with innovative new therapies will still see their drug candidates get approved over time as they normally would.

We remain encouraged fundamentally as we believe our biotech holdings have very promising and innovative clinical stage therapies demonstrating superior efficacy and safety in important disease indications, such as obesity, epilepsy, endocrinology, diabetes, neurology, autoimmune diseases, and oncology. We anticipate promising results from upcoming clinical trials.

Industrials

Industrials detracted 158 basis points on a relative basis and 421 basis points in absolute terms, with our holdings declining 17.7% versus 11.2% for the index. We reduced our exposure from being overweight to underweight, going from 24.8% to 21.0% versus 22.9% for the index. The sector saw declines in AI data center related companies, machinery, distributors, and airlines. The sector saw positive performance from aerospace holdings. The reduction in sector exposure was in AI data centers companies following the debut of DeepSeek as well a reduction in other cyclical exposures as the economy began to weaken due to tariffs.

Technology

Technology detracted 139 basis points on a relative basis and 455 basis points in absolute performance. Our tech holdings fell 28.7% versus a decline of 19.3% for the index's tech holdings. We sharply reduced our exposure to the sector from 22.6% to 12.5% during the quarter, an underweight versus the benchmark's 18.5% weighting. Market breadth remains poor as semiconductors, hardware and software were all weak and the tariff concerns are an overhang.

AI (Artificial Intelligence), which had been a strong and dominant theme in 2023 and 2024, saw broad weakness after the debut of DeepSeek's new LLM on January 27th. While capex growth by the large hyperscalers in AI infrastructure and data center spending remains strong, we believe the weakness in the related stocks is due to the idea that capex will

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decelerate in 2026 and beyond as DeepSeek's approach could lead to a commoditization of LLMs and more efficient building of AI applications. Over time, this will boost the development of AI software, services, and applications but in the meantime, it is negative for stocks related to AI and data center infrastructure. We reduced our exposure quickly and dramatically after the development of DeepSeek.

Financials

Financials detracted 34 basis points on a relative basis and 86 basis points in absolute terms. Our holdings fell 10.3% versus a decline of 6.6% for the index. We saw strength in specialty insurance offset by declines in fintech and specialty finance lenders. We increased our exposure from 7.0% to 9.2%, versus an index weight of 9.1% by the end of the quarter.

Consumer Staples

Consumer Staples detracted 24 basis points in relative terms and 42 basis points in absolute terms. Our holdings declined 6.7% versus a gain of 0.6% for the index. We decreased our exposure from 4.8% to 4.4% during the quarter versus 3.8% for the index. We saw strength in a specialty grocer and a specialty beverage company offset by weakness in a pet food supplier.

Energy

The Energy sector detracted 3 basis points in relative returns and 41 basis points in absolute terms. Our energy stocks fell 12.3% versus a decline 10.3% for the index. We increased our exposure from 2.9% to 5.1%, an overweight versus 3.4% for the index. Our holdings saw strength in oil services and exploration & production companies but pullbacks in uranium miners.

Sectors contributing positively to returns during the quarter (in order of relative impact):

Consumer Discretionary

Consumer Discretionary contributed 42 basis points on a relative basis but detracted 131 basis points in absolute terms. Our holdings declined 12.6% versus a decline of 16.8% for the index. We decreased our sector exposure from 11.4% to 10.8%, maintaining an overweight versus 9.5% for the index. Our relative outperformance was due to strength in restaurants, education, gaming, and fitness related businesses partially offset by declines in specialty retail. Consumer fundamentals remain positive as wages and the labor market remain strong however the outlook is certainly cloudy as it depends on how long tariffs remain in place given the potential negative impact on inflation and consumer confidence.

Materials

Materials contributed 34 basis points in relative terms. Our holdings gained 1.6% versus a decline of 7.7% for the index. We increased our exposure from 2.8% to 5.4% during the quarter, an overweight versus 3.8% for the index. Our holdings in precious metals and aerospace composites saw gains partially offset by a pullback in a construction materials supplier.

Real Estate

Real Estate contributed 16 basis points in relative terms and 26 basis points in absolute terms. We saw strong performance from a technology oriented real estate brokerage firm that is outgrowing the industry and experiencing robust growth and positive upward estimate revisions. Our holdings appreciated 45.6% versus a gain of 2.1% for the sector in the index.

Outlook & Positioning

It has been a challenging quarter and year-to-date with several major overhangs for the market, most notably the tariff situation. At this juncture, every part of the outlook depends on Trump's tariffs. The Trump administration and many trading partners are entering trade negotiations. If there are favorable new trade "deals" and tariff rates are lowered from here, that will be well received by the market as economic damage could be reduced. Certainly, some damage has already occurred on multiple fronts, but a quick resolution can avoid a lot of bad outcomes.

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We have successfully managed portfolios through multiple crises and several bear markets over the past 27 years, including the Asian debt crisis, the Nasdaq bubble, the Great Financial Crisis (GFC), the European debt crisis, and the Covid shutdowns. This tariff crisis is unique, but it will create opportunities. Stocks of many strong businesses have declined sharply but will emerge positively out of this crisis. We are monitoring the constantly changing tariff policies very closely. As we enter the upcoming earnings season, many companies may not give near-term guidance given the high degree of uncertainty due to the tariffs. Yet as companies report earnings, a key focus for us will be to determine how tariffs are impacting expenses, margins, and demand for each holding and each new potential investment idea. As always, we will remain focused on companies that are well positioned to emerge from this unprecedented situation in a strong position to gain market share and to exceed expectations as we head into the second half of this year, as well as 2026 and beyond.

In terms of portfolio positioning, we have an attractive mix of growth companies. By sector, Healthcare is our largest absolute weight, followed by Industrials, Technology, Consumer Discretionary, and Financials. On a relative basis, the strategy is overweight Healthcare, Consumer Discretionary, Consumer Staples, Materials, Energy, and Financials. The strategy is underweight Technology, Industrials, and Communication Services.

Quarterly Contributors

Sprouts Farmers Market, Inc. (SFM) is a leading grocer selling better-for-you products in over 440 stores nationwide. SFM was a top contributor after reporting DecQ24 earnings well above expectations with 2025 guidance above estimates. Improving mix, a new marketing campaign and a loyalty program rollout should drive continued strong growth this year.

Life Time Group Holdings, Inc. (LTH) is a leading operator of over 175 athletic clubs across the United States and Canada. LTH was a top contributor after preannouncing DecQ24 earnings above estimates and providing 2025 guidance well above consensus. The company is benefitting from exercising pricing power and upgrading the customer experience across its clubs.

Quarterly Detractors

Astera Labs, Inc. (ALAB) is a semiconductor company manufacturing retimers and smart cards used in enabling high speed connectivity in AI compute deployments. The company was a top detractor in 1Q25 after Chinese startup DeepSeek released its Large Language Model in January. DeepSeek's LLM needs lower AI compute resources, and the potential adoption of similar open-source cost efficient architectures by other LLMs and hyperscalers is seen as a headwind for incremental AI compute demand in future periods.

Crinetics Pharmaceuticals Inc (CRNX) is a clinical-stage drug company developing medicines to treat endocrine disorders. In early January, CRNX released updated data from their phase 2 study in congenital adrenal hyperplasia. While the data from the update continued to look excellent on an absolute basis, and relative to competitors, the data deteriorated from the initial disclosure in June 2024 and caused the stock to decline. We maintained a large position, given Crinetics' differentiated late-stage clinical assets and additional pipeline that we expect to come into view over the coming 6-18 months.

Outright Buy

Guardant Health, Inc. (GH) is a commercial stage diagnostics company commercializing blood diagnostics for therapy selection in cancer and for early cancer screening. In March, Guardant received ADLT reimbursement from CMS and favorable guideline inclusion for their colorectal screening test called Shield. These developments substantially improved Guardant's visibility into getting their tests reimbursed (a common issue with newly launched genomic diagnostics). As a result of this and our judgment of future opportunities for growth in excess of current market expectations, we initiated a position.

Elastic NV (ESTC) is a data analytics company which engages in the provision of open-source search and analytics engine services. We added to our position during the quarter after the company reported strong 4Q24 earnings with

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revenues 4% higher and guided for FY25 revenues 1% higher than expected. The company saw strong initial traction from enterprises adopting its search platform for GenAI use cases.

Outright Sell

Semtech Corporation (SMTC) engages in the manufacture and supply of analog and mixed signal semiconductor products for high-end consumer, enterprise computing, communications, and industrial equipment. We exited the position during the quarter after the company preannounced negatively, after Nvidia made changes to rack configurations for its Blackwell processor that reduced its demand for Semtech's Active Copper Cable products.

Freshpet Inc (FRPT) engages in the manufacturing, marketing, and distribution of fresh pet food and pet treats for dogs and cats. The company was a top sale as fourth quarter sales growth of 22% missed consensus of 22.6% and 2025 sales growth guidance of 21%-24% was below the 24.5% estimate. Recent scanner data also showed decelerating sales among lower and middle-income households.

Sincerely,

Heptagon Capital and Driehaus Capital Management

Annualized Total Returns as of 31st March 2025 gross of fees

	Q1 25	1-Year	3-Year	5-Year
Driehaus US Small Cap Equity Fund	-17.1%	-12.4%	0.1%	15.7%
Russell 2000 Growth Index TR	-11.1%	-4.9%	0.8%	10.8%

Source: Factset Research Systems, Inc.
Fund performance relates to the UCITS Fund (IE00BH3ZBB87, net of fees, in USD).

The views expressed represent the opinions of Driehaus Capital Management, as 31st March 2025, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

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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.

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

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For all definitions of the financial terms used within this document, please refer to the glossary on our website:
<https://www.heptagon-capital.com/glossary>

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