

WCM Global Equity Fund

Q4 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 2,065m as of 31st December 2023.

Performance review

During the fourth quarter of 2023, the Fund (C share class) outperformed its benchmark, returning 13.8% compared to 11.0% for the MSCI ACWI NR USD index. For the trailing twelve months, the Fund is ~+440 bps (net of fees) ahead of that benchmark. Over a longer time period, the five-year excess (relative to the benchmark) return stands at ~+210 bps (annualised).

After a weak October, global equities made a strong comeback in November and December, finishing the fourth quarter up double digits. A combination of economic resilience, disinflation traction, and declining interest rates improved investor sentiment toward equities. For the Fund, strong company fundamentals also aided performance in the quarter. Despite the Fund's healthy returns in 2023, the portfolio's trailing P/E has declined, meaning that earnings growth not multiple expansion drove the Fund's results for the full year. The ACWI's trailing P/E, on the other hand, has increased over the same period. Regardless of ongoing macro uncertainty, we remain focused on owning businesses that can grow their competitive advantages by innovating, adapting, and playing offense in an ever-changing world.

Attribution

Sector-based attribution showed a slight contribution from allocation, while the bulk of excess return came from selection. Regional attribution revealed a similar story with modest allocation contribution, meaning that the lion's share of outperformance came from selection.

Contributors:

By sector, the primary allocation contributor was our underweight to Energy (worst in benchmark), followed by our underweight to Staples (2nd worst). For sector selection, Technology was the standout contributor, followed by Consumer Discretionary, Health Care, and Consumer Staples. By geography, our allocation underweight to Asia/Pacific (2nd worst) was the only material contributor. Regional selection was positive across the board, with particularly strong picks in Europe and the Americas.

Detractors:

For sector allocation, the dominant detractor was our overweight to Health Care (3rd worst in the benchmark). Our underweight to Real Estate (2nd best) also worked against us. The only detractors vis-à-vis sector selection were our picks in Materials and Industrials. By geography, there were no detractors vis-à-vis regional allocation or selection.

Other Factors:

In Q4, the simple market factors were mixed for the Strategy: Small Cap outperformed Large Cap, Low Quality beat High Quality ("Quality" uses ROE as a proxy), and Growth topped Value.

Comments

2023's US tech-led rebound won the year for global equities, with a small group of "magnificent" companies driving returns. Despite sticky inflation, global equities soared, as expectations of relaxed monetary policy and new secular drivers (chiefly, AI) lifted investor optimism.

So what's next? Geopolitical rifts persist, the United States and many other nations face major elections, and central banks have yet to close the books on the post-pandemic inflation that's gripped global economies. Predicting how these scenarios unfold, which markets will be en vogue in the near term, or any macro outcome for that matter, is impossible. However, we're okay with these uncertainties, as our fundamentals-first approach and portfolio construction discipline reduce the need for macro guesswork. We remain committed to our long-term, disciplined process of selecting only the finest companies with growing competitive advantages, well-aligned corporate cultures, and priced at attractive valuations. From a portfolio construction standpoint, the Fund navigates market unpredictability by employing WCM's three-bucket system. This framework allows for diversification and concentration across multiple sectors and industries with varying growth rates and end-market exposures, achieving "all-weather" characteristics.

Portfolio Activity**Buy: Intuitive Surgical, Inc**

California-based Intuitive Surgical operates as a category-defining monopoly in the fast-growing robotic assisted surgery market. Its twenty-year head start over the competition, the current installed base (more than 8,000 da Vinci units), surgeon training programs, superior patient outcome data, and the ecosystem it has built around its da Vinci platform form the basis of its moat. That moat is poised to expand as more surgeries adopt some form of robotics to improve patient outcomes. Fewer than 10% of soft tissue surgeries use robotics today, pointing to a long and visible growth runway displacing existing (and inferior) laparoscopic methods. A period of irrational and indiscriminate selling in med-tech allowed us to initiate a position during weakness.

Buy: 3i Group plc

3i Group is a UK-based private equity firm that owns most of Action, a thriving European discount retailer. Action, which started in the Netherlands, offers 6,000 products across 14 categories, with 20% being branded items. The store's allure is its everyday low pricing and the thrill of a treasure hunt experience. Its retail model is based on simplicity, standardization, scale, and a frugal culture, which has helped it achieve an enviable mid-20% revenue and EBITDA growth rate over the past decade. A proven business model, attractive unit economics, and a long runway for store count expansion, which in turn drives even greater scale advantages, all point to a growing moat.

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

Buy: General Electric Company

Formerly a global industrial conglomerate, US-based GE has transformed into a key player in global commercial and military aerospace propulsion and equipment, boasting an attractive razor and blade model. Tailwinds come from passenger air traffic, which tends to grow about twice as fast as GDP. GE's moat comes from its scale, installed base, IP, and high switching costs. Under CEO Larry Culp's leadership, GE has undergone a cultural transformation with a renewed emphasis on efficiency (LEAN manufacturing) as well as focused strategic objectives and capital deployment. The company's increasing dominance in narrow body planes (GE has 100% share in Boeing's 737 Max and majority share in the Airbus A320) sets the stage for an expanding aftermarket parts and service business, and therefore a positive moat trajectory, for decades to come.

Sell: Stryker Corporation

We swapped our position in US-based Stryker for Intuitive Surgical, which we find to be a more compelling idea in medical technology. We still like Stryker, but Intuitive Surgical has an even stronger moat trajectory.

Sell: Mettler-Toledo International Inc.

Switzerland-based Mettler has been a multi-year "coffee-can compounder", but we expect the next several years to be more difficult, with life science tools weighed down by COVID over-earning, inventory destocking, and a sluggish customer demand backdrop. Moreover, Mettler's high exposure to China now seems like more of a liability than an attractive piece of the growth story due to increased domestic competition.

Buy and Manage:

We trimmed **LPL Financial Holdings Inc.** as position size management.

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 31st December 2023, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

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Annualized Total Returns as of 31st December 2023, net of fees

	Q4 23	YTD	1-Yr	3-Yrs	5-Yrs	10-Yrs
WCM Quality Global Growth Strategy	13.8%	26.6%	26.6%	0.1%	13.7%	10.4%
MSCI ACWI NR USD Index	11.0%	22.2%	22.2%	5.7%	11.7%	7.9%

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.

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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