HEPTAGON Capital

Listed Private Assets: Monthly commentary

March 2021

March was a quiet month for the strategy with a +0.3% return bringing the performance to +3% for the first quarter.

Global equities continued their inexorable ascent in March as a result of favourable tail winds: despite the rise in the 10-year treasury yield, US financial conditions remain extremely loose. The market leadership has clearly changed during the first quarter of 2021 with much of the contribution to US equity returns coming from the financial sector.

A combination of a large fiscal stimulus, a significant level of excess saving rates and the gradual re-opening of the US economy has prompted economists to review US GDP growth forecasts up to 6%-7% for the full year. These are big numbers and can help explain the resilience in the US Dollar as well as the rise in treasury yields. We contend that rather than trying to make short term predictions about the direction of yields and inflation, keeping a healthy balance between assets that correlate to value and growth will be key to navigating the new environment investors find themselves in.

March was a mixed month for our holdings: secondary equity issuance has been strong since the start of the year, with many portfolio companies raising new equity to fund their healthy pipelines. This was particularly true of the renewable energy sector, which has seen large equity raising programs throughout the first quarter. This has temporarily weighted on some of our holdings. As an example, The Renewable Infrastructure Group (TRIG) announced a secondary issue in March and raised £240m of new equity or roughly 10% of the company's value. We, however, view this increase in secondary activity as positive for the sector in the longer run given the need for capital required in this space to power the decarbonisation of our economies.

On the positive side, our holding in IP Group Plc enjoyed further upside with a +7% return for the month of March, bringing the quarterly return to +26%. The company announced that it will look to file for the IPO of its largest private asset, Oxford Nanopore, a world leading manufacturer of DNA sequencing devices. We had the opportunity to discuss the company's progress with its management during March and consequently added to this name in anticipation of further upside as we get closer to this IPO. We also believe that there are other attractive assets within IP Group's portfolio which should provide further net asset value appreciation beyond the Oxford Nanopore listing.

Furthermore, our music royalty holding, Hipgnosis Song Fund Ltd returned +10% during March: the company continued to work with the buy-side community to try to improve its revenue disclosures, which has been a point of contention for some time. Additionally, the company announced further catalogue acquisitions and benefited from a new buy-broker recommendation in March. This strategy continues to benefit from the strong secular tailwinds resulting from the growth in streaming worldwide. Industry data showed that paid subscription revenues are growing at 19% per annum and that global paying subscribers reached 443m at the end of 2020. Streaming now accounts for 61% of all global music revenues. One of the songs that Hipgnosis partly owns, Journey's "Don't Stop Believing", has reached the remarkable milestone of 1bn streams on

Spotify. We continue to believe that music content acquisition will keep on enjoying the relentless rise of streaming platforms and deliver uncorrelated returns for our portfolio.

Our exposure to US Agency Mortgage Backed Securities continued to deliver steady returns with a strong dividend component. Both our positions in these US REITS delivered around 5% price return in March, benefiting from the strong rebound in US economic data. A combination of solid housing data, together with high saving rates and significant improvement in employment data provided an ideal backdrop for these two companies. We believe that much stronger prospective growth in the US for the second half of 2021 should help support the price for these assets and further drive yields down for this sector.

Elsewhere, our lender to the life science sector, BioPharma Credit (BPCR) announced that it has entered into a US$150m senior secured loan agreement alongside BioPharma Fund V (which provided a further US$150m) with LumiraDx – a next-generation, point-of-care diagnostic company. LumiraDx manufactures rapid diagnostics equipment, including antibody and antigen tests to detect SARS-CoV-2 infections, used by the UK National Health Service, the CVS Pharmacy chain in the US and widely deployed in Africa in cooperation with the Bill & Melinda Gates Foundation. This is a welcome transaction in what has been a long period with little investment activity for this holding. The loan has a 10% yield to maturity and will enable the management to cover the 7.2% dividend yield offered by this specialist lender. It also considerably reduces the cash drag for this holding with net cash being at 7% post this transaction.

Finally, the board of Third Point Investors Ltd announced a multi-pronged approach to enhance shareholder value and expand the opportunity set of the investment company. This includes a buyback program as part of a soon-to-be-implemented discount management mechanism; a potential tender offer should the company's discount continue over a specified period of time, as well as an increased limit to its allocation to venture capital and private equity to 20% of net asset value. Additionally, the company also intends to use gearing through its recurring credit facility to a maximum of 15% of net assets. We view these changes as positive steps towards addressing the permanent discount issue and enhancing shareholder value further. The change in the limit towards a great proportion of unlisted assets is also welcomed as the fund structure is suited for this and the manager has access to an attractive pipeline of opportunities in this area.

We continue to believe that the fund is well positioned in the current reflationary environment and we will be commenting on our positioning in more detail during our upcoming quarterly letter and Q1 investor call. We would like to thank our fund holders for their patience and support.

Arnaud Gandon,
Portfolio Manager

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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.

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

The Fund takes sustainability risks into account within the investment process, and this is disclosed in accordance with Article 6 requirements of the Sustainable Finance Disclosure Regulation (‘SFDR’) in the Fund’s prospectus. However, the Fund does not have as its objective sustainable investment and does not promote environmental or social characteristics for the purposes of the SFDR. Sustainability risks may occur in a manner that is not anticipated by the Sub-Investment Manager, there may be a sudden, material negative impact on the value of an investment and hence the returns of the Fund. As a result of the assessment of the impact of sustainability risks on the returns of the Fund, the Sub-Investment Manager aims to identified that the Fund may be exposed to sustainability risks and will aim to mitigate those risks.

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