HEPTAGON Capital

Future Trends: Monthly Update

April 2021

The Heptagon Future Trends Fund has a very clear and distinct philosophy: we seek to identify and invest in a diverse range of businesses offering exposure to the key trends that we believe will help shape the future. The Fund has delivered strong outperformance since its inception in January 2016, gaining ~143% vs ~108% for its MSCI World Index benchmark. Although the Fund added 4.4% in April, on a year-to-date basis, Future Trends has underperformed relative to its benchmark. With our focus unchanged and the prospects for our businesses looking more attractive than ever, we believe the long-term opportunity to invest in the future is highly compelling.

Every three months the reporting season comes around. Businesses report on the quarter just passed and provide an assessment on prospects for the year ahead. Many in the investment community are of the view that this recurring process creates an excess reliance on short-termism. When thinking about future trends and the way in which the world will change, **our focus is inherently over a much longer-term time horizon**. Much of what happens around results is, therefore, noise, but it is nonetheless unavoidable.

We were pleased to see that **the majority of our businesses outperformed the MSCI World during the month of April** and that the Fund gained 4.4%. Two days prior to the end of the month, however, the Fund was up 6.9%. Sure, the broader market declined in the final days of the month, but the change in the Fund can be largely attributed to the 12.3% drop that was witnessed by First Solar (at the time, a 4.1% weight in the Fund) on Friday 30 April, combined with Thermo Fisher (a top-ten position in the Fund) falling 4.4% the day prior. Both companies fell following their results *despite* the fact that performance and guidance exceeded expectations.

As of the end of April, exactly half of the businesses in the Fund had released a results statement relating to the three months ending 31 March. **In every case, reported results exceeded expectations**, even if the COVID-19 pandemic had made forecasting more difficult than usual. Further, 7 of the 11 businesses reporting issued outlook statements that contained guidance that was quantitatively and/or qualitatively *better* than prior guidance. In the remaining 4 instances, previous outlook commentary was reiterated.

Share price volatility around results creates opportunities and we generally take advantage of selloffs around results to increase our weightings in businesses we already own. Having listened to how First Solar and Thermo Fisher see the future, our conviction in these businesses has only increased. The only explanation we can see behind the abrupt drop in the First Solar share price was that the business reduced its 2021 gross profit guidance range by 2.2% (or $15m) at the low end of its guided range, while retaining the upper bound. The main reason for such an action was prudence, based around potentially higher input costs (aluminium especially). At the same time, First Solar *raised* its revenue guidance for 2021.

Ultimately, **it is the direction of travel that matters.** The *structural* case for alternative energy businesses continues only to grow given both falling costs relative to conventional sources combined with a growing importance attributed to environmental imperatives. First Solar reported that its project bookings recorded in the last quarter were *the highest since 2017*. Further, First Solar highlighted how it believes its businesses should benefit strongly from US President Biden's proposed infrastructure spend (which includes an emphasis on more green projects), particularly as a domestic business which produces its panels in America and does not make use of forced labour in China, as is the case with some of its competitors. First Solar also highlighted progress with its innovation pipeline and the potential for it to expand its franchise into the residential segment rather than just targeting utility/ industrial projects. Finally, do not forget that investors looking to own First Solar today are paying only 1.2x book value and 17.2x earnings (on our 2021 estimates) for this leading franchise, which also has over $1.7bn of cash on its balance sheet, equivalent to ~20% of its market value.

We could make a similarly **strong case for Thermo Fisher**. It is surely an impressive performance for any business to record 53% year-on-year organic revenue growth. Thermo's upgraded guidance calls for at least 8 percentage-points of organic revenue growth over 2021 versus 7 points previously. As the world's leading provider of life sciences tools, Thermo has inevitably seen strong demand for many of its testing products over the course of the pandemic. Indeed, the business estimates that around 75% of its reported organic revenue growth in the past year came as a result of COVID-19-related revenues. The concern expressed by some in the investment community – and perhaps the reason why the shares fell on the day of their results – is that this growth is not sustainable. To our mind, this should be self-evident, but it is important to consider what Thermo's CEO is saying, namely, that **"we will be a faster growing company organically post the pandemic [than pre-pandemic]."** Thermo has deepened its relations with its customers over the past year and has a *broader* suite of products to offer them than in the past. Further, ongoing testing and analysis relating to the COVID-19 virus (and other future viruses) is likely to remain a feature for many organisations for quite some time. Thermo is currently trading at a discount to its long-term multiples, which reinforces our conviction in the business.

Intuitive Surgical was the Fund's best-performing business in April, up 17.1%. The business (the market leader in tools for robotic-assisted surgery) gained on the back of strong results and the reinstatement of financial guidance for the first time since the COVID-19 pandemic began. Notably, Intuitive's market capitalisation crossed the $100bn threshold for the first time, an impressive performance for a business that was capitalised at ~$60bn a year prior. We have owned Intuitive in the Fund since July 2016, during which time it has returned over 250%.

On a year-to-date basis, the Fund's top-five performers speak to the pan-thematic nature of Future Trends. ASML, Zebra, Prologis, IBM and PayPal operate respectively in semiconductor machine manufacturing, hardware/software tools for data capture and identification, industrial real estate, big data and cloud solutions and digital payment offerings. As we regularly say, as trends in the future overlap, they become mutually reinforcing. We have seen no diminution (rather, an acceleration) in the importance of the themes to which these businesses are exposed. We are particularly pleased with the 12.7% year-to-date gain recorded by IBM, given its historically more mixed performance track record. No name changes were made to the Future Trends portfolio in April. Thank you for your ongoing interest in and support for the Future Trends Fund.

Alex Gunz, Fund 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

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.

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