HEPTAGON
Capital

Easterly US Value Equity Fund

Q2 2021 Commentary

Fund Manager

Jack Murphy

Chris Susanin

Investment Objective

The Fund aims to achieve long-term capital growth by investing in a portfolio of U.S. Equities. The Fund's Sub-Investment Manager, Easterly Investment Partners, was founded in 1982 and is a long only, value-orientated asset management firm headquartered in Massachusetts, USA.

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The **Easterly US Value Equity Fund** (the "Fund") is a sub-fund of Heptagon Fund Plc which is an open-ended umbrella type investment company authorised pursuant to UCITS regulations. Heptagon Capital Limited ("Heptagon") is the Investment Manager and Easterly Investment Partners LLC ("Easterly") is the Sub-Investment Manager meaning Easterly exercises discretionary investment authority over the Fund. The Fund was launched on 30th June 2020 and had AUM of USD 45m as of 30th June 2021. During the second quarter of 2021, the Fund outperformed its benchmark, the Russell 3000 Value Index NR (the "Index"), returning 5.4% (C USD share class) compared to 5.0% for the Index.

Market Environment

During the second quarter of 2021, the U.S. stock market, as measured by the Russell 3000 Value Index® TR increased 5.2%. The best performing sectors during the quarter were Energy (+12.3%), Real Estate (+10.5%), and Financials (+6.9%). The worst performing sectors were Utilities (-0.5%), Information Technology (+1.2%) and Industrials (+2.9%). The Value index lagged both the S&P 500 and the Growth index for the quarter, trailing in both April and June, while outperforming in May.

Equity markets started the quarter being driven by COVID-19 but finished the quarter with an eye on inflation. By the end April, over half of the U.S. adult population had already received at least one vaccine shot, and COVID-19 related restrictions were either easing or ending entirely. Now, at the end of June, much of the U.S. has fully re-opened, even as the delta variant continues to spread to unvaccinated Americans and overseas. We expect pockets of international weakness to persist until vaccine distribution catches up to the US. As for inflation, it has been a main source of conversation, both by the U.S. Federal Reserve, who maintains that the threat of inflation is transitory, and by many companies when talking to investors. Both fiscal and monetary policy in the U.S. remain highly stimulative, even with the threat of inflation.

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

Easterly US Value Equity Fund – Review

The Fund was up 5.4% (C share class), outperforming the Russell 3000 Value Index® NR by 400 basis points during the quarter. Stock selection was the main driver of outperformance as sector allocation detracted from relative performance. An underweight to both Real Estate and Energy, along with cash drag, lead to the underperformance from an allocation perspective. Additionally, the Fund has returned 59.4% since its inception on 30th June 2020, outperforming the Index by 1,490 basis points which has returned 44.5% over the same period.

Contributors

Below is commentary on three of the top contributors to performance during the quarter:

International Paper (IP) – rose +14.3% during the quarter and contributed +61 basis points to performance. International Paper posted a strong Q1 earnings beat, mainly due to better pricing mix in their box business. We see numerous catalysts ahead including another containerboard pricing increase this summer, the spinoff of IP's paper business, and the potential for a large buyback following the divestiture of non-core assets (such as their stake in Graphic Packaging, timber notes, and a large mill in Poland). We believe International Paper's free cash flow will rise from $2B to approximately $3B in the foreseeable future and expect the stock to rerate as catalysts continue to play out.

Goldman Sachs (GS) – rose +16.5% during the quarter and contributed +59 basis points to performance. Goldman also posted a very strong Q1 earnings report in April, beating the street with $18.60 of EPS versus expectations at $9.60. Near-term trends remain strong in Goldman's capital markets facing businesses, but the company continues to pivot toward more long-term sustainable platforms including a more robust wealth management offering, raising outside capital alternatives, and the consumer facing Marcus platform. We believe this focus on platform value will continue to accrete toward a higher multiple for the stock.

nVent Electric (NVT) – rose +12.6% during the quarter and contributed +52 basis points to performance as they benefited from the economic re-opening. nVent continues to roll up assets in industrial communication and electrification space with its recent acquisition of Vynckier Enclosure Systems and the June announcement of a $200m tuck-in for CIS Global (which makes power distribution and rack sliding tools for data centers). nVent also reported an $0.08 beat on Q1 EPS compared to estimates and an increase in revenues versus consensus.

Detractors

Below is commentary on two of the largest detractors to performance during the quarter:

Ralph Lauren (RL) – declined -11.2% during the quarter and detracted -21 basis points from performance. We initiated a position in Ralph Lauren during the quarter as the stock sold off despite reporting better-than-expected first quarter earnings. The company completed their Strategic Realignment Plan during the quarter and guided conservatively for their fiscal year 2022, which should set-up a cadence of quarterly earnings beats. We still believe there is pent-up wardrobe demand as people start to return to the office and the world opens up. In addition, we expect the company to go through a cost out of approximately $200mm and sell their unprofitable Club Monaco business in the near term.

TreeHouse Foods (THS) – declined -8.5% during the quarter and detracted -21 basis points from performance. The stock lagged as company management continues to underperform. Labor shortages and manufacturing challenges have plagued the company and the operational efficiency path they started on three years ago has not come to fruition. Private label food has been overshadowed by branded as increases in consumer disposable income have led consumers to choose more recognized brands over their cheaper alternatives. JANA Partners has taken a large position in Treehouse and we expect significant pressure on management to either right the ship or to sell the business to private equity.

Buy/Sell Example

Below is commentary on three names that we added to the portfolio during the quarter:

Unilever (UL) – We initiated a position in Unilever during the quarter as the stock has been relatively flat over the past 3 years versus it's largest competitor Proctor & Gamble. Whereas Proctor has driven mid-single digit-plus organic growth as of late, Unilever has been far more muted. We expect Unilever to take action to adjust its portfolio to focus more on growth as well as start to inflect higher off easy comps from the pandemic.

JELD-WEN (JELD) – We initiated a position in JELD-WEN during the quarter. The stock fell -6.6% around the time of a secondary offering. JELD-WEN has been able to maintain strong pricing and margin accretion, even in the face of inflation driving higher raw materials costs. They are also seeing long lead times and high demand, which they are addressing by launching 14 model sites across Europe and North America to streamline and reduce cost of adding new capacity. We expect JELD-WEN to continue to benefit from the strong market dynamics in the housing market.

General Electric (GE) – We initiated a position in General Electric during the quarter. GE restructured their P&L into 23 different pieces, pushing accountability down to the individual divisions, which also makes a certain business line easier to sell. Management is starting to talk about trying to monetize their healthcare unit, which could happen in the near term. GE stands to gain from an increase in commercial aircraft returning to the sky, especially on the news that China might recertify the 737 Max. There are multiple catalysts in GE that could lead to multiple expansion.

Sincerely,
Heptagon Capital and Easterly Investment Partners LLC

Annualized Total Returns As of 30th June 2021, gross of fees

	Q2 21	YTD	1-Year	3-Year	5-Year	7-Year
EIP All-Cap Value	5.8	23.2	56.7	9.7	13.1	11.8
Russell 3000 Value Index TR	5.2	17.7	45.4	12.2	12.0	9.4

Source: Easterly Investment Partners LLC, Morningstar, Date sourced: 02.08.2021

Easterly manages the Irish regulated Easterly US Value Equity UCITS Fund according to the same investment principals, philosophy and execution of approach as it manages the Easterly Investment Partners (“ All Cap Value strategy, 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 portfolio The EIP All Cap Value strategy is provided in the table above to show a longer track record for the underlying strategy.

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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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