HEPTAGON Capital

Future Trends: Monthly Update

August 2021

Fund Manager

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Investment Objective

The Fund aims to deliver consistent and sustainable long-term returns by investing in a concentrated portfolio of global equities.

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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. We were pleased to see that the Fund recorded an all-time high NAV at the end of August. With a 2.0% gain in the past month, on a year-to-date basis, the Fund is up 11.9%. While Future Trends continues to lag its MSCI World benchmark in 2021, in both Q2 and Q3 to-date, the Fund is outperforming. More importantly, when we look forward, the conviction in both the businesses in which we are invested and the future trends to which they are exposed remains as strong as ever.

There is no such thing as a summer lull, at least not as far as analysing the future is concerned. August proved to be another busy month for the Fund, marked not only by the conclusion of the second quarter reporting season but also by our decision to exit from one business and to replace it with another. In addition, we met virtually with management teams from four businesses within the Fund (September will see us attend our first real-world meetings for some time).

Begin with changes to the portfolio. As we discussed in the previous month's commentary, Avast announced on 15 July that it was in advanced discussions with its larger US peer NortonLifeLock regarding a possible combination of the two businesses. Subsequent to this development, Avast confirmed on 11 August that its Board had recommended a formal merger. **We had always believed Avast to be a scarce asset in the world of cybersecurity with attractive fundamentals**. Owing to these characteristics, combined with the business being undervalued (in our view) and the relative ease for foreign businesses to acquire UK-listed assets, we were not surprised to see this deal occur.

We started the process of exiting from our position in Avast on the day news of the deal first broke and completed our exit in early August. The average price of 582p at which we sold our Avast shares compares to a level of 504p where the shares were before the deal broke, and 393p when we first invested in the business in March 2020. Correspondingly, **we made a ~50% return on our investment in Avast in less than 18 months**. **Avast is the third business within the Future Trends Fund that has been subject to positive M&A**.

Perhaps not uncoincidentally, all three have been UK-listed and one of the two others was also a cybersecurity business (Sophos; ARM being the final asset that was acquired). The proceeds in Avast were invested in a US-listed platform business during August which has already generated positive returns for the Fund. Given our one-month lag in disclosure, we will provide more details in our September commentary.

Beyond M&A, the reporting season for the quarter ending 30 June provided its regular opportunity for us to gain insights into how our remaining businesses see the future. While **we were generally reassured that 74% of our companies beat consensus expectations** (above the average level of 62% beats since the Fund's inception) and that 61% provided positively revised forward guidance (also ahead of our 35% long-term average), what matters *more* to us is the qualitative commentary provided by management teams. In brief, the importance of the future trends to which our businesses are exposed continues only to grow. Whether it's in online education or the premiumisation of the pet economy, growth prospects are accelerating. Such a conviction was only reinforced by the calls in which we participated with management teams from Kerry Group, Covetrus and MOWI as well as also with our newest business.

The trends and businesses referenced above should serve as a good reminder of what the Future Trends Fund is all about. The consumers of EdTech services and premium pet products may be very different people. Similarly, although both Kerry Group and MOWI are classified as consumer staples businesses, the end markets they serve are far from alike. Nonetheless, what both the aforementioned businesses as well as Chegg and Covetrus (education and pets respectively) share is that they are exposed to trends which we believe will continue to develop broadly regardless of the macro backdrop. The Future Trends Fund has always been about – and will always continue to be about – **pan-thematic diversification**. As the trends from which our businesses benefit overlap, they should become mutually reinforcing, driving a virtuous circle effect. Some of this can be evidenced in the fact that **the weighted average compound revenue growth rate for the Fund's businesses over the next three years is 11.3%**, more than three times the level of forecast growth for the MSCI World.

When thinking about the macro environment, our main attention is centred on the economy. **The trends in which we invest are secular rather than cyclical in nature**. However, it also behoves us to think seriously about government intervention and regulation, and how this may impact the investment case for the businesses we own. Against this background, **Alibaba** deserves some consideration, especially since it has been the Fund's worst-performer on a month-to-date and year-to-date basis (down 12.4% and 28.8% respectively).

As has been well-documented elsewhere, the Chinese authorities have been engaged in increasing regulatory scrutiny across the tech sector. Our view is that these developments should be seen as unfortunate but necessary. Think of it perhaps as an industry being cut down to size and hence being allowed to operate in a more restrained but also hopefully more transparent environment. While we do not deny that near-term uncertainty levels are high**, we see Alibaba's collection of assets as being both unique and unrivalled across the globe**. **Investors today can own this business at cheaper multiples than ever before, despite growth prospects that are superior relative to comparable local and global peers**. To reconcile these dynamics and in the interests of prudence, we have sized our position in Alibaba appropriately. It is the smallest weight in the Fund, at 2.3%.

At the opposite end of the spectrum, **ASML** – our largest holding – goes from strength to strength. The shares were the Fund's best-performer in August (up 10.3%) and have gained in every month of 2021 to-date. Such strength means that on a year-to-date basis, ASML has returned 77.2%. Although we have made a similar observation previously, it bears reiteration: *the future can't happen without ASML*. It has a virtual monopoly on the production of machines that make semiconductor chips. Separately, we were reassured that **Vestas** – the world's largest player in wind turbines – was the Fund's second-best performer in August, up 10.0%. Although the shares remain down ~12% year-to-date, at their nadir in March, they were down over 30%. Throughout, we retained our conviction in the business – it has *not* been out of our top holdings in 2021 – and believe both its growth outlook and strong balance sheet constitute major attractions. Thank you for your ongoing interest in and support for the Future Trends Fund.

Alex Gunz, Fund Manager

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