WCM Global Equity Fund

Q2 2021 Commentary

Fund Manager

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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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The **WCM Global Equity Fund** (the "Fund"), 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 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 3,423m as of 30th June 2021. During the second quarter of 2021, the Fund (I share class) outperformed its benchmark, returning 9.5% compared to 7.4% for the MSCI ACWI NR USD Index.

For 2021's 2nd Quarter, the WCM Quality Global Growth composite (gross of fees) returned +10.1%, outperforming the MSCI ACWI index by ~+*260* basis points (bps). For the trailing twelve months, the composite is ~+*50* bps ahead of that benchmark.

In Q2, the path of least resistance was higher as global equities finished at (or near) all-time highs. The significant style headwinds we faced in the previous two quarters reversed as Growth beat Value and High Quality topped Low Quality (although by not nearly as much as they had trailed in Q1). Amidst this backdrop, the strategy posted a double-digit return and made up ground on the benchmark for 2021 YTD.

While sector and regional allocation were both contributory in Q2, the attribution analysis also revealed that stock selection was strongly positive–whether viewed through the sector or the regional lens—and was responsible for more than 85% of the composite's outperformance. This quarter has spotlighted once again, we believe, the power of our differentiated stock selection approach, and its application in a high-conviction, concentrated portfolio.

Keeping an eye on the longer term, the three-year excess (relative to benchmark, gross of fees) return now stands at ~+1,090 bps (annualized), the five-year is ~+670 bps (annualized), the ten-year excess is ~+590 bps (annualized), and the since-inception (over 13 years) is ~+660 bps (annualized).

Attribution

Sector-based attribution showed a contribution from both *allocation* and *selection,* with selection dominating. Regional attribution revealed a slightly different story; *allocation* was neutral, and *selection* was the entire source of outperformance.

Contributors:
Sector-wise, the primary *allocation* contributors were our overweight's to Tech (best in benchmark) and Health Care (3rd best) and our underweight to Utilities (worst in bench). For sector *selection,* the dominant contributors were Health Care and Discretionary, followed by Tech. By geography, our *allocation* was neutral. Regional *selection,* though, was a strong contributor–with our picks in every region adding alpha relative to the benchmark.

Detractors:
For sector *allocation,* the only (barely) material detractors were our underweight to Energy (2nd best in bench) and our overweight to Discretionary (5th worst). The primary detractor vis-a-vis the sector *selection* angle was Comm Services. By geography, there were no detractors vis-a-vis regional allocation or selection.

Other Factors:
In Q2, the simple market factors were favorable for the strategy: Large Cap outdid Small Cap, High Quality beat Low Quality ("Quality" uses ROE as a proxy), and Growth topped Value.

Comments

Value and Growth traded punches all quarter–it seemed like the headlines changed each day. But once June ended, it was finally clear that Growth, though battered, was left standing. Reflecting that close match, the two best performing sectors were Tech (Growth?) and Energy (Value?), both up ~10%. We were pleased that our total portfolio–not just a few names–topped the 10% threshold. This is one of the more vivid examples we can remember where "owning the benchmark" will miss out on some real opportunities.

Where to from here? Well, that's unknowable, of course, so pick your favorite guess. But we do believe that changes in market leadership favor managed portfolios with high active share, and we like our current positioning. And it is more than just holdings: our positioning also reflects our construction, using three different growth buckets (secular / defensive / cyclical) as a means to be both concentrated *and* diversified. That approach helped us in this somewhat topsy-turvy quarter.

Whatever is next, we believe our emphasis on companies with positive moat trajectories, supported by strong, well-aligned corporate cultures, and benefitting from long-lasting tailwinds, will deliver compelling returns over the long run.

Portfolio Activity

Buy: Evolution AB
Sweden-based Evolution is an online casino supplier focused on the 'live' vertical. Tailwinds are strong, driven by better technology (broadband, lower latency, better streaming technology, and better cameras), mobile, and regulation / legalization of iGaming that expands the TAM. Its moat comes from complex execution, IP, switching costs, and regulatory barriers. That moat is growing as they leverage these strengths to a growing audience.

Buy: Procore Technologies, Inc.
California-based Procore is a leading vertical SaaS company in one of the lowest penetrated and least efficient industries–construction. Procore's software is digitizing construction workflow. Its moat comes from its platform, product stickiness, and best-in-class sales and customer support. That moat is poised to grow as Procore leverages its position in the value chain to offer more products to General Contractors, and to expand into new customer audiences.

Buy: Entegris, Inc.

Massachusetts-based Entegris supplies the global semiconductor industry with advanced materials that are layered onto semiconductor wafers, as well as providing contamination control systems to detect yield-deteriorating impurities during the manufacturing process. Tailwinds include the growing complexity of semiconductor manufacturing that requires additional layers of materials. Entegris is leveraging its superior technology, reputation and brand, as well as its very sticky relationships with customers to expand its moat.

Sell: Canadian National Railway Company

We exited CN shortly after it outbid Canadian Pacific for Kansas City Southern ($33b vs. $25b, or 32% higher). We believe the deal might be telegraphing challenges CN foresees for improving its Operating Ratio, making it willing to tackle a large-scale and potentially risky acquisition for its next leg of growth.

Sell: Ecolab, Inc.

We exited ECL in June as we no longer consider the valuation attractive relative to the company's long-term growth potential.

Buy and Manage:

We added to **Sherwin-Williams Company, Thermo Fisher Scientific, Inc., Stryker Corporation, and Old Dominion Freight Line, Inc.,** rounding into fuller position sizes.

We trimmed **Taiwan Semiconductor Manufacturing Co. Ltd.** as position-size management.

As always, we appreciate your patience and support.

Sincerely,
Heptagon Capital & WCM Investment Management

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

	Q2 21	YTD	1-Yr	3-Yrs	5-Yrs	10-Yrs
WCM Quality Global Growth Composite	9.9%	7.9%	39.3%	25.2%	21.2%	15.7%
MSCI ACWI NR USD Index	7.4%	12.3%	39.3%	14.6%	14.6%	9.9%

Source: Morningstar, WCM

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 (gross of fees) (the "strategy") is provided in the table above to show a longer track record for the underlying strategy.

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

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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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