Summit Sustainable Opportunities L/S Equity Fund

Q2 2021 Commentary

Fund Manager

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Investment Objective

The Fund aims to achieve long-term capital appreciation primarily by gaining long and short exposure to global equities.

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The **Summit Sustainable Opportunities L/S 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 Summit Partners Public Asset Management, LLC ("Summit" or "Summit Partners") is the Sub-Investment Manager meaning Summit exercises discretionary investment authority over the Fund. The Fund was launched on June 30, 2020, having returned 52.2% since inception to the end of June 2021 (C USD share class) and had AUM of $53m. During the second quarter of 2021, the Fund underperformed the S&P 500 TR USD ("S&P"), returning 4.8% compared to 8.4% for the benchmark.

The Summit Partners Sustainable Opportunities L/S Strategy is designed to achieve capital appreciation and deliver risk-adjusted returns over a market cycle and typically focus on investment opportunities in companies that offer market-driven solutions to global sustainability challenges. The Strategy views sustainably oriented businesses as companies that offer lower environmental impact or less resource-intensive products or services than incumbent players. As part of the Summit Partners alternative investment platform, we believe the Strategy benefits from an established institutional infrastructure coupled with industry experience and relationships from more than three decades of investing in key sectors. The Strategy's investment process seeks to incorporate this sector knowledge and market perspective through regular collaboration with Summit Partners' global investment team. We believe our investment process combined with our approach to risk management creates a competitive advantage, which we believe helps the Strategy deliver on their objective.

Performance Review

The first half of 2021 was a period of consolidation for the Strategy, following what was, in our view, a historic 2020. In 2020, a number of our thematic focus areas experienced accelerated adoption – with timetables pulled forward by several years in some cases. Valuations climbed higher and growth accelerated for a wide range of companies. Three of the Funds' positions –**Tesla, Inc. ("TSLA"), Enphase Energy, Inc. ("ENPH")** and **Fiverr, Inc. ("FVRR")** – each generated more than 1000 bps of gross attribution in 2020.

We believe the scale of the opportunity for each of these companies remains underestimated by Wall Street, and we continue to be committed to these positions even after their exceptional performance in 2020.

The Funds' positive performance in Q2 2021 was driven primarily by more recent additions to the portfolio. Three of the top four performers in the Funds in Q2 2021 are positions that were established and built over the course of the last 12 months, including **Nordic Semiconductor ASA ("NOD NO")** – a low power semiconductor company specializing in Bluetooth Low Energy solutions; **Rodgers Silicon Valley Acquisition Corp. ("RSVA",** which now trades as **Enovix Corp.,("ENVX"))** – a company focused on energy storage solutions; and **Sprout Social, Inc. ("SPT")** – a social media software company. Overall, on a gross basis, the long book contributed 8.06% during the second quarter of 2021, while the short book detracted 1.76%.

The Fund entered the quarter with delta adjusted gross and net exposures of 120% and 64% and ended Q2 2021 with delta adjusted gross exposure of 109% and net exposure of 63%, composed of 86% gross long and 23% gross short exposure. At the end of the second quarter of 2021, the Funds' five largest holdings on a delta adjusted exposure weighted basis were **Generac Holdings, Inc. ("GNRC"), Etsy, Inc. ("ETSY"), FVRR**, **Albermarle Corp. ("ALB")** and **Airbnb, Inc. ("ABNB").**

Recent Additions

Following the performance of the Strategy in 2020, we have been seeking new investment opportunities among the crop of companies emerging this year. According to Bloomberg, in the past 12 months, there were over 950 new equity listings in North America that raised over $260 billion in total capital. Much of this activity has been in thematic areas that we believe align with the Funds' areas of focus, including sustainable infrastructure, renewable energy and electric vehicles. The Funds' holdings include several of these recent listings – **ChargePoint Holdings, Inc. ("CHPT"), Stem, Inc. ("STEM")** and **ENVX** – each of which recently became publicly-listed through a SPAC.

CHPT began serving the electric vehicle ("EV") charging market in 2007 and today is the largest and oldest pure-play EV charging company. While **CHPT** provides solutions for residential, fleet and commercial charging, the company is a leader in the Level 2 charging market, which is focused on delivering higher-voltage, faster charges primarily through installations in parking garages, malls and hospitality parking spaces. Level 2 chargers typically deliver energy at the local owner's expense, often for free or at a reduced fee to users. According to BloombergNEF, EV charging will represent a $60 billion market – including both hardware and software – in the U.S. and Europe by 2030, and in the U.S., Level 2 charging locations currently make up over 80% of all public and private installations. We believe that the EV market will develop even faster than the market expects, and **CHPT** is well-positioned to sustain its market leading position, expand its margins and outperform current consensus expectations.

CHPT has invested significantly in R&D, and as a result now benefits from a much larger repository of data than its competitors, which we believe is an asset as the company further refines its software offerings. The company's revenue model typically includes an upfront infrastructure fee for its charging station and a recurring three-year software and services subscription bundle. We expect **CHPT** to continue to outpace market growth by virtue of its enterprise go-to-market strategy, selling proposition and scale advantages. We believe renewal rates for software/services are extremely high, and thereby, as **CHPT** scales charge port locations, software will comprise a larger portion of the revenue mix and we expect gross margins to expand. In our view, if **CHPT** successfully builds its top line at a CAGR of 30%+ through 2026, the company will solidify its position as the clear leader in EV charging.

During Q2 2021, the Funds also established a position in **STEM**, one of the largest developers of commercial grade energy storage systems. **STEM's** customer base is primarily comprised of hospitals, universities, data centers, office buildings and other commercial and industrial customers. Stationary energy storage is a rapidly growing market, and according to Wood Mackenzie, it is expected to grow at a CAGR of 36% from 2020 to 2030 when more than 300 GWh of storage is expected to be installed in the U.S. In previous letters, we have discussed what we believe to be some of the primary drivers of energy storage growth including grid instability due to extreme weather; the growing mix of intermittent renewable energy resources; and the falling cost of batteries.

Supporting the growth of storage installations, lithium-ion battery costs are expected to decrease from $156/kWh in 2020 to just $61/kWh in 2030. Grid-attached batteries add value for both the individual customer and the utility by providing backup power for emergencies and grid load management. It is our belief that most new renewables installations will soon have a paired storage component to optimize the value of the energy produced.

STEM has developed energy storage solutions since 2013 and is a market leader in 'behind-themeter' energy storage systems with 1 GW of storage deployed or under contract. In addition, **STEM** has developed proprietary software to manage the intake and deployment of energy from renewable sources. The company's software analyzes data on supply, demand and market pricing and facilitates a complex calculation to help optimize the value of the specific assets. Typically, **STEM** develops a project for 10% - 30% gross margins, and its customers then sign a 10- or 20- year subscription agreement to use the company's software to manage and service these assets. Over the past year, bookings have accelerated as energy storage project proposals – some motivated by extreme weather – have multiplied. We believe that **STEM** has booked projects that fully support the company's forward 12-month estimates, and we expect strong booking momentum will continue. As **STEM's** cumulative installations ramp-up and the ratio of recurring software subscriptions to capital equipment sales increases, we believe the company's revenue mix should shift towards software, and that gross margins will expand over time. We base our valuation of **STEM** on revenues in a 12-month to 18-month time frame, as well as discounted 2026 cash flows. In our view, both approaches support significant further appreciation in the stock price.

Additionally, the Funds evaluated and established a position in **ENVX**, a developer of silicon anodebased lithium-ion batteries. We believe **ENVX** has the potential to transform the energy storage cost curve, offering silicon anode-based battery technology that has increased the energy density of cells by 30% to 100% over typical lithium-ion cells. Silicon anodes are able to more effectively manage the volatile thermal profile of lithium-ion batteries, thereby enabling smaller battery forms, a lighter weight cell, more charge capacity and faster recharge times. **ENVX's** initial customer base is focused on small form applications such as wearables, mobile phones and computers. The cells have been in use in wearables and computers already, and we expect to hear customer qualifications over the next six months. We believe the company is extremely well-positioned to capitalize on the future dynamics of the EV market, where we believe weight is a major gating factor and the other characteristics of silicon anode-based lithium-ion batteries, recharge time and total lifetime cycles for example, will address the demands of the EV industry. The lithium-ion battery market is estimated to represent $75 billion in annual spend by 2025, in part due to the growth of EVs.

ENVX's management team is deeply experienced and has been working on silicon anode-based lithium-ion batteries since 2007. The management team includes industry veteran TJ Rodgers, the scientist and entrepreneur who is known for his leadership of Cypress Semiconductor and his involvement at SunPower Corp. ("SPWR") and **ENPH**. Mr. Rodgers has been involved with **ENVX** since 2012 as a board member, and the company became publicly listed through Rodgers' SPAC, RSVA. With a strong management team and the unique performance characteristics of the cells, we believe **ENVX** has the potential to capture mid-single digit market share of the lithium-ion battery market by the end of this decade.

Sustainability Analysis

As part of the Funds' investment process, we seek to assess investment opportunities that focus on sustainability by evaluating each business based on its core operating activities. As previously stated, the Strategy views sustainably oriented businesses as companies offering lower environmental impact or less resource-intensive products or services than incumbent players. The Strategy strives for a positive inclusion bias and seek to consider material ESG-related risk factors as part of the Funds' investment process, leveraging, where applicable, several third-party resources to help identify company-specific ESG risks during investment evaluation. The Funds seek exposure to a broad array of sustainability themes and to a variety of the United Nations' 17 Sustainable Development Goals ("UN SDGs"), and therefore we identify how selected portfolio holdings align to various UN SDGs. **NOD NO**, one of the Strategy's long holdings, is an example of a company that is making a significant impact across several sectors with their Bluetooth Low Energy products and proprietary semiconductor solutions. We consider **NOD NO** to be aligned with UN SDG 9 – Industry, Innovation and Infrastructure, as their core product is hardware infrastructure.

However, **NOD NO's** clients have worked with the company to customize products for applications that range widely from at-home COVID-19 testing kits to predictive maintenance sensors for high-value tools. The company works with customers to build sensors and System-on-a-Chip computers to facilitate highly specific data collection and analysis which, in turn, opens up new opportunities for efficiency and improvement.

As described in previous letters, we seek to evaluate and track the overall "sustainability intensity" of the Strategy on an ongoing basis by dividing the Funds' long portfolio holdings into three exposure categories: core, peripheral or opportunistic. Core sustainability holdings include companies that generate more than 50% of revenues from sustainability-oriented products or services. Peripheral sustainability holdings are companies that generate between 5% and 50% of revenues from sustainability-oriented products or services. The final category – opportunistic holdings – describes a broad group of companies, but which may not be associated with a specific sustainability product or service. The Strategy sustainability intensity exposure profile based on revenues over the trailing twelve-month period ending May 31, 2021 was as follows: 29% Core Sustainability, 39% Peripheral Solutions, 32% Opportunistic Holdings.

Short Book

The Strategy seeks to manage risk through the use of single name options and the Funds' short book. Typically, the selected shorts are thematically aligned and fall into two broad categories that we describe as "failed disruptors" or "disrupted incumbents." These two types of shorts are often uncorrelated to one another. The Funds' current short exposure is comprised of a number of sustainability-oriented SPACs that could be described as failed disruptors, including several manufacturers of EV trucks and truck components that we believe have overestimated the market demand for their products and an EV charging infrastructure business which we view as losing market share. The Funds are also short several cloud software providers where we believe each company's growth has lagged the broader market and the valuations have not yet adjusted accordingly.

Outlook

In our view, the first half of 2021 was defined by discussion of interest rates, inflation and cyclical recovery. As we move into the second half of the year, the market is experiencing factor volatility driven in part by recent spikes in COVID-19 case count and the rapid spread of the Delta variant. Despite this, we expect strong growth in both U.S. GDP and the general supply of the U.S. economy will persist – an environment that could result in renewed pressure on growth stocks. Amidst these dynamics, we believe there is still opportunity for disruptive growth. We are seeking novel themes, refreshed variations on existing themes and are pursuing the potential acceleration of many of the biggest opportunities that we track. In addition, if the U.S. equities market continues to climb faster than growth stocks in general, we believe those high growth stocks may approach more tenable valuations.

We believe the Strategy's portfolio continues to be well positioned with a comparatively low gross exposure and directional net exposure relative to historical averages. However, as we build positions in new names, we would not be surprised if both gross and net exposures expand should the market present the Funds with opportunities. As fundamental investors, we aim to assess the impact of a transforming economic landscape on the Funds' underlying holdings and seek to stay alert of both left field risks and emerging opportunities. We also seek to capitalize on market dislocations to create value on both sides of the book. The Strategy has honed an investment approach designed to look past short-term market gyrations and focus on owning high-quality, disruptive growth names that represent long-term economic opportunities.

As always, we appreciate your continued support for our strategy and encourage you to reach out with any questions.

Sincerely,
Summit Partners and Heptagon Capital

The views expressed represent the opinions of Summit Partners, as of June 30, 2021, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

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

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

	Q2 21	YTD	1-Year	3-Year	5-Year	10-Year
SPSO Funds	4.7%	5.6%	54.9%	25.7%	23.5%	14.2%
S&P 500 TR USD	6.2%	15.3%	40.8%	18.7%	17.6%	14.8%

Source: Summit Partners, Morningstar

Summit has been managing the Summit Partners Sustainable Opportunities L/S Strategy since its inception on November 1, 2007. The Summit Partners Sustainable Opportunities L/S Fund, L.P., Summit Partners Sustainable Opportunities L/S QP Fund, L.P and Summit Partners Sustainable Opportunities L/S Fund Limited are collectively referred to as the Summit Sustainable Opportunities L/S Funds ("SPSO Funds"), together with the UCITS Fund, these are referred to as the Summit Partners Sustainable Opportunities L/S Strategy (the "Strategy"). The UCITS Fund has the same Portfolio Manager and investment team, the same investment objective and uses the same philosophy and strategy as the SPSO Funds. Since the Fund has a relatively short time period, the SPSO Funds are used to provide a better understanding of how the team has managed this strategy over a longer time period. However, it should be noted that due to certain factors including, but not limited to, differences in cash flows, fees, expenses, performance calculation methods, and portfolio sizes and composition, there may be variances between the investment returns demonstrated by each portfolio in the future.

Important Information

Past performance is not an indication or guarantee of future performance and no representation or warranty is made regarding future performance. This communication is for information purposes only. It is not an invitation or inducement to engage in investment activity.

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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.

Authorised & Regulated by the Financial Conduct Authority (FRN: 403304)

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