Listed Private Assets: Monthly Commentary

September 2021

Fund Manager

Arnaud Gandon

Investment Objective

The Fund aims to produce high single digit returns, from a combination of capital appreciation and income, with a targeted annual yield of 4-5%. The investment philosophy of the Fund is founded on the premise that exposure to private assets should earn a premium over listed equities and bonds over time.

Contact

Heptagon Capital
63 Brook Street, Mayfair,
London W1K 4HS

Tel: +44 20 7070 1800
Fax: +44 20 7070 1881
email london@heptagon-capital.com

Higher real rates drove equity markets down in September, our strategy captured 45% of the global equity correction.

Every single time interest rates rise in a meaningful way, it becomes painfully clear how influential QE and loose monetary policy have been to traditional equities, particularly for growth and technology stocks. We have commented many times on the impact of low rates to long duration assets such as growth equities; the performance of global stocks in September plainly illustrated this relationship. Global equity indices corrected -3.7%, but the distribution of return across styles and sectors was significant. Information technology produced a -4.9% return while both energy and financials returned +10.5% and -0.5% respectively. The Listed Private Assets strategy returned -1.7% for the month, with a large share of the negative contribution coming from the real estate sector.

We do not spend too much time speculating on the macroeconomic environment, instead preferring to pick quality assets and management teams in niche strategies. However, it seems to us that no matter how keen the Federal Reserve is on insisting that inflation will be transitory, we see shortages and price increases everywhere we look around us, and they do not look like they are going to get resolved any time soon. Our global supply chains have become highly complex and fragile, with no slack available in the system, making any response to shocks difficult and slow. This lack of resilience across global trade networks cannot be resolved overnight and will take years to reconfigure and improve. It will require meaningful investment which will not be driven by a ruthless need for efficiency but a need for resilience which has the potential to impact price levels in the medium run. Furthermore, the need to decarbonise our economies and completely overhaul some sectors and industries will also most certainly come with a price tag, namely higher costs and price levels for many goods and services.

Logistics related names corrected the most in September with Tritax Big Box down -10.3% for the period. This wasn't surprising given that many of the logistic names had been priced to perfection and trading on hefty premiums: we took profit and reduced our holding in Tritax for that very reason back in August.. Although we believe that the underlying fundamentals for logistics companies is as good as it gets given the enormous demand for such assets and the lack of supply, we believe that this correction was rather healthy. It has reduced premiums across the space significantly.

Elsewhere, our top contributor to September's performance was our position in intellectual property specialist IP Group whose trophy asset, Oxford Nanopore, successfully listed on the London Stock Exchange.

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

We have discussed this holding many times in the past and finally, the IPO of Oxford Nanopore came to market and exceeded all our expectations with one of the most successful London debuts. The stock's price jumped close to 45% on the first day of trading. Oxford Nanopore is a DNA sequencing company which was a spinoff from the University of Oxford. It has developed an attractive new technology enabling DNA sequencer to be smaller and more portable than existing competing products. The Oracle Corp backed the company and was a cornerstone in the IPO, adding to the credibility of this listing. The listing added about £1bn to the market capitalisation achieved in the last private funding round and made it the third largest biotech float globally in 2021. This has been a real success for the management of IP Group who have been equity holders since the very early days of the company and have supported it all the way to the IPO. We believe that the team's ability and expertise in taking ideas and basic research from one of the best universities in the world, in order to bring them to full commercialisation, is first class and will hopefully be repeated with some of the other assets in their portfolio.

Within the private debt segment of our portfolio, VPC Specialty Lending continues to deliver strong net-asset-value growth and price return with a +2% return in September. This company makes balance sheet loans and other investments to some of the most innovative lending platforms globally, enabling it to earn a high level of income (with an 8.2% dividend yield currently) while allowing for some capital growth through some equity kickers. The company announced a final net asset value appreciation of +4% for September, benefiting from some of the equity investments deployed over the past 12 months, with the manager agreeing to several SPAC deals. As an example, the recent FinAccel transaction value implies a high multiple on capital invested for VSL (6.3x at the discounted value), demonstrating the favourable economics for SPAC sponsors in the US. The equity investment of VSL now represents about 25% of the net-asset-value and is priced at a discount to reflect any execution risks. We continue to believe that the management of Victory Park Capital has demonstrated a superior ability to structure and underwrite loans to some of the fastest growing lending platforms globally which should be supportive of the company's share price over the medium term. The company trades at a -19% discount to its NAV.

During September we have used recent inflows to reweight the portfolio to assets such as VSL. We have participated in a new offering within the real estate segment of the portfolio with a UK REIT focussed on providing low rent, affordable accommodation to vulnerable and homeless people. Given that such rent is by law, backed by the UK government, we view this investment as offering an attractive risk-reward profile, with a high level of income and a clear impact driven ESG mandate.

We would like to thank our investors for their trust and patience.

Kind regards,

Arnaud Gandon, Portfolio Manager

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

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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