Kopernik Global All-Cap Equity Fund

Q3 2021 Commentary

Fund Manager

David Iben

Investment Objective

The Fund seeks to provide long-term capital appreciation by investing primarily in equity securities of U.S. and non-U.S. companies. The research driven investment process seeks to add value through active management and by selecting securities of companies that, in the manager's opinion, are misperceived and undervalued by the market.

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The **Kopernik Global All-Cap Equity Fund** (the "Fund") is a sub-fund of Heptagon Fund ICAV which is an open-ended umbrella type investment vehicle authorised pursuant to UCITS regulations. Heptagon Capital Limited ("Heptagon") is the Investment Manager and Kopernik Global Investors LLC ("Kopernik") is the Sub-Investment Manager meaning Kopernik exercises discretionary investment authority over the Fund. The Fund was launched on 16th December 2013 and had AUM of USD 1,406m as of 30th September 2021.

Performance Review

Contributors

As in the second quarter, two of the largest contributors were natural gas companies. **Gazprom PJSC ("Gazprom")**, the largest natural gas producer in Russia, which has a monopoly on natural gas exports to Europe and **Range Resources Corp ("Range")**, a U.S.-based natural gas company with long-lived reserves were both up 35.0% over the quarter. Our Canadian oil and natural gas producers also had a strong quarter. **Cenovus Energy Inc ("Cenovus")** and **MEG Energy Corp ("MEG")** both contributed positively, continuing to build on their gains from the previous quarter. Both companies are Canadian oil producers with long-lived assets. Cenovus also has natural gas and natural gas liquids production, as well as downstream assets in the U.S. and Canada. Cenovus was up 5.5% and MEG was up 7.8%. We trimmed Gazprom throughout the quarter, while we added to Range at the beginning of the quarter and trimmed as the price increased. We also trimmed Cenovus.

The spot price of natural gas has risen 145% since the beginning of 2021; however, natural gas producers have only recently begun to outperform the spot price. For years, the artificially low-interest rate and easy money environment encouraged undisciplined production in the industry, which had the expected effect of driving the price of natural gas to levels that forced supply cuts. At their lowest point, the natural gas companies were priced for bankruptcy. While they have rebounded significantly since their lows in 2020, there is still a large upside to their risk adjusted intrinsic value, in our opinion, and we continue to use the price volatility to our advantage, trimming and adding opportunistically.

Uranium companies also built on their gains from the previous quarter. One of the largest positions, and a position the strategy has held since inception, is the Canadian uranium producer **Cameco Corp ("Cameco"),** which was up 13.3%.

NAC Kazatomprom ("Kazatomprom"), the world's largest uranium producer, was up 28.4%. Smaller uranium miners were up as well: **NexGen Energy Ltd ("Nexgen")**, a uranium exploration company planning to develop a project in the Athabasca basin of Canada, was up 15.4%, while **Fission Uranium Corp** and **Denison Mines Corp ("Denison")** were up 27.3% and 33.6%, respectively. In addition, companies that hold physical uranium performed well as the spot prices continued to increase, up 45% year-to-date. **Sprott Physical Uranium Trust ("Sprott Trust")**, formerly Uranium Participation Corp, was up 20.7%, while **Yellow Cake PLC** was up 17.5%. We added to Cameco, Kazatomprom, and NexGen at the beginning of the quarter before trimming on price appreciation. We trimmed Sprott Trust throughout the quarter on consistent price appreciation.

We continue to see the upside in uranium prices. Uranium is trading well below its incentive price, suppliers have extended their production cuts and/or are keeping mines closed, excess inventories are declining, and new nuclear reactors are being built (there are currently 54 under construction, primarily in emerging markets). Further, while we are not modeling in a significantly higher demand for uranium, the political environment is seemingly more supportive of nuclear power, which is an inexpensive, zero-carbon, and stable source of electricity.

Other positive contributors were spread across multiple sectors. In industrials, **Mitsubishi Corp ("Mitsubishi")**, a Japanese conglomerate with multiple business segments, was up 18.4%. In the consumer staples space, MHP SE, a vertically integrated poultry producer in Ukraine, was up 29.5%. In agriculture, palm oil producer **First Resources Ltd ("First Resources")**, was up 21.5%. Like energy and resource companies, palm oil is a commodity that has an undeserved negative environmental, social, and governance ("ESG") reputation, in our opinion. Palm oil is by far the most land-efficient food oil, and while palm oil companies have had a difficult past with environmental and social issues, they have made significant strides towards better ESG practices. In financials, **Sberbank of Russia PJSC ("Sberbank")**, the largest diversified bank in Russia, was up 11.9%. We added to First Resources at the beginning of the quarter and trimmed Mitsubishi and Sberbank in the latter portion of the quarter.

Detractors

Many of our mining holdings were down over the quarter, with the materials sector detracting the most. The largest detractor in the materials sector was **Newcrest Mining Ltd ("Newcrest")**, a senior gold producer in Australia and one of the strategy's largest positions. **Turquoise Hill Resources Ltd ("Turquoise Hill")** also detracted. Turquoise Hill owns the majority of the Oyu Tolgoi mine in Mongolia, which is one of the largest copper, gold and silver mines in the world, containing 25 million ounces of gold and 47 billion pounds of copper, as well as a large, inferred gold equivalent resource. It was down 12.5%. **Polyus PJSC ("Polyus")**, Russia's largest gold mining company, was down 15.0% while **Centerra Gold Inc ("Centerra"),** was down 9.5%. Centerra is a Canadian gold producer which owns mines in Kyrgyzstan, Canada, and Turkey. Beginning in early May 2021, the government of Kyrgyzstan began taking aggressive steps towards the Kumtor mine by passing a law that would allow government control of the mine, supporting a $3 billion environmental civil claim, and overriding the 2009 Investment Agreement which settled past claims and provided certain protections to Centerra. As of May 15, 2021, Centerra had stated that the government had effectively seized control of the mine and that Centerra was initiating arbitration proceedings to enforce its rights under the longstanding Kumtor investment agreements. It continues to trade at a discount to Kopernik's risk-adjusted intrinsic value, and trades at a discount to the value of the company's other properties without Kumtor. Kumtor, however, is a substantial asset and we are hopeful that the government and the company can resolve their disputes. We added to Turquoise Hill and Newcrest.

Other gold and silver mining companies were down as well. **Seabridge Gold Inc**, which owns KSM, the largest undeveloped gold project in Canada, was down 12.1%, while **Pan American Silver Corp,** one of the largest silver mining companies globally, was down 18.0%. We added to both companies.

We continue to be optimistic on the fundamentals for gold. The monetary base has tripled since 2011. The COVID-19 crisis led the central banks to rapidly print money, which has continued even as the crisis has slowed. Meanwhile, the price of gold is lower than it was in 2011 and real rates are negative. The fundamentals bode well for higher future gold prices, in our opinion. Importantly, the mining stocks are undervalued, even without a gold price increase based on our analysis. As a reminder to our investors, we demand a large margin of safety before we invest in mining companies, and only invest when there is significant upside. In addition, diversification across countries, management teams, balance sheets, and assets is an important part of our process.

We also saw negative contributions from our auto and utilities holdings. In autos, **Hyundai Motor Co ("Hyundai")**, a South Korean auto manufacturer with dominant market share in that country, was down 21.0%. In utilities, **Centrais Electricas Brasileiras SA ("Eletrobras")**, Brazil's dominant electricity provider, was down 17.9%, while **Federal Grid Co Unified Energy System**, the sole operator of Russia's Unified National Electric grid and operator of all of Russia's high voltage transmission lines, was down 8.9%. We added to Hyundai and Eletrobras on price depreciation.

Portfolio Activity

The strategy had one new initiation during the third quarter. The strategy initiated a position in **Halyk Savings bank of Kazakhstan JSC**, which is the largest bank in Kazakhstan with ~32% market share. The firm appears to be well-managed: it has strong returns on equity, is well capitalized, and has a very liquid balance sheet. The strategy also eliminated a position in Denison Mines as the price reached our risk-adjusted intrinsic value.

In closing, we continue to be excited by the portfolio's significant potential for upside over the long run. We persist in opportunistically buying and holding companies that we believe are trading at significant discounts to their risk-adjusted intrinsic value, using volatile times to our advantage. You can count on us to employ our disciplined, fundamentals-based, long-term approach that has produced a proven track record through full market cycles.

Why Kopernik? ***By Kopernik Global Investors, LLC***

Philosophically, we view ourselves as owners of businesses. Our job is to appraise these businesses and take advantage at times when an inefficient, emotional marketplace offers securities at a price that is significantly different from our appraisal. Like our namesake, Kopernik (better known by his Latin name – Copernicus), we trust the results of our own analysis even when (especially when) it generates vastly different conclusions from those of the crowd and/or those taught by many academics. Similarly, we commonly question the data issued by governments, central bankers, and companies themselves. We understand that bargains appear often because people focus on fear or panic, and other forms of risk that are not relevant to the investment portfolio. High tracking error, bad headlines or unpopular stocks/countries/ regions/industries can present a degree of risk to a manager's career, while often lowering the potential of permanent loss of capital (due to lower initiation prices and higher potential upside) to the portfolio. Similarly, Kopernik believes volatility and other measures of past price movements are not relevant to long-term investors' assessment of risk. It can be indicative of potential risk to short-term speculators or to highly levered players, but can often present opportunity for true long-term investors.

As always, we appreciate your patience and support.

Sincerely,

Heptagon Capital & Kopernik Global Investors

Total Returns as of 30th September 2021, net of fees, I USD share class

	Q3 21	YTD	2020	2019	2018	2017	2016	2015
Kopernik Global All-Cap Equity Fund	-0.1%	19.6%	38.3%	10.7%	-12.0%	8.1%	52.0%	-12.0%
MSCI ACWI NR USD Index	-1.1%	11.1%	16.3%	26.6%	-9.4%	24.0%	7.9%	-2.4%

Source: Morningstar

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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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.

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

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