HEPTAGON Capital

Easterly US Value Equity Fund

Q3 2021 Commentary

Fund Manager

Jack Murphy

Chris Susanin

Investment Objective

The Fund aims to achieve long-term capital growth by investing in a portfolio of U.S. Equities. The Fund's Sub-Investment Manager, Easterly Investment Partners, was founded in 1982 and is a long only, value-orientated asset management firm headquartered in Massachusetts, USA.

Contact

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

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

The **Easterly US Value 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 Easterly Investment Partners LLC ("Easterly") is the Sub-Investment Manager meaning Easterly exercises discretionary investment authority over the Fund. The Fund was launched on 30th June 2020 and had AUM of USD 55m as of 30th September 2021. During the third quarter of 2021, the Fund underperformed its benchmark, the Russell 3000 Value Index NR (the "Index"), returning -3.7% (C USD share class) compared to -1.1% for the Index.

Market Environment

During the third quarter of 2021, the U.S. stock market, as measured by the Russell 3000 Value Index®, detracted -0.9%. The best performing sectors during the quarter were Financials (+2.4%), Real Estate (+1.7%), and Utilities (+1.0%). The worst performing sectors were Materials (-5.0%), Communication Services (-3.8%) and Industrials (-3.8%). The Value index lagged both the S&P 500 and the Growth index for the quarter but did outperform in September.

The wave of COVID-19 infections caused by the delta variant in the U.S. spiked again in August and early September but appears to have slowed. Inflation was a main point of discussion as the U.S. Federal Reserve announced a likely start to tapering bond purchases around November 2021. The Fed still contends that this year's spike in inflation is "transitory," and recent developments have increased investors' concerns that this might not be true. Elevated commodity prices and bottlenecks in domestic supply chains and labor markets are persisting and, in some cases, worsening. Among the many issues on the supply side of the economy have been job openings that exceed the number of unemployed, severe shortages of automotive computer chips that could continue for quite some time, and the recent electricity crisis in China that could further disrupt world supply chains and boost energy prices.

Easterly US Value Equity Fund – Review

The Fund declined -3.7% (C USD share class), trailing the Russell 3000 Value Index® NR by 260 basis points during the quarter. Stock selection was the main driver of the underperformance, however sector allocation also detracted from relative performance. An overweight to Materials and an underweight to Real Estate led to the underperformance from an allocation perspective. Additionally, the Fund has returned 40.9% since its inception on 30th June 2020, outperforming the Index by 790 basis points which has returned 33.0% over the same period.

Contributors

Below is commentary on three of the top contributors to performance during the quarter:

American International Group (AIG): rose +16.0% during the quarter and contributed 34 basis points to performance. The stock benefitted from a strong Q2 earnings report which provided further evidence of the unfolding margin expansion story in its General Insurance segment. Commercial insurance pricing continues to exceed loss cost inflation, which should translate into further margin expansion and accelerating premium growth. We believe earnings upgrades and additional clarity on the upcoming spin-off of the low multiple Life & Retirement business will serve as catalysts for a further closing of the stock's discount to its sum-of-the-parts valuation. Performance also benefitted from an increase in the 10-year treasury yield late in the quarter.

EQT (EQT): rose +16.8% and contributed 28 basis points to performance. We initiated a position in EQT during early August on price weakness over M&A concerns. We believe there are synergies to be gained from the acquisition and that management will be disciplined with how they spend cash going forward. The stock also benefitted from the reflationary trade, as energy prices moved up during the quarter.

Organon (OGN): rose +15.0% and contributed 22 basis points to performance. The stock rose after a strong earnings report, beating on revenue and EBITDA. OGN reiterated their guidance and implemented a dividend of 20% of free-cash-flow, which is about a 3.7% dividend yield. We exited our position during the quarter as well.

Detractors

Below is commentary on two of the largest detractors to performance during the quarter:

DuPont de Nemours (DD): declined -11.8% during the month and detracted -57 basis points from performance. The stock lagged after earnings as DD's free-cash-flow declined to just 47% and their commentary around how to improve working capital was concerning. DD also continues to have a PFAS liability overhanging the company, even though they did settle a $12 million liability in Delaware during the quarter. We continue to see DD as a break-up story, as their Electronics and Imaging business could trade at a high-teens multiple should it be spun-out or merged.

General Motors (GM): declined -10.9% during the quarter and detracted -55 basis points from performance. After a strong first half, the stock underperformance was driven by the semiconductor chip-shortage that worsened as the Delta variant led to supply chain issues in Asia (and Malaysia in particular). GM also faced challenging headlines with the Chevy Bolt fire and its related recall. The stock started to perform better toward the end of the third quarter once the CFO reiterated guidance, while absorbing greater than anticipated production downtime and an expense related to the Bolt. Near quarter-end, excitement started to build ahead of a two-day analyst event in Detroit, which is focused on unveiling the company's aggressive growth goals in EV's and software enabled services. We are highly convicted in GM's prospects for 2022 and even more excited for their emerging growth and technology story.

Buy/Sell Example

Below is commentary on two names that we added to the portfolio during the quarter, and one name that we exited:

Truist Financial (TFC): we initiated a position in Truist as the stock has been a material underperformer as complexity related to the January 2020 merger of BB&T and SunTrust has led to a temporary overhang on the share price and a material discount relative to large-cap peers. Truist is one of the most profitable franchises in banking, benefitting from strong competitive positioning across its high-growth Southeastern footprint, a differentiated insurance brokerage business, and the ongoing realization of merger cost savings. We expect the stock to trade back to at least peer levels, as deal complexity fades over the next 6-9 months.

WestRock (WRK): we initiated a position in WestRock during the quarter. With company profits split roughly 2/3 containerboard and 1/3 consumer boxboard, we believe this is a story that benefits from the secular growth of e-commerce tipping demand for boxes well above supply, leading to record pricing and margins over the next couple of years. The consumer boxboard business is a growth ESG story as their paper-based and fully recycled solutions are the plastic-replacement solution. WRK has an emerging free cash flow profile that is driving a significant balance sheet improvement, and soon, a meaningful share buyback story. It trades at a discount to peers, and we believe the stock has significant upside.

Bank of America (BAC): we exited our position in Bank of America during the quarter. Following the recent run-up in bank stocks, BAC is trading at post-GFC highs on P/E and P/TBV. In our view, the share price is already incorporating upside from potential Fed Funds hikes out into 2022-2023. As a result, we believe risk/reward is skewed to the downside in this name. Generally, we see more opportunity in regional bank stocks, which have yet to price-in rate upside.

Sincerely,
Heptagon Capital and Easterly Investment Partners LLC

Annualized Total Returns As of 30th September 2021, gross of fees

	Q3 21	YTD	1-Year	3-Year	5-Year	7-Year
EIP All-Cap Value	-3.4	19.0	44.6	7.0	10.8	11.6
Russell 3000 Value Index TR	-0.9	16.6	36.6	9.9	10.9	9.4

Source: Easterly Investment Partners LLC, Morningstar

Easterly manages the Irish regulated Easterly US Value Equity UCITS Fund according to the same investment principals, philosophy and execution of approach as it manages the Easterly Investment Partners ("EIP") All Cap Value strategy, 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 portfolio The EIP All Cap Value strategy is provided in the table above to show a longer track record for the underlying strategy.

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.

The document is provided for information purposes only and does not constitute investment advice or any recommendation to buy, or sell or otherwise transact in any investments. The document is not intended to be construed as investment research. The contents of this document are based upon sources of information which Heptagon Capital believes to be reliable. However, except to the extent required by applicable law or regulations, no guarantee, warranty or representation (express or implied) is given as to the accuracy or completeness of this document or its contents and, Heptagon Capital, its affiliate companies and its members, officers, employees, agents and advisors do not accept any liability or responsibility in respect of the information or any views expressed herein. Opinions expressed whether in general or in both on the performance of individual investments and in a wider economic context represent the views of the contributor at the time of preparation. Where this document provides forward-looking statements which are based on relevant reports, current opinions, expectations and projections, actual results could differ materially from those anticipated in such statements. All opinions and estimates included in the document are subject to change without notice and Heptagon Capital is under no obligation to update or revise information contained in the document. Furthermore, Heptagon Capital disclaims any liability for any loss, damage, costs or expenses (including direct, indirect, special and consequential) howsoever arising which any person may suffer or incur as a result of viewing or utilising any information included in this document.

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)

Disclaimers

FTSE Russell Source: London Stock Exchange Group ICAV and its group undertakings (collectively, the "LSE Group"). © LSE Group 2021. FTSE Russell is a trading name of certain of the LSE Group companies. Russell® is a trade mark of the relevant LSE Group companies and is/are used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and S&P Global Market Intelligence ("S&P") and is licensed for use by Heptagon Fund ICAV. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.