Listed Private Assets: Monthly Commentary

October 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.

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The strategy returned +2.1% during October amid a strong backdrop for global equities and solid earnings momentum.

Risk assets enjoyed a spectacular month with global equities rebounding sharply in October; this happened despite more evidence of inflation building in the economy as central banks look to potentially tapering or hiking. This highlights the perils of investing based on macroeconomic data and inferring causality and correlations within asset markets for it is often the case that bad news is good news, as we see now that equities climb the proverbial "wall of worry".

The Listed Private Assets strategy performed well in this context with a +2.1% total return in October bringing the year to date performance to +14.3%. Only 2 of the 26 holdings in the fund experienced a negative return during the month. Renewable wind and solar operators were behind a significant part of the monthly return. After a period of poor performance, the significant increase in power prices witnessed over the past few months is starting to be priced into the valuation models of our renewable energy holdings. Greencoat Wind Plc, the $3.8bn wind operator is one of our core renewable holdings and has been in the portfolio since inception. The company announced during October that it completed the commissioning of Douglas West, which is a 45 megawatt wind farm located seven miles south-west of Lanark, Scotland, and is comprised of 13 Vestas V136 3.6 megawatts turbines. The addition of Douglas West increased Greencoat Wind UK's net generating capacity to 1,289 megawatts and is the first subsidy free asset in the portfolio. The stock price delivered a +10% return in October. We continue to believe that given the opportunities for wind generation in Europe and the strong inflation protected cashflows to support its 5% dividend yield should help drive returns for this holding overtime.

Elsewhere in the portfolio, Gore Street Energy Storage Plc announced that the recent increase in the price for electricity has helped generate almost double their September revenue forecasts. This holding benefits from the price volatility in the electricity markets as it functions as a mediator between the supply and demand for electricity through its fleet of large-scale energy storage units. Prices in the U.K. Balancing Mechanism hit a record high of £4,038 ($5,569) per megawatt hour in early September. This, combined with the ability of its assets to respond quickly to opportunities in the market, led to the higher than expected performance.

We continue to believe that the opportunity set for energy storage is one of the best we have seen in our careers with this market expected to grow by a factor of 60x over the next 20 years according to Bloomberg Energy Finance.

Our best performing holding during October was Pershing Square Holdings Ltd with an +11.1% return. This return was driven by both a reduction in the company's discount from a -30% to -25% and an appreciation in its net asset value. Their position in Universal Music Group, which represents a significant share of Pershing Square's net asset value, delivered a +8.7% return in October. Additionally, their holding in the US home improvement retailer Lowe's Co Inc generated a +15.1% return during the month. Interestingly, the portfolio manager Bill Ackman has commented that they have bought some protection in the portfolio in order to hedge against an upward move in US rates. The manager believes that the Federal Reserve is very much behind the curve and that tapering and rate hikes should happen soon. Their view is that this has the potential for an equity rout as a result of a tightening in financial conditions.

3i Infrastructure Plc held its capital markets day in October and updated its shareholders on the underlying health of its companies as well as its progress on sustainability and ESG related processes and disclosures. The company highlighted that its recent investments have strong ESG credentials, with the examples of portfolio companies being Esvagt and Infinis. Through its fleet of specialised boats, Esvagt provides marine services to offshore wind farm operators. Their management has been focussed on repositioning the firm's activity away from servicing oil rigs to providing an essential service to offshore wind farm operators. Additionally, Infinis which is the UK's leading generator of low carbon power from captured methane (landfill gas) is also expanding its business model rapidly to take advantage of solar power through its dedicated division.

Finally, our holding in VPC Specialty Lending Plc generated a strong +8.2% return during October. In addition to using its balance sheet to make loans to some of the most innovative lending platforms globally, VPC has built up equity stakes in some of the platforms which now represents about 20% of its net asset value. During October, VPC Impact Acquisition Holdings III (VPCC), a SPAC sponsored by an affiliate of VSL's investment manager, has entered into a definitive agreement to combine with Dave Inc, a banking app that launched in 2017. Following the transaction, Dave Inc will become a publicly traded company with an expected equity value of $4bn. This transaction highlights the potential benefits of being a SPAC's sponsor with an attractive merger target; the value of this deal implies a substantial investment multiple on the original capital invested by VSL. Dave is a fast-growing challenger bank through its Dave App (revenues are forecasted to compound at 60% over the next 3 years) and the deal was supported by a number of high-profile US investment firms. VSL's management has generated strong shareholder return for the trust since inception, with a dividend yield of 8%. Despite the stellar track record for this holding, it is still trading on a meaningful -18% discount to net asset value. It is now one of the LPA's largest positions and it should continue to drive performance in the near term.

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

Kind regards,

Arnaud Gandon, Portfolio Manager

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

Important Information

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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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