HEPTAGON
Capital

Summit Sustainable Opportunities L/S Equity Fund

Q3 2021 Commentary

Fund Manager

Timothy Albright

Investment Objective

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

Contact

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

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

The **Summit Sustainable Opportunities L/S 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 Summit Partners Public Asset Management, LLC ("Summit" or "Summit Partners") is the Sub-Investment Manager meaning Summit exercises discretionary investment authority over the Fund. 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 Fund was launched on June 30, 2020, having returned 39.6% since inception to the end of September 2021 (C USD share class) and had AUM of $53m. During the third quarter of 2021, the Fund underperformed the S&P 500 TR USD ("S&P"), returning -0.3% compared to 0.6% for the benchmark.

The Strategy is designed to achieve capital appreciation and deliver risk-adjusted returns over a market cycle and typically focuses 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.

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

Performance Review

2021 has been a year of consolidation for the Strategy following a strong 2020, and this continued in Q3 2021. Overall, on a gross basis, the long book cost the Funds (2.2)% during Q3 2021, while the short book added 2.3%. Three of the top four performing long book names during the third quarter were semiconductor manufacturers, including **SiTime Corporation (NASDAQ: SITM), indie Semiconductor, Inc. (NASDAQ: INDI)** and **Nordic Semiconductor ASA (Oslo: NOD NO)**. The Funds' short book performance was driven primarily by a plant-based meat producer, a plastics recycler and a pre-revenue electric vehicle (EV) manufacturer.

The Fund entered the third quarter of 2021 with delta adjusted gross and net exposures of 109% and 63%, respectively, and ended Q3 2021 with delta adjusted gross and net exposures of 122% and 62%, respectively, composed of 92% gross long and 30% gross short exposure. At the end of Q3 2021, the Fund's five largest holdings on a delta adjusted exposure weighted basis were **Albemarle Corp. (NYSE: ALB), Etsy, Inc. (NASDAQ: ETSY), Enovix Corp. (NASDAQ: ENVX), NOD NO** and **Horizon Therapeutics Public Limited Corporation (NASDAQ: HZNP).**

Semiconductor Review

Semiconductors have driven disruption across global economies since the 1960s when Moore's Law – the observation that the number of components per circuit approximately doubles every two years – highlighted the pace of innovation for the sector. The Strategy seeks to invest in efficiency-driven solutions to global challenges, and semiconductors are a key component of many technology names in the Fund's portfolio. Semiconductors have played – and we believe will continue to play – a central role in the transition to renewable energy, the electric vehicle ("EV") drive train, the Internet of Things ("IoT") and artificial intelligence ("AI") revolutions, and the build out of communications and cloud infrastructure.

When evaluating semiconductor companies, our objective is to identify opportunities where we believe there is a disruptive technological advantage, a large addressable market and highly visible partnerships and product placement. Typically, the semiconductor companies we identify have market capitalizations between $1 billion and $10 billion, though the Fund is not limited to investments in this range. Generally, we apply cash flow-based growth multiples and, given the consolidating nature of the industry, consider takeout multiples as well. As of the end of Q3 2021, the Fund's semiconductor holdings were primarily comprised of high-growth small-cap companies, many of which we believe are well aligned with the sustainably oriented themes the Fund has long pursued.

Our semiconductor areas of exposure include:

- **Internet-of-Things**: The number of IoT connected devices is estimated to grow to over 70 billion devices by 2025, spanning industrial and consumer applications. The Fund's holdings in **NOD NO** and **Semtech Corporation (NASDAQ: SMTC)** provide exposure to what we believe are core building blocks for IoT networks.

  NOD NO, as discussed in previous letters, has developed Bluetooth Low Energy ("BLE") and custom System-on-a-Chip ("SoC") solutions, which are designed to facilitate product customization for asset tracking, industrial automation and sensing applications. The company's order backlog has increased by 600% over the past year as leading technology and infrastructure companies build out their 21st century infrastructure.

  SMTC is the creator of LoRa technology – a long range, low power, bi-directional, secure, wireless communication platform. The company has identified market opportunities across neighborhood and campus network buildouts as well as in asset management and logistics networks. These sensor networks can help reduce waste, support the efficient use of natural resources and improve energy efficiency across a diverse set of end markets. In a single use case, a smart leak detection system using **SMTC's** LoRa technology was able to reduce water usage by 20% and drive cost savings for Costco Wholesalers Corporation (NASDAQ: COST) stores. We believe **SMTC's** LoRa-based revenues can grow at a CAGR above 40% through 2025, at which point the technology could represent nearly half of the company's total expected revenues.

- **Automotive**: The market for automotive semiconductors is expected to be approximately $36 billion in 2021 and is predicted to grow at a CAGR of 12% to $62 billion by 2026. Key category drivers include vehicle safety and autonomy, display and user experience, connected vehicles and EV growth. Semiconductor costs per vehicle are approximately $300 today, up dramatically over the past decade, and can exceed $2,000 per vehicle in high-end EVs. The design-in process for automotive platforms takes several years, giving suppliers multi-year visibility into their revenue expectations. The Fund has exposure to this growing market via **INDI**, a pureplay semiconductor supplier to automotive OEMs and Tier 1 suppliers. **INDI** has developed products for advanced driver-assistance systems ("ADAS") applications such as parking and lane assist with their ultra-sonic sensors, as well as core SoC technology to address future LiDAR applications. **INDI** has also developed successful products for display and connectivity applications as well as EV charging applications. We believe **INDI** can grow revenues at a CAGR of more than 50% though 2025 and achieve 50% gross margins over the same period. With this growth and financial profile, we believe **INDI** could become a strategic asset for larger companies in the space.
- **Power Efficiency:** Power efficiency is a differentiating factor for customers who are designing complex systems and want the most efficient configuration of semiconductors and functions. The Fund has exposure to the power efficiency theme through **Lattice Semiconductor Corporation (NASDAQ: LSCC),** a leading developer of Field-Programmable Gate Array ("FPGA") products. FPGAs are customer-configurable integrated circuits that coordinate multiple functions including communications, power management, security and data management. **LSCC** provides efficient, small-sized, low-power FPGAs for applications in data centers, base stations, industrial automation applications and automotive ADAS solutions. Their products can provide up to 75% better power efficiency than competitors' products, representing meaningful gains when extrapolated over a system or network. **LSCC** currently serves a $3 billion market with small-sized FPGAs, and the company expects to double its addressable market to $6 billion by 2024, with growth fueled by their recently introduced mid-range FPGA products. We believe **LSCC** can grow its top line faster than the consensus expectations, which would result in gross margins above the street's low 60% estimate.
- **Timing:** Timing is the heartbeat of every digital electronic system, ensuring that the system runs smoothly and reliably by providing and distributing clock signals to various critical components such as CPUs, communication and interface chips and radio frequency components. The $8 billion timing market has been dominated by legacy quartz-based solutions for the past 70 years. **SITM** is disrupting the timing market with their silicon-based timing solution (a microelectromechanical system called a MEMS). **SITM's** products offer significant advantages over quartz-based solutions, including a smaller footprint, lower power and enhanced programmability. A recent shortage in the quartz timer supply chain has pulled forward the market shift to **SITM's** silicon solutions, as customers are increasingly choosing their products based on price and performance capabilities. We believe this backdrop will support top line growth in excess of 25% CAGR through 2024, with a positive impact on the trajectory of gross margins.

Sustainability Analysis

As part of the Strategy's 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 those 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 Strategy's investment process, leveraging, where applicable, several third-party resources to help identify company-specific ESG risks during investment evaluation. 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 Strategy's 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 holdings are companies that in our determination generate a meaningful, measurable amount of their revenues from an obvious sustainably oriented activity and include businesses in the renewable energy generation, electric vehicles or LED lighting sectors, among other sectors. 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's sustainability intensity exposure profile based on revenues over the trailing twelve-month period ending August 31, 2021 was as follows: 27% Core Sustainability, 43% Peripheral Solutions, 30% Opportunistic Holdings.

Short Book

The Strategy's short book contributed 2.3% on a gross basis during Q3 2021, helping to balance the drawdown in the Strategy's long book. As a reminder the Strategy seeks to manage risk through the use of single name options and it's short book. Typically, the selected short positions are thematically aligned and fall into two broad categories that we describe as "failed disruptors" or "disrupted incumbents." These two types of short positions are often uncorrelated to one another. The Strategy's current short exposure is comprised of several sustainability-oriented SPACs that could be described as failed disruptors, including several manufacturers of EV charging infrastructure and plant-based protein companies. Our disrupted incumbent short positions include traditional retailers facing margin pressure and the prospect of continued tough year over year comparables. The Strategy is 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

As we enter the fourth quarter of 2021, the U.S. equity market is grappling with COVID-19 driven supply shocks, which continue to echo across multiple industries and markets. We expect the outlook on inflation, interest rates and cyclical recovery will dominate the macroeconomic discussion and the shorter-term flow of funds. The trajectory of the pandemic, international politics and the prospect of the midterm elections are likely to generate volatility as we head towards the end of the year.

Despite this uncertainty and related volatility, we expect strong growth in the U.S. economy, which, in turn, is good for the global economy. Amidst these dynamics, we believe there is significant opportunity for disruptive growth. We have taken a fresh look at some of our thematic areas of focus and are pursuing opportunities that we believe will position the Strategy to capitalize on some of the more transformational trends that we track. As fundamental investors, we aim to assess the impact of a transforming economic landscape on the Strategy's 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, focusing on owning high-quality, disruptive growth names that we believe 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 September 30, 2021, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

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

	Q3 21	YTD	1-Year	3-Year	5-Year	10-Year
Summit Partners Sustainable Opportunities L/S Strategy*	-0.3%	5.5%	30.6%	21.5%	22.5%	14.9%
S&P 500 TR USD	0.6%	15.9%	30.0%	16.0%	16.9%	16.6%

Source: Summit Partners, Morningstar

**The UCITS fund launched on 30/06/2020. Performance prior to 31/07/2020 relates to the Summit Partners Sustainable Opportunities (SPSO) L/S Funds ("SPSO" is the US Mutual Fund) net of fees, thereafter, it relates to the UCITS Fund. This performance is presented to show a longer track of the Summit strategy with similar investment objectives, investment team and policies. The performance should not be viewed as that of Summit Partners or an indication of how the UCITS Fund will perform in the future. Returns for SPSO are shown net of a 1.5% management fee, brokerage fees, other fund expenses and 20% performance fee (subject to a high water mark). Returns should be viewed as preliminary and used for informational purposes only.*

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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