WCM Global Equity Fund

Q2 2022 Commentary

Fund Manager

Paul Black

Pete Hunkel

Mike Trigg

Sanjay Ayer

Jon Tringale

Investment Objective

The Fund aims to achieve long-term capital growth by investing primarily in equity securities of large cap global companies located throughout the world.

Contact

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

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

The **WCM Global Equity Fund** (the "Fund"), 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 WCM Investment Management ("WCM") is the Sub-Investment Manager meaning WCM exercises discretionary investment authority over the Fund. The Fund was launched on 18th January 2017 and had AUM of USD 1,934m as of 30th June 2022. During the second quarter of 2022, the Fund (I share class) underperformed its benchmark, returning -18.5% compared to -15.7% for the MSCI ACWI NR USD Index.

For 2022's 2nd Quarter, the WCM Quality Global Growth composite (gross of fees) portfolio returned -18.1%, underperforming the MSCI ACWI index by ~-260 basis points (bps). For the trailing twelve months, the strategy is ~-1,100 bps behind that benchmark.

Global equity markets continued their freefall in Q2, capping off the worst first half of the year since the MSCI ACWI index began 34 years ago. There was nowhere to hide as every sector was down in the quarter. Sector leadership within the ACWI was a continuation of Q1; Energy was the best performer while Tech was the worst. The strategy faced continued style headwinds for the second quarter in a row, illustrated by the dramatic outperformance of "value" over "growth" and the relative strength of "low quality" over "high quality." Despite recent headwinds, we remain sanguine that owning positive-moat-trajectory businesses with strong, well-aligned cultures will pay off in the long run.

Keeping an eye on the longer term, the three-year excess (relative to benchmark) return now stands at ~+10 bps (annualized), the five-year is ~+360 bps (annualized) the ten-year excess is ~+320 bps (annualized), and the since-inception (over 14 years) is ~+500bps (annualized).

Attribution

Sector-based attribution showed a very modest contribution from allocation while selection detracted. Regional attribution revealed that allocation detracted slightly, and that selection was the more significant source of underperformance.

Contributors:
Sector-wise, the primary allocation contributor was our overweight to Health Care (4th best in the bench), followed by our underweights to Communication Services (4th worst) and Materials (3rd worst). For sector selection, the contributors were Financials, Materials, and Discretionary. By geography, the only material contributor came from our picks in Asia/Pacific.

Detractors:
For sector allocation, the most significant detractors were our underweight to Energy (best in the bench) and our overweight to Tech (worst in the bench), followed by our underweight to Utilities (3rd best). The most significant detractors vis-a-vis the sector selection angle were our picks in Health Care, Industrials, and Tech. By geography, our allocation underweight to Asia/Pacific detracted. For regional selection, Europe and the Americas were the detractors.

Other Factors:
In Q2, the simple market factors were (overall) massive headwinds for the strategy: Large Cap outdid Small Cap, but Low Quality smashed High Quality ("Quality" uses ROE as a proxy), and Value trounced Growth.

Comments

A fairly common (and one might say obvious) theme among commentators is that equity valuations have substantially cheapened. Of course, we don't disagree. Even so, there is still no shortage of "frightening developments" for the worry-warts. One pundit we enjoy summarized things well - and effectively capsulized why we think macro analysis is a low return-on-time exercise - when he said, "There's so much uncertainty we can't even be certain what to be uncertain about." As we've said repeatedly, an uncertain backdrop tends to favour our portfolio companies over time: good growth, expanding moats, and strong FCF generation are rarely out of style for long. Whenever heightened volatility gives us an opportunity, we'll look to upgrade the quality of the portfolio.

Portfolio Activity

Buy: UnitedHealth Group Inc.
US-based UnitedHealth Group is one of the largest private health insurers, providing medical benefits to roughly 50M members in the United States. Tailwinds come from an aging population as well as the US healthcare system's move toward value-based-care, where it is very well positioned. The vertically integrated approach of Optum-UnitedHealthcare provides a tight closed-loop system that allows UNH to provide best care for its members at the lowest cost possible, setting the stage for a growing moat.

Buy: LPL Financial Holdings Inc.
US-based LPL is a technology and service platform for independent financial advisors. The majority of its 20K advisors are independent contractors operating under their own brand name. Its roots can be traced back to the independent broker dealer segment, but today it's increasingly levered to fee-based RIAs (around 70% of flows). Given LPL's strong position in the independent channel and scale advantages, it will continue to be a share gainer in wealth management. In many ways, LPL reminds us of other great platform business models, albeit with market cyclicality.

Buy: Novo Nordisk A/S Class B
Denmark-based Novo Nordisk is the global leader in diabetes medicines. The worldwide prevalence of diabetes provides a durable tailwind, and Novo's laser focus on metabolic diseases - and its resulting GLP-1 dominance - forms the basis of its moat. That moat will continue to widen driven by a focused culture and superior innovation engine.

Sell: Fair Isaac Corporation
We see indications of potentially increasing competition in credit scoring from the FHFA's decision to consider alternative credit algorithms, which brings FICO's moat trajectory into question.

Sell: First Republic Bank
We sold our shares to make room for other, higher conviction ideas in the portfolio.

Buy and Manage:
We added to **Datadog Inc, Snowflake, Inc.,** and **Waste Connections, Inc.** rounding into fuller position sizes. We trimmed **Costco Wholesale Corporation, Old Dominion Freight Line, Inc., West Pharmaceutical Services, Inc.,** and **Sherwin-Williams Company,** all as position-size management.

As always, we appreciate your patience and support.

Sincerely,
Heptagon Capital and WCM Investment Management

Annualized Total Returns as of 30th June 2022, net of fees

	Q2 22	YTD	1-Yr	3-Yrs	5-Yrs	10-Yrs
WCM Quality Global Growth Composite	-18.2%	-31.6%	-26.9%	6.1%	10.4%	11.8%
MSCI ACWI NR USD Index	-15.7%	-20.2%	-15.8%	6.2%	7.0%	8.8%

Source: Morningstar, WCM

WCM manages the Irish regulated WCM Global Equity UCITS Fund according to the same investment principals, philosophy and execution of approach as it manages the WCM Quality Global Growth Composite, 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 fund. The WCM Quality Global Growth Composite (net of fees) (the "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

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)

Disclaimers

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

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.

.