Easterly US Value Equity Fund

Q2 2022 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 79m as of 30th June 2022. During the second quarter of 2022, the Fund outperformed its benchmark, the Russell 3000 Value Index NR (the "Index"), returning -8.9% (C USD share class) compared to -12.5% for the Index.

Market Environment

Inflation and risk of a recession weighed on the market with most indexes posting negative results for the quarter. Consumers continued to grapple with high gasoline prices as oil surged to over $100 per barrel. Russia's invasion of Ukraine, stretched refining capability, and strong consumer demand led to a 38% increase in oil price since the start of the year.

Recovery in the labour market has been particularly strong. The unemployment rate remains low and has been steady at 3.6%, the lowest level since February 2020. The demand for labour, coupled with rising prices, continues to lead to wage pressure. From May 2021 to May 2022, the Consumer Price Index (CPI) spiked to 8.6%, the largest increase since December 1981.

During the quarter, the Federal Reserve intensified the magnitude of its interest rate increases. In June, the Fed increased interest rates by 75 basis points which at the the time was the most aggressive hike since 1994. Following this, the July meeting concluded with a unanimous vote to further raise interest rates by 75 basis points, in the wake of inflation moving at its fastest pace in over 40 years.

Heptagon Strategy Review

The Fund outperformed its benchmark by 384 basis points, returning -8.7% (net of fees) during the quarter while the Russell 3000 Value Index declined -12.4%. The Fund is outperforming the index by 291 basis points through the first half of 2022.

The portfolio benefited the most from security selection in Communication Services. It also had strong selection in Health Care, Materials, and Financials. The portfolio was aided by an overweight allocation in Consumer Staples and underweight allocation in Real Estate. Security selection in Consumer Discretionary and an overweight allocation in Materials were the largest detractors from relative performance during the quarter.

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

AT&T (T) appreciated following a Q1 earnings report that reduced concerns about the company's free cash flow targets. The stock also rebounded from a prior period of weakness, related to the spin-off of Warner Brothers Discovery. We forecast better free cash flow for the upcoming Q2 earnings report, which is a catalyst for the stock. Valuation remains attractive, trading at an 8x P/E multiple and a 6% dividend yield, based on F2022 estimates.

Merck (MRK) reported better than expected 1Q sales and profits. The sales strength came from key products including Keytruda and Gardacil. 2022 non-GAAP sales and EPS guidance were raised as well, despite a higher tax rate for the rest of the year. After the earnings report, management spoke at several conferences and the tone remained upbeat. We continue to like the stock as it has a compelling strategy to sustain its lead in oncology while its animal and vaccine franchises continue to grow. Lastly, management has been clear that business development is a high priority as Keytruda loses exclusivity later in the decade. Towards the end of 2Q, the Wall Street Journal reported that Merck may be interested in acquiring Seattle Genomics (SGEN), Inc, which is just the rumor that appeared to get the stock moving higher.

Kimberly-Clark (KMB) rallied sharply after its Q1 earnings release. Sentiment was extremely low heading into earnings, but KMB surprised on the upside with 10% organic sales growth and a shift toward its higher-margin products. We exited the position shortly after the stock jumped as a highly inflationary environment remains concerning. Another concern with KMB is that the stock tends to sell off when input costs increase, mainly natural gas and pulp.

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

Cisco Systems (CSCO) declined during the quarter after reporting weaker fiscal Q3 results in May, as supply chain disruptions reduced revenue and worries mounted about difficult order growth comparisons in the upcoming quarter. Cisco reported 13% order growth in FQ3, slowing from over 30% in the previous three quarters, and now faces a year-over-year comparison against 31% order growth in FQ4. While execution on supply chain is disappointing, Cisco has built a large backlog, equivalent to two entire quarters of revenue, which should insulate results against weakening demand. Valuation remains very attractive at 12x our F2023 EPS estimate and we should see multiple accretion from the company's increase in recurring revenue.

General Motors (GM) underperformance in the second quarter continues to be driven by macro concerns regarding a recession. We note that the company's fundamental performance remains exceptionally strong, and this quarter Cruise commercially launched its driverless ride-share business in San Francisco. Orders are very robust for the new line up of EV's, including the Hummer EV, Lyriq, and Silverado-E. GM had very strong production during the second quarter except for a late-quarter issue related to the chip-shortage that held up completion of 95,000 vehicles which will ship in the second half. So, while second quarter came in below street expectations, GM confirmed full-year guidance including an impressive 25- 30% growth in year-on-year production.

DuPont de Nemours (DD) detracted from performance as its exposure to China and the semiconductor supply chain spooked investors. We believe DD continues to execute in an effective manner: selling off both non-core and high volatility assets, reducing overhead, smart M&A, and prioritizing share repurchasing. Management has hinted at legal settlements around their PFAS exposure, but nothing has materialized. We remain patient, as street numbers do not yet reflect DD's recent accretive acquisition and sentiment remains negative.

Outlook

We remain optimistic about the portfolio as we head into the second half of the year. The market environment remains challenging, which we believe favors our investment approach. Our fundamental, bottom-up, predictive research process and philosophy is well suited for this environment. The market is reacting to company specific catalysts and events again, and our tenured team does a great job identifying those catalysts that will lead to a price increase. Another tailwind is the market rotation out of Growth and into Value. We have discussed the cap in P/E multiples between Growth and Value before, and that gap has closed significantly thus far in 2022. In January, the gap was approximately 14x, but that is now down to just under 7x. We look forward to speaking with you on our quarterly calls. Our office is always open and we hope to see many of you in person this year. As always, we appreciate your commitment to Easterly Investment Partners.

Sincerely,
Heptagon Capital and Easterly Investment Partners LLC

Annualized Total Returns As of 30th June 2022, gross of fees

	Q2 22	YTD	1-Year	3-Year	5-Year	10-Year
EIP All-Cap Value	-8.6%	-10.2%	-9.1%	6.4%	7.4%	13.0%
Russell 3000 Value Index TR	-12.4%	-13.2%	-7.5%	6.8%	7.0%	10.4%

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.

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.

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