Kopernik Global All-Cap Equity Fund

Q2 2022 Commentary

Fund Manager

David Iben

Investment Objective

The Fund seeks to provide long-term capital appreciation by investing primarily in equity securities of U.S. and non-U.S. companies. The research driven investment process seeks to add value through active management and by selecting securities of companies that, in the manager's opinion, are misperceived and undervalued by the market.

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The **Kopernik Global All-Cap 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 Kopernik Global Investors LLC ("Kopernik") is the Sub-Investment Manager meaning Kopernik exercises discretionary investment authority over the Fund. The Fund was launched on 16th December 2013 and had AUM of USD 1,068m as of 30th June 2022.

Quarter Review

Reversing their positive contribution from the previous quarter, the materials sector was the largest detractor from strategy returns. Within materials, many of the strategy's holdings were down significantly. The largest single detractor was **Newcrest Mining Ltd ("Newcrest")**, a senior gold producer in Australia and one of the strategy's largest positions. Newcrest was down 28%. Other primary detractors were a trio of Canadian gold companies with strong reserves: **Equinox Gold Corp ("Equinox")**, down 46.2%, **Seabridge Gold ("Seabridge")**, down 33.0%, and **IAMGOLD Corp ("IAMGOLD")**, down 53.7%. We added to all three companies.

We remain positive on the fundamentals for gold and other precious metals. As we have discussed before, the fundamentals for mining companies are appealing without inflation, and additionally, it is highly likely that the central banks' unprecedented money printing over the past decade and a half will remain a strong positive for gold, even well into the current "tightening" phase. Currently, roughly 25% of the portfolio is invested in the materials sector, diversified across companies, geographies, and management teams. We see significant upside to the risk-adjusted intrinsic value of the strategy's mining stocks.

Reversing many of their gains from Q1, energy stocks detracted from total strategy returns in the second quarter. Uranium stocks made up the majority of this detraction. **NAC Kazatomprom JSC ("Kazatomprom")**, the world's largest uranium miner, and Cameco Corp, the second largest, were both down 18.7% and 27.8% respectively. **NexGen Energy Ltd**, which has a development project in the Athabasca region of Canada, was down 35.7%. Uranium remains an undervalued commodity, in our opinion, and uranium miners are trading at a substantial discount to their risk-adjusted intrinsic value. As the global

Past performance is no guide to future performance, and the value of investments and income from them can fall as well as rise desire for clean power continues to grow, we believe nuclear power will be an important component of that transition. To meet demand, which should increase in the future as more nuclear reactors are built, uranium miners will need to increase production significantly. Current prices are not incentivizing this production. Elsewhere, in the financial sector, the **Sprott Physical Uranium Trust ("Sprott Uranium")**, a company that purchases and holds physical uranium, was down 28.6%. We trimmed the energy sector heavily during the prior quarter and welcomed the opportunity to build the position back up at current, much lower prices. We recently added to Sprott Uranium and Kazatomprom.

In agriculture, two Indonesian palm oil companies reversed their gains from the previous quarter and detracted from total strategy returns: **Golden Agri-Resources Ltd ("Golden Agri")** was down 17.4%, while **First Resources Ltd** was down 20.6%. We added to Golden Agri. The price of palm oil has been very volatile thus far in 2022; in the first quarter, palm oil rose 58%, reaching a multi-year high at the beginning of March, and subsequently fell steadily during the month of May and June. With yields 7 times higher than soy oil, palm oil is one the most land efficient food oils. Further, as environmental protections have limited new plantings, palm oil supply is effectively fixed. We believe the ESG concerns about palm oil are backward looking since many investors seem not to appreciate the significant improvements in ESG over the past decade. This misperception has created an opportunity and palm oil producers remain undervalued, in our opinion. Both Golden Agri and First Resources are heavily discounted on an enterprise value/acre basis.

Positive contributions to the strategy were made by a variety of companies. The strategy's largest contributor was **Centrais Eletricas Brasileiras ("Eletrobras")**, which was up 12.8%. Eletrobras is Brazil's largest electric utility and has 90% of their generating capacity in hydroelectric power. **WH Group Ltd ("WH Group")**, the largest vertically integrated pork producer in China, was up 25.1%. Although most energy companies were detractors, there were positive contributions from two companies, MEG Energy Corp ("MEG"), a Canadian oil sands producer, and **Japan Petroleum Exploration ("Japex")**, which engages in exploration and production of oil and natural gas in Japan, Canada, Iraq, and Indonesia. MEG was up 1.2%, while Japex was up 11.7%. There were also positive contributions from two shipping/transportation companies: **Stolt-Nielsen Ltd ("Stolt-Nielsen")**, one of the world's largest providers of integrated transportation, storage, and distribution solutions for specialty bulk-liquids, was up 14.6%, while **Kamigumi Co Ltd**, the leading port transport company in Japan, was up 6.9%. We trimmed Eletrobras, WH Group, and Kamigumi, added to Japex on a price dip mid-quarter, and eliminated our position in MEG Energy as prices appreciated early in the quarter.

The strategy finished building multiple positions in the second quarter, many of which highlight the opportunities we are currently finding in Asia. Four are Japanese companies: Icom Inc., which manufactures 2-way wireless communications for radio operators and trades at a negative enterprise value; **Tachi-S Co Ltd**, a car seat manufacturer with a diversified customer base that currently trades at 0.5 times price to book; **Ryosan Co Ltd**, a semiconductor distributor that trades at 9.5 times price to earnings and 0.5 times price to book; and **Toho Holdings Co Ltd**, the fourth largest pharmaceutical distributor in that country, which trades at 0.7 times price to book and 0.1 times enterprise value/sales. There were also two initiations in Chinese companies: **Hi Sun Technology Ltd**, a Chinese payment processor with smaller divisions in security chips, smart electric meters, and security consulting (we believe that the value of one subsidiary covers the value, effectively giving investors the rest for free), and **Shanghai Electric Group Co Ltd**, a Chinese company that is a global leader in manufacturing power and industrial equipment. Both are undervalued on multiple metrics. The strategy also initiated positions in **Hana Financial Group Inc**, one of the largest financial groups in Korea, and **Perpetua Resources Corp**, the owners of a brownfield gold project in Idaho that is in the midst of the permitting process.

The strategy eliminated positions in MEG Energy Corp, China Shenhua Energy Co Ltd., and Emlak Konut Gayrimenkul Yatirim Ortakligi AS as prices appreciated. The strategy also eliminated a position in China Mobile Ltd.

In closing, we continue to be focused on appraising businesses and mitigating risk through diversification across sectors and countries. Bear markets and swift downdrafts are painful, but it is important to keep in mind that they create excellent buying opportunities, which enhance future returns. Our investment process is centred on buying and holding companies trading at significant discounts to their risk-adjusted intrinsic value, and we view volatility as an opportunity to add and trim. You can count on us to employ our disciplined, fundamentals-based, long-term approach that has produced a proven track record throughout full market cycles.

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

Why Kopernik? By Kopernik Global Investors, LLC

Philosophically, we view ourselves as owners of businesses. Our job is to appraise these businesses and take advantage at times when an inefficient, emotional marketplace offers securities at a price that is significantly different from our appraisal. Like our namesake, Kopernik (better known by his Latin name – Copernicus), we trust the results of our own analysis even when (especially when) it generates vastly different conclusions from those of the crowd and/or those taught by many academics. Similarly, we commonly question the data issued by governments, central bankers, and companies themselves. We understand that bargains appear often because people focus on fear or panic, and other forms of risk that are not relevant to the investment portfolio. High tracking error, bad headlines or unpopular stocks/countries/ regions/industries can present a degree of risk to a manager's career, while often lowering the potential of permanent loss of capital (due to lower initiation prices and higher potential upside) to the portfolio. Similarly, Kopernik believes volatility and other measures of past price movements are not relevant to long-term investors' assessment of risk. It can be indicative of potential risk to short-term speculators or to highly levered players, but can often present opportunity for true long-term investors.

As always, we appreciate your patience and support.

Sincerely,

Heptagon Capital & Kopernik Global Investors

Annualized Total Returns as of 30th June 2022, net of fees, C USD share class

	Q2 22	YTD	1-Year	3-Year	5-Year	7-Year
Kopernik Global All-Cap Equity Fund	-14.3%	-19.8%	-19.0%	11.0%	8.1%	9.4%
MSCI ACWI NR USD Index	-15.7%	-20.2%	-15.8%	6.2%	7.0%	7.0%

Source: Morningstar

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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.

Authorised & Regulated by the Financial Conduct Authority (FRN: 403304)

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