HEPTAGON Capital

Q4 2020

WCM Global Equity Fund

Quarterly Commentary for the Strategy

The WCM Global Equity Fund (the "Fund"), a sub-fund of Heptagon Fund Plc which is an open-ended umbrella type investment company 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 January 18, 2017 and had AUM of USD 2,621m as of December 31, 2020. During the fourth quarter of 2020, the Fund (I1 share class) significantly outperformed its benchmark, returning 16.3% compared to 14.7% for the MSCI ACWI NR USD Index.

TOTAL RETURNS

As of 31st December, 2020 gross of fees

				Annualised		
	Q4 20	**YTD**	**1-Yr**	**3-Yrs**	**5-Yrs**	**10-Yrs**
WCM Quality Global Growth Composite	17.2%	44.3%	44.3%	24.4%	20.9%	16.2%
MSCI ACWI GR USD Index	*14.8%*	*16.8%*	*16.8%*	*10.6%*	*12.9%*	*9.7%*

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 (gross of fees) (the "strategy") is provided in the table above to show a longer track record for the underlying strategy.

WCM Investment Management – Sub advisor Q4 2020 Commentary

For 2020's 4th Quarter, the WCM Quality Global Growth composite returned +17.2%, outperforming the MSCI ACWI index by ~+240 basis points (bps). For calendar year 2020, the composite finished ~+2,750 bps ahead of that benchmark.

2020 Q4 global markets delivered huge gains once again, continuing their torrid run since the March lows. This most recent surge felt a bit different, though, as factors like Value and Low Quality led the way—a notable reversal from Q1-Q3 when Growth and High Quality were the place to be. Amidst this more challenging (relative) backdrop, the strategy was still able to meaningfully outpace the benchmark. While sector and regional allocation were both detractors in Q4, the attribution analysis also revealed that stock selection was strongly positive—whether viewed through the sector or the regional lens—and helped overcome the "style" headwinds. This quarter has spotlighted once again, we believe, the power of our differentiated stock selection approach, and its application in a high-conviction, concentrated portfolio.

Keeping an eye on the longer term, the three-year excess (relative to the benchmark) return now stands at ~+1,380 bps (annualized), the five-year is ~+800 bps (annualized), the ten-year excess is ~+650 bps (annualized), and the since-inception (more than 12 years) is ~+720 bps (annualized).

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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Attribution

Sector-based attribution showed a detraction from *allocation*, but a contribution from *selection*. Regional attribution revealed a similar story; *allocation* was a slight detractor, meaning stock *selection* was the sole driver of outperformance.

Contributors:

Sector-wise, there were no notable *allocation* contributors. For sector *selection*, the standouts were Discretionary and Health Care, followed by Tech and Financials. By geography, there were no material contributors vis-à-vis regional *allocation*, but regional *selection* was strongly positive. All regions contributed, led by Asia/Pacific, then followed by the Americas and Europe.

Detractors:

The primary detractor vis-à-vis sector *allocation* was our overweight to Health Care (worst in the bench). Our underweights to Energy (best in bench) and Financials (2nd best) also detracted, but less so. For sector *selection*, the detractors—all relatively modest—were Materials, Real Estate, and Industrials. Regionally, our *allocation* underweight to Asia/Pacific (best in bench) and overweight to the Americas (worst) detracted, but just slightly. There were no detractors vis-à-vis regional *selection*.

Other Factors:

In Q4, the simple market factors were all headwinds for WCM: Small Cap beat Large Cap, Low Quality smashed High Quality ("Quality" uses ROE as a proxy), and Value outdid Growth.

Comments

Continuing their confounding ways, global equity markets surged again in Q4, though there were style/asset class differences this time around. The market narrative was no longer simply Growth over Value. In fact, as noted above ("Other Factors"), the MSCI ACWI Value index outperformed MSCI ACWI Growth index by a wide margin. Our analysis suggests that it was actually Momentum that finally gave way—after months of outperformance in 2020—to Value.

And that led us to ponder, how did we manage to outpace the market in that kind of backdrop? After digging into the numbers with multiple analytical tools, it ultimately came back to security selection, particularly, some good stock picks in Discretionary, Health Care, and Tech, which offset the headwinds from the factor and sector rotation. That's why we see the WCM's result for 2020 Q4 pointing to one of the tangible benefits of a high-conviction portfolio: a few great stock pics can help mitigate temporary "style" headwinds.

Similarly, in our look ahead, we conclude that the strategy is well positioned for almost any market/economic scenario. Our emphasis on companies with positive moat trajectories, combined with our "all weather" approach to construction, should deliver both downside protection and solid, broad-based returns over the long run.

Portfolio Activity

Buy: LVMH Moët Hennessey Louis Vuitton SE

Based in Paris, LVMH is the world's largest luxury goods maker. Its moat comes from its "star" brands, most of which have endured for more than 100 years and would be very difficult to replicate. Given the luxury status associated with these brands, LVMH can charge premium prices, driving attractive margins and ROICs. Its moat trajectory is positive as it continues to thoughtfully grow its product and geographical footprint, leveraging the unique insights and synergies that come with its dominant position in luxury.

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Portfolio Activity cont.

Buy: Synopses, Inc.

California-based Synopses is best known for providing design software—for chip layout and manufacturing—to large semi-conductor companies. Tailwinds include the insatiable demand for bandwidth and speed, and Synopses helps chip makers design the fastest, smallest, and lowest power-consuming chips on the planet. Its moat stems from being the largest and most dominant franchise in an oligopolistic industry that boasts huge barriers to entry, significant switching costs, and high costs of failure.

Buy: WuXi Biologics Inc.

WuXi Biologics is China's leading contract development and manufacturing organization (CDMO) for biotech and pharmaceutical companies in various phases of drug development and manufacturing. The strong growth in biologics manufacturing will continue into the next decade, providing a powerful tailwind. This is especially true in China, where there is a massive effort to accelerate industry growth in the country and "close the gap" versus its American and European peers. This investment boom means WuXi is a "picks & shovels" play on that spending, which ultimately should lead to attractive growth and profitability for many years.

Buy: NIKE, Inc.

Oregon-based Nike is the number one brand globally in sportswear. The athleisure tailwind is still strong, as sportswear continues to take market share from traditional apparel and footwear. Nike's brand, manufacturing scale, and depth of catalog provide the basis of its moat. Nike is now well-positioned for its new direct-to-consumer (DTC) strategy to bear fruit, which we believe will be moat-enhancing and lead to an era of elevated growth.

Sell: Illumina, Inc.

We liked that Illumina was a "picks and shovels" play on health care innovation via gene sequencing. However, its $8B acquisition of GRAIL raised some red flags for us as it represents a meaningful strategic shift into an area where Illumina hasn't excelled, and will also bring Illumina into competition with some of its customers. Why make this acquisition? Management could be trying to buy growth, signalling a coming growth slowdown in the core business.

Sell: Cooper Companies, Inc.

Cooper has done a nice job growing its moat—and its market share in contact lenses—but we chose to sell in favour of a better idea in WuXi Biologics.

Sell: Crown Castle International Corp.

Crown Castle has benefitted from the advancement of 5G, but its moat trajectory is less clear from here. We are selling in favour of a better defensive growth idea in Nike.

Sell: Boston Scientific Corporation

We were initially drawn to the business when we saw the early fruit of a massive cultural turnaround under the leadership of CEO Mike Mahoney. We have arrived at a point now, however, where the original thesis has largely played out, the company's debt has increased, and we see other more attractive opportunities elsewhere.

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Portfolio Activity cont.

Buy and Manage:

We added to **Church & Dwight Co., Inc.,** and to new buy **LVMH Moet Hennessey Louis Vuitton SE**, rounding into fuller position sizes.

We trimmed **ANSYS Inc**. as a position size management move.

As always, we appreciate your patience and support.

Sincerely,

Heptagon Capital & WCM Investment Management

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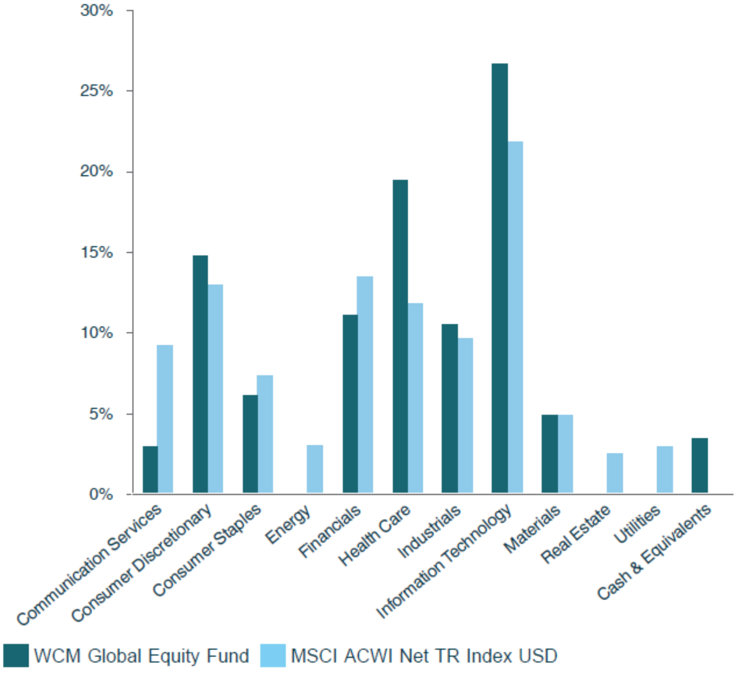
WCM Global Equity Fund

WCM Global Equity UCITS Fund Positioning

Top Ten Holdings by Issuer as of 31st December 2020

Name	% of portfolio
MercadoLibre Inc.	6.0%
Taiwan Semiconductor Mfg., Ltd.	4.2%
Shopify, Inc.	4.0%
Stryker Corporation	3.9%
West Pharmaceutical Services, Inc.	3.6%
Visa, Inc.	3.3%
LVMH Moët Hennessy Louis Vuitton	3.2%
Amphenol Corp.	3.1%
Tencent Holdings Ltd.	3.0%
First Republic Bank	2.8%
Total of Top 10 Holdings	**37.1%**

Portfolio Sector Weights as of 31st December 2020



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Risk Warning

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.

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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.