HEPTAGON
Capital

Future Trends: Monthly Update

December 2020

The Heptagon Future Trends Fund has a very clear and distinct philosophy: we seek to identify and invest in a diverse range of businesses offering exposure to the key trends that we believe will help shape the future. The Fund has delivered consistent outperformance since inception in January 2016, gaining 135.5% versus an 89.2% return for our MSCI World Index benchmark. 2020 marked the Fund's fourth consecutive year of outperformance relative to its benchmark, with a 29.8% gain (vs 15.9%). Future Trends outperformed in all four quarters of the past year and in 8 of the 12 months of 2020, including December. Such outperformance has been achieved with only limited changes to the portfolio, and none in the past month. Importantly, when we look ahead, we believe that both near- and long-term prospects for our businesses remain more attractive than ever.

2020 proved to be a remarkable year in many respects. Consider that *almost every conventional economic norm was broken* as evidenced by the speed of both the decline and the subsequent recovery. From an investing point of view, what helped most was simply a recognition that, *when the facts changed, you had to as well.* If ever there were a context in which the benefits of active management would be best demonstrated, then it would be one such as this. Against this background, **we were pleased to see the Future Trends Fund deliver another year of marked outperformance**.

Much has been written elsewhere (including our own piece of May 2020 describing the crossing of the digital Rubicon) about how the pandemic served to accelerate trends that were already in train. Think of how we have all adapted – mostly seamlessly – to working, shopping and indulging in leisure pursuits online. The shift from physical to digital has been as sizeable as it has been rapid and the emerging consensus seems to be that around five years of adoption was effectively brought forward in most domains as a result of pandemic-inspired lockdowns.

While we are clear advocates of this thesis, we believe it is important to incorporate two other integral considerations. First, **even if there has been a marked acceleration in digital adoption, there is still a long way to go**. On a global basis, fewer than 25% of retail purchases, payments (by volume) or corporate workloads have become digital, leaving a long runway ahead. In other areas (such as online education – where we have been invested since March 2020), penetration levels are even lower, implying a more significant future growth path.

The second crucial point is that from a Future Trends perspective, the Fund is (and has always been) about far more than just the data deluge (a phrase we coined in March 2011) and the digital ecosystem. Sure, data drives most industries – from the effective analysis of, say, wind turbine speeds to the efficient tracing of food products from farm to fork – but **our approach has always been about pan-thematic diversification**. Investing in everything from wind to cloud and from fish to semiconductor chips has been the key to outperformance, in our view.

On the topic of wind, or renewable energy in general, we were pleased to see that two of our top-five performers during 2020 came from this sector, with Vestas (the world's largest manufacturer globally of wind turbines) gaining 113.8% and First Solar (a leading US solar business) adding 76.8%. Vestas was also one of our top-performing stocks in December, adding 12.9%. The company (and the industry as a whole) benefited from growing expectations around further stimulus measures, which may include increased investments in green projects. Importantly, both Vestas and First Solar consistently executed operationally in 2020. We were also pleased to see Vestas announce its intention to buy in the 50% stake it did not control of its offshore wind business and also First Solar disclose plans to shed its non-core operations and maintenance business.

December constituted a great case study in terms of the benefits of portfolio diversification, with our top-five performers all hailing from different industries with exposure to different trends. In order, the past month's leaders were TomTom (a play on the car of the future), Chegg (online education), Vestas (wind turbines), Intuitive Surgical (robots for assisted surgery) and Keysight Technologies (5G network testing). All five businesses gained at least 10% in December, which compares favourably to the 4.2% rise in the MSCI World. 12 of our 23 holdings outperformed in December. For the full-year, the figure is 15 out of 23 (assuming we had owned all our current holdings from 1 January 2020).

The one notable laggard in the past month was Alibaba, which closed December down 11.2%. The financial press has devoted significant column inches not only to the decision by the local regulator to halt the IPO of Ant Financial (in which Alibaba was the largest shareholder), but also to the fact that Alibaba is likely to face more stringent regulation generally going forward. Regulation is something we would generally characterise as a risk and a reason to review our investment case. In respect of Alibaba, even with potentially more assertive oversight from the Chinese government, we forecast more attractive growth prospects (at both the revenue and EBITDA level) than for comparable US businesses. Investors are also paying lower multiples for this growth, which creates an opportunity in our view. Finally, position sizing has been key. Alibaba has never been higher than a 4.0% weight in the Fund and currently sits at a 3.1% allocation.

After such strong performance in 2020, perhaps the key question for investors is where do we go from here? The broader macro environment certainly looks *less bad* than it did in March 2020 and many of the building blocks for recovery seem to be in place. However, we do not expect progress to be linear and setbacks seem likely to occur. From a Future Trends perspective, nothing really changes. In other words, **our process remains unchanged,** as it has done throughout the past year (and indeed since inception). In other words, **we seek to identify long-term trends which we expect to grow in importance broadly *regardless* of the macro backdrop and then invest in the businesses best-placed to benefit from them at appropriate valuation levels.**

We have several possible new investment candidates for the Fund on the radar and will remain opportunistic. Further, as of 31 December 2020, **the Fund has 3.3% cash, which we will look to deploy tactically.** Even when not adding new names to the portfolio, we have remained proactive in rotating within the Fund, taking some profits in our best-performing businesses and reallocating to the relative laggards. Such an approach will remain in place during 2021. Thank you for your interest in and support for the Future Trends Fund.

Alex Gunz, Fund Manager

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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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.

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