Yacktman U.S. Equity Fund

Heptagon Yacktman US Equity Fund

The Heptagon Yacktman US 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 Yacktman Asset Management LP ("Yacktman") is the Sub-Investment Manager meaning Yacktman exercises discretionary investment authority over the Fund. The Fund was launched on December 14, 2010 and had AUM of USD 439m as of September 30, 2020. During Q3 2020, the Fund (I USD share class) outperformed its benchmark returning 6.0% compared to 5.4% for the Russell 1000 Value NR USD Index.

TOTAL RETURNS

As of September 30, 2020

				ANNUALIZED		
	Q3 20	YTD	1-Year	3-Year	5-Year	10-Year
Yacktman US Equity Fund (UCITS)*	**6.0%**	**-1.4%**	**4.9%**	**8.4%**	**9.6%**	-
Russell 1000 Value NR USD	*5.4%*	*-12.1%*	*-5.8%*	*1.9%*	*6.8%*	-
AMG Yacktman Fund (YACKX)	**5.4%**	**-4.3%**	**1.9%**	**7.5%**	**9.8%**	**10.1%**
Russell 1000 Value TR USD	*5.6%*	*-11.6%*	*-5.0%*	*2.6%*	*7.7%*	*10.0%*

* Class I Shares

Source: Bloomberg

Yacktman manages the Irish regulated Yacktman US Equity UCITS Fund according to the same investment principals, philosophy and execution of approach as it manages the AMG Yacktman Fund (YACKX) a US mutual fund, 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.

Yacktman Asset Management LP – Sub advisor Q3 2020 Commentary

Third quarter returns were solid as low rates and central banking stimulus helped markets push higher despite economic challenges. We performed in line with the Russell 1000® Value Index benchmark. We lagged the S&P 500® Index which has been dominated by a small group of technology companies that continued to race higher during the quarter.

The significant performance gap between growth and value has caused many to ask whether value is due for a comeback or if it is an outdated strategy. This question was frequently asked in the late 1990s, just before value came back with a vengeance, and interestingly, even with the atypically long run of growth stock dominance.

We focus on the long-term attributes of individual investment opportunities and the risks encompassed by those securities. Unlike many value managers, we prefer to own a stable business rather than buying something that is merely inexpensive and may be risky due to cyclicality, leverage, or impending business obsolescence. With our strong focus on quality, while not overpaying (even for great businesses), we have successfully generated positive returns over long periods while protecting capital in difficult markets.

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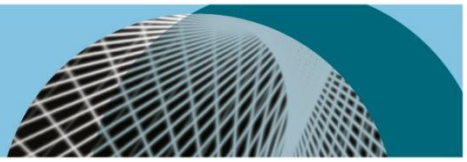

How to Get Growth Without Overpaying

Many of our favourite current investments are in businesses, including Samsung Electronics Preferred (Samsung), Bolloré SA (Bolloré), and News Corp, trade at bargain prices due to some combination of complexity, conglomerate discount, or unwarranted fears about some of their business lines. These businesses would likely be viewed as growth stocks and trade at much higher valuations if they were simplified or broken up, but due to complexity, conglomerate discount, or unwarranted fears about some of the businesses, they trade at bargain prices. Take Samsung, which has technology leadership in semiconductors, foundry, display, mobile phones, and appliances plus strong growth potential from new markets like 5G, AI, and automotive businesses. Samsung's preliminary operating earnings for the quarter were more than $10 billion, and the preferred shares, net of cash and excess investments, trade at about seven times our expectation of next years' earnings. During the quarter, Samsung announced a huge $6.6 billion contract with Verizon to provide 5G equipment and build out. We wonder what valuation that business alone would get if publicly floated given the crazy enthusiasm for IPO's these days. Still, in the larger structure of the company, that unit is lost on many.

Much of Bolloré's value comes from its 27% ownership of Vivendi, and Vivendi's value is mostly accounted for by its 90% ownership of Universal Music Group (UMG), the leading owner of music rights. Not that long ago, music in CD format looked like a dying business due to piracy concerns, but because of the popularity of streaming services, Bolloré has developed into one of the best-positioned companies we see today. Vivendi recently sold 10% of UMG for EUR3 billion and has committed to an IPO of the unit by 2023. Recently, management said that the timeframe for an IPO could be accelerated. Given the market's robust response to new issues, we think this would be a good idea and could help close the steep discount that exists on shares of both Vivendi and Bolloré.

Another company that we think offers strong growth and trades at a substantial discount is News Corp. In the last few years, the company has been simplifying its business, selling off non-core assets, and increasing its financial reporting transparency. Today News Corp has two excellent companies that should provide long-term growth. Dow Jones owns The Wall Street Journal, Barron's, and a rapidly growing risk and compliance business. News Corp also owns significant online real estate, including a 62% ownership of REA Group, a publicly-traded security in Australia, and Realtor.com. Few have paid attention to the shares, probably due to the biases against newspaper businesses and the financial reporting complexity.

We believe we can generate concrete returns over time in the three highlighted investments from the cash flow and growth they can produce and whether others reward them with a higher multiple. If we get both the business results we project and a higher multiple, that can enable a spectacular outcome, much like Microsoft delivered in the last few years. Many have already forgotten that Microsoft's shares languished for almost a decade before improved business results helped convey extremely strong share price returns.

Heptagon Capital, 63 Brook Street, Mayfair, London W1K 4HS ~ Tel: +44 20 7070 1800 ~ Fax: +44 20 7070 1881

Yacktman U.S. Equity Fund

Contributors:

Bolloré delivered good results due in part to a share price increase in its Vivendi stake. Bolloré's stock trades at a 40% discount to just the value of the Vivendi holding. In addition, it has an extremely valuable port and logistics business and a solid-state battery business, which should improve significantly due to a supply agreement for Mercedes buses.

Samsung's shares rose with a solid rebound in profits and general strength in global technology shares. We think there could be a significant improvement in earnings across many of Samsung's businesses next year, and the shares represent an unusually compelling bargain.

AMERCO, North America's largest "do-it-yourself" moving and self-storage company, delivered strong returns during the third quarter. The company, known for its U-Haul brand, is run for the long-term by members of the family who were among the industry creators 75 years ago. We think the public storage business remains underappreciated.

Detractors:

Macy's Inc. (Macy's) continued to struggle as its retail business remains under pressure. The value of its real estate is challenged, especially because some of the best properties are in cities like New York and San Francisco, which are experiencing the biggest impact on commercial rates as people work from home or move to more rural locations.

GrafTech International LTD, which sells graphite electrodes, was weaker during the quarter due to demand challenges, causing a weak pricing environment and low factory utilization. The company is aggressively working through challenges, especially with customers who have failed to perform to contracts.

Cisco Systems Inc. (Cisco) stock was lower during the quarter after delivering strong results, given weaker earnings guidance. The stock sells at a modest multiple of earnings and cash flow and continues to successfully transition its business to more predictable software, services, and security.

Conclusion

Today there is an unbelievable disparity between many new companies that are "the hot new thing" and many established businesses. For example, Zoom, whose business snowballed due to the work/school at home environment, has an enterprise value of approximately $140 billion, while Samsung (using the preferred price as our valuation point) is valued at roughly $175 billion. For the trailing 12-months, Zoom produced $1.3 billion in revenues and $230 million in operating income. Preliminary results for Samsung's 3rd Quarter are $57 billion in revenues and $10.6 billion in operating income. (Yes, that's just the quarter.)

We think Samsung can grow earnings substantially from here as its semiconductor business, which has been operating near a cyclical low point, could see a major recovery in the next few years. Interestingly, NVIDIA Corp had an enterprise value of $330 billion at the end of the quarter, nearly twice Samsung's, even though its trailing 12-month revenues barely eclipsed Samsung's quarterly trailing operating profit.

Yacktman U.S. Equity Fund

Conclusion cont.

Bob Gibson, one of the greatest baseball pitchers of all-time and famous for being one of the game's toughest competitors, died recently. The last batter he faced before retiring hit a grand slam to end his career. About a decade later, at an old timer's day in Chicago, Gibson intentionally hit the same batter, Pete LaCock, with a pitch as payback for the grand slam he produced in 1975. As he told Bob Costas, "The scales must be balanced, no matter how long it takes."

Over time, attractive valuation matters. We do not doubt that scales will be balanced and firmly believe the risk-adjusted returns in companies like Samsung, News Corp, and Bolloré will beat today's speculative high-flyers, and do so with a vastly lower risk profile. Perhaps Ben Graham said it best when he wrote, "Buy not on optimism, but arithmetic." As always, we will be disciplined, patient, and objective with a keen focus on the math when managing the Heptagon Yacktman US Equity Fund.

Sincerely,

Heptagon Capital and Yacktman Asset Management

Heptagon Capital, 63 Brook Street, Mayfair, London W1K 4HS ~ Tel: +44 20 7070 1800 ~ Fax: +44 20 7070 1881

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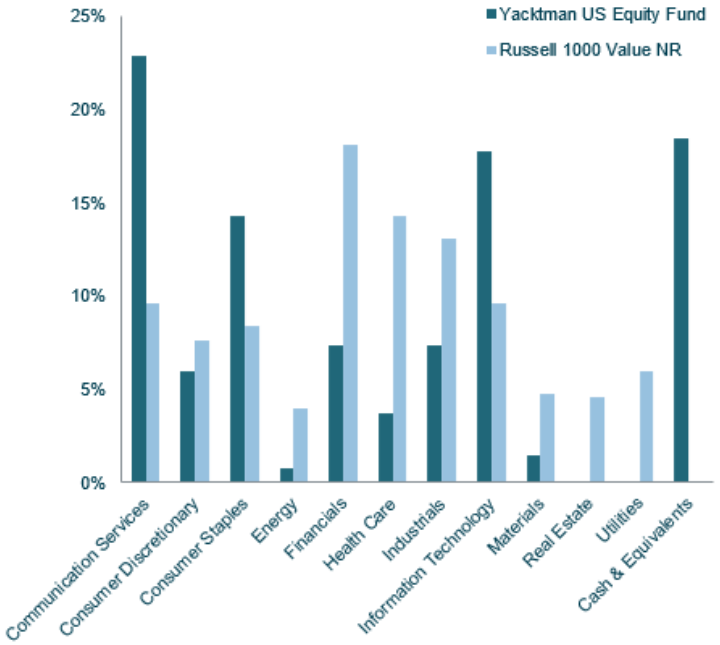
Yacktman US Equity UCITS Fund Positioning

Top Ten Holdings by Issuer as of 30th September 2020

Name	% of portfolio
Samsung Electronics Co.	9.7%
Bollore SA	8.7%
Fox Corporation	4.9%
AMERCO	3.7%
PepsiCo Inc.	3.3%
Procter & Gamble Co.	3.2%
The Walt Disney Co.	3.0%
Sysco Corporation	3.0%
Microsoft Corporation	2.9%
Alphabet Inc.	2.9%
Total of Top 10 Holdings	**45.3%**

Portfolio Sector Weights as of 30th September 2020



Yacktman U.S. Equity Fund

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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Glossary

Annualized	A rate or return that is recalculated to show it as an annual rate.
Assets under management (AUM)	The total market value of all assets a financial institution or fund manages on behalf of its clients.
Benchmark	A point of reference against which investment performances can be measured.
Bloomberg	A company that provides business and market news, data and analysis.
Discretionary Portfolio Management	Where the portfolio manager has the authority to make investment decisions without the consent of the portfolio's owner.
Cash Flow	Money movement for the purpose of investment, trade or business production.
Earnings Growth	A measure of a company's rate of growth in net income.
Enterprise Value	A company's total value in regards to the market value of its equity as well as its debt.
Equity Security	A security that represents ownership in an entity and that may pay income as dividends.
Growth Style	Investment strategy focusing on capital appreciation. Companies sought are those whose earnings are predicted to grow at an above-average rate.
Initial Public Offering (IPO)	When the stock of a private company is offered to the public for sale for the first time.
Mutual Fund	An investment vehicle made up of a collective pool of money which is then invested into financial instruments.
Open-ended Fund	A collective investment scheme that is able to issue or redeem shares at any point in time.
Portfolio Weight	The percentage amount of a holding in a portfolio.
Risk Management	A process to identify and analyse risks with the aim of developing procedures to avoid them.
Russell 1000 Value Index	The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.
S&P500 Index	Standard & Poor's 500. An American stock market index that includes the 500 largest companies by market capitalization.
Share	A unit of ownership that gives the holder the right to a proportion of the capital of the company
UCITS	Undertakings for Collective Investment in Transferable Securities. It is a regulatory framework in the European Union.
Umbrella fund	Collective investment scheme which has sub-funds that are traded as individual investment funds.
Valuation	The process of determining how much a company or an asset is currently worth at a particular point in time.
Value Investment Strategy	When the portfolio manager selects stocks that he/she believes are undervalued by the market and hence are trading for less than their intrinsic value.