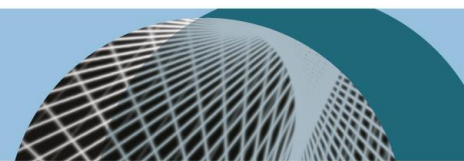


# Listed Private Assets: Quarterly Commentary

Q3 2020



**The Listed Private Asset strategy continued its gradual recovery during Q3 returning +5.2% and with a low downside capture.**

Our portfolio generated solid performance during Q3 as net asset values for many of our businesses recovered from their Q2 lows. This was particularly evident in the Private Equity / Venture related holdings which saw an almost complete recovery of the mark-to-market losses estimated for the first half of the year. During this period, Global Equities returned close to 8% while European stocks were flat. Given the unprecedented level of concentration of a small group of “megacap” technology companies in US Equity indices, (responsible for close to 25% of the entire S&P500 earnings) we find the task of comparing any strategies to global equity indices less and less relevant (unless you are running a sectorial technology fund!).

Nevertheless, the continued rally in risk assets during Q3 should still be seen in the context of the record fiscal and monetary stimulus implemented in H1 as a response to the global lockdown policies. These enormous injections in liquidity are still filtering through the global system and lifting the values of most financial assets. What has become increasingly clear however, is that some sectors such as commercial Real Estate will be impaired permanently and are facing changes in patterns of working behaviour that will transform the industry for years to come. Trying to assess and avoid these proverbial “hot potatoes” will be crucial to managing any portfolios of private or public assets going forward in our view.

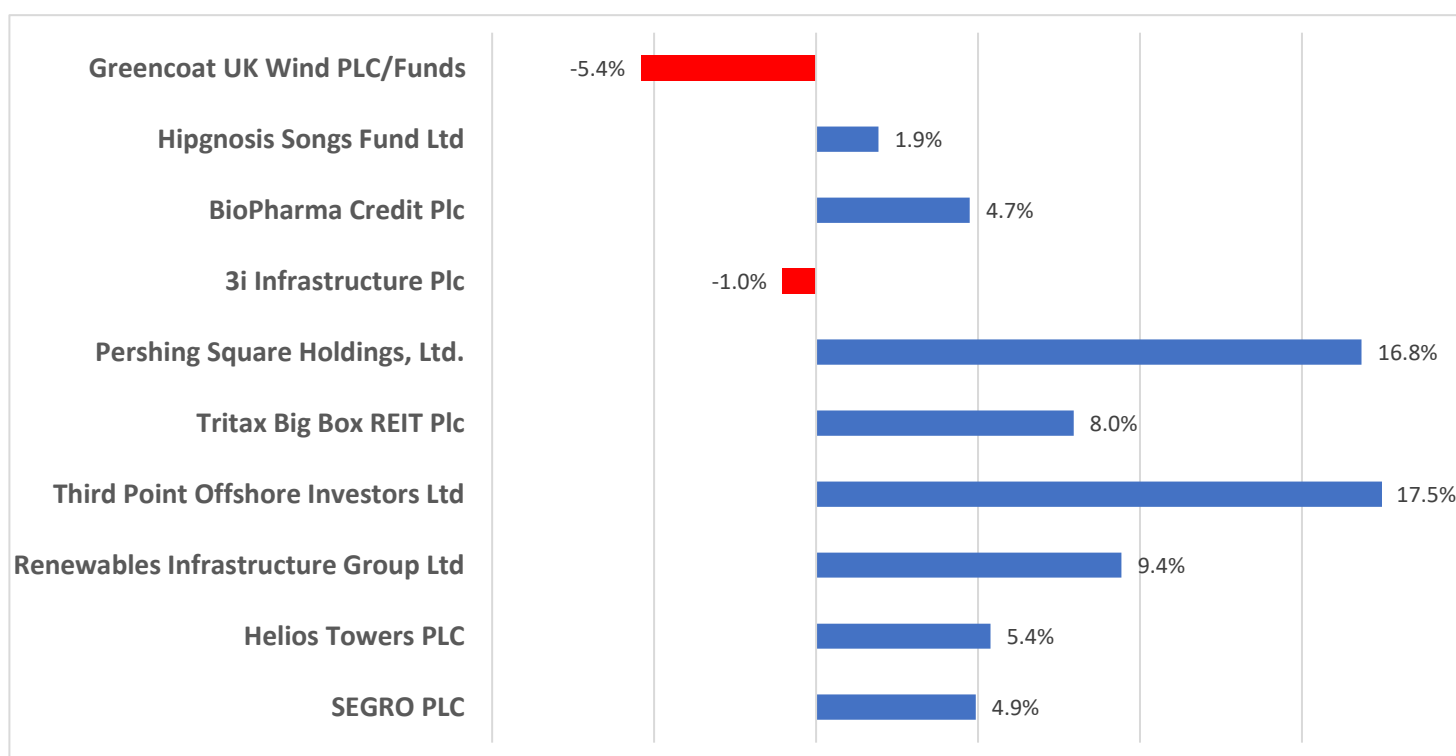
In terms of the global macroeconomic environment, we remain pragmatically optimistic for now because of the main following drivers:

- Ultra-loose monetary policy that is here to stay for many months to come.
- The high probability of more fiscal stimulus globally as economies grapple with a second wave of Covid-19.
- Lower energy costs
- Significant increase in saving rates and “pent-up” demand should growth return to trend.
- Potential impact of a vaccine on consumer, corporate and investor confidence.

We do however, recognise that the upcoming US election has the potential to bring more volatility in asset markets given the degree of polarisation and hostile behaviours between parties. We have no views as to who will win given how little relevance polls have had in recent US elections. What matters more in our view is that to have a clear idea, “a playbook” of what might be the consequences of a Democratic Congress and President. We view the main area to focus on as being: a roll back in corporate tax cuts, less protectionist trade policies, and a significant increase in infrastructure spending. The market impact of such policies will be mostly reflected in the US Dollar, with the potential for non-US Dollar assets to perform better as well as a possible reversal in the growth vs. value trends that have been so entrenched over the past 10 years.

We would view such a reversal as a positive catalyst for the Listed Private Asset strategy given the usually strong correlations between value as a style and real assets in general. Looking at the holdings in our portfolio in greater detail, our equity related holdings (PE, VC and Activists) were the primary drivers of return for Q3.

### Portfolio's top 10 positions' total return performance for Q3 2020



Source: Bloomberg

It is interesting to note that after many years of dull performance, the activist, liquid alternative sector of the listed investment company sector is finally enjoying some strong performance. This is a trend that we are also seeing across our multi-asset portfolios and re-enforces the need to take a long-term view on assets and asset classes in order to avoid getting out and giving up at the worst possible time. There have been many comments in the press of “smart” intuitional money selling tail hedge portfolios at the beginning of the year and also cautionary tells of large players selling volatility on credit indices. With this in mind, we are pleased to have held a position in Pershing Square which took the opposite side of the trade and built a significant book of long credit option positions to hedge their equity portfolio during H1. This enabled the manager to generate substantial gains and re-invest them into a concentrated book of equity positions giving the management team greater control over many of their underlying holdings.

Additionally, our exposure to IP Group, the intellectual property / venture holding in our portfolio produced a +22% total return for the quarter. Although this position doesn't feature in our top 10 holdings, it is a 4.5% holding and as such was one of the largest positive contributors to performance for the period. As can be seen in the chart below, this is a company that has been trading at a deep discount to its net asset value mostly as the result of issues with some of its shareholders. The discount reached a low of -60% in March of 2020 and has since then closed by about half. We added to the position in March and May of this year, as we believed that the issues surrounding its previous largest shareholder (Neil Woodford) were mostly behind us and did not represent the value of the underlying assets. The company's fundamentals and balance sheet are strong and should provide some significant upside for the patient investor.

## IP Group's historical discount



Source: Jefferies

**The volatility around many holdings' discounts in the first half of the year creates many attractive opportunities for the second.**

Our exposure to large (Big Box) logistic real estate investment companies provided a good example of the opportunity set for our strategy during Q3. We have always contended that rapid changes in premiums and discounts should provide opportunities for the Fund and our clients to buy (or sell) assets as prices diverge from their underlying net asset values. Looking at the chart below, this holding has been oscillating between premium and discount since its inception in 2014. We have used this to trade around this position over the past few years, for example adding to it in Q2 of this year at a 20% discount to its net asset value.



Source: Jefferies



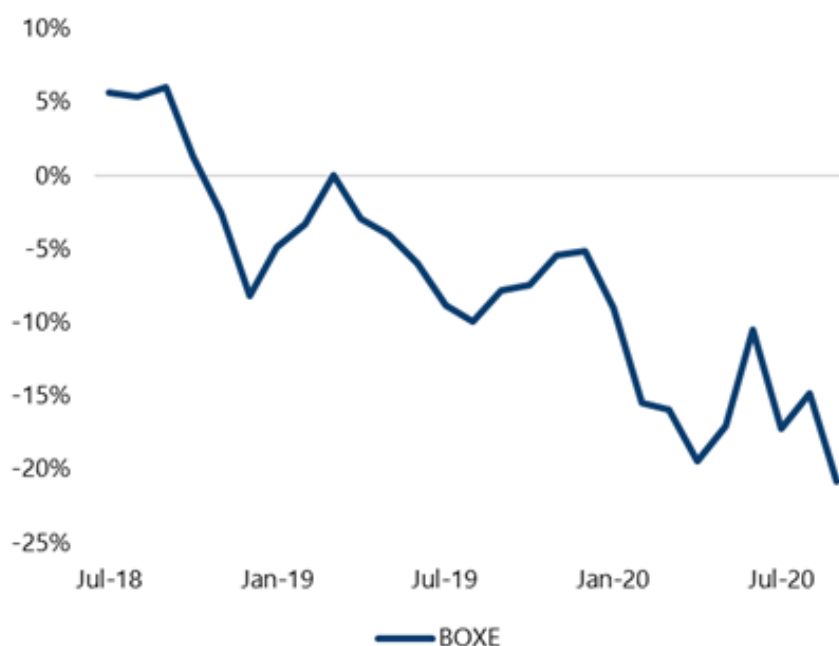
Looking at the fundamentals of the business, since rents are usually paid quarterly in advance, the company recently updated its shareholders on what Q4 of 2020 might look like. Management expect that 99% of rents will be collected by the end of November 2020, comprised of the following:

- 89% of rents have been paid to date.
- 10% is scheduled to be collected on a monthly basis over the remainder of the quarter.
- For the remaining 1% of rents, payment plans have been agreed with a small number of tenants seeking to defer rental payments, with recovery expected over the near-term.

The company also confirmed that it collected 97% of Q2 rents and 99% of Q3 rents. Beside the robust rent collection, it is also becoming apparent that the company's assets continue to benefit from changing shopping habits as the greater efficiencies they offer drives strong occupational activity, despite the uncertain economic backdrop. Management added that "take-up over the past nine months of 32.6 million sq ft has surpassed previous annual historic levels and is c.3% above 2018's previous annual record levels, according to CBRE. This demand is aligned with a noticeable increase in enquiries we have received on opportunities within our development portfolio since July, driven by increasing volumes of online sales".

One of the main reasons for holding this investment company which has been in the portfolio from day one, has always been the active management capabilities of the senior investment team which are always looking for opportunities to enhance shareholder value. As such management has always been clear that they may look to sell some assets should the price be advantageous to shareholders. We are pleased to see that Tritax's management sold 4 assets for a total consideration of £134m during the third quarter which equates to a 12.5% levered IRR for their fund.

Finally, we believe that Eurobox, the European version / sister fund of Tritax Big Box should provide us with some upside in the quarters to come. Eurobox's fundamentals are strong and rent collection has also been robust. It is however, currently trading on a 20% discount to its net asset value (see chart below). Our view, is that the discount has more to do with the behaviour in the company's current shareholder base rather than its underlying fundamentals and should therefore revert over time. The company's board and management team are currently exploring options to address the discount and we believe that patient investors should be rewarded in the medium-term. This company currently pays a 4.5% dividend in Euros.



Source: Jefferies

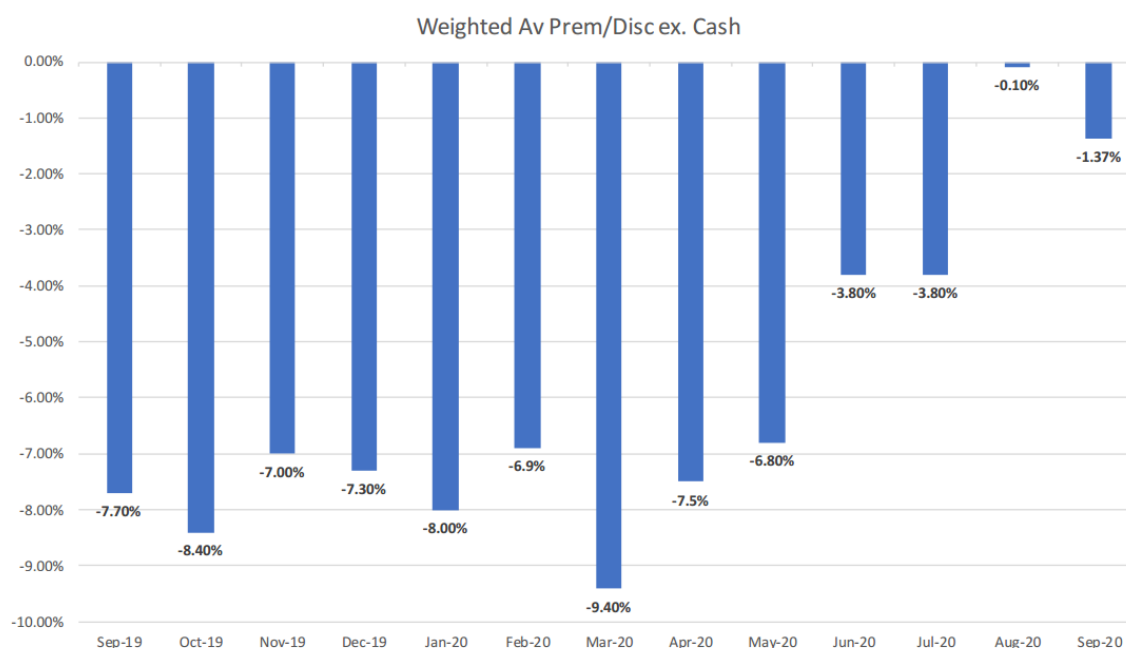
**Looking forward we are seeing opportunities in some pockets of Private Equity and are building a position in a Pre- IPO specialist.**

We have spent the last quarter looking for opportunities that improve the overall risk-reward characteristics of the Fund, reducing our correlation to value factors. We have recently participated in the stock placing of Merian Chrysalis, a London listed investment company focussing on unlisted, fast growing and capital light businesses in the UK and Europe. Formerly part Old Mutual Global Investor, Merian Global Investors was spun out and subsequently bought by Jupiter Asset Management in Q1 of 2020. The firm had £23bn at the time of the acquisition. The multi award-winning team heading the Chrysalis investment fund had assets under management of £8.96bn across its portfolio of actively managed UK equity funds. The team launched Merian Chrysalis Investment Company Limited in November of 2018, with the view to invest in a concentrated portfolio primarily made up of UK private companies it believes have the brightest futures. The company currently has assets under management of £600m (October 2020).

We share the view with this manager that most fast-growing unlisted businesses stay private for longer and as such provide an opportunity to invest in high-quality businesses at a late stage of their development, a few years prior to a potential IPO. These businesses tend to be less capital intensive and can continue to grow quickly without an immediate IPO through their own cash flow or smaller funding rounds. Additionally, the management also believes that listed markets often put too much emphasis on short-term prospect and profitability and can be overly cautious / miss the long-term opportunities offered by many fast-growing businesses. Potentially in response to the desire for companies to stay private for longer, the UK and European private securities market has grown rapidly over the past 5 years offering the manager a large opportunity set for their strategy. Finally, the team believes that increasingly, companies at a later stage of development want to partner with “crossover investors” who can provide funding in both private and public markets. The type of advice and expertise needed to take a company to IPO is very different from the skills of early / VC type investors in private business. Given the team’s significant assets in public markets, this represents an opportunity to help capital light businesses get the best out of the IPO process. We believe that this new holding should help provide a better balance between the portfolio factors and above average return over the quarters to come.

Looking at the evolution of premium and discounts in our portfolio, discounts continued to narrow during Q3, as a result of the recovery in net asset values for many companies. Additionally, we sold out of a highly discounted name in July, Tetragon Financial, primarily because of lower liquidity levels: this contributed to the narrowing of the discount witnessed during the period (see chart below for details).

### Heptagon Listed Private Assets Fund: Historical weighted average Premium / Discount (excluding cash)



Source: Bloomberg, JP Morgan, Quoted Data

In conclusion, we are pleased with the way the strategy has performed in Q3, particularly in September when the Fund provided some downside protection with a -0.4% return against -3.6% for Global Equities. Cross-asset correlations increased dramatically in the first half of the year, but we are seeing some normalisation with the portfolio returning to a range of correlation and beta we would expect under “normal” market conditions. We are confident that the valuation of many of our companies are attractive on both an absolute basis and particularly relative to growth names. We will continue to look for new discounted opportunities and would like to thank our investors for their support.

Kind regards,

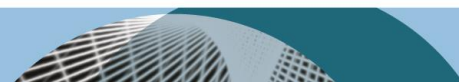
**Arnaud Gandon, Portfolio Manager**



## Glossary

Alternative Investments	A financial asset that does not categorise as a conventional investment such as stocks, bonds etc. Instead they are often complex in nature with a high degree of risk. For example, private equity, venture capital and hedge funds.
Asset Class	A group of securities with similar characteristics that tend to behave similarly in the market space, such as equities, bonds and cash equivalents.
Asset light strategy	A company that has relatively few capital assets compared to its operations.
Assets under management (AUM)	The total market value of all assets a financial institution or fund manages on behalf of its clients.
Balance Sheet	A document that provides information on the financial position of a company at a particular point in time. It includes what it owns (assets), what it owes (liabilities) and the value of business to equity holders (shareholders' equity).
Beta	A measure of a security's or portfolio's sensitivity to movements in the market as a whole. Bull Beta is a measure of the volatility to positive changes in the market. Bear Beta is a measure of the volatility to negative changes in the market.
Cash Flow	The money generated by a business before it needs to repay debt and/or other obligations.
Correlation	A measurement of the degree to which two securities values change in relation to each other. The value will range between -1 and 1. A value of 1 indicates a perfect positive correlation and -1 indicates a perfect negative correlation. A value of 0 means that the variables are completely independent from one another.
Credit	An agreement where a borrower, in exchange for receiving something of value agrees to repay the lender at a specified date in future, along with interest.
Discount to NAV	When a closed-end fund trades at a lower price than the value of its net assets.
Dividend	A share of a company's profit paid to its shareholders.
Dividend Yield	A percentage that shows how much dividends are paid out by a company in any given year relative to the company's share price.
Downside Capture	A measure of a portfolios' correlation to a benchmark when the market is in decline. A ratio of less than 100 indicates that the portfolio has less negative returns than the benchmark during a specific period.
Exchange Listed	When a financial instrument is available for trading on an exchange, such as the London Stock Exchange.
Fiscal Policy	A government policy that makes use of government spending and taxation to influence an economy.
Growth Style	Investment strategy focusing on capital appreciation. Companies sought are those whose earnings are predicted to grow at an above-average rate.
Hedging	An investment strategy where the portfolio manager uses financial instruments to attempt to offset the potential of future losses or lock in gains on existing positions due to future price movements.





Initial Public Offering (IPO)	When the stock of a private company is offered to the public for sale for the first time.
Internal Rate of Return (IRR)	A measurement of the profitability of an investment.
Liquidity	The degree to which an asset can purchased or sold in the market without affecting the asset's price.
Mark to Market(MTM)	Mark to market (MTM) is a method of measuring the fair value of accounts that can fluctuate over time, such as assets and liabilities. Mark to market aims to provide a realistic appraisal of an institution's or company's current financial situation based on current market conditions.
Market Rally	A period of sustained increases in the prices of stocks, bonds or indices.
Mega Cap	A company with a market capitalization of larger than \$300 billion.
Monetary Policy	A policy set by a Central Bank or a regulatory committee that alters an economy's money supply in an attempt to affect, for example, inflation and liquidity.
Multi-Asset	A combination of asset classes used for investment.
Net Asset Value (NAV)	The value per share at any one moment in time for a fund.
Put Option	A contract that gives the buyer of the option the right to sell a specified asset in the future for a price agreed upon today.
Private Equity	Investments made in companies that are not publicly traded.
Real Estate	Property in the form of buildings, as well as land, air rights and natural resources.
Real Estate Investment Trust (REIT)	A company or fund that owns and operates income-producing real estate.
Renewable Energy	Sources of alternative energy that are not depleted by use, such as wind and sunlight.
Revenue	Income that a business generates from its business activities.
S&P500 Index	Standard & Poor's 500. An American stock market index that includes the 500 largest companies by market capitalization.
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.
Venture Capital	A type of private equity, it is a form of financing provided to start-up companies whom are believed to have long-term growth potential.
Volatility	A statistical measure to show the degree of movement of asset prices over a set period of time.
Yield	The income that is generated from an investment.





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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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