Yacktman U.S. Equity Fund

Q1 2024 Commentary

Fund Manager

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Investment Objective

The Fund aims to achieve capital growth by investing predominantly in a concentrated portfolio of U.S. Equities.

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Opinions expressed whether in general or in both on the performance of individual investments and in a wider economic context represent the views of the contributor at the time of preparation.

The **Heptagon Yacktman US 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 Yacktman Asset Management LP ("Yacktman") is the Sub-Investment Manager meaning Yacktman exercises discretionary investment authority over the Fund. The Fund was launched on 14th December 2010 and had AUM of 651m USD as of 31st March 2024. During Q1 2024, the Fund (I USD share class) underperformed its benchmark, returning 7.0% compared to 8.8% for the Russell 1000 Value NR USD Index.

Contributors and Detractors

Quarterly contributors include Canadian Natural Resources Ltd ("CNQ") and the basket of energy companies in the portfolio. The energy sector had a strong first quarter, and the energy companies in the portfolio performed well. The thesis is based on a medium-term supply/demand imbalance and the shift to returning capital to shareholders. Diamondback Energy announced a major merger with a private energy company during the quarter, following other deals announced recently (e.g., Chevron buying Hess and Exxon buying Pioneer). CNQ was Yacktman's first investment in the energy space in over a decade, which was followed by the basket of domestic exploration and production companies added in mid-2022. We think CNQ is one of the best-managed companies in the industry, and because the company essentially 'manufactures oil' from the oil sands with thirty years of reserves, it incorporates lower maintenance capex than its traditional drilling competitors. Bolloré also strongly contributed to returns in the first quarter (see "Brief Update on Bolloré" section below).

Detractors to performance include U-Haul, Embecta and GrafTech. U-Haul's two primary lines of business, self-storage and truck rental, both faced headwinds in the first quarter. Self-storage REIT peers traded down with prevailing interest rate trends. The truck rental business, which experiences a seasonally slow period in the first quarter, was further impacted by lingering supply chain delays in new truck availability. Embecta, though the investment thesis remains intact, has suffered from the market's enthusiasm for semiglutide products given its traditional insulin delivery products. GrafTech has struggled recently – its largest plant in Mexico missed the contracting cycle and cyclical headwinds have impacted its customers. GrafTech's assets are valued well below their replacement costs, and the forward rate of return is attractive.

New Postions

We want to highlight two relatively new companies in the Fund. Darling Ingredients ("Darling") is the leading collector and renderer of animal by-products representing a crucial part of the food supply chain. Given the nature of its processing operations, the business enjoys high barriers to entry, transforming animal by-products to fats and proteins that are subsequently used in a variety of applications, from animal feed to collagen products. We believe the company has managed the business well through several smart acquisitions over the last number of years. They process approximately one out of seven animals on Earth. Darling has a joint venture with Valero Energy Corp to use these animal by-products to produce renewable diesel fuel, and we imagine they will benefit from being the low-cost producer in a growing business.

Another relatively new position is the consumer staples business Kellanova, the former Kellogg Company that spun off its cereal business leaving a global snack company with well-known brands such as Cheez-It Crackers, Nutri-Grain Bars, and Pringles. The cereal division split has made the snack business's valuation more complex in the near term, and we have been able to find hidden value in a predictable consumer products segment that offers an attractive discount, strong margins, and growth attributes.

Brief Update on Bolloré

Bolloré closed on the sale of its European freight and logistics business on February 29, resulting in a media company with three sources of value: its stake in Vivendi, its stake in Universal Music Group ("UMG"), and a pile of cash on the balance sheet. Vivendi is evaluating separating itself into four publicly listed companies that would simplify its structure to unlock value. UMG, with its shares trading up, has produced strong operating results that represent embedded value for Bolloré. We see all of these factors as incredibly positive for Bolloré: the upside has increased, while the risks have been reduced.

Conclusion

Risks are plentiful in the current environment, and passive indices are increasingly concentrated in a few names. Inflation has affected factor costs for many companies, and higher interest rates have impacted the cost of capital and consumer demand. We have high conviction in our strategy and focus on investing in resilient companies that we find are mispriced in today's market. We believe the Yacktman U.S. Equity Fund is well-positioned to generate differentiated returns over time while protecting capital.

Sincerely,
Heptagon Capital and Yacktman Asset Management

Annualized Total Returns As of 31st March 2024

	Q1 24	YTD	1-Year	3-Year	5-Year	10-Year
Yacktman US Equity Fund (UCITS)*	7.0%	7.0%	18.8%	6.3%	11.2%	9.3%
Russell 1000 Value NR USD	8.8%	8.8%	19.4%	7.4%	9.6%	8.2%

** Class I Shares*
Source: Morningstar

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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.

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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

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