HEPTAGON Capital

Yacktman U.S. Equity Fund

Q4 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 408m USD as of 31st December 2024. During Q4 2024, the Fund (C USD share class) underperformed its benchmark, returning -3.1% compared to -2.1% for the Russell 1000 Value NR USD Index.

Introduction

2024 proved to be a challenging period for Yacktman, as some of our core portfolio companies underperformed the market, including Samsung, U-Haul, and energy companies. The broad market returns in the US continue to be driven largely by multiple expansion rather than underlying business results. While we are pleased with the underlying business performance of several of our largest holdings, their share price returns did not follow suit in 2024.

We believe that today's market has pulled forward returns, a setup we have seen before. After the tech bubble of 1999-2000, the decade of 2000-2009 was essentially flat, during which Yacktman produced double-digit annualised returns. We were able to take advantage of the mispricing in the market when investors flocked to the "safe" companies we already owned.

Investment Philosophy

We invest with a business owner's lens, paying close attention to how management allocates capital and makes business decisions that are crucial to long-term performance. For example, when U-Haul invests its free cash flow from the truck rental business to build out capacity in their storage business, these results may not translate to share price changes in the short term. However, the company continues to expand its market share and enhance its competitive position in a core segment of their business that strongly complements their truck rental business. We firmly believe U-Haul's investment decisions represent fundamental value creation, and we expect the equity price performance to eventually reflect this added value.

Detractors

Two of our largest portfolio companies, Samsung and Bollore, underperformed the markets in 2024. Both have made value-enhancing moves that we believe have increased the underlying value of the companies and represent very compelling valuation opportunities.

- **Samsung**

Samsung, one of the world's leading technology companies, can be owned at a price close to tangible book value. The company competes in core parts of the technology sector, including memory chips, foundry, and phones, and it can be owned at a valuation that stands in stark contrast to its industry peers. Samsung faced business performance challenges in 2024, particularly in the High Bandwidth Memory (HBM) chip segment, however, the company has taken steps to secure its position in that segment going forward. Samsung's foundry business rivals that of TSMC, and its phone business competes directly with Apple. Samsung announced plans for a large share buyback, an astute capital allocation decision given the value of the company. Samsung remains conservatively capitalised, with net cash and marketable securities representing about a third of its market value.

- **Bollore**

Bollore has continued to take steps to increase the underlying value of the company. Three years ago, Bollore also owned an African ports & logistics business and a European freight forwarding business. Today, the company holds positions in two leading media companies and a net cash balance approximately equal to its market capitalisation. One of its two media holdings, Vivendi, announced that it is simplifying its structure by spinning off its major subsidiaries (Canal+, Havas, and Louis Hachette Group) as separate companies, transforming the media conglomerate.

Bollore also owns a large stake in Universal Music Group, a leader in the music streaming industry. Universal Music Group continues to unlock value with the recently announced partnership with Spotify, as well as potential moves to list the company in the US with associated market access benefits. Bollore has also taken steps to simplify its corporate structure, beginning with three small subsidiaries in the labyrinth ownership structure. We believe the value of Bollore to be two-to-three times its current market valuation.

Contributors

We saw strong share price performance in other portfolio companies:

- **Alphabet and Microsoft**

Alphabet and Microsoft participated in the AI euphoria in the market and importantly, produced strong underlying company performance.

- **Fox**

Fox performed well across several dimensions of its business. Fox News continues to post strong results, and the viewership pendulum appears to have swung back Fox's way. Fox Sports continues to perform well, and other components like Tubi and Fox's holding in FLTR are well-positioned for continued growth.

Conclusion

We maintain our conviction that the Yacktman portfolio offers a way to counteract the risks inherent in today's market. The exuberance about AI has spread to other adjacent industries, and while we believe that AI could be a transformative technology in the long run, many company valuations are priced for perfection. The companies we own in the portfolio today are among the best values we can recall, and while we are unable to predict the timing of future unlocks, we believe that the market will eventually recognise the value of the business results that these companies are producing. While many investors continue to look to Yacktman to protect capital in down markets, we have also performed strongly during periods of lacklustre index performance.

We are extremely positive about the portfolio's outlook and like the positioning for this environment where passive indices have continued their euphoric climb. We maintain our investment discipline, incorporating the price and the risks of each investment.

Sincerely,
Heptagon Capital and Yacktman Asset Management

The views expressed represent the opinions of the Yacktman Asset Management L.P., as of 31st December 2024, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Past performance is no guide to future performance, and the value of investments and income from them can fall as well as rise

Annualized Total Returns As of 31st December 2024

	Q4 24	YTD	1-Year	3-Year	5-Year	10-Year
Yacktman US Equity Fund (UCITS)*	-3.1%	4.1%	4.1%	2.1%	8.6%	8.0%
Russell 1000 Value NR USD	-2.1%	13.6%	13.6%	4.9%	8.0%	7.7%

** Since C share class inception 14th December 2010*
Source: Morningstar

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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.

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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