Driehaus Emerging Markets Sustainable Equity Fund

Q1 2024 Commentary

Portfolio Management

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Investment Objective

The investment objective of the Fund is to achieve long-term capital growth. The Fund's Sub-Investment Manager, Driehaus Capital Management LLC, is a privately-held boutique asset management firm located in Chicago, USA. The firm was founded in 1982 and has USD 17.3 billion of assets under management.

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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 **Driehaus Emerging Markets Sustainable 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 Driehaus Capital Management LLC ("Driehaus") is the Sub-Investment Manager. Driehaus exercises discretionary investment authority over the Fund. The Fund was launched on 25th June 2012 and had an AUM of USD 211m as of 31st March 2024. Driehaus Capital Management LLC was appointed Sub-Investment Manager of the Fund on 6th December 2016. Prior to this OFI Global Institutional, Inc. was the Sub-Investment Manager from 25th June 2012 to 5th December 2016.

Performance

The Heptagon Driehaus Emerging Markets Sustainable Equity Fund – Class I USD (Fund) returned 7.9%, net of fees, during the first quarter compared to the +2.4% rise in the MSCI Emerging Markets Index.

Emerging market assets on the whole were supported, though returns lagged US peers at the index level. In context of a roughly 4% rally in the US dollar to start the year, positive returns were welcomed. A key reason for the resilience was the strength in the information technology sector and areas that were seen as benefiting from the ongoing advances in artificial intelligence.

In the quarter, the Fund saw outperformance in the vast majority of countries and sectors. From a country perspective, a notable area of weakness came in Brazil, where the Fund's overweight position to an underperforming market modestly detracted from relative performance in spite of a strong stock section within the country. Brazil was the only major market where the increase in US yields and the rise in the US dollar weighed on returns. The market is expecting an ongoing easing cycle and the more that the dollar and US yields rise, the less easing the market will price in. Further, there were political headwinds as well as the market contends with ongoing noise surrounding dividend payments from some of the large state-owned companies.

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

Fortunately, almost all other areas were positive contributors to returns, led by stock selection in Taiwan and a combination of stock selection and an underweight position within China. The Fund's holding in Taiwanese information technology-related stocks was the single biggest contributor to returns, driving over 100 basis points in relative outperformance. The single biggest thematic driver for Taiwan was the continued growth in artificial intelligence. The Taiwanese supply chain is particularly exposed to growth in advanced computing with many companies serving as essential partners to the major US semiconductor design companies. Even in more historically commoditized areas like memory, the Fund has found opportunity by being early to recognize the benefits that a more aggressive AI buildout would have for memory pricing, given the supply dynamics in the industry. We remain positive on most of these areas while also acknowledging that a lot of positivity has been priced in. The cycle remains in its early stage but is evolving to be somewhat less broad and specific to those companies seeing order growth and advantageous positioning within the supply chain.

Another area that we wish to highlight this month is India. Stock picks within the consumer discretionary sector, including companies related to online travel, hotels and resorts, and online commerce, performed well on the back of strong fundamentals. Companies assigned to the utilities sector, which included hydroelectric power and power transmission companies, also outperformed.

A final area that we wish to highlight this month is China. In spite of the market underperforming very slightly, positions in China were the Fund's third biggest driver of returns during the quarter. The Fund remains with a large underweight to China, but we have reduced the size of the underweight somewhat in recent months. Despite the negativity surrounding China and Chinese equities, we believe the market has evolved to be ripe for stock specific selection to drive returns.

The old model in China has been to buy the market when credit growth is accelerating and sell it when the credit impulse begins to lose momentum and top-line growth slows down. Over the past few years, that model has changed. While top-line growth remains relevant, of course, stock performance has become more nuanced. Part of the reason for this change is that the credit cycle isn't working as it used to, both for intentional reasons (the government isn't stimulating as aggressively as they used to) and partially because the effectiveness of monetary easing has significantly reduced. Our view is that the reason for this is that more and more bank lending and liquidity easing has gone toward extending duration in problem areas, namely local government financing vehicles. While this helps reduce credit risk, which is a positive, it has little to no economic multiplier.

As a result of this change in the credit cycle in China, predicting inflections in top-line growth has been a bit more challenging. Companies can no longer rely solely on the country's strong nominal growth and company operating leverage to drive earnings growth. We only see this as a negative in the aggregate as there are many companies adjusting to this new reality by focusing less on growth at all costs and focusing more on efficiency and capital return (exhibit 1). For the first time in several quarters, both operating and capital expenses have slowed to negative growth.

Exhibit 1: Chinese corporate expense growth is negative on a year-over-year basis

Source: UBS, Factset

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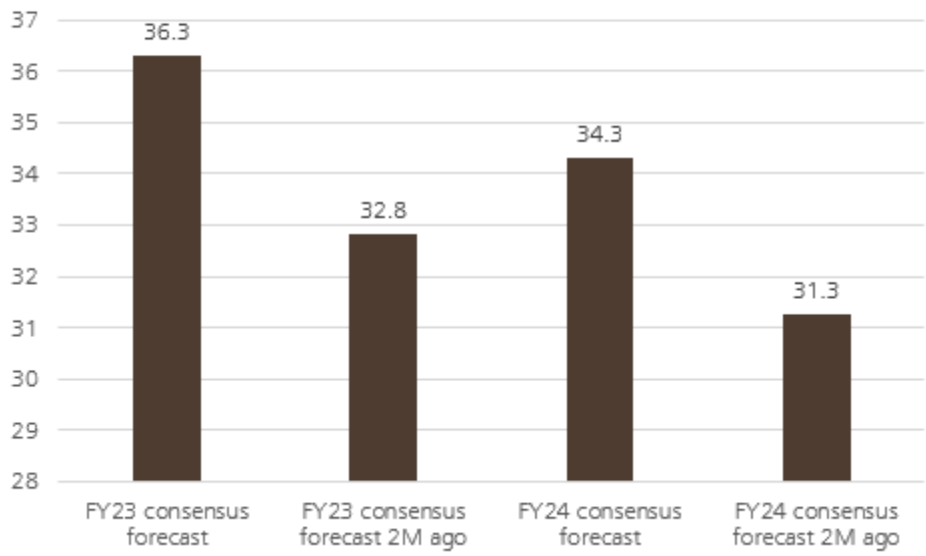
Shareholder returns have historically not been a key part of the investment thesis in China, but it is of increasing importance. There have been stocks, like the banks, which have been paying high dividend yields for some time, but this is due mostly to the low valuation rather than the companies having particularly high payout ratios. More recently, payout ratios have been moving up quickly (exhibit 2), coming both from SOE and large private companies alike. Buyback yield remains low, but the trend is very favorable. While we certainly are not arguing that Chinese companies are becoming comparable to developed markets peers in terms of total shareholder returns, but there has been an inflection point here for sure. We are not of the belief that the market is cheap enough to buy broadly based on its valuation, but we do think this sharp change in capital management could help put a floor under the market for the first time in several years.

Exhibit 2: Expectations for Chinese payout ratios have moved up meaningfully over the past two months



Source: UBS, Factset

Sincerely,
Heptagon Capital and Driehaus Capital Management

The views expressed represent the opinions of Driehaus Capital Management, as 31st March 2024, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

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Sector performance attribution- Q1 2024

	Driehaus Emerging Markets Sustainable Equity Fund (Port) (%)			MSCI Emerging Markets Index (Bench) (%)			
GICS Sector	Port Avg. Weight	Port Total Return	Port Contrib. To Return	Bench Avg. weight	Bench Total Return	Bench Contrib. To Return	Total Effect
Communication Services	8.38	5.34	0.37	8.72	0.77	0.04	0.41
Consumer Discretionary	11.81	9.48	1.06	12.47	-0.41	-0.07	1.18
Consumer Staples	3.81	-1.86	-0.04	5.85	-4.34	-0.28	0.27
Energy	2.18	12.75	0.30	5.43	6.91	0.39	0.01
Financials	22.44	9.74	2.19	22.74	2.30	0.55	1.65
Health Care	1.83	-6.69	-0.14	3.64	-4.54	-0.19	0.10
Industrials	5.75	2.49	0.11	6.90	1.36	0.07	0.08
Information Technology	28.29	11.87	3.40	22.56	9.86	2.27	0.95
Materials	0.80	23.88	0.17	7.30	-4.59	-0.41	0.71
Real Estate	5.26	3.80	0.19	1.58	-5.98	-0.11	0.23
Utilities	4.79	13.58	0.71	2.81	3.52	0.10	0.54
Cash	4.66	-0.08	-0.00	--	--	--	-0.16
Unassigned	--	--	--	--	--	--	--
Total	**100.00**	**8.33**	**8.33**	**100.00**	**2.37**	**2.37**	**5.96**

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance
Data as of 31st March 2024

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Country performance attribution- Q1 2024

	Driehaus Emerging Markets Sustainable Equity Fund (Port) (%)			MSCI Emerging Markets Index (Bench) (%)			Attribution Analysis (%)
Country	Port Avg. Weight	Port Total Return	Port Contrib. To Return	Bench Avg. weight	Bench Total Return	Bench Contrib. To Return	Total Effect
Argentina	0.48	47.34	0.20	--	--	--	0.18
Austria	0.90	9.92	0.09	--	--	--	0.06
Brazil	9.36	-4.59	-0.51	5.56	-7.36	-0.45	-0.11
Canada	0.80	23.88	0.17	--	--	--	0.16
Cayman Islands	0.33	19.01	0.10	0.12	-13.82	-0.02	0.15
China	10.84	5.09	0.39	22.68	-0.81	-0.28	0.91
France	1.22	1.41	0.04	--	--	--	-0.02
Greece	1.06	14.10	0.14	0.52	6.51	0.04	0.08
Hong Kong	1.09	-25.72	-0.42	1.54	-6.75	-0.13	-0.27
Hungary	0.96	0.75	0.02	0.26	0.48	0.00	-0.01
India	19.41	12.48	2.50	17.63	6.07	1.09	1.45
Indonesia	1.94	8.22	0.15	1.93	2.12	0.04	0.13
Kazakhstan	1.00	36.24	0.33	--	--	--	0.31
Luxembourg	0.96	-15.02	-0.16	0.11	-3.41	-0.00	-0.18
Mexico	5.65	3.34	0.20	2.71	0.49	0.01	0.13
Netherlands	0.84	-0.12	0.03	0.05	3.95	0.00	-0.01
Peru	0.25	5.92	0.04	0.20	10.78	0.02	-0.00
Philippines	1.36	17.28	0.23	0.65	6.10	0.04	0.17
Qatar	0.12	-2.67	-0.00	0.87	-3.62	-0.04	0.06
Saudi Arabia	0.95	-3.30	-0.03	4.34	4.72	0.20	-0.13
South Korea	11.80	6.56	0.66	12.53	1.62	0.18	0.58
Spain	1.21	31.53	0.33	--	--	--	0.32
Taiwan	14.92	25.13	3.66	16.71	12.43	2.10	1.45
Thailand	1.16	-4.10	-0.05	1.65	-8.21	-0.16	0.11
Turkey	0.41	30.31	0.11	0.68	14.57	0.10	0.03
United Arab Emirates	3.15	4.85	0.15	1.26	0.35	0.00	0.11
United States	3.17	-1.27	-0.04	0.11	23.52	0.02	-0.16
[Cash]	4.66	-0.08	-0.00	--	--	--	-0.16
[Unassigned]	--	--	--	--	--	--	--
Other countries in benchmark	-	0.00	0.00	7.87	-0.40	-0.40	0.61
Total	**100.00**	**8.33**	**8.33**	**100.00**	**2.37**	**2.37**	**5.96**

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance. Data as of 31st March 20243

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Annualized Total Returns as of 31st March 2024, (I USD share class)

	Q1 24	YTD	1-Year	3-Year	5-Year
Driehaus Emerging Markets Sustainable Equity Fund	7.9%	7.9%	13.7%	-2.3%	6.8%
MSCI Emerging Markets NR Index	2.4%	2.4%	8.2%	-5.1%	2.2%

Source: Morningstar

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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.

SFDR

This Fund has been classified as an Article 8 for the purposes of the EU's Sustainable Finance Disclosure Regulation ('SFDR'). The Fund promotes environmental and/or social characteristics but does not have sustainable investment as its primary objective. It might invest partially in assets that have a sustainable objective, for instance assets that are qualified as sustainable according to EU classifications but does not place significantly higher importance on the environmental objective of each underlying investment. Please see Prospectus for further information on the Funds environmental and/or social characteristics and relevant sustainability risks and principal adverse impacts which may impact the Fund's performance.

Authorised & Regulated by the Financial Conduct Authority (FRN: 403304)

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