HEPTAGON Capital

Kopernik Global All-Cap Equity Fund

Q1 2024 Commentary

Portfolio Management

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Investment Objective

The Fund seeks to provide long-term capital appreciation by investing primarily in equity securities of U.S. and non-U.S. companies. The research driven investment process seeks to add value through active management and by selecting securities of companies that, in the manager's opinion, are misperceived and undervalued by the market.

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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 **Kopernik Global All-Cap 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 Kopernik Global Investors LLC ("Kopernik") is the Sub-Investment Manager meaning Kopernik exercises discretionary investment authority over the Fund.

The Fund was launched on 16th December 2013 and had AUM of USD 1,228m as of 31st March 2024. During the first quarter of 2024, the fund (C USD share class) underperformed its benchmark, returning 1.7% compared to 8.2% for the MSCI ACWI.

Quarter Overview

Staying disciplined, as the last five months have shown, can be painful. It is not easy to swim against a tidal wave; however, our decision to practice the art of value investing when it is most difficult is why we have earned the trust of long-term and sophisticated investors, who have come to trust that when the tide turns, we will not have "style drifted." Staying true to a tried-and-true philosophy is the reason why we believe the strategy will outperform the market over the long term. As bottom-up investors with a long-term perspective, Kopernik has a history of lagging extremely manic markets such as we witnessed during the quarter when the S&P 500 Index and NASDAQ Composite each hit new record highs. We continue to find the steep gains in momentum markets surprising, given the fundamentals. The U.S. market is priced for perfection. The areas left behind are much more attractive to Kopernik. Fortunately, we have historically done well in the aftermath of market manias. As such, we remain excited about the portfolio's asymmetric potential returns and have a high level of conviction in the emerging markets and real assets exposures of the strategy.

The materials sector detracted from returns during the first quarter, as the miners lagged an increasing gold price. While the divergence between gold and gold miners is starting to move in the right direction, the HUI4/gold ratio is still near levels seen in 2015-2016 and 2020. As we have said elsewhere, we continue to see potential upside to the risk-adjusted intrinsic value in many of the strategy's mining companies sans an increase in the gold price, and greater potential upside to the risk-adjusted intrinsic value should prices increase from here.

Within materials, the largest detractor was **Gabriel Resources Ltd ("Gabriel")** with a total return of -95.4%. Gabriel was impacted by an unexpected and difficult-to-comprehend decision by the World Bank International Center for the Settlement of Investment Disputes. The Tribunal dismissed Gabriel's arbitration claims against the Romanian government. Our analysis of Gabriel suggested a significant upside if the company had been awarded its sunk costs and even more had a mining license been issued. Unfortunately, the Tribunal's decision went in the opposite, and (in our opinion) the wrong, direction. Interestingly, it was believed that the Tribunal was poised to make a more reasonable decision, demonstrated by a run in the stock price (prior to the announcement of the arbitration decision, the stock was up 115% since January 1, 2024). This enabled us to realize some gains through trimming the position, but trading volume kept these trims modest.

Newmont Corp ("Newmont"), the world's largest gold producer, and **Impala Platinum Holdings Ltd ("Impala")**, a leading producer of platinum, also detracted. Newmont had a total return of -14.1% and Impala had a total return of -16.9%. We added to Newmont and Impala.

Our previous commentaries and calls emphasize that investors should be demanding high margins of safety since risk is abnormally high across the globe. This is especially important in sectors like mining. Therefore, Kopernik's mining holdings are substantially diversified across companies, management teams, and geographies. Portfolio diversification guidelines, alongside individual issuer maximum position limitations, help mitigate downside risk. We believe that, over the long run, this philosophy will prove rewarding to the strategy investors.

Other detractors were spread across multiple sectors and geographies. **Lotte Chemical Corp ("Lotte Chem")**, a South Korean chemicals producer, and **LG Uplus Corp ("LG Uplus")**, a member of the triopoly of South Korean telecom companies, had total returns of -25.3% and -6.5%, respectively. Finally, **Euroapi SA ("Euroapi")**, had a total return of -50.5%. Based in France, Euroapi is a vertically integrated manufacturer of the key components of drugs, active pharmaceutical ingredients (APIs), and also contracts to make drugs for major pharmaceutical companies. The stock was down after the company issued a profit warning and suspended guidance for 2024. Euroapi was a new initiation in the strategy during the quarter; we had a small position and then, when the stock fell at the end of February, increased our position and bought more. We added to Lotte Chem and **CK Hutchison**, and took advantage of price volatility with LG Uplus, adding in January and March but trimming in February on a price spike.

The strategy's companies in emerging markets (EMs) contributed positively to returns during the quarter. As we have discussed elsewhere, EMs are not a niche—they are most of the world's population and land, and over 40% of global GDP. A large percentage of the strategy's EM exposure is in South Korea, which, while classified by MSCI as an emerging market, has many characteristics of more developed economies (FTSE categorizes it as a developed market). South Korean GDP (in purchasing power parity terms) is higher than that of several developed economies, including Canada, Australia, and the Netherlands, according to the World Bank. The World Bank also claims South Korea is the world's fifth-easiest country in which to do business. South Korea ranks higher than the U.S. in educational outcomes and life expectancy and has a lower poverty rate and lower budget deficit as a percentage of GDP. Some of the "Korea discount" priced into the market is the result of complex corporate governance structures that privilege the family-run chaebols over outside and minority shareholders. The government recently announced the "Value Up" initiative, which encourages companies to pursue voluntary corporate efforts to maximize shareholder returns. Stocks rose on the optimism that the initiative would spark positive changes in corporate governance. **Hyundai Motor Co ("Hyundai Motor")**, a South Korean automobile manufacturer with a 5% global market share, had a total return of 36.9%. **Korea Electric Power Corp ("Kepco")**, one of that country's leading electric utilities, and **KT Corp ("KT")**, part of a triopoly of Korean telecom companies and one of the strategy's largest holdings, had total returns of 11.6% and 4.5%, respectively. Additionally, **Hana Financial Group Inc ("Hana Financial")**, one of Korea's largest financial groups, had a total return of 31.5%. We have our doubts about the ultimate effectiveness of Value Up, but we used the volatility to our advantage and trimmed many of the strategy's holdings as they appreciated this quarter. We trimmed the preferred shares of Hyundai Motor, added to KT on lower prices before trimming back, and trimmed Kepco and Hana Financial.

Other companies in EMs also performed well. In China, **CGN Power Co Ltd ("CGN Power")**, a leading nuclear power producer, had a total return of 13.5%. China is seeking to develop its nuclear power sector as part of a push for cleaner, carbon-free energy and domestic energy security—the country expects to greenlight 6-8 new nuclear power plants per year, according to some reports. **First Pacific Co Ltd ("First Pacific")**, a Hong Kong-based holding company with exposure to multiple business segments, had a total return of 26.4%. (While Hong Kong is considered a developed market by MSCI, all of First Pacific's underlying businesses operate solely in the Philippines and Indonesia.) Finally, in Kazakhstan, **Halyk Savings Bank of Kazakhstan JSC ("Halyk Bank")**, the country's dominant bank, had a total return of 17.5%. We trimmed CGN Power and Halyk Bank.

The materials sector also had positive contributors, although the sector was down over the quarter, as described above. The strategy's largest contributor was **Equinox Gold Corp ("Equinox")**, a Canadian gold miner with 13.8 million ounces of reserves. Equinox had a total return of 23.6%. **Artemis Gold Inc ("Artemis")** had a total return of 24.7%. Artemis is developing the Blackwater asset, with production estimated to start in H2 2024. **Seabridge Gold Inc**, which owns KSM, the largest undeveloped gold asset in Canada, had a total return of 24.4%. The market continues to prefer companies with producing mines over companies with non-producing assets. We continue to believe the value of non-producing assets is not appreciated due to a misapplication of the DCF model, which undervalues the optionality to higher gold prices. We added to Equinox and trimmed Artemis on price spikes in early February and early March.

Finally, U.S. natural gas companies contributed positively. **Southwestern Energy Co ("Southwestern")** had a total return of 15.6%, while **Range Resources Corp** had a total return of 13.4%. Both companies own very large, high-quality natural gas reserves. Southwestern has announced a merger with **Chesapeake Energy Corp**, which was originally expected to close in Q2 2024 (the companies have deferred their merger to the second half of the year while they respond to a request from the Federal Trade Commission for additional information). While we believe that this is a value dilutive transaction for Southwestern shareholders, the combined entity will still have significant potential upside to the risk-adjusted intrinsic value, in our opinion. We trimmed both companies.

In addition to the position in Euroapi described above, the strategy found many opportunities in China during the quarter, re-initiating positions in **Pax Global Technology Ltd**, a Chinese payment processor, and **SJM Holdings Ltd**, which owns one of six casino licenses in Macau, as well as initiating a position in **Baidu**, the Chinese analogue to Google. Baidu benefits from strong network effect and technology that grasps the Chinese language in all its complexity. All of these companies trade at significant discounts to Kopernik's estimates of their risk-adjusted intrinsic values.

The strategy eliminated positions in **Gold Fields Ltd, Ivanhoe Mines Ltd, China Shenhua Energy Co Ltd**, and **Mitsubishi Corp** as prices appreciated.

In closing, we continue to be focused on appraising businesses and mitigating risk through diversification across sectors and countries. Our investment process is cantered on buying and holding companies trading at significant discounts to their risk-adjusted intrinsic value, and we view volatility as an opportunity to add and trim. You can count on us to employ our disciplined, fundamentals-based, long-term approach that has produced a proven track record throughout full market cycles.

Why Kopernik? By Kopernik Global Investors, LLC

Philosophically, we view ourselves as owners of businesses. Our job is to appraise these businesses and take advantage at times when an inefficient, emotional marketplace offers securities at a price that is significantly different from our appraisal. Like our namesake, Kopernik (better known by his Latin name – Copernicus), we trust the results of our own analysis even when (especially when) it generates vastly different conclusions from those of the crowd and/or those taught by many academics. Similarly, we commonly question the data issued by governments, central bankers, and companies themselves. We understand that bargains appear often because people focus on fear or panic, and other forms of risk that are not relevant to the investment portfolio. High tracking error, bad headlines or unpopular stocks/countries/ regions/industries can present a degree of risk to a manager's career, while often lowering the potential of permanent loss of capital (due to lower initiation prices and higher potential upside) to the portfolio. Similarly, Kopernik believes volatility and other measures of past price movements are not relevant to long-term investors' assessment of risk. It can be indicative of potential risk to short-term speculators or to highly levered players, but can often present opportunity for true long-term investors.

As always, we appreciate your patience and support.

Sincerely,

Heptagon Capital & Kopernik Global Investors

Annualized Total Returns as of 31st March 2024, net of fees, C USD share class

	Q1 24	YTD	1-Year	3-Year	5-Year	7-Year
Kopernik Global All-Cap Equity Fund	1.7%	1.7%	15.8%	4.4%	12.8%	7.0%
MSCI ACWI NR USD Index	8.2%	8.2%	23.2%	7.0%	10.9%	8.7%

Source: Morningstar

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

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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

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