HEPTAGON Capital

Kopernik Global All-Cap Equity Fund

Q4 2024 Commentary

Portfolio Management

David Iben

Alissa Corcoran

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.

Contact

Heptagon Capital
63 Brook Street, Mayfair,
London W1K 4HS

Tel: +44 20 7070 1800
email london@heptagon-capital.com

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 an AUM of USD 1,156m as of 31st December 2024. During the final quarter of 2024, the fund (C USD share class) underperformed its benchmark, returning -6.6% compared to -1.0% for the MSCI ACWI.

The views expressed represent the opinions of Kopernik Global Investors, LLC as of 31st December 2024, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Quarter Overview

The fourth quarter capped an extremely manic year where value underperformed growth, small capitalizations underperformed large, and the breadth continued to narrow (the Magnificent 7 were up 6.0% in December while the S&P 500 was down, for example). Kopernik has a history of lagging extremely manic markets, and that extreme was especially pronounced in 2024. As money poured into already overvalued stocks in the U.S., it's understandable that many investors would be concerned that value is, perhaps, obsolete. In our opinion, however, value investing can never be obsolete. Buying good companies for less than they are worth has historically portended strong returns over the long term, especially following periods of underperformance. While we are disappointed with the strategy's returns, especially in December and the fourth quarter as a whole, the fundamentals of the portfolio remain strong.

The Materials sector was the strategy's largest detractor for the quarter, detracting 4.3% from total strategy returns. The gold price hit its all-time high in October before pulling back and finished the quarter roughly flat. Many of the strategy's gold mining holdings contributed negatively. **Newmont Corp ("Newmont")**, the world's largest gold producer and one of the strategy's top positions, had a total return of -31.4%; **Barrick Gold Corp ("Barrick")**, another major gold producer, had a total return of -21.6%; **Equinox Mining Corp ("Equinox")**, a Canada-based miner with long-lived reserves, had a total return of -17.8%; and **Aris Mining Corp ("Aris")**, another Canada-based company that owns assets in Colombia, Guyana, and Canada, had a total return of -24.5%. While we have seen all-time highs in the gold price, both Newmont and Barrick experienced higher than expected costs and lower than expected gold production based on company guidance. Most investors expected margin increase with the increase in gold prices. We trimmed Newmont early in the quarter before adding back on lower prices, and we added to Barrick.

The strategy's two platinum producers, **Impala Platinum Holdings Ltd ("Impala")** and **Anglo American Platinum Ltd ("Anglo American")** had total returns of -17.2% and -16.3%, respectively. These two companies are the largest PGM producers in the world, together accounting for 26% of global reserves and 47% of global production. As we have discussed elsewhere, current prices are unsustainable, in our opinion. They are below the cost needed to incentivize new production, which Kopernik estimates at $2,000/oz. Some miners are already shutting down supply: **Sibanye Stillwater Ltd**, a new initiation during the fourth quarter, has cut production at its Stillwater mine in Montana by 45%, and Impala has deferred phase 2 of their Merula project and lowered their forecasted production from 2026 onwards. We believe the supply/demand dynamic for platinum is favorable. Also in materials, German potash producer **K+S AG ("K+S")** had a total return of -15.4%. Potash is a key component in many fertilizers. We added to Impala before unwinding the trade and adding to Anglo American late in the quarter.

South Korean positions detracted from total strategy returns during the quarter. The majority of these negative returns occurred during December as markets responded to political turmoil within the country. The story of President Yoon's declaration of martial law, subsequent impeachment, and then the impeachment of the acting president has been well-reported in international media. We continue to monitor the situation. **LG Corp**, a conglomerate with multiple business segments, had a total return of -19.1%. **LG Uplus Corp ("LG Uplus")**, a member of the triopoly of South Korean telecom companies and one of the strategy's largest positions had a total return of -6.4%. (The strategy also owns **KT Corp**, another member of the South Korean telecom triopoly; while the total return of the stock was -1.6% during the quarter, KT Corp contributed to total strategy returns due to timely trades.) In addition, **Korea Electric Power Corp ("Kepco")**, the country's dominant electric utility, had a total return of -13.2%, while **Lotte Chemical Corp**, a dominant South Korean petrochemicals company, had a total return of -47.6%.

As we have seen numerous times around the globe, political uncertainty frequently (although not always) lends itself to market volatility. While many investors see volatility as risk, we believe that risk is the prospect of a permanent loss of capital or purchasing power. Indeed, the volatility brought by political instability has frequently provided buying opportunities, which likely could be the case now, as the KOSPI was down 21% in USD terms in 2024 (while the NASDAQ was up 29%!). This was entirely due to multiples contracting as earnings increased, as did GDP. While the portfolio's Korean holdings were a drag on performance for the year, they did much better than the KOSPI's aforementioned -21%, with a total return of -6.0%. We attribute this to the benefits of our approach of utilizing aforementioned volatility, in addition to our fundamentals-based stock selection.

Other detractors were spread across multiple sectors and geographies. France-based **Carrefour SA ("Carrefour")** and **Euroapi SA ("EuroAPI")** detracted from strategy returns. Carrefour, a French grocery store with international operations, had a total return of -16.8%, while EuroAPI, which manufacturers active pharmaceutical ingredients, had a total return of -29.5%. EuroAPI is restructuring, and it replaced its CEO for the fourth time in 18 months (the company had three CFOs in 2024 alone). While the company does have troubles, we believe that their assets give them time to execute their plan to turn things around, and the stock appears to have much more than adequately priced in the challenges. We added to Carrefour on weakness.

In Brazil, **Centrais Eletricas Brasileiras SA ("Eletrobras")**, the country's dominant electric utility and a major source of hydroelectric power, had a total return of -21.6%. In Asia, **Golden Agri-Resources Ltd**, a palm oil producer with plantations in Indonesia, had a total return of -11.1%; **Kasikornbank PCL**, one of the largest publicly held banks in Thailand, had a total return of -38.8%. We added to Eletrobras.

The Energy sector was the largest contributor to total strategy returns on a sector basis. U.S.-based natural gas producers **Range Resources Corp ("Range Resources")** and **Expand Energy Corp ("Expand Energy")** had total returns of 17.2% and 22.3%, respectively. The strategy has owned Range Resources for many years; Expand Energy was a new position during the quarter as a result of the merger of **Southwestern Energy Corp ("Southwestern")**, historically a significant portfolio position, with **Chesapeake Energy Corp**. As we have discussed previously, while we saw more upside in Southwestern as a standalone entity, the combined company provides an opportunity to own large natural gas resources trading at a substantial discount to their risk-adjusted intrinsic value. We trimmed Expand Energy Range on strength.

Other positive contributors included two agriculture companies, **Cresud SACIF y A ("Cresud")**, an Argentinian agricultural producer that also owns desirable real estate properties, and **MHP SE ("MHP")**, a Ukrainian poultry producer. Cresud and MHP had total returns of 53.3% and 24.5%, respectively. In Materials, **Arcadium Lithium PLC**, a low-cost lithium producer with assets in South America, Canada, and Australia, had a total return of 80.0% and was the strategy's largest contributor. The stock price soared after Rio Tinto announced early in October that they would acquire the company, and we trimmed the position on strength. **Northern Dynasty Minerals Ltd ("Northern Dynasty")** had a total return of 67.8%. Northern Dynasty stock has responded to suggestions by the Trump administration that they favor resource development in Alaska. Finally, **Shanghai Electric Group Co Ltd ("Shanghai Electric")**, one of the largest power and industrial equipment manufacturers in China, had a total return of 58.8%.

The strong performance of the Magnificent 7 has hidden the fact that many stocks are sharply off of their highs, providing excellent opportunities to invest. The strategy initiated multiple new positions during the quarter: **Schroders PLC**, a UK-based asset manager with a broad range of investment styles and a global client base; **Ashmore Group PLC**, another London-based asset manager specializing in Emerging Markets; **Electric Power Development Co Ltd** which generates, transmits, and distributes electric power in Japan; **Media Nusantara**, a leading television media company in Indonesia with a 40% audience share and a 45% ad revenue share; **Pan Ocean Co.**, a Korean shipping company with a mixed fleet of 268 vessels; **Korean Airlines Co Ltd**, South Korea's flagship airline; **Siam Cement**, a Thai conglomerate operating primarily in cement, chemicals, and paper/packaging; **Amentum Holdings Inc**, a U.S. government services and critical infrastructure contractor with large contracts with the U.S. Department of Defense and other government agencies; and **Sibanye Stillwater Ltd**, a large platinum group metals producer. The strategy also re-initiated a position in **BrasilAgro – Co Brasileira de Propriedades Agricolas**, which acquires and develops rural agricultural properties in Brazil. All of these companies trade at a significant discount on multiple metrics and to Kopernik's estimates of their risk-adjusted intrinsic values.

The strategy eliminated positions in **Shanghai Electric**, **Dundee Corp**, **Indofoods**, **Pan American Silver Corp**, and **Sinopharm Group Co Ltd** 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 centered 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. We are encouraged that valuations in the market have never been this bifurcated. We are grateful to our long-term investors who understand the art and science of value investing and adhering to its discipline.

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 December 2024, net of fees, C USD share class

	Q4 24	YTD	1-Year	3-Year	5-Year	10-Year
Kopernik Global All-Cap Equity Fund	-6.6%	6.3%	6.3%	2.4%	12.5%	9.9%
MSCI ACWI NR USD Index	-1.0%	17.5%	17.5%	5.4%	10.1%	9.2%

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

Heptagon Capital, 63 Brook Street, Mayfair,
London W1K 4HS
Tel: +44 20 7070 1800
(FRN 403304)

Authorised & Regulated by the Financial Conduct Authority in the UK
12 Endeavour Square, London

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