Driehaus Emerging Markets Sustainable Equity Fund

Q3 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 19.7 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 273m as of 30th September 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 Review

The Heptagon Driehaus Emerging Markets Sustainable Equity Fund – Class I USD (Fund) returned 4.7%, net of fees, during the second quarter compared to the +8.7% rise in the MSCI Emerging Markets Index. For the year to date, the Fund has returned 18.1% net of fees, 120 basis points ahead of the index return. The asset class saw unusually high volatility in the last two weeks of the quarter, which is when the majority of the Fund's underperformance occurred. That volatility was caused by a sharp about-face in Chinese policymaking which saw the Chinese market rise over 40% between the middle of September and the end of the month.

Quarter in Review

During the quarter, the Fund's relative underperformance was driven by the sharp strength in Chinese equities. While the Fund carried a significantly smaller underweight position to China than it has the previous few years, the intensity of the rally still weighed on relative performance. Roughly 60% of the 8.4% return for the EM index came from China's performance in September. The underweight that the Fund carried to China was magnified by most non-China areas underperforming in the quarter, notably India.

Chinese stocks were heavily represented in the Fund's detractors for the period, led by consumer-driven and financials investments. The Fund lost relative performance due to underweights in the

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consumer discretionary space, which includes many of the large ecommerce companies in China. The Fund has held an underweight to this sector for quite some time as top-line challenges have been accelerating for a few years, with margins broadly under pressure. The space has had poor earnings growth prospects and thus, has not been a major focus. The stimulus measures announced at the end of the quarter will likely not have a major impact on consumption, but they were enough to drive many of these stocks significantly higher.

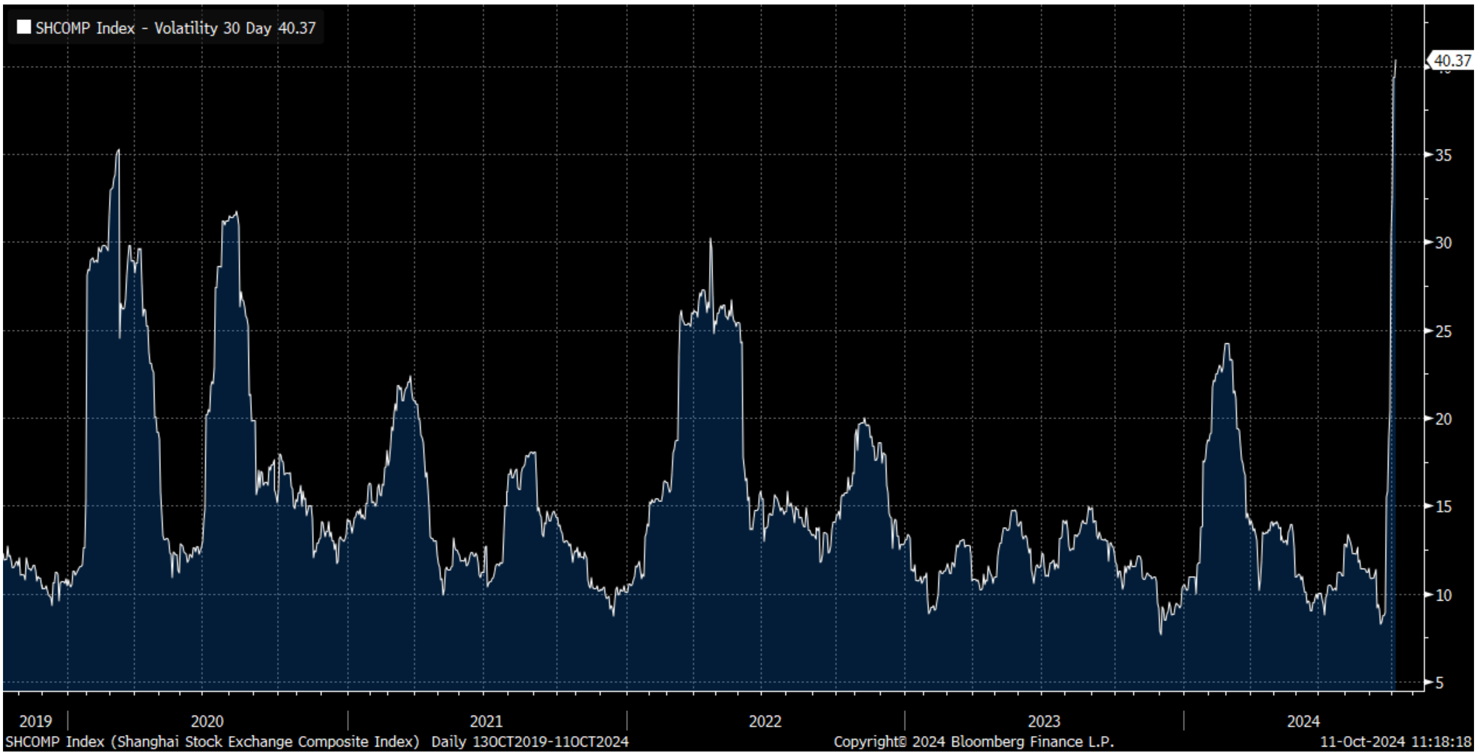
Market Outlook

It will not be much of a surprise to know that our outlook for the rest of the year and beyond depends heavily on what happens in China in the coming months. We believe the announcements in September marked an important change in China and find the details less important than the signal. There have been two main reasons for the extremely weak performance of Chinese stocks, in our view. The first reason has been the consistent deterioration of domestic confidence and the weight that has had on consumption and investment. That deterioration of confidence has come from the very weak economic conditions, but also the deflationary environment in real estate and the perception that the government is targeting business and wealth creation. The second is the perception that government either doesn't recognize or doesn't believe in stimulating the economy for ideological reasons. The events of the past few weeks do not change the secular or geopolitical challenges facing China, but they do force a rethink on the headwinds above.

The market has already had a meaningful reaction to this change in stance and from here, stocks will be looking for incremental actions and evidence that stimulus is helping in order to have sustained strength. As such, volatility will likely stay elevated (30-day volatility in Exhibit 1) but we believe they will try to continue supporting the market. At the risk of oversimplification, the power of the Chinese Communist Party (CCP) rests largely on its ability to do what it says it's going to do. The past four years, they have been very clear that they are comfortable with a weaker property market, weaker growth and little stimulus. That is no longer the case. They are now pushing for stabilization of the property market, improvement in capital markets, and better growth. What exact amounts of stimulus they announce and on which days is unknown to us, but our suspicion is they will avoid a big bang announcement and prefer to continue adding support as needed.

Exhibit 1: In addition to the rally in China, volatility has also exploded higher

(30-day volatility of Shanghai composite)



Source: Bloomberg, Driehaus

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There have also been two major changes in the methods behind their stimulus that reflect much about the current state of the economy. The bill of these new efforts is being footed by the Central Government and not at the local level, as has always been the case historically. The central government has fiscal space to do this, it just has never wanted to create the moral hazard of bailing out poorly run cities and provinces. Things are bad enough now (civil servants, teachers, etc. are going unpaid for months at a time due to local government liquidity issues) that they have no choice.

Finally, this latest round of policy announcements has another key distinction which is its reliance on monetary tools. For all the things China has done poorly over recent years, the central bank has been fairly orthodox on its liquidity stance, not adding much to its balance sheet in a period where developed market central banks saw their balance sheets explode. In hindsight it is clear that China was concerned about easing policy too much while the Federal Reserve was hawkish. Immediately following the Fed's recent policy rate cut, China responded with monetary stimulus of its own. There are several tools they will be using to do this, but the short summary is that they are expanding the monetary base again and are doing it to stave off deflation. As long as the dollar doesn't stop them, this is something we've seen many countries use successfully in the post-Global Financial Crisis period.

Many of the effects of that political outcome would run counter to the other changing dynamic, easing monetary policy. We have confidence the Federal Reserve is on the precipice of easing monetary policy given the clear signal from recent economic data. Typically, this would create a clear, weaker-USD dynamic but there are other factors at play. First, increasing tariffs historically drives the home currency higher (offsetting much of the tariffs) and this will be the baseline assumption in the event of a second Trump presidency. Second, central banks around the world have generally had even less of an inflation problem than we've had in the US and the only thing curtailing a synchronized global easing wave has been the hawkishness of the Fed. As such, once the Fed begins to ease, others will quickly follow suit, limiting USD downside.

As far as our own positioning is concerned, we acknowledge that secular and geopolitical issues are not going anywhere for China and it is hard not to think of how many times a country like Japan announced stimulus over the past several decades, to little avail, until more structural changes were also made. We have always viewed the Chinese market with more of a trading mindset than other parts of the emerging market universe and that remains our view more than ever. That said, we do not think pointing out that Chinese growth is slower now than it was before, or that major Chinese companies have slower growth than they used to, as being likely to generate alpha - everyone knows that. What matters to us is what kind of earnings growth these companies will be able to deliver in the coming years and that outlook has clearly improved. The extreme negative sentiment on China has been a weight on the asset class for the past few years and we would view even a stabilization of that as a major positive for emerging markets going forward.

Sincerely,
Heptagon Capital and Driehaus Capital Management

Sector performance attribution- Q3 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	9.77	14.93	1.43	8.92	15.68	1.39	0.00
Consumer Discretionary	11.26	12.85	1.43	12.30	24.96	3.00	-1.55
Consumer Staples	3.68	4.38	0.14	5.26	11.11	0.57	-0.33
Energy	2.44	-5.93	-0.16	5.09	-0.30	-0.03	0.10
Financials	26.17	8.40	2.19	22.65	10.44	2.40	-0.44
Health Care	1.77	34.35	0.57	3.48	22.89	0.77	-0.05
Industrials	5.97	4.70	0.28	6.81	7.07	0.49	-0.12
Information Technology	23.74	-6.99	-1.91	24.22	-2.56	-0.68	-1.28
Materials	1.15	-3.56	-0.02	6.77	5.44	0.34	0.09
Real Estate	6.08	12.15	0.76	1.48	14.96	0.22	0.07
Utilities	4.04	9.17	0.32	3.02	9.40	0.28	-0.08
Cash	3.93	0.07	0.00	--	--	--	-0.12
Unassigned	--	-0.25	-0.27	--	--	--	-0.27
Total	**100.00**	**4.75**	**4.75**	**100.00**	**8.73**	**8.73**	**-3.98**

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance
Data as of 30th September 2024

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

Country performance attribution- Q3 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	0.68	43.71	0.29	--	--	--	0.21
Austria	0.54	15.29	0.07	--	--	--	0.04
Brazil	7.03	9.62	0.67	4.50	8.43	0.42	-0.07
Canada	0.85	15.82	0.12	--	--	--	0.05
Cayman Islands	0.70	57.71	0.32	0.32	31.32	0.02	0.29
China	15.25	16.65	2.18	22.06	24.71	5.22	-2.34
France	0.68	4.72	0.03	--	--	--	-0.03
Greece	1.23	6.84	0.07	0.50	10.40	0.05	-0.02
Hong Kong	1.27	35.79	0.46	1.30	15.86	0.19	0.29
Hungary	1.10	5.60	0.05	0.25	6.32	0.02	-0.03
India	22.40	3.81	0.97	19.88	7.31	1.48	-0.83
Indonesia	1.53	14.92	0.23	1.71	15.33	0.27	-0.03
Italy	0.59	3.27	0.01	--	--	--	-0.04
Kazakhstan	1.15	-20.01	-0.26	--	--	--	-0.35
Mexico	3.11	2.27	0.11	2.10	-3.34	-0.06	0.10
Peru	1.35	14.10	0.19	0.18	7.43	0.01	0.07
Philippines	1.14	29.51	0.30	0.56	21.66	0.12	0.14
Poland	0.54	-4.96	-0.03	0.93	-3.96	-0.04	0.05
Saudi Arabia	0.83	8.38	0.05	3.97	5.29	0.19	0.09
Singapore	0.07	14.71	0.09	0.03	21.76	0.01	0.05
South Africa	2.14	18.30	0.38	2.87	16.44	0.48	-0.01
South Korea	10.83	-14.28	-1.76	11.64	-5.59	-0.78	-0.91
Taiwan	12.95	-3.81	-0.51	18.77	0.49	0.17	-0.30
Thailand	0.61	25.12	0.15	1.40	28.75	0.39	-0.16
Turkey	0.71	-12.28	-0.11	0.74	-12.55	-0.11	-0.00
United Arab Emirates	3.41	16.53	0.50	1.18	12.02	0.14	0.16
United States	3.38	12.54	0.45	0.12	9.09	0.01	0.10
[Cash]	3.93	0.07	0.00	--	--	--	-0.12
[Unassigned]	0.00	--	-0.27	--	--	--	-0.28
Other countries in benchmark	--	0.00	0.00	0.03	37.49	0.01	0.00
Total	**100.00**	**4.75**	**4.75**	**100.00**	**8.73**	**8.73**	**-3.98**

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance. Data as of 30th September 2024

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Annualized Total Returns as of 30th September 2024, (I USD share class)

	Q3 24	YTD	1-Year	3-Year	5-Year
Driehaus Emerging Markets Sustainable Equity Fund	4.7%	18.1%	29.0%	0.7%	8.5%
MSCI Emerging Markets NR Index	8.7%	16.9%	26.1%	0.4%	5.7%

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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