

# Driehaus Emerging Markets Sustainable Equity Fund

## Q2 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 18.0 billion of assets under management.

### Contact

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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 25<sup>th</sup> June 2012 and had an AUM of USD 247m as of 30<sup>th</sup> June 2024. Driehaus Capital Management LLC was appointed Sub-Investment Manager of the Fund on 6<sup>th</sup> December 2016. Prior to this OFI Global Institutional, Inc. was the Sub-Investment Manager from 25<sup>th</sup> June 2012 to 5<sup>th</sup> December 2016.

### Performance Review

The Heptagon Driehaus Emerging Markets Sustainable Equity Fund – Class I USD (Fund) returned 4.6%, net of fees, during the second quarter compared to the +5.0% rise in the MSCI Emerging Markets Index. For the year to date, the Fund has returned 12.8% net of fees, 530 basis points ahead of the index return. Emerging market (EM) assets on the whole have lagged US indices slightly but actually have outperformed the US on an equal-weighted basis (+5.1%) through the end of the second quarter. The quarter's total return was boosted by a return to positive returns in China.

### Quarter in Review

The largest area of weakness this quarter was Mexico, which has been a favoured market for the Fund due to a combination of factors. We have found the country to have an enviable combination of growth, attractive valuation, and generally well-managed companies. Its direct exposure to the best growth story in the developed world (the US economy) is an obvious component of that. While the election of Claudia Sheinbaum was anything but a surprise, her party's dominance in the legislative election creates material concerns from several perspectives. It is highly likely that the party moves to increase the tax base while also coming increasingly at odds with the US on immigration and trade policy. We believe Mexico is an essential piece of the US re-industrialization strategy but have reduced our weight in accordance with our perception of higher risks.

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During the quarter, the Fund saw strength in India. The Fund benefited from an overweight to this strong performing market in addition to stock selection within the industrials sector. These relative results were achieved despite a volatile macro backdrop. While President Modi was easily re-elected, as expected, his BJP party did not perform quite as well as expected which led to a violent one-day sell-off. The MSCI India Index dropped ~6% the day after the election results but quickly regained its footing once Modi's party formed a coalition government, clearing the way for the market to rally through June to all-time highs. While the growth outlook is unsurpassed in EM, valuations remain rich.

## **I Market Outlook**

Looking ahead to the back half of the year, we anticipate an increase in volatility and market leadership as the market digests a likely change in both the political climates and monetary policy outlooks. We understand that managers often just say they expect volatility without substantiation, but we feel there are specific reasons this could transpire. Like others, we are broadly positioning more for a Republican victory in November than the alternative scenario. This leaves us without major changes to country-level positioning, likely maintaining our meaningful underweight position in China.

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 U.S. Dollar (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.

There are, of course, myriad other impacts to consider just from these two variables (political change and easier monetary policy) and, unfortunately, we can't claim to be able to anticipate them all. As it relates to China, it's clear that trade restrictions will not improve in any political scenario but it's not clear how much worse they can really get at this point. Conversely, China is actually an underdiscussed beneficiary of Fed easing. The Chinese economy needs significantly easier monetary policy but is constrained in setting policy loose by a few factors, a key one is currency pressure. Lower US rates would likely ameliorate this dynamic by narrowing rate differentials with China. There are clear implications for the war in Ukraine, but it's not clear how much defense spending would really be cut, especially by European governments. We also cannot anticipate the impact of a second Trump presidency on the deficit or on the longer-term for the dollar but anticipate similar fiscal dynamics to the first-term, where budget deficits grow and tax cuts go unfunded. While the Fed cutting would help short-term interest rates fall, these dynamics could easily cause a material steepening in the yield curve. All of this to say, we think a lot of things will change in the coming six months and we look forward to reacting to them nimbly. In a time when market leadership has been so narrow, we are inclined to believe these dynamics will also change that leadership.

Sincerely,

**Heptagon Capital and Driehaus Capital Management**

The views expressed represent the opinions of Driehaus Capital Management, as 30<sup>th</sup> June 2024, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

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**I Sector performance attribution- Q2 2024**

GICS Sector	Driehaus Emerging Markets Sustainable Equity Fund (Port) (%)			MSCI Emerging Markets Index (Bench) (%)			Total Effect
	Port Avg. Weight	Port Total Return	Port Contrib. To Return	Bench Avg. weight	Bench Total Return	Bench Contrib. To Return	
Communication Services	9.52	16.19	1.60	8.97	8.22	0.79	0.75
Consumer Discretionary	13.73	1.74	0.32	12.80	5.10	0.73	-0.52
Consumer Staples	4.10	-9.73	-0.38	5.46	-2.97	-0.15	-0.18
Energy	2.01	5.08	0.12	5.28	3.23	0.17	0.11
Financials	24.48	-0.20	-0.00	22.02	3.45	0.77	-0.94
Health Care	1.76	-3.80	-0.07	3.31	-4.36	-0.14	0.16
Industrials	5.70	12.12	0.67	6.93	4.12	0.29	0.44
Information Technology	23.71	14.60	2.83	23.59	11.26	2.45	0.44
Materials	1.50	21.56	0.28	7.20	-1.83	-0.14	0.70
Real Estate	5.20	-10.08	-0.54	1.53	3.52	0.06	-0.79
Utilities	3.87	0.96	0.06	2.90	6.24	0.18	-0.18
Cash	4.42	-0.03	-0.00	--	--	--	-0.12
Unassigned	--	-0.16	-0.16	0.00	0.08	0.00	-0.16
<b>Total</b>	<b>100.00</b>	<b>4.72</b>	<b>4.72</b>	<b>100.00</b>	<b>5.01</b>	<b>5.01</b>	<b>-0.29</b>

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance  
Data as of 30<sup>th</sup> June 2024

Country performance attribution- Q2 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	0.67	23.76	0.15	--	--	--	0.11
Austria	0.90	12.31	0.12	--	--	--	0.07
Brazil	7.12	-12.17	-0.91	4.77	-12.24	-0.62	-0.42
Canada	1.07	8.90	0.12	--	--	--	0.07
Cayman Islands	0.29	-15.15	-0.08	0.11	-9.14	-0.01	-0.08
China	16.16	10.64	1.71	23.69	6.84	1.76	0.24
France	1.45	-8.84	-0.11	--	--	--	-0.21
Greece	1.29	6.44	0.09	0.52	-1.24	-0.00	0.05
Hong Kong	0.69	-21.26	-0.26	1.51	8.54	0.13	-0.32
Hungary	0.90	11.24	0.10	0.25	9.18	0.02	0.04
India	19.96	12.45	2.51	18.14	10.21	1.82	0.59
Indonesia	1.42	-13.24	-0.24	1.64	-12.39	-0.25	0.01
Italy	0.51	4.28	0.01	--	--	--	-0.05
Kazakhstan	1.17	7.64	0.09	--	--	--	0.03
Mexico	4.50	-19.07	-0.91	2.48	-16.08	-0.43	-0.58
Netherlands	0.10	-7.19	-0.03	0.05	4.16	0.00	-0.02
Peru	0.93	0.67	-0.00	0.20	2.20	0.01	-0.05
Philippines	1.15	-20.10	-0.26	0.57	-10.70	-0.07	-0.23
Poland	0.55	8.80	0.01	0.96	5.74	0.06	-0.03
Saudi Arabia	0.71	-1.95	-0.02	4.00	-7.45	-0.32	0.47
South Africa	0.29	14.13	0.10	2.67	12.40	0.32	-0.11
South Korea	11.04	0.89	-0.01	12.04	-1.16	-0.19	0.28
Spain	0.66	-8.76	-0.10	--	--	--	-0.14
Taiwan	14.40	22.75	2.90	17.94	15.10	2.51	0.54
Thailand	1.02	1.90	0.03	1.45	-4.80	-0.07	0.12
Turkey	0.81	26.34	0.18	0.77	21.37	0.15	0.04
United Arab Emirates	2.94	0.99	0.03	1.12	-2.34	-0.03	-0.04
United States	2.88	-9.98	-0.31	0.14	2.08	0.00	-0.45
[Cash]	4.42	-0.03	-0.00	--	--	--	-0.12
[Unassigned]	--	-0.16	-0.16	--	--	--	-0.16
Other countries in benchmark	--	0.00	0.00	0.00	-22.97	-0.00	0.00
<b>Total</b>	<b>100.00</b>	<b>4.72</b>	<b>4.72</b>	<b>100.00</b>	<b>5.01</b>	<b>5.01</b>	<b>-0.29</b>

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance. Data as of 30<sup>th</sup> June 2024

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**Annualized Total Returns** as of 30<sup>th</sup> June 2024, (I USD share class)

	Q2 24	YTD	1-Year	3-Year	5-Year
Driehaus Emerging Markets Sustainable Equity Fund	4.6%	12.8%	18.3%	-3.2%	7.0%
MSCI Emerging Markets NR Index	5.0%	7.5%	12.5%	-5.1%	3.1%

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.

## I 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.

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