HEPTAGON Capital

Kopernik Global All-Cap Equity Fund

Q2 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 1,171m as of 30th June 2024. During the second quarter of 2024, the fund (C USD share class) underperformed its benchmark, returning 1.5% compared to 2.9% for the MSCI ACWI.

Quarter Overview

While the materials sector as a whole was a positive contributor (discussed in more detail below), several companies within that sector detracted. **Anglo American Platinum Ltd ("Amplats")**, the world's largest producer of platinum group metals ("PGMs"), had a total return of -19.5%. During the second quarter, Amplats' parent company Anglo American PLC ("Anglo American") received an unsolicited all-share takeover offer from BHP Group Ltd ("BHP") that would have required the parent to divest of Amplats. While rejecting BHP's offer, Anglo American announced a restructuring that will spin off Amplats and other assets, ostensibly in order to allow it to pivot towards resources that will support the global green-energy transition while at the same time reducing costs. Platinum and palladium (which is frequently mined as a byproduct of platinum) both have important industrial uses, notably in catalytic converters for internal combustion engines, where the metals assist in emissions control. Growing demand for automobiles in emerging markets coupled with more stringent environmental standards globally is expected to maintain demand for PGMs in the near future, although longer-term the increased penetration of electric vehicles ("EVs") may result in a decrease in demand, particularly for palladium. They are also monetary metals, which could become increasingly important in the near future. Even with Platinum prices at less then half of their 2008 levels, Amplats is trading at only 12 times earnings. We added to the strategy's position in Amplats throughout the quarter.

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

Other materials companies detracted as well. **Equinox Gold Corp**, a Canadian gold miner with 13.8 million ounces of reserves, reversed some of its gains from last month. It had a total return of -13.5%. **Seabridge Gold Inc ("Seabridge")**, which owns KSM, the largest undeveloped gold asset in Canada, had a total return of -9.6%. The market continues to prefer companies with producing mines over companies with non-producing assets by much more than is justified. We continue to believe the value of non-producing assets is under-appreciated due to a misapplication of the DCF model, which undervalues the resources, and neglects optionality to higher gold prices. Finally, **K+S AG ("K+S")**, a German potash producer, had a total return of -9.4%. We added to K+S.

Other detractors were spread across multiple sectors and geographies. Two Emerging Markets ("EMs") electric utility companies detracted. In South Korea, **Korea Electric Power Corp** had a total return of -13.2%, while Brazil's **Centrais Eletricas Brasileiras SA** had a total return of -21.7%. In the United States, **Southwestern Energy Co ("Southwestern")**, a natural gas producer with long-lived reserves, had a total return of -11.2%. Southwestern has announced a merger with **Chesapeake Energy Corp**, which is anticipated to close by the end of the year. Although the combined entity will still have significant potential upside to the risk-adjusted intrinsic value, we believe this is a value dilutive transaction for Southwestern shareholders and voted against the merger. **Carrefour SA**, a France-based grocery retailer, had a total return of -12.8%. We added to all four companies.

The materials sector as a whole positively contributed to returns during the quarter, and many of the strategy's mining companies performed well (the aforementioned detractors notwithstanding). The strategy's largest contributor during the second quarter was **Newmont Corp ("Newmont")**, the world's largest gold producer, which had a total return of 20.8%. The stock has recouped all the losses from its inexplicable drop in January and February. Late last year, Newmont acquired Newcrest (of which we were shareholders) in a value accretive deal. The now-combined company has significant optionality to higher gold prices, something that we have seen signs of thus far in 2024. We trimmed Newmont on higher prices.

Other positive performers in the materials sector included **Impala Platinum Holdings Ltd**, a leading producer of platinum, which had a total return of 19.6%. **Wheaton Precious Metals Corp ("Wheaton Precious")**, a streaming company that can reap the benefits of higher gold prices with limited exposure to mining risk, had a total return of 12.4%. Like Newmont, Wheaton Precious fell in January and February, seemingly without reason, but has since rebounded to year-to-date highs. **Artemis Gold Inc ("Artemis")**, whose Blackwater asset is set to begin production in 2H 2024 (although it will more likely be 1H 2025, in our opinion), had a total return of 19.7%, while **Pan American Silver Corp ("Pan American")**, the world's largest silver producer, had a total return of 28.3%. We trimmed all four companies.

Many of the strategy's companies in EMs continued to perform well during the second quarter. In China, **CGN Power Co Ltd ("CGN Power")**, a leading producer of cheap, clean, carbon-free nuclear power, built on its first quarter gains and had a total return of 53.4%. **China Communications Services Corp Ltd ("China Communications")**, which builds telecommunications infrastructure, had a total return of 22.0%. **Yoma Strategic Holdings Ltd ("Yoma")**, a Singapore-based investment holding company focused on the domestic Myanmar market and which has business segments in real estate, food & beverages, and financial services, had a total return of 178.3%. The stock remains 80% lower than its 2013 levels, at 12 times earnings and 20% of book value. We trimmed CGN Power and China Communications.

The strategy initiated four new positions during the quarter, including in two lithium miners. **Sociedad Quimica y Minera de Chile SA** is one of the largest lithium producers in the world, and also has dominant positions in potassium nitrate and iodine production. **Arcadium Lithium PLC** is a lithium producer with a diversified portfolio of assets in Argentina, Western Australia, and Canada; the company is a low-cost producer of lithium with over 100 years of reserves at current production levels. In contrast to other commodities, like gold, which have demonstrated centuries of use, lithium is a nascent industry that has been around for just a few decades. Lithium is a key input in batteries, particularly for EVs. Should demand for EVs continue to grow, more lithium supply will need to come online to meet demand, which would likely require higher lithium prices. As of this writing, lithium prices are down more than 80% from early 2023 levels.

The strategy also initiated positions in **Indofood Sukses Makmur TBK PT ("Indofoods")** and **Chong Kun Dang Pharmaceutical Corp ("CKD Pharma")**. Indofoods is an Indonesian food products conglomerate; they have business segments in packaged foods, palm oil, and distribution. CKD Pharma is one of the oldest and the 2nd largest pharmaceutical company in South Korea. These companies trade at significant discounts to Kopernik's estimates of their risk-adjusted intrinsic values.

The strategy eliminated positions in **SkyWest Inc, MEG Energy Corp**, **Mitsui & Co Ltd**, and **Air Lease Corp** as prices appreciated.

While it is not easy to swim against a tidal wave, we are grateful to our long-term investors who understand the art and science of value investing and adhering to its discipline. This is especially true during times of extreme valuations. 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.

In closing, we continue to be focused on appraising businesses and mitigating risk through diversification across sectors and countries. Our investment process is centred 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 30th June 2024, net of fees, C USD share class

	Q2 24	YTD	1-Year	3-Year	5-Year	7-Year
Kopernik Global All-Cap Equity Fund	1.5%	3.2%	14.9%	1.8%	12.2%	6.7%
MSCI ACWI NR USD Index	2.9%	11.3%	19.4%	5.4%	10.8%	8.4%

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

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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