HEPTAGON Capital

WCM Global Equity Fund

Q2 2024 Commentary

Portfolio Management

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Investment Objective

The Fund aims to achieve long-term capital growth by investing primarily in equity securities of large cap global companies located throughout the world.

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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 **WCM Global 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 WCM Investment Management ("WCM") is the Sub-Investment Manager meaning WCM exercises discretionary investment authority over the Fund. The Fund was launched on 18th January 2017 and had AUM of USD 2,287m as of 30th June 2024.

Performance review

During the second quarter of 2024, the Fund (C share class) underperformed its benchmark, returning 2.0% compared to 2.9% for the MSCI ACWI NR USD index. For the trailing twelve months, the Fund is ~+650 bps (net of fees) ahead of that benchmark. Over a longer time period, the five-year excess (relative to the benchmark) return stands at ~+100 bps (annualised).

After a down month in April, global equities climbed higher in May and June to finish Q2 in positive territory. From a sector standpoint, Technology led the way on the heels of artificial intelligence ("AI") excitement and the mountain of CapEx committed to digital infrastructure buildouts worldwide. Consumer Discretionary lagged given uncertainties around the health and confidence of global consumers. Despite positive stock selection, the strategy didn't quite keep pace with ACWI in Q2. Our sector allocation-notably, our overweight to Consumer Discretionary - worked against us. In addition, our underweight to Mag 7 companies dragged on strategy's relative performance. This cohort buoyed US and global benchmark returns in Q2.

Attribution

Sector-based attribution showed a moderate headwind from allocation, with selection being slightly additive. Regional attribution revealed very modest detractions from both allocation and selection.

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

Contributors:
By sector, the only (barely) material allocation contributors were our underweights to Energy (5th worst in benchmark) and Real Estate (2nd worst). For sector selection, our picks beat the benchmark in Health Care, Industrials, and Staples. By geography, there were no material contributors vis-à-vis regional allocation or selection.

Detractors:
For sector allocation, the notable detractors were our underweight to Communication Services (2nd best in benchmark) and overweight to Industrials (3rd worst). The primary detractor vis-à-vis sector selection was Consumer Discretionary, followed by Financials and Technology. By geography, our allocation overweight to Europe detracted slightly. For regional selection, the Americas was a modest detractor.

Other Factors:
In Q2, the simple market factors were tailwinds for the Strategy: Large Cap outperformed Small Cap, High Quality beat Low Quality ("Quality" uses ROE as a proxy), and Growth topped Value.

Comments

Something old, something new. Uncertainties around the fate of interest rates, inflation, geopolitics, and global GDP still linger, and will always linger. In global equities, flux is a steady state. Traditional macro concerns ebb and flow, and shift ranks based on the issues du jour. Heck, more people will vote in elections worldwide in 2024 than any previous year in history. Understandably, this may feel like a daunting set of unknowns and, therefore, risks. Despite these uncertainties, we believe an abundance of opportunity lies ahead. Today, we're observing a remarkable, worldwide emergence and acceleration of secular growth themes occurring at the greatest rate in decades. In short, the equities opportunity set has broadened. With trends such as aerospace, computing, defence, medicine (e.g., GLP-1s), and infrastructure spend exhibiting lengthy runways. Our optimism is palpable, not only because of the differentiated returns the future looks to hold, but because we believe our focus on owning companies with positive moat trajectories supported by well-aligned corporate cultures gives us a real edge when picking these themes' long-term winners. It's happy hunting at WCM.

Portfolio Activity

Buy: Puig Brands, S.A.
Spain-based Puig is a family-owned premium fragrance, fashion, and beauty company owning 17 topflight brands, such as Paco Rabanne, Carolina Herrera, and Charlotte Tilbury. Tailwinds come from a fragrance industry renaissance, particularly with Gen Z using perfumes as part of daily routines and their general price insensitivity for fine products. Puig's moat comes from its prestigious brands, vertical integration, scale, and distribution prowess. This moat strengthens as the company expands its presence in fashion, skincare, and makeup (e.g., acquisition of Charlotte Tilbury). We believe Puig's culture is highly creative, scrappy, and has the grit to build the foundation for long-term growth.

Buy: Saab AB
Sweden-based Saab is a pure play defence company (its auto business spun off in 2011), benefitting from accelerating defence spending among Europe's NATO members. The company is a global leader in conventional weaponry (anti tank weapons, radar, and electronic warfare), allowing it to take full advantage of the surge in demand with lengthy contracts, ranging 4 to 10 years. Its moat comes from IP, switching costs, and massive barriers to entry in the form of government regulations and the need for advanced weaponry and trustworthy technological expertise. We think this moat is poised to expand thanks to NATO's recent inclusion of Sweden, which will enable Saab to win even more business. Saab's reinvigorated, focused and, strong culture exhibits promising attributes to propel growth, margins, and FCF higher.

Buy: Taiwan Semiconductor Manufacturing Co., Ltd. ("TSMC")
TSMC is the largest semiconductor contract manufacturer (aka, "foundry") in the world, with more than 50% outsourcing share. TSMC transformed the industry and benefits from a secular outsourcing trend for chip production. As foundries carry multi-billion-dollar price tags, few chip designers can justify this cost. More importantly, none can rival TSMC's material science expertise and knowhow, the gating factor in the advancement of chips, thereby revealing a formidable competitive advantage. The moat trajectory is clearly positive, with TSMC emerging as the broadest 'picks & shovels' play in AI and datacentre spend. It commands dominant share of marquis chip designers' (e.g., NVDA, AMD, and Apple) outsourcing needs.

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Sell: Costco Wholesale Corporation
There is nothing wrong with Costco's moat trajectory or culture. We are still Costco fans. However, we were no longer compelled by the valuation. We put some of the proceeds into 3i Group (i.e., its Action retail business) where we see higher growth at a much more attractive valuation. We could see ourselves rebuying Costco in the future.

Sell: Snowflake, Inc.
We sold US-based Snowflake–a cloud-based data warehousing company. We used the proceeds to add to better ideas.

Sell: Atlassian Corp
We sold Australia-based Atlassian to free up capital for more compelling tech ideas in the US. We still like Atlassian, as it offers a suite of some of the world's best collaboration software tools.

Sell: Lam Research Corporation
US-based Lam specializes in deposition tools used in semiconductor manufacturing. The stock has had an incredible run and we expect better returns from TSMC going forward.

Sell: GRAIL Inc
We sold our stub position in US-based Grail–a liquid biopsy company. Illumina shareholders received Grail shares as part of a spinoff. We've viewed this divestment as a significant positive for strategy's stake in Illumina.

Buy and Manage:
We added to **Applovin Corp., 3i Group Plc, Amazon.com, Inc.,** and **AstraZeneca Plc.** We trimmed **Arista Networks, Inc., Intuitive Surgical, Inc.,** and **NVIDIA Corporation** to manage position sizes.

As always, we appreciate your patience and support.

Sincerely,
Heptagon Capital and WCM Investment Management

Annualized Total Returns as of 30th June 2024, net of fees

	Q2 24	YTD	1-Yr	3-Yrs	5-Yrs	10-Yrs
WCM Quality Global Growth Strategy	2.0%	16.3%	25.9%	2.7%	11.8%	12.3%
MSCI ACWI NR USD Index	2.9%	11.3%	19.4%	5.4%	10.8%	8.4%

Source: Morningstar, WCM

Fund performance prior to 31.03.2017 relates to the WCM Quality Global Growth Composite ("Composite"), thereafter, it relates to the UCITS Fund (IE00BYZ09Q19). MSCI represents the MSCI AC World Index (net).

WCM manages the Irish regulated WCM Global Equity UCITS Fund according to the same investment principals, philosophy and execution of approach as it manages the WCM Quality Global Growth Composite, however it should be noted that due to different regulation, fees, taxes, charges and other expenses there can be variances between the investment returns demonstrated by each fund. The WCM Quality Global Growth Composite (net of fees) (the "strategy") is provided in the table above to show a longer track record for the underlying strategy.

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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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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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