Driehaus US Small Cap Equity Fund

Q2 2025 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 21.4 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.

Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this Driehaus US Small Cap Equity Fund presents disproportionate communication on the consideration of non-financial criteria in its management.

The **Driehaus US Small 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 Driehaus Capital Management LLC ("Driehaus") is the Sub-Investment Manager meaning Driehaus exercises discretionary investment authority over the Fund. The Fund was launched on 31st July 2019 and had an AUM of USD 862m as of 30th June 2025. During the second quarter of 2025, the Fund outperformed its benchmark, the Russell 2000 Growth Index TR USD (the "Index"), returning 12.9% (C USD share class) compared to 12.0% for the Index.

Market Overview

The U.S. equity market began the June quarter in a bear market as President Trump's tariffs caused severe stress in investor sentiment and raised concern of a major economic and earnings slowdown. The equity market declined sharply from mid-February to early April. Investors were stunned by the extremely high reciprocal tariff rates and the scope of the tariffs (on nearly every country) announced by Trump on April 2nd, so-called Liberation Day. The extreme selling accelerated from April 2nd as the odds of a U.S. recession increased substantially. As the bond market reacted negatively and long-term treasury yields began to rise, Trump blinked and announced a 90-day pause of the reciprocal tariff rates on April 9th. This ignited a sharp rally for the U.S. equity market as widespread relief set in as the worst-case scenario was avoided (the expiration date for the 90-day pause has now been pushed out to August 1st). The following chart in Exhibit 1 is a brief timeline of the first half of the year's wild ride:

Exhibit 1: Tariffs Drive Wild First Half Ride in US stocks

Source: Bloomberg

The rally that began on April 9th was historic. It was the fastest recovery following a decline of at least 15% for the S&P 500 in decades, as shown in Exhibit 2.

Exhibit 2: S&P 500's quickest recoveries to records following a decline of at least 15%

Source: Dow Jones Market Data

It was also significant as the widely followed contrarian index, the VIX (the CBOE Volatility Index), finished above 50 and briefly touched 60 for only the third time ever. The prior two times were historic and occurred during periods of extreme market stress: (1) the GFC (the Great Financial Crisis) and (2) near the Covid market low in the spring of 2020. In both prior instances, as the VIX peaked and importantly then declined, the market made major historic bottoms. Looking at a variety of other additional technical indicators, including sentiment, breadth, and volume indicators, they also suggest the April 9th low could be an important market low historically.

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

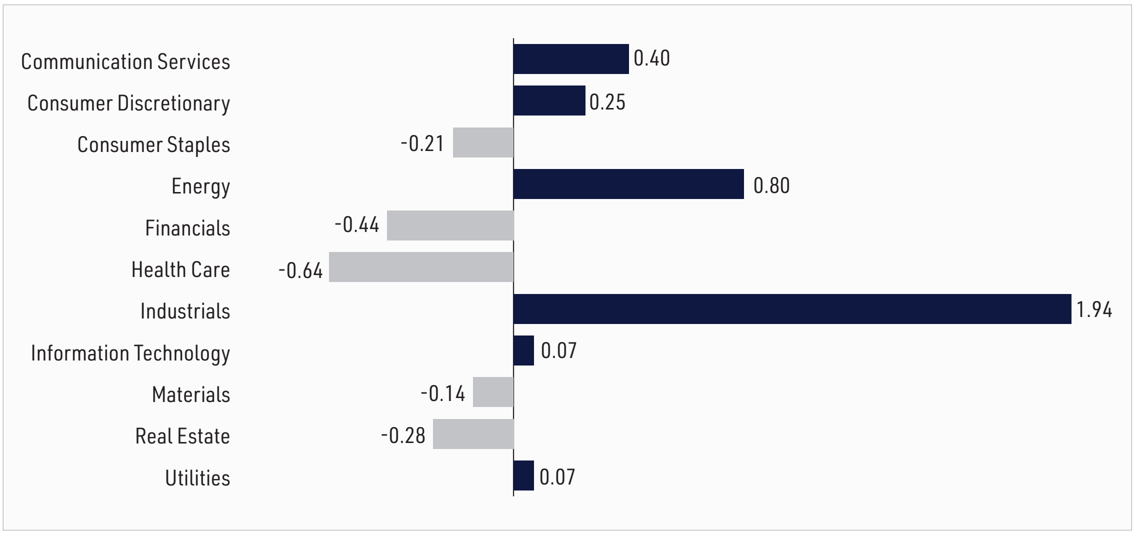
Performance Review

The Driehaus US Small Cap Equity Fund outperformed its benchmark by 94 basis points for the June quarter. The Fund appreciated 12.9% versus a gain of 12.0% for the Russell 2000 Growth, 8.5% for the Russell 2000, and 10.9% for the S&P 500 for the quarter. The Russell 2000 Growth index bounced back sharply following Trump's 90-day pushout of the reciprocal tariffs on April 9th and from that market low gained 27.7% through the end of the June quarter.

The performance data below represents the strategy's composite of small cap growth accounts managed by Driehaus Capital Management LLC (DCM). These returns are estimated for the period, as the underlying accounts' data has yet to be reconciled with the custodian bank. Net-of-fee returns reflect the deduction of advisory fees and, in some instances, other fees and expenses such as administrative and custodian fees, while the gross of fee returns do not. Both figures are net of brokerage commissions charged to the accounts and reflect the reinvestment of income and other earnings. The performance data shown below represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted.

From a sector perspective, the top two contributing sectors on a relative basis for the quarter were Industrials and Energy. The bottom two performing sectors on a relative basis for the June quarter were Health Care and Financials.

Exhibit 3: Sector Attribution Relative to Benchmark



Source: Driehaus. Note: The sector attribution relative to benchmark for each MSCI/GICS Sector is equal to the sum of the individual Attribution Effects for that MSCI/GICS Sector. This exhibit is ex-cash. The cash weighting at 6/30/2025 was 0.3%.

Strategy Overview and Positioning

The largest overweights in the portfolio in the June quarter were to the Industrials and Energy sectors. The largest underweights during the June quarter were to Financials and Real Estate. The biggest shift in the portfolio during the quarter was an increase in the active weight in Industrials and Information Technology. Detailed information about sector performance is below in Exhibit 4.

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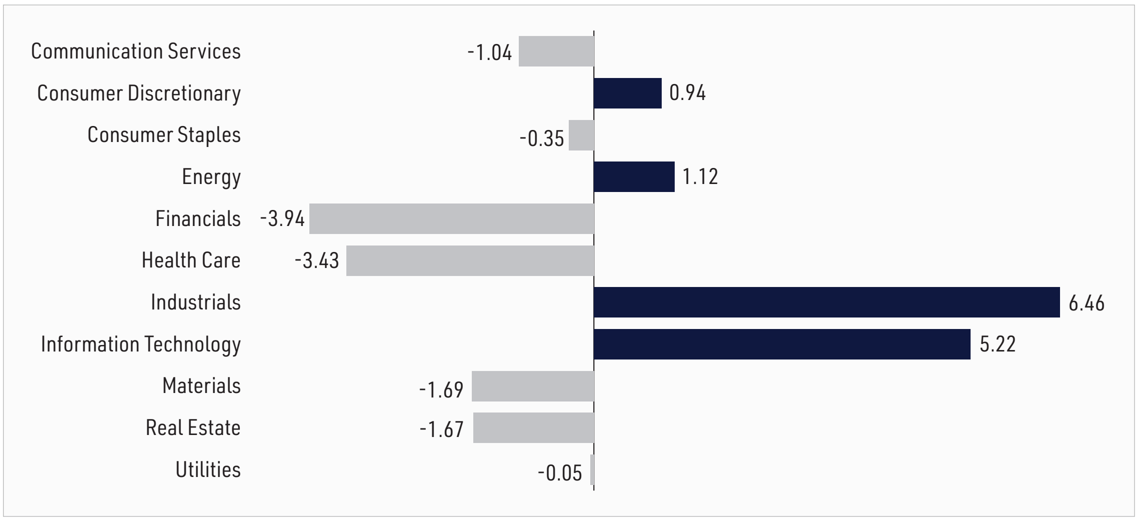
Exhibit 4: Change in Relative Weight



Driehaus. Note: Change in relative weight is the difference between the change in ending weight from the previous quarter. This exhibit is ex-cash. The cash weighting at 6/30/2025 was 0.3%.

Sectors contributing positively to returns during the quarter (in order of relative impact):

Industrials

Industrials added 194 basis points on a relative basis and 641 basis points in absolute terms, with our holdings gaining 27.4% versus 19.0% for the index. Our exposure to the sector increased notably from 21.1% to 25.0% versus 20.4% for the index. Our holdings saw strength in several sub-industries with attractive themes, including commercial aerospace, commercial services, nuclear infrastructure, traditional infrastructure, engineering & construction, and AI related data centres.

Energy

The Energy sector contributed 80 basis points in relative returns and added 107 basis points in absolute terms. Our energy stocks gained 20.5% versus a gain of 1.5% for the index. We increased our exposure from 5.1% to 5.9%, an overweight versus 3.1% for the index. We hold natural gas levered exploration and production companies, as well as companies exposed to oilfield services and uranium mining.

Communication Services

Communications Services contributed 40 basis points in relative terms and 44 basis points in absolute terms. Our holdings gained 48.6% versus a gain of 8.2% for the index. Our exposure to the sector went from 1.7% to 1.3% during the quarter, an underweight versus 2.8% for the index. We saw gains from an advertising-related technology company offset by a decline in a performance marketing company for the insurance industry.

Consumer Discretionary

Consumer Discretionary contributed 25 basis points on a relative basis and 171 basis points in absolute terms. Our holdings appreciated 13.6% versus a gain of 11.2% for the index. We increased our sector exposure from 10.8% to 12.1%, maintaining an overweight versus 9.8% for the index. Our holdings saw positive performance in specialty retail, leisure, education, restaurants, and gaming related industries.

Information Technology

Information Technology contributed 7 basis points on a relative basis and 346 basis points in absolute performance. Entering the June quarter, concerns surrounding DeepSeek and tariffs were massive overhangs which left many small cap tech stocks in downtrends and well off their 2024 highs. However, the tech sector recovered sharply during the quarter, largely reversing the losses it experienced during the March quarter as positive news surrounding AI and data centre capex continued and Trump pushed out the reciprocal tariff for 90 days.

When DeepSeek debuted on January 27th the market was extremely concerned that tech companies benefitting from the strong AI infrastructure capex trends would be negatively impacted going forward as capex trends would decelerate and disappoint market expectations. The reaction in AI infrastructure stocks was severe. Specifically, AI infrastructure tech stocks held in the portfolio as DeepSeek debuted fell 66% on average from January 27th to the April 9th market low. We aggressively reduced our exposure to the AI infrastructure stocks in late January and in February. These stocks continued to steadily decline from mid-February into early April as high tariff rates became a second major concern.

As the AI stocks began to bottom and recover in April, we began to re-initiate positions in many of these same AI infrastructure stocks at prices generally lower than where we reduced and sold the positions in the first quarter. We were frequently asked by investors after DeepSeek debuted if we believed the AI infrastructure theme was over. At the time we did believe the theme was over for the time being – the group did correct by 2/3rds on average. But we also had conviction that the AI infrastructure group could recover if it became clear that consensus earnings estimates were still conservative for the second half of 2025 and 2026 and if it were clear that AI capex trends would remain strong.

The main market concern after DeepSeek debuted was that AI capex trends would slow and disappoint. AI skeptics expected AI and data centre capital expenditures to slow, with cuts likely as LLMs become cheaper to develop. On the other hand, AI bulls believed Jevon's paradox and many new AI applications would continue to drive strong AI capex trends. We continue to believe the hyperscalers remain in a competitive AI battle against each other and view AI as an opportunity and an existential threat. From this perspective, it is critical that the hyperscalers continue to spend and increase the IQ of their AI offerings.

During the June quarter, it became evident that the growth in AI use cases, and the productivity and efficiency gains from AI are becoming massive. These factors are driving continued strong gains in AI capex and new data centre demand. Our review of recent quarterly earnings reports and our many conversations with AI infrastructure companies in the technology and industrial sectors supports the view that AI infrastructure demand is robust and forward earnings estimates are conservative. As a result, during the quarter we increased our exposure to companies benefiting from the AI data centre buildout.

Our tech holdings gained 21.5% compared to a gain of 19.8% for the index's tech holdings. We increased our exposure to the sector from 12.5% to 20.6% during the quarter, an underweight versus the benchmark's 21.4% weighting. The strategy is overweight semiconductors, equal weight electronic equipment and telco equipment, and slightly underweight software.

Sectors detracting from relative returns during the quarter (in order of relative impact):

Health Care

Health Care detracted 64 basis points on a relative basis but added 10 basis points on an absolute basis. Our holdings gained 0.9% versus a gain of 3.3% for the index. Health Care materially lagged other sectors.

We decreased our exposure to Health Care from 26.9% to 21.4% during the quarter, compared to 22.8% for the index. That reduction in exposure occurred in biotech and medical devices. The portfolio finished the quarter slightly overweight biotech, underweight medical devices and underweight the other healthcare sub-industries. The reduction in exposure was primarily due to weak relative strength within the sector and more attractive bottom-up and thematic opportunities in other sectors in our view.

While the Health Care sector has begun to recover since the April 9th market low, for the quarter the sector did experience multiple compression due to lingering concerns about the appointment of RFK Jr (Robert F Kennedy Jr) as the Secretary of Health and Human Services as well as new leadership at the FDA. The threat of sectoral tariffs and pricing controls via an MFN (Most Favoured Nation) policy also weighed on the sector. While we do not believe these concerns will have an impact on the drug approval timelines or commercial sales prospects for our holdings, they did weigh on recent price action. As we detailed in our commentary last quarter, we have spoken with the management teams of our holdings, and they consistently continue to reiterate that they are having very normal dialogue and communications with the FDA with no suggestion of any slowdown or delays.

Biotech/pharma accounted for most of the sector underperformance as it detracted 99 basis points in relative terms and 45 basis points in absolute terms for the quarter. Our biotech positions gained 0.9% versus a gain of 2.3% for the index, while pharma declined 18.3% versus a decline of 13.4% for the index.

We remain encouraged fundamentally as we believe our biotech holdings have very promising and innovative clinical stage therapies demonstrating superior efficacy and safety in important disease indications, such as epilepsy, endocrinology, diabetes, neurology, autoimmune diseases, and oncology. We anticipate promising results from upcoming clinical trials and continued strength for products with recent commercial launches.

Financials
Financials detracted 44 basis points on a relative basis for the quarter but added 72 basis points in absolute terms. Our holdings gained 8.2% versus a gain of 13.6% for the index. We saw strength in specialty insurance, fintech, and specialty consumer lenders. We decreased our exposure from 9.2% to 7.6%, while maintaining an underweight versus an index weight of 11.5%.

Consumer Staples
Consumer Staples detracted 21 basis points in relative terms and 7 basis points in absolute terms. Our holdings declined by 0.1% versus a gain of 1.9% for the index. We reduced our exposure from 4.4% to 2.8% during the quarter, a slight overweight versus 2.6% for the index. Gains in a specialty grocer and a beauty supplier offset a decline in a specialty beverage company.

Materials
The Materials sector detracted 14 basis points on a relative basis but added 43 basis points in absolute terms. Our holdings gained 10.3% versus a gain of 14.1% for the index. We decreased our exposure from 5.4% to 2.9%, an underweight versus 3.1% for the index. We have exposure to companies in specialty metals, precious metals, and construction materials for infrastructure.

Outlook & Positioning

Looking ahead into the second half of 2025, the market outlook will still be influenced by the final outcome of Trump's tariff and trade policies. The market is assuming 10% baseline tariffs, with higher rates for countries with larger trade surpluses or links to China (such as the recent 20% rate applied to Vietnam) and then the highest rates for China. While not ideal in economic terms, the market has concluded the U.S. economy can continue to grow and avoid a recession with 10-20% tariff rates for most trade partners. In early July, Trump threatened to impose higher tariff rates on several key countries. So, uncertainty and volatility will continue though the market has learned to take his comments with a grain of salt. In simple terms, tariff rates above 10-20% will be a headwind to growth and will add to uncertainty and volatility of the market in the near term.

So, while future tariff rates are not certain, if 10-20% is the average tariff rate going forward, economic and earnings growth can continue to expand. Current economic trends are mixed but trending positively as the Atlanta Fed GDPNow indicator is currently at 2.6% and above most forecasts. The odds of a recession are low. For instance, the Coincident Economic Indicators continue to hit new highs. There are several factors that suggest positive economic growth ahead:

- The labour market remains resilient. AI, DOGE cuts, immigration policy and tariffs were all expected to be reasons the labour markets would weaken. The labour market will be the key indicator to watch for initial economic weakness. Indeed, continuing jobless claims have risen as has the unemployment rate for recent graduates. However, the June unemployment rate fell to 4.1% as new job creation and initial jobless claims continue to come in below expectations. Wage gains have been positive, and layoffs remain low. The impact of AI on employment is a risk that needs to be monitored carefully.

- AI and data centre capex continues to be a source of economic growth as hundreds of billions are being spent on new data centres.
- AI is expected to drive productivity and efficiency gains which will be positive for earnings and economic growth.
- Reshoring and infrastructure continue to be sources of economic growth.
- Inflation data continues to trend favourably below expectations. The price of crude oil also remains relatively low. AI is generally expected to be a source of disinflation.
- The Federal Reserve continues to lean dovish. The Fed Funds Futures market is currently calling for more than two rate cuts by the Fed in the second half of 2025.
- The so-called Big Beautiful Bill has passed (the new federal budget). It should serve as a powerful fiscal stimulus for the economy. It extends the 2027 tax cuts. Importantly, for now, treasury yields have reacted favourably to the passage of the bill.
- As the above factors increase the odds of sustained economic growth, earnings growth should continue to trend positively.

Other key favourable market variables to consider:

- The dollar has seen its largest decline in over 30 years and while the implications of a weaker dollar are certainly varied and mixed, it should be a boost for U.S. exports and overall corporate earnings.
- The corporate deal market is strong. IPOs are finally back. Recent IPOs have been well received with several achieving strong price gains which should encourage additional IPOs in the coming months. M&A also appears to be picking up. Many other companies are raising capital via secondary and follow-on offerings.
- High yield spreads are favourable and historically this is a good indicator for risk and favourable for the small cap universe.
- Market breadth has widened with both the NYSE and Nasdaq advance-decline lines making new highs.
- The Citi economic surprise index and earnings revisions have turned positive recently.
- Smaller caps have outperformed since the April 9th bottom. This is historically consistent with other key market bottoms.
- Small caps continue to trade at a deep discount to large caps.
- AI should continue to be a source of economic growth and improving productivity and efficiency. AI is a powerful and transformative source of technological change.

Sources of risk and uncertainty:

- Uncertainty surrounding Trump's trade and tariff policy.
- Potential higher tariff rates impacting the economy and inflation readings.
- China-US trade negotiations and supply of rare earth elements.
- Trump threatening Fed Chair Powell.
- Geopolitical risks.
- Treasury yields are now trending lower, but higher yields and concern about fiscal deficits remain a key risk.
- Risk of job displacement and lack of hiring due to AI.

Overall, we view the outlook for the second half to be favourable for equities. The outlook depends on a stable and favourable tariff policy outlook. Assuming trade agreements are reached that yield tariff rates of 10-20%, we believe economic growth will continue and as a result earnings growth will continue to expand. Fiscal and monetary policy are powerful tailwinds for equities. Additionally, there are many strong themes and individual companies with favourable outlooks. The IPO and M&A outlooks are improving as the deal calendar has opened up. Valuations for small caps continue to sit well below that of large caps.

In terms of portfolio positioning, we have an attractive mix of growth companies. By sector, Industrials is our largest absolute Weight, followed by Technology, Health Care, Consumer Discretionary, Financials, and Energy. On a relative basis, the strategy is overweight Industrials, Energy, Consumer Discretionary, Technology, and Consumer Staples. The strategy is underweight Financials, Communication Services, and Health Care.

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Quarterly Contributors

Axon Enterprise Inc. (AXON) manufactures tasers, body cameras, and backend software for law enforcement, military, and corrections/consumer markets. During 2Q25, AXON reported March quarter revenue and earnings per share that exceeded consensus expectations by 3% and 11% respectively and saw future contracted revenues increase 41% year-over-year to $9.9B. As a result, AXON's stock performed strongly and was a top contributor during 2Q25.

Carpenter Technology Corporation (CRS) manufactures, fabricates, and distributes specialty metals for the aerospace, defense, medical, industrial, energy, and transportation markets. Importantly, their end markets are growing with many undersupplied from a capacity perspective.

Quarterly Detractors

BellRing Brands, Inc. (BRBR) engages in the provision of ready-to-drink (RTD) protein shakes, other RTD beverages, powders, and nutrition bars. The company was a top detractor after guiding for weaker 2Q25 revenue due to inventory reductions at a large customer.

Compass Inc Class A (COMP) is the largest real estate brokerage in the United States by sales volume. The stock was a top detractor as existing home sales activity remained sluggish during the quarter due to elevated interest rates, creating downside risk to estimates.

Outright Buy

Credo Technology Group Holding Ltd. (CRDO) develops connectivity solutions and products for the datacentre infrastructure market. We initiated a position as the company's Active Electrical Cable (AEC) product was experiencing growing adoption among hyperscalers, with several new customers expected to each account for over 10% of revenue, presenting potential upside to consensus estimates.

Sterling Infrastructure, Inc. (STRL) provides infrastructure services related to the construction process for the datacentre, transportation, and residential housing sectors. During 1Q25, many datacentre-related stocks sold off due to fears about the impact DeepSeek could have on capital investments. As it became clear these fears were overblown and with the company reporting strong 1Q25 bookings, the strategy initiated a position in STRL.

Outright Sell

Compass Inc Class A (COMP) is the largest real estate brokerage in the United States by sales volume. The stock was pressured as existing home sales activity remained sluggish during the quarter due to elevated interest rates, creating downside risk to estimates. We exited the position as a result.

Elastic NV (ESTC) is a data analytics company, which engages in the provision of open-source search and analytics engine services. We exited the position in 2Q25 as the company guided fiscal year 2026 revenues 1% below consensus expectations as macro pressures continue to weigh on consumption patterns at enterprise customers, overwhelming early GenAI related tailwinds.

Sincerely,
Heptagon Capital and Driehaus Capital Management

Annualized Total Returns

	Q2 25	1-Year	3-Year	5-Year
Driehaus US Small Cap Equity Fund	12.9%	-1.1%	13.0%	10.2%
Russell 2000 Growth Index TR	12.0%	9.7%	12.4%	7.4%

Source: Factset Research Systems, Inc.
Fund performance relates to the UCITS Fund (IE00BH3ZBB87, net of fees, in USD).

The views expressed represent the opinions of Driehaus Capital Management, as 30th June 2025, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

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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'). Please see Prospectus for further information.

Authorised & Regulated by the Financial Conduct Authority (FRN: 403304)

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