Driehaus Emerging Markets Sustainable Equity Fund

Q2 2022 Commentary

Fund Manager

Richard Thies

Chad Cleaver

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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 11.2 billion of assets under management.

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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 60m as of 30th June 2022. 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.

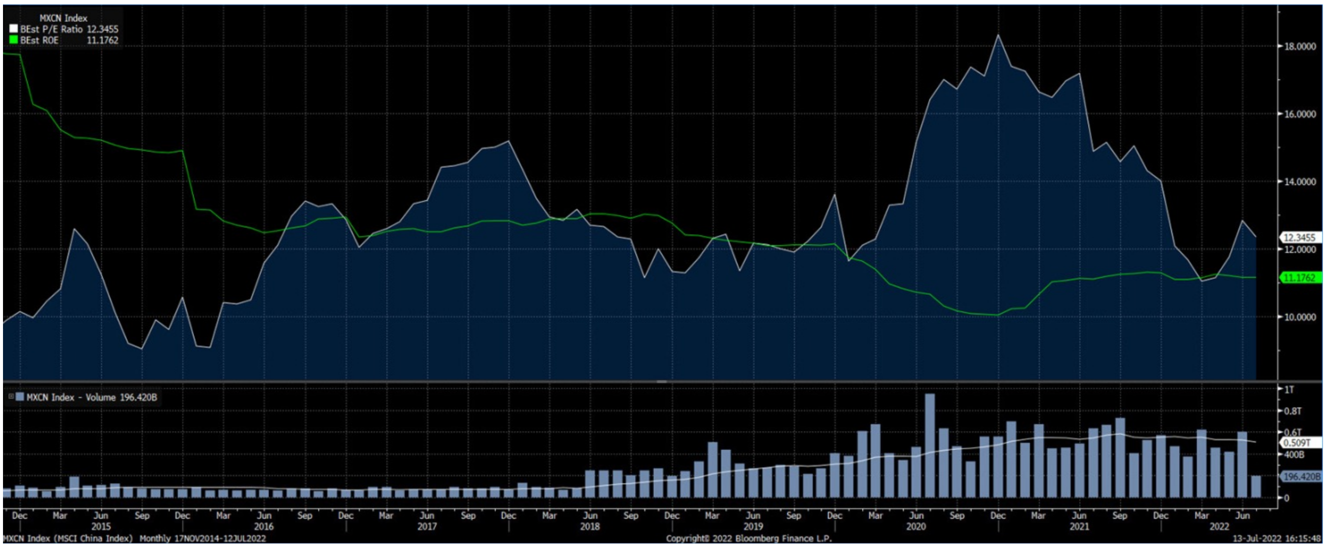
Market Overview

Over the past three years, there has been no subject we are asked about more frequently than China. To oversimplify, in 2019 and most of 2020, the majority of those questions were about whether the rest of emerging markets countries were still worth investing in given how obviously more attractive the outlook was in China. Between January 2019 and the fourth quarter of 2020, China had outperformed the rest of EM by over 20% and was up 43% on a total return basis, so the enthusiasm made sense (Exhibit 1). In the nearly two years since, those questions have shifted to whether the country remains investable. As always, the truth is likely somewhere in between those two extremes. It also remains the case that China is explaining more and more of total emerging market returns and getting the portfolio China call correct is increasingly essential to outperformance (Exhibit 2). Given all this, we wanted to use this quarterly update as a quick update on performance in China and our current views.

While the China questions continue, we have the sense that most investors have not realised how much Chinese assets have outperformed in the past several months. From the relative bottom, in March 2022, equities in China have outperformed broader emerging markets by nearly 30 percent, erasing the entirety of the past year's underperformance in a matter of a few months. We will touch briefly upon our thoughts on this recent strength as well as the outlook.

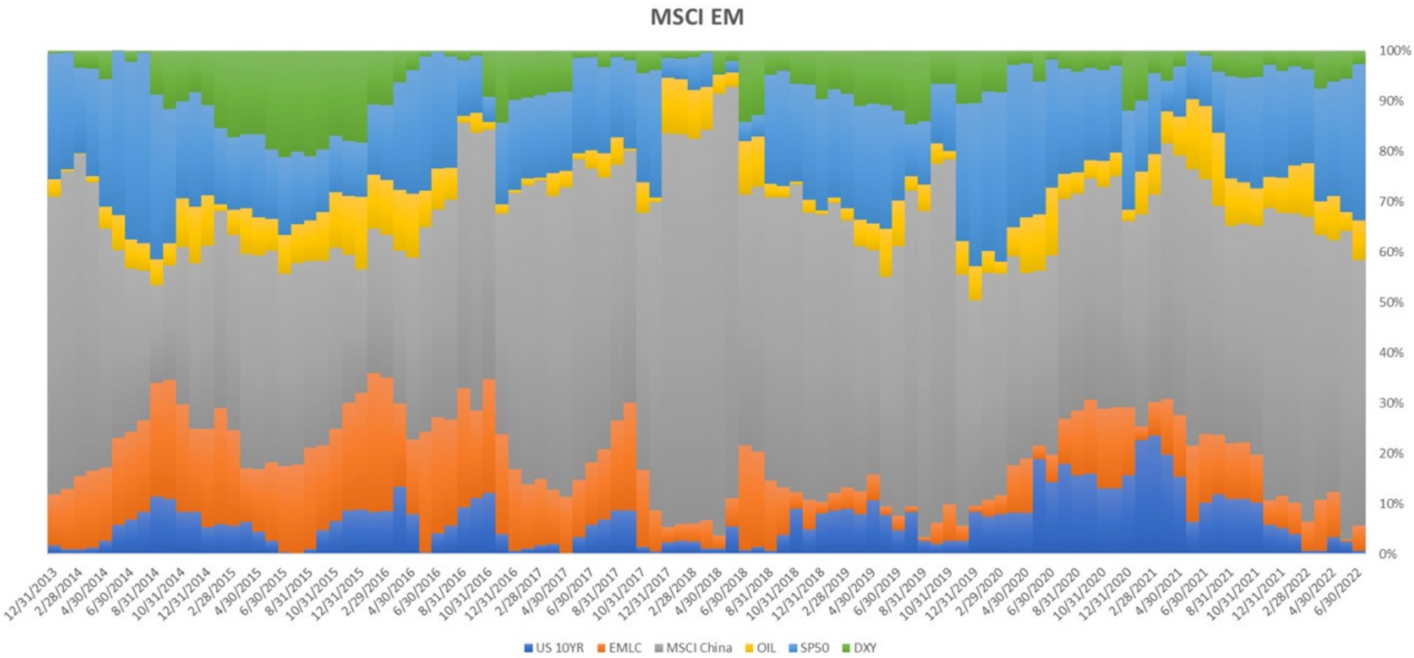
Past performance is no guide to future performance, and the value of investments and income from them can fall as well as rise

Exhibit 1: Chinese equities have seen a derating in forward price-to-earnings (P/E) ratios (white) alongside a years-long decline in return on equity (ROE) (green)



Source: Bloomberg

Exhibit 2: Our data shows China (grey) as having increasingly strong explanatory power of aggregate emerging market returns



Source: Driehaus Capital Management LLC, FactSet Research Systems LLC

The Starting Point

The recent outperformance of Chinese stocks has as much to do with its deeply discounted starting point as anything. Both relative to developed markets and other major emerging market countries, Chinese stocks had become very cheap on a relative basis. While this derating has been a general trend for the past few years, and one that is logical in light of a secularly slowing growth outlook, it reached new extremes in the first quarter. Given emerging market investors have the freedom to allocate across the different index constituent countries, it's relevant to see the valuation disconnect between China and markets like India (Exhibit 3). In March, Chinese stocks had gone from trading at 60-80%

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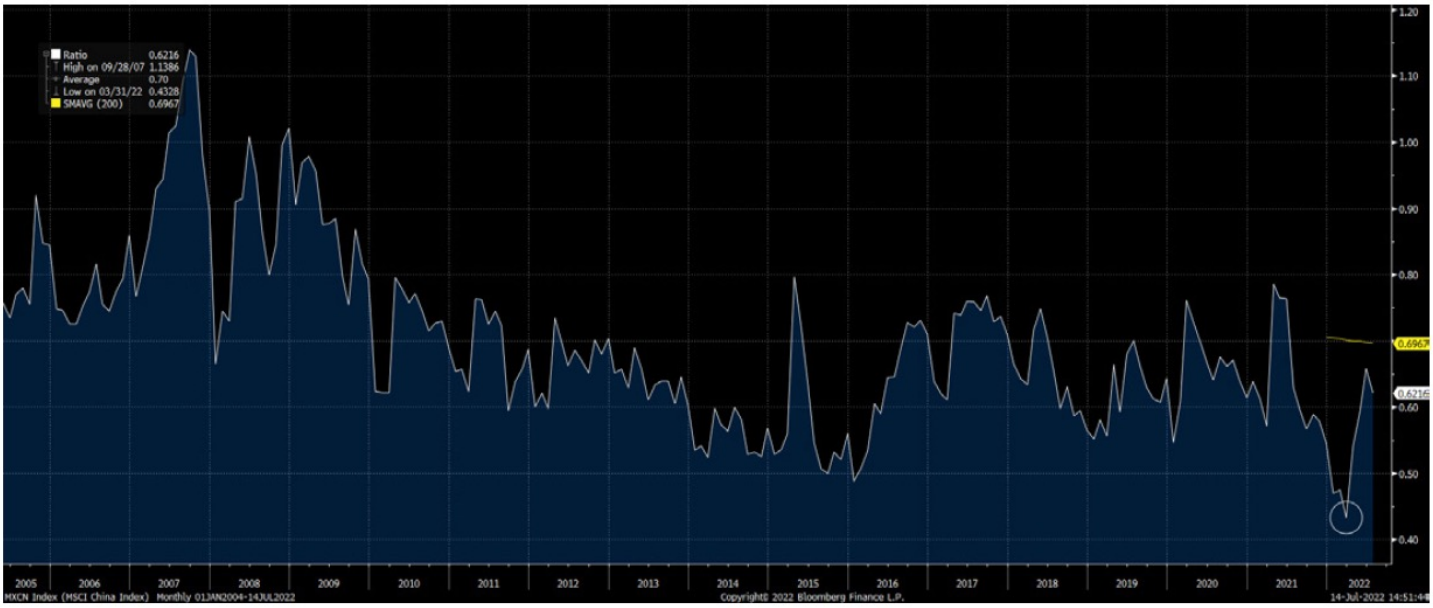
of the multiple of Indian stocks over the past 6 years to just over 40% on a forward price-to-earnings basis. We aren't arguing that a relative derating hasn't been fair, but it had become very extreme.

Exhibit 3: Chinese stocks price-to-earnings (P/E) discount to India



Source: Bloomberg

Perceptions on the Regulatory Environment

The start of the Chinese derating in the fourth quarter of 2020 coincided with the first attacks on Alibaba and their Ant Financial planned-IPO. While the initial concerns were specific to the company, it quickly evolved into a broader-reaching regulatory effort. This effort encompassed many things, none of which were particularly favorable for shareholders in the large Chinese consumer and internet businesses. The crux of their efforts was to stop the biggest companies from continuing to get bigger and to make sure their biggest companies were being better corporate citizens, however that was defined. Without getting into the specifics of what pieces of the effort seemed reasonable versus those that did not, it ended up turning a fairly specific attack on internet platforms into a perception that there was a war on private capital in China. That latter conclusion justified a larger de-rating than the fundamentals dictated.

For that reason, when the regulatory comments started to shift in April, the market reacted strongly. As is always the case in China, there was not one moment that signaled a change in stance but several changes. We, along with many other investors, assumed that by this fall's Politburo meeting, the government would wish to have concluded its regulatory efforts against the sector and because so many investors had that in mind, the reaction was swift. The government using many of the internet platforms to aid in things like food and medicine delivery during the worst of the recent lockdowns, and publicly celebrating them for their efforts, was the clearest sign of this. We are not arguing that the regulatory crackdown is completely over by any means, but we believe the government has achieved its major goals and this will no longer be the key market driver. The affected companies will likely never regain their former multiples or growth trajectories, but the worst of the chilling effect on private investment is likely over.

"Post" COVID Outlook

Following the extreme lockdowns of March and April, the market was cheered by signs of some much-needed relaxations in major cities. While the western world generally still seems to view the Chinese COVID policy as extreme, it is not going away. Without a reliable domestic mRNA vaccine, the government does not feel comfortable pursuing a herd immunity strategy at this time. Regardless of your feelings about that, it's clearly not changing in the immediate future. Despite that, it also doesn't seem like the extremely harsh, city-wide lockdowns are coming back which is positive. Mobility data has continued to improve despite ongoing episodic lockdowns, as has domestic travel. It's not the opening up we would like to see, but it's an incremental improvement.

Relative Economic Outlook

With the major economies of the world dealing with spiking inflation, higher rates and slowing down strongly above trend consumer and housing activity, China is in the opposite position. The only upside of how poorly China has done economically the past 18 months is that policymakers aren't intentionally making the economy worse, as they are pretty much everywhere else in the world. That's a legitimate positive for equities in a geography where most investors are significantly underweight. It's the one major country where you could reasonably argue that conditions will be better in the near future than they are today. The government is pushing fiscal and monetary stimulus, while inflation is much tamer than in most of the rest of the world.

As always, it will not be this simple. There are major economic challenges still facing the country, some of which have grown in recent weeks. The property sector remains under stress and a recovery in sales momentum has really been needed to help liquidity and selling of in-process inventory. There was initially a very strong bounce in sales post-lockdown, which is already showing signs of fading as confidence wanes amid continuing isolated COVID restrictions. That has exacerbated liquidity issues at developers, while reports that mortgage payors are starting to withhold payments for uncompleted inventory is making the situation worse and is the first link to the banking sector that we've seen. The conclusion of all this is to say that things may be getting better, but nothing sustainably gets better until COVID is left in the rearview mirror which appears to still be several months away. With regard to systemic risk caused by current issues in the property market, it is nerve wracking but ultimately, the central government again holds the cards. In a mostly closed capital account, the true limits to helping the property market are few. We do not expect that Xi Jinping wants this situation getting even worse heading into his likely re-appointment this fall. As such, we expect some policy action soon.

Performance Review & Positioning

The Heptagon Driehaus Emerging Markets Sustainable Equity Fund (Class I USD) returned -13.3% in the second quarter, trailing the -11.4% return of the MSCI EM Index.

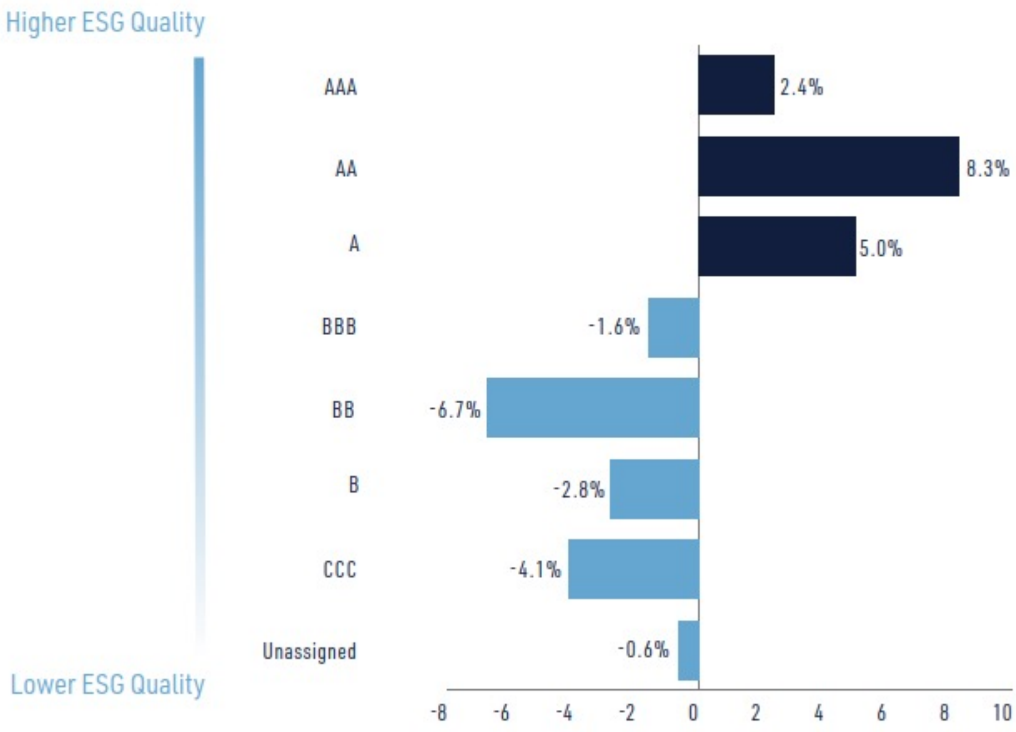
On a country level, the most notable performer in the benchmark was China, which was up 3.3% during the quarter, well ahead of most other developed and emerging markets. While the Fund's stock selection within the Chinese market added value, the Fund's underweight position to this outperforming country was the single largest contributor to negative relative results during the quarter. Partially offsetting this underperformance was the Fund's underweight to the underperforming Taiwanese market, stock selection within India and an underweight and stock selection within South Korea. At the sector level, the largest relative detractor was stock selection within the consumer discretionary sector. Conversely, stock selection within communication services, industrials and financials were value added.

While the Fund increased exposure to China during the quarter, at the end of the period China still represented the Fund's largest underweight followed by Saudi Arabia, Taiwan, South Korea and South Africa. Overweight positions included India, Indonesia, Mexico and developed-market domiciled companies with significant emerging market exposures. From a sector perspective, the Fund ended the period overweight the industrials, information technology and consumer staples sectors while its largest underweights were to materials, consumer discretionary and financials.

Sustainability

The Fund finished the quarter with markedly better ESG characteristics, on an aggregate basis, than its benchmark index (Exhibit 4).

Exhibit 4: ESG Ratings: Fund vs. MSCI EM Index as of 30/6/22
Relative Weights (%pts) versus MSCI Emerging Markets Index



Source: FactSet Research Systems LLC, MSCI Inc., and Driehaus Capital Management LLC

The Fund continues to focus on stocks which have either strong ESG characteristics or have the mechanisms and strategies in place to improve in the future. We rely on external third-party ratings such as Sustainalytics or MSCI as well as internal fundamental analysis to identify ESG performance. Through our internal and external analysis, we can identify stocks with improving ESG mechanisms and we do not hesitate to engage with companies with lower ESG quality scores on specific material factors to understand strategies and pathways forward.

Next, we highlight some of our recent engagements with portfolio holdings.

We spoke with a Brazilian agricultural commodity producer that is poorly scored by the external ratings given concerns over water usage and deforestation. The company shared that they do not intend to open new areas that would result in deforestation. While the company has yet to sign an industry pledge to adopt zero deforestation policies, they shared that they may consider doing so in the next one to two years. We plan to monitor their policies in this area going forward and hope that our ongoing engagements will help to encourage them to make explicit commitments. The company also shared how specific water usage targets can be hard to adhere to because they are highly dependent on the crop mix. Often times in the course of our engagements we find there are nuances in various business models that are not well captured by the external ratings.

We met with a large, multinational telecom company based in Latin America. The company is family controlled which of course leads to weaker governance scores by the external ratings agencies. But family ownership is a common practice in many of the emerging markets we focus on and indeed often unavoidable. Furthermore, with nearly 300 million mobile subscribers, operations in more than ten countries, and almost 200,000 employees, this company is able to have an outsized impact on its stakeholders and society at large. We believe that it is better to engage and encourage the company to adopt sound policies rather than avoid it altogether. We found the company to be making numerous efforts in its labor management practices, data privacy, and environmental footprint (with electricity use per terabyte of data being offered as a key KPI).

As a broad observation, we have been encouraged by the progress that many companies in Emerging Markets are making in ESG. While this is not a new focus for the market at this point, many Emerging Market companies have been generally slower to recognize its importance and adopt sound policies. And we understand that it is not easy to quickly adopt leading ESG practices, especially when a company is based in a country with challenging political or social dynamics. Even things like inadequate infrastructure can be a major obstacle to solid sustainability practices. However, anecdotally, just a few years ago many companies we met with had nothing to say or offer with regards to their ESG work. Now, practically everyone that we talk to is working on something, even if they are just in the very early stages of data collection. Of course, some are less serious than others (we hope that our analysis and engagements will expose that), but we believe there will be many opportunities to identify companies with improving practices that will become ESG leaders in the future.

Sector performance attribution- Q2 2022

	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	8.88	-6.48	-0.46	10.38	-10.45	-1.09	0.34
Consumer Discretionary	11.70	-6.02	-0.68	12.77	6.27	1.00	-1.62
Consumer Staples	5.94	-12.52	-0.73	5.96	-4.55	-0.23	-0.44
Energy	5.08	-12.04	-0.69	5.04	-5.89	-0.32	-0.30
Financials	20.07	-13.02	-2.73	21.97	-14.12	-3.22	0.23
Health Care	3.63	-4.96	-0.30	3.73	-8.81	-0.30	0.07
Industrials	7.44	-7.01	-0.40	5.52	-9.47	-0.52	0.26
Information Technology	22.24	-21.52	-5.03	20.62	-20.77	-4.52	-0.40
Materials	5.39	-27.80	-1.65	9.12	-20.58	-1.99	-0.04
Real Estate	0.89	-16.74	-0.01	2.13	-6.07	-0.14	-0.07
Utilities	1.91	0.98	-0.10	2.77	-4.38	-0.13	-0.04
Cash	6.84	-3.73	-0.21	0.00	0.00	0.00	0.47
Unassigned	0.00	-0.28	-0.27	0.00	-15.80	0.00	-0.25
Total	**100.00**	**-13.25**	**-13.25**	**100.00**	**-11.45**	**-11.45**	**-1.80**

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance
Data as of 30 June 2022

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Country performance attribution- Q2 2022

	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	0.66	-55.85	-0.34	0.00	0.00	0.00	-0.28
Australia	1.64	-22.17	-0.33	0.02	-7.78	0.00	-0.16
Brazil	5.81	-25.65	-1.59	5.44	-24.40	-1.36	-0.19
Canada	3.15	-30.35	-1.08	0.00	0.00	0.00	-0.60
China	15.43	6.20	1.03	27.06	3.25	1.21	-1.35
France	0.51	-12.68	-0.06	0.00	0.00	0.00	-0.01
Hong Kong	4.87	-0.96	0.12	3.93	4.84	0.23	-0.07
India	16.15	-10.53	-1.80	13.15	-13.65	-1.88	0.44
Indonesia	4.17	-11.75	-0.50	1.86	-9.01	-0.18	-0.04
Japan	0.81	-26.28	-0.23	0.00	0.00	0.00	-0.13
Mexico	3.66	-19.76	-0.69	2.24	-15.17	-0.31	-0.21
Netherlands	0.96	-28.79	-0.30	0.00	0.00	0.00	-0.18
Saudi Arabia	0.96	-4.29	-0.10	4.47	-12.48	-0.64	0.10
South Africa	1.47	-33.45	-0.53	3.66	-23.03	-0.87	0.09
South Korea	9.20	-19.43	-1.90	12.37	-20.90	-2.71	0.41
Taiwan	12.42	-18.01	-2.34	15.52	-19.73	-3.25	0.45
Thailand	2.43	-5.28	-0.11	1.90	-10.60	-0.20	0.13
Turkey	0.48	-17.51	-0.12	0.29	-10.93	-0.04	-0.04
United Arab Emirates	0.86	1.36	-0.02	1.39	-19.39	-0.30	0.21
United States	6.92	-23.03	-1.63	0.27	-20.11	-0.06	-0.74
Uruguay	0.57	-35.96	-0.24	0.00	0.00	0.00	-0.17
Cash	6.84	-3.73	-0.21	0.00	0.00	0.00	0.47
Other countries in benchmark	0.00	0.00	0.00	6.43	-1.09	-1.09	0.07
Total	**100.00**	**-13.25**	**-13.25**	**100.00**	**-11.45**	**-11.45**	**-1.80**

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance. Data as of 30 June 2022

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Annualized Total Returns as of 30th June 2022, (I USD share class)

	Q2 22	YTD	1-Year	3-Year	5-Year
Driehaus Emerging Markets Sustainable Equity Fund	-13.3%	-20.9%	-27.1%	4.0%	4.9%
MSCI Emerging Markets NR Index	-11.4%	-17.6%	-25.3%	0.6%	2.2%

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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