

Dear Fellow Investors,

I am excited to provide this Q3 2017 update for Upslope Capital Management (“Upslope”). This was an eventful quarter on multiple fronts:

- **Upslope formally opened for business** in early August, after completing the necessary operational/regulatory transition processes (including becoming a Colorado registered investment advisor). We also surpassed the one-year mark on the strategy’s track record (started at prior firm).
- **Upslope’s core strategy returned¹ +4.6% in Q3, bringing YTD performance to +17.7%**. The portfolio’s net and gross exposure YTD have averaged 48% and 92%, respectively. Please note: for a variety of reasons, we consider these figures more comparable to gross returns. Additional details are provided in Appendix A.

As always, I will be providing updates on the following topics in this note: general market conditions, portfolio positioning and key changes, and performance through Q3.

Market Conditions

I was tempted to copy/paste this section from previous letters. Not much has changed and I don’t have a great deal to add. For the quarter, the S&P Midcap 400 ETF (MDY) and the HFRX Equity Hedge Index both returned 3.2%, bringing YTD performance to 9.1% and 7.1%, respectively.

I continue to worry about broader market conditions. It’s a strange environment. The economy appears to be in good shape; but, stocks look expensive and *anecdotal* signs of a “top” abound (a recent example: CNBC ran an article about a well-known sports talk-radio host, who bragged about “crushing” the market with his technology stock picks). Although we added two new long investments during the quarter, it seems to be getting harder to find good *absolute* value (as opposed to stocks that are just *relatively* cheap). A common occurrence: hunting for value in an out-of-favor sector only to find that the troubled stocks aren’t really *that* cheap.

Of course, one of the positives of Upslope’s strategy is the mandate to maintain short exposure. On that front, I’ve grown increasingly excited about the (downside) prospects for our short positions. Although execution is never easy, compelling short ideas seem to be more plentiful and easier to find than 90 days ago. And, in aggregate, our short positions had a positive contribution to quarterly performance for the first time this year.

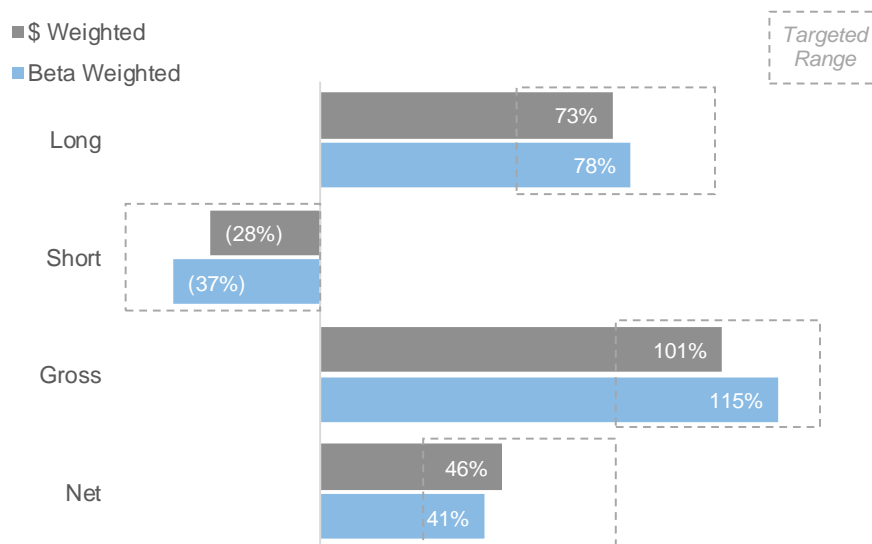
Portfolio Positioning

At quarter-end, the portfolio remained conservatively positioned, with net long exposure of 46% and gross exposure of 101%. While these amounts sit in the middle of our typical ranges, they include an 8% long position in Orbital ATK (which I consider a special case due to its pending sale to Northrop Grumman). As a reminder, overall positioning is guided by my success (or lack thereof) in identifying actionable, attractive investment opportunities – as opposed to a broader market view.

¹ Unless otherwise noted, all returns are shown for a composite of all accounts invested according to Upslope’s core long/short strategy (which comprised the vast majority of AUM at quarter-end), and are net of all fees and expenses billed during period(s) shown. To date, no performance fees have been billed. **Please read all performance figures in conjunction with complete data and accompanying disclosures in Appendix A of this document.**

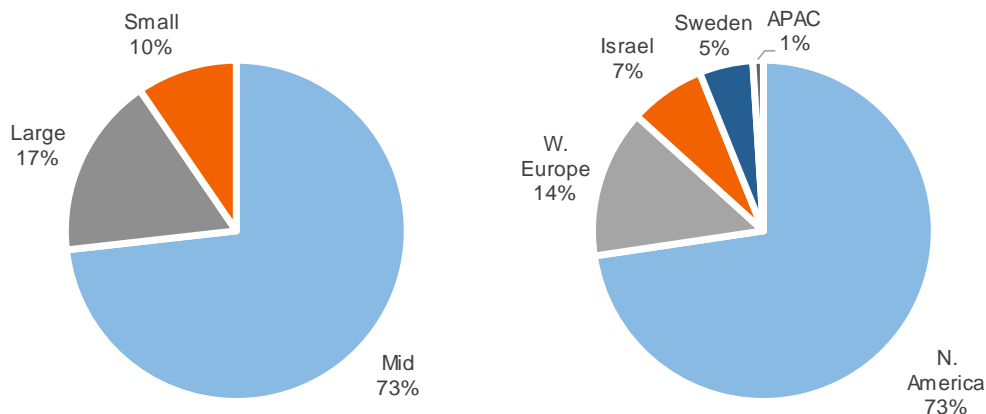
Exhibit 1 below has been updated from prior quarters to provide more detail: it now shows exposure on both a “\$ Weighted” and “Beta Weighted” basis. “\$ Weighted” is simply calculated using the dollar value of each position (this is what was shown in prior letters). “Beta Weighted” adjusts for the beta (a rough proxy for past volatility) of each position. So, a stock with a beta of 1.5 that comprises 10% of the portfolio is effectively included as a 15% position in the “Beta Weighted” analysis.

Exhibit 1: Current Portfolio Exposure (% of Net Asset Value)



Source: Upslope, Interactive Brokers, Sentieo, Thomson Reuters
 Note: as of 9/30/17

Exhibit 2: Gross Exposure by Market Cap & Geography



Source: Upslope, Interactive Brokers
 Note: as of 9/30/17. Definitions: Small (\$250mm - \$3bn), Mid (\$3bn - \$11bn), Large (>\$11bn)

Portfolio Update

We were active on both sides of the portfolio this quarter. We exited two longs and added two others. On the short side, we added five positions and exited two. The elevated level of activity on the short side was due, in part, to the slight shift in approach outlined last quarter. Details on some of the notable changes to the portfolio during the quarter are provided below:

- **Advisory Board (ABCO)** – exited long. After a lengthy sale process, Advisory Board announced in August that it would be acquired by UnitedHealth. This was not a surprise: the company had been under pressure from an activist investor to sell itself since January. From inception, ABCO contributed 330 bps to performance.
- **Orbital ATK (OA)** – new long. With the ABCO exit, OA was lined up to “replace” it. OA is a midcap aerospace/defense contractor focused on rocket propulsion, launch vehicles, and missile defense products (among others). Less than one month after opening the OA position, Northrop Grumman announced plans to acquire OA for a 22% premium. I *wish* I could claim I saw the deal coming; but, I didn’t. I liked the business, its long-term outlook, and its value – and, we got lucky.
- **Salvatore Ferragamo Italia (SFER.IM)** – new long. Ferragamo is a €3.8 bn (market cap) leading global designer and producer of luxury shoes, leather goods, and apparel. Although SFER is listed on the Borsa Italiana and headquartered in Florence, it is a truly global business (~25% of sales each to N. America and Europe, 35% APAC, 10% Japan, 5% LatAm). The Ferragamo family still owns ~70% of the company – and I consider that a good thing. Over the past year+, the company has replaced senior leadership at both the management (CEO – second-ever non-Ferragamo, and CFO) and product design levels. During this time, SFER’s stock has significantly underperformed peers. Valuation still isn’t “obviously cheap,” but appears reasonable enough, given the company’s financial profile and what I perceive to be reasonable odds of upside to longer-term estimates. 2H 2017 seems likely to be challenging; but, I believe expectations are quite low.
- **Natural Grocers (NGVC)** – exited long. NGVC reported Q2 results in August. The quarter showed some hopeful signs related to our original thesis; but, other emerging issues caused the stock to plummet 34% in a single day. My already-shaky confidence in management was shattered during the call when the CEO bragged about doubling the store base over the last 5 years, even as same store sales have collapsed. I hate exiting positions shortly after “blow-ups”; but, our thesis broke and there are better businesses to spend time and mental energy on. All in all, NGVC cost us 200 bps from inception. Slowly but surely, I am learning to avoid situations involving drool-inducingly cheap valuation (e.g. 20%+ free cash flow yield. This style works for some – but, generally not for me). I will do my best not to make similar mistakes in the future.
- **Short Activity:** We exited two shorts, including Blue Apron (APRN), which hit our price target faster than expected. We also added four new consumer-discretionary short positions and one financial. Going forward, I plan to be more selective in discussing individual short positions in the quarterly letters. This is due to the public nature of the letters, the more sensitive nature of (some) shorts, the smaller sizing, and the more actively-traded approach I take towards shorting.

Performance Detail

The largest contributors to and detractors from Upslope's quarterly performance are noted below. Gross contribution to overall portfolio return is noted in parentheses, along with identifiers for whether a position was long (L) or short (S).

Exhibit 3: Top Contributors to Quarterly Performance

Positive Contributors	Negative Contributors
Orbital ATK (L, +156 bps)	Natural Grocers (L, -111 bps)
STORE Capital (L, +89 bps)	Undisclosed Restaurant (S, -53 bps)
Advisory Board (L, +81 bps)	EWC/Canada ETF (S, -25 bps)
Contribution from Longs	Contribution from Shorts
+435 bps	+25 bps

Source: Upslope, Interactive Brokers

Note: amounts may not tie with aggregate performance numbers due to rounding, the impact from foreign currency cash holdings and fees

Closing Thoughts

I'll close with an infamous (and perhaps over-used) quote that I've thought often about lately (I doubt I'm alone among equity portfolio managers):

"...As long as the music is playing, you've got to get up and dance. We're still dancing."

- Chuck Prince, CEO of Citigroup, in mid-2007

As small- and mid-cap indexes rallied sharply last month, I had that same sinking feeling that I had back in November when the small-cap Russell 2000 index rose 11%: "how am I supposed to keep up with *this*?" Certainly, not by changing our approach or positioning. While I worry about broader market conditions, "figuring out" where markets are headed is really just a hobby: it's fun to talk and "gossip" about, but my focus is on more important things (protecting our capital and identifying attractive individual stocks).

While Upslope's performance has benefited from this bull market, I continue to believe that our portfolio is unique, uncorrelated, and *defensive*. Nearly 50% of our *long* exposure stems from businesses I'd characterize as relatively defensive (CCK – food/beverage cans, ATR – healthcare packaging, OA – pending acquisition, STOR – real estate lessor with average contract duration of ~14 years). The remainder is invested in growing, higher-quality businesses that I believe are reasonably valued and apt to outperform over the long-term.

As always, I remain grateful for your trust and the opportunity to manage a portion of your hard-earned money. Please do not hesitate to contact me with any questions at all regarding the portfolio, your account, or any other matters.

Last, but not least, during the quarter we welcomed two new investors to Upslope. If you or anyone you know might be interested in learning more about Upslope and our investment approach, please get in touch!

Best Regards,

George K. Livadas
george@upslopecapital.com

Appendix A: Historical Composite Performance

Net Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Midcap 400 ²
2016³	--	--	--	--	--	--	--	0.0%	(0.7%)	(1.6%)	2.8%	(1.7%)	(1.4%)	6.2%
2017	7.3%	(1.9%)	0.8%	3.8%	2.6%	(0.4%)	2.3%	0.1%	2.1%	--	--	--	17.7%	9.1%
Since Inception													16.0%	15.9%

Gross Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Midcap 400
2016	--	--	--	--	--	--	--	0.0%	(0.7%)	(1.5%)	2.8%	(1.7%)	(1.3%)	6.2%
2017	7.6%	(1.9%)	0.8%	4.0%	2.6%	(0.4%)	2.3%	0.1%	2.1%	--	--	--	18.1%	9.1%
Since Inception													16.6%	15.9%

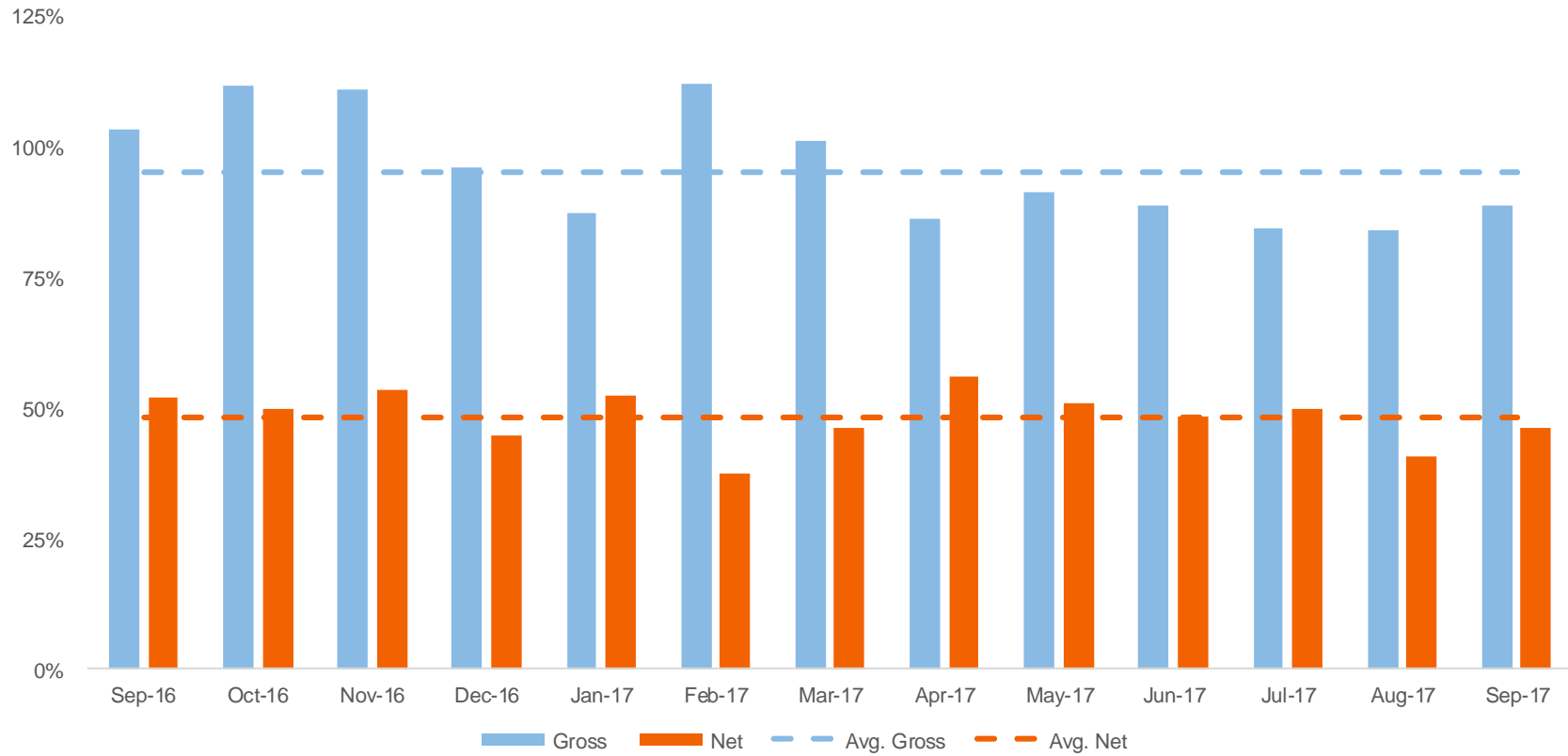
NOTE: Returns are shown for a composite of all accounts invested according to Upslope's core long/short strategy (which comprised the vast majority of AUM at quarter-end). **Individual account performance may vary** (the minimum net returns for a full-fee account invested since inception and YTD are 15.4% and 17.3%, respectively). Net returns are net of all fees and expenses billed during period(s) shown. **No performance fees have been billed in the periods shown.** Given the change in fee structure with the formation of Upslope, the variability of fees across individual accounts and the lack of performance fees billed to date, gross returns are also provided.

Data from inception to June 24, 2017 is based on portfolio manager's ("PM") performance managing the strategy under prior firm (as sole PM). After leaving the firm, PM personally managed the strategy/accounts on a no-fee basis through August 11, 2017. Upslope effectively became operational and has been managing the strategies thereafter. **PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS**

² Total return for the S&P Midcap 400 ETF (MDY) is shown.

³ August 2016 and YTD 2016 data are shown from inception of the strategy on 8/29/16.

Appendix B: Daily Average Net Long & Gross Positioning by Month⁴



⁴ Source: Upslope, Interactive Brokers. Based on composite of all accounts invested according to Upslope's core long/short strategy.

IMPORTANT DISCLOSURES

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Any performance shown for relevant time periods is based upon a composite of actual trading in accounts managed by Upslope under a similar strategy. Except where otherwise noted, performance is shown net of billed management and incentive fees (where applicable), and all trading costs charged by the custodian. Composite performance calculations verified by Stonegate International Administration. Performance of client portfolios may differ materially due to differences in fee structures, the timing related to additional client deposits or withdrawals and the actual deployment and investment of a client portfolio, the length of time various positions are held, the client's objectives and restrictions, and fees and expenses incurred by any specific individual portfolio. Dividends and other cash distributions are not automatically or directly reinvested in securities held by Upslope clients.

Benchmarks: Upslope's performance results shown are compared to the performance of the HFRX Equity Hedge Index, as well as exchange-traded funds that track the S&P 500, S&P Midcap 400, and Russell 2000 indexes (tickers: SPY, MDY, IWM, respectively). The HFRX Equity Hedge Index is typically not available for direct investment. Benchmark results do not reflect trading fees and expenses.

The HFRX Equity Hedge Index was chosen for comparison as it is generally well recognized as an indicator or representation of the performance of equity-focused hedge fund products. The other benchmarks noted above (SPY, MDY, IWM) and used by Upslope have not been selected to represent an appropriate benchmark to compare an investor's performance, but rather are disclosed to allow for comparison of the investor's performance to that of certain well-known and widely recognized, investable indexes. Results for these benchmarks do not reflect trading fees and expenses.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS

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