

Dear Fellow Investors,

I am excited to provide this update for Upslope Capital Management. Highlights for 2017 include:

- Upslope's core long/short strategy returned¹ +16.1% in 2017 and -1.3% in Q4.
- For 2017, Upslope's average net long exposure was 48%; gross exposure averaged 93%.
- The S&P Midcap 400 ETF (MDY) returned +15.9% for 2017 (+6.2% in Q4); the HFRX Equity Hedge Index was +10.0% for 2017 (+2.7% in Q4).

Q4 was another strong period for equities. While Upslope kept pace for the year, we lagged during the quarter, due to lower net long exposure and short-term underperformance in a few sizable positions. As I've noted in the past, being out-of-sync with broader indexes (particularly on a short-term basis) is the norm for us, given the concentrated and idiosyncratic nature of Upslope's long/short approach.

As always, in the remainder of this update, I will discuss: market conditions, portfolio positioning, and key updates to portfolio positions.

Market Conditions - "ALL-IN"

Looking ahead, I remain increasingly cautious on equity market conditions for three reasons:

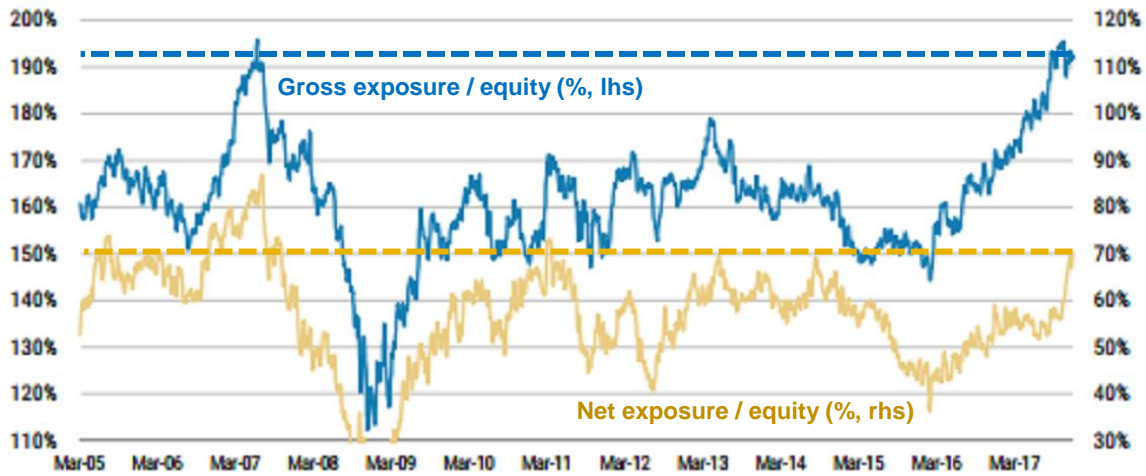
- Attractive absolute value is unusually hard to find,
- Institutional & individual investors appear to be "all-in" (fully invested with little cash-on-hand), and
- There are clear signs of excess and "reaching" for returns (i.e. taking imprudent risks to outperform surging markets).

These conditions have intensified in 2018, as most U.S. indexes are up >3% in just the first eight trading sessions of the year. On the first (and perhaps least interesting) point: most valuation metrics (e.g. price / earnings ratios) show stocks to be trading at a significant premium to historical levels. At this stage I believe it's unreasonable to expect significant further expansion in *valuation multiples*. Returns will need to come largely from fundamentals improving *beyond current expectations*. This could happen – the economy is very strong – but, we are likely losing one of the big, recent engines (multiple expansion) for returns.

Second, a number of data points suggest that institutional and individual investors are already "all-in" this bull market. A recent Bloomberg [article](#) included two notable charts. First, in Exhibit 1 below, long/short hedge funds are shown to have net long and gross exposure at/near typical peaks (ignoring the embarrassingly long exposure just before the financial crisis). In my view, the combination of near-peak long positioning ("bets" on markets going up) and peak leverage suggests likely volatility ahead.

¹ Unless otherwise noted, all returns are shown for a composite of all accounts invested according to Upslope's core long/short strategy (comprises the vast majority of AUM), and are net of all fees and expenses billed during period(s) shown. Composite performance calculations verified by Stonegate International Administration. **Please consider all performance figures in conjunction with accompanying disclosures and complete data in Appendix A.**

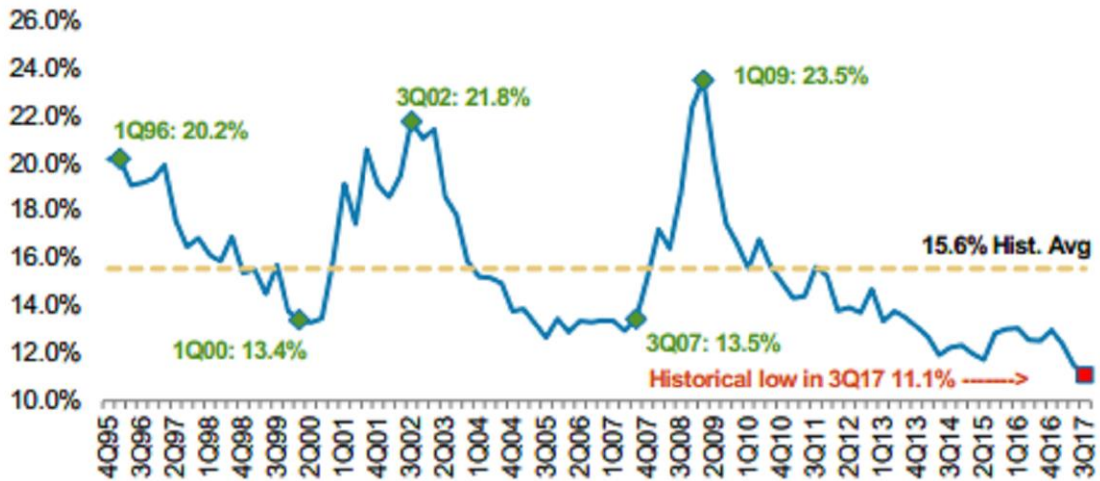
Exhibit 1: US Equity Long/Short Gross and Net Exposure



Source: Bloomberg, Morgan Stanley, Upslope (annotations)
 Note: as of December 14, 2017; Beta- and Delta-adjusted

Individual (retail) investors also appear to be “all-in.” A recent AAI survey concluded that individual investors ended 2017 with the highest allocation to equities in 16+ years. Consistent with this survey is another chart from the same Bloomberg article: cash as a percent of client assets at Schwab (the largest discount broker in the U.S.) was at/near all-time lows in 3Q 2017 (the latest data point available).

Exhibit 2: Charles Schwab Client Cash as a % of Total Client Assets: 1995 - 3Q17



Source: Bloomberg, Morgan Stanley, Charles Schwab, Upslope

Finally, if most investors are indeed “all-in,” we’d expect to see signs of *reaching* for returns and questionable risk-taking behavior. That’s exactly what we are starting to see, in my view. If there is an “obvious” bubble, it’s Bitcoin and all things blockchain-related. The phenomenon seems to be bleeding into equity markets, where almost every week, another stock jumps on reports of (often highly questionable)

involvement in Bitcoin, blockchain, etc. “I know this idea is crazy – but it’s going to get crazier!” is an often-mentioned investment thesis here. The mood was captured perfectly in a January 2nd CNBC headline that read: **“Tiny company [that] owns some Hooter’s restaurants says it will use blockchain for rewards program, boosting stock by 50%.”** Lest you think this was an isolated incident, note the eye-popping returns (over just 60 days) for the stocks listed below. Many of these companies pulled off similar gimmicks.

Exhibit 3: Sample of Blockchain-Related Equities

<i>(Market cap in \$US mm)</i>		Nov 12, 2017	Jan 11, 2018	
		Price	Price	% Change
LFIN	Longfin Corp	\$5.00	\$42.63	753%
OSTK	Overstock.com	53.15	80.60	52
XNET	Xunlei Ltd	13.09	22.39	71
GCAP	GAIN Capital	7.19	8.61	20
SSC	Seven Stars Cloud Grp	2.06	4.83	134
RIOT	Riot Blockchain	7.16	20.85	191
NXTD	Nxt-ID	1.38	3.12	126
KODK	Eastman Kodak Co	3.75	8.40	124
SIEB	Siebert Financial	3.70	14.85	301
TEUM	Parateum	0.88	2.51	185
OTIV	On Track Innovations	1.26	1.38	10
MARA	Marathon Patent Grp	1.33	3.84	189
SRAX	Social Reality	3.36	5.57	66
NETE	Net Element	4.36	11.41	162
LTEA	Long Blockchain Corp	2.84	6.39	125
GROW	US Global Investors	2.83	4.39	55
FTFT	Future Fintech Grp	1.58	4.42	180
MGTI	MGT Capital Investments	1.82	3.86	112
GENE	Genetic Technologies	0.80	1.59	99
DSS	Document Security Systems	0.64	2.14	234
BURG	Chanticleer Holdings	2.24	3.30	47
DPW	Digital Power Corp	0.58	2.81	384
			Average	165%
			Median	126

Source: Upslope, Sentio

Note: Upslope clients have no positions in any of the stocks above as of the date of this letter

Why are we discussing this wacky phenomenon that Upslope isn’t even involved in? Because, I believe it represents investors of *all stripes* (including some well-known short-sellers!) taking undue risk in an attempt to outperform. None of these observations (elevated valuation multiples, fully-invested institutional and individual investors reaching for returns) tell us much about near-term market direction. But, taken together, I believe they provide a bright “yellow light” for equity investors.

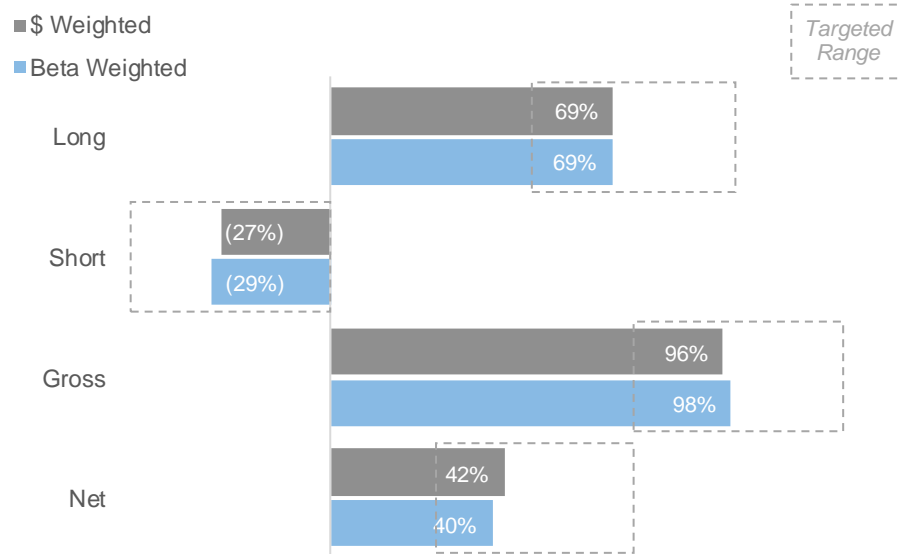
Given the above observations, I believe the prospects for Upslope’s long/short approach to add value and alpha for clients in 2018 and beyond are increasingly attractive. Despite my ramblings above, I will reiterate that Upslope’s positioning is guided by my success (or lack thereof) in identifying actionable, attractive investment opportunities – as opposed to a broader market view. However, I believe our conservative net positioning today is consistent with the above observations.

Portfolio Positioning

At quarter-end, adjusted net and gross exposure were 34% and 88%, respectively. These amounts have been adjusted for our Orbital ATK position (a special case due to its pending sale to Northrop Grumman). Net long exposure is closer to the bottom of our 25-75% targeted range. This reflects challenges finding higher-conviction value on the long side, combined with greater apparent opportunities on the short side.

Exhibit 4 below shows (unadjusted) exposure on both a “\$ Weighted” and “Beta Weighted” basis. As a reminder, “\$ Weighted” is calculated using the dollar value of each position. “Beta Weighted” accounts for the beta (rough proxy for past volatility) of each position. So, a stock with a beta of 1.5 that comprises 10% of the portfolio would effectively be included as a 15% position in the “Beta Weighted” analysis.

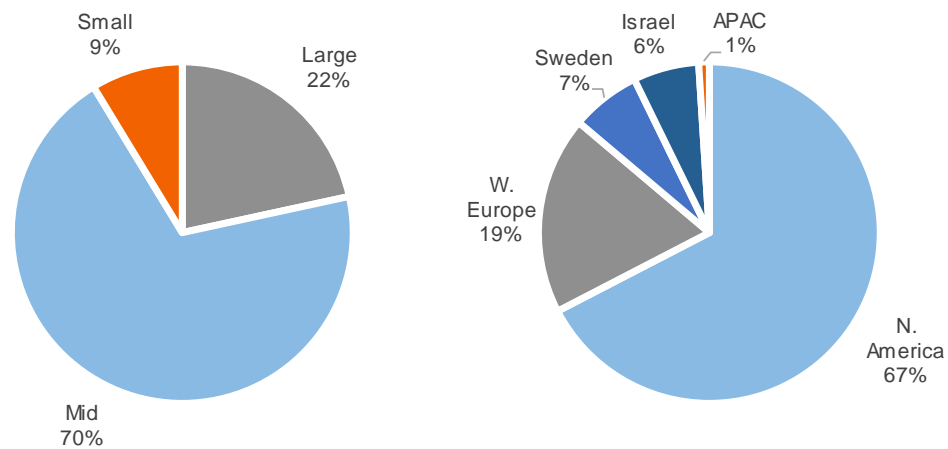
Exhibit 4: Current Portfolio Exposure (% of Net Asset Value)



Source: Upslope, Sentieo, Thomson Reuters

Note: as of 12/31/17. “Beta Weighted” includes delta adjustments for derivative holdings, when applicable

Exhibit 5: Gross Exposure by Market Cap & Geography



Source: Upslope, Interactive Brokers

Note: as of 12/31/17. Definitions: Small (\$250mm - \$3bn), Mid (\$3bn - \$11bn), Large (>\$11bn)

Portfolio Update

The largest contributors to and detractors from 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 6: Top Contributors to Quarterly Performance

Positive	Negative
MarketAxess (L, +64 bps)	Check Point Software (L, -64 bps)
Owens Illinois (S, +56 bps)	NEX Group (L, -56 bps)
STORE Capital (L, +50 bps)	Salvatore Ferragamo (L, -30 bps)
Total Contribution from Longs	Total Contribution from Shorts
-45 bps	-35 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

Key changes to the portfolio are discussed below:

- Crown Holdings (CCK) – exited long and initiated short.** Since inception of Upslope's strategy (at a prior firm), Crown has been one of our largest long positions. However, a large acquisition in an unrelated business, announced just six days before Christmas ticked the 'very questionable capital allocation' box for me. Crown's \$4 bn acquisition of Signode – an industrial/transit packaging company – undercut a number of the reasons I (and I suspect other shareholders) liked the stock: predictable, acyclical cashflows, de-leveraging, ramping share buybacks, and the prospect of a dividend. The deal, which added a materially cyclical business and a significant amount of debt, negated each of these attributes.

Most of the time, when I decide to exit a long position, flipping and initiating a short position is not actively considered. However, in my view, there are few more obvious 'green-lights' to short a stock than a questionable, seemingly empire-building acquisition. While it's possible Signode will ultimately be a win for Crown, I believe the odds favor value destruction due to the flimsy strategic rationale. As one analyst asked during Crown's call announcing the deal: "how does Crown become a better company...[with] Signode in the portfolio?" Management did not have a good answer.

- Bemis Company (BMS) – new long.** Bemis is a leading global packaging company, focused on flexible plastic films and other forms of plastic consumer packaging. Historically, Bemis has had a reputation for having strong technology, but more 'engineering'-focused (as opposed to shareholder-focused) leadership. The company's underperformance recently came to a head after it repeatedly missed earnings estimates and a major activist fund (Starboard Value) became a shareholder. As a result, a unique opportunity appears to have presented itself in this business that I have followed for several years. Why I like the opportunity:
 - The company seems to be undergoing a sale process**, in my view. Press reports (*New York Post* and others) over the past six months have suggested BMS could be sold. One report indicated interest in the company from a foreign strategic buyer; another suggested Bemis has hired an advisor to explore strategic options.
 - Bemis should be attractive to private equity buyers**, based on my analysis. Given the nature of Bemis' business – steady (if lackluster) end-markets, longer-term contracts, contractual pass-through of commodity price fluctuations – the company

could support a significant amount of leverage. Its reputation for being under-managed should further add to potential private equity interest.

- (3) **Strategic buyers may also be interested.** Press reports have indicated potential interest from at least one strategic acquirer. While reports for that specific company have since been denied, the rationale remains: Bemis offers a buyer geographic and/or product (e.g. a primarily non-plastic packager) diversification. My assumption is that a strategic could pay more for BMS than a PE buyer, but that the odds of this scenario coming to fruition are lower.
 - (4) **The stock does not reflect the likelihood of a sale in a material way**, based on my work. Given the above observations, my view is that the odds of Bemis being sold are greater than 50%. Based on my analysis of the stock's performance since rumors first emerged of a potential sale, I believe the "unaffected" share price (i.e. what the stock should trade at if I am wrong about a sale) is ~\$45.
 - (5) **Risks include:** no deal (and, potentially incorrect conclusion/analysis regarding the unaffected price), continued top-line/volume weakness, challenging pricing environment, moderate current leverage, exposure to volatile emerging markets (e.g. Brazil), management turnover, and general uncertainty.
- **Summit Materials (SUM) – exited long.** We first purchased shares in Summit prior to the 2016 election on the thesis that, regardless of outcome, infrastructure spending was likely to rise. SUM is a well-run business and was a reasonably-priced beneficiary of the above scenario. While congress has yet to pass a major infrastructure bill, SUM shares nonetheless reached our price target. For businesses of more "modest quality" (read: lower – due to cyclicality, high leverage, and reliance on M&A), such as SUM, my practice is to exercise tighter discipline when targets are hit.

Key updates to existing positions are discussed below:

- **Salvatore Ferragamo Italia (SFER.IM, Long):** Ferragamo's Q3 was weak, which was mostly expected. The company is undergoing a transition with a new design team preparing for a full launch of new products in 2018. As a result, sales were flat and operating profits fell 32% y/y in Q3, as the company cleared old inventory. SFER also pre-warned in December that 2018 would *also* be a "transition" year. Despite these challenges, the stock has been resilient: SFER closed down ~5-6% after each disappointment – yet, rebounded quickly. At year-end, SFER was trading above where it was prior to Q3 earnings. Expectations appear to be quite low.
- **NEX Group (NXG.LN, Long):** NEX Group had a challenging six months. In addition to management turnover, the company's margin 'turnaround' is behind schedule. Recent results showed a deeper margin hit to the Optimisation division, as the company invested heavily in growth opportunities related to the roll-out of new financial regulations in Europe for early 2018. While the position cost us during the quarter, the good news, in my view, is two-fold: we'd already lightened up on the position earlier in the year, and the stock now appears to be a good value again.

Closing Thoughts

Given current market conditions, I am particularly excited about the prospects for Upslope's differentiated, long/short portfolio to add value and alpha for clients in 2018 and beyond. This year is an especially important one for several of our top holdings, given ramping turn-around efforts (e.g. NEX Group and Ferragamo) and prospective strategic developments (e.g. Bemis).

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, if you or anyone you know might be interested in learning more about Upslope or our investment approach, please feel free to get in touch or pass along my contact information!

Best Regards,

George K. Livadas
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Appendix A: Historical Long/Short 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%	(1.2%)	(0.6%)	0.5%	16.1%	15.9%
Since Inception													14.5%	23.1%

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%	(0.7%)	(0.6%)	0.5%	17.1%	15.9%
Since Inception													15.6%	23.1%

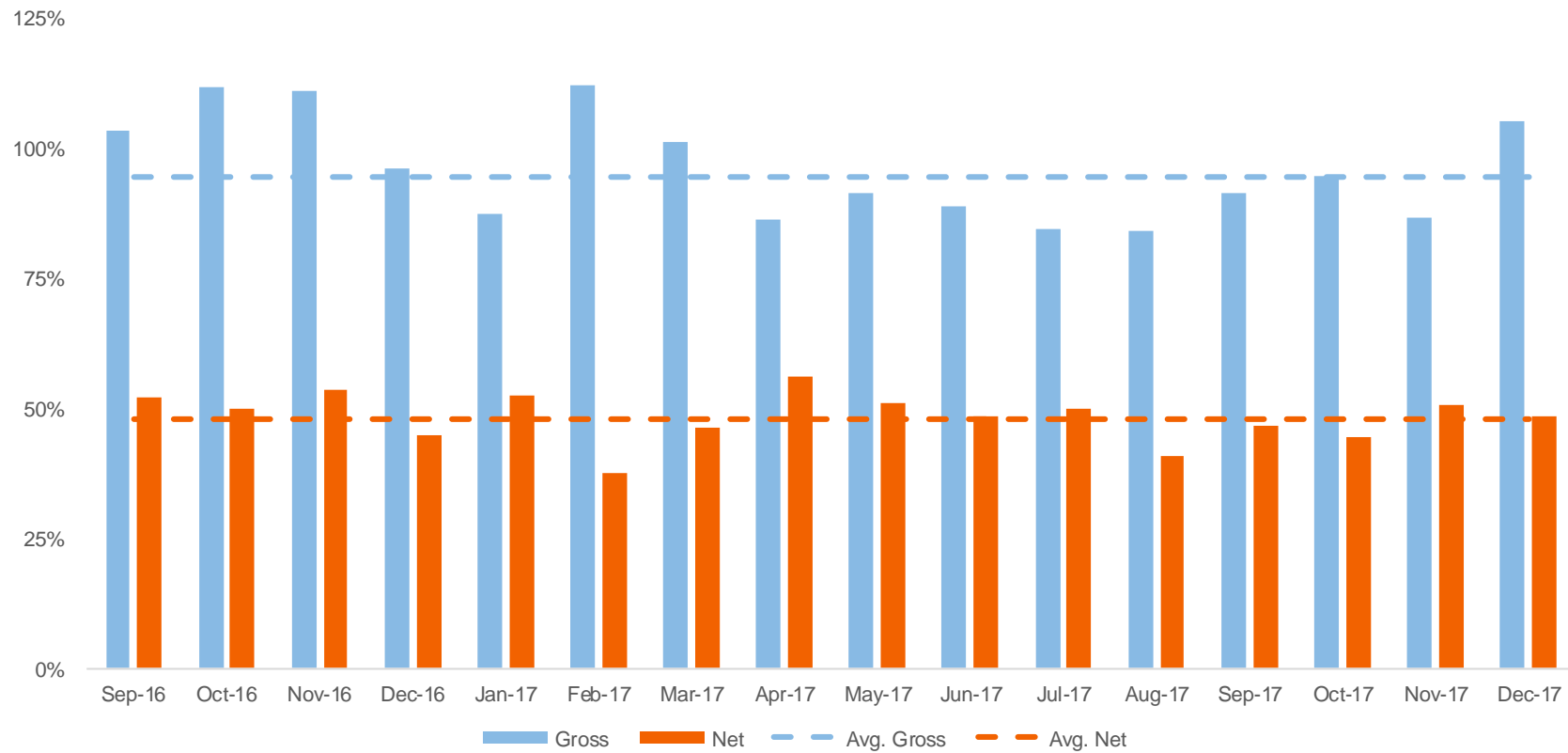
NOTE: Returns are shown for a composite of all accounts invested according to Upslope's core long/short strategy (which comprised the vast majority of AUM at quarter-end). **Individual account performance may vary** (the minimum net returns for an account invested since inception and in 2017 were 13.7% and 15.6%, respectively). **Net returns are net of all fees and expenses billed during periods shown.** Performance fees were not billed prior to October 2017. Given the change in fee structure with the formation of Upslope, and the variability of fees across individual accounts, 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.

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Benchmarks: Upslope's performance results shown are compared to the performance of the HFRX Equity Hedge Index, as well as the exchange-traded fund that tracks the S&P Midcap 400 (ticker: MDY). 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 (source: Hedge Fund Research, Inc. www.hedgefundresearch.com, © 2017 Hedge Fund Research, Inc. All rights reserved) was chosen for comparison as it is generally well recognized as an indicator or representation of the performance of equity-focused hedge fund products. Any other benchmarks noted 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.

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