Upslope Capital Management
ALTERNATIVE \ VALUE \ CONCENTRATED

2018-Q3 Update

October 17, 2018

Dear Fellow Investors,

I am excited to share this update for Upslope Capital Management. During the quarter, we passed the two-year mark on our track record. Given our historically low net exposure and the backdrop of a strong market, I am satisfied with our absolute and relative performance. In this letter, I will discuss general market conditions and provide a number of updates to the portfolio. Performance highlights include:

	Upslope Exposure & Returns[1]			Benchmark Returns	
	Average Net Long	Return, Net of Fees	Return, Gross of Fees	S&P Midcap 400 ETF (MDY)	HFRX Equity Hedge Index
Q3 2018	36%	+0.7%	+1.0%	+3.8%	-1.1%
YTD 2018	38%	+7.9%	+9.3%	+7.2%	-0.9%
Since Inception	44%	+23.3%	+26.4%	+32.0%	+11.3%

Note: clients should check individual statements for account returns, which may vary due to timing and other considerations

MARKET CONDITIONS: TAKE THE FORK

Q3 was another exceptionally strong period for *U.S.* equity indexes – most closed at or near all-time highs. But, a trend that kicked off in Q2 – U.S. markets outperforming weak foreign markets – accelerated dramatically in Q3. This was a strange dynamic that created a feeling of isolation. It was hard not to wonder: "can everything really be this good in the U.S., while everything *out there* appears to be falling apart?"

The answer, at least through mid-October, seems to be "no." Just a few days into October markets began to fall – most notably on October 10 when most indexes fell 3-4%. This marked the sharpest one-day sell-off since the February drama. While markets have rebounded a bit, the obvious question: is this a normal, healthy correction in a still-healthy bull market? We don't know. A few things to consider:

- **Overseas drama** – developments abroad have been ugly. China is in a bear market (-20% or more) and other emerging and European markets are very weak. Given the global nature of so many U.S. companies, the divergence in performance strikes us as unsustainable.

- **Wounded Generals** – "FANG" stocks (Facebook, Amazon, Netflix, Google) have been among the biggest leaders of this bull market. The recent, sharp weakness for this group – which resulted in its worst collective-sell-off in history – seems notable.

- **U.S. macro data remains strong** – while the health of the housing market has recently been called into question, overall the U.S. economy remains *very* strong. We've never argued against these facts, but continue to wonder how much better it can get.

- **Cyclical red flags** – stocks across a range of *cyclical* industries in the U.S. have weakened sharply in recent months. This is the most worrisome and directly-relevant data point, in our view. A sampling of these stocks is provided on the following page.

[1] Unless otherwise noted, returns shown for composite of all accounts invested according to Upslope's core long/short strategy (vast majority of AUM). "Since inception" data from 8/29/16, on which the portfolio manager began managing the strategy at prior firm. Composite returns verified by LICCAR. Please see important performance-related disclosures in Appendix A.

Exhibit 1: Challenged Cyclicals

Source: Upslope, Finviz
Note: as of 10/17/18 (intra-day)

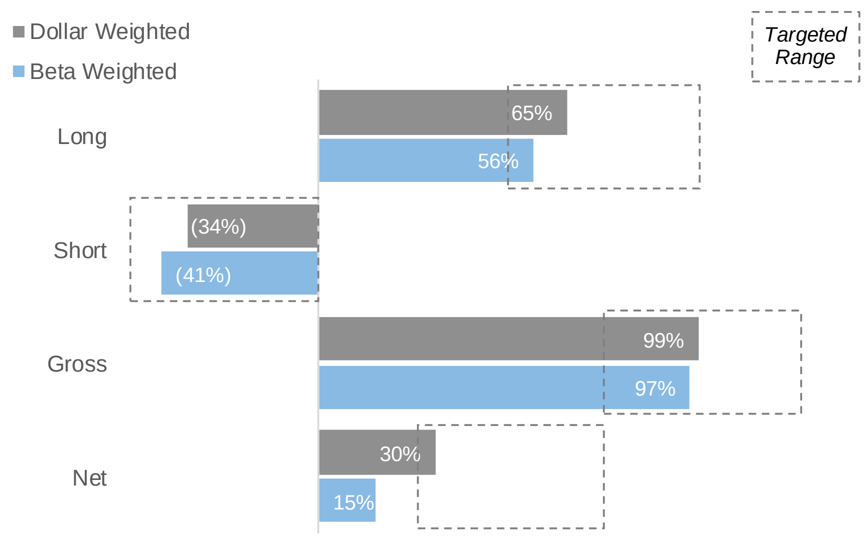
While we've admittedly been cautious for a while (that will be the case more often than not – why *wouldn't* we perpetually worry about losing our money?), current market conditions feel like a true fork in the road. One path leads to more volatility and a potentially serious course correction (i.e. U.S. joining the rest of global markets in some distress). The other leads to a broad rebound of *both* global and domestic markets.

We really don't know which way markets will go. Given Upslope's bottom-up approach and hedged long/short strategy, however, we are reminded of Yogi Berra's *"when you come to a fork in the road, take it"* line. In essence, it doesn't matter much which path the market takes: we are happy with either outcome.

PORTFOLIO POSITIONING

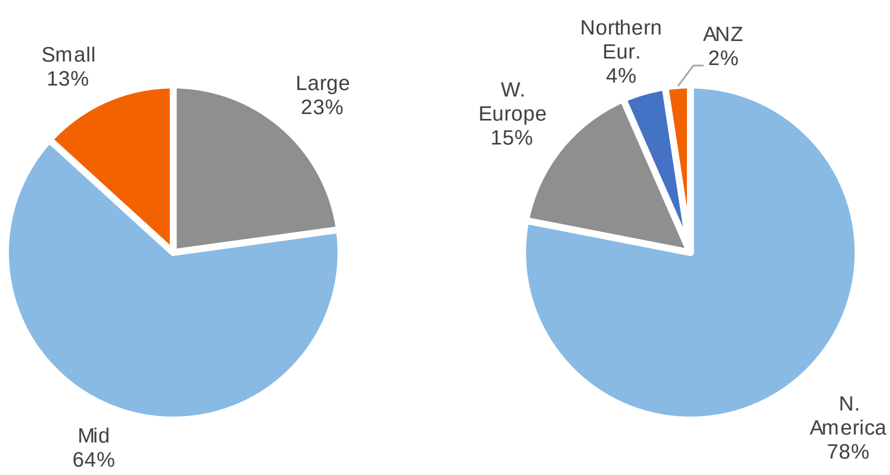
At quarter-end, gross exposure was 99%, while net was 30% (vs. normal expected range of 25-75%). One item to note: net exposure was just 15% on a Beta-Weighted basis, mostly due to the fact that our shorts have tended to have higher betas than our longs. Clearly this is something we monitor closely; however, for a variety of reasons we tend to focus more on Dollar-Weighted metrics.

Exhibit 2: Current Portfolio Exposure (% of Net Asset Value)



Source: Upslope, Interactive Brokers, Sentieo
Note: as of 9/30/18. Beta-weighted amounts include delta-adjusted impact of options, if any

Exhibit 3: Gross Exposure by Market Cap & Geography



Source: Upslope, Interactive Brokers, Sentieo
Note: as of 9/30/18. Definitions: Small ($250mm - $3bn), Mid ($3bn - $11bn), Large (>$11bn)

PORTFOLIO UPDATES

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

Exhibit 4: Top Contributors to Quarterly Performance (Gross)[2]

Positive Contributors	Negative Contributors
AptarGroup (L, +165 bps)	Molson Coors (L, -80 bps)
Burford Capital (L, +145 bps)	MarketAxess (L, -70 bps)
Bemis Co (L, +145 bps)	Cboe Global Mkts (L, -70 bps)
Longs – Total Contribution	**Shorts – Total Contribution**
+215 bps	-110 bps

Source: Upslope, Interactive Brokers
Note: Amounts may not tie with aggregate performance figures due to rounding

New Positions[3]

- **New Long – Camping World Holdings (CWH):** We were previously short CWH (closed in April), the largest RV dealer in the U.S. The stock took another leg lower after we exited. Our short thesis was that CWH had been trading at a full valuation on estimates likely reflecting a peak for the sector. As a bonus, CWH was (still is) run by a 'CNBC personality' (Marcus Lemonis) – a factor we assumed might bother investors in a downturn. While not all of the factors have changed, a few key items have:

  - **CWH's stock and earnings multiple have both been cut in half.** The prices of *other* stocks across the sector have also been hit hard (down 10-50% YTD). All in all, expectations around the RV cycle appear to have been reset.

  - **The CEO has finally fumbled his way towards a logical explanation of CWH's Gander Mountain acquisition.** Gander Mountain was a bankrupt outdoor retailer that CWH initially pitched as an easy way for CWH to add to its customer database. Eventually, the strategy "evolved" and CWH noted the deal would enable it to efficiently add new dealer locations in under-penetrated markets. This confusion/messaging change had been a sticking point for investors.

  - **A well-known and sometimes-activist fund, Third Point, took a stake in Q2.** We don't necessarily expect them to "go activist" here, given the relative sizing. But, their presence seems a marginal positive at worst.

  - **Short interest has surged: CWH is one of the most shorted stocks of any we look at** (~50% short interest as a percent of float). We don't automatically view this as a positive. But, given the above commentary, it's not hard to envision CWH meeting/beating low expectations and the extreme level of short interest providing fuel for the stock.

  CWH isn't perfect and we still have a few lingering concerns (Lemonis, being long a "cheap" cyclical, missing something regarding short interest). Nonetheless, CWH represents a compelling risk-reward, in our view. The company maintains a dominant competitive position in an industry likely to grow over

[2] All amounts rounded to nearest 5 basis points.
[3] Upslope's general policy regarding disclosure of new positions is to discuss significant longs that we consider to have been fully established. For shorts, we aim to discuss an illustrative sample of positions (but generally desire added confidentiality).

the long-term. The business model – similar to auto dealers in that profitability is more driven by recurring services than unit sales – is an attractive one. Valuation, by virtually any metric, is near all-time lows. Free cash flow is likely to be solid through the cycle. And finally, despite some lingering skepticism towards Lemonis, we are comforted by the fact he remains the largest shareholder by far.

- **New Short – Sonos (SONO):** Sonos is a recent IPO with a simple short thesis that rhymes with past "IPO shorts" we've been involved with (Blue Apron, Amplify Snacks): it is a faddish, single-product company with few (if any) sustainable competitive advantages, that was pitched[4] and valued as something other than what it really is – a speaker company. On top of it, Sonos increasingly competes head-to-head with the biggest names in tech – Amazon, Google, and Apple – all of whom have other (non-profit-related) motives to sell their own (smart) speakers.

  The numbers tell a similar story to the qualitative case. Despite years of strong growth, Sonos has yet to reach material profitability (especially when accounting for stock-based comp). Add in the fact that revenue growth appears to be slowing and it's easy to see how the financial model could be challenged.

  While the stock has pulled back from its post-IPO peak, it remains fully-valued on most metrics (EV/Sales, and even "EV/Long-Term Target EBITDA" – a generous metric we created for this exercise), and we remain short.

Updates on Existing Positions[5]

- **Long Bemis (BMS) – Exited**: We promptly exited our position in Bemis, a producer of plastic packaging, following an announcement that Amcor (Australian-listed packager) would acquire the company in an all-stock transaction. This outcome was not a surprise. When we initiated the Bemis position in Q4 of last year, the core of the thesis was that it was likely to be sold due to years of under-management, an attractive asset base, and the presence of an activist investor.

- **Long Thule Group (THULE.SS) – Exited**: In early Q4, we finished exiting our position in Thule (designer of outdoor recreational carriers – e.g. ski- and bike-racks), which was initiated at inception of the strategy. This was a difficult decision. Thule is a fascinating, high-quality, niche business, but no doubt a cyclical one. Given the company's still-elevated valuation, the poor reaction to relatively strong Q2 results, moderate execution risk (newer product categories), and our macro bias (occasionally impossible to ignore), exiting the position seemed prudent.

- **Short Tesla (TSLA) – Update**: Where…does one even begin? We'll skip most of the details (though I'd be *more* than happy to discuss over email/phone – my wife would probably appreciate the break). We remain short and believe Tesla will continue to struggle. A few key issues/questions:

  - Why do executives continue leaving in droves if the Model 3 roll-out is sustainable & accelerating?
  - Why does the company refuse to raise capital, despite a *very obviously* stretched balance sheet?
  - Why won't the company provide an update on its Model 3 order backlog?
  - Why did Musk publicly taunt the SEC just before finalizing his settlement for securities fraud?
  - Why did TSLA recently engage Williams & Connolly partner Steven Farina, "chairman of the firm's Accounting Malpractice and Securities Litigation and Enforcement practice groups"?

- **Long MarketAxess (MKTX) – Update:** We have owned MarketAxess, the dominant "exchange" for corporate bond trading, since inception of the strategy – and have followed the company for many years

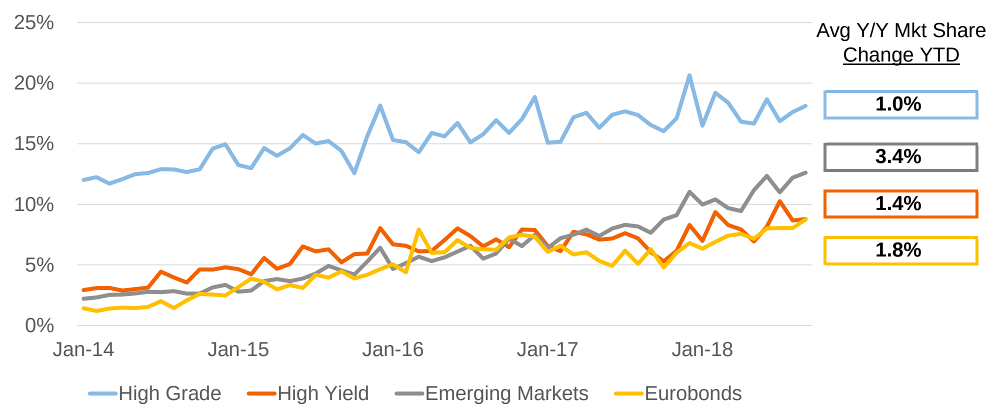
[4] In its prospectus, SONO was pitched, in our view, as something other than a traditional hardware business. There was discussion of recurring revenues, since customers often purchase multiple speakers for their homes over time. There was also discussion of the company's app and the competitive advantages it provides. We found none of these arguments compelling.
[5] Upslope's general policy is to discuss developments – positive or negative – for already-disclosed positions that had a material impact (in Upslope's judgement) on Upslope's performance during the quarter.

prior. The qualitative story has always been compelling: ~80%[6] of all *electronically-traded* (vs. voice/phone) corporate bonds trade on MKTX's platform. Yet, only ~20% of the corporate bond market trades electronically today. These factors create a powerful dynamic for MKTX: a dominant position in an industry with real network effects, a long run-way, and a clear secular trend.

While this is exciting, nothing is ever that easy: valuation has *always* appeared expensive. We've been happy to sit tight as shareholders, as valuation crept higher, given our view of MKTX as a "Core" position for the long-run. Nonetheless, at some point, worries about competitive pressures and/or other issues were bound to impact the stock. That has happened YTD, as MKTX fell 12% through the end of Q3.

While we keep close tabs on competitive changes, MKTX's position appears as strong as ever (see exhibit below). Valuation has entered the realm of reasonable, falling 7x from its peak on an EV/EBITDA basis (to 25x – yes, we hear howls of laughter from our traditional value friends). In this challenged year (by MKTX standards), the company is still expected to grow its top-line 8%. In summary: while 2018 has been frustrating, we remain enthusiastic about long-term prospects for the business and the stock.

Exhibit 5: MarketAxess Has Continued Gaining Market Share (Est.) Across Products



Source: Upslope, MarketAxess filings and investor relations

CLOSING THOUGHTS

It's early, but Q4 has gotten off to an encouraging start (historically, market volatility has been a positive for Upslope). As always, I am excited about the prospects for Upslope's unique long/short portfolio. Thank you for your continued trust and the opportunity to manage a portion of your hard-earned money. Please do not hesitate to contact me with any questions regarding the portfolio, your account, or any other matters.

Finally, **I will be in New York November 7-8**. If you or anyone you know might be interested in meeting, please email me or pass along my contact information.

Sincerely,

George K. Livadas
george@upslopecapital.com

[6] Per September 7, 2018 Barclays' report (based on data for U.S. High-Grade Corporate Bonds).

Appendix A: Historical Long/Short Composite Performance

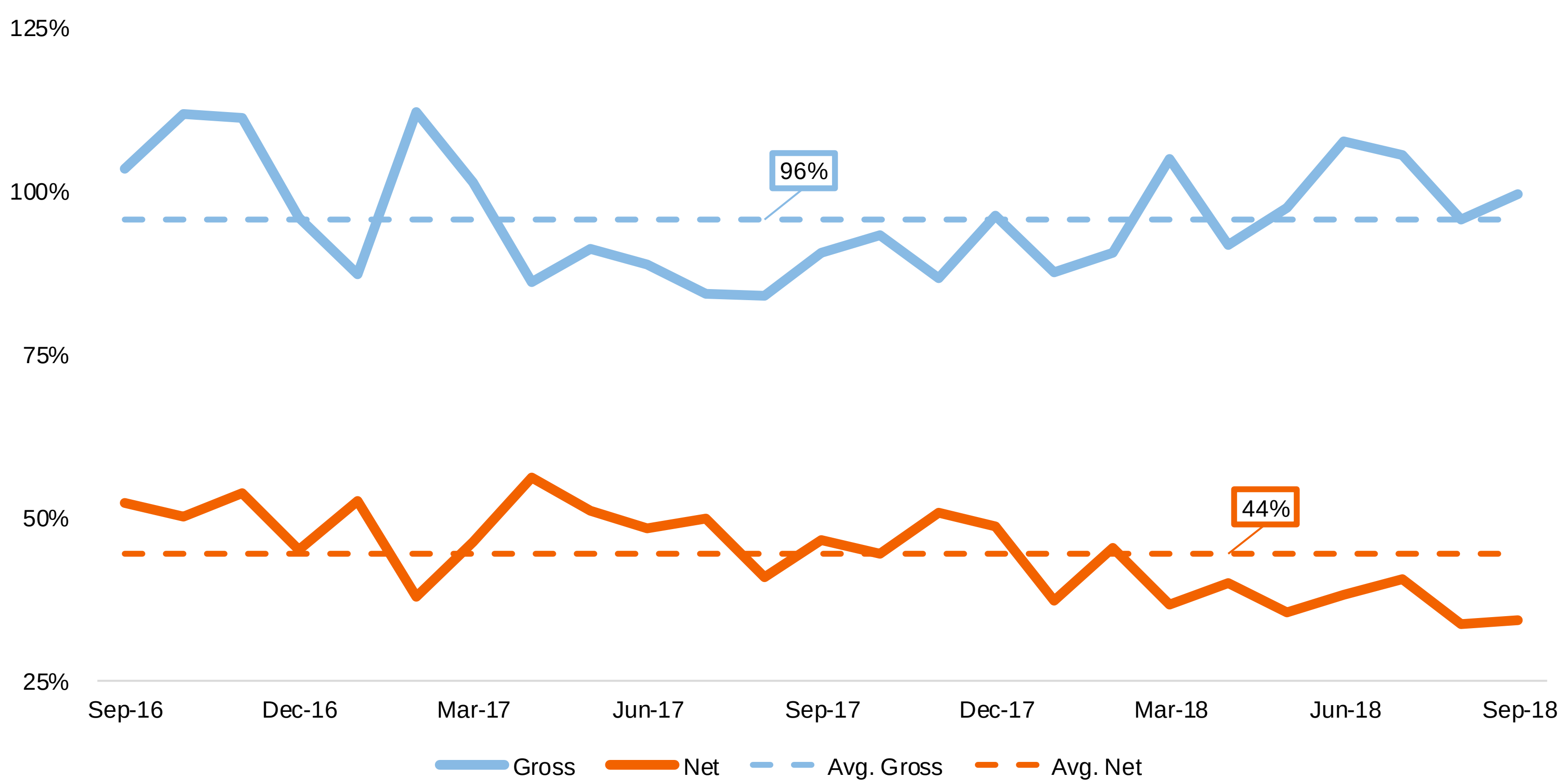
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	Upslope – Net	(1.3%)	1.6%	5.5%	0.4%	2.0%	(1.1%)	(0.0%)	1.2%	(0.4%)	--	--	--	7.9%
	Upslope – Gross	(1.3%)	1.7%	5.9%	0.5%	2.4%	(1.1%)	0.0%	1.4%	(0.4%)	--	--	--	9.3%
	S&P Midcap 400	2.8%	(4.4%)	1.0%	(0.4%)	4.1%	0.4%	1.7%	3.2%	(1.1%)	--	--	--	7.2%
2017	Upslope – Net	7.5%	(1.9%)	0.7%	4.0%	2.6%	(0.4%)	2.3%	0.1%	1.7%	(0.8%)	(0.7%)	0.5%	16.2%
	Upslope – Gross	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%
	S&P Midcap 400	1.6%	2.6%	(0.5%)	0.8%	(0.5%)	1.5%	0.9%	(1.5%)	3.9%	2.2%	3.7%	0.2%	15.9%
2016	Upslope – Net	--	--	--	--	--	--	--	0.0%	(0.8%)	(1.6%)	2.7%	(1.8%)	(1.6%)
	Upslope – Gross	--	--	--	--	--	--	--	0.0%	(0.7%)	(1.6%)	2.8%	(1.7%)	(1.3%)
	S&P Midcap 400	--	--	--	--	--	--	--	(0.4%)	(0.6%)	(2.7%)	7.9%	2.2%	6.2%

Source: LICCAR, Upslope, Interactive Brokers, Morningstar

Note: Returns are shown for a composite of all accounts invested according to Upslope's core long/short strategy (the vast majority of AUM). Performance for S&P Midcap 400 index represented by the total return for a related exchange-traded fund (ticker: MDY). **Individual account performance may vary** (minimum returns, net of fees, for an account invested since inception and YTD 2018 were 22.1% and 7.2%, respectively) and clients should review statements for actual results**.** Given changes in the fee structure related to the formation of Upslope, and the variability of fees across individual accounts (16% of composite AUM is non-fee-paying), gross returns are also provided. Data from inception (August 29, 2016) to June 24, 2017 is based on portfolio manager's ("PM") performance managing the strategy under prior firm (as sole PM). PM managed the strategy/accounts on a no-fee basis through August 11, 2017. Upslope became operational and has been managing the strategies thereafter.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

Appendix B: Monthly Average Net Long & Gross Positioning



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

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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 management and incentive fees (where applicable), and all trading costs charged by the custodian. Composite performance calculations verified by LICCAR. 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 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, © 2018 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.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS