Upslope Capital Management
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2019-Q1 Update

April 18, 2019

Dear Fellow Investors,

I am pleased to share this update for Upslope Capital Management. As always, we will discuss general market conditions and updates on the portfolio. Given it was a quieter quarter in terms of portfolio activity, we're also providing a detailed overview of AptarGroup, one of our core long positions.

	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
Q1 2019	44%	+7.4%	+8.3%	+14.4%	+6.0%
Last 12 Months	35%	+6.3%	+8.2%	+2.3%	-5.1%
Since Inception	42%	+28.4%	+32.9%	+25.0%	+7.8%

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

MARKET CONDITIONS – "BIZARRO"

In a well-known *Seinfeld* episode, Elaine finds herself befriending "bizarro" versions of Jerry, George, and Kramer. Elaine's "bizarro" friends are thoughtful, kind, and reliable – a mirror image of her real friends. Thinking about Q1 vs. Q4 reminded me of it all: in Q1, markets were kind, generous…and a little odd.

Stocks snapped back sharply in Q1, reversing most of Q4's losses. It's difficult to pinpoint an exact catalyst. Briefly-attractive valuations and the Fed easing off plans to raise rates were big drivers. But, what strikes us as *bizarre* is that many of the Q4 worries are still percolating. From our Q4 letter: "there was no shortage of issues to worry about: China [macro weakness], tariffs, soft housing data, Brexit, alarming weakness in bank stocks, flattening yield curve, etc." Housing data has stabilized for now, but other issues remain. The biggest change is simply that markets are higher (driven by P/E expansion, rather than earnings growth).

With this backdrop, it seems particularly bizarre to suddenly see a stampede of "unicorns" ($1bn+ private, VC-backed, tech-oriented companies) hustling to complete IPOs in 2019. If you forced me to use another "b-word" (bubble), I would point straight to Silicon Valley. Most unicorns have achieved impressive scale, yet are still nowhere near profitability. A recent blog post by Ali Griswold, summed up the situation nicely:

> *These [unicorn] losses are on a different scale from losses we've seen before. Pets.com, the poster child of the dot-com bubble, lost about $150 million from when it was founded in 1999 to when it collapsed in late 2000. Webvan, another infamous dot-com company, lost $610 million from 1998 through 2000.*
>
> *Let that sink in: The bubbliest companies of the dot-com bubble lost less over multiple years than Lyft lost in just 2018. Another fun fact: Amazon, the company that everyone loves point to as an example of how losing money eventually makes money, lost a combined $2.8 billion over its first 17 quarters as a public company, significantly less than the $4.5 billion Uber lost in 2017.*

[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.

So, there you have it: just 90 days removed from serious recession and late-cycle worries and we suddenly have a flood of highly speculative (valuations + questionable business/financial models) companies seeking to IPO and sell shares to the public. Got it.

Exhibit 1: "Bizarro" Markets

Source: Seinfeld (1996), YouTube, Upslope

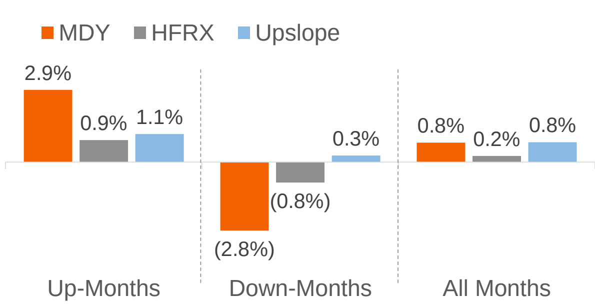
Moving on to Upslope's performance in the quarter: while I'm satisfied with our *absolute* results, the speed and intensity of the broader rally clearly caught us by surprise. Material short exposure dampened strong performance from longs.

A lesson learned: when short-selling suddenly seems *easy*, think hard about booking some gains. Short-selling is not supposed to be easy. But, it was in Q4. I constantly ponder ways to better capture potential outperformance when the market falls. Unfortunately, there's no silver-bullet. I'm extremely wary of over-learning a lesson – especially one that touches on risk management. For now, the best course is simply to be *even more aware* of situations when things suddenly seem "too easy."

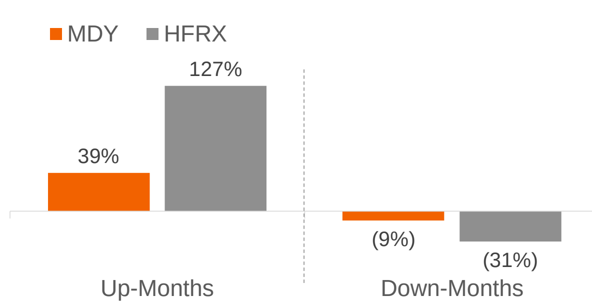
Given today's unusual market backdrop, it might be helpful to remind readers what Upslope's strategy seeks to deliver: uncorrelated, equity-like returns through the cycle. One barometer I use to measure success is looking at monthly upside/downside "capture." This is simply Upslope's performance divided by the performance of the market in a given month. Since inception, downside capture has been below zero (i.e. returns have been slightly positive when the market has fallen), while upside capture has been 39%. These trends mostly continued in Q1, as upside capture was 37% and 24% in January and February, and sharply negative in March, when the S&P Midcap 400 index was down.

Exhibit 1:

Average Performance in Rising/Falling Markets



Upslope: Upside/Downside Capture



Source: Upslope, Liccar, Morningstar
Note: MDY = S&P Midcap 400 ETF, HFRX = HFRX Equity Hedge Index

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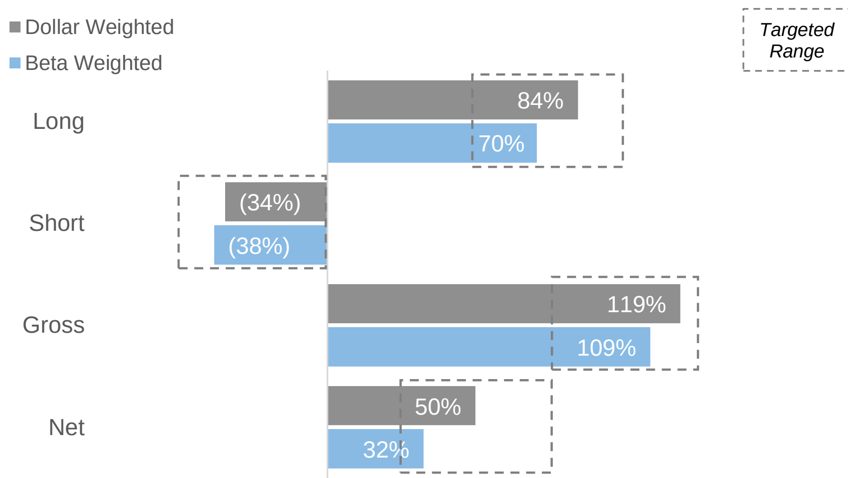
Looking ahead, we continue to see attractive long and short opportunities. Approximately two-thirds of our current long exposure is defensive in nature (i.e. not cyclical and/or benefits from volatility) – though we continue to own the more cyclical longs noted in the Q4 letter. Regardless of what happens over the rest of 2019, I remain confident in Upslope's differentiated approach towards protecting and growing our hard-earned capital.

PORTFOLIO POSITIONING

At quarter-end, gross exposure was 119%, while net was 50%. Overall, exposures reflect a reasonable number of perceived opportunities on both the long and short sides of the portfolio.

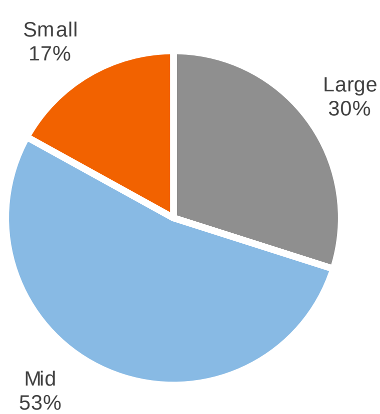
Exhibit 2: Current Portfolio Exposure (% of Net Asset Value)

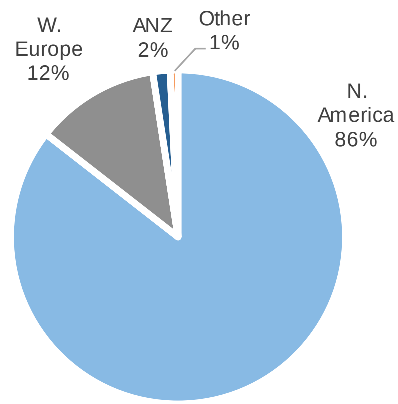


Source: Upslope, Interactive Brokers, Sentieo

Note: as of 3/31/19. "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 3/31/19. Definitions: Small ($250mm - $3bn), Mid ($3bn - $11bn), Large (>$11bn)

PORTFOLIO UPDATES[2]

The largest contributors to and detractors from quarterly performance are noted below. Gross contribution to overall portfolio return is noted in parentheses.

Exhibit 4: Top Contributors to Quarterly Performance (Gross)

Top Contributors	Top Detractors
Long: TopBuild (+260 bps)	Short: Undisclosed (-100 bps)
Long: Just Eat (+195 bps)	Short: Yeti (-95 bps)
Long: Evercore (+175 bps)	Short: REIT Hedge (-85 bps)
Longs – Total Contribution	**Shorts – Total Contribution**
+1,370 bps	-535 bps

Source: Upslope, Interactive Brokers
Note: Amounts may not tie with aggregate performance figures due to rounding (nearest 5 bps)

As previously noted, given the subdued level of activity on the long side of the portfolio this quarter, I thought it'd be helpful to discuss one of our long-standing "Core" long positions, AptarGroup, in more detail.

<u>AptarGroup (ATR) – Current Long</u>

Aptar is a specialty packaging company, focused on designing and producing innovative *dispensing* solutions. Products range from perfume sprayers to inhalers, injectable devices, sport-bottle-caps, and food pouch closures. The business is operated across three segments:

Exhibit 5: Aptar Segment Highlights

Beauty + Home *(52% of Sales)*	**Pharma** *(35% of Sales)*	**Food + Beverage** *(14% of Sales)*
<u>Illustrative Products</u> 		

Source: Upslope, company website
Note: % of sales figures for 2018

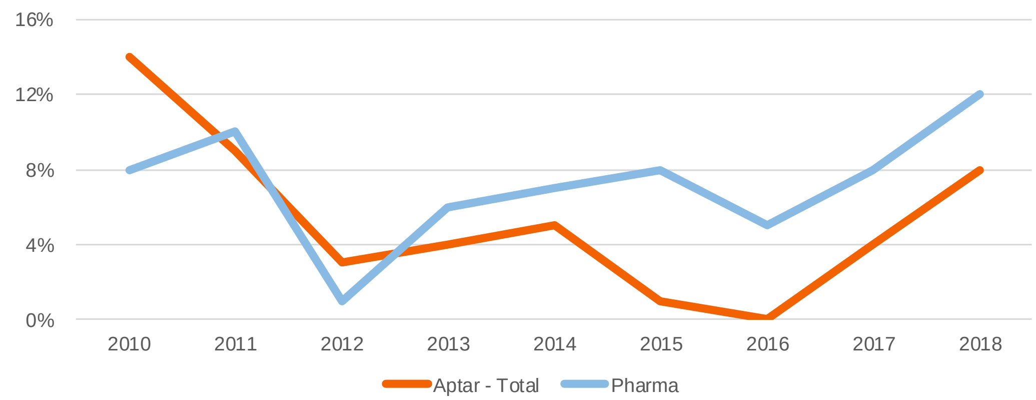
[2] Upslope's general policy regarding disclosure of *new* positions is to discuss significant longs considered to have been fully established. For shorts, Upslope aims to discuss an illustrative sample of positions (generally desiring added confidentiality).

I first started following Aptar in 2014 while working on the sell-side, covering the non-paper-based packaging sector. For much of the group, there are a few common threads: steady-but-lackluster organic growth, full balance sheets, and "value investor-friendly" valuation multiples.

Within this framework, Aptar is an odd duck among packagers. Leverage is low (historically ~1x – "*why are they so conservative?*" is a common question) and valuation is stubbornly high (20-25x P/E). While Aptar might *seem* to fit the mold on the steady-but-lackluster growth front, it doesn't really, in our view.

Digging in a bit, one can make two observations about sales growth. First, USD strength in recent years has dampened *reported* growth (~75% of sales comes from overseas and there is a fairly clean translation effect that adversely hit results in 2014, 2015, and 2016 by 2%, 12%, and 2%, respectively). Second, Aptar's Pharma segment – which contributes just 35% of sales, but almost 70% of EBIT – has consistently outgrown the overall business. So, while overall sales growth has been just okay, the most important driver of profitability is growing nicely.

Exhibit 6: Core Sales Growth[3]



Source: Upslope, Sentieo, company filings

In addition to attractive growth, Pharma also sports 30% EBIT margins – 3-4x that of Aptar's other segments. With products that include inhalers, injectable components/units, valves and various others that play an important role ensuring proper dosage/delivery of drugs, the Pharma segment looks a lot like a medical device business. Aptar's offerings are deeply embedded with customers – oftentimes working through multi-year development and regulatory approval processes (with ATR products specifically folded into regulatory approvals). The end result: as long as Aptar continues providing high quality products, customers are extremely sticky and have little incentive to 'shop' Aptar's (growing, high-margin) business.

Since initiating the position in 2016, the core of our thesis has been:

- **Attractive Pharma asset hidden in plain sight** – at its core, Aptar is a high-quality healthcare business – sticky customer base, attractive secular growth, high margins, non-cyclical, minimal commodity exposure. While the majority of sales come from traditional, sleepy packaging end-markets, the company is transitioning to become a pure-play pharma/healthcare packager.

- **Reasonable absolute and relative valuation** – despite trading at a sizable premium to traditional packagers, valuation appears reasonable, given the (a) superior nature of ATR's Pharma focus, and (b) slow transition towards becoming a Pharma pure-play (and the wide gap in valuation vs. more comparable companies, such as WST). In our view, ATR's valuation multiples *should* rise over time as Pharma contributes a higher portion of bottom-line.

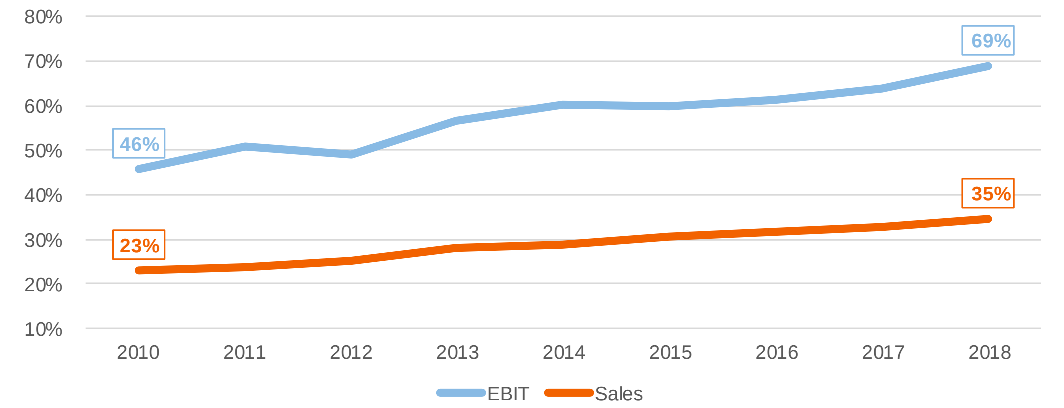
[3] Excludes the impact of FX and acquisitions, if any.

- **Conservative balance sheet** – In addition to helping investors "sleep at night," ATR's balance sheet provides flexibility for tuck-in M&A and the occasional (accelerated) buyback program. This conservatism is a positive side effect of catering to Pharma customers and ensuring they're comfortable Aptar will be a reliable partner through-the-cycle.

- **Key risks** – FX translation (75% non-US – mostly Euro exposure), still somewhat new CEO (combined with multi-year lead-times for Pharma pipeline), execution risk for recent and future acquisitions, some leverage, cyclical nature of portion of Beauty + Home segment.

Aptar's steady transition towards becoming a pure "Pharma" business is shown below:

Exhibit 7: Pharma Contribution to Aptar Total…



Source: Upslope, Sentieo, company filings
Note: EBIT contribution shown only as a % of reported segments (i.e. excludes overhead)

Recent developments have also reinvigorated our excitement about the Aptar thesis: Aptar recently acquired CSP Technologies for $555mm. The deal accelerates expansion of ATR's Pharma segment, and bolsters its position in food service/safety through (assumed) higher-margin/-tech offerings. Of Aptar's three largest acquisitions – CSP ($555mm, 2019), Mega Airless ($218mm, 2016) and Stelmi ($207mm, 2012) – two (CSP and Stelmi) were primarily focused on Pharma. In our view, this is a clear sign management has the right priorities in growing the business.

Despite its slow-moving, but very real mix-shift towards Pharma, Aptar is still primarily covered by packaging analysts. This matters because valuation multiples for more healthcare-focused companies (e.g. West Pharmaceutical Services, which trades at a ~50-60% premium to ATR and competes directly, to a limited extent, with ATR's Pharma segment) are significantly higher than for traditional packaging companies – and for good reason. Regardless of whether analyst coverage changes over time, we are happy to own this attractive business at current prices.

<u>Other Notable Activity/Updates</u>

- **Update – Short Yeti (YETI)**: Yeti is a designer and seller of high-end coolers, drinkware, and general outdoor products. Our (my) short call on YETI was (very) wrong, both in terms of timing (too early, wrote-off lack of catalyst) and valuation (not egregious). From inception to the end of Q1, the position cost us 40 bps of performance. After sitting out part of the recent rally, we reinitiated the position in early Q2. Today, the short makes more sense: on top of our prior thesis, valuation is now an aggressive 30x 2019E EPS and there is a near- term catalyst on the horizon (lock-up agreement expiration – i.e. the company's PE backer and other insiders may soon begin selling shares).

- **Update – Long TopBuild (BLD)**: TopBuild is the largest installer and distributor of insulation for residential and commercial real estate in the U.S. The company reported solid Q4 results (same branch sales +7% with slightly improved operating margins), mostly in-line with consensus. The stock is up almost 60% year-to-date. Despite the sharp rally, BLD's valuation multiples remain just below long-term averages. In our view, BLD was priced for a recession during Q4 when we added the position.

CLOSING THOUGHTS

As always, I appreciate your continued interest, trust, and the opportunity to manage a portion of your hard-earned money. If you have any questions regarding the portfolio, your account, or any other matters, please contact me.

Sincerely,

George K. Livadas
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Appendix A: Historical Long/Short Composite Performance

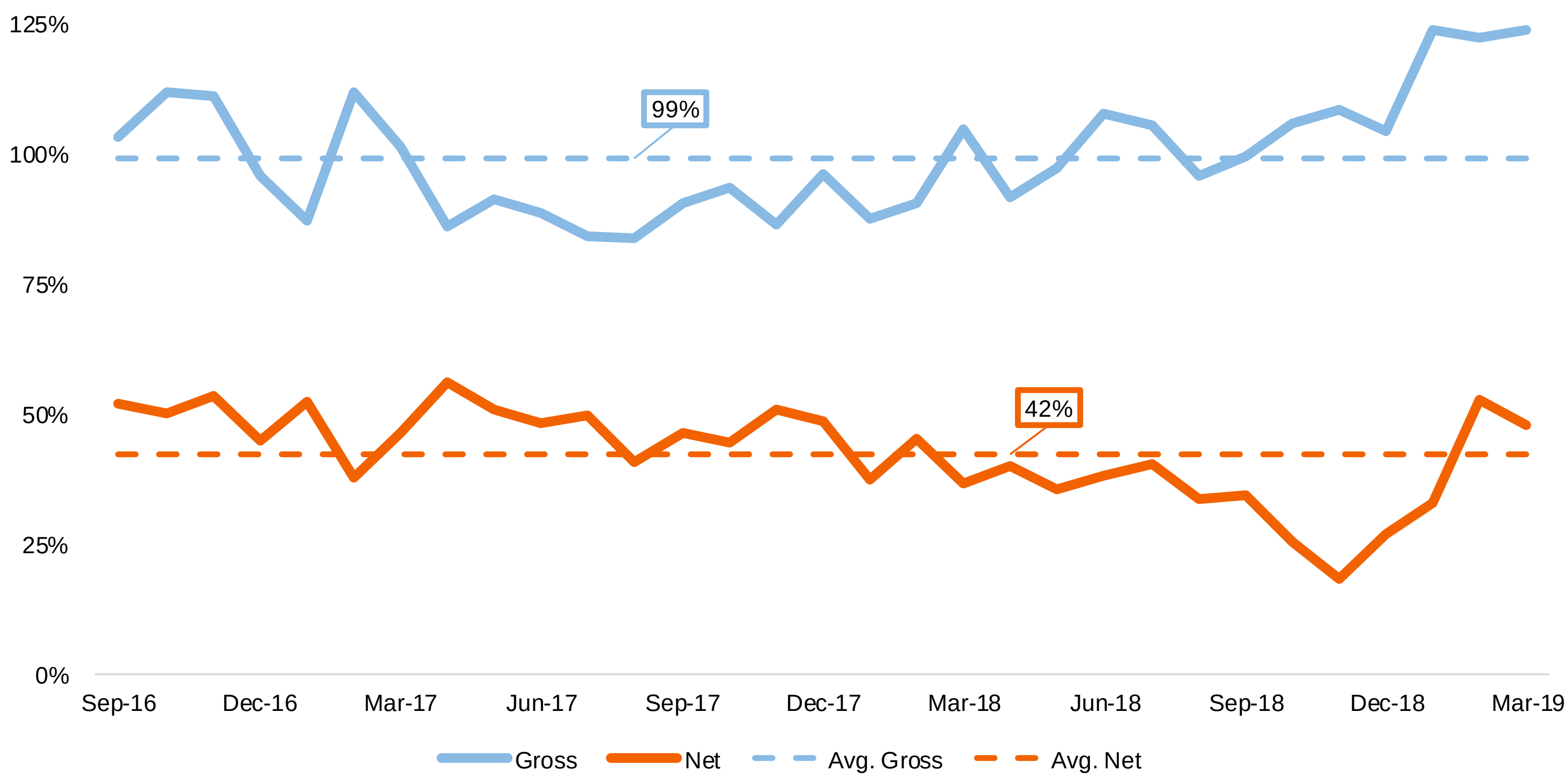
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	Upslope – Net	3.8%	1.0%	2.4%	--	--	--	--	--	--	--	--	--	7.4%
	Upslope – Gross	4.0%	1.3%	2.9%	--	--	--	--	--	--	--	--	--	8.3%
	S&P Midcap 400	10.3%	4.3%	(0.6%)	--	--	--	--	--	--	--	--	--	14.4%
2018	Upslope – Net	(1.3%)	1.6%	5.5%	0.4%	2.0%	(1.1%)	(0.0%)	1.2%	(0.4%)	1.0%	(1.1%)	(2.9%)	4.6%
	Upslope – Gross	(1.3%)	1.7%	5.9%	0.5%	2.4%	(1.1%)	0.0%	1.4%	(0.4%)	1.2%	(1.2%)	(2.9%)	6.2%
	S&P Midcap 400	2.8%	(4.4%)	1.0%	(0.4%)	4.1%	0.4%	1.7%	3.2%	(1.1%)	(9.6%)	3.2%	(11.3%)	(11.3%)
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%

		Total Return	Annualized Return	Downside Dev.	Sortino Ratio	Corr. vs Upslope
Since Inception	Upslope – Net	28.4%	10.1%	3.4%	2.4	--
	S&P Midcap 400	25.0%	9.0%	9.9%	0.7	0.26
	HFRX Equity Hedge Index	7.8%	2.9%	4.2%	0.2	0.20

Source: Upslope, Interactive Brokers, LICCAR, Sentieo, 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 2019 were 26.9% and 7.0%, respectively) and clients should review statements for actual results**.** Data from inception (August 29, 2016) to June 24, 2017 is based on portfolio manager's ("PM") performance managing the strategy under a prior firm (as sole PM). Thereafter, PM managed the strategy/accounts on a no-fee basis through August 11, 2017, after which Upslope became operational. **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 have been independently verified by LICCAR, LLC. 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, © 2019 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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