Upslope Capital Management
ALTERNATIVE \ VALUE \ CONCENTRATED

2019-Q3 Update

October 11, 2019

Dear Fellow Investors,

I am excited to share this update for Upslope Capital Management: during Q3, we passed the three-year mark on the strategy. Since inception, the goal has been to deliver attractive, equity-like returns with significantly reduced market risk and correlation vs. traditional long-only equity strategies. I am pleased with results so far and encouraged by recent progress on the business development front.[1] Of course, I remain hungry and focused in my efforts to protect and grow our hard-earned capital.

Q3 was interesting. Tailwinds from last quarter (defensive stocks outperforming, elevated volatility) intensified in August and reversed sharply in September. As a result, August was our second-best month since inception (+7%) and September our second-worst (-2%). With the portfolio exhibiting higher volatility and a greater correlation to the broader hedge fund universe than I would like, it was clear that the portfolio needed some modest rebalancing. So, Q3 was very active for us.

	Upslope Exposure & Returns[2]			Benchmark Returns	
	Average Net Long	Return, Net of Fees	Return, Gross of Fees	S&P Midcap 400 ETF (MDY)	HFRX Equity Hedge Index
Q3 2019	37%	+5.7%	+6.8%	-0.2%	+1.8%
YTD 2019	40%	+22.4%	+26.4%	+17.6%	+7.9%
Last 12 Months	36%	+18.7%	+22.8%	-2.7%	-1.4%
Since Inception	42%	+46.3%	+55.1%	+28.5%	+9.7%

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

MARKET CONDITIONS – "ALL THE SMALL THINGS"

One simple method I use to identify good shorts is to look for stocks with large piles of red flags – the more, the better. They don't have to be earth-shattering and there need not be a single 'killer' risk.[3] Each issue might easily be explained away on its own. But when a list gets long enough, you just *know* that sooner or later bad things will happen to the stock. That is my view on equity markets today.

For now, the U.S. economy seems just fine. Valuations are full, but not extreme. Yet, we have a *very* long list of issues that trigger flashbacks to crises past. None seem dangerous or serious enough in isolation to really tip the market (or economy) into bear (recession) territory. But the list is long and expanding:

- Inverted yield curve
- 10-year low on ISM manufacturing
- Falling job openings
- Obscure bank issues (repo weirdness)
- Momentum/factor breakdown
- Bigtime IPO failures/flops (WeWork, Uber)
- Macro problems overseas (Asia, Europe)
- Bonus: VC greed/excess (IPO complaints)

Maybe I'm looking too hard for comparisons to crises past and will always find ultimately meaningless parallels. That is very possible. But, at this point, I struggle to believe that every single issue above can just be neatly written off. Something "interesting" seems bound to happen.

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[1] Please see Appendix A for important performance-related disclosures and details.

[2] Unless otherwise noted, returns shown for composite of all accounts invested according to Upslope's core long/short strategy. Please see important performance-related details and disclosures in Appendix A.

[3] A silly, but real example: we are short a company whose CEO's home was described in the press as a "19th-century French-style mansion on a 105-acre property complete with a private chapel and fountains." Of course, there are other red flags.

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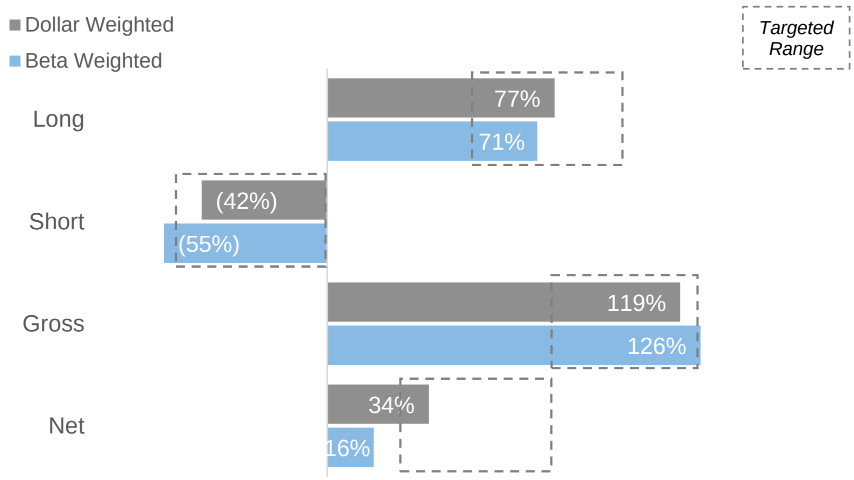
PORTFOLIO POSITIONING

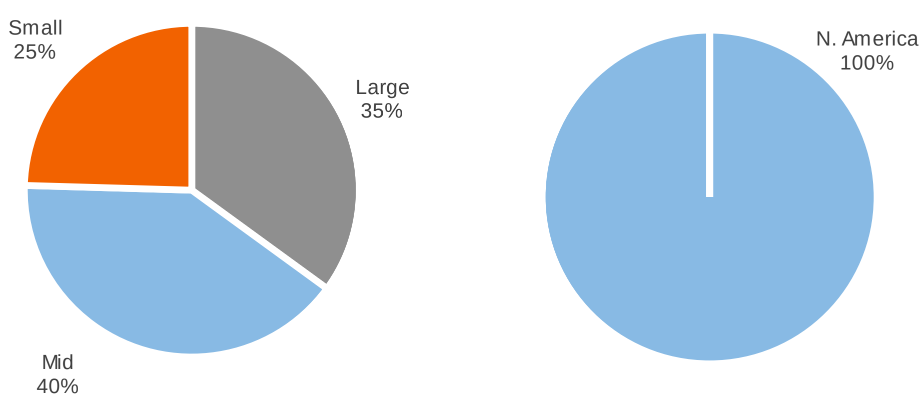
At quarter-end, gross exposure was 119% and net was 34%. Exposures reflect an average number of perceived long opportunities and an elevated number of shorts. One unusual development: the portfolio had no exposure to non-U.S. stocks at quarter-end. This is the result of recently exiting Just Eat (JE.LN) and a couple shorts. We are actively looking for opportunities overseas.

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



Source: Upslope, Interactive Brokers, Sentieo
Note: as of 9/30/19. "Beta Weighted" amounts include delta-adjusted impact of options, if any

Exhibit 2: Gross Exposure by Market Cap & Geography



Source: Upslope, Interactive Brokers, Sentieo
Note: as of 9/30/19. Definitions: Small ($250mm - $3bn), Mid ($3bn - $12bn), Large (>$12bn).

PORTFOLIO UPDATES[4]

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

Exhibit 3: Top Contributors to Quarterly Performance (Gross)

Top Contributors	Top Detractors
Long: Cboe (+135 bps)	Long: FLIR Systems (-85 bps)
Long: STORE Cap. (+120 bps)	Long: Evercore (-85 bps)
Long: TopBuild (+105 bps)	Long: AptarGroup (-50 bps)
Longs – Total Contribution	**Shorts – Total Contribution**
+405 bps	+275 bps

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

New Positions

- **New Long – Gartner (IT):** Gartner is a leading research and consulting company (commonly known for its "Magic Quadrant" charts – example below in Exhibit 4), serving more than 15,000 organizations globally. In 2017, Gartner acquired DC-based Corporate Executive Board ("CEB") for $2.6 billion. The transaction combined Gartner's historic strength in IT and Supply Chain research with CEB's broader focus on HR, Sales, Finance and Legal function best practices research. While the industrial logic of the transaction was sound, in our view, execution has frustrated investors (slower growth, higher required "investment" spend). The frustration came to a head with Q2 earnings, when the stock fell almost 20% in one day. This caught our attention. Why we like Gartner today:

  - **Attractive business model with clear competitive advantages.** Two features we really like about Gartner: revenues are recurring/relatively predictable (high client retention and even higher wallet retention) and the underlying product gets more valuable as Gartner grows (as it has historically). Both aspects are driven by Gartner's position as the leading authority in core research areas (e.g. technology). Why does it matter? Because it enables Gartner to serve as a backstop for important corporate decisions (sort of a "CYA" for executives). And from there, growth just further entrenches Gartner's position as the go-to authority.

  - **Strong financial model, consistent with above observations.** We see several signs in Gartner's financial model that the above qualitative assessment is correct: (A) strong and historically steady returns on invested capital (ROIC), and (B) steady organic growth bolstered by good pricing power and legacy customer wallet retention >100%. On the first point, ROIC took a hit with the CEB acquisition. However, there are signs of improvement over the past four quarters: profitability has improved and capital velocity has ticked up.

  - **CEB issues more likely than not to be resolved**, in our view. Despite the Q2 earnings shock, it actually looks like management has done (or still has time to do) much of what they said they would do with CEB. Further, the CEB issues seem understandable, temporary, and not necessarily reflective of a deal-gone-bad (e.g. making improvements to the underlying product – even if it

[4] 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).

means a short-term hit to sales/productivity). In general, we like situations where a company with a historically strong management team has been punished for heavy investment spend or other temporary set-backs. Stuff happens. Finally, while we're cautiously optimistic on CEB, even if the business continues to decline, the overall impact should eventually be manageable, as legacy CEB only comprises ~20% of Gartner today.

- **A few other reasons to like Gartner that don't fit elsewhere:** First, Gartner has recently reduced its debt to a reasonable level and is again engaged in buying back shares. In the five years pre-CEB, share count declined an average of 3%/year. Second, Gartner fits well within Upslope's portfolio (tech-adjacent exposure – we have rarely had *any* exposure to tech) and lines up with our investment style of generally seeking attractive, unique businesses with few direct comparables.

- **Key Risks:** (A) Continued CEB challenges: perhaps management has indeed really screwed up with the CEB deal. The downside in that scenario doesn't seem disastrous. But, the issue will no doubt drive shares in the coming year. (B) Macro/cyclical downturn. Gartner appears moderately cyclical based on performance during 2009 (sales -11%, FCF -8%). A still somewhat full balance sheet compounds this risk for shares. (C) Reputational risk: Gartner's business model relies heavily on the business maintaining its reputation for unbiased, high-quality products. Should anything happen to damage this reputation, Gartner's business could suffer severely.

Exhibit 4: Gartner Magic Quadrant for Analytics & Business Intelligence Platforms

Source: Gartner, Qlik, Upslope

- **New Long – Undisclosed:** This position is not fully-established and is a "Tactical" holding, added as part of the aforementioned effort to "rebalance" the portfolio.[5] At a high-level, despite exposure to solid end-markets, the business has struggled. Our bet is that the company is headed into a period with improving sector tailwinds (especially on the political front – *pause for laughter*) that should aid a turnaround. As a backstop, the business seems to have significant strategic value.

- **New Short – Sealed Air (SEE):** Sealed Air is a global flexible plastic packaging company (e.g. bubble-wrap, Cryovac, and other protective/food packaging products) that we have followed for quite a few years. In August, we published our short thesis here. We remain short (one of our largest).

Key Updates on Existing Positions

- **Exited Long – Evercore (EVR)**: Evercore is a leading independent investment bank. We added EVR during the Q4 market meltdown last year. The business remains well-positioned for the long-run and has had a solid year, fundamentally. But, it is no doubt (highly) cyclical. Given this mixed background, we see greater opportunities on the long side elsewhere.

- **Exited Long – FLIR Systems (FLIR)**: FLIR is a leading developer and producer of infrared sensors, cameras, and systems. Sometimes we (I) make mistakes. That was the case with FLIR, which was added just last quarter. There is nothing "wrong" with FLIR, per se. But, I changed my mind about the underlying quality of the business and the opportunity after additional consideration.

- **Exited Long – Just Eat (JE.LN)**: Just Eat is a UK-based global operator of online portals and services for restaurant delivery. In July, Just Eat announced an agreement to be acquired by rival Takeaway.com. We ultimately exited the position, given (A) the prospect of a takeout was a (secondary) aspect of our thesis that has now played out, (B) the all-stock structure of the transaction, and (C) the generally challenging environment in the industry.

CLOSING THOUGHTS

These should be exciting times for long/short equity portfolio managers. Historically, volatility has created opportunities for Upslope's strategy. I believe our portfolio is well-positioned for whatever the market might throw at us: significant exposure to defensive longs are, in part, balanced with targeted exposure to cyclicals in unique situations. On the short side, our biggest positions are what I affectionately call "faux compounders" (so-so businesses trading at premium valuations due to confused and/or misguided assumptions). Others are simply cyclicals whose prospects (and valuations) appear one-sided.

Thank you for your trust and the opportunity to manage a portion of your hard-earned money. If you have any questions at all regarding the portfolio, your account, or anything else, please contact me.

Sincerely,

George K. Livadas
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[5] A reminder on how we break out long positions: "Core" vs. "Tactical." Core longs are considered high-quality, high-conviction, *potential* 'permanent' holdings. Given the nature of the underlying businesses, sizing for Core longs can be quite large (up to 12% at cost). Tactical longs more closely resemble traditional 'value' investments – more moderate quality (vs. Core) and opportunistic in nature (i.e. greater price target discipline, higher position turnover). Tactical sizing maxes out at 8% (at cost).

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%	2.6%	3.0%	2.1%	0.7%	7.2%	(2.1%)	--	--	--	22.4%
	Upslope – Gross	4.0%	1.3%	2.9%	3.0%	3.5%	2.5%	0.9%	8.4%	(2.4%)	--	--	--	26.4%
	S&P Midcap 400	10.3%	4.3%	(0.6%)	4.0%	(8.1%)	7.8%	0.9%	(4.1%)	3.1%	--	--	--	17.6%
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	46.3%	13.1%	3.3%	3.3	--
	S&P Midcap 400	28.5%	8.5%	10.5%	0.6	0.19
	HFRX Equity Hedge Index	9.7%	3.0%	4.0%	0.3	0.18

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 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 43.5% and 21.0%, respectively). Clients should always review statements for actual results**.** 13% of composite assets were non-fee paying at period-end. 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.**

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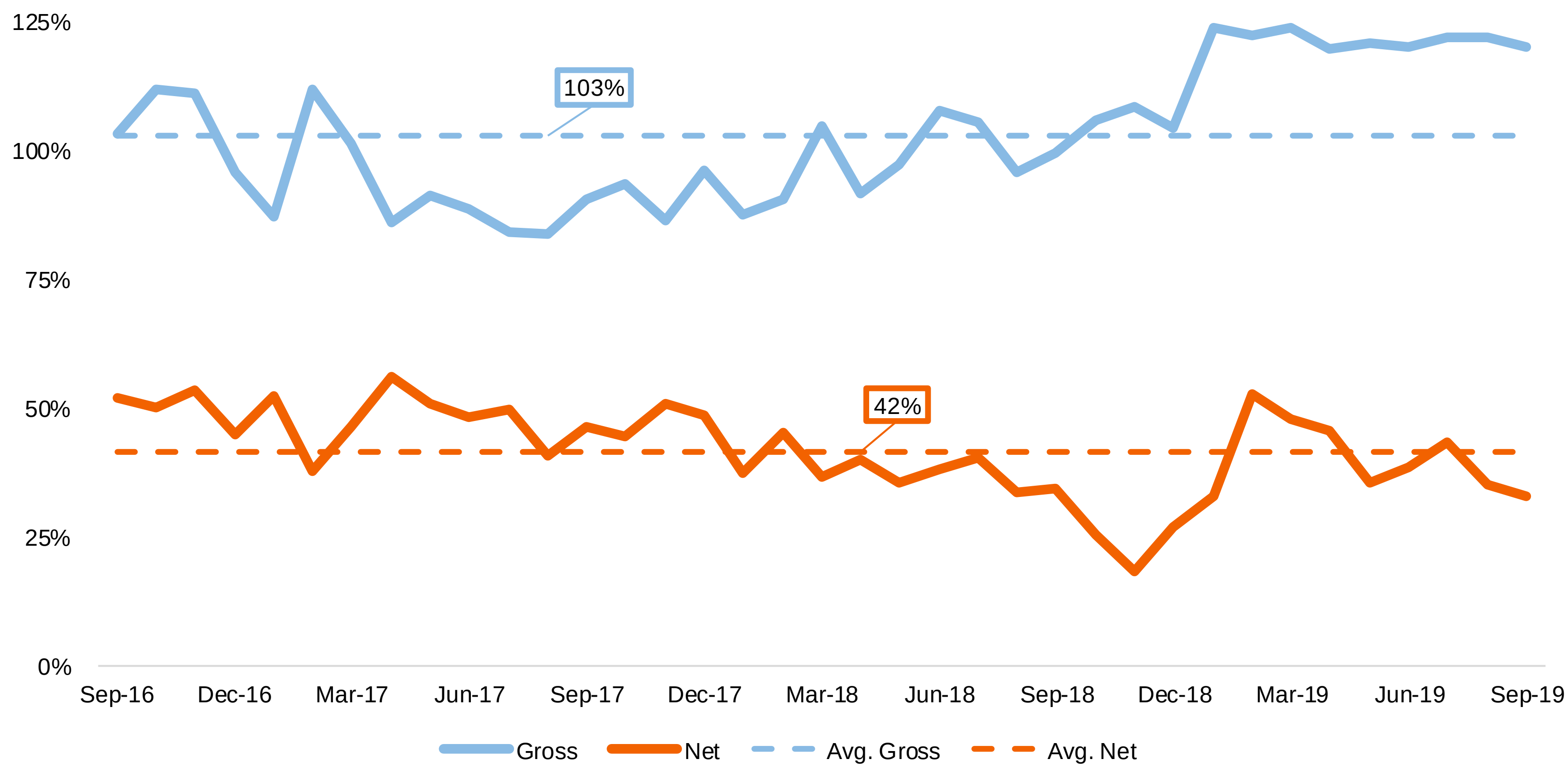
Appendix B: Monthly Average Net Long & Gross Positioning



Source: Upslope, Interactive Brokers

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

IMPORTANT DISCLOSURES

Upslope Capital Management, LLC ("Upslope") is a Colorado registered investment adviser. Information presented is for discussion and educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and, unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein.

While Upslope believes all information herein is from reliable sources, no representation or warranty can be made with respect to its completeness. Any projections, market outlooks, or estimates in these materials are forward-looking statements and are based upon internal analysis and certain assumptions, which reflect the views of Upslope and should not be construed to be indicative of actual events that will occur. As such, the information may change in the future should any of the economic or market conditions Upslope used to base its assumptions change.

The description of investment strategies in these materials is intended to be a summary and should not be considered an exhaustive and complete description of the potential investment strategies used by Upslope discussed herein. Varied investment strategies may be added or subtracted from Upslope in accordance with related Investment Advisory Contracts by Upslope in its sole and absolute discretion.

Any specific security or investment examples in these materials are meant to serve as examples of Upslope's investment process only. There is no assurance that Upslope Capital will make any investments with the same or similar characteristics as any investments presented. The investments are presented for discussion purposes only and are not a reliable indicator of the performance or investment profile of any composite or client account. The reader should not assume that any investments identified were or will be profitable or that any investment recommendations or investment decisions we make in the future will be profitable. Any index or benchmark comparisons herein are provided for informational purposes only and should not be used as the basis for making an investment decision. There are significant differences between Upslope's strategy and the benchmarks referenced, including, but not limited to, risk profile, liquidity, volatility and asset composition. You should not rely on these materials as the basis upon which to make an investment decision.

There can be no assurance that investment objectives will be achieved. Clients must be prepared to bear the risk of a loss of their investment.

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.

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.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS