Upslope Capital Management
ALTERNATIVE \ VALUE \ CONCENTRATED

2019-Q4 Update

January 16, 2020

Dear Fellow Investors,

I am pleased to share this update for Upslope Capital Management. 2019 was a strong year for Upslope and I'm happy with our performance in light of our typically modest net long exposure to markets.

That said, our Q4 performance was disappointing. A challenging environment – at least for a defensive-minded long/short strategy[1] – was made worse as we stepped on a few more landmines than usual (most notably DollarTree, which was over-sized given elevated risk). While I'm comfortable managing through (and accepting of) tough environments, I take personal responsibility for the latter challenges.

Despite the above, I am excited about prospects for our differentiated portfolio and strategy – especially during what should be a volatile year ahead. With the vast majority of my family's investable net worth invested right alongside clients, I remain focused on protecting and growing our hard-earned capital.

	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
Q4 2019	43%	-2.9%	-2.7%	+6.9%	+2.6%
FY 2019	41%	+18.9%	+23.1%	+25.8%	+10.7%
Since Inception	42%	+42.1%	+51.0%	+37.4%	+12.6%

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

MARKET CONDITIONS – THE VOLATILITY WE CRAVE?

One year ago – sitting on the edge of a very possible bear market – I noted, "it seems prudent to proceed cautiously." With an excellent sense of humor, the Market Gods and the S&P 500 promptly delivered a 30%+ return over the next 12 months. Fortunately, the damage from my caution was minimal for the year, as a result of our bottom-up approach to portfolio construction. Looking back, I was too pessimistic on prospects for valuation multiple reflation (drove the vast majority of 2019 market returns – the opposite of 2018) and the potential for macro conditions to quickly stabilize.

I'm biased when it comes to market prognostications – volatility is good for Upslope's business. But, I believe that from where we sit today, it is wise to be positioned for volatility. It certainly doesn't feel like it *today*, but the 2020 calendar seems supportive of this. Noise from the election, questionable trade war resolutions, mixed macro data (looking at you, yield curve inversion lag and CEO confidence surveys – charts of both are on the following page), and recently spiked geopolitical risks are all top of mind. That U.S. markets are trading near peak (ex-'90s technology bubble) valuations and year-end gross leverage at hedge funds was the highest in a decade – also adds to the caution.[3]

[1] Some supporting data: an S&P 500 high-beta ETF (SPHB) outperformed the S&P 500 ETF (SPY) and a "minimum volatility" ETF (USMV) by more than 4% and 10%, respectively, during Q4 2019.
[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] Sources: Based on J.P. Morgan valuation data and Morgan Stanley Prime Brokerage (at 12/31/19) data.

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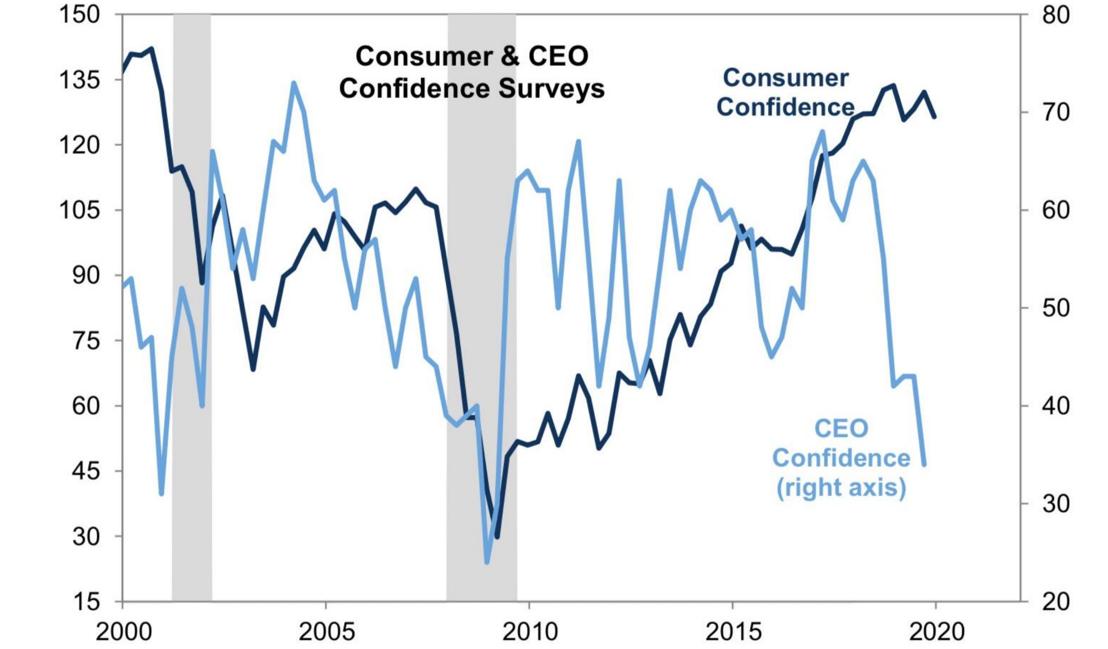
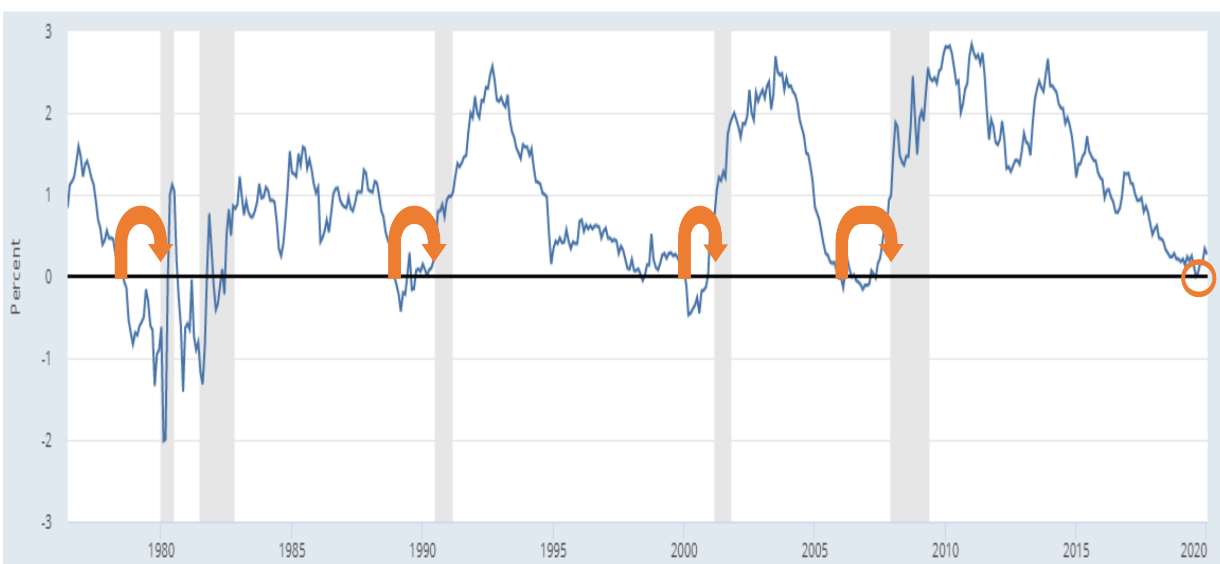
Exhibit 1: Consumer vs. CEO Confidence



Source: Goldman Sachs (via Carl Quintanilla), Upslope
Note: Recessions indicated by gray shading

Exhibit 2: Slight Inversion of the Yield Curve (10-Year Minus 2-Year Treasury Yield) in 2019 Generally a Good Leading Indicator, but Recession Lag Post-Inversion Varies Widely

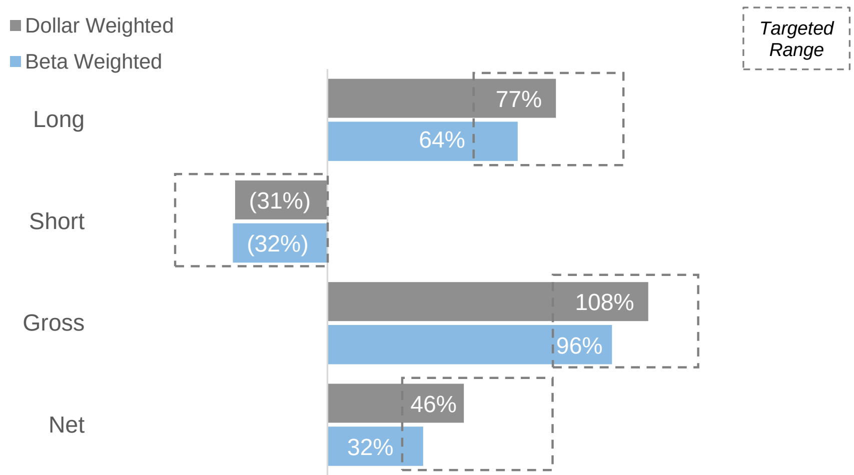


Source: St. Louis Fed, Upslope
Note: Recessions indicated by gray shading

PORTFOLIO POSITIONING

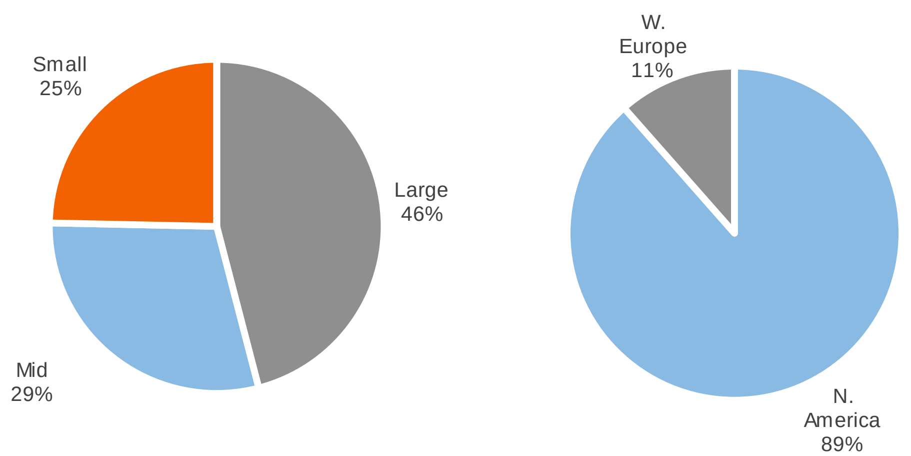
At quarter-end, gross and net exposures were 108% and 46%, respectively. This reflects an average number of perceived opportunities on both the long and short sides of the portfolio.

Exhibit 3: Current Portfolio Exposure (% of Net Asset Value)



Source: Upslope, Interactive Brokers, Sentieo
Note: as of 12/31/19. “Beta Weighted” amounts include delta-adjusted impact of options, if any

Exhibit 4: Gross Exposure by Market Cap & Geography



Source: Upslope, Interactive Brokers, Sentieo
Note: as of 12/31/19. Definitions: Small ($250mm - $3bn), Mid ($3bn - $12bn), Large (>$12bn).

A brief comment regarding large cap exposure, which has crept up. While “large cap” is the biggest category today, the more important data point, in our view, is the weighted average market cap for the *portfolio*. This stood at $10 billion at quarter-end – still comfortably within our midcap definition.

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 5: Top Contributors to Quarterly Performance (Gross)

Top Contributors	Top Detractors
Long: TopBuild (+125 bps)	Long: DollarTree (-180 bps)
Long: Hilton Grand Vac. (+65 bps)	Short: Tesla (-85 bps)
Long: Gartner (+55 bps)	Long: Undisclosed[5] (-70 bps)
Longs – Total Contribution	**Shorts – Total Contribution**
+130 bps	-400 bps

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

New Positions

Long – Royal DSM (DSM.NA)

Royal DSM is a €20 billion (enterprise value) Amsterdam-listed business, mostly comprised of two diverse segments: Nutrition (ingredients for animal feed, human nutrition, dietary supplements/vitamins and personal care) and Materials (engineering plastics for autos and electronics, resins and other highly specialized materials). Why we like DSM today:

- **Leader in diverse, attractive end-markets.** Generally, we think of nutrition and specialty ingredients businesses as inherently attractive – steady relatively non-cyclical growth and at least modest pricing power (classic case of selling small, but important pieces of an end-product). DSM's end-markets are supported by long-term tailwinds: animal health by population growth and rising wealth (which leads to greater protein consumption), and human health/nutrition by health consciousness and aging populations. While DSM's Materials segment is quite different (and more cyclical), it contributes just ~30% of total EBITDA (and we are separately comfortable with the exposure).

- **Upside from new product pipeline.** DSM has a robust new product pipeline (specifically, within the Nutrition segment) that should add materially to the company's long-term growth (late 2020 and beyond). A couple examples: "Clean Cow" and fermentative Stevia. Clean Cow is a feed solution designed to reduce greenhouse gas emissions from cattle by 30%. Fermentative Stevia is a more efficiently produced sugar replacement that can be used for both food and beverages. It doesn't appear that the market is giving DSM much credit for these and other new products initiatives.

- **Solid financial model and clean balance sheet.** DSM has delivered strong free cash flow per share growth in recent years (implied guidance is 10%+), along with improving returns on capital (and incremental capital). Consistent with this, management appears properly incentivized, with a focus on ROCE, EBITDA and free cash flow growth, and organic sales growth (among other metrics/goals). The balance sheet is only modestly levered at ~1x net debt/EBITDA.

[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).
[5] Initiated position during Q4, but not yet fully-sized (or committed).

- **Reasonable valuation.** DSM trades at a 4% free cash flow yield, which we think is reasonable given the defensive nature of the overall business, steady underlying growth, and earnings upside from new products. The stock is clearly cheap versus traditional specialty ingredients businesses (not 100% apples-to-apples, but certainly a valid reference point) – though trades at a premium to its own historical valuation (justified by markedly improved and sustainable performance, in our view).

- **Key Risks:** (A) CEO recently retired and DSM transitioned to Co-CEO structure (of which we are not fans). Nonetheless, co-CEOs appear very strong (one was leading earnings calls even before CEO announced his retirement). We also can't help but wonder whether the structure signals potential for a break-up of the business (separating out Materials segment) – almost certainly a positive development. (B) Cyclical exposure – primarily in Materials (e.g. linked to autos), but DSM also has significant vitamin commodity exposure in Nutrition. (C) Potential failure of new products under development. (D) FX: 80% of DSM's business is outside of the U.S. Generally, the risk is translation; however, there is a bit of a cost-revenue mismatch with a few select currencies. (E) African Swine Fever exposure in animal nutrition a headwind (though DSM is diversified by species and geography).

Short – Focus Financial (FOCS)

We recently posted our short thesis for Focus Financial (FOCS) on Twitter and our website. FOCS is a $3.7 billion (enterprise value) roll-up of independent registered investment advisors (RIAs). We believe the business model and balance sheet are fundamentally flawed (constructed assuming a never-ending bull market and saddled with a huge debt) and that management has aggressively "over-sold" many of the business' features.

This is the third "activist short" memo we have published in the last nine months. The prior two: Coca-Cola Consolidated (COKE) in May 2019 and Sealed Air (SEE) in Aug 2019. The simple aim of these public memos is to shine a light on stocks with obvious and elevated risks that are not fully priced in. Given the rising prevalence of passive investing and the old age of this bull market, we think this is a worthwhile effort and plan to continue to selectively publish such commentary.

Key Updates on Existing Positions

Current Long – DollarTree (DLTR)

Despite a challenging quarter, we remain long DLTR. The company has been engaged in a game of whack-a-mole – first addressing broad weakness in its Family Dollar banner and now facing challenges with slumping margins. While disappointing, the notion that management simply took its eye off the ball – having focused exclusively on improving Family Dollar's top-line during 2019 – is plausible. Bigger picture, the company continues to *slowly* dig itself out of the large hole created from the Family Dollar acquisition. Should management stumble yet again, DLTR would seem ripe for activist involvement.

Exited Short – Tesla (TSLA)

We exited our Tesla short following Q3 earnings. Our reasons for exiting were to cut losses on two fronts: financial and time (being short Tesla can be a massive distraction, given the firehose of news-flow and position crowding. Yes, I should have known better and will be more conscientious of this going forward).

Exited Long – TopBuild (BLD)

TopBuild is the leading national installer and distributer of insulation materials for residential/commercial real estate. BLD was a "Tactical" position and we exited largely based on full valuation and to make room for more attractive ideas.[6] Since inception, BLD has been a top three contributor to Upslope's performance.

[6] Position fully exited in January 2020.

CLOSING THOUGHTS

The year ahead should offer a constructive environment for nimble, uncorrelated strategies that thrive on volatility. As always, I am grateful for your trust, patience, 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.

Last but not least, I will be in San Francisco (Jan. 23-24) and New York (early March). If you or someone you know is interested in getting together to learn more about Upslope's approach, please don't hesitate to contact me.

Sincerely,

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

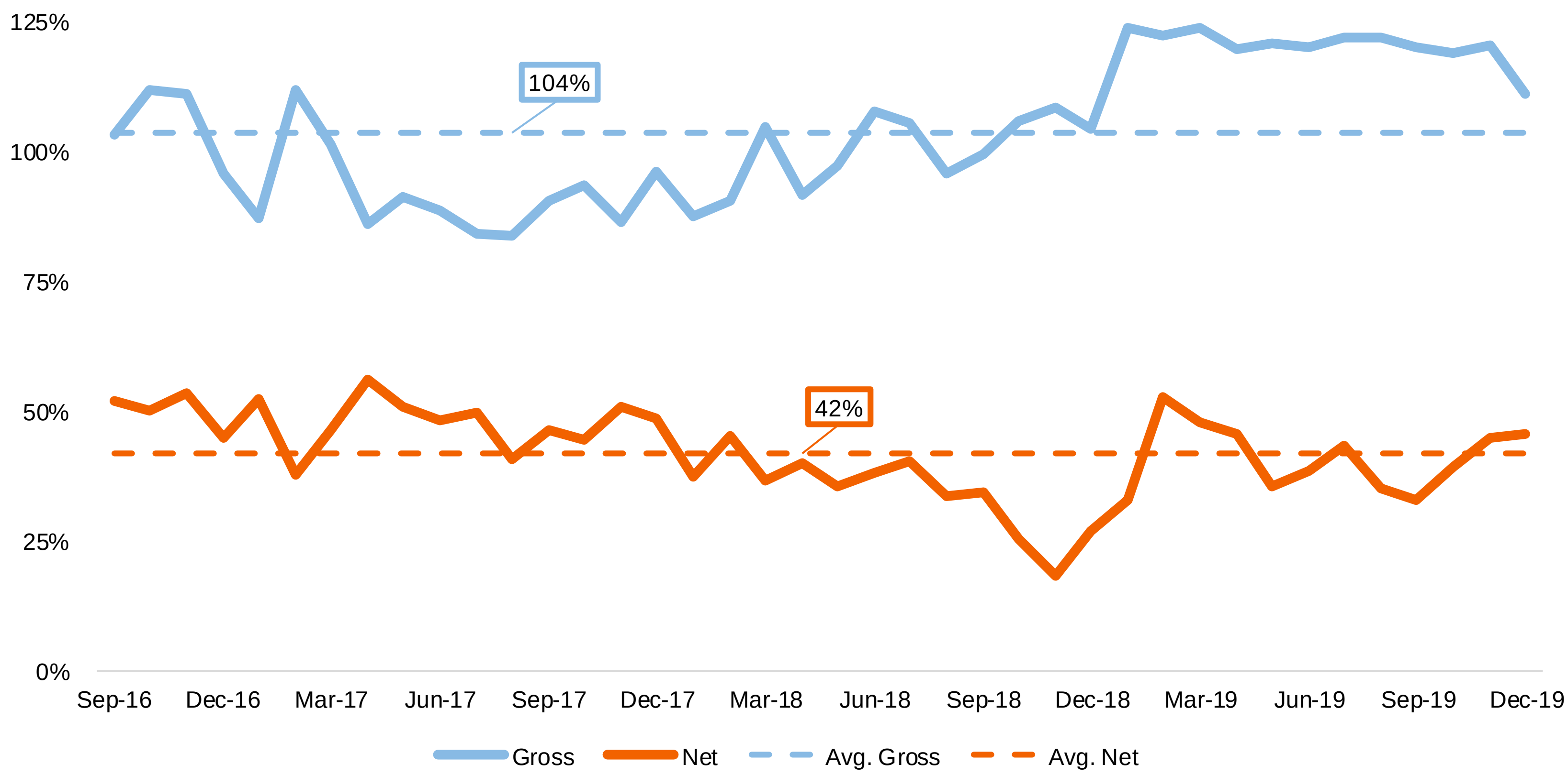
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	Upslope – Net	3.8%	1.0%	2.4%	2.6%	3.0%	2.1%	0.7%	7.2%	(2.1%)	0.7%	(0.2%)	(3.4%)	18.9%
	Upslope – Gross	4.0%	1.3%	2.9%	3.0%	3.5%	2.5%	0.9%	8.4%	(2.4%)	0.9%	(0.2%)	(3.4%)	23.1%
	S&P Midcap 400	10.3%	4.3%	(0.6%)	4.0%	(8.1%)	7.8%	0.9%	(4.1%)	3.1%	1.1%	2.9%	2.8%	25.8%
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	42.1%	11.1%	3.7%	2.4	--
	S&P Midcap 400	37.4%	10.0%	10.1%	0.8	0.07
	HFRX Equity Hedge Index	12.6%	3.6%	3.9%	0.4	0.09

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 39.4% and 17.5%, 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.**

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.

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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.

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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, © 2020 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