

2020-Q1 Update

April 17, 2020

Dear Fellow Investors,

Upslope's objective is to deliver attractive, equity-like returns with significantly reduced market risk and low correlation vs. traditional equity strategies. Q1 was an unprecedented time for markets. Upslope's relative performance and stability were solid. Protecting our capital remains a priority.

	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 2020	31%	-1.9%	-1.7%	-29.6%	-13.3%
Last 12 Months	38%	+8.6%	+11.7%	-22.6%	-9.4%
Since Inception	41%	+39.4%	+48.4%	-3.3%	-2.4%

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

At the risk of setting a bad precedent (doing so, given extreme volatility), April to-date performance for Upslope is +6%. This puts the strategy at +4% YTD vs. -11% and -27% for the HFRX Equity Hedge Index and S&P Midcap 400 ETF (MDY), respectively.² These figures are approximate and could change quickly, given still-volatile markets.

MARKET CONDITIONS - SOME STOCKS ARE CHEAP, OTHERS...NOT SO MUCH

I don't know where equity markets are headed. I've written and re-written this section several times (most versions resembled a *doth-protest-too-much* attempted take-down of the Bull case). I think investors are too optimistic on the timeline for *truly* re-opening the economy (i.e. in a sustainable manner that's actually embraced by individuals and looks relatively similar to 2019).

The good news: we don't need to figure out what equity *indexes* will do to observe that more than a few stocks are, in fact, good bargains today. Others are surprisingly – shockingly – expensive and unscathed (e.g. the Nasdaq-100 index is +15% over the last 12 months). This should be a *great* environment for stock-picking – and for long/short strategies in particular. Reflecting this, Q1 was our most active quarter portfolio-wise since at least Q4 2018.

By most measures, the cheapest stocks today are small-/mid-cap “value” stocks (see Exhibit 1 below). Given this and the fact cheap “junk” usually outperforms early in market snap-backs, there is a temptation to load up on stocks of low-quality businesses. I think this is mistake, given: (1) the prevalence of value-traps (shares appear cheap, but represent ownership of businesses in permanent decline) and (2) the long-term benefits of owning steadily-growing and competitively-advantaged businesses with solid balance sheets at attractive prices are well-worth any short-term performance “sacrifice,” in my view.

What to do? Ideally, we can find longs that fall in a sweet-spot: well-managed businesses with sustainable competitive advantages and staying power, but irrationally tagged by investors as “junk.” Two of our “new” longs (quotes around “new” because these are two stocks we've owned before) fit the bill. We re-added

¹ 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.

² Interim figures for Upslope and MDY estimated at April 16, 2020 close; HFRX as of April 15 (the most recent date available).

Evercore (EVR), a world-class M&A advisory franchise – that happens to be cyclical – at a crisis-level valuation. We also added Crown Holdings (CCK), a global beverage/food can business that we’ve been both long and short in the past. The vast majority of CCK’s cash flows exhibit modest, non-cyclical growth; and, investors appear to be ignoring potential upside from the typically lackluster food can segment. But, a levered balance sheet has spooked investors.

Exhibit 1: Pockets of Cheapness...but Discounts to Long-Term Average P/Es are were Modest

	Current P/E as % of 20-Year Average P/E		
	Value	Blend	Growth
Large Cap	90%	100%	106%
Mid...	82%	90%	104%
Small...	73%	95%	134%

Source: J.P. Morgan Asset Management *Guide to the Markets*

Note: data as of Mar. 31, 2020; major indexes have since rallied ~6-10%, even as estimates continue to get cut

Other additions to the portfolio were quite different. Diploma (DPLM.LN) is a U.K.-based specialty distributor. This is an under-the-radar, high-quality business that finally went on sale. “High-quality” is an over-used phrase in the investing world (I’m not innocent); but, I think it applies here, given DPLM’s track record of disciplined GDP+ growth, conservative balance sheet, and notable exposure to non-cyclical healthcare markets.

At the opposite end of the “quality” spectrum is Subsea 7 (SUBC.NO), a Norway-based provider of specialized off-shore energy services. Of the four new longs, SUBC could most fairly be tagged with the “junk” label. Fine. Here our bet is that the business has staying-power due to a solid market position, an abnormally strong balance sheet, and a sober-minded management team. *If* the energy cycle turns, SUBC will be there to benefit.

On the flip-side, what did we kick out? Businesses with at least two of the following: (A) below average execution during *good* times, (B) full balance sheet, and/or (C) operations in/near the direct line of fire of COVID-19. Gartner (IT), Hilton Grand Vacations (HGV), and STORE Capital (STOR) all fit the bill.

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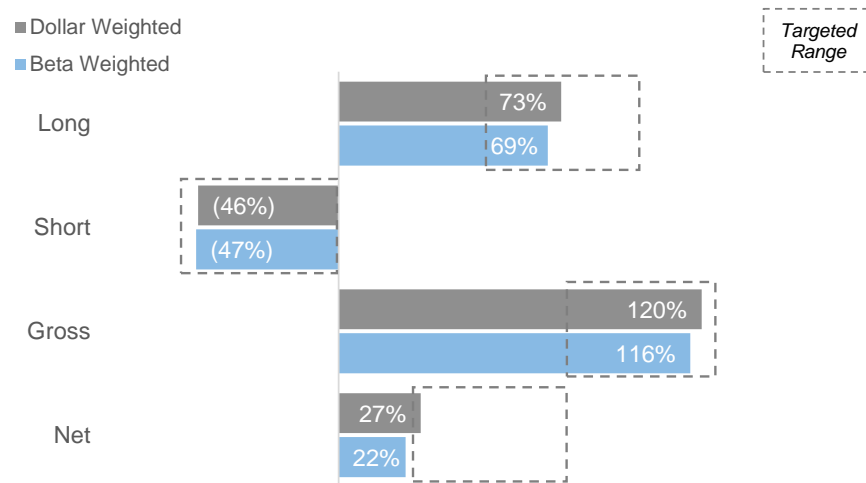
One investor whose thought process and critical thinking we admire is Bronte Capital’s John Hempton. In a 2017 letter, he noted, “our goal here is to continuously improve the quality of our investments.” This simple comment has stuck with me as a true-north principle – especially important during times of crisis. While Upslope’s strategy deliberately has two different quality tiers³ for long investments, I believe the portfolio today is materially better than it was on January 1. I don’t know where markets are headed, but I am confident that the unique portfolio of businesses we own will thrive over the long run.

³ “Core” longs are considered “high-quality, high-conviction, potential ‘forever’ holdings” and are targeted to be 2x the aggregate size of “Tactical” longs, which are more opportunistic positions closer to traditional “value” investments.

PORTFOLIO POSITIONING

At quarter-end, gross and net exposures were 120% and 27%, respectively. This reflects an average number of perceived opportunities on both the long and short sides of the portfolio (partly skewed by a couple of larger short positions considered lower risk).

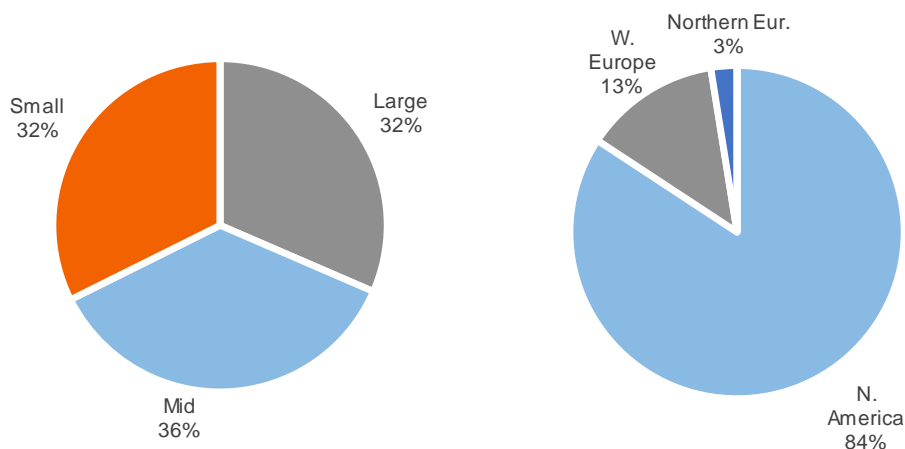
Exhibit 3: Current Portfolio Exposure (% of Net Asset Value)



Source: Upslope, Interactive Brokers, Sentio

Note: as of 3/31/20. "Beta Weighted" amounts include delta-adjusted impact of options, if any

Exhibit 4: Gross Exposure by Market Cap & Geography



Source: Upslope, Interactive Brokers, Sentio

Note: as of 3/31/20. Definitions: Small (\$250mm - \$3bn), Mid (\$3bn - \$12bn), Large (>\$12bn).

At period-end, weighted average market cap for the portfolio was \$9.6 billion (roughly similar across longs and shorts), while median was \$7.2 billion for longs and \$3.3 billion for shorts.

PORTFOLIO UPDATES⁴

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
Short: Undisclosed (+230 bps)	Long: Hilton Grand Vac (-395 bps)
Long: Evercore (+180 bps)	Long: CBOE (-275 bps)
Short: Undisclosed (+175 bps)	Long: Crown (-265 bps)
Longs – Total Contribution	Shorts – Total Contribution
-2,185 bps	+2,015 bps

Source: Upslope, LICCAR, Interactive Brokers

Note: Amounts may not tie with aggregate performance figures due to rounding

Key Updates on Existing Positions

Cboe Global Markets (CBOE) – Current Long

CBOE operates major equity and derivative exchanges across the U.S. and Europe. By all accounts, CBOE had a very strong Q1: market volatility surged and volumes for most of CBOE's largest product categories grew 40-50% year-over-year. Pricing (per contract or share) was solid. While volatility is good for exchanges, it's possible to have too much of a good thing. Q1's record-breaking volatility led to at least one relatively high-profile proprietary trading firm blow-up and the start of a broader withdrawal from trading in CBOE's flagship VIX (volatility index) futures product by customers.

The net result of the above? CBOE shares fared only slightly better than the S&P 400 Midcap index – a disappointment, considering the nature of the position. Nonetheless, recent events appear a temporary setback, as opposed to anything that invalidates our thesis. CBOE continues to offer attractive, proprietary products that should be in strong (and often counter-cyclical) demand for years to come.

Select Shorts – Update

We exited our YETI short early in the quarter in an effort to move the portfolio away from positions with extreme “crowding” (e.g. massive short interest). During the quarter, we also exited our Sealed Air (SEE) and Coca-Cola Consolidated (COKE) shorts, as shares fell near/below our downside targets. Following sharp rallies in each, we re-initiated both positions post-quarter end.

* * * * *

Given the heightened level of activity, a brief summary table laying out the basics of our newest long investments is provided on the following page.

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).

Exhibit 6: New Long Positions

Description	Key Investment Points & Risks
Long: Diploma (DPLM.LN)	
<p>Diploma is a UK-based specialty distributor focused on 3 verticals: life sciences (e.g. lab consumables), seals (heavy machinery), and controls (wiring, cable harness components). Broadly, DPLM focuses on essential products that are part of customer operating budgets and supplements growth with cash-flow-funded acquisitions.</p>	<ul style="list-style-type: none"> ✓ Unique model focused on niche products, paired w/conservative M&A strategy ✓ Track record of steady, through-the-cycle FCF growth ✓ Balanced, global exposure to cyclical and secularly-growing end-markets ✓ Some leverage to (U.S.) infrastructure spend (possibly a good thing soon) ✓ Strong balance sheet with almost no net debt ✓ Intense mgmt. focus on returns on capital and cash flow ✗ Direct COVID-19 challenges in Life Sciences and Controls (aero. exposure) ✗ Cyclical end-markets (Seals, Controls) and FX (mostly translation) ✗ Potential execution missteps with de-centralized, acquisition-supported model ✗ Relatively new management team ✗ Regulatory risk (primarily in Life Sciences)
<p>Shares fell 40% from Feb to Mar. This is a stock we've "stalked" for a long time.</p>	
Long: Crown Holdings (CCK)	
<p>Crown is a leading global producer of beverage cans (~65% of EBIT), food cans (15%), and transit packaging (20%). Upslope has previously been both long and short shares.</p>	<ul style="list-style-type: none"> ✓ Steady, mostly non-cyclical business beaten up due to full balance sheet ✓ Significant exposure to bevcans – the outlook for which remains very strong ✓ Previously lackluster food can unit likely to shine following recent events ✓ Strong FCF generation and attractive relative and absolute valuation ✓ Mgmt. lessons learned and optionality re: Transit Packaging segment
<p>Shares fell 40% from Feb highs to Mar trough, owing (in our view) largely to the Company's full balance sheet.</p>	<ul style="list-style-type: none"> ✗ Transit Packaging cyclical challenges and headline risk re: strategic review ✗ Full balance sheet – more than 4x net leverage ✗ Mixed mgmt. track record of capital allocation (specifically M&A) ✗ Modest LT secular headwinds in food cans
Long: Subsea 7 (SUBC.NO)	
<p>Subsea 7 is a Norway-based, global offshore energy services provider. SUBC provides technical services that span the offshore lifecycle: from facility design and engineering to procurement, construction, maintenance, repair and eventual shut-down.</p>	<ul style="list-style-type: none"> ✓ Conservative, disciplined mgmt. team with solid cap allocation record ✓ Strong balance sheet with no material net debt ✓ Specialized, niche service provider with leading market positions ✓ Positioned for cyclical upside, given staying power and sector destruction ✓ Highly complementary to Upslope's overall-defensive portfolio
<p>Shares fell more than 60% YTD through mid-March. Valuation remains near historic lows by several measures.</p>	<ul style="list-style-type: none"> ✗ No end in sight to cyclical downside in energy ✗ Balance sheet dynamics could change ✗ Elevated competition in alt. energy (so far, mgmt. has been disciplined) ✗ Newly-promoted CEO (long-standing operator and seems a continuation) ✗ New, more specialized sector for Upslope (wading in slowly...)
Long: Evercore (EVR)	
<p>Evercore is a leading independent, boutique investment bank focused largely on M&A and other corporate financial advisory, including restructuring. EVR also provides equity capital mkts, research, and wealth mgmt. services.</p>	<ul style="list-style-type: none"> ✓ Market-leading franchise with strong net-cash balance sheet ✓ Top reputation: doubled mkt. share since '11, continues attracting talent ✓ History of strong growth (double-digit rev growth in all but 3 years since 2002) ✓ Traditionally generates FCF per share far in excess of adj. EPS ✓ Reasonable valuation on conservative trough EPS estimate
<p>Shares fell almost 60% from Feb highs to Mar trough, ultimately trading below its financial crisis-era P/E multiple.</p>	<ul style="list-style-type: none"> ✗ M&A activity near zero in short-term (some restructuring exposure will off-set) ✗ Reputational risk and loss of mkt share and/or key employees ✗ Cont'd challenges in (relatively) fledgling equities business ✗ General regulatory risk

Source: Upslope, Canalyst, Sentieo, company filings

CLOSING THOUGHTS

In the Q4 letter, I mentioned 2020 “should offer a constructive environment for nimble, uncorrelated strategies that thrive on volatility.” I believe this continues to be the case. The last couple of months have, unsurprisingly, seen correlations among individual stocks at upper extremes. Such an environment emphasizes overall portfolio positioning (e.g. net and gross exposure) over security selection. As correlations eventually and inevitably fall, individual stock selection should become a much bigger driver of returns. On this front, I am as excited as ever about the prospects of Upslope’s unique and differentiated portfolio.

Given the extraordinarily uncertainty and personal stress many are experiencing, I am particularly grateful for the continued trust of Upslope’s clients. I will continue to communicate intra-quarter as-needed. In the meantime, please don’t hesitate to contact me with any questions at all regarding the portfolio, your account, or anything else.

Finally, if you are interested in adding to your account or if you know someone that might be interested in becoming an Upslope client, please call or email me.

Sincerely,

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Appendix A: Historical Long/Short Composite Performance

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	Upslope	0.0%	(2.3%)	0.4%	--	--	--	--	--	--	--	--	--	(1.9%)
	S&P Midcap 400	(2.6%)	(9.4%)	(20.2%)	--	--	--	--	--	--	--	--	--	(29.6%)
2019	Upslope	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%
	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	(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%
	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	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%
	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	--	--	--	--	--	--	--	0.0%	(0.8%)	(1.6%)	2.7%	(1.8%)	(1.6%)
	S&P Midcap 400	--	--	--	--	--	--	--	(0.4%)	(0.6%)	(2.7%)	7.9%	2.2%	6.2%

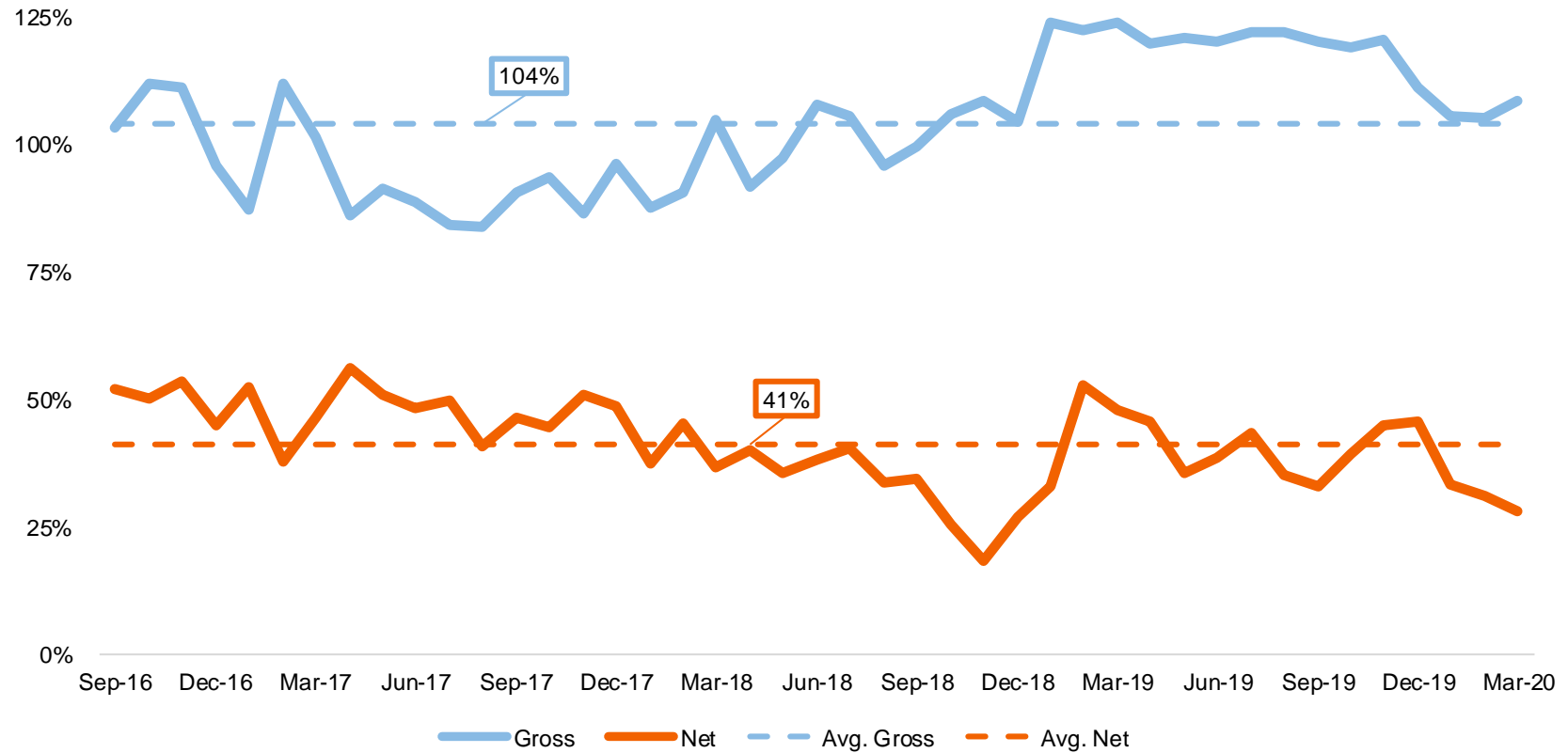
		Total Return	Annualized Return	Downside Dev.	Sortino Ratio	Corr. vs Upslope
Since Inception	Upslope	39.4%	9.7%	3.8%	2.0	--
	S&P Midcap 400	(3.3%)	(0.9%)	15.4%	(0.2)	0.13
	HFRX Equity Hedge Index	(2.4%)	(0.7%)	6.7%	(0.4)	0.13

Source: Upslope, Interactive Brokers, LICCAR, Sentio, 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 2020 were 36.8% and -4.1%, respectively). Clients should always review statements for actual results. 11% 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.

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