Upslope Capital Management
ALTERNATIVE \ VALUE \ CONCENTRATED

2020-Q3 Update

October 14, 2020

Dear Fellow Investors,

Upslope's objective is to deliver attractive, equity-like returns with significantly reduced market risk and low correlation versus traditional equity strategies. Solid year-to-date performance has generally been enabled by a favorable environment for stock-picking (plenty of volatility and dispersion) and Upslope's ability to be nimble.

	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 2020	55%	+7.5%	+8.3%	+4.7%	+3.6%
YTD 2020	40%	+6.7%	+8.0%	-8.7%	-2.9%
Last 12 Months	41%	+3.6%	+5.1%	-2.4%	-0.4%
Since Inception	42%	+51.6%	+63.0%	+25.4%	+9.3%

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

MARKET CONDITIONS – WHITE NOISE

Q3 was another strong period for equities – especially U.S., large cap, and/or tech stocks. Upslope's strategy and style tend to avoid the latter two categories and we usually have a material portion of the portfolio outside of the U.S. (nearly 25% today). The environment in Q3 was supportive of our approach; but, our focus areas are still relatively out of favor.

I don't have a good read on where markets or the economy are headed and have made peace with this. A favorable stock-picking environment has made such a mindset – head-down, focused on bottom-up work – more rational and easier to stomach. There are too many distractions and sideshows. Vaccine development news, stimulus headlines, and presidential tweets send markets flying or cratering (mostly flying, let's be honest) on a near-daily basis. The unemployment and macro picture continues to improve but remains sketchy on an absolute basis. Trying to make sense of elevated macro risk and clear signs of froth in public markets (full valuations, an all-out SPAC bonanza,[2] aggressive call option buying, and a brief stock-split craze reminiscent of the 90s Tech Bubble, for example) is bound to drive an investor insane. No one knows where we're headed. And it's better to be clear about this than pretend otherwise.[3]

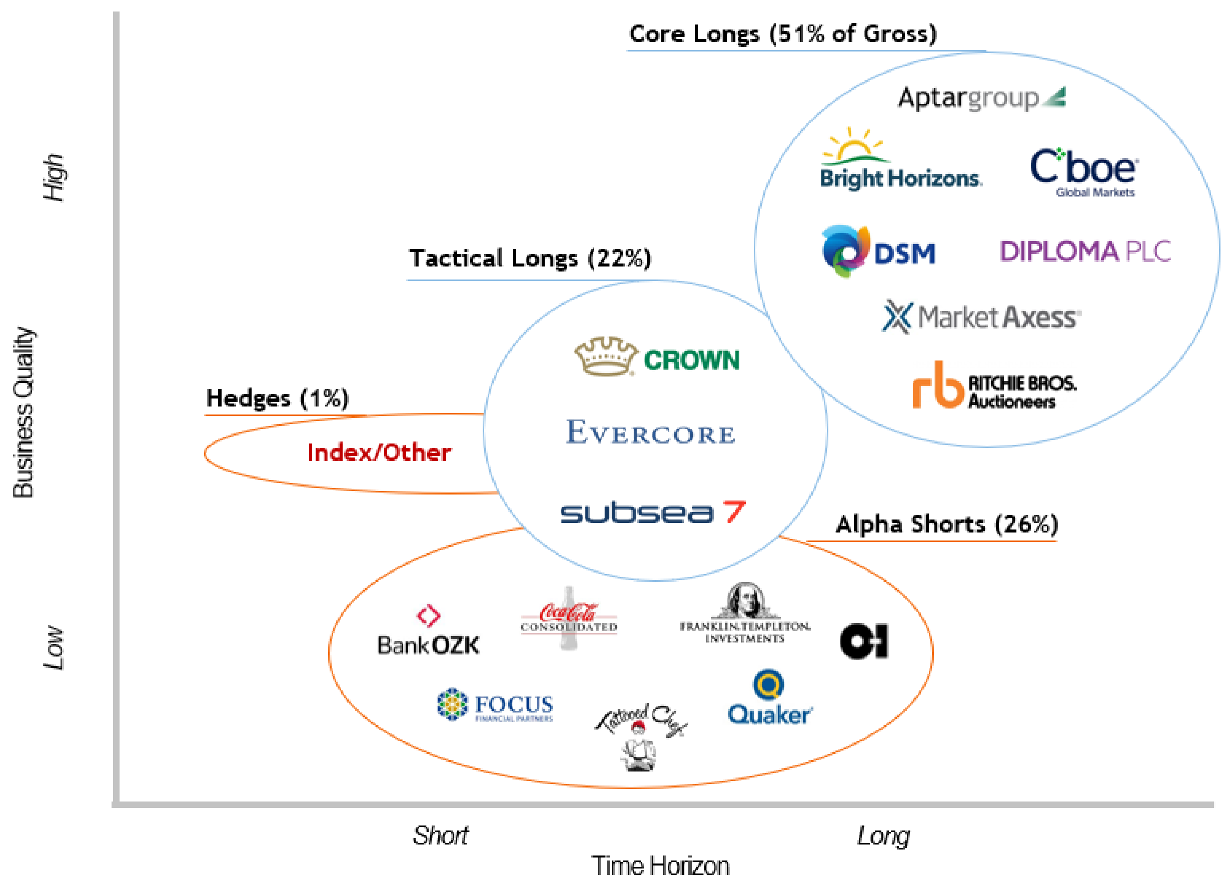
Today, the portfolio is marginally more net long traditional, cyclical "value" than 90 days ago. I am conscientious of any shift at the portfolio level, even though it's mostly a byproduct of bottom-up stock-selection. While I feel ill-equipped to determine whether the long-awaited rotation to "value" (away from growth) is finally upon us, Upslope's portfolio and strategy are well-prepared for it, if/when the time comes. Some commentary on the topic is included on the following pages.

[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] SPAC background on page 5 of the Q2 letter, if you're unfamiliar.
[3] If you're interested in even more commentary on the macro picture, I recommend this excellent blog post (with which I generally agree) by an anonymous author (no affiliation).

VALUE PRACTICE

Since inception, Upslope's longs have been divided into two categories: Core and Tactical. The categories aren't scientific. They provide guideposts for position sizing and a framework for selling. Some quick definitions: Core longs are higher "quality" businesses (not-too-cyclical growers that are competitively advantaged, profitable, and well-managed), while Tactical longs look more like traditional "value" stocks (cyclical, "low P/E"). *Reasonable* valuation is essential when initiating a Core position; but, valuation isn't much of a factor for exiting. For Tactical longs, valuation is a major factor for deciding to initiate *and* exit a position. The current portfolio, by category, is shown below in Exhibit 1.

Exhibit 1: Portfolio Snapshot



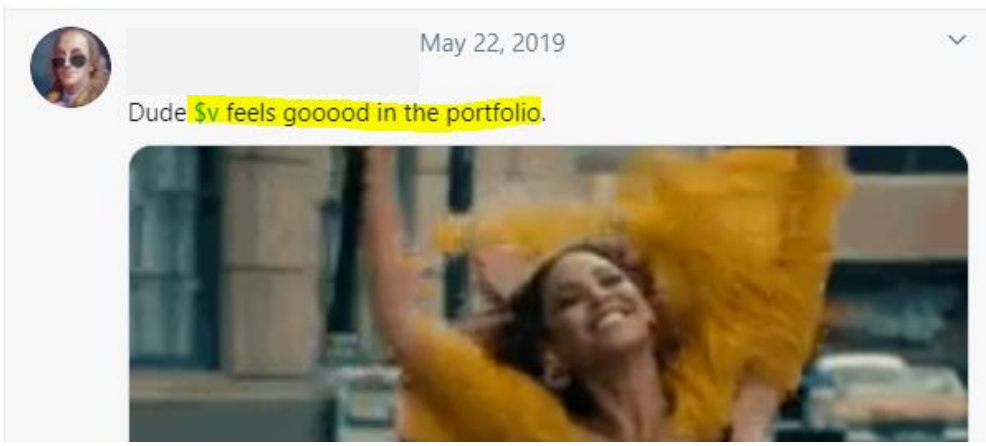
Source: Upslope. Note: as of 10/13/20 and may change without notice. **Only a sample of current short positions (which may not be representative of the full short portfolio) are shown.** Logos not positioned deliberately *within* categories. **See Appendix C for a brief overview of all long positions.**

Looking at Upslope's track record, one could easily suggest Tactical longs (aka "traditional value") have been a complete and utterly frustrating waste of time. About 85% of returns from longs have been generated by Core positions, despite the category holding just a 60% weight. Certainly, some mistakes were made and lessons learned.[4] But, much can also be explained, in my view, by the sharp underperformance of value stocks in recent years.

[4] Don't own levered secular losers, no matter how cheap. Don't make excuses for terrible management, no matter how cheap.

Importantly, Upslope's commitment to investing in both categories from the start has been due to the fact that: (A) **different market regimes favor certain styles**. We never want to be permanently wedded to one narrow style, as these regimes can last a *long* time (e.g. value has underperformed growth for the past 10+ years and is relatively cheaper than at anytime over the last 20 years[5]) and (B) **investors can't simply change styles on a whim without sustained practice**, given the experience and skill-set needed to succeed investing in, for example, an insulation installer (Tactical) vs. a financial exchange (Core) are very different. On this latter point, some time ago, a user Tweeted the following (note: "$v" = Visa, which is most certainly a "high-quality" stock):

Exhibit 2: What It's Like Owning Popular 'Quality' Stocks



Source: Twitter

While this was obviously a joke, I think it's a great way to cut through it all and illustrate the difference between owning "high-quality" (especially the popular ones) and "value" stocks in recent years. Sure, there are hiccups and valuation might decline along the way with "quality." But, generally it is easy to believe the underlying business will be just fine over the long-run. Buy at a reasonable price, watch fundamentals closely for adverse changes, and sit tight.

By contrast, owning "value" most certainly does not "feel good." The list of worries is long: potentially serious short- and/or long-term fundamental and competitive challenges, less-than-ideal capital allocation by management, cheap-but-declining valuation, cyclical considerations (which can make valuation analysis an entirely different animal), and, balance sheet concerns (that amplify all prior issues). So, owning "value" is completely different from an emotional and analytical perspective.

It is also different from a portfolio management and trading perspective. When buying an out-of-favor value stock, one can logically assume the position will lose money almost immediately (due to the more contrarian nature of the position and the impossibility of timing cycles perfectly) – not exactly the case when buying a popular growth or "quality" stock.

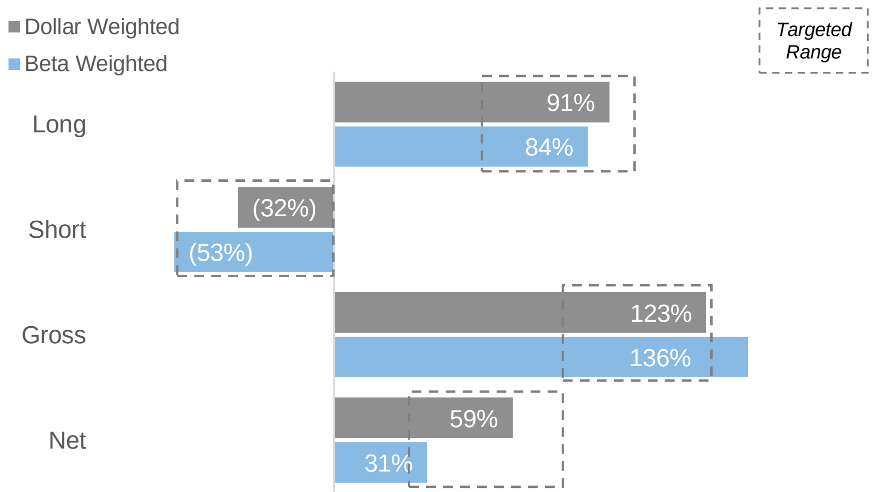
In conclusion, if the goal is to be prepared for evolving market regimes, practicing the out-of-favor style is essential. While it is hard to measure precisely, I believe Upslope has gotten better at finding and managing Tactical ("value") long positions over the past 4+ years and is well-prepared in the event of a market regime change.

[5] Per J.P. Morgan Asset Management's *Guide to the Markets* (4Q 2020, as of September 30, 2020).

PORTFOLIO POSITIONING

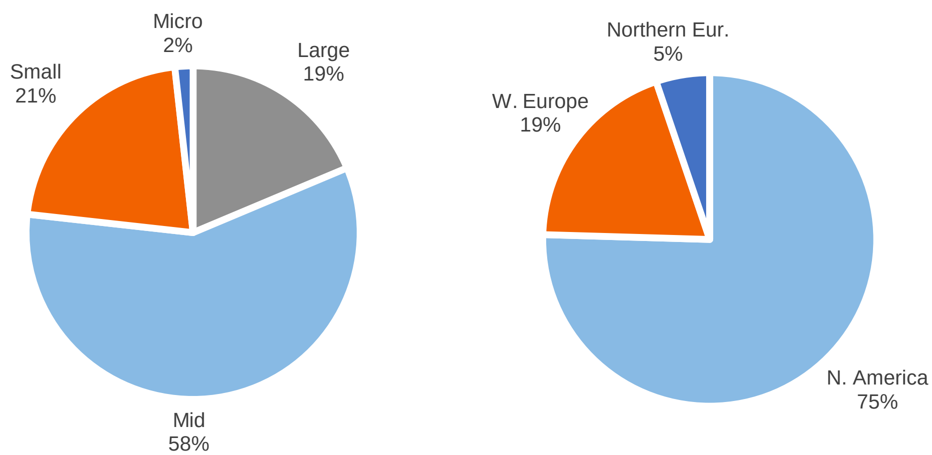
At quarter-end, gross and net exposures were 123% and 59%, respectively. Beta-weighted net long exposure was quite a bit lower (31%), owing to the typically higher-beta nature of our shorts and the impact of hedges. Overall, positioning reflects an elevated number of perceived opportunities on the long side combined with abnormally heightened macro uncertainty.

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



Source: Upslope, Interactive Brokers, Sentieo
Note: as of 9/30/20. "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 9/30/20
Definitions: Micro (<$350mm), Small ($350mm - $3bn), Mid ($3bn - $12bn), Large (>$12bn)

PORTFOLIO UPDATES[6]

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: Ritchie Bros (+330 bps)	Short: Hedges, net (-280 bps)
Long: Bright Horizons (+250 bps)	Short: Forum Merger II (-55 bps)
Long: Diploma (+235 bps)	Short: Coke Consol. (-55 bps)
Longs – Total Contribution	**Shorts – Total Contribution**
+1,320 bps	-490 bps

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

Bright Horizons Family Solutions (BFAM) – New Long

Bright Horizons is a leading operator of daycare centers and related services, primarily in the United States and, to a lesser extent, the U.K. and Netherlands. Offerings include full-service daycare (~85% of revenues in a normal year), back-up care (on-site or home-based for both children and the elderly; ~10% of revenues), and education advisory (~5% of revenue).

What makes Bright Horizons unique is its employer-sponsored offering (e.g. on-site daycare center operated for the benefit of a company's employees. The employer covers capex and facility maintenance). This focus results in a stickier customer base (95%+ retention[7]), lower capital needs, and the opportunity to compete more on quality of service than price. Within this attractive niche, BFAM is 6x as large as its next biggest competitor.

While BFAM's earnings were hit hard due to COVID-19 shutdowns, the company's competitive position has likely been *strengthened*, relative to smaller competitors, as a result of the crisis. Further details on the thesis are below:

1) **Definition of an essential business.** The essential nature of BFAM's business, combined with its industry-leading scale (and thus durability) is what initially attracted us to the company. Simply put, the economy cannot fully re-open without daycare providers also being open. "Work from home" – whether it's here to stay or not – is not a serious threat to the business model or demand over the long-run (I *dare* you to try to be productive "working from home" while simultaneously watching a toddler or two full-time).

2) **Clear competitive advantages, likely enhanced by the pandemic.** In the highly-fragmented childcare services industry, sticky employer-customer relationships, as well as industry-leading scale and a trusted brand are all key competitive advantages for Bright Horizons. Ultimately, the company seems far better equipped to navigate pandemic-driven changes and adversity relative

[6] 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).
[7] At employer-sponsored centers.

to smaller-scale competitors – leaving ample room for and possibly accelerating growth and consolidation.

3) **Attractive financial model.** Over the last 10 years, BFAM has generally grown revenue in the 8-10% range, while experiencing modest operating leverage and delivering strong free cash flow (free cash margin has expanded notably). While there will be at least a temporary margin reset due to COVID-19, there is no reason to believe that margins can't ultimately continue to expand over the long-term, as the business grows.

4) **Low cyclicality.** During a "normal" recession (i.e. one not triggered by a pandemic and related shutdowns), BFAM could be considered a business with low cyclicality due to the essential nature of its services. The company grew revenues during the financial crisis, despite decent exposure to financial services sector employers. Today, BFAM has a highly diverse customer base, with Healthcare & Pharma as its largest industry exposure (30% of 2019 sales, followed by Financial Services at 16%).

5) **Institutional backstop.** Given Bright Horizons' low cyclicality, predictable cash flows and leading competitive position within a fragmented industry, it seems logical to assume that private equity would be quite interested in the business should it face challenges again. Supportive of this assumption is the fact that BFAM (A) was previously owned by private equity (2008-13) and (B) easily raised $250mm of new equity from a respected institution during the height of pandemic.

6) **Key Risks.** (A) relatively full balance sheet (~4x net leverage based on depressed 2020 consensus earnings – closer to ~2x normalized), (B) margin headwinds likely to persist over the short-and medium-term due to COVID-19-related capacity constraints, and (C) modest macro/cyclical exposure, given employer-sponsor connection.

CLOSING THOUGHTS

2020 has undoubtedly been one of the strangest periods many investors have experienced. Volatility into year-end seems likely; but, many investors are already well-hedged. Given how the year has gone so far, it would not be a shock to see a performance-chasing rally into year-end. I am keeping an open-mind and excited about prospects for Upslope's unique portfolio regardless of what happens with equity indexes.

Thank you, as always, for your trust and the opportunity to manage a portion of your hard-earned money. If you have any questions, are interested in adding to your account, or know someone that might be interested in becoming an Upslope client, please call or email.

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%	4.9%	(0.7%)	(2.9%)	1.9%	4.6%	0.8%	--	--	--	6.7%
	S&P Midcap 400	(2.6%)	(9.4%)	(20.2%)	14.1%	7.2%	1.3%	4.7%	3.5%	(3.3%)	--	--	--	(8.7%)
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%

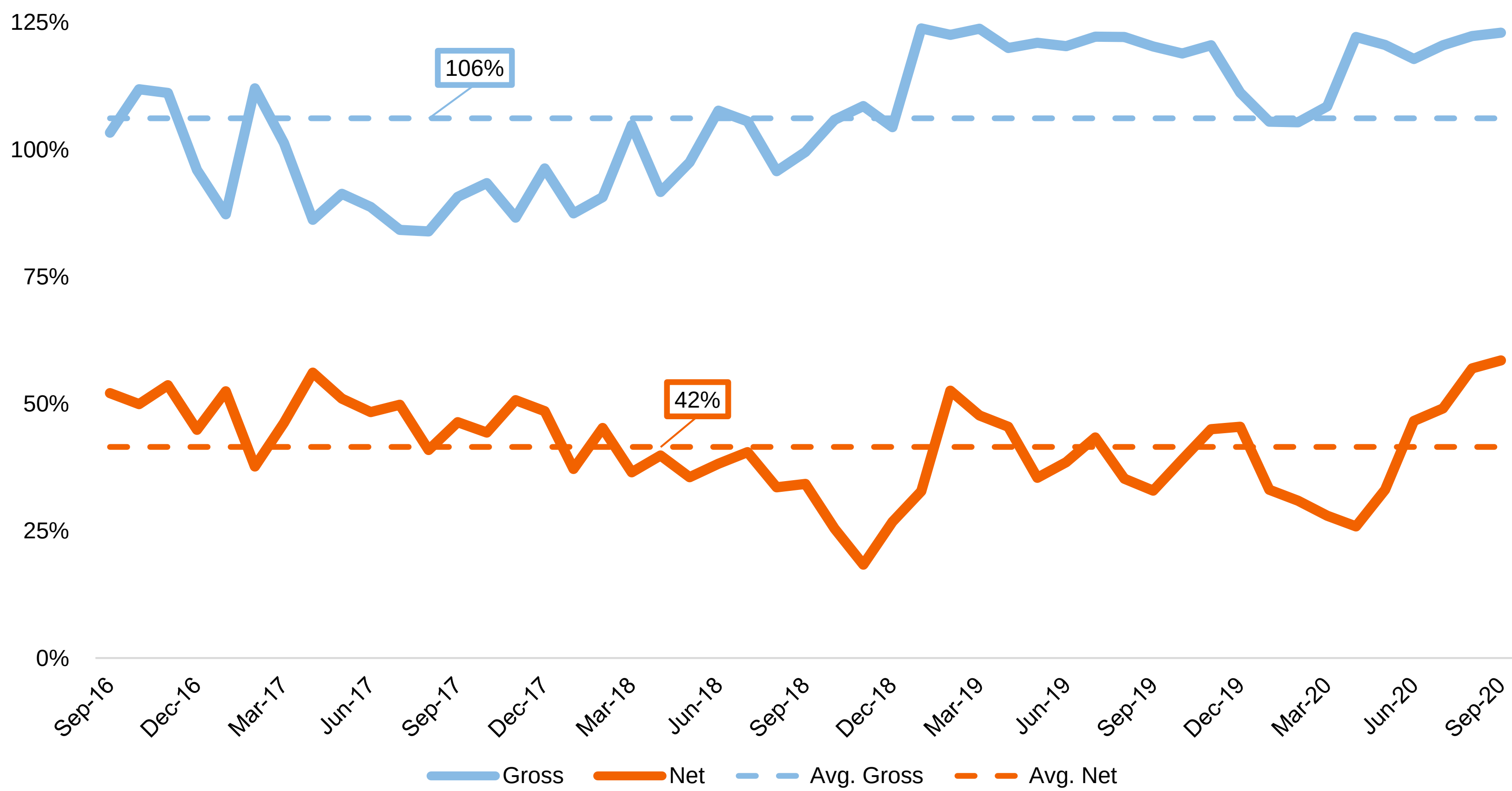
		Total Return	Annualized Return	Downside Dev.	Sortino Ratio	Corr. vs Upslope
Since Inception	Upslope	51.6%	10.7%	3.9%	2.2	--
	S&P Midcap 400	25.4%	5.7%	14.5%	0.3	0.20
	HFRX Equity Hedge Index	9.3%	2.2%	6.3%	0.0	0.19

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 2020 were 48.2% and 4.4%, respectively). Clients should always review statements for actual results**.** 10% 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

Appendix C: Portfolio Company (Long) Descriptions

AptarGroup (ATR)

Specialty packaging business focused on pumps and sprayers, with a highly profitable and growing pharma packaging unit. Steady secular grower misclassified and undervalued due to its legacy/traditional packaging businesses (Food + Beverage, Beauty + Home), which contribute 60% of sales but <30% of EBIT.

Bright Horizons Family Solutions (BFAM)

Leading childcare provider with unique and dominant corporate partnership model. Hit hard by COVID-19 shutdowns, the BFAM platform should emerge competitively stronger and continue to benefit from long-term growth in demand for dependable, high-quality childcare.

Cboe Global Markets (CBOE)

Diversified, global exchange (equity, derivative, FX) operator with dominant positions in index and volatility (VIX) derivatives. Unique products with counter-cyclical buffers and strong competitive advantages; backstopped by compelling potential take-out (sale to strategic) rationale.

Crown Holdings (CCK)

Top two global producer of beverage and food *cans*, as well as transit packaging products. Recession-resistant free cash flow stream bolstered by long-term secular shift (driven, in part, by environmental considerations) from the use of glass packaging to metal/cans.

Diploma (DPLM.LN)

U.K.-based specialty distributor focused on essential consumable products across life sciences, seals (machinery), and controls (aerospace wiring/harnesses). Unique model and conservative M&A strategy have historically enabled attractive free cash flow growth through the cycle.

Evercore (EVR)

Leading independent, boutique investment bank focused largely on M&A and other corporate financial advisory. Market-leading franchise with history of share gains, strong balance sheet, and significant cyclical upside post-normalization.

MarketAxess (MKTX)

Platform for electronic trading of fixed income (mostly corporate high-grade, high-yield, Eurobonds, emerging markets). Beneficiary of long-term trend towards electronic trading; market share gains have accelerated sharply YTD, further bolstering dominant competitive position.

Ritchie Bros. (RBA)

World's leading auctioneer/operator of marketplaces for the sale of used heavy equipment (construction, ag, energy, etc.). Dominant leader in fragmented markets that should benefit from straight-forward network effects, acceleration towards more auctions held online, and indirect cyclical upside.

Royal DSM (DSM.NA)

Netherlands-based nutrition (specialty ingredients for human/animal feed, vitamins, supplements, personal care) and materials (auto, other specialized materials) business. Defensive foundation (Nutrition segment), bolstered by strong product pipeline; overall, underappreciated due to cyclicality of Materials segment.

Subsea 7 (SUBC.NO)

Norway-based, global specialty offshore energy services provider; provides technical services, including facility design/engineering, procurement, construction, maintenance, repair and shut-down. Conservatively managed and well-positioned to weather current cyclical downturn.

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.

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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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