Upslope Capital Management
ALTERNATIVE \ VALUE \ CONCENTRATED

2020-Q2 Update

July 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. While "significantly reduced market risk" contributed to our strong Q1, it did the opposite in Q2. Our participation in the broader rally was limited, owing to modest net exposure and the (typical) defensive-skew of individual 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
Q2 2020	35%	+1.2%	+1.4%	+23.9%	+8.1%
YTD 2020	33%	-0.7%	-0.3%	-12.8%	-6.3%
Last 12 Months	37%	+1.9%	+3.6%	-7.0%	-2.1%
Since Inception	41%	+41.1%	+50.5%	+19.8%	+5.5%

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

MARKET CONDITIONS – "NO ONE KNOWS WHAT IT MEANS, BUT IT'S PROVOCATIVE"[2]

Q2 was the best quarter for stocks in decades. Markets simultaneously saw deep-recession levels of unemployment *and* obvious pockets of late-90s Tech Bubble-style excess.[3] Certainly, I underestimated the efficacy of government stimulus efforts and the intensity of the excitement over the economy bouncing back from wide-scale shutdowns.

Today, there are some obvious risks that lie directly ahead. "Obvious" typically means it's priced in. But this market has been far from typical since February. A large, second COVID-19 wave and peak election season are both upon us. Thankfully, the death toll from the second wave has been muted. Logic suggests this will change; we hope not. On the macro front, long-term unemployment trends remain worrisome and large swaths of the economy (travel, leisure) are shrouded in existential uncertainty. We will undoubtedly get through all of these challenges sooner or later. The question is: when? I don't know the answer, but investors seem optimistic about 2021 and I'm less certain.

We continued to high-grade the portfolio during the quarter, leaving it better positioned for the long-run than I think it's ever been.[4] Longs are mostly the same – save for an exit (DollarTree) and two additions (Ritchie Bros. and, early in Q3, a "business services company" we're still adding to). More on these later. The short book turned over a bit, as we added (or re-added) fresh ideas, cleaned out stale positions, and added index hedges that seem to have an attractive risk/reward in the current environment (despite my usual distaste for "hedges").

---

[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] Blades of Glory (2007).

[3] Some examples: surges in new account openings at retail brokers, new all-time highs in high-flying (and often quite speculative) tech stocks, aggressive/persistent call option buying, and, in a bizarre twist: a game of 'greater fool chicken,' in which investors bid up stocks of companies that were literally bankrupt (Hertz being the most prominent).

[4] For those unfamiliar with the term, 'high-grading' means upgrading the quality of a portfolio – i.e. shifting exposure more towards companies with strong balance sheets, lower cyclicality, steady growth and more dominant competitive advantages.

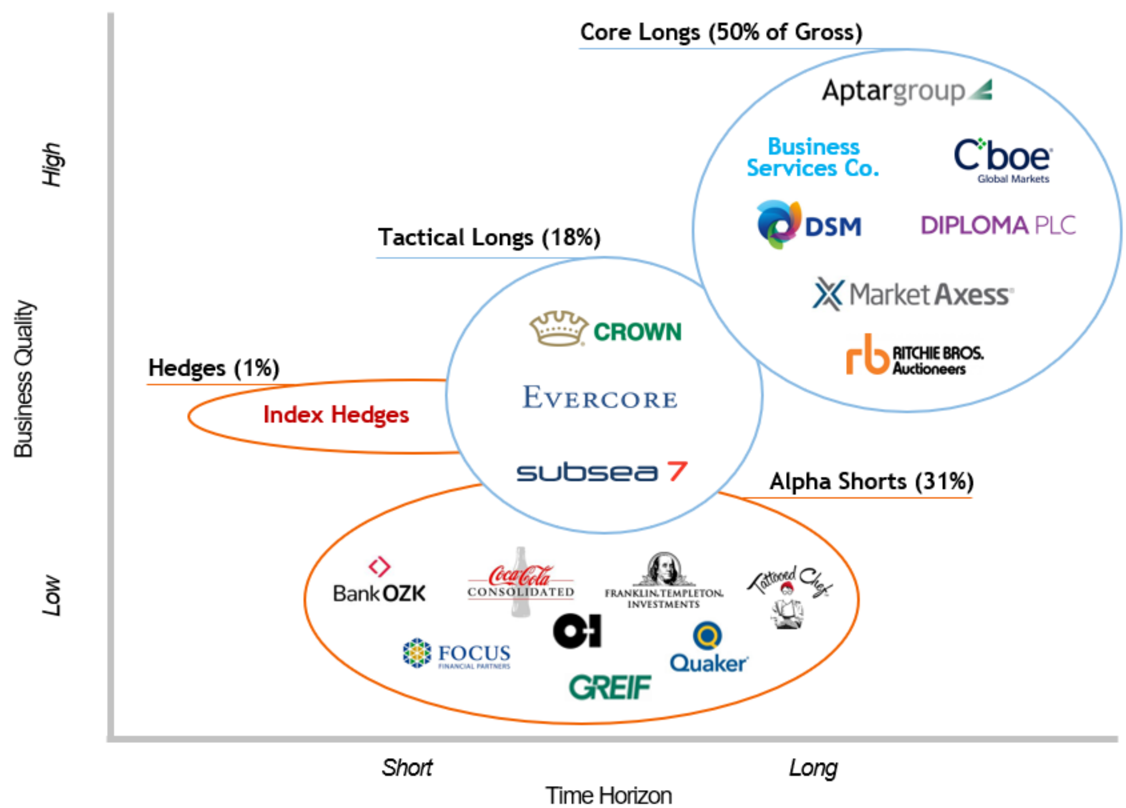
PORTFOLIO SNAPSHOT AND THOUGHTS ON BEING DIFFERENT

This won't be a regular feature; but, I thought it'd be helpful to layout a snapshot of the portfolio in Exhibit 1 below (descriptions of all Longs are in the Appendix). Why am I doing this? First, it occurs to me that even regular readers may not have a sense for what Upslope's portfolio actually looks like, since the letters typically just mention key changes. Second, I wanted to emphasize that Upslope's portfolio looks nothing like that of a typical hedge or mutual fund.

In a world awash with cheap index products and all-too-often beta-driven "hedge" fund strategies, Upslope's goal is to deliver something different: equity-like returns with low correlation. Since inception, correlations with the S&P 500 and Midcap 400 are both below 0.20. In addition to potential diversification benefits when paired with most traditional portfolios, 'being different' also happens to be the only approach I am aware (or capable) of that lays the groundwork for potential outperformance of equity markets over the long-run.

While the benefits of 'being different' seem obvious, the path can sometimes be frustrating. Upslope's year-to-date results have been a textbook example. As markets crashed in Q1, the confidence resulting from having successfully protected capital during a nearly-unprecedented market collapse contrasted perfectly with intense "POMO" (pain of missing out) in Q2. Despite short-term challenges, I could not be more enthusiastic about our strategy and unique portfolio. From the perspective of a portfolio manager, it suits my personality and temperament perfectly – something essential for success in investing. Of course, the vast majority of my family's investable net worth also remains invested right alongside Upslope clients.

Exhibit 1: Portfolio Snapshot

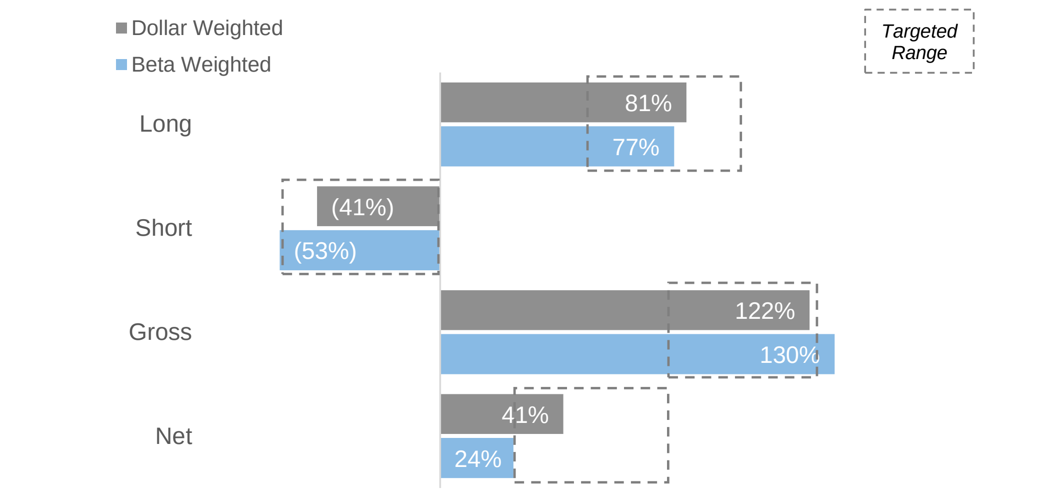


Source: Upslope. Note: positions as of 7/13/20 and may change without notice. **Only a sample of current short positions are shown.** Logos not positioned deliberately *within* categories. **See Appendix C for a brief overview of all long positions.**

PORTFOLIO POSITIONING

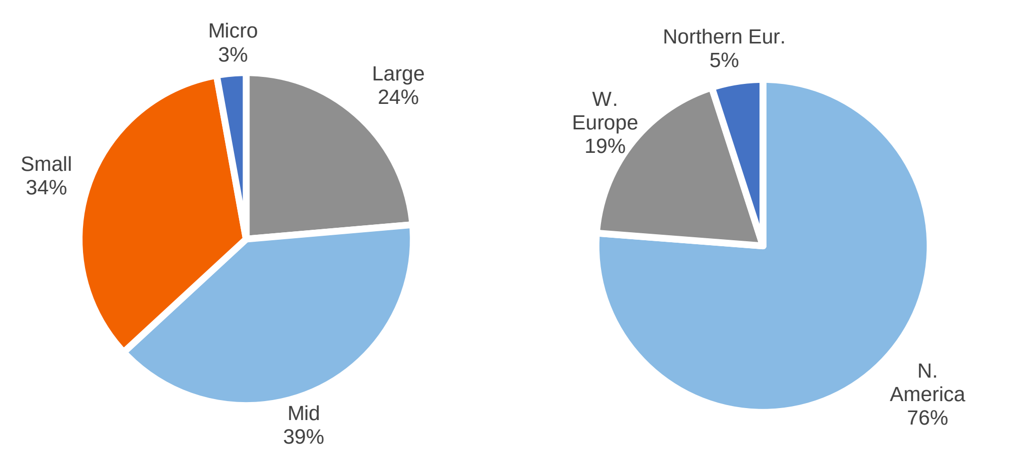
At quarter-end, gross and net exposures were 122% and 41%, respectively. This reflects an average number of perceived opportunities on the long side of the portfolio and above average exposure on the short side (further enhanced by hedges).

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



Source: Upslope, Interactive Brokers, Sentieo
Note: as of 6/30/20. "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 6/30/20.
Definitions: Micro (<$250mm), Small ($250mm - $3bn), Mid ($3bn - $12bn), Large (>$12bn).

PORTFOLIO UPDATES[5]

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: MarketAxess (+390 bps)	Short: Quaker Chem. (-205 bps)
Long: Evercore (+250 bps)	Short: Bank OZK (-130 bps)
Long: Royal DSM (+200 bps)	Short: Focus Fin. (-130 bps)
Longs – Total Contribution	**Shorts – Total Contribution**
+1,325 bps	-1,185 bps

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

<u>Ritchie Bros. Auctioneers (RBA) – New Long</u>

Ritchie Bros. is the world's leading auctioneer and operator of marketplaces for the sale of used heavy equipment (construction, farming, energy, etc.). Through in-person and online auctions, as well as brokered transactions, RBA facilitated the sale of $5+ billion worth of equipment in 2019. Our thesis is as follows:

1) **Clear, durable competitive advantages.** As the clear leader in facilitating used heavy equipment sales, RBA enjoys significant competitive advantages – similar to those of a dominant financial exchange (e.g. stock market). When customers want to transact, they are far better served participating in an RBA auction, which offers deeper inventory selection, superior access to buyers and more efficient pricing. While direct and indirect competition certainly exists, RBA's competitive advantages should continue to strengthen over time, as the company grows.

2) **Potential inflection point with parallels to financial exchanges.** Due to COVID-19, RBA rapidly flipped to operating its auctions 100% online in Q1. While in-person auctions won't disappear for good, it seems likely that an acceleration towards a greater online mix will stick. If so, there are some interesting, potential precedents in the financial exchange world. When financial exchanges have shifted in the past from floor- and/or phone-based trading to purely "electronic" (online) trading, volumes have generally moved higher. While RBA's business is focused on a very different "asset class," it seems possible such a shift could remove transaction frictions and provide a boost to volumes and margins over the long-run.

3) **Financial results tell a consistent story.** There are a number of metrics that appear supportive of the thesis that RBA has an attractive operating model and durable competitive advantages: (A) RBA has historically grown GTV (global transaction value, a key metric used to track the health of the business) in the high-single-digit range. Even in the financial crisis, GTV only fell ~8% from peak to trough (over two years). (B) RBA's revenue take rate (revenues as a % of GTV – very rough approximation of pricing power) has grown steadily over the last 10+ years. (C) Solid and sustained returns on invested capital and high/growing free cash flow (to firm) margins.

[5] 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).

4) **Potential cyclical upside.** RBA has indirect exposure to infrastructure spending (and odds for some kind of stimulus on this front in the next 12 months appear higher than normal) and could be a beneficiary of distress in the energy sector (liquidation auctions).

5) **Strong balance sheet.** We *may* be nearly out of the woods with regards to the COVID-19 crisis (from a market perspective), but a strong balance sheet is still highly desirable today. RBA is levered just 1.0x net and has good access to liquidity.

6) **Key Risks.** (A) New, unproven CEO, (B) lumpy quarter-to-quarter performance and (related) potential for losses on inventory deals (i.e. *part* of RBA's model involves actually purchasing inventory to be sold in auctions), (C) uncertainty regarding long-term impact of COVID-19, (D) general and unpredictable cyclical nature of the business.

DollarTree (DLTR) – Exited Long

After multiple quarters of lackluster execution and excuses from management, it became clear that thesis drift (*hoping* for fresh activist involvement – not central to our original long thesis) was setting in. Further, a big part our DLTR thesis was expected outperformance (of the business and stock) during times of economic stress. Given questionable execution in recent years, we are no longer confident that such outperformance is a given.

SPACs – New Short(s)

Year-to-date, there has been a notable SPAC (special purpose acquisition company) boom – a clear sign of speculative fervor. As a reminder, SPACs are publicly-traded shell companies comprised of a pool of cash in search of an acquisition target. Like others, we think of the SPAC model as highly-flawed and believe they rarely work out over the long-run.[6] Management teams are heavily incentivized to do a deal – any deal. So, most over-pay for lousy businesses that were unable or unwilling to complete a traditional IPO or strategic sale process. There are exceptions; but, they are rare.

Given the above – and the intense enthusiasm for SPACs today – we believe attractive opportunities exist on the short side for select SPACs. We've begun assembling a "basket" of such shorts where enthusiasm appears to far exceed the long-term potential of the underlying target business. In selecting which SPACs to short, we have focused largely on qualitative characteristics that: (a) indicate a high likelihood of failure and (b) make them less susceptible to dangerous short squeezes (space tourism would be an example of something to avoid). Despite this focus, sizing for each position is relatively small.

One example of the above, that we are currently short, is Tattooed Chef (ticker: FMCI). Tattooed Chef is the pending target for a SPAC called Forum Merger II. Bulls believe FMCI is the second coming of Beyond Meat (BYND), a poster-child for the pockets of wild, bubbly excess noted previously. At least BYND has *some* arguable competitive advantage (i.e. they actually produce proprietary, meat-less "raw" ingredients). FMCI, on the other hand, simply sells pretty standard, "plant-based," pre-prepared frozen foods. Some examples: $13 bags of frozen vegetables and $16 cauliflower-crust frozen pizza – hardly exciting or unique stuff. Despite an obvious lack of competitive advantages and the long list of typical SPAC headwinds/risks, FMCI shares appear very richly-valued.

[6] Older study on the challenges for SPAC returns: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2139392

CLOSING THOUGHTS

While it's impossible to know what lies ahead in markets, I think we can confidently agree the second half of 2020 will be "interesting." Upslope's portfolio is well-positioned to handle whatever markets throw at us. In addition to strong downside protection, positioning is balanced between defensive, secular growers (such as AptarGroup, who designs/produces pharma packaging) and businesses more directly exposed to a broader re-opening of the economy (e.g. Evercore, a leading boutique M&A advisor that should eventually benefit from pent-up M&A activity and lower-for-longer rates).

As always, I'm grateful 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 don't hesitate to contact me.

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

Sincerely,

George K. Livadas
1-720-465-7033
george@upslopecapital.com

Appendix A: Historical Long/Short Composite Performance

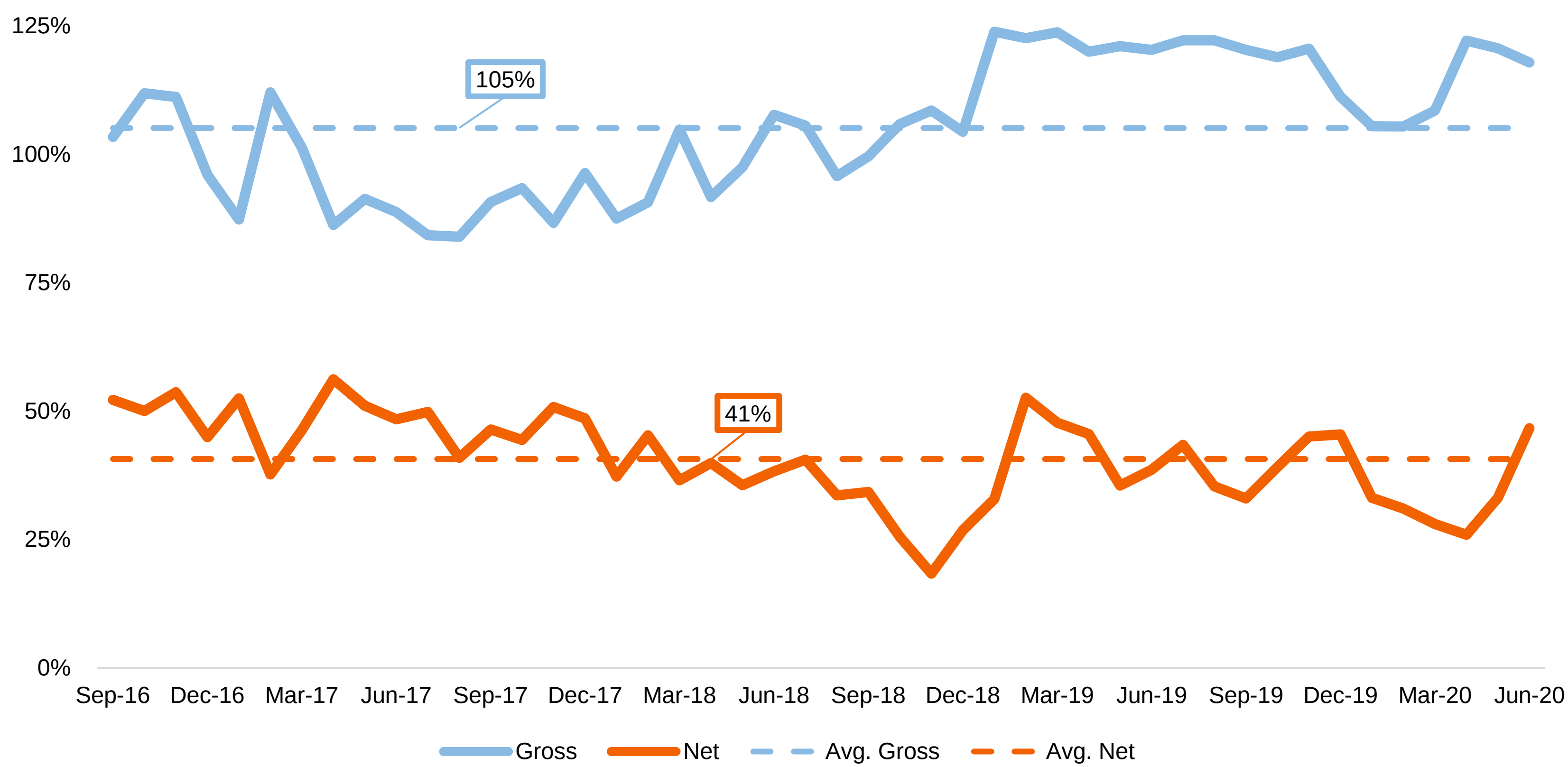
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	Upslope	0.0%	(2.3%)	0.4%	4.9%	(0.7%)	(2.9%)	--	--	--	--	--	--	(0.7%)
	S&P Midcap 400	(2.6%)	(9.4%)	(20.2%)	14.1%	7.2%	1.3%	--	--	--	--	--	--	(12.8%)
2019	Upslope	3.8%	1.0%	2.4%	2.6%	3.0%	2.1%	0.7%	7.2%	(2.1%)	0.7%	(0.2%)	(3.4%)	18.9%
	S&P Midcap 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	41.1%	9.4%	4.1%	1.8	--
	S&P Midcap 400	19.8%	4.8%	14.9%	0.2	0.18
	HFRX Equity Hedge Index	5.5%	1.4%	6.4%	(0.1)	0.15

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 37.9% and -3.1%, 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

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 just 30% of EBIT.

Business Services Co. (Undisclosed)

Undisclosed (still adding to position), midcap specialty services provider hit hard by the COVID-19 crisis.

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.

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, © 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