Upslope Capital Management
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2018-Q2 Update

July 18, 2018

Dear Fellow Investors,

I am pleased to provide this update for Upslope Capital Management. I will discuss: market conditions, portfolio positioning, and key updates to the portfolio. The portfolio update is lengthier than usual (owing to new ideas); so, there will be no investment philosophy section this time. Performance highlights include:

	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 2018	38%	+1.3%	+1.9%	+4.2%	-0.9%
1H 2018	39%	+7.1%	+8.2%	+3.3%	+0.2%
Since Inception	45%	+22.4%	+25.1%	+27.2%	+12.5%

MARKET CONDITIONS: "I'm Looking Through You"

I'm looking through you, where did you go
I thought I knew you, what did I know
You don't look different, but you have changed
I'm looking through you, you're not the same…

(The Beatles, 1965)

After a rocky Q1, U.S. equity markets appeared back on track in Q2: large- and mid-caps returned 4%, while small-caps returned almost 8%. Beneath the surface, however, things seemed different. Hedge funds struggled, as 'shorts' (often *lower* quality companies) outperformed.[2] Banks and other financials fell for a record-setting 13 consecutive days in late June.[3] China, along with several other emerging markets, entered a bear market (-20% from peak). And, volatility appears to have shifted to higher ground.

I could go on and discuss how the picture being painted – by both market and economic observations – suggests we're in the late stages of the economic cycle. I believe it. But, I've been (too) cautious for a while now. I've worried about all sorts of downfalls for the market (my formative years as an investor were the heart of the 2008 financial crisis – why do you ask?) and I don't need to bore you.

The relevant issue is really: how do these concerns impact portfolio construction? The portfolio is constructed on a bottom-up basis: seemingly attractive longs and shorts are added and net exposure mostly falls where it may. But, my caution influences the *types* of stocks I research (longs vs. shorts, etc.). If I'm doing an adequate job picking stocks, my market views shouldn't impact overall performance too much.

From inception to Q2, ~25% of gross exposure has been dedicated to shorts. These have cost us a modest ~2% despite the strong bull market (most U.S. indexes are up ~30% over that time). I believe today's environment remains favorable for Upslope's long/short approach to add value and alpha. As has always been the case, ~95% of my liquid net worth is invested alongside clients.

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1 Unless otherwise noted, returns shown for composite of all accounts invested according to Upslope's core long/short strategy (vast majority of AUM). "Since inception" data from 8/29/16, on which the portfolio manager began managing the strategy at prior firm. Composite returns verified by LICCAR. Please see important performance-related disclosures in Appendix A.

2 Based on Q2 performance of the HFRX Equity Hedge Index and various media reports.

3 Refers to performance of the XLF exchange-traded fund.

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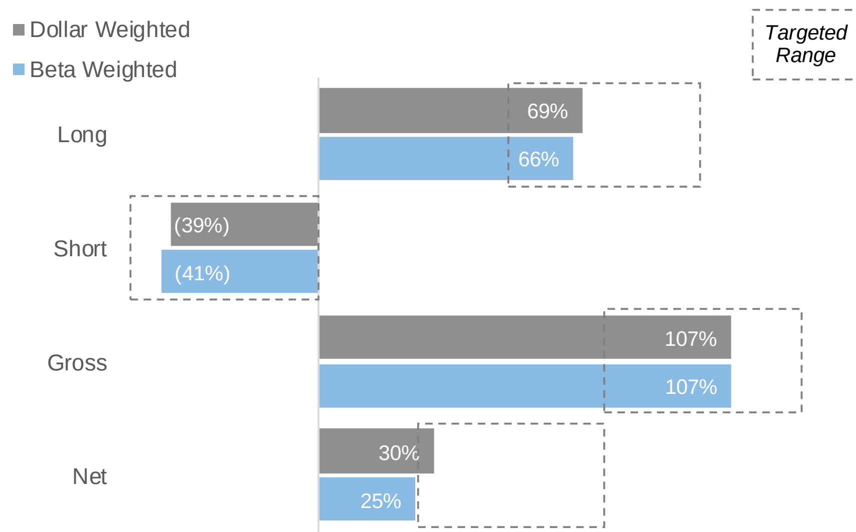
PORTFOLIO POSITIONING

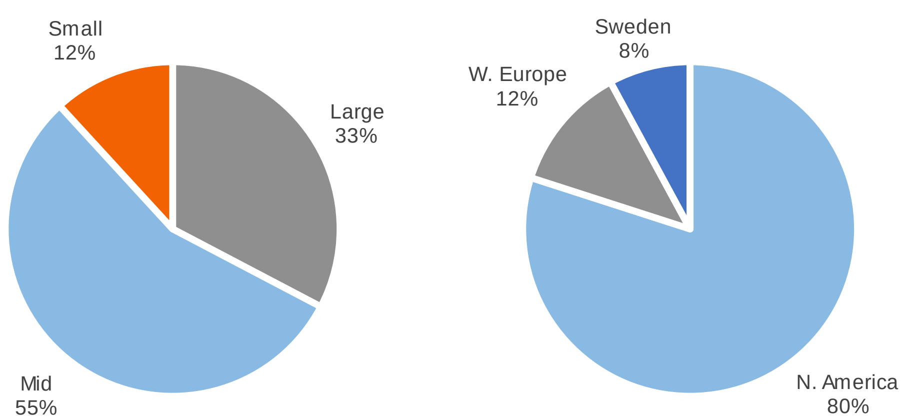
At quarter-end, gross exposure was 107%, while net exposure was 30% (typical range is 25-75%). Exposures are driven by the bottom-up opportunity set and currently reflect a greater number of perceived short opportunities, combined with a more moderate level of high-conviction long ideas.

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



Source: Upslope, Interactive Brokers, Sentieo
Note: as of 6/30/18. Beta-weighted amounts include delta-adjusted impact of options, when applicable

Exhibit 2: Gross Exposure by Market Cap & Geography



Source: Upslope, Interactive Brokers, Sentieo
Note: as of 6/30/18. Definitions: Small ($250mm - $3bn), Mid ($3bn - $11bn), Large (>$11bn)

You may notice our allocation to large caps is higher than usual. This is mostly due to two new longs (detailed later) and a new short with market caps between $12 billion and $14 billion – not too far from the upper bound ($11 billion) of my definition of "mid cap."

PORTFOLIO UPDATES

The largest contributors to and detractors from quarterly performance are noted below. Gross contribution to overall portfolio return is noted in parentheses, along with whether a position was long (L) or short (S).

Exhibit 3: Top Contributors[4] to Quarterly Performance (Gross)

Positive Contributors	Negative Contributors
Thule Group (L, +125 bps)	MarketAxess (L, -90 bps)
Molson Coors (L, +100 bps)	S. Ferragamo (L, -90 bps)
STORE Capital (L, +90 bps)	Vail Resorts (S, -60 bps)
Total Contribution from Longs	**Total Contribution from Shorts**
+205 bps	-20 bps

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

Key changes and updates to the portfolio are discussed below:

- **Cboe Global Markets (CBOE) – New Long:** CBOE owns and operates leading exchanges/trading venues for options, futures, equities, and FX around the world. Notably, its venues are #1 in market share in the U.S. for options, #2 in the U.S. for equities, and #1 in pan-European equities.

  As regular readers may know, the "exchange model" is one I am quite fond of. Established players benefit from a strong network effect (liquidity begets liquidity and is very hard to break), high margins and generally attractive long-term growth prospects. Secular growth is generally supported by long-term increases in the following: (A) electronification (phone- to web-based) of trading, (B) sophistication of investors and other market participants, and (C) overall complexity of global markets. Ideally, we can also find positive cyclical growth.

  While I have followed CBOE for quite a few years, it came into focus recently after the February VIX ETP product implosion (wonky background here and more detail below), which led to CBOE falling ~25% in a short period. The simple run-on sentence version of the thesis: "sentiment is bad and price is reasonable for a great business that I'd be happy to own for the long-term." The longer version:

  - **CBOE is the definition of a high-quality business**: steady historical growth plus very high margins and returns on capital, supported by deep competitive advantages (network effects) and led by a talented management team. I anticipate sustained top-line growth over the long-term, as well as cost savings from BATS acquisition and positive operating leverage.

  - **Strong management team** led by CEO Ed Tilly (in-role since 2013) and President/COO, Chris Concannon (joined via BATS acquisition). CBOE (and legacy BATS) has a history of strong product innovation. Concannon in particular is a noted market structure expert, having previously served as COO of Virtu Financial and as a staff attorney at the SEC. Notably, he acquired almost $1mm of CBOE shares in the open market on May 31.

  - **Positive cyclical exposure**: one of my assumptions for the current market environment is that volatility will stay elevated vs. recent years (hardly a bold assumption). On balance, this should be good for CBOE.

[4] Amounts rounded to nearest 5 basis points.

- **Misguided worries about VIX products**: CBOE shares sold off hard in February following the implosion of several VIX (volatility index) ETPs (exchange-traded products, similar to ETFs). While CBOE has no role in *managing* VIX ETPs, CBOE had been a beneficiary of their success, as well as of the broader "short VIX trade." By some estimates, the ETPs in question contributed only ~2% of total CBOE revenues.[5]

  Looking ahead, I see three scenarios: (A) traders return en masse to the "short VIX trade" and there is minimal adverse impact to CBOE, (B) the "short VIX trade" fades away, but is eventually replaced with other VIX-/hedging-related trades, as volatility shifts higher, or (C) traders exit the "short VIX trade" and do not replace prior activity in a material way. In my view, scenario 'B' is the most likely and an *eventual* positive for CBOE. 'A' seems somewhat likely; 'C' seems highly unlikely. This is not scientific.

- **Historical M&A premium should return**: CBOE has historically traded at a premium valuation, in part due to speculation of an eventual sale to a larger exchange (e.g. CME). In my view, a sale to CME (or others) has strategic merit and a premium should return.

- **Key risks**: VIX issues are complex and hard to predict, potential technology glitch could lead to losses, potential to lose share in competitive markets, regulatory risk, exposure to European equity markets (pricing based on notional value of securities traded).

- **Molson Coors (TAP) – New Long**: TAP is one of the largest brewers in the world, producing beer under the Coors, Miller, Blue Moon, and Leinenkugel brands (among others). "Macro brewers," including TAP, have experienced significant volume declines (offset, in part, by price) and share loss to craft brewers in recent years. The consensus view – which I don't dispute, but view as well-baked into TAP's stock price – is that macro beer is in permanent, secular decline. As such, this is a "tactical" investment (i.e. it represents great value in a moderate "quality" business, and I will be even more disciplined on valuation than usual). The thesis:

  - **Attractive, cash-flowing business on sale**: while TAP undoubtedly has long-term challenges, the business generates very strong and surprisingly steady free cash flow due to its competitive position and track record of cost and pricing discipline. The stock currently trades at a double-digit yield to free cash flow and is near its peak historical discount to the S&P 500 on a P/E basis.

  - **Value dislocation due to short-term issues**: during Q1 TAP faced a near-perfect storm of shorter-term issues that exacerbated fears about the durability of the business and led to a significant price/value dislocation in the stock (the stock fell 17% in two days). Recently, TAP was the single cheapest large cap consumer staple stock.[6]

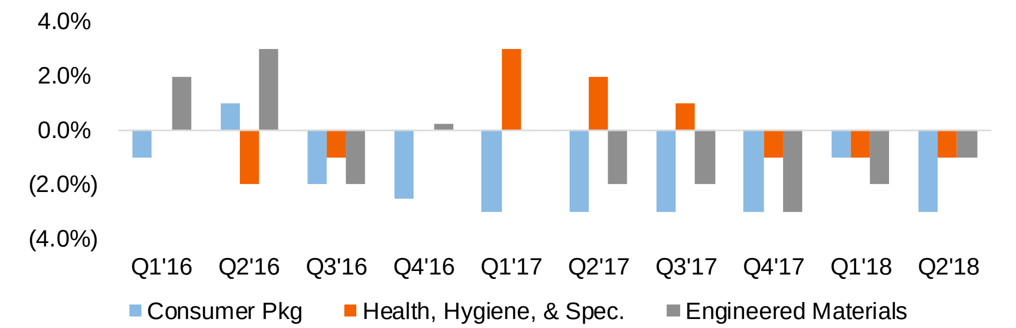
  - **Management appears to have the right priorities**: management has repeatedly emphasized that they will not "chase" volumes at the expense of profitability. While they continue to aim to grow revenues, their focus on profitability over top-line growth seems a positive for shareholders.

  - **Key risks**: secular challenges are real, high debt load (though I believe it's manageable, given the strong cash generation), family-controlled business, inflationary headwinds (e.g. rising aluminum packaging costs), expanding legalization of marijuana could place further pressure on macro beer in general (or encourage management to reach for ill-advised acquisitions).

[5] Barclays report published on February 12, 2018.
[6] Based on free cash flow (equity) yield, per BMO Capital Markets report published on April 11, 2018.

- **Berry Global (BERY) – New Short**: BERY is a plastic packaging company (think detergent bottles and caps, trash bags, tape, foam cups, etc.). I have long been skeptical of the quality of Berry's business, given its reliance on debt-financed acquisitions and lackluster organic growth (chart below). Bulls generally tout BERY's strong "free cash flow." But, historically BERY has spent nearly every penny of it on acquisitions. BERY had an ugly miss in its most recent quarter, and I believe the current environment (rising rates, inflation, and growing skepticism towards heavily indebted businesses) will continue to be challenging for the company. It also provides somewhat of a hedge to two long positions we have in plastic packaging (Aptar and Bemis).

Exhibit 4: Berry Global - Estimated Volume Growth by Segment



Source: Upslope, BMO Capital Markets, Berry filings
Note: Approximated per public filings and research reports. Periods shown for BERY's 9/30 FYE

- **Tesla (TSLA) – New Short**[7]: I confess that we are short Tesla, the high-flying electric auto manufacturer. I am mildly embarrassed to hold and discuss the position, given how crowded and unoriginal it is (I've even mocked the idea in the past, noting it's quite stupid to short a stock that *rises* as the short thesis plays out). However, I think the time may finally be right.

  Why now? In addition to the many well-known arguments[8] for shorting Tesla, there are real signs that Tesla's stretched balance sheet may be having an adverse impact on its quality and service.[9] Combine this with the very public and increasingly erratic (to be *very* generous) behavior of its CEO (Elon Musk) and **it's not hard to see that the Tesla brand – for both consumers *and* institutional shareholders – is being tarnished**.

  Given how crowded the short is, managing risk is as important as getting the call right. To do this, we're maintaining a modest short in the stock and pairing it with options. Lastly, I'll leave you with this notable quote from Elon Musk about the now-bankrupt solar company, Solyndra:

  > "The most you could say is that Solyndra executives were too optimistic. They presented a better face to the situation than should have been presented in the final few months, but then, if they didn't do that, it would have become a self-fulfilling prophecy of – as soon as a CEO says I'm not sure if we'll survive, you're dead."
  >
  > – Elon Musk (2011)

[7] Position initiated at the end of Q1 (March).
[8] To name a few: large debt load, constant historical cash burn/significant losses, questionable corporate governance, elevated valuation, challenged financial model, potentially flattening demand for legacy Model S/X vehicles, significant incoming competition, likely phase-out of certain tax credits/incentives, etc.
[9] Widespread complaints on social media and online forums from supposed customers regarding lengthy wait times for service/parts, as well as various quality issues for recent products.

- **Other Notable Short Activity**: I closed our shorts in Camping World Holdings (RV dealer led by CNBC's Marcus Lemonis – reached price target), Vail Resorts (got it wrong and cut losses), and Crown (food/beverage can company – reached price target). As always, we may re-enter any of these positions at another time. Additionally, I added a large cap restaurant short.

- **Salvatore Ferragamo (SFER.IM) – Update on Current Long**: it seems an update is warranted on this position every quarter. Unfortunately, developments were not positive. After rallying early, the stock fell ~15% when the Ferragamo family announced the sale of a 3% stake in the company. I viewed the transaction as (mostly) a non-event – after all, the wealthy, disparate family still owns 65% of shares. Clearly others felt differently, and I have been wrong. The downturn in Chinese equities and sentiment has also likely hit SFER shares (China/Hong Kong represent ~25% of SFER sales and contribute an outsized amount of growth).

OPERATIONAL UPDATE

I'm pleased to announce that we completed the transition to a new administrator (used primarily for performance verification), LICCAR, during the quarter. The purpose of the change is to enhance transparency into Upslope's performance history for existing and prospective clients. As part of the transition, the method used to calculate Upslope's monthly net performance figures has changed from being calculated on a cash basis to an accrual basis. This is more in-line with standard industry practice; and, I believe it provides a more useful view of performance. If you have any questions or concerns, please contact me.

CLOSING THOUGHTS

While Q2 lacked some of the fireworks of Q1, I remain excited about Upslope's unique long/short portfolio. As always, I am extremely grateful for your trust and the opportunity to manage a portion of your hard-earned money. Please do not hesitate to contact me with any questions regarding the portfolio, your account, or any other matters.

Last, but not least: **I will be in Texas (Dallas, Houston, and Austin) in September and New York in October**. If you or anyone you know might be interested in learning more about Upslope (whether in Texas, New York or elsewhere), please email me or pass along my contact information.

Sincerely,

George K. Livadas
george@upslopecapital.com

Appendix A: Historical Long/Short Composite Performance

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	Upslope – Net	(1.3%)	1.6%	5.5%	0.4%	2.0%	(1.1%)	--	--	--	--	--	--	7.1%
	Upslope – Gross	(1.3%)	1.7%	5.9%	0.5%	2.4%	(1.1%)	--	--	--	--	--	--	8.2%
	S&P Midcap 400	2.8%	(4.4%)	1.0%	(0.4%)	4.1%	0.4%	--	--	--	--	--	--	3.3%
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%

Source: LICCAR, Upslope, Interactive Brokers

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 the total return for a related exchange-traded fund (ticker: MDY). **Individual account performance may vary** (minimum returns, net of billed fees, for an account invested since inception and YTD 2018 were 21.5% and 6.6%, respectively) and clients should review statements for actual results**.** Given changes in the fee structure related to the formation of Upslope, and the variability of fees across individual accounts (16% of composite AUM is non-fee-paying), gross returns are also provided. Data from inception (August 29, 2016) to June 24, 2017 is based on portfolio manager's ("PM") performance managing the strategy under prior firm (as sole PM). PM managed the strategy/accounts on a no-fee basis through August 11, 2017. Upslope became operational and has been managing the strategies thereafter.
PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS

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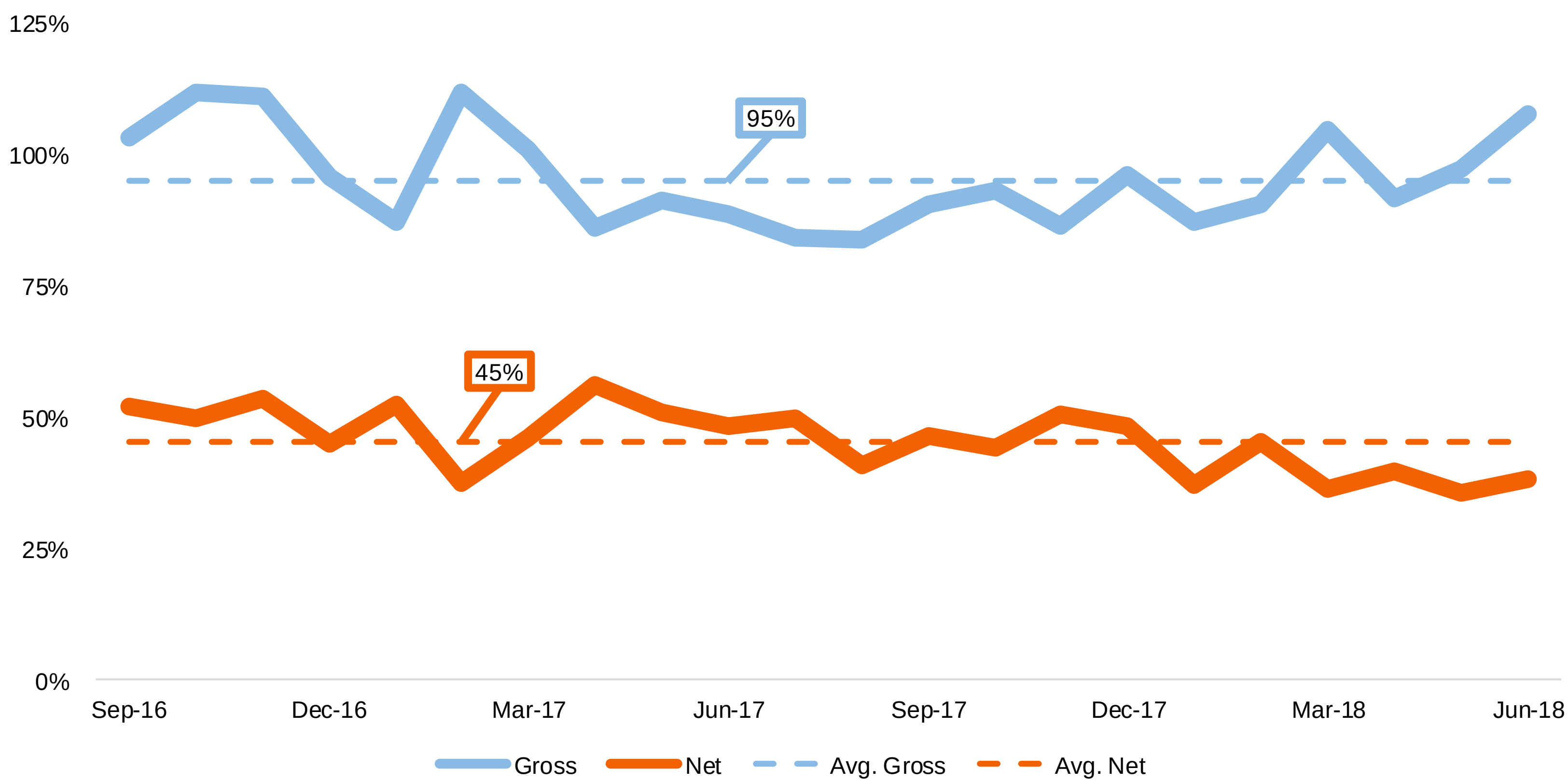
Appendix B: Monthly Average Net Long & Gross Positioning



Source: Upslope, Interactive Brokers

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

IMPORTANT DISCLOSURES

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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 verified by LICCAR. 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. Dividends and other cash distributions are not automatically or directly reinvested in securities held by Upslope clients.

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, © 2018 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. Results for these benchmarks do not reflect trading fees and expenses.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS