



Kettle Hill US L/S Equity Fund

The Heptagon Kettle Hill US L/S Equity Fund (the "Fund"), is a sub-fund of Heptagon Fund Plc which is an open-ended umbrella type investment company authorised pursuant to UCITS regulations. Heptagon Capital Limited ("Heptagon") is the Investment Manager and Kettle Hill Capital Management, LLC ("Kettle Hill") is the Sub-Investment Manager meaning Kettle Hill exercises discretionary investment authority over the Fund.

The Fund was launched on October 5, 2017 and had AUM of USD 124m as of December 31, 2020. Since launch to the end of Q4 2020, the Fund has returned 6.9% (Z USD share class) compared to 2.1% for its benchmark, the HFRX Equity Hedge Index, on an annualised basis. During the fourth quarter of 2020, the Fund returned 12.9% compared to 7.8% for the HFRX Equity Hedge Index.

Annualized Total Returns

As of December 31st, 2020, net of fees

	Q4 20	YTD	1-Year	3-Year	5-Year	10-Year
Kettle Hill Partners, LP	12.7%	26.5%	26.5%	7.1%	6.8%	6.7%
HFRX Equity Hedge Index	7.8%	4.6%	4.6%	1.6%	2.9%	0.8%

Source: Kettle Hill, Morningstar

Kettle Hill manages the Irish regulated Heptagon Kettle Hill US L/S Equity UCITS Fund according to the same investment principals, philosophy and execution of approach as it manages Kettle Hill Partners, LP, a Delaware Limited Partnership available for U.S. accredited investors that launched in June 2003. However it should be noted that due to different regulation, fees, taxes, charges and other expenses there can be variances between the investment returns demonstrated by each portfolio. Kettle Hill Partners, LP performance is provided in the table above to show a longer track record for the underlying strategy.

Kettle Hill Capital Management – Sub-advisor Q4 2020 Commentary, Andy Kurita (Portfolio Manager)

For the quarter ended December 31, 2020, Kettle Hill Partners, LP had a gain of 12.68%, net of all fees. Longs contributed 17.31% and shorts subtracted 4.62%. For the year ended December 31, 2020, Kettle Hill Partners, LP had a gain of 26.45%, net of all fees. Longs contributed 30.02% and shorts subtracted 3.57%. Ending exposure was 108% gross and 26% net, 67% gross long and -41% gross short, resulting in a long/short ratio of 1.62:1.

Q4 2020 Winners and Losers

Best-Performing Long—Pinterest, Inc. (PINS)

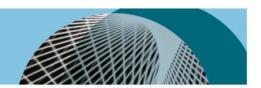
Our research pointed to a faster-than-consensus recovery of internet advertising budgets. We researched the companies in the sector and decided that investing in Pinterest was the best way to play this anticipated positive change in business trends. Pinterest's platform is rapidly gaining share of engagement by increasing its number of users and adding features. In addition, improved targeting tools are increasing monetization. We forecast higher-than-consensus earnings, and the stock rapidly closed the valuation gap with its peers as improvements in the advertising market and the company's products became apparent to other investors.

Worst-Performing Long—Netflix, Inc. (NFLX)

Netflix was a tactical defensive "work-from-home" trading long that we thought could rally on negative market news. We received a false alarm from an immunologist regarding potential for poor vaccine efficiency and made a move to "immunize" the portfolio against possible bad Phase-3 data.

Past performance is no guide to future performance and the value of investments and income from them can fall as well as rise.





Q4 2020 Winners and Losers cont.

We were soon able to refute this negative opinion after consultation with other experts and reversed the defensive positioning in the portfolio. We sold the trading long for a loss.

Best-Performing Short—United Airlines Holdings, Inc. (UAL)

Airline stocks broadly rallied after the announcement of successful Phase-3 trials for vaccines. Our best-case estimate for UAL's post-recovery stock price was \$50. Despite the market value being lower than a year ago, negative cash flow increased the company's debt level and share count to a point where the enterprise value of the company was back at pre-Coronavirus levels. With multiple hurdles ahead and the possibility of additional issuance on a vaccine delay, we covered for a profit as the stock traded down from euphoric levels.

Worst-Performing Short—iShares Russell 2000 ETF (IWM)

We will occasionally use index ETFs as a tactical hedge on the portfolio in times where we believe the market is overbought or that a potentially negative market catalyst may be on the horizon. Stocks rallied sharply during the quarter and produced a loss in this position.

Q4 2020 Review

We had three main operational priorities for the research team this year that complement our core strengths of individual company research and risk management. We believe they allowed us to better capitalize on the trading opportunities and manage uncertainty in a volatile year. These priorities were to:

- (1) Diversify our research effort to increase the number of medium-sized core positions in the portfolio, thereby reducing overreliance on any one stock or investment theme.
- (2) Balance the portfolio in terms of value and growth and opportunistically manage factor risk in the book.
- (3) Maintain individual positions with higher levels of liquidity to enable more flexibility in shifting direction in the portfolio and trading around core positions. In our opinion, this would reduce some of the normal lag time associated with execution, resulting in an improved average realized upside-downside ratio.

Entering 2020, we were bullish on the market, but quickly reversed that opinion in February and early March. The three key reasons we turned bearish were:

- (1) The Fed announced a plan to end quantitative easing. Over the last ten years, the market sold off sharply every time the Fed reduced the amount of money that was printed to prop up asset values.
- (2) The seriousness of the Covid-19 crisis became clear to us. Many observers thought Covid-19 would be contained, citing the limited spread of SARS-1 and Ebola. We recognized in February that this analysis was overly simplistic and failed to account for the asymptomatic aerosol transmission of the disease combined with, what seemed to us, an extremely poor government response.
- (3) Technical market signals flashed warning signs similar to 2008. An extended period of high VIX levels indicated to us a level of market stress much higher than a run-of-the-mill buyable sell-off. We studied sector and stock performance in 2008 and the recovery in 2009. We applied the lessons we learned in managing through that period to guide our positioning for the various market stages of crash, bounce and recovery.

The rapid spread of Covid-19 in the first quarter of 2020, combined with increasingly alarming reports from the medical community and our increasing concern for the well-being of our staff, spurred us to transition all Kettle Hill employees to remote operations in early March. Over the past few years, Kettle Hill has invested significantly in the Firm's operational infrastructure and technology. This investment paid dividends during this crisis period, as our investment process proved to be unaffected, even as we were unable to meet together or with company management teams face-to-face.

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Q4 2020 Review cont.

At the end of March, due to extremely dislocated valuations of individual stocks and anticipated fiscal and monetary stimulus, we gradually scaled up our long exposure, first playing work-from-home stocks, businesses with recurring revenues and stocks in more cyclical sectors with bombed-out values and solid balance sheets. We prioritized liquidity, given the multiple tactical trading opportunities and the desire to be able to shift exposures quickly.

Early on, we formed our own Coronavirus Task Force at Kettle Hill to track the spread of the disease and evaluate the science behind therapeutic and vaccine solutions to the problem. Along with carefully tracking mobility and other data, this Covid-19 research effort enabled us to increase and decrease pro-cyclical exposure in a predictive and timely manner as the disease and economic activity waxed and waned during the summer.

Because of this large but, in our opinion, appropriately balanced investment of research resources, we could be more optimistic than consensus regarding vaccine efficacy, and we invested in recovery stocks (travel, retail and financials) in the fourth quarter. That being said, our best-performing stocks this year were companies that had the ability to thrive in a difficult landscape, as opposed to bets on companies that would probably do well only after mass vaccination is completed.

This was a terrible year. It was emotionally trying to see the suffering in our community and in communities all over the world. Despite such difficult circumstances, we are proud that, in our opinion, we could protect capital in the first quarter market crash, invest with logical courage in the second quarter and then solve the investment puzzle of the virus in the third and fourth quarter. We are hopeful that humanity is on the right path now, as we continue to monitor and research emerging risks presented by variants of the virus. We are also certain that future years will present different puzzles to solve; we are actively considering how the investment landscape could change and how our portfolio needs to change to address different market environments.

Market and Strategy Overview

We recognize that 2020 was a reasonably good year for our investors, but we cannot afford to rest on our laurels. We are aware that in 2021 the challenges will be different than in 2020. Given our typical six- to 18-month investment horizon, we are now endeavoring to answer the question, "What will investors be thinking at the end of 2021 and the beginning of 2022?"

Consensus has come around to our view that there will be a vaccine-induced return to normalcy in the second half of 2021. We invested in companies that have taken this opportunity to permanently reduce their cost structure or to invest in new products that will earn them higher profits in a recovery scenario. We continue to carefully monitor the science of the interaction of vaccines with variants and the ability of the RNA vaccines to pivot in order to be sure that the core assumption of vaccine efficacy is still intact. Other themes present in the long book are software companies with underappreciated new product cycles, the long-awaited rollout of 5G, the stabilization of generic drug pricing and commodities producers that will benefit from improved supply-demand dynamics.

In many ways, 2021 seems quite similar to 1999. The re-emergence of retail investors is being driven by a high savings rate, zero commission costs, mobile investing platforms and hyperbolic investing media celebrities. Retail investors seem to be acting on impulses and are shoveling money that would normally be spent on vacations and restaurant meals into the stock market casino.





This trend also appears to be bleeding into parts of the institutional market based on capital flows. The risk of this collaborative mania is that it typically causes retail and institutional investment firms to chase the same stocks.

Discounted Cash Flow analysis is our North Star. We are somewhat agnostic about the, in our opinion, artificial classifications of value and growth. Our view is that stocks are either cheap or expensive relative to the present value of expected cash flows of a firm. We do not measure value exclusively with static multiples. Investing in high-static multiple stocks makes sense if they are cheap relative to their long-term DCF. A bubble typically starts when you take something that makes sense and overdo it.

Our view is that growth stocks are receiving inexplicable increases in valuation, explained away by analyst cheerleaders using increasingly unrealistic risky assumptions extending further and further into the future. Secular growth, total addressable markets, quality and moats are being overvalued. Valuation multiples are progressively marched upward over time as investors anchor off higher and higher multiples.

We think that as the economy recovers, the Fed will reduce the massive amount of quantitative easing (\$120 billion of monthly money printing) that have inflated asset markets. When coupled with a possible increase in rates in 2022, the key factors behind the illogical inflation in growth-stock valuation may end with a bang. Attracted by high valuations, IPO and secondaries will increase the supply of stocks. As prices decline, demand from retail investors will decline, making prices decline more, and the managers that rode it up will probably ride it down.

It will undoubtably end badly, but when? It can march up in a straight line until that moment. If history is any indicator, markets will not sell off in anticipation, rather they will continue to run hot until the day that the Fed actually removes stimulus. We are preparing the portfolio for an environment that may stay irrationally exuberant yet are mindful of the dangers and will try to modulate accordingly as warning signs present themselves to us.

We are keeping short position sizes extremely small and trading tactically around short-term overbought conditions. We are working to balance growth shorts with growth longs and value longs with value shorts. As examples, we are short office REITs, fads, fully valued travel stocks and auto dealers that are experiencing unprecedented vehicle sales margins.

Operational Update

We are pleased and proud of the high levels of productivity displayed by everyone at Kettle Hill during this challenging period. We will do what it takes to maintain these standards without compromising on the safety and well-being of the Kettle Hill family. We feel it is still too early in the virus recovery process to make longer-term decisions on our future real estate needs. Regardless, we anticipate maintaining a presence in New York City and will continue to provide flexibility to our employees.





Conclusion

I would like to personally express my deepest gratitude for the partners and employees of Kettle Hill. They trusted our senior management team with their livelihood, economic security and the well-being of their families. We asked them to make sacrifices, and they did so without complaint and continued to work hard in the face of great uncertainty. We believe that we have shown, over the past 17 years, that we can manage through tough years by changing and evolving with the times. We are truly proud of the character and culture of this firm as shown by the commitment of our management and employees to fight through adversity.

We believe we passed the tests of 2008 and 2020 and delivered on our goal of protecting capital and investing effectively and aggressively in a crisis. There will be times when our style may be out of favor and our investors question our process or investment philosophy. We think investors should continue to evaluate our results over the course of an investment cycle. We think we have taken steps to diversify, balance and increase liquidity in the portfolio, and we hope this will enable us to participate to a greater degree in latercycle markets without sacrificing our ability to preserve capital.

We thank you for being long-term investors and partners. Our goal is to continue earning your trust by extending our long-term track record of capital preservation and alpha generation. Hopefully, our fund can diversify the return profile of your portfolio and provide good risk-adjusted returns over the long term. We are, as always, excited and optimistic about the future!

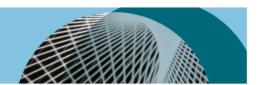
Sincerely,

Heptagon Capital and Kettle Hill Capital Management

The views expressed represent the opinions of Kettle Hill Capital Management, as of December 31st, 2020, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

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Heptagon Kettle Hill US L/S Equity UCITS Fund Positioning

Top 5 Long Holdings as of 30th November 2020

Name	% of portfolio
Take Two Interactive Soft Inc	3.6%
Amazon.com Inc	3.4%
Wynn Resorts Ltd	3.3%
American Tower Corp	3.3%
Park Hotels & Resorts Inc	3.3%

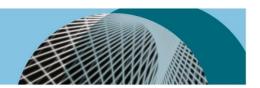
Top 5 Short Holdings as of 30th November 2020

Name	% of portfolio
MS Basket S&P 500	-3.0%
MS Basket Ishares Russell 2000	-3.0%
Sony Corp	-1.0%
Yeti Holdings Inc	-1.0%
Exxon Mobil Corp	-1.0%

Portfolio Sector Weights as of 30th November 2020

	Long (%)	Short (%)	Net (%)
Communication Services	9.4%	0.0%	9.4%
Consumer Discretionary	20.3%	-5.0%	15.3%
Consumer Staples	3.2%	-0.4%	2.8%
Energy	4.2%	-1.0%	3.2%
Financials	12.6%	-1.0%	11.6%
Health Care	3.0%	0.0%	3.0%
Industrials	5.3%	-4.7%	0.6%
Information Technology	5.4%	-1.0%	4.4%
Materials	0.0%	-0.8%	-0.8%
Real Estate	6.5%	0.0%	6.5%
Utilities	0.0%	0.0%	0.0%
Other	0.0%	-6.0%	-6.0%





Important Information

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For all definitions of the financial terms used within this document, please refer to the glossary on our website: https://www.heptagon-capital.com/glossary.

Risk Warnings

The Fund is subject to special risk considerations including geographic concentration risk, portfolio concentration risk and operational risk. The investment return and principal value of an investment will fluctuate so that the investor's shares, when redeemed, may be worth more or less than their original cost. Any investor should consider the investment objectives, risks and charges and expenses of the fund carefully before investing. Where an investment is denominated in a currency other than the investor's currency, changes in rates of exchange may have an adverse effect on the value, price of, or income derived from the investment.





SFDR

The Fund takes sustainability risks into account within the investment process, and this is disclosed in accordance with Article 6 requirements of the Sustainable Finance Disclosure Regulation ('SFDR') in the Fund's <u>prospectus</u>. However, the Fund does not have as its objective sustainable investment and does not promote environmental or social characteristics for the purposes of the SFDR. Sustainability risks may occur in a manner that is not anticipated by the Sub-Investment Manager, there may be a sudden, material negative impact on the value of an investment and hence the returns of the Fund. As a result of the assessment of the impact of sustainability risks on the returns of the Fund, the Sub-Investment Manager aims to identified that the Fund may be exposed to sustainability risks and will aim to mitigate those risks.

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