Heptagon Kettle Hill US L/S Equity Fund

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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 126m as of March 31, 2021. Since launch to the end of Q1 2021, the Fund has returned 7.5% (Z USD share class) compared to 2.7% for its benchmark, the HFRX Equity Hedge Index, on an annualised basis. During the first quarter of 2021, the Fund returned 3.7% compared to 2.7% for the HFRX Equity Hedge Index.

Annualized Total Returns

As of March 31st, 2021, net of fees

	Q1 21	YTD	1-Year	3-Year	5-Year	10-Year
Kettle Hill Partners, LP	3.5%	3.5%	36.8%	8.1%	7.6%	7.0%
HFRX Equity Hedge Index	*2.7%*	*2.7%*	*23.9%*	*2.1%*	*4.1%*	*1.3%*

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 Q1 2021 Commentary, Andy Kurita (Portfolio Manager)

For the quarter ended March 31, 2021, Kettle Hill Partners, LP had a gain of 3.53%, net of all fees. Longs contributed 6.76%, and shorts subtracted 3.23%. Ending exposure was 95% gross and 44% net, 70% gross long and -25% gross short, resulting in a long/short ratio of 2.77:1.

Q1 2021 Winners and Losers

Best Long—Cinemark Holdings, Inc. (CNK)

Cinemark is a chain of movie theaters and an investment on a return to normalcy in a post-Covid environment. We traded around our CNK position, selling the entire position in late January as it traded higher in sympathy with the Reddit-favorite movie theater chain, AMC. We repurchased the stock after the short squeeze was over in February and traded around the position again in March. We continue to hold the stock. We think the concerns regarding streaming of large-budget movies is overblown and that the studios will continue to rely on them at the box office to generate returns.

Worst Long—Bumble Inc. (BMBL)

Bumble is an online dating application. Due to its female-friendly business model, we think they will continue to gain share from other dating apps. They are relatively early in their efforts to increase monetization. We think the post-Covid world has the potential to produce a flurry of romantic social interactions. If that turns out to be the case, then our opinion is that earnings estimates are too low. There is also a free call-option on their nascent expansion into new markets, such as platonic friendship. The stock was recently listed and disproportionately impacted by the increase in interest rates versus other internet growth companies.

Q1 2021 Winners and Losers cont.

Bumble trades at a steep discount to our DCF (discount cash flow) valuation methodology, and we continue to hold the position.

Best Short—The Kroger Co. (KR)

Kroger is a grocery store chain. We think they are losing share as Target has enhanced their grocery offerings and captured customers who have become accustomed to the convenience of app ordering and pick-up in the parking lot. This was a popular hedge fund short, but was squeezed during January's de-risking move, resulting in the stock price moving higher. We were able to short it and cover it for a quick gain. The stock price bounced up again after another industry de-risking burst in March, and we shorted it again. We believe that their sales are below trend, and we may get another opportunity to cover for a profit.

Worst Short—Macy's, Inc. (M)

Our research on the retail sector indicates that traditional department stores will continue to lose share, and consumers will be slow to return to shopping malls. That is probably a widespread view in the broader investment community, so a consensus short like Macy's was swept up in the short-covering pain in January. As a result, due to our risk control guidelines and discipline, we covered our position.

Q1 2021 Review

We entered the year defensively positioned due to concerns about possible virus variants impacting vaccine efficacy and the political uncertainty heading into the Georgia Senate runoff elections.

The market had a surprising reaction to the outcome of the election that handed Democrats a voting edge in the House and Senate. We thought the market might be concerned by the prospect of higher tax rates; however, the market has instead focused solely on the potential economic benefits from a massive fiscal stimulus. At the same time, the Federal Reserve indicated that they would keep rates lower for longer and continue their quantitative-easing program through the balance of 2021. This combination of expectations sparked a speculative frenzy in various asset classes that culminated in the Reddit board shorts squeezes, forcing leveraged investment portfolios to de-risk or reduce exposures. We think this dislocation in the market gave us an opportunity to invest in the potential post-Covid economic recovery trade at the end of January.

Early in January our analysis indicated that the variants would not be a major concern for the potential longer-term economic recovery. However, the number of domestic Covid-19 cases soared due to travel and family gatherings during the holidays. This spike in cases gave us an opportunity to increase the portfolio's exposure to cyclical recovery stocks in late January and led to strong performance in February, as Covid cases fell and the market recognized that vaccine distribution would enable a fuller economic recovery.

In general, as the market gained confidence in the recovery, interest rates increased, value stocks rose, and secular growth stocks fell. The winners and losers in the portfolio are largely reflective of the factor-performance swings that are churning under the surface of the overall market.

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Market and Strategy Overview

In our opinion, growth stocks have been buoyed by ultra-low interest rates for the last few years and have been under pressure for the last two months, primarily because of the change in interest rates. Certain recovery stocks are now trading at enterprise values well above pre-Covid levels and are no longer attractive, at least to us, on a longer-term basis. In general, we think the shift to value may be overblown and that this positioning has become overly popular. We invested in some growth stocks that had fallen to attractive levels, some with high appreciation potential. By and large, these candidates exhibit attractive fundamentals, low (market) penetration and were trading at a steep discount to our DCF analysis incorporating the impact of higher rates. We shorted certain value stocks that were being lifted up by temporary stimulus measures, have not reflected higher tax rates and traded well in excess of our DCF analysis.

We continue to own various potential post-Covid recovery plays, such as hotels, movie theaters and retailers that, in our opinion, are still undervalued and could exceed estimates in the second half of the year. We invested in a few internet and software companies with strong fundamentals that have been dislocated from our estimate of their expected true value. There are also a few operational turnarounds in the book. Typically, these involve new management bringing a different discipline and vision to underperforming companies. Our short book includes companies that may have more than fully discounted a recovery and may be benefiting from short-term stimulus checks. As that spending fades, we think those stocks will come under pressure in the near term. We are also short companies that seem to be benefitting from tight supply chains and low auto inventories, which we think is a temporary condition. Some other short candidates are commercial real estate and overvalued technology companies that were Covid beneficiaries.

In our view, the market is close to fully valued, and there are many probable scenarios that could be disruptive to the current macro narrative. Fiscal spending is not a free lunch. Higher taxes are required to manage the budget deficit and higher interest rates are certainly a possibility. The Fed could tighten monetary policy sooner than expected. Thus, while the broader equity market may not reflect attractive valuations as per our analysis, we believe there are potentially quite a few high-return opportunities on both sides of the book in the portfolio. In our opinion, stock selection, a flexible mindset (the ability to shift from defense to offense and vice versa), liquidity and exposure management will be some of the key elements needed to navigate potential short-term market volatility.

Operational Update

There are no significant operational updates. We continue to operate remotely and have not experienced any material adverse issues due to this. We continue to evaluate options for our real estate strategy and will keep you updated as we reach a conclusion. Our staff is in the process of being fully vaccinated, and we anticipate a return to company visits and in-person internal research meetings in the second half of the year. Finally, there were no personnel changes during the quarter.

Conclusion

There continue to be many dislocations occurring under the surface of the market, probably due to factor trading and de-risking. We believe that through our research and the continually shifting opportunity set, we have constructed a portfolio with better risk reward exiting the quarter than upon entering the quarter. As always, we are very appreciative of your continued support.

Sincerely,

Heptagon Capital and Kettle Hill Capital Management

The views expressed represent the opinions of Kettle Hill Capital Management, as of March 31st, 2021, 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 28th February 2021

Name	% of portfolio
Wynn Resorts Ltd	3.1%
Park Hotels & Resorts Inc	3.1%
Take Two Interactive Soft Inc	3.0%
Cinemark Holdings Inc	3.0%
Ulta Beauty Inc	2.9%

Top 5 Short Holdings as of 28th February 2021

Name	% of portfolio
MS Basket Ishares Russell 2000	-5.0%
MS Basket S&P 500	-5.0%
Facebook Inc	-1.0%
Goldman Sachs Group Inc	-1.0%
SL Green Realty Corp	-1.0%

Portfolio Sector Weights as of 28th February 2021

	Long (%)	Short (%)	Net (%)
Communication Services	14.1%	-1.0%	13.1%
Consumer Discretionary	21.5%	-4.7%	16.8%
Consumer Staples	1.4%	0.0%	1.4%
Energy	3.6%	0.0%	3.6%
Financials	5.4%	-4.7%	0.7%
Health Care	3.2%	0.0%	3.2%
Industrials	4.6%	-4.3%	0.3%
Information Technology	10.7%	-1.7%	9.0%
Materials	0.0%	-0.1%	-0.1%
Real Estate	2.2%	-2.9%	-0.7%
Utilities	0.9%	0.0%	0.9%
Other	0.0%	-10.0%	-10.0%

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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.

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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 prospectus. 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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