Heptagon Kettle Hill US L/S Equity Fund

Q2 2021 Commentary

Fund Manager

Andrew Kurita

Investment Objective

The Fund aims to achieve long-term capital growth through investing primarily in US small-capitalization stocks. The Fund's Sub-Investment Manager, Kettle Hill Capital Management, is a long/short equity fund manager, established by Andrew Kurita in 2003 and is in New York, USA.

Contact

Heptagon Capital
63 Brook Street, Mayfair,
London W1K 4HS

Tel: +44 20 7070 1800
Fax: +44 20 7070 1881
email london@heptagon-capital.com

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 130m as of June 30, 2021. Since launch to the end of Q2 2021, the Fund has returned 7.9% (Z USD share class) compared to 3.9% for its benchmark, the HFRX Equity Hedge Index, on an annualised basis. During the second quarter of 2021, the Fund returned 3.2% compared to 5.1% for the HFRX Equity Hedge Index.

For the quarter ended June 30, 2021, Kettle Hill Partners, LP had a gain of 2.89%, net of all fees. Longs contributed 3.73% and shorts subtracted 0.84%. Ending exposure was 101% gross and 35% net, 68% gross long and -33% gross short, resulting in a long/short ratio of 2.08:1.

Q2 2021 Winners and Losers

Best Long—SNAP Inc. (SNAP)
The best-performing long in the period was Snap Inc., the social media company that operates the platform Snapchat. We believe the pandemic accelerated the switch from print to online marketing and advertising and that Snapchat is gaining share and increasing their ad pricing to parity with other more mature platforms. We opportunistically purchased the stock on selloffs, as our research indicated that fundamentals were improving more than the street anticipating. We tactically reduced the larger core position in SNAP as expectations have grown going into earnings. However, we continue to hold a smaller position.

Worst Long—Bumble Inc. (BMBL)
The worst-performing long in the period was Bumble Inc., which provides online dating and social networking platforms. We believe that the company offers a unique, "female friendly" dating application and should continue to gain share, while increasing monetization of their growing user base.

The company's stock was negatively affected after the company offered conservative guidance versus investor expectations, which coincided with a factor-driven selloff in growth stocks in May. The stock hit our 20% stop loss and, as per our risk management guidelines, we cut the position in half. The stock rebounded through the balance of the quarter as growth stocks returned to favour, insiders bought stock and dating activity increased, as we had originally anticipated. We sold the rest of the position after it recovered. However, we believe in the company's long-term strategy and would revisit the stock at lower prices.

Best Short—Tesla, Inc. (TSLA)

The best-performing short in the period was Tesla, Inc., an electric vehicle, and electric storage-systems manufacturer. This position was a shorter-term trading short based on retail investor enthusiasm at a time when electric vehicle competition and China market concerns were increasing. We covered the position within the period for a profit.

Worst Short—AMC Entertainment Holdings, Inc. (AMC)

The worst-performing short in the period was AMC Entertainment Holdings, Inc., an owner, and operator of movie theatres. In our opinion, it is hard to justify the valuation of a company that has been inflated by a cabal of Reddit board individual investors. We were anticipating a potential overshoot to the upside, and therefore initiated a tiny position after the stock had a big runup. We kept the initial position small, but the upside volatility on the small position was much greater than anticipated, and we covered it for a loss.

Q2 2021 Review

We mentioned in our first quarter letter that growth stocks were cheap and recovery stocks were expensive. We anticipated a rotation and re-positioned the portfolio in favour of growth. The first quarter's overly popular recovery trade went out of favour in the second quarter. Investors' concerns about inflation abated, and a global spike in COVID-19 cases caused by the Delta variant made investors adjust their exposure to the re-opening trade. This benefitted our returns in the second quarter, as internet advertising and technology were our best-performing sectors on the long side. However, large caps were the main beneficiaries of the rotation away from the recovery trade that we had anticipated. Money flowed out of small-cap value and growth and into large-cap growth, mainly mega-cap tech, dampening the effect of the rotation call that we made. In spite of the headwinds against small caps in the second quarter, we believe that our active position and portfolio management actions allowed us to generate attractive exposure and risk-adjusted returns for the quarter.

Market and Strategy Overview

We believe that the pendulum between growth and value and large and small has once again swung too far. Increasing numbers of COVID cases and the resulting media coverage caused a flight to safety. However, our research, which included speaking with leading epidemiologists and immunologists, led us to the conclusion that the most likely outcome is that the Delta variant is not likely to broadly result in severe disease for the vaccinated population. Furthermore, we believe that vaccination efforts globally, including developing markets, will continue at a faster pace than before. In addition, in spite of the supposed concerns around the Delta variant, our research indicates that there has been no discernible negative impact on credit card spending, travel bookings or mobility data in the United States. We believe that there are now many recovery stocks that, potentially, have very attractive risk rewards. Thus, we are targeting recovery stocks that through cost cutting and new product development could have much higher earnings in the future versus pre-pandemic levels. Although we sincerely hope this will not be the case, there may be another wave, hopefully the last one, in the fall. More variants could certainly develop in the future, and we will monitor this risk closely. However, RNA vaccines can be quickly reprogrammed to meet new threats in the future.

Hopefully through vaccination, natural infection and improved therapies, COVID can retreat to mortality levels of the seasonal flu and not pose any further restrictions to our freedom and livelihoods.

Other long positions include undervalued media assets and special situations. We strive to achieve a level of balance in the portfolio, so while we have tilted in favour of value, there are still attractive growth longs in the book. Examples of this include potentially undervalued internet advertising and software companies with big product cycles that we think will result in much greater growth than the street is anticipating. We are short what we believe are fully valued recovery plays as a hedge for our longs and are also short some companies that are beneficiaries of one-time government stimulus, unsustainable consumer “revenge” spending and temporary supply shortages.

These continue to be uncertain and challenging times given the general level of valuation and expectation that has developed in the market. The sometimes strident and sensationalist media coverage of COVID variants has only added to the overall volatility and uncertainty. We expect there to be numerous violent factor regime shifts, as crowded investor positioning tends to be easily and violently reversed by changing incoming data, perceived monetary and fiscal policy shifts, conflicting economic predictions, etc. Thus, we continue to maintain a liquid book that should give us the flexibility to proactively trade around existing positions and/or change the overall gross and net exposure of the portfolio, if needed.

Operational Update

There have been no changes to our team. All Kettle Hill employees remain healthy, and we continue to operate remotely under our disaster recovery plan. COVID issues have caused some disruptions in the New York commercial real estate sector, and we have tried to take advantage of this with respect to our real estate needs. Thus, we do expect to move to a new office space in New York fairly soon and will send out details at the appropriate time.

Once again, thank you for your investment in Kettle Hill. As always, we strive to manage your capital with prudence, diligence, wisdom and enthusiasm.

Sincerely,
Heptagon Capital and Kettle Hill Capital Management

Annualized Total Returns as of June 30th, 2021, net of fees

	Q2 21	YTD	1-Year	3-Year	5-Year	10-Year
Kettle Hill Partners, LP	2.9%	6.5%	25.5%	8.6%	7.8%	7.2%
HFRX Equity Hedge Index	5.1%	7.9%	20.4%	4.1%	5.3%	2.4%

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.

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

Important Information

Past performance is not an indication or guarantee of future performance and no representation or warranty is made regarding future performance. This communication is for information purposes only. It is not an invitation or inducement to engage in investment activity.

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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 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.

Authorised & Regulated by the Financial Conduct Authority (FRN: 403304)

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