

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 108m as of September 30, 2020. Since launch to the end of Q3 2020, the Fund has returned 3.2% (Z USD share class) compared to -0.2% for its benchmark, the HFRX Equity Hedge Index, on an annualised basis. During the third quarter of 2020, the Fund returned 5.1% compared to 3.6% for the HFRX Equity Hedge Index.

Annualized Total Returns

As of September 30, 2020 net of fees

	Q3 20	YTD	1-Year	3-Year	5-Year	10-Year
Kettle Hill Partners, LP	4.6%	12.2%	8.4%	3.4%	4.8%	5.9%
HFRX Equity Hedge Index	3.6%	-3.0%	-0.4%	0.0%	1.6%	0.7%

Source: Kettle Hill, Bloomberg

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 Q3 2020 Commentary, Andy Kurita (Portfolio Manager)

For the quarter ended September 30, 2020, Kettle Hill Partners, LP had a gain of 4.60% net of all fees. Longs contributed 4.88%, and shorts subtracted 0.28%. Ending exposure was 106% gross and 41% net, 74% gross long and 33% gross short, resulting in a long/short ratio of 2.27:1.

Q3 2020 Winners and Losers

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

Internet advertising was a theme in the long portfolio. Following a sharp falloff in demand in the spring, we thought that internet advertising would be one of the first areas to rebound. Our research backed that general thesis. Pricing and budgets for internet ads have increased to pre-COVID levels. We believe that Pinterest is a share gainer and that being leveraged to home décor is an advantage this year.

Worst-Performing Long—Apache Corporation (APA)

Oil prices dropped, and there was some confusion over an interim drilling report by Apache. After speaking with the company and with geologists, we believed the concern is misplaced. Regardless of our fundamental view, our risk management discipline required that we sell half of our position after a 20% stop-loss guideline. We still believe the company is worth much more than the current stock price but continue to hold a smaller position to manage individual stock risk in the portfolio.

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

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Q3 2020 Winners and Losers cont.

Best-Performing Short—Pioneer Natural Resources Company (PXD)

Pioneer was a hedge for Apache. We own Apache for the massive discovery in Suriname, and we continue to hold a short position in Pioneer to hedge against fluctuations in the commodity.

Worst-Performing Short—Twitter, Inc. (TWTR)

Our research on internet advertising led us to the conclusion that Twitter was poorly positioned and losing share. We saw no significant product innovation, and our research indicated their pricing and share of budgets were declining. That made sense because we felt their engagement is low and their ad targeting is not very effective. The stock popped after a rumor surfaced about Twitter introducing a subscription product. For us, it was confirmation that they were unable to monetize their ads effectively, but the upward price move resulted in the short being covered after hitting our 20% stop-loss guideline.

Q3 2020 Review

We believe diligent research, good stock picking and timely management of sharp factor-related movements produced the positive results in the quarter. Careful monitoring of public policy and adherence (or non-adherence) to recommended safety measures, emerging breakthroughs in therapeutics and vaccines, as well as regular monitoring of COVID-19 cases, hospitalizations and deaths on a country-by-country and state-by-state basis, enabled us to identify the turning points in the spread of the disease and its effect on the economy. This informed our portfolio positioning on a top-down basis and, in our opinion, accentuated our ability to manage position sizes and generate trading gains in our stock picks.

After playing defense in June, we shifted to a pro-cyclical, value stance in July. In August, we shifted the portfolio toward growth and then back to a pro-cyclical positioning at the start of September. We should point out that these types of portfolio shifts are not typical of our investment strategy. However, we are in a highly unusual and volatile environment and, thus, need to be cognizant of the rapid sentiment shifts in the market. We remain optimistic about the future but will continue to be vigilant and flexible.

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Market and Strategy Overview

We've been able to generate positive performance this year despite facing continued headwinds in small cap value. As of September 30, 2020, the Russell 2000 Value was down 21.55% on a year-to-date basis. In our opinion, due to scientific breakthroughs that will effectively solve and/or mitigate the COVID-19 problem, we think the damage to the economy will be resolved and the headwinds in small cap value will reverse and become tailwinds in 2021.

We have increased confidence that rapid testing and therapeutic solutions will be broadly available, thus allowing people to resume group activities and permitting the global economy to sharply rebound, even in the absence of a vaccine. We also believe that the lead vaccines in development are likely to work, and the second generation of vaccines may be even more effective.

Based on the above, our view is that the stimulus negotiations are a short-term side show, while failure to compromise will most likely result in weaker economic growth in the near term. However, as therapeutics begin to hit the market, we believe the global economy will be in robust recovery mode by the middle of 2021.

We are living in a highly charged political environment. Thus, we want to clarify that, as stewards of your money, we do not manage the portfolio based on our individual political views or expectations. Our job as investment managers is to objectively analyze and evaluate what we believe to be some of the significant factors impacting the markets; we then endeavor to chart a course that will navigate the expected environment. At the same time, we need to bear in mind that our analysis could potentially turn out to be wrong, and we may have to change course.

Current political commentary seems to indicate a high probability of Biden winning the 2020 elections. If that does come to pass, we think that the fear of a Biden presidency hurting the market may be overblown. Biden and Harris seem to be moderates based on some of their public policy statements. In addition, fiscal stimulus and infrastructure spending will probably outweigh higher taxes.

Given Biden's statements on corporate tax rates, we are pricing in higher taxes for those companies in our portfolio that are significant taxpayers. To be clear, this is merely our opinion based on prevailing political commentary and expectations. We are fully prepared to shift and adjust our views as we get more clarity, and/or the market provides us with different signals and expectations. Thus, we continue to manage the portfolio for liquidity, flexibility and diversity.

Consumer cyclicals, internet advertising, outdoor shopping center REITs, non-interest rate sensitive financials and healthcare companies leveraged to elective surgeries remain core components of our long book. We have balanced the portfolio in terms of "Nows" and "Lateres." "Nows" are companies that are doing well at present (those that have near-term catalysts) and are able to operate in various environments. "Lateres" are companies that are pro-cyclical recovery plays, such as certain retailers, restaurants and travel-related companies. We think the greater opportunity lies in the "Lateres" but will continue to monitor disease progression and the timing of potential solutions to optimize the sizing of both positions.

Currently, we are short commercial construction, beneficiaries of work-from-home stocks seeing fading trends as the economy returns to normalcy, as well as a basket of stocks we believe have been inflated by the monetary stimulus and near-zero interest rates. We will periodically short certain consumer cyclical and energy stocks, depending on our trading view of the sector.

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Operational Update

The health and safety of everyone at Kettle Hill is always our significant concern, thus, we continue to operate on a remote basis and anticipate doing so until we have more clarity and concrete data. We were proactive with our decision to shift to a remote environment at the very onset of the pandemic and are pleased to report that everyone at Kettle Hill has been safe and healthy so far. Furthermore, our past investments in the Firm's infrastructure and technology have paid dividends, i.e., we have not had material issues with any of our systems or counterparties.

Nevertheless, over the past few months, we have taken the opportunity to implement some initiatives to further enhance our productivity and efficiency in research and operations, as well as internal communications. We will continue to evaluate and invest in potential initiatives that could be positive enhancements for the Firm.

Conclusion

We are deeply appreciative of the commitment and support of our investors and are pleased to have delivered on the objectives of the fund in what has turned out to be a very difficult and challenging year. We will continue to strive to meet your expectations in the months and years to come.

Sincerely,

Heptagon Capital and Kettle Hill Capital Management

The views expressed represent the opinions of Kettle Hill Capital Management, as of September 30, 2020, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

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Heptagon Capital, 63 Brook Street, Mayfair, London W1K 4HS ~ Tel: +44 20 7070 1800 ~ Fax: +44 20 7070 1881

Heptagon Kettle Hill US L/S Equity Fund

Heptagon Kettle Hill US L/S Equity UCITS Fund Positioning

Top 5 Long Holdings as of 31st August 2020

Name	% of portfolio
Pinterest Inc	4.3%
Wynn Resorts Ltd	3.9%
Capital One Financial Corp	3.9%
Discover Financial Services	3.8%
Vail Resorts Inc	3.7%

Top 5 Short Holdings as of 31st August 2020

Name	% of portfolio
MS Basket S&P 500	-2.0%
MS Basket Ishares Russell 2000	-2.0%
Campbell Soup Co	-1.0%
Kroger Co	-1.0%
General Mills Inc	-1.0%

Portfolio Sector Weights as of 31st August 2020

	Long (%)	Short (%)	Net (%)
Communication Services	10.7%	-2.0%	8.7%
Consumer Discretionary	25.9%	-3.5%	22.4%
Consumer Staples	0.0%	-2.9%	-2.9%
Energy	3.8%	0.0%	3.8%
Financials	10.9%	-0.5%	10.4%
Health Care	6.9%	0.0%	6.9%
Industrials	6.3%	-1.5%	4.8%
Information Technology	0.5%	-4.2%	-3.7%
Materials	0.2%	-0.7%	0.5%
Real Estate	7.8%	0.0%	7.8%
Utilities	1.2%	0.0%	1.2%
Other	0.0%	-4.0%	-4.0%

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Risk Warning

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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The information contained herein is provided for informational purposes only, is not complete, and does not contain certain material information about the funds, including important disclosures and risk factors associated with an investment in the funds. Before making an investment in any fund, prospective investors are advised to thoroughly and carefully review the fund's private placement memorandum with their financial, legal and tax advisors to determine whether an investment is suitable for them. An investment in these funds is not suitable for all investors.

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Glossary

Asset Class	A group of securities with similar characteristics that tend to behave similarly in the marketplace, such as equities, bonds and cash equivalents.
Assets under Management (AUM)	The total market value of all assets a financial institution or fund manages on behalf of its clients.
Balance Sheet	A document that provides information on the financial position of a company at a particular point in time. It includes what it owns (assets), what it owes (liabilities) and the value of business to equity holders (shareholders' equity).
Benchmark	A point of reference against which investment performances can be measured.
Cyclical Stock	Stock whose price is affected by macroeconomic and systematic changes in the economy.
Discretionary Portfolio Management	Where the portfolio manager has the authority to make investment decisions without the consent of the portfolio's owner.
Dividend	A share of a company's profit paid to its shareholders.
Diversification	A technique to reduce risk by investing in a variety of assets.
Equity Security	A security that represents ownership in an entity and that may pay income as dividends.
Fiscal Policy	A government policy that makes use of government spending and taxation to influence an economy.
Fundamental Analysis	The evaluation of a company by investigating its intrinsic value, where intrinsic value is measured without reference to the security's market value.
Headwind	A situation that makes growth more difficult.
Hedging	An investment strategy where the portfolio manager uses financial instruments to attempt to offset the potential of future losses or lock in gains on existing positions due to future price movements.
HFRX Index	Hedge Fund Research HFRX Equity Hedge ("HFRX") Index. Represents the hedge fund universe.
Liquidity	The degree to which an asset can purchased or sold in the market without affecting the asset's price.
Long Positions	The buying of securities that are anticipated to increase in price.
Monetary Policy	A policy set by a Central Bank or a regulatory committee that alters an economy's money supply in an attempt to affect, for example, inflation and liquidity.
Open-ended Fund	A collective investment scheme that is able to issue or redeem shares at any point in time.
Portfolio Weight	The percentage amount of a holding in a portfolio.

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Glossary

Real Estate Investment Trust (REIT)	A company or fund that owns and operates income-producing real estate.
Russell 2000 Index	An index representing the 2,000 small cap companies in the Russell 3000 index.
S&P500 Index	Standard & Poor's 500. An American stock market index that includes the 500 largest companies by market capitalization.
Short Positions	When an investor sells a security that has been borrowed with the expectation that the price of the security will fall over time.
Small Cap	A company with a relatively small market capitalisation, typically ranging between \$200 million and \$5 billion.
Tailwind	A situation that helps growth to move higher.
Top-Down Investing	Focuses on the overall economy and market cycles first before looking at individual companies and analysing various components in more detail.
UCITS	Undertakings for Collective Investment in Transferable Securities. It is a regulatory framework in the European Union.
Value Investment Strategy	When the portfolio manager selects stocks that he/she believes are undervalued by the market and hence are trading for less than their intrinsic value.
Volatility	A statistical measure to show the degree of movement of asset prices over a set period of time.