

Market Update

March 20, 2020

Dear Fellow Investors,

Given the extreme volatility of the past week, another brief update seemed warranted. March figures for Upslope are estimates only and as of today's close.¹

	Jan	Feb	Mar ²	YTD
Upslope	0.0%	-2.3%	-3.2%	-5.4%
S&P Midcap 400 (MDY)	-2.6%	-9.4%	-30.8%	-38.9%
HFRX Equity Hedge Index	-0.3%	-3.8%	-11.9%	-15.6%

This has been the single most volatile period of my 16-year career. All things considered, I'm pleased with performance. Given the intense volatility, this could change quickly. I remain highly-focused on protecting and ultimately growing our capital. Some thoughts on a few key topics are provided below.

Market/Economic Conditions

In my view, the market was outright expensive just before the COVID-19 situation unfolded and the market collapsed. Today, valuations appear reasonable or better. However, I believe many individual stocks and the market as a whole are "value traps" (i.e. price/earnings ratios are superficially attractive because the earnings piece needs to be cut – significantly). That said, with small/mid-caps down almost 40% YTD, there are clearly pockets of genuine value.

As large portions of the U.S. go into lockdown, my biggest concern is the impact on small business. Given seemingly-stretched balance sheets, even a lockdown of limited duration (e.g. 3-4 weeks, which feels like a win today) seems likely to be devastating for small businesses, employment, and the economy at large. I've observed quite a few investors attempting to "look-through" COVID-19 events – treating this whole situation as a one-off event, after which the economy will simply return to "normal." I believe this is a big mistake, as a complex economy does not have a simple "on/off" switch.

Portfolio & Positioning

Since the last update, we've added a U.K.-based long and aggressively managed the short book (re-sizing existing positions, exiting a few that played out, and adding a new event-driven short). We also exited the Gartner (IT) and Hilton Grand Vacations (HGV) longs – two businesses directly impacted by current events with B-quality balance sheets. Our largest longs are extremely defensive businesses with good long-term

¹ Source: LICCAR (Jan, Feb), Upslope (estimated Mar. results), Morningstar and Hedge Fund Research, Inc. Unless otherwise noted, returns shown net of fees for composite of all accounts invested according to Upslope's core long/short strategy. Individual account performance may vary; clients should always review statements for actual results. **Past performance is no guarantee of future results.**

² March and YTD returns estimated as of Mar. 20, 2020 close, except for HFRX data, which is through Mar. 19, 2020.

growth prospects and excellent balance sheets (average net leverage of 0.8x). More details on all of the above will be provided in the Q1 letter.

Positioning-wise, we've been at the very bottom of our typical 25-75% net long range since late-January. I'd love to bump up net exposure, but am in no rush to do so. Even if we do, my current thinking is that increases in net exposure are likely to be short-lived. Gross exposure sits around 100% and I expect it to remain modest until volatility subsides.

Closing Thoughts

I am incredibly thankful for the trust you have placed in me to manage a portion of your hard-earned money. This is true twice-over, given the historic events occurring in markets and across the world. I hope you and your loved ones are and continue to be safe and healthy. Thank you again.

Sincerely,

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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, © 2020 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.

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