HEPTAGON
Capital

Heptagon Kettle Hill US L/S Equity Fund

Q3 2024 Commentary

Portfolio Management

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.

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Opinions expressed whether in general or in both on the performance of individual investments and in a wider economic context represent the views of the contributor at the time of preparation.

The **Heptagon Kettle Hill US L/S Equity Fund** (the "Fund") is a sub-fund of Heptagon Fund ICAV which is an open-ended umbrella type investment vehicle 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 $77m as of September 30, 2024. Since launch to the end of Q3 2024, the Fund has returned 5.6% (I USD share class) compared to 4.3% for the HFRX Equity Hedge Index, on an annualised basis. During the third quarter of 2024, the Fund returned 6.0% (I USD share class) compared to 2.3% for the HFRX Equity Hedge Index.

For the quarter ended September 30, 2024, Kettle Hill Partners, LP had a gain of 5.9% net of all fees. Longs contributed 7.1% and shorts subtracted 1.2%. Ending exposure was 97% gross and 25% net, 61% gross long and -36% gross short, resulting in a long/short ratio of 1.7:1.

3Q24 Review

Kettle Hill are pleased to report a gain of 5.90% in the third quarter of 2024, capitalizing on certain dislocated opportunities in the equity market. Despite the volatility during the period, the team believe they were able to take advantage of trading opportunities in a market environment complicated by the ebb and flow of concerns about inflation, interest rates, Fed policy, consumer spending, geopolitical risk and election outcomes. Consumer discretionary stocks were the biggest contributor to the performance of the Fund's longs in the quarter. Kettle Hill were able to increase their exposure to catalyst-driven longs in the sector as the pace of consumer spending improved through the quarter. Energy was the Fund's worst performing sector due to a decline in oil prices.

3Q24 Winners and Losers

Best-Performing Long— V.F. Corporation (VFC)

Based in Denver, Colorado, VFC is the owner of a portfolio of apparel and footwear brands such as The North Face, Vans and Timberland. In 2020, the company overpaid for the fashion brand Supreme. Their Vans brand peaked in popularity in the pandemic and was overdistributed. Sales fell over a multiyear period. Insiders bought the stock all the way down. Kettle Hill have evaluated this stock for years and avoided investing in it until just recently. It seemed that the Fund was fortunate with its timing. New management reduced inventory in the channel, divested Supreme to fix the balance sheet and began turning around new product development. Kettle Hill picked up a positive inflection in demand at Vans and Timberland. They reduced the position size after the stock had a move up. The team continue to hold a position because they believe in the steps management is taking to grow the company in the long run.

Worst-Performing Long— Transocean Ltd. (RIG)

RIG is an offshore drilling contractor based in Houston, Texas. Kettle Hill's research focused on industry consolidation of drillers, reduced supply of ultra-deepwater rigs and improved pricing power over the last few years. Declining productivity in shale drilling caused major oil companies to shift production offshore. As demand for offshore drilling increased, daily rates rose to $600,000 per day, a significant improvement from the lows seen in 2020 at approximately $125,000 per day. Long term, Kettle Hill believes supply should continue to tighten and pricing power should increase as more rigs are scrapped. The stock fell as oil prices fell in the quarter. There is uncertainty about the supply/demand balance as OPEC increases production into a global oil market with sluggish demand. Kettle Hill sold their position when rig price increases stalled as operators responded to declining oil prices. The team think that broad-based global monetary stimulus could increase oil demand in the future. In that scenario, Kettle Hill believes the stock has significant upside. The team will monitor industry conditions. Kettle Hill continues to hold a small position in the stock, trading around the core position on near-term research data points and price movements.

Best-Performing Short— Hilton Grand Vacations Inc. (HGV)

Based in Orlando, Florida, HGV develops, sells and manages timeshare resorts. Kettle Hill had a general thesis that after a period of post-Covid revenge spending, middle-income-consumer travel spending would be pressured in a period of decelerating economic growth. The stock also came to the team's attention because of a large volume of insider selling. Through research, the team concluded there was a negative change in consumer demand for time shares. Kettle Hill covered the stock for a gain after the company guided earnings down and were able to short it again after a market-driven rebound in the stock. The fund trade actively around the position to hopefully capitalize on the volatility of the stock.

Worst-Performing Short— SPDR S&P 500 ETF Trust (SPY)

Kettle Hill actively manage the net and gross exposure for the Fund, and the team will use ETFs to quickly change exposure in anticipation of future short-term market moves.

Investment Outlook

Generally, it doesn't pay to fight the Fed. They tell you where they want the market to go. Kettle Hill's net exposure will tend to average a bit higher when the Fed is easing, while still being tactically managed to dampen and profit from volatility. In general, Kettle Hill endeavour to be vigilant in order to be prepared for defensive (or offensive) action when the prevailing investment narrative is about to change.

In the team's opinion, this is a complex macroeconomic environment. Wars, hurricanes, inflation, election uncertainty, interest-rate uncertainty and the lagging negative effects of last year's monetary policy are being offset by surprisingly robust employment and consumer spending. With the Fed cutting rates, the perfect scenario of the soft landing appears to be more achievable. Stocks climb the wall of worry and get priced to perfection, only to be unwound as the world changes. The shifting volatility regimes are tricky, but they also have the potential to provide more dislocations and contrarian trading opportunities for Kettle Hill's fundamentally driven company research process.

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

While the macro picture is difficult, the dislocation of the average stock and the availability of asymmetrical risk-reward opportunities persist. The team will continue to focus on individual stock picking and enhancing the execution of their time-tested research process. Kettle Hill have long investments in gaming, transportation and communications services. Generally, they look for situations with the potential for the positive impact of management change on previously mismanaged businesses. The team find shorts in decelerating retail stocks, fully priced investment banks and consumer staples with weakening margins. Generally, their research indicates that businesses are finding it more difficult to increase prices, and competition may erode all-time high margins that are a result of post-pandemic "greedflation."

Operational Update

Kettle Hill are pleased to announce that Daniel Levens-Lowery joined the firm as an analyst. Daniel previously worked in private equity as a generalist analyst with Terra Mar Capital and in public equities as an analyst with First Pacific Advisors. Kettle Hill have known Daniel for many years and are thrilled to have him on board. He fits in perfectly with the culture, and has hit the ground running. Separately, Thomas Jolley left the firm to pursue other opportunities. There were no other material changes to the overall business.

Conclusion

For 21 years, Kettle Hill have generated alpha, endeavoured to protect capital and produced equity-like returns with less volatility. Once again, thank you for your continued trust and investment in the team. The team is highly energized. They continually strive to improve the process, and look forward to reporting the Fund's results in the years to come.

Sincerely,
Heptagon Capital and Kettle Hill Management

The views expressed represent the opinions of Kettle Hill Capital Management, as of 30th September 2024, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

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Annualized Total Returns as of 30th September 2024, net of fees

	Q3 24	YTD	1-Year	3-Year	5-Year	10-Year
Kettle Hill Partners, LP	5.9%	7.8%	15.6%	5.5%	8.2%	6.3%
HFRX Equity Hedge Index	2.3%	7.5%	11.4%	4.5%	6.0%	3.5%

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.

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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.

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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

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