Heptagon Kettle Hill US L/S Equity Fund

Q2 2026 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 5th, 2017, and has an AUM of USD 96m as of June 30th, 2026. During the second quarter of 2026, the Fund returned 6.8% (I USD share class) compared to 10.3% for the HFRX Equity Hedge Index. In Q2, longs contributed 10.9%, with shorts detracting -2.5%. Ending exposure was 86.2% gross and 33.1% net, 59.7% gross long and -26.6% gross short resulting in a long/short ratio of 2.2: 1.

The views expressed represent the opinions of Kettle Hill, as of 30th June 2026, and are not intended as a forecast or guarantee of future results and are subject to change without notice.

Q2 2026 Review

Over the course of the second quarter, the market focused on uncertainty regarding the path of interest rates; a sharp rise in memory (DRAM) prices driven by AI capex spending; and an easing of gas prices as the Administration sought a resolution to the war. We were pleased with how the fund navigated that environment. The conflict with Iran caused dislocations in many stocks toward the end of the first quarter, which the fund sought to take advantage of in the second quarter with higher net exposure.

Long winners benefited from a relief rally in consumer discretionary stocks (casinos, cruise lines and retailers) following the ceasefire as well as power semiconductor stocks used in next-generation data centre architecture. Defence and telecom stocks were the largest losers on the long side. Short winners were mostly chemical and energy stocks with temporarily high profit margins due to the wartime supply constraints. Losses on the short side were generally attributable to index ETFs and some consumer discretionary stocks.

Past performance does not predict future returns, the value of investments and income from them can fall as well as rise.

Q2 2026 Winners and Losers

Best-Performing Long — Wolfspeed, Inc. (WOLF)
Wolfspeed is a pure-play silicon carbide (SiC) materials and devices manufacturer. SiC is used to make power electronics and has advantages at higher voltages. As we tracked the analogue semiconductor space, it became apparent that lead times were extending in SiC, an area viewed as extremely oversupplied, which the market had left for dead. WOLF is a market leader in SiC that had overspent earlier in the decade in advance of an EV boom that never materialized and emerged from bankruptcy late last year. When we initially purchased WOLF, it was trading at less than 20% of its deployed invested capital into its fabrication plant. It had little to no sell-side coverage. Industry roadmaps pointed to 800V data centres needing massive amounts of silicon carbide, which was the under-appreciated upside at WOLF. WOLF's share price eclipsed ~$80 briefly during the SOXX rally in April after beginning the quarter at under $15. We trimmed our position on the way up and exited the entire position in the middle of May.

Worst-Performing Long — Huntington Ingalls Industries, Inc. (HII)
HII is America's largest military shipbuilder, operating two large yards in Ingalls and Newport News. In our opinion, most of the underperformance during the quarter for HII was due to sector rather than company-specific issues in defence. The market became worried about several different items: (i) peak defence budget, (ii) the sector's strong performance into the war commencement, (iii) dovish conversations with China, and (iv) government influence in capital allocation decisions along with openness to investing with defence tech startups rather than legacy companies. These concerns, along with a large subcontract being delayed longer than management expected, led to underperformance in the quarter. We sold the position to fund more attractive positions with similar industry exposures.

Best-Performing Short — Leidos Holdings, Inc. (LDOS)
Leidos is a technology and engineering company serving the US government. LDOS is exposed to troubled areas that the government has under a microscope and that AI has a higher probability of disrupting: IT services and software. Additionally, during the quarter, the management team talked down numbers as well as the potential value-creation opportunity that exists from selling or spinning off their defence tech business. After meeting with management, we felt that the back half of the year had some potential positive catalysts and covered the position in late June.

Worst-Performing Short — State Street SPDR S&P 500 ETF Trust (SPY)
We actively manage the net and gross exposure for the fund, and we will use ETFs to quickly change exposure in anticipation of future short-term market moves.

Investment Outlook

We reduced gross and net exposure after the end of the quarter because we believed the risk/reward for many stocks was no longer as good as it was at the beginning of the quarter. After the rally, we believed the stock market discounted a perfect scenario of strong AI spend, coupled with lower energy prices leading to lower inflation and lower interest rates. So far it seems that was the right thing to do given the resumption in hostilities. War is unpredictable and we will continue to actively manage the portfolio in response to perceived changes in risk/reward.

The market appears to be more bifurcated than ever into the AI trade versus everything else. Sometimes the broader market indices do not exhibit much change, but there are violent moves under the surface as industry groups swing in and out of favour. War = oil up = inflation up = rates up, and it seems that the only thing that is not tied to that toxic cycle is AI. Now, concerns are emerging about the sustainability of AI capex alongside the increasing chance of a sustained conflict. With increased supply of stock coming from big AI IPOs and fundamental risk to both AI and non-AI stories, we have a cautious view on the market overall. In addition, while it appears that the timeline for job losses due to potential widespread AI adoption has been extended, we view it as being inevitable.

Given all the geopolitical and AI-related uncertainty, we are going to operate with more caution until we see better risk/reward in the market, and that means lower net, lower gross, and smaller position sizes.

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We try to focus on games we can win, which means less crowded situations where we think we generate an advantage by doing deep fundamental research in neglected names with potential powerful catalysts. On the long side, we like wireless towers, aerospace and defence, and companies in diverse industries with new management teams driving long-needed operational improvements. On the short side, we favour GLP-1 victims (junk food, CPAP, and dialysis) and consumer discretionary stocks with deteriorating trends.

Operational Update

There were no changes to the investment team or operational staff in the quarter.

Conclusions

Like Jalen Brunson (Let's Go Knicks!), we are never satisfied with past success, and we are always trying to get better. We will continue to evaluate our strategy and process in the context of our historical data and evolving market structure and will consider all alternatives to enhance alpha generation. We look forward to sharing some of these insights with you in the near future. Thank you for your continued support.

Sincerely,
Heptagon Capital and Kettle Hill Management

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Annualised Total Returns

	Q2 2026	YTD	1-Year	3-Year	5-Year
Heptagon Kettle Hill US LS Equity Fund	6.8%	6.5%	11.5%	8.9%	4.4%
HFRX Equity Hedge Index	10.3%	7.5%	13.4%	9.8%	6.6%

Source: Kettle Hill, FactSet Research Systems, Inc.

Fund performance relates to the UCITS Fund (IE00BF1D7H82, net of fees, in USD).

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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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