HEPTAGON Capital

Heptagon Kettle Hill US L/S Equity Fund

Q3 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 94m as of September 30th, 2026. During the third quarter of 2026, the Fund returned -5.3% (I USD share class) compared to -1.7% for the HFRX Equity Hedge Index. In Q3, longs detracted 5.1% and shorts detracted 0.3%. Ending exposure was 68.9% gross and 35.3% net, 52.1% gross long and -16.8% gross short resulting in a long/short ratio of 3.1: 1.

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

Q3 2026 Review

Fed rate hikes and higher oil prices are typically toxic for smaller-cap stocks that tend to be more sensitive to borrowing costs and generally have more consumer exposure than their large-cap brethren. The third quarter also saw a rotation by investors back into mega-cap tech and AI stocks. This caused the widest gap in performance between large- and small-caps since early 2020. We think the move was driven by macro theory and factors and did not reflect the fundamental reality for many of these companies. Dislocation tends to create opportunity, and many interest-rate-sensitive stocks and consumer stocks seem to be trading at recession-like valuations, despite operating at high levels of performance. We have not been idle. We added to beaten-down consumer and interest-rate-sensitive stocks, and built new positions tied into what we consider exciting AI-related themes in power and towers. We believe we weathered the macro storm; we also believe that many of our longs have bottomed out, and we have a potentially great opportunity set with attractive risk/reward characteristics and high upside to our fundamentally driven target prices.

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

We encourage you to read the Operational Update section for material information pertaining to the Firm and its future strategy.

Q3 2026 Winners and Losers

Best-Performing Long—Avantor, Inc. (AVTR)
AVTR has two segments. VWR Distribution & Services (VWR) distributes laboratory consumables and equipment to research, healthcare, education, government and industrial customers worldwide. Bioscience & Medtech Products (BMP) produces materials and chemicals used in biopharmaceutical production, medtech and advanced technology. Our opinion was that VWR was mismanaged and lost share to aggressive pricing from a competitor, causing the stock to fall from $25 to $7 from 2024 to the beginning of 2026. New management came in with a turnaround plan and bought stock at the bottom. That was our signal to get involved. Our independent research and conversations with the company confirmed that the plan was credible and that the company could be returned to profitable growth. The stock rose after their Q2 earnings confirmed progress in achieving their goals. We sold a portion of the position, but continue to hold the stock, as we believe the company can continue to improve results over the next two years.

Worst-Performing Long—PENN Entertainment, Inc. (PENN)
PENN owns and operates casinos, hotels and racetracks in the US and Canada. We trimmed some stock in Q2 after the big runup earlier in that quarter. Despite the drop in Q3, the stock has still been profitable for us YTD. We believe that nothing changed fundamentally in Q3. Traffic and revenue growth remain on track, and their capital investments are improving operations and exceeding target return goals. We believe that the stock fell because the macro environment turned against leveraged consumer companies in the quarter, as oil prices and interest rates rose. Regional casinos are recession-resistant; we believe business is still strong; and we took advantage of the price decline in Q3 to add to the position.

Best-Performing Short—WRBY (Warby Parker Inc.)
WRBY operates retail stores and an e-commerce platform selling prescription glasses and contacts. Our analysis indicated that the stock was hyped-up because of the announcement that they could market and sell Google glasses. We thought the ultimate impact from the marketing partnership with Google would be limited. In their core business, we observed increasing levels of promotion, declining sales and, anecdotally, consumer dissatisfaction with the quality of their products. Insiders were selling stock. The company missed earnings and we covered for a profit.

Worst-Performing Short—ResMed Inc. (RMD)
RMD makes devices for sleep apnea and respiratory care, known mostly for CPAP machines. We have been short at various sizes for ~18 months and YTD has been a positive contributor. Our thesis is supported by our work regarding GLP-1s and their potential to lower the need for CPAP machines. Additionally, it is likely that RMD will have competitors returning to the US market over the next 1-2 years. RMD is raising prices on customers who may soon have other options. During the quarter, the shares rose with the broader healthcare sector along with a company-announced accelerated share repurchase. We remain short RMD and think GLP-1s and the return of competition represent a long-term headwind to the business.

Investment Outlook

Over the past two years, we have observed that when traditional stocks are pressured by the interrelated economic risks of war, higher oil prices and a hawkish Fed, investors pile into AI stocks because their revenue is perceived to be independent of factors that affect most other stocks. The market gets narrow and performance becomes concentrated in a handful of stocks, while most stocks go down. That happened again in Q3.

What might be different now is there are signs that the AI trade is getting long in the tooth. There's no sense in buying all these chips if you face increasing regulation, at the local and possibly federal level, and difficulty in executing buildouts due to the Not In My Backyard phenomenon ("NIMBY") and limited access to immediately available power and permits. In addition, Anthropic and OpenAI keep telling the world how dangerous their technology is to human survival. If this is the case, how can they sell stock to the public? If they don't raise money, AI capex build will shrink. We think it is dangerous to play the AI stocks that have worked in the past, stocks that are generally related to the first bottleneck,

namely chips and networking. There are emerging concerns about demand, and a supply response is expected over the next few years.

Instead, we will power and tower. By all accounts, the real bottleneck is power, and we have identified exciting companies that we believe will win large power contracts due to geographic exclusivity and their fully integrated infrastructure from gas molecules to electrons. We think wireless towers will grow cash flow well above street forecasts because of 6G network buildouts, a fourth terrestrial network buildout from Starlink and the emerging use of land under the tower to build datacenters. Towers are perfect sites for distributed compute due to existing access to power and optical data networks. We think prime locations under towers will fetch a premium as compute becomes increasingly more difficult to build out.

In our opinion, consumer and interest-rate-sensitive stocks have sold off to valuation extremes typically only seen in deep recessions and represent attractive risk rewards at these levels. We favor the top end of the K-shaped economy and are short consumer stocks exposed to consumers impacted by the greater cost of living. We are short software and internet companies that we believe are victims of AI agentic commerce.

Operational Update

The current market environment of enhanced volatility combined with emergence of dominant momentum factors is potentially turning out to be the new "norm." Value-based long/short investing must radically adapt to successfully invest in this environment. We believe that implies more concentrated positions, lower AUM, higher gross-invested levels, higher emphasis on liquidity and enhanced risk management. Therefore, we are shrinking the business and transitioning to a model where we manage proprietary capital alongside a limited amount of external capital.

This decision was not made lightly, and it was not forced on us by the loss of a client or assets. We want to create the most optimal fund structure for this environment; we have been discussing and analyzing this internally for some time.

We threw out common wisdom and our own beliefs and biases. We engaged in first principles thinking to define the core truths that should guide the creation of the perfect long/short equity fund in a materially changed investment environment for fundamentally oriented stock pickers. Many of these core truths were essential to the formation of Kettle Hill in 2003: game selection to invest in smaller, less efficient stocks, limit AUM, focus on top 10-20 stocks, make a series of high-expected return bets, manage risk and not allowing one bet to impair performance. To that we now add the ability to be flexible, to trust our experience and not be limited to a narrow industry-defined limitation of how we can add value and to reduce the amount of cash we hold as a defensive buffer. After much analysis, reflection, and debate, we arrived at a plan and decided to move forward.

Nothing will change about our research process or investment philosophy. We'll continue to identify and quantify change with 12-to-18-month investment horizons. We are putting the output of our stock picking machine into a more concentrated form, with higher gross-invested levels, enabled by managing a lower amount of AUM.

This is not without cost. We are intentionally shrinking a firm that took decades to build. The implications are not only financial, as we are disrupting a network of wonderful human beings with whom we have developed strong bonds. We owe a debt of gratitude to our partners, employees and clients and hope that our friendships will endure.

Conclusions

Thank you for your longstanding support. I encourage you to get in touch with us to discuss the changes to the firm and our strategy. We will collaborate with you to make this transition with as little disruption as possible. We are grateful for the opportunity to explain why we are so excited about the future of Kettle Hill. We hope that you'll choose to join us for the next stage in Kettle Hill's journey.

Sincerely,
Heptagon Capital and Kettle Hill Management

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Annualised Total Returns

	Q3 2026	YTD	1-Year	3-Year	5-Year
Heptagon Kettle Hill US LS Equity Fund	-5.3%	2.2%	1.7%	7.5%	4.4%
HFRX Equity Hedge Index	-1.7%	6.8%	8.6%	9.5%	6.1%

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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