Heptagon Kettle Hill US L/S Equity Fund

Q2 2025 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.

Contact

Heptagon Capital
63 Brook Street, Mayfair,
London W1K 4HS

Tel: +44 20 7070 1800
email london@heptagon-capital.com

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 had AUM of USD 79m as of June 30th, 2025. During the second quarter of 2025, the Fund returned 4.05% (I USD share class) compared to 4.10% for the HFRX Equity Hedge Index. In Q2 longs contributed 6.8%, and shorts detracted 2.6%. Ending exposure was 97.3% gross and 37.3% net, 67.5% gross long and 29.8% gross short resulting in a long/short ratio of 2.3 : 1.

The views expressed represent the opinions of Kettle Hill, as of June 30th 2025, are not intended as a forecast or guarantee of future results and are subject to change without notice.

2Q25 Review

This past quarter was one of the wildest in memory. It began with a bang on April 2nd (also known as Liberation Day), when the President announced much higher tariffs than the market had priced in. Stocks plummeted because the tariffs, as announced, represented a potential $1 trillion regressive tax. At the same time, Elon Musk and the Department of Governmental Efficiency (DOGE) were targeting $1 trillion in government spending cuts. The two actions together created a combined $2 trillion impact that many economists believed would plunge the economy into a deep recession. Caution was exercised by reducing risk until signs appeared that the potential market impact was not as bad as feared.

Our course changed and risk was added with the announcement that a group of CEOs from the nation's largest retailers would meet with the President, the thinking being that they might persuade the President to reduce tariffs. When the President told his followers on social media to buy stocks, we added risk, believing that a positive announcement was coming. Just hours later, he announced a 90-day pause on tariffs. Risk was added

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

again when it became clear that DOGE would fall short of cutting $1 trillion. By adding risk at the right time, we pivoted and captured a portion of the rally.

We agree with the ultimate economic objectives of the administration: to have fair and balanced terms of trade, to deregulate and cut government spending. However, it took decades to build trade imbalances and budget deficits and trying to reverse the situation overnight would be overly disruptive to the delicate mechanism of an interconnected global economic and political system. The administration seems to have recognized this. With guardrails in place, we appear to be on a better path to prevent the most extreme policy outcomes.

2Q25 Winners and Losers

Best-Performing Long—Shake Shack Inc. (SHAK)
Shake Shack is a growing fast-food chain, founded by Danny Meyer in New York City. We have long enjoyed the food, but our analysis indicated that a lack of focus on financial returns made valuation difficult to justify. Beginning in early 2024, our conviction in the outlook improved as the company seemed to employ a renewed attention to driving free cash flow through better margins and reduced capital spending for new stores. It seems Shake Shack is now in the early stages of a more consistent rollout of products and limited-time offerings, as well as improved operational discipline. We used the market pullback and concerns around consumer spending to re-engage with the stock as sales continued to trend well and better restaurant margins supported a higher equity value. The fund captured some of the stock recovery as stronger sales became well understood and priced in by the market and then exited the position after it hit our internal targets.

Worst-Performing Long—RH (RH)
RH is a leading retail and luxury lifestyle brand operating primarily in the home furnishings market. We have a great deal of history with RH and have traded it actively in the past. This quarter, however, our position suffered from unfortunate timing as the company announced its 4Q24 earnings simultaneously with the Liberation Day tariff announcements. The company's reported results, including a later-disclosed acceleration in demand trends, were solid. RH had successfully moved much of its production from China to Vietnam and other countries. The higher-than-expected level of announced tariffs and cascading concerns about consumer spending and sentiment (particularly to RH's wealthier client base during a stock market downturn) sent the shares lower. Later in the quarter, we re-entered the position as trends appeared to improve, paring some of our prior losses. The team will continue to monitor the company's performance.

Best-Performing Short—Robert Half Inc. (RHI)
Robert Half provides specialized talent solutions and business consulting services, with a focus on temporary employment and white-collar areas of the economy. RHI was trading at an all-time-high multiple, based on optimism that staffing had hit a cyclical bottom. The sell side had rosy growth forecasts despite the massive economic uncertainty paralyzing hiring managers, the increasing impact of AI on the white-collar workforce and staffing industry, increasing competition and record low unemployment with declining job movement liquidity. Our DCF showed roughly 30-40% downside, and insiders were selling stock. We disagreed with the common narrative and took a short position. The stock drifted lower until earnings (where forward guidance subsequently lowered below sell-side estimates) caused the shares to decline roughly 15%, and we have since covered our position.

Worst-Performing Short—Texas Instruments Incorporated (TXN)
Texas Instruments is a global semiconductor company that designs, manufactures and sells analog and embedded processing chips for diverse markets. We shorted TXN because of the trade war and its high concentration of sales to Chinese original equipment manufacturers (OEMs). China is actively developing its own domestic semiconductor manufacturing companies to reduce its reliance on foreign producers. Historically, the performance of Chinese chips was not at the same level as that of their Western counterparts, but they have recently made progress, and it is our belief that they will be at parity in three years. Texas Instruments cut its price to respond to increased competition from Chinese firms. The stock rallied as trade-war fears abated, and sales improved due to OEMs pre-buying components to get ahead of impending tariffs. In the future, we think OEM buying patterns will normalize, and Chinese semiconductor firms will gain share. In the near term, our thinking is that the company could beat expectations, and thus we have reduced the position size into earnings.

Investment Outlook

As of now, the tariffs have been whittled down, paused, and/or modified, and Elon Musk is out after DOGE identified only a fraction of the promised savings. The "Big Beautiful Bill" passed, and it seems that barring miraculously high GDP growth, government spending will not go down. Political pragmatism appears to have won out over ideological cliff diving.

The markets deemed the Russia/Ukraine and Israel/Iran conflicts to be non-events. The risk of an economic wipeout seemed to have been erased. The market rallied to new highs as investors priced in a strong 2026 environment, due to the possible end of tariff negotiations, deregulation, lower inflation, and lower interest rates. In addition, the administration can be expected to do its best to run the economy hot, thereby creating the growth needed to counter the lack of near-term-spending discipline of the "Big Beautiful Bill." As a result, we consider the market to be fairly valued. Given the current political environment, the firm is aware of the fragility of the status quo and the danger of complacency. We will monitor policy closely and will always try to anticipate and respond to change.

We've spent a good deal of time managing policy gyrations, but have also conducted deep fundamental research on individual stocks, taking advantage of the chaos to build positions that should have attractive risk/reward parameters. Because of the turmoil in the market, there may well be many dislocations for us to exploit.

We are long recession-resistant gaming stocks with near-term, value-creating catalysts and marketing technology businesses that should benefit from the adoption of AI. We like investment banks, as many industries are likely to experience consolidation in an environment with less regulatory scrutiny. The portfolio is positioned in companies likely to benefit from lower interest rates next year due to possible downward shifts in inflation, as well as an anticipated dovish leadership change at the Federal Reserve.

On the short side, we are positioning against bubbles in government spending in target industries and in companies that may have benefited from the pull-forward of demand due to tariff concerns. We have identified consumer companies reaching the end of previous new-product cycles and are short companies with business models that may be devastated by AI.

Conclusion

We appear to have navigated the volatility during the first two quarters reasonably well and are optimistic about the current portfolio. With deep conviction in Kettle Hill's process and alpha-generation capabilities, we will continue to focus our efforts on meeting your investment expectations. As always, please do not hesitate to reach out if you have questions or wish to speak in depth about any of the above.

Sincerely,
Heptagon Capital and Kettle Hill Management

Annualized Total Returns

	Q2 25	1-Year	3-Year	5-Year
Heptagon Kettle Hill US L/S I USD	4.1%	5.5%	8.4%	7.0%
HFRX Equity Hedge Index	4.1%	7.0%	6.9%	7.8%

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.

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

Important Information

Past performance is not an indication or guarantee of future performance and no representation or warranty is made regarding future performance. This communication is for information purposes only. It is not an invitation or inducement to engage in investment activity.

The document is provided for information purposes only and does not constitute investment advice or any recommendation to buy or sell or otherwise transact in any investments.

The contents of this document are based upon sources of information which Heptagon Capital believes to be reliable. However, except to the extent required by applicable law or regulations, no guarantee, warranty or representation (express or implied) is given as to the accuracy or completeness of this document or its contents and, Heptagon Capital, its affiliate companies and its members, officers, employees, agents and advisors do not accept any liability or responsibility in respect of the information or any views expressed herein. 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. Where this document provides forward-looking statements which are based on relevant reports, current opinions, expectations and projections, actual results could differ materially from those anticipated in such statements. All opinions and estimates included in the document are subject to change without notice and Heptagon Capital is under no obligation to update or revise information contained in the document. Furthermore, Heptagon Capital disclaims any liability for any loss, damage, costs or expenses (including direct, indirect, special and consequential) howsoever arising which any person may suffer or incur as a result of viewing or utilising any information included in this document.

Heptagon Capital Limited has issued this communication as investment manager for Heptagon Fund ICAV, and is licensed to conduct investment services by the Malta Financial Services Authority. Heptagon Capital LLP, acting as Distributor, is authorised and regulated in the UK by the Financial Conduct Authority.

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.

Authorised & Regulated by the Financial Conduct Authority (FRN: 403304)

Disclaimers

HFR, Inc. www.HFR.com The HFR Indices are being used under license from HFR, Inc., which does not approve of or endorse any of the products or the contents discussed in this material.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and S&P Global Market Intelligence ("S&P") and is licensed for use by Heptagon Fund ICAV. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

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

Heptagon Capital, 63 Brook Street, Mayfair,
London W1K 4HS
Tel: +44 20 7070 1800
(FRN 403304)

Authorised & Regulated by the Financial Conduct
Authority in the UK
12 Endeavour Square, London

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