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3rd Quarter 2015 Update

Fund and Market Recap

To say that Q3 2015 was a disappointment would be an understatement. Market volatility quickly returned, with very few companies in the U.S. equity markets avoiding the selloff. For the quarter, the Russell 2000 was off 12.2% and off 15% from the highs of 2015. Large caps were not hit quite as hard, being off 7% for the quarter and 9.8% from the 2015 highs. This now has both market indexes well into negative performance territory for the year, with the Russell 2000 off 7.72% and the S&P 500 off 6.75%.

In addition to the market selloff, an activist investor targeting our primary investment as a result of itõs underperformance put additional short term pressure on the stock. Over the intermediate to longer term, this is a good sign for our investment thesis. Short term, this typically leads to some volatility for the stock price. This is because stock prices tend to drop shortly before firms file the regulatory documents that disclose the actions the investor group would like the company to implement. In the case of our investment, it traded off just under 12% in the two weeks prior to the investor going public with their position (September 30th, 2015) and has traded up just under 10% 10 days following the announcement.

This investment now represents one of the more attractive opportunities that has presented itself over the last 3+ years (see senior housing portion of fund positioning discussion for more detail). This has us very excited about the positioning of the fund and how we expect to finish the year, but led to

Q3 2015 Return Information

LPG Cap Part (Est. After Fees/Exp)	Russell 2000	S&P 500	LPG Cap Part Excess Return vs. Russell 2000	LPG Cap Part Excess Return vs. S&P 500
(21.5%)	(12.2%)	(7.0%)	(9.3%)	(14.5%)

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poor return numbers for the quarter, with the fund off just under 22%, bringing our annual return to a negative 10.5%. It should be noted, as of the writing of this update, we have recovered over half of the negative performance for the year, now off a bit more than 4% YTD.

Economic Performance and Outlook

Based on consensus economic forecasts, U.S. GDP growth is expected to be about 2% for the balance of 2015. This is in contrast to continued weakness in Europe and slowing growth in China. Market weakness was driven by challenging international economic performance and expectations, but the selloff was limited due to the relative strength of the domestic economy. As long as the U.S. economy continues on its current path, domestic financial markets should be stable.

Market Valuation

Market valuations have become more attractive since the second quarter, with the Russell 2000 trading for an approximate 16.25x PE for projected YE 2015. This is not much different than the S&P 500, which is currently trading for around 15.5x PE for projected YE 2015. Looking back to 1980 and dividing the forward PE for the Russell 2000 into quintiles, the current forward PE is in the 2nd quintile and itôs most attractive level in the last 2 years.

2015 Market Expectations

Consensus market expectations for the mid cap/small cap market segment in North America have also not changed meaningfully over the course of the year. In spite of the recent market pullback, general consensus continues to be mid to high single digit positive returns for the year. While this seems achievable, it implies a strong finish to the year and will depend greatly on the upcoming Q3 earnings-reporting season.

As always, there continues to be risks to the market. Some of those previously discussed have been addressed and digested by the markets. However, there continue to be some unknowns that can impact performance, specifically discussed below.

2015 Risks and Uncertainties, Updated

Looking back at our initial discussion of market risks, some have played out generally as expected (energy and multinational earnings challenges), some had a bit more market impact than expected (China growth concerns) and some are still to come. In addition, as I type, we have some new headlines making the list.

China

At the end of the last quarter, China had begun to implement a number of measures hoping to stop the dramatic decline in their equity markets. In the end, these did not provide much long-term support. Chinese stock markets have given back much of their gains on the year, which seems reasonable given the slowdown in economic growth of the country. What is more reassuring is that we are now

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seeing the government focus actions more directly on economic support and growth. Given their very large foreign currency reserves and flexibility in using interest rates to stimulate growth, they seem to have plenty of tools to get through their current economic challenges and avoid a hard landing that markets are afraid of. As long as the hard landing scenario can be avoided, U.S. markets and economic performance should not be hurt dramatically by goings on in China.

Rising U.S. Interest Rates

Relative to the beginning of the year, no movement on interest rates is one of the biggest surprises to the overall market. While the U.S. economy performs relatively well, it appears growth needs to be a bit stronger before the fed will be very comfortable raising rates. A major driver of this is that inflation continues to be dramatically below the targeted 2% level. As long as this continues, there is the real possibility that interest rates will stay lower and increase slower than the markets previously expected. More importantly, while short term interest rates have been relatively volatile, longer term rates have not, with the 10 year U.S. treasury anchored below 2.5% over the last year. While long term interest rates stay low, if and when the Fed begins to raise interest rates is less important to long term market performance. Unfortunately, it will probably provide a bit of short term market volatility when short term rates do increase for the first time.

Strong Dollar

While the strong dollar has certainly had an impact on multinational earnings and economic growth, it also has not been enough to drive markets materially to the downside. Given that the bulk of the dollar move appears to be behind us, we do not expect this to be as much of an issue going forward.

Fund Positioning and Outlook

Broadcast Television

Second quarter earnings performance in this industry led to a change in the investment outlook for companies in this space. We saw several large cap media companies (Disney, Viacom, Fox) miss revenue expectations and lower revenue guidance for the balance of the year. While there were various reasons, we saw a material decline in stock prices as a result. While companies that we follow and were invested in continued to perform well, the decline of the large cap companies limits the upside to many of the companies in this space. Even though two major drivers of growth in this space, (consolidation and strong political spend) have not changed, we decided to exit our position because of less expected upside. In addition, we are concerned companies are beginning to pay too much for aquisitions at what is most likely going to be peak earnings for the industry.

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Senior/Assisted Living Housing

Given current valuation levels, dividend yields and expe cted financial performance of the business, this is one of the most attractive investment opportunities we have seen in the last several years. Not only is this a non-cyclical business, but companies are experiencing mid-single digit organic growth. Given that this is at least 2x expected GDP growth and in the top third of U.S. corporate performance, a strong case could be made that these companies should trade at a market premium, not a dramatic discount. As these companies traded off with the market in August and September, we dramatically increased our exposure. As previously mentioned, the company we invested in has seen an activist investor become more vocal, which should only help crystalize the valuation discount. We expect this to happen as the company continues to operate its business as it has and continues to pursue shareholder friendly activities. If the stock price languishes in 2016, there are a number of large cap firms that would be interested in acquiring this company. Applying peer trading multiples to our investment imply 150% upside from current trading levels. In the interim, our investment will be paying an 11% dividend.

Energy

Oil prices have rolled over again and we continue to work on interesting names that are attractive from a valuation perspective. We will look for companies that have strong financial performance with upside potential in the event oil prices recover. Two outstanding issues that are giving us pause are the unsustainable dividends at the large cap companies in this space and the seasonal weakness we are entering for most commodities. As these two issues play out, we will be looking for attractive entry points.