LPG Investment Management, LLC

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4th Quarter and Full Year 2015 Update, 2016 Outlook

Fund and Market Recap

Q4 2015 wrapped up what was a very challenging year. While the market recovered somewhat from its lows in August, the Russell 2000 still ended the year off more than 12% from the highs it reached in June. For the quarter, the Russell 2000 gained 3.59%, but ended the year down 4.41%. Our fund was down 2.7% for the quarter and 15.65% for the year. Markets initially recovered from the challenges in Q3, but finished the quarter and began 2016 very weak as they digested slower economic growth around the world. Specifically, our fund underperformed because smaller companies are perceived to be more susceptible to economic weakness. Also, there was concern about rising interest rates and the impact they would have on the performance of the healthcare REIT space and our investment specifically. We take a longer-term view to our investments and investment process and still consider small companies and our investment classes the ones with greatest long term potential.

At present we are seeing investment opportunities more attractive than at any time since the financial collapse of 2008/2009. Given that our investments are focused in companies that will perform well in a modest economic growth environment, we are very optimistic that we will outperform the market over the next 12 months.

Q4 and Full Year 2015 Return Information

Q4 2015			Full Year 2015		
LPG Cap Part*	Russell 2000	Excess Return	LPG Cap Part*	Russell 2000	Excess Return
-2.70%	3.59%	-6.29%	-15.65%	-4.41%	-11.24%

*Certain expenses are estimated for quarterly returns, annual returns are actual

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Economic Performance and Outlook

While we have not seen final U.S. 4th quarter GDP numbers, consensus says that it should be weaker than Q3 2015, which was 2%. While by no means is this a robust number, the US continues to outperform other developed nations. Because current GDP is not seen as particularly strong, any hint of economic headwinds leads to dramatic volatility in the markets. This is magnified during times of little corporate specific information flow, seen during the recent lead up to Q4 2015 reporting season.

Market Valuation

After the recent market's sell-off, small cap stocks are looking cheap on a number of metrics. Dividing the forecasted PE ratio into quintiles (with the first being most expensive and the fifth being the cheapest), the Russell 2000 now sits in the third quintile; the most attractive it has been in six years. In addition, compared to large cap companies, the Russell 2000 trades at a cheaper earnings multiple than the S&P 500. Again, this is not surprising given the Russell 2000 is off over 20% from its highs last summer, but the S&P 500 is only off 11%. Short of a recession, overall market performance should improve.

2016 Market Expectations

As of the start of 2016, return expectations for equity markets are roughly mid-single digit positive returns, primarily based on U.S. GDP growth around 2%. As we have seen, any event that brings this GDP growth number into question will lead to market volatility.

Macro Market Factors

Global Economic Outlook

Global economic performance has become a focal point for the markets on several fronts. With respect to the European region, continued weakness has led to accommodative policies from the ECB. With respect to Asia, Chinese growth is now at the lowest it has been in the last 30 years. These and other factors have led to weak commodity demand and a strong U.S. dollar. While thus far, the U.S. economy has been able to get through these headwinds, there are concerns that continued economic growth would become more challenging for the U.S. as the Federal Reserve raises interest rates.

Rising U.S. Interest Rates

December saw the first interest rate increase in just under 10 years. What happens going forward is the more important question. While the Fed seems to want to get rates up for a variety of reasons, given the state of the global economy, the market is very concerned that if rates are raised too aggressively the U.S. economy will experience slowing growth.

At present, the market appears to be pricing between one and two 25 basis point rate increases for the year. Current economic performance does seem to support this. We will need to see either improving U.S. economic performance or a slower pace of rate increases

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by the Fed to avoid more market turbulence.

Strong Dollar

U.S. interest rate policy and economic performance has led to a strong dollar relative to most other currencies. This has caused several changes in the economic landscape over the last 12 to 18 months.

- U.S. based companies with international business exposures have been challenged, seeing pricing and profitability erode.

- Emerging markets have had a difficult time because many of their economies are commodity based and they are now getting less money for their commodity production.

- Non-U.S. countries and companies with dollar denominated debt are experiencing dramatic increases in interest cost and debt balances.

The second and third factors are going to be a major challenges for the global economy and will be watched very closely going forward.

Fund Positioning

As mentioned, we are seeing the most attractive investment opportunities since the 2008/2009 financial crises. There are many companies whose stock prices are down in excess of 50%, not all deservedly so. Our focus is to find those companies with good businesses that have been unfairly punished.

Senior/Assisted Living Housing

This continues to be the most attractive investment opportunity that we have identified. Financial performance continues to be strong, with organic revenue and FCF generation increasing at a mid-single digit rate. Several valuation metrics highlight the company as very attractive, pointing to over 150% upside to the current stock trading levels.

In previous updates, we have pointed to a number of the financial performance characteristics of this investment that make it attractive. In our 3rd quarter update, we said that we expected the company to pursue shareholder friendly activities if the stock price continued to languish. This began in December, with the company announcing two different stock buybacks. If they are fully completed, the company would retire over 15% of the outstanding stock. As we move beyond technical weakness driven by tax loss selling and year-end fund positioning, strong operating performance and shareholder friendly focused activities should serve as the catalysts to crystalize the valuation discount in the equity of the company.

Energy

At this point, the pain in this space is well known. If the price of oil does not get close to 60 at some point this summer, we are expecting dramatic events in the space. Large cap companies will need to make another significant reduction in costs and capital

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spending. At present, they are handling their financial affairs as if oil will stabilize around 60. In the mid and small cap space, many companies have balance sheets that barely work at $60 oil. As price hedges roll off during 2016, expect to see a large increase in balance sheet restructurings, either in or out of bankruptcy court.

One area of interest is bonds of investment grade companies. Many of these securities have traded off between 30 and 50 percent over the last year. This has provided the opportunity to get equity like returns (30% plus) while earning a nice coupon payment on an investment. We are evaluating the profitability and liquidity profile of these companies to ensure they are financially sound and can handle the current oil price environment before any investments are made.

We have also focused our recent efforts on the oil tanker industry. Stock prices have fallen dramatically in spite of very strong financial performance. As Middle East countries expand production and the U.S. begins exporting oil, strong tanker industry dynamics are expected to continue. We will be watching additional ship supply as a leading indicator for pricing pressure. Valuations in this space are very attractive, with companies trading for two times FCF. We are expecting aggressive shareholder friendly activities at current trading levels.

Basic Materials

As is also well publicized, the commodity bust is in full force. Due to the dramatic fall in demand from China and the increasing value of the U.S. dollar, all major commodity prices are at levels few experts expected to see. Any industrial commodity business has completely fallen apart. We have spent quite a bit of time looking for companies unfairly punished by this and have found some in the specialized materials mining space trading at very attractive valuation levels. Of particular interest is the diamond mining space, very much a retail end market with two major players controlling a bit over 60% of market supply. We have found a company that has partnered with DeBeers to develop what is expected to be one of the most profitable mining ventures in operation.

Outlook

While we don't expect volatility to go away in the near term, given the current economic backdrop, we do not expect the market to trade meaningfully lower. With the investment opportunities that are currently available, we are very optimistic about the future performance of our fund. Our historical returns say that our best performance takes place coming out of these pockets of volatility. While "Past performance is not necessarily indicative of future results," the future does look very bright. As always, we thank you for your trust and confidence.