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Q1 2017 Update

Fund and Market Recap

Q1 2017 had two distinct feels to it. Markets began the year with continued enthusiasm over the new direction in Washington and the possibilities it presents for the economy. However, as we got into later March, the markets began to understand how difficult it is going to be for the new political leaders of the country to implement the various changes that have been promised. Financial markets began to differentiate between companies and industries that are more likely to benefit from actual changes and those that will see a more difficult time reaching the promised land. Delays and dilution of new regulations threatens economic growth and have driven spikes in volatility.

Equity markets saw large cap stocks outperform small (opposite during 2016, see previous update for specifics). At the industry level, technology and emerging markets dramatically outperformed others (IT up approximately 13%, emerging markets up approximately 8.75%).

These were the primary drivers of our underperformance of the Russell 2000. Unless investments appear particularly attractive on a valuation basis, we stay away from the technology and emerging market spaces. Also contributing to our performance, investments that performed well at the end of 2016 were a bit slow at the start of the year as profit taking took place. Our broadcasting investment performed well as they released good results during earnings season and the consolidation theme began to pick up pace. Our specialty material investment underperformed due to operational issues, leading us to

Q1 2017 Return Information

Q1 2017			Full Year 2017		
LPG Cap Part*	Russell 2000	Excess Return	LPG Cap Part*	Russell 2000	Excess Return
0.52%	2.46%	-1.94%	0.52%	2.46%	-1.94%

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

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exit the investment. This left the fund conservatively positioned, which has benefitted us as the markets sold off at the start of the second quarter.

Economic Performance and Outlook

Global economic performance picked up pace as the quarter progressed, with the U.S. following a similar pattern. Q1 expectations for GDP growth in the U.S. appear to be around 1%. However, data during the quarter has economists expecting it to be closer to 3% during the 2nd quarter. China continues to lead Asia with decent growth (estimated around 6.5%) and Europe looks to finally be firmly in the positive side of the column (estimated around 2% this year).

Factors influencing global economic performance that will be watched with particular interest include:

- U.S. ability to achieve the new policy objectives
- European elections that have the potential to dramatically shift the direction of the Eurozone if they follow recent U.K. and U.S. results
- Chinese progress on economic reforms and North Korea military activity

Market Valuation

Market valuations are all higher from our Q4 update. Both large caps and small caps are trading over 25% above their historical average multiple. Equity markets continue to price in a healthy amount of positive outcomes from last yearô s elections. Cracks in that confidence have begun to appear with the recent stumbles in the Health Care legislation efforts. Further legislative challenges and increased tension on the international front would most likely lead to market volatility and very interesting buying opportunities.

12 Month Forward Market Expectations

Current market valuations say it is going to be hard to have another double-digit return year. However, if the new government successfully implements the proposed policy changes, it is not unreasonable to expect healthy single digit market returns. We continue to expect increased volatility in the short term until uncertainty surrounding policy implementation is reduced.

Rising U.S. Interest Rates

As expected, the Fed raised short term interest rates earlier this year and is expected to do so several more times during 2017. We continue to watch to make sure the U.S. economy is growing in a strong enough manner that it can absorb the tightening monetary policy and grow at a healthy rate. We are optimistic that the Fed will be cognizant of this as well.

Fund Positioning

Q1 2017 saw some significant changes in fund makeup. We continued to lighten our exposure to the U.S. financial sector, reducing our investment in regional banks. This left us with ample room to add to our position if valuations get more attractive. We sold our position in specialized materials when they failed to reach our performance expectations. Our holdings in European banking and the

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LPG INVESTMENT MANAGEMENT

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broadcasting industry have not changed. We continue to evaluate a number of interesting opportunities, looking for particularly attractive valuation levels to build positions.

Investment Updates

Specialized Materials

Our investment in this industry is a good example of the importance of having detailed valuation models and rigid sell discipline. When first production commenced and revenues were not going to meet expectations, we exited this position. Subsequent to that the stock has continued to underperform as questions about the companyǿs liquidity profile get more serious.

Financials

While we have reduced our exposure as investments performed well, this is an industry that should benefit from the strong economy and rising interest rates. We have a number of companies, both domestic and international that we are watching for attractive entry points. Any weakness in global economic performance would lead us to refine our thesis in this sector.

Broadcasting

Our investment in this space continues to perform well as consolidation activity picks up. The FCC is expected to reduce ownership limits previous administrations have placed on the industry, making it possible for the largest companies to execute additional acquisitions. Financial performance continues to be strong, and momentum for political spending is already picking up. It appears as though there is going to be substantial commitment in next yearǿs election given Trumpǿs victory. As previously mentioned, economic performance will be a strong consideration when evaluating exposure to this investment.

2017 Outlook

While current valuation levels leave the market exposed to heightened volatility; there are many factors that point to strength in the economy and corporate financial performance. We will continue to look for interesting opportunities to add to positions in our portfolio over the course of the year.