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INVESTMENT
MANAGEMENT

Q2 2017 Update

Fund and Market Recap

Q2 2017 financial markets performance continued to see laggards from 2016 drive returns. Specifically, healthcare and technology has generated 4.5% of the 5% overall return of the Russell 2000 for the first half of the year.

Pockets of the markets have also begun to resemble the go go days of the ñdot comò era. We have seen recently that any announcement of Amazon entering a new business line take stock prices down double digits of existing companies in that industry even though no meaningful business will be conducted for several years.

Our performance specifically has lagged the broad markets in the first half of the year for a few reasons. We had a strong finish to 2016, and as previously stated, the bulk of the returns this year have come from companies that lagged in the second half of 2016. Also, as we refine our portfolio holdings and exposures, a certain amount of time needs to pass before the catalysts are reached and valuation discounts are captured. We expect to close this gap over the course of the year and into 2018 as we see a number of catalysts for our investments.

Economic Performance and Outlook

Global economic performance has been a mild positive surprise, driven by strength from both Asia and Europe. Growth in the U.S. has been broadly in line with earlier expectations, the second quarter is tracking to be just under 3%.

We have made it past the European elections without any

Q2 2017 Return Information

Q2 2017			Full Year 2017		
LPG Cap Part*	Russell 2000	Excess Return	LPG Cap Part*	Russell 2000	Excess Return
-1.76%	2.52%	-4.28%	-1.24%	4.98%	-6.22%

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

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major negative consequences, but we are still waiting to see how much of the Trump economic agenda will be implemented. In addition, North Korea continues to pose a large geopolitical risk that would certainly impact markets if not settled amicably.

12 Month Forward Market Expectations

As of the end of June, equity market valuations continue to be at elevated. While the market has begun to see pockets of ñdot comò similarities, we are not yet close to the euphoria that the market then experienced. Valuations would need to go another step higher before that could be said.

However, a fair bit of good news continues to be priced into the markets. This also makes it vulnerable to negative shocks, some of which were previously discussed. That being said, given the decent global economic growth and positive outlook for domestic economic policy, we continue to believe high single digit return numbers are the most likely result for the market.

Rising U.S. Interest Rates

At this point, rising interest rates are not the concern that they once were. This is highlighted by the fact that Trump is so happy with the job that the fed has done that he is contemplating nominating Yellen for another term as chairman. As long as the economy continues on itôs current path, I wouldnôt expect this to change. Ms. Yellen looks to have proven that the Fed will handle this issue appropriately as long as she is in charge.

Fund Positioning

Q2 2017 brought some opportunities for the fund to start new positions and to add to existing holdings. Specifically, we added two new companies in the broadcasting industry when there was volatility in that sector. We also started a new position in the auto industry as that sector has been trading particularly attractive based on a number of financial metrics. We are monitoring the energy space for opportunities given the weakness in commodity prices in that sector but have yet to make any investments. We still have a healthy cash position to take advantage of future pockets of volatility as they occur.

Investment Updates

Financials

At this juncture, we are happy with our exposure in this industry. We continue to own our European bank preferred investment and our U.S. regional bank equity position. Given the economic backdrop and the interest rate trajectory, earnings and cash flow growth should be strong. We would use any pockets of volatility to add to these positions.

Broadcasting

During the second quarter we saw a spike in volatility as there were new over the top television services launched and some of the weaker cable networks continue to struggle. Our thesis in the space continues to be proven as the dominant broadcast channels and their networks see slowly growing add revenues, most recently confirmed in the 2017 upfront markets. In addition, the consolidation theme continues to build as the FCC was successful in raising the

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limit on the number of households a company can cover and is in the process of easing other restrictions. Finally, we are excited about the prospects of the core advertising business as we get into the fall and political spending begins in the first part of 2018. As we have seen in the recent special elections, both political parties are very motivated to be in charge and are using television as a core platform to get their message to the voters.

Automotive

Valuations in the automotive industry have become particularly attractive for the incumbent producers. Tesla stock performance and valuations have been well documented, surpassing Ford, GM and others, all while losing money and selling only a small fraction of vehicles consumed around the globe. Valuations for the incumbent companies are extremely attractive when considering their balance sheet position and their financial services businesses. They are trading as if there is either going to be a very bad recession soon or that electric cars and ridesharing will decimate the traditional automotive business in the very near term. As of right now, they are experiencing very strong sales numbers and even better free cash flow metrics. Look for various shareholder friendly activates over the course of the year because they are as conservatively capitalized as they have been in a long time.

Energy

This segment has become interesting again as commodity prices have fallen as oversupply continues to be a problem. While security prices have not performed as poorly as in 2015, we are monitoring things hoping for a similar opportunity.

2017 Outlook

While overall market valuation levels are not particularly attractive, there are certain segments of the market that are. We continue to see opportunities that are very interesting and are expected to generate significant outperformance over the course of the year as various catalysts are achieved.