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LPG INVESTMENT MANAGEMENT

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Q4 2017 Update

Fund and Market Recap

Q4 2017 financial market performance continued their strong run in 2017 as optimism about the broad economy was strengthened with passage of the tax reform by the federal government. Clearly the market was skeptical of achieving this milestone, but quickly responded when it was clear that it would pass. Another driver of market performance was the continuation of the M&A theme that has been prominent in the last few years. This all lead to healthy market returns, with the Russell 2000 returning a bit under 4% and the S&P 500 returning a bit over 5%. Specific contributors to equity market returns continue to be Technology and Healthcare, generating over 50% of the return of most equity indexes during the year. While hedge funds also had a decent fourth Quarter, returning 2.68%, they did not keep up with the indexes.

While we don't own technology or healthcare companies, our fund benefitted from the primary themes that drove the market during the quarter, returning a bit over 8% for the quarter and just under 14% for the year. Tax reform benefitted most of our investments and the Disney/Fox merger was very positive for our exposure to the broadcasting space. We used a sloppy secondary equity offering by one of our broadcasting positions to adjust our portfolio, selling our European Bank preferred stock position and increasing our exposure to that company.

While our market metrics continue to say that there is a higher than normal risk of a correction, the ongoing stimulus that tax reform will provide in 2018 has made us comfortable with market valuations and our increased exposure to the market for the near term.

Return Information

Q4 2017			Full Year 2017		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
8.13%	2.91%	3.70%	13.43%	8.83%	14.62%

(1) Certain expenses are estimated for quarterly returns; annual returns are actual
(2) Hedge Fund Composite Index is the aggregate Hedge Fund Index Return as reported by Evestment statistical services in WSJ/Barron's

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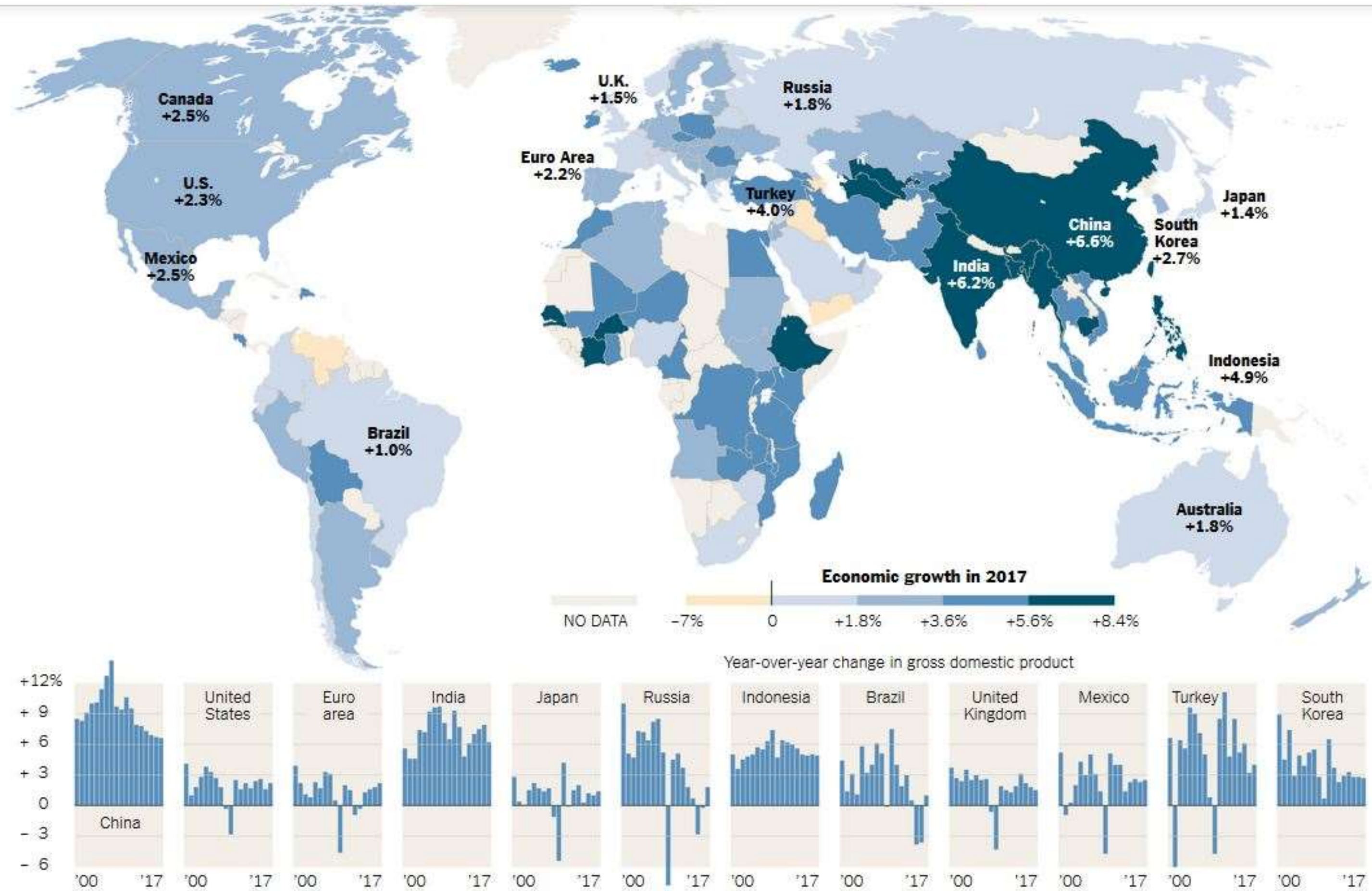
Economic Performance and Outlook

Passage of the tax reform legislation by the federal government has given a nice bump to economic expectations. While opinions vary on the actual impact, it is clearly a positive.

However, this is only part of the story. A visual that was in last weekend's New York Times paints a pretty clear picture as to why the current environment is being referred to as the "Sweet Spot" economy. For the first time since the financial crisis, every major economy around the globe has experienced positive economic growth. Furthermore, many highly respected market pundits and economists have recently said they see no indication that this is going to change in the upcoming year. They point to reasonable growth with low inflation allowing central bankers to slowly raise interest rates, leading to little disruption to the overall financial market environment.



Source: The Conference Board; Bureau of Labor Statistics | By Karl Russell

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12 Month Forward Market Expectations

Markets in 2017 surprised a bit to the upside, primarily driven by legislative successes out of Washington. Tax cuts and deregulation appear to have led to a more optimistic mood among business leaders. All this has filtered through to increased economic activity and corporate profitability. While valuations continue to be elevated, corporate tax cuts should help this a bit. In addition, economic and earnings growth will also provide some valuation relief. This all should lead to healthy markets over the course of the year, but I would not expect returns to match last year. Market consensus points to high single or low double digit returns for the indexes, which seems appropriate. We will be watching for threats to the sweet spot economy that would jeopardize expected market returns. Any pullback in markets without changes to the economic environment would represent buying opportunities.

Rising U.S. Interest Rates

No real change here as we look into 2018. New leadership of the Federal Reserve is expected to continue Jannette Yellen's very successful slow normalization policy. There is not one person that would argue that she did not do an outstanding job leading the Fed through a very challenging time period. More of the same, slow and steady rate increases should be expected while the economy behaves in the current manor.

Potential surprises could come from the international community, as Europe has yet to begin normalizing interest rates and China continues to have concerns over a very frothy real estate market. We will be watching all of these factors for potential changes in global interest rate trajectories and the resulting financial market impacts.

Fund Positioning

As investments performed during late 2017 and early 2018 we have made dramatic changes to fund positioning. We increased our exposure to the Broadcasting space as our fieldwork indicated continued strong performance in the local ad markets. We took advantage of a very sloppy secondary equity offering by one of our investments to increase our exposure. We also took meaningful positions in the energy space as we found companies that were attractively valued and can generate substantial cash flow in the current commodity pricing environment.

Cash for these investments came from a number of sources. We put to work some of our extra cash the fund was waiting to use. In addition, we sold our European Bank preferred position as it had performed very well and had limited upside. Finally, we exited our automotive position because it had performed well and there are some long-term concerns about business performance.

Investment Updates

Financials

As mentioned, we sold our European Bank preferred stock position. We continue to own our U.S. regional bank as we expect the financial sector to perform well as the normalization of interest rates continues.

Broadcasting

Our broadcasting exposure increased during the fourth quarter for a number of reasons. Most important, our fieldwork indicated a very healthy backdrop at the local level, the most important segment of the broadcast T.V. advertising market. This was confirmed during the course of the quarter by various conversations and presentations by company management. We also expect a strong operating environment during 2018, with the election cycle and winter Olympics

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serving as strong demand for advertising.

Furthermore, the consolidation theme that we have been talking about has come to the forefront. With the Fox sale of the bulk of their assets to Disney, the primary focus of their remaining business is on the broadcast television industry. This has resulted in a very well capitalized company that is committed to the industry.

We are expecting the close of the Sinclair purchase of the Tribune company any day. As part of this process, they will be selling certain stations to gain regulatory approval. There are rumors that the new Fox entity is buying a number of properties, which is good news on a number of fronts. As a sophisticated investor in this space, it is a strong indicator of the value of these businesses. In addition, as a very well capitalized buyer of assets, it supports the scarcity value of these properties. We are also looking for our specific investments to participate in the industry consolidation as buyers, either resulting from the Sinclair/Tribune transaction or other transactions.

Automotive

As previously mentioned, our investment in this industry had performed well and we decided to exit during the quarter. We became concerned with the rise in commodity prices and the possibility it would put downward pressure on Truck/SUV demand. In addition, spending on electric vehicles continues to accelerate and leads us to think that this is going to be a more challenging endeavor that we need to understand better before we commit to a long term investment in the industry.

Energy

A number of factors have come together that led us ramp our exposure to this space. Commodity prices look to have gone through the worst of their correction. Also, there is ample evidence on how companies will perform during the new pricing environment, leading to greater confidence in projections of corporate performance.

Specifically, we have found the pipeline space to be particularly attractive. The long-term contract nature of that business makes their cash flows stable during volatile commodity price environments. We have seen that even during elevated bankruptcies customers do not dramatically change the economic terms of their pipeline contracts as getting their product to market is obviously very important. In addition, most companies in the space have gotten their spending under control and are now spending within their internally generated cash flows. We have focused our investments up to this point in companies that have diversified businesses with strong counterparties as customers. We focus on companies that have their capital spending/equity friendly spending under control, meaning it can be supported out of organically generated cash flows.

Outlook

With the passing of the tax legislation, valuations have more support than at the end of Q3. Combined with a strong global economy, financial markets should continue to perform well. We continue to see opportunities that are very interesting and should generate solid outperformance over the course of the next six to twelve months as various catalysts are achieved.