225 South Cabrillo Hwy
Suite 200D
Half Moon Bay, CA 94019

LPG INVESTMENT MANAGEMENT

415.710.6310
info@lpgim.com
www.lpgim.com

Q1 2018 Update

Fund and Market Recap

While the first few weeks of January saw financial markets continue the theme from 2017, the first quarter quickly turned into some of the more challenging in the last several years. There were two dramatic selloffs, driven by both interest rate fears and spiking international tensions. This culminated in the closing of several funds that were very exposed to using leverage and volatility to generate returns.

This all led to a very bifurcated market. Overall index returns do not communicate the breadth and depth of the selloff that took place across the majority of market. Technology and Healthcare sectors were the only market segments that had positive returns during the first quarter.

Without these two segments, the market would have been down mid to high single digits. Furthermore, relatively few names were driving performance in each industry, with approximately 75% of the companies in each industry underperformance the average return for that industry. Finally, style played a major role in performance, with growth strategies outperforming value strategies by roughly 5%.

These challenges were particularly pertinent to our performance during the quarter. One of our main positions that performed quite well during 2017 gave back some of its gains from last year during the selloff.

We also were a bit early investing in the energy space, with this market segment performing the worst during the selloff (off over 12% year to date).

As previously discussed in several different updates, we look very close at the cash flow generating capacity of our investments. If we remain comfortable with that, we hold or increase our exposure as dictated by our valuation metrics.

We continue to be very positive on our investments in the broadcasting space based on the cash flow generating capacity of our companies, pending acquisition activity and very strong balance sheets.

We also have dramatically increased our exposure to the energy space through investments in the pipeline

Q1 2018 Return Information

Q1 2018			Full Year 2018		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
-18.03%	-0.41%	-0.80%	-18.03%	-0.41%	-0.80%

(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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sector. Long term, high margin contracts are the norm, which leads to very profitable, free cash flow generating business. Combine this with very attractive valuations makes us very positive on these investments.

In addition to using excess cash, we sold our regional bank investment to fund the purchases in the energy industry.

Economic Performance and Outlook

Economic activity in the United States continued its healthy pace in the first quarter of 2018, growing 2.3%. As long as this does not change, we expect the longer-term performance of the U.S. equity markets to continue the positive run. As previously mentioned, any perceived threats to future economic growth will lead to spikes in volatility and market selloffs. While we expect the tax reform to provide a boost to economic growth this year, threats to economic growth dominated market sentiment in the first quarter.

Specifically, concerns about rising interest rates (discussed later) caused the first market selloff and potential challenges to global trade led to the second. As has been well documented in the press, the Trump administration has taken a much more aggressive approach in dealing with our global trading partners. He is in the process of trying to renegotiate NAFTA, contemplating various structures for Asian focused trade and is trying to change the arrangement with China. Part of this strategy is to be much more aggressive with possible changes to their access to the United States market if various countries don't provide fair access to theirs. This could become a problem if there is not a negotiated solution. When headlines have pointed to a possible trade war through tariff implementations, markets sell off.

Another potential issue looking forward is increasing commodity prices. Probably most relevant to the U.S. economy are energy related costs, but base commodities have seen price increases as well. Oil prices have increased dramatically over the last year as oversupply issues have been sorted out. Concerns are starting to show that cost increases have the potential to consume a large portion of the economic benefits of the tax reform package.

As always, we will be watching these developments closely.

2018 Market Expectations

With the continued strength in corporate earnings, high single digit returns over the balance of 2018 are still the most likely outcome. Tax cuts and deregulation continue to be the dominant economic theme. However, interest rate trajectory, commodity price rises and election results all stand as unknowns to the market. Market valuations are as attractive as they have been in the last 2 years, with some particularly interesting investments currently showing themselves.

Rising U.S. Interest Rates

This issue has begun to increase in relevance, as the Fed has bumped up its growth and inflation expectations from previous guidance. This led to the spike in volatility and first selloff the market experienced in January/February. Recent comments indicate they are concerned about the protectionist trade rhetoric and the impact it might have on economic growth, so we still look for them to take a measured approach to increasing rates.

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Fund Positioning

During the multiple selloffs that the market experienced during the first quarter, we increased our exposure to the energy pipeline space as these investments became particularly attractive. To do so, we exited our regional bank position and used excess cash in the fund.

Investment Updates

Financials

With the sale of our regional bank position, we no longer have exposure to this industry. Valuations were much more attractive in other market segments.

Broadcasting

Our exposure to this industry remained relatively consistent during the quarter. We continue to expect companies in this industry to generate very strong cash flows during 2018 due to the healthy economy and the upcoming elections. These investments underperformed the market in the first quarter as the ad market got off to a slow start, but we expect this to improve going forward. Our investments continue to be in those companies that have the ability to grow their cash flows not only organically but through acquisition of additional markets. We expect this trend to continue during 2018.

Energy

During the first quarter, we continued to increase our exposure to this space. Our investments are focused in the pipeline segment of the industry. These companies are the preferred transportation method to deliver oil and gas to market. They have very stable business dynamics and generate leading financial and free cash flow metrics. Valuations have gotten particularly attractive on several fronts as these companies transition to self-funding capital spending programs. As always, we focus on those companies with strong FCF that are paying high dividends and other shareholder friendly activities.

Outlook

While volatility looks to be here to stay, this has again provided some very attractive investment opportunities. As long as the economy stays on its current trajectory, we expect these attractively valued companies and the related securities to perform well over time.