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

415.710.6310
info@lpgim.com
www.lpgim.com

LPG INVESTMENT MANAGEMENT

Q2 2018 Update

Fund and Market Recap

Second Quarter 2018 experienced a dramatic turnaround from the negative market returns of the first quarter of the year. Strong economic activity overcame the market fears relating to rising interest rates and the impact it would have on economic growth. Markets also have taken the view that international trade challenges will not be enough to dramatically slow down economic growth. Most prognosticators feel that trade battles will taper off as the mid-term elections get closer.

This was reflected in overall market performance, with the Russell 2000 returning a bit over 8% during the second quarter and the S&P 500 returning just under 3.5%.

Our fund also benefitted from the improving market sentiment in addition to security specific milestones. Specifically, the primary driver of our performance were investments in the broadcasting space as consolidation has finally accelerated and mid-term election spending has increased.

Economic Performance and Outlook

Economic activity in the United States is expected to accelerate during the middle of the year, with market forecasts pointing to over 4% growth in the second quarter. Uncertainty around this performance continues to be interest rate trajectory and the heightening trade tensions. It appears clear that the President feels he has some latitude to be aggressive on the trade front because of the strong economy. However, we do not know what impact this will have going forward. Markets seem to be thinking the bark will be worse than the bite. We will be looking for any deviation from this expected outcome.

Q2 2018 Return Information

Q2 2018			Full Year 2018		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
22.65%	0.37%	8.53%	-1.88%	0.16%	7.66%

(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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2018 Market Expectations

Corporate earnings have delivered in line with expectations, providing a strong foundation to the equity markets. Economic strength continues to support corporate profitability and interest rate actions by the Fed does not look to be hawkish enough to induce major market selloffs. One wildcard is the upcoming elections, but because it is not a presidential election year there appears to be limited impetus to major market swings. Worst case outcome would be gridlock in Washington because of split party governance. If the elections were to turn toward the Republicans' retaining both branches of congress, markets should rally. One thing continues to be almost a guarantee: if given valuation levels remain elevated by historical standards, volatility will also remain high.

Fund Positioning

As we repositioned the fund during the first quarter, our industry exposures remained relatively static during the second quarter. We did refine some of our company exposures within those industries to take advantage of particularly attractive valuation levels.

Investment Updates

Broadcasting

As volatility continued early in the quarter, we increased our main position and added another name that had gotten particularly attractive from a valuation perspective. These moves benefitted the fund towards the end of the quarter as the consolidation theme came to fruition. Our main position announced the acquisition of a slightly larger peer structured in such a way that was particularly accretive to equity investors. The company our investment acquired is very similar and the combined businesses are positioned very well to be successful realizing synergies and growing their business. They will benefit in an outsized way during election years because of their market leading television stations. We expect our investment in the combined entity to perform very well over the next 12 months.

Energy

We continue to have several different investments in the oil and gas pipeline industry. Financial performance of these companies has continued to improve with increased drilling activity, strong commodity demand and the development of export markets. Government regulation also delivered a positive surprise as regulated price changes were not the negative event that markets were anticipating earlier in the year. As supply constraints build, we look for the entire energy space, and our investments in particular, to continue to exhibit strong financial performance and generate outsized equity returns.

Outlook

Starting to sound like a broken record, we continue to think volatility is going to be at elevated levels because of valuations. We continue to view these time periods as opportunities to add to positions or improve fund positioning in industries and companies that have been identified as particularly attractive investments.