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LPG INVESTMENT MANAGEMENT

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Q3 2018 Update

Fund and Market Recap

While now just a distant memory, third quarter performance continued the strong momentum that the markets had experienced in the second quarter. At the time, markets were focused on strong economic growth numbers and moderate interest rate hikes. They were ignoring a number of troubling trends that have now come home to roost. Specifically, international trade battles, emerging market issues and aggressive interest rate hikes had all begun to build during the quarter. Combined with market valuation levels, any spike in concerns about these issues would cause problems. Unfortunately, as of this writing, it seems like all of the above factors have seen an increase in relevance and downward pressure on economic outlook and corporate financial performance.

Fortunately, our thesis in the broadcasting space came to fruition and benefitted dramatically from the strong overall market. Our large exposure to the broadcasting space continued to benefit the fund as the market digested the consolidation announcements and the strong political advertising environment. As these investments reached their valuation targets, we exited most of our positions.

Because of our concerns about market valuations and the risks previously identified, we have not yet reinvested the cash raised with the sale of these investments. This was fortuitous, as we have dramatically outperformed the market during the recent sell off. There are a number of potential investments that we are watching, waiting for valuations to get particularly attractive.

Economic Performance and Outlook

While economic performance has been strong during the middle of 2018, there is a growing consensus that this will be the near-term peak. Because this was driven by one-time events (tax cuts and increased government spending), such strong numbers are not expected to repeat. Add to that trade tensions, emerging market challenges and increased interest rates leaves very few economists that believe next year will be close to the growth numbers posted recently. Consensus looks to be much closer to the 2% U.S. GDP growth numbers we had previously seen.

Q3 2018 Return Information

Q3 2018			Full Year 2018		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
4.24%	0.37%	3.85%	2.36%	0.53%	11.51%

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

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2018 Market Expectations

Corporate earnings have begun to show the impact of tariffs and interest rate increases, with those companies that are pressured being severely punished in the markets. While we have not seen market strategists adjust their return expectations for the year, given all the recent changes in corporate and economic performance, this should not be far off. Once the market adjusts to these new dynamics, mid to high single digit returns should be expected.

Fund Positioning

Around the end of the 3rd quarter, we took the opportunity to sell our primary position in the broadcasting space. It had performed well over the last 24 months and there are certain issues developing in that industry. Given that over ¾ of the S&P 500 are off over 10% and over 40% are down more than 20%, we are finding plenty of interesting things to work on. One area we continue to like and have selectively added to is the energy infrastructure industry. Another theme that looks interesting is the selloff in companies thought to be exposed to the current trade tensions. However, given the macro market concerns we have, we continue hold an outsized cash position and expect to be diligent in valuation and return targets before that money is put to work.

Investment Updates

Broadcasting

Our overall thesis in this industry has come to fruition. While it was a bumpy ride, security prices have performed nicely as consolidation within the industry accelerated and financial performance benefited from a particularly strong election add cycle. However, the industry saw an increase in advertising erosion as these dollars move to other platforms. Combining this with the cyclical nature of the business led us to sell our primary position. We continue to hold a smaller second position as they stand to benefit in an outsized way to the positives previously discussed.

Energy

Our exposure to this industry increased slightly since the second quarter, adding slightly to existing names owned in the pipeline industry. We continue to be very optimistic about the operating results and Free Cash Flow generating capacity of our investments. Commodity prices remain at levels that support increased oil and gas production, which increases demand for the services our investments provide.

Outlook

As volatility spikes again, we see interesting opportunities beginning to present themselves. As previously mentioned, we will be very attentive to our valuation metrics before we make our investments. In spite of the stage of the economic cycle and the risks to the overall economy and company financial performance, we continue to view attractive valuations as a buying opportunity and will look to build positions in good companies when given the opportunity.