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

415.710.6310
info@lpgim.com
www.lpgim.com

LPG INVESTMENT MANAGEMENT

Q4 2018 Update

Fund and Market Recap

Now that was an interesting fourth quarter. After the protracted selloff that resulted from a few real and plenty of imaginary events, markets have stabilized. Primary drivers to the selloff that finally found a bottom in December can be boiled down to market expectations of an economic recession and what this would do to corporate profitability. Events unfolded that helped the market get comfortable indicating near term this is unlikely to happen. First, the Federal Reserve has backed off their aggressive interest rate hike policy. Second, trade negotiations with China look to be going in the right direction, and finally the U.S. economy continues to be very strong.

Commitment to only buying at attractive valuations served us well during 2018. While we underperformed during the first part of the year, our approach dramatically outperformed during the market selloff. We maintained our cash position because market multiples were high and we didn't find any particularly attractive investments while the market was at those trading levels. However, we increased our exposure when investments we have been working on reached particularly attractive levels. We continue to see very attractive opportunities and have been adding exposure to opportunities that meet our investment criteria.

Q4 2018 Return Information

Q4 2018			Full Year 2018		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
-9.94%	-7.46%	-22.53%	-7.58%	-6.93%	-11.02%

(1) Certain expenses are estimated for quarterly returns; annual returns are actual
(2) Hedge Fund Composite Index the hedge fund index ticker HFREIHI as reported by Bloomberg

Economic Performance and Outlook

A slowdown in economic growth from 2018 levels is well understood at this point. Fears of a particularly hawkish Fed and trade issues with China pushing the U.S. economy into recession look to have been overdone. Economists are looking for roughly 2% GDP growth for 2019, which looks to be achievable. Any major deviations from that probably will cause problems for the market. We will be watching this closely over the course of the year.

2019 Market Expectations

Corporate earnings growth is expected to slow dramatically this year. Again, the markets have clearly digested this fact over the last few months. However, the fact that they will still be growing provided a floor to the market selloff. Combine this with still record free cash flow numbers and there is plenty to be positive about with respect to corporate financial performance this year.

Just as important, market valuations are now very attractive. Even though markets have rebounded to start 2019, various market valuation multiples are trading right around

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

415.710.6310
info@lpgim.com
www.lpgim.com

INVESTMENT MANAGEMENT

Q4 2018 Update

their average level looking back to 1979. More importantly, there are a number of very attractively valued individual investments to consider.

This being the case, high teens return expectations looks to be very achievable for the year.

Fund Positioning

As we went through the fourth quarter, we began to invest the excess cash the fund held at the end of the 3rd quarter. While we were a bit early, we have now more than recovered the initial losses incurred as the market traded off. Specifically, we increased our exposure to the energy pipeline industry and added exposure to very attractive investments in the telecommunications industry. While we expect to continue to carry a larger than usual cash position, we have been adding to investments thus far in 2019.

Investment Updates

Energy

Oil and Gas pipeline companies continue to be our largest exposure. Very strong operating and financial performance is expected as the United States continues to grow production in various regions of the country. Our investments have limited short term exposure to short term commodity price movements, with something close to 90% of their revenue committed with long term contracts at fixed rates. Primary drivers of their business are the growth in oil, natural gas and related liquids produced.

Telecommunications Providers

This industry is going through dramatic changes as more content is delivered through streaming services and wireless providers are becoming a very important delivery platform for most types of content. These uncertainties led to very attractive trading levels during the market selloff. We found a particularly compelling investment in a legacy satellite video business and that also has a very early stage wireless business. Of particular interest, the company owns a very large wireless spectrum position that they can either use or sell, depending on economics. Our valuation metrics point to 2x-3x stock price performance over the intermediate term depending on the path chosen to monetize this asset.

Broadcasting

As our investments achieved their valuation targets in the fourth quarter, we excited all of these positions.

Outlook

Markets look to have moved through the dramatic selloff that took place during the 4th quarter of 2018. However, in spite of the recent recovery, valuations continue to look attractive, both at the macro market level and the micro company level. This leads us to believe that given the economic performance expectations, we will continue to see strong return numbers for 2019. As always, we will be monitoring the main risk factors outlined in the letter for changes in those expectations.