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Q1 2019 Update

Fund and Market Recap

With the concerns of an economic recession, hawkish fed and international trade war fading, markets turned in very strong Q1 2019 returns. Best returning sectors were the those that had the most trouble at the end of 2018, with technology, energy and low quality (various definitions) companies positions dramatically outperforming the overall market.

Q1 2019 Return Information

Q1 2019			Full Year 2019		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
10.53%	5.25%	14.60%	10.53%	5.25%	14.60%

(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

some of the market leaders. Bloomberg's equity hedge fund index returned a bit over 5%, the S&P 500 gained 13.6% and the Russell 2000 rose by 14.6%.

Even though we began the year very conservatively positioned, our fund was able to significantly outperform our peer group and enjoy a very good quarter. During the first few weeks of the quarter, we dramatically increased our exposure to both the telecommunications and energy industry. Performance in the fund was driven by most of our

Economic Performance and Outlook

While specific U.S. GDP performance hasn't been announced, expectations for roughly 2% continue to seem realistic. As previously discussed, this slowdown has the markets much more susceptible to events that lead to economic contraction and market selloffs. However, near term there does not look to be much that will cause a recession. Settlement of ongoing international trade issues could provide an increase in GDP expectations. Furthermore, with the upcoming election cycle, President Trump and other policy makers will be doing everything they can to ensure a strong economy.

2019 Market Expectations

It would be a bit unrealistic to expect the markets to keep the pace that they delivered during the first quarter of the year. However, we should see gains from these levels as long as U.S. GDP growth tracks around the 2% figure.

One challenge for the markets is the slowdown in corporate profit growth that we are seeing. This is expected to pass after the first half of the year and should improve as long as GDP growth expectations are achieved. Any progress with the ongoing international trade battle would also improve views on corporate profit growth.

Finally, while valuations are not as attractive as they were at the beginning of the year, they are about 10% above their 40-year average for various broad market indices.

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All these factors boil down to the expectation that the market should return high single digits on an annualized basis from current levels.

Fund Positioning

During the quarter, we added to our positions in both the energy pipeline and telecommunications industries. Unfortunately, the market correction did not last particularly long, or we would have added even more. At this point, we expect to continue to be conservatively positioned, looking to add on market weakness as long as economic activity does not look to be contracting.

Investment Updates

Energy

Oil and Gas pipeline companies performed very well during the first quarter, bouncing back from a rough end to 2018. This sector continues to be our largest exposure as it continues to be very attractively valued. U.S. energy production continues to set records, pointing to strong demand for pipeline transportation services. We have had no changes to our investment thesis that has been outlined in previous updates.

Telecommunications Providers

Even though our investment performed quite well during the quarter, we continue to see dramatic upside over the next 12 to 18 months. Our only additional thoughts on this investment relate to the pending Sprint/T-Mobile merger. Challenges to this would be good news for our investment as both companies would need to purchase wireless spectrum in order to deploy next generation (5G) services. Another factor to be watched are the various wireless auctions held by the FCC and the impact these would have on asset values.

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 we will continue to see strong return numbers for 2019.