



## Q2 2019 Update

### Fund and Market Recap

Markets continued their recovery from the lows touched early in the first quarter. Dovish comments from the Federal Reserve offset continued negative headlines related to international trade and a slowing U.S. economy. Specifically, equity indexes added to their gains of the

### Economic Performance and Outlook

Economic growth expectations for 2019 have fallen slightly during the first half of the year. Market forecasts now look for U.S. GDP growth to be under 2% for 2019. Slowing economic performance has been driven by international trade

not look to be improving any time soon.

### 2019 Market Expectations

While U.S. companies continue to generate record amounts of cash flow, earnings growth has stagnated. Expectations were for this to improve in the second half of the year, but recent earnings revisions

### Q2 2019 Return Information

Q2 2019			Full Year 2019		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
0.72%	4.22%	2.30%	11.25%	9.47%	16.90%

(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

first quarter, but at a much slower pace. Specifically, the Russell 2000 was up 2.3% and the Bloomberg composite hedge fund index added 4.2% (recovering from its slow start to the year). Our fund increased a slightly under 1% as our positions caught their breath a bit after doing well in the first quarter.

issues and the increase in interest rates that took place during 2018. Relief on one of those factors looks to be coming, with the Federal Reserve expected to lower interest rates in the next few months. Unfortunately, international trade disputes, with China in particular, do

no longer support that view. For equity market returns to increase dramatically from the current high single digit annualized projection, we will need to see earnings growth accelerate. Until that time, current expectations look realistic because of the strong cash flow profile of corporate America and the record



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amount of share repurchases this supports.

### Market Valuation

With respect to market valuations, our thoughts have not changed dramatically from our last update. Specifically, they are about 10% above their 40-year average for various broad market indexes. We would need to see another jump higher before the markets would look extremely overvalued. These levels do leave the market susceptible to spikes in volatility and corrections. However, as long as there is no recession, any market correction should be short lived, similar to the one recently experienced.

### Fund Positioning

Our only major change to fund positioning was adding an oil exploration and production company to the portfolio. We have a number of possible investments that we are watching from a valuation perspective, waiting for the right entry point.

### Investment Updates

#### Pipelines

Consistent with previous updates, we continue to be very positive on the Oil and Gas pipeline sector. Our thesis of record production driving demand for pipeline services has not changed. U.S. energy production continues to set records and is in need of cheap transportation to processing facilities and export markets.

#### Exploration and Production

During the quarter, a major exploration and production company domiciled in the United States announced a very large acquisition. Strategically, it was a very good acquisition with each company with very large geographic footprints adjoining each other. Because of the attractive nature of the assets, several companies were interested, and the winning company paid full price to purchase the company. This resulted in their equity trading off significantly, at which point we purchased. We expect the company to continue to generate industry leading free cash flow, revenue growth and maintain stockholder friendly initiatives.

### Telecommunications Providers

This investment has become particularly interesting as the quarter came to a close. As expected, the Sprint/T-Mobile merger has created some interesting opportunities for the company. Plenty of rumors about divestitures and companies getting bought have highlighted the value of their spectrum position. We will be watching this in the near term as a catalyst for the valuation discount and continue to see dramatic upside to current equity prices.

### Outlook

Markets look to have found their level given the current global economic environment. Expectations for interest rate cuts have provided ballast for the financial markets while the global economy copes with issues causing economic challenges. As long as the U.S. economy stays in positive growth, we expect the equity markets to return high single digits going forward.