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

415.710.6310
info@lpgim.com
www.lpgim.com

LPG INVESTMENT MANAGEMENT

Q2 2020 Update

Fund and Market Recap

As bad as the first quarter was, the second quarter quickly reversed the majority of those losses. Q2 2020 turned in one of the best quarters for the equity markets in over 20 years. While the country continues to work through the pandemic, the markets are optimistic that vaccine and therapeutics will dramatically improve that situation over the next 6 to 12 months. Combining that with unprecedented fiscal and monetary stimulus led to the rapid and dramatic recovery in the financial markets.

Broadly speaking, our exposure to the consumer discretionary and energy segments of the economy drove our dramatic outperformance during the quarter.

Top contributors during the quarter were investments in distressed energy bonds that we bought during the dark days of oil price declines. Another major driver of our performance was an investment in the outdoor leisure industry.

Q2 2020 Return Information

Q2 2020			Full Year 2020		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
47.37%	8.08%	17.64%	29.34%	-5.24%	-12.98%

(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

At this point, the quick recovery scenario looks unlikely. However, unlike at the end of Q1, we have quite a bit more clarity what the economic impacts look to be and how they are going to play out over the next year. As I'm sure it's clear to everyone by now, segments of the economy that need large groups of people to succeed economically are going to struggle until the pandemic is under control. However, portions of the economy that help people deal with the ramifications of the pandemic have seen very strong performance. Then there are portions of the economy that are in the middle, seeing some economic rebound but not a full recovery.

What this means for specific economic growth numbers is very difficult to ascertain and most strategists on Wall Street are struggling to do so.

2020 Market Expectations

Equity market performance for the balance of the year should continue to be positive. Drivers of this are the same factors that led to such a

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

415.710.6310
info@lpgim.com
www.lpgim.com

Q2 2020 Update

dramatic recovery in the second quarter, Specifically, continued fiscal and monetary stimulus combined with progress on treatments for the pandemic. One wildcard to things is the election this fall. As hard as it is to imagine, expectations for double digit returns for the year do not seem unreasonable right now.

Fund Positioning

We outlined the general principles that we would follow for our investments in the Q1 update. We will continue to follow those as we navigate the 2nd half of the year, with a particular focus on valuation given the strong market rally. We continue to find very attractive opportunities in the consumer cyclicals and distressed energy debt spaces. We are focusing our efforts on parts of the economy that have seen a partial recovery. It is our view that those economic segments that require a more complete solution to the pandemic are not cheap enough to justify an investment.

Investment Updates

Distressed Energy

We have two investments in this space right now. Our primary thesis here is that companies must be able to generate excess cash flow at $40 oil and also look attractive from a valuation perspective.

Our first investment is one of the major operators in the Permian basin. They are among the lowest cost operators and generate plenty of cash flow at $40 oil. They did a very large acquisition late last year, issuing debt to finance the transaction. During the oil crash, their debt got downgraded from investment grade. This led to very attractive trading levels in their bonds, which have since recovered. We expect them to continue to perform well as the demand for oil returns with economic growth.

Our second investment is in the bonds of a company that is going through the bankruptcy process. They had a bond maturity during the week that oil traded negative, otherwise they would not have gotten in trouble. Over the next few months, we expect to receive equity for the bonds we purchased at very large discounts. As one of the top 5 producers in the Bakken Shale formation in Montana/North Dakota, there are several scenarios that we expect to lead to very attractive returns over the next 12 months.

Outdoor Leisure

This investment should sound familiar. We revisited our previous investment in the power boat industry at the market lows, re-investing 50% below where we sold in March. During a typical recession, these companies see a dramatic decrease in demand. However, given the lack of leisure activities during the pandemic, demand has been very strong for these companies. Boats are selling as fast as they can be manufactured.

Media

Companies in this space have been challenged as advertisers have pulled back on spending. However, they have benefitted from a shift to streaming services and have begun to see advertising return from the stronger segments of the economy and political spending. Valuations continue to look attractive.

Outlook

While there are a variety of significant risks to the economy and the financial markets, we feel that the fiscal and monetary stimulus will carry both through the pandemic. We see very attractive opportunities and are very excited about the prospects for the fund over the next 12 months.