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LPG INVESTMENT MANAGEMENT

Q4 2019 Update

Fund and Market Recap

Q4 2019 came together quite nicely for the markets. Most of the concerns that were bouncing around during the year went by the wayside. Primary factors that had the markets worried about a recession shifted to the positive. Interest rates settled in at much lower levels than they were at the start of the year, trade issues took a turn for the better (both is Asia and North America). This led the market to shift its recession expectations for the next twelve months to almost zero.

As a result, we saw very good returns for the equity markets and our fund. As the macroeconomic indicators took a shift to the positive, we dramatically increased our exposure to the outdoor leisure and broadcast television market segments. Both industry groups had been pricing in a pretty dramatic economic slowdown. When this was no longer the case, equities in these spaces performed very well.

Q4 2019 Return Information

Q4 2019			Full Year 2019		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
14.24%	5.74%	9.52%	21.70%	13.74%	23.70%

(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

Economic performance for 2019 looks to have come in pretty much as expected, low 2% growth rate. Expectations for 2020 have come up from earlier this fall, when there were concerns about a recession. At this point, most forecasters are calling for economic growth in the United States to come in just under 2%. They are also looking for Global Economic growth to be in the mid 3% area. With the upcoming U.S. election, there are plenty of people with a vested interest to see a good economy. These projections look to be very achievable.

2020 Market Expectations

Consensus return expectations for 2020 are high single digit positive returns. Equity markets ended 2019 at high valuation levels. This is countered by historically low interest rates and the expectation that corporate earnings growth will accelerate over the course of the year. Putting this all together makes a high single digit return year look reasonable.

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Fund Positioning

At the end of the 4th quarter, our fund was fully invested. Current market dynamics look strong for the first part of 2019 and we see some very interesting opportunities in the media/telecom and outdoor leisure market segments.

Investment Updates

Pipelines

Industry fundamentals continue to be good in this space. Demand for oil and gas transport capacity continues to exceed supply, and stable commodity prices supports continued drilling on the production side. After selling most of our positions in this space during the third quarter, we only have investments in companies that rank the highest on all of our evaluation metrics. Specifically, very strong governance rankings and commitment to best in class capital allocation.

Telecommunications Providers

No dramatic change with respect to this position. Valuations remain very attractive and operations at the legacy satellite television business look to have stabilized. Sprint/T-Mobile merger trial has been completed and is now being considered by the judge. We should see a ruling on this sometime in the next month. We continue to believe our investment will find a way to realize the dramatic value the company has in wireless spectrum.

Broadcasting

As I'm sure you have seen, advertising activity has already begun to pick up for the upcoming elections. Other revenue sources have been stable for these companies despite cable/satellite subscriber losses to streaming platforms. 2020 continues to look like it will be a very good year for these companies, and we continue to hold a sizeable position in spite of the very good returns generated by our investments here in the fourth quarter of 2019.

Outdoor Leisure

During the 4th quarter, equities in the boating space roughly kept pace with the market. We continue to believe they represent a very attractive opportunity given the strong economic environment. Our thesis remains as discussed in this section during the last update. As we get more information on the financial performance of these companies during the 1st quarter of 2020, equity prices are expected to perform well.

Outlook

As discussed in this piece, there are many positive factors working for the markets right now. Despite elevated valuations, we expect these positives to move the market higher over the course of the year.