



Fund and Market Recap

A difficult start to the year no doubt. Combine historically high inflation with the Russian invasion of Ukraine and magnified volatility and losses are back. We were just beginning to think that things would calm down from the pandemic whiplash, but not to be.

Economic Performance and Outlook

From an economic perspective, Covid has taken a back seat to inflation and war in Europe. We continue to see record high inflation rates looking back over the last 50 plus years. The question isn't will interest rates go up, but how high and how fast. Even more important, will the Fed do too much

Market Expectations

As previously discussed, it looks to be a more challenging year than originally thought. However, we continue to see opportunities to earn returns that should dramatically beat the market. Situations that thrive in a rising inflation environment and attractively valued will be the primary focus.

Q1 2022 Return Information

Q1 2022			Full Year 2022		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
11.34%	-4.12%	-7.80%	11.34%	-4.12%	-7.80%

(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

With dramatically rising interest rates doing unprecedented damage to both fixed income and most equities, there have been very few places to hide. Fortunately for us, we were significantly exposed to one of those. Our investment in the energy sector worked out very well. Our view that cash would be a safer place to be than any fixed income product also proved to be beneficial.

and cause a recession. With respect to the war in Ukraine, it is clear this is an additional negative on the inflation front. As the war progresses, the impact on inflation looks to only get magnified. Ramifications for globalization and government spending are only beginning to be contemplated. Fortunately, right now the U.S. economy is strong, consumer balance sheets are in good shape and people are looking to get back to a more normal life.



Fund Positioning

As anticipated, we found some interesting opportunities to invest in during the quarter. We built a nice starter position in the Cable industry as trading levels got particularly interesting. Away from that, we continue to have a large exposure to the energy industry and carry a large cash position. We expect to be patient as we look for attractive entry points into solid companies generating healthy free cash flow.

Investment Updates

Energy

We continue to be heavily invested in the Oil and Gas industry. Valuations continue to be very attractive. Companies look to be valued at oil prices in the low 60's. Our investment is in the middle of merging with a company of similar size. The resulting business will generate almost 25% of its market cap in free cash flow this year. We expect to see aggressive shareholder friendly activities once the merger is completed.

Aerospace/Defense Manufacturers

Additional work on the opportunity in this space has only improved our view of the company. Valuations have gotten close a few different times, but not quite attractive enough to motivate an investment. Stay tuned.

Telecom/Media/Communications

As previously mentioned, a decent size starter position was purchased in a regional cable company during the quarter. It is a particularly attractive industry due to the barriers to entry and non-cyclical nature of the business. Operations at the company have been solid. Equity prices fell dramatically when the company eliminated its dividend and

stock buyback in order to accelerate investment in its infrastructure. Despite the increase in capital spending, the company will generate healthy FCF and slowly reduce debt. Peer valuations imply between 2x and 3x upside over the next 18 to 24 months as the rebuild progresses.

Airlines

Looks like we missed on this one. Concerns over fuel prices led us to hold off investing. Demand is going to be so strong that companies will be able to raise prices to more than offset any cost increases. This continues to be an area of interest and valuations will be monitored for entry points.

Outlook

Market volatility looks set to continue for the balance of 2022. In spite of this, we see attractive opportunities that should lead to healthy returns that we expect to outperform the overall market.