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LPG INVESTMENT MANAGEMENT

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Q3 2021 Update

Fund and Market Recap

Equity market returns during the third quarter of 2021 slowed dramatically from the first half of the year. Large cap companies outperformed small caps, with the S&P returning 1.4% compared to negative 4.59% for the Russell 2000. We saw significant volatility during the quarter because of delta variant uncertainty. Fortunately, vaccines did a very good job at protecting people from severe illness and we did not see the draconian lockdown policies that were implemented during previous spikes.

Our fund outperformed both indexes for the quarter, returning 6.01%. There was some early volatility to the quarter, which we used to increase our investment in the restructured energy company.

Economic Performance and Outlook

COVID continued to be the main theme during the quarter. The spike from the Delta variant led to maximum uncertainty about economic performance during the quarter. Unlike previous spikes, there were no lockdown policies implemented by governments. Masking mandates were the most severe restrictions that were implemented. This uncertainty led to mild economic slowdown in some areas of the economy. Otherwise, no meaningful impact was felt.

Looking forward, we see a decreasing covid impact on the economy. Borders are opening to vaccinated people, international travel has been picking up and large social gatherings look to be more and more common. Consensus is that we are working through the last major spike in COVID cases in the United States.

Unfortunately, this means that we should expect the Federal Reserve to begin removing the unprecedented support it has been giving the economy and markets. Economic consensus is that we should see interest rates start higher by middle of next year.

Q3 2021 Return Information

Q32021			Full Year 2021		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
6.01%	-0.90%	-4.60%	106.18%	10.95%	16.32%

(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

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Market Expectations

Going forward, given the strong economic performance that is expected to take place, more traditional high single/low double digit returns should be achievable. High valuation measures and rising interest rates mean we should also expect more volatility in achieving these return numbers.

Fund Positioning

Again, our fund positioning has not changed dramatically since the end of the 2nd quarter. We added to our restructured energy investment with the oil volatility experienced during the quarter. Moving forward, we continue to look at areas that have yet to experience a post COVID recovery for outsized return opportunities. Given overall market valuation levels, particular focus will be paid to the trajectory of free cash flow, valuation and health of balance sheet.

Investment Updates

Energy

While we continue to see valuations as attractive in this space, the recovery in oil markets compared to the beginning of the year indicate it is time to be prudent with fund exposure. Our concentration in this space has provided very good returns, but current oil prices point to dramatic downside if they should reverse. Our first step will be to reduce equity exposure. We have a very attractive warrant position that allows the ability to participate in the upside expected from current oil prices while avoiding major downside if prices correct. Expectations for eye popping Cash Flow generation from companies in this space make us want to maintain an outsized position.

Media

Our exposure to the satellite/wireless telecom industry has shrunk as our other investments have increased in value. Deployment of the next generation network continues to progress. Expectations for dramatic upside from current trading levels have not changed. We are looking for attractive market trading levels to increase exposure.

Airlines

As previously mentioned, we are looking at various industries that have yet to experience a recovery from COVID lockdowns. International travel looks to be particularly interesting. As we work through the opportunities, close attention will be paid to debt levels incurred during the pandemic.

Outlook

As the economy continues to normalize after the delta variant spike, we look for the markets to continue to perform well. Attention will be paid to interest rate trajectory, but this does not look to be going at a pace that would prevent good equity market returns going forward.