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LPG INVESTMENT MANAGEMENT

Q4 2021 Update

Fund and Market Recap

Equity markets rallied into year-end after it became clear that the latest Covid variant was not going to cause major economic problems. Large cap companies continued to outperform small caps. Cyclical companies outperformed the market in the 4th quarter, wrapping up very strong results for the year. Volatility continued, with markets strong to start the quarter, selling off when Covid variants were a concern and finally recovering when it was clear covid would not cause major problems.

Our energy exposure continued to drive performance in the fund, leading to another quarter of market beating returns. Our focus on conservatively capitalized companies generating market leading free cash flow continues to benefit the fund.

Q4 2021 Return Information

Q4 2021			Full Year 2021		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
11.95%	0.65%	2.11%	130.82%	11.67%	14.78%

(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

While Covid continues to be a focus for economists and the markets, at this point it does not look to be a major drag on economic activity. While we can never rule out a new variant that causes a substantial increase in the severity, this does not appear likely. Economic growth looks to be strong given a healthy consumer balance sheet and pent-up demand from the last two years of constrained activity.

Inflation now looks to be the primary risk to the economy and the main focus of the Federal Reserve. It is clear that interest rates will go up until inflation moderates. How high they need to go to achieve the desired result remains to be seen.

An unfolding situation is the Russia/Ukraine conflict. While this is a huge unknown, there are all sorts of potential ramifications to consider. One guarantee is that it will magnify volatility until there is some resolution.

Market Expectations

2022 is looking to be a much more volatile year for the equity markets. High valuations and record inflation rates suggest that we should expect pockets of opportunity to present themselves over the course of the year. Offsetting these challenges are a strong economy and good corporate earnings growth. Add this all up and the consensus is that we should see equity markets up mid-single digits this year.

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Fund Positioning

During the fourth quarter we took advantage of strong performance in our primary energy investment to raise substantial cash. We have also sold our fixed income and media investments. We maintain a healthy exposure to our restructured energy company and plan on holding cash and looking to invest as attractive opportunities present themselves. As is always the case, particular attention will be paid to corporate balance sheets, cash flow and free cash flow.

Investment Updates

Energy

We completed repositioning the fund in this industry segment, reducing our equity exposure and exiting our fixed income investments. We have maintained our warrant position which should benefit in an outsized way as the company generates record cash flow and free cash flow.

Aerospace/Defense Manufacturers

We see a very interesting opportunity in this space. A company with regulatory and production problems looks to have turned the corner on the bulk of these issues. It has a very large order backlog as customers look to lower maintenance costs and increase fuel efficiency. We will be looking to balance sheet and FCF dynamics to evaluate entry levels.

Telecom/Media/Communications

Various companies in this space are beginning to look attractive as the markets rotate away from stay-at-home themed business profiles. As we evaluate opportunities, focus will be on entities with significant barriers to entry, strong free cash flow profiles and strategic value within its industry.

Airlines

This continues to be an area of interest as domestic and international air travel recovers. As previously stated, particular attention will be paid to balance sheet health as many companies in this space borrowed heavily to get through the last 2 years.

Outlook

We expect high valuations and rising interest rates to increase negative market volatility during 2022. In spite of this, strong economic activity and corporate free cash flow should drive the market to solid single digit returns over the course of the year.