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INVESTMENT MANAGEMENT

Q3 2022 Update

Fund and Market Recap

Third quarter 2023 was another challenging quarter for the markets. Negative sentiment around inflation and economic performance continued to push equity markets lower, with the S&P 500 down 5.27% and the Russell 2000 dropping 2.53%. Fixed income markets struggled as the Fed continues to raise interest rates to combat inflation, with High Yield Credit returning a negative 2.2%.

Fortunately, our primary investment in the fund is in the energy industry, which has performed well in 2022. At the end of the second quarter this investment experienced very bad trading technical due to the closing of its merger. As this passed in the third quarter, security prices recovered, driving fund performance. We continue to carry a large cash position looking to take advantage of attractive trading levels that are prevalent in the market.

Economic Performance and Outlook

Inflation continues to be the primary theme for the economy. Interest rates have increased dramatically in to order slow the economy and drive inflation to more acceptable levels. This is proving harder than expected, which means interest rates are going to stay higher for longer. Fortunately, the economy is very strong, with a particularly positive employment picture and consumer that continues to be flush with cash. The hope is that the Fed doesn't have to do too much economic damage to get inflation under control. Given the economic backdrop, we do not expect a recession, and if one does occur, to be like the previous two. It would be much shorter and less severe.

Market Expectations

Valuations continue to point to very attractive opportunities in the equity markets. We do not expect a dramatic change in that until the Fed gets closer to the finish line for interest rate increases. Given that peak interest rates look to be sometime mid next year, expect markets to be grinding along the lows for the next 3 months or so. As the end of the year approaches, our portfolio should start to rebalance to the other opportunities we see in the market.

Q3 2022 Return Information

Q3 2022			Full Year 2022		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
30.13%	-2.71%	-2.53%	15.51 %	-14.50%	-25.85%

(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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Fund Positioning

We continue to carry an outsized cash position along with our energy investment. As mentioned, this should begin to change over the balance of 2022 and into the beginning of 2023.

Investment Updates

Energy

During the quarter, the company we are invested in completed its merger, becoming one of the largest operators in the region it holds property in. In conjunction with this, they announced a capital return plan that exceeded expectations. Additionally, they announced the sale of a non-core asset that netted the company over $400 million dollars. There are several possible uses for this money, all of which should be good for shareholders.

We have seen OPEC+ support for oil prices and the U.S. government lay out where they will begin buying oil to refill the strategic reserve. These two facts have given the markets more confidence in the price trajectory of oil.

These dynamics led to strong performance during the quarter. We continue to expect very good operating results, which should lead to continued outperformance of our investment.

Telecom/Media/Communications

During the quarter, we exited this position to increase exposure to our energy investment. We continue to find valuations attractive. However, the catalyst for positive performance is far enough away that we feel there will be ample opportunity to build a position after our energy investment performs.

Airlines

Trading levels for the equities in this space have come off dramatically, and we have dusted off our work. We are evaluating these opportunities against other potential investments and will be judicious with our entry. Again, primary concern is how they handle the debt incurred over the last 2 years to survive the COVID lockdowns.

Outdoor Recreation

This is a sector that benefitted dramatically from the pandemic and is now feeling the hangover. Demand has dropped off and is still trying to find a bottom. There are several opportunities we are currently evaluating, paying close attention to balance sheet and ability to service debt at much higher interest rates.

Outlook

After the particularly tough year, the markets look to have found their near-term bottom as the Fed continues with its interest rate increase cycle. Valuations have gotten to a point that leaves room for dramatic outperformance over the next 12 months.