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Q4 2022 Update

Fund and Market Recap

Fourth quarter 2022 saw equity markets rebound from the lows for the year. In spite of this, 2022 turned out to be the worst year for the financial markets since the financial crises. Equity markets saw big losses, with the Nasdaq losing 32% and the Russell 2000 loosing a bit over 20%. Fixed income markets did not fare much better, also experiencing double digit losses across almost all sectors. In spite of this, our exposure to the energy industry and cash protected us from these challenges and drove our healthy returns for the year. Volatile oil markets during December led to modest losses for the fund in the fourth quarter.

Economic Performance and Outlook

As discussed in the update for last quarter, inflation continues to be the primary theme when discussing the economy. We are much closer to reaching peak interest rates than we were at the beginning of 2022, but we are not there yet. Inflation must be on a clear path to the 2% target before the Fed will stop raising short term interest rates. While some progress has been made, plenty of work remains.

Timing on the success of this inflation fight will drive the economic trajectory for the year. If rates have to go much higher because inflation is stickier that expected, a recession becomes much more probable than it is today. However, employment continues to be strong, consumer spending is robust and inflation is heading in the right direction. Economic damage looks to be contained to higher end segments of the economy and areas that disproportionately benefitted from the pandemic lockdowns. Soft landing looks to be the most likely outcome right now.

Q4 2022 Return Information

Q4 2022			Full Year 2022		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
-2.93%	4.96%	5.79%	12.14%	-9.53%	-21.55%

(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

Market Expectations

While valuations aren't as attractive as they were early in the 4th quarter, there continue to be many interesting opportunities in the equity markets. Market performance will be driven by progress on inflation and how aggressive the Fed needs to be in order to get it under control. Given

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progress to date, we do not see an interest rate trajectory that is materially different than what the fed has communicated. As long as that is the case, high single/low double digit returns for the equity markets looks achievable.

Fund Positioning

While the fund continues to carry a decent cash position, we took advantage of the weakness during Q4 to deploy some of that money. Industry focus continues to be in the energy sector given the cheap valuation and strong cash flow profile.

Investment Updates

Energy

With its first full quarter of combined operations complete, financial results of our investment began to show the benefits of the resulting scale from the merger it went through last year. Cost saving goals were increased, capital efficiency has improved and capital return plans are industry leading. Expectations are that there will be a substantial cash balance at the end of the year in spite of the announced capital return plans. Looking into 2023, cash flow is expected to continue to be very strong as onerous oil hedges from 2022 are not nearly the problem they were. If oil prices stay above $70 WTI, our investment could distribute between 15 and 20 percent of its market cap in dividends and share repurchases. This is expected to lead to very attractive equity returns over the course of the year.

Telecom/Media/Communications

At present, there are a number of these companies that look attractive from a valuation perspective. Our major area of concern that doesn't look to be solved yet is how they are going to generate substantial, consistent free cash flow. This is the primary question that needs to be answered for us to make an investment.

Airlines

This industry continues to look very interesting from a valuation perspective. Demand has been strong and doesn't look to be weakening in spite of substantially higher prices. Again, manageable debt loads and maturity profiles are of particular concern given the borrowings incurred during the pandemic.

Outdoor Recreation

Previous weakness has not abated, demand is still looking for a bottom. With no near term debt maturities, we do not see companies motivated for aggressive actions to improve their balance sheets. Without a catalyst, companies will focus on making the current structure work, which looks to be a several year project. We are waiting until there is a closer catalyst before making an investment.

Leveraged Equities

This is a very broad category meant to include companies that borrowed too much during the low interest rate time period we were just in. Many companies will see sticker shock as their floating rate debt resets to higher levels or as their low interest rate debt matures and needs to be refinanced. As the resulting financial strains of their overleveraged capital structure are expected to take a longer period of time to materialize, this is a later 2023 opportunity. However, any economic weakness could pull these investment opportunities forward, so our work begins now.

Outlook

With 2022 behind us, 2023 looks to be a very interesting opportunity. We continue to feel our investments in strong cash flow generating companies with good financial discipline will outperform the overall markets. This should lead to good results for 2023.