152 W Point Ave
Half Moon Bay, CA 94019

info@lpgim.com
www.lpgim.com

LPG INVESTMENT MANAGEMENT

Q3 2023 Update

Fund and Market Recap

Financial markets sold off in the third quarter as they came to terms with the fact that interest rates would be higher for longer to fight inflation. Focus returned to what it will take to get inflation down to 2% and what this will do to economic growth. This led to negative returns from the S&P 500, Russell 2000- and 10-year treasury bonds during the quarter.

As we have seen, inflation is still higher than target, with interest rates and asset prices adjusting to that reality. However, the fund was able to turn in a solid quarter as oil prices remained strong because of OPEC supply reductions. As we use that strength to reduce our position, expect a very cautious approach to reinvestment.

Economic Performance and Outlook

Economic performance continues to defy most expectations. GDP growth has been much better than strategists expected at the beginning of the year. All indicators are pointing to that continuing through 2023 and early 2024. How the dramatic rise in interest rates impacts economic performance in the second half of 2024 and beyond is the question. We know that there is a significant lag before the economy feels the full impact of rising interest rates. Given that the Fed has been very clear that rates are going to stay high for an extended period of time, we will continue to be cautious with the new investments that we make.

We will continue to be focused on the employment picture to inform our expectation on the direction of the economy. Year to date this dimension of the economy has exceeded all expectations. Going forward, the labor market is expected to weaken, but not be bad enough to induce a recession.

Q3 2023 Return Information

Q3 2023			Full Year 2023		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
7.02%	0.17%	-5.48%	18.35%	4.03%	1.35%

(1) Certain expenses are estimated for return calculations

(2) Hedge Fund Composite Index the hedge fund index ticker EHFI251 as reported by Bloomberg

Market Expectations

Concern about interest rates and how high they need to get in order to slow the economy continues to drive markets. Concerns are beginning to develop on the impact this will have on the US government and corporate finances. We expect markets to be choppy until there is more confidence that interest rates have peaked. Once we reach that level, valuation levels indicate high single/low double digit market returns should be achievable. In spite of the near-term market

152 W Point Ave
Half Moon Bay, CA 94019

info@lpgim.com
www.lpgim.com

Q3 2023 Update

uncertainty, we see very interesting opportunities across multiple industries and asset classes that give us confidence we can continue to outperform the overall markets.

Fund Positioning

During the quarter we continued to monetize our energy investment, taking what was a very large position down to what we consider to be just an outsized position. We have cautiously increased our investment in the communications space while trading levels were interesting. There are several interesting opportunities on our shopping list that we are watching for good entry points. In the interim, short term government bonds are providing a reasonable return for the first time in years.

Investment Updates

Energy

OPEC supply constraints continue to drive markets in this space. Members continue to support policy that holds prices high because nonmember producers are not increasing output levels. As long as this balance continues, higher prices should remain. The performance of our investments in this space have benefitted and we expect to use this strength to continue to reduce our exposure.

Telecom/Media/Communications

As market volatility continued in this space, we added to our exposure with the bonds of our cable company investment. Management has marginally slowed down their infrastructure investment plans, resulting in free cash flow generation a bit sooner than expected. As we go through 2024, we expect this to drive positive performance in our investment.

Outdoor Recreation

This sector continues to rank high on our shopping list. No changes to the timing of our catalyst expectations so we continue to remain patient. Trading levels would need to become cheaper before we make an investment.

Airlines

Securities in this segment traded off dramatically in the third quarter as higher oil prices and wage increases have put pressure on financial results. We have dusted off our models and are evaluating trading levels for entry points.

Leveraged Equities

Again, this is the segment of the market where companies have balance sheets that are typically rated below investment grade. As interest rates continue to increase, expectations for interesting opportunities in this space go up as well. Fixed income markets have unusually high bond maturities coming in 2024-2026. We expect this to be a catalyst for opportunities over the next year plus and are excited about what is to come.

Outlook

The probability of a soft landing has gone from a long shot to the most likely scenario. Concerns have shifted focus to interest rates being higher for longer and the impact this will have on the overall economy beyond the first half of 2024. As interest rates stabilize over the next several months, markets should as well, and strong overall returns should follow.