152 W Point Ave
Half Moon Bay, CA 94019

info@lpgim.com
www.lpgim.com

Q4 2023 UPDATE

FUND AND MARKET RECAP

Financial markets performed quite well during the fourth quarter of 2023, particularly higher risk assets. Driving market performance was the combination of good inflation numbers and solid economic performance. Markets assumed that the Fed would soon be lowering interest rates, as there was progress with inflation returning toward 2%.

Although the fund performed well, our holdings did not keep up with the overall market during the quarter. We sold part of our energy investment in early fall and began to reinvest our capital into industries and companies that we expect will benefit from the gradual decrease in interest rates and the decent economic backdrop.

Q4 2023 Return Information

Q4 2023			Full Year 2023		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
3.74%	1.90%	13.55%	23.01%	6.03%	14.54%

(1) Certain expenses are estimated for quarterly returns; annual returns are actual
(2) Hedge Fund Composite Index the hedge fund index ticker EHFI251 as reported by Bloomberg

ECONOMIC PERFORMANCE AND OUTLOOK

Concerns about a Fed-induced recession no longer appear to be a viable outcome in the near term. Markets have embraced the soft-landing scenario and economic activity has withstood the tighter financial conditions without major trouble. At this point, the question is, 'when will inflation get close enough to 2% for the Fed to start lowering interest rates?'

The Fed has been clear that they will wait and ensure that progress is more permanent in order to avoid the need to later reverse course. They have further indicated that interest rates are at their peak for this hiking cycle. As a result, several corporate managers have stated that this dramatically supports strategic planning and will have a noticeably positive impact on economic activity this year.

MARKET EXPECTATIONS

Inflation and interest-rate policy continue to drive the markets, with recession and other worst-case scenarios highly unlikely. Interest-rate policy will likely cause the market rally to broaden beyond the concentrated tech returns observed during the first three quarters of 2023. This will be particularly important for our fund going forward.

As interest rates begin to fall this year, solid market performance is expected to follow, with double-digit returns for the broad equity markets looking very achievable.

FUND POSITIONING

During the quarter, we monetized a large portion of our energy investment from the last several years, maintaining just an outsized position. As a result, we began to reinvest our cash balance into our media, broadband, and financial holdings. We continue to have a

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LPG INVESTMENT MANAGEMENT

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healthy short-term treasury position and will take our time deploying that capital. Our expectation is that the full impact of higher rates is in the 4th inning of being fully realized by the economy—we will be patient in order to seize the opportunities to come.

INVESTMENT UPDATES

Energy

International turmoil, OPEC supply constraints, and falling U.S. production growth are all leading to tighter market conditions. As refining activity increases and summer travel kicks in, we expect continued support for oil prices. We still see nice upside in our remaining position and plan to be opportunistic in monetizing what we still own.

Telecom/Media/Communications

Domestic Cable

We think of this as high-speed internet, as most cable companies now much prefer this high-margin line of business. However, as competition has increased and the market matures, valuations have come down. While our investment will continue to reposition its business during 2024 to remain competitive, we expect to see meaningful financial improvement and increased free cash flow going forward. We will look to build our position at any sign of weakness.

Media and Entertainment

2023 was a difficult year for companies in the industry, with the Writers/Actors strikes significantly hindering content production. Economic uncertainty, and the absence of meaningful political spending, led to advertising weakness. In addition, the transition from traditional entertainment consumption to streaming has also clouded business performance, resulting in dramatic selloffs in equities of traditional media companies. Looking to 2024, we see the majority of these factors improving dramatically: improved content being produced and sold, the presidential election cycle and summer Olympics boosting advertising, and new streaming platforms generating meaningful earnings. Together, these should lead to strong free cash flow, deleveraging, and increased capital returns to shareholders. As securities approach our price targets, we will be adding to our initial positions.

Outdoor Recreation

While we continue to find this sector interesting, security prices have not become cheap enough to warrant an investment. High interest rates and lack of near-term demand will continue to challenge results.

Financials

Commercial real estate concerns have made this sector very volatile and cheap from a historical perspective. While we expect commercial real estate to be a problem for several years, we do not see it creating major issues for the sector as a whole. We have been evaluating names and have started to dip our toe into companies that have strong capitalization, limited commercial real estate exposure, and are currently executing stock repurchases.

OUTLOOK

With the Fed signaling that interest rates have peaked (and inflation currently cooperating), easing financial conditions should be close. While we expect market volatility around inflation-related news flow, we look towards solid market returns once rates drop.