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Q1 2024 UPDATE

FUND AND MARKET RECAP

Financial markets regressed to more of a bifurcated existence in the first quarter, with the AI theme driving outperformance in equity markets. Market leadership during 2023 was known as the 'magnificent 7,' now it has narrowed to the 'fab 4.' Away from the AI theme, markets are being driven by economic strength, inflation, and the impact it is having on the trajectory of interest rates. During the first quarter, the fund lagged the market for a multitude of reasons. Our primary energy investment announced a stock acquisition that has led to some technical pressure in the short term. We also began building out several new positions, which usually results in some short-term underperformance until operational catalysts get closer to realization.

ECONOMIC PERFORMANCE AND OUTLOOK

Domestic economic performance continues to be strong, much better than expected by almost all economists and strategists. This has led to pockets of volatility as the markets have backed off expectations for the Fed to lower interest rates during 2024. At the beginning of the year, six 25-basis-point reductions were priced in. As inflation stayed elevated and economic growth exceeded expectations, markets came to agree with general Fed expectations of four 25-basis-point reductions during the year. Away from a few real estate sectors, we have yet to see broad evidence that current interest rate levels are having a significant impact on economic activity.

We have also seen that most companies have been able to handle higher interest rates without making dramatic changes to their capital programs. Fixed income markets have been open to most corporate issuers to extend maturities. Time will tell if this is the case for the real estate world as well.

Q1 2024 Return Information

Q1 2024			Full Year 2024		
LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000	LPG Cap Part (1)	HF Comp Ind (2)	Russell 2000
-2.94%	5.06%	4.86%	-2.94%	5.06%	4.86%

(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

MARKET EXPECTATIONS

Markets have been doing well this year, primarily because the economy and employment picture have been good by most measures. While there have been pockets of volatility around interest rate expectations, as long as inflation doesn't pick up, we continue to believe that interest rates have peaked. It is our view that if employment is strong and economic activity maintains current levels, markets do not need falling rates to perform well. Any decrease in rates would add to the upside.

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FUND POSITIONING

Throughout the quarter, we continued to build and refine our positions in the media, broadband, and regional bank sectors. We see particularly attractive valuations and are looking for buying opportunities to reach exposure targets. We also continue to hold our energy position, which we look to monetize over the course of the next six months.

INVESTMENT UPDATES

Energy

Market dynamics have not changed since our last update. During the quarter, our North Dakota oil company announced a merger with another company in the region, resulting in the combined entity becoming the largest producer in the Bakken region. The transaction is primarily stock, which has introduced some difficult trading dynamics in the equity. The merger is on target to close in the 2nd quarter, which should clean up the sloppy trading and help crystalize the discount in the valuation.

Telecom/Media/Communications

Domestic Cable

No changes to our position in this space. We favor the bonds in an east coast focused service provider that has a highly levered balance sheet. We expect dramatic upside as operations stabilize and fiber investment bears fruit in the 2nd half of 2024. Demand for high-speed internet has never been better, and we look for this to improve as penetration of bandwidth-heavy applications increases. Our investment has been rumored to be an acquisition target for one of the two large cable companies. Depending on how this plays out, we are looking for opportunities to build our position.

Media and Entertainment

We continue to believe companies in the content generation and distribution have passed peak losses. Entertainment offerings are expected to be much more consistent now that the interruptions from the pandemic and Hollywood strikes are over. Advertising is at its cyclical low point and will benefit dramatically in 2024 from the election and Olympics. Losses on streaming have peaked, and these services are expected to generate material cash flow going forward. Valuations and security prices are expected to perform well as this transition takes place during 2024. M&A is a theme right now, and our primary investments will focus on securities and companies that have economic interests aligned with controlling shareholders.

Financials

Concerns about commercial real estate and the trajectory of interest rates continue to concern markets about the financial performance of these companies. Problems have been contained to banks that were particularly aggressive in their business models. We continue to look for regional banks that have minimal exposure to the most troubled parts of the commercial real estate markets, are conservatively capitalized, and are pursuing shareholder-friendly activities to take advantage of discounted valuation levels.

OUTLOOK

We expect markets to continue to be volatile until there is more certainty that inflation is under control. However, core economic strength should continue to push markets higher and generate solid returns.