

# Q2 2025 Update



## Fund & Market Recap

Q2 2025 opened with a spike in volatility not seen since the pandemic. Markets fell by over 20% as the U.S. administration initiated trade negotiations with what appeared to be draconian tariff levels with most trading partners. As markets dramatically sold off, cooler heads prevailed, and more reasonable tariff levels were agreed to. This led to record-speed market recovery, with the Russell 2000 up 8.1% to end the quarter.

Our conservative positioning going into Q2 allowed us to take advantage of the selloff. Purchases were made across several industries that had been on our watchlist. We doubled our equity exposure during this time, leading to solid outperformance. The fund was up just under 15% for the quarter and a bit over 18% on the year.

## Economic Performance & Outlook

Economic performance remains solid, with the employment market showing steady gains, inflation holding just above the Fed's target, and overall GDP growth in a healthy range. This is particularly impressive given the uncertainty created by trade negotiations. While we are closer to the Fed reducing interest rates, the current strength of the economy suggests that cuts are likely still several months away. Barring any outside shock, street consensus is that the next few quarters may be the most challenging for the economy. Once the Fed begins lowering rates, additional momentum to economic growth is expected.

## Market Expectations

Markets rallied dramatically during the second quarter. Given the economic forecast and expectations for falling interest rates in the second half of 2025, we anticipate markets will continue their upward trajectory. We will be watching economic shifts, trade developments, and other macro events that could significantly alter these expectations.

## Fund Positioning

As mentioned, we used the dramatic selloff to double our equity exposure in a multitude of names and industries that had been on our watchlist. These included companies in the media, financial, airline, industrial and outdoor recreation sectors. While our equity exposure has increased, we maintain a substantial government bond position that will provide stability in the event of another spike in volatility. We continue to be actively focused on identifying compelling opportunities to reallocate this capital.

## Q2 2025 Return Information

Q2 2025			Full Year 2025		
LPG Cap Part <sup>1</sup>	HF Comp Ind <sup>2</sup>	Russell 2000	LPG Cap Part <sup>1</sup>	HF Comp Ind <sup>2</sup>	Russell 2000
14.58%	3.98%	8.10%	18.23%	3.85%	-2.47%

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

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## Investment Updates

### TELECOM / MEDIA / COMMUNICATIONS *Broadband*

As previously discussed, we view this business as stable, with recession-resistant characteristics. It is working through a higher than usual competitive situation as wireless companies have offered a low-end home internet offering. Coupled with a lower than usual home sales and construction environment, subscriber growth has been below expectations. We expect this to normalize over the course of the year. Balance sheet improvement continues to be the theme, with shareholder friendly activities anticipated to begin in 2026.

### AEROSPACE

Volatility in this investment spiked when one of its primary product lines experienced its first catastrophic loss since it was launched over 15 years ago. We took advantage of the resulting weakness to round out our position. Trading levels recovered after it was determined that the loss was not due to any manufacturing issue. Going forward, continued operational improvements are expected to drive additional upside in our investment.

### OUTDOOR RECREATION

This was one of the positions we built during the quarter as trading levels reached our target. Operations have stabilized despite a challenging financing environment. We expect operations to improve over the next 18 months as interest rates fall and the effects of pandemic purchases cycle through the system.

### FINANCIALS

Operations in this industry have been stronger than expected due to the resilient economic backdrop. We purchased a basket of stocks similar to what we owned last year at prices 40% lower than where we sold in December. Earnings growth is expected to accelerate as short-term interest rates fall.

### Outlook

As economic performance continues to be solid and inflation not spiking as previously feared, we anticipate steady market performance. When the Fed begins to lower interest rates, another drag on the markets will turn positive. All this points to a solid second half of 2025.