

# Q1 2026 Update



## Fund & Market Recap

Equity markets entered Q1 2026 on strong footing, rising on expectations of good economic performance and declining interest rates. However, this quickly reversed due to escalating geopolitical tensions in the Middle East and the impact of sharply rising oil prices. This led to markets being flat or off several percent by quarter-end. For the quarter, the S&P 500 was down 4.5% and the Russell 2000 was up .58%.

## Economic Performance & Outlook

Economic conditions remained resilient throughout Q1, with healthy GDP growth, stable unemployment and inflation. However, these data points do not reflect the impact of the recent changes in the geopolitical landscape. So far, companies look to be taking the view that problems in the Middle East will be relatively short and will return to more normal functions by the fall. We are closely monitoring this dynamic to understand its implications for both the domestic and global economy.

## Market Expectations

Longer-term market expectations continue to point to healthy performance due to a strong economy and controlled inflation. Valuations continue to be the primary headwind, although less so following the recent market selloff. At present, the challenging geopolitical issues look to be short term and we intend to use any resulting volatility to continue to build positions in companies and industries we find attractive.

## Fund Positioning

Our large government bond position had us in a good spot for the selloff previously discussed. We rotated out of a large portion of that investment into several names and industries we had been monitoring towards the end of last year. We continue to evaluate opportunities that have been punished particularly hard by the market and would look to increase our equity exposure when we identify compelling opportunities.

### Q1 2026 Return Information

Q1 2026			Full Year 2026		
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
-4.37%	.16%	.582%	-4.37%	.16%	.582%

1. Certain expenses are estimated for quarterly returns; annual returns are actual  
2. All Hedge Index the hedge fund index ticker BHEDGE as reported by Bloomberg

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## Investment Updates

### AEROSPACE

2026 is off to a good start for our investment with meaningful progress on production expansion and new product approvals. Our expectations for dramatic growth in free cash flow are as firm as ever, with market expectations continuing to rise in 2027 and beyond. Our focus remains on identifying any factors that could materially alter this trajectory.

### AIRLINES

One of the most punished industries from the events in the Middle East. With the expectation that the price of oil should fall later this year as this situation resolves itself, these securities again look particularly interesting. We have previously invested in this space and continue to prioritize companies with good liquidity, balance sheets, and efficient operations.

### FINANCIALS

Geopolitical issues in the Middle East have the markets worried that inflation is going to increase going forward. This has changed expectations for interest rate reductions over the next 12-24 months, leading to a selloff in many financial stocks. We have taken advantage of more attractive valuations to build a healthy position in the commercial and consumer lending space. We are watching economic performance and labor market strength for any changes that would warrant a reassessment of these investments.

### CONSUMER DISCRETIONARY

There are several opportunities we are tracking in this space. However, given the shift in interest rate expectations, we are remaining patient before building meaningful positions.

### Outlook

While oil prices have spiked dramatically, economic performance has shown to be very resilient. Expectations are for a resolution to Middle East challenges in the next few months, which should lead to solid returns by year end.