Q3 2026 Update

Fund & Market Recap

Third quarter equity markets were challenging, as problems in the Middle East are taking longer than expected to resolve. Renewed violence towards the energy ecosystem has led to elevated prices, which has pushed inflation above target and driven global interest rates higher. As a result, equity markets outside of AI-focused companies were down mid to high single digits. Specifically, the Russell 2000 dropped more than 7.5%, and the equal weighted S&P 500 excluding the AI names declined more than 5%. This environment was also challenging for the fund, now down just over 7% on the year.

Economic Performance & Outlook

Other than elevated inflation, economic performance continues to be good. The employment picture is healthy, business investment is solid, and the consumer continues to spend. Higher interest rates have not dramatically affected any of these. Another positive is that inflation appears to be driven by the spike in energy prices and should slow next year as we move past the first quarter. Various economists and market strategists do not see the need for continued interest rate increases through 2027.

Market Expectations

In the near term, we expect the market to be choppy as it digests the longer-than-expected problems in the Middle East. However, with a strong economic backdrop, corporate profitability should continue to carry the day. Combined with better inflation numbers as we move into 2027, this leads us to expect solid returns from the market going forward.

Fund Positioning

During the quarter, we liquidated some of our bond investments to increase our position in the Aerospace industry, making this a very healthy position for the fund. We continue to hold our exposure to the other industries discussed below, but we are waiting to grow them until we have more clarity on when and how the Middle East situation will be resolved. Given our economic expectations for the next 12 months, the financial performance of our investments should be good, leading to healthy overall performance.

Q3 2026 Return Information

Q3 2026			Full Year 2026		
LPG Cap Part [1]	HF Comp Ind [2]	Russell 2000	LPG Cap Part [1]	HF Comp Ind [2]	Russell 2000
-11.79%	1.33%	-7.52%	-7.13%	6.22%	12.69%

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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LPG INVESTMENT MANAGEMENT

Investment Updates

AEROSPACE

While operational improvements continue at this company, a few minor speed bumps during the quarter delayed some milestones. Given these delays are measured in weeks, not quarters, our confidence has only grown in the company's ability to achieve production levels that will generate substantial free cash flow. In addition, it won several defense and space contracts that make it a key supplier for next-generation products. All of this increased our conviction that our thesis will materialize over the next 18 to 24 months, leading us to using the market weakness to build out our position.

AIRLINES

With the pushback of a resolution in the Middle East, security prices in this segment continue to be weak, which has produced very attractive valuations across several metrics. Despite higher ticket prices, demand remains strong, and companies continue to generate healthy operating cash flow. While we want to add to our exposure, more clarity is required on the resolution of the Middle East situation before doing so.

FINANCIALS

Higher inflation rates have led to a change in the interest rate trajectory, but this does not look to be a shift to substantially higher rates. As we look into 2027, inflation should moderate as energy costs will no longer show the same year-over-year growth. With the economy on solid footing, financial performance in this sector is expected to remain healthy. Given this, we will look to add to our exposure as trading levels present attractive opportunities.

OTHER OPPORTUNITIES

As discussed in previous updates, a number of industries remain interesting. We continue to wait for specific opportunities closer to the catalysts that will crystalize the valuation discounts we see.

Outlook

As the impact of higher energy prices on the economy fades, corporate financial performance should improve. As this flows through to business results, we expect security prices and markets to deliver solid performance going forward.