Q2 2024 Update

Fund & Market Recap

Markets in Q2 2024 were reminiscent of the dot com bubble over 30 years ago. This time around, Artificial Intelligence is the theme. Relative performance between Growth/Technology and value strategies have not been wider since then, with the S&P 500 gaining 14.49% during the year and the Russell 2000 gaining only 1.02%. This discrepancy is highlighted by the fact that at one point during the quarter, 6 names in the S&P 500 were responsible for 90% of the gains. Between our focus on value and company specific volatility, it was a challenging quarter and 6 months for the fund. However, we put substantial money to work as we found several extremely attractive opportunities.

Economic Performance & Outlook

While the beginning of the quarter was a bit noisy on the inflation front, the last few months have shown dramatic progress in the Fed's goal of bringing inflation down to 2%. Back-to-back outperformance of expectations led to a dramatic shift in the markets outlook for interest rates. Employment continues to be solid but has softened up enough to reduce the inflationary pressure that was holding interest rate expectations higher. As interest rates fall over the next 18 months, we expect to see better performance from cyclical sectors of the economy that have been challenged by the dramatic increase in rates over the last few years.

Market Expectations

Valuation gaps haven't been this extreme since the dot com days. We are seeing some of the most attractive absolute valuations since covid or the financial crisis. Given the strong economic backdrop and the interest rate trajectory, we haven't been this optimistic on the market and our opportunity set in quite some time. We expect to see a broadening of the market rally into our value space, leading to strong performance for both the market and the fund.

Fund Positioning

As mentioned, during the second quarter, there were several extremely attractive opportunities. We took advantage of the trading levels by making new purchases and expanding existing positions. At present, the fund is closer to fully invested. We continue to evaluate opportunities and expect to rotate exposure as investments reach their price objectives.

Q2 2024 Return Information

Q2 2024			Full Year 2024		
LPG Cap Part [1]	HF Comp Ind [2]	Russell 2000	LPG Cap Part [1]	HF Comp Ind [2]	Russell 2000
-8.16%	0.37%	-3.62%	-10.87%	5.37%	1.02%

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

Q2 2024 Update

Investment Updates

ENERGY

We continue to hold a warrant position in our investment in this space. After its recently closed merger, it is now the largest operator in North Dakota. Financial performance should benefit from merger synergies. We are expecting good results from Q2 earnings and look forward to the company using its ample free cash flow to repurchase stock. Now that the choppy trading resulting from the merger has passed, stock levels should get closer to peer averages from a valuation perspective.

TELECOM / MEDIA / COMMUNICATIONS

Domestic Cable

We exited this investment during the quarter. Expectations of a debt exchange to capture some of the discount of current trading levels changed the return profile of the investment.

Media & Entertainment

This continues to be a very attractive space due to the recent challenges from the writer/actor strike, the cyclical challenges of the advertising markets and the political advertising spend for the upcoming elections.

Production and Distribution Conglomerate

One of our investments in this space is a media conglomerate, owning a mix of linear television channels, production studios, and DTC streaming platforms. Our thesis remains that the performance of the production studios will improve over the next 12 months as more distance between the 2023 strikes allows for content production to normalize. Its DTC business has turned profitable and is expected to generate substantial cash flow going forward. Challenges in the linear business are well known, but it still generates strong cash flows. Trading levels currently have the company trading at under 4x free cash flow and imply that the entire production and DTC business are owned for free. We expect as the company transitions from 100% debt reduction over the next 12-18 months it will begin to pursue one of many possible shareholder friendly actions.

Network Television

We own one of the largest independent affiliate station groups in the United States. They own a combination of Big 4 stations across the country. Concerns about cord cutting and streaming migration have pushed valuations to historically low levels. Current trading levels would allow the company to repurchase 50% of its market cap with free cash flow over the next 18 months. Financials have been stable, and we are seeing a migration back to broadcast television platforms by sports leagues to take advantage of maximum consumer reach. Combined with the continued high ratings of local news stations, financial performance should continue to be strong.

Q2 2024 Update

OUTDOOR RECREATION	Work continues in this space, with consensus being that business recovery is beyond our investment horizon. Between overconsumption of these products during Covid, a longer than expected product life cycle, and high interest rates, demand continues to be weak.
FINANCIALS	We have added to our regional bank portfolio of names. Financial performance continues to be solid. Economic strength and the expected normalization of the yield curve will benefit these companies over the next 18 months.
Outlook	While the valuation and performance gap driven by the excitement over all things AI, we do not see this persisting long term. Valuations are particularly attractive in cyclical and traditional cash flowing businesses. We expect strong performance from these sectors going forward.