Q3 2024 Update

LPG INVESTMENT MANAGEMENT

Fund & Market Recap

Q3 2024 witnessed some of the more volatile markets we have seen since Covid. Russel 2000 had one round trip of 10% (increase and then retrace) and a second of greater than 5%. This was driven by high levels of uncertainty around inflation, the economy, unemployment, and interest rates. By the end of the quarter, inflation looked to be under control, allowing the fed to begin lowering interest rates. At about the same time, we saw the first signs of a stable employment situation and a solid economy. This led to a final increase in the equity markets as the month of September closed out. We began the quarter quite well, but after the first big selloff, the broader market took some time to recover. While we ended off a bit under 1%, our positions in the media and financial sectors have begun to perform well. Unfortunately, our energy position was weak as oil prices sold off over 15%. We have seen more strength in our investments as we begin the 4th quarter and expect this to continue with strong financial results expected this earnings season.

Economic Performance & Outlook

Economic performance looks to have stabilized on the hoped for trajectory. Inflation appears to be just about at target, employment markets seem to have cooled off, but stabilized, and GDP growth is expected to remain at healthy levels. The debate around economic performance has shifted from hard or soft landing, to soft landing and no landing at all. Very few market participants were expecting it, but the Fed appears to have pulled off getting inflation under control without inducing a recession.

Market Expectations

The value gap discussed in the previous update has begun to reverse. Given the economic backdrop and interest rate trajectory, we expect this to continue over the balance of the next 6 months. Lower interest rates will benefit our small cap companies with higher leverage profiles. They will also benefit cyclical companies as rates flow through the economy. We are very excited about what we expect to come over the next 6 to 12 months.

Fund Positioning

We finished building our positions in the opportunities that presented themselves during the quarter. This involved rotating out of some of our previous media exposure into other names that got hit particularly hard. Our current positions are expected to have very strong financial results over the next 6 months. They will also benefit from falling interest rates. All combined with very attractive valuations makes us very optimistic about the fund for the next 6 months.

Q3 2024 Return Information

Q3 2024			Full Year 2024		
LPG Cap Part [1]	HF Comp Ind [2]	Russell 2000	LPG Cap Part [1]	HF Comp Ind [2]	Russell 2000
-0.82%	2.72%	8.90%	-11.51%	8.18%	10.00%

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

ENERGY

Despite the selloff in the oil markets, we continue to like this position. Valuation metrics for this company look very attractive, even at much lower oil prices than today. We expect strong free cash flow to be used for shareholder-friendly actions. This should provide strength in trading levels, at which point we will look to lighten our position.

TELECOM / MEDIA / COMMUNICATIONS

Production and Distribution Conglomerate

While we continue to like our previous investment in this space, operating cyclicality has pushed out our deleveraging thesis by 12 months. Combine this with very attractive trading levels with other media companies and we decided to rotate this investment and revisit when it is closer to our catalyst timeline.

Network Television

In addition to our first investment, we purchased another leading broadcast station affiliate group. It is positioned particularly well to benefit from advertising revenue being spent in this political cycle. They will do their market cap in free cash flow over the next 6 months and are on target to be conservatively leveraged within the next 18 months.

Our initial investment in this space continues to do well, positioned to generate 25% of its market cap in free cash flow over the next 6 months. We look for a very healthy share repurchase program to dramatically help trading levels.

AEROSPACE

One of the leading manufacturers in this space has a long list of issues. New management has begun to address these issues. With a strike consuming financial resources, the company is looking to raise equity to gain the financial flexibility needed to fix operational issues. We are looking at the valuation to find a possible entry point.

OUTDOOR RECREATION

Despite the peak selling season, operational performance continues to remain sluggish. We are working to identify the bottom of industry performance. Falling interest rates will help but timing is still unknown.

FINANCIALS

Regional banks are positioned to benefit from falling short-term interest rates. Earnings and loan demand should both grow as the fed lowers short term rates. We like our exposure and would add on weakness.

Outlook

We are at the early stages of the broad market catching up with the mega cap tech names that have performed very well. Solid economic performance combined with lower interest rates is expected to lead to healthy gains for the markets over the next 12 months.