Q4 2024 Update

INVESTMENT MANAGEMENT

Fund & Market Recap

Q4 2024 experienced continued financial market volatility, present throughout 2024. While the market was relatively subdued leading up to the election, dramatic swings came back in November and December. With the excitement surrounding the Trump victory, equity markets saw double digit percentage gains during the month of November. However, most of this was given back by the end of December, due to concerns around persistent inflation and the impact some Trump policies will have on inflation going forward.

Our fund started Q4 on a strong note, but a combination of value investments rolling over again with the December selloff and some underwhelming earnings numbers around the election pushed off some of our investments from reaching their price targets during the quarter. Nonetheless, we were pleased with operating results and expect our investments to perform better as we get through 2025.

Economic Performance & Outlook

While economic performance appears to have stabilized, inflation remains elevated, which has pushed back expectations for future interest rate cuts. Given that the economy is strong, and employment is healthy, the Fed is in no rush to lower rates. Add the uncertainty created by the impact of economic policies being put in place by the Trump administration, suggests that further rate cuts will be later in 2025 than the markets previously expected.

Market Expectations

Initially, the performance gap between value investments and tech/AI related companies looked to continue to reverse in the fourth quarter. However, the selloff in December retraced much of this. By the end of the quarter, the gap had widened to levels seen during the dotcom days. We continue to expect this to reverse, with value investments outperforming over the next 12 months.

Fund Positioning

We continue to have exposure to the media industry, however recent capital raising by a company in the aerospace/defense industry provided a compelling opportunity to build a position in a company that is basically an oligopoly. We also continue to evaluate opportunities in the outdoor recreation and consumer cyclicals, but given the macro uncertainty expect to be patient putting our large excess cash position to work.

Q4 2024 Return Information

Q4 2024			Full Year 2024		
LPG Cap Part [1]	HF Comp Ind [2]	Russell 2000	LPG Cap Part [1]	HF Comp Ind [2]	Russell 2000
-12.58%	1.15%	0.08%	-22.65%	9.44%	10.10%

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

We exited this position during the quarter as excess supply looks to be a bigger problem than anticipated. Additionally, demand growth in China has not materialized as expected. Thus, our upside expectations had to be adjusted and other opportunities in the equity markets looked more appealing.

TELECOM / MEDIA / COMMUNICATIONS

Network Television

Post election we reduced our exposure to this space, selling one of our positions in its entirety. Advertising spend distribution during the election led to some volatility in operating performance. However, we continue to view valuation levels as very attractive, so we have held one position. We expect better performance from this investment during 2025 as advertising spend stabilizes.

Broadband

High speed internet access continues to be the most important home entertainment connection. In addition, large bandwidth consuming business applications (AI/Cloud) push demand for high speed connections in that industry segment as well. All this points to Cable/Fiber service providers seeing record bandwidth consumption. There were a few nuances to service providers that led to reduction in connections during the year (elimination of government subsidies/low end consumer switching). We have seen these challenges pass and have built a position in a company whose securities were punished particularly hard, making for very attractive valuation levels.

AEROSPACE

We took advantage of weak trading levels that the previously discussed capital raise led to and built a substantial position in this space. While our investment has a long list of operational issues, progress is being made, and the company is once again on the uptrend in plane deliveries. Progress through the year will lead to substantial cash flow generation in the 2nd half. We are also looking for asset sales that will help reduce debt levels at a faster pace than previously expected.

OUTDOOR RECREATION

While valuation levels are attractive, high interest rates look to be a challenge. We are going to be patient in building this position given the recovery in sales is looking to be a slow process.

FINANCIALS

We exited these positions during the quarter as trading levels were strong, and the benefit of falling interest rates does not look to be as much as previously expected.

Outlook

We continue to be in the early stages of the value/AI/Tech trade reversal. Volatility around economic policy by the new administration should create opportunities. This should lead to solid double digit returns for the fund over the course of 2025.