

March 3, 2018

February Performance Update for LRT Global Opportunities, LP and Ltd.

If you are an accredited investor, please contact us for performance information.

Hopefully, you recall what I clearly conveyed in the most recent LRT special comment: “perhaps it is the beginning of the return of volatility”. To that end, February’s numbers are a result of unprecedented market volatility and exposure to long term US bonds. The simultaneous drops in US equities and US bonds combined with leverage served as the primary cause for this month’s portfolio results.

While volatility is the mother’s milk of opportunity, I am personally uncomfortable with the degree of volatility in the market. The extremes of volatility, whether benign or excess, are harmful in that behavioral responses by investors are often “irrational” (exuberance or paralysis/fear) and tend to be counter-productive to return realization and capital protection.

A benign volatility climate leads to market complacency, typically precipitating greater correlations and less vigilant risk management. Simply, as fear or healthy respect of market capriciousness departs risk appetites elevate leading to greater propensity for portfolio drawdowns and capital impairment when volatility “unexpectedly” returns. Conversely, excessive volatility can lead to greater fear and more reactionary behavior in both entry and exit to the markets: Lack of participation in the market entirely from fear of loss or selling winners too soon. Lack of conviction and fear have long been the source of missed opportunities for many investors. The ability to consistently identify and add exceptional companies at attractive prices and more appropriate valuations is a crucial component in the LRT process.

With all that said and the understanding that volatility is rarely predictable, higher expected volatility demands greater discipline in execution of our investment strategy. As such, I feel additional risk measures are warranted to achieve my personal top-priority: Always protect capital! To that end, after considerable analysis, I am instituting two modifications that I feel should enhance LRT’s ability to navigate higher levels of volatility and the rising rate environment:

- a) Reducing our allocation to long term bonds.
- b) Reducing our portfolio leverage.

These two measures, in concert, should meaningfully reduce our portfolio’s interest rate sensitivity and corresponding volatility, while only modestly reducing the portfolio’s expected rate of return.

One month’s results are just that: one month. LRT is well-positioned for target return realization. Opportunistic prudence is an essential aspect of the LRT process. Regardless of how appealing or compelling a particular equity or situation may appear experience reveals undisciplined investing is a recipe for sub-optimal results. Rest assured we are sticking to our core competency and core strategy. The more disciplined I remain to process, the better my performance. This perspective positions LRT to “invest with conviction” and deliver on its mandate to each of you.

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LRT Capital Management, LLC
401 Congress Street, Suite 1540
Austin, TX 78701
Office: +1 512 852 4320
www.lrtcapital.com