Q2 2021 Masonry All Cap Select Commentary **July 2021**

"Everybody wants to know you when you're the only one to know."

Line from the song 'Elevator Boots' by the Counting Crows

To Our Client Partners:

The aim of our quarterly updates is to provide insight into the current portfolio and our thoughts on what may lie ahead. Please reach out with any questions or comments you have after reading our letter to you.

Q2 2021 Overview of Performance and Positioning

As of June 30, 2021, we were approximately 89% in equities and 11% in fixed income and cash. The largest positions in the portfolio at the end of the quarter were DISH Network (ticker: DISH), Kayne Anderson Energy Infrastructure Fund (ticker: KYN) and Discovery Inc. (ticker: DISCK).

We are reiterating our sentiment from last quarter's letter that we are pleased with the performance since the passing of Election Day and soon after that, the announcement of an effective vaccine to protect against COVID-19.

For the quarter, the largest positive contributors included Range Resources (ticker: RRC), Star Bulk Carriers (ticker: SBLK) and KYN. The largest detractors were DISCK, Gaia Inc. (ticker: GAIA) and Corteva (ticker: CTVA).

Market Thoughts and Observations

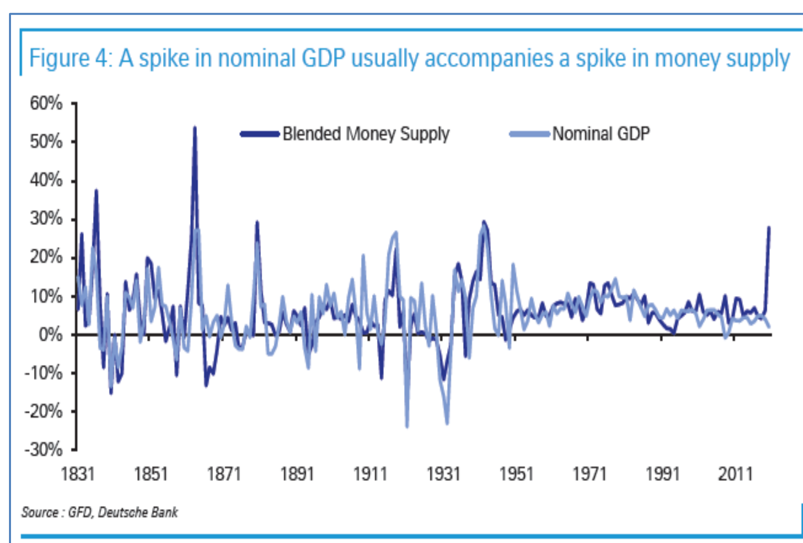
We wrote the following in our Q1 2021 Commentary:

> *"We remain convinced that the markets are in the midst of a secular transition….but realize there will be stops and starts that make it seem not so. Almost assuredly there will be times when we will lose performance ground to the 'old stories' and it will feel like the war is being lost rather than just a battle."*

As we move through what we believe to be an elongated and favorable cycle for our investment approach, this needs to serve as our anchor to windward. Movements in stock prices, bond yields, etc. often happen in the absence of a simple and easy to understand explanation. This void is filled by financial writers and commentators who are paid by the headline and by financial firms who are paid to have an opinion regardless of whether it is sound or accurate. The central tenets to grasp firmly to are these:

- Monetary policy has moved to a supporting role to fiscal policy which is a change from the last 40 years when the Fed was in control.
- In the U.S., inflation, a weaker dollar and above average nominal GDP growth (which follows increased money supply as seen in **Chart 1**) is needed to pay down our debt. We also anticipate much higher tax revenue to be generated in the months and years ahead and possible increases in tax rates both on a personal and corporate level.

Chart 1



- Any pre-emptive move to raise rates or slow monetary support at current debt levels would lead to a sudden and severe recession and put the U.S. in a position where it is unable to service its debt. If those that believe we are headed for a deflationary spiral are right, it surely means the U.S. will nominally default on U.S. Treasuries, Entitlements and significantly defund Defense spending.

- Again, the alternative to inflating away our debt via large monetized fiscal deficits and financial repression is default, restructure, severe recession, or a deflationary collapse. Our wager is that these outcomes are simply more than our political class is willing to tolerate.

We have explained our reasoning and rationale behind this thesis in great detail ever since COVID hit the global scene. Going forward we will do “Thesis Checks” to advise if anything in our thinking has changed from what we laid out in our previous communications. As of this

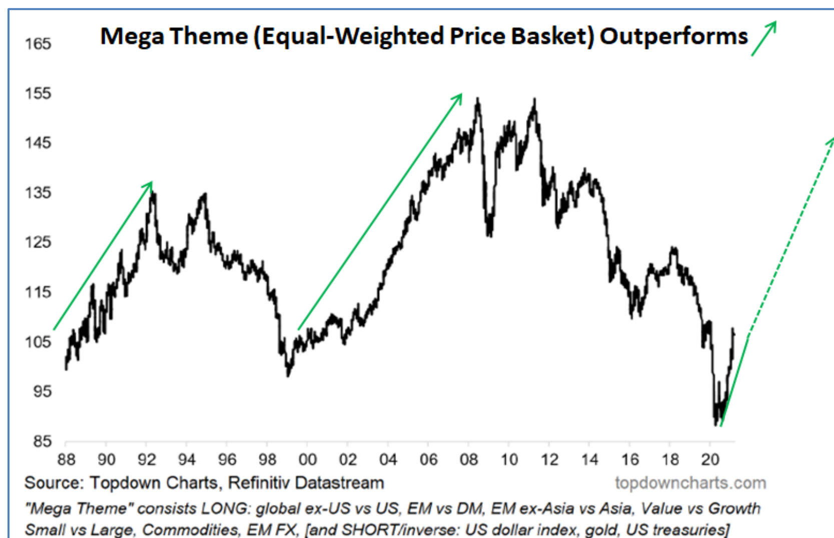
writing, it has not. The era of low and stable inflation, declining interest rates and below average economic growth is over.

We also highlighted in the Q1 2021 Commentary the type of investments we believe will benefit from the aforementioned sea change in conditions:

> *"The direction and trajectory of all of these factors leads us to believe that Value will outperform Growth, Small Cap will outperform Large Cap, International and Emerging Markets will outperform the U.S., and commodities and other hard assets will outperform financial assets."*

In **Chart 2** we see the past trajectories of this combination in what amounts to the equivalent of the 'Mega Theme' below and also the potential future path moving forward.

Chart 2



Valuations and the Impact on Returns

We hear and read ad nauseam about how investing in quality businesses regardless of valuation is the path to great returns and untold riches. The problem is that this formula has never been true if you include the phrase "regardless of valuation." There are so many examples of this that it's hard to pick just one. But given the present boom in housing (in similar fashion to the previous boom at the turn of century) we chose Home Depot (ticker: HD). Home Depot is a home improvement retailer that sells an incredibly wide assortment of building materials and other products to maintain or upgrade your home and lawn and garden.

Home Depot's earnings per share grew from $0.71 in 1999 to $2.72 at their peak in 2006. During that time there was a macro tailwind (more like a hurricane) of an extraordinary amount of homes being built and remodeled in the U.S. Home Depot improved their return on invested

capital, return on assets and return on equity during that period. They expanded margins across a variety of different metrics and their revenue grew from just over $38 billion in 2000 to over $79 billion by 2007. The one black mark was the that their revenue growth slowed from over 27% per year in 1999 to 11.5% in 2006 right before they experienced negative sales growth in 2007. With these extraordinary business results, do you care to guess the amazing performance of the common stock during that time? It must have been incredible right?

From January 1, 1998 through December 31, 2007 the stock annualized at…..

– 3.57% annualized per year or – 27.93% on a cumulative basis

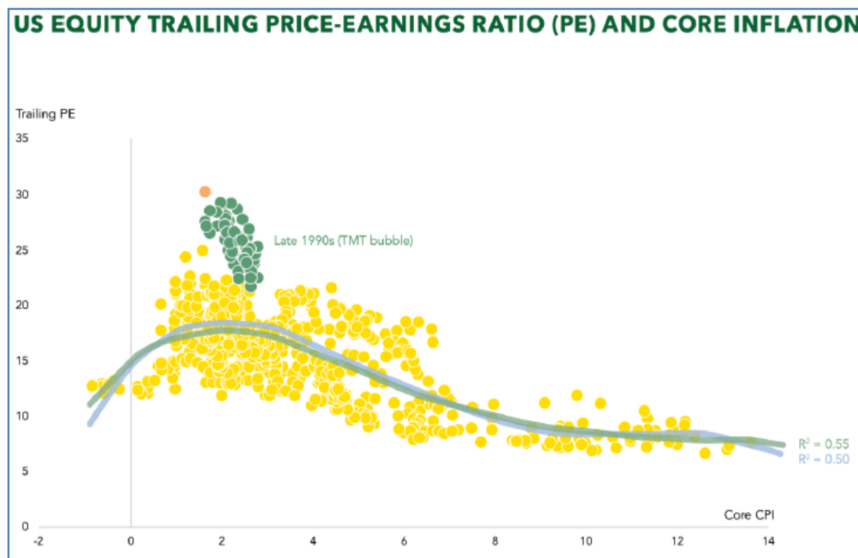
You see, Home Depot had a valuation problem. The stock traded at an average price-to-earnings (PE) multiple of 51x in 1999 and ended 2007 with an average PE of 14x. The price one pays for an investment matters. And history has shown that over longer periods of time the starting valuation is often a more important determinant of returns than the success of the underlying business – it just hasn't seemed like it the last few years.

Inflation and Interest Rates

In this coming age of elevated inflation it is imperative to understand that it is not only interest rates that impact valuations but also the rate and long term trajectory of inflation. Higher levels of inflation have had the effect of increasing the equity risk premium thereby reducing valuation multiples. Investors in the current market are ignoring this relationship at their own peril.

Chart 3 is courtesy of Gerard Minack of Minack Advisors and was reproduced in a publication put out by Henry Maxey, investment director of Ruffer, titled, 'Jurassic risk.' It shows clearly the linkage between the level of core inflation and PE multiples in the U.S. The orange dot is representative of where we are currently.

Chart 3



And rather than look to the financial commentators, academics or Federal Reserve Chairman Powell, our best read on inflation should come from the industry leaders of today who are guiding their businesses through these challenging times. Sean Connolly, the CEO of Conagra Brands, a manufacturer of packaged foods, recently opined, "History shows us that price adjustments are more likely to be accepted in the market when industrywide and broad-based input cost inflation occurs, and that's the environment we see today." Warren Buffett said this at the Berkshire Hathaway annual shareholder meeting in May, "We are seeing very substantial inflation. We are raising prices. People are raising prices to us and it's being accepted." The way the portfolio is positioned today is in response to the high probability that we are in a persistent inflation regime moving forward while realizing fully that the path towards sustained higher inflation will be a winding road. **Chart 4** depicts inflationary spikes along with deflationary episodes on the way to a 92% increase in consumer prices from 1940-1952.

Chart 4

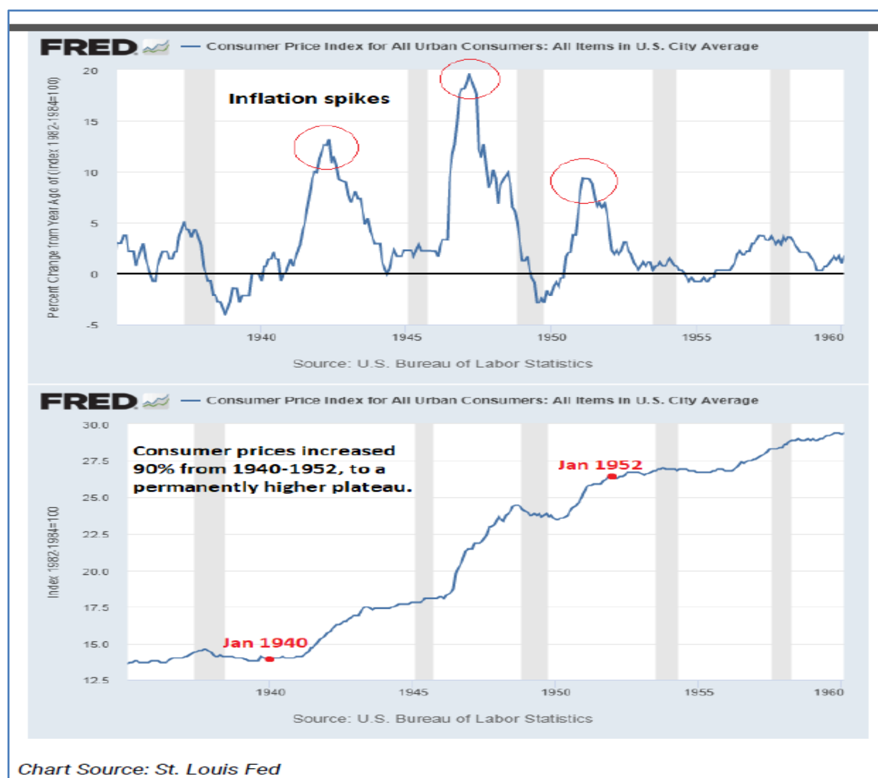


Chart Source: St. Louis Fed

In **Chart 5** we see the Fed acted very differently in the 1940s inflationary episode (high debt-to-GDP level similar to today) than they did in the 1970s inflationary period when public and private debt as a percentage of GDP was much lower than today.

Chart 5

Chart Source: St. Louis Fed

Chart 6 depicts the Fed's approach in today's environment which is analogous to what occurred in the 1940s.

Chart 6

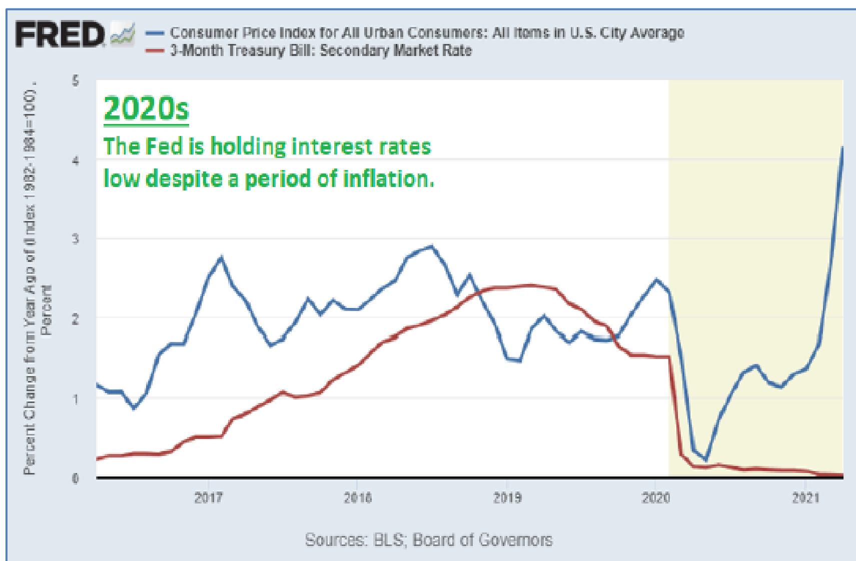


Chart Source: St. Louis Fed

Portfolio Highlights

We made modest changes in the portfolio as we continue to refine our holdings for a post-COVID world. We divested securities in whole or part that we believe are susceptible to increasing cost pressures such as Newell Brands (ticker: NWL) and Dollar Tree (ticker: DLTR). The proceeds from these sales were used to increase positions in DISCK and ViacomCBS (ticker: VIAC) – names we believe are trading at deeply discounted prices versus our estimate of fair value.

Select Portfolio Details

A significant portion of this section is dedicated to our investment in the common stock of DISH. As of this writing, it is the largest position in the portfolio. Through our extensive research we have identified numerous and timely catalysts which, combined with an inexpensive valuation, should generate above average returns in the years ahead.

But first we highlight ConocoPhillips (ticker: COP) another security which we believe is significantly undervalued and should provide for outsized returns in the future.

We view COP as a Core Holding in the portfolio. COP held an investor day on June 30 of this year. Year-to-date through June 30, 2021 the shares were up 54.9% and have increased 59.8% (not including the dividend) over our purchase price in March of 2020. Significant milestones were highlighted by management and it served to reinforce our original decision to acquire these shares at what we think will be a secular low point when looking back over the coming decade.

- COP requires less capital to sustain production than its competitors: Their Year 4 base decline (volume of oil and gas needed to add new wells just to maintain production) is 30% versus 45% for Lower 48 E&P average according to energy research and consultant, Wood Makenzie.
- COP's WTI cost of supply is very attractive at under $40 per barrel and is free cash flow break-even at $30 per barrel.
- The company anticipates generating over $70 billion of free cash flow over the next decade at $50 per barrel; and we think $50 barrel is conservative given the current commodity cycle we have outlined in past letters.
- The total synergies and savings have increased to over $1 billion from the recent Concho merger.
- Importantly, they are committed to both investing in longer-cycle, high quality opportunities including low-carbon AND distributing cash to shareholders.

- COP's long-term ambition is to get to net-zero emissions by 2050.
- They are a world-class LNG operator positioned to supply Europe and Asia which desperately needs the gas.
- COP maintains a top-tier position in sweet spot of Lower 48 Uncoventionals including the Permian, Eagle Ford and Bakken basins.
- Management has committed to: an A-rated balance sheet, increasing ROCE and to returning capital to shareholders and is targeting a return on capital employed increase from 7% in 2022 to 17% by 2031.
- Last, they are leveraged to increasing oil prices and will generate $300 million in additional cash from operations for every $1 per barrel increase.

Igor Sechin, the head of Rosneft, recently said the world is facing an acute oil shortage due to underinvestment. The underinvestment is occurring because governments around the world are limiting new supply and energy majors are prioritizing shareholder income via buybacks and dividend increases over new exploration. He expects shortages to kick in the second half of 2021. This is an important backdrop to our investment in COP and gives us increased confidence in the probability of favorable potential outcomes.

By the time our attention turned to **DISH** their existing business, as a digital broadband satellite (DBS) provider, was under a heavy competitive threat and their emerging business (wireless and spectrum holdings) was undervalued and misunderstood. Concerns that linear multichannel video platform distributors (MVPDs) were going the way of the dodo—with digital broadband satellite (DBS) providers seen as the weakest competitor—had sent the stock cratering over 50% from its all-time high.

At this point it's worth mentioning that this kind of story is music to the ears of a value investor if they, like us, are attracted to that siren song of windfall profits that is heard when collapsing stock prices, hard assets, idiosyncratic leaders, disruptive innovation, and the ire of Wall Street conspire to form a symphony of inefficiency around individual securities. By mid-2018, a confluence of factors had moved the sum-aggregate opinion of the market for DISH's common to a mental state somewhere between bewildered and despondent. After sufficient due diligence and valuation work on their wireless spectrum holdings, it led to our supposition that a low-risk/high-uncertainty opportunity was apparent and we began to accumulate the stock.

We initiated our position as a Special Situation and our initial analysis was that although the DBS business was in secular decline it was being managed to maximize cash flow to fund the creation of an Internet of things (IoT) network that would enable them to meet certain build-out requirements. If they were successful in the build-out, it would act as the catalyst to a substantial revaluation of their spectrum assets, and therefore the equity.

We also believed the next phase of the investment would be predicated on the success of the new operating model for a standalone 5G network, something the Street seemed to refuse to even consider.

To say the story has evolved since we bought our first shares would be an understatement. The announcement of the Sprint/T-Mobile merger in 2019, and DISH's involvement in the transaction, acted as an intellectual catalyst for us, as it was becoming increasingly evident that DISH may have the right combination of assets to disrupt the wireless connectivity market by deploying the first standalone, cloud-based 5G Open Radio Access Network (O-RAN) in the United States. Armed with this knowledge, we began to increase our holdings and make DISH one our largest core positions, because we began to understand that their first-mover advantage as a greenfield operator could position it as a telco-hyperscaler. This would allow it to rapidly take market share from incumbent consumer wireless providers while developing a web-scale platform for explosive growth in enterprise 5G services (something we speculated when we highlighted the stock at Robotti's Best Ideas Conference in Richmond in early 2019).

After the closing of the Sprint/T-Mobile deal and DISH's acquisition of Boost, the company made significant progress in 2020, despite all obstacles, moving the needle forward. Anne Morris of Light Reading walked through Dish's milestones and accomplishments in 2020 and they are highlighted below:

- **January**: DISH kicked off the year by issuing its fifth Request for Information and Request for Proposal (RFI/RFP) for its 5G network, this time for telecom transport services. It said it wanted to explore varying transport infrastructures "to support our aggressive buildout."
- **April**: It began building up its network of 5G vendor partners, starting with the formation of a multi-year agreement with network software provider Mavenir to deliver cloud-native open RAN software.
- **June:** April's news was swiftly followed by a multi-year agreement with Altiostar to deliver a cloud-native open vRAN software solution. Also in June, DISH agreed to buy radio units from Fujitsu. Around the same time, DISH bolstered its management team with executives that had experience with the wireless network business. Industry veteran Dave Mayo joined the team as EVP for network development, while Jeff Blum was promoted to EVP, external and legislative affairs, and John Swieringa was named group president for retail wireless in addition to his duties as DISH chief operating officer (COO).
- **July**: VMware was added to the cloud-native, open RAN vendor roster. In the same month, DISH completed its $1.4 billion acquisition of Boost Mobile and officially entered the retail wireless market with more than 9 million customers.
- **August:** This month brought the news that DISH had chosen Matrixx Software as the provider of its cloud-native converged charging system

(CCS) for the standalone 5G network. A further mobile acquisition also took place: DISH picked Tucows as a technology partner for its retail wireless business and, as part of the agreement, acquired Ting Mobile assets, including customer relationships.

- **September**: Nokia found its way into the DISH vendor line-up announcing that it would provide its cloud-native, standalone core software products. In the same month, DISH chose inventory and service order management software from Blue Planet, a division of Ciena, to intelligently automate its 5G wireless network. Still later that month, tech entrepreneur and wireless innovator Stephen Stokols joined the DISH executive leadership team. Stokols, founder and former CEO of FreedomPop, was appointed executive vice president of Boost Mobile.
- **October**: DISH continued to expand its vendor ecosystem choosing DigitalRoute's cloud-native usage data platform to monetize new 5G services and Hansen Technologies' catalog-driven software solutions.
- **November:** A month that saw a positive flurry of activity, with heavyweights Intel and Qualcomm added as 5G technology partners. DISH also chose Mavenir for support with Rich Communication Services (RCS) and signed infrastructure agreements with Crown Castle (for towers) as well as fiber infrastructure providers Everstream, Segra, Uniti and Zayo for fronthaul and backhaul support to connect its 5G network. Furthermore, Robert Currie, who previously managed two of TELUS Communications' brands – Koodo Mobile and Public Mobile – was appointed as senior vice president of Ting Mobile.
- **December:** DISH announced that it has integrated and validated end-to-end 5G connections using open RAN compliant FDD radio, developed by Microelectronics Technology Inc. (MTI). Dish also reached an agreement with MTI for open RAN radio units to help support its nationwide network deployment.

To date, 2021 has been another milestone year for the company. In Q2 2021 DISH announced via a press release that it “selected AWS as its preferred cloud provider and will construct its 5G network on AWS, part of a strategic collaboration agreement under which both companies will work to transform how organizations and customers, including AWS and Amazon, order and consume 5G services or create their own private 5G networks.” This, for want of another turn-of-phrase, was another game changer in our view as it further validated their buildout objectives and business model. The importance of this strategic partnership cannot be understated. For Amazon, the telco-cloud is one of the next major growth engines for AWS, and incoming CEO, Andy Jassy, was an instrumental part of putting this deal together.

Connecting all of its hardware and network management resources through AWS enables rapid scaling and innovation via a secure and world class cloud environment. This also allows them to capture the cost-savings of a fully virtualized greenfield operator. According to market research

company 650 Group, “DISH is employing a terminology it called a “Capital Light” model, whereby it reduced the amount of capital spending it requires to build out its planned national network. Key to achieving this light capital model is leveraging the capital spending done by AWS and instead leveraging what some might call an OPEX oriented model.” And, as we believe will become more evident over time, DISH is skating well ahead of the puck, something incumbents are unable to do due to the restraints of their legacy architecture. "This news is the breaking of the dam of the old-school thought pattern…It's not just the BSS, it's the entire network: RAN and core. If you're still deploying on-premises, your five-year capex decision is doomed to be a write-off the day you make it," said Danielle Royston, a consultant with Telco DR and outspoken public cloud evangelist.

DISH’s shareholder-oriented management team has positioned the company to compete aggressively for the $1 trillion+ opportunity in emerging use-cases that will arise in the coming decade. On their Q2 2021 conference call, Chairman, Charlie Ergen, said that he believed DISH would soon become AWS’ largest customer, and importantly, that AWS would likely become DISH’s largest customer. To wit, Amazon’s new CEO, Andy Jassy, recently stated that he believes Dish has the potential to “transform factories, workplaces, entertainment, and transportation in ways people have only dreamed.” Critically, this partnership is the keystone to the promise of 5G, as the press release makes clear: “By building its network on AWS, DISH is also simplifying the process for developers to create new 5G applications. DISH developers and customers, as well as the AWS developer community, will be able to create innovative 5G solutions across a variety of industries by leveraging standardized application programming interfaces (APIs) to engage with data on DISH network attributes such as user equipment latency, bit rate, quality of service, and equipment location.” This means that “Developers can then leverage AWS services and partner capabilities in machine learning, analytics, security, and more to create responsive solutions that use that data.” Examples of this would be low-latency augmented reality gaming experiences, serving contextual advertising, or orchestrating robots in a factory or disaster zone. What is evident to us it that DISH is building a platform for 5G innovation and the market is vastly underestimating how big this opportunity is. An analogy we like to draw is to the iPhone and the App Store. Think of all of the businesses that have come into existence due to the iPhone. And think of the economic value the App Store has created for Apple shareholders. This is similar to the opportunity we see for DISH. Their network (iPhone) will become the platform (App Store) that enables entrepreneurs to develop new and innovative 5G enterprise applications.

The two most important near-term catalysts are the official launch in Las Vegas later in Q3 2021 and their first buildout requirement in mid-2022. While proof-of-concept in Vegas should serve as a positive catalyst, meeting the first buildout deadline will certainly reduce downside risk. DISH’s decentralized operating history is proving valuable in their wireless buildout and allowing them to take full advantage of their MVNO agreements. In a recent interview, Chief Commercial Officer Stephen Bye stated, “We are well on track in terms of our deployment to meet those objectives. We have not made too many public statements about the timing of when markets are coming on, but we have activity going underway nationwide right now…We have activity underway coast to coast, border to border right now across the country…it is fun

to see the sites come on air." Although we anticipate the market will likely respond favorably to these events, it is the pickup in business momentum between 2022 and 2025 that is most exciting.

In our view, one of the major narratives holding back the stock price stems from a narrow focus on the company's shrinking DBS business. While in a sense this seems reasonable, the three most important things to understand about DISH's legacy TV business are: 1) it is not going to zero and its decline has been expertly managed; 2) it is a source of funding for the wireless buildout; and 3) it may add value to the retail wireless offering through bundled services. The company, under CEO Eric Carlson's leadership, has done an excellent job managing the decline in subscribers. They have systematically focused their efforts on acquiring and keeping profitable customers, many in rural areas, for which satellite TV is the best, and many times the only, option. SlingTV, their over-the-top linear streaming service has not been as successful has the team had hoped, but they have learned a great deal, and believe they can utilize this knowledge going forward. The bottom line is that video distribution and the institutional knowledge therein, will be an asset to Dish as they evolve their consumer wireless offerings.

While much of the value in DISH's equity will not be realized until their wireless business matures or at least until there is more clarity in the business model, there is an adequate margin of safety at present to justify the current price given a sum-of-the-parts analysis of the company's core assets, viz., DishTV, SlingTV, Boost Mobile, and Dish Wireless (Spectrum Holdings), which, in aggregate, are highly likely more valuable than its current enterprise value of $34 billion. This assigns no value to their nascent 5G enterprise wireless business or their strategic partnerships, both current and future.

Accordingly, we believe there are few businesses as well positioned as DISH to take advantage of the move towards mass digitization, where large-scale machine-to-machine and IoT deployments will lead to improved communication and monitoring, increased automation and smart machines that analyze and diagnose issues without any human intervention. This all amounts to a very attractive set up for long-term value investors. It has been our experience that abnormally high returns can be generated by investing early in businesses with secular s-curves and whose stocks are both inexpensive relative to their future prospects and have a margin of safety that limits the downside.

Funny Anecdote: *from Mark's perspective*

I was newly arrived in Atlanta soon after graduating from college at a time when the Counting Crows were gaining popularity after the release of 'August and Everything After' in 1993. Many of the songs on that album are intertwined with very important (and also very fun) times in my young adult life. So, I was very excited earlier this year when I learned the Counting Crows were releasing a new album. The first single released was a song titled, 'Elevator Boots' which instantly became a favorite of mine.

One of the lines in that song is, 'Everybody wants to know you when you are the only one to know.' As the minds of passionate investors tend to do, mine immediately was drawn to the parallels of what that song means in the context of investing. Over the last 18 months or so, we have watched many esteemed value investors simply bow out of the game and retire. Others whom we admired changed their stripes – their investments now reflect the core tenants of Growth investing and not Value investing. They are not now whom they had been in the past. All this is to say, we believe Value could be on track for a multi-year (if not decade) of outperformance at a point in time when there a very few true Value Investing practitioners like Masonry left. The Value Investors who stayed true to their discipline may be the ones that "everybody wants to know" because "they will be the only ones to know." That is if the investing public can find them!

"100 Reasons Why"

Since we originally published the piece in November of 2020 the general thesis has played out even better than we expected. We intend to do an update of our presentation "100 Reasons Why" later this year.

Firm Update

The firm continued to grow in a measured but significant way since its inception. Total active assets under management were approximately $56.7 million at the end of 2019, $65.2 million at the end 2020 and $96.3 million at the end of Q2 2021. We continue to pursue like-minded investors to join us and would value your help in identifying prospective Client Partners.

Please feel free to contact members of our team with any comments, questions or potential investment ideas.

Best Regards,

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ANY PERFORMANCE DEPICTED HEREIN IS UNAUDITED. PERFORMANCE SHOWN IS ALSO NET OF ALL FEES AND EXPENSES AND REFLECTS THE REINVESTMENT OF DIVIDENDS AND OTHER EARNINGS. THE FEE STRUCTURE APPLIED TO THE PERFORMANCE WAS THAT OF A TYPICAL INVESTOR: PERFORMANCE SHOWN IS FOR ELIGIBLE INVESTORS PAYING THE STANDARD FEES (AS APPLICABLE). YTD PERFORMANCE ASSUMES AN INVESTMENT HAS BEEN HELD SINCE JANUARY 1, OF THE RELEVANT YEAR. BECAUSE SOME INVESTORS MAY HAVE DIFFERENT FEE ARRANGEMENTS AND DEPENDING UPON THE TIMING OF A SPECIFIC INVESTMENT, NET PERFORMANCE FOR AN INDIVIDUAL INVESTOR MAY VARY FROM THE NET PERFORMANCE STATED HEREIN. ACTUAL RETURNS WILL VARY AMONG INVESTORS. INVESTMENT RETURNS AND THE PRINCIPAL VALUE OF AN INVESTMENT WILL FLUCTUATE AND MAY BE QUITE VOLATILE. IN ADDITION TO EXPOSURE TO ADVERSE MARKET CONDITIONS, INVESTMENTS MAY ALSO BE EXPOSED TO CHANGES IN REGULATIONS, CHANGE IN PROVIDERS OF CAPITAL AND OTHER SERVICE PROVIDERS. INVESTORS RISK THE LOSS OF THEIR ENTIRE INVESTMENT.

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PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

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HFRI INDICES ARE BROADLY CONSTRUCTED AND DESIGNED TO CAPTURE THE BREADTH OF HEDGE FUND PERFORMANCE ACROSS ALL STRATEGIES AND REGIONS. PAST PERFORMANCE OF AN INDEX SHOULD NOT BE CONSTRUED AS AN INDICATOR OF FUTURE PERFORMANCE OF AN ACCOUNT.

HEDGE FUNDS TRADE IN DIVERSE COMPLEX STRATEGIES THAT ARE AFFECTED IN DIFFERENT WAYS AND AT DIFFERENT TIMES BY CHANGING MARKET CONDITIONS. STRATEGIES MAY, AT TIMES, BE OUT OF MARKET FAVOR FOR CONSIDERABLE PERIODS WITH ADVERSE CONSEQUENCES.

THE MSCI EMERGING MARKETS INDEX CAPTURES LARGE AND MIDCAP REPRESENTATION ACROSS 21 EMERGING MARKETS COUNTRIES. WITH 824 CONSTITUENTS, THE INDEX COVERS APPROXIMATELY 85% OF THE FREE FLOAT-ADJUSTED MARKET CAPITALIZATION IN EACH COUNTRY.

THE DOW JONES – UBS COMMODITY INDEX IS DESIGNED TO BE A HIGHLY LIQUID AND DIVERSIFIED BENCHMARK FOR COMMODITIES AS AN ASSET CLASS. THE INDEX IS COMPOSED OF FUTURES CONTRACTS ON 19 PHYSICAL COMMODITIES. NO RELATED GROUP OF COMMODITIES (E.G., ENERGY, PRECIOUS METALS, LIVESTOCK, AND GRAINS) MAY CONSTITUTE MORE THAN 33% OF THE INDEX AS OF THE ANNUAL RE-WEIGHTINGS OF THE COMPONENTS. NO SINGLE COMMODITY MAY CONSTITUTE LESS THAN 2% OF THE INDEX.

THE MSCI EAFE INDEX (EUROPE, AUSTRALASIA, FAR EAST) IS A FREE FLOAT-ADJUSTED MARKET CAPITALIZATION INDEX THAT IS DESIGNED TO MEASURE THE EQUITY MARKET PERFORMANCE OF DEVELOPED MARKETS, EXCLUDING THE U.S. AND CANADA. AS OF JUNE 2007 THE MSCI EAFE INDEX CONSISTED OF 21 DEVELOPED-MARKET COUNTRY INDICES.

CRUDE OIL IS THE WORLD'S MOST ACTIVELY TRADED COMMODITY, AND THE NYMEX DIVISION LIGHT, SWEET CRUDE OIL FUTURES CONTRACT IS THE WORLD'S MOST LIQUID FORUM FOR CRUDE OIL TRADING, AS WELL AS THE WORLD'S LARGEST-VOLUME FUTURES CONTRACT TRADING ON A PHYSICAL COMMODITY.

FORWARD LOOKING STATEMENTS:

CERTAIN INFORMATION CONTAINED IN THIS MATERIAL CONSTITUTES FORWARD-LOOKING STATEMENTS, WHICH CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "EXPECT," "ANTICIPATE," "TARGET," "PROJECT," "ESTIMATE," "INTEND," "CONTINUE," OR "BELIEVE," OR THE NEGATIVES THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY. SUCH STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE OR ACTIVITIES. DUE TO VARIOUS RISKS AND UNCERTAINTIES, ACTUAL EVENTS OR RESULTS OR THE ACTUAL PERFORMANCE OF AN ACCOUNT MAY DIFFER MATERIALLY FROM THOSE REFLECTED OR CONTEMPLATED IN SUCH FORWARD-LOOKING STATEMENTS.

SPECULATIVE RISK:

AN INVESTMENT WITH MASONRY CAPITAL MANAGEMENT IS SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. CERTAIN TECHNIQUES MAY BE EMPLOYED, SUCH AS SHORT SELLING AND THE USE OF LEVERAGE THAT MAY INCREASE THE RISK OF INVESTMENT LOSS. IN ADDITION, THE FEES AND EXPENSES, SUCH AS COMMISSIONS, OFFSET TRADING PROFITS. ALL OF THE RISKS, AS WELL AS OTHER IMPORTANT RISKS AND INFORMATION (INCLUDING, WITHOUT LIMITATION, INFORMATION REGARDING TRADING OBJECTIVES AND PROGRAMS, FEES, AND EXPENSES, TAX CONSIDERATIONS AND SUITABILITY REQUIREMENTS) ARE DESCRIBED IN DETAIL IN THE FIRM'S ACCOUNT AGREEMENT. PROSPECTIVE INVESTORS ARE STRONGLY URGED TO REVIEW THE ACCOUNT AGREEMENT CAREFULLY AND CONSULT WITH THEIR OWN FINANCIAL, LEGAL AND TAX ADVISORS BEFORE INVESTING WITH MASONRY CAPITAL MANAGEMENT. OUR INVESTMENT PROGRAM INVOLVES SUBSTANTIAL RISK, INCLUDING THE LOSS OF PRINCIPAL, AND NO ASSURANCE CAN BE GIVEN THAT OUR INVESTMENT OBJECTIVES WILL BE ACHIEVED.

AMONG OTHER THINGS, THE PRACTICES OF SHORT SELLING AND OTHER INVESTMENT TECHNIQUES AS DESCRIBED HEREIN CAN, IN CERTAIN CIRCUMSTANCES, MAXIMIZE THE ADVERSE IMPACT TO WHICH INVESTMENTS MAY BE SUBJECT. TRADING GUIDELINES AND OBJECTIVES MAY VARY DEPENDING ON MARKET CONDITIONS. WE MAY ALSO USE VARYING DEGREES OF LEVERAGE AND THE USE OF LEVERAGE CAN LEAD TO LARGE LOSSES AS WELL AS LARGE GAINS.

ILLUSTRATIVE PURPOSES ONLY:

EXAMPLES OF OUR PROCESSES AND ANY OTHER IDEAS PRESENTED HEREIN ARE FOR ILLUSTRATIVE PURPOSES ONLY. THERE IS NO GUARANTEE THAT THE FIRM WILL ACQUIRE A POSITION IN AN ISSUER OR INDUSTRY REFERENCED IN SUCH EXAMPLES OR IDEAS OR THAT ANY SUCH POSITION WOULD BE PROFITABLE.

INVESTMENTS AND ACCOUNTS AT MASONRY CAPITAL MANAGEMENT:

- ARE NOT INSURED OR GUARANTEED BY THE FDIC OR ANY OTHER FEDERAL GOVERNMENT AGENCY
- ARE NOT DEPOSITS OF, OR GUARANTEED BY, A BANK OR ANY BANK AFFILIATE
- MAY LOSE VALUE