MASONRY CAPITAL

Q2 2022 Masonry All Cap Select Commentary **July 2022**

"If the Fed is guilty of causing this bear market, it was by overstimulating the bull market in 2021. The most important thing is that you don't have a portfolio designed to do well in the kind of environment that existed between 2011 and 2021, because that environment no longer exists."

Michael Shaoul, CEO of Marketfield Asset Management

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 may have after reading this letter.

Q2 2022 Overview of Performance and Positioning

We were pleased with the performance in Q2 2022 of the Masonry All Cap Select (MACS) strategy. For clients who have the MACS as their primary investment objective, returns net of fixed fees were, on average, up almost 1% YTD through June 30, 2022. As performance differs from account to account due to a variety of factors, please contact us for a report that is specific to your account(s). This performance compared very favorably to that of the S&P 500 which returned – 19.97% in the first half of 2022.

As of June 30, 2022, the MACS strategy had approximately 88% in equity or equity-like securities and approximately 12% in cash and fixed income-like securities. The portfolio's largest positions at the end of the quarter were DISH Network (ticker: DISH), Warner Bros. Discovery (ticker: WBD) and Corteva (ticker: CTVA).

For the quarter, the portfolio's largest contributors were Scorpio Tankers (ticker: STNG), DHT Holdings (ticker: DHT) and Frontline (ticker: FRO). The largest detractors were the investments in DISH, WBD and The St. Joe Company (ticker: JOE).

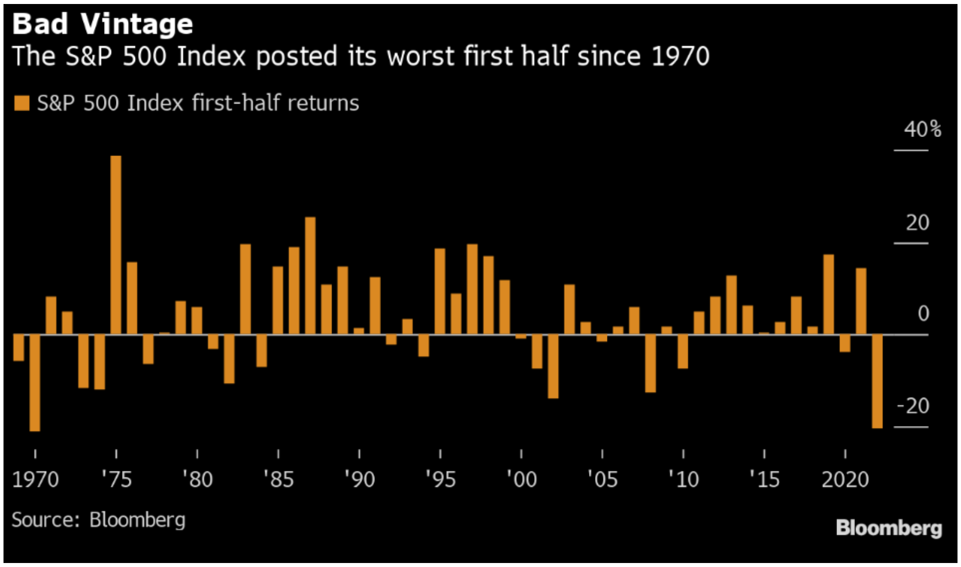
While we take no solace in losing less than the S&P 500 in a particular period, it was evident in June that the selloff taking place in the market since the beginning of the year had escalated to

**Please see Disclaimers on p. 15 regarding performance and benchmarks.*

include everything not nailed down. Many of the securities held in the portfolio sold off sharply in a very short period. During times like these we find ourselves asking if it is possible that the future economic outlook of our holdings (throughout a variety of industries) all changed in the same drastic fashion over the course of just 30 days? The answer is almost always no, but the unfortunate part is that we still must live with the volatility and temporary setback.

That said, we are pleased to have outperformed the S&P 500 by almost 21% net of fixed fees in the first half of 2022 particularly since it was the worst first half to a year for the S&P 500 since 1970!

Chart 1



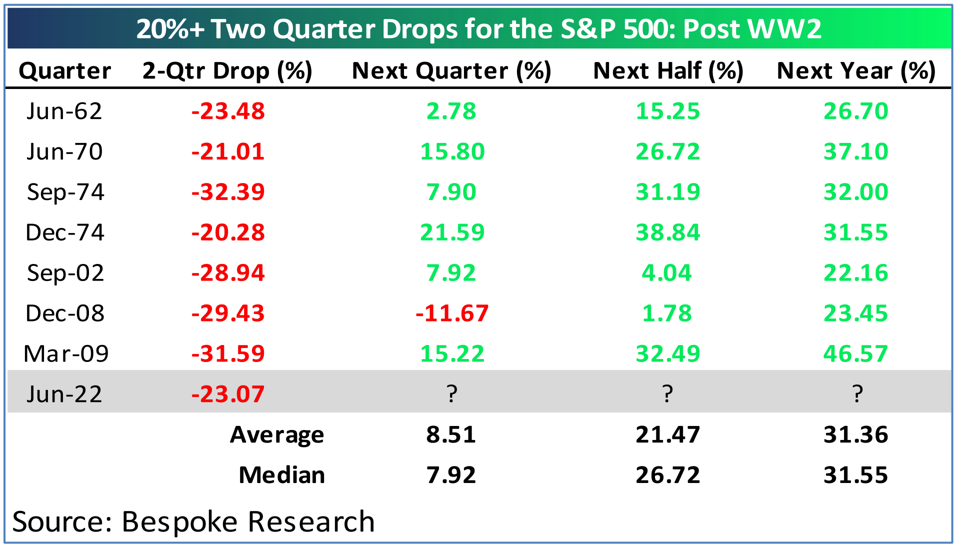
Bad Vintage

The S&P 500 Index posted its worst first half since 1970

Source: Bloomberg

The good news is that in the Post-WWII era, positive returns for the S&P 500 have followed in the 12 months after 20%+ two quarter drops (**Chart 2**).

Chart 2

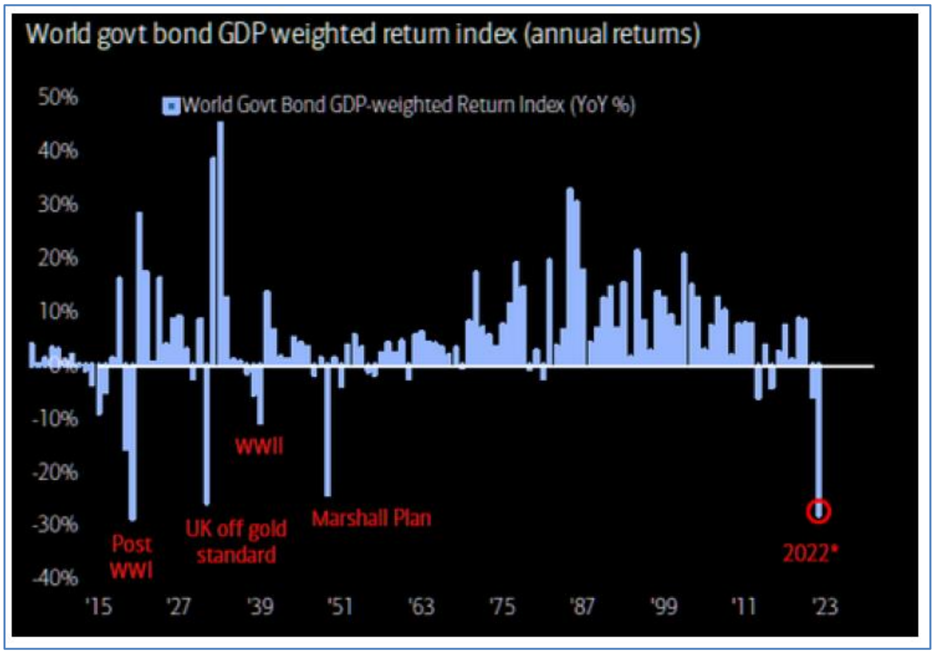


20%+ Two Quarter Drops for the S&P 500: Post WW2				
Quarter	2-Qtr Drop (%)	Next Quarter (%)	Next Half (%)	Next Year (%)
Jun-62	-23.48	2.78	15.25	26.70
Jun-70	-21.01	15.80	26.72	37.10
Sep-74	-32.39	7.90	31.19	32.00
Dec-74	-20.28	21.59	38.84	31.55
Sep-02	-28.94	7.92	4.04	22.16
Dec-08	-29.43	-11.67	1.78	23.45
Mar-09	-31.59	15.22	32.49	46.57
Jun-22	-23.07	?	?	?
	Average	**8.51**	**21.47**	**31.36**
	Median	**7.92**	**26.72**	**31.55**

Source: Bespoke Research

Chart 3 details that it wasn't only stocks that returned poorly but bonds too.

Chart 3

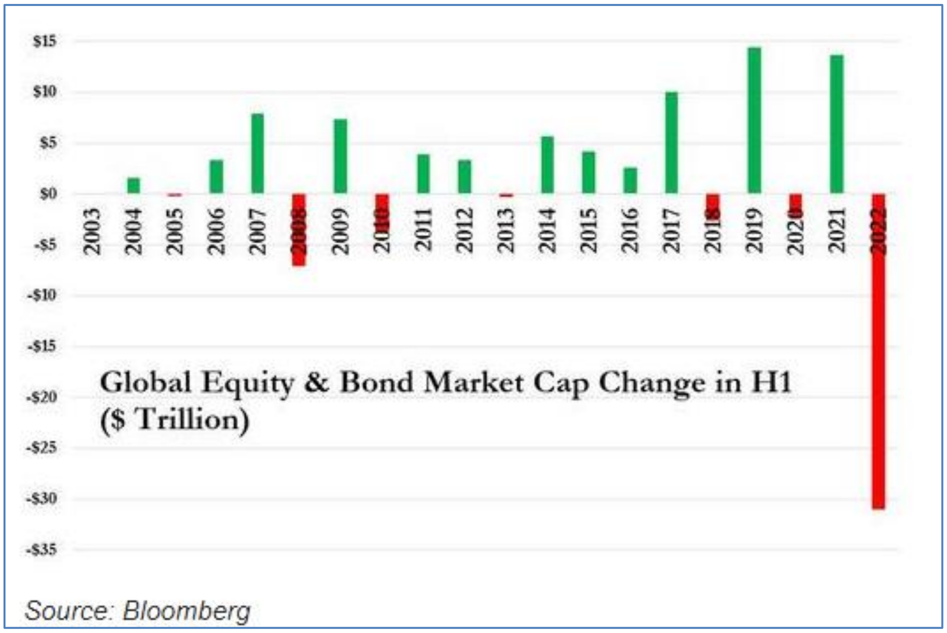


The YoY% return of government bonds throughout the world weighted by GDP has almost never been lower.

To think that the events of today are on par with these past events is humbling.

In **Chart 4** we see that when combined, the global equity and bond losses as measured by market cap change was historic.

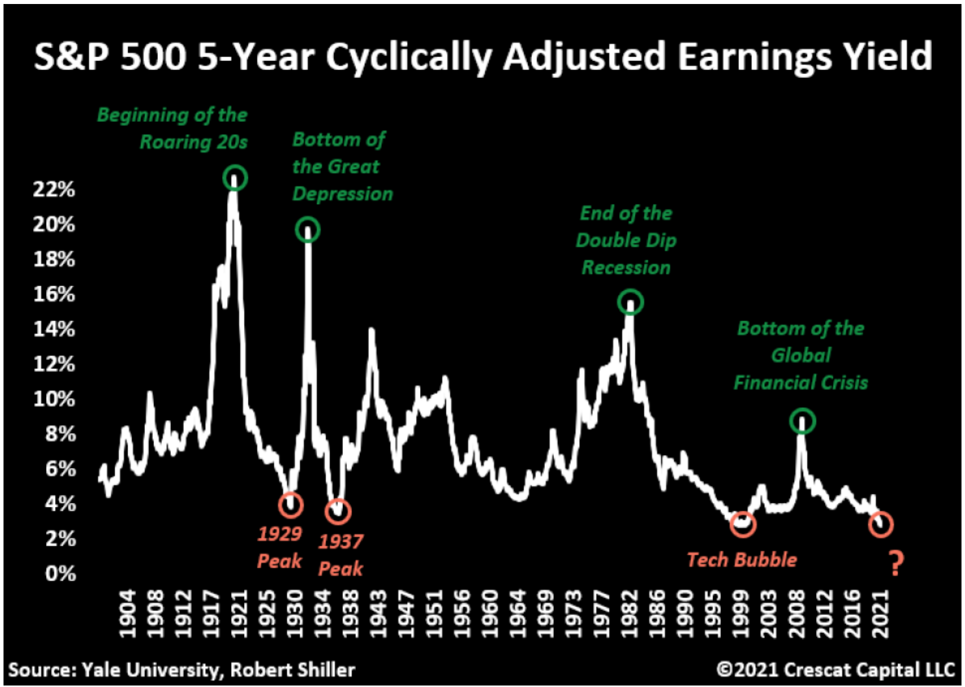
Chart 4



Source: Bloomberg

Crescat Capital detailed in a presentation earlier this year the returns of the S&P 500 following peak periods of 5-year cyclically adjusted earnings yields (**Chart 5**).

Chart 5



Source: Yale University, Robert Shiller

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Market Periods	1-Year	2-Year	3-Year	5-Year
1929 Peak	-30%	-59%	-84%	-74%
1937 Peak	-37%	-29%	-33%	-51%
Tech Bubble	-17%	-26%	-43%	-21%
Today	?	?	?	?

These peak periods tended to come with a change in market leadership. In **Chart 6**, we highlight an assortment of other returns after the Tech (or Dotcom) Bubble burst that may serve as a proxy for what might lie in store in the years ahead.

Chart 6

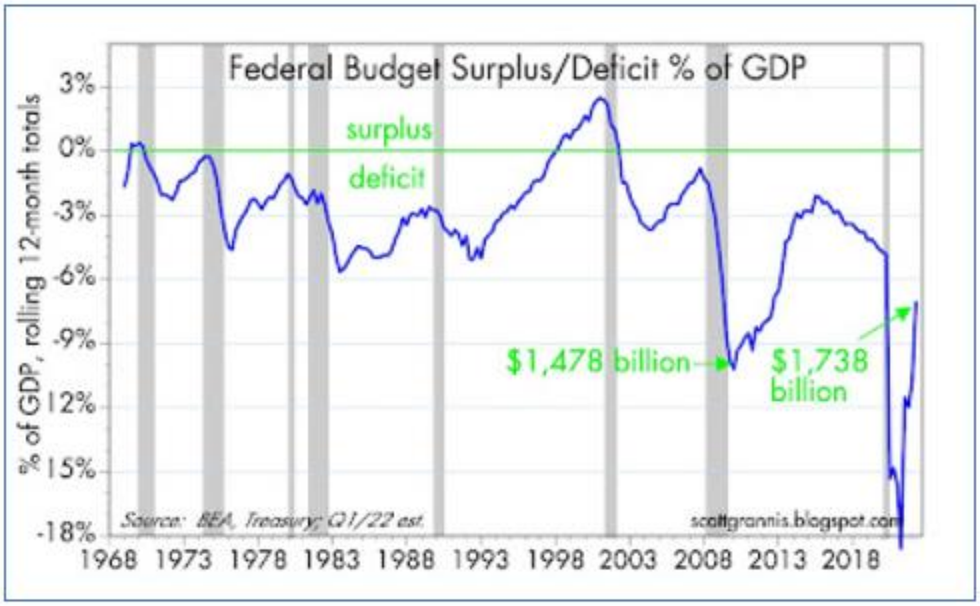
Market Periods	1-Year	2-Year	3-Year	5-Year
Various Other Returns Post Tech Bubble from 3/31/00 - 3/31/2005				
Oil	83%	68%	130%	294%
ConocoPhillips	19%	36%	18%	149%
Range Resources	159%	144%	173%	72%
Exxon Mobil	6%	17%	-1%	72%
Bloomberg Commodity Index	7%	1%	14%	64%
MSCI Emerging Markets	-25%	-27%	-41%	24%
MSCI International Developed Markets	-36%	-31%	-46%	-3%

Market Thoughts and Observations

The Fed can talk all they want about ending Quantitative Easing and beginning Quantitative Tightening, but if the Fed is not a buyer for the trillions in U.S. Treasuries that are needed to finance the massive deficits, then who is? Foreign investors have pulled back and U.S. banks are already chock full of them. Ultimately supply and demand will determine the yields and a rise in supply and reduced demand means yields will rise – perhaps up to the point where we believe the Fed will have to enact Yield Curve Control. The U.S. has massive debt-to-GDP of around 125%, twin deficits (Budget and Trade) and potentially a lack of U.S. Treasury buyers except at much higher yields. Historically this has been an emerging markets problem where the yields on government debt rise, not fall, during a recession but it may soon become a developed markets problem not just in the U.S. but globally.

The Federal Budget Deficit as a % of GDP has been trending up post the COVID shutdown (**Chart 7**). If the Fed raises rates enough to throw us into a full-blown recession the deficit will increase as it has in the past when tax revenue declines.

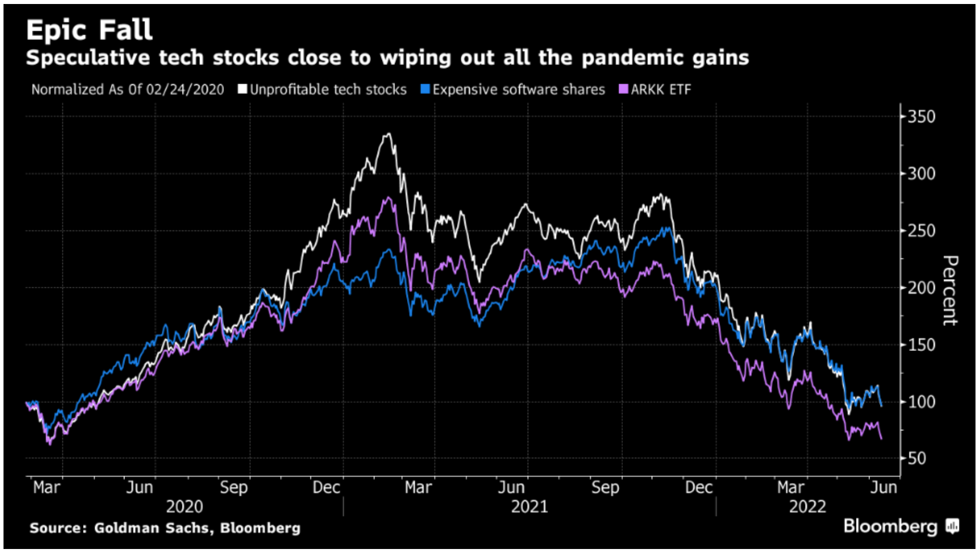
Chart 7



What happens then? The answer is disturbing. According to Hirschmann Capital, who cited work done by Rogoff & Reinhart, economists and noted authorities on sovereign debt, since 1991 all 18 governments with deficits exceeding 11% of GDP and debt-to-GDP ratios exceeding 110% defaulted within two years. Raising rates could trigger such a default as well as other assorted calamities throughout the world but not raising them, or even easing them, could leave inflation unchecked and ultimately fan the flames. The situation is precarious to say the least.

We outlined extensively in our 100 Reasons Why presentation, as well as in past letters, that the speculative bubble of the past few years was prone to popping and we also identified a few of the likely catalysts including higher interest rates and higher inflation. The similarities between the Dotcom Bubble of the early 2000's and the Disruptor Bubble of the last few years were just too uncanny to be ignored. **Chart 8** identifies three benchmarks all reflective of the excessive valuations we believed were at risk for a comeuppance. From March of 2020 through June 2022 the stocks have basically round tripped and we believe there may be even further to fall.

Chart 8



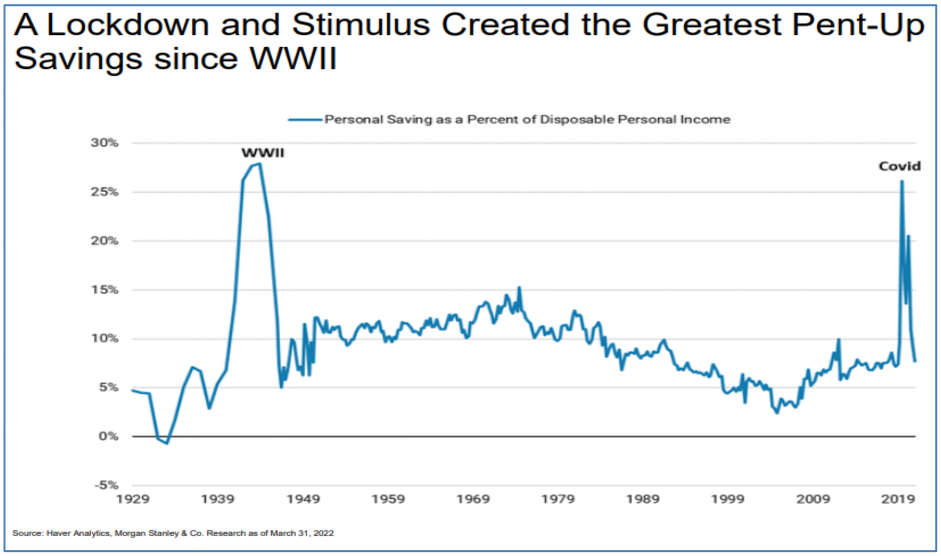
Source: Goldman Sachs, Bloomberg

Four decades of declining inflation and interest rates have investors bristling at the rapid change of course in both that has occurred the last 2 years. One must go all the way back to the 1970's to get some context on what is happening in present day. That decade was characterized by attempts at price controls and windfall profits taxes all of which seemed erratic and were ultimately ineffective. In looking back, it seemed to be a 'shoot from the hip' approach that is eerily similar to what is being suggested by our political class today. We are recycling the remedy of short-term fixes like sending one-time payments to cover increasing gas prices, temporary tax reprieves at the pump and talking again about windfall profit taxes on oil companies. Today's environment is also defined by the same reckless fiscal and monetary policy of both the 1960's and 1970's. We should not be surprised that the challenges we face from the resulting inflationary fire are the same now as they were then.

The major difference, and it is a game-changing difference, is the size of the U.S. debt relative to our GDP. The lower levels of debt in the 1970's provided policymakers an avenue to tame inflation through higher interest rates. That same path is not available today. The question then becomes will governments around the world allow themselves to go bankrupt or default due to rising yields? As Luke Gromen of FFTT pointed out earlier this year in his publication from April 20, 2022, if the answer is 'yes' we will get severe deflation and an economic depression. If the answer is 'no', then the Fed and other global Central Banks will be forced to loosen policy into an inflationary environment. Japan has already answered that question by printing Yen to buy government bonds – this is Yield Curve Control. We would not be surprised to see the U.S. Fed and European Central Bank follow suit.

Not surprisingly, inflation spikes tend to be centered around the spending of pent-up savings (**Chart 9**). Again, one can see this via the similarities between the post-WWII era and today regarding inflation. It boggles the mind that our policy makers did not anticipate the high inflation we are currently experiencing as well the potential bust (**Chart 10**).

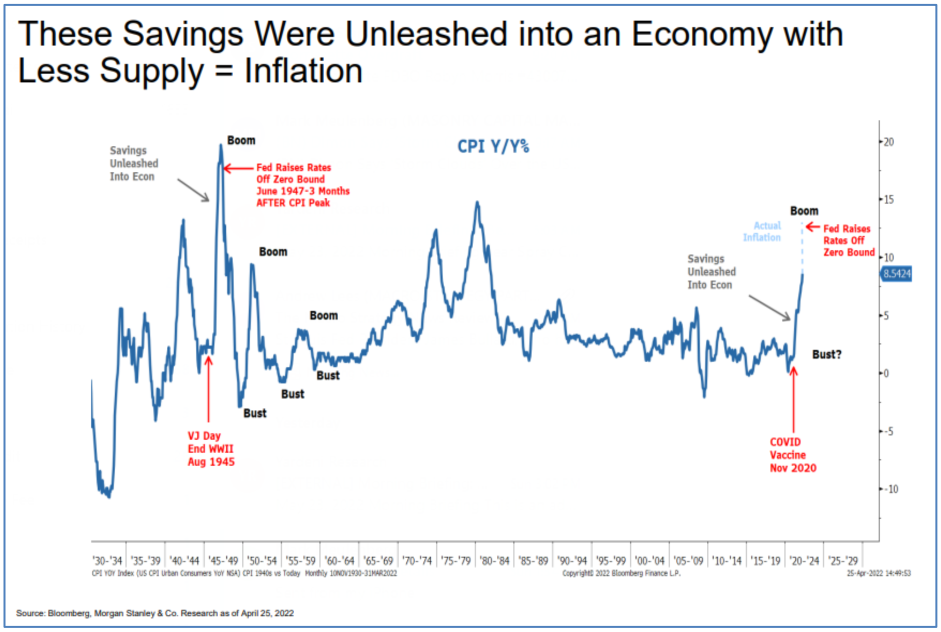
Chart 9



A Lockdown and Stimulus Created the Greatest Pent-Up Savings since WWII

Source: Haver Analytics, Morgan Stanley & Co. Research as of March 31, 2022

Chart 10

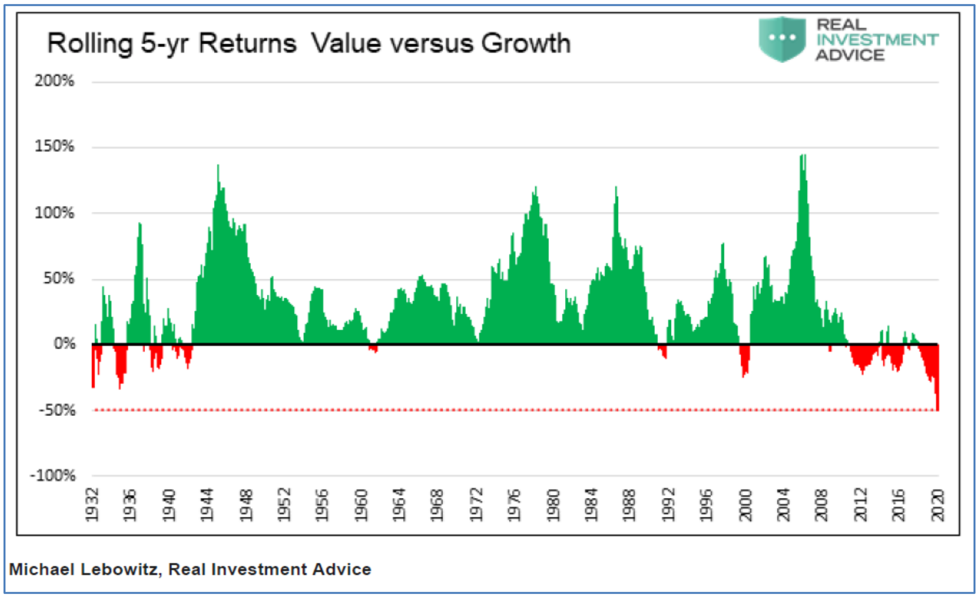


These Savings Were Unleashed into an Economy with Less Supply = Inflation

Source: Bloomberg, Morgan Stanley & Co. Research as of April 25, 2022

If we are in a new inflationary regime for an extended period, and we believe we are, then a portfolio heavily weighted toward Value should handily outperform a Growth-oriented portfolio. **Chart 11** shows the rolling 5-year returns of Value versus Growth going back to the 1930's. The greatest periods of Value outperformance were aligned with inflationary decades. Growth's greatest outperformance occurred during the disinflationary eras of the 1930's and 2010's.

Chart 11



We have been asked extensively why it is that we believe it is likely the outperformers of the past decade will not be the outperformers of the decade that lies ahead. There are many reasons we point to such as still high valuations, their inverse correlation with higher interest rates and inflation, regulatory risks for the social media and advertising darlings (ex: GOOG and META) but really it is simply that the economic environment has changed. The past leaders benefited from low inflation, low and slow economic growth and declining interest rates. As Michael Shaoul pointed out in the quote that begins this letter, "…that environment no longer exists."

Lyn Alden Schwartzer provided a great overview of the inflation, disinflation investing dynamic in a Seeking Alpha presentation in early May titled 'Investing During Stagflation 101.' We have reproduced a portion below:

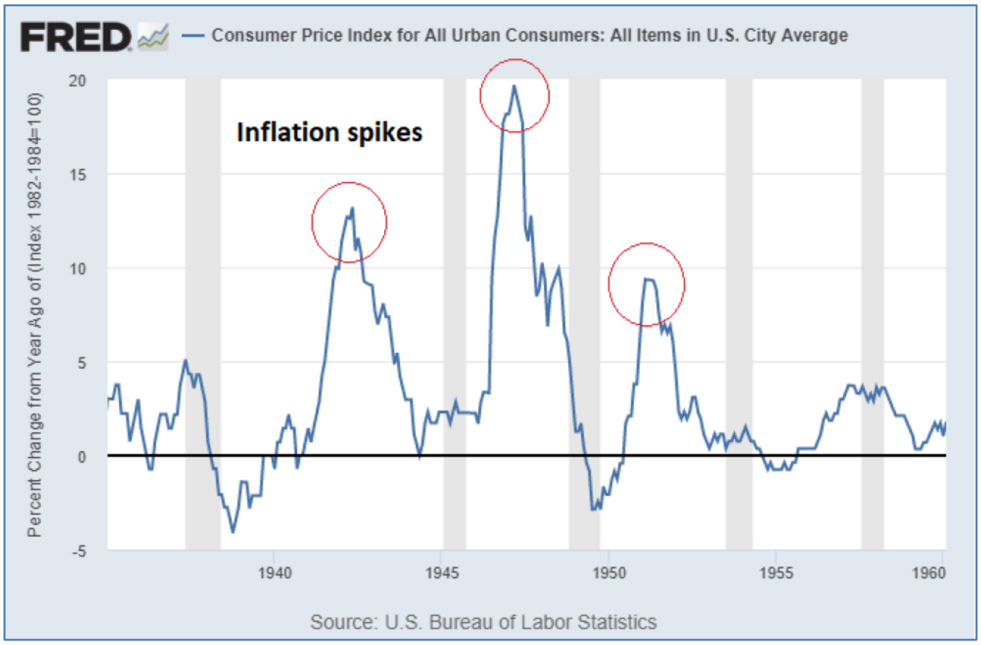
> *During disinflationary environments, inventory is often considered a liability in practice. Companies do their best to focus on just-in-time delivery, inventory reduction, and so forth. This optimizes their capital efficiency. Inventory that is held too long, or in too large amounts, represents capital that could have been spent more productively elsewhere. This is also true for asset-heavy business modules, such as pipeline companies and manufacturing facilities and so forth.*

> *This rapidly changes during environments where the cost of goods is rising and there are multiple delays and shortages in acquiring various goods. Suddenly, having a big inventory is a good thing; the value of that inventory tends to increase while it is held, and it buffers the company from shortages and disruptions. Assets that are hard to build tend to go up a lot in value, since their replacement cost is so much higher now.*
>
> *Imagine, for example, how much more expensive it is to build a new manufacturing facility or pipeline in 2022 compared to just three years ago in 2019. There is 40% more money in circulation in the US. Labor costs are higher. It's more difficult to get construction supplies. Regulatory complexity has increased. Everything about building this infrastructure is more expensive than before.*

We continue to have a substantial allocation to asset-heavy companies who have a distinct cost advantage over new entrants who may find it difficult or impossible to replicate the assets needed to compete with the existing players.

If we had to venture a guess, **Chart 12** which depicts inflation from the 1930's to 1960 seems apropos to what we may see in our future – inflation spikes and then flirtations with deflation. History has also shown us that inflationary environments are volatile and are not characterized by inflation trending higher in a straight line. As a result, we expect to experience related volatility in at least a portion of the portfolio.

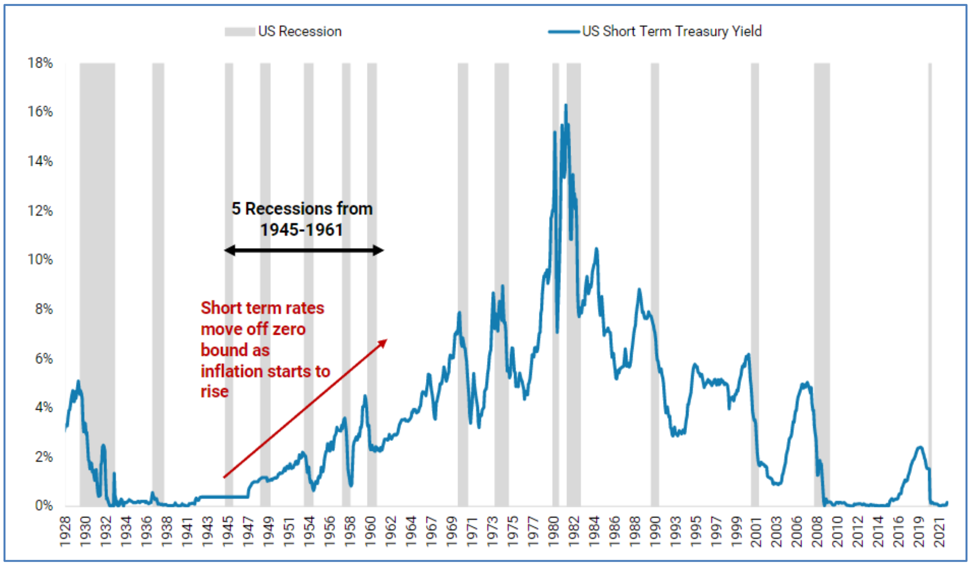
Chart 12



Source: U.S. Bureau of Labor Statistics

As seen in **Chart 13**, business cycles, like those we had from 1945-1961, could be quite different than we have experienced in modern times with shorter business cycles and more frequent recessions becoming the norm.

Chart 13



Portfolio Highlights

As the 2nd quarter progressed the global economic outlook became bleaker and decidedly more uncertain. The counterbalance was the positive fundamental outlook being espoused by managements for the vast majority of companies owned in the portfolio. We spent the latter half of the quarter working hard to try to protect our investors from being overexposed to risks in one of the more challenging market environments we have witnessed in our 25+ year careers while still maintaining exposure to some of the most highly favorable risk reward setups we have seen in our individual holdings. The result was an increase in our cash position, trimming some long positions that had potentially gotten ahead of themselves and maintaining short exposure to certain elements of the stock market that we view as wildly overvalued – even after their substantial price declines in the first half of 2022.

It has captured our attention that Warren Buffett has been buying oil stocks. Although the volatility is hard to stomach at times, we too see tremendous long-term value creation for our holdings in companies like ConocoPhillips (ticker: COP), Range Resources (ticker: RRC) and EQT Corp. (ticker: EQT). In June we came across the following remarks from the UAE Energy Minister, Suhail Al-Mazrouei, who said oil prices are 'nowhere near' their peak. He went on to say, "With the pace of consumption we have, we are nowhere near the peak because China is not back yet. The situation is not very encouraging when it comes to the quantities that we can bring. With the exception of 2-3 members, all are maxed out. The world needs to come to terms with this brutal fact."

E&P (Exploration and Production) companies are simply not incentivized to drill to increase supply at present. For starters, they have an adversarial relationship with the U.S. government which is doing its best to make them out to be villains. Additionally, there is inadequate existing infrastructure (pipelines) to get the product to market even if they did drill more, and last, the shareholder bases are demanding the return of capital via buybacks and dividends rather than spending it on capex (more drilling). These are all acting together to retard the oil and gas supply in the U.S. Combined with the production challenges from OPEC+ and the restrictions on Russian oil (which we don't believe will go away even with a cease-fire in the Russia – Ukraine war) it has the makings of a multi-year up cycle for the price of oil, further adding to existing inflationary pressures. The reality is that even if oil and natural gas prices stay at current levels our investments in these areas will do quite well.

We continue to have a tilt towards commodity companies, but the portfolio remains well-diversified. During periods of market volatility like we are experiencing now, we spend most of our time underwriting potential investment opportunities. The price dislocations between our estimates of intrinsic value and current share prices in many of our current as well as prospective investments are starting to reach extreme levels. Our experience has been that the return potential of the portfolio is at highest levels post these traumatic episodes. We continue to find industrials, building materials, energy and energy servicing, and content/media companies trading at low single digit multiples of earnings and free cash flow. For context, this rarely happens in the markets and is just the third time in an over 20-year period we have witnessed it. When there are more securities we want to buy than money we have to buy them it's a clear indication to us of the opportunity at hand.

As interest rates have risen and the economy has started to slow, we have turned our eye to the credit markets in search of investable ideas. Opportunities in the credit space have been few and far between over the last decade, but as spreads widen between U.S. Treasury rates and high yield bonds, we are on the lookout for highly favorable risk/reward situations that may show themselves in the weeks and months ahead.

Select Portfolio Details

Bristol Myers Squibb (ticker: BMY) was added to the portfolio in Q2 2022. BMY is a global biopharmaceutical company with a diversified portfolio and product pipeline spanning areas of oncology, hematology, immunology, cardiovascular and fibrosis. In 2019, Bristol Myers acquired Celgene for $74 billion, which required new debt of around $19 billion to finance the acquisition. The addition of Celgene brought an excellent product pipeline and leading franchises such as Revlimid, which targets blood cancer and is expected to contribute around 20% of total revenues to the company this year. Bristol Myers should earn close to $7.48 per share in 2022 and $8.04 per share next year, equal to a price-to-earnings ratio of about 9x next year's estimated earnings. Compared to an industry average of 14-15x forward earnings, we view this to be an attractive valuation.

Management expects the company to generate significant cash flows of $45-$50 billion from 2022-2024 which provides the company multiple paths to reduce debt, return capital to shareholders and grow earnings into the next half of the decade. The company has stated that they will use excess cash flow generated in the years ahead to reduce debt to a targeted ratio of 1.5x by 2024, maintain a strong investment-grade credit rating, and return capital to shareholders through dividends, which currently yield 3%, and share buybacks, where they plan to repurchase $15 billion as part of a multi-year repurchase program. We believe one of the reasons the company is trading at a discount to industry is their high debt/EBITDA ratio, which exceeds industry average due to their Celgene acquisition. With the significant cash flows expected over the next several years, we expect their deleveraging plans will bring debt ratios in line with peers and with that, the stock should re-price accordingly over time given the reduced balance sheet risk and increased earnings from lower interest expense. Our projected internal rate of return (IRR) is well in excess of our 15% requirement.

We have made the investment case for our shipping stocks over the past years and the favorable underlying industry trends combined with cheap valuations is paying dividends with YTD returns in our holdings substantially contributing to the overall return of the portfolio.

Scorpio Tankers (ticker: STNG)	+172%
Euronav (ticker: EURN)	+35%
Star Bulk Carriers (ticker: SBLK)	+25%
Frontline (ticker: FRO)	+25%
DHT Holdings (ticker: DHT)	+19%

On the Q1 2022 conference call of fellow tanker company, International Seaways (ticker: INSW), Lois Zabrocky, President and CEO, shed some light on the current state of the underlying trends in the industry:

> *The overall tanker order book stands at 7% by deadweight. This is the lowest level of orderbook basically since statistics have been tracked by Clarksons, relative to the size of the fleet and several factors continue to limit supply.*
>
> *Foremost, with reputable shipyards filled with contracts for other shipping sectors, the earliest new building slots are in 2025. Secondarily, ordering has been tempered by uncertainty around future environmental regulations. And third, new building prices are near all-time highs, limiting tanker owners from ordering.*
>
> *Another factor limiting the fleet supply stems from sanctions imposed by many governments prohibiting trade with Russian controlled ships. This will lead to an artificial fleet reduction impacting 30 Afras, 20 MRs and several ships for the various other tanker sectors.*

> *Displacement of Russian oil has the potential to necessitate more tankers for longer haul voyages. We're closely watching the longer-term fallout from the war and the implications for our trading routes and our tankers.*

Last, an update on DISH is in order given the substantial positive developments this quarter. One of the greatest challenges in investing is in trying to determine the competence and ability of a company's management to execute and allocate capital to its highest and best use. For every CEO worthy of admiration there is an Adam Neumann (former CEO of WeWork and subject of the Apple TV series "WeCrashed"). That said, we have followed Charlie Ergen, CEO of DISH, for many years and believe he is one of the most interesting, successful and also polarizing businesspeople in the world. We have made the fundamental investment case for DISH quite a few times in past letters and presentations and we won't repeat that here. However, we will highlight a qualitative clue that was revealed at DISH's Analyst Day in May when they rolled out their vision for their new 5G network. Charlie explained: when you're climbing, you're most focused/worried about getting through the crux, the most difficult set of moves in the climber's route up the face. He now believes the DISH is past the crux and he sees a clear path to DISH becoming a Fortune 100 company. We don't take those comments lightly. We believe DISH has the ability to begin monetizing the network in a way that is substantially misunderstood and underappreciated by most investors. If this is the case, the stock is materially undervalued and could provide substantial returns in the years ahead.

Funny Anecdote: ***from Mark's perspective***

Having grown up in the 70's it's not a particular decade that I miss. The 80's and 90's for sure but not so much the 1970's – a decade defined by high gas prices, high inflation and a myriad of policy missteps that began with Nixon and ended with Carter. Present day seems to have so much in common with that decade that it seems we are living out a rerun of "That 70's Show." Ed Yardeni, respected economist and author, commented recently on our energy policy and it reminded us of that sordid time. While reading it you may hear echoes of the past with someone whispering in your ear, 'just put on a cardigan and turn the thermostat down' in response to the energy crisis of the 1970's.

> *The Biden adminstration's energy policy is worrying us. The plan it's pursuing – a.k.a. – "the transition" – is to pry Americans off fossil-fuel dependence by forcing up oil and gas prices. Such a crude plan is bound to have unintended consequences that put the overall economy at risk. The Biden administration is committed to a transition from fossil fuels to "clean" energy no matter what the cost. The goal is to drive up the prices of fossil fuels by imposing government regulations to restrict their supply. President Biden said: "When it comes to the gas prices, we're going through an incredible transition…God willing, when it's over, we'll be stronger and the world will be stronger and less reliant on fossil fuels." It's all wildly delusional.*

> *For most Americans, EV's aren't ready for prime time. They are too expensive. They take too long to charge. There aren't enough charging stations, and the electric grid isn't ready to handle lots more of them. The costs of the commodities necessary to produce EVs, and especially their batteries, are soaring. Renewable sources of energy are unreliable and have lots of adverse environmental impacts. The geopolitical consequences of soaring fossil fuel prices are turning out to be nightmarish.*

We are strongly in favor of a sensible, well-thought-out plan to move the world from its dependence on fossil fuels. We also recognize there will be potholes in the road along the way. It certainly seems we have hit one now. Hopefully, we will avoid some of the worst economic and policy features of the 1970's but our confidence in that hope grows weaker by the day.

Firm Update

The firm continues to grow in a measured but significant way since our founding. Total active assets under management were approximately $59 million at the end of Q2 2022. Total assets (discretionary and non-discretionary) are now over $560 million.

We continue to pursue like-minded investors to join us as clients and would value your help in identifying individuals and institutions that might be a good fit. We are hearing story after story of people that are losing confidence in their financial advisors and who are disillusioned and confused given the YTD losses in the stock and bond markets. ***We would welcome the opportunity to engage with potential investors you believe fit this profile as we believe we have something more substantive to offer.***

Please feel free to contact us with any comments, questions or potential investment ideas.

Best Regards,

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INVESTMENT PERFORMANCE:

THE PERFORMANCE REPRESENTATIONS CONTAINED HEREIN ARE NOT REPRESENTATIONS THAT SUCH PERFORMANCE WILL CONTINUE IN THE FUTURE OR THAT ANY INVESTMENT SCENARIO OR PERFORMANCE WILL EVEN BE SIMILAR TO SUCH DESCRIPTION. ANY INVESTMENT DESCRIBED HEREIN IS AN EXAMPLE ONLY AND IS NOT A REPRESENTATION THAT THE SAME OR EVEN SIMILAR INVESTMENT SCENARIOS WILL ARISE IN THE FUTURE OR THAT INVESTMENTS MADE WILL BE PROFITABLE. NO REPRESENTATION IS BEING MADE THAT ANY INVESTMENT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN PRIOR PERFORMANCE RESULTS AND ACTUAL RESULTS ACHIEVED BY A PARTICULAR TRADING PROGRAM.

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.

MASONRY ALL CAP SELECT (MACS) PERFORMANCE: NO REPRESENTATION IS MADE THAT THE UNAUDITED PERFORMANCE SHOWN IS INDICATIVE OF FUTURE PERFORMANCE. AN ACCOUNT COULD INCUR LOSSES AS WELL AS GENERATE GAINS. PERFORMANCE FIGURES FOR EACH ACCOUNT INCLUDE INCOME ACCRUALS, REALIZED AND UNREALIZED GAINS AND LOSSES AND REFLECT THE DAILY WEIGHTING OF CASH FLOWS. ACCOUNTS THAT HAVE THEIR PRIMARY INVESTMENT OBJECTIVE AS THE MACS SRATEGY ARE INCLUDED IN THE PERFORMANCE PRESENTED AND ARE NET OF FIXED MANAGEMENT FEES, NET OF TRANSACTION COSTS AND INCLUDES THE REINVESTMENT OF ALL INCOME. NET OF FEE PERFORMANCE WAS CALCULATED USING THE ACTUAL ANNUAL FIXED MANAGEMENT FEES OF THE CLIENTS IN THE STRATEGY APPLIED MONTHLY.

PERFORMANCE RESULTS ARE NOT GIPS COMPLIANT.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

INDICES:

INDICES REPRESENT SECURITIES WIDELY HELD BY INVESTORS. YOU CANNOT INVEST IN AN INDEX.

REFERENCES TO INDICES CONTAINED HEREIN ARE NOT INTENDED TO COMPARE TO THE ACTUAL PERFORMANCE OF AN ACCOUNT, BUT SOLELY FOR THE PURPOSE OF COMPARISON TO CERTAIN INDUSTRY SEGMENTS.

REFERENCE TO THE S&P 500 AND OTHER INDICES IS FOR COMPARATIVE PURPOSES ONLY. THE S&P 500 IS AN UNMANAGED CAPITALIZATION-WEIGHTED INDEX OF 500 STOCKS, DESIGNED TO MEASURE PERFORMANCE OF THE BROAD DOMESTIC ECONOMY THROUGH CHANGES IN THE AGGREGATE MARKET VALUE OF 500 STOCKS REPRESENTING ALL MAJOR INDUSTRIES. THE INDEX TRACKS THE CAPITAL GAINS OF THE STOCKS OVER TIME, ASSUMING THAT ANY CASH DISTRIBUTIONS, SUCH AS DIVIDENDS, ARE REINVESTED BACK INTO THE INDEX AND IS NOT AVAILABLE FOR DIRECT INVESTMENT. THE S&P 500 MAY BE MORE DIVERSIFIED THAN AN ACCOUNT MANAGED BY MASONRY CAPITAL MANAGEMENT AND MAY NOT REPRESENT AN APPROPRIATE BENCHMARK. HOLDINGS MAY VARY SIGNIFICANTLY FROM THE SECURITIES THAT COMPRISE THE S&P 500. PAST PERFORMANCE OF THE INDEX SHOULD NOT BE CONSTRUED AS AN INDICATOR OF FUTURE PERFORMANCE OF THE FUND OR YOUR ACCOUNT.

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