Q3 2022 Masonry All Cap Select Commentary **October 2022**

"If the monetary authority increases rates in response to high inflation, the economy enters a recession, which increases the debt-to-GDP ratio. If the monetary tightening is not supported by the expectation of appropriate fiscal adjustments, the deterioration of fiscal imbalances leads to even higher inflationary pressure."

'Inflation as a Fiscal Limit', August 19, 2022 (co-authored by the Federal Reserve Bank of Chicago among others)

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.

Q3 2022 Overview of Performance and Positioning

We continue to be pleased with the year-to-date performance of the Masonry All Cap Select (MACS) strategy. The MACS composite has returned 2.1% through September 30, 2022 and for clients who have the MACS as their primary investment objective their returns should approximate this performance. By comparison the S&P 500 return during the same period was -23.9%.

Below we highlight our performance versus various benchmarks including the returns of MACS since we published our '100 Reasons Why' presentation on the 1st of November in 2020. We believe this period marked the beginning of a regime change in the financial markets.

Masonry All Cap Select (MACS) Performance [1]	100 Reasons Why [2] 11/1/2020 - 9/30/2022	2021	2022 YTD [3]	Since Inception [4]
Masonry All Cap Select (MACS)	**29.6%**	**33.2%**	**2.1%**	**13.9%**
S&P 500 Index	7.6%	28.7%	-23.9%	11.9%
Nasdaq Composite Index	9.6%	22.2%	-32.0%	14.3%
ARKK (ARK Innovation Fund)	-4.4%	-23.4%	-60.1%	1.2%

Past performance is no guarantee of future results.
All periods greater than one year are annualized.
Please refer to important Disclaimers and Disclosures regarding performance.
[1] *Performance is audited through March 31, 2022 and unaudited after that date.*
[2] *'100 Reasons Why' presentation was published in Nov of 2020. This column highlights our performance since its publication.*
[3] *YTD performance is through September 30, 2022.*
[4] *Since Inception performance begins January 1, 2019 and goes through September 30, 2022.*

It has been an incredibly tough investment environment to navigate this year. We included some stats on the performance of active managers and how the MACS portfolio compares:

- According to a recent piece in the *Investing Monthly* section of the Wall Street Journal, only seven out of 1,412 U.S. actively managed stock funds managed a positive return in the 12 months ending September 2022. The average loss was 19.4% while the S&P 500 was down 15.5% during that time.

  MACS returned -2.4% net of fees by comparison.

- Barron's recently published a list of the performance of some of the top large growth funds year-to-date in 2022 through September 30, 2022. They ranged from being down 28.2% to 55.7% and we included some of the funds in **Chart 1**.

  Chart 1

Fund	Return
Baron Partners	-28.2%
Virtus Zevenbergen Innovative Growth Stock	-48.8%
Morgan Stanley Insight	-55.7%
Transamerica Capital Growth	-55.6%
Morgan Stanley Growth Portfolio	-55.5%
Hartford Growth Opportunities	-39.2%

  MACS returned 2.1% net of fees by comparison during those same dates.

We bring up these statistics not to brag. Humility is one of the world's greatest teachers especially in the world of investing. However, we do view this as continued evidence that ***everything has changed***. Trends that have been in place for 10, 20, 40 and even 70 years have been broken and new ones formed in their place. This fact has ramifications for valuations, earnings, interest rates, inflation rates, margins and more and will require a different way of thinking than most investors are accustomed to or equipped to navigate.

As of September 30, 2022, the MACS strategy had approximately 85% in equity or equity-like securities and approximately 15% in cash and fixed income-like securities. The portfolio's largest positions at the end of the quarter were Warner Bros. Discovery (ticker: WBD), Corteva (ticker: CTVA) and ConocoPhillips (ticker: COP).

For the quarter, the portfolio's largest contributors were EQT Corp. (ticker: EQT), Euronav (ticker: EURN) and COP. The largest detractors were the investments in DISH Network (ticker: DISH), WBD and The St. Joe Company (ticker: JOE).

Market Thoughts and Observations

On an almost daily basis it seems market pundits and investors are waking up to the macro themes and observations we have highlighted in our letters the past few years. It is not our preference to overlay high level concerns on the portfolio. We like it best when we are able to analyze companies on a fundamental level without the undue influence of monetary, fiscal and geopolitical dynamics. However, that is just not the case at present.

Of the many factors we have written about there is one major theme that deserves to be brought to the forefront. Due to our high level of indebtedness as a nation (U.S. debt-to-GDP ratio of around 125%) and with both budget and trade and deficits, the U.S. finds itself in the unenviable position of needing to sell U.S. Treasuries at relatively low yields to maintain its present course. This is happening at a time when foreign governments are selling, not buying, U.S. Treasuries to get the U.S. Dollars (USD) needed to prevent their own currencies from collapsing. U.S. commercial banks have all the U.S. Treasuries they need and would prefer to lend now all while the Federal Reserve has embarked upon Quantitative Tightening or QT (making them a seller of U.S. Treasuries). The potential problem lies in what happened recently in the U.K. If there are more sellers than buyers, yields will move to the level that entices more buyers – and sometimes this means a large spike in yields. We fear this is a clear and present danger in the U.S.

The Federal Reserve has said they will not relent on raising rates until inflation has been tamed. A strong USD which is wreaking havoc throughout the world's financial markets and the lack of liquidity in the U.S. Treasury market are indications they will not be able to achieve their goal before something breaks. Past peaks in USD strength have coincided with various crises around the world including the dotcom bubble bursting, the housing bubble and resulting financial crisis, the 2012 sovereign debt crisis and most recently, the repo market malfunction that occurred in September of 2019. At the breaking point, they may very well be forced into employing Quantitative Easing and cutting interest rates into an environment with still elevated, and maybe even rising, inflation.

The only thing more remarkable than Chairman Powell's terse comments in Jackson Hole was the white paper published on August 19, 2022, but embargoed from release until August 27, 2022, titled "Inflation as a Fiscal Limit." This paper was a collaboration of the numerous authors, but one stood out more than the others – the Federal Reserve Bank of Chicago.

We have highlighted some of the more noteworthy items and included our comments.

> *" The recent fiscal interventions in response to the COVID pandemic have altered the private sector's beliefs about the fiscal framework, accelerating the recovery, but also determining an increase in fiscal inflation. This increase in inflation could not have been averted by simply tightening monetary policy. The conquest of post-pandemic inflation requires mutually consistent monetary and fiscal policies to avoid fiscal stagflation."*

Masonry's take:

According to the paper, the Fed should not be blamed for its role in failing to squash inflation. It required both the Federal Reserve (monetary) and the government (fiscal) to work together to reign it in – which did not happen of course.

"In this paper, we argue that the answer to these important questions hinges predominantly on the fiscal authority's credibility in stabilizing a large fiscal imbalance. The central bank's anti-inflation reputation, albeit important, is not decisive."

Masonry's take:

Passing the buck to the fiscal side again, saying there is only so much the monetary authorities can do if the federal government keeps spending.

"Trend inflation is fully controlled by the monetary authority only when public debt can be successfully stabilized by credible future fiscal plans. When the fiscal authority is not perceived as fully responsible for covering the existing fiscal imbalances, the private sector expects that inflation will rise to ensure sustainability of national debt. As a result, a large fiscal imbalance combined with a weakening fiscal credibility may lead trend inflation to drift away from the long-run target chosen by the monetary authority."

Masonry's take:

Only when the U.S. takes care of, or signals its willingness to take care of, its fiscal house will monetary policy work in getting inflation under control. A high level of debt-to-GDP and a budget deficit signal to the public that inflation is needed to pay back the debt we owe and fund the federal government.

"When fiscal imbalances are large and fiscal credibility wanes, it may become increasingly harder for the monetary authority to stabilize inflation around its desired target. If the monetary authority increases rates in response to high inflation, the economy enters a recession, which increases the debt-to-GDP ratio. If the monetary tightening is not supported by the expectation of appropriate fiscal adjustments, the deterioration of fiscal imbalances leads to even higher inflationary pressure. As a result, a vicious circle of rising nominal interest rates, rising inflation, economic stagnation, and increasing debt would arise."

Masonry's take:

This is the part where it starts to get scary and somewhat unbelievable. The authors point out how hard, or even impossible, it is for monetary authorities to get inflation under control if the fiscal authorities (federal government) don't keep their spending in check. COVID stimulus, the Inflation Reduction Act and student debt forgiveness do not fit the definition of restrained fiscal spending. In its absence, if the monetary authority increases rates, the economy will enter a recession and our

present situation gets even worse resulting in increases to the debt-to-GDP ratio, higher nominal rates, rising inflation and economic stagflation. This setup seems eerily similar to today.

"In this pathological situation, monetary tightening would actually spur higher inflation and would spark a pernicious fiscal stagflation, with the inflation rate drifting away from the monetary authority's target and with GDP growth slowing down considerably. While in the short run, monetary tightening might succeed in partially reducing the business cycle component of inflation, the trend component of inflation would move in the opposite direction as a result of the higher fiscal burden. Fiscal stagflation does not stem from a perceived or actual loss of anti-inflation reputation by the central bank. Rather, it is caused by the progressive deterioration of the fiscal authority's credibility to stabilize its large debt and the realization that the reputation of the monetary authority is incompatible with the expected behavior of the fiscal authority."

Masonry's take:

Upon examination, we are experiencing almost exactly what they are warning against. Using the word 'pathological' to describe this situation is not very comforting. In raising rates at this rapid pace, Chairman Powell is reducing the business cycle component of inflation (with interest rates increasing, a housing market on the brink of a recession, and CEO confidence at 40-year lows), but as a result, the overall trend of inflation may very well INCREASE in response to this tightening and not decrease.

"Thus, the recipe used to defeat the Great Inflation in the early 1980s might not be effective today. In the early 1980s, the resolute anti-inflation stance taken by the Federal Reserve and backed by the new administration was the winning move. An important factor behind this success was the historically low government debt that provided strong credibility to the fiscal backing. Today the problem of controlling inflation is compounded by the highly uncertain fiscal situation, with the Congressional Budget Office (CBO) projecting federal debt to keep rising after the year 2023 to reach its highest level ever recorded in 2032 (Congressional Budget Office, 2022). Therefore, even though monetary policy independence is a much more widely respected and better understood value today, high inflation can still be a threat if the fiscal situation is left unresolved. In fact, we show that if the private sector loses confidence in the fiscal authority's willingness to fix this quickly-deteriorating fiscal backdrop, hawkish monetary policies can mire the U.S. economy in a prolonged period of stagflation."

Masonry's take:

We have read accounts of Chairman Powell stating behind closed doors that he wants to be known as the next Paul Volker. It's clear that the monetary and fiscal authorities worked together in the early 80's to whip inflation. The huge difference

> between then and now are the nation's debt levels. We know too from the paper that monetary policy is not enough to stop the tide of inflation without the discipline of the fiscal side. That is simply not happening at present as the federal debt level is projected to increase out to 2032. If the private sector loses confidence in the fiscal authority's willingness to stop spending, monetary policy that continues to tighten will mire us in stagflation.

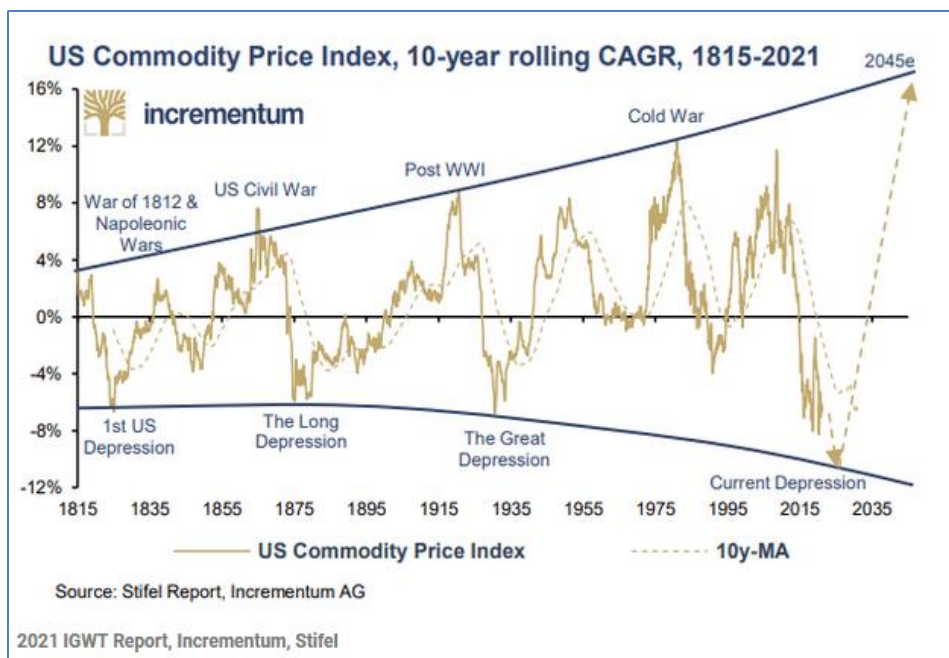
We found this paper to both enlightening and disturbing. We read it asking ourselves, what in the world is the Fed doing? The consequence of monetary tightening in the absence of fiscal discipline at our current debt level is "pathological" in the words of the authors. We wonder if Chairman Powell has read this paper. If he did, how could he and the other voting members of the Federal Reserve continue down their current path? It's madness. You can find the paper in its entirety here: Inflation as a Fiscal Limit.

We don't believe the current trajectory we are on regarding rate increases lasts much longer. We fully expect the Fed to 'break something' well before we get to the nightmarish stage of a prolonged period of stagflation. If we are correct, the Fed will be loosening monetary policy into an environment of elevated inflation. We stand by our thesis that the investment environment has changed profoundly in the last two years and these changes will last well through this decade and beyond. We believe our company-specific fundamental research and macro understanding will serve our investors well in this brave new world.

Portfolio Highlights

We continue to find tremendous long-term value in energy-related, commodity and industrial and building product securities, and substantial downside risk in the long duration, expensive, technology stocks that are still popular – though less so than before. From a bottoms up perspective, many of the companies we own are rapidly reducing their debt levels, are expanding margins and generating copious amounts of free cash flow. This is balanced against the near-term risk (and it's potentially a large one) of a global economic slowdown resulting from the Federal Reserve's interest rate hikes. When viewed through a longer-term prism (**Chart 2**), we remain confident there is a decade-long runway ahead for many of our current holdings. Commodities bottomed very early in the Great Depression but, counter-intuitively, went on to perform well during the rest of the decade reaching a peak many years later at the onset of the Cold War. In fact, according to the work of Goehring & Rozencwajg, commodities and commodity stocks performed very well throughout the 1930's while the U.S. stock market experienced a decade of abysmal returns. The answer as to why lies in the natural resource capital cycle and not the economic business cycle.

Chart 2



US Commodity prices are at all-time lows on a 10-year rolling CAGR basis going back to 1815. If history is a guide, the long-term trend line for commodities will be up for many years.

We simply believe that the government regulations, cost inflation, ESG push and the lack of capital available to the entire commodity complex from shippers, miners, oil and natural gas and others has created both a floor under prices as well as upward pressure on commodity prices that will last for many, many years.

One of the more vocal business leaders regarding the 'energy transition' is Chris Wright, CEO of Liberty Energy (ticker: LBRT), who commented on a Bloomberg TV interview recently, "We're investing a lot of money in some new energy technologies; some of this is great, but it's not an energy transition. Three decades from now the vast majority of energy will come from hydrocarbons." He also issued a warning that subsidies for wind and solar will only drive up power prices and increase grid instability. If he's correct, LBRT, which is an oil field services company, is poised to benefit greatly over the coming years. The valuation is undemanding at 5x 2023's earnings per share and it has an appropriate balance sheet with a 1x debt-to-EBITDA ratio.

The CEO of Range Resources (ticker: RRC) also criticized the 'short-sighted' U.S. policy towards natural gas on their recent earnings call saying unwarranted permitting delays, adverse policy decisions and the global push for renewable energy have resulted in underinvestment in oil and gas, hurting domestic gas supplies and inflating energy costs worldwide.

The idea that commodities like oil and natural gas might do well in an economic global slowdown seems improbable. Recent history from the Great Recession when a commodity downturn coincided with an economic implosion might lead one to the conclusion owning commodities and commodity-related stocks during recessions is hazardous for an investor's health. Having already

written about one exception (the 1930's), we move to another (the 1970's). Throughout that decade oil was in a supply-constrained state and prices rose substantially. **Chart 3** shows that even during the brutal recession from 1973-1974 oil prices continued to climb.

Chart 3

One of the challenges investors face in the midst of market volatility and declines is holding on to a long-term perspective while also living to fight another day. This tug-of-war is never an easy exercise. Our long-term conviction in a stock like Warner Brothers Discovery needs to be balanced against limiting the severe damage a near-term liquidity event may cause in other names in the portfolio. This approach helped us weather the storm in the Great Recession and we feel confident it will help us again today.

Throughout the 3rd quarter we started the process of lightening up on exposures that we felt were most vulnerable to the uncertainty that lies ahead. Some of these positions have generated incredible profits for the portfolio over the last few years. Although much of the original, long-term thesis remains intact, the potential for unanticipated and substantial losses weighed heavily on us as we seek first to protect capital and second to earn a return on capital. By way of example, we reduced our positions across the board in tanker stocks. In making this decision we weighed the distinct possibility of a global economic slowdown against a very favorable long-term backdrop of a supply and demand imbalance. The supply situation at present includes 1) the lowest orderbook-to-fleet ratio on record, 2) very few newbuild orderings (due to the uncertainty around new environmental regulations), and 3) very limited capacity to build new ships as the shipyards are filled with LNG carriers and containerships well into 2025. The demand side is being supported by inefficient trade routes due to the Russia-Ukraine war, restocking potential (US Special Petroleum Reserve at its lowest level since 1984) and an increase in demand

from Asia. We maintained a position in all of our tanker stocks but did so at a much-reduced level from the previous quarter.

It's highly likely in our opinion that the next (or current depending on who you believe) recession might be very different that the ones over the past 40+ years. This recession could very well be defined by higher rates, much higher than normal GNP (not GDP) and higher inflation. If so, the investing playbook will be very different than almost all investors are used to.

Select Portfolio Details

In Q3, we initiated a position in Weatherford International (ticker: WFRD), an oilfield services company with operations in 75 countries plus the U.S. The company has changed its focus from owning capital intensive drilling rigs or fracking trucks to higher value-add, technology solutions. Their value-add is helping drillers get as much oil and gas out of the ground as possible without compromising safety and doing so in as an environmentally friendly way as possible.

This is a post-bankruptcy situation as the company exited bankruptcy in December of 2019 and through the restructuring eliminated around $6.2 billion of debt. The company currently trades at a net debt-to-EBITDA multiple of approximately 2x as of Q2 2022. They extended about $2.1 billion of debt maturities to 2028-2030 and had nearly $1 billion of cash as of the end of the 2nd quarter. Since emerging from bankruptcy, EBITDA margins have expanded at a healthy pace as low-margin businesses have been exited and their cost-savings after COVID have borne fruit. As borrowing costs are reduced and revenue and EBITDA increases (with EBITDA margins expanding), we expect WFRD to trade in line with its three largest peers which would result in over 50% upside from our purchase price. In addition to the promising industry and company tailwinds, the company has over $5 billion of net operating losses as of 12/31/2021. It remains to be seen the extent to which they will be able to employ them, but it seems clear they will be operating in a 'tax free' environment for quite some time. The biggest risk is a sudden downturn in oil and natural gas prices, which would result in a large hit to EBITDA potentially trigger covenant defaults. At present, this is a remote possibility given its current healthy interest coverage, but it is one we will monitor closely going forward.

Funny Anecdote: *from Mark's perspective*

Recently, with the help of a very smart friend, I discovered the answer to a question I had been confused and bothered by for many years that could have quite easily been known to me. As I consider myself a student of history and as it pertains to my profession, of financial history, I was dismayed it took me so long to get the answer! I had always wondered why Buffett didn't own energy stocks in the 1970's but was buying them now in what certainly seems like to us as having the same kind of investment set up. Looking at a heat map of returns for different segments of the stock market led me to finally search for the answer. I wondered how oil could have moved from $2 to $12 during the brutal recession of '73-74 and yet energy stocks experienced a negative return during that timeframe.

The culprits were the price controls and ever-increasing regulations placed on the energy industry during that time. In August of 1971, Nixon implemented price controls in addition to taking the U.S off the gold standard. As the price controls were a miserable failure, they were eventually rescinded – except for those on oil. Having no control over the price foreign entities sold their oil around the world, including to the U.S., the only effect it had was to cap the price at which domestic producers could sell their oil while inflation and increasing regulations subjected them to ever increasing production costs. They experienced margin compression at a time when oil moved from $1 in 1971 to $35 per barrel by 1980.

One of the best aspects of the investment business is the constant search for information to help develop a deeper understanding of the financial markets. I was reminded once again; we are never too old to learn and grow.

Firm Update

The firm continues to grow in a measured but significant way since our founding. Total active assets under management were approximately $55 million at the end of Q3 2022. Total assets (discretionary and non-discretionary) are now over $625 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 historic year-to-date 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,

Masonry Capital Management, LLC

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ANY SPECIFIC STOCKS DISCUSSED IN THIS PRESENTATION ARE INCLUDED TO HELP DEMONSTRATE THE INVESTMENT PROCESS OR, AS A REVIEW OF THE COMPOSITE'S QUARTERLY RESULTS; AND ARE NOT INTENDED AS RECOMMENDATIONS OF SAID SECURITIES AND CARRY NO IMPLICATIONS ABOUT PAST OR FUTURE PERFORMANCE. ALL OR SOME OF THE SPECIFIC STOCKS MENTIONED MAY HAVE BEEN PURCHASED OR SOLD BY ACCOUNTS WITHIN THE COMPOSITE DURING THE PERIOD, OR SINCE THE PERIOD, AND MAY BE PURCHASED OR SOLD IN THE FUTURE. THE MASONRY ALL CAP SELECT COMPOSITE INCLUDES ONLY ACCOUNTS WHICH HAVE THE MASONRY ALL CAP SELECT STRATEGY AS ITS PRIMARY INVESTMENT OBJECTIVE.

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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 AUDITED ANNUALLY. PARTIAL YEAR PERFORMANCE 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 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 STRATEGY ARE INCLUDED IN THE PERFORMANCE PRESENTED AND ARE NET OF ACTUAL INVESTMENT 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 USING THE TIME WEIGHTED RATE OF RETURN METHODOLOGY. TRADE DATE ACCOUNTING IS USED FOR CALCULATION AND VALUATION PURPOSES. SECURITIES ARE VALUED DAILY USING CLOSING MARKET VALUES. PERFORMANCE IS PRESENTED IN US DOLLARS.

PERFORMANCE RESULTS ARE NOT GIPS COMPLIANT.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

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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