Q4 2023 Masonry All Cap Select Commentary **January 2024**

"The first panacea of a mismanaged nation is inflation of the currency; the second is war. Both bring a temporary prosperity; both bring a permanent ruin. But both are the refuge of political and economic opportunists."

Ernest Hemingway

To Our Client Partners:

The Masonry All Cap Select (MACS) composite year-to-date return was 16.0% through December 31, 2023, 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 26.3%.

We recently ended a remarkable just over three-year period of performance from December 31, 2020, through December 31, 2023. In November of 2020 we identified what we considered an inflection point in the markets punctuated by our publishing of the '100 Reasons Why' presentation. The table below highlights the 3-year annualized performance of the MACS as well as the return for each year in 2021, 2022 and 2023.

MACS Performance	Dec. 31, 2020 - Dec. 31, 2023		Performance by Year		
	Cumulative	Annualized	2021	2022	2023
Masonry All Cap Select Composite	66.9%	18.6%	33.2%	8.0%	16.0%
S&P 500 Index	33.0%	10.0%	28.7%	-18.1%	26.3%
Nasdaq Composite Index	19.4%	6.1%	22.2%	-32.5%	44.7%

Past performance does not guarantee future results. All performance over one year is annualized. Please see the Disclaimers section for important notes related to performance. The performance results for 2021 and 2022 are audited while year 2023 is unaudited.

**The performance of the Masonry All Cap Select Composite is net of all fees.*

Overview of Performance and Positioning

As of December 31, 2023, the MACS strategy had approximately 94% in equity or equity-like securities and approximately 6% in cash and fixed income-like securities. The portfolio's largest positions at the end of the quarter were ConocoPhillips (ticker: COP), Kayne Anderson MLP / Midstream closed-end fund (ticker: KYN) and The St. Joe Company (ticker: JOE).

For the quarter, the portfolio's largest gainers as measured by their contribution to the overall return were AMC Networks (ticker: AMCX), Walgreens Boots Alliance (ticker: WBA) and Builders FirstSource (ticker: BLDR). The largest detractors were the investments in Bristol-Myers Squibb Company (ticker: BMY), Everest Re Group (ticker: EG) and Diamond Offshore (ticker: DO).

Market Thoughts and Observations

Much has been written lately about the 25%+ return of the S&P 500 in 2023 and how unexpected it was. This is especially true in light of the endless drumbeat of calls for an imminent recession throughout the year. The bulk of the return of the overall S&P 500 was largely generated by the 'Mag 7' stocks and the hype around Artificial Intelligence (AI) played a large role in driving their performance for sure. A little perspective may be in order, however. It's almost like investors and the media forgot what happened in 2022! The mathematical reality is that if a stock loses 50% of its value in a given period it takes a return of 100% to just get back to even. So by and large, with the exception of Nvidia, the S&P 500 and the Mag 7 are essentially "back to even" for the last two years even after their amazing collective performance in 2023 (**Chart 1**).

Chart 1

2 Year Performance View	2022	2023	2-year Annualized
Masonry All Cap Select (MACS)	8.2%	16.0%	12.0%
S&P 500 Index	-18.1%	26.3%	1.5%
Meta Platforms (META)	-64.3%	194.1%	2.6%
Alphabet (GOOG)	-38.5%	58.8%	-1.3%
Microsoft (MSFT)	-27.7%	58.2%	6.7%
Netflix (NFLX)	-51.7%	65.1%	-10.1%
Tesla (TSLA)	-65.4%	101.7%	-16.1%
Amazon (AMZN)	-49.5%	80.9%	-4.6%
Nvidia (NVDA)	-50.3%	239.0%	29.9%

Past performance does not guarantee future results. All performance over one year is annualized.
Please see the Disclaimers section for important notes related to performance.
**The performance of the Masonry All Cap Select is net of all fees.*
The performance of MACS for 2022 is audited while the performance for 2023 is unaudited.

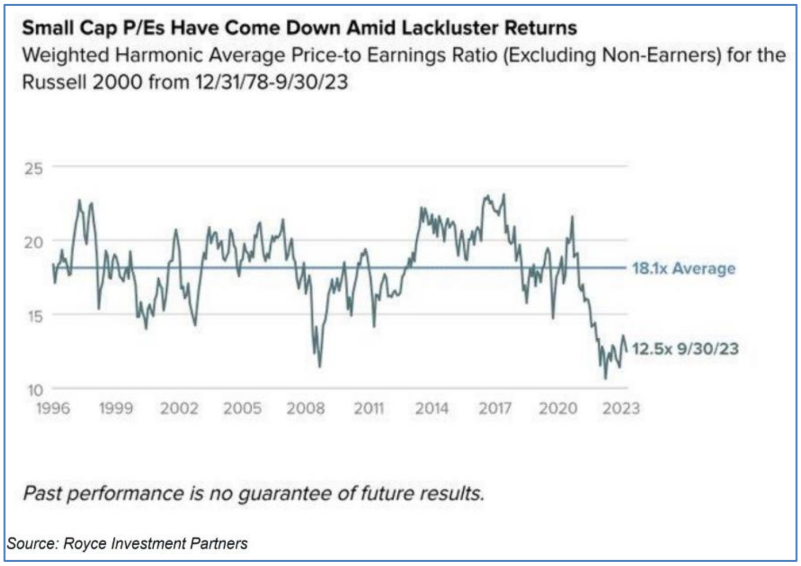
At their current perch, the Mag 7 stocks, and tech generally, sit at historically high valuations relative to almost any other category of stocks you can think of both in the U.S. and around the world (**Charts 2 and 3**).

Chart 2

Chart 3

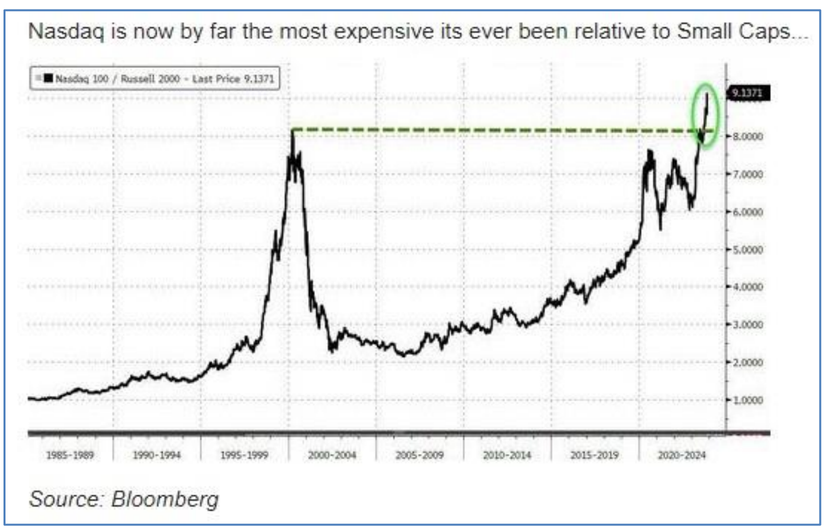
It is a logical question to ask where the opportunities might be found if U.S. stocks, and tech stocks specifically, are so overvalued relative to almost everything else. The answer for us is to forage in the overlooked and forgotten parts of the market that reveal themselves at times like these (**Chart 4**). In fact, we have lived through conditions like this before and they have proven to be particularly fruitful times for investors like us who are focused on small-to-mid cap companies. Subtracting out the "non-earners," or companies that earn no profit (mostly tech related), from the Russell 2000 reveals a whole host of companies trading at the cheapest valuations on a price-to-earnings basis since the Great Financial Crisis and are even cheaper than during the dotcom bubble. The years following both previous periods led to a period of substantial gains for small cap stocks with actual earnings.

Chart 4



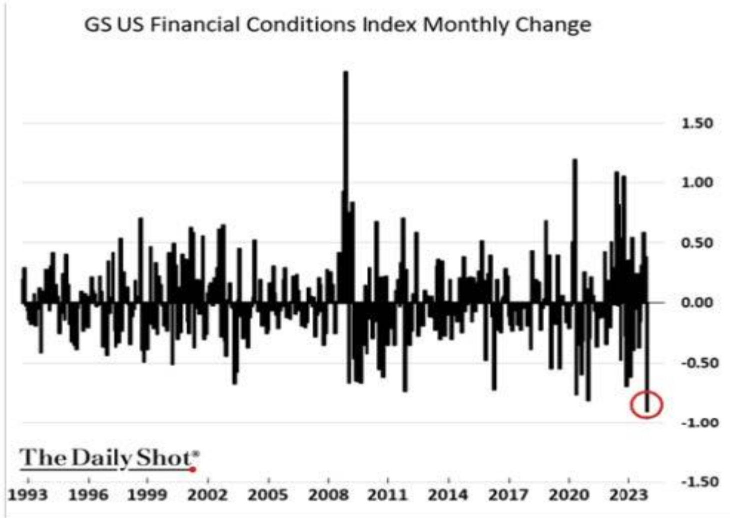
When looking at **Chart 5,** one could make the case that based simply on mean reversion, small caps outperforming the Nasdaq 100 in the coming years is a bet with very favorable odds.

Chart 5



The equity markets took off running in the last few months of 2023. We think one of the main factors in this was the loosening of financial conditions starting in early November and lasting through year-end (**Chart 6**). It was historic in nature and a reflection of a weaker U.S. Dollar, the steep decline in yields in longer-dated U.S. Treasuries and the tailwind of first President Biden, then Treasury Secretary Yellen, and finally Fed Chairman Powell all setting the stage for potential cuts in the Fed Funds rate in 2024.

Chart 6



Source: The Daily Shot

The loosening in the GS U.S. Financial Conditions Index beginning in November and lasting through year-end was extraordinary in the context of history. The financial markets need liquidity to function, and it was provided in spades the last two months.

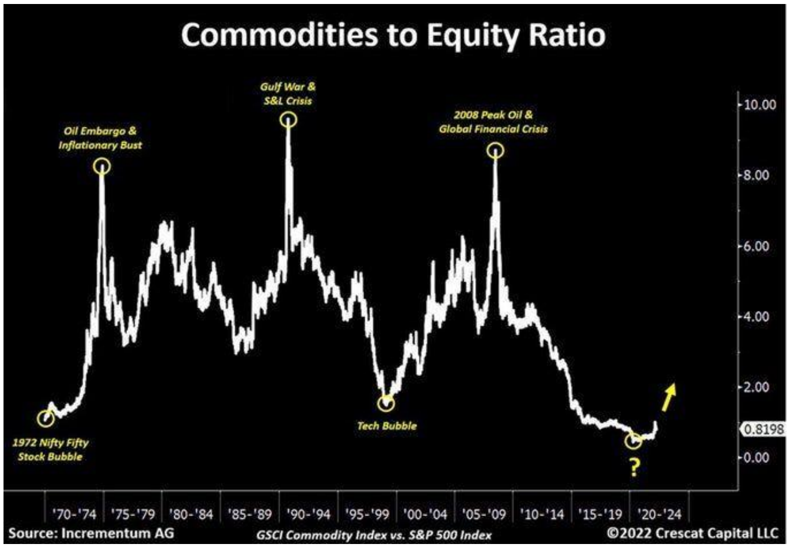
To have a U.S. President weigh in on monetary policy with regard to the Federal Reserve (an apolitical entity) is pretty extraordinary. To have both the President and Treasury Secretary do so before Powell even took to the mic for his scheduled public comments was even more so. To us, it's reflective of the growing and massive issue of the lack of liquidity in the U.S. Treasury market and the role the Fed and the Fed Funds rate play. Ultimately, we need lower rates and looser, not tighter, monetary policy to relieve the Treasury liquidity issue. This is occurring at a time when the U.S. federal budget deficit continues to expand, necessitating the need for even more U.S. Treasury issuance to fill the gap and pay the bills. And this is happening during a period of economic growth when historically the budget deficit should be shrinking not expanding. As stated during Mark's recent CNBC interview, the surprise of 2024 could be a much lower Fed Funds rate and much better economic growth than most are expecting. This is not our base case but one that is meriting our attention.

Portfolio Highlights

A substantial portion of our special situations investments are in cyclical companies that are exposed to the general economic cycle and in commodities. We find we are being more than adequately compensated for the inherent risks in owning these types of businesses. The reality is that these types of investments require a different type of framework than most investment managers are equipped to use. It almost seems like a lost art. One must not only possess a fundamental understanding of the underlying economics of the business but also have an informed view on both the industry and the overall macro environment as factors influencing the operating results of these companies extend to include all these variables.

We have used this framework to underpin our investments in companies exposed to the commodity cycle. There are a myriad of underlying causes and conclusions that need to be drawn to make investments in the commodity space in addition to **Chart 7**, but the chart is indicative that the wind certainly seems to be at our back when looking at the historical data.

Chart 7



Collectively, these stocks remain misunderstood and more importantly, under owned by most investors, although that may be changing. Mark Muller, Deutsche Bank's Private Bank CIO of ESG, stated in a late November Reuters release that he believes sustainability funds should include traditional energy stocks. He made the argument that in not doing so investors are being deprived of a 'prime opportunity' to invest in the transition to renewable energy. How that makes any sense with respect to ESG mandated investing we have no idea. However, it does make practical sense if the CIO of ESG wants to keep his job.

As a general rule, when your investment thesis lines up with one of the greatest investors of all-time, you are probably on to something. Warren Buffett had this to say about his investment in Occidental Petroleum of which Berkshire Hathaway owns a 34% stake.

> *"I would think if you owned Occidental, you'd be bullish on oil over the years – and you're probably bullish on the Permian Basin because they have such a significant portion of their assets there. It's a bet on oil prices over the long-term more than anything else. It's also a bet the Permian Basin is what it's cracked up to be... If oil goes way up, you make a lot of money...* ***You have to have a view on oil over time. Charlie and I have some views on that...****"* - Warren Buffett

Select Portfolio Details

We had some activity on the merger and acquisition front with a several of our companies in 2023. In early December it was announced that Star Bulk (ticker: SBLK) and Eagle Bulk Shipping (ticker: EGLE) were combining. This combination provides scale in an industry where scale is vitally important. As a result, they expect to experience cost and revenue synergies of approximately $50 million annually to begin within the next 12-18 months. The current dividend policy of SBLK, which will be adopted by the combined entity, pays out cash after debt service and a cash reserve which at current spot rates equates to a yield of around 8%. In combination, the company will trade at a price-to-NAV of 0.79x, 5.5x EV/EBITDA with substantial future earnings potential.

Two of our holdings, Frontline (ticker: FRO) and Euronav (ticker: EURN), announced a deal where FRO will acquire 24 VLCC's from EURN which will make FRO the largest listed tanker equity. This is a fully funded transaction for FRO resulting in no equity dilution. Post transaction, FRO will trade at 4.5x earnings per share and will yield 18% for the coming two years. Over time we expect FRO to trade closer to its historic valuation of 6x earnings per share and a 12% dividend yield as a result of its continued free cash flow generation and rising dividends.

Last on the corporate action front, DISH Network (ticker: DISH) and Echostar (ticker: SATS) announced they would be merging in early 2024 (*update: this occurred on 1/2/24*). A combination of the two companies (both have Charlie Ergen as the majority shareholder) should give the needed financial flexibility for DISH Wireless to realize their wireless ambitions and relieve some of the investor anxiety related to how they would fund the last of their buildout. If the combined company can start to monetize their substantial wireless spectrum in any meaningful way, we believe the current shareholders will be richly rewarded. For now, we consider this a special situation in the portfolio and have sized it as such. Our hope is that becomes a core position for us over time, but we need more clarity around the future profit stream of the wireless business before that can happen.

Firm Update

We are excited to share a momentous firm update which we have been working on diligently behind the scenes for the better part of 2023. Late last year an agreement was reached between Virginia National Bankshares (VNB) and Mark Meulenberg to transfer the ownership of Masonry Capital Management, LLC (Masonry) to Mr. Meulenberg through his wholly-owned entity, Sunny Creek Masonry, LLC. The business will continue to operate under the Masonry Capital Management name and the firm's main office will remain at its current location in Charlottesville, Virginia.

VNB's willingness to work with Mark to form Masonry as a Registered Investment Advisor over five years ago and to provide the foundational support the business needed during its first few years has been critical to its success. Glenn Rust, President and CEO of VNB, has been a mentor and friend of Mark's during his over 16 years at the bank. Glenn was instrumental in supporting our vision of launching a firm centered on value investing during a time when 'value' was certainly out of favor in the investment community. Glenn and the Board saw what ‘could be’ and not just ‘what was’ and that made all the difference.

Masonry will have four full-time employees and over $500 million in assets under advisement when the ownership transition occurs. The firm’s investment performance over the last three years has created an opportunity for continued growth in assets under management and has expanded our capabilities to better serve our investors. Both VNB and Masonry believe the opportunities ahead are best captured with Masonry as an employee-owned firm.

It was important that any agreement reached to transfer the ownership was mutually beneficial to both the bank and to Masonry. We believe we have accomplished that goal.

Total assets actively managed were approximately $64 million at the end of Q4 2023. Total assets (discretionary and non-discretionary) were approximately $516 million.

Thank you for your continued confidence and trust and please feel free to contact us with any comments or questions.

Best Regards,

Masonry Capital Management, LLC

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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.

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