Q1 2024 Masonry All Cap Select Commentary **April 2024**

"*Many investors today still pretend that we're in the system that we had from 1980 to 2020. We're not. We're going through fundamental, lasting changes on many levels.*"

Russell Napier, "The Fiscal Put"

To Our Client Partners:

The Masonry All Cap Select (MACS) composite year-to-date return was 8.9% through March 31, 2024, 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 10.6%.

Overview of Performance and Positioning

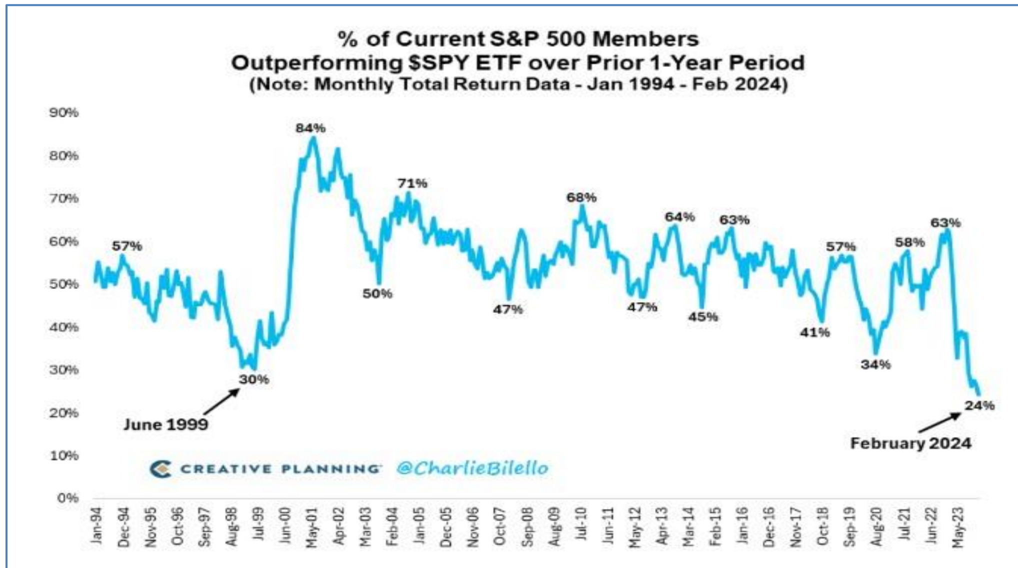
As of March 31, 2024, the MACS strategy had approximately 97% in equity or equity-like securities and approximately 3% in cash and fixed income-like securities. The portfolio's largest positions at the end of the quarter were Walgreens Boots Alliance (ticker: WBA), ConocoPhillips (ticker: COP), Kayne 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 Tidewater (ticker: TDW), KYN and COP. The largest detractors were the investments in WBA, Warner Bros. Discovery (ticker: WBD), and JOE.

Market Thoughts and Observations

The market returns in 2023 and Q1 2024 were largely generated by a very small number of stocks with large weightings in the S&P 500. Almost all have valuations that could be considered expensive using historical metrics. Past periods of narrow stock market leadership (the Nifty Fifty and Tech Bubbles) have given way to the broader opportunity of stocks outperforming (**Chart 1**).

Chart 1



Market concentrations like today's are rare and have occurred during periods of lower interest rates and tame inflation. A change in either of those variables has historically been indicative of major turning points and changes in market leadership (**Charts 2 and 3**).

Chart 2

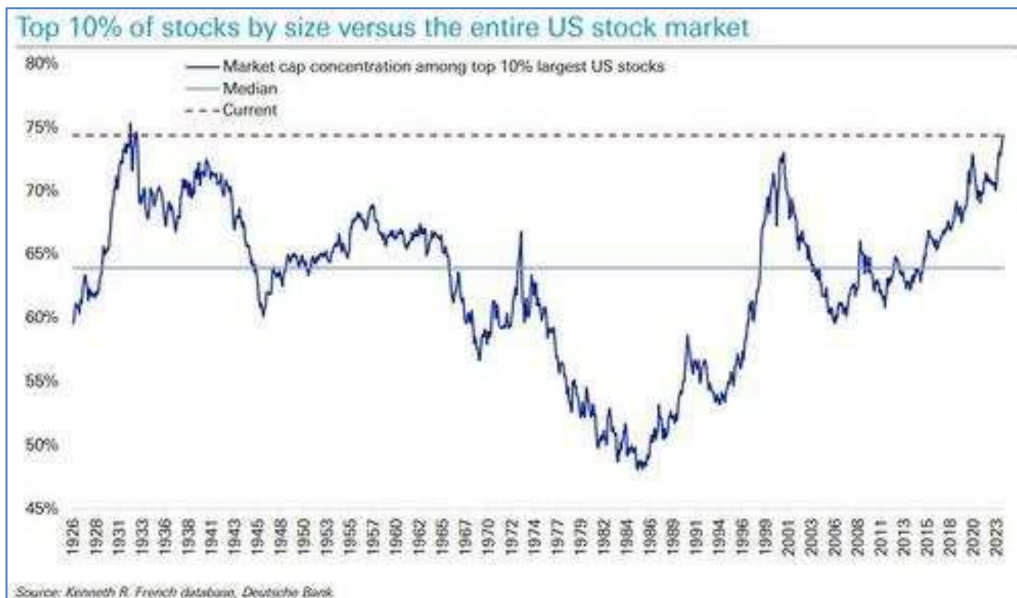
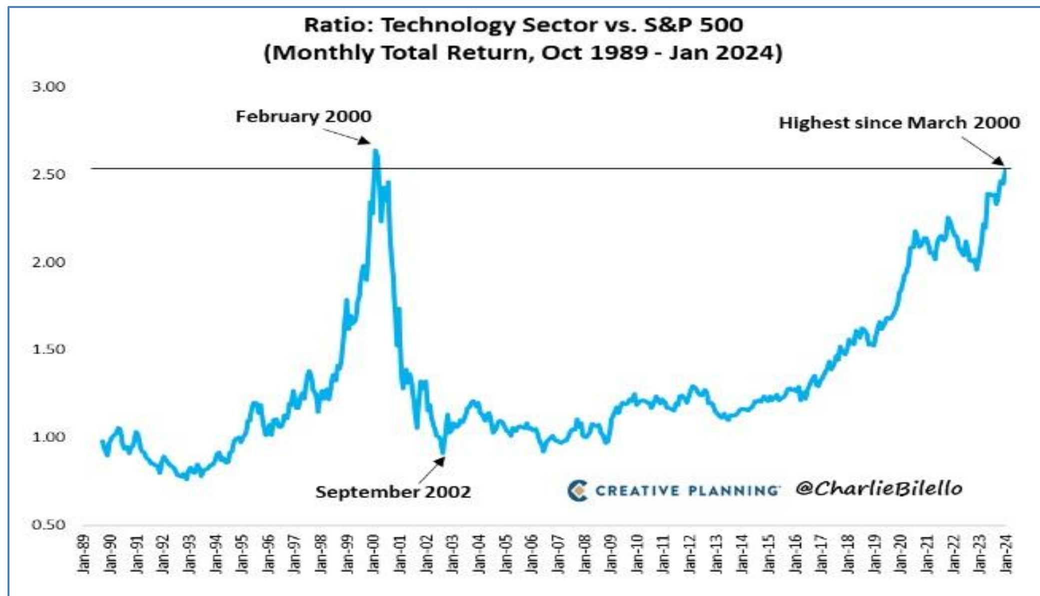


Chart 3



There is a plethora of very expensive stocks whose valuations are hard to justify. Estimating the value of an investment by calculating the present value of its future expected cash flows can help investors stay grounded when the narratives seem to have taken over.

This spring, Mark had the opportunity to teach students in the value investing course at the University of Alabama how to construct and interpret a discounted cash flow (DCF) model. They were taught the nuts and bolts of the inputs that go into a DCF and how to utilize it to 'reverse engineer' the level of free cash flow growth the market has embedded in the current price of stocks (kudos to Zeke Ashton of Ashton Capital for developing this section of the curriculum). As part of the class, two companies were studied where the results were striking. The first was NVDIA and the second was Altria.

Using the then price of $895 per share for NVIDIA and a 10% discount rate (determined to be reasonable-to-high), here are the assumed free cash flow growth rates for different years that equate to the current share price. The analysis starts in year 2025:

Year 1	103%	**Years 6-10**	11%
Year 2	25%	**Years 11-20**	8%
Year 3	20%	**Years 21+**	2%
Year 4	20%		
Year 5	20%		

NVIDIA already has one of the largest market caps in the world at over $2 trillion with sales of over $60 billion. For context, Microsoft's market cap is over $3 trillion with sales of over $225 billion this past year. It would be unprecedented for a company to grow at the implied growth embedded in NVIDIA's current share price. It also assumes there will never be any significant

competition for NVIDIA that would impede their future growth rate. If the free cash flow multiple and share count were to stay the same, NVDA's market cap would approximately $9.8 trillion by 2029 or over 3x Microsoft's current market cap. The students, unencumbered by the narrative created by the financial pundits, concluded that it would be virtually impossible for NVDA to grow at these rates that far into the future. We agree.

On the other end of the spectrum was Altria. Using a share price of $43 per share at the same 10% discount rate, here are the assumed free cash flow growth rates for Altria that equate to the current share price starting in 2025:

Year 1	0%	**Years 6-10**	0%
Year 2	0%	**Years 11-20**	0%
Year 3	0%	**Years 21+**	0%
Year 4	0%		
Year 5	0%		

No, those are not typos. The market is assigning 0% free cash flow growth rates to MO from now until forever. This is despite the company exhibiting a very long history of relatively steady growth in the cash generated from their operating activities and limited capex requirements (operating cash flow minus capex = free cash flow). The students, again unencumbered by any predisposition to how Altria's stock should trade, reached the conclusion that there was little-to-no chance Altria would experience zero free cash flow growth from today into perpetuity. We also agree.

The price you pay relative to the underlying economics of a business is the primary determinant of your return on that investment. Ascertaining the market assumptions embedded in a stock price can be very helpful (especially in extreme cases) in spotting pricing anomalies.

Buying an overvalued stock in a great business is a lousy investment, particularly if the business turns out to be not as great as anticipated. That lesson has been taught (and forgotten) time and again. Conversely, buying a stock whose share price reflects overly pessimistic assumptions, even if they are in what may be a not-so-great business, can be financially rewarding.

We recently listened to a presentation from John Rotonti, who has a great investing podcast titled "The JRo Show" which we highly recommend. In the presentation he provided an in-depth overview of Warren Buffett's investment philosophy principally using his writings from the Berkshire Hathaway annual letters and his various interviews over the years. His findings were separated into two categories, the first, what was deemed to be well-known (and correct), and the second, what was misunderstood (thus incorrect) as it relates to Buffett's investment decision-making. The well-known was Buffett's preference for businesses with large economic moats, their ability to generate high returns on capital, and their ability to reinvest capital back into the business at an attractive rate.

What has been misunderstood or even perverted, was the price he was willing to pay for the stocks of those companies. Using extensive data, John found that there was only one company where it could be reasonably known that Buffett paid more than 15x earnings per share at the time of purchase, an investment which has been described by Buffett to be a mistake. The largest and most notable purchases by Berkshire Hathaway over the years (Apple, Coca-Cola, See's Candies) were all made at multiples well below 15x earnings per share. Yet, there has been a pervasive view among investors that it is acceptable to 'pay up' for a great business at high multiples and they use Buffett as an example to justify it. One can't help but wonder if this is just another symptom of a disease borne by a decade of artificially low interest rates.

Fiscal Dominance

The ramifications of a level of U.S. debt-to-GDP that has reached post-WWII levels and a large and growing U.S. budget deficit needs to be viewed through a lens that has collected dust for over 70 years. The orthodoxy of an omnipotent Federal Reserve should now be called into question. We believe the reason is the concept of fiscal dominance. We draw your attention again to *Quarterly Review 531* published in 1981 from the Federal Reserve Bank of Minneapolis, titled, "Some Unpleasant Monetarist Arithmetic." In it they describe that in times of excessive spending by the fiscal authorities, the monetary authorities (Federal Reserve) become beholden to funding the federal deficit and lose the ability to use monetary policy to effectively control inflation. We summarized the highlights below for the purposes of clarity:

- In fiscal dominance, the demand for government bonds diminishes (except at much higher interest rates) at a time when the issuance is increasing due to growing budget deficits.
- If the fiscal authority's (U.S. government / U.S. Treasury) deficits cannot be financed solely by new bond sales, then the monetary authority is forced to create money to buy those bonds and permit the accompanying inflation that follows.
- If the demand for government bonds implies an interest rate on those bonds at a rate that is greater than the economy's growth rate, the monetary authority is unable to control the growth rate of the monetary base or inflation.
- Last, and perhaps most importantly, the paper models out that although tight monetary policy may work temporarily to dampen inflation, the higher interest rates paid on ever more bond issuance will eventually lead to additional inflation and make any reduction in inflation short-lived.

A link to *Quarterly Review 531* can be found here:

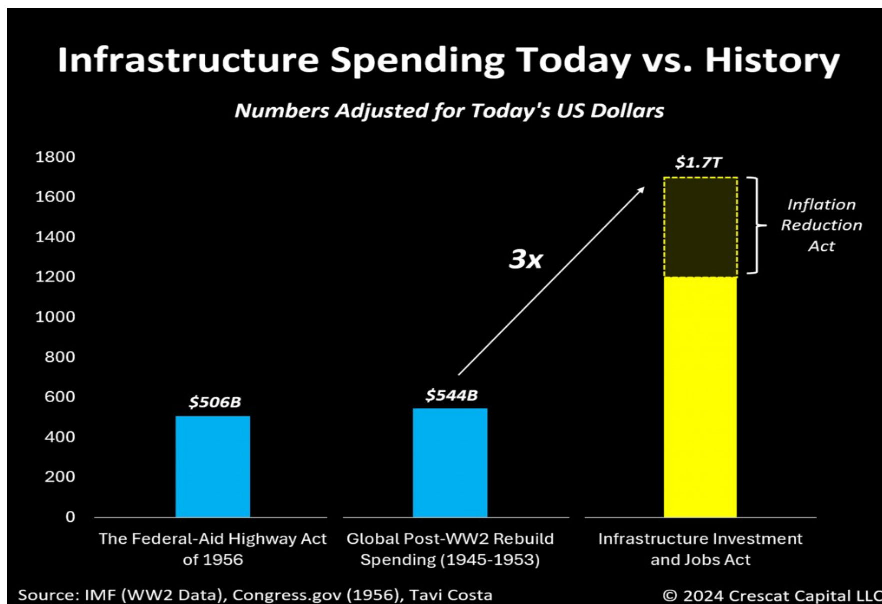
https://www.minneapolisfed.org/research/quarterly-review/some-unpleasant-monetarist-arithmetic

If one had to describe the experience of this last monetary tightening cycle and the current uptick we are experiencing in inflation, the above bullets might fit very well with that narrative. Some may be shocked by the idea that the power the Federal Reserve has held over important aspects

of the economy for so long has now been transferred to the fiscal authorities. After all, we have been living with the past regime for 40 years now. For students of history it should come as no surprise. We are following the same path charted in the U.S. after World War II.

To see the scale of federal expenditures in relation to other significant periods in U.S. history is truly a sight to behold (**Chart 4**).

Chart 4



Government spending programs of this magnitude have macro-economic impacts that are far-reaching. Historically, they have been highly inflationary. They are also unsustainable without a highly accommodative central bank if they are done via a large and growing budget deficit.

Inflation Implications

The investors of today have not experienced the current economic dynamics during their lifetimes. As we have noted, the implications are profound. Among the potential outcomes to be considered:

- A weaker U.S. Dollar (currency debasement) via accommodative monetary policy.
- Interest rates at elevated levels for a sustained period on the long end of the curve.
- Higher inflation for longer with temporary reprieves that may mirror the 1940's and 50's and the 1960's and 70's.
- Inflation "waves" that fool investors by anticipating that at each bottom inflation has been beaten (**Charts 5 and 6**).

Chart 5

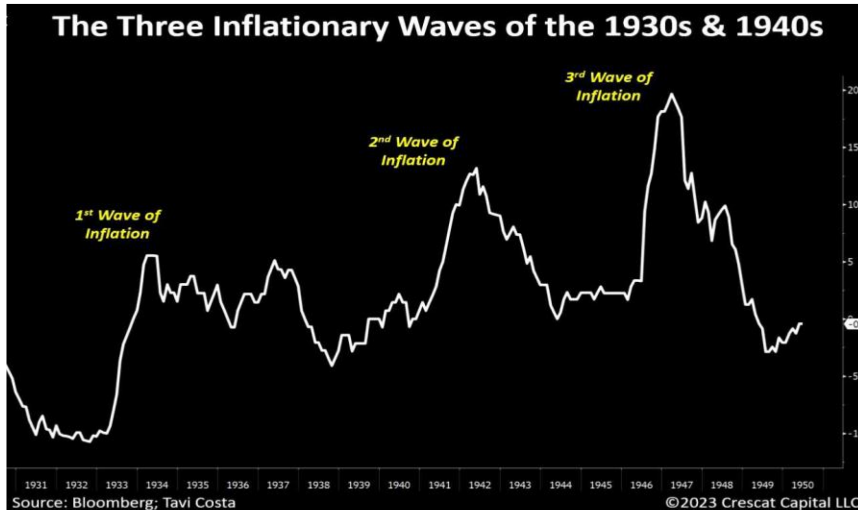
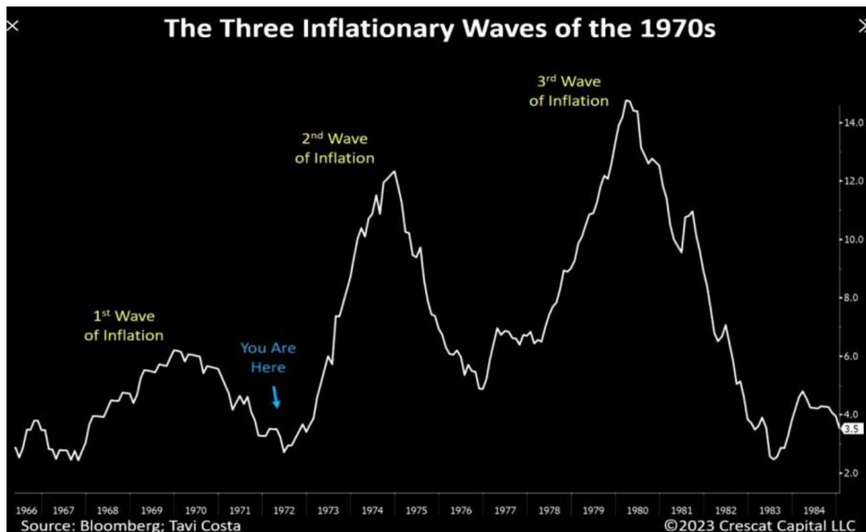
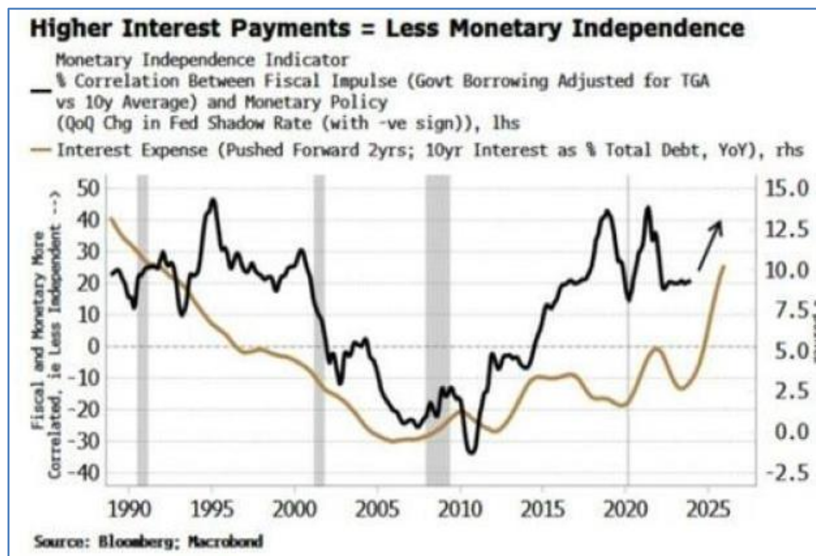


Chart 6



It is likely, perhaps inevitable, that structurally higher interest payments (the issuance x the interest rate as shown in **Chart 7**) will pressure the Federal Reserve to support continued fiscal spending and abandon their fight against inflation prematurely. This could be done in a variety of ways, but the simplest solution may be to move U.S. Treasury issuance to the front of the curve (already happening) and have the Federal Reserve lower the Fed Fund rates in a coordinated response.

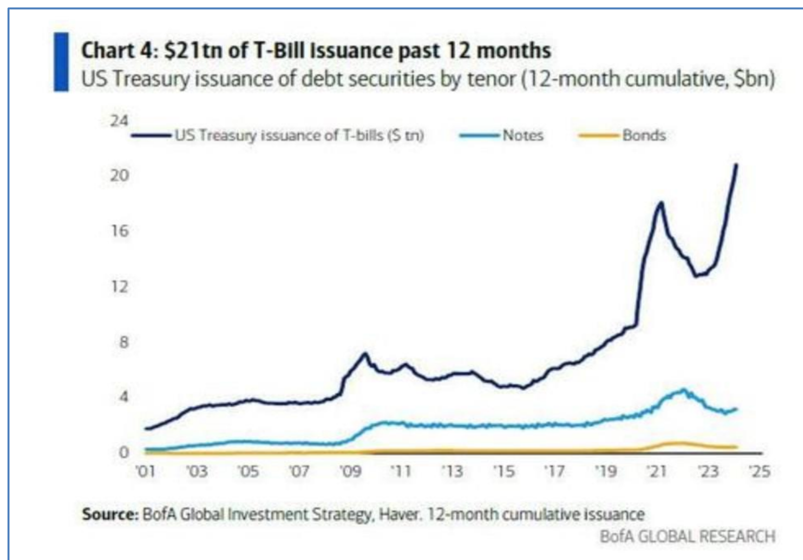
Chart 7



Running large fiscal deficits with a debt-to-GDP ratio above 120% results in ever higher interest costs.

The U.S. Treasury started moving their issuance to the front end of the curve in 2023 by increasing the amount of T-bills relative to longer-term bonds (**Chart 8)**. The next step logical step would be for the Federal Reserve to follow suit.

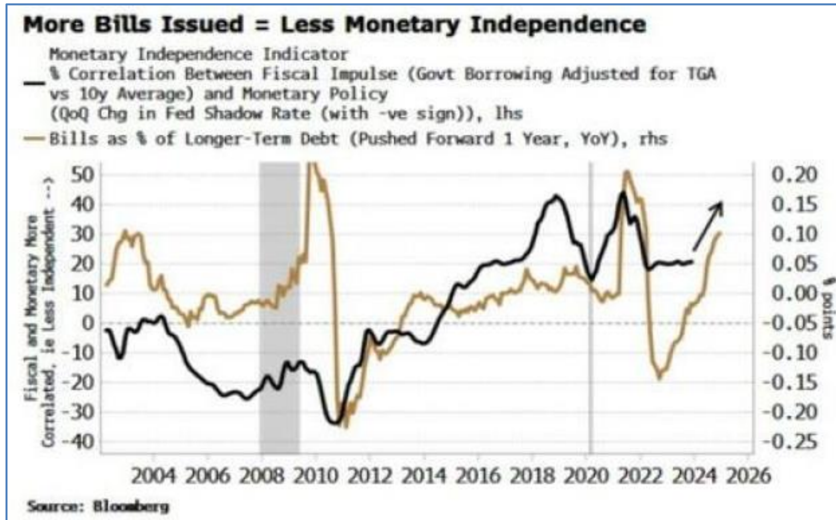
Chart 8



A logical 'release value' as the U.S. Treasury continues to move issuance to the front of the curve is to lower interest costs by cutting the Fed Funds rates.

As Simon White, Bloomberg macro strategist, wrote in a January 30, 2024, piece posted on *ZeroHedge*, "A less independent Fed and spendthrift government is structurally inflationary." If indeed we have moved from the concept of a "Fed Put" to a "Fiscal Put," it has a wide range of implications (**Chart 9**).

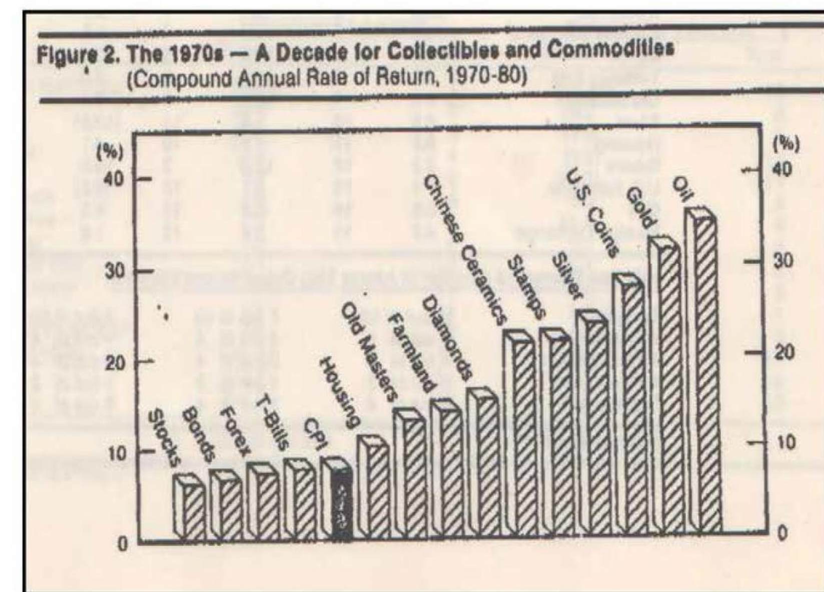
Chart 9



In periods of excessive fiscal spending, the monetary authorities are constrained in their ability to use monetary policy as a tool to fight inflation.

If this is the new reality, we may see a preference for inflation protection via the traditional hedges (gold, silver, TIPS), commodities and hard assets. With due thanks to the writings of Kopernik Global Investors, LLC for bringing **Chart 10** to our attention, it shows the annual rate of return for asset classes during the last lengthy bout of inflation in the U.S.

Chart 10

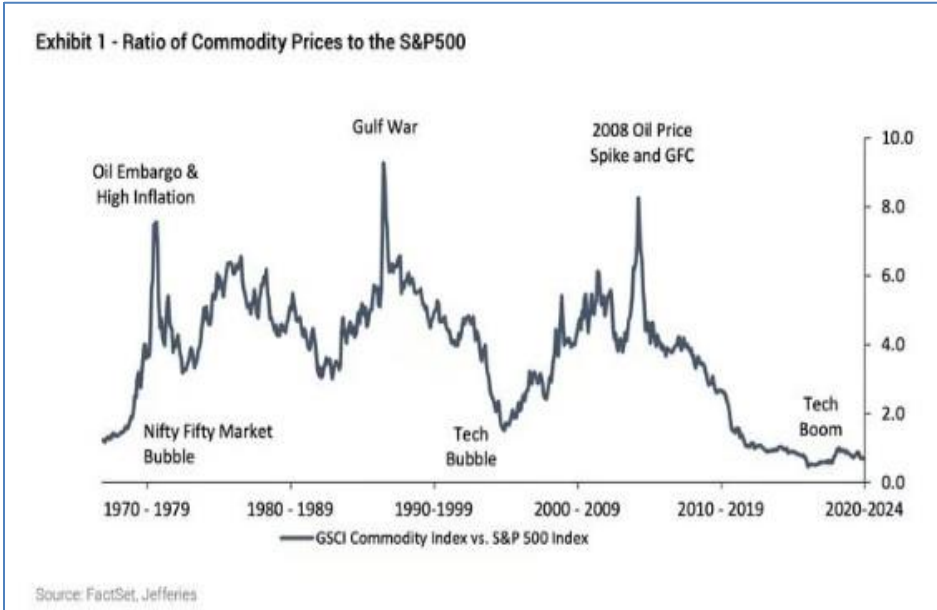


This environment is in so many ways dissimilar to what we have experienced over the last 40 years. As such, a different investment playbook most likely needs to be used. The adjustment period will take time as years of long-held beliefs will have to be unwound. As evidence, we cite recent work from Inigo Fraser Jenkins and Alla Harmsworth at AllianceBernstein from their February 2024 piece titled, "A Snapshot of Asset Allocators' Views." In the section "Inflation and a New Paradigm," they summarized the following from their interactions with a group of Chief Investment Officers and senior asset allocators:

> *"There was general agreement that the strategic outlook for inflation is higher and a majority view held that real growth will be lower. Abstracting beyond the cyclical outlook, the idea that the inflation rate 10 years forward will be higher than that seen over the pre-COVID decade did not seem at all controversial, to the point that there was no argument on this point. This is striking, as (1) this is not the message from 10-year breakeven rates, which imply inflation in the low two-percent range, and* ***(2) despite people apparently signing on to a higher-inflation future, we would argue that this does not seem to be reflected in a commensurate change in portfolio allocations."***

When asked what made him such a great hockey player, Wayne Gretzky was quoted as saying, "I skate to where the puck is going to be, not where it has been." **Chart 11** is telling in that if we are indeed in for a period of elevated inflation, the assets that perform well in this environment are under-allocated to a greater extent than at any time since the Nifty Fifty and the Tech Bubble.

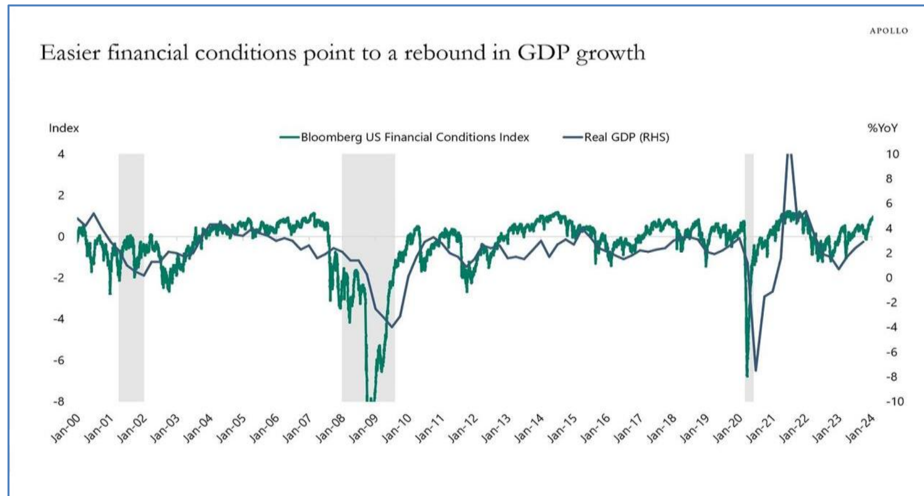
Chart 11



Financial Conditions | GDP Growth

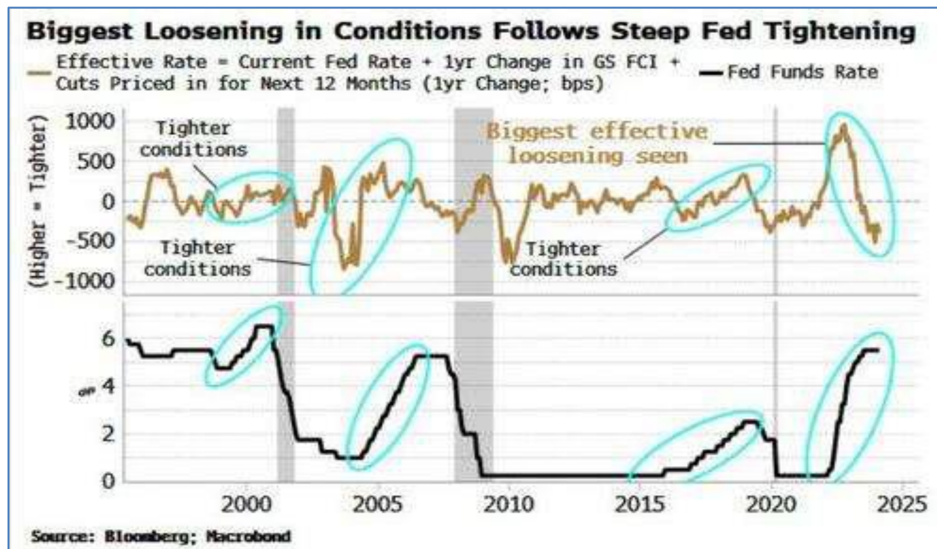
In recent history, when the Federal Reserve begins raising interest rates it has led to tighter financial conditions which has led to slower GDP growth and a reduction in inflation. What is unusual about this current interest rate tightening cycle is that financial conditions as measured by the Bloomberg U.S. Financial Conditions Index have been loosening (**Chart 12**) and as a result Real GDP is improving.

Chart 12



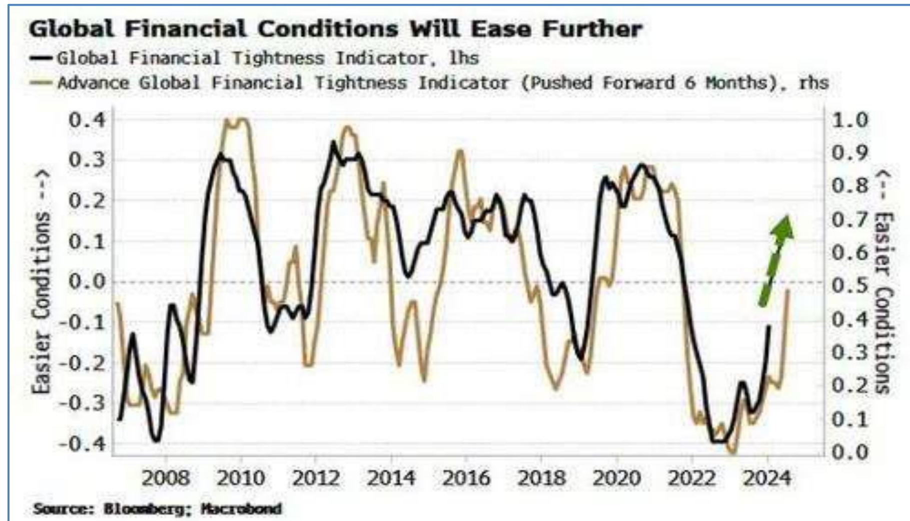
The Goldman Sachs' Financial Conditions Index is calibrated to mirror an equivalent change in the Fed Funds rate. Since 2000, when the Federal Reserve embarked on a tightening cycle the Effective Rate also tightened but not this time. Despite the increase in the Fed Funds rate, the Effective Rate has loosened, nullifying the impact of higher rates (**Chart 13**).

Chart 13



The loosening of financial conditions isn't just happening in the U.S. but also globally (**Chart 14**), potentially leading to much stronger global growth than is currently priced into the markets.

Chart 14



Portfolio Highlights

With the almost breathless attention paid to the Magnificent 7 stocks and the promise of Artificial Intelligence (AI), we understand how easy it would be to miss the stellar performance of certain stocks in such boring industries as oil and gas exploration, offshore supply vessels and oil tankers from October 31, 2020 through March 31, 2024. The October 31 date represents the time we believe the impact started being felt from the largest combined fiscal and monetary stimulus programs the United States has ever seen.

Not only has the performance of this sample of "old economy" stocks (**in bold below**) been outstanding, but they have also handily beat the S&P 500 as well as many of the stock market darlings of today whose returns are so celebrated.

Name	Ticker	Description	Cumulative Performance 10/31/20 - 3/31/24	Annualized Performance 10/31/20 - 3/31/24
S&P 500	N/A	S&P 500 Index	69.4%	16.7%
NVIDIA	NVDA	Tech	622.7%	78.6%
Microsoft	MSFT	Tech	114.4%	25.1%
Alphabet	GOOG	Tech	87.9%	20.3%
Meta	META	Tech	84.8%	19.7%
Apple	AAPL	Tech	60.8%	14.9%
Tesla	TSLA	Autos	35.9%	9.4%
Netflix	NFLX	Tech / Media	27.7%	7.4%
Amazon	AMZN	Tech / Cons Disc.	18.8%	5.2%
Tidewater	**TDW**	**Oil Services**	**1,467.0%**	**124.2%**
Scorpio Tankers	**STNG**	**Tankers**	**773.1%**	**88.8%**
Range Resources	**RRC**	**E&P**	**433.3%**	**63.4%**
ConocoPhillips	**COP**	**E&P**	**403.6%**	**60.6%**

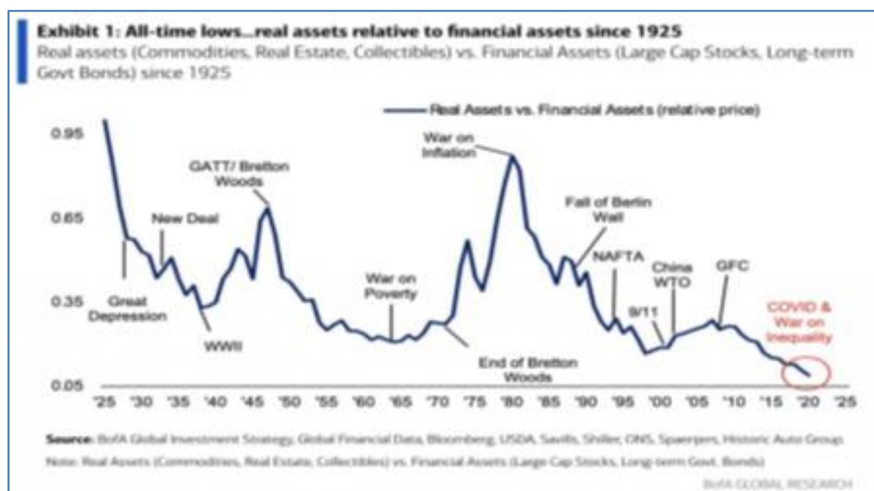
We have seen a steady stream of important news regarding energy hit the airwaves in the last few months. Collectively, it may be the single most important and impactful thing to effect the financial markets, but it is getting overshadowed almost entirely by the narrative around Artificial Intelligence. Saudi Aramco's CEO, Amin Nasser, said in mid-March that the energy transition is failing, and that the world should abandon the 'fantasy' of phasing out oil. This may be the result of a rapidly fading dream of a world filled with autonomous driving electric cars, the realization that data centers have massive energy needs due to AI, or the fact that intermittent energy production via solar and wind is not ready to be anything more than a supplemental source of energy. However it has come about, the world is awakening to the need of a reset on the energy transition front.

Developing nations, which need cheap energy sources to grow, represent more than 85% of the world's population. Those needs should be balanced with the clean energy desires of the more developed countries and done so in a sensible manner. Nasser stated that efficiency improvements over the past 15 years have reduced global energy demand by a total of almost 90 million barrels per day equivalent while wind and solar have substituted 15 million barrels per day over the same period.

The current energy policy of developed markets has created a supply scarcity dynamic that is not easily fixed. We continue to maintain positions throughout the energy complex from oil and gas producers, to oil service companies, to the pipelines and tankers that deliver it.

Our valuation work is done at the individual company level and combined with an understanding of the industry in which the company operates. Our almost 30 years of professional investing experience has also taught us to pay close attention to the investment environment we are operating in. Appreciating the underpinnings of the factors that have created the current investment opportunity set gives us the necessary confidence to ride out the inevitable short-term volatility. **Chart 15** is a chart that illustrates how 'financialized' we have become relative to the value placed on the real assets which are the foundational building blocks of economies.

Chart 15



Select Portfolio Details

Last quarter, we had a call with investor relations at Tidewater. My intention was two-fold: affirm my understanding of the industry dynamics and where Tidewater sits in relation to it, and to obtain some clarity around my model inputs. Both objectives were met and only have us more excited about the future of our investment in Tidewater. The industry and company specific dynamics are playing out even better than we originally thought. Regarding the model, we were having difficulty interpretating the accuracy of the output in the future years as the financial results were significantly better than the forecast of most Wall Street analysts. The good news is we concluded our model was correct. The better news is that if the anticipated results come to fruition the stock is still very undervalued even after an historic performance run the last few years.

There have been several favorable tailwinds for our shipping companies over the last few years including the Russia / Ukraine conflict, Houthi attacks on the Red Sea and the drought in Panama. These have all served to increase tanker demand via longer routes which means more time on the water and more revenues for the tankers. We are cognizant that some or all of these may all resolve and create a temporary reversal of the current favorable conditions. This will no doubt negatively impact the financial results of our holdings in the short-term. However, the long-term tailwind remains in place and will remain until there is a substantial change in the supply and demand dynamics in the industry. We believe that day is far off. DHT Holdings, a tanker with VLCC ships, included this language in their Q4 2023 earnings release:

> *"Interest and activity to contract newbuildings picked up at the end of last year with several respected and experienced owners either contracting or pursuing available newbuilding berths for as early delivery as possible. Delivery for 2026 is to our understanding now potentially sold out hence focus is on 2027 deliveries, and we see continued activity with additional contracts expected to be signed.* ***Due to lack of investment over the past several years, the supply of new ships is lagging behind a rapidly aging fleet and we don't think the current activity will significantly impair the favorable supply picture*** *(our emphasis). Shipyard capacity for large tankers is scarce due to significant demand to build other types of ships. Further, trade and economic disruptions do not help solve inflationary pressure on labour, materials, and equipment."*

WBA is a core holding that we believe has substantial upside as we await more details on the transformation currently underway. Despite solid revenue growth over the last decade, the profitability of WBA has been gradually declining over the years. In short, their corporate strategy and former CEO, Rosalind Brewer, were not a good match leading to both the company and the stock underperforming.

To say their financials are 'messy' at present is a gross understatement. There is a cost-cutting program in place resulting in restructuring charges, a change in strategy as they move away from expanding their U.S. Healthcare division, a change in the direction with their lease-buyback

program, a reduction in their dividend, sales of a portion of their meaningful stake in Cencora (ticker: COR) which are impacting earnings and more. It's a long list.

It's a logical question to ask what value we could possibly see in the stock. Well, that is a long list as well! We believe they have assembled a top-notch management team led by Tim Wentworth. We were familiar with Tim through his leadership as CEO of Express Scripts, a leading pharmacy benefit manager (PBM), which was a core holding of ours many years ago. Coming full circle, the start of WBA's demise in 2012 seemed to begin with a very public and contentious exit of WBA from Express Scripts' pharmacy network. Tim knows this industry very well and has decades of experience. He came out of retirement to take the helm at WBA and has assembled great people around him. There are multiple levers to pull to right the ship including rationalizing the store count, further integrating their healthcare offerings within their pharmacies, and forging a new path in their relationship with PBMs. All of which are currently underway. There is a very low bar set for WBA which creates a favorable scenario for them to surpass current expectations. As Warren Buffett said when asked what the secret of a great marriage was, "If you want a marriage to last, look for someone with low expectations." We are paying an extremely low multiple of current earnings and collecting a dividend of over 4.5% while we wait for WBA to right the ship.

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 and Mark Meulenberg to transfer the ownership of Masonry Capital Management, LLC to Mr. Meulenberg through his wholly-owned entity, Sunny Creek Masonry, LLC.

We are thrilled to report that as of April 1, 2024, the transaction has been consummated. The business will continue to operate under the Masonry Capital Management name and Masonry's main office will remain at its current location in Charlottesville, Virginia.

Masonry now has three full-time employees as well as a consultant to help serve the needs of our clients and to capitalize on new business opportunities for the firm. Our 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. As an employee-owned company, the interests of Masonry and its employees are even further aligned with that of our clients.

Total assets actively managed were approximately $66 million at the end of Q1 2024. Total assets (discretionary and non-discretionary) were approximately $445 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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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.

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 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.

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