Q4 2024 Masonry All Cap Select Commentary **January 2025**

"The investor who says, 'This time is different,' when in fact it's virtually a repeat of an earlier situation, has uttered among the four most costly words in the annals of investing."

- Sir John Templeton

To Our Client Partners:

The Masonry All Cap Select (MACS) composite year-to-date return was -2.6% through December 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 25.0%.

Overview of Performance and Positioning

We continue to adhere to our core investing tenets. Our process has served us well particularly during market declines such as we saw in 2022. Despite the S&P 500 outperforming our strategy over the last two years, we have performed well over what we consider a full market cycle with the MACS returning 12.91% net annualized over the last trailing 4 years versus the S&P 500 annualized return of 13.5% and the Nasdaq 100 of 11.51%.

As of December 31, 2024, the MACS strategy had approximately 84.2% in equity or equity-like securities, 12% in direct commodity exposure (gold and silver) and approximately 3.8% in cash and fixed income-like securities. The portfolio's largest positions at the end of the quarter were the Kayne Anderson MLP / Midstream closed-end fund (ticker: KYN), the Sprott Physical Gold and Silver Trust (ticker: CEF) and Philip Morris International (ticker: PM).

The top contributors for the year were KYN, CEF and the SPDR Gold shares ETF (ticker: GLD). The largest detractors were EchoStar Corp. (ticker: SATS, The St. Joe Company (ticker: JOE) and Tidewater (ticker: TDW).

Market Thoughts and Observations

While we are not pleased with the returns from the MACS strategy in 2024, we remain convicted in our discipline to buy securities for far less than our calculation of what they are intrinsically worth. After over 30 years of investing, we believe one of our core strengths lies in this analytical process. Conversely, we avoid buying assets that are worth more, or in some cases far more, than our calculated value despite the fact their stocks may be rapidly increasing in price. Buying an overvalued asset anticipating that it will become even more highly valued in the future is not something that is in our wheelhouse as investors. In fact, our experience has been that investing, or maybe it is speculating at that point, in that way is highly likely to lead to substantial and permanent loss of capital.

In a nutshell, what happened in 2024 in our view was the overvalued got more overvalued and the undervalued became even more undervalued. The good news is that we were afforded the opportunity to own a plethora of securities at large discounts to our calculated value. Times such as these have historically preceded periods of very favorable returns for our strategy. However, none of this precludes that an overvalued market can't get even more overvalued still, perhaps making us looking foolish along the way for 'missing out.'

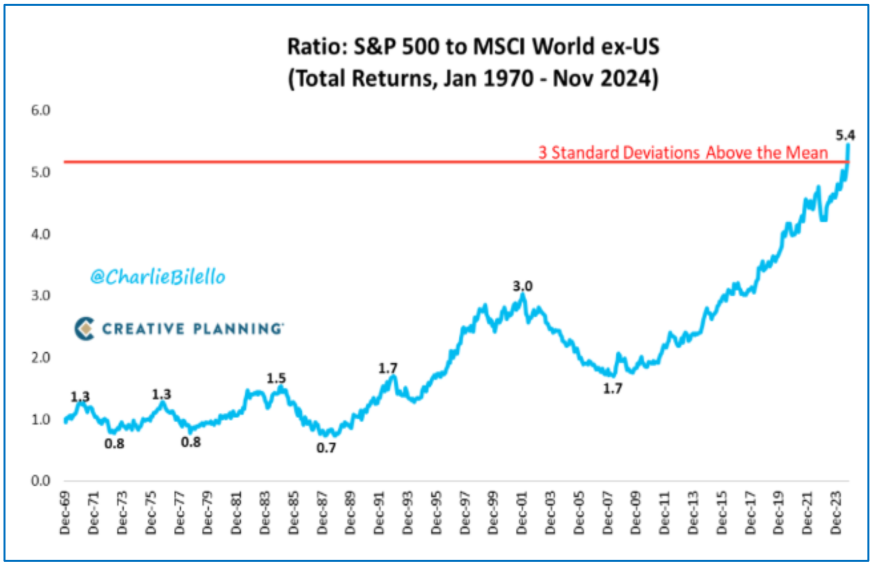
We have periodically shown various metrics that exhibit how overvalued the U.S. stock market is and how precarious the market becomes when a handful of companies are in such a high concentration. **Charts 1 and 2** exemplify both the extreme valuation of U.S. stocks as well as the historical overrepresentation of U.S. stocks relative to those in the rest of the world.

Chart 1

The average of the percentiles in this chart is 96% which is an all-time high for U.S. stock valuations.

The outperformance of the U.S. stock market relative to the rest of the world has also been unprecedented as seen in **Chart 2**.

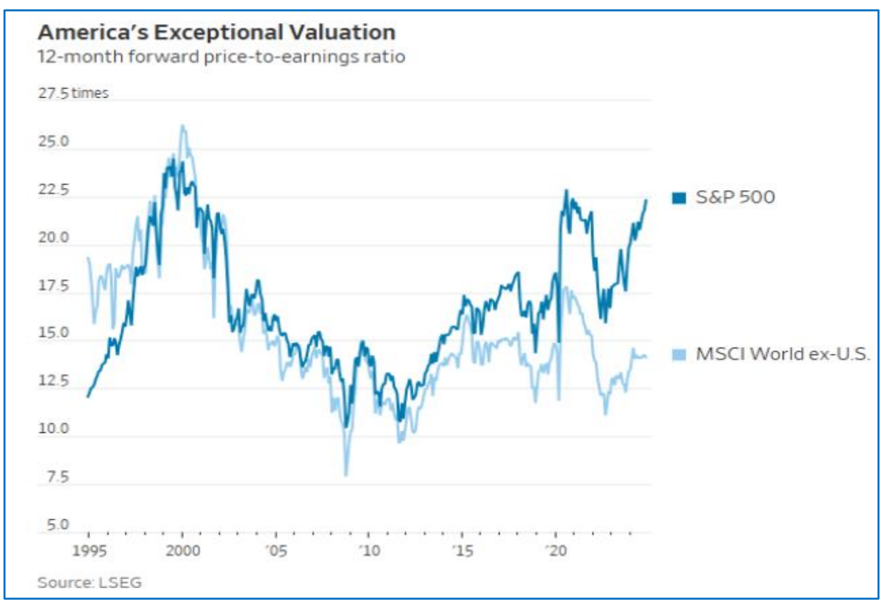
Chart 2



S&P 500 performance vs. the world is now over three standard deviations above the mean going back to 1970.

The caveat is that much of the S&P 500 outperformance since 2020 has come from expanding valuations relative to stocks outside of the U.S. making the S&P 500 historically expensive (**Chart 3**). If history and economics are any guide, this fact does not portend well for future returns in owning the market cap weighted index of the S&P 500.

Chart 3

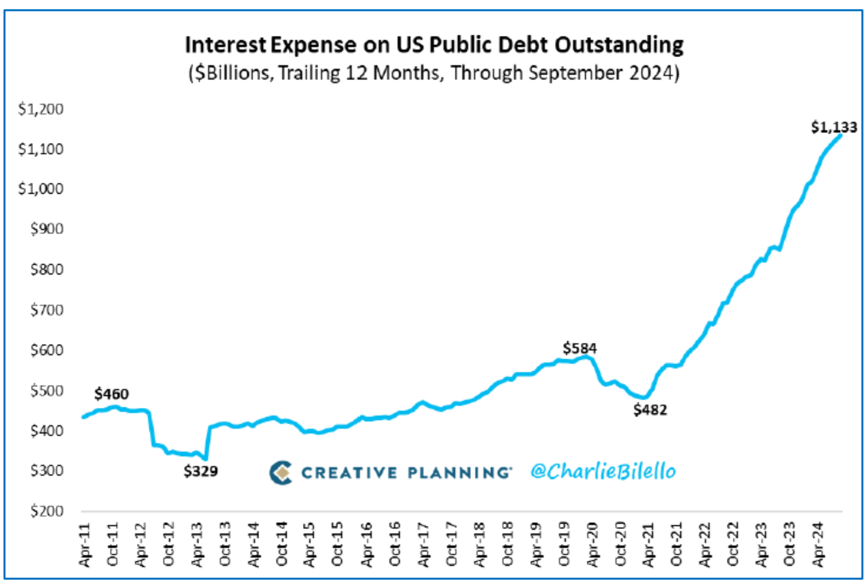


The S&P 500 is reaching valuation levels approaching the peak of 2000 and preceding the most recent decline in 2022.

We have read opinions that try to answer the 'why' of how this has occurred. Some are centered around the dominance of U.S. tech relative to those companies outside of the U.S. Others point to superior U.S. economic growth versus the economies of other countries throughout the world. Our views differ. We believe the strength in the U.S. Dollar is front and center. On this front, some pundits believe that the strong U.S. Dollar is the result of the exceptional growth and resiliency of the U.S. economy. While this may be true on the surface, the evidence leads us to believe that it may be the excessive fiscal spending that is driving U.S. economic growth. To wit, the U.S. budget deficit has remained around 7.5% of GDP in 2023, 2024 and is forecasted for the same in 2025. This is very high relative to the Eurozone and Japan with deficits of around 3% of their respective GDPs. Fiscal deficits of this magnitude have a tremendous positive impact on corporate profits. Unfortunately, any downward adjustments to this level of spending in the U.S. may bring about a sea change in the economy and financial markets.

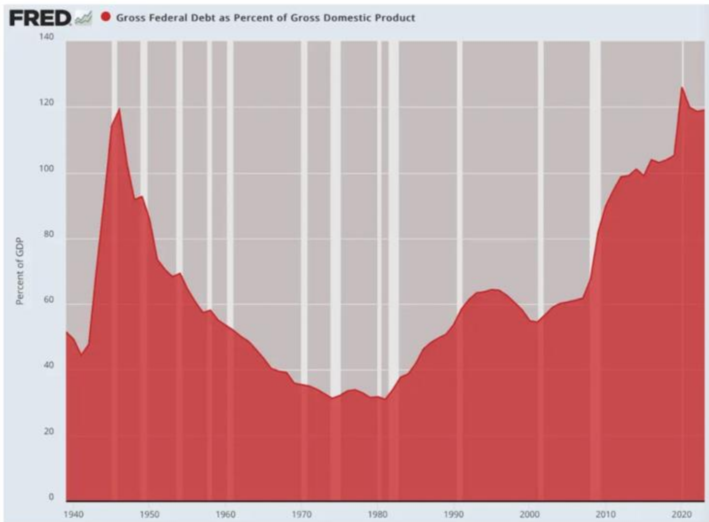
We may very well be hitting a critical juncture where the strong U.S. Dollar is putting such immense pressure on foreign currencies that it causes a financial crisis of sorts. Additionally, the high level of debt-to-GDP in the U.S. (approximately 120%) and interest payments that have rivaled, and now exceed, our Defense spending are becoming political talking points (**Charts 4 & 5**). An argument could also be made that continued strength in the U.S. Dollar will make it difficult, if not impossible, for the Trump administration to restore the U.S. industrial base to make good on the promise to lift the middle class to some level of economic stability and hopefully, prosperity.

Chart 4



U.S. interest expense now exceeds $1 trillion which is larger than the approximately $884 billion the U.S. allocated for defense spending in 2024.

Chart 5



(Data: Federal Reserve Economic Data (FRED), St. Louis Fed; Chart: Jeffrey A. Tucker)

Gross Federal Debt is now approx. 120% of U.S. GDP which is on par with the levels seen post-WWII.

We expect 2025 to be a year of change, particularly regarding the U.S. Dollar, in the world's financial markets with the advent of a new political administration in the U.S. Upon reading commentary from incoming President Trump and his nominee for U.S. Treasury Secretary, Scott Bessent, it seems evident that both prefer a weaker U.S. Dollar policy and may pursue that objective as soon as feasibly possible.

If we are truly at a turning point, we think **Chart 6** captures how different asset classes and strategies respond to the secular trends in the U.S Dollar.

Chart 6

To further illustrate this point, the performance of selected representative stocks and the S&P 500 during times of U.S. Dollar strength and weakness are highlighted below. The extreme differentials in performance are noticeable:

Period of U.S. Dollar Strength
12/31/2010 - 12/31/24

Company Name	Ticker	Cumulative Return	Annual Return
Wal-Mart de Mexico	WMMVY	46.1%	2.7%
Coca- Femsa	KOF	46.5%	2.8%
Conocop Phillips	COP	209.5%	8.4%
S&P 500 Index	NA	509.6%	13.8%
Wal-Mart Inc.	WMT	578.7%	14.7%

Period of U.S. Dollar Weakness
12/31/99 - 12/31/2010

Company Name	Ticker	Cumulative Return	Annual Return
Wal-Mart de Mexico	WMMVY	593.6%	19.2%
Coca- Femsa	KOF	430.2%	16.4%
Conocop Phillips	COP	267.6%	12.6%
S&P 500 Index	NA	4.6%	0.4%
Wal-Mart Inc.	WMT	-10.3%	-1.0%

General Company or Index Description

Wal-Mart de Mexico	The Wal-Mart of Mexico and Latin America
Coca- Femsa	Bottles and distributes branded beverages throughout North, Central and South America
Conocop Phillips	E&P for oil and natural gas
S&P 500 Index	Cap weightd index includes 500 leading U.S. companies
Wal-Mart Inc.	Primarliy operates stores in the U.S. and Puerto Rico

We wanted to revisit and share our perspective on the excitement surrounding Artificial Intelligence (AI). Technological breakthroughs like the advent of railroads, electricity, the internet, and now AI, undeniably transform the world and our way of life. However, such advancements often come with a caveat. Early stages of these innovations are frequently marked by a period of euphoria, with limited attention given to the returns on the capital invested. While not guaranteed, we believe it is plausible that the AI infrastructure cycle could follow a similar trajectory to the early internet infrastructure boom, which ultimately led to a subsequent bust. Currently, AI-related companies are enjoying generous valuation multiples based on expectations of significant future profitability. If those profits fail to materialize within a reasonable timeframe, these valuation premiums are likely to contract. In this context, the following words may once again hold true:

"The investor who says, 'This time is different,' when in fact it's virtually a repeat of an earlier situation, has uttered among the four most costly words in the annals of investing."

- Sir John Templeton

Portfolio Highlights

At the risk of repeating what we communicated in our last letter, the general characteristics of our holdings have not changed in any significant way over this year. The portfolio is populated with securities trading at extremely low multiples using any variety of measures (P/E, price-to-free cash flow, etc.), large discounts to the replacement value of their assets and clearly identifiable pathways to realize the value we see.

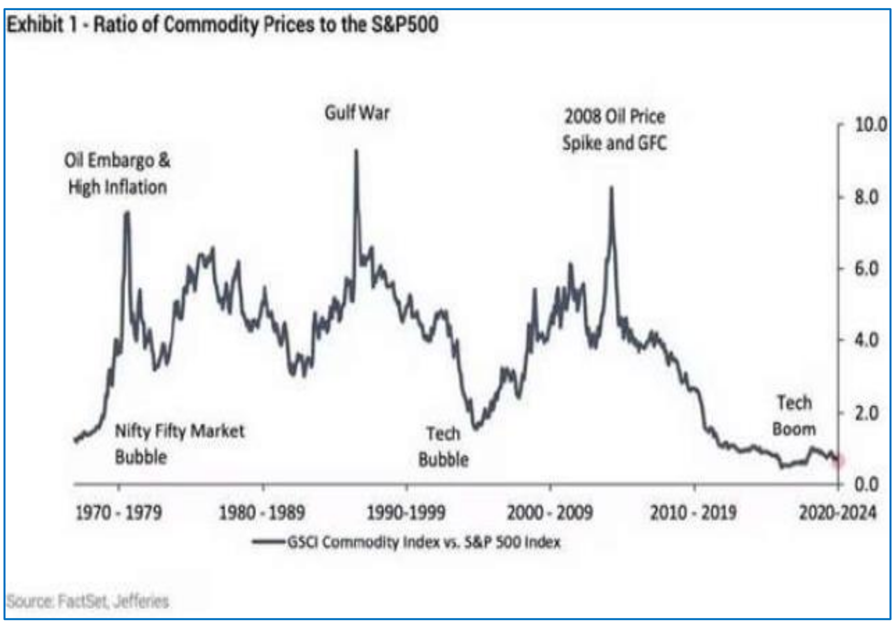
We have been active in buying shares in companies that share some distinct similarities:

1) They entered the recent period of higher interest rates with substantial debt on their balance sheets due to expansion, acquisitions or both that, in some cases, occurred just before the Fed embarked on the fastest interest rate increases in U.S. history.
2) The combination of higher indebtedness, higher inflation and a slowing consumer proved a heavy blow, and valuations cratered to some of the lowest absolute valuations we can ever recall.

The companies adjusted. They started actively paying down their debt. They right sized their cost structure, and they became more efficient. Anecdotally, we have seen tangible evidence that private equity is actively attempting to capitalize on these types of opportunities which may provide a catalyst for our holdings if they were to become increasingly acquisitive.

We have maintained a healthy allocation to the commodity sector, particularly in E&P, oil services and shipping. The respective industries remain disciplined in their return of capital to shareholders at the expense of growth capex spending. As we always do, we take a 'bottoms up' valuation approach to our holdings in this area. Investing in anything to do with commodities requires a strong fortitude and an understanding of longer-term trends. That said, any evidence that promotes the investment case for these stocks and industries from a macro view helps give us the conviction to stick with our positions. **Chart 7** is one such example.

Chart 7



The commodity index and S&P 500 are inversely correlated and are cyclical.

The relationship between the two from 2020 to today suggests the possibility of a strong move up in commodity prices relative to the S&P 500 in the future.

We also continue to maintain our hedges via gold and silver and some protective puts on the more expensive parts of the U.S. stock market.

Select Portfolio Details

Late in Q4, news broke that the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) was further sanctioning tanker vessels involved in shipping illicit oil. This was welcomed news as there is a sizeable 'shadow fleet' operating throughout the world bringing oil and refined products from Russia and Iran to countries like China and India. This action will ultimately benefit both the industry and our current shipping holdings.

Baxter International (ticker: BAX) develops, manufactures and markets medical products and equipment. Our position was established in the latter half of 2024. The company has been hurt in the last few years on several fronts. The pandemic caused a decline in revenue as hospital admissions and surgical procedures plummeted. Next came inflation, which substantially increased their raw material costs, and finally, an ill-timed and very expensive acquisition of Hill-Rom for over $12.5 billion resulted in a massive increase in debt on their balance sheet. The acquisition happened just prior to the Federal Reserve raising interest rates at one of the fastest paces in history. As an exclamation point on all this, was the unfortunate and devasting flooding that ravaged North Carolina, temporarily damaging BAX's facility that produces nearly 60% of IV solutions in the U.S. The combination of these factors resulted in the share price plummeting over 65% since its peak in early 2020.

In the face of these headwinds, we believe the company is doing what is needed to turn the business around. It has announced the sale of its kidney division, Vantive, to Carlyle Group for $3.8 billion. This sale should occur in the first quarter of 2025. BAX has announced they will use the approximately $3 billion of after-tax proceeds to reduce outstanding debt. Additionally, many of BAX's long-term contracts put in place years ago with group purchasing organizations (GPOs) hurt the company as inflation raged in the U.S. We anticipate these will be renewed on more favorable terms in the quarters and years ahead.

The shares trade at a very attractive valuation of under a 10x P/E based on estimated earnings in 2028 which we believe represents a period of normalized operating margins and an improved capital structure. We believe we have made an attractive investment in a company trading very cheaply on a normalized basis with multiple catalysts present to speed up the value recognition.

From Mark's Desk

We recently came across an insightful article in the *Journal of Finance* by Stephen Brown, Yan Lu, Sugata Ray, and Melvin Teo that may strengthen your confidence in Masonry. The authors explore how sensation-seeking investment managers tend to trade more frequently, actively, and unconventionally, often favoring lottery-like stocks. They also note that some investors are drawn to such managers, potentially overlooking the superior investment skills of sensation-avoiding managers.

The article highlights empirical findings that sensation-seeking managers, often associated with driving performance cars, take on higher investment risks. In contrast, sensation-avoiding managers—those who opt for practical and unexciting vehicles, like minivans—assume less risk but achieve higher risk-adjusted returns over time.

On that note, I'm delighted to share that the Meulenberg family (well before reading the article, I might add) is now the proud owner of a 2024 Honda Odyssey.

Firm Update

Total assets actively managed were approximately $67 million at the end of Q4 2024. Total assets (discretionary and non-discretionary) were approximately $368 million.

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

Best Regards,

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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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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.

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