Investor Quarterly

ROCKINGSTONE ADVISORS LLC

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Founded by Brandt Sakakeeny, Rockingstone Advisors LLC is a boutique financial advisory firm providing asset management and corporate advisory services

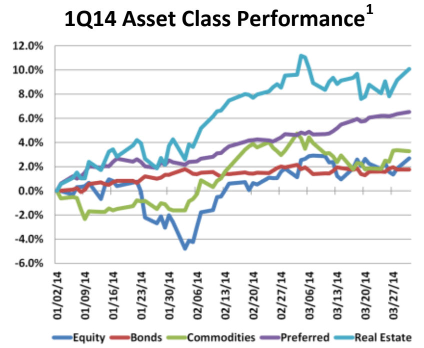
Role Reversal: Income-Producing Assets Rally in Quarter

1Q14 Review

Financial assets recorded generally positive results in 1Q14, though with some volatility, especially in equities. A rally in bonds (the 10-year yield fell from 3.0% to 2.7%) during the quarter sent income-producing securities-- specifically Preferreds and REITs-- much higher, recording gains of 6.5% and 10.0%, respectively, in a reversal of last quarter's trends.

Unlike 4Q13, where the data seemed to indicate a strengthening global economy, the combination of weak export figures out of China coupled with severe winter weather in the United States served only to highlight the fragility of the economy, leading to a rally in bonds.

1Q14 Asset Class Performance[1]



Source: NYSE Arca

Rockingstone's 1Q14 Performance

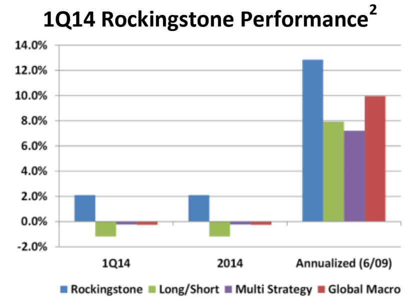
Weathering Volatility…

Rockingstone Advisors posted a gain of +2.1% in the first quarter. Following a very strong 2H13 we expected to give some of those gains back both in equities and in fixed income as we felt asset prices were slightly over-extended at year-end. We trimmed our exposure very slightly, mainly by taking some profits in high-fliers, and maintained our short on small caps and treasuries, but we did nothing overly dramatic to weather the volatility.

Hence, we incurred losses on our short bond position, but we made up for those losses by posting strong gains in our yield-driven securities. We also witnessed declines in some of our growth names, but as we had been shifting away from growth to value over the last quarter the damage was reasonably limited. We were aided again by stock picking, but less so this quarter than in 2013.

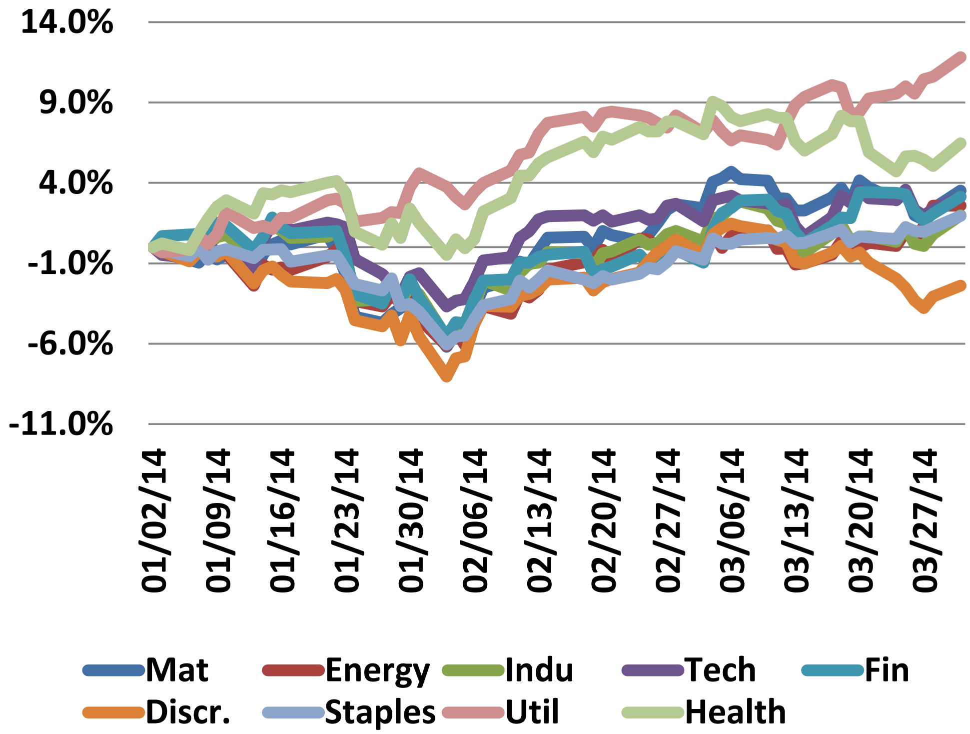
Our nearly 5-year annualized return is +12.9%.

1Q14 Rockingstone Performance[2]



Source: Morningstar, DJ Credit Suisse

Please see our End Notes and Disclosures (page 12 of this Investor Quarterly) for important information regarding performance measures. Form ADV available upon request.



S&P SECTORS[3]

GLOBAL GROWTH SECTORS OUTPEFORM

The chart depicts the 1Q14 performance of the nine sectors comprising the S&P 500.

Given the unfavorable macroeconomic picture, it is not surprising that the two defensive sectors, utilities and healthcare, led sector performance.

Source: NYSE Arca

2.1: 1Q14 Detailed Performance

Just when correlations seemed to be returning to historical norms, and asset classes appeared to be moving away from the well-worn pattern of “risk-on” and “risk-off,” investors were whipsawed by fairly significant moves in financial markets during the quarter.

The principal factors behind the volatility in markets, in our view, were weak macroeconomic data out of China, severe winter weather in the U.S., events in Ukraine, and Janet Yellen’s comments regarding the pace of tapering and interest rates.

Headlines associated with each of these events seemed to move markets in one direction or the other, sometimes in the same day.

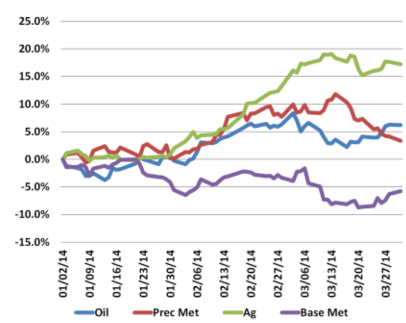
Yet notably the microeconomic view from companies reporting their prior quarter earnings was pretty consistent. Management teams noted generally improving demand for their goods and services despite the harsh winter. Their tone was optimistic, but certainly not euphoric. In fact, from the micro level, the message was pretty clear that business is improving and confidence is returning, but at a pace that continues to seem a bit lackluster.

While we pay attention to both the macro headlines and the micro commentary, we tend to weigh them differently according to a variety of factors too numerous (and dull) to articulate here. Luckily, this quarter, we chose to ignore the macro headlines and focused almost exclusively on the micro commentary, which lead us to limit trading to around the edges of our portfolios. In this way, we were not chasing the moves long or short.

Commodities

Despite poor performance in 2013, most commodities recorded a decent start to 2014, with agricultural commodities posting a phenomenal gain of more than 15%. Oil recorded gains of more than 5% while precious metals were up in the low single digits. Base metals declined about 5% on fears of a slowdown in China, which hit copper prices particularly hard as (i) China consumes about 40% of global copper production and (ii) copper is often used as collateral in China for loans to fund infrastructure or real estate speculation.

1Q14 Commodity Performance[4]



Source: NYSE Arca

The rise in agricultural commodities caught us by surprise, both in terms of its breadth and the extent of the rally. Of the grains, wheat, corn, and soybeans were all up dramatically, with only rice the laggard. Much of the move in the grain market was likely attributable to events in Ukraine, which is known as the "Breadbasket of Europe." Moreover, Crimea is the principal port for shipping much of the harvest; fears of a naval blockade no doubt have also fueled the rally in grain prices.

But grains were not the only agricultural commodity to witness a run-up in prices: a similar phenomenon was seen in the prices of sugar, coffee, cocoa and orange juice during the first quarter, all due to a lack of rainfall in Brazil.

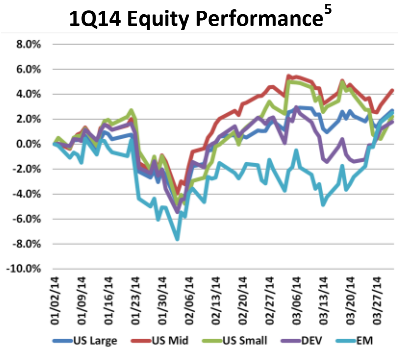
Reduced tensions in Ukraine should lead to stabilization at least in grain prices, particularly in the absence of problematic weather. The outlook for coffee, sugar and orange juice is a little less clear as the extent of the damage to Brazil's crops remains uncertain. We discuss commodities in much greater detail on page 7.

Equities

Equities eked out a decent gain in 1Q14, though this masked a lot of intra-quarter volatility.

The single-digit return was not particularly surprising given the exceptionally strong performance recorded in 2013. That said, a roughly 8% annualized return is still solid.

1Q14 Equity Performance[5]



Source: NYSE Arca

U.S. mid-cap stocks led the gains, +4%, followed by U.S. large and small, Foreign Developed and Emerging, all of which recorded gains of roughly 2%. Emerging Markets stocks experienced a sharp rally in the back half of March, fueled mainly by a reduction in fund outflows and some country-specific dynamics.

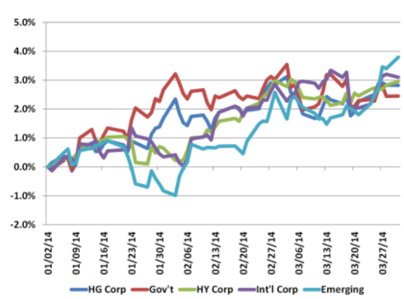
Fixed Income

Fixed income securities recorded a solid quarter, generally outperforming most equity benchmarks.

Surprisingly, Emerging Markets debt was the lead performer, recording gains of almost 4% in the first quarter; most other fixed income securities were up around 3%, with the laggard, treasuries, up 2.5%.

The rally in bonds was mainly attributable to concerns of slowing global growth, particularly in light of the Chinese data, and rising tensions in Ukraine.

4Q13 Fixed Income Performance[6]



Source: NYSE Arca

Comments from the Fed's Janet Yellen appeared to support the bond rally, as investors bet that while the tapering of bond purchases would reduce the demand for bonds and hence put some downward pressure on prices, the tapering of QE would also be deflationary, and of the two, investors seemed to be more concerned with the deflationary pressures of ending QE.

3.1: Our Updated 2014 Forecast

A Constructive Outlook

We are now just one quarter into 2014, so we would hope and expect few changes to our annual forecast of key metrics (please see following page).

Overview

In general, we continue to be fairly constructive about the current environment. Low interest rates, an improving global economy, subdued commodity prices and relative political stability should allow for financial assets to record another decent year of gains, albeit nowhere close to the level achieved in 2013.

While the operating environment is reasonably similar to last year, asset prices were generally cheap at the beginning of last year; this year they are not, and even less so today, as stocks, bonds and commodities all posted first quarter gains.

In light of current asset values, consistent with the commentary last quarter, we see low-single digit gains in equities (S&P 500), a rise in the 10-year treasury, further strengthening of the dollar, and stable commodity prices.

Relative to our mid-January expectations, two first quarter developments guide our current thinking. First, the winter weather was truly horrible. While part of the disruption can be made up in future quarters, some business will be lost for good. Second, China's fragile recovery does seem to have stalled, or perhaps even begun to lose ground. While it is difficult to disaggregate how much of the recent shortfall in Chinese exports is a function of bad weather in the U.S. vs. a real slowing in China, the result is the same: slower global growth for the first half of this year.

Metric	2014	2014 Revised
US GDP	3.2%	2.8% ▼
S&P 500 EPS '14 RSA/Street	$117.51/$119.99 ▼	
S&P 500 EPS '15 RSA/Street	$128.22/$137.26	
S&P 500	1925	
DJIA	17350	
10-Yr. U.S. Treasury Yield	3.3%	
Euro/USD	1.25	
Yen/USD	1.15	
Oil (WTI)	$98	
Gold	$1,210	
Inflation (PCE Deflator)	1.9%	1.7% ▼

KEY METRIC FORECAST

FOR 2014

We update our key metrics forecast, with downward revisions on US GDP growth for 2014 and Inflation (PCE Deflator) for 2014.

Source: Rockingstone Advisors; Standard and Poor's

Details

Principally for these two reasons, we lower our original GDP estimate of 3.2% to 2.8%. We believe weather issues probably trimmed 0.60 percentage points off of GDP; we expect 0.20 percentage points to be added to the back half of this year.

The only other change to our forecast is a slight reduction in our inflation expectation, due in part to slower GDP growth, which implies slightly less capacity constraint and wage pressure than we initially expected. Hence, we trim our forecast from 1.9% to 1.7%. However, we are paying attention to the recent firming of commodity prices, which have the potential of adding some inflationary pressure as they work through the production cycle.

All other forecasts remain unchanged. With respect to S&P 500 earnings, we maintain our current 2014 estimate of $117.51, which is below the Street's $119.99 (revised downward from $121.30). Our lower estimate reflects our assumption for greater capital spending in 2014, and hence lower profit margin growth than we assume most analysts are expecting. We will note, however, that preliminary 1Q14 margins for the S&P 500 are at 9.71%, a 20 basis point improvement over 1Q13. Our S&P 500 earnings forecast for 2015 remains $128.22, below the Street's $137.26.

Our year-end target for the S&P 500 is 1925, or about 15x our $128.22 EPS estimate. This target implies an appreciation of slightly less than 3% this year. That said, we believe the Dow Jones Industrial Average may outperform the S&P 500 given its industry mix and larger average market capitalization.

We continue to see U.S. 10-year treasury yields finishing the year around 3.3%, with a probable range of between 2.4% and 3.9%.

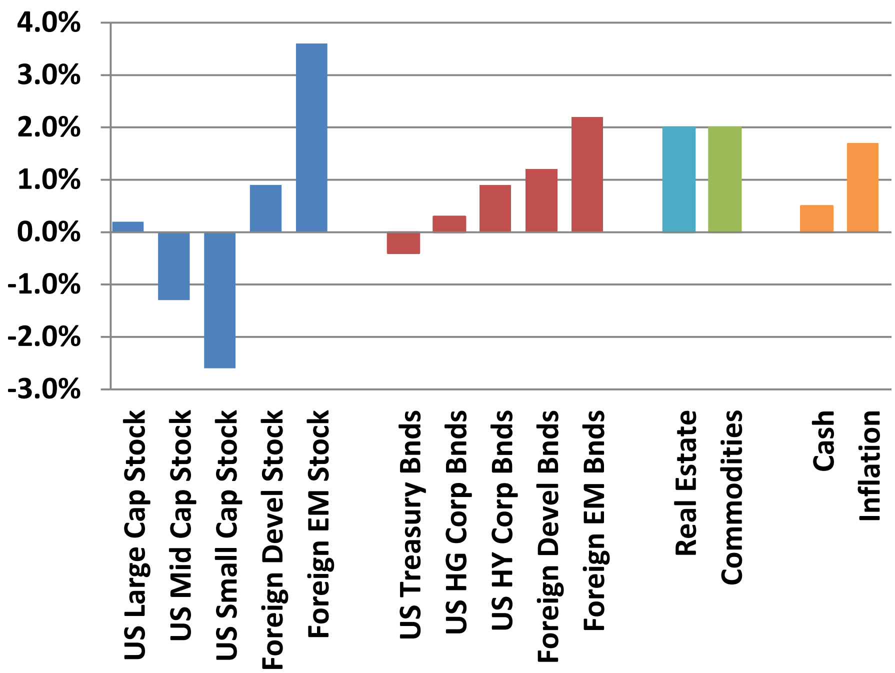
We expect the dollar to strengthen against both the Euro and Yen. Oil prices have firmed up on better global demand and rising natural gas prices, despite new supply and a stronger dollar. We expect oil to be confined to a fairly narrow trading range from here of between $95 to $110 bbl for WTI. Our target price for gold remains unchanged at $1,210, implying a slight decline from current levels.

4.1: Five-Year Asset Value Forecast

A Scarcity of Cheap Assets

Longer term, according to our five-year asset value forecast (on the following page), we continue to believe that financial assets may offer historically limited real return potential, given current valuations, interest rates and profit margins.

We see foreign developed and emerging stocks offering the best absolute return potential within the equity markets, and emerging market bonds offering the best return within fixed income. We see muted return potential in other asset classes, and negative potential return within small-



5-YR ASSET VALUE FORECAST

2014 - 2019

We update our 5-year valuation forecast based on 1Q14 results. We see limited real return potential for most financial assets over the next five years.

Source: Rockingstone Advisors

and mid-cap stocks and treasury bonds.

However, we continue to believe that there are ample opportunities to find undervalued securities within each of our asset classes.

As we see little gains in the major benchmarks in 2014, our research focus is concentrated on individual stocks that may benefit from global growth, with substantial operating leverage (high incremental margins), well-capitalized balance sheets, high returns on equity and compelling valuations.

Large-Cap Stocks

Actual S&P 500 EPS for 2013 were $107.30, an increase of 10.8% from 2012 EPS of $96.82. Presently, consensus (top down) earnings estimates for the S&P 500 are $119.99 for 2014 and $137.26 for 2015. The imbedded EPS growth rates are 11.8% for 2014 and 14.4% for 2015, which implies an acceleration in earnings growth from 2013. The implicit Street P/E multiples are 15.7x 2014 EPS and 13.7x 2015 EPS.

Mid- and Small-Cap Stocks

Consensus 2014 earnings for the S&P 400 (mid-cap) and the S&P 600 (small-cap) are $73.75 (down from $74.86) and $34.22 (down from $35.21), respectively, implying a P/E multiple of 18.3x and 19.1x, a decent premium to the S&P 500.

Adjusting P/Es for growth rates, currently the S&P 500 trades at a PEG ratio 1.3x vs. the S&P 400 at 1.4x and S&P 600 at 1.3x.

Our assumption is that mid- and small-cap stocks have benefited from the relatively stronger economic recovery in the U.S., while large-cap stocks have suffered from anemic global growth. If global growth expands, particularly in Europe and Asia, we would expect large cap growth rates to accelerate.

Hence, we believe large-caps continue to offer the best relative return potential over the next five years, particularly when returns on equity (ROE) are factored into their valuations: large-caps recorded a trailing twelve month (TTM) ROE of 29%, while mid-caps were 14.7% and small caps just 11.8%, according to *Standard & Poor's*.

We continue to be underweight fixed income, with the exception of *very* high yield (defined as mezzanine debt, bank loans and other similar investments) and emerging market bonds.

We see limited returns and substantial risk over the next five years in high grade and treasuries. That's not to say we are not cognizant of the historically lean spreads at which we are buying higher yielding securities, it's just that right now we prefer default risk to interest rate risk.

To arrive at expected commodity returns we start with our expectation for inflation and then adjust for anticipated changes in supply and demand.

We trimmed our commodity forecast in our *4Q13 Quarterly Newsletter* due to our expectation of lower energy prices as new supply continues to enter the market from the U.S., Canada and Iran.

8.1 Portfolio Positioning, 2014

Summary Views

The following section outlines our portfolio positioning ideas for this year and some of the potential risks we see.

Equities

We are constructive on U.S. large cap stocks and high-quality equities, neutral on mid-cap stocks and fairly bearish on small-cap stocks. We are also constructive on foreign developed and emerging market equities, although we think the latter is probably a 2015 story, not 2014.

We expect correlations to continue to decline over the year and volatility to increase. Our favorite sectors are technology, financials and industrials.

Within our industry sectors, we like mobile chips, airlines, refiners, banks and asset managers. We are reducing index holdings and adding more individual stock ideas that have underperformed or offer value.

Our top domestic equity holdings are Northstar Realty (NRF), Apple (AAPL), KKR Financial (KFN), New Mountain Capital (NMFC), Sparton Corp. (SPA), Facebook (FB), Intel (INTC), Yum Brands (YUM), Las Vegas Sands (LVS), Delta Air Lines (DAL), Lorillard (LO), Home Depot (HD), Capital One (COF), AIG (AIG), Monsanto (MON) and Cognizant (CTSH). Since our last quarterly, we have added new positions in GM (GM), Goodyear (GT), Pfizer (PFE), and Stillwater Mining (SWC), and reduced positions in Facebook (FB) and Northstar Realty (NRF).

With respect to international equities, we are overweight dollar-hedged developed markets (Japan mainly), as well as overweight China and Mexico unhedged.

We are paying attention to the recent declines in government yields across Europe, as deflationary pressures appear to be rising. Moreover, geopolitical uncertainty surrounding Ukraine and the potential impact on European fuel prices could weigh heavily on European equity valuations.

With respect to emerging markets, we are focused on Brazil and India as two underperforming markets that may be positioned for growth in 2014-15. In India we expect the BJP's Modi to eclipse Congress Party in May elections. In Brazil, the FIFA World Cup and Summer Olympics may provide a positive catalyst irrespective of leadership. Though we have added very small positions in India, we remain hesitant to make a big bet on either market at the present time.

We have been short small caps for what seems like forever, and are finally ahead on a relative performance basis (though not absolute). We expect to add to our short position if we see a technical breakdown in the Russell 2K.

Bonds

We continue to like high yield bonds, bank loans, floating rate notes and other similar instruments. We are also short U.S. treasuries, and are neutral to slightly negative on high grade corporates.

Risks to our bond underweight would come from either slowing economic growth (a soft patch that seems to appear each spring) or ongoing subdued economic growth and high equity valuations that would allow bonds to outperform stocks in 2014. In fact, we expect high yield bonds to offer competitive returns to equities this year.

Risks to our high yield overweight and treasury short could come from a slowing of economic growth that would lead to wider spreads and higher perceived default risk, or an increase in hostilities around Ukraine, which would lead investors to seek safety in U.S. treasuries.

Hybrids

Despite the prospect of rising rates, we continue to own bond/equity hybrids, including convertible bonds and preferred stocks. While higher interest rates may dampen the performance of preferred securities, we like the fact that preferreds are over-represented among financials, as we continue to like that sector despite the recent decline in yields (and pressure on their net interest margins from such a move).

Risks to this group include the prospect of rising rates, as well as disproportionate exposure to financials.

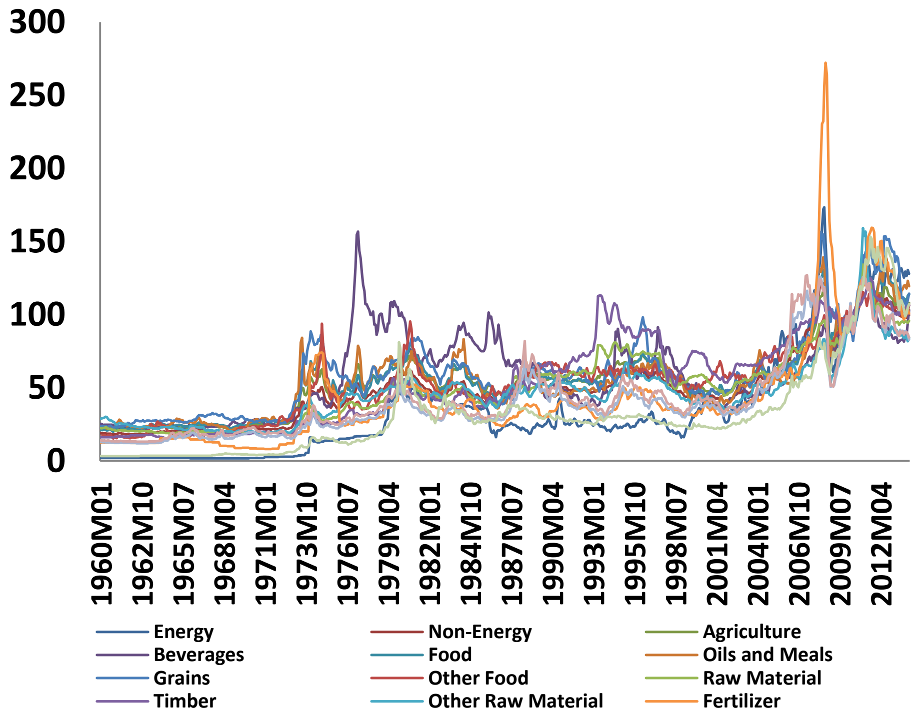
Commodities

We continue to have oil and natural gas exposure, plus agriculture holdings (seed and fertilizer providers). We sold our gold in 2013 but own silver and now have added exposure to palladium (and platinum) through SWC. We like the palladium market on its own merits, but also as a hedge against Russian disruption.

Risks

Risks to our commodity position include a rising dollar that may put pressure on pricing, uncertainty regarding inventory levels, especially in China and other emerging markets, and weaker demand due to slower economic growth.

We see two principal risks to our current views: valuation and Fed exiting, and one latent risk: inflation. Valuations continue to seem full across most of the equity benchmarks, and most acutely in small caps; valuations seem even more stretched across most bonds categories,



COMMODITY PRICE HISTORY

1960-2014

Nominal price performance for a select group of commodities over 40-plus years.

Note the volatility and sharp spikes in the early 1970s and mid 1990s and 2007.

Source: The World Bank

and most acutely in treasuries.

Fed exiting is somewhat related, as the Fed's purchasing of mortgage and treasury bonds has raised the price of these securities and lowered their yield; this in turn raises the discount value of all future cash flows, inflating the value of financial assets and contributing to the full valuation commentary above.

The latent risk is inflation given the combination of tightening labor markets, firming of commodity prices and absorption of excess capacity.

Of course the above risk view is predicated on our assumption of a growing economy; given the decline in global bond yields, the bond market is clearly signaling a slowdown in the global economy and rising risk of deflation, rather than inflation.

While these signals should not be ignored, we believe the preponderance of evidence from 1Q14 earnings reports points to slow, but steady, global growth.

7.1 Commodities

Living by bread alone?

There is widespread debate among investors as to whether commodities are an investable asset class, and if they are, how best to buy them and what to expect of future returns. We try to address these questions in the following section.

The role of commodities in a portfolio

For institutions, the question is based on portfolio theory: do commodities reduce correlation in portfolios that hold a mix of stocks and bonds? The answer is yes, but with a few caveats.

First, correlations between commodities and equities are higher short-term than they are over the long-term. Second, correlations have risen since the Great Recession as commodities and equities have seemed to follow the "risk-on," "risk-off" trade. Third, while over the long-run correlations tend to move to zero, the presence of commodities in a portfolio leads to higher returns but substantially higher portfolio volatility.

Individual investors have typically followed the institutional models on whether commodities should be part of their personal portfolios. We believe this is a mistake. For individual investors, the question as to whether the presence of commodities in their portfolios serves as an uncorrelated hedge misses the more salient point that individuals are exposed to commodity prices as part of their daily existence: they eat, drink coffee, warm or cool their homes, drive automobiles, fly on planes, work on computers and communicate on smart phones.

In this way, individual investors act more like commodity producers or consumers: they have a natural need to hedge their exposure that far exceeds the theoretical question as to whether the Sharpe ratio of their personal portfolio rises or falls with the presence

Commodity	2002E	2014E	% Diff.
Coal, Australian	41.6	86.0	107%
Crude oil, average	27.3	99.0	263%
Natural gas, Europe	3.9	11.0	182%
Cocoa	2.2	2.5	14%
Coffee, other milds	3.7	3.7	1%
Soybean meal	288.2	500.0	73%
Soybean oil	661.6	1020.0	54%
Corn	170.3	235.0	38%
Rice, Thai, 5%	347.2	425.0	22%
Wheat, US, HRW	216.2	305.0	41%
Beef, US	3.0	4.1	36%
Sugar, world	0.3	0.4	28%
Logs, Malaysia	386.5	310.0	-20%
Cotton	2.1	2.1	-2%
Rubber, RSS1, Malaysia	1.2	2.6	109%
Tobacco	4323.0	4500.0	4%
Potassium chloride	170.3	318.0	87%
Urea, E. Europe, bagged	177.9	320.0	80%
Copper	2685.5	6880.0	156%
Gold	393.0	1230.0	213%
Iron ore, Carajas	42.6	128.0	201%
Nickel	8908.0	15000.0	68%

HOLY SHANGHAI!

WORLD BANK'S COMMODITY FORECAST FOR 2015

The World Bank's commodity price forecast for 2015 in 2002 and in 2014 (adjusted for inflation). The 2002E column is their historical forecast made in 2002 for 2015 prices; the 2014E column is their latest forecast (this spring) for 2015 prices.

The difference is notable, owing to the huge price gains witnessed over the last 10-plus years.

Source: The Federal Reserve Bank of Minneapolis, World Bank

of commodities.

If one of the purposes of long-term investing is to be able to live a similar lifestyle in retirement than one maintains while working, it seems obvious that commodities must be a part of that personal portfolio. If oil spikes and gas or jet fuel prices rise, a trip to see the grandchildren by car or on a plane is no more financially onerous if oil is in the portfolio.

Because individual investors are consumers of commodities, with commodities in their portfolio they are indifferent to commodity price moves; without commodities in their portfolio they are necessarily placing a directional bet on the price movement of commodities: worse off if prices rise; better off if prices fall. This is not the case if investors were not consumers of commodities.

How to buy commodities?

Prior to the advent of ETFs, (technically ETNs, which is the most common vehicle for owning commodities) investing in commodities by individuals required buying commodity futures, or buying stocks with commodity exposure (e.g. the gold miners, fertilizer companies). Today there are over 150 commodity ETNs, allowing investors to gain exposure to almost every commodity, in a variety of different currencies, with leverage or without, with physical delivery or without.

It is important to note, however, that buying a commodity ETN is not exactly like buying the commodity, for a few key reasons.

First, investors have credit risk to the issuer of the ETN, which is typically a highly-rated financial institution. During the financial crisis of 2008-09, ETNs sold off relative to the value of their underlying holdings (like a discount to net asset value) as fear swept the market that the financial institutions backing the ETNs may not remain solvent. Higher capital ratio requirements for large institutions may help to reduce this volatility in the future.

Second, commodity ETNs that buy futures rather than own the physical commodity must "roll-over" their contract to avoid receiving delivery of the commodity. If the futures price of a commodity is higher than the expected spot price, the market is considered to be in "contango." This can be tricky for futures-based ETNs as they need to sell the cheaper spot price and buy the more expensive futures price. Conversely, ETNs can benefit if the futures price is lower than the expected spot price, known as "backwardation." This condition allows an ETN to sell the higher priced spot and buy the lower-priced future when the contracts roll.

Despite some of the aforementioned shortcomings of gaining commodity exposure through ETNs, we are generally very comfortable using these vehicles in portfolios.

We are also comfortable buying some of the commodity producers, but gaining exposure this way also has some drawbacks. Mines, for example, can experience production shortfalls from labor disruptions, equipment failures, or environmental violations. This is good news if an investor owns the commodity outright, as it reduces supply and raises the price, but it is bad news if an investor owns the shares, as production targets will be missed and with that, a revenue and earnings shortfall that usually leads to a decline in share price.

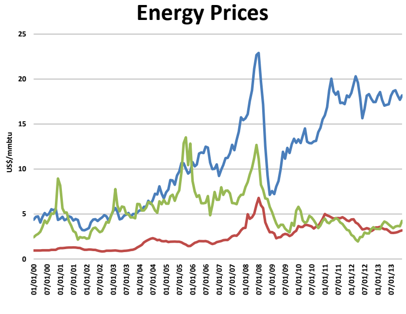
The outlook for commodities

Unlike stocks or bonds that have dividends and coupons, commodities do not generate income, and are typically costly to deliver or store. This makes them especially hard to value. Moreover, their price is influenced by such vagaries as the weather, geopolitical strife, or temporary shocks to demand or supply. Making matters worse, some of their extraction or production occurs outside of the developed world, where critical supply data are unavailable.

Energy

Following a massive spike in prices in 2008, energy prices have been reasonably stable over the last four-plus years (oil, coal and natural gas), trading in a relatively narrow band.

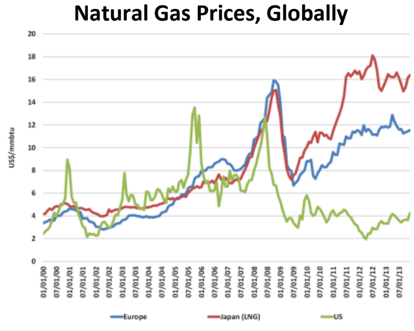
Energy Prices



Source: World Bank

Interestingly, global pricing differentials (in natural gas below) are at record levels and may be more important that current price levels.

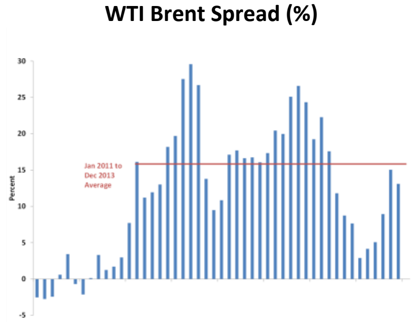
Natural Gas Prices, Globally



Source: World Bank

We believe the cost differential in the price of natural gas in the U.S. will be a huge boon to U.S. manufacturing, creating durable competitive advantages that should lead to a long-term revaluation of the dollar (Please see our *3Q13 Quarterly Newsletter* for a deep dive on this topic).

WTI Brent Spread (%)

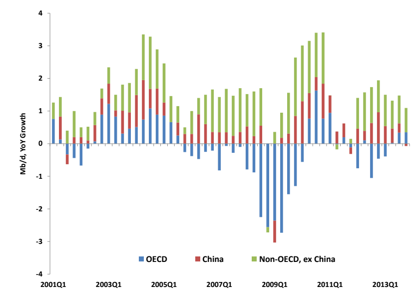


Source: World Bank

In addition to a wide differential in natural gas prices, the spread between West Texas Intermediate (U.S. pricing benchmark) and Brent Crude (global pricing benchmark) has widened since last summer, although it is slightly below its three-year average (above). Wide spreads are typically good for refiners.

The outlook for energy prices depends, like most things, on global demand and supply. From a demand standpoint, slowing growth in China has adversely affected growth rates, as depicted in the chart below.

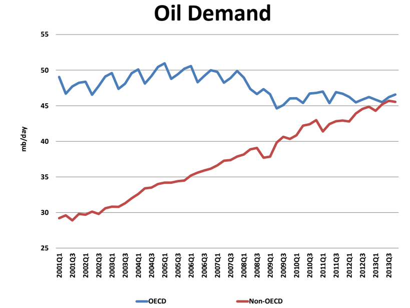
Global Oil Demand Growth



Source: World Bank

China is a voracious consumer of energy and all commodities, accounting for anywhere from one-third to one-half of global demand for most commodities.

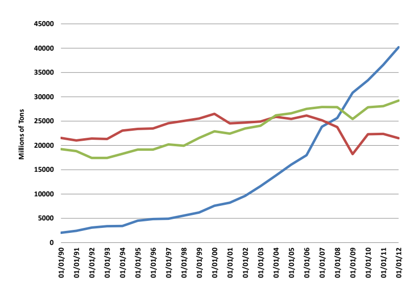
Oil Demand



Source: World Bank

While it's unclear how sharp the China slowdown may be, we are still reasonably optimistic about the economic reforms taking place under new leadership.

Coal Demand



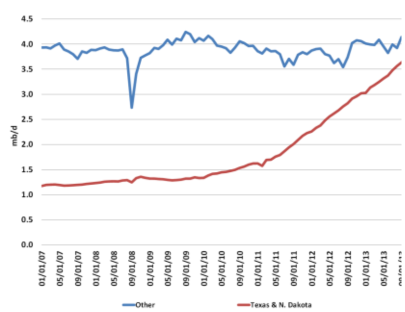
Source: World Bank

China will no doubt try to shift much of its energy consumption from coal to oil and natural gas given the current environmental concerns amid poor air quality, but this will take time and additional resources (China is short of the copious amounts of fresh water required for hydro-fracking of natural gas).

The U.S. and Europe continue to see economic growth, but low-single digit growth rates coupled with fuel efficiency gains means that China is the marginal buyer and most likely price setter.

On the supply side, production growth from North America—Texas, North Dakota and Canada—partially offset supply shortfalls in Iran, Libya and Nigeria.

Crude Oil Production



Source: World Bank

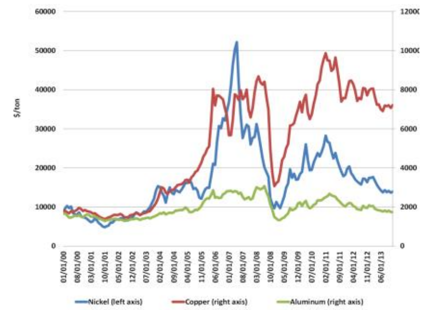
Iraq and Saudi Arabia also expanded output, with the Saudis continuing to act as the governor on oil prices, adding capacity during price spikes and removing capacity if prices fall.

In sum, we believe world energy prices are reasonably in equilibrium; oil is probably in a narrow range between $95 and $110 per barrel, natural gas and coal prices probably edge higher over the next twelve to 18 months.

Metals

Unlike the oil market, which rebounded from its post-financial crisis lows to surpass its 2007 highs, most industrial metals, with the exception of copper and tin, remain below their 2007 highs.

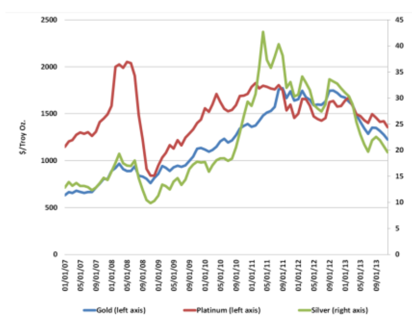
Industrial Metals



Source: World Bank

Recently nickel prices have spiked on Indonesia's export ban and on Russian supply concerns (the two countries account for 40% of global supply). We currently do not own any industrial metals, but expect prices to drift slightly lower until we gain greater clarity on China's economic growth.

Precious Metals



Source: World Bank

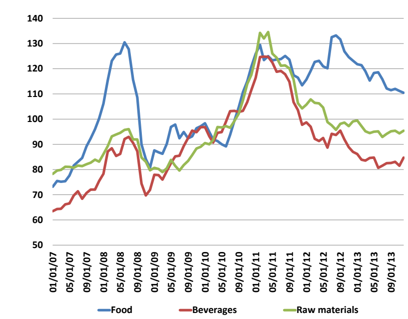
With respect to precious metals, all remain below their 2011 highs. As concerns over both the European debt crisis and U.S. inflation have ebbed, the value of gold, silver and platinum has declined. Bulls will point to market manipulation by central banks, or import restrictions in India, but regardless of the source, price signals are important, particularly in an asset that has no inherent income stream.

We hold no gold, but do like the palladium market given Chinese environmental concerns and as a hedge to Ukraine issues. Our small silver holdings have been disappointing as more supply has overwhelmed industrial usage. We think gold continues to drift down from current levels, silver is probably in a trading range, and we think the palladium market rises slightly from here.

Agriculture

We highlighted the sharp spike in several agricultural commodities, especially in coffee, owing to the severe drought in Brazil earlier in the Newsletter, as well as concerns surrounding events in Ukraine.

Agriculture Prices



Source: World Bank

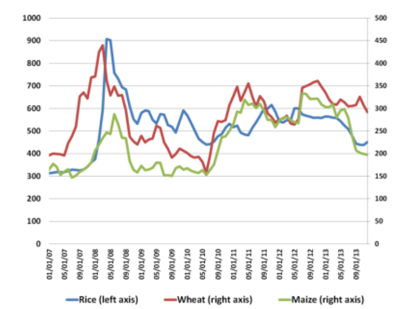
Outside of the Brazilian commodities, agricultural prices were fairly muted, with wheat and corn prices rising, and rice prices falling slightly. Both the Australian Bureau of Meteorology and the U.S. agency NOAA have noted that current conditions appear to indicate the likelihood of El Nino developing this summer or fall, which usually results in shifting weather patterns across North and South America.

On the supply side, our sense is grain production should be solid, with the USDA revising upward its production outlook:

corn +12.9%, wheat +8.5% and rice +1.1%. On the demand side, the USDA recently lowered its forecast for Chinese wheat consumption by about two million tons, which reduced total global wheat demand by 2.4 million tons.

Interestingly, growth in farmland values appears to be slowing. According to the Federal Reserve Bank of Chicago, after rising about 5% in the first part of 2013, agricultural land rose about 3% from 3Q13 to 4Q13.

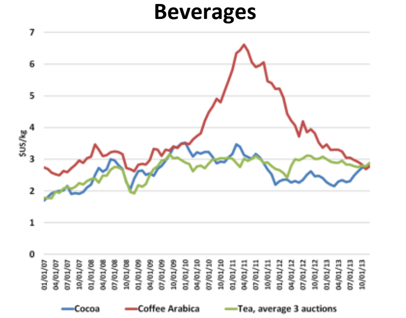
Grain Prices



Source: World Bank

In addition, it does appear farmers are beginning to cut back on capital expenditures; over half of the Fed's Chicago district respondents expected lower levels of capital purchases in 2014 vs. 2013, and only 10% anticipated higher levels of capital spend.

Beverages



Source: World Bank

The outlook for beverage prices is a little more uncertain given the Brazilian drought. As shareholders of Starbucks we will continue to monitor the move in prices, though the company has hedged its coffee exposure through 2014 and some of 2015.

Taken together, with the exception of coffee prices, the outlook for most agricultural commodities is pretty stable, with our expectation that given current demand conditions coupled with supply forecasts, prices should remain stable or drift slightly lower over the next 3-12 months.

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End Notes
Please Read Carefully

[1] Asset Class Performance chart depicts Equity (SPY ETF), Bonds (BND ETF), Commodities (DBC ETF), Preferred (PFF ETF) and Real Estate (VNQ ETF) price changes plus dividends and income during the period.

[2] Rockingstone Advisors performance charts depict the aggregate average of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition.

Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Public equity returns are calculated by Morningstar based on information received from our custodian, Charles Schwab & Co. Other investment returns, including private equity and real estate investments, are calculated based on valuation data from parties other than Rockingstone Advisors. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis. Annualized return is based on portfolios invested as of June 1, 2009. The sample set of portfolios has increased over time, which affects returns.

Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including, but not limited to: (i) certain funds in which we invest are now closed to new investors; (ii) certain clients may not meet “accredited investor” standards; (iii) certain investments are available only to officers or directors of a business; or (iv) we may believe that historical returns most likely will not be generated in a specific investment and therefore are not committing new capital to a specific strategy.

Past performance is not indicative of future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone’s performance must be assessed in light of not just how the benchmarks performed, but also how much risk we assumed in generating portfolio returns.

This *Quarterly* is only for informational purposes and not a solicitation to buy or sell securities or as a source of specific investment, legal or tax recommendations. We are solely responsible for the content of this presentation. The information and statistical data contained herein have been obtained from sources we believe are reliable but cannot guarantee.

[3] S&P 500 sector charts represent XLY, XLV, XLF, XLU, XLK, XLP, XLB, XLE, and XLI with pricing data from NYSE Arca.

[4] Commodity Price Performance chart depicts Metals (DBP ETF), Base Metals (DBB ETF), Oil (DBO ETF) and Agriculture (DBA ETF).

[5] Equity Price Performance chart depicts US Large (SPY ETF), US Mid (VO ETF), US Small (IWM ETF), MSCI (VEA ETF) and Emerging Markets (VWO ETF) total return, including dividends.

[6] Fixed Income Price Performance chart depicts Intermediate Government (IEF ETF), High Yield Corporates (JNK ETF), High Grade Corporate (LQD ETF) and Emerging Markets (EMB ETF); all figures include price changes and interest earned over the period.

[7] Our 5-year forecast is updated quarterly and reflects our judgment on future performance based on current valuations and our outlook for earnings and macroeconomic conditions. We caution that predicting outcomes is inherently risky and subject to change.

IMPORTANT DISCLOSURES

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Rockingstone Advisors is solely responsible for the content of this quarterly. The information and statistical data contained herein have been obtained from sources we believe are reliable but cannot guarantee.

Quarterly data priced as of March 31, 2014; most other prices and yields are as of April 30, 2014.

Please contact us if you have any questions, comments or concerns.

We are happy to provide the raw data and source links for any of the charts or tables in this newsletter. We thank you for your interest.

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