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

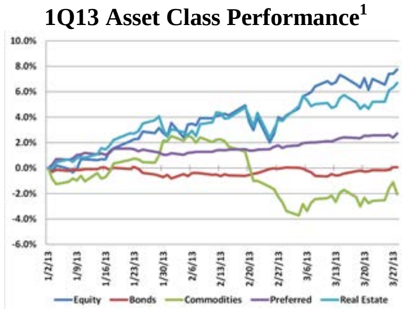
Strong U.S. Equity Returns; Lackluster Bond and RoW Results

1Q13 Review

Financial assets recorded mixed results during the first quarter of 2013. Equities and Real Estate were the top performers, benefitting from a combination of strong employment and housing data. Preferred stocks also performed well. Better growth prospects pressured bonds, which were flat, yet notably did not provide a bid for Commodities, which recorded a sharp reversal at the end of February.

The catalysts for the first quarter gains were driven by favorable economic reports and decent 4Q12 earnings results and 2013 guidance. Investors ignored the sequestration, as well as the impact of higher payroll and income taxes.

1Q13 Asset Class Performance[1]



Source: NYSE Arca

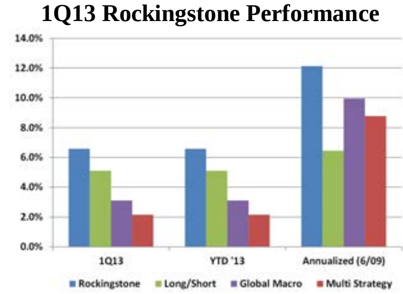
Despite the rise in "risk" assets during the quarter, the market's overall action was frankly bewildering on several fronts. Strong economic growth should have driven out-performance from the cyclical sectors of the U.S. market: industrials, materials, technology, and financials; instead, defensive sectors out-performed. Typically in a "risk-on" environment, commodities rally and bonds—especially treasuries—decline; yet the inverse occurred. Similarly, emerging markets typically would out-perform developed markets; yet again the inverse occurred. Investors must take notice when traditional relationships breakdown.

Rockingstone's 1Q13 Performance[2]

Playing Offense

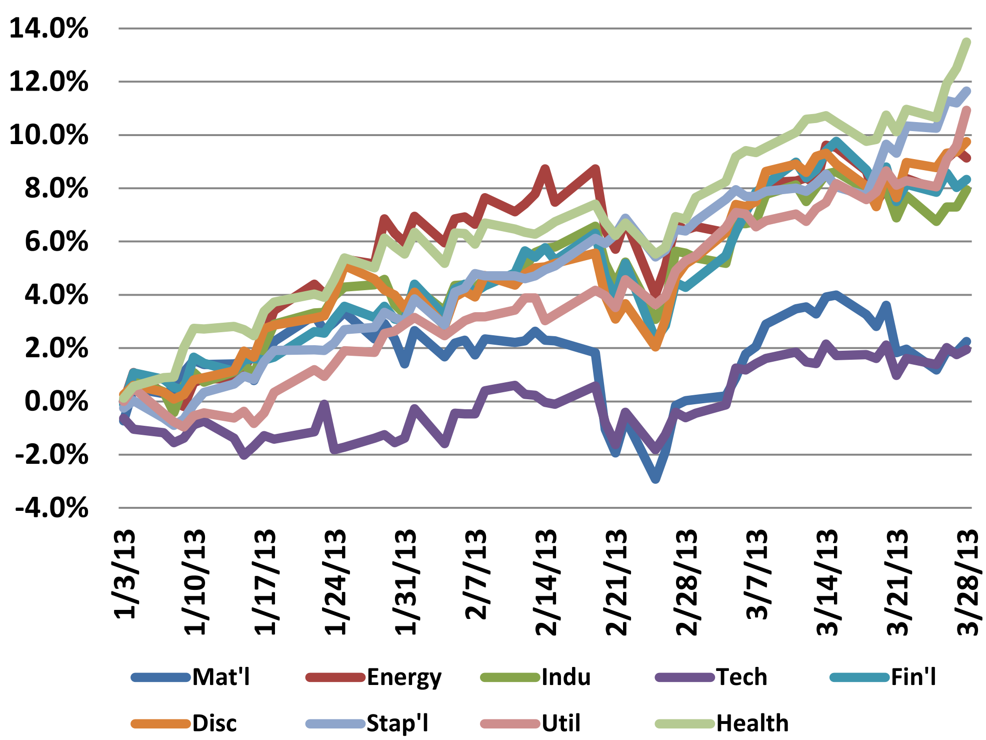
Rockingstone Advisors had a good quarter, +6.6%, as we had covered market shorts and increased risk. But frankly, given our exposure, we should have done even better had we not gotten our U.S. sector calls wrong, saw subpar performance in Foreign and Emerging holdings, and alpha de-generation in several names. Our nearly 4-year annualized return is +12.1%.

1Q13 Rockingstone Performance



Source: Morningstar, DJ Credit Suisse

Please see our End Notes and Disclosures (page 10 of this Quarterly) for important information regarding performance measures. Form ADV available upon request.



S&P SECTORS[3]

LOOKS MORE LIKE A BEAR THAN A BULL

The chart at left depicts the relative performance of the nine sectors comprising the S&P 500 in 1Q13.

The most "defensive" sectors out-performed, as S&P Materials, Tech and Industrials all under-performed.

Source: NYSE Arca

2.1: 1Q13 Detailed Performance

U.S. equities out-performed all other asset classes in the first quarter, following a very strong second half of the fourth quarter and full-year 2012 performance. Resolution of the fiscal crisis, improving macroeconomic data (employment, industrial production, and housing), favorable fund flows into equities and some rotation out of bonds may all have contributed to the rally.

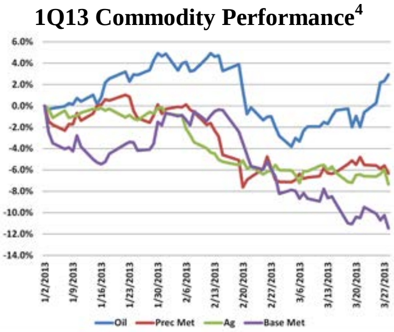
Yet financial analysts are accustomed to seeing certain relationships and correlations in financial markets, and it seemed like these relationships broke down during the quarter, raising some important questions about the sustainability of the move.

Commodities

Commodities under-performed for the second consecutive quarter, posting absolute declines of about 2%. The sell-off was fairly widespread, with major losses in base metals and precious metals, and some declines in agriculture. However, there were gains in oil.

Oil continued its 4Q12 out-performance, rising about 3%, while agriculture under-performed, declining 7% on favorable crop supplies. Precious metals fell about 6% as the dollar rallied and gold and silver declined on supply worries, higher margin requirements, and rumors of sovereign sales (Cyprus). Base metals were the worst performer, recording losses of 12% on new supply and slackening demand for industrial metals like copper, lead and nickel.

1Q13 Commodity Performance[4]



Source: NYSE Arca

Equities

Equity price performance varied greatly by region and to a lesser extent market capitalization.

While overall equity performance was quite strong, the strength seemed to be relatively narrow and isolated to defensive sectors, which is somewhat inconsistent with an equity bull market.

From a geographic perspective, the U.S. (+7.7%) greatly out-performed Foreign Developed (+2.2%) and Emerging Markets, which actually declined -5.5%.

Mid-cap stocks rose more than +10%, and were the clear winners, while small-caps rose +9.1% and large caps rose +7.7%.

We think there are a couple of factors behind this trend. First, investors were clearly focused on avoiding companies with large exposure to foreign and emerging markets, most likely due to ongoing macroeconomic issues in Europe and growth concerns in China.

Second, fund flows certainly indicated a rotation out of bonds into equities, but it appears that this rotation was seeking bond-equivalents, or at least low beta stocks (shares whose price moves less than the overall market). Hence, defensive sectors such as utilities, healthcare and staples all out-performed growth sectors such as industrials, technology and energy.

Notably, the best performing stock market was the Nikkei, which rose 13.5% in local currency terms but 11.5% in dollar terms. The rally was fueled by the Bank of Japan’s stance on further monetary easing through bond purchases (QE) in an effort to bring inflation up to the BOJ’s 2% target. Other foreign developed markets performed satisfactorily without much currency differential; the EUR/USD cross declined slightly during the quarter, from about 1.32 to 1.30.

Emerging markets stocks declined almost -6% as investors flocked to the U.S. given the robust economic data, but mid-quarter deterioration in commodities, which make up a large percentage of emerging market capitalization, no doubt also contributed to declines in the index, as did declines in China.

1Q13 Equity Performance[5]

Source: NYSE Arca

Fixed Income

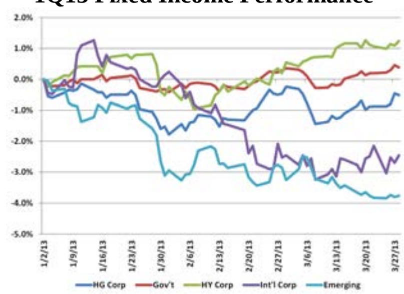
Fixed income securities were roughly flat in the first quarter, under-performing most “risk” asset classes, with the exception of Emerging Markets stocks.

Within fixed income, High Yield rose +1.2%, outperforming the other fixed income classes we track, and consistent with an improving economic outlook. Both Treasuries and High Grade bonds were flat in the quarter; we would normally expect high grade to out-perform treasuries, but the combination of rotation out of bond funds into equities may have put some selling pressure on high grade, while the sequestration, and the accompanying deficit reduction, may have made treasuries marginally more attractive.

Another explanation is simply that investors anticipated that the combination of the higher payroll and income taxes, coupled with spending reductions from the sequestration and increasing uncertainty about the impact of Obamacare, might together be sufficient to slow the economy and potentially even send it to a recession, in which case buying treasuries is the appropriate position.

Similar to equities, both International Corporates and Emerging Markets bonds under-performed, falling -2.5% and -5.5%, respectively, in the first quarter.

1Q13 Fixed Income Performance[6]



Source: NYSE Arca

3.1: Our Updated 2013 Outlook

Less Constructive

Our very bullish stance early in the year (and outlined in our 1Q13 Investor Quarterly) was predicated on risk assets responding favorably to: (i) an accelerating U.S. economy; (ii) improving employment figures; (iii) rising home prices; (iv) stabilization in Europe and (vi) re-accelerating Chinese GDP.

Underpinning this fundamental improvement was our belief that global central banks would continue to add liquidity, and while the long-term implications of this strategy are unclear, in the short-term asset prices generally rise, especially for leveragable assets such as stocks and real estate.

Finally, stock valuations appeared attractive, especially for large U.S. stocks, cyclical stocks and foreign developed and emerging markets stocks. Our year-end target for the S&P 500 was 1584.

Presently, there are three key factors that are making us marginally less constructive on the outlook for stocks.

First, the strong first quarter performance in U.S. stocks (and subsequent rally through April) has removed much of the valuation discount present at the beginning of the year. In our view, large U.S. stocks are now just slightly undervalued, and U.S. small and mid-cap stocks are now fully valued.

Second, there has been a material softening of the global macroeconomic data over the last few weeks. While housing has continued to post strong results, the April economic reports are almost uniformly disappointing, including the ISM Manufacturing and Non-manufacturing surveys, the ADP and BLS employment data, Retail Sales and the Empire and Philly Fed surveys, to name a few.

Commodity and debt markets confirmed the macroeconomic weakness, with base metals (DBB) declining in price almost -12% in the quarter, and yields on the 10-year Treasury falling from 2.07% on March 11th to 1.67% April 26th.

Weak economic data isn’t isolated

Metric	'13 YE Forecast
US GDP	2.4%
S&P 500 EPS '13	$107.50
S&P 500 EPS '14	$113.14▼
S&P 500 2014 P/E	14.0x▲
Year-end S&P 500	1584
10-Yr Treasury Yld	2.1%
EUR/USD	1.25
JPY/USD	105▼

2013 FORECASTS

DOWNWARD BIAS

We revise lower our S&P 500 EPS estimate for 2013 to $113.14, but raise our anticipated P/E multiple to 14x.

We also lower our Japanese Yen forecast to 105 to the U.S. dollar.

All other forecasts remain the same, but based on recent economic data, we now believe there is a downward bias to our earnings and GDP forecasts.

Source: Rockingstone Advisors

to the U.S.: European PMIs were generally weaker than forecast, as was consumer and business confidence. Industrial production figures were below estimates and weakened sequentially in Japan, Singapore and China; first quarter GDP figures disappointed in Singapore and in China.

The only silver lining came from weaker inflation figures, but as central banks try to reflate, excess manufacturing capacity and a slack labor markets appear to be keeping a lid on prices.

Recognizing that the data are increasingly weak is the easy part; understanding why is far more difficult. We will explore the potential reasons in our focus section later in this report.

As it relates to our 2013 year-end forecast, we maintain our GDP, S&P 500 earnings, P/E and price target but slightly trim our 2014 S&P 500 EPS estimate, which declines from $115.24 to $113.14 While the earnings outlook is lower, we maintained our year-end S&P 500 target as the recent decline in 10-year treasury yields calls for a slightly higher P/E multiple, which we increase to 14x, maintaining our 1584 target, which we note is at the market's current level.

Looking forward, we think our bias is now more to the negative than to the positive, meaning that future revisions are more likely to the downside in GDP and earnings than the upside, but feel we need to see another quarter's worth of data before having sufficient conviction to revise our estimates.

We maintain our currency forecast for the EUR/USD, but lower our yen forecast to 105 (see chart above).

4.1: Five-Year Asset Value Forecast

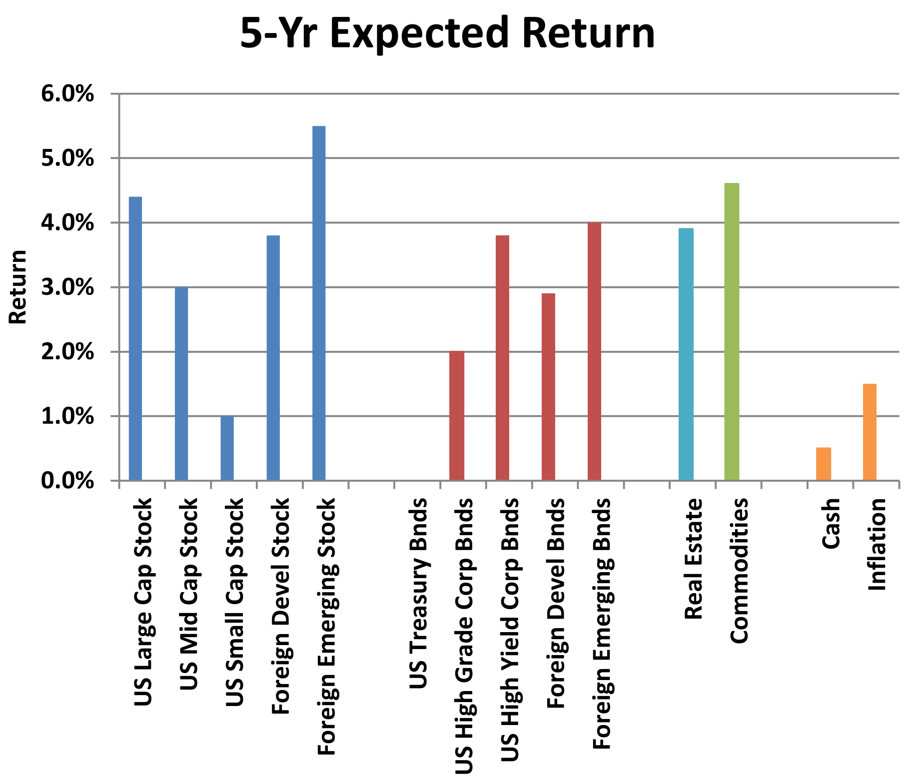
Equities Continue to Offer the Best Value

According to our five-year asset value forecast (on the following page), we continue to believe that U.S. large cap and emerging market equities may continue to offer the best total return potential, followed by real estate and emerging markets bonds. We see U.S. high grade corporate bonds offering middling returns, and U.S. treasuries offering negative returns when adjusted for inflation

In general, though, we do not expect stellar real returns from any financial asset over the next five years, as a combination of low yields driven by financial repression, excessive debt and fiscal austerity in the U.S. and Europe may continue to put downward pressure on returns from financial assets.

Shiller CaP/E[8]

Source: Robert J. Shiller, Yale University



5-YR FORECAST[7]

BY ASSET CLASS

We update our nominal asset class forecast quarterly, based on recent performance, updated earnings estimates and changes to relative value.

Presently, we believe U.S. large capitalization stocks, emerging stocks, and commodities offer the best five-year return potential.

Source: Rockingstone Advisors

Our large cap equity forecast is derived using two methods: (i) the cyclically-adjusted P/E multiple (the Shiller P/E) times our S&P 500 earnings, and (ii) the current (unadjusted) P/E multiple. We then estimate mid-cap and small-cap returns based on the relative value of each index to the S&P 500.

The key takeaway is the word "real." An accommodative monetary policy typically inflates the nominal value of leveragable assets (real estate, stocks, bonds, commodities) but when priced in real assets returns evaporate.

Large Cap Stocks

Presently, consensus earnings estimates for the S&P 500 are $109.52 (down from $112.17 at the end of the fourth quarter, 2012) and $123.42 for 2013 and 2014, respectively, implying a P/E multiple of 14.2x and 12.6x. That said, consensus estimates have been revised downward several times, and the 2013 and 2014 estimates still strike us as aggressive.

We are forecasting S&P 500 earnings of $107.50 for 2013 and $113.14 (down from $115.24) for 2014. Hence, our year-end price target is derived by applying a P/E multiple of 14 times our 2014 forecast of $113.14, which yields a price target of 1584 for the S&P 500, implying limited return potential from current levels, before dividends. Our price target implies earnings growth greater than U.S. and global GDP and modest P/E multiple expansion.

Mid and Small Cap Stocks

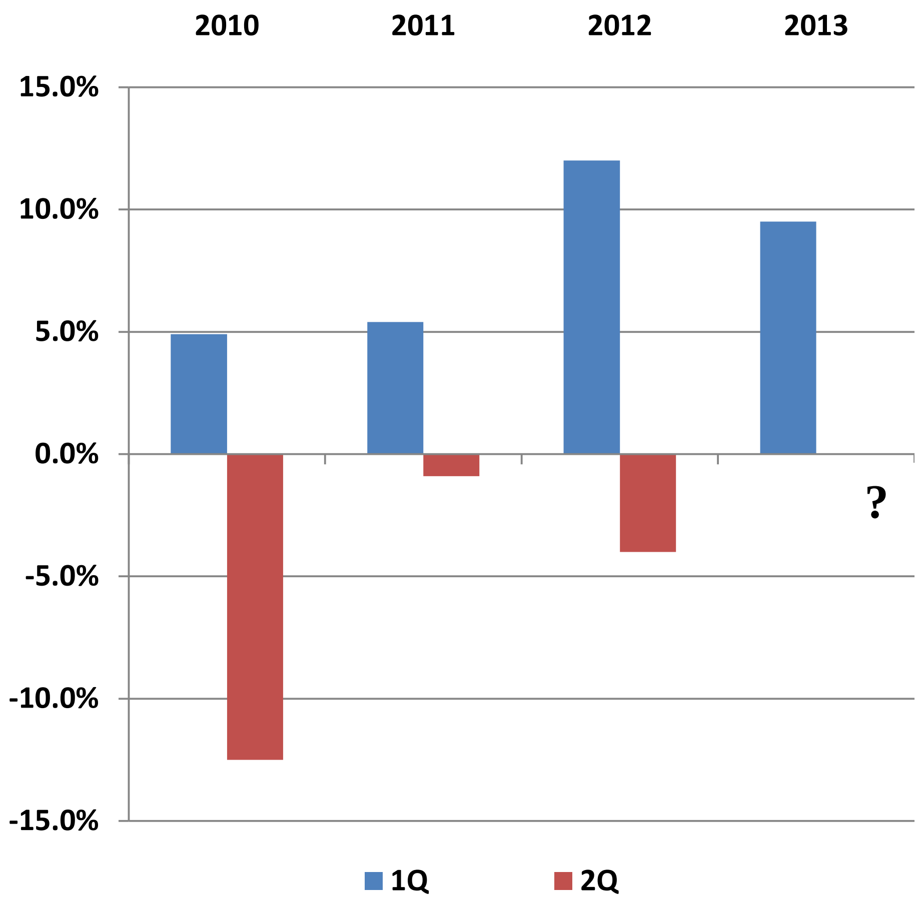
Consensus 2013 earnings for the S&P 400 (mid cap) and the S&P 600 (small cap) are $64.66 and $28.87, respectively, implying a P/E multiple of 17x and 17.5x, a decent premium to the S&P 500.

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 the S&P 600 at 1.3x.

Hence, we believe large caps continue to offer the best return potential over the next five years, particularly when returns on equity (ROE) are factored into their relative valuations: large caps recorded a trailing twelve month (TTM) ROE of 26%, while mid caps were 14.4% and small caps just 12.8%, according to *Standard & Poor's*.

We continue to be underweight fixed income, with the exception of high yield and emerging market bonds. We see limited returns and substantial risk over the next five years in high grade and treasuries.

To arrive at expected commodity returns we start with our expectation for inflation and then adjust for anticipated changes in supply and demand, as well as changes in the dollar as most commodities are priced in dollars. We



SELL IN MAY?

DÉJÀ VU AGAIN

The last three years have witnessed favorable fundamentals and improving valuations for risk assets in the first quarter, only to be followed by deteriorating fundamentals and falling prices in the second quarter.

We offer three theories that may explain this performance, and assign probabilities that assist us in determining how to adjust our portfolios.

Source: NYSE Arca, S&P

trimmed our commodity forecast last quarter due to our expectation of lower energy prices as new supply enters the market.

Finally, we believe yield-driven assets like real estate and preferreds will continue to perform well in a sustained, low-interest environment. We expect inflation to trend just below the Fed's target rate of 2%.

6.1: Focus: Something About May

Issues & Implications

Last quarter we made the case for a sustained recovery in the housing market, with implications for the broader economy. The recovery in housing continues to be impressive: the median home price is up +9.4% YTD, yet the latest economic data on production, sentiment, employment and retail sales has been at best tepid, and at worst alarming, particularly given the fact that there appear to be no major issues (unlike in years past) that might explain a sudden deterioration in confidence and a concomitant decline in economic indicators.

For what appears to be the fourth time in four years, the economy is showing the early signs of once again failing to reach its "escape velocity" in the spring, with the potential of another summer stall, or worse.

Hence, this quarter's Focus Section examines several issues surrounding the annual seasonal pattern that we have witnessed: (i) is it real; (ii) can it be explained; and (iii) how do we position portfolios given current valuations and an uncertain outlook?

Is it real?

Yes, we think it's real. As depicted in the chart above, in each of the last three years the S&P 500 has witnessed positive, solid returns in the first quarter, followed by negative, poor returns in the second quarter. While we are just one month into the second quarter, the seasonal pattern that has held for the last three years appears again to be repeating itself: after a strong first quarter, economic activity is slowing, although through the month of April, despite a small correction mid-month, equity markets have mainly advanced.

Can it be explained?

We think there are three possible explanations for the seasonality experienced over the last three years: (i) Seasonal Factors; (ii) Separate Events; and (iii) Noise.

The Seasonal Factor Explanation

The "seasonal" explanation refers to the fact that following the events of the financial crisis, as well as the potential impact of changing demographics and perhaps even internet purchases, seasonal hiring patterns (and the adjustments statisticians make for those patterns) has been inexorably altered so that employment growth is being over-stated in the spring and under-stated in the summer and fall.

The evidence supporting this theory is based on the fact that (i) the pattern has repeated in each of the last three years, (ii) the first quarter employment figures have been better than GDP growth would typically support and predict, and (iii) annualized figures seem to be tracking more in line with anecdotal color from public companies.

The Separate Event Explanation

The "separate event" explanation claims that seasonal softness is due to justifiable concerns that have arisen each spring. In the spring of 2010 Greece had to be bailed out; in the spring of 2011 a tsunami struck Japan, U.S. politicians deadlocked over the debt-ceiling negotiations and unrest in the Middle East sent oil and gas prices soaring. In the spring of 2012, a government-fueled slowdown in China coupled with ongoing European dysfunction and concerns about the U.S. elections conspired to put a break on accelerating economic activity in 1Q12, which may have been attributable to a warmer-than-normal winter.

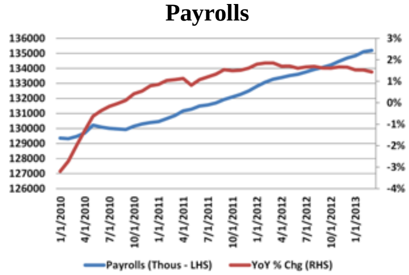
This year there are several potential culprits, but all lack the seriousness of years past. Issues concerning investors include a combination of China's slow growth, tighter U.S. fiscal policies (higher taxes, lower spending), uncertainty regarding healthcare costs (impact of Obamacare) and geopolitical concerns (Iran, North Korea).

Yet relative to the risks facing markets in prior years, this year's concerns seem a little overblown, and shouldn't be the sole source of the deceleration in economic activity, in our view, which obviously raises the question of whether it is simply seasonality and not the beginning of something more problematic?

The Noise Theory

The "noise" explanation is relatively straight forward: economic recoveries do not follow smooth trajectories; rather, there are fits and starts during a broad-based up cycle, and focusing too intently on monthly data or even quarterly data will ultimately obscure the broader trend.

Payrolls

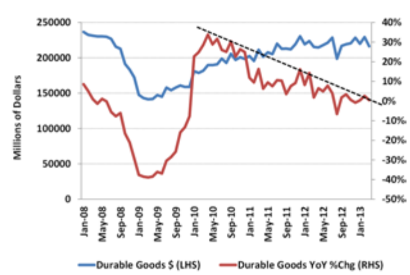


Source: Federal Reserve St. Louis/FRED Database

Despite some fits and starts, employment has been improving steadily since bottoming in February 2010 at 129.32 million (the blue line in the chart above).

Unfortunately, the red line in the same chart shows a worrying trend: the pace of growth in payrolls is beginning to slow, and this slowdown in the rate of change is evident in a variety of economic statistics, as demonstrated in the following two charts for Durable Goods and Industrial Production.

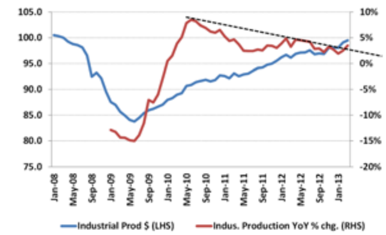
Durable Goods



Source: Federal Reserve St. Louis/FRED Database

The decline in the rate of change for Durable Goods is quite significant, but so too is the rate of change in Industrial Production, although it is important to remember that like payrolls, both metrics are still rising, just at a slower pace. That said, we are big believers in paying careful attention to the second derivative.

Industrial Production



Source: Federal Reserve St. Louis/FRED Database

To some extent the declining rate of change in durables and production help to highlight the decline in global manufacturing – especially in China, which is reinforced by the fall in price of the base metals discussed earlier.

GDP

Source: Federal Reserve St. Louis/FRED Database

But durables and industrial production are just a few of the components that go into the calculation of GDP, others include: nondurables, services, residential construction, change in inventories and government spending. Yet despite robust consumer spending, a recovering housing market, massive central bank stimulus and the development of new natural gas resources, GDP growth remains anemic, with a trend line that has a gentle downward slope.

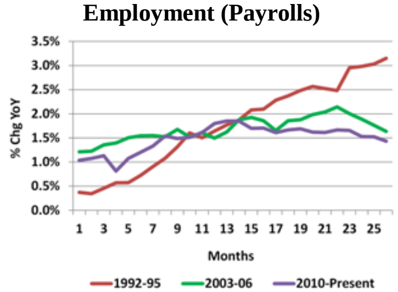
How to position the portfolio?

Under the first explanation (seasonal adjustments) one theoretically could trim the portfolio and trade around positions to capture strong seasonal uptrends and avoid seasonal downtrends, but in practice that is always difficult, and incurs trading costs and negative tax implications, although if value is full then there may be a case for pruning the portfolio of winners.

Under the second scenario (separate event explanation), one would predicate buy and sell decisions based on the severity of the discrete events. Given that this year's exogenous events don't seem particularly damaging (payroll taxes, sequester) to us, we would be inclined to not make any changes to our allocations, but keep a careful watch for further deterioration as the full impact of fiscal tightening and uncertainty around Obamacare become more evident.

Under the third scenario (noise) one would take advantage of any sell-off to add to positions, especially in those sectors that have been over-sold. But this reaction ignores the broader deceleration evident in the rate of change across the last three years, not just the seasonal slowdown. Moreover, the strong initial recovery followed by decelerating trends seems like something of an anomaly relative to the pace of recovery from the two prior recessions.

Employment (Payrolls)

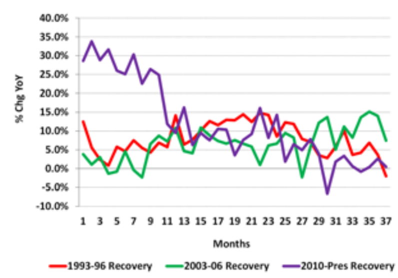


Source: Federal Reserve St. Louis/FRED Database

The chart above depicts the YoY rate of change in payrolls one year from their cyclical trough. For example, payrolls bottomed in May 1991 at 108.2 million, so the 1992-95 recovery line shows the percentage change in payrolls over the next 27 months beginning in May 1992 off of the May 1991 trough. In the next recession payrolls bottomed in June 2003 and most recently in February 2010. Most notably, however, is the rate of change in this recovery continues to be below that of prior recessions.

This trend is confirmed in the following two charts depicting Durable Goods and Industrial Production.

Durable Goods



Source: St. Louis Federal Reserve/FRED Database

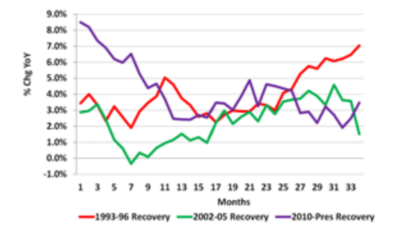
Durable Goods orders troughed in March 2009 during the current cycle, troughed in January 2002 during the latest recession and prior to that we use a trough of February 1992, which is the earliest date for which data are available (but roughly consistent with the Industrial Production data for which the data are available).

While the current DG cycle deceleration is somewhat magnified by the initial strong recovery (months 1-12) following the financial crisis (or "Great Recession" as it seems to be called), the relationship holds true even if evaluated from months 13-37. In fact, this may be a more accurate way of evaluating the data as the strength of the initial year one "snapback" is usually more closely correlated to the size and duration of the prior decline.

The same is true in Industrial Production: a downward-sloping rate of change is evident even after the first 12 months, though it is not as extreme as in DG orders, except that in the case of the two prior recessions IP continued to grow through the course of the recovery.

IP troughed in the current cycle in June 2009, in December 2001 in the latest recession and March 1991 in the prior recession.

Industrial Production



Source: St. Louis Federal Reserve/FRED Database

We raise this issue only to highlight the fact that this year there may be more than seasonality at work, which argues for a high degree of economic vigilance particularly in light of the current value of the equity markets, which would obviously suffer disproportionately in a recession.

8.1 Client Solutions
Portfolio Construction

Last quarter we examined some of our investment partners, and the expertise they bring to our client portfolios.

This quarter, we take a closer look at portfolio construction, and how we are attempting to solve the conundrum faced by most investors: what to do about fixed income allocations in a low-yield environment.

We are under-weight bonds, and have been for at least two years. And short long-term treasuries. This hasn't been the best call as rates have fallen dramatically and inflation has remained subdued, so the net impact is that had our bond call been correct we could have lowered the overall risk in our portfolios without materially impairing our returns.

That said, we remain comfortable with our current position, as bonds – especially Treasury bonds— have become more expensive with the recent decline in yields in March and April.

Tax issues associated with bonds compound valuation concerns: meager coupons are taxed at 43.4% (39.6% marginal tax rate plus 3.8% unearned income tax) for high net worth clients in taxable accounts vs. 23.8% (20.0% qualified dividend tax rate plus 3.8% unearned income tax) for the same taxpayer-- a difference of nearly 20 percentage points.

Finally, it comes as no surprise that great investors like Warren Buffet have little enthusiasm for bonds and consider them to be "mediocre" investments, even in a normal yield environment[9]. This is partly a function of the nature of bonds: the best you can hope for is the return of your principal plus interest (less inflation), and partly a reflection that equities, despite their volatility, generally offer the best return potential over the long term (which admittedly can be *very* long).

Despite these misgivings, there is role for bonds to play in a portfolio, first as a hedge against deflation, and second to reduce a portfolio's overall volatility due to their diversification. So our fixed income investments are designed first to play those two roles, and then secondarily to provide coupon income.

The most important element, in our view is to first ensure tax efficiency, and that means holding securities that generate qualified dividends in taxable accounts and holding as many securities that generate non-qualified dividends and coupon interest in tax exempt accounts.

We use a combination of bond funds, Business Development Companies (BDCs) and specialty finance firms, mortgage REITs, property REITs, floating rate debt, high yield debt, asset-backed securities, mortgages, emerging market debt, master-limited partnerships (MLPs), private investments, hybrids and finally high-yielding, low volatility stocks (often with a hedge) for our fixed income allocations. Like most portfolio managers, we have had to increase risk to generate higher returns off of this segment of the portfolio.

Please note: the names that follow are for informational purposes only and should not be viewed as a recommendation by us. Please consult a professional to assess the suitability of these names given your personal financial goals and risk tolerance.

For bond funds, which due to their cost make up the smallest portion of our fixed income exposure, we use PIMCO and DoubleLine; we also use bond funds for our convertible bond exposure, which we like as it gives us a coupon plus some equity upside. We use Vanguard and Franklin.

In addition to bond funds, we use ETFs and ETNs to add diversity and yield. We use JNK for high yield, VMBS and MBB for mortgage-backed, EMB for emerging markets, BKLN for floating rate senior debt, LQD for high grade corporate debt, PICB for international corporate debt, BWX for international government and BND for total bond market.

We also use ETFs and ETNs for hybrids, including PFF for preferred and IPFF for international preferred and VNQ for domestic real estate, VNQI and IFGL for international real estate.

We supplement these holdings with some higher risk, higher return securities in some portfolios. For BDCs, we use New Mountain Finance Corp. (ticker-NMFC) as we know the management there and have first-hand experience with the thoroughness of their work (*disclosure: Brandt serves on the Board of a New Mountain portfolio company, an affiliate of NMFC*). NMFC owns a portfolio of senior secured and unsecured debt for middle market companies, and yields about 8.9%.

Another similar investment in this arena is KKR Financial Holdings (ticker-KFN), which invests in a variety of financial assets including senior debt, mezzanine loans, private equity investments, high yield debt and collateralized loan obligations (CLOs), as well as natural resources and real estate, and yields about 8%.

We own NorthStar Realty Finance (ticker-NRF), a mortgage REIT that yields about 7.4%, and our favorite MLP is KinderMorgan (ticker-KMP) and yields about 5.8%.

Finally, we evaluate the private market for specific opportunities in hard dollar lending and senior secured lending with nice yields but plenty of risk and illiquidity.

In sum, yield and risk are positively correlated; we think we manage risk through diversification, value and hedges, but we consider our bond portfolio to be a "bull market" portfolio that would need to be dramatically reconfigured should economic activity continue to decelerate.

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. Annualized return is based on portfolios invested as of June 1, 2009. The sample set of portfolios has increased over time.

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 (MDY ETF), US Small (IWM ETF), MSCI (EFA ETF) and Emerging Markets (VWO ETF) total return, including dividends.

[6] Fixed Income Price Performance chart depicts Intermediate Government (IEI 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 best 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.

[8] Shiller P/E (or cyclically-adjusted P/E) is the price of the S&P 500 divided by the average inflation-adjusted earnings from the prior 10 years. The Shiller P/E adjusts for the cyclicality of earnings (and corporate profit margins) during recessions and expansions. It is the intellectual property of Robert J. Shiller of Yale University.

[9] *The Warren Buffet Way*, by Richard Hagstrom, John Wiley & Sons, 1994, page 160.

IMPORTANT DISCLOSURES

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Quarterly data priced as of March 31, 2013; most other prices and yields are as of April 26, 2013.

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

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

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