Investor Quarterly

ROCKINGSTONE ADVISORS LLC

CONTENTS

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

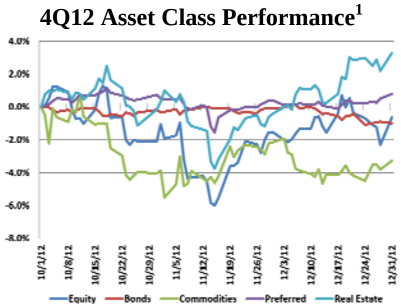
A Tale of Two Halves
4Q12 Review

Financial assets declined during the first half of 4Q12 before rallying in the second half to end the quarter unchanged.

All major asset classes performed similarly, although real estate and commodities recorded the greatest variability, as positive U.S. housing data lifted REIT valuations more than 3%, while profit-taking in the commodities complex led to a 3%-plus decline.

The catalyst for the first half declines were driven by disappointing 3Q12 earnings results (and 4Q12 guidance) and concern over the fiscal cliff negotiations, which resulted in declines of between 6-8% until markets bottomed on November 15th and began a broad-based rally.

4Q12 Asset Class Performance[1]



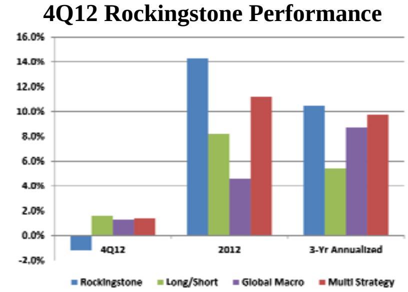
Source: NYSE Arca

There were many factors behind the rally. The initial catalyst was rumor of a grand bargain, but the reality was that by mid-November asset prices had adequately discounted political risk and lower earnings, while at the same time U.S. economic and employment data were improving, European sovereign yields falling, and China's economy recovering. Additionally, Japanese equities rallied as investors speculated that LDP leader Shinzo Abe would be elected and finally address Japan's epic deflation.

Rockingstone's 4Q12 Performance[2]
Playing Defense

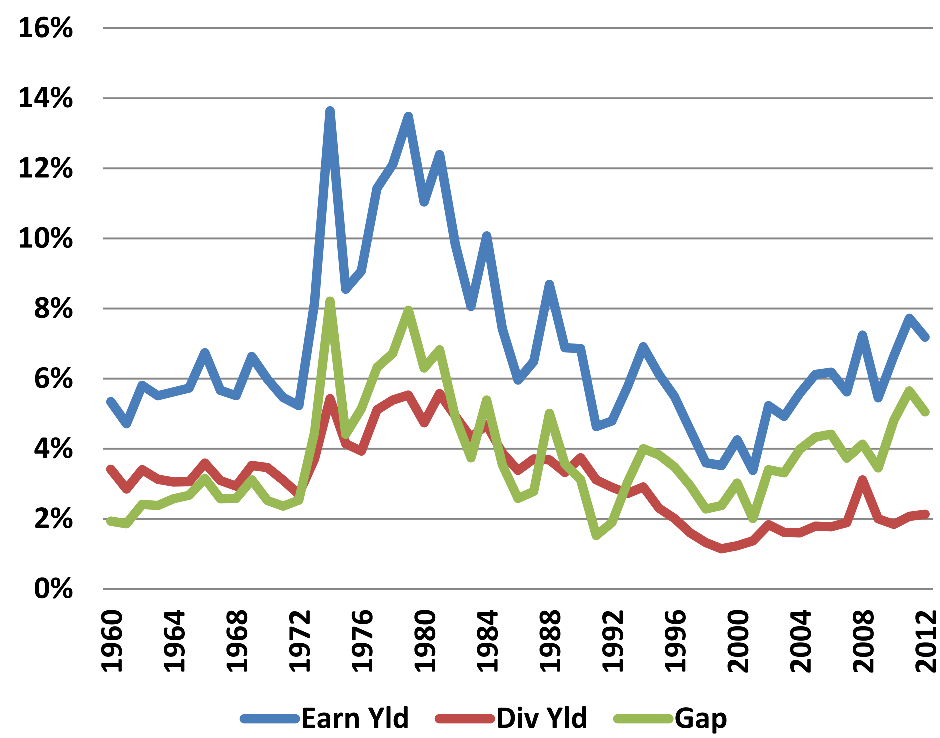
Rockingstone Advisors had a lackluster quarter, recording a loss of 1.2%, but much better full year performance. We had reduced exposure to stocks in September by booking gains and adding hedges, so we outperformed in the first half, but underperformed in the second half due to losses in our hedges when markets rallied and a decline in a large holding. Our 2012 return was +14.3% and our 3-year annualized return is +10.5%.

4Q12 Rockingstone Performance



Source: Morningstar, DJ Credit Suisse

Please see our End Notes and Disclosures (page 9 of this Quarterly) for important information regarding performance measures. Form ADV available upon request.



S&P 500[3]

MIND THE GAP: EARNINGS AND DIVIDEND YIELD

The chart at left depicts the earnings yield and the dividend yield of the S&P 500 since 1960, and the difference between the two, called the "gap."

The gap reached 8% during the equity bear markets of 1974 and 1980, but has recently edged 5%, a level normally associated with attractive equity prices.

Source: NYU

2.1: 4Q12 Detailed Performance

Dividend assets outperformed all others in the fourth quarter, with REITs recording gains of more than 3% and preferreds rising 1%, as fears of a return to earned income taxation for qualified dividends abated during the fiscal cliff negotiations.

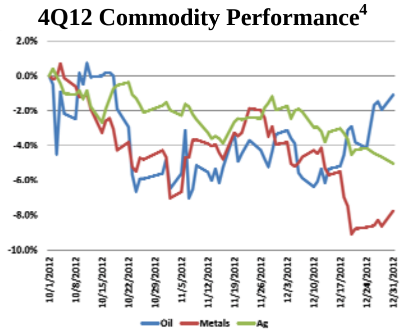
U.S. stocks and bonds declined slightly during the quarter, but the second half rally erased deeper losses in both assets. Commodities declined more than 3%, and except for oil did not participate in the second half rally.

Commodities

The sell-off in the commodity complex was fairly widespread, with losses in oil, metals and agriculture.

Of the three, oil outperformed, declining 1%, while precious metals underperformed, declining 8%, perhaps due in part to a much stronger Euro. Agriculture fell about 5% as grain stockpiles improved from their draught-stricken levels.

4Q12 Commodity Performance[4]



Source: NYSE Arca

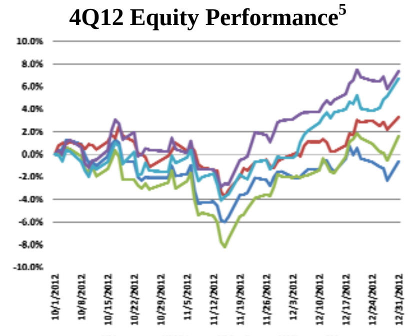
Equities

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

In the first half of the quarter, equity price performance was driven primarily by disappointing 3Q12 results and very cautious full year guidance.

In the second half of the quarter, once the majority of companies had already reported and Street estimates re-adjusted downward, stocks staged a fairly impressive rally through year end. Foreign shares staged the most impressive rally, rising 7% in dollar terms as sovereign yields continued to fall and the Euro broke above 1.30 USD. Moreover, foreign markets were buoyed by Japan due to an anticipated change in the government and speculation surrounding a substantially more accommodative monetary. Emerging market equities performed well as Chinese stocks rallied on better economic data and a smooth leadership transition.

4Q12 Equity Performance[5]



Source: NYSE Arca

Interestingly, U.S. large-cap stocks underperformed both mid-cap and small-cap equities, as risk appetite improved in the second half of the quarter.

Fixed Income

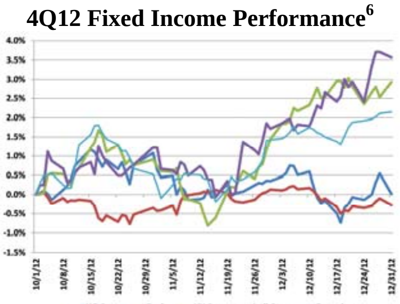
Fixed income securities declined slightly in the fourth quarter, in line with equities and ahead of commodities, but under-performing real estate and preferreds.

Similar to how equities performed, most fixed income assets declined in the first half of the quarter until mid-November, and then rallied sharply in the second half of the quarter.

Within fixed income, "risk" assets generally outperformed "safe" assets, as foreign developed, high yield and emerging market bonds outperformed high grade and government bonds.

International corporate bonds rose 3.6%, followed closely by U.S. high yield bonds, which rose 3%. Emerging markets bonds rose 2% while U.S. high grade bonds were flat and U.S. Treasuries declined slightly.

4Q12 Fixed Income Performance[6]



Source: NYSE Arca

3.1: Our 2013 Outlook

Increasing Exposure

Not only did financial markets prove their resilience following the fiscal cliff negotiations, but so too did the global economy.

Most of the macroeconomic data that we track showed at worst stabilizing trends, and in a few key segments the data generally improved through the fourth quarter and into early 2013.

That is not to say that there are not serious headwinds in the future. The current monetary and fiscal path of the United States is unsustainable, and the debt ceiling negotiations will no doubt heighten volatility and increase uncertainty.

We expect that the fiscal drag from higher tax rates and social security withholding may exceed 1.5%. Exiting unsustainable policies may tip the U.S. into recession, in our view. That said, our current investment assumption is that this exit is at least a 2014 event and possibly a 2015 event.

In Europe, sovereign yields have fallen dramatically, but they can rise as quickly as they fell. A material backup in yields would make us re-evaluate our constructive view of risk assets, which should outperform in the short-run.

So taken together, we feel that in the current climate it is more beneficial to take risk than to reduce risk, and that the "pain trade" will be higher, rather than lower. Several factors underpin our view.

The U.S. housing market is improving (See section 5.1 for our deep dive on the housing recovery), creating a major tailwind for the economy in terms of employment, household balance sheets and the health of the financial services sector.

The European debt crisis, while clearly not solved, is at least less a near-term threat given current yields on Italian, Spanish, Portuguese and Greek debt. The Euro is back above 1.32 USD, and consumer and business confidence appears to be recovering.

The Chinese economy is showing early signs of re-accelerating, and the recent leadership change in Tokyo may finally address Japan's decade-long deflation. While we are somewhat concerned with the speed of the Yen's decline and the potential for a sharp sell-off in Japanese government bonds, we have not witnessed a material increase in JGB yields (roughly 8 bps).

From a corporate or micro perspective, as we enter into 4Q12 earnings season, we believe that earnings expectations have now been re-set to levels that can at least be met— and most likely exceeded— as Alcoa, Goldman Sachs and others have recently demonstrated.

Corporate profitability continues to be strong (admittedly a double-edged sword), and balance sheets over-capitalized. Equity valuations are marginally attractive on an absolute basis and quite attractive on a relative basis to bonds.

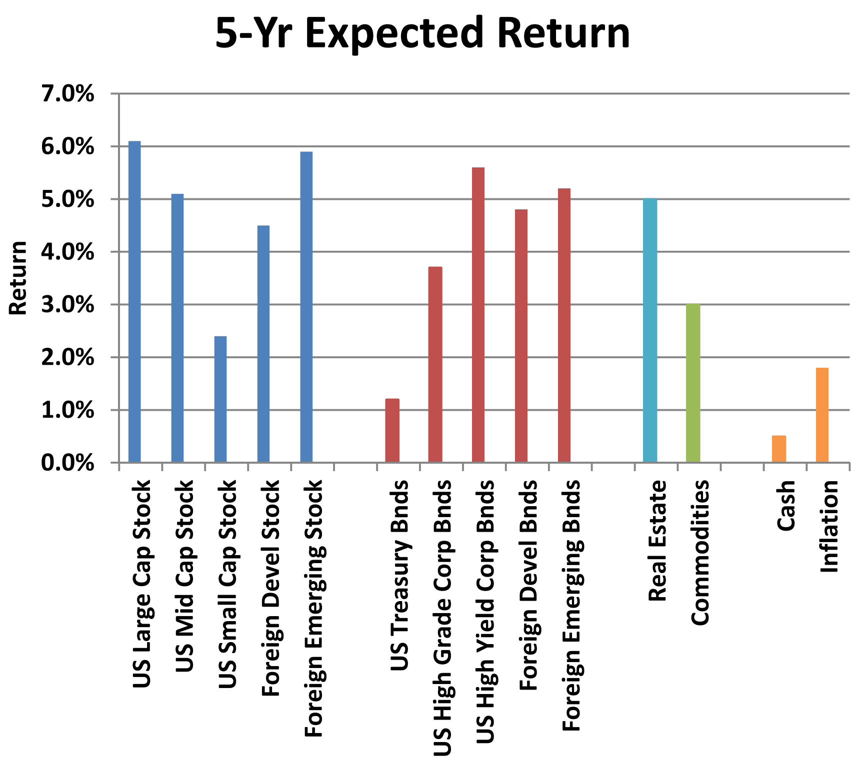
Finally, technicals in the equity market seem supportive of higher valuations. The Dow Transports are making all-time highs and volatility is low. While one could make a case that these metrics indicate a high level of complacency, we worry most about the impact of a recession on financial assets, and we currently do not see one in 2013.

US GDP	2.4%
S&P 500 EPS 2013/14	$107.50/$115.24
S&P 500 2014 P/E	13.75x
Year-end S&P 500	1584
10-Yr Treasury Yield	2.1%
EUR/USD	1.25
JPY/USD	98

4.1: Five-Year Asset Value Forecast

Equities Continue to Offer the Best Value

According to our five-year asset value forecast, 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



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 real estate offer the best five-year return potential.

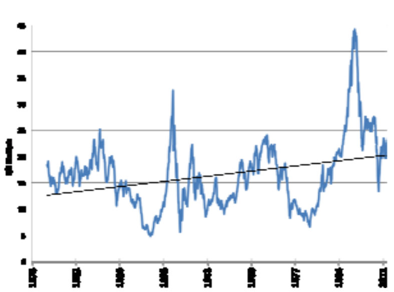
We note that we now expect inflation to trend below the Fed's 2% target given our assumption for lower energy prices on an increase in the supply of natural gas.

Source: Rockingstone Advisors LLC

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, coupled with 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

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 $99.16, $112.69 and $127.23 for 2012, 2013 and 2014, respectively, implying a P/E multiple of 14.9x, 13.1x and 11.6x. That said, consensus estimates have been revised downward several times, and the 2013 and 2014 estimates strike us as aggressive.

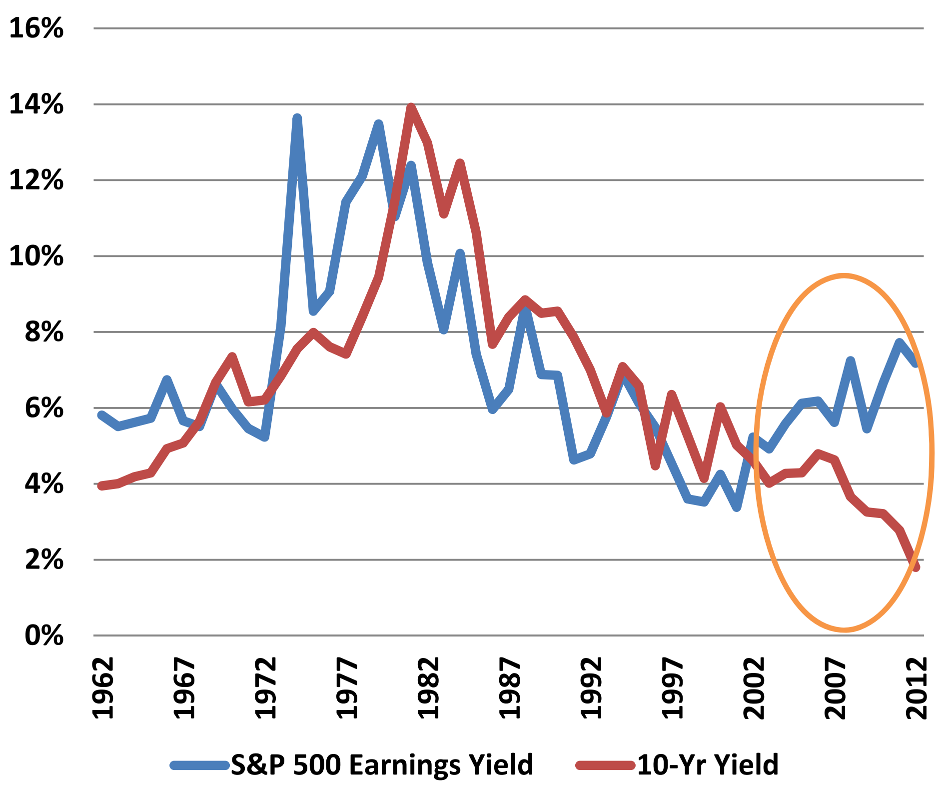
We are forecasting S&P 500 earnings of $107.50 for 2013 and $115.24 for 2014. Hence, our year end price target is derived by applying a P/E multiple of 13.75x times our 2014 forecast of $115.24, which yields a price target of 1584 for the S&P 500, implying a return of 7% before dividends. Our price target implies earnings growth greater than U.S. and global GDP and modest P/E multiple expansion, assumptions that are explained more fully in the following section of our *Investor Quarterly*.

Mid and Small Cap Stocks

Consensus 2013 earnings for the S&P 400 (mid cap) and the S&P 600 (small cap) are $66.01 and $29.81, respectively, implying a P/E multiple of 16x and 16.5x, a decent premium to the S&P 500.

Adjusting P/Es for growth rates, currently the S&P 500 trades at a PEG ratio 1.23x vs. the S&P 400 at 1.26x and the S&P 600 at 1.22x.

Hence, we believe large caps continue to offer the best return potential



S&P 500 VS. 10 YR YIELD

ASSESSING RELATIVE VALUE

In determining the relative value between stocks and bonds one measure that has historically been helpful is comparing the earnings yield (the inverse of the P/E) of the S&P 500 against the yield of the 10-year Treasury.

By this measure, stocks look attractive relative to bonds.

Source: Standard and Poor's; St. Louis Federal Reserve; NYU

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 34.3%, while mid caps were 14.8% and small caps just 10.8%, 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 have trimmed our commodity forecast 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 perform well in a sustained, low-interest environment. We now expect inflation to trend just below the Fed's target rate of 2%.

5.1: The Housing Recovery
Issues & Implications

Last quarter we examined the implications of negative real interest rates. This quarter, we look at the implications of the recovery in the U.S. housing market.

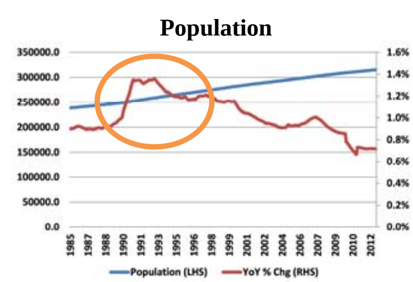
Home prices are naturally governed by the law of supply and demand. But given that most home buyers take out a mortgage to finance the purchase of their home, home prices also depend in large part on both the cost and availability of credit.

In our 3Q12 *Investor Quarterly* (available from our web site) we analyzed how negative real interest rates make borrowing money exceptionally attractive, and that over time artificially low rates should inflate the value of assets, especially those that are financed.

Hence, our case for higher home values is predicated on increasingly favorable supply and demand characteristics coupled with a more attractive financing climate.

Demand Characteristics

Demand for housing ultimately rests on population growth, which is a function of net immigration and birth rates. The U.S. has some of the best demographics of the developed world, owing to its relatively high birth rates and its accommodative immigration policy.



Source: U.S. Census Bureau

However, these favorable demographic characteristics cannot alter the long-term trend of the developed world of decelerating population growth, and in some countries, like Italy and Japan, absolute declines in population.

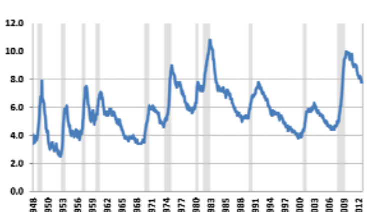
Despite this longer-term trend, there have been a few periods in U.S. history when population growth rates spiked above their longer-term downward trend, most notably the “baby boom” generation, which most demographers assign to births in the post-war period from 1946-1964.

The second period of above-trend growth occurred between 1990 and 2000, driven by a combination of higher birth rates associated with the baby boom echo, higher immigration rates and higher birth rates associated with recent immigrants, particularly Hispanic-Americans (see chart on previous page).

The impact of this spike in population was seen in record high primary school enrollments that occurred in the mid- to-late 1990s and continued through 2000. More importantly, the oldest individuals of this demographic spike are now approaching 23, the age at which most members of this cohort would seek their own independent housing solution. For the next 10 years, this demographic bubble will work its way through the nation’s housing market, providing the marginal buyer to drive demand for new and existing home sales.

Of course it is one thing to want a new home; it is an entirely different thing to be able to afford one. Fortunately, employment is improving and financing is increasingly available.

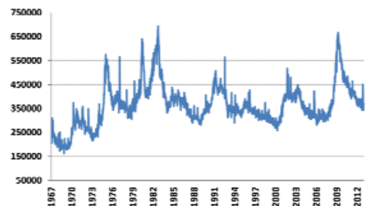
Unemployment Rate



Source: U.S. Department of Labor

The two charts (above and below) depict the current state of the employment market. The chart above shows that the civilian unemployment rate has now been declining for more than two years following its peak at 10% in early 2010, while the chart below shows initial unemployment claims continue to trend downward from their peak in 2009 (the year-end 2012 spike is due to Hurricane Sandy).

Initial Unemployment Claims

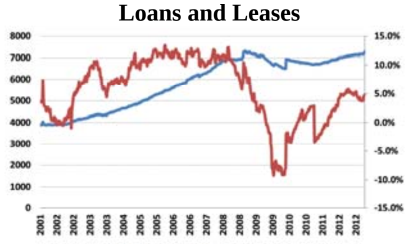


Source: U.S. Department of Labor

While employment is showing steady improvement, banks have used the last few years to re-build their capital positions, which is a pre-requisite for loan growth.

After plummeting from 2008 to 2010, banks are beginning to lend. Despite ongoing tepid demand, loans and leases are starting to recover, with loan growth turning positive in 2011 and reaching 5% in 2012.

Loans and Leases



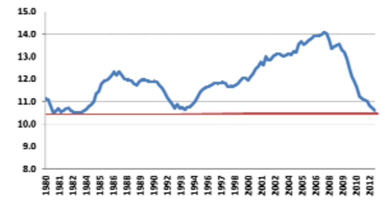
Source: Federal Reserve

Banks are not the only ones to have strengthened their balance sheets: households have too.

As the following chart depicts, household debt payments as a percentage of disposable income have fallen dramatically from an all-time high of 14.1% in July, 2007 to a low of 10.6% in 2012.

During the last two major de-leveraging cycles in the early 1980s and early 1990s, this metric bottomed at 10.5%, indicating that the multi-year process of household de-leveraging is most likely complete.

Household Debt Service
(% of Disposable Income)



Source: Federal Reserve

Supply Characteristics

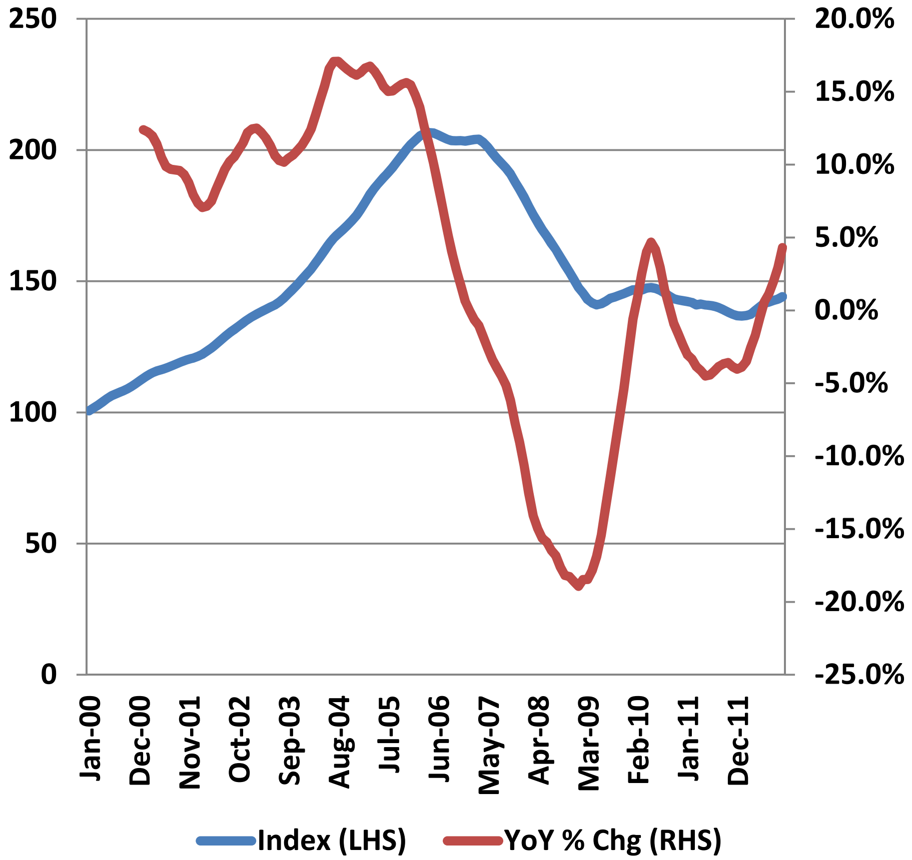
As demand for housing has firmed up on a combination of steady population growth, better employment figures and a more favorable funding climate, the supply of housing—or perhaps the lack of supply-- is also contributing to the recovery in housing.

The 15-year period from 1991-2006 marked the longest period of rising housing starts since the U.S. began keeping records in the late 1950s. Prior to this period, housing starts typically rose a few years before falling a few years, in a cycle that measured about 5-7 years in duration.

The excess supply of housing that was created during that 15 year period has taken time to work off, but there is ample evidence that the sharp drop in housing starts from their peak in January 2006 to their trough in April 2009—to a level never before witnessed—has helped to soak up the excess supply.

Housing Starts

Source: U.S. Census Bureau



HOME PRICES

S&P CASE SHILLER 20-CITY HOME INDEX

Home prices peaked in April 2006 and then began a steady decline until bottoming in May 2009.

After an initial rise in value from June 2009 to May 2010, home prices fell again as GDP growth decelerated amid the debt ceiling negotiations and the European sovereign debt crisis.

Home prices have rebounded, and we believe this recovery will contribute to GDP growth and provide one element to improved equity valuations.

Source: Standard and Poor's

Combining All Three Factors

When all three elements are taken together-- (i) median priced single family home; (ii) median family income; and (iii) prevailing mortgage interest rates-- the outcome is the Home Affordability Index, a product of the National Association of Realtors.

Home Affordability Index

Source: National Association of Realtors

The chart above shows that the typical family now has 200% of the income necessary to qualify for a conventional loan covering 80% of a median-priced existing single-family home (assumes 20% down and qualifying ratio of 25%).

How to Play the Housing Recovery

There are several ways to invest in the housing recovery, as residential real estate plays such an important role in the economy.

The most direct is by purchasing single and multi-family homes. This is of course hard to do without a knowledgeable partner; to this end, Rockingstone has teamed up with two firms that have expertise in this area: Haven Realty in the Los Angeles, CA market and Kaiser Properties in the Austin, TX market. Both firms have been acquiring middle-market properties at a fraction of replacement value with exceptional rental yields.

Another way is to invest in housing-related securities, such as the home builders, as well as the suppliers.

Another way is to play the financials side: buying securities in mortgage issuers and property and mortgage REITs, as well as regional banks that have large real estate exposure.

6.1 Client Solutions

Our Partners

Last quarter we examined how Rockingstone's software enables us to track multiple assets in several locations.

This quarter, we take a closer look at some of our investment partners who provide expertise in areas that frankly exceed our capability and capacity, particularly in businesses such as middle-market private equity and, as mentioned previously, real estate management firms that purchase and manage a portfolio of single family rental properties.

Private Equity

One of our oldest partners has been Lionheart Ventures, a Philadelphia, PA and Cambridge, MA-based private equity firm focused on manufacturing-intensive middle market businesses. The principals were classmates from Columbia Business School. Over the past 10 years, they have acquired several companies in a deal-by-deal structure. We were impressed by the thoroughness of their analysis and their vision of how to grow the acquired businesses.

We ended up participating in the equity raise for the purchase of MP Fluid Technology from Tecumseh Products. Formed in 1942, MP Pumps is a manufacturer of engineered centrifugal pumps serving mainly the industrial, transportation, agricultural and marine industries.

Under Lionheart's tutelage, the company has grown revenue 17% and EBITDA 55% between 2007 and 2012, materially exceeding our expectations and adeptly navigatingthrough the 2009 inustrial downturn[9].

In 2012 MP paid a special dividend and we have been thrilled with the investment.

MP has not been the exception to the rule; rather, Lionheart has successfully managed all of its acquisitions, realizing an aggregate 27.5% IRR while retaining its equity stake its businesses[10].

Real Estate

Given the nascent recovery in housing highlighted in the prior section, we were attracted to two distinct opportunities to increase our exposure to the single family home market.

Haven Realty Advisors is a Los Angeles, CA-based firm that specializes in buying and renting middle- and lower-income houses in the southern California market.

We were impressed by the principals, who had extensive real estate management experience and a structure already in place to deal with managing multiple single family homes.

We participated in an equity raise for Haven Property Fund III, and have been very pleased with the yield generation of 8.7% in 2012 alone.

We believe that the homes have all risen in value and expect a double digit total return at exit.

Kaiser Properties is an Austin-TX based group that has been acquiring single family homes in and around Austin over the past 12-18 months.

The Austin-TX MSA is one of the fastest growing regions in the U.S., with low unemployment, no state income tax and strong respect for property rights. Kaiser has been able to buy single family homes at about 80% of replacement value.

Kaiser has acquired approximately 20 properties at an average price of $52 per square foot, and is targeting 25 properties by the end of February. According to bank appraisals, the properties have risen 13.1% since acquisition while generating mid-teen gross rental yields.

While these returns have been strong, it is important to remember that private equity and real estate investments are illiquid and several years in duration, with the average holding period at least five years and possibly as long as 10 years.

In addition, investments in private equity and real estate generally utilize leverage (debt) to finance the purchases of businesses and single family homes. Leverage amplifies returns, making positive returns better and negative returns worse.

Because of the dual risks of liquidity and leverage, it is important that just as a portfolio is balanced across asset classes, it must also be balanced across liquidity and investment time horizon.

We generally think it is prudent to limit the illiquidity of a portfolio to no more than 20% of its total value, but this figure depends on investment style, return opportunities and investment horizon.

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. Three-year 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 charts are courtesy of the St. Louis Federal Reserve FRED database.

[4] Commodity Price Performance chart depicts Metals (DBP 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] Returns are based on absolute percentage increase in revenues and adjusted EBITDA between December 31, 2008 and December 31, 2012. Lionheart purchased MP Pumps in mid-2008. Figures for 2012 revenues and adjusted EBITDA for the year ended December 31, 2012 are estimated and unaudited.

[10] Represents returns received by all investors in aggregate.

IMPORTANT DISCLOSURES

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.

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Quarterly data priced as of December 31, 2012; most other prices and yields are as of January 15, 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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