Preservation Capital Fund, LP

The Case for Investing in Commodities

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Portfolio Sectors

Energy
- Coal
- Oil & Gas Producers
- Oil & Gas Services
- Integrated Oils
- Oil Refining

Basic Materials
- Chemicals
- Forest Products & Paper
- Metals & Mining

Consumer Cyclical
- Airlines
- Auto Related
- Housing
- Food Service

Utilities / Electric Power
- Electric
- Gas

Industries
- Building Materials
- Electrical Components & Equipment
- Engineering & Construction
- Industrial Services
- Machinery / Misc. Manufacturing
- Packaging & Containers
- Transportation

Consumer Non-Cyclical
- Agriculture
- Meat Processors
- Packaged Foods / Beverages






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"New Economic Order"

- Tremendous shift in the balance of economic power in recent years as worldwide economic growth is increasingly being driven by "emerging economies" such as China and India, among others.
- Entering an entirely new era of pricing coincident with the combination of unprecedented global commodity demand and constrained supply on the part of commodity producers/processors.

Capitalizing on Ensuing Commodities Boom

- Due to the highly cyclical nature of the commodity and natural resource markets, the optimal way to capitalize on the ensuing, long-term boom is to employ a strategic, opportunistic and flexible methodology.

Preservation Capital, LP: A Strategic, Opportunistic and Flexible Approach

Preservation Capital invests exclusively in the equity and debt of companies within the commodity-related, natural resource and cyclical sectors of the economy. We employ a value-based strategy which looks to unlock value by ascertaining the true underlying fundamentals in markets where they are often masked by investor pessimism or optimism.

Preservation Capital's management has a wealth of experience specifically covering the commodity/cyclical sectors, as well as a fully developed understanding of industry specific valuation metrics. This understanding is critical as the valuation measurements in these industries often runs counter to more traditional pricing models.

Investment Performance:
Strong, Consistent Returns Amid Volatile Markets

Year	Firm/Fund	Role	Returns (%)	S&P 500 (%)
1997/98	Greenbriar Ptnrs.	PM	6.13	31.01
1998/99	Greenbriar Ptnrs.	PM	6.21	26.67
1999/00	Greenbriar Ptnrs.	PM	12.79	19.53
2000/01	Greenbriar Ptnrs.	PM	11.58	-10.14
2001/02	Greenbriar Ptnrs.	PM	22.08	-13.04
2002/03	Greenbriar Ptnrs.	PM	1.53	-23.37
2003/04	Greenbriar Ptnrs.	PM	19.99	26.38
2004/05	Greenbriar Ptnrs.	PM	29.56	8.99
	Preservation Cap.	PM	9.90 (May – Apr.)	8.99

Greenbriar Partners has a 2/28 FYE.

Investment Process

– A Four-Step Approach

I.
Generation of Portfolio Theme

Long-Term Secular Change

Significant paradigm shift such as significant upward shift in global energy demand, notable shift in natural gas economics, and rising middle class in a number of emerging markets.

Short-Term Cyclical Change

Shifting fundamentals of commodity-related sector business cycles. Examples include the upturn in agricultural prices in 1994/1995; rising oil prices in 1997; rising natural gas prices in 2000.

II.
Drill Down to Applicable Sectors

Determine optimal sectors to take advantage of said theme. Accomplished by back-testing via Preservation's proprietary database as well as utilization of our experience in these varied sectors.

III.
Thorough Analysis Of Sub-Sector Environment

Understand assumptions that the market is making about given sub-sector. Integrate full research efforts towards understanding of market environment to test validity of market-based assumptions. Examine: capacity shifts, historical pricing, catalysts in prior cycles, customer base, ancillary factors.

IV.
Portfolio Selection

Preservation proprietary database contains industry-specific valuation "data points" which indicate respective company's intrinsic value.

Trade Example

The example illustrates an actual trade taken by Greenbriar Partners, LP (Fund managed by Steve Allen in tandem with Preservation) in 2002 and encompasses the same investment process which we employ at Preservation Capital.

Step I. – Generation of Portfolio Theme

Energy has been a secular theme of ours since 1995 and has been the source of investment opportunities in a variety of commodity-related sectors, including: oil services, exploration and production as well as refining and marketing. Our belief in this theme has meant we are always looking to be net long (assuming value) some sub-sector of the energy market.

Macroeconomic Backdrop

- Global economic growth had declined since the middle of 2000.
- Substantial U.S. economic slowdown brought on by the terrorist attacks of 9/11.
- Continued fallout of the technology bubble acted as a drag on recovery.

Commodity Backdrop (Crude Oil Complex)

- Significant decline of crude demand post-9/11.
- A sluggish global economy resulted in a reduction of gasoline demand.
- Terrorist fears resulted in a reduction in jet fuel demand.

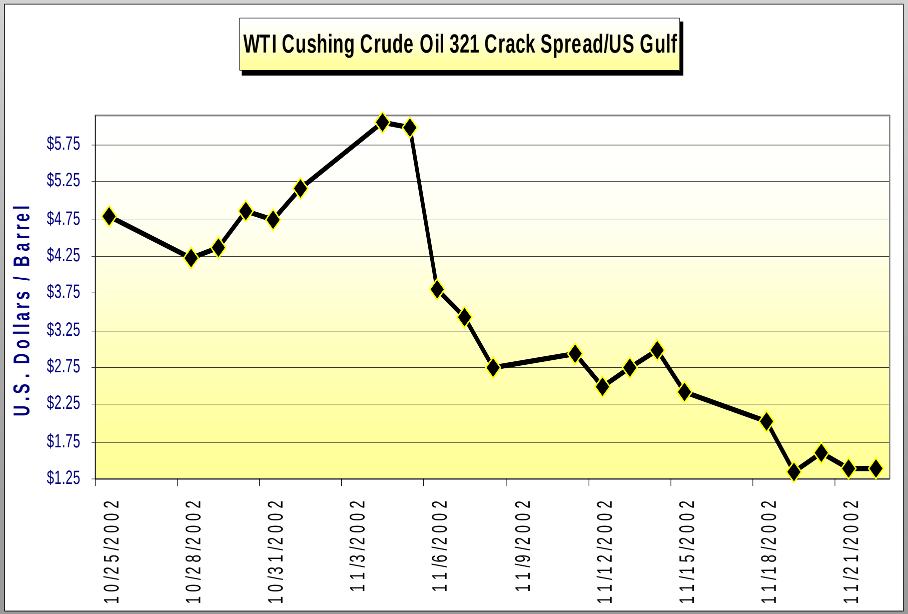
Trade Example *(Continued)*

Step II. – Applicable Sector: *Energy Sector Investment*

- Tremendous amount of interest in entire energy complex throughout 2002.
- As we strove to be net long some facet of the energy sector, we rigorously examined each energy-related sub-sector to locate the most optimum value opportunities.

Step III. – Thorough Analysis of Sub-Sector: *Refiners*

- Severe slowdown in U.S. economic growth led to reduced gasoline demand.
- Lower jet fuel demand from weakened air travel demand post-9/11.
- Domestic crack spreads, a measure of industry profitability, had fallen to multi-year lows and, in some cases, had become unprofitable.
- Weak refining margins in other foreign markets forced additional imports into the U.S., thus presenting a further challenge to future profitability.
- Domestic refiners were faced with reduced demand in the context of relatively high crude oil prices.
- Domestic refiners were forced to reduce capacity utilization throughout much of 2002.



Trade Example *(Continued)*

Step IV. – Portfolio Selection:

- Stocks in refining sector reflected poor operating environment, with domestic refiners down sharply in 2002.
- Sentiment within industry extremely negative, with bankruptcy predictions for several refiners.

Valero Energy: The Trade

We pored over the fundamentals of a number of companies within this sector and through rigorous research determined Valero Energy (VLO) was the most optimal investment within the sector.

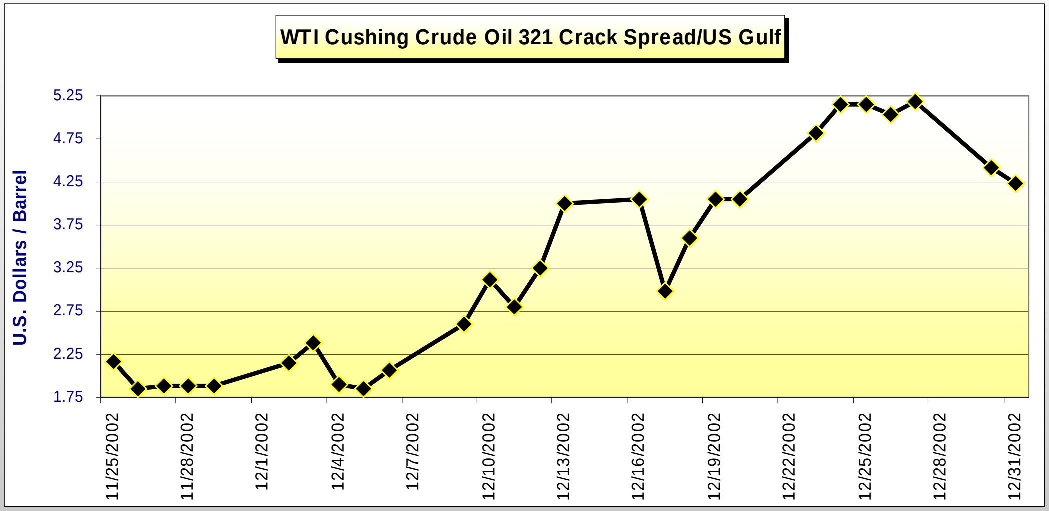
Primary Reasons for Scaling into Stock Included:

- Pure refining play
- Geographically dispersed production facilities
- Debt/Cap ratio favorable compared to industry peers
- Traded at .7X book value

Macro/Micro Reasons for Continually Adding to Position:

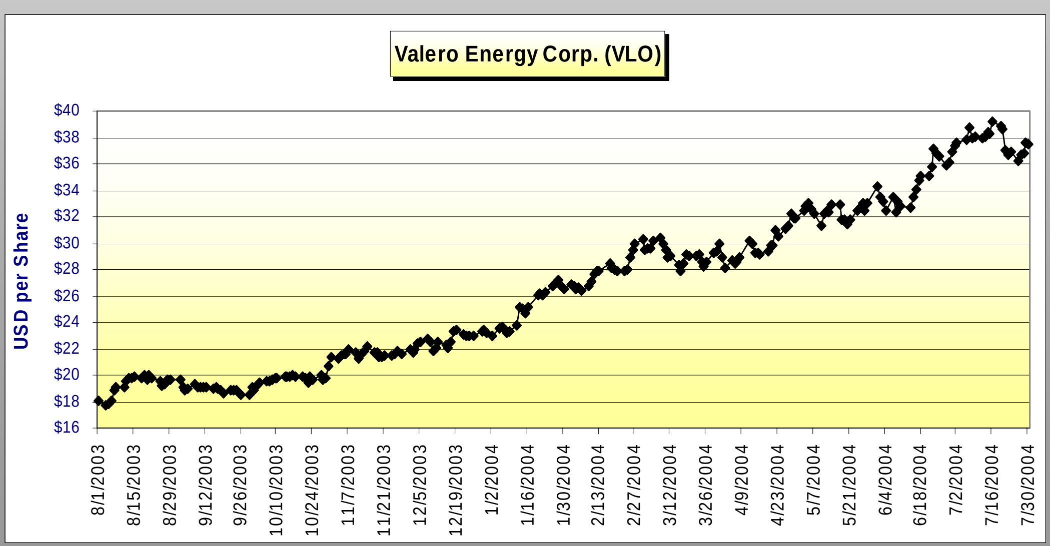
- Expectations for a demand increase and/or supply shock, restoring crack spreads to more normalized levels.
- Enactment of MTBE (fuel additive) bans limiting refined product availability
- Onerous environmental regulations coming in 2005 requiring tremendous CAPEX & limiting refining capacity

Trade Example *(Continued)*



Valero Energy: The Trade (Cont.)

Eventually all of the projected supply constraints did, in fact, lead to a substantial rise in gasoline, gasoline crack spreads, and a considerable rise in the price of Valero Energy. We began scaling out of our position during the spring and summer of 2004.



The Preservation Capital "Edge"

Preservation's strategy of informed contrarianism looks to take advantage of markets where investor pessimism or optimism are masking the true underlying fundamentals. With regard to risk, our focus is first and foremost on preserving capital while at the same time taking risks where we feel we are clearly being compensated for doing so.

Preserving Capital While Investing in Favorable Risk/Return Positions

Preservation's Management Has 15+ Years Experience Specifically Analyzing Commodity Markets

PRESERVATION CAPITAL

Strategic, Opportunistic & Flexible Approach To Commodity Exposure

Proprietary Commodity-Specific Database Which Accurately Ascertains Value

Proven Understanding Of Ebb & Flow of Commodity-Related Cyclicality & Valuation Metrics

Sustained Success at Capturing the Returns Inherent In the Many Boom/Bust Cycles

Contact Information

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