Quarterly Report

March 31, 2018

Performance

	Q1 2018	One Year	Since Inception (7/31/15)
1949 Global Value Strategy	**- 3.9%**	**+ 3.2%**	**+ 28.4%**
MSCI World Index (US$)	- 1.2%	+ 14.1%	+ 25.1%
Out (under) performance	- 2.7%	- 10.9%	+ 3.3%
MSCI World Value Index (US$)	- 3.0%	+ 9.6%	+ 22.5%
Out (under) performance	- 0.9%	- 6.4%	+ 5.9%

Market Overview

It was a mixed start to the year for global equity markets, with broad strength during January quickly reversed in early February. By March-end, global equity markets were slightly in negative territory as the MSCI World Index declined 1.2% (in US$) for the quarter. Growth stocks continued to outperform value, with the MSCI World Value Index losing 3.0% during the period. The *1949 Global Value Strategy* lagged both its benchmark and peer group, losing 3.9% during the quarter.

With a concentrated portfolio, it is common for a handful of security positions to have an inordinate impact on overall portfolio performance. Such was the case this quarter, as three security positions accounted for more than the 3.9% portfolio decline. While occasional periods like this are inevitable for all active managers, it is important for us to test the strength of our convictions during such periods. Our recent performance reflects poor short-term investor sentiment toward the out-of-favor securities that we own. It does not indicate an impairment to the assets, or a diminution to the underlying value of the businesses we own. Thus, our focus remains on the long-term intrinsic value of the businesses in the portfolio, which we believe will be reflected in the market over time.

Our goal is to deliver both safety of principal and attractive absolute returns over the long term. While it might seem perverse to view poor short term returns favorably, we have been active buying more of the poorly performing security positions within investor portfolios. As has often been said, declining stock prices are the friend of the long term investor. We think it's an unusually opportune time to consider an investment in the *1949 Global Value Strategy* and would happily encourage substantive conversations with like-minded potential investors.

We look forward to our trip to Omaha, NE for the annual Berkshire Hathaway shareholder meeting next week. If you plan to also be in Omaha, let's arrange to meet. Our highlights from the meeting will be available online thereafter. Please check our website in early May.

PORTFOLIO COMMENTARY

LARGEST CONTRIBUTORS TO PERFORMANCE

Western Digital Corp….	+ 1.2%	Birchcliff Energy……….…...	- 1.6%
Anglo American plc.…..	+ 0.6%	Global Brands Group………...	- 1.3%
Shire plc……………….	+ 0.6%	Cirrus Logic, Inc……………..	- 1.1%

Positions that had the largest negative impact on performance during the quarter were Birchcliff Energy (-1.6% contribution), Global Brands Group (-1.3% contrib.) and Cirrus Logic (-1.1% contrib.).

Shares in **Birchcliff Energy** have performed poorly, declining 14.5% over the last three months, following last quarter's 27% drop. The reason remains the same - persistently weak western Canadian natural gas prices. The confluence of production growth (including associated gas from oil producers) and relatively warm winter temperatures resulted in stagnant demand for natural gas. Our saving grace during this period of weak demand and low spot prices is Birchcliff Energy's low cost of production, enabling positive cash flow generation even amidst depressed natural gas prices. Again, we remain focused on Birchcliff's latent asset value which we expect to either be slowly realized over time as they execute on their organic growth strategy, or more quickly unlocked through a catalyzing corporate event. While the prospect for the latter is remote in this environment, we are big believers in Birchcliff's management team and their ability to manage challenges which are within their control. They've done an amazing job in a very difficult environment. We have great faith in the continued execution of their organic growth strategy over our investment time horizon.

Global Brands Group (GBG) shares had a similarly abysmal period, declining 31.2% during the most recent quarter, following a 15% decline in Q4 2017. The share price performance understates GBG's business performance, as they too have managed to produce good results amidst a very challenging business environment for most companies in the retail industry. As one of the world's leading branded apparel, footwear, fashion accessories and lifestyle product companies, GBG operates an asset light and scalable business model, escaping the challenges plaguing traditional bricks and mortar retailers. Despite the apparent disconnect between their business performance and the Hong Kong-listed share price, management seems quite capable of successfully executing their new three-year business plan.

Shares in **Cirrus Logic, Inc.** declined by 21.7% during the quarter following disappointing results and forward guidance. Troubles stem primarily from its over-reliance on Apple (86% of Cirrus' revenues) amidst "unanticipated weakness in smartphone demand". Market concerns regarding slower unit growth in 2018 are well placed, while seeming to ignore longer dated opportunities from increased Android content, digital headsets and other products using voice-activation and secure voice authentication. Cirrus' current trough valuation and cash rich balance sheet should afford patient investors a margin of safety against a permanent loss, while its leadership position and expertise in voice signal processing should provide meaningful long term upside as new and innovative products come to market.

Positions that helped performance during the quarter include Western Digital (+1.2% contribution), Anglo American plc (+0.6% contrib.) and Shire plc (+0.6% contrib.). Shares in **Western Digital** advanced 16.7% during the period under review as the company reported favorable operating results and continued deleveraging from its prodigious free cash flow. Demand for digital data storage continues to grow and Western Digital's #3 position in the global NAND market should ensure the company's ability to return to net cash within two years, providing a meaningful uplift to its equity valuation.

Shares in **Anglo American plc** rose a further 9.5% in GBp during the quarter, following 2017's 37% advance. Another deleveraging story making significant progress to this end from prodigious free cash flow, Anglo American continues to trade at a large discount to its peers. Synchronized global growth, a weaker US dollar and a stable Chinese economy should drive further upside in Anglo as it has transitioned from a deep-value restructuring and deleveraging story to a potential consolidation target. With its improved balance sheet and industry leading free cash flow yield, we think that it could be an attractive target for a number of potential acquirers, thus unlocking further value. Absent a bid for the company, Anglo's current ~30% discount to peers should dissipate over time.

Finally, shares in new position **Shire plc** contributed positively to performance after Takeda Pharmaceutical (Japan) indicated their interest in acquiring Shire. Shares rose 19% from the date of our final purchases in building out the Shire position in late March. As of this writing, the deal seems likely to occur since Shire's Board of Directors has indicated that it will recommend the deal to shareholders, contingent upon further due diligence and Board and shareholder approvals. Takeda's most recent offer represents a 50% premium to Shire's undisturbed share price. Please see our more fulsome discussion of Shire plc below.

PORTFOLIO CHANGES: GLOBAL

One portfolio position was liquidated during the quarter as shares in **Michael Kors Holdings** were sold. Shares were initially acquired near $42 at the inception of the *1949 Global Value Strategy* in July 2015. At that time, we described the former growth stock's fall from grace since its peak in February 2014 at 33x earnings and 18x EBIT. Following a 60% decline in its share price, a much more reasonable valuation (10x earnings and 6x EBIT) created very low expectations for a well-managed company with various levers for growth including the non-US handbag market and men's apparel. In addition, its net cash balance sheet and aggressive share repurchases at the time seemed to confirm our positive view of the asymmetric opportunity in the shares. Since then, management has executed well on its stated growth objectives despite the difficult retail environment, driving shares higher. In mid-2017, the company acquired luxury shoe maker Jimmy Choo plc for approximately $1.2 billion in its first-ever acquisition, paying 29x EBIT and taking on $1 billion in debt. Despite their ability to quickly pay down this debt, we viewed management's acquisition of Jimmy Choo plc as an expensive misallocation of capital, even if strategically sensible.

Michael Kors Holdings CEO John Idol stated that this would be the first of many large acquisitions as they strive to create a leading global fashion luxury group.[1] Further large and transformational debt-financed deals are inconsistent with our preferences for capital allocation despite the market's apparent support for such plans. Recent strength in its stock price to reach our fair value target of $65 per share during the quarter gave us an opportunity to empty the purse and redeploy proceeds elsewhere.

Two new portfolio positions were initiated during the quarter with purchases of shares in Smart Sand, Inc. (U.S.) and Shire plc (United Kingdom). **Smart Sand, Inc. (SND)** is a leading supplier of industrial sand primarily serving customers in the oil & gas industry. Headquartered in The Woodlands, TX, Smart Sand is a pure play, low-cost producer of high-quality Northern White raw frac sand (NWS). Raw frac sand is a proppant, "designed to keep an induced hydraulic fracture open, during or following a fracturing treatment". (Wikipedia) It is added to water to create a fracturing fluid which is then blasted down the well bore at very high pressure to "prop open" the fracture once the pumps are shut down, allowing release and capture of hydrocarbons.

Smart Sand is one of only 5 publicly traded pure play frac sand producers (in aggregate, representing ~50% of industry capacity). The company has one producing mine in Oakdale, WI adjacent to the Canadian Pacific railroad, well situated to supply its Northern White sand to any of the shale plays in North America. Logistics is one of the most important considerations in this industry, as transportation costs are a significant component of production costs (~40%) and contracts are typically priced on a delivered basis. Recent plans to initiate frac sand production within the Permian basin, thus dramatically reducing the transportation cost element, has worried frac sand investors that NWS producers will be priced out of the market. Permian brown sand is considered to be of lower quality than NWS and uncompetitive without a logistical advantage. In addition, Permian frac sand is a captive market, with no alternative homes outside the Permian basin. These imply that supply growth will likely undershoot announced nameplate capacity plans, limiting the negative impact to NWS pricing. With a market cap of $225 million and net cash of $34 million, shares traded near $5.50 at the time of our purchase, down from $20 a year ago. Representing ~5.5x current year EPS and 4x EBIT (4.7x and 3.7x 2019 estimates, respectively), we believe that we have a margin of safety against permanent loss. The sector has seen consolidation activity, with EV/ton of productive capacity being the most relevant metric in frac sand transactions. Deals have been in the range of $100-120/ton, versus the current valuation of Smart Sand closer to $40/ton. We believe that SND could be an attractive target for larger frac sand companies, oil field services companies looking to vertically integrate, or a larger shale oil & gas producer looking to secure reliable supply of its higher quality NWS. The reversion to a more appropriate trading multiple over time is likely to be our surest path, with takeover interest potentially catalyzing its higher private market value.

[1] Those who know me personally will recognize my severe limitations in judging fashion, since my closet at home is filled with Kirkland brand dress shirts purchased from Costco (I highly recommend them) and men's suits proudly purchased from now-defunct NY-area retailer Syms, where "An educated consumer is our best customer". Syms' tagline fits me well, as I regularly purchased very high quality Burberry and Hickey Freeman men's suits for ~30% of their Brooks Brothers' prices. This did not imbue within me a good sense for fashion, however. We will stick with analyzing balance sheets and cash flow statements when investing in fashion related companies such as Michael Kors Holdings.

Also during the first quarter, a position in **Shire plc** was initiated following a 43% decline in its share price since August 2015. We have not owned a pharmaceutical stock in many years. We have looked into several in the last year as almost all have suffered significant share price declines in recent years, but have elected to pass as key elements that we look for were missing. With Shire plc, we believe that we've found an attractive investment opportunity in a high quality company suffering under a few short term clouds that should dissipate over time and unlock value. Its depressed share price and valuation at the time of our purchase implied very little potential downside, while its longer term prospects could provide meaningful upside. Good things often happen to cheap stocks, but we must first understand the issues. First, its indebted balance sheet is the by-product of several recent acquisitions, the largest being its $35 billion purchase of Baxalta in 2016. Shire paid a hefty multiple for Baxalta (30X trailing EBIT, according to Bloomberg) and gained key products in hemophilia, but the debt burden has weighed heavily on Shire's share price. In addition, Baxalta's leading drugs will face competitive pressure from the recent launch of Roche's Hemlibra. Fortunately, Shire's other businesses generate significant free cash flow and the company allocates much of it toward debt reduction. Consensus estimates for free cash flow imply that Shire's balance sheet could be debt free by year-end 2021. This deleveraging alone, assuming the current (depressed) multiple on EBIT remains constant, and using consensus EBIT estimates for 2021, could drive shares 67% higher over the next four years. We would argue that post-deleveraging, the current depressed multiples on EBIT and earnings are no longer warranted and Shire shares should re-rate higher reflecting its diminished financial risk, providing additional material upside. Shire's average EV/EBIT multiple over the last seven years has been 14, versus less than 10 at the time of our purchase, implying 100% upside over the next four years if consensus EBIT estimates are near the mark and deleveraging proceeds accordingly.

Lastly, Shire has been the subject of takeover speculation in recent months, following a failed bid by AbbVie in 2014 after the U.S. Treasury Department announced new rules taking aim at tax inversion deals. On January 1st of this year, Shire started accounting for its neuroscience business separately, implying the likelihood of a separation via tax-free spin-off or an outright sale. In either case, we believe that value would be unlocked as this business is worth considerably more than its implied value within Shire. We would prefer a sale of this business as it would accelerate the company's deleveraging, which we view as critical to realizing greater equity valuation. At the time of our purchase, we viewed Shire becoming a bid target as remote simply because of its size and the very limited number of global pharmaceutical companies large enough to acquire it. To our surprise, shortly after building a full position, Takeda Pharmaceutical of Japan announced its interest in acquiring Shire plc. As of this writing, Takeda's fifth offer in as many weeks is being considered by the Shire plc Board of Directors, representing a 50% premium to the undisturbed share price. If Takeda's bid proves unsuccessful, it will have served to highlight the dramatic undervaluation of Shire plc. We expect that the 50% premium offered by Takeda will have a significant positive impact on investor perceptions of the value of the company's assets and cash flows.

The 1949 International Value Strategy

Our international portfolio is comprised primarily of the non-US stocks held by the *1949 Global Value Strategy*. As a result, the international portfolio will have fewer security positions (15 today, versus 20 in the global portfolio). Sector and geographic exposures will differ from the global portfolio, as they are derived from the bottom-up in both strategies.

Performance

	Q1 2018	*One Year*	*Since Inception (7/31/15)*
1949 International Value Strategy[2]	**- 8.2%**	**- 5.6%**	**+ 20.0%**
MSCI EAFE Index (US$)	- 1.4%	+ 15.2%	+ 16.4%
Out (under) performance	- 6.8%	- 20.8%	+ 3.6%
MSCI EAFE Value Index	- 1.9%	+ 12.9%	+ 13.3%
Out (under) performance	- 6.3%	- 18.5%	+ 6.7%

Portfolio Changes: International

One new portfolio position was established during the period under review, with the purchase of shares in Shire plc. No portfolio positions were sold.

Outlook

As a global unconstrained and benchmark agnostic investment strategy, we have the flexibility to take advantage of changing market opportunities through time. Our experience in navigating these varied environments since 1993 gives us the confidence to act in a prudent yet opportunistic fashion. We will continue to be diligent in our search for undervalued securities of quality companies that will help us to meet or exceed our investment objectives.

Thank you for your support, and please feel free to call or e-mail us to discuss anything further.

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Footnote:

2. The performance results for the 1949 International Value Strategy set forth herein are model results and not based on the performance of actual portfolios managed by 1949 Value Advisors (the "Investment Manager"). The performance results were obtained through the use of Bloomberg's proprietary software and represent the simulated returns of a secondary strategy the Investment Manager is honing alongside its primary strategy. The results do not reflect fund or account-level investment expenses, administrative, operating expenses or management fees. A fund or account managed by the Investment Manager will be subject to asset based management fees, and would incur significant investment and administrative/operating expenses; these fees and expenses would significantly reduce the returns of an actual investment due to compounding and other effects. These performance results do not represent actual trading and are not an indication that the performance of any fund or account managed with this strategy will be similar in any way.

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