Manager's Commentary

December 31, 2018

Performance

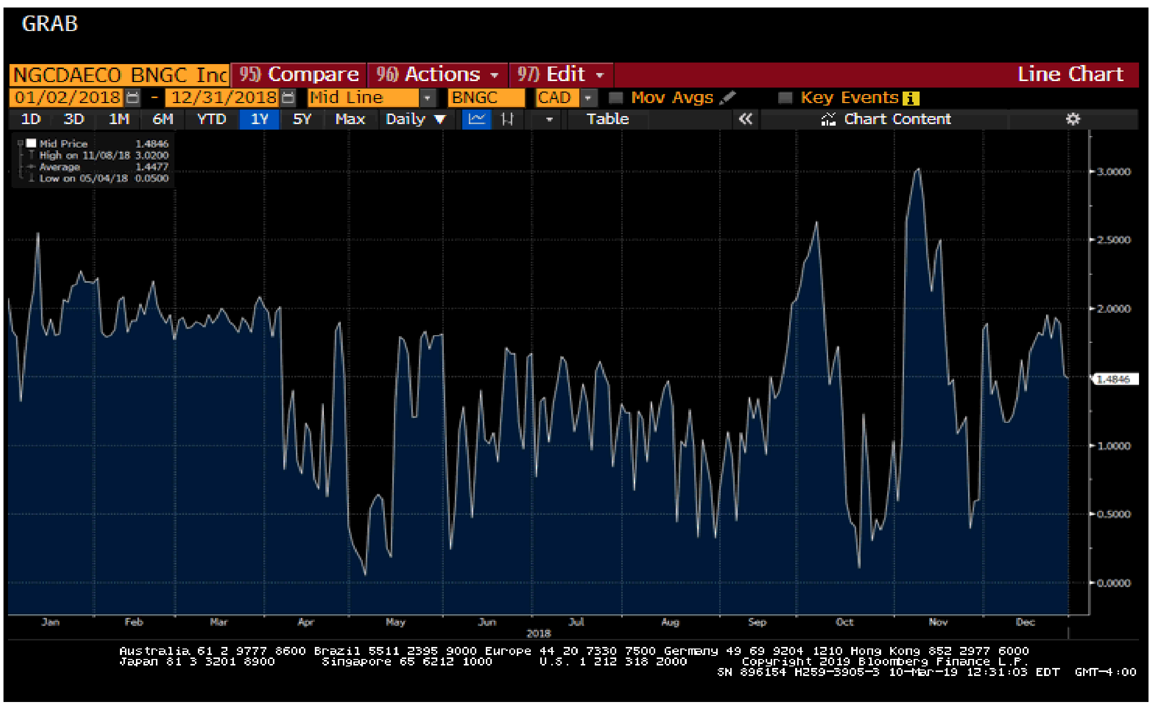
	Q4 2018	One Year	Three Years Annualized	Inception (7/31/15) Annualized
1949 Global Value Strategy	**- 17.9%**	**- 21.8%**	**+ 5.0%**	**+ 1.3%**
MSCI World Index (US$)	- 13.3%	- 8.2%	+ 6.9%	+ 4.5%
Out (under) performance	- 4.6%	- 13.6%	- 1.9%	- 3.2%
MSCI World Value Index (US$)	- 11.1%	- 10.1%	+ 6.3%	+ 3.8%
Out (under) performance	- 6.8%	- 11.7%	- 1.3%	- 2.5%

Absolute performance for the fourth quarter and full year 2018 was among the worst of my 25 year career managing global portfolios. We failed in the short term, but in short, we failed. The primary reason for both success and failure with a concentrated portfolio is typically security selection, but the environment within which these poor results occurred was very different than in past periods. To say that value investing is simply out of favor, which it clearly has been for many years now, would be woefully inadequate.

Our brand of global value investing has historically exhibited performance attributes generally consistent with the value investment style – namely, the preservation of capital in falling markets and participation in rising markets. Relative underperformance in rising markets has been accepted by investors, since it is the opportunity cost of resilience when markets inevitably fall. This is achieved through exposure to securities trading at a material perceived discount (a margin of safety). During the fourth quarter, however, against a backdrop of generally falling markets, your portfolio fell much more so. This naturally raises valid questions about our approach to investment and risk management. Herewith, we revisit some of the key features of our offering (portfolio structure, investment philosophy, research process and risk management). Our goal is to learn from our mistakes in order to avoid repeating them, and to serve investors better in the future.

- ***Portfolio Structure*** – your portfolio is relatively concentrated, with 20 securities at year-end. This compares to 1,632 securities in our comparative passive benchmark, the MSCI World Index. This concentration is intentional, and we believe that it will be one of the primary determinants of long term outperformance, despite suffering through occasional periods of potentially dramatic underperformance. By definition, this will also drive your portfolio to exhibit greater volatility than the more diverse index. It also means that your portfolio returns will differ greatly from those of the index since exposures to various industries, countries and companies will be very different than the index. We view this as a good thing, as long as investors share our long term investment horizon and willingness to be different in our quest for outperformance.

What surprised us in the most recent period, and where we feel that we failed, was the absence of our historic tendency to preserve capital when markets decline. We believe this has more to do with current portfolio exposures and where we are in the market and economic cycle than with the concentrated structure of your portfolio. For example, we have significant exposure to businesses having highly variable cash flows and earnings because the prices of the products they sell are highly variable. Our largest position, for example, is Birchcliff Energy – a very low-cost gas-weighted energy producer in Alberta, Canada. The spot price of natural gas in western Canada is extremely volatile, oftentimes driving shares of Birchcliff Energy similarly. The graph below illustrates the spot price of western Canadian natural gas for the full year 2018. It has been a typical year, even with this volatility. Our investment thesis centers around the value of Birchcliff's vast untapped resources, its low cost of production and high quality management team – all long term drivers of value – but we are not immune to the shorter term vicissitudes of the commodities that it produces. Shares in Birchcliff Energy declined by more than 40% during the fourth quarter, while our estimate of its intrinsic value stayed constant. Dislocations like this are opportunities for disciplined value investors, but require unique temperament to capture.



Source: Bloomberg LP, 1949 Value Advisors

Your portfolio is a window into which areas of the market are out of favor with investors, and thus possibly undervalued. In the current market environment, businesses in cyclical industries are very attractive to us due to this undervaluation. In the short term, as global economic growth shows signs of slowing, investors have penalized shares of these cyclical companies. This helps explain our poor recent performance. One can say that we are too early, but as history has repeatedly shown, and since markets are discounting mechanisms, we expect share prices to reflect improvement in fundamentals well before it shows up in the data.

With regard to portfolio structure (i.e. concentration and size of positions), while we accept that during certain periods of time, owning 'too much of company ABC and not enough of XYZ' might hurt performance, we believe that over time, investors will be compensated for these risks of occasional poor performance if we remain committed to the long term. We don't believe that it is a mistake to manage your portfolio in a concentrated manner. We can improve, however, by being more mindful of the *persistence* of negative fundamentals that might result in even lower share prices in the interim, and hope to manage position sizes accordingly to mitigate the impact of being too early.

- ***Investment Philosophy*** – As value investors, we are attracted to securities that are presently out of favor. It has been said that you can have either cheap stocks or good news, but not both. As such, we are regular buyers of bad news. The news cycle is a short term phenomenon, driving many investors to lose sight of longer term drivers of a company's intrinsic value. Again, this creates opportunities for us but it requires maintaining a long term investment horizon, and the willingness to endure adverse short term performance. Value investing has proven the test of time, and despite current investor sentiment favoring highly valued companies with prospects for near term growth, we are confident that your portfolio will realize the investment objectives of safety of principal and adequate returns over the long term. In the words of Jean-Jacques Rousseau, "*Patience is bitter, but its fruit is sweet*."

With regard to our investment philosophy, despite the unpredictability of performance, we do not believe the immutable benefits of bargain shopping – be it in the supermarket or in the stock market – have been repealed. Value investing makes common business sense, and has been empirically proven through time. Where we can always improve, however, is in our careful application of the tenets of valuation and consideration of changing industry and corporate dynamics which might negatively impact our appraisal.

- ***Research Process*** – we are of the strong belief that we have no control over portfolio performance, or the timing of performance. There simply is no guarantee that rational assessments of corporate value will ever be reflected in the public markets. Among the things that we can control is how we conduct our research. We study many important elements of a potential investment opportunity in an effort to determine the appropriate fair value of a security. This is an exhaustive and rewarding process that requires intellectual curiosity and a passion for constant learning. It is my favorite part of the job. Ultimately, it is the subjective decisions that we make after conducting significant research that drive portfolio exposures, and the resulting portfolio performance. When performance flags, as it has recently, we wonder what could we have done different and better?

Our research efforts try to ascertain the reasons that have led to a perceived undervaluation. We tend to favor opportunities where those reasons are temporary and likely to reverse as circumstances change or normalize. Among the mistakes that we may make during the research process are assumptions about how long unfavorable business conditions might persist. If unfavorable conditions persist for longer than we expected, this can result in poor short term performance, even if our assessments of long term value are accurate. This played a part in our 2018 performance for a number of cyclical businesses in the portfolio, and illustrates the challenges of reconciling acceptable short term performance with our long term intrinsic value-driven approach.

We strive to improve upon those things that are within our control, including how we conduct our research. One area might be how conservative we are with important assumptions driving our investment decisions.

- **Risk Management** – another key aspect of our approach is how we define and manage risk. Unlike most business school textbooks on the topic, we do not view volatility as risk. Volatility is a statistical measure of the dispersion of returns, and is associated with big swings in either direction. Using this definition, it follows that a security which *appreciates* by 50% has exhibited greater risk than a security that *falls* 20% during the same time period. Excuse me? Our definition of risk is more pragmatic than academic or theoretical - we define risk as the chance of a permanent loss of principal. The permanence of the loss is critical, since capital markets create temporary losses regularly. A permanent loss means that we failed in ascertaining a sufficient margin of safety (a discount that should help to avoid a permanent loss even if no fundamental business improvement occurs, or even deteriorates further). Each portfolio holding's financial strength and valuation is paramount to mitigating aggregate portfolio risk. In order to avoid over-exposure, we self-impose a maximum of 25% allocation to any single industry or country (except the US, which regularly exceeds 25% due to its size).

In summary, while we failed you in 2018, we do not believe that there are structural problems with our investment philosophy, research process, risk controls or the structure of your portfolio. Value investing by definition targets out of favor sectors and geographies, but requires a multi-year time frame to realize its benefits. We will continue to make mistakes, as it is the nature of our work since the future is unknowable, but we will work ever harder to minimize potential mistakes through careful and disciplined research and portfolio management.

PORTFOLIO COMMENTARY

LARGEST CONTRIBUTORS TO PERFORMANCE

Franco Nevada Corp.….	+ 0.4%	Birchcliff Energy……….…...	- 5.4%
Lundin Mining Corp…..	+ 0.2%	Western Digital…….……….	- 2.8%
Anglo American plc..….	+ 0.0%	Apple, Inc…………...………	- 1.8%

Positions that had the largest negative impact on performance during the quarter were Birchcliff Energy (-5.4% contribution), Western Digital (-2.8% contrib.) and Apple, Inc. (-1.8% contrib.). As the fourth quarter saw widespread selling across the board and around the world, the primary reason for these securities' large negative contribution to performance was their large position sizes. Birchcliff Energy is the largest position, and before the quarter began, shares were trading near 30% of our conservative estimate of intrinsic value. After Birchcliff shares fell by more than 40% in the fourth quarter, and for no valid reasons that we can determine, shares traded below 20% of long term fair value. After meeting with Birchcliff's CEO last month, we remain steadfast in our conviction. Shares in Western Digital fell 35% during the fourth quarter following a disappointing set of results and a worsening outlook for memory pricing than previously assumed. Western Digital's recovery is likely to take a bit longer than expected, leaving little reason for shorter term investors to buy its shares amidst the market sell off. Apple shares also suffered during the fourth quarter (-30%), after the company cited iPhone demand weakness in emerging markets and lowered 2019 guidance.

Positions that helped performance during the quarter include Franco-Nevada Corp. (+0.4% contribution), Lundin Mining Corp. (+0.2% contrib.) and Anglo American plc (+0.0% contrib.). Franco-Nevada Corp. shares benefited from safe haven demand for gold, rising 12.6% during the quarter. Shares in Lundin Mining, a newly purchased position in late October, rebounded to contribute modestly to performance in November and December. Anglo American plc shares held firm amidst the market tumult during the quarter.

PORTFOLIO CHANGES: GLOBAL

Two positions were initiated during the fourth quarter with the purchases of Celgene Corp. and Lundin Mining Co. **Celgene Corp.** is a US global biopharmaceutical company focused on hematology and oncology. Cancer drugs such as Revlimid (63% of 2018 revenues) for multiple myeloma (a blood cancer) and Abraxane for metastatic breast cancer, are important products for the company. Originally a unit of the Celanese Corporation, Celgene was spun off in 1986 following the merger of Celanese with American Hoechst Corp.

Following a 45% decline in its share price from October 2017, Celgene's valuation reached historic lows, implying a very negative outlook for its existing products and ascribing little if any value to their drug pipeline. The company has approximately $20 billion in net debt, but since Celgene should generate nearly that much in cumulative free cash flow by year-end 2020, we are not overly concerned about its balance sheet. At the time of our initial purchase in late October 2018, Celgene shares were trading near 7.5x 2019 earnings and 8x 2019 EV/EBIT. We further built the position in late December near 6.5x earnings and 7x EBIT. As stated earlier in this letter, one can either have good news or a cheap stock, but not both. Investor sentiment toward Celgene deteriorated over the previous year for several reasons, including a failed Crohn's disease drug, slow growth for leading psoriasis drug Otezla and questions about the durability of efficacy for Celgene's CAR-T cell therapies, all contributing to management having to lower guidance. These developments were a departure from the company's excellent historic track record of generating double-digit growth and reliable guidance. Perhaps the biggest issue that investors have at present pertains to Celgene's reliance on its main drug Revlimid, which will come off patent in 2022 and succumb to generic competition in the 2023-2026 timeframe. Given the depressed valuation we believe that investors have assumed an overly negative outlook for Revlimid without sufficient credit being given to Celgene's robust late-stage pipeline, creating an attractive risk-reward opportunity.

As luck would have it, on January 3, 2019 Bristol-Myers Squibb Co. announced the acquisition of Celgene Corp. in a cash and stock transaction, valuing Celgene at a 50% premium. The deal will bring together two very significant cancer drug portfolios and will be the largest deal on record in the biopharmaceutical industry. This is the second pharmaceutical company we've purchased for your portfolio since the inception of 1949 Value Advisors. We are now two for two on pharmaceutical takeovers (Shire plc received a takeover offer from Takeda Pharmaceutical in May 2018). It is a rare occurrence, but as an investor, it can be rewarding when a strategic acquirer validates our investment thesis by paying a large premium to buy one of our portfolio's holdings.

Founded in 1994, **Lundin Mining Company** is a multinational company with assets and operations in the US, Sweden, Portugal and Chile. Copper comprises approximately 70% of Lundin's revenues, with zinc (15%), nickel (8%) and lead making up the balance. Following the sale of Lundin's interest in the Tenke Fungarume copper mine in the Democratic Republic of the Congo (DRC), the company has a cash rich balance sheet with approximately C$1 billion in net cash. Lundin Mining has historically been considered a high-quality miner with good assets in politically safe jurisdictions (ex-DRC), disciplined capital allocation executing value-accretive M&A and shareholder friendly management and Board of Directors.

Lundin's cash rich balance sheet is a source of investor concern, since mining companies in general have not always deployed cash in value accretive ways through the cycle. Because of Lundin's solid M&A track record, we disagree with this concern and view its cash as a source of strength in a downturn, and potential opportunity if attractive assets become available. The company recently bid, and lost out to Chinese buyer Zijin Mining Group, for Nevsun Resources which would have given Lundin its next acquired growth opportunity. The company demonstrated strong capital discipline by not paying up for Nevsun, but will continue to evaluate other opportunities as it invests in its own high-return brownfield expansion projects. Lundin is projecting solid organic growth over the next several years, primarily from the zinc expansion project at their Neves Corvo asset in Portugal and several copper production growth initiatives underway at their Candelaria mine in Chile.

Following a 50% decline from the highs of November 2017, partly related to a rock slide and pit wall deterioration at that time, shares in Lundin Mining were reflecting near term pain without much consideration of potentially significant long term value creation from the standard mining playbook of increasing reserves net of solid production growth. Newly appointed CEO Marie Inkster was Lundin's CFO for ten years prior to this recent appointment and is expected to progress along a similar path as its well-regarded outgoing CEO Paul Conibear. Downside appears to be limited due to its depressed valuation on normalized cash flow and earnings, its quality long life asset base and rock solid net cash balance sheet. Upside optionality from acquiring an external growth project adds to the potential reward, as does the potential for higher copper prices in an increasingly tight market as the intensity of per capita copper consumption in China continues, and greater demand for the ubiquitous metal from new technologies including electric vehicles.

One portfolio position was liquidated during the fourth quarter as shares in **Tokio Marine Holdings** were sold. Tokio Marine Holdings remains a high quality Japanese insurer in the midst of becoming a truly global property & casualty insurance company by way of acquisition. The company has demonstrated its balance sheet strength in redeploying excess capital in acquiring and integrating non-Japanese insurers. Not that shares in Tokio Marine are necessarily fully valued, but much of this transformation is already reflected in its share price, which traded near 1.25x tangible book value. Better opportunities existed elsewhere at the time of our sale, including both Celgene and Lundin Mining. As world-renowned tidying expert Marie Kondo might say, since holding shares in Tokio Marine no longer spark joy for us, "Thank you for your service, TMH."

OUTLOOK

The silver lining on the cloud that hangs over the poor short term performance of your portfolio in 2018 is the even greater discount to fair value that exists. We have confidence in our analysis, even when the market seems to presently disagree. Paraphrasing Benjamin Graham, "The market is there to serve you, not to instruct you." As disciplined and unemotional investors, we aim to take advantage of short term dislocations between price and long term value. As we maintain our high conviction in the portfolio's holdings, we believe it represents an unusual and attractive opportunity for investors who share our longer term investment horizon.

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

Matthew T. Haynes, CFA
Chief Investment Officer / Portfolio Manager
matthew.haynes@1949global.com
(201) 252-8800

Past performance is not an indicator of future results. Investment returns will fluctuate so that an investment may be worth more or less than the initial investment at the time of withdrawal. Portfolio performance figures are net of all advisory fees. 1949 Value Advisors current disclosure is available on Form ADV and available for review at no charge. All index, performance, and graphs are calculated using data supplied by Bloomberg LP. The data is considered reliable but may differ from other published index providers. The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of global developed markets.

This summary does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product. Any such offer or solicitation may only be made to qualified investors and only by means of an approved confidential private offering memorandum or investment advisory agreement and only in those jurisdictions where permitted by law.

This summary reflects select positions of the current portfolio of a managed account advised by 1949 Value Advisors. There is no guarantee that a commingled investment vehicle or another investment account managed by 1949 Value Advisors will invest in the same investments set forth in this summary. The investment approach and portfolio construction set forth herein may be modified at any time in any manner believed to be consistent with the managed account's overall investment objectives.

While all information herein is believed to be accurate, 1949 Value Advisors makes no express warranty as to the completeness or accuracy nor does it accept responsibility for errors appearing in the summary.

This summary is strictly confidential and may not be distributed.