QUARTERLY REPORT

SEPTEMBER 30, 2017

PERFORMANCE

	Q3 2017	ONE YEAR	SINCE INCEPTION (7/31/15)
1949 Global Value Strategy	**+ 5.2%**	**+ 15.4%**	**+ 33.1%**
MSCI World Index (US$)	+ 4.9%	+ 18.8%	+ 19.8%
Out (under) performance	+ 0.3%	- 3.4%	+ 13.3%
MSCI World Value Index (US$)	+ 4.7%	+ 19.0%	+ 20.5%
Out (under) performance	+ 0.5%	- 3.6%	+ 12.6%

During the third quarter of 2017, your portfolio performed generally in line with the MSCI World Index (in US$), appreciating by 5.2%. While 2017 has been kinder to growth investors than our classic value style, longer term performance results for the 1949 Global Value Strategy are encouraging.

We provide a comparison to relevant benchmarks for illustration only, and we make no attempt to reference the regional, sectoral or stock-specific exposures of the MSCI World Index. As a result, your portfolio performance will almost always be very different from the index. Outperforming the MSCI World Index is not as important to our investors as delivering attractive absolute returns and providing safety of principal over the long term.

MARKET OVERVIEW

Global equity markets were strong again during the third quarter of 2017, with broad-based gains in all but a few country markets around the world. The Morgan Stanley Capital International (MSCI) World Index reached a new all-time high during the period amidst an environment of improving global macroeconomic data and strong corporate profits growth.

All regions around the world posted gains during the period. The S&P 500 Index rose 4.5% during Q3, helped by a weaker US dollar, bringing its year-to-date gain to 14.2%. The MSCI Europe Index was also stronger during the period and so far this year, rising 6.0% and 19.9% (in US$), respectively. In Asia, Japan was a relative laggard, rising only 3.2% in US$ during the quarter. Outside Japan, Asia was led by Chinese stocks which rose 13.6% during the third quarter and 40.5% year-to-date, according to MSCI.

Portfolio Commentary

Largest Contributors to Performance

Michael Kors Holdings	+ 1.6%	Cirrus Logic, Inc.………..	- 0.6%
Anglo American plc.…	+ 1.6%	Global Brands Group…….	- 0.3%
Industrias Bachoco…..	+ 0.8%	Western Digital Corp…….	- 0.1%

As bottom-up investors, and within a generally benign macro environment, individual security selection was the most important driver of last quarter's portfolio performance. Positions that had the largest negative impact on performance during the quarter were Cirrus Logic (-0.6% contribution), Global Brands Group (-0.3% contrib.) and Western Digital Corp. (-0.1% contrib.).

Shares in **Cirrus Logic** declined by 15.0% during the period as some investors see risk of dollar content loss in fiscal year 2018 at Cirrus' largest customer, Apple (76% of Cirrus' total revenues in the latest quarter). While it is true that the great majority of Cirrus Logic's business is very closely tied to the success of Apple's iPhone products, this can also be an opportunity as well as a risk. With the upcoming launch of Apple's iPhone X, there is significant pent-up demand that may lead to unit sales exceeding the market's expectations. In addition, and apart from Apple, Cirrus Logic increasingly benefits from premium mobile phone features migrating down to more moderately priced phones. Lower dollar content from mid-tier mobile phone manufacturers, but with much higher unit volumes would result in significantly greater revenues and operating profit than is currently implied by Cirrus' modest valuation (7.5x estimated EBIT).

Global Brands Group Holdings shares declined 8.5% during the third quarter following the release of its 2017 fiscal year results. The results were actually quite good amidst a very challenging business environment for all retail related companies. Global Brands Group is one of the world's leading branded apparel, footwear, fashion accessories and lifestyle product companies. Full year revenues increased by 11.6%, while core operating profit grew by 64.5% as margins expanded 250 basis points. The company also announced a new Three-Year Plan focused on reaching US$5 billion in revenues by the end of fiscal year 2020, growing margins further and reducing debt. The company has already made progress on debt reduction during the third quarter, selling its remaining 49% stake in Frye Brand IP and using net proceeds of $68 million to reduce corporate debt.

Shares in **Western Digital** fell 1.9% during the quarter as the company has been engaged in a bitter battle with its JV partner Toshiba Corp. of Japan over Toshiba's sale of its memory subsidiary. Western Digital has been pursuing legal action to protect its consent rights under the JV agreement, in the event of a sale of the division. As the quarter drew to a close, Toshiba signed a deal with a buyer group led by Bain Capital, with financing from Apple, South Korea's SK Hynix and others. Western Digital is seeking injunctive relief to prevent Toshiba from transferring any JV interests, in whole or in part, until the arbitration process runs its course. This uncertainty will likely serve to obfuscate the primary elements of our investment thesis until resolved (2018).

Positions that helped performance during the third quarter include Michael Kors Holdings (+1.6% contribution), Anglo American plc (+1.6% contrib.) and Industrias Bachoco ADR's (+0.8% contrib.). **Michael Kors Holdings** reported better than expected quarterly results, driving its shares 32% higher during the period under review. The report showed progress on the company's efforts to reduce discounting on women's handbags, with the hope for higher future margins and profitability. Also during the period, the company announced the acquisition of iconic shoe brand Jimmy Choo for $1.2 billion - the first of many planned acquisitions intended to create a global fashion luxury group. Fiscal year 2018 is shaping up to be a transition year for the company on several levels. Although the market seems to like its growth ambitions so far, we remain disciplined about valuation in light of the greater financial risk that will accompany this and future debt-financed acquisitions.

Shares in **Anglo American plc** rose 34.6% in GBp during the quarter, in part due to the continuation of recent favorable trends in commodities markets as economic growth in China remains firm. On the company level, Anglo's deleveraging efforts also continue as the company generates tremendous free cash flow at current spot commodity prices. The ultimate fate of Anglo will very likely involve further restructuring including potential asset sales, and possibly a separation of its South African assets via tax free spin-off(s). This would serve to unlock significant latent value as the remaining non-South African assets rerate to a more appropriate valuation in line with Rio Tinto and BHP Billiton. Anglo's new Chairman Stuart Chambers could be a catalyst toward this eventuality since on two previous occasions, companies he chaired were taken over (ARM plc and Rexam plc).

American Depository Receipts (ADR's) of Mexico's largest poultry producer **Industrias Bachoco** gained 14.7% during the third quarter, bringing its year to date gain to 37.7%. In July, the company announced solid earnings results with poultry prices in Mexico remaining strong, driving margins and profitability higher. Bachoco has also been putting its rock solid balance sheet to work, using part of its net cash to purchase US-based poultry processor AQF for $140 million, diversifying its geographic footprint in a business they know well. In addition, the relatively small acquisition of Mexican pet food company La Perla for approximately $25 million will help to diversify its product offering.

PORTFOLIO CHANGES: GLOBAL

Perhaps reflective of the benign global environment that characterized the period under review, as well as the lofty valuation of equity markets and individual securities around the world, no new positions were initiated, nor were any positions sold. We are always busy looking at a number of potential new investments, but our parsimony prevents us from taking action on marginal ideas.

In addition, one of the timeless investment principles to which we adhere is to "Investigate, then invest." The investigation part of our work is an important part of the process (and the most fun part for me), but we will occasionally miss opportunities if the security's price rises while conducting our research. In these cases, we would rather miss an opportunity than to incur a permanent loss of capital due to haste. And in environments such as this, paraphrasing Warren Buffett – sometimes the best action is inaction. We are disciplined about valuation and we believe that patience is a virtue in investing. Cash (approx. 15% today) is a by-product of our bottom-up search for new ideas that meet our investment criteria, and it continues to grow as we pare positions into the rising market tide.

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 (14 today, versus 19 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

	Q2 2017	*One Year*	*Since Inception (7/31/15)*
1949 International Value Strategy[1]	**+ 3.5%**	**+ 8.7%**	**+ 33.1%**
MSCI EAFE Index (US$)	+ 5.4%	+ 19.7%	+ 13.3%
Out (under) performance	- 1.9%	- 11.0%	+ 19.8%
MSCI EAFE Value Index	+ 5.9%	+ 23.3%	+ 11.6%
Out (under) performance	- 2.4%	- 14.6%	+ 21.5%

Portfolio Changes: International

Occasionally, we will find a compelling idea outside the US that only makes it into the International Strategy. This is usually because of size and limited trading liquidity, but can also be from market restrictions on foreign ownership. This was the case last quarter with our purchase of shares in South Korean spirits company **Muhak Co., Ltd**. We discovered Muhak while conducting research on the beverages subsidiary of Korean chaebol Lotte Group. Controlled by the family of Chairman and CEO Choi Jae-Ho, Muhak's primary product is soju, a white spirit made mainly from rice. Soju is by far the most popular spirit consumed in South Korea, accounting for nearly 40% of total alcohol sales (by volume). Until the late 1990's, South Korean regulations restricted the manufacture and sale of soju to only one company in each city or province. This law was abolished in 1996, but the prevailing brand in each province continued to enjoy leading market positions. Muhak is the largest brand in South Gyeongsang Province, at the south eastern tip of the Korean Peninsula. Increased competition in their home province, as well as efforts to penetrate the greater Seoul area with Muhak's brand of soju, negatively impacted this year's revenues and operating profits. Despite this adversity, Muhak remains more than four times as profitable as either of its two largest rivals, with 2017 estimated operating margins of 20.7%, versus only 5.1% for Hite Jinro and 3.9% for Lotte Chilsung. Muhak's 2017 estimated return on equity of 13.4% dwarfs that of both Hite Jinro (3.5%) and Lotte (1.25%), despite a third of Muhak's tangible equity base in net cash (excess capital serves to suppress ROE, all else being equal).

Our multi-year investment thesis on Muhak Co. foresees and eventual easing of competitive pressures, returning to a more normal pricing environment over time. Price wars are rarely sustainable for long, and with its cash rich balance sheet, Muhak is better equipped than its indebted soju competitors. We believe the share price decline (-70% since early July 2015) over-discounts the perceived short term business challenges from heightened competition. We believe we have a significant margin of safety from Muhak's strong competitive position in its home province, resilience against the current trough that comes from its greater level of profitability, its net cash balance sheet, and deeply discounted valuation - Muhak trades for just 8x 2017 estimated earnings, 6x 2017 estimated EBIT, 1x tangible book value and an estimated 21% free cash flow yield (to Enterprise Value). At the current depressed valuation, we would expect the company to consider using its net cash to repurchase shares, but since western style capital allocation and corporate governance in South Korea is still nascent, we have tempered our expectations until we are able to engage management on the subject.

OUTLOOK

The current benign market environment around the world has driven many investors to be complacent. While we try to never be complacent, one of the great ironies with successful investing is the need to be most vigilant about risk when most investors are not worried at all. Markets are discounting mechanisms and this complacency has driven many markets to price in great expectations for economic and corporate profits growth. The International Monetary Fund (IMF) gave further reason for near term optimism in their recent World Economic Outlook proclaiming, “The global upswing in economic activity is strengthening.” Their medium-term outlook, however, was more balanced citing demographic factors and weak productivity as potential drags on global growth. We would also caution that the current US economic expansion is among the longest in post-war history, while the Fed and other central banks around the world are tightening monetary policy. Through our prudent lens, we see reasons to be cautious, not complacent. Each portfolio position must stand on its own, with each holding’s financial strength and valuation being paramount to mitigating aggregate portfolio risk.

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

Footnote:

1. 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.