QUARTERLY REPORT

JUNE 30, 2018

PERFORMANCE

	Q2 2018	*ONE YEAR*	*SINCE INCEPTION (7/31/15)*
1949 Global Value Strategy	**+ 1.6%**	**+ 3.1%**	**+ 30.5%**
MSCI World Index (US$)	+ 1.9%	+ 11.6%	+ 27.4%
Out (under) performance	- 0.3%	- 8.5%	+ 3.1%
MSCI World Value Index (US$)	0.0%	+ 6.4%	+ 22.5%
Out (under) performance	+ 1.6%	- 3.3%	+ 8.0%

MARKET OVERVIEW

Global equity markets generally rose (in local currency terms) during the second quarter, but the strengthening US dollar reduced unhedged returns to a modest decline in all but a few foreign markets.

It continues to be a difficult environment for global value investors, evidenced by the MSCI World *Growth* Index outperforming its value index complement by 3.7% during Q2 and by 7.4% year-to-date. The cumulative outperformance of growth over value since the start of 2017 has been severe at +19.3%, using the MSCI indices. Though not as severe as the eighteen month period preceding the peak of the internet bubble in March of 2000, the two periods are remotely similar. First, both time periods were marked by narrow market leadership of richly valued technology stocks. One big difference, however, is that the "FAANG" stocks of today (Facebook, Amazon, Apple, Netflix and Google) command a large share of their respective (and more mature) markets and their business models have since been proven successful – very successful, in fact, even if long term sustainability amidst serious competition remains a question for some. A similar class of technology giants exist in Asia known as the "BATS" (Baidu, Alibaba, Tencent and Samsung), with comparable perceptions of invincibility driving already high valuations higher there too. Valuation is a proxy for investor expectations: high valuation = high expectations of business performance. With many technology company valuations already implying great expectations, there is risk if analyst forecasts fall short. (with two exceptions: both Apple and Samsung valuations are very reasonable today. We have owned shares in both Apple and Samsung in client portfolios since the inception of the *1949 Global Value Strategy* in July 2015.)

Another similarity worth mentioning is that both periods followed a prolonged advance in equity markets. Perhaps typical for a late stage bull market, investors have favored the perceived certainty of prevailing market leadership to the detriment of inexpensive stocks of companies with temporary issues. The behavior can be self-reinforcing, for a while, and the catalyst for a change in regime is elusive except in hindsight. Many differences between these two periods exist, and while valuation and investor behavior are not mutually exclusive, their significance shouldn't be dismissed. After all, history has a tendency to rhyme.

Value investing has proven the test of time, despite occasional periods of prolonged underperformance. Our approach to global value investing is designed to deliver both safety of principal and attractive absolute returns over the long term. We believe that the best long term investment track records are as much about preserving capital during market downturns as they are about participating in market upturns. We strive to achieve this by building a portfolio of high-conviction securities that we believe are trading at large discounts to intrinsic value, with each holding's financial strength and discounted valuation mitigating aggregate portfolio risk.

PORTFOLIO COMMENTARY

LARGEST CONTRIBUTORS TO PERFORMANCE

Birchcliff Energy…..….	+ 2.4%	Western Digital...……….........	- 1.3%
TPI Composites…...…..	+ 1.3%	New Gold…………..………...	- 0.7%
Global Brands Group….	+ 0.7%	Berkshire Hathaway…………	- 0.6%

Positions that had the largest negative impact on performance during the quarter were Western Digital (-1.3% contribution), New Gold (-0.7% contrib.) and Berkshire Hathaway (-0.6% contrib.). Shares in **Western Digital** (WDC) declined 15.6% during the period under review due to concerns over hard disk drive (HDD) market share losses and deteriorating expectations for NAND flash pricing. The concerns are not entirely misplaced, but do ignore important offsetting positives that are not factored into WDC's current depressed valuation. **New Gold** shares declined 18% during the second quarter due to lower spot gold prices, as well as operational difficulties at its newly operating Rainy River mine in Ontario. Mining is a very mechanistic industry and there are typically issues needing resolution with every new mine. New Gold's Rainy River mine has experienced process interruptions, thus driving costs higher as ore throughput rates declined. Various related issues necessitated an asset impairment charge, damaging investor sentiment further. **Berkshire Hathaway** shares declined modestly (-6.4%) during the quarter, which we do not view as significant in the absence of company-specific news flow during the period under review. Our brief notes from Berkshire's annual meeting, which we attended in May in Omaha, can be found here.

Positions that helped performance during the quarter include Birchcliff Energy (+2.4% contribution), TPI Composites (+1.3% contrib.) and Global Brands Group Holding (+0.7% contrib.). After five consecutive quarters of decline, **Birchcliff Energy** shares started to reflect company-level positives amidst the currently depressed western Canadian natural gas market, rising 30% during the period under review. As one of Canada's lowest cost producers of natural gas, the company is quite capable of withstanding cyclically depressed spot pricing and is showing some flexibility in both production (more liquids vis-à-vis dry gas) and marketing (away from AECO pricing) which should help near term results while awaiting a recovery in AECO natural gas pricing. Shares in **TPI Composites** also advanced 30% during the quarter, following strong Q1 results and as investors focus more on prospective 2019-2020 growth, and less on the company's significant investment activity in 2018. **Global Brands Group (GBG)** shares jumped in the final days of the quarter after announcing the sale of its North American licensing business to Differential Brands Group for $1.4 billion, enabling the company to pay down its debt and to also pay a special dividend, while focusing the company on lesser established and higher growth business areas in Asia.

Portfolio Changes: Global

There were no new positions initiated, nor were any positions sold, during the period under review.

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

	Q2 2018	*One Year*	*Since Inception (7/31/15)*
1949 International Value Strategy[1]	**+ 0.5%**	**- 6.2%**	**+ 20.6%**
MSCI EAFE Index (US$)	- 1.0%	+ 7.3%	+ 15.3%
Out (under) performance	+ 1.5%	- 13.5%	+ 5.3%
MSCI EAFE Value Index	- 2.5%	+ 4.9%	+ 10.6%
Out (under) performance	+ 3.0%	- 11.1%	+ 10.0%

Portfolio Changes: International

There were no new positions initiated, nor were any positions sold during the period under review.

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:

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.