MANAGER'S COMMENTARY

SEPTEMBER 30, 2019

PERFORMANCE

	Q3 2019	ONE YEAR	THREE YEARS ANNUALIZED	INCEPTION (7/31/15) ANNUALIZED
1949 Global Value Strategy	**- 2.4%**	**- 7.9%**	**+ 0.5%**	**+ 3.9%**
MSCI World Index (US$)	+ 0.7%	+ 2.4%	+ 10.9%	+ 7.9%
Out (under) performance	- 3.1%	- 10.3%	- 10.4%	- 4.0%
MSCI World Value Index (US$)	+ 0.7%	+ 1.6%	+ 8.6%	+ 6.4%
Out (under) performance	- 3.1%	- 9.5%	- 8.1%	- 2.5%

MARKET OVERVIEW

Global equity markets were mixed again during the third quarter, with Japan and the U.S. posting positive returns while Asia ex-Japan, Europe and emerging markets declined. The MSCI World Index (in US$) managed a small positive return overall primarily due to the large weighting of U.S. stocks within it. The U.S. Federal Reserve cut interest rates by 25 basis points in both July and September in response to concerns about economic growth and US-China trade. Japanese equities rebounded in September following Upper House elections which favored the Liberal Democratic Party of Prime Minister Shinzo Abe, Japan's longest serving Prime Minister (2012).

The MSCI Europe Index (in US$) fell 2.2% during the quarter as economic data confirmed slowing economic growth there. The European Central Bank responded by restarting quantitative easing and committing to further buying of financial assets to support asset prices. Fears of "no deal" Brexit weighed on UK stock prices as Boris Johnson became the new Prime Minister. Asian markets declined 4.9% during the period, according to MSCI, driven lower by investors' increased focus on the US-China trade war and resulting fears over economic growth. The same was true for emerging markets (-5.1% in US$) with weakness broad-based across Eastern Europe, Latin and South America and Asia. Relative performance of value stocks improved during the quarter, evidenced by the equivalent performance of the MSCI World Value Index in the table above. Despite this improvement, your portfolio underperformed its benchmark primarily because of its large exposure to undervalued economically sensitive names. We expect this trend to reverse, without any confidence as to the exact timing. Patience is bitter while its fruit is sweet. (Proverb)

PORTFOLIO COMMENTARY

LARGEST CONTRIBUTORS TO PERFORMANCE

Western Digital..…...….	+ 2.4%	Stelco Holdings..…....….…...	- 1.8%
Cirrus Logic……….…..	+ 1.1%	Birchcliff Energy..………….	- 1.2%
Smart Sand……….....….	+ 0.4%	Value Partners Group....…….	- 0.9%

Positions that had the largest negative impact on performance during the quarter were Stelco Holdings (-1.8% contrib.), Birchcliff Energy (-1.2% contribution), and Value Partners Group (-0.4% contrib.). **Stelco Holdings** shares declined by 38% during the quarter – first following disappointing Q2 results that greatly missed analyst estimates because of falling steel prices, customer destocking and Section 232 trade tariff costs, and then following the company's withdrawal of a $300 million senior secured debt offering due to unattractive terms demanded by bond investors. We met with Stelco's CEO in NYC shortly after this and despite the headwinds currently facing the industry, Stelco has a number of company-specific initiatives underway that should lower operating costs, improve efficiency and unlock latent value in the company's underutilized port-front real estate. **Birchcliff Energy** shares continue to be disconnected from underlying operating performance and intrinsic value. Investor sentiment toward Canadian energy producers is antipathetic, as depressed spot prices are forcing marginal players into financial distress. Birchcliff's best-in-class operating costs enable it to continue to grow production further in order to fill its Pouce Coupe gas processing plant to capacity, driving unit costs lower still. The shake out in the industry should ultimately prove positive for Birchcliff Energy and other low cost producers. **Value Partners Group** is one of Asia's most respected asset managers with assets under management of approximately $15 billion. Their flagship Classic Fund has achieved 14.1% average annual returns since its inception in 1993, far outpacing its benchmark. As a Hong Kong-based asset manager, the recent social unrest in Hong Kong and the US-China trade war hurt sentiment, as shares declined 24% (in local currency) during the quarter. It is this kind of short term negative news flow that creates attractive longer term buying opportunities for fundamental value investors like us. Value Partners Group is extremely well-placed to benefit from the still immature mainland Chinese market for proven and successful investment products.

Positions that helped performance the most during the quarter include Western Digital (+2.4% contrib.), Cirrus Logic Corp. (+1.1%) and Smart Sand (+0.4%). **Western Digital** shares rose 25% during the period under review following comments made by the company on its Q2 earnings call with analysts. Management indicated that we have reached a cyclical bottom in the NAND (flash memory) market, evidenced by the more stable pricing environment in Q3. In addition, the company posted strong results in its capacity enterprise HDD (hard disk drive) business, expecting greater than 30% year over year growth in 2019. Shares in **Cirrus Logic** rose 22% during Q3 after reporting excellent results. Revenues grew 63% over Q2 2019 due to stronger demand for boosted amplifiers, haptic drivers & a new smart codec for smartphones. **Smart Sand** shares advanced 16% during the quarter after Q2 results came in better than expected. Also, the company paid down more than a third of its debt outstanding and reiterated its commitment to a strong balance sheet.

PORTFOLIO CHANGES: GLOBAL

During the third quarter, no new portfolio positions were initiated, nor were any positions liquidated.

OUTLOOK

The global investing environment continues to be dominated by macro-level considerations. The ongoing trade war with China, political uncertainty in the UK (Brexit) and the US, $15 trillion worth of sovereign debt carrying a negative yield as of the end of September all contribute to a bleak picture for global economic growth. This has manifested itself in the underperformance of shares in cyclical companies who rely upon an economic tailwind to spur demand. Unsurprisingly perhaps, we are finding many very compelling opportunities among cyclical businesses. As mentioned last quarter, a number of them are already in your portfolio, and were purchased at prices higher than where they trade today. We have continued to add to these positions, bringing your average cost per share down. In time, your patience will be rewarded, we believe, as markets begin to look forward to the next phase of this cycle and begin to discount a resumption in growth. In the meantime, we will continue to be disciplined in our management of your portfolio and diligent in our search for attractive investment opportunities that we think will help us to deliver solid long term returns with less absolute risk.

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

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