1949
VALUE ADVISORS

December 31, 2016

In the short run, the market is a voting machine; but in the long run, it is a weighing machine.
Benjamin Graham

The metaphor, attributed by Warren Buffett to his former Columbia University professor and mentor Benjamin Graham, illustrates an important investment truth. Over shorter periods of time, security prices are often determined by their popularity based upon investors' subjective perceptions of merit, similar to how voters cast their political ballot. These perceptions can be sentiment-driven and transitory by nature. Recent elections around the world witnessed actual and metaphoric 'voting machines' at work as sentiment surrounding 'Brexit' in the UK, a constitutional referendum in Italy and the US presidential election contributed to volatility in securities prices this year.

Underlying fundamental business value, by contrast, is not subject to short term changes in sentiment or perceptions of popularity. The 'weight' of business valuation is determined by long term drivers including the subject company's business model, its competitive position and pricing power, the sustainability and level of returns on capital, operating leverage, financial leverage and management track record, among others. In our work, we focus on these long term drivers and attempt to take advantage of opportunities where there is disconnect between a security's price and our assessment of long term business value.

Performance

	December	Q4 2016	One Year	Since Inception (7/31/15)
1949 Global Value Strategy:	**+ 1.2%**	**+ 4.8%**	**+ 34.3%**	**+ 20.9%**
MSCI World Index (US$):	+ 2.4%	+ 2.0%	+ 8.2%	+ 2.9%
Out (under) performance:	*- 1.2%*	*+ 2.8%*	*+ 26.1%*	*+ 18.0%*
MSCI World **Value** Index:	+ 3.5%	+ 5.7%	+ 13.3%	+ 7.0%
Out (under) performance:	*- 2.3%*	*- 0.9%*	*+ 21.0%*	*+13.9%*

While our short term performance has been good, our goal is to consistently outperform over the long term. We will continue to work hard toward our long term goal of building a high quality global investment management firm with institutional credibility.

Market Overview

Global equity markets generally rose during the fourth quarter of 2016, which was dominated by the presidential election in the United States and the impact that a new administration will have on economic growth, interest rates, inflation and corporate profits. Government bond yields rose as inflation expectations ticked higher and macroeconomic data strengthened, prompting the US Federal Reserve to raise short term interest rates in December. Unemployment dropped to 4.6% and third quarter GDP grew 3.5% over last year. The most significant development was the surprise election result confirming Donald Trump as America's next President. As *The Economist* magazine reported on November 9th, "First it was unthinkable. Then it was highly improbable. Now it is reality: Donald Trump will become the 45th President of the United States." Trump's plans for lower corporate and personal taxes, increased spending on US infrastructure and looser regulatory oversight were quickly embraced by the markets, driving US equities higher. Small cap stocks were favored most as the Russell 2000 Index gained 8.8% during the fourth quarter.

European stocks also rose during the quarter with the MSCI Pan-Europe Index gaining 6.9% in euros (but only +0.4% in US dollars). Financials outperformed as rising bond yields should help banks' net interest margins recover from very low levels. Cyclical and commodity related sectors also performed well, while stable businesses such as consumer staples and utilities declined. We discussed this prospect in our Q3 2016 letter: "*the current valuation of these "safe" sectors is near all-time highs, and could pose unintended downside risk to investors that were hoping for a ballast in their portfolio. By contrast, certain cyclical sectors offer downside protection – and have provided great appreciation so far this year*". Capitalizing on opportunities like these requires discipline, patience and a willingness to be contrarian. It also requires having great investment partners who share our investment philosophy and are supportive through the market cycle. Paraphrasing Warren Buffett, our analysis will determine *whether* we're right, but the market will determine *when* we're right. Having great partners is incredibly important, and we're grateful for ours.

Asian equity markets were mixed, as Japan's TOPIX Index gained 15% during the fourth quarter, but lost 0.2% after accounting for the weak Japanese yen. Most Asian markets were similarly impacted, including S. Korea (-9.6% in US$) and Hong Kong (-6.2%). Emerging markets generally declined during the fourth quarter, as the MSCI EM Index fell 4.6% in US$. We have a bias for developed world markets in your portfolio, which helped performance during the period.

Portfolio Commentary

During the fourth quarter of 2016, your portfolio outperformed the MSCI World Index (in US$), appreciating by 4.8%. As bottom-up investors, individual security selection was the most important driver of performance. Positions which most positively impacted performance during the fourth quarter ending December 31, 2016 were Antofagasta plc (+1.0% contribution), Western Digital (+0.9% contrib.) and Berkshire Hathaway (+0.9% contrib.).

Antofagasta plc is a London-listed low-cost copper producer with large scale, long life assets in Chile. The scale of their operations and rich ore grade of their mining assets places them in the lowest quartile globally for production costs. This is helped, in part, from by-products of gold, molybdenum and silver. Shares in Antofagasta rose 29% during the period under review, bringing its full year gain to +44.5% in local currency. Most of this gain came in the second half of the year, as did the 16% rise in the spot price of copper, which lagged behind other metals with tighter supply-demand characteristics. Antofagasta's relatively clean balance sheet and low cost of production should ensure that it remains cash flow positive through the down cycle in copper prices. Ongoing efforts to further reduce production costs means that profitability is spring loaded for any recovery in copper prices.

Shares in **Western Digital** (+17.9%) continue to perform strongly on the back of several important value drivers including demand growth for flash memory; margin expansion from cost synergies realized from their acquisitions of Hitachi Global Storage Technologies (HGST) and SanDisk Corporation; and continued deleveraging of their indebted balance sheet. The stars seem aligned for Western Digital for the time being as it enjoys twin tailwinds from increased cyclical demand and strong pricing for NAND flash memory, while financial risk is mitigated over time by redeploying its free cash flow toward the ongoing retirement of debt. The impact on valuation has been muted, as WDC shares still trade at a modest valuation of 10x current fiscal year earnings.

Berkshire Hathaway shares advanced nearly 13% during the period under review, with shares reaching new all-time highs during the quarter. As financial company shares outperformed following the US election, Berkshire's large exposure to insurance, and less-so to banking, helped drive Berkshire shares higher. Here again, despite the recent strength in its shares, valuation remains relatively modest at 1.5x tangible book value. Berkshire's cash rich balance sheet continues to provide its venerable CEO Warren Buffett with ample firepower for future value-accretive acquisitions.

Positions which most negatively impacted performance during the third quarter ending December 31, 2016 were Value Partners Group (-0.7% contribution), China Mobile (-0.6% contrib.) and New Gold (-0.4 contrib.). As noted earlier, Asian equity markets were generally subdued during the quarter due to the strong US$ and uncertainty about the incoming Trump administration's policies on foreign trade. There were very few company-specific drivers to explain the poor performance of **Value Partners Group** (-22.6%) and **China Mobile** (-12.4%). Both companies have significant competitive advantages in their respective industries and should enjoy favorable business conditions well into the future. Since we remain very positive on the long term prospects for both companies, we took the share price weakness during the period as an opportunity to increase our position in each.

Shares in **New Gold** (-17.2% in CAD) suffered as gold prices tend to be negatively correlated to the US dollar. As the dollar rose against major currencies during the quarter, the spot price of gold fell, and the shares of gold miners fell further. We took significant profits in mid-2016 after gold's fantastic run, reducing position sizes into strength. As gold continued to decline during the quarter, we have again started accumulating shares into the weakness. Our long term thesis on New Gold remains intact, and we will remain disciplined about buying shares when price and value diverge greatly.

Portfolio Changes

Our position in French oil services company **Technip SA** was liquidated in both global and international portfolios during the period under review, primarily on the basis of its pro-forma valuation, accounting for the impending merger with FMC Technologies. Technip remains a great company in a troubled sector whose recent share price appreciation already reflects significant future good news and its soon-to-be enhanced competitive position as the world's largest global subsea-services provider. November's liquidation represents an 88% return from Technip's January 2016 low, and a 31% total return since our initial purchase in July 2015. While elements of our original investment thesis remain intact, Technip's announced nil-premium merger with FMC Technologies of the US alters our assessment of fair value. Consistent with our sell discipline, the changes to our investment thesis (for better and for worse, in certain ways), combined with a relatively full pro-forma valuation driven by recent share price appreciation compels us to move on to greener pastures.

Irish poet and playwright Oscar Wilde is credited with the quotation, "Experience is simply the name we give our mistakes." If true, we gained further 'experience' last year by investing in the heavily regulated German utility industry. In hindsight, it was a mistake. Our purchase of shares in **E.ON** in July 2015 were predicated on its plan to unlock latent value by splitting the company into two pieces. By spinning off its legacy upstream fossil-fuel power generation and commodity businesses into a new entity, the market would have much greater transparency into E.ON's renewable energy assets, which we believed would be more highly valued in the market independent from its parent. Our mistake was made when German government regulators later pressured E.ON to retain its nuclear generation assets within the renewables entity in response to a new German law that would extend unlimited liability to E.ON. To make matters worse, German news magazine *Der Spiegel* reported that nuclear provisions by German utilities could increase by €30 billion. In time, this number was revised downward, but negatively impacted our investment thesis.

While mistakes are never fun to admit, they can be very instructive if we learn from them. I have made other mistakes in the past, and the unpredictable nature of markets means that I will never be too old to commit new ones. In the case of E.ON, several important lessons were learned. First, our sell discipline has three elements – one of which is to sell when our investment thesis changes materially. With the benefit of hindsight, when E.ON announced a material change to its original spinoff plan, retaining its nuclear power generation assets and the unknown future liabilities that came with them, we should have liquidated the position. What we thought was a minor change turned out to be very material. Second, with heavily regulated businesses, politics and 'popular sentiment' can greatly influence how governments deal with regulated companies. With the risk of a politically charged and potentially irrational government decision on the polarizing topic of nuclear decommissioning, we will require a much greater margin of safety in situations like this in the future. Lastly, our preference for clean balance sheets relates more to risk than reward. Despite the utility industry's ability to carry significant leverage, even the best of management intentions to deleverage the balance sheet can be up-ended by regulators disinterested in shareholder value. Both E.ON and its spinoff company Uniper were liquidated during December in both global and international portfolios.

No new positions were initiated in the global strategy during the fourth quarter.

The 1949 International Value Strategy

Our international portfolio is comprised primarily of the non-US stocks held by the *1949 Global Value Strategy*. In a handful of cases where market liquidity would be inadequate for the larger global strategy, we will buy an undervalued security in the international portfolio only. Our investment philosophy, research process, sell discipline and risk management considerations are the same for both products. The international portfolio will generally have fewer security positions (15 today, versus 21 in the global portfolio), and therefore will be more concentrated. Sector and geographic exposures will differ, although our bias for developed world markets will remain.

Performance

	December	Q4 2016	One Year	Since Inception (7/31/15)
1949 International Value Strategy:	**- 0.1%**	**+ 2.6%**	**+ 41.0%**	**+ 25.6%**
MSCI EAFE Index (US$):	+ 3.5%	- 0.5%	+ 1.6%	- 5.8%
Out (under) performance:	*- 3.6%*	*+ 3.1%*	*+ 39.4%*	*+ 31.4%*
MSCI EAFE **Value** Index:	+ 4.6%	+ 4.3%	+ 5.8%	- 5.6%
Out (under) performance:	*- 4.7%*	*- 1.7%*	*+ 35.2%*	*+31.2%*

Portfolio Changes

Two positions were initiated in the international portfolio during the fourth quarter. In October, we bought shares in leading Irish newspaper publisher **Independent News & Media**. Due to its small size (€175 million market cap.) and limited trading liquidity, it was not added to the larger global portfolio. Independent News & Media is Ireland's leading publisher and distributor of print newspapers, including the *Irish Independent* (50% share of the quality daily market), the *Sunday Independent* (65% share of the Sunday quality market), several leading tabloid newspapers and regional newspapers that are market leaders in every region they publish (Kerry, Wexford, Sligo and Drogheda/Dundalk). Their primary print publishing business is in structural decline as more and more people put down the daily paper in favor of digital sources for news.

Independent News & Media is a classic 'cigar butt' investment opportunity – that is, one in which the defensive investor may find a 'few good puffs' left for close to zero cost, after which no further gains should be expected. The appeal, of course, is very limited downside risk and great potential upside from the market realization that today's low share price over-discounts the likely trajectory of decline. Despite the long term challenges to its print publishing business, the price at which we recently purchased shares represents a give-away valuation that is rarely found in public markets. With a net cash balance sheet (net cash represents 38% of current market cap) and trading on a remarkable 2.8 times estimated 2016 EBIT, we believe that we have a margin of safety against permanent loss. Since the business should sustainably generate more than €20 million in free cash flow annually, we view the market's implied capitalization rate of 35% (on EBIT) as too generous to pass up. We also would not be surprised to see one of its two primary shareholders (Denis O'Brien and Dermot Desmond, both well regarded Irish billionaires, and in aggregate control ~45% of shares outstanding) resolve this valuation discrepancy by taking Independent News & Media private. In that

scenario, we believe that a fairness opinion would require a very significant premium to today's share price. In the absence of a take-private transaction, the company should redeploy its significant free cash flow in any number of ways that would easily drive the company's public market value higher.

Also during the quarter, we established a position in French company **Marie Brizard Wine & Spirits** (€450 million market cap.) in the international portfolio only. The company recently emerged from bankruptcy after having taken on too much debt in an effort to diversify their product portfolio through a large acquisition.

Post-bankruptcy equity can be fertile ground in cases where a generally good business becomes distressed, and through the process of bankruptcy, debt holders agree to receive newly issued equity in the restructured company in exchange for their existing claims. The company's financial distress is resolved through this debt-for-equity swap, leaving the generally good business intact, now with a clean balance sheet. Newly issued shares are often undervalued, as they partially reflect the company's recent distress and diminished reputation, but also due to the typical demand by creditors for an attractive equity valuation upon exit from the bankruptcy process. We consider spirits to be a good business, as it is typically very cash generative and stable through the cycle. Returns on capital typically range between 10 and 20%, while consumers are loyal to their favorite brands and can be less price sensitive in certain segments. Many global spirits companies command high multiples on earnings and cash flow as a result.

Marie Brizard Wine and Spirits is a local market focused wine and spirits group, its most important products considered niche brands in several key country markets. The largest is France, comprising 42% of sales, where their blended scotch brand William Peel is that market's category leader with 24% market share. Poland is the company's second largest contributor, representing 36% of group sales, 90% of which is from vodka where their Krupnik brand captures 15.9% market share behind Roust (40.8% share) and Stock Polska (24.7% share). Other important countries include Lithuania (6% of sales), the US (5% of sales) and Spain (3% of sales). The company has been in the midst of restructuring, but now that is largely behind it, allowing for greater management focus on growth initiatives involving product innovation and better utilization of its distribution network to expand sales across their product portfolio. One needs to have a multi-year investment time horizon in order to benefit from the 40-50% valuation discount to comparable wine and spirits companies. Using internal company estimates for fiscal 2018, with which we now have great confidence following our meeting with CEO Jean-Noel Reynaud this week, and after all remaining restructuring charges pass through current year financials, Marie Brizard shares trade on just 7x fiscal 2018 EBIT, generating a 13% free cash flow yield with modest net cash on its balance sheet. We do not expect a rerating to come quickly, but our competitive advantage comes from patience and our willingness to look further out than many investors, as well as from our preference for undervalued special situations in areas that many investors ignore, including post-bankruptcy equity.

Outlook

While we don't make or rely upon economic forecasts in the construction of your portfolio, we are ever mindful of the negative potential impact on markets from material changes in global economic data. As we have written previously, aggregate market valuations in many parts of the world are near business cycle highs, implying potential downside if economic growth falters or the perception of global risk rises. The surprise Presidential election result in the US during November bears great consideration in this regard, and we continue to study how the new administration's policies are likely to impact capital markets and the stocks in your portfolio. The rise in markets

since the election implies that investors generally expect pro-growth initiatives such as lower corporate and personal taxes, easing of federal regulation and potential fiscal stimulus in the form of government spending on infrastructure. Whether the rhetoric is matched by actual policy remains to be seen. Foreign trade policy is an area that we'll be watching closely.

Early indications of cabinet appointments lend optimism that President-elect Trump will surround himself with capable advisors. What the market seems to be ignoring so far, is the potentially heightened geopolitical risk posed by an egocentric and improvisational leader with little desire to adhere to traditional political norms or protocol. With valuations already quite high, against the backdrop of rising short term interest rates, we feel that prudence will be rewarded in 2017.

Thank you for your support, and we look forward to serving your global investment needs for many years in the future.

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.

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