1949
VALUE
ADVISORS

September 30, 2016

To our partners,

With sincere gratitude for your trust and confidence placed in us a year ago, we are excited to have completed our first full year of live performance during the third quarter. It has been a volatile period for world markets, but one reasonably well-suited to our conservative value-driven investment strategy. We seek to achieve long-term capital appreciation, consistent with preservation of capital. We strive to achieve this objective by investing in global equity securities trading at a significant discount to appraised value (a "margin of safety"). Our risk-averse investment strategy is designed to avoid a permanent capital loss, and to realize long-term capital appreciation. We are dyed-in-the-wool global value investors.

Successful value investing requires independent thought and analysis, patience and a willingness to be contrarian. It also requires a great deal of humility, since there is the *ex-ante* probability of being wrong. We try to minimize the potential negative impact from being wrong by buying bargain priced securities where there is considerable valuation support, and limited perceived downside. 1949 Value Advisors considers our unique temperament, our disciplined focus on long-term fundamentally derived intrinsic value, and the patience to realize the benefits of both to be key competitive strengths in a world of increasingly short-term and emotion-driven capital markets.

While our performance to date has been favorable, we don't place much stock in short term performance. We will continue to work hard toward our long term goal of building a high quality global investment management firm with institutional credibility. We love our work, and we thank you for the opportunity to serve you.

Performance

	Q3 2016	Year to Date	One Year	Since Inception (7/31/15)
1949 Global Value Strategy:	**+ 9.4%**	**+ 28.0%**	**+ 24.0%**	**+15.5%**
MSCI World Index (US$):	+ 5.0%	+ 6.1%	+ 12.2%	+ 0.9%
Out (under) performance:	*+ 4.4%*	*+ 21.9%*	*+ 11.8%*	*+14.6%*
MSCI World **Value** Index:	+ 5.2%	+ 7.2%	+ 12.4%	+ 1.3%
Out (under) performance:	*+4.2%*	*+ 20.8%*	*+11.6%*	*+14.2%*

During the third quarter of 2016, your portfolio outperformed the MSCI World Index (in US$), appreciating by 9.4%. As bottom-up investors, individual security selection is the most important driver of performance. Macro tailwinds also helped drive stocks generally higher during the period under review. In Europe, following the brief Brexit-related decline in June, markets rebounded strongly as central banks offered potential further monetary easing. Stocks in the UK

generally rose as Theresa May became Britain's first female Prime Minister since Margaret Thatcher. Worries about certain European banks dragged the entire sector lower, but we have so far avoided the temptation of near record low valuations in the troubled industry.

Asian markets also advanced during the quarter, as sustained global monetary easing and positive macroeconomic data in China helped drive stocks higher. Chinese GDP expanded by 6.7% in Q2 and its manufacturing purchasing managers index (PMI) climbed to 50.4. Japan's Nikkei 225 Index rose 6.2% (in US$) during the quarter after Upper House elections showed continued strong support for Prime Minister Abe. Investors now expect a significant fiscal spending package to be announced. In addition, the Bank of Japan announced that they will now target the yield curve in future policy decisions.

The MSCI Emerging Market Index rose by 8.3% during the third quarter, led by China (+13%) and Brazil (+11%). Although we have a bias toward developed markets in general, we will occasionally have limited exposure to certain emerging markets when valuations are compelling. Lastly, US stocks continued their upward march during the third quarter led by technology stocks.

Portfolio Commentary

Positions which most positively impacted performance during the third quarter ending September 30, 2016 were Birchcliff Energy (+2.7% contribution), Cirrus Logic (+1.8% contrib.) and Western Digital (+1.4% contrib.).

While we have written extensively in previous letters this year about **Birchcliff Energy** (+32%), the company's shares continued to appreciate during the third quarter, reflecting its June 2016 announcement to acquire high quality natural gas producing properties from Encana Corp. The transaction illustrates the business acumen of Myles Bosman (Chief Operating Officer and Vice President – Exploration) and the rest of Birchcliff's management team, led by CEO Jeff Tonken. In a meeting with both Jeff and Myles in NYC last month, we discussed the merits of the deal, as well as the deleveraging impact of its equity financing on Birchcliff's indebted balance sheet.

Birchcliff completed the acquisition of certain petroleum and natural gas properties (the "Gordondale Assets") from Encana for C$625 million on July 28, 2016. The Gordondale assets include high working interest operated production and a large contiguous land base which fits between Birchcliff's existing Pouce Coupe and Gordondale properties. Birchcliff now has 261 contiguous sections of land and a total of 416 sections of Montney/Doig lands. In connection with the Gordondale acquisition, Birchcliff raised C$690 million of new equity. As a result, Birchcliff reduced its debt by C$50 million, significantly deleveraged its balance sheet while adding material low decline oil and gas production, material reserves and high quality development opportunities. Management believes that the Montney/Doig natural gas play is one of the most prolific natural gas plays in North America.

The Gordondale assets will be more profitable under Birchcliff's control due to the cost benefits of owning and operating your own gas plant. Focused on the liquids rich middle layers of the Montney, Encana contracted with a third party to process their Gordondale gas production, adding significant fixed costs and hurting profit margins. Birchcliff, on the other hand, processes gas via their wholly owned Pouce Coupe South (PCS) gas plant, allowing them a very significant cost advantage. Ownership of the PCS gas plant has enabled Birchcliff to remain cash flow positive during cyclically depressed pricing environments and is among Canada's lowest cost producers of

natural gas. When the third party contract covering Gordondale production expires in 2018, or perhaps sooner, Birchcliff will likely renegotiate that contract or purchase the plant outright. In the interim, Birchcliff can profitably hedge their newly acquired Gordondale production until the contract period expires in 2018. Birchcliff Energy has among the largest collection of high quality gas-weighted assets in Western Canada, with low financial leverage, yet still trades at a material discount to liquidation value. Their success during the recent low price environment is a testament to the quality of their resource base and management team. We have great confidence in Birchcliff's ability to create tremendous value through the cycle and in a more normal Canadian natural gas price environment.

Shares in **Cirrus Logic** advanced 37% during the third quarter, bringing its year-to-date gain to 81%. Headquartered in Austin, TX Cirrus Logic is a premier supplier of high-precision analog and digital signal processing components for a variety of audio applications. The company has a very strong intellectual property (IP) portfolio with more than 2,000 patents worldwide, providing a wide range of niche products to more than 3,000 end customers globally. When we initiated a position last October, we described the investment thesis for Cirrus Logic in the context of our "four core pillars" of compelling undervaluation, clean balance sheet, solid returns on capital driven by a strong competitive position and high quality management with a track record of creating value for shareholders. Our perceived downside was limited by a 30% discount to our conservative estimate of fair value and the company's net cash balance sheet, while the upside opportunity from Cirrus Logic's ability to grow content at their top three smartphone customers is being realized, driving shares higher. As smartphone manufacturers increase their use of sophisticated analog and mixed signal processing components in order to offer customers better quality voice and audio features, the volume and value of Cirrus Logic content in each premium device sold should increase accordingly.

The recent release of Apple's new iPhone 7 revealed significant content gains for Cirrus Logic including stereo sound, requiring an additional Cirrus Logic audio chip as well as a second Cirrus Logic boosted amplifier. Elimination of the analog audio port allows for digital headsets via Apple's lightning port, also requiring Cirrus Logic content to enhance both the quality of sound and user features such as personalized EQ settings. While shares of Cirrus Logic have already reached our initial estimate of fair value, we did not previously ascribe much value to the potential content gains at their largest customers (Apple ~68% of revenues, Samsung ~12%) simply because new product features are strictly guarded by manufacturers in the intensely competitive smartphone industry. Now that certain new features have become known, we are more confident ascribing value to these growth opportunities in our valuation work. After taking significant profits and reducing our position size during the third quarter, we remain confident in Cirrus Logic's ability to further drive innovation in the smartphone market for enhanced audio signal processing components. Over the medium and long term, features such as active noise cancellation and always-on voice should move beyond phones to digital headsets and other smart accessories in the coming "Internet of Things" era. We believe the market currently underappreciates Cirrus Logic's technological advantage in key audio features that should enjoy increasing penetration among both flagship and mid-tier smartphones in the future.

Shares of hard-disk drive and flash memory chip maker **Western Digital Corp.** rose nearly 25% during the period under review, all of its gain coming in September after the company raised earnings and gross margin guidance for the current fiscal quarter. Citing better than expected product mix following its acquisition of SanDisk earlier in 2016, the combination is allowing the company to address more customers with a broader portfolio of hard drive and flash storage products. Improved NAND pricing on the SanDisk side of the business is contributing to higher gross margins

than its legacy HDD business. In addition, the company paid down $750 million in debt and refinanced an additional $3.0 billion in debt at a 1.75% lower rate, saving more than $100 million in annual interest expense. We expect significant and sustained free cash flow generation to enable further debt reduction, and combined with the realization of ongoing cost synergies from the SanDisk and HGST deals, drive earnings per share materially higher over the next several years.

Positions which most negatively impacted performance during the third quarter ending September 30, 2016 were E.ON (-0.8% contribution), Cal-Maine Foods (-0.4% contrib.) and Michael Kors Holdings (-0.2% contrib.). German utility **E.ON** completed the partial spin-off of Uniper during the period under review, retaining a 47% stake. Uniper, which stands for 'UNIque PERformance', owns and operates E.ON's legacy conventional coal and natural gas fired power plants throughout Europe, as well as in Russia and Brazil. In addition, Uniper's Global Commodities unit conducts the sale and trading of electricity and natural gas, as well as the transportation and storage of natural gas. Conventional power generation has suffered in recent years due to declining power prices. Not unlike others in this generally stable industry, Uniper has significant financial leverage at more than twice 2015 EBITDA, including off balance sheet pension obligations and asset retirement provisions. In our assessment, there does not seem to be anything UNIque about the PERformance of these conventional power generation assets, despite the claim implied by its creative name.

"New E.ON" will comprise renewable wind and solar power generation assets in Europe and North America and the vast electricity transmission and distribution grid in Germany. E.ON was forced by the German government to retain its nuclear operations, a change from its original plan months ago. This change means that very significant liabilities relating to nuclear decommissioning and asset retirement will now be borne by E.ON, possibly necessitating a dilutive rights issue. It is partly this prospect that is behind E.ON's poor share price performance this quarter. Though our original investment thesis has changed somewhat as a result, there is still great potential upside to be realized over time, especially in a better power price environment. We will continue to evaluate risk from equity dilution and other potential developments, versus the long term reward that can come to patient investors.

Shares in market leading fresh shell egg producer **Cal-Maine Foods** declined 13% during the third quarter as the company announced disappointing results and more challenging market conditions than a year ago. Average customer selling prices dropped 58% from the record high levels of 2015 as the supply of shell eggs rebounded from the disruption caused by the Avian Influenza outbreak last year. Cal-Maine supplied 23% of US fresh eggs consumed last fiscal year, and continues to grow their market leading position via acquisition and internal investment. An important element of our investment thesis relates to Cal-Maine's increasing sales of specialty eggs, which are higher priced than regular eggs (i.e., more profitable) and whose sale prices are less cyclical. Sales of specialty eggs accounted for 23% by volume (versus 20% last year) and 46.7% of revenue (compared to 27% in 2015). Specialty egg prices held up better than non-specialty egg prices, only declining 20% from their recent highs. Cal-Maine remains focused on growing their specialty egg business, especially cage-free eggs, in light of many food service providers, restaurant chains and major retailers' promises to offer only cage-free eggs by specified dates. This will ensure growing demand for the most profitable segment of the egg business for years to come, while Cal-Maine's leading market position should help them benefit most from this shift in consumer preferences.

Shares of **Michael Kors Holdings** declined 5.4% during the quarter, similar to its Q2 performance (-13%) although its shares are still up 16.8% year-to-date. Tepid sales at department and specialty store retailers in the US and Europe drove the decline in its shares, and foreign tourism spending in

the US remained subdued. We expect the retail environment to remain somewhat challenging, but continue to be attracted to Kors' deeply discounted valuation relative to closest peer Coach, Inc. Together with its net cash balance sheet, we believe that there is a meaningful margin of safety against permanent loss. Strength outside the US, especially in Asia where the brand is still considered to be new, represents a significant growth opportunity. Women's luxury shoes and menswear should also help drive growth, offsetting the recent trend toward smaller handbags. The company continues to buy back its own shares, confirming our positive fundamental view of the company and the low risk opportunity in its undervalued shares today.

Portfolio Changes

During the third quarter, we continued to harvest significant gains, particularly in cyclical stocks that have appreciated considerably this year. In our year-end letter last December 2015, we wrote about finding extremely compelling opportunities in deeply undervalued cyclical companies. This theme has further to play out, but given the dramatic rise in many of these stocks year to date, we are willing sellers into price strength as these names approach fair value. We have been somewhat slower to reinvest the proceeds as we have had modest difficulty finding truly compelling new ideas that fit our conservative criteria. This has resulted in cash building up in the portfolio, standing at 11.9% at quarter-end (9/30/16). Cash is a by-product of our bottom-up search for suitable investment opportunities. It would be unusual to have cash build in excess of 15% of the portfolio. When equity markets are priced high and stocks are more fully valued, our job is more difficult, but our experience during times like these tells us to be patient. We will not buy securities that do not meet our criteria just for the sake of being fully invested. Again, patience and discipline are important elements of our investment philosophy. We would rather miss an opportunity than suffer a loss of principal.

When we initiate a new position in your portfolio, we generally won't mention it here until we have secured a 'full' position. Depending upon variables such as market capitalization, liquidity, balance sheet and other risk considerations, a full starter position is typically 2%. During the tumultuous first quarter of 2016, we started buying shares in **Gentex Corporation**. Unfortunately, we only achieved a partial position since shares in Gentex were rebounding quickly, along with markets in general. We stepped aside hoping for a pullback. So far it hasn't come, but we remain patient and disciplined. Gentex Corporation is a supplier of electro-optical products for the global automotive industry, supplying every major auto manufacturer around the world with advanced electronics that optimize driver vision and enhance safety. Core to this capability is the company's near monopoly on automatic-dimming interior and exterior rear-view mirrors. This dominant competitive position, anchored by constant innovation with new technologies, drives its market-leading profit margins in an otherwise low-margin industry. Gentex also manufactures dimmable aircraft windows and fire protection products.

With the proliferation of camera technologies used in automotive safety applications, investor worries about the future of traditional rear-view mirrors has driven shares in Gentex Corp. to an attractive valuation level. In contrast to the bear thesis on Gentex, we believe that mirrorless cars are a long way off. Gentex has recently developed the world's first hybrid full display mirror, with unique bi-modal functionality, capable of operating as a standard auto-dimming mirror or a rear video display. When in video display mode, rearward vision is dramatically improved, eliminating "blind spots" and enhancing driver safety. The mirror mode is critical in providing a failsafe in the event of inclement weather (a single raindrop on the camera lens can severely obstruct driver vision). In

addition, the ability to toggle back to traditional mirror mode in order to check on back seat passengers such as children is still highly desirable by consumers. Gentex Full Display Mirror is approximately ten times more expensive than a standard ($20) exterior mirror, commanding higher margins (35-40% range). Even if traditional mirrors are disintermediated by camera-based systems in time, adoption of the Full Display Mirror at a much lower penetration rate could provide net revenue and margin upside for the company. As a brand new technology, only GM has so far incorporated Gentex Full Display Mirrors in select offerings including Cadillac CT6 and XT5 models, and the Chevy Bolt. Management expects greater adoption of its full display mirrors in the near future, positively impacting its financials in the 2018-2020 timeframe. We believe that owning Gentex undervalued shares today, in combination with its near monopoly position in its biggest business of auto-dimming mirrors and related electronics (97% of total revenues) and rock solid balance sheet offer a margin of safety against a permanent capital loss. Potential upside from continued content gains in ancillary automotive electronics such as Smart Beam and Home Link, as well as greater adoption of Full Display Mirrors in the future, is significant.

In an effort to remain relatively concentrated with a portfolio of high-conviction stocks from around the world, we may occasionally liquidate a less-compelling (but still undervalued) position. To paraphrase Benjamin Graham, we strive to 'achieve adequate, though not excessive diversification'. (*The Intelligent Investor*, 1st edition - page 70) With this in mind, we chose to liquidate **Loews Corp.** during the quarter, realizing a small gain. A diversified conglomerate, Loews Corp. has equity interests in property & casualty insurance (via CNA Financial), oil services (via Diamond Offshore), natural gas pipelines (via Boardwalk Pipeline Partners) and Loews Hotels. Your portfolio has very significant direct exposure elsewhere in the portfolio to insurance (AIG, Berkshire Hathaway, Tokio Marine Holdings), oil services (Technip SA) and natural gas (Birchcliff Energy) – all of which are more attractive than Loews Corp. at current prices.

The 1949 International Value Strategy

Our international portfolio is largely the subset of non-US stocks held by the *1949 Global Value Strategy*. Meaningful analytical and operational efficiencies are realized in managing this 'subset portfolio'. Our investment philosophy, research process, sell discipline and risk management considerations are the same for both products. The significant overlap in security positions is advantageous, offering us the opportunity to serve investors who seek only non-US equity exposure, likely to be primarily domestic US investors. The international portfolio will generally have fewer security positions, and therefore will be more concentrated (currently 16 security positions, versus 24 in the global portfolio). This will result in greater volatility of returns and position sizes will be larger. Sector and geographic exposures will differ, although our bias for developed world markets will remain.

	Q3 2016	Year to Date	One Year	Since Inception (7/31/15)
1949 International Value Strategy:	**+10.6%**	**+ 37.5%**	**+ 31.7%**	**+20.9%**
MSCI EAFE Index (US$):	+ 6.5%	+ 2.2%	+ 7.1%	- 5.7%
Out (under) performance:	*+ 4.1%*	*+ 35.3%*	*+ 24.6%*	*+26.6%*
MSCI EAFE **Value** Index:	+ 8.1%	+ 1.4%	+ 4.2%	- 9.5%
Out (under) performance:	*+2.5%*	*+ 36.1%*	*+27.5%*	*+30.4%*

Performance of the *1949 International Value Strategy* over the past year and since inception has been favorable during what has been a range-bound market environment, characterized by a flight to the perceived safety of stable businesses such as consumer staples and utilities. While this may make intuitive sense to the casual observer, financial strength and valuation are preferred measures of safety to most professional value investors. 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 have offered tremendous downside protection – and have provided great appreciation so far this year – by virtue of their deeply discounted valuations. Taking advantage of this opportunity has helped our performance in both the international and global portfolios this year.

No new positions were initiated, nor were any positions sold, in the *1949 International Value Strategy* during the period under review.

Outlook

Perhaps among the most famous economists to have ever lived, John Kenneth Galbraith (1908-2006) is deeply respected for his literary works, public service and contributions to the 'dismal science' of economics. One of his many quotes that we enjoy relates to the impossible task of accurate forecasting – "There are two kinds of forecasters: those who don't know, and those who don't know they don't know." While we don't make or rely upon economic forecasts in our construction of your portfolio, we are ever mindful of the negative potential impact on markets from material changes in global economic data. As we wrote last quarter, 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. Sources of potential global risk are present in each region of the world today. Elections in various countries – most immediately in the US and in parts of Europe - could potentially uproot established political norms. In Asia, North Korea's military tests threaten longstanding stability in the region. Mounting debt levels by sovereign governments and speculative Chinese real estate investors alike could tip the scales of growth into recession, or worse. Currency related fallout from 'Brexit', further devaluation of the renminbi or risk of European Monetary dis-Union all have the potential to severely disrupt markets.

To be clear, there are always sources of risk in the world. In investing your capital, we strive to weigh these risks against the valuation of securities across world markets. When we have a reasonable margin of safety against loss because of deeply discounted valuations and strong financials, we are more comfortable investing. When valuations are high and markets seem priced for Polyanna, we will be more cautious. Given elevated aggregate market valuations today, and the degree of investor complacency that is implied, we feel that it is prudent to increase our emphasis on capital preservation.

As a benchmark agnostic global 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 in the future. We will be diligent in our search for undervalued securities of quality companies that will help us meet or exceed our investment objectives.

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 a performance fee above the relevant benchmark, 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.

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.