1949
VALUE
ADVISORS

March 31, 2017

An investment operation is one which, upon thorough analysis, promises safety of principal and an adequate return. Operations not meeting these requirements are speculative.

Benjamin Graham, *The Intelligent Investor* (1949 ed.)

As we grow, certain milestones along the way are worth mentioning here. One of the more important milestones for a young firm like ours is registration with the Securities and Exchange Commission (SEC). We are proud to report that during the most recent quarter, 1949 Value Advisors completed all requirements for, and is now registered with, the SEC.

Registration with the SEC imposes important obligations on 1949 Value Advisors, requiring compliance with all applicable provisions of the Advisers Act such as adopting and implementing comprehensive written policies and procedures, filing annual updates of Form ADV, implementing a Code of Ethics and ensuring that performance reporting complies with applicable regulatory rules.

The process of initial SEC registration is typically arduous and time-consuming, and our experience was no exception, but our in-house Chief Compliance Officer Jack Glasheen, in cooperation with our outside legal counsel Seward & Kissel LLP, deserves great credit for his experienced handling of the many requisite documents and filings. Thank you, Jack!

Performance

	Q1 2017	One Year	Since Inception (7/31/15)
1949 Global Value Strategy:	**+ 2.9%**	**+ 21.6%**	**+ 24.4%**
MSCI World Index (US$):	+ 6.4%	+ 15.4%	+ 9.6%
Out (under) performance:	*- 3.5%*	*+ 6.2%*	*+ 14.8%*
MSCI World **Value** Index:	+ 4.4%	+ 18.0%	+ 11.8%
Out (under) performance:	*- 1.5%*	*+ 3.6%*	*+ 12.6%*

While we have no control over the timing of portfolio performance, we have great control over the execution of our value-driven investment strategy and research process, and the management of our firm in order to ensure longevity. We believe that our time-tested approach to global and international value investing will continue to deliver adequate returns and provide safety of principal to our investment partners over the long term. With each passing milestone, we come closer to achieving our goal of building a high quality global investment management firm with institutional credibility.

Market Overview

Global equity markets were strong during the first quarter of 2017 as signs of a synchronized and growing global economy became more evident. Only one country market experienced a negative return during the period (Russia -4.6% in US$), lagging other emerging markets which dominated global returns. The MSCI Emerging Markets Index rose 11.1% during Q1, led by Korea (+16.7%), India (+16.7%) and Mexico (+15.7%). While 1949 Value Advisors has a developed market bias, our performance was helped, in part, by exposure to both Korea (Samsung Electronics) and Mexico (Industrias Bachoco).

US equities were relative underperformers, gaining 5.7% during the period. The S&P 500 Index reached all-time highs as favorable macroeconomic data continued to drive stocks higher. Non-farm payrolls, manufacturing activity and consumer confidence were all buoyant. The improving economic data and its associated implications for inflation prompted the Federal Reserve to raise base rates by 0.25% in March, in line with investor expectations. Technology stocks led the advance while energy related equities declined alongside falling oil and gas prices.

In Europe, stocks were strong across the continent led by Spain (+14.3%) and the Netherlands (+11.2%). Dutch stocks rose after the March election result favored the moderate center-right candidate Mark Rutte over the anti-EU party led by Geert Wilders. Broadly favorable economic data was a driver of European equities during the period, while inflation met the European Central Bank's target of 2% during February. Technology stocks performed best in Europe also, while energy was the only declining sector, hurting Norway's performance (oil was 37% of total exports in 2016).

In Asia, equity markets were mixed as Japan's TOPIX Index declined by 0.4% due to yen strength, negatively impacting investor sentiment toward Japan's exporters. Factoring in the strong yen, Japanese stocks gained 5.3% in US dollar terms. Elsewhere in the region, countries sensitive to global growth gained the most on strengthening global economic data.

Portfolio Commentary

During the first quarter of 2017, your portfolio underperformed the MSCI World Index (in US$), appreciating by 2.9%. As a reminder, your portfolio performance will almost always be very different from the index performance over the short term (and hopefully over the long term as well) as we make no attempt to reference the regional, sectoral or stock-specific exposures of our benchmark.

The prevailing industry measure of how different a portfolio's holdings are from its benchmark is active share – zero meaning there is no difference, 100% meaning there is no overlap. Your portfolio's active share at quarter-end was 96.5%, illustrating very little commonality with the benchmark. In the sage words of Sir John Templeton, "If you want to have better performance than the crowd, you must do things differently from the crowd." Our aim is to be different and *better* than both the crowd and the index over the long term. Perhaps counterintuitively, this will regularly entail being different and *worse* than both the crowd and the index over shorter periods of time, as the most recent quarter illustrates.

We strive to add value through the careful construction of concentrated portfolios of high conviction securities from around the world, each of which meets our basic criterion of safety of principal (by virtue of a deeply discounted valuation, clean balance sheet and/or strong competitive position and other fundamental characteristics). Since our primary investment objective is long term capital appreciation, security positions will frequently have an embedded trigger to unlock value (i.e., a catalyst in the form of a significant corporate event such as the spin-off of a non-core business, restructuring, recapitalization, deleveraging and post-bankruptcy equity, among others). These "special situations" allow us to capitalize on corporate change and are typically not highly correlated to the general trend of global equity markets. Our focus on buying deeply discounted securities is designed to help limit potential downside, while corporate events can help catalyze potential upside.

As bottom-up investors, individual security selection is the most important driver of portfolio performance. Positions which detracted most from performance during the quarter ending March 31, 2017 were Birchcliff Energy (-1.5% contribution), Global Brands Group (-0.8% contrib.) and Cal-Maine Foods (-0.8% contrib.). After returning more than 140% in 2016, shares in **Birchcliff Energy** declined 18.6% during the first three months of 2017, primarily due to declining spot natural gas prices in North America. Another warm winter reduced seasonal demand for natural gas, a key commodity for power generation and heating. Despite lower spot prices for natural gas, Birchcliff Energy continued to grow profitable production following their July 2016 acquisition of natural gas assets from Encana Corp. Quarterly results announced during March confirmed Birchcliff's strong operational track record, with sequential production growth of 11% and plans for year-end 2017 production growth of more than 40%. Birchcliff shares today represent an incredible bargain as the market focuses on the negative short term supply and demand drivers for natural gas, ignoring the considerable latent asset value in Birchcliff's enormous resource base.

Global Brands Group shares declined by 19.4% during the quarter amidst a difficult consumer environment and changes in the retail industry. Despite these challenges, Global Brands Group continues to perform well as a newly independent entity following its 2014 spin-off from former parent Li & Fung, one of the world's largest managers of complex supply chains for brands and retailers. Margins and core profitability continue to improve, yet the share price reflects ongoing disposition from large shareholders of the parent company. This is typical for spin-offs, even if this particular case has been drawn out. Our original investment thesis remains intact, and the multi-year investment horizon discussed at our inception of the position during Q2 2016 is still required. With shares trading at 6.5 times current fiscal year earnings, and less than 5 times next fiscal year's earnings, a 47% and 55% discount to the Hang Seng Index average, respectively, Global Brands Group is among the most undervalued positions in the portfolio.

Leading fresh shell egg producer **Cal-Maine Foods** has endured a tumultuous few years, although management remains unfazed as it continues to create long term value for shareholders through organic growth and small bolt-on acquisitions. After the Avian Influenza epidemic of 2015 culled the population of egg laying hens in North America, the wholesale price of eggs rose dramatically. Now, after replenishment, egg prices have fallen, driving shares of Cal-Main Foods 17% lower during the first quarter of 2017, and 30% below its 52-week high. As we have stated before, an important element of our investment thesis relates to Cal-Maine's increasing sales of specialty eggs, which are higher priced and less volatile than regular eggs (i.e., more profitable and consistent cash flow). 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 a specified date. 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.

Positions which most favorably impacted performance during the first quarter of 2017 were Samsung Electronics (+1.4% contribution), Western Digital (+1.4% contrib.) and Apple, Inc. (+0.9% contrib.). Technology stocks around the world enjoyed strong gains during the period, with the entire sector rising 14% globally, according to MSCI. Strength among several key **Samsung Electronics** business segments overcame negative press surrounding the bribery investigation and trial of its Vice Chairman Lee Jae-yong (known professionally in the West as Jay Y. Lee), driving shares 14.3% higher during the quarter. Demand for DRAM and NAND flash memory continues to drive pricing, as does emerging demand for OLED displays. Its newest smart phone, the Galaxy S8, was launched during March with initial demand quite strong. All of these, combined with growing prospects for share buybacks and other shareholder friendly policies, should lead to a higher valuation. Despite having risen 80% since our initial purchases 20 months ago, Samsung shares remain deeply undervalued, trading for less than 9 times earnings and less than 5 times EBIT, with more than 25% of its market capitalization in net cash.

After gaining nearly 18% in the final quarter of 2016, and being the largest contributor to portfolio performance at that time, shares in **Western Digital** (+21.3%) continued to appreciate due to 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. Once again, the impact of this share price strength on valuation has been muted, as shares still trade on a modest valuation of only 11x current fiscal year earnings.

Shares of **Apple, Inc.** rose 23.6% during the period following strong results, including 3% revenue growth after three consecutive quarters of declines. Strong demand for the iPhone 7 and 7 Plus models contributed to higher average selling prices during the period, helping gross margins. Despite its strong share price, Apple remains compelling to us. The prospect for a higher valuation centers around Apple's increasing focus on its services businesses. The company is expecting its services businesses, which include Apple Music, iTunes, iCloud, Apple Pay and the App Store, reaching the size of a Fortune 100 company in 2017, and doubling in size over the next four years. The recurring nature of services revenues deserves a higher multiple than its more commodity like hardware businesses. In addition, a strong iPhone 8 product cycle beginning later this year, and the likelihood of offshore cash repatriation (possibly funding more share repurchases) should help improve Apple's valuation. Trading on just 10 times current fiscal year's EBIT, there remains valuation upside for Apple shares given the quality of its products, leading market position and the returns generated on its conservative capital base. Net cash in excess of 20% of its market capitalization lends safety to the investment case.

Portfolio Changes

No new positions were initiated in the global strategy during the quarter, nor were any positions sold.

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 (14 today, versus 20 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

	Q1 2017	One Year	Since Inception (7/31/15)
1949 International Value Strategy:	**+ 1.2%**	**+ 22.2%**	**+ 27.1%**
MSCI EAFE Index (US$):	+ 7.3%	+ 12.2%	+ 1.1%
Out (under) performance:	*- 6.1%*	*+ 10.0%*	*+ 26.0%*
MSCI EAFE **Value** Index:	+ 6.2%	+ 16.8%	+ 0.3%
Out (under) performance:	*- 5.0%*	*+ 5.4%*	*+ 26.8%*

Portfolio Changes

One new position was initiated in the final days of the quarter in the international strategy, which we continue to buy into weakness and will discuss in our April letter. This new purchase coincides with our March divestment of TGS Nopec Geophysical Co. TGS remains an excellent company, with one of the largest 2D and 3D multi-client global seismic data libraries serving the oil and gas industry. After an 80% rise in its share price since the January 2016 low, TGS' valuation seems to more fully discount its strong competitive position, strong returns through the cycle and net cash balance sheet, trading near 12 times fiscal year 2018 estimated EBIT. The cyclicality of TGS' business, and our disciplined valuation methodology, means that we will be buyers of cyclical stocks when they are deeply out of favor, and sellers when expectations are broadly optimistic again and reflected in forward looking multiples on EBIT, earnings and cash flow. While the offshore oil and gas industry isn't quite yet back in investors' favor, TGS valuation is no longer compelling when compared with other opportunities we have been considering.

Outlook

Seventy days into a new administration in the US has already brought much change. Yet, the more things seem to change, markets seem as influenced by the usual drivers as they ever were – the Fed and interest rates, corporate profits, currency movements, valuation and others. The new administration's plans regarding changes in taxation, deregulation in the financial services industry and infrastructure spending have certainly created a new dynamic in certain sectors. As we evaluate the impact that these plans, if implemented, might have on the securities in your portfolio, and those we might buy, we remain true to our aversion to macroeconomic forecasts (because they are often wrong, as surely as shifting winds change the 5 day weather forecast). Instead, we choose to focus on individual company-specific drivers that might impact valuation and our investment thesis. We believe that the most important long term drivers of corporate valuation have very little to do with politics, despite the barrage of daily news invading our lives.

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 last November bears great consideration in this regard. The rise in markets since the election implies that investors are generally optimistic. What the market seems to be ignoring so far, is the potentially heightened geopolitical risk posed by countries struggling for a greater share of regional power, in combination with an untested and unpredictable leader in the US 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

<u>Footnote:</u>

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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