QUARTERLY REPORT

JUNE 30, 2017

The second quarter was another challenging one for value-driven active managers. According to Empirical Research Partners, it has been the "ninth-worst performance [of US value stocks] during a half-year span in 65 years". In continuation of the post-Crisis period, slow economic growth has left value stocks without a tailwind. Value investing in Europe and in many emerging markets fared better than in the US.

As a value-driven global active manager, our performance so far this year reflects this dynamic. As with most things in life, investment performance is cyclical. We don't try to finesse the ebb and flow of investment style performance. We don't think you should either. Value investing has stood the test of time, despite occasional periods of underwhelming performance.

PERFORMANCE

	Q2 2017	*ONE YEAR*	*SINCE INCEPTION (7/31/15)*
1949 Global Value Strategy	**+ 1.7%**	**+ 20.2%**	**+ 26.5%**
MSCI World Index (US$)	+ 4.2%	+ 18.9%	+ 14.2%
Out (under) performance	- 2.5%	+ 1.3%	+ 12.3%
MSCI World Value Index	+ 3.0%	+ 19.6%	+ 15.2%
Out (under) performance	- 1.3%	+ 0.6%	+ 11.3%

During the second quarter of 2017, your portfolio underperformed the MSCI World Index, appreciating by 1.7%. We provide a comparison to the benchmark for illustration only, and we make no attempt to reference the regional, sectoral or stock-specific exposures of the MSCI World Index. As a result, your portfolio performance will almost always be very different from any index. This is by design, and should serve to enhance your total portfolio's risk adjusted returns. Whether or not we compare favorably to the index is not as important as delivering adequate absolute returns and safety of principal over the long term.

MARKET OVERVIEW

Global equity markets were strong again during the second quarter of 2017 amidst generally favorable economic data, strong corporate earnings and an easing of political uncertainty in Europe. The MSCI World Index advanced 4.2% (in US$) during the quarter, bringing the year-to-date gain to +10.9% - one of the strongest first halves on record, according to Merrill Lynch. Globally, growth stocks outperformed value stocks by 2.4% during the quarter, as did emerging markets relative to the slower growing developed markets around the world.

The S&P 500 Index in the US was a relative laggard, despite advancing 3.1% during the second quarter and hitting a new all-time high in early June. At its most recent meeting in June, the Federal

Open Market Committee raised base rates by 25 basis points, and further detailed plans to reduce its bloated balance sheet. Political uncertainty remains elevated in the US as President Trump dismissed the well-regarded FBI Director James Comey, raising concerns about the President's motives, as the Bureau's investigation into Russian meddling in the 2016 election might ensnare members of Trump's cabinet.

In Europe, stocks were very strong (in part due to a weaker US dollar), advancing 5.9% for the quarter. Political risk diminished after pro-EU candidate Emmanuel Macron won a decisive victory in France, lending optimism about potential reform. Japan (+5.0% in US$) and non-Japan Asian markets (+5.3% in US$) also trended higher on improving economic data throughout the region. Korean stocks were standout performers during the quarter (+10.0% in US$) following the election of President Moon Jae-In and prospects for meaningful corporate governance reforms.

PORTFOLIO COMMENTARY

LARGEST CONTRIBUTORS TO PERFORMANCE

Samsung Electronics…	+ 0.9%	Birchcliff Energy………..	- 1.5%
Western Digital………	+ 0.6%	Anglo American plc…….	- 0.5%
Industrias Bachoco…..	+ 0.5%	Michael Kors Holdings….	- 0.2%

As bottom-up investors, individual security selection is the most important driver of portfolio performance. Positions that had the largest negative impact on performance during the quarter were Birchcliff Energy (-1.5% contribution), Anglo American plc (-0.5% contrib.) and Michael Kors Holdings (-0.2% contrib.). **Birchcliff Energy** is the single largest position in your portfolio (approx. 9%) and, as a result, has an outsized impact on portfolio performance. This will be a good thing in time but has been a drag so far this year.

The seeds of great investment opportunities are often planted during periods of unfavorable near term business conditions. The current abundant supply of natural gas – and the impact that oversupply has on pricing - is reason enough for most investors to ignore Birchcliff Energy and its entire sector. To wit, natural gas is among the market's most loathed sectors, which is typically fertile ground for value hunters like us. But as one of Canada's lowest cost producers, Birchcliff is able to remain cash flow positive even at depressed spot prices. For this reason, we are quite confident in Birchcliff's financial future. Our thesis is not predicated on a rising natural gas price, although it is not unreasonable to believe that might happen over our investment time horizon. We are instead compelled by Birchcliff's massive resource base and our confidence in management's ability to continue to profitably grow production by 10-15% annually for many years. Their low costs are a significant competitive advantage and should help provide a margin of safety against permanent capital loss under almost any pricing environment, especially at today's deep discount to liquidation value.

Shares in **Anglo American plc** fell 16% during the second quarter, as the company reported mixed Q1 production results and the South African government released its revised Mining Charter. The Charter updates previous measures intended to benefit the historically disadvantaged black majority with a share of economic profits. It impacts Anglo American more than other diversified miners as it derives approx. 40% of its EBIT from South Africa. During lunch with the CEO of majority controlled

Anglo Platinum in June, we had the opportunity to discuss the Mining Charter at length, as well as their ongoing rationalization of South African platinum assets. Anglo American has a unique suite of attractive mineral assets that have greatly benefited from restructuring over the last four years. Overall production is 8% higher over the period, while unit costs are 31% lower, resulting in significant free cash flow generation and a reduction in net debt.

Michael Kors Holdings shares declined 4.9% during the period, as the company reported disappointing quarterly results and lowered expectations for the current period. Same-store-sales declined 13.6% on a constant currency basis, negatively impacting EBIT margins by 6.2%. While this fiscal year will prove difficult for the company as it reduces promotional activity, this should start to bear fruit next year along with increased contribution from the faster growing men's and footwear segments.

Positions that favorably impacted performance during the quarter include Samsung Electronics (+0.9% contrib.), Western Digital (+0.6% contrib.) and Industrias Bachoco (+0.5% contrib.). Global technology stocks continued their strong year-to-date performance during the period, with shares in **Samsung Electronics** advancing 15% during the second quarter in advance of the company reporting its highest quarterly profit in company history. Shares in Samsung have doubled in value since our initial purchases in July 2015, but this has been matched by an equivalent doubling in Samsung's operating profit over the same period. Unusually strong demand for DRAM and NAND flash memory continues to drive pricing, and Samsung's new Galaxy S8 is helping to lift Smartphone average selling prices (ASP's) by approx. 30%. In addition, Apple's iPhone 8 will use flexible OLED (organic light-emitting diode) screens manufactured by Samsung, further driving Samsung's record profitability. Lastly, corporate governance continues to improve as the company will cancel all shares held in Treasury and announced the return of 50% of its free cash flow in dividends and share repurchases going forward. Despite the notable strength in Samsung shares, we see 30% further upside to our conservative price target of 10x earnings plus approx. $60 billion in net cash, or 20% of today's market capitalization.

Shares in **Western Digital** (+7.9% in Q2) continue to ride the triple wave of strong demand growth and pricing for flash memory, margin expansion from cost synergies being realized from two recent acquisitions, and continued deleveraging of their indebted balance sheet. The company has been engaged in a bitter battle with its JV partner Toshiba Corp. of Japan over Toshiba's sale of its memory subsidiary. Western Digital has been pursuing legal action to protect its consent rights under the JV agreement, in the event of a sale of the division. Toshiba has announced their preferred bidding group to include two domestic Japanese entities alongside Bain Capital and South Korea's SK Hynix, which is of grave concern to Western Digital from a competitive intelligence standpoint.

Industrias Bachoco (+8.5%), Mexico's largest poultry producer, modestly helped Q2 performance after reporting strong results, showing its ability to raise prices to offset rising grain costs. Our meeting with Bachoco's CEO in NYC in mid-May reinforced our favorable opinion of the company and our belief in their long term prospects. With net cash exceeding 20% of its market capitalization and shares modestly priced for what we believe is one of Mexico's top food companies, we remain optimistic about Bachoco's future.

PORTFOLIO CHANGES: GLOBAL

NEW PURCHASE	*SALES*
JBS SA (Brazil) - ADR	Sanderson Farms (US) JBS SA (Brazil) - ADR

One existing portfolio position was liquidated in the global portfolio during the quarter with our sale of Sanderson Farms (SAFM) in late May. The sale was coincident with our opportunistic purchase of shares in the leading global food processor, JBS SA. We took advantage of a unique situation in attempting to arbitrage a dramatic valuation differential between two companies in essentially the same industry amidst a market panic in Brazil.

While we remain believers in Sanderson Farms' ability to continue its long track record of stable organic growth and value creation, its shares had appreciated by 65% since our initial purchase in July 2015. Using 12 times normalized EBIT of $225 million to determine fair value in this cyclical industry, SAFM shares were within 10% of our fair value estimate when a close competitor - Pilgrim's Pride (PPC), majority owned by the world's largest food processor, JBS – was caught up in a dramatic cascade of news regarding political corruption in Sao Paolo, Brazil. In eight trading days between May 11 and May 22, JBS shares lost 50% of their value, as its Chairman admitted to bribing Brazilian politicians, including President Michel Temer, in exchange for taxpayer-subsidized loans and other favors.

Having studied the North American poultry industry through our present ownership of shares in SAFM, Cal-Maine Foods (largest fresh shell egg producer in the US) and Industrias Bachoco (Mexico's largest poultry producer), we were very familiar with PPC and its competitive position within the industry. On the morning of May 23rd, when JBS shares briefly traded at a discount to the value of its 78.6% ownership stake in PPC, we established a starter position (2%) in JBS. In our view, the slight discount to JBS' stake in its NYSE-listed subsidiary PPC backstopped our purchase price, enabling a free option on the residual value of JBS' South American food processing businesses.

Although this opportunity came to us at the speed of the cartoon Roadrunner (Beep! Beep!), establishing a starter position while continuing to do further research before turning a new idea into a full position (4-6%) is our preferred modus operandi. Occasionally, as subsequent research efforts reveal new information such as off-balance sheet liabilities or hidden assets, our initial valuation can change dramatically. Such was the case with JBS.

Over the course of the next three days of research on JBS, we grew wary of certain important elements of our initial thesis:

1. Asset sales that would likely be needed to fund the government fine, but which might also serve to unlock latent asset value in excess of the fine amount, were more likely to occur at the Batista family holding company level, rather than at the JBS corporate level
2. In recognition of JBS' need to deleverage its indebted balance sheet, 30% of JBS' total debt was a short-term credit facility used to finance working capital. The fastest way for JBS to reduce debt in a crisis is to deliberately slow their business down (reduce cattle purchases, etc.)

impacting prospective EBIT. Assuming no contraction in the multiple, the share price should decline at least as much as EBIT

3. The amount of the impending fine was still unknown and could be more than estimated
4. The holding company discount could widen materially, given the breadth of the scandal
5. Damage to the JBS brand (as consumers started to boycott JBS products in Brazil) could be long lasting, thus negatively impacting JBS' long-term intrinsic value.

All these things considered further, in addition to the intervening rise in JBS' share price, our perceived margin of safety evaporated. We took the very unusual step to liquidate the position only three days after our initial purchase for a 30% gain. Compelling math aside, without management credibility, there can be no margin of safety.

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 (13 today, versus 19 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 2017	*ONE YEAR*	*SINCE INCEPTION (7/31/15)*
1949 International Value Strategy[1]	**+ 1.1%**	**+ 16.2%**	**+ 28.5%**
MSCI EAFE Index (US$)	+ 6.3%	+ 20.7%	+ 7.5%
Out (under) performance	- 5.2%	- 4.5%	+ 21.0%
MSCI EAFE Value Index	+ 5.0%	+ 25.8%	+ 5.4%
Out (under) performance	- 3.9%	- 9.6%	+ 23.1%

PORTFOLIO CHANGES: INTERNATIONAL

A position in JBS SA was initiated during the quarter (as described above), and was subsequently sold alongside all global accounts.

OUTLOOK

The best way to sum up our view of markets is cautious optimism. But frankly, we almost always proceed with cautious optimism. That is our default setting as value investors. There are always reasons to worry, and this period is no different. Today, many world markets are making new historical highs, implying great expectations. Implied volatility – a measure of how much it would cost to hedge a portfolio using options – is near 10 year lows, suggesting unusual complacency. (10 years ago was just before the Global Financial Crisis) The current US economic expansion since the Crisis is among the longest in post-war history, and the Fed is raising interest rates. Other central banks around the world are similarly tightening monetary policy - a pre-condition for the next recession, with history as our guide. The world seems to be firing on all cylinders, so why do we worry?

As value investors, we are essentially risk managers – we invest in securities that trade at meaningful discounts to appraised value in order to help preserve capital if something unexpected occurs and to account for imprecision in our estimate of fair value. With aggregate market valuations near business cycle highs, stocks today are vulnerable to changes in economic growth, sentiment or the perception of global risk. Prudence remains our watchword.

While we have no control over the timing of portfolio performance, we remain focused on those things which we can control – the application of our investment philosophy and the management of our firm in a way which will allow us to compound returns over decades, not just quarters or years. This means keeping our business costs low and maximizing our time spent on what matters most: improving the consistency of our research process and investment decisions. As we approach the second anniversary of our live performance track record this month, we remain steadfast in our long-term goal of building a high quality global investment management firm.

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

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.