QUARTERLY REPORT

DECEMBER 31, 2017

PERFORMANCE

	Q4 2017	ONE YEAR	SINCE INCEPTION (7/31/15)
1949 Global Value Strategy	**+ 0.3%**	**+ 10.4%**	**+ 33.5%**
MSCI World Index (US$)	+ 5.6%	+ 23.0%	+ 26.5%
Out (under) performance	- 5.3%	- 12.6%	+ 7.0%
MSCI World Value Index (US$)	+ 4.7%	+ 18.0%	+ 26.3%
Out (under) performance	- 4.4%	- 7.6%	+ 7.2%

Another year is in the books, as they say, and by many measures, 2017 was a great success. Despite the *1949 Global Value Strategy* trailing its benchmark (the MSCI World Index) by a very wide margin over the last year, we remained focused on delivering on our long-term goals of ensuring safety of principal and attractive absolute returns. "Ensuring safety of principal" is industry parlance for managing downside risk, but managing risk comes with a price: the opportunity cost of underperforming a strongly upward rising market, this calendar year being a great example. While we admit that it is more fun to outperform, we are glad that this year's underperformance came during our formative years as a firm since it will help us to find and serve the right clients. Our goal of long-term outperformance will come at the expense of short-term consistency. We believe that this is one of the basic truths of active equity investing. Astute investors understand that we have no control over the timing of portfolio performance. We can only control how we conduct our research and apply our value investing discipline. Consistency in our research process and in the application of our investment philosophy is paramount. Partnering with the right clients will ensure our mutual success.

This year's biggest winners were mostly of the mega-cap technology variety. Last year's "FANG" stocks became this year's "FAANG's", with the addition of Apple to the elite club – the only one of the bunch which we find attractively valued and investable through our unique prism. If the sky-high valuations of Facebook, Amazon, Netflix and Google (renamed Alphabet, Inc.) fan your fire of investment disbelief and skepticism, then we have much in common. The world of growth-at-any-price investing can be alluring during heady times like these, as speculators buy highly priced securities hoping to sell even higher before the weight of reasonable economic value meets the law of large numbers. It's just not our approach. Committed to investing in securities where we feel we have a margin of safety, we would rather miss an opportunity than incur a permanent capital loss.

Market Overview

Global equity markets finished the year markedly higher, aided by continued strength during the fourth quarter of 2017. The Morgan Stanley Capital International (MSCI) World Index reached new all-time highs again, advancing 5.6% (in US$) during the quarter, and bringing the full year return to 23.0%. The favorable environment of improving global macroeconomic data and strong corporate profits growth helped drive stocks around the world higher.

Growth stocks handily outperformed value by 1.8% during the quarter, and by 5.4% for the full year. Asia was the star during the period under review, with Japan gaining 8.6% and the MSCI Asia ex-Japan Index gaining 8.3%. The MSCI Emerging Markets Index finished the year 37.8% higher, a stellar performance by any measure. The S&P 500 Index rose 6.6% during Q4, bolstered by a weaker US dollar and long-awaited tax reform, bringing its full year return to 21.8%. After a very strong nine months, the MSCI Europe Index lagged other world markets during the quarter, rising only 1.1%. For the full year, MSCI Europe advanced 29.0% in US$.

Portfolio Commentary

Largest Contributors to Performance

Michael Kors Holdings.	+ 1.2%	Birchcliff Energy……….......	- 1.8%
Anglo American plc.….	+ 0.6%	Industrias Bachoco…………..	- 0.7%
Berkshire Hathaway…..	+ 0.6%	Global Brands Group………...	- 0.6%

As bottom-up investors, individual security selection will often be the most important driver of quarterly portfolio performance. Positions that had the largest negative impact on performance during the quarter were Birchcliff Energy (-1.8% contribution), Industrias Bachoco ADRs (-0.7% contrib.) and Global Brands Group (-0.6% contrib.).

Shares in **Birchcliff Energy** declined 26.8% during the period under review on persistently weak western Canadian AECO natural gas prices. The confluence of production growth (including "associated gas" from oil producers) and unseasonably warm temperatures resulted in stagnant demand for natural gas. Weak demand and increased supply leads to lower spot prices. Simple stuff. While a deep freeze across Canada would certainly help, reliance upon a favorable seasonal weather pattern isn't part of our investment thesis.

Birchcliff Energy is among the lowest cost producers in Canada, enabling positive cash flow generation even amidst depressed natural gas prices. We remain focused on Birchcliff's immense latent asset value which we expect to be either slowly realized over time as they execute on their organic growth strategy, or more quickly unlocked through a catalyzing corporate event. Certainly, at the current depressed valuation, Birchcliff is an attractive target for a much larger company with the financial resources to develop its vast reserves on a faster track than the current plan.

After being mentioned in last quarter's letter as one of our top contributors, American Depository Receipts (ADR's) of Mexico's largest poultry producer **Industrias Bachoco** were among our greatest detractors during Q4, declining 13.8%. For the full year, Bachoco ADR's gained 18.6%. Recent weakness can be attributed to the weak Mexican peso and worries over NAFTA negotiations. The recent weakness belies Bachoco's long term record of creating value, its already discounted valuation and its rock solid balance sheet and free cash flow generation which we expect to drive future capital returns and bolt-on acquisitions.

Global Brands Group Holdings shares declined 14.7% during the fourth quarter following the release of its fiscal 2018 H1 results. Once again, the results were actually quite good amidst a very challenging business environment for all retail companies. Global Brands Group (GBG) is one of the world's leading branded apparel, footwear, fashion accessories and lifestyle product companies. Traditional bricks-and-mortar platform companies – the department stores and specialty retailers – are very challenged today by online platform companies like Amazon, and other major discounters like Walmart. GBG operates an asset light and scalable business model, escaping the challenges plaguing traditional retailers. The new three-year plan is focused on reaching $5 billion in sales (up from $3.9 billion in fiscal 2017), expanding margins by 150 basis points and increasing EBITDA by 50%. They've already exceeded the 150 bp margin goal during the H1 results just announced, and we expect them to over-deliver on the other objectives also.

Positions that helped performance during the fourth quarter include Michael Kors Holdings (+1.2% contribution), Anglo American plc (+0.6% contrib.) and Berkshire Hathaway (+0.6% contrib.). **Michael Kors Holdings** again reported better than expected results, driving its shares 32% higher during the period for the second consecutive quarter. CEO John Idol said, "This is a transformative time for Michael Kors Holdings as we established our global fashion luxury group with the recently completed acquisition of Jimmy Choo." While investors continue their fascination with this transformation, we will remain disciplined about the great expectations that are becoming baked into its rapidly rising share price, especially considering its newly acquired debt burden.

Shares in **Anglo American plc** rose 15.7% in GBp during the quarter, bringing its full year return to +37.4%. Against a backdrop of synchronized global growth, a weaker US dollar and a Chinese economy seemingly on cruise control, commodity producers have enjoyed a good year. While we consider Anglo's original restructuring efforts largely complete, the company continues to deleverage its balance sheet and could attract potential acquirers.

Finally, **Berkshire Hathaway** shares contributed positively by rising 8.3% during the quarter and 21.9% for the full year. The company is expected to be a major beneficiary of US corporate tax reform, as well as stabilized pricing in P&C insurance following a very active year for catastrophe losses. Cash continued to build on Berkshire's balance sheet, amounting to over $100 billion at September 30, 2017. The deployment of excess capital in value accretive ways remains a big part of the optionality embedded in Berskhire's modest valuation of approximately 1.5x book value.

PORTFOLIO CHANGES: GLOBAL

One portfolio position was liquidated during the quarter as shares in **American International Group (AIG)** were sold. AIG was a position which dated back to the inception of the 1949 Global Value Strategy in July 2015. At that time, we cited two elements to the investment opportunity in AIG shares – non-core asset sales used to fund significant share repurchases and operational improvement in their core business, which would likely drive a re-rating to a similar premium to book value that is enjoyed by industry peers. Since then, AIG did indeed progress with non-core asset sales, using the proceeds to repurchase and cancel 24.7% of shares outstanding from 12/31/15 through 9/30/17. Our disappointment with AIG was on the operational improvement front. The CEO during that time was Peter Hancock, a smart banker who helped the Federal Reserve fix Key Bank after the 2008 global financial crisis. In part, because Peter had little experience in property and casualty insurance, he was unable to change the underwriting culture of AIG and engineer the operational improvement required to generate a 10% Return on Equity (ROE). We felt a 10% ROE would be needed to justify a rerating to 120-140% of tangible book value. Frustrated with Hancock's lack of success, the Board brought in a new CEO, Brian Duperreault, who is well respected within the insurance industry but has a more balanced approach to investing for growth versus capital returns. This change in strategy will likely prolong its operational turnaround and eventual return to 10% ROE, representing a clear change to our original investment thesis.

One new portfolio position was established during the quarter with the purchase of shares in **TPI Composites,** the world's largest independent wind blade manufacturer with a global footprint. Our interest in researching wind power generation was sparked (pun) along the two-hour drive from Des Moines, IA to Omaha, NE last May as Jack Glasheen (our firm's CCO) and I drove to the annual Berkshire Hathaway meeting. We flew to Des Moines from New York, instead of directly to Omaha, saving 50% off the round-trip airfare and even more off the cost of a rental car for the long weekend. (Getting a bargain never goes out of style for us. Value investing isn't a "strategy" so much as a way of life.) Along the two hour drive, we observed many dozens of wind turbines amidst the vast corn fields, quietly turning in the wind and slowly generating megawatts of power for Iowans and Nebraskans. At the Berkshire meeting that weekend, Warren Buffett commented that MidAmerican Energy (a subsidiary of Berkshire Hathaway Energy) "will produce, within a few years, as much electricity in Iowa - or virtually as much electricity in Iowa - from wind as our customers use." Impressed by the comment, and aware of Berkshire's $16 billion invested in renewables to date, a new research project began.

TPI Composites provides wind blades for some of the industry's leading original equipment manufacturers (OEMs) such as Vestas, GE, Siemens/Gamesa and Nordex/Acciona. By outsourcing wind blade manufacturing to TPI Composites, OEM's are better positioned to compete and gain market share in a cost-effective and capital-efficient manner by sharing the capital investments, driving down materials costs and improving productivity. OEMs gain access to TPI Composites' advanced composite technology and intellectual property (IP) that would be difficult to replicate on their own. TPI's IP is a strong barrier to potential new entrants to the industry. Sharing capital investment with customers results in a capital-light model, driving higher returns on capital – new investments target an initial five-year ROIC hurdle of 25%. As the largest independent wind blade manufacturer with a global footprint, best-in-class composite technology and IP, TPI Composites is well placed to take advantage of industry trends toward longer blades and outsourced manufacturing. With very modest net debt, and generating returns on equity exceeding 25%, we believe that TPI Composites shares are undervalued, trading for just 7.0x 2019 EBIT and 5x 2020 EBIT near our buy price of $18 per share. With only new contract wins as the most likely catalysts on the horizon, one needs a multi-year investment time horizon to take advantage of this valuation discount to relevant peers in the industry, since 2018 is a year of investment and the reason shares are cheap today. Given TPI's $4.4 billion order book through 2023, strong competitive position, advanced composite technology as a strong barrier to entry, and a proven management team with a solid track record of execution, we expect our patience as long-term investors in TPI Composites to be amply rewarded.

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 (14 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

	Q4 2017	*ONE YEAR*	*SINCE INCEPTION (7/31/15)*
1949 International Value Strategy[1]	**- 1.8%**	**+ 4.0%**	**+ 30.7%**
MSCI EAFE Index (US$)	+ 4.3%	+ 25.4%	+ 18.1%
Out (under) performance	- 6.1%	- 21.4%	+ 12.6%
MSCI EAFE Value Index	+ 3.3%	+ 22.2%	+ 15.4%
Out (under) performance	- 5.1%	- 18.2%	+ 15.3%

PORTFOLIO CHANGES: INTERNATIONAL

No new portfolio positions were established during the period under review, nor were any positions sold.

Outlook

Looking forward to 2018, we are both encouraged and cautious. We are encouraged by the plethora of improving macroeconomic data across the globe and see no definitive warning signs that might suggest a large and imminent pullback in stock prices. We are encouraged by the aggregate valuation of global equity markets, which on some measures are near long-term averages and appear to be reasonably priced in relation to current interest rates. This optimism, however, is tempered by what we perceive as heightened geopolitical risks on the Korean peninsula and in the middle-east, tough rhetoric around trade negotiations and the still unresolved investigation surrounding Russian involvement in the US elections. There are always reasons to worry, and this environment by comparison has been very benign. Recent tax reform should give a boost to valuations. As stocks rise and investors become lulled into complacency, the perception of risk tends to decline. We feel that this is a dangerous time to be complacent, but we remain committed to our bottom-up investment process, which continues to reveal ample opportunities in global stocks that meet our investment criteria. Each portfolio position must stand on its own, with each holding's financial strength and valuation being paramount to mitigating aggregate portfolio risk.

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.