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Update on Selected Companies in Our Portfolio

This article by Matthew Haynes is excerpted from a letter of 1949 Value Advisors, an absolute return-oriented global value investment firm based in Mahwah, New Jersey. Matt is a valued contributor to The Zurich Project.

Shares in **Birchcliff Energy** have performed poorly, declining 14.5% over the last three months, following last quarter's 27% drop. The reason remains the same – persistently weak western Canadian natural gas prices. The confluence of production growth (including associated gas from oil producers) and relatively warm winter temperatures resulted in stagnant demand for natural gas. Our saving grace during this period of weak demand and low spot prices is Birchcliff Energy's low cost of production, enabling positive cash flow generation even amidst depressed natural gas prices. Again, we remain focused on Birchcliff's latent asset value which we expect to either be slowly realized over time as they execute on their organic growth strategy, or more quickly unlocked through a catalyzing corporate event. While the prospect for the latter is remote in this environment, we are big believers in Birchcliff's management team and their ability to manage challenges which are within their control. They've done an amazing job in a very difficult environment. We have great faith in the continued execution of their organic growth strategy over our investment time horizon.

Global Brands Group (GBG) shares had a similarly abysmal period, declining 31.2% during the most recent quarter, following a 15% decline in Q4 2017. The share price performance understates GBG's business performance, as they too have managed to produce good results amidst a very challenging business environment for most companies in the retail industry. As one of the world's leading branded apparel, footwear, fashion accessories and lifestyle product companies, GBG operates an asset light and scalable business model, escaping the challenges plaguing traditional bricks and mortar retailers. Despite the apparent disconnect between their business performance and the Hong Kong-listed share price, management seems quite capable of successfully executing their new three-year business plan.

Shares in **Cirrus Logic, Inc.** declined by 21.7% during the quarter following disappointing results and forward guidance. Troubles stem primarily from its over-reliance on Apple (86% of Cirrus' revenues) amidst "unanticipated weakness in smartphone demand". Market concerns regarding slower unit growth in 2018 are well placed, while seeming to ignore longer dated opportunities from increased Android content, digital headsets and other products using voice-activation and secure voice authentication. Cirrus' current trough valuation and cash rich balance sheet should afford patient investors a margin of safety against a permanent loss, while its leadership position and expertise in voice signal processing should provide meaningful long term upside as new and innovative products come to market.

Positions that helped performance during the quarter include **Western Digital** (+1.2% contribution), Anglo American plc (+0.6% contrib.) and Shire plc (+0.6% contrib.). Shares in Western Digital advanced 16.7% during the period under review as the company reported favorable operating results and continued deleveraging from its prodigious free cash flow. Demand for digital data storage continues to grow and Western Digital's #3 position in the global NAND market should ensure the company's ability to return to net cash within two years, providing a meaningful uplift to its equity valuation.

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Shares in **Anglo American plc** rose a further 9.5% in GBp during the quarter, following 2017's 37% advance. Another deleveraging story making significant progress to this end from prodigious free cash flow, Anglo American continues to trade at a large discount to its peers. Synchronized global growth, a weaker US dollar and a stable Chinese economy should drive further upside in Anglo as it has transitioned from a deep-value restructuring and deleveraging story to a potential consolidation target. With its improved balance sheet and industry leading free cash flow yield, we think that it could be an attractive target for a number of potential acquirers, thus unlocking further value. Absent a bid for the company, Anglo's current ~30% discount to peers should dissipate over time.

Finally, shares in new position **Shire plc** contributed positively to performance after Takeda Pharmaceutical (Japan) indicated their interest in acquiring Shire. Shares rose 19% from the date of our final purchases in building out the Shire position in late March. As of this writing, the deal seems likely to occur since Shire's Board of Directors has indicated that it will recommend the deal to shareholders, contingent upon further due diligence and Board and shareholder approvals. Takeda's most recent offer represents a 50% premium to Shire's undisturbed share price.