

BERIX

Trust the Process

Being a Contrarian Value Investor in a Growth-Dominated World

The 2017-2018 Philadelphia 76ers won 52 of 82 games (63%) and they won their first playoff series in six seasons. They also boast one of the most talented, young rosters in the National Basketball Association (NBA). They are clearly one of the teams with the brightest futures in the league. But it was not always this sunny in Philadelphia.

Between 2013 and 2017, the Sixers lost more games than any other team in the NBA. Under the leadership of Sam Hinkie, the team embarked on a controversial strategy that required large amounts of both suffering and sacrifice. Hinkie's theory was that if the Sixers could gather enough high draft picks; talented, young players; and financial flexibility, the team would not only become competitive again, but would become elite for a long period of time. Hinkie's strategy required a steel stomach and patience. It required intense diligence in research and analytics; superb decision making; and a bit of good fortune. The 76ers were to become the ultimate value play, the ultimate "turnaround".

During the years of suffering, Hinkie consistently preached long-term vs short-term thinking and would repeatedly ask fans to "Trust the Process". Trust the Process became the team's mantra and its enigmatic, star player Joel Embiid even adopted part of this tagline as his own nickname - Joel "The Process" Embiid. As Embiid played more and his talent became evident to the league, the progress of The Process was becoming correlated to his improving play and the Sixers future success.

Value Investing Lagging Growth

"It's much more comfortable to have people generally agreeing with you... There has been much criticism of our approach. There will be more. A competitive league... necessitates a zig while our competitors comfortably zag. We often chose not to defend ourselves against much of the criticism; largely in an effort to stay true to the ideal of having the longest view in the room" (Sam Hinkie, April 6, 2016)¹

As the global equity markets have rallied to all-time highs, growth investing trounced traditional value investing over the past decade. The market's momentum, highlighted by the popularity of FAANG stocks (Facebook, Amazon, Apple, Netflix and Google/Alphabet), is leading many investors to believe that nothing will go down. In these periods of growth stock popularity, the traditional values of value investing are an afterthought. Good balance sheets, low valuations, steady long-term fundamentals are no match for the excitement generated from the possibility of perpetual future growth. Per a recent Barron's article, "since 2006, growth stocks—shares of companies whose earnings are growing at an above-average rate—have outpaced value stocks, especially in the U.S. This has caused consternation and speculation: Is value dead?"

"The strategy we settled on was straightforward, even if arduous." (Sam Hinkie, April 6, 2016)¹

For contrarian value investors, like us, these are the lean years. These are the years when traditional ideals are ridiculed and the emerging technology like blockchain wins favor and attention. Why seek solid, steady returns, when an increase in risk has been garnering far better returns in the short term? Who cares about high levels of debt and balance sheet quality when access to capital is easy? Why does price matter when everything seems to be going even higher? As Sam Hinkie would say during his team's lean years when the sports media would criticize his strategy..."Trust the Process":

- Risk does matter.
- Balance sheets and debt levels do matter.
- The price an investor pays for an asset/security matters.

The hallmarks of an investment process are never so clear, never so emboldened as during the times when they are openly questioned. It would be much easier to buy what everyone

"If you want to have real success you have to very often be willing to do something different from the herd... You will have to be contrarian... You have to be willing to think long-term. You have to be willing to be misunderstood for long periods of time."(April 6, 2016)¹

Sam Hinkie, Former General Manager, Philadelphia 76ers

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else is buying or to give in to high valuations. But over the long term... Value investing is compelling.

- Being contrarian.
- Buying the securities of companies trading at depressed prices that are undergoing positive fundamental change (to potentially add return).
- Avoiding high valuations, tight credit spreads and low yields (focus to reduce risk).

The Greatest Honor in the Investment Industry - Trust

But just being contrarian is not enough. As managers of the Berwyn Income Fund, we also have to be correct. We cannot hide behind a mantra. We cannot be arrogant to the point of alienating shareholders. We aspire to deliver on the track record and investor expectations that have been set over the course of many years.

The greatest honor, in our often sullied and seemingly selfish investment industry, is earning the trust of an investor. We work countless hours trying to seek ways to add value to the benefit of our shareholders. We avoid the risks for them that they otherwise might be attracted to. We need to earn our keep and keep the faith that has been placed in us as fiduciaries. We need to communicate frequently and clearly to ensure that the faith that has been placed in us is not blind, but well-informed and understood. And while we will not be infallible, we need to recognize, accept and learn from any missteps so that we will continuously improve in our craft.

Because while we ask investors to accept our value ideals and to "Trust the BERIX Process", we know that the Berwyn Income Fund needs to pursue solid long-term performance that is in line with investor expectations. We believe that our process - led by five key tenets: Value, Contrarian, Bottom-up, Independent Research and Long-term point of view - will continue to help shareholders achieve their objectives whether the world agrees with this philosophy or not. We will continue to work diligently to make sure that our process is worthy of your trust.

"We should attempt to gain a competitive advantage that had a chance to be lasting...A goal that lofty is anything but certain. And it sure doesn't come from those that are content to color within the lines."
(Sam Hinkie, April 6, 2016)¹

Sources:

(1) <https://www.libertyballers.com/2018/4/12/17229012/excerpts-from-the-sam-hinkie-letter>
<https://www.barrons.com/articles/are-value-stocks-ready-to-grow-again-152487217>

Investing in any mutual fund involves risk, including the risk that you may lose all or part of the money you invest. The Fund invests in both fixed income and equity securities. Its investments in fixed income securities are subject to such risks as: interest rate risk; call risk; default risk; high yield (junk bond) risk; and unrated bond risk. The Fund also invests in equity securities that carry the potential for unpredictable drops in value and periods of lackluster performance.

An investor should consider the investment objectives, potential risks, management fees, and charges and expenses of the Fund carefully before investing. The Fund's prospectus contains this and other information about the Fund, and should be read carefully before investing. The Fund's prospectus may be obtained by downloading it from the Fund's website at www.chartwellip.com or calling 888-995-5505.

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The Fund acquired the assets and liabilities of the Berwyn Income Fund (the "IMST Predecessor Fund"), a series of Investment Managers Series Trust, on July 17, 2017. The IMST Predecessor Fund acquired the assets and liabilities of the Berwyn Income Fund (the "Berwyn Funds Predecessor Fund," and together with the IMST Predecessor Fund, the "Predecessor Funds"), a series of The Berwyn Funds, on April 29, 2016. As a result of the reorganizations, the Fund is the accounting successor of the Predecessor Funds. Performance results shown reflect the performance of the IMST Predecessor Fund for the period from April 29, 2016 through July 17, 2017, and the performance of the Berwyn Funds Predecessor Fund for the period prior to April 29, 2016. The Predecessor Funds' past performance is not necessarily an indication of how the Fund will perform in the future.

Current and future portfolio holdings are subject to change and risk.

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One cannot invest directly in an index.

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"That means you have to find some way to have a differentiated viewpoint from the masses. And it needs to be right. Anything less won't work." (Sam Hinkie, April 6, 2016)¹



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Chartwell Investment Partners LLC, is an investment management firm dedicated solely to the investment advisory business. Chartwell's philosophy is to rely on proprietary, bottom-up research to find high-quality investments across its various product offerings.

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