Letter to Shareholders

CSCAX

GREETINGS FELLOW SHAREHOLDER:

As always, we remind ourselves—and investors—that the mutual fund world does not operate on a traditional calendar, so this letter is technically our first quarter report. Still, we will help keep everyone's eyes focused on the calendar year, because that is a convention in which we live and can get behind.

We had a strong fourth quarter and a solid 2019 on an absolute and relative basis. This was despite lugging around some cash, employing a specific defensiveness in our stock selection, and—oh—not owning a lot of large cap stocks or bio-tech, which seemed to be the in-crowd in 2019. The reasons are no different than you might imagine—our larger positions did well and we had relatively few mistakes.

2019 was simply the tenth year whereby interest rates were low and went lower, credit remained both cheap and plentiful, the economy was "good enough," and those who can print money re-dedicated themselves to a willingness to print money. The logical conclusion to this set of events is to buy and hold U.S. equities. Drop the mic—again.

Nothing "real" has changed in ten years despite all our collective work and consternation about this and that. While "Macro Investing" is a concept that has historically been a mess of practical application as far as getting it right, really good "Macro" is just beautiful simplicity to behold in the golden light of the aftermath.

And on September 20th, the Federal Reserve once again stepped up to the plate and committed to what is literally hundreds of billions of dollars of nightly support to the "repo market." For those not playing inside baseball, that is equivalent to a massive commitment to the highest quality indoor plumbing: it makes everyone happy, it smells great, and it produces wonderful year-end melt-ups in equity prices.

So we posit that until interest rates change, credit conditions change, and Elizabeth Warren/Bernie Sanders get elected, "things" aren't actually changing so fast. Despite our sense of history that something bad always happens to expensive markets, it's just hard to accurately spreadsheet and PowerPoint what it will be. While something that cannot go on forever eventually won't, things involving uncertainty, the future, and human nature can go on a lot longer than YOU have the capacity to imagine. We gave up trying about four years ago when we said almost exactly the same thing. And while we can—and will—populate this space with interesting ideas about the future, we spend most of our time, and thus most of this letter, on what we are doing in the portfolio.

As is our tradition, we start with our detractors. Capital Senior Living (Ticker: CSU, -29.5%) operates and owns senior living facilities primarily in Texas and the Midwest. The company is currently in the midst of significant changes. In January of 2019, Capital Senior Living replaced their long-tenured CEO and eliminated the position of COO. The new CEO, Kim Lody, introduced a number of operational improvements and has started to divest non-core assets.

TOTAL RETURN **(CSCAX)** — % as of December 31, 2019

	3 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION (09/30/98)
Cove Street Capital Small Cap Value Fund	8.50	23.35	4.58	5.10	10.64	10.01
Russell 2000® Index	9.94	25.52	8.59	8.23	11.83	8.87
Russell 2000® Value Index	8.49	22.39	4.77	6.99	10.56	9.20

Performance shown for the period through January 20, 2012 reflects performance for CSC Small Cap Value Fund, a series of CNI Charter Funds, the predecessor to Cove Street Capital Small Cap Value Fund ("The Fund"). The Fund has the same portfolio manager and substantially similar investment strategies to the predecessor fund. The Institutional Class commenced operations on October 3, 2001. The performance results for the Institutional Class reflect the performance of the Investor Class shares from December 31, 1998 through October 2, 2001. The Investor Class subsequently closed, effective November 25, 2015.

The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please call 1-866-497-0097.

The gross expense ratio is 1.17%. The Fund imposes a 2.00% redemption fee on shares sold within 60 days of purchase. Performance data does not reflect the redemption fee. If it had, return would be reduced.

Leases that had historically been a drain on the company's cash flows are ending in 2020. Furthermore, the aging of the American population provides the senior housing industry with a growing pool of customers. The company's real estate is substantially undervalued when compared to prevailing capitalization rates and income multiples. CSU's relatively weak occupancy numbers continued to put pressure on the stock in the back half of 2019. However, the senior living market has started to show an increase in demand and a decrease in supply, a combination that should eventually improve the company's financial performance.

Our largest contributor, Colfax Corp (Ticker: CFX, 25.2%) was significantly trimmed in the quarter after a 50%+ move from its lows a year ago, but it remains a top ten position in the portfolio. Management made a "transformational" acquisition of private healthcare company DJO Global and is showing results right out of the gate. While we tend not to like to own stocks with "transformational" anywhere within reading distance, we think this is "playbook doable" for a highly credentialed management team and Board. We expect them to continue to grow out of the small cap neighborhood—to our intermediate term advantage.

Another solid performer was UFP Technologies (Ticker: UFPT, 28.6%), a company that designs and converts foams, plastics, composites, and natural fiber materials into solutions for the medical, automotive, and industrial markets. UFP's acquisition of medical device developer and manufacturer Dielectrics in 2018 has paid off handsomely as new and existing customers have expanded their orders for the company's flexible films and capabilities. Double-digit organic growth in addition to several hundred basis points of improved gross margins have led the ever-higher earnings and a re-rating of the company's valuation metrics. While we have trimmed the position recently, we still see additional upside if management can continue to compound at organic rates close to the previous two years, as well as add strategic tuck-in acquisitions.

E.W. Scripps (Ticker: SSP, 18.7%) is a broadcast television company that has been aggressively investing in digital properties and acquiring smaller broadcasters to build scale. The stock ran up significantly after the company made a flurry of deals, at which point we started to reduce our position size. Then, after reporting relatively benign Q1 2019 numbers, the stock fell back down to earth. As a result, we actually added to our position as the stock came down. The company subsequently rose on the back of strong performance in the third quarter. Scripps will generate significant cash flow in 2020 from both a step up in the rate it receives from a major customer (Comcast) and substantial political spending. The company's digital assets continue to grow rapidly. Our analysis suggests that the stock trades at a material discount to what its individual assets could be sold for. As such, we believe there is substantial enough "margin of safety" to continue holding the stock.

LogMeIn (Ticker: LOGM) was an outright sale just after quarter end. Reporting timing aside, this was a fortuitous piece of good timing by your Portfolio Manager, as its takeover was announced 3 months after our purchase for a 20% return—a number that was "okay." If their business portfolio was what we call a "Graham" investment, then it worked out fine. If the portfolio was in the process of being returned to growth and therefore would fall into the "Buffett" value category, then we are being short-changed. Its purchase and sale were both tough calls, but we have produced worse outcomes.

We sold down Heritage-Crystal Clean (Ticker: HCCI), a provider of environmental services as well as the a re-refiner of used motor oil, as it approached our estimate of fair value. We saw the recent price appreciation as a pull forward of expectations of improving margins within the re-refined oil segment thanks to the impending implementation of IMO 2020 fuel regulations. Our research indicates that the long-term compounding value of HCCI's environmental services group continues to improve and we deem it to be a viable long-term holding at a reduced portfolio weight. The stock has been a multi-year winner for the Fund.

We added a new position in Liberty TripAdvisor (Ticker: LTRPA). This is a sneaky holding company whose principal investment is voting control and economic ownership of TripAdvisor (Ticker: TRIP). TRIP has been creamed by legitimate fears that Google is coming for the travel business, and also by a series of actual missteps or no-steps by the Founder/CEO of TRIP. The result is that TRIP has gone from being a crazy good business to merely a very good one and represents an attractive value. Our research suggests an intrinsic value well in excess of current financial results, a pristine balance sheet with plenty of room for capital allocation improvement and the likelihood of management change, an outcome investors would welcome. The Liberty vehicle also creates additional optionality as voting stock typically trades at a premium, and there is obviously a history of deal making in the Liberty camp.

We also established a new position in Qurate Retail (Ticker: QRTEA), the holding company that owns the home shopping channels HSN and QVC—as well as the flash sale website Zulily. We have followed the home shopping industry for many years and actually owned HSN in our small cap strategies at different junctures, before it was acquired by QVC in early 2018. We have also owned QVC for years in various forms in our larger cap strategies. Qurate is a Liberty Media-controlled company that has recently struggled to navigate changing U.S. consumer shopping patterns. As people inevitably watch less linear television and more sales go through online platforms such as Amazon's, QVC and HSN have—to some degree—been unable to maintain mindshare. That has manifested itself in tepid-to-negative topline growth in the U.S. and consistent margin pressure, leading to a very large drop in the share price. We are well aware of the questions and concerns regarding Qurate's ability to grow, but a stock price below $9 does not give the company any credit for the margin improvement that is likely to come from fully integrating HSN. The market also seems to be ignoring the attractiveness of QVC's (slightly) growing and profitable international business. Our research suggests that current trading multiples vastly undervalue the company's franchises and we are comfortable investing behind a Liberty Media team that has created billions of dollars for shareholders over the last few decades.

So reverse engineering a solid 2020 for U.S. equity investors, we might have the Trump Administration declare itself "done" and move its Twitter focus from trade to almost anything else? The Democrats narrow the field to someone remotely middle of the road? The economy chugs along with enough growth to move corporate earnings forward without spooking the Federal Reserve? Europe and the UK put their Brexit nonsense behind them and add a point of GDP growth? China stumbles forward economically without their financial system blowing up? U.S. stocks remain the tallest "height-challenged" asset class in the world? And enough of what we own that is growing intrinsic value is partially recognized in the marketplace as the earth makes its next lap around the sun in order to bring smiles to our partners?

Certainly, some tailwind is better than none. But for Cove Street specifically, we will continue to point investors to the ongoing lack of curated attention in small cap land. As more assets are indexed, remaining practitioners are increasingly part of large firms who simply don't find it doable or financially practical to run smaller portfolios that can properly fish in our waters. The pay-off for "quaint" practices like fundamental research, proper attention to governance and incentives, and a longer-term time horizon is getting greater by quarter. These are the trends that are behind our back, and we have a stubborn team that is structured to take advantage of it. Our simple pitch: this is a multi-year opportunity and we have room.

Judging management, the staying power or change implied in returns on capital, and a sense of the catalysts for a change in trailing data are things that are difficult or impossible to be screened on, machine learned, or magically captured by artificial intelligence. That is where we spend a lot of our research time and is our "edge" versus a passive portfolio. And yes, we have definitely become more "active" over the last decade in our quest to deliver value for clients within a timeframe that is acceptable. (Seven years is our answer.) And it's one reason why we think we can make decent money in 2020: a number of projects and catalysts in our largest positions, internally and externally driven, seem to be lined up for resolution this year. That is not always the case. And we can be early, as previously noted.

So we conclude. Our biggest sense of the future is always derived by an analysis of baseline history and what we are expected to pay for any future above and beyond this baseline. While ten years is one helluva baseline from a career standpoint, we remain somewhat incredulous as it relates to any asset valuation that maintains much of its balance on near-zero or negative interest rates. And a 30% increase in valuation in one year that is not coming from a big negative the year before is simply borrowing from future returns. While we are curating in a world that is much more overlooked, we remain extraordinarily wary of changes in credit conditions, events that tend to be the canary in the solar field. Said again, the extension of credit is as ephemeral as youth or clouds, and it has an enormous ripple effect in the attitudes of investors toward risk and risk assets. Not to mention what seems to be a legitimate second derivative change in the willingness of nearly anyone to throw money at anything in venture capital: disappointment in recent IPOs and the slow unraveling in Softbank with WeWork being the first tick. As noted in a recent interview with legendary Silicon Valley-er, Benchmark's Bill Gurley, "I've never been around a group of people where risk is forgotten so quickly."

As always, we appreciate your partnership.

Best Regards,

Jeff Bronchick

Jeffrey Bronchick, CFA | Principal, Portfolio Manager
Shareholder, Cove Street Capital Small Cap Value Fund

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TOP 10 HOLDINGS — % as of December 31, 2019

Compass Minerals International Inc	6.1 %
E.W. Scripps Company	5.4 %
Millicom International Cellular S.A.	5.3 %
Colfax Corp	5.1 %
GP Strategies Corp	4.4 %
ViaSat Inc	4.3 %
Patterson Companies Inc	3.5 %
Macquarie Infrastructure Corp	3.5 %
Heritage-Crystal Clean Inc	3.2 %
INTL FCStone Inc	3.1 %

Fund holdings are subject to change and should not be considered a recommendation to buy or sell any security. *Current and future portfolio holdings are subject to risk.*

Mutual fund investing involves risk. Principal loss is possible. There is no assurance that the investment process will consistently lead to successful results. Value investing involves risks and uncertainties and does not guarantee better performance or lower costs than other investment methodologies. Investments in smaller companies involve additional risks such as limited liquidity and greater volatility. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. Concentration of assets in a single or small number of issuers, may reduce diversification and result in increased volatility.

Quotational risk is the potential for gains or losses based upon volatility in the trading price of a security, which in the near-term do not reflect fluctuations in the intrinsic value of the security's interest in the underlying assets but are the manifestation of other dynamics in the market. Any tax or legal information provided is merely a summary of our understanding and interpretation of some of the current income tax regulations and is not exhaustive. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. Neither the Fund nor any of its representatives may give legal or tax advice.

The Russell 2000® Index measures the performance of the small cap segment of the U.S. equity universe, representing approximately 10% of the total market capitalization of the Russell 3000® Index, and the Russell 2000® Value Index includes those Russell 2000® Index companies with lower price to book ratios and lower forecasted growth values. The Russell 2000® Growth Index includes Russell 2000® Index companies with higher price to book ratios and higher forecasted growth values. One cannot invest directly in an index.

Basis points (BPS) are a common unit of measurement in finance with one basis point equal to 1/100 of 1%. Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income. Return on capital is a calculation used to assess how well a company is allocating the money under its control to generate profit.

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