COVE STREET CAPITAL | Funds

CSC SMALL CAP VALUE FUND **June 30, 2012 Shareholder Letter**

July 1, 2012

Dear Shareholder,

While history is often said to repeat itself, and those who don't study it are doomed to repeat the same mistakes, my own take is that history is more likely to rhyme than to repeat. That said it seems almost unbelievable that the quarter ending June 30, 2012 has followed a near exact route of the past three years as far as performance—downward pressure on stock prices with high volatility following a very positive quarter ending March 31.

TOTAL RETURN – as of June 30, 2012 | Symbol: CSCSX

	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION (9/30/1998)
CSC Small Cap Value Fund					
without sales charge	13.56	22.67	0.25	6.67	10.40
with 3.5% sales charge	9.57	21.21	-0.46	6.29	10.12
Russell 2000® Index	-2.08	17.80	0.54	7.00	7.28
Russell 2000® Value Index	-1.44	17.43	-1.05	6.50	8.40
Russell 2500™ Value Index	-1.49	18.78	-0.20	7.51	8.90

Performance shown for the period September 30, 1998 to January 20, 2012 reflects performance for CSC Small Cap Value Fund, a series of CNI Charter Funds, the predecessor to CSC Small Cap Value Fund "The Fund." The Fund has the same portfolio manager and substantially similar investment strategies to the predecessor fund. Performance without the sales charge does not reflect the current maximum sales charge of 3.50%. Had the sales charge been included, the Fund's returns would have been lower. Returns for periods greater than 1 year are annualized.

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 2.66%. Investment performance reflects contractual fee waivers in effect through 12/31/2014 to keep the expense ratio at or below 1.69%. In the absence of such fee waivers, total return would be reduced.

The Fund performed generally in line with the relevant indices after a terrific quarter ending March 31, an outcome I would deem reasonable. We reduced or sold outright some fairly valued positions that we will detail below, but when operating in the short-run in a market that likes to highly correlate a bewildering variety of stocks, there can be little room to hide.

That brings up several issues on which we ponder often at Cove Street Capital. An enormous amount of money is pursuing an indexed strategy, via mutual funds, options and futures, or Exchange Traded Funds (ETFs). These investors are seeking lower fees and to minimize historical disappointment with the promises of the active money management industry. A number of industry and press participants see this as a self-fulfilling negative for active management under the premise that short-term money flows move stocks as a herd, making outperformance difficult. We could NOT disagree more. If your time horizon is 3 days or 3 months, then you shouldn't be investing in stocks and you should likely not bother to read further. If you accept a longer-term investment premise, then it becomes clear that much of nature is not fair and some people and some businesses are simply better than others. Indexing treats all management and businesses as numbers to be weighted relative to an arbitrary benchmark and that creates opportunity if you are willing to take the time to discriminate. Most indexing also remains “market weighted” in that larger companies get larger weights in the index. This can be called “anti-value investing” as money pours into the larger names which have gotten there by being more successful in the prior period and thus are more likely to be fairly valued. We would strongly argue that opportunity lies in the wallflowers—smaller, less popular and out-of-index names.

Accepting that active management is a difficult process, how can we “tilt” the playing field in our favor? I have made the following factors core principles of how we invest and run our business:

1. Small asset size: We can be nimble, we can truly be a small cap manager and we can tread where giants like Fidelity cannot.

2. Value and small cap tilt—the perennial advantage: Our research suggests value based investing, as originally defined in Ben Graham's classic, *Security Analysis*, and remains the only intellectual investment philosophy that has stood the test of time. Value investing has created the best track records in the investment business and at its most basic level remains the bastion of common sense. If you are not trying to buy a security at a discount to an estimate of its intrinsic value, then what are you trying to do? There remain opportunities to invest in thousands of stocks under a $3 billion market capitalization, while Wall Street continues to cut back on its analysts and focus its research on the largest and most liquid stocks. Our research suggests that creates fertile ground for misunderstood, orphaned and underpriced publicly traded businesses, as many larger investment management firms fear illiquidity. It makes reasonable sense to index the most liquid and highly visible securities—it makes infinitely less sense to do so in inefficient markets.

3. Concentrated portfolio: We don't need 178 good ideas. We focus on the best ideas our careful and patient research can generate. Concentration increases chances of outperformance in difficult markets as our portfolio does not track the market with only 32 stocks.

4. Compensation for risk-adjusted performance: It is at best disingenuous to “closet-index” and thus extract active management fees from a client who has a wide variety of other avenues to match an index. To outperform, you MUST be doing something different and trying to “match” an index by lining up your sector weights is unlikely to be a precondition for success.

5. Think and act long-term. There is no better opportunity to get in line at the “free lunch” buffet than to accept the risk that the near-term future remains uncertain. It is possible get paid

handsomely when you buy reasonable businesses with short-term cyclical or self-inflicted problems, but for whom the three or five year outlook is much more obvious.

6. Continuous improvement: CSC is a value-driven firm with a well defined process that drives internally generated research. We are continually re-defining a culture that encourages intellectual freedom, a strong work ethic and the confidence in our approach to stick to our knitting when we encounter inevitable short-term setbacks. Managing money is not a process by which you should be trying to "find yourself."

Lastly on this theme, it is crucial to have clients and shareholders who understand how we think, how we are positioned and how we fit into their overall portfolio. We strongly encourage any potential investor to carefully review our material and to understand why we believe a long-term time commitment is crucially and positively correlated with a favorable outcome.

WHAT HAPPENED – 3/31/2012 – 6/30/2012

5 Contributors

Security	Average Weight (%)	Return (%)	Contribution (%)
Central Garden and Pet	6.5	13.1	0.9
Symetra Financial Corporation	4.6	10.1	0.5
Cherokee Incorporated	0.8	19.8	0.4
CoreLogic Incorporated	3.7	12.2	0.4
HSN Incorporated	5.8	6.5	0.4

5 Detractors

Security	Average Weight (%)	Return (%)	Contribution (%)
Approach Resources Incorporated	4.4	-27.2	-1.5
Carbon Natural Gas Ordinary	1.1	-61.0	-1.3
Jefferies Group	2.5	-30.7	-0.9
PMC-Sierra Incorporated	2.8	-15.3	-0.5
Greif Incorporated Cl B	1.9	-19.7	-0.4

The 5 Contributors measure the top five contributors to the portfolio's total return and the 5 Detractors measure the five bottom contributors to the portfolio's return. Average Weight shown is a calculation of the average percentage held of each included company over the course of the quarter ending June 30, 2012. Return is the total return for each included company over the course of the quarter ending June 30, 2012. Contribution is a ranked measure of how each included company contributed to the Fund over the course of the quarter ending June 30, 2012.

Our winners were few in a tough quarter, so we will spend time on what didn't work so well. Our two energy holdings that represented roughly 5 percent of the portfolio had a gruesome quarter, giving up all of their gains from the previous quarter, as oil prices have joined natural gas prices in the tank. Taking the last six months as a whole, the stocks are roughly back to where we bought them. We continue to buy Approach Resources which has a unique footprint in the Permian Basin and we estimate it has an intrinsic value in the $40's at $80 oil. Carbon Natural Gas is a "distinct" holding that is position-weighted for risk at 1 percent of assets. Carbon is an "emerging" company with excellent assets that are clearly worth more than the current value of the stock. Additionally, in the long-run we believe our investment goals are aligned with those of a CEO and an energy-oriented private equity firm with a long track record of building and selling energy assets. We were able to establish a position from a forced seller and expect to earn multiples of our cost basis.

While we should have sold all of our position in Jefferies in the previous quarter after an 80 percent gain, we did sell half only to have it fall back to our cost basis during the turmoil of the quarter ending 06/30. However, our original premise remains intact: Jefferies sells under book value and receives little enthusiasm for having built a non-retail, agency-oriented investment bank that seems very well suited for a new world of restrictions and regulations. We bought more and think the long run is promising.

Grief Corp, believe it or not had its start 128 years ago as a "Cooper" or barrel maker. The firm has evolved over time into a global leader in containers and flexible packaging. The stock is dirt cheap as a result of legitimate issues with global economic growth and we have added a twist by owning the B stock, which has very interesting economics attached to it via a higher allocation of earnings and dividends.

We also had an unusually active quarter with new ideas. These purchases were funded by the complete sale of two long-term holdings: Coinstar and Wendy's. Coinstar has been a terrific holding for the fund, and we have successfully invested around a core position that began over seven years ago at $14 and ended with a final sale at $66. Coinstar's underlying businesses are not nearly as volatile as is its stock price, and stocks like Coinstar that we have sold remain a high priority for repurchase in the future as the company knowledge and experience with management become part of Cove Street's core competency that we look forward to exploiting again.

Owning Wendy's represented a dismal and long suffering seven year drag in which we started with a high purchase price ($12) in Wendy's predecessor—Arby's. We were taken for a ride by controlling shareholders, suffered under a very competitive fast food environment and finally took our lumps with a grudging recognition that sometimes it is simply better to pass by the dragon as opposed to attempting to slay it. While the final sale was at $4.98, we managed to create some lemonade over time through further purchases much lower than our sale price and again, investing around a core position. Lessons learned include a note to be very wary of anyone who competes with McDonald's and to be very realistic about expectations of change in corporate behavior when there is a well-established pattern of shareholder unfriendliness.

We also reduced positions in appreciating stocks such as White Mountains, VCA Antech, Global Cash Access, Home Shopping Network, and Teleflex.

New holdings include SEI Corporation which operates in two businesses—the delivery of investment management platforms to financial advisors and of back-office platforms for those in the investment management business. SEI has a dreamboat of a business model with high margins, high returns, large free cash flows and sticky customers. The stock has been pummeled as the company is making a huge internal investment in a next generation software model that has been both slow to market and penalized by a stock market that is not kind to financial services. We think the stock has limited downside as we wait for the Global Wealth Platform to roll out in earnest in 2013. Using our "proprietary CSC standard deviation-adjusted historical multiple analysis," as well as a sum of the parts approach, we think SEIC is a stock that can easily double over the next three to four years.

Neustar also has a dreamboat business with the proverbial catch. The core business enjoys a monopoly in running the pooled system that enables the identification and transfer of mobile phone numbers. The company also has an internet registry business. Led by new CEO Lisa Hook, the company made a terrific acquisition of Targus, a complementary online marketing business, repurchased ten percent of the stock and has delivered on growth and margin targets to boot. All three businesses are high return, high margin, big free cash flow machines. The catch is that the ID contract expires in 2015 and will go into an request for proposal (RFP) process probably by the end of this year. This has clearly spooked investors as the stock is cheap on every conceivable measure. But our analysis suggests a very high likelihood that Neustar retains the contract, albeit at lower profitability. However, at this level the stock appears to have minimal downside as a valuation of the cash flows from this contract just through 2015 suggests a value in the $20s.

PMC Sierra, Tessera and Westell Technologies fall into a similar and newish bucket for the fund, which historically has shied away from technology companies. With the benefit of new "talent density" in the analyst position in the form of a strong background in the field, we feel increasingly comfortable in the space. PMC and Tessera have 60 percent of their market capitalization in cash and have businesses that are both solidly profitable. Each has undertaken shareholder-oriented actions such as share repurchases and dividends, respectively, and our research suggests material upside for both. Westell's balance sheet cash makes up 95 percent of its market capitalization and we have been impressed by new management's turnaround of a very messy situation. Our ability to achieve excellent returns will be predicated upon the company's ability to reinvest this cash in niche technology platforms that run parallel to the general trend of 4G/LTE infrastructure rollout spending. While Westell's success will be a product of the new management's aptitude for intelligently investing the cash hoard, PMC's success will be based on the ability of management to see the value in selling parts of the business. PMC looks to have significant upside if management monetizes two of the company's business units and reinvests in the one that operates in a duopoly.

In case you have been on a long and remote vacation, we regret to remind you that the world at large remains a very messy place. The Euro-death march continues. This is a circumstance that is clearly a negative for global economic growth, although smaller companies tend to have more of a domestic focus and thus tend to do better than their larger counterparts when the dollar is strengthening. We remain concerned with declining Chinese and emerging market growth, which has accounted for a disproportionate amount of global economic growth over the past decade. Lastly, our election cycle promises plenty of headline uncertainty, which may not be good for equity markets.

But that's the good news too! Contrary to modern day opinion, stocks represent pieces of real businesses run by real people; they are not commodities or numbers that are monolithically determined by computer programs or television pundits. Getting a chance to buy “good” businesses run by smart management teams at prices that have been set by people having a bad week and near-term fear has always been a recipe for long-term success. Cove Street’s success is premised on our ability to stick to our discipline and lean into short-ism, taking advantage of these classic behavioral mistakes.

We appreciate your confidence in our efforts and we look forward to continued success.

Best Regards,

Jeff Bronchick

Jeffrey Bronchick, CFA
Chief Investment Officer
Shareholder, CSC Small Cap Value Fund

Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice.

The fund’s investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory prospectus and summary prospectus contain this and other important information about the investment company, and they may be obtained by calling 1-866-497-0097 or visiting www.covestreetfunds.com. Read it carefully before investing.

TOP 10 HOLDINGS – as of June 30, 2012	
Central Garden & Pet Co-A	6.6
Alleghany Corp	5.3
White Mountains Insurance Group	5.0
PerkinElmer Inc	4.7
HSN Inc	4.6
Symetra Financial Corporation	4.4
Approach Resources Inc	4.3
Corelogic Inc	3.5
Neustar Inc	3.1
Hallmark Financial Services Inc	3.0

Fund holdings and sector allocations 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.

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 2500™ Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. One cannot invest directly in an index. Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income. Free cash flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. Correlation is a statistical measure of how two securities move in relation to each other.

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