

June 30, 2014 SHAREHOLDER LETTER

DEAR FELLOW SHAREHOLDER:

We are at the halfway mark of calendar year 2014, and things remain “okay” given any number of interesting events ongoing in the world. After entering the year on somewhat of a cautious note after a barn-burner 2013, we are pleasantly relieved to be inching ahead.

TOTAL RETURN (%) as of June 30, 2014 | Symbol CSCSX

	3 MONTH	YEAR to DATE	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION (9/30/98)
Cove Street Capital Small Cap Value Fund	4.31	1.94	22.72	19.81	22.83	7.16	11.94
Russell 2000® Index	2.05	3.19	23.64	14.57	20.21	8.70	9.26
Russell 2000® Value Index	2.38	4.20	22.54	14.65	19.88	8.24	10.22
Russell 2500™ Value Index	4.20	7.87	24.94	16.2	21.58	9.40	10.93

Performance shown for the period September 30, 1998 to January 20, 2012 reflects performance for Cove Street Capital 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. Effective September 10, 2013, the Investor Class eliminated all sales charges on purchases. Prior to that date, purchases were subject to a maximum sales charge of 3.50%. The returns shown for the Investor Class do not reflect any sales charges. If they had, the returns would be 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 1.86%. Investment performance reflects contractual fee waivers in effect through 5/31/15 to keep the expense ratio (excluding 0.01% acquired fund fees and expenses, brokerage commissions, interest, taxes and extraordinary expenses) at or below 1.69% (Expense Cap). In the absence of such fee waivers, total return would be reduced.

As of January 28, 2013, The Fund will impose 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.

As for this Letter, Jason Zweig at the *Wall Street Journal* was once asked at a journalism conference how he defined his job. The reply: “My job is to write the exact same thing between 50 and 100 times a year in such a way that neither my editors nor my readers will ever think I am repeating myself.”

Lacking somewhat in the subtlety category, we repeat our core beliefs:

- We have had terrific trailing performance which mathematically steals from future performance, a challenge which has mostly played out in 2014—notwithstanding a “where-did-that-come-from-like June.”
- An extended period of low interest rates and the increasingly wide availability of credit have squashed many available return opportunities in many asset classes and many countries. This is not sustainable.

June 30, 2014 SHAREHOLDER LETTER

- If you have the ability and the mandate to be patient and opportunistic, time tends to fix these things. First, valuation is mean-reverting and secondly, tenacious analysis can and will uncover unobvious opportunities, particularly in small cap stocks. But, again, it takes time.

WHAT HAPPENED as of June 30, 2014 | Symbol: CSCSX

SECURITY	AVERAGE WEIGHT	RETURN	CONTRIBUTION
TOP 5 CONTRIBUTORS	(%)	(%)	(%)
HALLMARK FINANCIAL SERVICES INC	3.08	28.93	0.85
GLOBAL CASH ACCESS HOLDINGS INC	2.92	29.76	0.84
INTERNATIONAL GAME TECHNOLOGY	1.87	26.82	0.70
AVID TECHNOLOGY INC	3.02	21.18	0.59
TAMINCO CORP	5.47	10.71	0.56

SECURITY	AVERAGE WEIGHT	RETURN	CONTRIBUTION
TOP 5 DETRACTORS	(%)	(%)	(%)
WESTELL TECHNOLOGIES INC	2.03	-33.56	-0.89
LIQUIDITY SERVICES INC	0.35	-22.47	-0.82
NEUSTAR INC	2.42	-19.94	-0.53
FRANCESCA'S HOLDINGS CORP	1.88	-15.73	-0.36
GP STRATEGIES CORP	2.58	-5.17	-0.15

The 5 Contributors measure the top five contributors to the portfolio's total return. 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 listed period. Return is the total return for each included company over the course of the listed period. Contribution is a ranked measure of how each included company contributed to the Fund over the course of the listed period.

Our top five contributors for the quarter start off with Hallmark Financial Services (HALL), and Global Cash Access Holdings (GCA). In the case of Hallmark, improving trends in the property and casualty industry led to improving results at HALL and drove the stock higher—but it still trades at a discount to book value that we feel is unwarranted. With regard to GCA, after investors became concerned about the potential for future customer losses, the company successfully re-signed a number of major customers. The stock reacted very positively to this news combined with the fact that GCA bumped up its full year earnings guidance.

The top five detractors are headed with Liquidity Services (LQDT) and Westell Technologies (WSTL). In an unusual move, we bought and sold Liquidity Services within the same quarter at a small loss. I say unusual because a certain embedded stubbornness that comes with value investing DNA usually means it takes three years to conclude we were wrong. This time, a lost contract initiated a giant rethink of the underlying profitability of the remaining business and as a result we sold. WSTL disappointed consensus expectations for their Kentrox

June 30, 2014 SHAREHOLDER LETTER

unit due to the lumpy nature of its project-based revenue stream. Overreaction is typical of the cyclicity embedded within all of their businesses but does nothing to affect our estimate of their intrinsic value.

Elsewhere on the activity front, we have reduced positions in some excellent performers that are nearing or are at fair value, like Fair Isaac (FICO) and Remy International (REMY). We outright sold Teleflex(TFX), which was a solid double from an initial purchase almost four years ago—again on valuation.

There were several new additions to the portfolio that represent the culmination of months of research. International Game Technology (IGT) is the leading US provider of slot machines and systems. It has gone from being a great business to being a “pretty good” one. However, there remains a major question as to the current management team’s ability to drive costs out in a tough environment and still continue to innovate product-wise. That produced a \$12 stock price that appeared to us to be nearly a 50% discount to our estimate of intrinsic value. Shortly after purchase, a flurry of rumors surfaced (which were subsequently confirmed) about the company hiring an investment bank to consider “strategic options” as well as chatter about the emergence of one very specific strategic option—the sale of the company to G-Tech, a large global player in slots and lotteries. All good news so far and we await a conclusion, which seems likely to be reached by year-end.

Baldwin and Lyons (BWINB) is “another” small insurance company that sells under book value, has paid a 2.5% dividend yield, and is conservatively run by a Chicago family. There appears to be a generational change at the Board level, and our old friend Prem Watsa from Fairfax Financial owns 9%. There is a history of Fairfax being at the right place at the right time when a company decides to sell. We see limited downside and a nice yield while we wait.

Lastly, Viasat (VSAT) is a new position...that was first purchased in the late 1990’s. Some resident genius portfolio manager thought it was a smart idea then, buying it at \$7 and eventually selling it at \$14, and we just re-established a position at \$52. VSAT is a satellite company with tremendous technology, expertise in bandwidth management, and a defense business worth 70% of the current stock price. The “value” is in the company’s own satellites, which represent enormous improvements in speed and capacity regarding their ability to offer a broadband experience in places that cannot be wired—think planes, rural areas, and soldiers on the ground. Powerful satellites are also the natural solution when it comes to offering an entire country broadband access, a concept which seems to be universally desired. The stock has come down materially from its high due to “growing pains.” We started with a half position and would like to buy a lot more at a lower price.

Going forward...we are cautious. With valuation stretched in many equities, we are essentially being “told” that it’s okay, the Federal Reserve won’t act until 2015. At Cove Street, we don’t want to be reassured by the Fed—we want to buy good businesses at values that stand on their own. Depending upon the kindness of strangers in financial markets is a truly wonderful and blessed thing when it works, but over thirty years of direct experience and a careful reading of the few hundred years before it suggests that you will likely be disappointed in your fellow person—in this very specific case the head of the Federal Reserve. We have often noted that flexibility and opportunism are rational responses to a world that is volatile and uncertain. In a world that is trying to cage volatility and uncertainty, the rational response should be caution. To paraphrase Fred Schwed from his classic, *Where Are the Customers’ Yachts: or A Good Hard Look at Wall Street*, “There are certain things that cannot be adequately explained either through words or pictures. Like all of life’s rich emotional experiences, the full flavor of losing important money cannot be conveyed by literature.”

Finally, Cove Street Capital just celebrated its third year anniversary. Current and “committed but not yet funded” assets are JUST shy of \$1 billion. We are moving our offices one mile north to what should be a near-permanent

June 30, 2014 SHAREHOLDER LETTER

space, a “cool” new building that features a dog-park and in which the Cove Street lead principal will likely be the oldest single tenant. We continue to spend liberally on technology and systems to maintain “talent density.” Speaking of talent, we have added Rohan Rangaraj, CFA to our research team. Rohan is a 34 year-old Claremont McKenna graduate who worked at Cascade Investment in Seattle (Bill Gates’ money), spun-out to run a dedicated healthcare fund for Cascade, and then partnered in a long-short fund here in Los Angeles. We are excited to add his contribution to our research efforts and overall Cove Street Joie de Vivre.

As always, we appreciate our relationship and if there is anything we can do to make it easier to work with you, or if you have any questions about our work, please do not hesitate to contact us.

Best Regards,



Jeffrey Bronchick, CFA
Chief Investment Officer
Shareholder, Cove Street Capital 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.

June 30, 2014 SHAREHOLDER LETTER

TOP 10 EQUITY HOLDINGS as of June 30, 2014 | Symbol: CSCSX

	(%)
APPROACH RESOURCES INC	5.6
TAMINCO CORP	5.3
FORESTAR GROUP INC	5.0
HERITAGE-CRYSTAL CLEAN INC	4.8
AZZ INC	4.3
WHITE MOUNTAINS INSURANCE LTD	4.0
ORIENT-EXPRESS HOTELS LTD	3.4
HALLMARK FINANCIAL INC	3.4
CHIMERA INVESTMENT CORP	3.4
CHEROKEE 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. Concentration of assets in a single or small number of issuers, may reduce diversification and result in increased volatility.

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.

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 Cove Street Small Cap Value Fund is distributed by Quasar Distributors, LLC. Quasar Distributors, LLC is affiliated with U.S. Bancorp Fund Services LLC.