COVE STREET CAPITAL | Funds

CSC SMALL CAP VALUE FUND **Symbol: CSCSX**

February 24, 2012

Dear Fellow Shareholder:

While we cannot account for what will happen this coming November, this vote is in—shareholders approved the fund conversion and the move from the CNI Charter Funds to Managed Portfolio Series where US Bancorp Fund Services, LLC is serving as the new fund administrator, fund accountant, and transfer agent. Thank you for your support of our new firm, now celebrating its seven month birthday as of this writing. The fund's new symbol is CSCAX and CSCSX and we are incredibly enthusiastic about our ongoing future, particularly since your portfolio manager and the employees of Cove Street Capital make up the largest shareholder group in the fund. The Fund will represent a key component of our internal 401k and profit-sharing plan at Cove Street and you can count on sharing the "Chef's Investment Table" with our firm.

Before we get to a performance recap and a brief look at the year ahead, I wanted to spend a moment on the "soft stuff," which is a crucial ingredient in long-term success. I have always been confident about our ability to invest. But it is crucial to note the efforts of Cove Street Capital President Daniele Beasley, who has led efforts to nail down our back-office and technology infrastructure over the last six months. I have worked with Daniele for 11 years and her efforts provide a HUGE contribution to the investment process by allowing the investment people the freedom to spend their time picking stocks. It is also important to note our choice of partner for our mutual fund US Bancorp Fund Services, LLC—a standout in technology and service in the financial services industry.

On the investment front, I could not be more pleased with our two analysts, Ben Claremon and Eugene Robin, each of whom bring a different skillset to complement my 27 years of investment experience. I am fully confident that in the years to come, you will be looking through me to them for investment ideas and portfolio management.

While I often feel that I am repetitive with our investment philosophy, I would like to suggest that this is a good thing—as repetition of rationally good ideas and process should be a key to success. To wit:

The members of Cove Street Capital are classic value investors in the tradition of Ben Graham and Warren Buffett, seeking superior long-term performance through the purchase of securities selling at prices materially below our estimate of intrinsic value. We believe the process of "winning by not losing" protects capital from permanent loss (as distinguished from "quotational risk") and has the potential to put us on the correct side of the mathematics of compounding.

We believe the best performance records in the investment industry have been created by small teams of value-based analysts, as decisions are made by those doing the actual research, and work and time value are not wasted through committee and a laborious people management process.

We run concentrated portfolios, which allow our best ideas to drive performance. It is both a fool's errand as well as disingenuous to clients to over-diversify the results of careful decision-making and attempt to mimic indices to achieve performance. We believe the only way to achieve superior long-term returns is to have the intellectual courage to differ from the mood of the day and the indices to which we are compared.

While we hunger for objective evidence and rigorously model our investment ideas, we retain a healthy skepticism toward advanced math and formulaic convention. We are investing in real businesses run by real people whose securities are valued in the short-run through an imprecise prism into a future that is always uncertain. There will never be a precise formula for good judgment.

To paraphrase Buffett paraphrasing Graham, we will neither be right nor wrong because the crowd is disagreeing with us. We will be right when our data and reasoning are right.

On that note, we closed a truly nerve-wracking year in solid style and ended the year with a reasonably acceptable number on an absolute basis and a very good number versus the indices. I would note several actions that contributed to these results:

1. We instituted a severe and fresh re-look at all existing positions in the early days of Cove Street, and as a result, made a number of excellent sales of fully-valued stocks that proved timely given a rotten quarter ending September 30 for financial markets.

2. When things got particularly miserable later in the quarter ending September 30, we remained true to our value principles and bought stocks at prices that we felt represented terrific long-term values. Our faith conveniently turned out nicely in the short-run as well. No one will knock on your door in the middle of the night and tell you the bottom has been made—you must "lean into" the opportunities that present themselves, as it pays to be somewhat right rather than precisely wrong.

3. We rejected the notion that "stock-picking is a dead art form." Much of the investment world is currently focused on "tomorrow." While these prognosticators are making grand macroeconomic pronouncements and are buying and selling index products that pay little or no attention to their underlying constituents, alternatively there can be great payoff from independent research of individual securities and carefully-made long-term decisions. That has proven to be a successful strategy for building wealth for centuries—and we feel this one will be no different.

Total Return — as of December 31, 2011 Symbol: CSCSX (formerly RCBSX)						
	3 Month	1 Year	3 Year	5 Year	10 Year	Inception (9/30/1998)
CSC Small Cap Value Fund						
without sales charge	20.86%	3.89%	25.50%	-1.37%	5.07%	9.73%
with 3.5% sales charge	16.64%	0.26%	24.01%	-2.07%	4.70%	9.33%
Russell 2000® Index	15.47%	-4.18%	15.63%	0.15%	5.62%	6.90%
Russell 2000® Value Index	15.97%	-5.50%	12.36%	-1.87%	6.40%	8.07%
Russell 2500™ Value Index	15.45%	-3.36%	15.48%	-0.58%	7.16%	8.60%

Performance shown for the period September 30, 1998 to December 31, 2011 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.

Our biggest winners in the quarter ending 12/31/11 consisted of an interesting mix of old and new holdings. Global Cash Access (GCA), a supplier to the gaming industry, was up a whopping 74.6% as not only is the company a sneaky beneficiary of the new Durbin Amendment in financial services (no one else seems to be), but it also benefited when a pesky competitor essentially folded up shop and handed its largest client back to GCA. Approach Resources is a newer holding and its Permian Basin acreage was "discovered" by the oil and gas mafia, sending the shares up 73.2%. Fair Issac (64.2%), Altra Holdings (56.6%) and Eagle Materials (54.8%) were also big gainers, albeit from depressed third quarter prices.

Laggards in the quarter ending 12/31/11 included Hallmark Financial (-5.6%) and Alleghany Corp (-0.9%). We remain confident that the "soft" insurance cycle will eventually turn "hard" and we are content investing with management teams who we believe will allocate capital in a way that maximizes the opportunity.

We eliminated the last half of a position in Federated Investments and Duff & Phelps, but retain the option to revisit Federated again later. Federated is a fine money management firm that is unfortunately a dominant player in money market funds, a business that has suffered a distinct and severe drop in profitability as a result of the current levels of interest rates. This investment defines the phrase, “there is a very fine line between early and wrong.”

We purchased a new position in Jefferies, Inc., which is an “old school” investment banking and brokerage firm. Our shares were purchased at a 15 to 30 percent discount-to-book value, depending on how you calculate it. The short story (and there was a very big "short-sale" story at the time of our purchase) is that Jefferies is not a hedge fund like Goldman Sachs; it is not a regulated bank holding company subject to all the egregious regulations coming out of Washington and Basel; and it has actually been adding people and business lines that are being shed by “the one percent” firms. The management team and the Board own close to 40 percent of the firm, a fact that is theoretically a good sign. If the financial world goes nowhere, thus will Jefferies. But, if there is any reasonable settling down of markets in the next three years, we feel we have the potential to make a lot of money in the stock. In general, we like accepting situations in which we risk boredom on the downside but our upside potential is more than double our purchase price.

As for 2012 at large, there are the obvious three elephants: Europe, China, and the U.S. election. If we had to be pinned down, we would simply state that the United States has put up five quarters in a row of subpar economic growth, loosely defined as less than 2.5 percent, due to these three factors. We think there is a likelihood that only one of them becomes a positive in 2012.

The dividend yield is 2% on the S&P 500, a loose proxy for the “market.” Over 100 years of data suggests that the long-term nominal growth rate of earnings/dividends is roughly 5 percent. Thus, if you start from a base case of a reasonably-valued market, a sensible expectation in any year is a 7% return for stocks. If, however, we can buy below reasonable value, value can be added to the 7% and vice versa. The ten year Treasury bond is yielding 2%. Accordingly, there is not a mathematical possibility of earning more than 2% for the next ten years. It is just that simple and that is the basic argument for a continuing investment in equities at current levels. Our biggest risk is a massive recession that renders the current state of corporate earnings massively overstated. We recognize this as a possible outcome, but assign it a lower probability.

As a rule, small cap indices underperformed large cap, dividend-paying stocks in 2011. (This has neatly reversed in the early goings of 2012—CSCSX was up for the month ended January 31, 2012, 5.64% (no load) and 1.95% (with load).) Investors were drawn to the very simple premise that in an uncertain world, one should go with the large and the stable. There is no mathematical magic about dividends—companies that pay them have tended to outperform in difficult markets and just as predictably will underperform in a rising market. A dividend is one arrow in a capital allocation quiver. For companies that cannot grow intelligently but generate cash it is a great idea. For companies whose stock is cheap, repurchasing shares may be a better strategy. However, companies that can intelligently reinvest in organic growth represent the best investment ideas. The decision to pay a "dividend"—or not—is an outcome of rational thinking about how to best create value for shareholders, and that is how we judge its relative merit.

As a value investor, we weigh the value of a potential investment versus the uncertainty produced by the above-named risk factors—as well as others that are not on the immediate periphery. If we can buy decent businesses at discounted valuations, we believe good things can happen.

Our very best wishes for the New Year and could not be more pleased to have you with us.

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.

COVE STREET CAPITAL | Funds

CSC SMALL CAP VALUE FUND — Symbol: CSCSX

Top 10 Holdings as of 12/31/11	
White Mountains	6.8%
Alleghany Corp	5.5%
PerkinElmer Inc	5.2%
HSN Inc	5.2%
Coinstar Inc	5.2%
Teleflex Inc	5.1%
Wendy's Company	5.0%
Idex Corp	4.8%
Central Garden & Pet	4.7%
Spartech Corporation	4.4%

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. The Standard & Poor's 500 Index (S&P 500®) is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500® is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. A discount to book value refers to a stock trading at a price less than its shareholders equity book value (total assets – total liabilities) per share.

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