COVE STREET CAPITAL SMALL CAP VALUE FUND

December 31, 2013 Shareholder Letter

January 1, 2014

Dear Fellow Shareholder:

The Fund had a solid calendar year fourth quarter or first quarter of our new fiscal year, no matter how you look at it. It was a wonderful year to be an equity investor and while we innately lean toward spending time looking forward with the intellectual equivalent of a financial divining rod, it was a good enough year to rest on some laurels for a brief moment. Achieving absolute and relative outperformance is a particularly noteworthy achievement given the very big year for all equity indices, especially when I have spent my career targeting "competitive returns in up markets and outperformance in down markets" as well as reiterating that "no one should apologize for being up 30% in a year."

TOTAL RETURN (%) – as of December 31, 2013 | Symbol: CSCSX

	3 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION (9/30/1998)
Cove Street Capital Small Cap Value Fund	9.30	35.31	21.24	27.66	7.87	12.20
Russell 2000® Index	8.72	38.82	15.67	20.08	9.07	9.35
Russell 2000® Value Index	9.30	34.52	14.49	17.64	8.61	10.27
Russell 2500™ Value Index	8.83	33.32	15.38	19.61	9.29	10.75

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 2.22%. Investment performance reflects contractual fee waivers in effect through 5/31/14 to keep the expense ratio (excluding 0.52% 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.

While I can spend pages waxing eloquently about the astuteness of our stock picks, the biggest factor in the quarter and much of the past four years has simply been adherence to the Woody Allen Theorem:

80% of investment results accrue by just showing up. If you have done the work and have something to buy, buy it and worry later about some PhD's argument regarding the impending end of the world. What I have come to realize is that the longer I have invested money professionally the more atrocious my practical sense of market timing.

WHAT HAPPENED – Quarter ending December 31, 2013 | Symbol: CSCSX

5 Contributors

Security	Average Weight (%)	Return (%)	Contribution (%)
GLOBAL CASH ACCESS HOLDINGS	4.07	28.03	1.11
AVID TECHNOLOGY INC	3.42	35.70	1.07
CROSSTEX ENERGY INC	0.93	43.50	1.01
CORELOGIC INC	1.52	29.07	0.86
SPX CORP	5.16	17.61	0.79

5 Detractors

Security	Average Weight (%)	Return (%)	Contribution (%)
APPROACH RESOURCES INC	6.12	-26.75	-1.78
BARNES & NOBLE INC	0.73	-6.90	-0.21
PMC-SIERRA INC	1.80	-7.81	-0.17
LIVE NATION ENTERTAINMENT INC	1.15	-2.87	-0.09
GRAFTECH INTERNATIONAL	0.71	-3.72	-0.09

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 December 31, 2013. Return is the total return for each included company over the quarter ending December 31, 2013. Contribution is a ranked measure of how each included company contributed to the Fund over the quarter ending December 31, 2013.

First a word about the non-performers. A less than helpful investment has been Approach Resources, which yo-yoed all year before ending down 23%. There have been some near-term operational issues, but the good news is that these issues had less to do with the company's abilities and more to do with third party processing capabilities which have mostly been resolved. The long story here is that management is methodically drilling out its acreage with high internal rates of return, a process that will resolve itself in a higher valuation either through market realization or the welcoming embrace of an industry suitor. The CEO gets paid nearly $50mm in “Texas Dollars” in a change in control, an incentive that we look at closely. We look for a more fruitful 2014 with these issues behind us.

Barnes & Noble (BKS) continues to struggle with its strategic errors in the digital NOOK® business as well as tough comparisons with last year’s strong sales of “Fifty Shades of Grey.” We continue to think the sum of the parts for BKS is materially higher than the current stock price and have some degree of confidence that the management shake-up in 2013 plus the security position of Liberty Media will assist in value creation.

PMC-Sierra’s results were impacted by a change in 2013 guidance that saw the company cut its revenue growth expectations. Spending on new servers was pushed out towards next year when a new generation technology—12 GHz interconnection—comes to market. The stock remains materially undervalued, but we need to see PMC’s end technology markets recover to realize value.

Our top performers include Global Cash Access, which announced key strategic contract wins at MGM and the Alberta gaming commission. We think new management is positioning the company for further consolidation of the gaming supply market as well as new digital gaming ventures. We remain holders.

Avid Technology has rebounded strongly on hints that the company will re-file current financial statements in the first quarter of 2014 after an embarrassing year of restatements. This issue clearly fell into the category of “unknown unknowns” and we have done a tremendous amount of work to properly understand the company’s performance in the marketplace and we are presently comfortable with the conclusion that core franchises are intact. With no debt and cash equal to 20% of the market capitalization, we have the ability to wait this out and with more investor visibility highly likely in 2014, we think the stock price is on the way to properly valuing the company’s key franchises.

Crosstex finished the year strongly, successfully completing the planned build-out of a $700 million pipeline. More importantly, the company was essentially acquired in a stock deal with Devon Energy that created a much larger and better capitalized entity that is majority controlled by Devon. The stock more than doubled from our original investment and we sold on both valuation as well as the recognition that it was no longer a small cap stock.

One recent addition to the portfolio was Taminco (NYSE-TAM), a specialty chemical company with the leading market share globally in alkylamines and their derivatives. TAM’s business is characterized by high margins, high returns on capital, strong free cash-flow, and unusual stability for the industry given the wide usage of alkylamines in many consumer, industrial, and agricultural products. Maintaining a 50% share in the US and a 49% share in Europe, the company only competes against three other chemical producers in each of its main geographies. Reinforcing the strong cash returns, Taminco has over half of its output sold under cost-plus contracts, a factor that will help stabilize margins in lean times.

TAM was buried in private equity for a decade after it spun-off from UCB and quietly went public in mid-2013. The current valuation suffers under fears of illiquidity and the overhang from the 55% ownership of its private equity parent. Our research suggests that these temporary issues will subside as recognition of TAM's excellent franchise, growth opportunities, and free cash-flow generation will result in a higher multiple on higher cash-flow in the years ahead.

On a bigger picture basis, a LOT of money has missed the past 4 years of returns in equity markets and in classic form and style, is piling in now. I guess the takeaway is that if you are going to make a very public market call, you had better get it right, make enough money to retire and take it off the table because the odds of you being very right on the other side are quite slim. The corollary is that VERY few money managers have a client base that will allow them to be wrong for four years. Accordingly, no matter how erudite the shareholder letter, “career risk” is looming for managers running a lot of money, particularly assets with high fees that are commensurate with an assumption of perfection. So the best summary of the financial world is that we are somewhere in the process of swinging from worrying about the end of the world to worrying about a “market melt-up,” a turn of events which is anecdotally troubling for an investor as a number of these people like to use leverage and change their mind frequently.

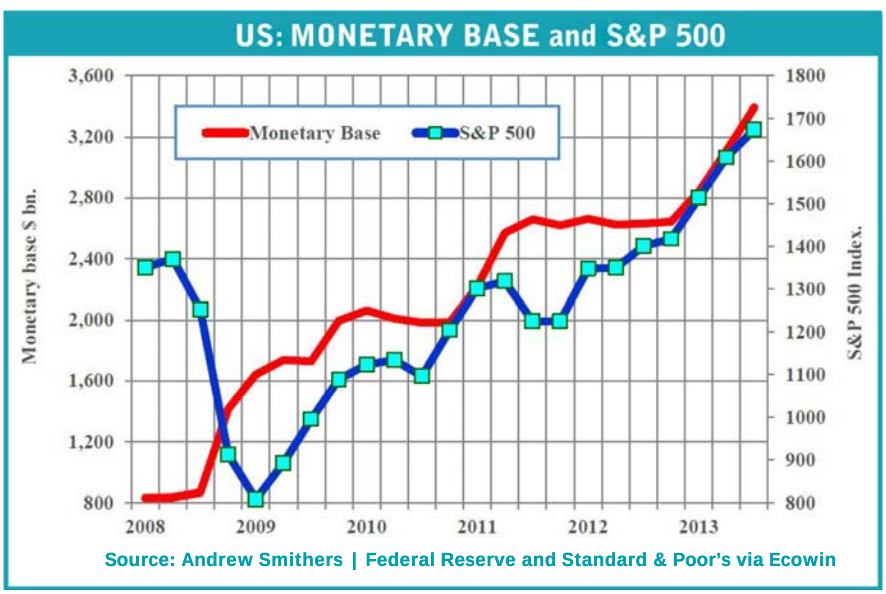
We cannot and will not overtly provide the silly 2014 forecast (even though it will come up 40 times in the next three months) as I can assure you that our collective cognitive abilities have simply proven not to be more advanced than that of others in mangling a forecast for the future. Let’s leave it as: “We believe stocks will fluctuate irregularly around a long-term intrinsic value trend. When stocks move strongly upward as they have, it's either a catch-up from a downturn and/or is anticipatory of better things to come. If things do get better economically from here, then we will be happy with our current portfolio. If they don't, then the stocks that represent ownership of good businesses will have temporary declines and the stocks of flawed businesses will suffer a permanent decline. We work hard at appreciating the difference.”

While seeming a bit snarky, it really is a game plan. Cove Street is always expending effort to learn more about how businesses work, who is running them and being more thoughtful about valuation. But in our opinion good investing involves a lot of sitting around and waiting for stuff to happen and opportunities to be created. We know that “many shall be restored that are now fallen and many shall fall that are now in honor,” but Horace’s timing hasn’t gotten any better in 2031 years.

What we see on a day-to-day basis is less value. It remains a simple fact that great current performance “fixes” undervalued opportunities and steals from our future performance—always has and always will. Our formulaic screens show fewer ideas and one starts to scratch one’s head about the assumptions required to maintain some current holdings, regardless of “quality.”

Things that bother us in 2014 include:

- Continuing regulatory nightmares no matter where you look and no reprieve for at least another three years. The US is truly a wonderful and innovative nation that manages to get out of bed in the morning and create wealth and prosperity while our elected officials spend their days turning an 11-page mandate (Dodd-Frank) into 1838 pages of rules "fixing" the banking industry.
- There is clearly what we call an "idiot" element in parts of the technology sector that is as silly as any hype cycle that has come before it…and we have seen a few.
- The record narrowing of "quality versus junk spreads" in both bonds and stocks. This almost defines the term "cyclical relationship."
- It is not only rising interest rates that are problematic, but also the high probability that there will be credit contraction as rates go up. It's not just about the price of money; it is also its availability and just as the low price of money is coinciding with more availability, as rates rise, credit can contract. Said another way, monetary policy is likely putting all sorts of entities into risk at the wrong price and time. There is an inverse correlation between availability of capital and the quality of the opportunity.
- The "European rebound" is a very difficult pill to swallow given a 1.40 Euro. Like Japan, material economic growth without currency debasement will require navigating a very difficult road.
- This statement made the Federal Reserve December 2013 minutes: "In their discussion of potential risks, several participants commented on the rise in forward price-to-earnings ratios for some small cap stocks, the increased level of equity repurchases, or the rise in margin credit."
- As noted in the chart below, a possible change in Federal Reserve policy:



On the proverbial other hand is something that was said to me recently by a group of non-US investors and corporate executives and the gist was that we—as US citizens—have no idea how good we have it. The investment community can be a cynical bunch and the bearish side almost always sounds much more erudite and "precise." I am not sure if it's due to the curse of IQ or the result of inbreeding of certain echelons of higher education. But if we combine the following quote from the late editor of the Wall Street Journal, Vermont Royster, with the realization that we are sitting on a generation of low cost, world class energy reserves, maybe it is accurate to say that things could work out reasonably for the investor with patience and some judicious discretion.

> *"But we can all remind ourselves that the richness of this country was not born in the resources of the earth, though they be plentiful, but in the men that took its measure. For that reminder is everywhere—in the cities, towns, farms, roads, factories, homes, hospitals, schools that spread everywhere over that wilderness. We can remind ourselves that for all our social discord we yet remain the longest enduring society of free men governing themselves without benefit of kings or dictators. Being so, we are the marvel and the mystery of the world, for that enduring liberty is no less a blessing than the abundance of the earth. And we might remind ourselves also, that if those men setting out from Delftshaven had been daunted by the troubles they saw around them, then we could not this autumn be thankful for a fair land."*

One of the other things I would also note is that I am simply in awe of the ability of corporate America to "pull cash-flow out of the hat" given the punk economy. One of the bigger and seemingly reasonable bearish arguments is that corporate profitability is "too high" and mean reversion is inevitable. As noted by one prominent investor: "One of the biggest risks for equity investors is the historically high level of corporate profitability." (Jeffrey Bronchick, CFA, 1994 Strategy Letter) Of course that was written when the Dow was at 4000.

André Gide comfortingly noted: "Everything that needs to be said has already been said. But since no one was listening, everything must be said again." So we reiterate that we are investing in small pieces of much larger businesses and there is inevitably a management team discussing the same issues we are and adapting the business portfolio and processes to the uncertainty of the future. This fact is one of the key misunderstandings of "stock investing" and is a crucial reason why we see our job as investing in "businesses" and not in "asset classes." It is a crucial distinction to make.

It is a part of probability that improbable things will happen. We assume the world is messy, companies are poorly managed and government officials will find some way to snatch defeat from the jaws of victory. In other words, assume the worst. We attempt to protect ourselves with judicious asset allocation where we have the latitude to do so and focus on equality and/or material undervaluation in security selection when we don't. We do not project a big year in 2014 but we think we are comfortably positioned for enough things to work out in our favor to have another decent year.

We appreciate your partnership with our efforts.

Best Regards,

Jeff Bronchick

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.

TOP 10 HOLDINGS (%) – as of December 31, 2013

FORESTAR GROUP INC	5.6
CHIMERA INVESTMENT CORP	5.1
WHITE MOUNTAINS INSURANCE	4.9
TAMINCO CORP	4.9
APPROACH RESOURCES INC	4.8
HERITAGE-CRYSTAL CLEAN INC	3.1
GLOBAL CASH ACCESS HOLDINGS	3.0
AVID TECHNOLOGY INC	2.8
VERIFONE SYSTEMS INC	2.8
NEUSTAR INC	2.7

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. 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 (FCF) represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. GHz refers to gigahertz, a unit of frequency equal to 109 Hz. CAPE refers to the cyclically adjusted price-to-earnings ratio, also known as Shiller P/E, a valuation measure defined as price divided by the average of ten years of earnings, adjusted for inflation. Inverse correlation defines a contrary relationship between two variables such that they move in opposite directions. Monetary base is the total amount of a currency that is circulated. The S&P 500 is a market value weighted index of 500 stocks designed to be a leading indicator of US equities. Dow refers to the Dow Jones Industrial average, a price-weighted average of 30 significant US stocks.

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.

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