December 31, 2015 Letter to Shareholders

Dear Fellow Shareholder:

First off, our very best for the New Year to you and your family. Our entire firm appreciates the relationship and the trust in which you have placed in our efforts. Sloganeering aside, we truly come to work every day with "Delighting Clients" as our stated goal.

The assets of an investment firm are its people, and our people democratically created this reality statement for our firm:

> We are a highly motivated, entrepreneurial, and open ecosystem. Every member of the firm understands DHM and the importance of its ordering—Delight Clients, Have Fun, Make Money. The atmosphere is highly collaborative and ideas flow across rank and job description, enabling "failure free" expression. The best thing a human being can do is help another human being know more—personal growth is encouraged and compensated. Resonating themes include: unwavering ethics and devotion to client first; independent work with full accountability; ownership mentality; a focus on what is the "best way," not "this is how it has been done before;" and submission of rank and seniority to best idea and best practice.

If we do this correctly, we will attract and keep great talent in every aspect of our firm and produce corresponding excellence in every aspect of our relationship with you. While I think we have gotten this mostly right to date, we are taking the next step.

We are delighted to announce that Ben Claremon, Paul Hinkle, Kelli Manthei, Eugene Robin, and Mathew Weber have become partners of the firm, joining me and Daniele Beasley in our quest to fulfill our mission stated above. Their contributions and responsibilities span from investing to trading to client service to design. They have demonstrated the "relentless passion" that I consider to be the critical DNA of our firm. We…and our external partners (clients) should be grateful to have them and look forward to a long and mutually prosperous future together.

Looking back on the calendar year as a whole, delighting clients was a more difficult task in 2015—in terms of performance—as equity markets were generally uncooperative. It was somewhat more disappointing as there were various moments of borderline triumph, only to step into the face of an equally difficult month to follow. While we strive for high absolute returns while minimizing risk, we only achieved the latter and take some solace at least for bettering our peer indices.

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Total Return

(%) as of December 31, 2015

	3 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION (10/03/01)
Cove Street Capital Small Cap Value Fund	1.71	-3.56	9.53	11.64	5.90	8.21
Russell 2000® Index	3.59	-4.41	11.65	9.19	6.80	8.79
Russell 2000® Value Index	2.88	-7.47	9.06	7.67	5.57	8.71

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 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 1.35%.

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.

But a year of little improvement is not a terrible thing, as it is part of a process of restoring the relationship between the price that is paid and the value of an underlying company. The stock market as a whole cannot continue to compound at a double digit rate in a low inflation world with tepid economic growth. From today's juncture, there needs to be more growth or future returns will weaken as the price/value relationship gets reset to historical norms. However our minds like to dwell on the past, it is only future returns that are relevant when evaluating a prospective investment, and a flat year of price sitting on top of value growth in most of our companies creates a better risk/reward going forward. It is the wealth we build over the long run that matters, not what happens in an arbitrary period determined by our annual lap around the sun.

One of the advantages that is embedded within Cove Street's investment discipline is a willingness to focus our efforts on companies that may not only benefit from economic tailwinds, but also in many cases are in some state of "self-help" through restructuring and/or management change. In these cases we need less to go right as far as the world around us and it is absolutely true that getting a few things right in a concentrated portfolio often enables us to produce good results despite a tough environment.

Our Strategy Letter, which will be in your hands shortly, will go into more of the bigger picture issues and we always encourage clients to sign up for more irregular updates on our website **covestreetcapital.com/blog/**. Our direct letters to you are more focused on the portfolio holdings.

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What Happened

Quarter Ending December 31, 2015 | Symbol CSCAX

SECURITY	AVERAGE WEIGHT	RETURN	CONTRIBUTION
TOP 5 CONTRIBUTORS	(%)	(%)	(%)
FRANCESCA'S HOLDINGS CORP	3.02	42.06	1.11
DREAMWORKS ANIMATION SKG	1.00	56.29	0.83
AMERICAN VANGUARD CORP	2.71	24.10	0.78
FMC CORP	4.24	13.29	0.60
LIBERTY GLOBAL PLC LILAC - A	2.66	22.29	0.58

SECURITY	AVERAGE WEIGHT	RETURN	CONTRIBUTION
TOP 5 DETRACTORS	(%)	(%)	(%)
FORESTAR GROUP INC	5.84	-16.81	-1.21
EVINE LIVE INC	2.90	-30.78	-0.95
DUNDEE CORP – CL A	1.02	-68.22	-0.86
NEUSTAR INC	3.69	-12.29	-0.45
COLFAX CORP	-1.15	-13.45	-0.37

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.

Starting as we always do with our detractors—under the "self-help" category, Forestar (FOR), the Texas-based real estate company, remains a work-in-progress as near-term pressure on oil prices and on the value of its energy assets (at this point a very minor driver of total asset value) seems to be overwhelming the company's efforts. The company has chosen to remain silent regarding its "liability management" initiatives, a decision we actually support despite its apparent near-term consequences. We never think it makes sense to negotiate deals in public or telegraph decisions to repurchase your publically traded securities until after the fact, and we think that is the case here. Cove Street placed two new members on the board earlier this year and helped begin a process that culminated with the departure of three legacy board members and the hiring of a new CEO and CFO—all of which we believe are big positives for shareholders. The company has already announced a large cost savings program, made the decision to sell all non-core assets, and hired an investment banker to eventually sell the company's energy assets. Our asset-by-asset valuation model indicates that Forestar trades at a fraction of its NAV, and as the company monetizes assets and improves its leverage position over the next few quarters, we expect that the stock market will appraise the stock more fairly.

Our investment in EVINE Live (EVLV) has not started out on the right foot. EVINE was down in the quarter after reporting earnings that showed limited improvement in margins and cash flows, an outcome that was in line with our expectations. Unfortunately, our takeaway was not shared by others in the investment community. The company is still in the very early innings of creating a viable home/online shopping network that not only competes with QVC and HSN, but is an online destination as more than 40% of sales are made online. CEO Mark Bozek has only been in charge for about 18 months but has succeeded in re-invigorating the company through rebranding the channel, attracting celebrity partners, and increasing distribution. Previously, the fund made more than a 40% return on HSN under the assumption that if HSN generated half the margins of industry leader QVC, we would see a great return. Similarly, if EVLV were able to achieve half of the margins that HSN generates, this will be a tremendous investment. Given its future earnings power and the value of its Boston TV station (a hidden but potentially meaningful asset), we expect EVLV to be a much better performer in the future.

Lastly, we have been buying Dundee (DDEJF) in the face of a complete shellacking, although our very small position weighting has minimized the net pain to date. Dundee is a complex collection of assets headquartered in Toronto and led by the next generation of the Goodman family—David. Previously the Goodmans created tremendous wealth through the creation and then sale of an asset management business. Unfortunately, David went with the business that was sold, and Dad stayed at the holding company, where he displayed a lax attitude toward capital allocation and a disastrous attachment to precious metals and energy. This situation has reversed itself as the elder Goodman has retired and David has returned to run Dundee. The company owns stakes in a variety of publically-traded entities that are worth well more than the price of Dundee stock, and we think some of the subsidiaries themselves are undervalued. There is a variety of cost-cutting programs underway, non-core businesses are being consolidated or divested, and Dundee continues to slowly build a wealth and investment management platform that we think will have great long-term value.

On the positive front, we start with Francesca's Holdings (FRAN), an apparel, gift, and jewelry retailer. After going public with the promise of being able to grow both the store base and same store sales (SSS) at a fast rate, FRAN struggled to do just that. As a result of these issues, the previous CEO was let go in late 2014 and Mike Barnes, the former CEO of Signet Jewelers (a wildly successful stock) took the helm. Since taking charge, Mike has begun to create a brand by reducing promotions, limiting the pace of store growth, and introducing Francesca's-labeled products. Although it has taken a few quarters for these initiatives to take hold, FRAN recently reported a very solid quarter in which SSS were up and gross margins were down only slightly. These results were a major contributor to the stock's appreciation in the quarter. From here, the combination of better execution, more rational new site selection, and a consistent, thoughtful promotional cadence should boost margins, help the company improve its already healthy cash flow generation ability, and boost its valuation.

When we first invested in DreamWorks Animation (DWA), the market was concerned that the company might have liquidity issues—given poor feature film performance and a cost structure that was out of line with the company's revenue base. Since then, DWA has generated cash through a sale-leaseback of its studio property, announced significant costs cuts, and delivered a hit move in Home. These events, in addition to the signing of more content deals with Netflix and other distributors, have improved the profitability of the company. Further, Kung Fu Panda 3, the company's first film created in conjunction with DWA's Chinese partner, will be released in early 2016 and the indications are that it will continue the success of the franchise. In a world in which content is king, DWA has an irreplaceable animation studio and a burgeoning foray into television (through its partnership with Netflix). In addition, the company has a controlling stake in Awesome TV, an online media property that we are sure none of our clients watch but that has proven to be wildly successful. We continue to think our estimate of asset value will be recognized by the market…or another industry player.

FMC (FMC), a recent addition to the portfolio, is a specialty chemicals company whose primary products target the agricultural, health and nutrition, and battery markets. The cyclical issues facing the global agricultural markets have not disappeared, but every day that passes we get closer to the inevitable rebound. FMC should be a beneficiary of more demand for agricultural chemicals in addition to better pricing in lithium, as lithium ion batteries continue to take share globally. Despite the rebound in the stock price from very depressed levels, our multivariate valuation approach indicates that FMC is still trading at a meaningful discount to intrinsic value.

Like FMC, American Vanguard (AVD) was up substantially this quarter as the outlook for agricultural chemicals…didn't get worse. AVD is still working through legacy inventory that was built up after incredible demand for its corn soil

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insecticide product in 2012 and 2013. As the inventory winds down, AVD is generating a huge amount of cash that is being used to pay down debt and improve its leverage position. The market has rewarded AVD for its cost-cutting efforts and has started to consider what the company's earnings power will look like once its gross margins normalize and the top line starts to grow again. Our original investment premise appears to be playing out, and after performing much more diligence, we remain comfortable with the management team and the stock's valuation.

In addition to FMC, we made two new material purchases. First, USG (USG) is a North America-focused producer and distributor of building supplies. The company, whose largest shareholder is Berkshire Hathaway, has leading market share in the production and sale of wallboard and ceiling tiles. The oligopolistic nature of these markets leads to USG having a degree of pricing power, especially during cyclical upturns. Recently, the stock price has fallen—and the valuation has become compelling—due to what appear to be short-term issues surrounding housing completions. However, over the next few years, it is likely that USG will see more robust demand for its products as developers and homeowners make up for years of under-investment in U.S. housing and commercial real estate. In that case, our research suggests that USG will experience significant margin expansion, generate substantial free cash flow, and achieve a much higher valuation.

Lastly, Colfax (CFX) is a global industrial company that operates 2 segments: gas and fluid handling, and fabrication technology. In the first segment, CFX designs and manufactures compressors, valves, and fluid handling systems. In the other, CFX focuses on the production of welding equipment. The share price of CFX has seen a meaningful drop, mainly due to the impact of the strong U.S. dollar and the company's exposure to weak energy-related end markets. These recent headwinds have pushed out the timeframe in which CFX is likely to achieve its growth and margin improvement goals. However, the pedigree of management and the Board—"The Rales and Danaher mafia"—is synonymous with "good management" and shareholder value creation. We started with a half position recognizing the economic headwinds, but are looking to materially increase our position over time.

Going forward, our song remains the same. We continue to look for opportunities to take advantage of inefficiencies in public markets. Our small cap fishing pool remains an excellent place in which to find opportunities as it contains thousands of companies with fewer eyes on them, at least partially due to the continued fascination with indexing and ETFs. We concentrate on our best ideas and are willing to act with conviction. We also have a talent dense team that follows a disciplined, value-based approach that is supported by almost 100 years of academic research that comes out in favor of small cap value as a superior asset class for the long-run.

Once again, we thank you for your partnership with us and we look forward to putting up some stronger absolute numbers in 2016.

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

Quarter Ending December 31, 2015 | Symbol CSCAX

CARROLS RESTAURANT GROUP INC	6.2	%
FORESTAR GROUP INC	5.8	%
HALLMARK FINANCIAL SERVICES INC	5.7	%
VIASAT INC	5.5	%
FMC CORP	4.8	%
HERITAGE-CRYSTAL CLEAN INC	4.8	%
AVID TECHNOLOGY	3.8	%
CHEROKEE INC	3.8	%
GP STRATEGIES CORP	3.3	%
FRANCESCA'S HOLDINGS CORP	3.3	%

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. 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.

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