Cove Street Capital Small Cap Value Fund Letter to Shareholders

DEAR FELLOW SHAREHOLDER — So here we are in the blessed sunshine of post-election America and the remarkable events of daily life remain remarkable. We have often talked about being in completely uncharted waters as far as Federal Reserve policy and the true unknowability of how financial markets will react to an ever more likely new era of irregularly higher interest rates and a diminution of the impact of monetary policy in the face of massive changes in fiscal policy. But clearly the election has dumped a new ocean full of water in the "ain't seen nothing like this" tub.

Performance over the past six months has been "tepid." The value index you see as one of our comparison indices was run up the mountain by the bank stock rally post the election, and we were not much of a part of that. What is somewhat sheepish to point out is that in a world that has punished active management for acting too much like an index at much higher fees, we clearly demonstrated that we are not an index fund in the fourth quarter of 2016!

Total Return (CSCAX) — % as of March 31, 2017

	6 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION (09/30/98)
Cove Street Capital Small Cap Value Fund	4.79	9.39	5.07	10.56	5.76	8.63
Russell 2000® Index	11.52	26.22	7.22	12.35	7.12	9.58
Russell 2000® Value Index	13.93	29.37	7.62	12.54	6.09	9.91

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 Institutional Class commenced operations on October 3, 2001. The performance results for the Institutional Class reflect the performance of the Investor Class shares from September 30, 1998 through October 2, 2001. The Investor Class subsequently closed, effective November 25, 2015.

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 1.40%. Net expense ratio, as of the most recent prospectus, is 1.24% and was applicable to investors. Cove Street Capital, LLC (the "Adviser" or "Cove Street") has contractually agreed through at least January 28, 2018to reduce its management fees, and may reimburse the Fund for its operating expenses, in order to ensure that Total Annual Fund Operating Expenses (excluding acquired fund fees and expenses, leverage, interest, taxes, brokerage commissions, and extraordinary expenses) do not exceed 1.25% of the Fund's average daily net assets.

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.

Some thoughts about the overall environment—we are betwixt and between. Every monstrous bull market starts with something that looks like the last 4 months: a stampede from an inflection point that looks obvious six months from now, but in its infancy is picked to death by articulate purveyors of the obvious. And the world is full of the highly-educated, the highly-articulate, and the data driven, and now they have the internet and access to our inbox with little claim to better forecasting. As noted in Berkshire's recent shareholder letter and in these ramblings for over 20 years, the beauty of bearishness is that it is full of precision-laden facts based upon TRAILING data that can always suggest we are the verge of imminent disaster. (Go ahead and Google news pieces around the great inflection points of 1982, 1988, 2001, 2009, etc.) In comparison, the bullish case for the future almost always sounds dopey: this is America, we are a democracy and a free market that is still the envy of the world, and somewhere and somehow, we manage to grow the economy, and as of yet unidentified people will create companies and hire people, and...so on.

Irrespective of the tweeting issues, there remains a very reasonable animal spirits-based case for upside surprises when businesses are encouraged to invest with lower tax rates and with fewer regulations. Every "survey" of business expectations from small business to large corporations is off the charts high, as is arguably the "great survey," the stock market. And isn't it nice to see people with business experience overseeing business regulation and finance experience overseeing financial regulation? No dear reader, a PhD, a law degree, and/or a tenured position at an Ivy League school is not a qualification for thoughtful economic foresight.

Our real area of concern is simply the valuation of many common stocks and what assumptions have to be made to justify their valuation. The future remains full of probability weighted possibilities and x% is clearly tied to 3%-plus GDP growth rate with awesome earnings power well in excess of what we are "used to." Yet, as anyone who has walked into an institutional client meeting 2.5 years into a relationship knows, 8 years is a veritable eternity in the minds of the economic and financial community, so a backend weighted set of economic goodness is now well-priced in today's equity market. There is simply a lot that has to go right—and go right right away—or prices will likely adjust accordingly. Understanding expectations implied by valuation is critically important to the process of not losing money, and it is correct that in investing and marriage, if you start with low expectations, you are less likely to be disappointed.

But this is not 1981 with stocks trading at book values that were wildly understated given the ravages of double digit inflation and interest rates about to go from 18% to effectively zero. We are much closer to full employment today, versus double digit levels in 1981, and take a serious look at the demographic trends which conspire against the pure math of economic growth. There are some narrative parallels and we all know we behaviorally love a good narrative; but I sense they are much slimmer than perceived in some camps.

One thing we think you can take to the bank about the interim future is the recognition that stocks can and should be much more volatile than they have been in a zero interest rate world and frankly we look forward to those days. We had a pretty decent year last year, ex-banks, but frankly we hate markets that go up every day. We like a certain degree of mess and uncertainty and I am quite certain we are going to get our fair share in 2017.

So we have adjusted accordingly and have leaned into some wonderful winners bought in the economic dog days of late 2015, partially or in their entirety. Their replacements and our short list of candidates are eclectic: mattresses, aerospace, consulting, post-bankruptcy companies, nursing homes, media, and, gulp, some retail. We acknowledge that might be a little too eclectic—an outcome of the paucity of choices available—but we have nice optionality in our portfolios that is not necessarily beta-driven. Throw in a concentrated portfolio, and in theory we can be defensive and create upside if enough internally generated ideas work on their own accord without much help from the outside world. That's the plan.

What Happened (CSCAX) — % for the Six-Month Period Ending March 31, 2017

TOP 5 CONTRIBUTORS	AVERAGE WEIGHT	RETURN	CONTRIBUTION
FMC Corp	5.11	45.11	2.07
E.W. Scripps Company	2.59	47.08	1.08
Novanta Inc	2.24	52.96	0.99
Select Comfort Corp	2.75	32.71	0.96
TEGNA Inc	3.47	21.60	0.94

The 5 Contributors measure the top five contributors to the portfolio's total 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.

TOP 5 DETRACTORS	AVERAGE WEIGHT	RETURN	CONTRIBUTION
Avid Technology Inc	2.60	-39.75	-1.20
Liberty Global Plc LiLAC A	4.76	-19.96	-1.06
Dundee Corp – CL A	1.51	-41.54	-0.77
EVINE Live Inc	1.15	-44.37	-0.72
ViaSat Inc	4.89	-14.17	-0.72

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.

And now for the details. Our largest detractor over the period was Avid Technology (Ticker: AVID). The Company is a leading provider of professional software for video and audio production—through its Media Composer and Pro Tools product lines. Avid has had a perplexing tendency to be either our best or worst performer over short periods due to the highly variable nature of Avid's quarterly results as well as a complex accounting treatment that will mathematically run-off in the second quarter of 2017. Our research continues to suggest a franchise value that is obscured by the current lack of cash flow generation and that 2017 will be the telling year as it relates to the success of management's current strategy. After selling almost half our position early in 2016 for a material gain, we reloaded the position over the period.

The initial returns make it clear that we have been early in our investment in Liberty Global's Latin American cable businesses, Liberty Global PLC LiLAC (Ticker: LILA). Not long after we purchased the shares, LILA announced the acquisition of Cable & Wireless (Ticker: CWC), a deal which added more scale within the Caribbean and Central America. Unfortunately, the subsequent results suggest that LILA overpaid for CWC and underestimated the impact of competitive pressures in the acquired markets. However, despite the rocky start to this marriage, our analysis indicates that the combination of CWC and LILA creates a platform to continue to consolidate the Latin American and South American cable markets. In addition, even absent further acquisitions, increasing pay TV penetration and high return capital investments should allow LILA to grow its cash flows at a very respectable rate. As a result, we view the stock as materially undervalued in the low $20s.

ViaSat (Ticker: VSAT), a provider of defense encryption services and satellite communications, declined during the period thanks to an issuance of primary shares in November. That capital will support the company as it accelerates expenditures on its constellation of next generation satellites, thereby depressing short-term earnings. We view the company through the lens of a long-term compounder of value through its differentiated satellite broadband service offering and thus see the acceleration of future constellation development as a net positive. VSAT also has a large catalyst approaching in April of 2017 that involves the launch of its second high-throughput satellite. The uncertainty underlying any satellite launch's success has weighed on the stock as well.

On the positive side of the ledger, our largest contributor was FMC (Ticker: FMC). FMC is a specialty chemicals business that addresses three segments: agriculture, personal care, and lithium. It continues to show improvement from tough agricultural conditions in 2016, much improved Brazilian currency, and huge numbers out of their Lithium division. We felt that the company is a leading contender for a piece of billions of dollars of anticipated divestitures coming out of the merger of three pairs of the largest agricultural chemical companies in the world. In late March, FMC announced a transaction with DuPont (Ticker: DD). FMC will acquire the portion of DuPont's Crop Protection business required to be divested by a European Commission ruling related to DuPont's merger with The Dow Chemical Company (Ticker: DOW), in exchange for FMC's Health and Nutrition business and cash. The transaction is expected to be accretive to earnings and was very well-received by the market. We would note that FMC is now running "high" as far as what constitutes a small cap stock and it is a likely divestiture in 2017.

Novanta (Ticker: NOVT) supplies laser, optical, and motion control technologies to medical and industrial original equipment suppliers. The company has evolved over time through a series of acquisitions and divestitures that resulted in a more medical focused, higher margin, and better return business. Novanta's CEO recently retired and was succeeded by the company's COO who has articulated an ambitious plan to further enhance revenue growth both organically and through acquisitions. Recently the company undertook two value enhancing acquisitions; a technology focused bolt on acquisition and the consolidation of a laser component supplier the company has held a minority stake in for several years.

TEGNA (Ticker: TGNA) which is a new position in the period was also a material contributor. We purchased it as a result of a sum-of-the-parts analysis that suggestion a value substantially higher than where the stock was trading. The stock had been beaten up after the 2016 political ad spending came in well below expectations and there were concerns that the Trump victory would impact future spending. Since then a number of external events have occurred—including a change in leadership at the FCC—that have been positive for TEGNA and all of the local TV broadcast companies in the U.S. Cove Street and the market are awaiting the spin-off of the company's Cars.com subsidiary but our research continues to suggest that the two parts are independently worth more than the current share price.

Now we move on to new positions, including Sally Beauty Holdings (Ticker: SBH). The company is made up of two divisions, a beauty-focused retail segment (Sally Beauty Supply) and a distribution business (Beauty Supply Group) that caters to professional hair and nail salons. Over the past five years Sally Beauty has successfully grown the store base of its two concepts, and until very recently, had enjoyed continuous same-store-sales growth in each segment. The company and the stock have hit a rough patch as the Sally segment's sales productivity turned negative in Q4 2016 and the robust organic growth within Beauty Supply has slowed down. At this moment in time, brick and mortar retail stocks have been just about left for dead by the market and even concepts—such as SBH's beauty stores—that should see less sales and margin pressure from the likes of Amazon.com are trading at previously unseen multiples. Cove Street recognizes the potential impact from more of Sally Beauty's core consumers and business customers shopping online versus in-store. However, our research suggests that even with subdued growth and limited margin expansion opportunities, the shares could be worth close to $30 over the next few years.

We initiated a new position in Compass Minerals (Ticker: CMP), which for careful readers was a position in the fund almost ten years ago. Compass is primarily a producer of rock salt used for de-icing applications as well as a growing player in agriculture via its micronutrient and sulfate of potash (SoP) business. In 2016, the company completed an acquisition of a joint venture that produces micronutrients for fertilizers in Brazil. To some degree, this initial investment had flown under the radar of most investors for the three quarters that the JV existed. However, after performing a lot of due diligence and updating our valuation model, we realized that the acquisition was a case of the company being "in the right place at the right time." Although the winter was relatively mild, we are comfortable that a return to a more "normal" level of snowfall in the U.S. would return the company to a much higher level of earnings. We believe this combination of an underappreciated asset and a reversion to the mean created an investment with significant upside potential.

Select Comfort (Ticker: SCSS) is a new position built in the period and was also a contributor. The company produces and then sells its Sleep Number beds within its exclusive store network of about 525 stores. SCSS has had its ups and downs in recent years. The company had difficulty implementing a new enterprise resource planning (ERP) system and subsequently saw same-store-sales fall 29% in Q4 2015. However, the large investment in technology and the store base is now mostly complete, and management has suggested that the company is at a cash flow inflection point. Additionally, the new ERP system is allowing SCSS to take costs out of the supply chain and be much more targeted in its advertising. As a result of these and other initiatives, the company has crafted some very ambitious goals for 2019—namely $2.75 in earnings per share. Our research suggests that even if those targets are not reached, basic blocking and tackling can lead to materially better margins and returns on capital. The stock appears to be undervalued based on our modest growth assumptions and with an unlevered balance sheet and the ability to generate a lot of cash, the company should be well positioned to continue to return cash to shareholders.

Over the period we sold several positions including Entravision (Ticker: EVC). The Company was sold in 2017 as the fundamentals of its TV broadcast and radio businesses continued to struggle and we became concerned that the value of the company's spectrum assets was being negatively impacted by the interim results of the FCC auction. Our initial assessment was that there was minimal value for the company's unique spectrum position embedded in the stock price, creating an asymmetric upside opportunity. However, the ongoing ratings weakness at the core Univision stations and the necessity to continue to spend to retain radio talent reduced our estimate of the value for the operating businesses. As such, we sold the stock near fair value and the stock has continued to languish despite the company announcing that it would receive $260 million in spectrum auction proceeds.

Another is Baldwin and Lyons (Ticker: BWINB), which is a specialty property and casualty insurer that appeared inexpensive on a book value basis, had a conservative long-term financial posture, and paid a dividend yield of 4% —a solid value. It was controlled long-term by a wealthy Chicago family, managed by the same CEO for 25 years and had a ten percent shareholder in Fairfax Financial, a Canadian insurer in which we had made a lot of money as an investor and whose modus operandi was to acquire stakes like this and wait until the family wanted to sell. All was well for three years. And then in a true testament to the statement, "life cannot be modeled in a spreadsheet," the senior management quits in a public huff overnight as a second generation of family began to exert influence, the management gets quietly backed to start anew by the one and the same Fairfax to directly compete against Baldwin, and we are getting calls asking if we want to buy 10% of the company from a large shareholder (Fairfax). We properly added together these interesting variables and were able to exit our position with minimal issues.

Another sold position was VeriFone Systems (Ticker: PAY). The company is the leading provider of point-of-sale terminals across the country. Their hardware is located in most brick-and-mortar stores, as well as in gas stations and any variety of small merchants across the world. We sold our position due to several factors that have altered our long-term view of the value of PAY. Upon further review of their competitive position vis-à-vis their major competitor, we established that PAY is still several years behind and cannot go to market with a singular integrated solution, which impairs their ability to leverage operating costs and grow margin. Additionally, we view the lack of a viable value added services component as a detriment to long-term value since it exposes the company to an eventual grind down of gross margins on a predominantly hardware focused platform.

We have completely exited our positions in Colfax (Ticker: CFX) and Raven Industries (Ticker: RAVN) due to both companies reaching valuations that could not be justified by the cyclical nature of their underlying businesses. We were especially sensitive to the Colfax valuation as the mix of businesses is geared more to a volatile energy end market and given that the stock price implied a very large snap back in energy demand and infrastructure spending. Raven was much more difficult to part with as we view it as a longer-term cyclical compounder. However, just as with Colfax, we judged the price level to be indicative of too much future growth baked in too quickly.

So to reiterate, we think it is crucial both as an investor and as a firm operating within a rapidly changing ecosystem to think a little different than the average bear. We continue to think the advantages of fishing in smaller pools enhances our odds of finding something overlooked or underappreciated. We think limiting asset growth assists in our ability to deliver performance for clients. We think having a smaller group of passionate and focused professionals is an advantage. We don't need more ideas; we need to be more thoughtful about what is in front of our faces every day.

Thank you for your continued partnership.

Best Regards,

Jeff Bronchick

Jeffrey Bronchick, CFA | Principal, Portfolio Manager
Shareholder, Cove Street Capital Small Cap Value Fund

The information provided herein represents the opinions of Cove Street Capital LLC and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Opinions expressed are subject to change at any time.

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.

Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income.

Earnings per share (EPS) is calculated by taking the total earnings divided by the number of shares outstanding.

Book Value is the value at which the asset is carried on a balance sheet and calculated by taking the cost of an asset minus the accumulated depreciation.

Top 10 Holdings (CSCAX) — % for the Period Ending March 31, 2017		
FMC Corp	4.9	%
Liberty Global Plc LiLAC A	4.8	%
ViaSat Inc	4.6	%
Heritage Crystal Clean Inc	3.9	%
Select Comfort Corp	3.9	%
GP Strategies Corp	3.8	%
TEGNA Inc	3.4	%
Compass Minerals International Inc	3.4	%
Millicom International Cellular S.A.	3.1	%
Hallmark Financial Services Inc	3.1	%

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. 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.

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