COVE STREET CAPITAL Funds

Letter to Shareholders

GREETINGS FELLOW SHAREHOLDER:

At the first half mark of 2019, we are reasonably pleased to look back on the past four quarters of performance improvement, confirming our internal prognosis that our intellectual capacity remains intact and our investment process and discipline sound. This past quarter was more of the same.

On a higher level, what we have seen once again is that Federal Reserve "language" remains the giant elephant in the room. Like it or not, when the Fed suggests tightening, equities react poorly. When the Fed suggests lower rates are possible, the equity markets rally accordingly. In the absence of any actual global calamities on any number of fronts, this remains the dominant theme of the year.

But for us, what matters more is what we own, since we only own 32 securities. And we continue to be pleased that we have seen some "positive maturation" in enough of our larger holdings to put up good performance.

As is our tradition, we start with our detractors, and this quarter our largest was GTT Communications (Ticker: GTT, -49.1%) which is a provider of cloud networking services and broadband connectivity to multinational enterprises and government customers. Increasing margins, due to owning physical infrastructure assets, combined with a low capital intensity service/integration business create an interesting hybrid model that is poised to grow well in a world of ever-expanding international interconnectedness. A large purchase of European infrastructure has given the Company new markets and fixed assets that are hard to replicate but has also created a financially leveraged firm. GTT was a detractor this quarter due to missed organic growth expectations that were used as guideposts for the overall health of the Company. Our research indicates that while prior growth expectations were out of line with the underlying reality of GTT's business mix, the current valuation implies zero to negative organic growth, providing a healthy margin of safety at the current valuation. We have actively bought and sold portions of our position in GTT over the past year given the volatility of its stock price, which has added value, and we have resized the position to "half-size," but that didn't help enough. With their debt maturities not occurring for five years, we see no impending liquidity issues and thus remain holders of GTT.

TOTAL RETURN **(CSCAX)** — % as of June 30, 2019

	3 MONTH	YEAR to DATE	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION (09/30/98)
Cove Street Capital Small Cap Value Fund	3.52	19.65	6.53	6.89	4.13	13.18	10.11
Russell 2000® Index	2.10	16.98	-3.31	12.30	7.06	13.45	8.73
Russell 2000® Value Index	1.38	13.47	-6.24	9.81	5.39	12.40	9.04

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 1.17%. 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.

The recent period for E.W. Scripps (Ticker: SSP, -27.1%), a broadcast television company that has been aggressively investing to build up its digital properties, has been a bit bizarre. The stock ran up significantly after the company made a flurry of deals, at which point we started to reduce our position size. Then, after reporting relatively benign Q1 2019 numbers, the stock fell back down to earth. As a result, we actually added to our position as the stock came down. The market appears to be concerned about the leverage the company has taken on to acquire a number of broadcast stations and other non-TV assets. But, when the dust settles, Scripps will be a top five broadcast company with a bunch of growing digital businesses that are not as tied to the political cycle and local advertising dynamics. In addition, the cash flow that will be generated from a step up with a major customer (Comcast) and the 2020 election should help SSP de-lever the balance sheet. Our analysis suggests that the stock trades at a material discount to what its individual assets could be sold for. As such, we believe there is substantial margin of safety and enough to continue holding the stock.

Millicom International Cellular (Ticker: TIGO, -6.3%) is the leading cable and wireless provider in Colombia and Central America. The company is refocusing on its pole position in the quickly growing cable triple play market in Colombia, while shedding valuable but disparate African media assets under the direction of a CEO who hails from Liberty Global (Ticker: LBTYA). This past quarter's results were in line with expectations; however, an announcement by the largest shareholder, Kinnevik, that they were going to sell their position via a secondary offering caused the stock to tumble for uneconomic reasons. Kinnevik subsequently reversed that decision but the uncertainty around their intentions going forward continues to weigh on the stock. Looking past short-term noise, we still see a severely undervalued stock that is continuing to develop into a premier Latin American cable/telecom player and one that trades at a valuation reserved for declining telephone focused entities not growing cable centric organizations with excellent returns. It is one of our largest positions and we remain holders with conviction.

Our largest contributor for the quarter was Hallmark Financial Services (Ticker: HALL, 36.9%). This position provides one answer to the question, "How long do you wait with a dead stock before you admit you are wrong?" The answer is of course multi-faceted, but predicated upon a consistent and realistic update of business fundamentals. We bought into a small insurance company trading well under book value that was "organized" by a financial professional who owned 30% of the stock himself. It simply took "a while" before the right CEO was put in place, the right systems were built, the right people were put in the right slots, and time had to pass until results could be demonstrated. Naturally all this took more time than we would have liked, but Hallmark was a classic "if our downside is boredom, what if something good would happen?" Something good is happening and the stock now trades a smidge under book value. We think Hallmark can compound book value at a high single digit rate through careful underwriting, intelligent investing and the ability to grow from a small base. And that is a combination that will attract someone else besides us to invest, as we are beginning to see.

Avid Technologies (Ticker: AVID, 23.7%) is the leading provider of professional software for video and audio production through its Media Composer and Pro Tools product lines. AVID contributed to performance this quarter thanks to continued momentum by the company in achieving organic growth and real free cash flow generation. Our research points to improved cash flows in 2019, respectable revenue growth, and increased profitability with significant upside in stock value from these levels if even a fraction of the management's goals are actually achieved. Due to strong appreciation in the quarter, we trimmed the holding.

Smart & Final Stores (Ticker: SFS, 31.8%) has two retail concepts. One is a hybrid between a traditional club store and a grocery store, and the other—Smart Foodservice® Warehouse Stores—is a bulk food retailer focused on small business and restaurants. Amazon's entry into the grocery market with its purchase of Whole Foods put pressure on the stocks of many grocery related companies. This provided us with an attractive entry point. In the quarter the company announced an agreement to be acquired by Apollo Global Management (Ticker: APO) for $6.50 per share in cash. We sold our position during the quarter after the announcement.

We also sold our remaining shares of EVINE Live (Ticker: EVLV) during the quarter. There is not much else to say other than that this investment was a mistake, albeit a small one. After yet another failed management plan and subsequent CEO change, we decided to put our capital to work elsewhere.

We added to our position in GP Strategies (Ticker: GPX), which is one of the largest providers of learning solutions to Fortune 500 companies. In recent years organic growth has lagged due to some internal missteps and end market issues with their UK Learning business due to changes in government funding. However, it still remains an asset-light, high cash flow generating business. We have been following this business for many years and believe the market has been over-punishing the company at current valuations, so we bought additional shares during the quarter. With some internal organic growth initiatives underway along with the acquisition of TTi Global at a good price, we believe there are multiple items that should lead to an improvement in the company's fundamentals in the upcoming year.

We have three new positions that we continue to build, but their liquidity is more limited than we anticipated and thus we will hold commentary until we have reached our desired position target.

On a more mundane, but certainly germane topic, we did a line item expense review with our fund administrator, U.S. Bancorp Fund Services, a process which will now be an annual exercise. The work resulted in an annual reduction of almost 3 basis points based upon current asset levels. It's the world in which we live.

Going forward, we continue to see pockets of interesting value in eclectic areas. If there is a theme, it is likely "stocks that have been hammered due to cyclical economic fears." Sadly to say, we have no magic 8-ball that enables real insight into how any of the myriad oddities in the world that we all read about will resolve themselves. But what we own and are looking to buy have real business models that sell real products or customer solutions that would be missed if they went away. The trick is get that right, and purchase their equities reasonably. And properly understand how our definition of reasonable may be subject to interpretation.

On behalf of team Cove Street, thank you once again for your partnership.

Best Regards,

Jeff Bronchick

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

Letter to Shareholders

TOP 10 HOLDINGS — % as of June 30, 2019

Heritage-Crystal Clean Inc	4.8 %
Millicom International Cellular S.A.	4.7 %
ViaSat Inc	4.7 %
UFP Technologies Inc	4.7 %
Colfax Corp	4.5 %
Compass Minerals International Inc	4.5 %
Avid Technology Inc	3.8 %
Spectrum Brands Holdings Inc	3.7 %
Hallmark Financial Services Inc	3.6 %
Patterson Companies Inc	3.3 %

Fund holdings 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.

Margin of safety refers to an investment principle in which an investor seeks to purchase securities when their market price is significantly below the investors' estimation of its intrinsic value. Free cash flow is a measure of profitability that represents the cash a company generates after cash outflows to support operations and maintain its capital assets. A company's book value is equal to its carrying value on the balance sheet, and companies calculate it netting the asset against its accumulated depreciation. Basis point (BPS) refers to a common unit of measure in finance, where one basis point is equal to 1/100th of 1%, or 0.01%.

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 Cove Street Small Cap Value Fund is distributed by Quasar Distributors, LLC.