Letter to Shareholders

December 31, 2020

C S C A X

GREETINGS FELLOW SHAREHOLDER:

As we have noted previously, one cannot practically ignore the celebration regarding our annual lap around the sun. Although I think it's fair to say that there are roughly 7.5 billion people outside of Silicon Valley or those who run large cap growth/tech funds that are delighted to see 2020 declared over.

Do we really have to go through another soliloquy on the folly of "forecasting"? (If you need a hint on what we think of the annual prediction derby, please see Phillip Tetlock's book *Superforecasting: the Art and Science of Prediction*) Spoiler alert: it is hard to be right and it is usually embarrassing. In fact, there is an awful lot of commonsense in adopting a baseline case that assumes the next year, in both life and investing, will be sort of like the last 50 years. That being said, you need to be on your toes and looking for disconfirming evidence…….or a global pandemic. Anyone disagree?

So, let's get directly to a few thoughts for 2021 before we dig deeper into the portfolio:

- Is it not odd that investing today has the contradiction that stocks are pricing in a "new era" yet investment turnover is higher than ever? Thus investors seem to have a lack of will to see their predictions through?

- Most investments in most asset classes are "highly valued" by any measure that uses anything but a 1% interest rate as its hurdle rate. We repeat the idea (despite the fact that it has been incorrect for some time) that only the slightest disturbance can topple something or someone precariously perched atop a ladder, like this market is. But as consistently proven over the last number of years, a 1% hurdle is a low bar and is a powerful motivation for putting money to work in nearly anything.

- We believe now is the time to employ a strategy that leans as hard as one can against "Large Cap / Growth / Tech / Private Companies" and lean into "basic cash flowing--often Small Cap--businesses that trade publicly." (aka: Smaller Cap Value) As noted above, predicting an absolute return number for any given year, or two, is a game you fail simply by entering. But, what about a relative return call? All day. Right here. While we don't "idealize" one month of massive changes in relative performance (although we will take it), we do think this shift will be a multi-year comeuppance. There is simply a planet-sized gap in trailing - and future - relative returns between what has been hot and what has been forgotten.

- We have a disciplined, patient process. We pay attention. We are smarter than we were last year. As such, we firmly believe there will be things to do that we can't pretend to foresee on right now. There are literally hundreds of companies that went public during this year of total nonsense and with zero adult supervision. Disappointment breeds in these waters and represents a new well of future ideas.

- The world of COVID-19 "brain" will continue to recede. We are not negating or dismissing the very real individual losses and trauma from this episode, but in the comprehensive historical review of global decision making, 2020 will rank as more man-made tragedy than the tragic inflection point for mankind. The collective "we" are not changing remotely as fast as the world can blog. Endlessly. At all hours. While we lost money and faith in "cyclical vs secular" in the case of movie theaters, having exposure to a return to social interaction is a bet that will pay off in our view.

TOTAL RETURN (CSCAX) — % as of December 31, 2020

	3 MONTH	YEAR to DATE	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION (09/30/98)
Cove Street Capital Small Cap Value Fund	24.52	-8.62	-8.62	-0.38	3.97	7.74	9.10
Russell 2000® Index	31.37	19.96	19.96	10.25	13.26	11.20	9.35
Russell 2000® Value Index	33.26	4.63	4.63	3.72	9.65	8.66	8.99

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 December 31, 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 1.23%. 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.

- What comes to mind when you think of low interest rates, seemingly unlimited and unencumbered credit, a revival of vaccine-induced human spirits, and a corporate cash flow high? M&A (mergers and acquisition). Hopefully expensive, record setting multiple M&A focused on smaller companies where strategic synergies are plentiful and corporate costs can be eliminated. We have a list of legitimate targets if you are a CEO lacking initiative and imagination.

That is about all we can offer in the barrage of New Year blather. As we turn to some material thoughts about the prior year, it might be easy to infer a distinctly negative tone. Part of that is derived from our own failures and the hard fight to keep that bottled up and thus not let it affect decisions for the future. But yes, there are a lot of things that bug us that seem completely unsustainable and yet seem to be sustaining for something longer than the proverbial "short-run." And we kid ourselves not: to proclaim, "oh, we have problems, but don't worry, not in what we own" is frame of thought that has proven not to be helpful when it comes to capital preservation. (A quaint notion that has relevance every seven years or so.) But we will say it directly: there is an absolutely NUTS, year 2000-like, tech bubble-esque disconnect between a thoughtful investment process defined by people--long dead–in a book in its 6th printing and the current fervor for what can almost be called "cargo cult" investing. As defined in Wikipedia: "a millenarian (millennial?) belief system in which adherents perform rituals which they believe will cause a more technologically advanced society to deliver goods. These cults were first described in Melanesia in the wake of contact with allied military forces during the Second World War." By investing in a concentrated and curated list of businesses that are mostly getting more valuable every day, or whose reasonable and boring estimate of value is so divorced from the price of its public securities, we think we can do a lot better—absolutely and relatively.

This was definitively not the case in 2020. In broadly reviewing the year thus past, let's just get the "it was really disappointing" out of the way. There are simple mathematical facts about compounding capital that get really unpleasant when you have the start of a year that we did. Disappointment two: in print and through a series of really interesting and mostly short-term unrewarding calls and Zoom meetings, we "begged" for more money in March/April. We got some, but we didn't execute "well enough" on being mostly right. As it turned out the correct strategy was buying the stock of every crappy levered company that didn't go bankrupt. In fact, 70% gains from the bottom turned out to be underperformers. A professional investor can dim the lights, pour a glass of Whistle Pig and provocatively cover himself with Berkshire Annual Reports. But as Keynes noted, successful stock investing requires some sense of who are the other judges in the beauty contest. A blind focus on "just the business model" takes a LOT of fortitude and ideally permanent capital. We have the former...the latter is a wish list. And clearly, Elon Musk looks a LOT better in a bathing suit than Mark Dankberg, the CEO of ViaSat.

So, putting together a series of good and bad outcomes doesn't help in the short run and can burn a nice hole for a while in what was a good long-term track record. We have a culture of transparency and have always had problems putting forth the shiny veneer that is typical in the investment industry. When we stink, we stink. We own up to it, we get smarter from it, and we adapt and move forward. (That doesn't take the sting off though.)

Walking through some of the notable movers or changes in the portfolio, ViaSat (Ticker: VSAT) underperformed this quarter due to renewed disappointment with the delay of the launch of company's new third-generation satellites – thank you COVID. In addition, the perceived threat from the entry of Starlink, a conceptual competitor in the North American consumer business, exacerbated concerns. With limited travel happening due to the virus, VSAT's lucrative in-flight business has dropped by over 50%, taking down revenues and profits by 10% in the process. While the stock performance has been extremely disappointing, we continue to view the Company as having a large moat and unique differentiation versus its competitors. The downward pull of the stock price has created an ever growing asymmetry of returns versus risk and our research indicates that there is a large amount of upside from these levels. It is our largest position and we have added to it.

2020 has been a roller coaster of a year for all movie theater operators, including Cinemark Holdings (Ticker: CNK). We have followed the company for a number of years and owned Cinemark pre-COVID. The stock was unsurprisingly crushed as the company was forced to close all of its theaters earlier in the year. However, our premise was that movie theaters would be one of the first places people, especially Americans, would go once the country started to re-open. What we underestimated was not necessarily people's willingness to go to movies but the studios' willingness to starve the theaters of content. After the Chris Nolan film Tenet was released and the attendance numbers were very weak, the studios started pushing back release dates. Also the studios, especially in the case of Time Warner, decided to put movies onto their streaming platforms either in lieu of showing them in theaters altogether or doing so without providing theaters the "exclusivity" window that had been offered for decades. These events had a large impact on the price of CNK during the quarter and led to it being our largest detractor. We made a not so great sale after a not so great buy under the heading that cyclical problems are buyable, but you really begin to have problems when the problems turn out to be secular.

WPX Energy (Ticker: WPX) is an oil and gas producer that we have successfully owned in the past. The good news this time is that we bought it just months before it was taken over in a deal announced by Devon Energy (Ticker: DVN). The bad news is that it was taken "under" our purchase price and will no longer be a Small Cap company. We are working on additional ideas in Energy as we think legitimate green ambitions are grossly over-exaggerated and over-imposed on the valuations of carbon energy companies. Energy is one of the toughest places to invest in Small Cap and we are treading carefully. More to follow.

Our top contributor during the period was PQ Group Holdings (Ticker: PQG). When we first invested, PQG was a group of four businesses that mainly manufactured specialty chemicals and provided refining services. It was trading at 8x EBITDA vs. comparable specialty chemical companies that were trading at 10-12x EBITDA. At around the time of our investment, PQG publicly committed to selling lower margin segments. The culmination of this was the recent divestiture of the Performance Materials segment, a lower quality business, for 8.7x EBITDA, a higher multiple than our original investment at 8x EBITDA. Additionally, the company announced the intention to divest another one of its segments, Performance Chemicals. The top two majority shareholders of PQG, which own approximately 70% of the company, have proven to be shareholder-friendly by sensibly divesting businesses and have used the cash from the recent divestiture to pay down debt and distribute a $1.80 per share dividend. These value-realizing actions, along with tight cost controls that have held margins stable during COVID-19, have bolstered the stock price and made PQG a top contributor for the quarter.

We have been long-term shareholders of Avid Technology (Ticker: AVID), the leader in software and services for music and video creation. The company has been in the midst of cost cutting and a change of business model from license software sales to subscription sales. This process took time – a long time - with a variety of stops and starts that we at least were able to profit from by paying attention to the underlying changes in the company. It is also worth noting that as a large shareholder, we were able to insist on changes to the Board and their overall corporate governance program, changes that are positive over the long run. The market has begun to heavily reward the company for these improvements and it was a contributor for the quarter.

Also on the very positive list was Six Flags Entertainment Corporation (Ticker: SIX) which operates regionally-focused theme parks throughout the United States and in Mexico City. We initially acquired Six Flags stock because we were attracted to the company's cash flow generation and unique footprint of theme parks near major cities where land restrictions make the threat of competitive entry non-existent. The stock fell significantly in February and March of 2020 with the impact of COVID. At this time, we increased our position on the basis that park closures were likely temporary and the company would be substantially more valuable on a return to normalcy. Six Flag's stock nearly doubled off its bottom in the second and third quarters as the company's debt covenants were waived until 2022. The news of several highly effective vaccines in October resulted in a further rally as the widespread use of vaccines would eventually allow theme parks to reopen.

Millicom International Cellular (Ticker: TIGO) is the leading cable and wireless provider in Colombia and Central America. The company has focused on its pole position in the quickly growing cable triple play markets of Colombia, Bolivia and Guatemala after shedding valuable but disparate African media assets under the direction of a CEO who hails from Liberty Global (Ticker: LBTYA). This past quarter's performance was mostly due to the better than expected results in the face of COVID-19 lockdowns. Additional, given that COVID-related issues for Millicom included various government mandates to continue to provide wireless service to non-paying customers in certain countries along with the closure of all brick and mortar retail locations, a potential vaccine to alleviate these artificial demand issues helped spur upside movement. 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/wired connectivity centric organizations with excellent returns.

GP Strategies Corporation (Ticker: GPX) specializes in training and learning solutions for a diversified client base that includes many Fortune 500 companies. GPX suffered during COVID-19, as historically 25-30% of its overall revenues have been derived from face-to-face training. However, the business has been able to pare down its cost structure in line with revenue declines and maintain profitability, and the business continues to be cash flow positive. Additionally, the company has divested assets at about 2x revenue while trading at 0.5x revenue. The proceeds from the divestitures of these assets have helped pay down debt and have boosted the share price.

Tapestry (ticker: TPR) is the holding company that owns the luxury consumer brands Coach, Kate Spade and Stuart Weitzman. This is a company that we have owned in other strategies in the past and therefore, we were very familiar with the brands, the margin structure and recent history. The stock went down materially when COVID-19 forced the company to close its stores and there was emerging concern regarding the health of global luxury consumers. When we bought the stock, our research suggested that only one brand really mattered to TPR—and that was Coach. We recognized that success at Stuart Weitzman and Kate Spade would be helpful but that Coach would be the driver of a rebound in revenue and cash flows. The price that we were paying for the shares implied a perpetual decline at Coach. We did not believe was likely, especially given the strength of the brand in China. Accordingly, we were not surprised to see Coach bounce back in Asia pretty quickly and the stock followed to the degree that it was no longer a small cap. We made north of a 50% return in a short period of time, which is "fine."

Going forward, we thought we would make a brief statement regarding "value." Let's start off by saying we hate labels. And the investment world is tired of hearing the same arguments in favor of value. I know we are. And if Berkshire Hathaway (Ticker: BRKB) can buy Snowflake (Ticker: SNOW) on the IPO, then what can't one do? We have never practiced a discipline that seeks to buy just the cheapest stocks. Or the ones with the most historical balance sheet assets trading at a discount to book value. Or just focused on "trailing metrics'' and ignored future possibilities. It is this simple: the value of any investment is the current cash flow divided by a discount rate plus the present value of future valued added. So, an investment can be all current income and zero future value– like a bond. It can be the value of the current cash flow and a negative future value - value traps, secular problems, capital

Letter to Shareholders

allocation disasters, etc. It can be a negative current value and an enormous future value – early Amazon. It can also be a current negative value and a negative future - Nikola and a lot of newly public things priced at dozens of multiples of revenue. Value investing has always included analysis of all the above and is a philosophy that requires a respect for both math and that practitioners make judgements about the future. To quote the great Bezos: "math based decisions command wide agreement where judgement based directions are rightly debated and often controversial."

We have always characterized potential opportunities as either Grahams or Buffets. The former consists of deeply discounted current value with question marks about the future, and the latter is made up of "really good businesses with staying power that provide essential products and services." That is the see-saw-like lens from which we view the world. We like the optionality.

We see no evidence whatsoever that value investing, the practice of buying things for less than they are worth, is dead. With the advent of global computer processing power, it is clearly harder to add value by buying a basket of hundreds of statistically cheap stocks, because that game is known and is being played in size. The academic arguments for smaller cap "value" investing were documented, and then crushed in the last ten years by quantitative methods and indexing.

But, don't ever forget that humans run the machines. Over $100 billion of assets has been taken from public "value" and allocated toward venture capital and "alternatives". We remain convinced that human behavior ensures the inevitability of cycles as it relates to economics and corporate performance, as well as the reactions of market participants to these developments. As someone named Munger neatly encapsulated, since the future is uncertain, the investor must "invert" the present. How much are we paying for a certain view of the future and does that make any rational sense? That is precisely today's problem: for every great idea that will legitimately be the next great company, there is a LOT of absolute nonsense...and a lot of that has recently become public.

We have a curated portfolio of 30-ish stocks, with our top ten representing just under 50% of the portfolio in most time periods. We don't need a monster tailwind to succeed, but I think we are going to get some "help" over the intermediate period. It is a classic heuristic mistake to conflate the concepts of "what is difficult to conceive" with "that which is not possible". As Sir John Templeton put it, "To buy when others are despondently selling and to sell when others are euphorically buying takes the greatest courage but provides the greatest profit."

In conclusion, we go back to work in the New Year, literally or figuratively. We have mostly experienced a history where good investing tends to be a solitary sport and in order to earn returns you should concentrate on something different from what most people are doing. Mostly. Irrespective of fancy words and the tables and stats to back them up, our real world is mostly culled from Henry Singleton, the Teledyne owner and operator: "My only plan is to keep coming to work every day. I like to steer the boat each day rather than plan ahead way into the future. I know a lot of people have very strong and definite plans that they've worked out on all kinds of things, but we're subject to a tremendous number of outside influences and the vast majority of them cannot be predicted. So my idea is to stay flexible." A good mantra for 2021.

Your fellow shareholders and fund manager continues to appreciate your support.

Best Regards,

Jeff Bronchick

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

Letter to Shareholders

December 31, 2020

CSCAX

TOP 10 HOLDINGS — % as of December 31, 2020

ViaSat Inc	6.2 %
PQ Group Holdings Inc	5.3 %
Millicom International Cellular S.A.	5.2 %
Compass Minerals International Inc	5.0 %
Colfax Corporation	4.8 %
GP Strategies Corporation	4.6 %
E.W. Scripps Company	4.3 %
White Mountains Insurance Group Ltd.	3.6 %
Standex International Corporation	3.5 %
AZZ INC	3.4 %

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.

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.

EBITDA is earnings before interest, taxes, depreciation, and amortization.

Book value is equal to the cost of carrying an asset on a company's balance sheet, and firms calculate it netting the asset against its accumulated depreciation

Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income. The Cove Street Small Cap Value Fund is distributed by Quasar Distributors, LLC.