Letter to Shareholders

June 30, 2021

C S C A X

GREETINGS FELLOW SHAREHOLDER:

We are pleased to report that the 'Value Resurrection' program continued in the second quarter of 2021.

Yup, it's been a much more hospitable environment for us over the last six months since the dog whistle blew, signaling the end of an extraordinarily painful drought in things we like to categorize as "reasonably rational investing." We would again suggest that it is hard to argue that nearly anything "en masse" is cheap in a world of asset party balloons levitated by what seems like an era of flat-lined low rates and limitless credit extension. But let us say it again, the value versus "whatever the heck else is going on" relative trade is just beginning and will have legs. We may barely make par the next three years, but a lot of the rest of the world smells like 8s and 9s. (For those of you unfamiliar, this is a summer golf reference.)

Per our usual, we will start with our detractors. First up is Viemed Healthcare (Ticker: VMD), whose pre-identified risk was always noted as a "government regulation and pricing risk." While the company's core offerings enable an efficient, at-home service to increasingly ill patients that enables breathing and allows them to avoid visits to the ER, which apparently is not a view shared by some parts of the US government bureaucracy known as Centers for Medicare & Medicaid Services. The left hand of our patriotic bureaucracy says we are not spending money correctly or, more likely, are problematically documenting it while the right hand approved everything and has no issue. This "tiff" is par for the course for those in the healthcare industry, and we remain watchful.

With regard to GP Strategies Corporation (Ticker: GPX), we have nothing to report. The stock has tripled from its March 2020 lows, and our research suggests it remains cheap in comparison to "normalized" post-COVID earnings recovery, which is higher than previous peaks due to cost cutting and corporate focus.

Liberty TripAdvisor Holdings (Ticker: LTRPA) represents mostly simple voting control and ownership in TripAdvisor. Post-COVID, the stock has short-term moves per the whim of public opinion on the pace of the rebound in global travel. We are long-term bullish.

For our contributors, we will first look at Secureworks Corporation (Ticker: SCWX). A closely held Dell Technologies company (Ticker: DELL), SCWX was primarily a "managed service" company that assists its customers in the detection and management of cyber security threats. Yes, this is a hot space; but because of the limited float available to outside investors, it has been overlooked and deemed mostly uninvestable for much larger investment management firms. Trading at a nearly 75% valuation discount than some of its peers, our research suggested an excellent risk/reward balance, assuming proper governance from Dell and competence in the execution of transitioning the company from a "service" provider to that of a software provider. We are customers and shareholders. Also, with a new CEO and having hired their first investor relations manager, this suggests further progress in governance.

Our research on Skechers USA Inc (Ticker: SKX) suggests that SKX has a massive opportunity to expand its brand globally and its momentum is undeniable. Despite that, the stock trades at a very pedestrian multiple relative to its global footwear peers, mainly—at least in our estimation—due to what the company was in the past: a me-too, copycat brand that didn't have any true differentiation or niche. That perception is being proven wrong if you look at the success SKX is having in Asia.

Commvault Systems (Ticker: CVLT) continues on a roll with growing demand for back-up services and share gains from their new software initiatives which enable penetration of the

TOTAL RETURN **(CSCAX)** — % as of June 30, 2021

	3 MONTH	YEAR to DATE	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION (09/30/98)
Cove Street Capital Small Cap Value Fund	2.20	23.03	58.01	7.28	7.20	9.40	9.89
Russell 2000® Index	4.29	17.54	62.03	13.52	16.47	12.34	9.92
Russell 2000® Value Index	4.56	26.69	73.28	10.27	13.62	10.85	9.93

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.

"less than Fortune 1000" marketplace. This is a long-term Buffett hold.

Kar Auction Services (Ticker: KAR) operates in the wholesale auto market in the U.S. and Europe and offers a number of different light vehicle auction formats to its dealer and commercial customers. The stock had been under pressure due to some cyclical and competitive issues—not to mention the impact of COVID—but made a strategic pivot to focus more on digital auctions and is now starting to see the benefit of that. Our research suggests that the legacy oligopoly between KAR and Mannheim Auctions has material competitive advantages, and proper execution in digital initiatives will enhance margins and long-term returns; these issues are not reflected in the current valuation.

As far as portfolio activity, we let go of a great winner—Transcat, Inc. (Ticker: TRNS). It is a wonderful business that distributes calibration equipment and also offers "calibration as a service." It has a solid growth record compiled by solid management. We bought it in the class of March 2020 purchases, and it has been a great holding for us. We are comfortable holding a Buffett-like company at fair value. We were comfortable holding this at a decent premium to fair value. At current levels, it simply became an uncomfortable nosebleed level of valuation and we think the risk/reward balance is far greater in our other holdings.

The management team of Hallmark Financial Services (Ticker: HALL) managed to pull itself out what we call the "small cap insurance death spiral," and upon that recognition we bought a stock we considered to be "way too cheap" with a nice return to a "merely cheap" level. This was a classic "Ben Graham cigar butt" opportunity. We took a good puff and put it to the side.

We are often conflicted when we analyze a company that is "controlled" by one person or one family. In theory, how can they NOT be aligned with us? In reality, while that statement is true, it's not necessarily clear that they "care" enough about shareholder value within a time span that even the most patient client believes to be reasonable. After four years holding Phibro Animal Health Corporation (Ticker: PAHC) with some modestly positive math in our favor, we have concluded that we can compound our money at faster rates in other combinations of business, value, and people.

Surprise, surprise! People want to travel again—on planes. Astronics Corporation (Ticker: ATRO) designs, manufactures, and markets specialized lighting, control systems, and electronics for the cockpit, cabin, and exteriors of military, commercial jet, and general aviation aircraft. Our research suggests the stock is very inexpensive in a more normalized environment for new aircraft manufacturing as well as maintenance. While we are never sure of the timing to reach the aforementioned normalized environment, we are highly confident it won't be worse than 2020.

Moving forward, a lot of people put out a lot of research on the history of factor tilts, such as headlines of value-versus-growth, and we read nearly everything on nearly anything in the allotted time we have in a day. And again, a tailwind is always better than a headwind, but I am not sure how much this fits with what we do.

As investment manager Rich Pzena recently noted:

"Over the past 50 years, pro-value periods in the market have lasted, on average, 62 months and generated 138 percentage points of excess returns. This compares with 6 months and approximately 39 percentage points so far in this cycle. Further, the depth of prior anti-value cycles appears to be correlated to the length of the pro value cycle. Needless to say, following the deepest and longest anti-value cycle on record, we're optimistic about the opportunity for a long pro value cycle ahead."

We'll take it! But we merely fish in a value-oriented pool, we don't own—or have to own—the entire body of water. Our performance is dependent on what we have "chosen."

The biggest macro issue for us remains the level of interest rates and its sustainability as a manmade, flat-lined statistic. The relevance, of course, is that when Treasury Secretary Janet Yellen tosses in a throwaway comment like, "It may be that interest rates will have to rise somewhat to make sure our economy doesn't over-heat," and the Nasdaq 100 tumbles in minutes, we are reminded that we have a highly leveraged economy and a heavily margined stock market. What we own should outperform in a "taper tantrum" when the consensus is paying 20 times revenue for currently unprofitable business models. Again, there's that value versus growth thing.

As noted by surfer and CEO of investment consultants Alan Biller & Associates John Skjervem in a recent Wall Street Journal article by Jason Zweig:

"In the face of prolonged low interest rates, all investors face three basic choices: you can raise your existing holdings of traditional risky assets like stocks, even though no one thinks they're cheap; you can add a bunch of new and exotic bets and hope they don't blow up on you; or you can grit your teeth and stay the course, through a period of what may be lackluster returns, until interest rates finally normalize." He continued, "People are looking for the silver bullet, the magic wand, the get-out-of-jail-free card. There isn't one."

So, we stick to the game plan. We analyze business models. We talk to industry people to understand what is going on around us. We find combinations of reasonable businesses, reasonable values, and like-minded people. We buy their publicly traded securities when they seem to be out of favor. We try to understand cyclical versus secular issues. We don't have a crystal ball. (But, to be fair, we do have a fancy set of Tarot cards.)

While we are not a special purpose vehicle with one stock, we do run fairly concentrated portfolios by conventional standards, so we don't need the whole world to line up right behind everything—just the handful that we own. And, oddly enough, despite the habitual whining partially espoused above, there remains a fair number of interesting opportunities in front of us, without having the sinking feeling that we are dumpster diving behind a strip mall restaurant on a hot summer day. There are some things that we want to go down a bit more so we can buy more. (To a point!) And with hundreds of stories floating around about companies that have gone public within the past two years, we think we have a rich pipeline of replenishment ahead of us to keep busy and enable performance.

A final tidbit from Ben Graham:

"The investor who buys securities only when the market price looks cheap on the basis of the company's statements and sells them when they look high on the same bias, probably will not make spectacular profits. But on the other hand, he will probably avoid equally spectacular and more frequent losses. He should have a better-than-average chance of obtaining satisfactory results. And this is the chief objective of intelligent investing. The risk of paying too high a price for good quality stocks—while a real one—is not the chief hazard confronting the average buyer of securities. Observation over many years has taught us that the chief losses to investors come from the purchase of low quality securities at times of favorable business conditions."

We again appreciate your support as our partners in seeking out and profiting from the inefficiencies in public markets.

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 — % as of June 30, 2021

Viasat Inc	8.2 %
PQ Group Holdings Inc	7.0 %
GP Strategies Corporation	4.8 %
Global Indemnity Group LLC	4.4 %
Millicom International Cellular S.A.	4.2 %
Compass Minerals International Inc	4.0 %
Landec Corporation	3.8 %
E.W. Scripps Company	3.4 %
Heritage-Crystal Clean Inc	3.3 %
Colfax Corporation	3.2 %

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.

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