Letter to Shareholders

December 31, 2021

C S C A X

GREETINGS FELLOW SHAREHOLDER:

Every year provides plenty of valuable lessons, at least when looking backward in December. Our mindset is that if you are not wiser at the end of the year, then shame on you. At CSC we try to make new and interesting mistakes each year rather than repeat the old ones, a process anyone who is 110% presently invested in a balanced portfolio of cryptocurrency, meme stocks, and NFTs (non-fungible tokens) of vintage Julius Erving pictures might find hard to appreciate.

We put up pretty good numbers on an absolute basis in 2021 despite all sorts of oddities that could plague one's daily life. Measured on a relative basis, we did alright. Okay, we were doing wonderfully until mid-Q4 when three of our largest positions took a double-digit breather for as uncorrelated a group of reasons as one can conjure. See more below. But all in all, as a former partner once told me—never feel apologetic for a year up north of 20%.

Before we get to individual stocks and our 2022 thoughts, we would note three things regarding relative performance:

1. The Russell 2000® Value, the index to which we are commonly compared, is nearly 26% financials, most of which are banks. When that big dog moves, you feel like a mere tail. We have owned banks and will own banks again. We haven't for a while and it hasn't helped relative performance. Ignoring the cognitive dissonance embedded in the strong… and transitory… performance of small cap banks in the early days of both the Trump and Biden administrations, we remain wary of credit in general, and in commercial real estate specifically, as small cap banks are simply leveraged versions of such. All else being equal, higher rates can help a financial institution, which has been a big part of the "trade." But we think that the positive effect on earnings is outweighed by the inclusion of a "normalized" credit loss number. Rising rates and yield curve change are not a monolithic positive for smaller banks. A high single-digit ROE is not a magic kingdom-type of return unless you are buying under book value. (We could have, but sadly didn't.) We like what we own better for any sense of a longer run.
2. In early 2021 we nailed the proper narrative in Energy but didn't execute properly or in size. In baseball parlance, we saw pitches we liked, we didn't swing enough, and we fouled off with the swings we took. To wit: global carbon reduction programs are reducing supply much faster than demand, and investor sentiment toward investing in carbon-based companies is still lousy. Translation: A lot of money was made in Energy. How did we miss with the swings we did take? One of our holdings was merged into a larger company, taking the company out of small cap and removing the position from our portfolio before the big move. The other—CNX Resources Corporation (Ticker: CNX)—was a natural gas company that touted financial discipline and shareholder value. Translation: They were hedged to the gills and had low beta to the massive uplift in energy prices. The "obvious" play in small cap energy was to buy a basket of companies recently freed from bankruptcy or companies that would have been in bankruptcy absent the massive price uplift. This was a miss for us, but the oddity of life is that $80 oil and $5 natural gas make a lot more of the industry viable. We think the narrative remains on track and we are doing work in the space.
3. To repeat, we have been over-conservative relative to the indices for the last few years for all sorts of well thought out and articulated reasons. It hasn't helped. We expect that to change.

TOTAL RETURN **(CSCAX)** — % as of December 31, 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	1.04	22.29	22.29	11.29	5.03	9.51	9.64
Russell 2000® Index	2.14	14.82	14.82	20.02	12.02	13.23	9.58
Russell 2000® Value Index	4.36	28.27	28.27	17.99	9.07	12.03	9.76

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 as per the Prospectus is 1.19%. 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.

Moving on to our holdings.

Starting with our detractors, Viasat Inc. (Ticker: VSAT) is our largest position and the stock had the odd position of being a top-5 contributor in the first month of the quarter and then the worst performer of the rest of the quarter. In other words, there has been and there will continue to be more of the same news vacuum until the first of three VSAT3 satellites launches within the expected timeframe of the second quarter of 2022. There is an additional piece of information—Viasat is buying its UK rival Inmarsat for $7.6 billion in cash and in stock. We would argue this has a high non-zero probability of being a masterstroke strategic merger, which results in higher growth, more scale in Europe and Asia, and more free cashflow per share. But, we also understand that in the short-run, this complicates what was about to be a fairly uncomplicated stock story of a company that was investing heavily and about to hit an inflection point. We remain high conviction holders.

Compass Minerals International (Ticker: CMP) had a soft quarter—agriculture and salt mining for road salt are obviously very weather dependent—but, frankly, what irritates us is a self-inflicted investor relations gaffe. After holding onto their overly high dividend through messy periods, they decided to abruptly cut it in order to fund a potentially huge growth opportunity mining lithium on their existing Great Salt Lake footprint. That is not an obviously bad idea, but it was poorly communicated. Tell us what the investment is, how much it will cost, what the returns will be, then explain how that is a much better use of capital than returning it to shareholders. DO NOT cut the dividend and tell the world you will get back to them on the other stuff in Q2 next year. Although optically dumb, this is a very short reaction and we again bought into the downdraft.

SecureWorks Corp (Ticker: SCWX) continues to convert from a service company to a software company. The conversion is on track and occurring at a rapid pace. Due to the change in its business model along with low liquidity, because Dell Technologies Inc. (Ticker: DELL) owns over 80% of the business, we would expect high volatility in the stock price until the conversion is compete.

Ecovyst Inc (Ticker: ECVT) has been a great winner for us and we expect a great future as well. However, a good rule of thumb would be "don't change your investor relations person a week before one of your Private Equity holders decides to sell a large block of stock in a secondary offering." This defines transitory; we bought more stock and remain high conviction holders.

On the contributors side, DLH Holdings Corp. (Ticker: DLHC) is a consultant that provides a wide range of services to various Federal agencies such as the Veterans Administration and Centers for Disease Control. It offers public health and life sciences services, such as clinical trials, epidemiology studies, and disease prevention as well as health promotion to underserved and hard to reach at-risk communities. Our research suggests that the market has overemphasized the renewal of several of their VA contracts and ignored the underlying growth in many of their other programs as well as several new acquisitions that have diversified the contract base and increased core-operating margins. The company is being put together to be sold to a larger player and we see significant upside from these levels.

Lions Gate Entertainment Corporation (Ticker: LGF.B) is one of the last independent content "manufacturers" in global media, as well as the owner of the streaming platform STARZ. Shortly after building a full position, the company announced strategic alternatives with plans to separate STARZ from the rest of the business. This announcement helped push the stock price higher because once STARZ is separated from the business Lions Gate can realize full value for the remaining studio and library assets, which are currently trading at a significant discount to our estimate of intrinsic value.

GCP Applied Technologies (Ticker: GCP) is a very "simple" investment whose key variable was timing: how long might we wait for this company to be consolidated in a consolidating building materials industry? GCP was a spin-off out of Grace Inc. in 2016 and found itself attracting attention from both Wall Street activists and strategic buyers. After the fuss died down, we focused on a company with fundamentally solid but under-earning businesses with a new CEO at the helm who had a plan to fix. This has not been the easiest time in the world for a chemically-based company given COVID and global supply chain issues, but our industry research suggested a solid risk/reward both from both internally generated efforts as well as the likelihood of an event. This set-up created an excellent investment if either of those events occurred within a three-year time horizon. If it took six years—which has and can happen—it would have been a mediocre investment. Our timing was fortunate and the environment was friendly—GCP was acquired by global giant St. Gobain (Ticker: SGO.FP) for what proved to be a 50%-ish return from initial buy to final sale within a three-year period

The long takeover process of GP Strategies Corporation (Ticker: GPX) finally ended in success. It is relevant to note that Cove Street Capital's position as the largest or second largest shareholder for a number of years was instrumental in shaping the Board's thought and decision process as well as the general direction in which they steered the Company, all without loud and embarrassing flag waving. The path upward was not perfectly smooth, but this is a good outcome for GPX shareholders.

We have followed Landec Corporation (Ticker: LNDC) for almost 20 years—and frankly have never liked the math of an agricultural business which sells hothouse tomatoes and packaged salads and vegetables. What has changed is that their "afterthought" business—Lifecore Biomedical—has grown up to be a material ball of goods as a fully integrated Contract Development and Manufacturing Organization (CDMO). Lifecore is growing, maintaining high margins, and generating solid free cashflow. We expect the food businesses to continue to be sold—a deal was just announced to sell the worst part at a very happy valuation—and the CDMO to emerge as the public gem, with a complete re-rating of the stock price at double our cost basis. In the meantime, the legacy food business, which is on its way out, did not perform well. Also, Lifecore saw some slower growth due to inventory destocking at its customers.

Wayside Technology Group Inc. (Ticker: WSTG) is a value-added distributor of software and hardware solutions. It operates in a very niche part of the software food chain by providing sales channel solutions to smaller software companies that are looking to scale and are too small for the attention of larger competitors. While it has traditionally had issues growing, a new Board and management team has sent the Company in a new strategic direction that involves various acquisitions and a focus on core sales team development. Our research indicates that the growth and margin profile, and thus earnings power, of the business are at an inflection point and a significant upside to valuation exists.

We recently initiated a position in N-Able Inc (Ticker: NABL), one of the largest providers of software for Managed Service Providers (MSPs) in the world. MSPs help small- to medium-sized businesses (SMBs) outsource some or all of their technology needs. The segment has been secularly growing at a rapid pace, and this momentum has particularly increased during COVID as many SMBs have had to upgrade their technology to allow for remote work. N-able prices their software on a per endpoint basis; therefore, as more MSPs add more end-users, N-able benefits. We were able to acquire shares of N-able at a reasonable price because the company was recently spun out of SolarWinds (Ticker: SWI), which is majority-owned by private equity firms, and is therefore generally under-followed by the analyst community.

We have done a material amount of work in Blueknight Energy Partners and originally concluded that the risk/reward was superior in the preferred stock, Blueknight Energy Partners 11% Perpetual (Ticker: BKEPP), rather than the common stock, Blueknight Energy Partners L.P. (Ticker: BKEP). Continued progression of the business plan plus some interesting extracurricular corporate finance activity has changed that calculation in our opinion. There is a fulcrum investor in Blueknight—the Ergon family—that seems intent on abusing its position and for the second time has made a substandard offer for the entire company. We think this too shall be rejected by the independent directors of the Board. The "obvious" move in our opinion is a move to retire the preferred with a swap into the equity which would benefit ALL holders of Blueknight securities and be highly accretive to the common as the substantial cashflow of the company will be redirected away from the preferred into the common. We have placed our bets accordingly.

Going forward, some things are worth repeating in a valiant attempt to be vindicated within one's lifetime. So here is our 2022 outlook in a nutshell:

- Near zero interest rates since 2010 have put most asset classes off the charts on any historical sense of valuation regardless of your metric. High current valuation and recent asset appreciation suck blood from future returns. They also create volatility as it takes less news to wobble the asset perched on the top of a step ladder. The future and its arrival remain elusive—but there are a lot of truly ridiculous "investment" assets that still need to come down hard to roost properly, if survive at all.
- "Be fearful when others are greedy" is really hard to employ with other people's institutional money. Conservatism has not paid off in any fashion for many years. Like "climate," it is easy to confuse your own sense of reason and timing within a sample set that may simply be much longer than that which many of those around you consider relevant. Think Keynes and death. We enter 2022 in good health and remain conservative.
- "Simple, profitable, and bird in the hand" remains an extraordinary relative trade versus a lot of extraordinarily speculative nonsense. This is not 2000—it's dumber. The absolute valuation of small cap today is not as cheap as it was in 2000. So it is harder to claim that assets like small cap value can/will outperform the S&P by thousands of basis points because "reasonable" was simply revalued to reasonable and "silly" was marked closer to zero. But directionally we are there. Our misgivings about bigger themes seems to be matched by more than enough reasonable opportunities—we have barely scratched the surface of a record year of now or soon to be failing IPOs and SPACs—future gifts for public investors after insider wealth transfer is complete.
- Yes, 2022 will be the year that the deflationary trade will prove transitory—albeit 37 years was a pretty solid trend on which to climb aboard. Taking capital risk—crypto lending, toothless credit lending, leveraging low rated instruments to achieve a higher desired "fixed" return, etc.—to goose income generation has always ended up as a sad story. This one just seems as interminably long as the new Matrix movie. And it's not just the level of interest rates on which things change; it's the willingness of credit to be extended. Historically speaking, the two issues are a lot more correlated than many investors think.
- Better businesses with the ability to pass on higher costs in a reasonable period of time are great inflation hedges. And one benefit in owning these is that we don't have to "make a trade" or hope that someone else decides to pile into our theoretically worthless asset (counting on a greater fool generally is not a reliable investment strategy). Stocks remain small pieces of ownership in businesses run by people just like us who are scared witless by the same things we are. They are incented to think about ways to prosper in a more inflationary world, and some of them will get it very right or at least not suffer greatly. It is not necessary to pick the right brand of monotheism to achieve some sort of financial serenity here on earth.
- With a moment of silence to those who have passed, COVID will definitively prove to be a transitory chapter in our lives. Its effects on human behavior, desires, and economic activity will be measured in the "intermediate term" at worst, and we have reloaded certain investments accordingly. For those kids who can participate in something resembling school, please encourage STEM. We need more legitimate science and

math education than bloggers and influencers and retweeters.

No, these views are not original, and it does sap the literary will to write much the same thing in different guises. We have been annoyingly, and in retrospect overly, conservative for the better part of three years, and it has been unhelpful to relative performance. But we own real businesses run by real people who are motivated to make the business' owners wealthier over time, at least for the most part. If the stock price goes down in a disproportionate way relative to the value of a company that we own, we would like more of your money to invest.

We wish you the best in 2022. Go forth and live. 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

TOP 10 HOLDINGS — % as of December 31, 2021

Viasat Inc	6.0 %
Ecovyst Inc	5.4 %
Compass Minerals International Inc	5.2 %
Lions Gate Entertainment Corporation	5.1 %
Landec Corporation	5.1 %
Colfax Corporation	4.9 %
Global Indemnity Group LLC	4.8 %
DLH Holdings Corporation	4.3 %
NewMarket Corporation	4.3 %
Blueknight Energy Partners L.P.	4.2 %

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.

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity.

Beta is a measure of a stock's volatility in relation to the overall market.

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.

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