Letter to Shareholders

June 30, 2023

C S C A X

GREETINGS FELLOW SHAREHOLDER:

Our performance continued its solid upswing in the second calendar quarter of 2023 on both absolute and relative terms.

We would again note that we think intelligent portfolio concentration is part of the value we offer partners for our active management fee, and thus shorter-term results can…and should be...different from the indices to which we are commonly compared. So our near-term performance is the result of idiosyncratic changes in the perception of our investments by the world at large, but in the longer run the public value of our investments will tend to coalesce around reasonably proper estimates of actual value. This process, as we can attest, can seem to be maddeningly random and contrary to our desires, which of course would be "1% a month." But it sure is a lot more fun when things fall our way!

It should be noted that market activity overall in the calendar year 2023 has been almost completely driven by a handful of large, technology-oriented stocks that have either explicitly or belatedly attached themselves to the artificial intelligence (AI) bandwagon, which despite being around in some form for years, is now the belle of the ball.

We will say this about all that: there is nothing remotely clear or obvious about making money in AI. This is a marketing term that is in many ways simple table stakes for any company or process that falls under the heading of "continuous improvement." ChatGPT knows zero about the future much less anything after 2021. Hiring consultants and "training" an AI language on your own particular dataset can enhance efficiency...but so what? That savings likely goes to the consultant and the customer if everyone is doing it. Stock picking? Sure it provides a neater answer to the question, "What is the boiling range from which naptha is extracted from light petroleum distillate," but it says little about other more relevant considerations, such as future oil prices, politically driven midstream infrastructure regulation, the capital allocation tendencies of one CEO vs. another, much less the likelihood of Covid, Canadian Wildfires, or Aaron Judge being on the injured reserve for spraining his big toe while breaking the right field fence at Dodger Stadium. There are not existential threats or wholesale dystopia where Hollywood screenwriters stalk your neighborhood for food. It will get better slowly, it will become more useful and life will go on.

On to the portfolio, as is our practice, we start with the detractors. StoneX Group (Ticker: SNEX) is a complex mix of global trading and back office infrastructure led by CEO Sean O'Connor, which has a record that is truly stupendous if you pull up a stock chart. They are still captive to the ebbs and flows of financial markets, which not surprisingly are a lot less crazy than they were in the past few years. Less volatility means lower spreads and less trading, a state of affairs that became more commonly

TOTAL RETURN **(CSCAX)** — % as of June 30, 2023

	3 MONTH	YEAR to DATE	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION (09/30/98)
Cove Street Capital Small Cap Value Fund	14.8	18.05	20.77	18.46	5.37	6.27	9.28
Russell 2000® Index	5.21	8.09	12.31	10.82	4.21	8.26	8.31
Russell 2000® Value Index	3.18	2.5	6.01	15.43	3.54	7.29	8.56

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 1.33%. 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.

recognized later in the quarter. We remain long-term shareholders and are ready to add to the position opportunistically.

We are in the midst of our third go-around with EW Scripps (Ticker: SSP), which is an interesting mix of traditional TV Broadcasting and variety of content offerings designed for the cut-the-cord crowd. What both have in common is exposure to the ebbs and flows of advertising dollars, and we are clearly in an ebb period. We contend that cyclical problems are almost always buyable and we have been adding to our position to make it a Top Ten holding.

In a hugely disappointing move, the management of Ducommun (Ticker: DCO) priced a secondary offering of stock at an approximately 17% discount from where it was trading and worse, hired Goldman Sachs to execute it. Goldman predictably did zero work to understand the shareholder base and likely sold it to its largest commission paying hedge fund customers. This was an egregiously dumb corporate finance move that had the dual role of antagonizing its existing shareholder base. Our guess is simply CEO ego, and prior relationships with Goldman, which has near zero "feel" for doing work in the small cap space. They seriously gave this as a reason, "We wanted more liquidity in our stock."(To encourage more day trading?) We hope they are reading this. Our value for the company predictably dropped 17%, but remains materially above current levels. Good investment management skills include not trading on "at the moment" emotional biases, which we can assume you can infer here, so we did not sell out of anger and disappointment. But clearly DCO moves from what we thought had "Buffett" compounding ability to a "Graham" - sell at our price target bucket. There is a solid tailwind in both commercial aerospace and defense here, and it is disappointing to see management trying to snatch defeat from the jaws of victory.

SecureWorks (Ticker: SCWX) provides cyber security formerly as-a-service with an expensive in-house team of consultants and now has a software product called Taegis. SCWX is converting the entire business into selling only software and the conversions is almost complete. The next stage is to eliminate duplicative costs as they go from two business models to one. We expect solid growth within the cloud software business as they address a new customer world. Dell (Ticker: DELL) owns 90% of the company and thus the shares represent a "stub" in the eyes of many larger investors that like the idea and valuation but whine about the lack of liquidity. That can be a nice sweet spot for us in the longer run, but in the short run, the stock seems to us to have limited connection to its long-term value. We are holders but recognize we have been very early here.

Liberty TripAdvisor Holdings Inc. (Ticker: LTRPA) has been volatile over the last 6 months having been a top contributor to performance in Q1 2023 and now a top detractor in Q2. While travel at large has shown strength, the marketing budgets at hotel and travel related companies – from which the Core TripAdvisor platform takes share – have lagged in the recovery. In the quarter, Trip's new CEO Matt Goldberg announced his new "strategic plan" to focus on curated travel planning tools, a mobile first approach, better rewards programs, and a more effective use of their data. The investment community largely took a negative view on the plan, desiring more "revolution" than the "evolution" that was delivered. Notwithstanding these concerns, TRIP's leading experiences OTA Viator has continued its strong growth and more than doubled revenue YoY in Q1 of 2023. Smaller experience OTA competitor GetYourGuide was valued by VCs in June at $2B, and while we certainly don't benchmark to profligate venture valuations, even a massive discount to that $2B figure for the Viator piece provides a strong case for the overall company with an enterprise value at ~$2.1B today. LTRIPA is a high beta security tied to TripAdvisor (Ticker: TRIP), and our 1.5% allocation is an interesting risk/reward bet on its prospects, which we think are excellent from current levels.

On the positive side of the ledger, we start with Lifecore Biomedical (Ticker: LFCR) which is our second largest position, common and preferred combined. Lifecore has swung from worst performer to best performer several times in the last few quarters, leaving us essentially unchanged from our initial purchase. A few interesting things have happened on the proverbial way to the bank through a process that might be in its final innings as Morgan Stanley assists the company's pursuit of strategic alternatives. As a brief recap, what we got right is that Lifecore has an extraordinarily valuable set of assets in the contract development and manufacturing business (CDMO), a fact confirmed by the unusual participation of its largest customer, Alcon (Ticker: ALC), to refinance the company's debt. We were mostly correct in assuming that the placement of multiple shareholder representatives on the Board of Directors would lead the company (then known as Landec) to sell its non-core assets and focus on the Lifecore business. What we completely misjudged was the inability of management to "manage" the process of turning a hidden subsidiary gem into an actual operating company, which frankly is not uncommon in the small cap investing world. We remain highly confident that we will end up making a solid return for our investors, but this investment has required us to be more active than we would prefer to be.

You, the reader, might find it hard to believe that we are this far into the letter before having any mention of Viasat (Ticker: VSAT). It is satisfying to see "alpha-esque" work finally see the light of day or the darkness of space depending upon your angle, but we aren't to the promised land yet. We believe the market is just waking up to what VSAT has been working towards. As a quick recap, VSAT has been one of our largest positions for a number of years and unfortunately became our largest long Covid exposure stock which we did not realize at the time. The bearish premise on Viasat has largely been that they are throwing up billions of dollars in the wrong geosynchronous orbit and returns will be eaten by Starlink and other low Earth orbit (LEO) entrants. That's hard to disprove when the damn satellite isn't in the air. Well after much delay and a few breathless moments at T-minus, Viasat launched the first of its three VST3 constellation satellites. Yours truly spent 3 days at Cape Canaveral with management and other interested parties in weather delayed futility. The launch finally happened the day after I returned home. We believe that launching and preparing the satellite for operation will begin a massive change: bringing hundreds of millions of dollars of non-earning assets online and turning on the cashflow stream that the company has said was coming all this time. And if that isn't exciting enough, during the quarter, VSAT closed on its acquisition of Inmarsat, which may prove to be a master stroke….stay tuned. Why events like this cluster together is hard to know.

Amid the tens of billions that have been burnt in space investing in the last 3 years and the mystery of Starlink math and Amazon's Kuiper existence, Viasat in our opinion is one of only a handful of investable assets in the sector. Being up more than 25% this year is barely getting started if one does some conservative math. And we are actively attempting not to succumb to the "been down so long it looks like up to me" refrain which is irrelevant to the actual value at hand. And it's a good example of "sell or not" discipline which people ask us about when things are not going well. Uncertainty on many fronts is receding, a state much prized by an investment world that has problems seeing beyond 3 months, and we see material gains from current levels.

On to other contributors, InterActive Corporation (Ticker: IAC), which is the holding company for media investor Barry Diller, has recovered significantly so far in 2023. As CEO Joey Levin pointed out in his Q1 quarterly letter, IAC traded at an enterprise value below its 18% stake in MGM Resorts International (Ticker: MGM) and 85% position in Angi (Ticker; ANGI)…meaning you effectively "get" 31% of Turo, the equity of publishing giant DotDash Meredith, Care.com, Vivian Health, and other IAC companies for "free." Levin became CEO of Angi in late 2022 and has already shown tremendous progress in improving product, rationalizing services, and restoring profitability. DotDash Meredith has shown some recovery from January ad-recession lows as it continues to migrate Meredith's print publications to its digital platform. MGM is seeing continued strength at its Vegas properties and now has the tailwind of China's domestic re-opening for its Macau properties. This is one of our largest positions, and we remain confident in this portfolio of businesses and IAC's ability to allocate capital.

Global Indemnity (Ticker: GBLI) is classic value stock, which means there is a problem with which to contend. It is a collection of insurance assets led by a controlling shareholder, Saul Fox. It is clear Saul has done very well for himself. Shareholders? Not so much. We began a position at a 50% discount to book value. What we have seen since is an abrupt change in corporate strategy that rips out costs, eliminates a growth plan and has aggressively bought back stock. Toward the end of the quarter, the company issued a press release that conceptually confirmed certain public rumors that the company is for sale. We think there is an end game here that will benefit shareholders. But we are not without our doubts.

At the end of 2022, we initiated a position in Great Lakes Dredge & Dock (Ticker: GLDD) in the midst of a significant decline in the company's results. Facilitated by the U.S. government, the "bid market" of projects for which GLDD competes evaporated in the first half of 2022 due to some combination of an extra-long Continuing Resolution, overly complicated budget authorization and allocation processes, and frankly, work-from-home inefficiencies. When your dredgers aren't at work because you didn't get your bid, you send them to the shipyard for maintenance, causing a "double-whammy" of less revenue and higher costs. GLDD's margins in 2022 got crushed, as did the stock price. Ultimately, these are projects that have to get done both for national security and economic purposes – ports have to be a certain depth for shippers and other vessels to enter. These big projects did not go away but were delayed. Great Lakes ultimately operates downstream from a record $2.3 billion fund budgeted by the U.S. government for these projects in 2023, and our investment was predicated on a return of the aforementioned "bid market." Domestic dredging has seen a $600m bid market for the first 4 months of the year, which is both 3x what it was for the comparable period last year and 160% of the comparable 5-year average. There remain concerns that the government is not yet "back to normal" in its ability to…function and award these contracts. Notwithstanding, the stock has rallied in the quarter reflecting the progress to start 2023.

We recently initiated a position in Motorcar Parts of America (NASDAQ: MPAA). MPAA primarily remanufactures starters and alternators for large aftermarket auto parts retailers such as O'Reilly Automotive (Ticker: ORLY), Advance Auto Parts (Ticker: AAP), and AutoZone (Ticker: AZO). As common in the industry, MPAA entered into an accounts receivable discount program many years ago with their auto part retailer customers, and now as interest rates are rising, interest expense on these programs have tripled, causing a significant deterioration in earnings. MPAA has recovered some of the lost earnings through price increases, and due to nearly 50% share of the remanufactured starters and alternators market, we believe more price increases are to come. Also, the company has recently been capitalized by a private equity firm, Bison Capital, with a $32M convertible note that converts at $15 per share versus the current share price of $7. The additional capital could help MPAA consolidate other aftermarket auto parts manufacturers that are struggling with the current industry dynamics and increased interest expense.

We remain concerned by many things in the world: non-transitory inflation, creeping credit problems in and out of the banking system, and a stock market overall that seems to be pricing in a very low probability of a recession in 2024. Our portfolio is not immune to any of this. But we think we have purchased enough margin of safety to generally hold down the capital fort, and we see enough stock specific catalysts to drive solid absolute and relative performance.

Best Regards,

Jeff Bronchick

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

TOP 10 HOLDINGS — % as of June 30, 2023

Viasat Inc	11.44	%
Lifecore Series A Convertible Preferred 7.5%	7.07	%
Lifecore Biomedical Inc	6.33	%
IAC InterActive Corporation	6.18	%
Ecovyst Inc	5.52	%
Global Indemnity Group Class A	5.45	%
KBR Inc	3.24	%
Six Flags Entertainment Inc	3.24	%
White Mountains Insurance Inc	3.03	%
DLH Holdings Inc	2.98	%

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.

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