Letter to Shareholders

March 31, 2023

C S C A X

GREETINGS FELLOW SHAREHOLDER:

Results in Investment management are a combination of things that you actually do… and the things you consider but pass on. The net result we seek is to be competitive in up markets and outperform in difficult markets through this combination of doing a series of good things and avoiding the avoidable mistakes, that neatly summarizes our positive results this quarter.

The analogy I was going to use to start this letter was something along the lines of "always keep old ties; they tend to come back in style." That of course brings up the concept of secular vs. cyclical issues, a topic which has occupied these pages for decades as well as populated your portfolio in terms of best winners and worst losers.

The reference here involves the latest version of "holy crap…banks." Financial services "expertise" is not something that comes easily to anyone and frankly can only be developed over time, as there can be a LOT of basis risk between what your lying eyes are looking at and what is really about to happen. And then there is the assessment of management, which can generally be helpful in judging the proceeding sentence, but can be a variable that is proven irrelevant overnight…as in the case of First Republic Bank (Ticker: FRC). Now that we are getting to the point, we will simply note that banking "expertise" is a skillset that takes years to develop – it gets dusted off every…7 years?– and then you really wonder if you should be "wearing" it at all.

Let us first state that we don't own any Small Cap banks at all for very deliberate reasons, which we have noted in the past. They are inherently low Return on Equity (ROE) businesses; they are effectively concentrated books of regional commercial real estate exposure; they are likely to have poor risk management skills on say, asset/liability mix (…and interest rate sensitivity?); and any and all compliance and regulatory costs are inherently more difficult to shoulder on a smaller asset base. To wit, the total return on the KBW Nasdaq Regional Banking Index (Ticker: KRX) has been annualizing just under 3% since its inception in 2006.

There are shorter periods of time where our lack of exposure to banks – they represent over 25% of the Russell 2000® Value index which we are often compared to (should we be is a question we occasionally ask) – can hurt our relative results, but we simply think we can do better than 3% compounded. We never completely discard anything as an opportunity but our work suggested banks haven't been interesting for a long time. That being said, we are dutifully dusting off the banking analysis "tie" and taking a closer look. Our initial sense is "not cheap enough" and "you can't possibly tell me it is a good idea to have 8 US banks to have 100% of all deposits guaranteed by regulation and the rest have a $250k limit."

TOTAL RETURN (CSCAX) — % as of March 31, 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	2.83	2.83	-9.21	19.62	3.04	5.08	8.76
Russell 2000® Index	2.74	2.74	-11.61	17.51	4.71	8.04	8.18
Russell 2000® Value Index	-0.66	-0.66	-12.96	21.01	4.55	7.22	8.52

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.

Banking is not going away. It also reflects our historical US bent toward division of state vs. federal rights, which is why we have been resistant to having 4 banks with 95% market share like Canada. In the US, there are thousands to choose from that are publicly traded. It seems conceivable we will own some in the next year as the economic world grinds down. (Opinion duly offered.)

But enough about banks. What is relevant for the rest of the portfolio is that the banking crisis has properly freaked out the Federal Reserve in regard to the pace of change in interest rates. The market-implied Fed Funds rate for December peaked at 5.5% near the start of March. Now it's down to 4.3%. Bond yields have followed. The two-year yield has repriced down almost 100 Basis Point (BPS), and the 10-year nearly 50 bps, since early March. While lower "real" interest rates are better for most asset classes than higher rates, you can argue non-manipulated lower interest rates that reflect market expectations of a recession in some form may not be great for stocks. Our take remains: the issue is more credit rather than the level of interest rates. Bank scares engender less credit extension. Less credit extension is negative on the margin for equities.

Moving on to the portfolio… Lifecore Biomedical (Ticker: LFCR) was our clear self-induced detractor of the quarter. The investment premise was fiendishly simple: sell all non-healthcare businesses and leave us with a highly valued contract pharmaceutical manufacturer. We simply and grossly underestimated the time it took and grossly over-estimated the proceeds of the sold businesses. We have rarely been so underwhelmed by the competence of management and a Board of Directors; both groups have unhelpfully ground down our core assumptions. We are a "D" filer in the company and have prodded, and then bludgeoned, said Board into a public statement of "pursuing strategic alternatives" which we would expect to result in the sale of the company. This is a lemonade making campaign. We expect to receive the bulk of our capital returned to us in this process, but that clearly represents a miss from our original assumptions. We own both the common stock and a convertible preferred.

The stock price decline in Compass Minerals International (Ticker: CMP) remains somewhat of a mystery as Utah snowpack is 2.5x normal conditions, alleviating a drought in the Great Salt Lake and thus fixing issues in their minerals business in the state. Furthermore, their core salt business is steadily recovering margin after a year of absorbing high transport and other inflationary costs. We remain holders.

E.W. Scripps Company (Ticker: SSP), which owns primarily local television stations, has a big advertising business tied to its media operations. The market fears recession and an advertising slowdown. We think cyclical problems are inherently buyable and we have added to our position.

NuVasive Inc (Ticker: NUVA) was a slightly unusual position in that we finally bought it after years of research into its Spine industry leadership…AFTER…it announced a takeover by Globus Medical (Ticker: GMED). Globus stock plummeted, and along with it, the value of its all-stock offer for Nuvasive to levels below the deal announcement. We thought an investment was an interesting speculation that a third-party buyer would emerge - they had 45 days to do so. We were wrong and took our small loss.

Hallador Energy Company (Ticker: HNRG) was our biggest gainer last year and there is nothing new to report. The company mines Illinois Basin coal and bought an adjacent coal based power plant for nearly nothing. We posit that the alternative energy tail is MUCH longer than presently believed in some circles and these low cost assets will have considerable earnings power in the years to come. In the shorter run, there is exposure to natural gas pricing which was soft in Q1.

Lions Gate Entertainment Corporation (Ticker: LGF.B) bounced to the top of the contributor list this quarter, most of which was a rebound from "absolutely silly prices" per our research efforts. The company's plan to split into two separate entities – the "Studio" and Starz - continues on track for completion this calendar year, and the latest release of the tent pole John Wick movie franchise has gotten solid reviews. We continue to value the stock into the mid-teens.

Climb Global Solutions (Ticker: CLMB) continues to execute its organic growth strategy of identifying and distributing new software solutions, particularly in the still-hot cloud and security ecospheres. We have somewhat reduced our position on valuation and a sense of difficulty in the tech space overall, but we remain impressed with management's execution on top of an excellent business mode.

Ecovyst (Ticker: ECVT) rebounded after the "end" of a series of very annoying secondary offerings by its Private Equity sponsor. It is another terrific business model with good organic growth that is being competently managed. It remains very undervalued, even still, and one of our largest holdings

Millicom International Cellular (Ticker: TIGO) is on its way out of the portfolio after a long and disappointing string of years. The stock has doubled in the last twelve months after several takeover approaches that may or may not result in a transaction. The range of possible values remains depressingly high - our initial estimates on one hand and those that are smelling opportunity on the other. The headwind of a strong dollar overwhelmed the company's strong operational performance making the dollar denominated financials unconvincing. Also, we were also over-optimistic on how investors would accord the company a higher value as the mix of earnings from cable increased vs. that of their cellular business.

Viemed Healthcare (Ticker: VMD) continues to execute on its core growth strategy of adding to their geographic footprint of respiratory services and recovering from what we call a "rogue" US government commission that erroneously accused the company of mismanagement in their Medicare billing. The company was completely vindicated, and the stock partially reflects the end of that overhang.

We initiated a position in Great Lakes Dredge & Dock Corporation (Ticker: GLDD), the leader in domestic dredging. Dredging is used in a number of maritime projects including port expansions, coastal restorations, trench digging for pipelines and windfarms. GLDD operates in a stable oligopoly in which they take 35-40% market share in domestic dredging projects that are "put out to bid" and for which they have capacity. The bid market in the first half of 2022, facilitated by the U.S. government, evaporated 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 – we anticipate the bid market will return. This is a classic "Graham" value attached to real, albeit cyclical business.

To conclude, there continues to be enormous opportunity in our Small Cap space. Financial scares, recessions, and nasty headlines create future returns. We have the experience and depth at Cove Street Capital to take advantage of these emerging fundamentals to buy better businesses at cheap prices. Talking the topical headlines seems to capture the imagination of most investors and Wall Street. We find our time much better spent "bottom-up" - and focused on analyzing business models, meeting management teams and establishing reasonable valuation parameters. We would suggest it works well over the long run in places outside of Omaha.

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 March 31, 2023

Viasat Inc	10.31	%
Ecovyst Inc	6.05	%
IAC InterActive Corporation	5.58	%
Global Indemnity Group LLC	5.40	%
Compass Minerals International Inc	3.89	%
Six Flags Entertainment Corporation	3.66	%
Heritage-Crystal Clean Inc	3.66	%
White Mountains Insurance Group Ltd	3.3	%
Hallador Energy Company	3.15	%
Lifecore Series A Convertible Preferred 7.5%	3.05	%

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 KBW Regional Banking Index seeks to reflect the performance of U.S. companies that do business as regional banks or thrift.

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