

October 2017

	3Q17	YTD	1 Year	2016	Since Inception* 11/1/2015
Azarias Focused Small Cap Value Comp. (Gross of fees)	10.0%	22.2%	47.2%	36.4%	29.5%
Azarias Focused Small Cap Value Comp. (Net of fees)	9.0%	19.2%	40.5%	31.9%	25.4%
Russell 2000 Index	5.7%	10.9%	20.7%	21.3%	18.1%
Russell 2000 Value Index	5.1%	5.7%	20.6%	31.7%	19.7%

**Periods greater than one year are annualized. See below for important disclosures.*

Dear Friends,

The Azarias Focused Small Cap Value strategy had another very strong quarter. The results confirm our deep conviction that we can generate significant outperformance over the long term by identifying smaller companies poised for fundamental turnarounds, while mitigating risk by limiting our holdings to companies with strong competitive positions and balance sheets.

The breadth of outperforming stocks in the portfolio remained remarkably strong in the quarter. Seventeen of the twenty stocks owned during the quarter contributed to the outperformance versus the Russell 2000 Index return of 5.7%.

Sector Exposure & Top Ten Holdings

The Industrials and Materials sectors remain the two largest weights in the portfolio. Given the inherently volatile nature of many industries in these two sectors, they consistently offer up companies with turnaround potential. Energy also remains a large position reflecting conviction in our uranium thesis.

The lack of exposure in Financials was a net positive as the return of that sector was slightly negative during the quarter.

As we stated in our 2Q17 letter, financials are not a permanent zero weight, but we simply have not uncovered any financials that meet our criteria for purchase. While the market appears to be excited for the prospect of interest rate increases driving up profits for lenders, we put a much greater weight on the impact of the credit cycle. While loan performance might stay strong absent a recession, it is difficult for us to see how it could get much better, leaving all the risk to the downside in our view.

We sold our two positions in the Consumer Discretionary sector leaving us with no exposure. Given the length of this economic recovery and the aforementioned availability of credit, most companies with exposure to consumer spending are faring very well.

Sectors	Azarias FSCV (%)	i Shares Russell 2000 (%)
Consumer Disc.	0.0	12.0
Consumer Staples	11.0	2.6
Energy	14.4	3.7
Financials	0.0	18.0
Health Care	7.4	15.7
Industrials	26.6	15.0
Info. Tech.	14.0	16.8
Materials	15.7	4.4
Real Estate	0.0	7.2
Telecomm.	0.0	0.8
Utilities	0.0	3.6
Cash	11.1	0.0

It should be noted that the sector exposure is driven by our bottom up, company specific research as opposed to a top down viewpoint.

Top Ten Holdings		
Company	Sector	% Weight
DMC Global	Industrial	8.5
Photronics	Info. Tech.	7.8
CAMECO	Energy	7.5
AMPCO-Pittsburgh	Industrial	7.4
UR-Energy	Energy	6.9
Powell Industries	Industrial	6.3
Agilysis	Info. Tech.	6.2
Omega Protein	Cons. Stap.	6.0
Haynes International	Material	5.7
Invacare	Healthcare	5.4
Total		67.6

As of 9/30/2017

The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified will be profitable.

Areas of Interest

As the markets grind higher, attractive priced securities become rare. In small cap, this is less the case, but we still are experiencing some level of difficulty. It is not that everything is too expensive to buy, but rather the *appreciation potential* of prospective stocks has shrunk.

We have several new ideas currently under evaluation. We still believe that there may be an opportunity in the North American oil and gas sector. We know the world needs oil production from the United States to meet global demand, and we believe the recent sell-off might have caused some oil field service companies to become undervalued.

an insurance niche where recent underwriting results have been unprofitable. We expect underwriters to respond by raising prices and getting profitability back to an acceptable level. The stock price needs to fall within our range of attractive before we will initiate a position.

Additionally, we continue to investigate

At the Firm

Marketing initiatives have begun to bear fruit with several new relationships established during the quarter. Our philosophy and process resonates with sophisticated investors, and we believe we have good visibility on asset growth and achieving important AUM milestones within a reasonable time frame.

Thank you again for considering to invest alongside us.

Best Regards,

Daren Heitman

Important Disclosures

Azarias Capital Management L.P. is registered as an investment adviser with the Pennsylvania Department of Banking and Securities. Registration with the SEC or any state securities authority does not imply a certain level of skill or training.

PERFORMANCE RETURNS

The Focused Small Cap Value Composite (the “Composite”) represents the returns of all discretionary, fee-paying portfolios with a concentrated U.S. equity small cap value investment mandate. New portfolios are included in the Composite at the start of the next month following full investment of the accounts assets; terminated portfolios are included in the Composite up to the last full measurement period (last full month) that Azarias retains investment discretion. Gross-of-fees returns are presented before management and any performance-based fee, but after all trading expenses. Net-of-fees returns are presented after management fees, any accrued performance-based fee and all trading expenses. Fees vary between accounts in the composite. Composite returns are calculated by asset-weighting the individual portfolio returns using the beginning of period portfolio value.

Since inception, the composite includes one portfolio whose net of fee returns are calculated using a management fee rate of 1.5% (highest fee charged to the portfolio) and a performance-based fee of 20% of profits in excess of the Russell 2000 Index. These fees are accounted for on an accrual basis. The gross and net returns of this portfolio include trading and organizational expenses. Actual fees charged to some clients are lower than the standard fee schedule. The firm’s fee schedule is available upon request and also may be found in Part 2 of our Form ADV.

Weightings, exposure, attribution and portfolio characteristics presented reflect estimates of the representative account at the end of the specified period and are the result of classifications and assumptions made in the sole judgment of the adviser. This information is as of the date(s) indicated, may not be complete and is subject to change. The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified will be profitable.

Returns greater than one year are annualized. The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be higher or lower than quoted. Composite returns include cash and cash equivalents and the reinvestment of any dividend or interest income.

USE OF INDEX

The Russell 2000® Index is a small-cap stock index of the bottom 2000 in the Russell 3000 Index stocks based on market-capitalization. The Russell 2000 Index is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The returns of the index include the investment of dividends but do not account for transaction costs and operating expenses, which an investor might incur in attempting to obtain such returns. If an index had expenses, its performance would be lower. You cannot invest directly in this index.

The Russell 2000® Value Index is a subset of the Russell 2000 Index and measures the performance of the stocks with lower price-to-book ratios and lower relative forecasted growth rates. The returns of the index include the investment of dividends but do not account for transaction costs and operating expenses, which an investor might incur in attempting to obtain such returns. If an index had expenses, its performance would be lower. You cannot invest directly in this index.

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