

April 2018

	1Q18	YTD	1 Year	2 Year*	Since 11/1/2015*
Azarias Focused Small Cap Value (Gross of fees)	-3.9%	-3.9%	25.2%	30.5%	24.6%
Azarias Focused Small Cap Value (Net of fees)	-4.1%	-4.1%	21.9%	26.9%	21.2%
Russell 2000 Index	-0.1%	-0.1%	11.8%	18.8%	15.7%
Russell 2000 Value Index	-2.6%	-2.6%	5.1%	16.6%	15.2%

*Periods greater than one year are annualized. November 1, 2015 is the inception date of the composite. See below for important disclosures.

Volatility made a strong return to the equity markets in the first quarter of 2018. Uncertainty surrounding trade policy as well as some unsteadiness in the mega cap tech sector jarred the market. Growth indices once again outperformed value indices across the market cap spectrum. In small cap, the Russell 2000 Growth index returned +1.4% vs. -2.6% for the Russell 2000 Value index, a differential of almost 4%.

The Azarias Focused Small Cap Value Strategy struggled in this environment with a 4.1% decline in value net of fees. Overall, the companies in the portfolio reported reasonably strong fundamental results during the period, making us optimistic that the underperformance was due to our value tilt and a normal dose of volatility given the concentrated nature of the strategy.

Sector Exposures & Top Ten Holdings as of March 31, 2018

On an absolute basis, Industrials, Energy and Information Technology are the largest weights in the portfolio. The Technology weight was raised to its current level with the addition of an electronic devices company. Though the Industrials weight is near our maximum threshold of 30%, the end markets represented in that sector are diversified with no two companies serving the same end market.

As has been documented in previous letters, the Energy weight is predominantly dedicated to uranium miners. In the first quarter there were positive developments in the supply/demand picture for uranium. On the demand side, Japan restarted a seventh nuclear reactor in March and plans to restart two more in the second quarter. China announced that it plans to break ground on six to eight new nuclear reactors in 2018.

Sectors	Azarias FSCV	i Shares Russell 2000
Consumer Disc.	0.0	12.2
Consumer Staples	8.6	2.3
Energy	23.2	3.7
Financials	0.0	17.9
Health Care	1.9	16.6
Industrials	27.4	15.1
Info. Tech.	19.5	17.6
Materials	11.2	4.3
Real Estate	0.0	6.3
Telecomm.	0.0	0.6
Utilities	0.0	3.3
Cash	8.2	0.0

Top Ten Holdings		
Company	Sector	% Weight
CAMECO	Energy	8.3
Now	Energy	7.8
Photronics	Info. Tech.	7.5
Powell	Industrial	7.3
AMPCO-Pittsburgh	Material	7.2
UR-Energy	Energy	7.1
Steelcase	Industrial	6.9
Knowles	Info. Tech.	6.5
Weis Markets	Cons. Staple	6.5
Graham	Industrial	6.0
Total		71.1

On the supply side, the Chinese-owned Husab mine in Namibia produced only two million pounds of uranium in 2017 and there are now serious questions about whether it will ever be able to produce at its nameplate capacity level of 15 million pounds. Finally, the U.S. Department of Energy announced that it would reduce the sale of secondary uranium by 1.6 million pounds in 2018.

The uranium spot price remains well below the cost of production for many uranium producers. Uranium producers will continue to reduce supply as long as prices remain below costs. Demand for uranium is increasing as a result of the aforementioned new reactors. There is an impending

structural supply/demand imbalance in uranium which will cause the uranium price to increase dramatically from current levels.

On a relative basis to the Russell 2000 Index, we remain overweight in Consumer Staples, Energy, Industrials, Materials and Information Technology while underweight Consumer Discretionary, Health Care. We continue to be zero weight in Financials, Real Estate, Telecommunication and Utilities as we have not yet been able to identify a company in those sectors that meet our strict criteria for purchase.

As a reminder, sector exposures are driven by our bottom up stock selection process.

At the Firm

In March, we welcomed a third single family office as an investor in the Focused Small Cap Value strategy. As a result of this and other significant new clients, assets under management continue to grow at a steady clip, and importantly crossed a critical threshold at quarter end. Our organization grows stronger with each passing quarter as we near the strategy’s three-year track record.

Thank you again for your interest in Azarias Capital, and as always we welcome any comments and questions.

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 standard fee schedule is available upon request and may also be found in Part 2 of Azarias’ 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. Such data may vary for each client in the strategy due to asset size, market conditions, client guidelines and diversity of portfolio holdings. The representative account is the account in the composite that we believe most closely reflects the current portfolio management style for this strategy.

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.

Frank Russell Company is the source and owner of the Russell index data contained or reflected in this material. This is a presentation of Azarias Capital Management. Frank Russell Company is not responsible for the formatting or configuration of this material or for any inaccuracy in Azarias’ presentation thereof.