

February 2017

	4Q17	YTD	1 Year	2 Year*	Since 11/1/2015*
Azarias Focused Small Cap Value Composite (Gross of fees)	8.1%	32.0%	32.0%	34.2%	30.2%
Azarias Focused Small Cap Value Composite (Net of fees)	7.2%	28.1%	28.1%	30.0%	26.3%
Russell 2000 Index	3.3%	14.7%	14.7%	17.9%	15.4%
Russell 2000 Value Index	2.1%	7.8%	7.8%	19.2%	16.2%

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

Dear Friends,

The Azarias Focused Small Cap Value strategy enjoyed another positive quarter to close the books on a successful 2017. Broadly, investor optimism seemed to improve as the year progressed, particularly as tax reform began to look more likely and subsequently became law. Optimism was especially pronounced among “new economy” companies resulting in growth indices outperforming value by a wide margin across all market capitalizations during the year. In that regard, the environment was and continues to be reminiscent of the late 1990s when new economy stocks dominated headlines and performance. Given the relative headwinds to our value style, we are pleased with the results.

Sector Exposures & Top Ten Holdings

On an absolute basis, Industrials, Materials and Energy are the largest weights in the portfolio. As has been documented in previous letters, the Energy weight is predominantly dedicated to uranium miners. Our thesis for an improving uranium supply and demand dynamic was bolstered in the fourth quarter when CAMECO, the largest private miner of uranium globally, announced significant cuts to its output in 2018. This and other supply cuts, combined with increased uranium demand from 57 new nuclear reactors currently under construction around the world, are expected to bring the uranium market into balance over time, resulting in a much higher price for the metal. We remain very bullish on uranium.

Sectors	Azarias FSCV (%)	i Shares Russell 2000 (%)
Consumer Disc.	0.0	12.5
Consumer Staples	9.9	2.8
Energy	23.4	4.0
Financials	0.0	17.7
Health Care	2.7	15.3
Industrials	28.9	15.3
Info. Tech.	12.6	16.6
Materials	15.7	4.5
Real Estate	0.0	6.7
Telecomm.	0.0	0.8
Utilities	0.0	3.5
Cash	6.7	0.0

As of 12/31/2017

On a relative basis to the Russell 2000 Index, we remain overweight in Consumer Staples, Energy, Industrials and Materials while underweight Consumer Discretionary, Health Care and Information Technology. 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.

Top Ten Holdings

Company	Sector	% Weight
CAMECO	Energy	8.4
UR-Energy	Energy	8.1
AMPCO – Pittsburgh	Material	7.3
Steelcase	Industrial	7.1
NOW	Energy	6.9
Photronics	Info. Tech.	6.9
Powell	Industrial	6.5
Graham	Industrial	5.9
Agilysys	Info. Tech.	5.7
MGP Ingredients	Cons. Staple	5.7
Total		68.5

As of 12/31/2017

Overview of 2017

It was an extraordinary year in the stock market. The S&P 500 did not have one negative performance month and posted an 18.7% total return. Smaller companies as represented by the Russell 2000 Index rose over 14% and experienced only three months with a negative return.

During 2017, we exited nine positions with eight of them meeting our price targets. Seven of the companies were initial positions at the strategies launch in 2015. Notably, two of our holdings were acquired in 2017 at significant premiums. While, we do not incorporate the possibility of acquisition

into our decision making process, we do find it instructive that the acquisition prices for the companies were very close to our estimates of fair value.

At the Firm

At Azarias, we invest utilizing the same decision making process regardless of which styles are in favor. We are gratified that the Azarias Focused Small Cap Value strategy has outperformed the Russell 2000 by almost 11% annualized since inception despite our value-oriented style being out of favor during 2017. We attribute those strong results to our expertise in identifying turnaround opportunities near fundamental inflection points and our concentration of the portfolio in those 15 to 20 best ideas that meet our strict criteria for return potential and risk control.

As we approach the third anniversary of our strategy’s track record, interest from new investors is growing. We expect to continue hitting important milestones as we move from the “emerging manager” phase to “established manager” stage. However, we planned from the very beginning of our firm to limit the size of this strategy so we can deliver exceptional investment results for the investors who put their faith in us. You can rely on us to keep that pledge.

Thank you again for your interest in our firm, and as always we welcome any comments or 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.

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