AZARIAS CAPITAL

Third Quarter 2018

As of September 30, 2018	Q3 2018[1]	YTD	2 Year	Since Inception*
Focused Small Cap Value Composite (Gross of Fees)	**3.6%**	**14.0%**	**34.7%**	**27.2%**
Focused Small Cap Value Composite (Net of Fees)	**3.3%**	**12.8%**	**30.5%**	**24.0%**
Russell 2000 Index	3.6%	11.5%	18.0%	15.5%
Russell 2000 Value Index	1.6%	7.1%	14.8%	14.5%

**Inception date: 11/1/2015. Periods greater than one year are annualized. Past performance is not indicative of future results. All investments carry risk including loss of principal. See below for important disclosures.*

The strategy posted solid results in the quarter with a 3.9% gain despite significant underperformance of value styles during the period. We are pleased to have generated annualized returns nearly 9% ahead of the small cap benchmark since inception.

Performance Notes

Top 3 Contributors

Steelcase Inc, one of the world's largest manufacturers of commercial furniture, reported unexpectedly strong results and an optimistic outlook for the remainder of the year. Importantly, the improving fundamentals were driven primarily by the factors comprising our original thesis, namely revenue growth due to successful new product development and improving profitability in the company's European operations.

Focused Small Cap Value Representative Account Performance Attribution for the quarter ended 9/30/2018[2]	Avg Weight %	CTR**
STEELCASE INC-CL A	7.2	2.8
PHOTRONICS INC	7.2	1.8
UR-ENERGY INC	6.2	1.3
NOW INC	4.2	0.9
KNOWLES CORP	6.6	0.7
ARGAN INC	6.8	0.6
NEXGEN ENERGY LTD	5.5	0.6
GRAHAM CORP	5.2	0.5
POWELL INDUSTRIES	6.1	0.4
HERITAGE-CRYSTAL	3.3	0.3
SCHOLASTIC CORP	4.6	0.3
AGILYSYS INC	3.6	0.3
CAMECO CORP	7.5	0.2
HAYNES INTERNATIONAL	2.5	-0.0
INVACARE CORP	2.0	-0.5
WEIS MARKETS INC	4.4	-0.8
HAMILTON BEACH BRAND	5.0	-1.4
AMPCO-PITTSBURGH CORP	7.0	-3.7

***Contribution to Return. CTR is gross of fees.*

1 All information supplied as of the end of the stated calendar quarter only.

2 To obtain the calculation methodology of the Performance Attribution above, contact Joe Knecht at 215.494.3360 or jknecht@azariascapital.com. The holdings identified above represent all the securities purchased and sold during the measurement period, excluding cash and cash equivalents, of the representative account. The holdings are as-of the date indicated above, are subject to change, and do not necessarily represent the current holdings of the Focused Small Cap Value Composite or the current investment analysis, projections or intentions of Azarias Capital with regard to the composite. Past performance does not guarantee future results.

Photronics Inc. is one of just three merchant suppliers of photomasks used to create the circuitry on semiconductors during the manufacturing process. These products are also used to produce flat panel displays. Recent results benefited from tightening capacity in the photomask industry, as well as Photronics' strategic efforts to increase its share with Chinese customers and semiconductor manufacturers which own their own photomask capacity. Notably, we believe the largest driver of improvement for Photronics has yet to occur. Two new facilities that we project will increase the company's revenue capacity by around 50% are expected to be fully operational next year, with much of the capacity already under contract.

Ur-Energy advanced by 19% in the second quarter. We believe this was due to uranium supply curtailments, a potentially favorable Commerce Department ruling, and an increase in the spot price of uranium. Specifically, in July Cameco announced the indefinite idling of the world's largest uranium mine, McArthur River. This is expected to keep 11% of uranium production off the market until the uranium price improves significantly. Also in July, the U.S. Commerce Department decided to proceed with the "Section 232" investigation into the effects on national security of the U.S. importing more than 95% of its annual uranium needs. UR Energy is a U.S. producer of uranium. If the Commerce Department finds that high uranium imports are detrimental to U.S. national security, it will likely propose a remedy that should be quite favorable for U.S. producers of uranium. Finally, the spot price of uranium increased by 21% in the third quarter from $22.70 per pound to $27.50 per pound.

Top 3 Detractors

Ampco Pittsburgh declined by 42% in the third quarter due to second quarter results that were worse than expected and a weak third quarter outlook. Ampco's fundamentals deteriorated in the second quarter as a result of raw material cost increases that were higher than expected, lower orders in its business that makes frac blocks for oil and gas drillers, and tariffs placed on Ampco's Canadian subsidiary which exports steel to the United States. These headwinds are unlikely to improve in the near term.

Despite solid results in the second quarter which demonstrated continued progress toward our expectations, ***Weis Markets'*** shares declined 18% during the period. The weakness was due in part to an external research report recommending investors sell short the shares of Weis. We have reviewed the report and believe, as is often the case in these situations, incomplete and shallow analysis was used to support an agenda-driven conclusion. As contrarian investors, we see these reports written on a portfolio company occasionally and will often use the weakness created by the reports to add to our position, as was the case with Weis. We continue to have a high degree of confidence in our investment thesis and believe Weis Markets' strong competitive position and balance sheet provide the resources required to reach our long-term expectations.

Hamilton Beach Holding Company is the largest designer, marketer, and distributor of branded small electric household and commercial appliances in the United States. During the period, the core business remained on track delivering solid results. However, the company's stock declined 24% during the period owing to concerns that tariffs may be imposed on its products. Hamilton Beach imports most of its products from suppliers located in China. At present, the proposed tariffs do not apply to Hamilton Beach's imports. If that changes, we expect the company to adjust prices or mitigate a portion of any higher costs it incurs. Importantly, most of its competitors also source products from China so Hamilton Beach should not be at a competitive disadvantage or lose market share as a result of new tariffs on its goods should that occur.

Sector Exposures

The strategy's weighting in Information Technology declined by over one-third (from 21% to 13%) from the end of the second period, representing the largest change to the portfolio. We continue to hold the same three stocks in that sector, but each one was trimmed significantly due to its share price appreciation making it relatively less attractive.

Focused Small Cap Value Representative Account September 30, 2018 Holdings by Sectors	Azarias FSCV %	iShares Russell 2000%
Comm Services	5.0%	3.3%
Consumer Disc	5.7	12.2
Consumer Staples	4.1	2.6
Energy	23.3	4.8
Financials	0.0	17.3
Health Care	3.5	16.5
Industrials	26.8	15.1
Info. Tech.	13.1	13.9
Materials	9.1	4.2
Real Estate	0.0	6.9
Utilities	0.0	3.0
Cash	9.3	0.0

Energy continues to be a large weighting, both absolutely and relative to the index, primarily due to the three positions in uranium miners. As outlined in previous letters, we expect improving supply/demand dynamics to drive a powerful bull market in uranium prices over the next few years to the benefit of the stocks in the strategy.

Industrials represent the largest sector exposure with five positions and nearly 27% of the portfolio. Importantly, each of the companies in this sector serve a different end market, diversifying the fundamental exposures within this large weighting.

Financials remain a zero weight, which can largely be explained by our view of the credit cycle. Our starting point for evaluating new ideas in cyclical industries is to determine where the industry is in its profit cycle. Applying that approach to Financials, we strongly believe most loan portfolios are performing at above normal levels of profitability because of low levels of defaults, i.e. we are near a peak in the credit cycle. As a result, we are unlikely to find a suitable turnaround opportunity among extenders of credit. That won't always be the case, and we expect to have holdings in the financial sector over time.

We remind our investors each quarter that sector exposures are driven solely by our bottom up stock selection process.

Initiations & Exits

After an active second quarter during which we initiated and exited four positions, we had a lull in the third quarter without adding or eliminating any new stocks. That belies some significant portfolio changes, however. During the period, we actively added more than 1% to three of our existing holdings as they became more attractively valued, while actively trimming more than 1% from five positions that had appreciated in price and become relatively less attractive, yet remained undervalued in our view. We view these significant changes in this concentrated portfolio as impactful as adding new holdings.

Summary

At the end of our second quarter letter, we expressed the following concern:

> *Our one word of caution pertains to the macro environment. After a decade of loose monetary policy, the Federal Reserve has clearly embarked on a tightening cycle. So far, the U.S. financial markets have been largely unaffected. We are concerned that will not continue. History suggests tightening monetary conditions can easily lead to a recession, and we see no reason to believe this time will be different.*

Though the markets made it through the third quarter with little turbulence, the fourth quarter is off to a rough start with the iShares Russell 2000 ETF down 12.5% through October 26th. The strategy's performance is ahead of the small cap ETF month to date in October.

There's an old Wall Street joke that the stock market has predicted twelve of the last three recessions. We don't know if this sharp correction is a harbinger of a recession and a continued market decline, or if the current strong growth in corporate profits will continue to provide support to financial asset prices.

We do know with certainty that the U.S. will have another recession at some point in the future, and we believe when that occurs the strategy will be well positioned. We make that claim because we only own companies with business models and balance sheets that are expected to withstand downturns. In our view, protecting capital in market declines is as valuable as outperforming a rising market, and that belief has been central to our philosophy and stock selection process since Azarias' first day.

As always, we welcome all comments and questions.

Best Regards,

Daren Heitman

Important Disclosures

The performance data quoted represents past performance. Past performance is no guarantee of future results. Current performance may be higher or lower than quoted.

Investing involves risk, including the possible loss of principal and fluctuation of value.

The Focused Small Cap Value Composite (the "Composite") represents the returns of all discretionary, fee-paying portfolios, including pooled vehicles, with a concentrated U.S. equity small cap value investment mandate. Composite returns include cash and cash equivalents and the reinvestment of any dividend or interest income. Gross-of-fees returns are presented before management and any performance-based fee, but after all trading expenses. Net-of-fees returns are presented net of after management fees, any accrued performance-based fee and all trading expenses. Fees vary between accounts in the composite.

Since inception, the composite includes one portfolio whose net of fee returns are calculated using a management fee rate of 1.5% and a performance-based fee of 20% of profits in excess of the Russell 2000 Index. The performance of this portfolio reflects the highest fee charged to an investor in the portfolio during the period. Fees are accounted for on an accrual basis. From 11/01/15 through 12/31/17, the net returns of this portfolio include custody and organizational expenses. From 01/01/17 forward, the net returns of this portfolio reflect the deduction of custody, organization and other administrative expenses. Actual fees charged to some clients invested in this strategy are lower than the standard fee schedule. The firm's standard annual fee schedule is 1% of assets under management and 20% of outperformance of the Russell 2000 Index. See Part 2 of Azarias' Form ADV for additional disclosures.

Portfolio holdings are as of the date indicated above and are subject to change. This material should not be construed as a recommendation to buy or sell any security.

The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

Security contribution to return is measured by using an algorithm that multiplies the daily performance of each security with the previous day's ending weight in the portfolio and is gross of advisory and other fees. We discuss only the top 3 contributors and detractors from performance due to limited space on this report.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines and other factors. The representative account is believed to most closely reflect the current focused small cap value strategy. 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 Russell 2000® Index is a small-cap stock index of the bottom 2000 in the Russell 3000 Index stocks based on market-capitalization. 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 and 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.

The index comparisons in this presentation are provided for informational purposes only and should not be used as the basis for making an investment decision. Further, the performance of the composite and the index may not be comparable. There are significant differences between the composite and the indices referenced, including, but not limited to, risk profile, liquidity, volatility and asset composition.

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The information in this portfolio manager letter represents the opinions of the portfolio manager(s) and is not intended to be a forecast of future events, a guarantee of future results or investment advice. Also, please note that any discussion of holdings, performance, and the portfolio manager's views are as of the last business day of the calendar quarter date indicated above (except as otherwise stated) and are subject to change without notice. Certain information contained in this letter constitutes forward-looking statements, which can be identified by the use of forward-looking terminology such as may, will, should, expect, anticipate, project, estimate, intend, continue or believe, or the negatives thereof (such as may not, should not, are not expected to, etc.) or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of this strategy may differ materially from those reflected or contemplated in any such forward-looking statement. Current performance results may be lower or higher than performance numbers quoted above.

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