Third Quarter 2019

Azarias Composite	3Q19	YTD	LTM	3 Year*	Since Inception 11/1/2015*
Focused Small Cap Value (Gross)	**-6.4%**	**-2.8%**	**-16.8%**	**14.7%**	**14.2%**
Focused Small Cap Value (Net)	**-6.6%**	**-3.8%**	**-17.4%**	**12.1%**	**11.8%**
Russell 2000 Index	-2.4%	14.2%	-8.9%	8.2%	8.7%
Russell 2000 Value Index	-0.6%	12.8%	-8.3%	6.5%	8.2%

** Periods greater than one year are annualized. Past performance is not indicative of future results. All investments carry risk including loss of principal. See important disclosures below.*

The strategy's losing streak versus the Russell 2000 Index continued through the third quarter. Encouragingly, all the underperformance occurred during July with positive relative performance in both August and September.

We dive deeper into the reasons for the weak results below, but in summary the large uranium exposure and a few particularly sharp declines in consumer products positions explain the strategy's decline in value. Notably, fundamental news during the quarter support our long-term turnaround theses for those positions and we continue to hold the stocks, even selectively adding to several at the lower prices. We believe their drag on recent performance will be more than offset as their fundamental turnarounds unfold over the next several quarters.

U.S. small cap stocks continue to lag large caps. In fact, the Russell 2000 Index ended the third quarter 12.5% below its all-time high set on August 31, 2018. The Russell 2000 Microcap Index has fared even worse, ending the third quarter 19.8% below its all-time high, also set on August 31, 2018. In contrast, the S&P 500 set its all-time high very recently on July 29, 2019 and ended the third quarter just 1.5% below that mark. Given the strategy's "smicrocap" exposure, we believe this dynamic has been a significant headwind for our relative performance. However, we expect it to turn into a tailwind at some point in the future.

Notably, the strategy's net performance since inception remains strong at 11.8% annualized, 3.1% better than the benchmark. We believe the long-term results are a better indication of the value of our bottom-up, decision-making discipline, and as such have not wavered in implementing our investment process.

Performance Notes

Top 3 Contributors

This is our second go-round with a custom manufacturer of chassis and bodies used in the transportation, recreation, and emergency vehicle markets. The company is particularly well-positioned to supply delivery trucks for the "last mile" of e-commerce. A new CEO was recruited in 2015 to improve the company's financial performance, an effort that we believed was achievable after hearing his strategy. After some initial success improving margins, the company's stock hit our price target in 2017 and we exited the position. During 2018, however, it experienced unexpected cost inflation and margin pressure related to tariffs, creating another attractive entry point for us earlier this year. This quarter the stock performed well as the company announced a large order for delivery vans from an e-commerce company.

The world's largest manufacturer of commercial furniture reported strong results during the period and raised its guidance despite fears that the trade war would impact demand for its products. Although spending per white-collar employee is trending down, office space is undergoing a refresh as employers reinvent their space to meet the preferences of the next generation of workers in a tight labor market. Our thesis for the company's turnaround hinges on improved profitability in its EMEA division, which still reported a loss in the period and remains a source of upside to profitability.

In the third quarter of 2019 shares of a manufacturer of high-performance metal alloys for use in the aerospace, chemical processing, and industrial gas turbine industries increased by 13%. The company's quarterly results showed continued improvements in earnings, backlog, and operating performance under the direction of a new CEO. In addition, the price of nickel increased by roughly 40% in the third quarter due to an Indonesian export ban of nickel ore. The company is a strong beneficiary of rising nickel prices. We believe that the company will continue to execute on the new CEO's plan to more fully utilize its assets which will increase earnings towards our normalized earnings estimate of $3.20 per share.

Top 3 Detractors

A manufacturer of exercise equipment sold direct-to-consumer and via the retail channel, once again finds itself on the detractors list with a 39% decline. Results remained subdued prior to the important holiday selling season and due to the buzz surrounding the initial public offering of one of the company's chief competitors. Over the past few years the company lost share to a competitor owing to its very aggressive and effective marketing message. However, we view the competitor's marketing approach and value proposition to be an evolutionary step rather than a disruptive technology that represents an existential threat.

All manufacturers of consumer-based exercise equipment must be able to convince prospective customers (predominately novices) that fitness goals can be best achieved by purchasing their respective products. For years manufacturers developed content and tools, such as instructional videos and integrated fitness trackers, to help consumers stay motivated and engaged. However, the competitor has elevated its marketing message from simply highlighting the features and benefits of the equipment to marketing an *experience* where the equipment is simply a conduit to achieving fitness goals. Monetizing this *experience* via a monthly subscription fee is the competitor's long-term business objective rather than simply selling exercise equipment.

In order to create this *experience*, the competitor produces proprietary content in the form of live classes that consumers can watch on screens embedded in the equipment. This content is offered via a closed system; only company-created content can be viewed on its equipment (imagine buying an iPad only to be able to use Apps developed exclusively by Apple).

A key point of differentiation between the company we own and the competitor is the company's open architecture allowing consumers to utilize the company's App or download their favorite content, including that produced by the commpeitor. With this App, there is a significant amount of content provided for free with incremental content available for a monthly fee. While subscription revenue may someday be a meaningful part of its revenue stream, the company is not dependent on selling *proprietary content* in order to generate significantly higher earnings over the next few years.

The company has a diverse product offering, a well-regarded brand name, and digital content that offers a similar *experience* to its competition. The company's shortfall over the past few years (in addition to being significantly outspent on marketing) was the inability to effectively communicate the features/benefits of its digital offering and to demonstrate how seamlessly it is integrated with its product lines. Although the company's short-term struggles have been negative for our position to date, it has created a very attractive turnaround investment opportunity for us over the next 2-3 years. The combination of a new CEO with experience in digital marketing, and a recently launched, revamped advertising message crafted by a leading advertising firm that effectively demonstrates the company's digital content capabilities, should begin to reverse recent market share losses.

Shares of a uranium mining company based in the United States declined by 35% in the third quarter of 2019 as a result of the President's decision to forgo tariffs or quotas on uranium imports into the U.S. under the Commerce Department's Section 232 investigation. You may recall that this company was an outperformer in the second quarter due to anticipation of a positive ruling in this case. Although the President did not impose tariffs or quotas, he did state, "I agree with the Secretary that the United States uranium industry faces significant challenges in producing uranium domestically and that this is an issue of national security." As a result, the President established a United States Nuclear Fuel Working Group which is tasked with developing "recommendations for reviving and expanding domestic nuclear fuel production." This Working Group will make its recommendations by mid-November 2019. These recommendations could result in increased demand for U.S. uranium production. This would be an immediate positive for this company and other domestic uranium producers. Regardless of the Working Group's decisions, the fundamentals of the global uranium market continue to improve. There are 55 new nuclear reactors under construction worldwide which will create solid demand growth for uranium for the foreseeable future. Uranium supply continues to decline due to a uranium price that is below the total cost of production for many uranium miners. As supply and demand come back into balance, the price of uranium will increase towards the marginal cost of production which is near $65-$70 per pound compared to the current uranium price near $25 per pound. This price increase in uranium will be quite positive for this company's earnings.

The stock of the world's largest producer of distilled spirits and the largest third-party supplier of whiskey in the U.S. declined due to second quarter earnings falling short of expectations on lower than expected revenue. While sales of newly distilled whiskey remain strong, sales of higher-margined aged whiskey were below expectations due in large part to the timing of orders. Importantly, based on the imbalance between the supply and demand for aged whiskey, the value of the company's inventory increases over time and we believe will be monetized during our holding period.

Portfolio Exposures

Our sector exposures remained largely unchanged compared to the second quarter. Our most notable underweight continued to be zero exposure to Financials, and our most important overweight remains in Energy due to our bullish uranium thesis.

3Q 2019 Sectors	Azarias FSCV	Russell 2000
Communication Services	0.8%	2.4%
Consumer Discretionary	16.6%	11.1%
Consumer Staples	12.6%	3.0%
Energy	22.8%	3.3%
Financials	0.0%	18.2%
Health Care	0.0%	16.2%
Industrials	26.2%	16.1%
Information Technology	3.3%	13.4%
Materials	5.2%	3.8%
Real Estate	0.0%	8.2%
Utilities	0.0%	4.1%
Cash	12.6%	0.0%

Our top three sector weights are in Industrials, Energy, and Consumer Discretionary. Those three sectors account for nearly two-thirds of the portfolio. Normally that would imply a high degree of economic sensitivity and a portfolio very vulnerable to recession. However, we believe that would be an inaccurate conclusion. As mentioned above, our energy weight is dominated by our three uranium miners (19% of the strategy.) Uranium is used to produce base-load electricity which results in very predictable, economically insensitive demand. Additionally, we believe four more companies in the portfolio have potentially recession-resistant businesses. In total, those positions and the uranium miners account for over 40% of the portfolio's exposure which should provide solid ballast for the strategy should the U.S. enter a recession.

Finally, we believe it's important to note the overall financial strength of the companies in the portfolio. Thirteen of the seventeen companies in the portfolio hold net cash or de minimis debt on their balance sheets. We would expect this characteristic to also provide some defensiveness in the scenario where the U.S. experiences a recession.

Initiations & Exits

Initiations

Nearly every semiconductor requires a test before it goes into the field to ensure its reliability. We purchased a manufacturer of equipment used at the front end of the testing process and holds a commanding share of its niche. We expect the company to benefit from more than one tailwind going forward to drive its fundamental turnaround. First, demand for its capital equipment is very volatile and cyclical, a characteristic that we embrace. Currently demand is far below normal, and given the company's dominant market share, we expect it to benefit when the cycle inevitably turns up. Second, the company made a relatively sizable acquisition a year ago and is poised to benefit from significant cost synergies going forward. The company does have net debt, but it is termed out to 2025, giving it ample time to internally generate the cash required to retire it when due.

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Exits

The strategy exited a provider of micro-acoustic, audio processing, and precision device solutions during the quarter when it achieved our price target. We also exited a semiconductor photomask manufacturer. Though the turnaround thesis was intact and the stock was shy of our price target, we became increasingly uncomfortable with the company's strategy to invest its entire capital base in physical assets located in China.

Summary

We are increasingly concerned about the economic outlook and the potential ramifications of a recession on financial markets. To be clear, we do not consider ourselves economists, nor do we attempt to add value for our clients by making macroeconomic or broad market predictions.

However, we do monitor information as it crosses our screens, and it seems to us that a few canaries are on life support, if not already departed. Globally, China posted its slowest growth in 27 years with 6% GDP growth (according to official data) in the third quarter. China's slowdown is having an impact on Germany's export-driven, manufacturing-dominant economy, which might already be in a recession. It's difficult to imagine Europe generating growth if Germany becomes a drag on economic activity.

Here in the U.S., we have already experienced an inverted yield curve which often precedes a recession. Current CEO sentiment is at levels usually seen at the cusp of, or during, recessions. Freight volumes and manufacturing activity are sharply negative year over year. Corporate earnings are down again this quarter, and the current outlook for 10% growth in earnings next year looks unrealistic to us. This pressure on profitability is causing share repurchases, a main driver of demand for stocks over the past few years, to decline. The list of red flags could go on, yet the S&P 500 is flirting with all-time highs.

The cumulation of weak economic datapoints certainly does not guarantee a recession or a bear market. The world's central banks are far along in an easing cycle, and quantitative easing appears to be on the table for our own Federal Reserve.

Regardless of the direction of the economy or the stock market, we believe our strategy is positioned to outperform after absorbing this rough stretch. Continued economic growth will make the execution of a turnaround in earnings easier to achieve for the companies in the portfolio. However, if we do slip into a recession, our uranium holdings and other potentially recession-resistant companies, along with exceptionally strong balance sheets across the entire portfolio, should provide downside protection on a relative basis.

Thank you for your continued confidence in us, and we look forward to rewarding that confidence and patience with stronger performance in the future.

Best Regards,

Daren Heitman

Azarias Focused Small Cap Value Composite
Azarias Capital Management
November 1st, 2015 through September 30th, 2019

Year	Gross-of-Fees Return (%)	Net-of-Fees Return (%)	Benchmark Return† (%)	Composite 3-Yr St Dev (%)	Benchmark 3-Yr St Dev (%)	Number of Portfolios	Internal Dispersion (%)	Total Composite Assets (USD mil)	Composite Percentage of Firm Assets (%)	Total Firm Assets
2015*	-1.65	-1.90	-1.93	N/A	N/A	1	N/A	$1.7	40	$4.3
2016	36.43	31.93	21.32	N/A	N/A	1	N/A	$7.2	71	$10.2
2017	32.03	28.13	14.66	N/A	N/A	4	N/A	$22.1	81	$26.0
2018	-2.34	-3.10	-11.03	19.1	15.8	7	N/A	$57.8	67	$85.6
2019**	-2.83	-3.76	14.18	20.3	17.0	6	N/A	$74.5	83	$72.2

*Performance represents a partial year return from 11/1/2015 to 12/31/2015

** Performance represents a partial year return from 1/1/2019 to 9/30/2019

Azarias Capital Management, LP ("Azarias Capital") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Azarias Capital has not been independently verified.

Firm and Composite Information

Azarias Capital is an independent investment adviser registered with the Pennsylvania Department of Banking and Securities that manages equity portfolios. The firm invests primarily in U.S. stocks. The Focused Small Cap Value Composite includes portfolios, benchmarked to the Russell 2000 Index, with a mandate to seek long-term capital appreciation through a concentrated, long-only equity strategy that invests primarily in the U.S. small capitalization companies that Azarias believes are undervalued. A complete list and description of firm composites is available upon request.

Benchmark

†The benchmark is the Russell 2000 Index, which is a market-capitalization weighted index that measures the performance of the small-cap segment of the U.S equity universe. The volatility of the Russell 2000 Index may be materially different from that of the strategy depicted, and the holdings in the strategy may differ significantly from the securities that comprise the Russell 2000 Index. The Russell 2000 Index is calculated on a total return basis with dividends reinvested and is not assessed a management fee.

Performance Calculations

Valuations and returns are computed and stated in U.S. Dollars. Results reflect the reinvestment of dividends and other earnings.

Gross-of-fees returns are presented before management and custodial fees, but after all trading expenses and withholding taxes. Net-of-fees returns are calculated using actual management fees that were paid and are presented before custodial fees but after management fees, all trading expenses, and withholding taxes.

The standard management fee for the Focused Small Cap Value strategy is 1% management fee plus a 20% performance fee. The performance fee is relative to the Russell 2000 Index and a high water mark is included. Additional information regarding Azarias Capital's fees is included in its Part II of Form ADV.

Internal dispersion is calculated using the asset-weighted standard deviation of all accounts included in the composite for the entire year; it is not presented for periods less than one year or when there were five or fewer portfolios in the composite for the entire year.

The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. For periods where 36 monthly returns are unavailable the figure is presented as N/A. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Past performance does not guarantee future results.