AZARIAS CAPITAL

Fourth Quarter 2018

	Q4 2018[1]	1 Year	3 Year*	Since Inception 11/1/2015*
Focused Small Cap Value Composite (Gross of Fees)	**-14.3%**	**-2.3%**	**20.7%**	**18.9%**
Focused Small Cap Value Composite (Net of Fees)	**-14.1%**	**-3.1%**	**17.9%**	**16.2%**
Russell 2000 Index	-20.2%	-11.0%	7.4%	6.3%
Russell 2000 Value Index	-18.7%	-12.9%	7.4%	6.1%

** 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.*

Most readers of this letter are acutely aware of the stock market swoon in the fourth quarter. As highlighted in our last two letters, the Federal Reserve, led by Chairman Jerome Powell, appeared to be reasserting itself as chaperone at the proverbial party. During the fourth quarter, Chairman Powell put both hands on the punch bowl and told partygoers it was time to go home, but the partiers effectively rioted. The Chairman checked his timepiece and communicated that upon reflection the party could indeed continue a little while longer. As a result, the pain and fear caused by the market swoon during the fourth quarter appears to have greatly subsided.

Small cap stocks as represented by the Russell 2000 experienced a bona fide bear market in the period with a decline of over 20%. As we expected and hoped, our focus on durable business models and exceptionally strong balance sheets contributed to limiting the strategy's decline to 14.1% in that tough environment. While never pleasant, market declines are a fact of life in equity markets. These declines present active managers opportunities to protect capital on the downside and exploit newly undervalued stocks that become oversold.

Performance Notes

Top 3 Contributors

Hamilton Beach Brands is the largest distributor of small electric household and commercial appliances in the US. Despite solid fundamental results over the past few quarters the shares have been volatile relating to concerns about the impact of proposed tariffs on the industry. After being one of our worst performers in the third quarter, the shares advanced 7% in the fourth quarter as the company expressed confidence that only a few products may be directly impacted by the tariffs. Furthermore, Hamilton Beach is unlikely to lose market share as most suppliers also import products exclusively from China. Regardless of any short-term impact tariffs may have, we continue to expect sustainable margin improvement as the company grows revenue at a faster rate than expenses.

Weis Markets, an operator of grocery stores primarily in rural Pennsylvania, reported another solid quarter producing incremental margin improvement and same store sales growth. The shares responded favorably advancing 10% for the period. Just over two years ago Weis acquired

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

44 grocery stores that were located in desirable markets but were under-earning their full potential due to mismanagement. Our analysis suggests fundamentals at legacy stores remain solid while steady improvement is being made within the acquired stores. We believe consolidated margins will return to higher sustainable levels which is the foundation of our turnaround thesis.

Heritage Crystal-Clean provides route-based parts cleaning and waste removal services to more than 90,000 customer sites primarily for manufacturing industries. It also operates an oil "re-refinery" where it recycles the used oil it collects back into base oil. Each business reported strong results for the company's third quarter and provided an optimistic view of 2019. As a result, the shares increased nearly 8% during the fourth quarter despite strong headwinds from the market.

Top 3 Detractors

Ampco Pittsburgh, primarily a provider of forged and cast rollers for the steel and aluminum industries, declined by 48% in the fourth quarter due to reporting a larger than expected loss for its third quarter. The poor results were related to increased tariffs on its Canadian subsidiary and continued weakness in demand for its frac block products from oil and gas producers. Ampco's new CEO announced a restructuring plan to improve the manufacturing efficiency of the company.

Powell Industries declined by 31% and was a large position in the strategy. As a manufacturer of customized equipment used on-site to distribute, control and monitor electric power at energy and petrochemical facilities, Powell experiences volatile orders. A particularly weak order book disappointed the market during the fourth quarter, but we believe it

Focused Small Cap Value Representative Account Performance Attribution for the quarter ended December 31, 2018[2]	**% Wgt**	**CTR****
HAMILTON BEACH BRAND-A	6.0	0.6
WEIS MARKETS INC	4.8	0.5
HERITAGE-CRYSTAL CLEAN	3.0	0.2
RUDOLPH TECHNOLOGIES	0.1	0.2
MGP INGREDIENTS INC	0.5	0.0
CAMECO CORP	8.0	0.0
PHOTRONICS INC	2.9	-0.2
AGILYSYS INC	2.0	-0.2
SCHOLASTIC CORP	4.9	-0.7
GRAHAM CORP	4.3	-0.8
NEXGEN ENERGY LTD	6.4	-0.8
ARGAN INC	8.1	-0.9
KNOWLES CORP	5.1	-1.0
UR-ENERGY INC	5.0	-1.0
NOW INC	3.3	-1.1
STEELCASE INC-CL A	6.0	-1.2
HAYNES INTERNATIONAL	5.6	-1.2
INVACARE CORP	1.7	-1.8
POWELL INDUSTRIES INC	5.8	-1.8
AMPCO-PITTSBURGH CORP	3.8	-2.5

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

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[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.

represents a pause in what will continue to be a cyclical recovery in demand for Powell's equipment.

Invacare Corp, a medical products manufacturer, achieved most of the positive change we expected during the past few years, but a negative trend in reimbursement for one operating segment is having a larger than anticipated impact on earnings. This trend is expected to continue, and we reduced our estimate of normalized earnings, which now offers limited share appreciation potential.

Sector Exposures

Perhaps the most notable exposure within the portfolio is represented by Energy at 22%. Long time readers know what comes next: that weight is almost entirely due to our bullish views on the price of uranium. Uranium is used by nuclear reactors to generate electricity. To the surprise of most U.S. investors, nuclear power is growing globally. In fact, nuclear reactors are currently being added to the grid at a pace not seen since the 1980s. More central to our thesis, the price of uranium has been below the marginal cost of production for the past several years, resulting in a 23% decline in the supply of mined uranium since 2016. As a result, we strongly believe a supply deficit will be realized within the next couple of years, possibly even 2019, leading to a massive rally in the price of uranium. The current price is just under $30, and we expect it to rise to at least, and likely well above, the mid-$60s, i.e. our estimate of the marginal cost of production. The three uranium miners we hold in the portfolio are extremely undervalued in that scenario.

Focused Small Cap Value Representative Account December 31, 2018 Holdings by Sectors	Azarias FSCV	iShares Russell 2000
Comm Services	4.9%	3.3%
Consumer Disc	7.4%	12.1%
Consumer Staples	10.6%	2.9%
Energy	22.4%	3.5%
Financials	0.0%	18.2%
Health Care	0.0%	15.5%
Industrials	28.6%	14.8%
Info. Tech.	13.4%	14.7%
Materials	9.1%	3.7%
Real Estate	0.0%	7.3%
Utilities	0.0%	3.8%
Cash	3.7%	0.0%

The Industrial sector continues to represent the largest sector exposure with five positions and nearly 29% of the portfolio, bumping up against our 30% limit for a sector weight. Even though most of this exposure is economically sensitive, the companies serve diversified markets ranging from commercial furniture to construction services for natural gas power plants to equipment for oil refineries and petrochemical plants.

For the first time since the launch of this strategy, Healthcare joins Financials, Real Estate and Utilities as a zero weight. We will likely find opportunities in each of these sectors (though probably not among regulated utilities) over the long term, but for now we are finding better opportunities elsewhere.

One final note: a quick glance at the sector weights suggests the portfolio has quite a bit of economic sensitivity. We believe that's misleading. First, demand for uranium has virtually no correlation with short term economic growth. Additionally, we believe three of the other companies in the strategy have defensive characteristics. Finally, two others could be described as very late-cycle companies, implying their fundamentals could still improve during the early stage of a recession. We are not macro investors, nor do we make portfolio decisions based on macro considerations. Nevertheless, we believe the portfolio is well positioned to withstand an economic downturn without sacrificing appreciation potential.

Initiations & Exits

We identified two new opportunities during the final quarter of 2018. The first is a name familiar to us as a company we have owned in the past. It is one of the largest distilleries in the world and is the single largest third-party supplier of whiskey in the US. We expect a meaningful and sustainable improvement in the company's margin profile driven by two fundamental changes; initially, the product mix is changing from industrial uses (ethanol, food, personal care) to premium beverage alcohol, and over the longer-term margins will benefit from the sale of aged whiskey which generates company-high profitability. It is conservatively financed with total debt equal to only 5% of its market value.

The second new position is a manufacturer of equipment used in the semiconductor assembly process. Specifically, the company's process-control equipment detects defects on the surface of silicon wafers during the manufacturing process. This niche is effectively a duopoly with this company holding over 50% market share, providing what we believe is a very stable competitive environment. Additionally, the company boasts ample net cash on its balance sheet. The global semiconductor industry spent heavily on capacity during the past few years, and 2018 represented the downturn in that capital equipment cycle. We expect this company to participate in an industry cyclical recovery over the next couple of years, with additional upside potential provided by a new product cycle outside the semiconductor equipment space.

We excited one position during the quarter. Our turnaround thesis had largely played out with the reopening of its powered wheelchair manufacturing facility, but that positive event was overwhelmed by industry headwinds related to government reimbursement changes. As such, we lost confidence in the potential for a sustainable improvement in it's profitability and sold the stock at a loss.

Summary

Investors seem to have interpreted the apparent pause in the Federal Reserve's tightening cycle as an "all-clear" signal. We, however, continue to urge caution. First, the full impact of the Fed's actions to-date has not yet been felt. It can take more than a year for interest rate hikes (or cuts) to reverberate throughout the economy. Second, it's unclear what policy the Fed will pursue related to quantitative tightening, i.e. whether it will continue to shrink its balance sheet by $50 billion per month, and what impact that will have on the broader economy. As mentioned in past letters, we believe the economy is susceptible to a downturn in the credit cycle, either due to past and/or continued tightening conditions, or because it simply collapses under its own weight as a result of increasingly aggressive loan underwriting.

In our opinion, the fourth quarter provided a preview of the market's response to a withdrawal of liquidity. Because protecting capital in sharp drawdowns is a critical investment objective at Azarias Capital, we were pleased with the portfolio's results in the period and, while there are no guaranteed outcomes in equity investing, we expect similar resiliency should we experience that environment again. We are gratified that our investment discipline of identifying turnaround opportunities among companies with durable business models and strong balance sheets has now proven successful in both strong and weak markets.

As a business, Azarias Capital continues to gain strength. We celebrated our three-year track record in the fourth quarter, a necessary milestone to achieve before some investors will consider our services. We also welcomed a large, multi-family office as a client in the fourth quarter which currently puts us just shy of the significant $100 million assets under management (AUM) threshold. At that level of AUM and with the strong, three-year track record, we will meet the requirements of a larger portion of institutional allocators. As a result, we are seeing our pipeline build quickly and are very optimistic regarding growth opportunities in 2019.

We anticipated success and have been properly resourced from our founding to manage this strategy at higher levels of AUM, from both an investment and operational standpoint. Because our investment strategies and business model were structured from the beginning to maximize investment performance as opposed to AUM, we will not waver from our commitment to close this strategy to investors prior to $500 million.

As always, we welcome 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.

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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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