AZARIAS CAPITAL

First Quarter 2019

	1Q19	LTM	3 Year*	Since Inception 11/1/2015*
Focused Small Cap Value Composite (Gross of Fees)	**7.9%**	**9.7%**	**23.2%**	**20.1%**
Focused Small Cap Value Composite (Net of Fees)	**7.1%**	**8.3%**	**20.3%**	**17.3%**
Russell 2000 Index	14.6%	2.0%	12.9%	10.2%
Russell 2000 Value Index	12.0%	0.2%	11.9%	9.2%

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

The stock market roared back from its December low as the market fully absorbed the message from the Federal Reserve that it was finished raising rates this cycle and is less inclined to reverse its quantitative easing.

The strategy lagged the Russell 2000 Index badly in the quarter. Part of that result can be attributed to our value style and a large cash position, but mostly it was due to poor stock selection. Eight of the twenty-one stocks held during the period experienced absolute declines in price, a weak result given such strong tailwinds from the market. On balance, we do not believe there is any information content to be gleaned from that basket of underperforming stocks. While some did report weak fundamental results, most reported unremarkable news, leading us to view the strategy's results as an "unwinding" of the previous quarter when the Russell 2000 declined just over 20% and the portfolio held up better with a 14% drop in value. In total over that six-month period, the strategy's results are slightly ahead of the Index at -7.8% versus -8.6%.

Performance Notes

Top 3 Contributors

The stock of a builder of gas-fired power plants, increased in price by 33% in the first quarter. In February, the company announced that it had signed a contract to build a large 1,875 megawatt gas-fired power plant in Ohio. The contract is with a repeat customer and increased its backlog to above $1 billion from $365 million. These data points increase our conviction in the company's ability to continue to gain share in this market as gas-fired power plants replace coal-fired power plants.

The stock price of a company that makes high performance metal alloys for use in aerospace, chemical processing and gas turbines increased by 25% in the first quarter on a solid earnings report. During the quarter, the company reported a volume increase of 10.5% YOY, a price per pound increases of 11.3% YOY and a revenue increase of 19% YOY. It is seeing increased demand in its recovering Chemical Processing business with volume up 31% YOY in that segment. The company would have reported volumes that were 10% higher if not for a planned outage to upgrade a furnace. These improvements will allow the company to fully utilize its assets and pursue additional high value business. Improved demand and increased utilization should allow the company to leverage its fixed costs and return to normalized earnings levels near $3.25 per share.

For the second time, we purchased the largest third-party supplier of whiskey in the US and one of the top seven global producers of spirits. Our initial investment was a success and we exited the position when the stock reached our price target in June 2018. Subsequently, the share price declined 40% for reasons which we viewed as inconsequential to our investment thesis and we reestablished a position late in the fourth quarter of 2018. In the first quarter of 2019 the shares advanced 35% as the company reported very strong revenue and earnings results. Over the next few years we expect significant margin improvement as the company begins selling aged whiskey in addition to raw (unaged) distillate. Aged whiskey sells for higher prices and is significantly more profitable than raw distillate. This expected change in the company's revenue mix is the key component of our investment thesis.

Top 3 Detractors

A manufacturer of fitness equipment primarily for home use, was the portfolio's weakest performer. During the quarter its shares declined 50% and 21% from our initiation price in early January. Although fourth quarter results were in line with the company's pre-announcement (released just prior to when we established our position) it appears short term earnings may be more challenged than expected. Management suggested it will take several quarters to improve the marketing message to effectively support a recent product launch. While management did not give 2019 guidance, it did suggest earnings weakness would persist through the first half of 2019, disappointing those investors hoping for a very quick recovery. We do not believe these negative near-term results will impair the company's long-term competitive position and we expect both margins and revenue will recover to normal levels during our investment horizon.

A designer and manufacturer of vacuum and heat transfer equipment primarily addressing the retrofit and expansion requirements of the global refining and petrochemical industries was another detractor during the first quarter. These end markets are highly cyclical and peaked in 2014. Orders began to recover in 2018 for the company but hit a lull in the first quarter causing weakness in the stock. Given the early stage of this cyclical upturn and the company's strong competitive position in its niche, we expect order growth to resume during 2019.

The largest designer, marketer, and distributor of branded small electric household and commercial appliances in the United States detracted from per. The shares declined 8% for the period as results fell short of expectations during the important holiday shopping season. Management did not anticipate the unusually strong consumer demand focused on a very narrow product assortment and the company lost share as a result, temporarily in our view. Additionally, pricing pressure within e-commerce was much more disruptive this year than in seasons past. While we are disappointed with the quarter's results, the company has refreshed its product offering and modified its e-commerce pricing structure, and we remain confident in our investment thesis that margin expansion will occur and earnings will return to normalized levels during our holding period.

Sector Exposures

1Q19 Sectors	Azarias FSCV	iShares Russell 2000
Comm Services	4.1%	3.3%
Consumer Disc	14.5%	12.2%
Consumer Staples	7.9%	2.8%
Energy	22.9%	3.7%
Financials	0.0%	17.9%
Health Care	0.0%	15.6%
Industrials	24.5%	14.7%
Info. Tech.	10.4%	15.0%
Materials	6.9%	3.8%
Real Estate	0.0%	7.4%
Utilities	0.0%	3.6%
Cash	8.7%	0.0%

As highlighted in several of our past letters, the large Energy weight is almost entirely due to three positions in uranium miners. We expect those stocks to appreciate significantly from a strong recovery in that commodity's price over the next couple of years. Currently, the price of uranium is in the mid-$20s compared to marginal costs of production estimated to be in the mid-$60s. Supply is shrinking against steady growth in demand and, in our view, will continue to fall until the price recovers.

While all our decisions are based on a multi-year outlook, we have reason to believe the second half of 2019 could represent an inflection point for this industry. In early 2018, U.S. uranium miners petitioned the Commerce Department to require U.S. utilities to purchase 25% of their uranium from U.S. producers compared to less than 1% now. The Commerce Department recently and confidentially provided the administration its findings, and the White House has ninety days to respond by accepting, rejecting, or modifying the Commerce Department's recommendation. Due to this regulatory uncertainty, global utilities, and particularly U.S. utilities, have purchased an unusually low volume of uranium so far this year. Regardless of the outcome, once the uncertainty is lifted these utilities are likely to re-enter the market in the second half of 2019 to secure their uranium needs, potentially sparking a rally.

Initiations & Exits

Initiations

We purchased a leader in the health and fitness market with brands including Bowflex, Nautilus, Schwinn, Universal and Octane Fitness. The Company has experienced lower earnings over the past few quarters owing to a weaker than expected product launch. Despite this shortfall, we do not believe the company's brand is impaired or otherwise structurally challenged. Given that demand for "self-improvement" products remains relatively consistent over time, growing in line with GDP, we believe it will be able to regain market share leading to a rebound in earnings to a more normal level.

We also purchased the largest pure-play children's specialty apparel retailer in North America. It sells apparel, accessories, footwear, and other items for babies and young children. The company markets products primarily through its own retail stores but also has wholesale relationships with Amazon and other e-commerce retailers. Following the bankruptcy and accelerated liquidation of one of its primary competitors which will have a negative impact on near-term earnings, we expect the company to generate significant margin improvement over the next few years as SG&A investments produce sustainable leverage while e-commerce and international segments gain incremental market share.

Exits

The strategy exited its position in the shares of a long time holding at a loss during the first quarter. When we initially purchased the stock, the company had nearly $100 million in cash on the balance sheet and was the leading U.S. producer of steel rolls in the recovering steel industry. The company subsequently acquired a competitor with hopes of consolidating the steel roll industry. The purchase weakened its balance sheet and the potential benefits of the acquisition have yet to materialize. Steel production in the U.S. has recovered to normalized levels yet the company remains unprofitable. These ongoing operational shortfalls have caused the company's net debt to increase to a level that we are not comfortable with. Therefore, we decided to sell the stock and redeploy assets into investments that better meet our investment criteria.

We exited two additional positions during the period as each company mostly achieved our fundamental expectations and price target.

Summary

We believe the benefit from the surprising change in monetary policy has probably run its course, leaving future equity market returns primarily subject to economic expansion and earnings growth. On this front, we are probably more cautious than most managers, or at least the ones who are the marginal buyers in this market.

As a reflection of our investment decision making discipline, we will continue to avoid companies and industries with demand and profitability at or above what we consider a sustainable level. Additionally, we continue to require exceptionally strong balance sheets for the companies in the strategy. In fact, nearly two-thirds of our holdings have net cash on their balance sheets. Combined, these characteristics should make the portfolio less susceptible to an economic downturn. Yet because we identify companies that provide significant stock price appreciation if our prediction of a fundamental turnaround occurs, the portfolio has the potential to generate attractive returns should this economic expansion continue. In short, we believe this strategy is one for all seasons.

Thank you again for your interest, and 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.

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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