Second Quarter 2019

	2Q19	YTD	3 Year*	Since Inception 11/1/2015*
Focused Small Cap Value Composite (Gross of Fees)	**-3.7%**	**3.8%**	**15.8%**	**17.3%**
Focused Small Cap Value Composite (Net of Fees)	**-3.7%**	**3.1%**	**13.6%**	**14.8%**
Russell 2000 Index	2.1%	17.0%	10.2%	10.0%
Russell 2000 Value Index	1.4%	13.5%	7.9%	8.9%

** 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.*

It has been a frustrating and humbling year to date. The strategy lagged the Russell 2000 Index in the second quarter by 5.8%, capping a very difficult first half to the year. In general, larger stocks have outperformed small stocks and growth stocks have outperformed value stocks, creating a near perfect storm for our "smicro" cap, deep value approach during the first six months of 2019.

While some of the underperformance can be explained by our value approach and ownership of stocks that are considered small even by "small cap" standards, the larger issue was particularly poor individual stock performance. Given the concentrated nature of this strategy and the volatility of the underlying stocks, it is common to have single positions add to or detract from the strategy's value by up to 2% or more in a quarter. However, it is very rare to have one stock detract from the portfolio's value by almost 5%, accounting for nearly all the strategy's underperformance. We conducted an in-depth review of our thesis and we discuss the company in more detail.

There are two silver linings. First, the absolute value of the portfolio increased by around 3% so far in 2019. If we had to choose, we would prefer underperforming during a rising market given our emphasis on capital preservation. Second, investors who have been in this strategy for more than two years are still well ahead of the Russell 2000 and Russell 2000 Value benchmarks. We believe our long-term track record reflects the effectiveness of our highly disciplined and time-tested stock selection process.

Performance Notes

Top 3 Contributors

The strategy's top contributor is an equipment and systems manufacturer that distributes, controls and manages electricity on-site at large, industrial complexes. Important end markets include the petrochemical, refining, and oil & gas industries. Spending by these end markets for the company's equipment is highly cyclical and appears to be exiting a deep, multi-year downturn. The company's stock rose by 44% due to very strong orders during the period and optimism for continued demand strength, as well as management's expectations that the company will return to profitability during the next two quarters.

The stock price of the world's largest manufacturer of commercial furniture increased by 18% during the period. The company reported mixed results for its most recent period, and the market initially focused on the weaker than expected revenue and profits in the quarter. However, orders and backlog grew across all geographies at a very healthy rate, brightening the outlook for future earnings, and by the end of the quarter the stock posted strong gains.

Shares of a US based miner of uranium increased by 15% in the second quarter. We believe this increase was due to investors anticipating a positive result from the Commerce Department's Section 232 investigation into the effects of uranium imports on U.S. national security. The ruling could have mandated that U.S. utilities source more of their uranium from U.S. based suppliers. As one of the few uranium miners still producing uranium in the U.S., it would have immediately benefited from this policy change. However, subsequent to the end of the quarter the ruling was announced and, contrary to the bulls' hopes, policy was not changed to require U.S. utilities to purchase uranium from U.S. producers.

Top 3 Detractors

While we are disappointed by the 60% decline in a direct to consumer fitness equipment manufacturer's share price during the quarter, due in part to weak first quarter earnings, we continue to believe the company's brands have value and are well regarded by consumers. The company continues to gain share in the mass retail market but has seen its market share slip in the direct-to-consumer segment owing to the entrance of new competitors. The direct-to-consumer market is a dynamic and evolving segment and although the company has a very competitive product offering, it has fallen short in its ability to differentiate the digital content offered with its newest exercise equipment. We are optimistic that the recently hired CEO will be able to improve the marketing message, stabilize share losses, and produce higher operating margins during our holding period.

The world's largest publisher and distributor of children's books was a detractor during the second quarter. Some of the company's most recognizable publications include the Harry Potter series, The Hunger Games, and Goosebumps. The company is a 100-year-old business controlled primarily by the founding family members and has grown in an inefficient manner over the years. The company invested heavily on infrastructure and IT initiatives over the past two years and with this spending largely behind it, earnings should benefit from both SG&A normalizing as well as the operational improvements generated by these initiatives. The stock declined about 16% during the second quarter as the company announced earnings would be lower than expected for its fiscal fourth quarter (ending in May). The company's earnings are very seasonal (based on the school year and budgeting) and we believe the shortfall does not negate our investment thesis or the company's long-term strategic plan to increase operating profitability.

A natural gas engineering and construction company equity declined by 19% in the second quarter due to a one-time $28 million loss on a project at their UK subsidiary. On a more positive note, the company won a contract to build a 625-megawatt gas-fired power plant in West Virginia. This brought the company's backlog to a near record level of $1.4 billion. We believe the company's earnings should improve towards normalized levels over the next year as the backlog is converted into revenue and earnings. The company's recent business development success is consistent with our thesis that the company will continue to gain share in the market for the construction of gas-fired power plants in the U.S.

Sector Exposures

Our sector exposures did not change materially during the 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. As mentioned above, in mid-July, President Trump made his long-awaited ruling on the Commerce Department's Section 232 investigation into the effects of uranium imports on U.S. national security.

2Q 2019 Sectors	Azarias FSCV	Russell 2000
Communication Services	3.9%	3.0%
Consumer Discretionary	17.1%	11.7%
Consumer Staples	13.5%	2.7%
Energy	23.7%	3.3%
Financials	0.0%	17.6%
Health Care	0.0%	15.9%
Industrials	24.0%	15.2%
Information Technology	6.9%	15.4%
Materials	5.9%	3.8%
Real Estate	0.0%	4.5%
Utilities	0.0%	3.9%
Cash	5.2%	0.0%

The President concluded that he did not agree with the Commerce Department's finding that uranium imports represented a national security threat to the United States under Section 232 of the Trade Expansion Act of 1962. Therefore, he decided not to implement any quotas or tariffs on uranium imports into the United States.

Perhaps surprisingly, we believe this decision is an overall positive for our bullish uranium thesis for the following reasons:

1. It allows utilities to resume contracting with uranium suppliers again. The contracting patterns of both U.S. and global uranium buyers had been on hold due to uncertainty since the filing of the Section 232 petition in January of 2018. This should allow for price discovery which we believe will highlight the future supply/demand imbalance in the uranium market.

2. It does not encourage U.S. suppliers to create additional uranium supply for the global nuclear fuel market. Therefore, the imbalance between commercial supply and demand will remain large.

3. The President's decision specifically mentions the need for domestically produced uranium to satisfy the nuclear fuel requirements of the Department of Defense. U.S. nuclear powered aircraft carriers and submarines require roughly five million pounds of uranium per year. We believe this could be a source of future demand for domestic uranium miners.

We do not believe it is in the strategic best interests of the United States to rely solely on imports of uranium to power 20% of its electrical grid. However, quotas or tariffs would have increased the supply of uranium into commercial markets. The U.S. Nuclear Fuel Working Group appears likely to address the strategic issue without increasing commercial supply. Overall, we view the outcome from the Section 232 executive decision as bullish for our global supply and demand thesis.

AZARIAS CAPITAL

Initiations & Exits

Initiations

The strategy initiated a position in a developer and manufacturer of custom chassis for fire trucks, recreational vehicles, step vans, and other specialty vehicles. The company also owns fire and rescue vehicle manufacturers. The company is in a multi-year turnaround effort led by a new management team steeped in efficient manufacturing processes. In addition to improving operations and the cost structure, management is focused on gaining share in the "last-mile" portion of transportation, a niche benefitting from the growth in e-commerce. With large market shares in its important end markets and minimal debt, we believe the company provides attractive appreciation potential in its stock without excessive risk.

Exits

The strategy exited an information technology company after it received a merger offer at a price near our target.

Summary

As painful as periods of underperformance can be, they are unavoidable for active managers. We have been through this before and there are benefits to having that experience. First and foremost, we know these periods do eventually end. More importantly, our experience provides us with an unwavering confidence to continue following our disciplined investment process which has worked over the long term. Thank you for placing that same confidence in Azarias.

Best Regards,

Daren Heitman

Azarias Focused Small Cap Value Composite
Azarias Capital Management
November 1st, 2015 through June 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	85	$26.0
2018	-2.34	-3.10	-11.03	5.5	4.6	7	0.7	$57.8	82	$70.6
2019**	3.8	3.1	17.0	5.7	4.9	8	0.2	$74.5	85	$87.7

*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 6/30/2019

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.