Fourth Quarter 2019

	Q4 2019[1]	1 Year	3 Year*	Since Inception 11/1/2015*
Focused Small Cap Value Composite (Gross of Fees)	**6.9%**	**3.8%**	**10.2%**	**15.1%**
Focused Small Cap Value Composite (Net of Fees)	**6.6%**	**2.6%**	**8.4%**	**12.7%**
Russell 2000 Index	9.9%	25.5%	8.6%	10.6%
Russell 2000 Value Index	8.5%	22.4%	4.8%	9.8%

** 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.*

Last year was one of the most humbling and challenging periods in my career. The notable, similar experience was during 1999 when small cap value strategies badly lagged a broad market advance led by growth stocks in general, and technology stocks in particular.

The value investors who survived that period are experiencing a strong sense of déjà vu. Like then, commentary regarding inexplicable valuations and excessive risk-taking in various market segments is ubiquitous among fundamental, value investors. In perhaps an ironic twist for those of us with memories of the "tech bubble", technology in the form of social media, aka "FinTwit", delivers vast quantities of these opinions. In effect, the 1999 market was correct about the long-term adoption of internet applications and the impact it would have on data traffic, but growth investors still wildly overestimated the equity valuations of the participating technology and communication companies.

The painful late-1990s underperformance of value strategies ended when the NASDAQ peaked in early 2000. The value managers who stuck to their discipline did a better job of protecting capital in the downturn and more than made up for the previous underperformance in the ensuing years. We believe a similar recovery for value investors is highly probable and will be driven by a tightening of credit and valuation contraction, either brought about willfully by central banks (unlikely), or by a Minsky moment when the economy runs out of steam and a portion of the corporate debt already issued cannot be serviced (more likely.)

Even though our "smicrocap", value orientation created some relative performance headwinds as lamented above, we also readily acknowledge self-inflicted mistakes. Years like 2019 are ample motivation to question everything about our decision-making process. However, the framework we use at Azarias Capital is permanent: we will continue to implement the value-style investment discipline that we believe gives investors the best opportunity to generate attractive, long-term returns without exposing them to large losses. We do this by identifying companies on the cusp of a fundamental turnaround which also possess durable businesses and rock-solid balance sheets.

After reviewing our mistakes, we attribute just over half of the underperformance during 2019 to poor stock selection. In general, we entered into too many positions before: a) the company's fundamentals had approached a trough, confirming a stable competitive position; or b) the stock

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

had fallen to such an extreme under valuation to justify ownership despite a lack of real-time evidence confirming our assessment of competitive stability. In other words, we categorize those mistakes as ones of timing and valuation. As a result, the stocks that caused much of the poor relative performance in 2019 are still in the portfolio with the potential to more than offset their 2019 losses. We discuss a few of our contributors and detractors in more detail below.

Performance Notes

Top 3 Contributors

A manufacturer of equipment used in the semiconductor testing process, was a timely initiation at the end of the third quarter. Demand for its capital equipment is very volatile and cyclical, a characteristic that we embrace. Our thesis called for a rebound in demand for its equipment as well as achieving cost synergies as a result of an acquisition. The company reported progress along both metrics and the stock reacted positively as a result.

One of our companies advanced 18% despite a challenging earnings period as the company reported a 12% decline in revenue in the third quarter. However, the company expects to recover most of the revenue in the fourth quarter as the shortfall was largely timing related. Sales volume was negatively impacted due to a significant change in retailer order patterns driven by tariff concerns which shifted the company's ability to record revenue from the third quarter to the fourth. Over the past few years the company increased SG&A in order to develop new distribution channels and products. With this effort near completion, we believe the company will be able to generate sustainably higher levels of profitability as SG&A normalizes as a percent of revenue

A custom manufacturer of chassis and bodies used in the transportation, recreation, and emergency vehicle markets, made a second consecutive showing on the contributors list. The company is particularly well-positioned to supply delivery trucks for the "last mile" of e-commerce, and toward the end of the second quarter the company announced a large order for delivery vans from an e-commerce company. The company followed up that news with strong results, and the stock continued to post gains in the final period of 2019.

Top 3 Detractors

One of our companies declined 19% during the quarter owing to a weaker than expected outlook for the remainder of its fiscal year, as strong e-commerce sales (+23% in the December quarter) will not be enough to offset the continued weakness at retail stores. The company is the largest pure-play children's apparel specialty retailer in North America selling value-priced clothes, accessories, footwear, and other items. Earnings are temporarily depressed as the company spent heavily over the past few years to strengthen its high-margin e-commerce business. As spending returns to normal levels and revenue benefits from these initiatives, margins should return to historical averages. We believe the company will continue to gain share following a tumultuous period that witnessed the bankruptcies of many leading competitors.

Focused Small Cap Value Representative Account Performance Attribution for the quarter ended December 31, 2019[1]	% Wgt	CTR**
COHU INC	4.1	2.2
HAMILTON BEACH BRAND-A	7.0	1.4
SPARTAN MOTORS INC	4.3	1.2
POWELL INDUSTRIES INC	3.1	0.8
NAUTILUS INC	2.3	0.7
STEELCASE INC-CL A	5.9	0.7
GRAHAM CORP	5.5	0.6
MOTORCAR PARTS OF AMERICA	2.3	0.6
WEIS MARKETS INC	6.4	0.5
ARGAN INC	7.2	0.2
SCHOLASTIC CORP	0.7	0.0
ONTO INNOVATION INC	0.0	0.0
HAYES INTERNATIONAL INC	4.9	0.0
NEXGEN ENERGY LTD	5.8	0.0
MGP INGREDIENTS INC	7.0	-0.1
NOW INC	0.7	-0.3
UR-ENERGY INC	5.1	-0.3
CAMECO CORP	7.5	-0.5
CHILDREN'S PLACE INC	5.8	-1.1
US DOLLAR	14.4	0.0

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

One of our uranium mining companies by 6% in the fourth quarter and another declined by 3% in the fourth quarter. Continued uncertainty regarding U.S. uranium policy has led to a lack of new contracting for uranium fuel by global utilities. This has led to weakness in the equity prices of uranium mining companies. However, global uranium demand is roughly 200 million pounds per year (and growing) while global uranium supply is roughly 170 million pounds per year (and shrinking). As a result, excess uranium inventory has been declining for the past two years and will likely be depleted in the next 12-18 months. As utilities return to the uranium contracting market, they will discover that insufficient uranium supply is available at the current price. In our view, the price of uranium needs to rise 100% to induce additional uranium supply into the market. We anticipate the resulting price increase will be beneficial to the earnings of these uranium miners and the price of their shares.

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[1] 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.

Portfolio Exposure

Focused Small Cap Value Representative Account December 31, 2019 Holdings by Sectors	Azarias FSCV	iShares Russell 2000
Comm Services	0.7%	2.3%
Consumer Disc	17.4%	10.9%
Consumer Staples	13.5%	3.0%
Energy	18.9%	3.2%
Financials	0.0%	17.6%
Health Care	0.0%	18.2%
Industrials	27.4%	15.8%
Info. Tech.	8.5%	13.5%
Materials	4.7%	3.9%
Real Estate	0.0%	7.8%
Utilities	0.0%	3.7%
Cash	9.0%	0.0%

Given our current lack of exposure to several sectors, we are often asked if there are areas of the market that we consider off-limits. With the exception of biotech, where the fundamental outcomes are inherently binary, the answer is no. In Financials, we are waiting for worsening results on loan portfolios before initiating a position in a lender. We would need to see conditions for a hardening market and lack of underwriting capital to become broadly interested in insurers. A REIT can be attractive if its occupancy rates are depressed and it is conservatively capitalized, but that is not the case today. We have owned Healthcare stocks in the past, but currently have not uncovered an opportunity that meets our criteria. Finally, regulated utilities will likely never present an opportunity for us, but unregulated energy providers could potentially become attractive.

In the meantime, we are finding turnaround opportunities in Industrial, Consumer, Materials, and Energy stocks. As mentioned in past letters, those exposures imply a high degree of economic sensitivity that we believe is misleading. For example, the Energy exposure reflects our positive outlook for the price of uranium which is used as fuel to generate base-load electricity. Within the Consumer positions, we believe three of our six positions possess defensive characteristics. Finally, we are optimistic the strong balance sheets of each company in the portfolio, half with net cash, will provide some ballast in the event of a severe market correction.

Initiations & Exits

Initiations

One of our new positions was the result of a merger between two semi conductor companies. Each company held leading, and in some cases dominant, market shares in their respective, complementary niches in process control and inspection equipment. This equipment is critical to improving yield and reliability during the semiconductor fabrication process, and incumbent suppliers are very difficult to displace. We believe the combined company's earnings will experience a strong rebound due to a cyclical recovery in its end markets as well as likely cost synergies due to the merger. Additionally, we expect the company to gain share with new product initiatives over the next few years, further adding to its mid-cycle earnings power. In addition, the company held over $300 million in net cash on the balance sheet, or roughly 20% of its market capitalization.

We also initiated a position in the largest remanufacturer of automotive aftermarket, non-discretionary replacement parts in the United States and Canada. Remanufactured parts are high-quality, low-cost alternatives to original equipment products and are typically the preferred choice for consumers who own out-of-warranty vehicles. A record-level 30% of all vehicles on the road today are between the ages of six and twelve years, a percentage that will increase in the future based on the strong vehicle sales recorded over the past 5-10 years. Earnings at the company are depressed owing to higher short-term costs related to doubling manufacturing capacity prior to generating incremental revenue. The bulk of these costs are related to building pre-launch inventory of new products in high-cost locations in the US prior to shifting production to the new facilities in Mexico. Profitability is expected to recover as spending slows and revenue accelerates.

Exits

We eliminated a company a distributor of products to the energy sector in the U.S. We believed the cyclical upturn in the oilfield services sector had played out, and we therefore sold the stock for lack of a turnaround thesis despite the shares being below our target.

Summary

Our portfolio of 15-20 "smicrocap" turnarounds is designed and expected to provide a much different pattern of performance than your other equity strategies and the Russell 2000. When we do our jobs well (and catch some breaks) like the three-year period 2016-2018, the strategy can outperform by a wide margin. However, when we make a few unforced errors like we did in 2019 and face some style headwinds, we will lag other managers and the market. Investment industry veterans know they will have difficult years as their style comes in and out of favor, and it's imperative that they stick to their discipline to benefit from reversion to the mean after periods of poor performance. We have that fortitude and expect relative performance to benefit from small cap and value tailwinds in the future.

Having said that, we are also using the lessons we learned from our mistakes in 2019 to improve our process. We are redoubling our efforts to weed out companies with uncertainties regarding their competitive landscape, the typical reason we find ourselves in value traps. In addition, we implemented more stringent risk control measures to mitigate the impact any one mistake can have on performance.

As this letter is finalized, great uncertainty exists that is not fully reflected in equity valuations. The newest disruption is the outbreak of a coronavirus in China. We have seen enough global crises during our careers to become inured to them. However, we believe it is too early to dismiss the threat of this virus as analogous to SARS. The data is simply too incomplete regarding the rate of infection, fatality, and recovery.

As we have written before, we believe the world's economies are extremely susceptible to exogenous shocks such as this virus due to the decade-long increase in debt levels and risk tolerance, as well as limited options for a monetary policy response by central bankers given already-accommodative policies. We are not macro economists and do not attempt to add value with market calls, and a permanent U.S. equity allocation is appropriate for most investors. However, these concerns explain why we require durable business models and exceptionally strong balance sheets in the portfolio's companies. We believe the portfolio is constructed to provide very attractive returns in a normal market and downside protection should we experience a recession and bear market.

We appreciate how much patience it takes to stick with an investment with recent, significant underperformance. As contrarian investors, we live with it every day. When we have a stock unexpectedly decline from our purchase price, we revisit the thesis to ensure our original assumptions are still intact. In our case, we hope you invested with us because you believe in our philosophy and process, as well as our decades of experience implementing it.

As I reflected on 2019, I was reminded of a quote from Howard Marks. In his 2007 "Everyone Knows" memo he wrote:

> *"Large amounts of money (and by that I mean unusual returns, or unusual risk-adjusted returns) aren't made by buying what everybody likes. They're made by buying what everybody underestimates.*
>
> *In short, there are two primary elements in superior investing:*
>
> *- seeing some quality that others don't see or appreciate (and that isn't reflected in the price), and*
>
> *- having it turn out to be true (or at least accepted by the market).*

It should be clear from the first element that the process has to begin with investors who are unusually perceptive, unconventional, iconoclastic or early. That's why successful investors are said to spend a lot of their time being lonely."

As lonely as we felt in 2019 at Azarias Capital, I can assure you that we will not deviate from our approach to stock selection. We believe strongly that better, less lonesome days are ahead, and we look forward to rewarding your patience. Thank you for investing alongside us.

Best Regards,

Daren Heitman

Azarias Focused Small Cap Value Composite

Azarias Capital Management

November 1st, 2015 through December 31st, 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	$1.8	41	$4.3
2016	36.43	31.93	21.32	N/A	N/A	1	N/A	$7.1	70	$10.1
2017	32.03	28.13	14.66	N/A	N/A	3	N/A	$21.1	81	$26.0
2018	-2.34	-3.10	-11.03	19.1	15.8	7	N/A	$57.8	67	$85.6
2019	3.84	2.59	25.53	17.0	15.7	6	N/A	$64.9	85	$76.5

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

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 been independently verified for the periods July 1st, 2014 through December 31st, 2018. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Azarias Focused Small Cap Value composite has been examined for the periods November 1st, 2015 through December 31st, 2018. The verification and performance examination reports are available upon request.

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 was created on November 1st, 2015. It 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-fee returns are presented before management and incentive fees, but after all trading expenses and other related expenses such as administration fees, audit fees, tax fees and legal fees. Net-of-fees returns are calculated using actual management and incentive fees that were paid and are presented after all fees.

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.

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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