

After much searching for a proper description of this quarter's performance, my conclusion was that an analogy with Newton's laws of motion seemed appropriate. Newton's first law roughly states that an object either remains at rest or continues to move at a constant velocity unless acted upon by a force. Our portfolio basically remained at rest in the third quarter, while the dominant forces in play affected large growth stocks much more intensely (in a positive direction).

From a fundamental standpoint, I would describe our portfolio company performance as mixed. There were the usual disappointments (and the typical reaction: negative but not extreme, given the valuation levels from which they started). There were a few positive surprises, which did extremely well (also not unusual). Unfortunately, they were among our smaller positions, and not sufficient to take the overall portfolio into positive territory. We continue to find undervalued new ideas.

Looking at the overall environment, I would describe it as a Lawrence Welk market, a reference to the 1960's bandleader and his Champagne Music Makers. We are seeing the emergence of "tiny bubbles" across the market, typically a danger sign. First, we had the bitcoin phenomena, then more recently the Canadian cannabis stock elevation, and finally the Tesla buyout fiasco. Returning to Newton, his second law states the sum of the forces on an object is equal to the mass of that object multiplied by the acceleration of the object. When momentum turns against the massive favored few leaders in this market, acceleration could happen quickly (witness Tesla's recent 30% drop). In that type of environment, we are quite comfortable holding our portfolio of under-the-radar stocks.

Abbott J. Keller, CFA
Chief Investment Officer

KESTREL SMALL-CAP VALUE COMPOSITE¹

	Gross Return (%)	Net Return (%)	Russell 2000® Value Index (%)	Composite 3-Yr Annualized Std Dev (%)	Russell 2000® Value 3-Yr Annualized Std Dev (%)	Number of Accounts in Composite ²	Internal Dispersion (%)	Composite Assets ² (\$ millions)	Composite Firm Assets ³ (%)	Total Firm Assets ³ (\$ millions)
2018 (3rd Quarter)	-0.9	-1.1	1.6	11.6	13.6	17	N/A	255.5	100.0	255.5
2018 (YTD)	1.6	0.9	7.1	11.6	13.6	17	N/A	255.5	100.0	255.5
2017	24.6	23.5	7.8	13.0	14.2	18	0.2	295.2	100.0	295.2
2016	36.7	35.4	31.7	14.0	15.7	18	0.2	273.4	100.0	273.4
2015	-13.3	-14.1	-7.5	12.2	13.7	31	0.6	289.5	100.0	289.5
2014	0.6	-0.4	4.2	11.5	13.0	41	0.6	461.1	59.5	774.4
2013	28.7	27.5	34.5	12.9	16.0	46	0.9	528.8	63.2	836.1
2012	13.5	12.4	18.1	15.3	20.2	48	0.4	420.4	52.8	796.6
2011	3.3	2.3	-5.5	23.2	26.4	48	0.4	398.2	54.4	732.3
2010	20.4	19.3	24.5	27.3	28.8	49	0.5	402.3	54.4	740.2
2009	35.2	33.9	20.6	26.3	26.0	52	0.8	337.5	54.2	622.6
2008	-33.0	-33.7	-28.9	19.5	19.4	53	1.0	263.1	53.8	488.7
2007	0.2	-0.8	-9.8	11.9	12.8	57	0.5	471.7	57.8	816.5
2006	24.9	23.8	23.5	11.2	12.5	58	0.6	480.5	50.4	952.8
2005	4.6	3.6	4.7	12.8	14.3	56	0.6	420.9	50.9	826.3
2004	28.3	26.8	22.3	15.7	17.8	62	0.9	944.2	100.0	944.2
2003	36.9	35.7	46.0	17.4	18.7	60	1.1	784.2	100.0	784.2
2002	-6.6	-7.7	-11.4	15.7	17.6	64	0.9	627.9	100.0	627.9
2001	19.6	18.3	14.0	14.3	14.9	61	1.7	719.3	100.0	719.3
2000	16.1	14.8	22.8	15.0	16.8	71	2.2	609.9	100.0	609.9
1999	7.7	6.7	-1.5	15.8	16.6	100	1.9	522.2	100.0	522.2
1998	2.0	1.0	-6.5	14.5	15.3	114	1.2	478.6	100.0	478.6
1997	31.8	30.7	31.8	10.3	9.5	55	1.1	228.1	100.0	228.1
1996	37.4	36.3	21.4	10.5	9.5	10	0.8	83.7	100.0	83.7
1995	31.3	30.2	25.8	N/A	N/A	6	0.4	41.6	100.0	41.6
1994	9.9	9.0	-1.5	N/A	N/A	4	0.4	28.8	100.0	28.8
1993 (8/17/93)	9.6	9.3	7.7	N/A	N/A	1	N/A	18.0	98.9	18.2
Since Inception (8/17/93)										
Cumulative	2228.7	1732.8	1093.6							
Annualized	13.4	12.3	10.4							

¹ The returns and assets figures presented for the current year are preliminary. Final figures will be available upon request and, if different from the preliminary figures, will be included in the next Fact Sheet. Final figures for 2nd quarter 2018 did not differ from reported preliminary numbers. This information is incomplete without the performance disclosure statement on page 2.

² Effective January 2005, an existing large account was shifted from Kestrel's Small-Cap Value Composite to a new Small/Mid-Cap Value Composite leading to a change in the Composite Assets.

³ During the second quarter of 2015, Kestrel's single Small/Mid-Cap Value account was closed, leading to a reduction in Total Firm Assets.

INVESTMENT STYLE

Kestrel is an equity manager with a unique, value-oriented approach. We select stocks primarily from the universe of companies undergoing voluntary restructurings. In addition, we may devote a portion of the portfolio to other groups of companies sharing a common characteristic which investors fail to price properly.

CURRENT INVESTMENT THEME

Restructuring

Voluntary proactive move by management indicating stock undervaluation

Incorporates share repurchases, spin-offs, and asset sales

UNIQUE, VALUE ORIENTED DOMESTIC EQUITY SPECIALISTS

- Independent investment manager founded in 1993
- Principals have worked together since 1978
- Open to new accounts (minimum \$1 million)
- Experts in voluntary restructurings
- Stay fully invested

REPRESENTATIVE PORTFOLIO HOLDINGS* (As of September 30, 2018)**

Restructuring (96.6%)

Advanced Emissions Solutions	PCM Inc
AMN Healthcare Services Inc	PDL BioPharma Inc
Avis Budget Group Inc	PICO Holdings Inc
Big Lots Inc	Piedmont Office Realty Trust Inc
Bloomin Brands Inc	Prestige Consumer Healthcare Inc
CalAmp Corp	Radiant Logistics Inc
Citi Trends Inc	Realogy Holdings Corp
CNX Resources Corp	REV Group Inc
Donnelley Financial Solutions	Riviera Resources Inc
FedNat Holding Co	Roan Resources Inc
GAIN Capital Holdings Inc	Spirit MTA REIT
Generac Holdings Inc	Spirit Realty Capital Inc
Gulfport Energy Corp	Tanger Factory Outlet Centers
iStar Inc	TEGNA Inc
JELD-WEN Holding Inc	The Ensign Group
Kforce Inc	TiVo Corp
Kimball Electronics Inc	TreeHouse Foods Inc
Marlin Business Services	TriState Capital Holdings
Michaels Companies Inc	Wabash National Corp
Mitel Networks Corp	Walker & Dunlop Inc
NetScout Systems Inc	World Fuel Services Corp
Patterson Companies Inc	

Cash (3.4%)

INVESTMENT PROFESSIONAL TEAM

Abbott J. Keller, CFA

Chief Investment Officer

44 years of investment experience

David J. Steirman

President

42 years of investment experience

Lee Kaplan, CFA, CPA/ABV

Vice President

Equity Research

19 years of investment experience

Gregg S. Uyekubo, CFA

Vice President

Trading Manager

23 years of investment experience

Thomas E. Stickley

Chief Compliance Officer

Client Services Analyst

18 years of investment experience

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* Kestrel Small Cap Value Composite. A complete disclosure is available below.

** The specific securities identified and described do not represent all of the securities Kestrel has purchased or sold for clients and the reader should not assume that investments in the securities identified and discussed were or will be profitable.

Past performance does not guarantee future results. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities included in this report. Kestrel Investment Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Kestrel has been independently verified for the periods 01/01/2001 – 12/31/2017. 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 Small-Cap Value Composite has been examined for the periods 01/01/2001 – 12/31/2017. The verification and performance examination reports are available upon request. Kestrel is a value manager that invests primarily in small- and mid-cap U.S. securities and is registered with the SEC as an investment adviser. Kestrel is not affiliated with any parent organization. The Small-Cap Value Composite, created in August 1993, includes all discretionary accounts managed across the small capitalization segment of the U.S. equity market including accounts no longer with the firm. Kestrel invests primarily in the securities of companies undergoing voluntary restructuring activities such as share repurchases and spin-offs. 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 are 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. All returns are expressed in U.S. Dollars. The Russell 2000® Value Index is an unmanaged market-capitalization weighted index and includes Russell 2000® companies with lower price-to-book ratios and lower forecasted growth values. It is diversified across companies, industries and sectors and is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment of the U.S. equity market. The Index's performance is calculated on a total return basis with dividends reinvested, but does not reflect the deduction of any transaction or management fees. The volatility of the Russell 2000® Value 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 Index. Index performance information is included solely to show market performance generally during the periods for which composite returns are presented, and does not reflect a belief by Kestrel that investing in an index is a viable investment alternative or is in any way comparable to Kestrel's performance. The Russell 2000® Value Index is a trademark /service mark of the London Stock Exchange Group companies. Kestrel may concentrate its investments in relatively few stocks, industries or sectors; may invest in stocks with smaller or larger market capitalizations than the stocks in the index; may trade actively; and may be more or less volatile than the index. Gross returns are net of actual transaction costs; net returns are net of actual transaction costs and actual investment management fees. During the period from 1999 through 2004, the Composite included two accounts subject to performance-based fees and a lower flat fee. For separate accounts, Kestrel's standard non-institutional fee schedule is 1.25% for the first \$3 million and 1.0% thereafter, and its standard institutional fee schedule is 1.0% for all assets. Actual investment advisory fees incurred by clients may vary. Fees are payable quarterly. Performance results include the reinvestment of all income. Account returns are calculated monthly, using a time weighted total return which includes realized and unrealized gains and losses and accrued interest and dividends. Quarterly and annual returns are calculated by geometrically linking monthly returns. For the period from 1994 through 1997, the Composite included one non-fee-paying account representing less than 1.0% of total assets at all times; net returns have been calculated as if that account paid fees at standard rates. A complete list and description of Kestrel's composites and policies for valuing portfolios, calculating performance and preparing compliant presentations is available upon request.