

We had another excellent quarter, as small capitalization value stocks strengthened in September on the prospect of tax cuts and renewed domestic growth. The restructuring strategy continues to work well, but our performance got an extra lift from an unexpected source – hurricanes Harvey and Irma. Going into hurricane season, we thought we were reasonably hedged. Our most significant exposure was through a property and casualty insurance company with 90% of its business in Florida. Adding to our risk, we owned a restaurant chain with approximately 20% of its restaurants in Florida. On the other hand, we had a position in the country’s largest producer of portable generators. Since it had been almost five years since a major hurricane struck the U.S. mainland, investor expectations for this company had been set at a low level.

So, what happened? The generator company performed well, as you might expect. The insurance company took only a modest hit, as the company reminded investors that their losses were limited to a very manageable amount by reinsurance. The restaurant stock moved marginally from our intra-quarter purchase price, as investors were apparently willing to overlook a one-quarter earnings shortfall. What didn’t we anticipate? Our biggest winner was a leading car rental firm, whose earnings are partially dependent on used car pricing. What had been a large glut of vehicles for sale was wiped out by the estimated one million cars either damaged or destroyed by Harvey and Irma. We also owned a hotel REIT which had been suffering from an oversupply of hotel rooms in the Houston market. It apparently experienced a surge in demand from displaced residents, and will also be helped as relief and rebuilding efforts move forward. Next, a REIT with large timber ownership is benefitting from higher lumber prices triggered by expectations of increased replacement homebuilding. Finally, a refrigerated transport firm is being helped from a tightening trucking capacity caused by dislocations in a major hub (Houston). As they say in baseball when someone gets a lucky bloop hit, it looks like a line drive in the box score. However, one reason our strategy works is that we are buying stocks with expectations so low that upside surprises (for whatever reason) have a disproportionate impact.

In summary, our Q3 results might have provided an exception to the old proverb “It’s an ill wind that blows nobody any good.” Bob Dylan famously wrote “You don’t need a weatherman to know which way the wind blows,” to which we will add “but when it does, it helps to be a value investor.”

Abbott J. Keller, CFA
Chief Investment Officer

KESTREL SMALL-CAP VALUE COMPOSITE¹

	Gross Return (%)	Net Return (%)	Composite 3-Yr		Russell 2000® Value		Number of Accounts in Composite ²	Internal Dispersion (%)	Composite Assets ² (\$ millions)	Composite Firm Assets ³ (%)	Total Firm Assets ³ (\$ millions)
			Russell 2000® Value Index (%)	Annualized Std Dev (%)	3-Yr Annualized Std Dev (%)						
2017 (3rd Quarter)	6.3	6.0	5.1	13.0	14.6	18	N/A	287.5	100.0	287.5	
2017 (YTD)	16.9	16.1	5.7	13.0	14.6	18	N/A	287.5	100.0	287.5	
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	2050.0	1607.6	991.8								
Annualized	13.6	12.5	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 2017 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, 2017)**

Restructuring (98.4%)

Advanced Emissions Solutions	Marten Transport Ltd
AdvanSix Inc	Michaels Companies Inc
AMN Healthcare Services Inc	MiMedx Group Inc
Avis Budget Group Inc	Mitel Networks Corp
Big Lots Inc	NetScout Systems Inc
Bloomin' Brands Inc	NewStar Financial Inc
BWX Technologies Inc	PDL BioPharma Inc
CalAmp Corp	Pinnacle Entertainment Inc
Citi Trends Inc	Potlatch Corp
Clearwater Paper	Providence Service Corp
CRA International Inc	Sabra Health Care REIT
Donnelley Financial Solutions	SPX Corp
Federated National Holding Co	Tanger Factory Outlet Centers
Fulton Financial Corp	The Ensign Group
GAIN Capital Holdings Inc	TriState Capital Holdings
Generac Holdings Inc	Verint Systems Inc
HMS Holdings Corp	Wabash National Corp
iStar Inc	Walker & Dunlop Inc
Kforce Inc	Xenia Hotels and Resorts
Kimball Electronics Inc	Zix Corp
Marlin Business Services	

Cash (1.6%)

INVESTMENT PROFESSIONAL TEAM

Abbott J. Keller, CFA

Chief Investment Officer

43 years of investment experience

David J. Steirman

President

41 years of investment experience

Lee Kaplan, CFA, CPA/ABV

Vice President

Equity Research

18 years of investment experience

Gregg S. Uyekubo, CFA

Vice President

Trading Manager

22 years of investment experience

Thomas E. Stickley

Chief Compliance Officer

Client Services Analyst

17 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 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 01/01/2000 – 12/31/2010. The verification report is available upon request. 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. Verification does not ensure the accuracy of any specific composite presentation. 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 un-managed, 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. Russell 2000® and Russell 2000® Value Indexes are trademarks/service marks 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. These 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. Kestrel's Representative Portfolio information does not pertain to Kestrel's Composite, but to a single client account of a tax-exempt institutional entity. A complete list and description of Kestrel's composites and policies for valuing portfolios, calculating performance and preparing compliant presentations is available upon request.