

The beat goes on. Sonny & Cher introduced this song to us 50 years ago, but if you replaced the politically incorrect matching fur outfits of that pair with something more appropriate, we could be back in 1967 again. An extremely unpopular president (Lyndon Johnson) was facing rebellion from within his own party. Racial unrest was prevalent, culminating in violent protests and riots. The nation was split apart with young vs. old, black vs. white, hippies and anarchists vs. the establishment...and the stock market was in one of the great bull markets of history; one which still had further to go before reaching a peak.

As a theme “the beat goes on” is appropriate on several levels. In a narrow sense, we continue to beat our benchmark by a comfortable margin. More importantly, we are earning good returns for our clients. Looking more broadly, the overall market continues to push generally higher in spite of all the difficulties our nation faces. With the increase in valuation levels, our opportunity set has become smaller. Yet, there are still instances where we can find value within out of favor sectors. Healthcare stocks have been pressured by the uncertainty caused by threatened regulatory changes under a new administration. Gun and ammunition sales have dropped off sharply since the perceived threat to 2nd amendment rights triggered by a Hillary Clinton presidency is no longer operative. Car rental companies are facing the threat of disruptive technology and a potential slide in used car prices caused by a growing inventory. We have added companies in all three categories.

Typically, we dread earnings season. As a contrarian value manager buying companies with erratic results, negative earnings surprises are a fact of life for us. However, earnings reports for the fourth quarter of 2016 brought generally positive stock reactions for our companies. As we have suggested before, this indicates that we have hit the sweet spot where expectations for our companies have decreased to the point that avoiding a disappointment is enough for a significant positive move.

I was an emerging growth-oriented boy wonder (self-proclaimed) in the 1967 bull market, not recognizing that anyone with a decent dart set could have produced big returns. Now having crossed over to the other side of the cultural divide, I am managing a strategy based on prudence rather than the potential for large gains. Some things do change with time. However, regardless of whether the future brings a continuation of the current upward move or a significant correction, we will continue marching to the beat of our own drummer.

Abbott J. Keller, CFA
Chief Investment Officer

KESTREL SMALL-CAP VALUE COMPOSITE¹

	Gross Return (%)	Net Return (%)	Russell 2000® Value Index (%)	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)
				Annualized Std Dev (%)	3-Yr Annualized Std Dev (%)					
2017 (1st Quarter)	4.7	4.4	-0.1	13.7	15.4	18	N/A	273.5	100.0	273.5
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	1824.8	1435.8	931.8							
Annualized	13.3	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 4th quarter 2016 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 March 31, 2017)**

Restructuring (98.6%)

AdvanSix Inc	Mitel Networks Corp
Air Methods Corp	NetScout Systems Inc
Avis Budget Group Inc	NeuStar Inc
Babcock & Wilcox Enterprises	NewStar Financial Inc
BWX Technologies Inc	Pinnacle Entertainment Inc
CalAmp Corp	Potlatch Corp
Capstead Mortgage Corp	Providence Service Corp
Care Capital Properties	RetailMeNot Inc
Clearwater Paper	RLJ Lodging Trust
CRA International Inc	Select Comfort Corp
Cypress Semiconductor	Semtech Corp
Donnelley Financial Solutions	SPX Corp
Flushing Financial	Time Inc
Fulton Financial Corp	TriState Capital Holdings
GAIN Capital Holdings Inc	Verint Systems Inc
Generac Holdings Inc	Vista Outdoor Inc
HMS Holdings Corp	Wabash National Corp
iStar Inc	Walker & Dunlop Inc
Kforce Inc	Xenia Hotels and Resorts
Kimball Electronics Inc	Zix Corp
Marten Transport Ltd	

Cash (1.4%)

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.