

While we had a strong quarter in absolute terms, we do admit to feeling out-of-phase in the current momentum-driven market environment – not an unusual position for a contrarian investor. A common question we receive is whether our strategy is still producing good contrarian ideas with the stock market at near-record levels. We answer in the affirmative, and illustrate with the recent transaction history for Kestrel. In the second quarter, we sold three equities that had all more than doubled from our original cost. To replace these maturing positions, we bought three stocks which had all declined 50% from their peaks in the last several years and had recently announced buybacks. All these purchases face problems, but both Kestrel and company management feel that the current stock prices overly discount fundamental prospects.

As we have mentioned in the past, one strength of our strategy is that it forces our attention toward out-of-favor sectors of the market. In the past year, motivated buyback announcements have increased our exposure to the retail and energy sectors. Retail is an area of perennial interest, as there are always retailers experiencing short-term cyclical pressures or trying to recover from merchandising mistakes. These issues are now layered on top of the secular pressure caused by Amazon across a broad number of retail categories, creating some potentially attractive valuations (or maybe value traps). Energy is a new (and rare) exposure for us, as managements in this sector tend to throw every dollar they have (and can borrow) into exploration and development. Perhaps chastened by near-death experiences, some managements have now decided that return on investment from repurchasing stock at a substantial discount to the value of their proved and probable reserves is a wiser choice for their cash flow.

The stock market moves in long cycles. The glamour stocks of today were not the market leaders of the previous bull market. We expect our portfolio exposure will look substantially different several years from now. We might even see small-cap participants in today's high-flying technology sector enter our universe if the ebb and flow of market favorites follows historical patterns. Whatever happens, we will remain true to our discipline, and continue to invest in sectors and individual companies which are temporarily (we hope) in disfavor.

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 (2nd Quarter) | 6.5 | 6.3 | 8.3 | 13.1 | 14.3 | 17 | N/A | 282.3 | 100.0 | 282.3 |
| 2018 (YTD) | 2.5 | 2.1 | 5.4 | 13.1 | 14.3 | 17 | N/A | 282.3 | 100.0 | 282.3 |
| 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 | 2249.2 | 1753.2 | 1074.8 | | | | | | | |
| Annualized | 13.5 | 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 1st 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 June 30, 2018)**

Restructuring (96.9%)

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

Cash (3.1%)

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 Manager

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.