

SIGNIA CAPITAL MANAGEMENT

Specializing in small & micro cap value investing

Mid Quarter Update: 3Q | 2017

Signia Capital Management is a boutique money management firm specializing in value investing. The firm was founded in 2001 by the research professionals that serve as the managing partners. The senior members of our team have over two decades of investment experience and are dedicated to practicing a value investing discipline.

Our **Small-Micro Cap Value** strategy invests in high quality, catalyst rich companies that we expect will experience a significant improvement in earnings within the next 12 to 24 months. Our team identifies compelling investment opportunities through a rigorous bottom-up research process that includes direct dialogue with the management teams of each company under consideration. The process results in a concentrated portfolio of 30 to 45 individual investments, each with its own unique and compelling investment catalyst.

Investment Team

Richard Beaven, CFA

Lead Portfolio Manager

Colin Kelly, CFA

Director of Research, Portfolio Manager

Anthony Bennett, CFA

Portfolio Manager

Portfolio Characteristics

Investment Process	Fundamental Bottom-Up
Mkt. Cap Range	\$1b and Below
Number of Holdings	30-45
Performance Benchmark	Russell Microcap Value Russell 2000 Value

Portfolio Snapshot 08/31/17

Current Number of Holdings	29
EV/EBITDA	8.4
Price to Book	1.12
Price to Sales	1.87
Price to Cash Flow	8.12
Price to Earnings (forward)	13
L.T. Debt to Capital	19%
2016 vs. 2015 EPS Growth	108%
Weighted Average Mkt. Cap	\$393
Turnover (annual)	60%



Small-Micro Cap Value Strategy

Rotation Time

2017 has been unrewarding for value investors thus far. The divergent returns year to date between Value and Growth are staggering. The Russell 2000 Value Index declined -1.31% through August while the Russell 2000 Growth gained +10.78%, a +12% swing in favor of growth. Large Growth has outperformed Small Value by over 20%, with the Russell 1000 Growth Index returning over +19% so far this year. It is impossible to predict how long this performance divergence will last, but we are beginning to see signs of extreme sentiment which typically indicates a nearing inflection point. In June Goldman Sachs published a research note pondering the death of value investing. More recently, The Wall Street Journal published an article stating, "value investing is mired in one of the worst stretches on record, prompting concerns that the investment style is losing its effectiveness". We do not believe that we are witnessing the death of value investing. On the contrary, periods of extreme performance divergence have been good opportunities to reallocate to out of favor strategies.

Performance for Signia's Small-Micro Value strategy has been in line with the small cap benchmarks year to date. We find this performance disappointing considering that 4 of our holdings have been acquired or taken private so far this year. M&A transactions validate our approach to identifying undervalued companies and we would typically expect this level of activity to correspond with significant outperformance. Unfortunately, narrow performance leadership in the small value benchmark has made it difficult to outperform. According to Furey Research Partners, Healthcare and Technology accounted for 80% of the positive return through the second quarter of 2017. Two sectors that we find unattractive based on valuation and susceptible to correction. From a top down perspective we find the greatest valuation opportunities exist in the most unloved sectors of the market: Energy, Retail, and Basic Materials.

Portfolio Activity This Quarter

We added a number of new positions to the portfolio this quarter, a couple worth highlighting include, Amerigo Resources and MagicJack.

Over the last year we have become increasingly interested in base metals and mining companies. We see emerging supply shortages across a number of metals due to increased demand from clean energy initiatives, electric vehicle growth, and recovering demand in China and Europe. This improved outlook, combined with valuations across the sector near 20 year lows, presents a compelling opportunity.

Amerigo Resources, a copper producer in Chile, is an example of a company positioned to benefit from improving base metal demand. The company produces over 60 million lbs. of copper by processing mining tailings, or waste, generated from operations at the El Teniente mine. Management plans to increase production by 25% while lowering their cash cost of production to \$1.40 per lb. by 2018. Should copper remain above \$3.00 per lb.; we believe Amerigo's increased volume and lower production cost could generate earnings in excess of the company's previous peak of \$0.40 per share. Amerigo's shares are currently trading around \$0.60.

Continued on back

Continued from page 1

A somewhat unique addition this quarter is MagicJack. The company invented Voice over IP (VOIP), selling over 10 million "MagicJacks" since the products launch. After experiencing rapid growth, the company struggled to sustain its earlier success. In early 2017, at the encouragement of activist investors, the board of directors announced that it hired an investment bank to review strategic alternatives. The Board also named industry veteran Don Bell as CEO. MagicJack's deep expertise in VOIP and large installed base generates significant cash flow, making it an ideal private equity or go-private candidate. In the absence of a transaction, we believe the new management's internal initiatives will produce increased EPS over the next two years.

Our portfolio experienced its 4th acquisition this quarter when West Marine, the boating supply and outdoor lifestyle retailer, announced that it had accepted an acquisition offer from the private equity firm Monomoy Capital Partners for a 33% premium to its share price.

2017 has been a challenging year for value investors but we remain confident in our portfolio. We have experienced extended growth cycles in the past and we know they don't last forever. Over time value and patience are rewarded.

Top 10 Holdings (%) 08/31/17

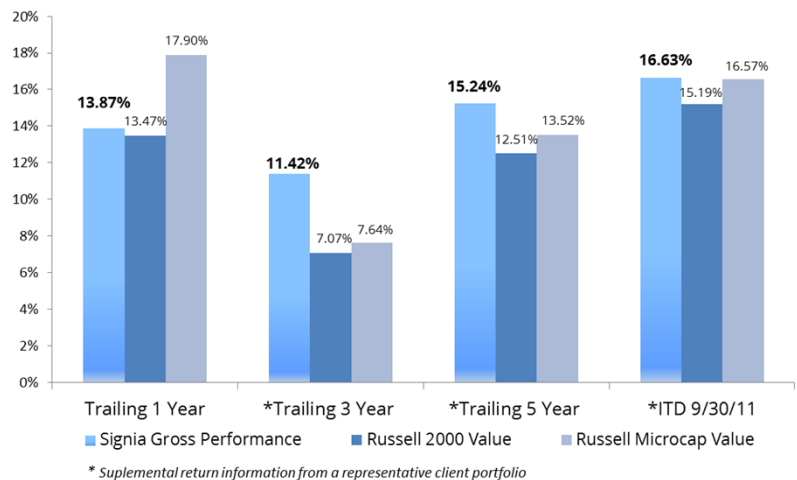
The Bancorp Inc	6.9%
Gain Capital	5.4%
Ardmore Shipping Corp	5.3%
Revolution Lighting Technologies Inc	5.3%
Atlas Air Worldwide Holdings Inc	4.9%
Bellatrix Exploration LTD	4.5%
Build-A-Bear Workshop Inc	4.3%
New York & Co Inc	4.1%
Ruby Tuesday Inc	4.0%
Autobyte Inc	3.9%

Sectors Weightings (%) 08/31/17

Technology	13.8%
Consumer Discretionary	23.3%
Energy	7.2%
Materials & Processing	1.6%
Producer Durables	15.9%
Financial Services	32.8%
Cash	5.4%
Total Portfolio	100.0%

Calendar Year Returns	Signia Gross of Fees	Russell 2000 Value Index	Russell Microcap Value Index
2012	20.29%	18.05%	22.81%
2013	33.86%	34.52%	41.17%
2014	1.37%	4.22%	3.15%
2015	2.72%	-7.47%	-6.45%
2016	30.93%	31.74%	30.59%
YTD 08/31/17	-0.03%	-1.31%	-0.72%

Annualized Returns 08/31/2017	Signia	Russell 2000	Russell Microcap
Trailing 1 Year	13.87%	13.47%	17.90%
Trailing 3 Year	11.42%	7.07%	7.64%
Trailing 5 Year	15.24%	12.51%	13.52%
From Inception 9/30/11	16.63%	15.19%	16.57%



** Source: Signia Capital Management, LLC, Thomson Reuters Baseline and the Frank Russell Company. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in our composite at the time you receive this report or that securities sold have not been repurchased. Our portfolio characteristics and sector weightings are based on a representative account and may not be indicative of this strategy's current or future investments. It should not be assumed that any of the holdings discussed herein were or will be profitable or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. This information is shown as supplemental information only and complements the full disclosure presentation (fully compliant GIPS presentation). Past performance is no guarantee of future results.

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