



Azarias Capital Management L.P.

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FORM ADV PART 2A

CLIENT BROCHURE

March 8, 2024

This brochure (“Brochure”) provides information about the qualifications and business practices of Azarias Capital Management L.P. a Delaware limited Partnership (“Azarias” or the “Advisor”). Azarias is registered as an investment adviser with the Securities and Exchange Commission. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the SEC) or by any state securities authority.

Registration with the SEC does not imply a certain level of skill or training.

If you have any questions about the contents of this Brochure, please contact Colleen Kelly at (215) 494-3300 or by email at ckelly@azariascapital.com. Additional information about Azarias Capital Management LP is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

Amendments to Form ADV Part 2A, Disclosure Brochure:

This section describes the material changes to Azarias' Brochure since its annual filing with the Securities and Exchange Commission on 3/24/2023.

- Item 4 – The discretionary assets under management were updated as of December 31, 2023.
- Item 5 – The fee schedule for the Focused Small Cap Value separately managed accounts and the highest fee has been updated.
- Item 6 – The standard performance fee charged has been updated.
- Item 12 - The description of the soft dollar practices has been updated.

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Item 4 – Advisory Business

Azarias Capital Management L.P. (“Azarias”) is a value-oriented investment management firm. Azarias was formed in 2014 by Daren Heitman who serves as the Managing Partner and Chief Investment Officer of the firm. Azarias is organized as a Delaware limited partnership. Azarias Capital Management, LLC serves as the general partner to Azarias Capital Management L.P. Mr. Heitman is the Managing Member and sole owner of Azarias Capital Management, LLC.

Azarias is under common control with ACM, LLC, the general partner of the Azarias Focused Small Cap Value Fund L.P. and the Azarias Uranium Opportunity Fund, L.P. each a private investment fund (“Private Fund(s)”).

Azarias’ business consists of managing private investment funds (“Private Funds”) and separate accounts (“Separately Managed Accounts”). Azarias offers advice on exchange-listed securities, securities traded over-the-counter, foreign issuers, options contracts on securities, and Exchange Traded Funds.

Azarias engages in fundamental securities analysis focused on a value discipline and employs strategies in furtherance of its analysis including long-term and short-term purchases, short-term trading, margin transactions and option writing. Separately Managed Account clients may impose restrictions or prohibitions on investing in certain securities or types of securities, however, all client guidelines and/or restrictions are reviewed and must be approved to ensure that Azarias is not prevented from managing the portfolio according to its investment strategy.

Many sources of information are utilized by Azarias to achieve its investment goals. Sources of information include, but are not limited to inspections of corporate activities, annual reports, prospectuses, filings with the Securities and Exchange Commission, company press releases, research materials prepared by others and financial newspapers and magazines.

Azarias serves as the investment manager and provides discretionary advisory service to certain private investment funds, (each referred to as a “Private Fund”) that are organized as Delaware limited partnerships. Each Private Fund operates under an exclusion from registration as an investment company under Section 3(c)(1) of the Investment Company Act of 1940, as amended (the “Investment Company Act”). As of the date of this brochure, Azarias serves as the investment manager of the Azarias Focused Small Cap Value Fund L.P. and the Azarias Uranium Opportunity Fund, L.P.

In addition, Azarias has the right to enter into, and has entered into, agreements such as side letters, with certain underlying limited partners (“Investors”) of the Private Funds which provide for terms that are more favorable than terms provided to other Investors. Examples include co-investment rights, the provision for additional information or reports, rights related to specific regulatory requests of certain clients, or more favorable fees, and transfer and liquidity rights. Investors cannot impose investment guidelines or other additional restrictions on investments in a Private Fund.

Azarias delivers to each prospective client or Investor its current form Part 2A (“Disclosure Brochure”) and ADV Part 2B supplement for each investment adviser representative who will provide advisory services to the client. If a client does not receive a copy of the Part 2A-Form ADV

and ADV supplement at least forty-eight (48) hours prior to execution of an investment adviser agreement with Azarias, the client shall have the right to terminate the investment adviser agreement without penalty within five (5) business days of the execution of the agreement.

Discretionary assets under management as of December 31, 2023, were \$252,869,043.

Item 5 – Fees and Compensation

Separately Managed Accounts

The minimum account size for a Separately Managed Account is \$5 million, however, Azarias in its sole discretion may accept accounts with lower initial asset levels in any product it offers to clients. The standard asset-based advisory fee schedules in effect are described below. Fees may be negotiated or modified at the discretion of Azarias upon consideration of the nature and size of the client relationship, application of a performance-based fee, the specific services provided to the client and/or other special circumstances applicable to a client such as the type of product or the imposition of restrictions on the account.

Azarias manages separate account clients under a performance-based fee arrangement in reliance upon Rule 205-3 of the Investment Advisers Act of 1940. Clients who are subject to a performance-based fee must be “Qualified Clients” within the meaning of Rule 205-3 (see Item 6 below). The terms and specific manner by which performance-based fees are charged are established pursuant to an investment management agreement negotiated with each client. Under a performance-based fee arrangement, Azarias will receive an annual asset-based fee and, if the account outperforms a specified benchmark or index over a specified time period, an additional performance-based fee will be realized. The standard performance-based fee is 20%. Where a fund outperforms its benchmark, these arrangements will result in a total annual fee that is higher than the standard annual asset-based fee.

Fee Schedule - Focused Small Cap Value

The standard asset-based annual management fee schedules are as follows:

- 90 basis points annually on assets under management
or
- 75 basis points annually on assets under management with a 10% performance fee applied to excess returns over an agreed upon small cap index with a high water mark.
or
- 60 basis points annually on assets under management with a 20% performance fee applied to excess returns over an agreed upon small cap index with a high water mark.

Performance fees for accounts invested in the Focused Small Cap Value Strategy are realized annually based on the closing value on December 31st of each year. In the event a client liquidates more than 1% of their invested balance prior to year-end, a performance fee will be assessed on the portion of the assets liquidated based on the value of the account immediately prior to the withdrawal date.

Currently the highest fee charged to a Separately Managed Account is 75 bp with a 20% performance fee applied to excess returns over an agreed upon small cap index.

Fee Schedule - Uranium Opportunity Strategy

- 75 basis points annually on assets under management and a 10% performance fee upon liquidation

Performance fees for the Uranium Opportunity Strategy will generally be realized upon liquidation and dissolution of the strategy but may be accelerated and realized at the time of liquidation in the event an investor liquidates more than 1% of the account's total value prior to the strategy's dissolution.

The adviser reserves the right to, and has, waived or reduced fees for certain clients. Management fees and carried interest for Azarias' employees and related accounts invested with Azarias may be reduced or waived in their entirety.

Private Funds

As noted above, Azarias serves as the investment manager to Private Funds. ACM, LLC serves as the general partner to each Private Fund. ACM, LLC and Azarias are affiliated entities under common control. As the general partner to Azarias' Private Funds, ACM, LLC shares in the profits and losses of each Private Fund and is entitled to receive a performance allocation equal to a percentage of net profits of the capital accounts in the partnership under certain circumstances, as fully set forth in the private placement memorandum of each Private Fund (see above). For its investment management services, Azarias charges an annual investment management fee of 1.50% of the assets in each capital account, calculated and payable monthly in arrears. Azarias or ACM LLC in its sole discretion, may waive all or a portion of its management fee or performance allocation for certain investors in the Private Funds.

Portfolio Valuation for Fee Calculation

- *Separately Managed Accounts:* As set forth in the client's investment management agreement with Azarias, portfolio valuations for fee billing purposes are generally determined by either the client's custodian or Azarias. Portfolio valuations are generally based upon information obtained from third-party pricing vendors and may sometimes be higher or lower than a portfolio valuation calculated by a custodian bank or administrator due to variations in pricing methodology. In the event Azarias or a client's custodian is unable to obtain a price for a security from a pricing vendor or if the price received from the pricing vendor is deemed by Azarias to be unreliable, Azarias may obtain a quote from an alternate source it deems reliable or will determine the "fair value" of the security in question pursuant to Azarias' Valuation Policy.
- *Private Funds:* Portfolio valuations are determined by the Private Fund's administrator through the use of a pricing vendor. If no pricing vendor information is available for a particular security or the price is deemed by Azarias to be unreliable, Azarias will obtain a quote from an alternate source or Azarias will determine the "fair value" of the security pursuant to Azarias'

Valuation Policy.

Fee Billing

The specific manner in which fees are charged by Azarias is established in Azarias' written investment management agreement. Asset-based fees for management of Separately Managed Accounts are paid quarterly in arrears. Fees are calculated as a percentage of assets under management based on the asset value of the Account as of the last day of each calendar quarter except that contributions or withdrawals from the Account during any calendar quarter in amounts greater than 1% asset value, will be prorated on a daily basis for the period the funds were managed by Azarias and the account value shall be increased or decreased, as the case may be, for purposes of the fee calculation.. All management fees are billed by Azarias directly to the client or may, pursuant to the client's agreement, be debited directly from the client's custodian.

Termination of Agreement

An investment management agreement entered into with Azarias may be terminated by either party upon sixty (60) days' written notice of termination to the other party. If Azarias serves for less than the whole quarter, its compensation shall be determined on the value of the assets in the Account as of the end of the date of termination and shall be payable on a pro rata basis for the period of the quarter for which it served as Manager hereunder. Any partial period fees payable to Azarias at the time of termination will be collected prior to the liquidation of the client's account.

Item 6 – Performance Based Fees and Side-By-Side Management

Azarias serves as the investment manager to certain Private Funds. As described in Item 5 above, Azarias charges an annual asset-based fee to the Private Funds for its investment management services. ACM, LLC, the general partner to the Private Funds is entitled to receive a performance allocation based on the net profits of the Private Fund as fully set forth in each Fund's private placement memorandum. ACM, LLC and Azarias are affiliates under common control.

Azarias also manages Separately Managed Accounts under a performance-based fee arrangement. Only Qualified Clients (as defined below) are permitted to be charged a performance-based fee. The terms and specific manner by which performance-based and asset-based fees are charged by Azarias are established pursuant to an investment management agreement negotiated with each client. Under a performance-based fee arrangement, Azarias will receive an annual asset-based fee and, if the account outperforms a specified rate of return, benchmark or index over a specified time period, an additional performance-based fee. The standard performance-based fee is 10 - 20% of profits earned in excess of the separately managed account's associated benchmark or index based on the fixed management fee.

Qualified Client- The Investment Advisers Act of 1940 (the "Advisers Act"), Rule 205-3(d)(1) defines a "Qualified Client" as financially sophisticated and meets one or more of the following conditions:

- A natural person who, or a company that, immediately after entering into the Agreement has at least \$1,100,000 under the management of the Investment Adviser.
- A natural person who, or a company that, the Investment Adviser entering into the Agreement (and any person acting on his behalf) reasonably believes, immediately prior to entering into the Agreement, either:
 - Has a net worth (together, in the case of a natural person, with assets held jointly with a spouse) of more than \$2,200,000. For purposes of calculating a natural person's net worth:
 - The person's primary residence must not be included as an asset.
 - Indebtedness secured by the person's primary residence, up to the estimated fair market value of the primary residence at the time the investment advisory agreement is entered into may not be included as a liability (except that if the amount of such indebtedness outstanding at the time of calculation exceeds the amount outstanding 60 days before such time, other than as a result of the acquisition of the primary residence, the amount of such excess must be included as a liability); and
 - Indebtedness that is secured by the person's primary residence in excess of the estimated fair market value of the residence must be included as a liability; or
 - Is a "Qualified Purchaser" as defined in section 2(a)(51)(A) of the Investment Company Act of 1940 (15 U.S.C. 80a-2(a)(51)(A)) at the time the Agreement is entered into; or
- A natural person who immediately prior to entering into the Agreement is:
 - An executive officer, director, trustee, general partner, or person serving in a similar capacity, of the investment adviser; or
 - An employee of the investment adviser (other than an employee performing solely clerical, secretarial or administrative functions with regard to the investment adviser) who, in connection with his or her regular functions or duties, participates in the investment activities of such investment adviser, provided that such employee has been performing such functions and duties for or on behalf of the investment adviser, or substantially similar functions or duties for or on behalf of another company for at least 12 months.

The performance allocation employed by Azarias in the Private Funds and the performance-based fee in certain Separately Managed Accounts creates the risk for a potential conflict of interest versus accounts with only an asset-based fee and provides an incentive for Azarias to favor the performance-based fee accounts. Performance-based fee arrangements create the incentive to recommend riskier securities or to allocate investments having greater potential for higher returns to accounts of those clients paying performance-based fees. To minimize such conflicts of interest associated with managing accounts with different compensation structures, Azarias has implemented certain policies and controls. For example, Azarias prohibits favoring any account by engaging in purchases or sales of a particular security prior to implementing a trade decision for other accounts so to take advantage of or circumvent any short-term price movement. In addition, Azarias follows

an allocation and aggregation policy that allows clients to participate in investment opportunities on a fair and equitable basis. Azarias' Aggregation and Allocation policy is described in more detail in Item 12 below.

Item 7 – Types of Clients

Private Funds

Azarias currently serves as the named investment manager of pooled investment vehicles organized as limited partnerships (Private Funds). Interests in the Private Funds are offered pursuant to an offering memorandum and are only available to Qualified Clients (as defined above).

Separately Managed Accounts

Azarias provides portfolio management services in the form of Separately Managed Accounts to charitable organizations, other investment advisers and corporations or other businesses. Azarias' management of the client's account will be consistent with the particular investment strategy or strategies the client selected for that account. Clients may impose certain limitations and restrictions on Azarias' discretionary authority however, all client guidelines and/or restrictions are reviewed and approved to ensure that Azarias is not prevented from managing the portfolio according to its investment strategy. Any limitations or restrictions are agreed to in the investment management agreement between Azarias and the client.

The menu of investment strategies which Azarias may make available to a Separately Managed Account clients is shown below.

Equity Strategies

Focused Small Cap Value

Uranium Opportunity

Private Funds

Azarias Uranium Opportunity Fund, L.P. and Azarias Focused Small Cap Fund L.P. ("Private Funds") operate as private investment funds. Azarias provides investment advisory and certain administrative services to the Private Funds. Azarias has hired the services of a third-party administrator to assist with administrative services.

Investors in Private Funds must be "accredited investors" as defined in Regulation D of the Securities Act of 1933, as amended as well as "qualified client" pursuant to Rule 205-3(d)(1) promulgated under the Advisers Act. The minimum account size to invest in a Private Investment Fund is \$500,000. Azarias or ACM, LLC in its sole discretion may waive account minimums of the Private Investment Funds.

Item 8 – Methods of Analysis, Investment Strategy and Risk of Loss

Active, fundamental value equity investing has been the sole focus of the firm since it was founded in 2014. The primary strategy for Azarias is to invest in common stocks of companies with market capitalizations that are considered micro cap or small cap, and which Azarias believes are

undervalued. Azarias selects securities based on a continuous study of trends in industries and companies, industry literature, company reports, financial reports, company presentations, earnings power, and growth. Securities selected by Azarias generally have the following characteristics:

- Have low enterprise values to estimated operating income
- Are typically considered out of favor by the market as a result of decelerating revenue growth and/or declining profit margins, but in our view are poised for an earnings recovery.
- Hold a strong competitive position in a relatively stable industry
- Have conservatively financed balance sheets

Azarias' strategy is to sell securities when Azarias believes:

- a security appreciates in value to the point that it is considered to be fairly valued;
- client portfolios should be rebalanced to include a more attractive stock or stocks;
- We lose confidence in the company's ability to realize an earnings recovery; or
- The company's balance sheet can no longer be considered conservatively financed.

Azarias' strategy involves risks, primarily:

- common stocks are subject to market, economic and business risks that will cause their prices to fluctuate over time;
- securities believed to be undervalued, relative to their underlying profitability will not appreciate in value as anticipated.
- securities of small capitalization companies generally fluctuate in price more than large capitalization companies.
- limited liquidity in securities may create difficulty in establishing or closing out positions in securities at prevailing market prices.
- concentrated portfolios which tend to hold fewer unique stocks than diversified portfolios are much more susceptible to sudden dramatic price swings. In addition, the rise or drop in price of any given holding in a concentrated portfolio is more likely to have a larger impact on portfolio performance than a more broadly diversified portfolio.

General Risks

Investment Risks. Investing in securities markets involves the risk of loss that clients should be prepared to bear. The most common forms of risk that investors should consider are:

- **Market Risk** - The risk to a specific investment or portfolio that the value could decline due to general market conditions not specifically related to a particular security. Examples include real or perceived adverse market conditions now or in the future, changes in the outlook for earnings and changes in interest rates or currency and exchange rates.
- **Interest-Rate Risk** - The risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship.
- **Inflation Risk** - The risk of loss of purchasing power due to rising prices of goods and services.
- **Credit Risk** - The possibility that a debt issuer might not be able to repay you for your investment principal or interest owed to you.
- **Reinvestment Risk** - The risk that an investor faces when an investment matures and the new interest rates available are less than they were previously.
- **Currency Exchange Risk** - A form of risk that comes from the change in price of one country's currency against another.
- **Business Risk** - Often referred to as company risk, this is the risk of owning one or only a few investments in specific companies. This risk includes competition, technological obsolescence of the company's products or systems, reductions in the market demand and pricing for the company's products (such as reduced pricing for oil and natural gas), regulatory changes which make the company's business model no longer competitive (and in some cases permissible), management missteps, cybersecurity risk, and fraud whether real or perceived.
- **ETF and Mutual Fund Risk** - When investing in an ETF or mutual fund, you will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. You will also incur brokerage costs when purchasing or selling ETFs.
- **Leverage Risk** - This risk comes from using debt, or margin, to fund investments. As debt has to be repaid regardless of investment performance, leverage has the potential to multiply your losses or gains.
- **Liquidity Risk** - The risk that your investment cannot be converted into cash when you would like.
- **Political Risk** – The risk an investment's returns could suffer as a result of political changes or instability in a country. Instability affecting investment returns could stem from a change in government, legislative bodies, foreign policy makers or military control.

Private Fund Risks

- **Diverse Limited Partner Group.** Investors may have conflicting investment, tax, and other interests with respect to their investments in Private Funds. The conflicting interests of individual investors may relate to or arise from, among other things, the nature of investments made by the Advisers on behalf of the Private Fund in which such Investors are invested, the structuring or the acquisition of such investments and the timing of disposition of such investments. In selecting and structuring investments appropriate for a Private Fund, the

Advisers will consider the investment and tax objectives of the Private Fund as a whole, and not the investment, tax, or other objectives of any of its Investors.

- The investments of each Private Fund may lose all or a substantial portion of their value. Investors in Private Funds must be prepared to bear the risk of loss of their investments therein. It is critical that potential investors refer to the relevant Private Fund's PPM and organizational documents, which include more comprehensive, detailed disclosure of the material risks of investing in a Private Fund, for a complete understanding. In addition, while certain risks may be more important for certain investment strategies, certain risks may overlap investment.
- No market for interests; restrictions on transferability; no withdrawal rights. The interests acquired by Investors in each Private Fund ("Interests") have not been registered under the Securities Act of 1933 (the "1933 Act") or the securities laws of any state or other jurisdiction and cannot be resold unless they are subsequently registered under the 1933 Act and other applicable securities laws or an exemption from registration is available. It is not contemplated that registration of the Interests under the 1933 Act or other securities laws will ever be effected. There is no public market for the interests and none is expected to develop. An investor will also generally not be permitted to assign its Interests without the prior consent of Azarias, which may, in its sole discretion, be withheld. New Investors may not, except in extraordinary circumstances, withdraw from the Private Fund during the initial lock up period in accordance with the fund documents. Consequently, investors may not be able to liquidate their interests prior to the expiration of the term applicable to such Private Fund and must be prepared to bear the risks of owning Interests for an extended period of time.

Other Potential Risks

- Cybersecurity – With the increased use of technology, Azarias is susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber-attacks include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber incidents impacting Azarias have the ability to cause disruptions and impact business operations, potentially resulting in the inability to transact business, financial losses, violations of applicable privacy and other laws, regulatory fines, penalties, or reputational damage. While Azarias has established a business continuity plan and risk management systems intended to identify and mitigate cyber incidents, there are inherent limitations in such plans and systems including the possibility that certain risks have not been identified. Furthermore, Azarias cannot control the cybersecurity plans and systems put in place by third party service providers and issuers in which client portfolios invest. As a result, clients could be negatively impacted.
- Impact of Disease Epidemics - The outbreak of an infectious disease in the United States or elsewhere, such as the novel coronavirus (e.g., "**COVID-19**"), together with any resulting travel restrictions or quarantines, could result in disruptions to the adviser and/or third-party service providers on which the adviser relies. Given that the nature, timing, and severity of an outbreak is unknown, the extent to which an epidemic might impact the adviser, its investments, or its advisory operations is uncertain. In addition to impacting the adviser and the adviser's third-party providers, a pandemic may, and most likely will, have a negative impact on the economy and business activity in the United States and worldwide leading to potential significant disruption, volatility, and losses

across financial markets. Clients of the adviser must be prepared for such losses and while the adviser has processes in place to ensure business continuity and to monitor the performance of its vendors and underlying investments, the uncertainty around the nature, type, breadth, and duration of an epidemic and the overall potential impact to the adviser's operations and client investments is unclear.

Our investment processes are designed with an awareness of the risks listed above; however, it is impossible to eliminate all of these risks when investing. While individual portfolio structuring can take many of these risks into consideration, there can be no assurance of success in investing or that Azarias' attempts to address risk will prove to be successful.

Item 9 – Disciplinary Information

None.

Item 10 – Other Financial Industry Activities and Affiliations

Private Funds

Azarias is under common control with ACM, LLC. ACM, LLC is the general partner of Azarias Uranium Opportunity Fund, L.P. and Azarias Focused Small Cap Fund L.P.

Colleen A. Kelly is Azarias' Chief Compliance Officer. Ms. Kelly is a compliance consultant who has been engaged by Chenery Compliance Group, LLC to provide investment management compliance consulting services to investment advisers and other SEC/state registered clients of Chenery. Azarias has entered into a Compliance Services Agreement with Chenery pursuant to which Ms. Kelly provides compliance services to Azarias, including her appointment as Azarias' Chief Compliance Officer.

Item 11 – Code of Ethics

Azarias may buy or sell for itself securities that it also recommends to clients. Azarias has adopted a Code of Ethics to minimize conflicts of interest. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request. The Code of Ethics restricts personal trading so that no employee can personally benefit from a trading program for clients.

Personal Trading Policy

Our personal trading and conduct must recognize that our clients always come first, that we must avoid any actual or potential abuse of our positions of trust and responsibility, and that we must never take inappropriate advantage of our positions.

All employees must pre-clear personal securities transactions in any Covered Security, as defined in Section 202(a)(18) of the Advisers Act, prior to execution. Pre-clearance is requested through the automated compliance system and approval or denial is obtained from the Chief Compliance Officer or their designee.

Under the Code of Ethics, certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of Azarias'

clients. As the Code of Ethics permits employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored in order to identify potential conflicts of interest between Azarias employees and its clients. To avoid any potential conflicts, Azarias' Code of Ethics provides that no employee shall buy or sell a Covered Security on a day that Azarias is trading the same security for a client account.

Item 12 – Brokerage Practices

Brokerage/Soft Dollar Practices

Adviser currently uses a single prime broker to execute trades unless directed to use another broker by a client. The CIO and the Investment Team shall perform a periodic review to evaluate the quality of brokerage services provided by the prime broker. Our policy on brokerage practices is to seek the best available price and most favorable execution, through responsible broker-dealers. All brokers and dealers are unaffiliated with us. Azarias uses client brokerage commissions ("Soft Dollars") to obtain research or other products or services provided the product or service falls within the "safe harbor" provision under Section 28(e) of the United States Securities Exchange Act of 1934. In selecting or recommending a broker-dealer, we will consider the value of research and additional brokerage products and services a broker-dealer has provided or will provide to our clients and our firm. Receipt of these additional brokerage products and services are considered to have been paid for with Soft Dollars. Because such services could be considered to provide a benefit to our firm, we have a conflict of interest in directing your brokerage business. We receive benefits by selecting a particular broker-dealer to execute your transactions, and the transaction compensation charged by that broker-dealer might not be the lowest compensation we might otherwise be able to negotiate or obtain. In certain circumstances, a client may have negotiated its own commission rates with a broker, therefore, the commissions for that particular client do not generate any soft dollar credits. In such instances, these clients will receive the benefit of products and services furnished through other client commissions since the Adviser does not allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.

Products and services that we may receive from broker-dealers may consist of research data and analysis, financial publications, recommendations, or other information about particular companies and industries (through research reports and otherwise), and other products or services (e.g., software and data bases) that provide lawful and appropriate assistance to our firm in the performance of our investment decision-making responsibilities. Consistent with applicable rules, brokerage products and services consist primarily of computer services and software that permit our firm to effect securities transactions and perform functions incidental to transaction execution. We use such products and services in our general investment decision making, not just for those accounts for which commissions may be considered to have been used to pay for the products or services. The test for determining whether a service, product or benefit obtained from or at the expense of a broker constitutes "research" under this definition is whether the service, product, or benefit assists our firm in investment decision-making for discretionary client accounts. Services, products, or benefits that do not assist in investment decision-making for discretionary client accounts do not qualify as "research." Also, services, products or benefits that are used in part for investment decision-making

for discretionary client accounts and in part for other purposes (such as accounting, corporate administration, recordkeeping, performance attribution analysis, client reporting, or investment decision making for the firm's own investment accounts) constitute "research" only to the extent that they are used in investment decision-making for discretionary client accounts. Before placing orders with a particular broker-dealer, we determine that the commissions to be paid are reasonable in relation to the value of all the brokerage and research products and services provided by that broker-dealer. In some cases, the commissions charged by a particular broker for a particular transaction or set of transactions may be greater than the amounts charged by another broker-dealer that did not provide research services or products. The products and services we receive from broker-dealers will generally be used in servicing all of our clients' accounts. Our use of these products and services will not be limited to the accounts that paid commissions to the broker-dealer for such products and services. In addition, we may not allocate soft dollar benefits to your accounts proportionately to the soft dollar credits the accounts generate.

In no event will we direct portfolio securities transactions or enter into agreements, express or implied for selecting a broker or dealer as a means of remuneration for recommending us as an investment adviser for prospective or present clients or in consideration for the broker's or dealer's promotion or sale of shares we advise.

To the extent a client account is maintained at a Prime / Introducing Broker, Azarias may have discretion to select brokers or dealers other than the Prime Broker when necessary to fulfill its duty to seek best execution of transactions for the client's account. However, brokerage commissions and other charges for transactions not effected through the Prime Broker typically are charged an additional fee to the client. For this reason, it is likely that most, if not all, transactions for such clients will be effected through the broker-dealer, as is the case with our Private Funds. In addition to providing transaction execution, our Prime Broker provides clearance and settlement, securities lending, financing, reporting and related services. These services are provided on an unsolicited basis at no charge to Azarias.

If a client expresses preference or directs us to place orders for that client's account with specific brokers or dealers which provide services to that client, we may accept such preference or direction to the extent that it is consistent with obtaining best price and execution under the circumstances, and meets applicable regulatory obligations and constraints; however, where clients designate brokers or dealers, it may not always be possible to obtain for such clients the lower transaction rates which might be obtainable if Azarias had full discretion in the selection of the executing firm.

Aggregation of client orders and allocation of trades

Although each client's account is individually managed, at times, Azarias will purchase and/or sell the same securities for numerous accounts. The firm seeks to aggregate client orders based on circumstances existing at the time the orders are received and consistent with its policy of seeking best price and execution. Aggregated orders may include orders for investment vehicles in which Azarias or its affiliates have an interest. Clients participating in an aggregated order participate at the average share price with all transaction costs shared on a pro rata basis, based on the client's participation in the transaction.

When aggregating orders, Azarias seeks to avoid favoring any client account over any other client account. The inclusion of an account in an aggregate order is based on factors such as consistency with investment objective and guidelines, suitability, investment strategy, timing of order placement,

order price, and client cash flow.

Adjustments to a client order, including the clients participating in an aggregate order, may be made by Azarias prior to trade execution to maintain the specific security, industry, sector, or other applicable weighting prescribed by Azarias for a particular client.

A product offered by Azarias and consequently, the clients invested in the product, may be omitted from an order aggregation for a security that otherwise would be eligible for an investment product to maintain the specific security, industry, sector, or other applicable weighting prescribed by Azarias for the particular product.

Certain investment opportunities may be suitable for, or consistent with, the strategy or investment objective of only one or a limited number of client accounts. In those cases, it is possible that a particular security's acquisition or disposition will be considered for one or a limited number of accounts. On occasions when accounts are fully invested, the lack of available cash in an account will preclude an account from inclusion in an acquisition of investments otherwise suitable for the client.

If an aggregated order is filled in its entirety, it is allocated to clients according to the investment strategy being pursued for the client, which includes a predetermined weighting for certain securities in the account. Where the account weightings for a security are the same, the filled order would be allocated among the accounts with each account receiving its proportionate weighting. If an order is partially filled, it would be allocated to the participating clients on a pro rata basis, based on order size. Under certain circumstances, filled order allocations may be on a basis other than pro rata or may be revised or adjusted after execution because of events that have occurred in a client account subsequent to the order placement and Azarias believes such allocation is fair and reasonable. Factors that impact the adjustment of a pro rata allocation include specific client instructions, market value increases in a security's value that violates client guidelines, and cash flows in and out of a client account. Also, to the extent that the limited availability of a security would result in de minimis allocations if a pro rata allocation were made, the firm may exclude one or more accounts from participation in the order.

Item 13 – Review of Accounts

Azarias offers investment advisory services to clients seeking a value investment strategy. Each client account is individually managed and Azarias generally makes investment decisions at the client level consistent with the investment objectives and strategy of the client. Azarias' Chief Investment Officer and/or a member of the investment team reviews each client account periodically and makes changes as required in an effort to maximize the return to the underlying accounts and to implement any client instructions. At a minimum, full reports of performance, securities held in the portfolio and strategy are sent calendar quarterly.

Item 14 – Client Referrals and Other Compensation

Azarias has not entered into an agreement with a broker-dealer or other investment adviser to solicit separately managed clients on its behalf.

On behalf of each Private Fund, the general partner ACM, LLC, has entered into a marketing

agreement with a registered broker-dealer, to assist with the placement of interests in the Private Funds. Pursuant to this arrangement to which Azarias is also a party, commission is paid based on a percentage of the management fee and incentive allocation received by Azarias from the Private Fund. These commissions are the responsibility of, and are paid entirely by, Azarias from its management fees directly and are of no additional cost to the fund or underlying investors.

The third-party placement agents are not endorsing the Private Funds through the use of general advertising. The agents agree to comply with all applicable laws and regulations of the jurisdictions in which the Interests are offered and/or sold and the jurisdictions in which the Fund and the Company otherwise conduct business and will not knowingly take any action (including through the making, acquisition or disposition of any portfolio investment) that would place the Adviser in violation of any such laws or regulations. The Adviser provides oversight of these arrangements including reviewing for the disqualification provisions prior to the execution of any agreements.

Item 15 – Custody

Azarias is considered to have custody of Private Fund assets due to the fact that the General Partner of the Private Funds is a related persons of Azarias and that Azarias has discretionary authority to direct Private Fund investments and debit fees directly from limited partner accounts. In order to comply with the requirements of Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, custody of Azarias' Private Funds' assets is maintained by a Qualified Custodian and each Azarias Private Fund undergoes an annual audit by an independent accountant registered with the Public Company Accounting Oversight Board. Each Private Fund audit results in an audited financial statement that is prepared in accordance with Generally Accepted Accounting Principles that is subsequently distributed to all limited partners within 120 days of each Private Fund's fiscal year end.

Item 16 – Investment Discretion

Azarias provides discretionary management to Separately Managed Accounts and Private Funds pursuant to the terms of a discretionary management agreement between the client and Azarias. Clients may limit this authority with respect to Separately Managed Accounts by giving us instructions regarding specific restrictions or guidelines as agreed to by Azarias in the agreement. Clients may amend such limitations by providing us with new instructions in writing. Changes in instructions must be approved by Azarias in writing in order to be effective. Azarias may, in its sole discretion, choose to decline such instructions if Azarias believes such instructions are too onerous or would impact Azarias' ability to manage a clients Separately Managed Account effectively. Private Funds are managed by Azarias on a discretionary basis only. Clients may not impose any limitations or restrictions on Private Fund investments.

Item 17 – Voting Client Securities

Azarias votes proxies in the best interests of clients. Azarias has developed proxy voting guidelines and internal policies that Azarias believes addresses issues based on sound corporate governance. The exclusive purpose of each voting decision is to maximize the economic value of the client's investment. Azarias may vote against management on specific issues which are deemed to impair

shareholder rights or value. Specific guidelines include, but are not limited to, board of director issues, capitalization issues, shareholder rights and proxy voting, executive compensation, routine corporate issues, social responsibility issues and conflicts of interest. Other issues are considered in light of relevant facts and circumstances.

The investment team is primarily responsible for monitoring corporate actions, making voting decisions and ensuring that proxies are submitted in a timely manner. Azarias may form special committees, from time to time, to address unusual proxy voting issues or conflicts.

A report summarizing each corporate issue and corresponding proxy vote is available to clients upon request.

Azarias votes all proxies relating to a particular proposal the same way for all client accounts holding the security in accordance with the proxy voting guidelines set forth in the Proxy Policy, unless a client specifically instructs Azarias in writing to vote such client's securities otherwise. In such cases, the voting decision for that client may not contribute to maximizing the economic value of the client's account.

Azarias attempts to vote all proxies related to the shares held in a client's account. Shares on loan in connection with a client's securities lending program, are generally not voted nor will Azarias request a client recall shares on loan.

If you are a client and would like a copy of Azarias' Proxy Voting Policy or would like a report on how Azarias voted your shares, please send an email to Colleen Kelly at ckelly@azariascapital.com or send a written request to:

Azarias Capital Management
1055 Westlakes Drive, Suite 300
Berwyn, PA 19312

Item 18 – Financial Information

Azarias is not aware of any financial commitment that would likely impair or otherwise impact its ability to meet Azarias' contractual obligations to clients.