



Q4 2011 COMMENTARY – JANUARY 18, 2011

	Total Return 3- months ended 12-31-11	Total Return Since Inception (4-15-11)	Expense Ratio* <i>(based on estimated amounts for the current fiscal year)</i>
CMOVX	13.04%	-9.00%	Gross: 3.12% Net: 1.36% Expense Cap: 1.25%
Russell 2000 Value Index	15.97%	-9.96%	

Performance data quoted represents past performance. Past performance does not guarantee future results. All performance assumes investment of dividends and capital gains. The investment return and principal value of an investment will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, call 1-888-859-5856.

** The Advisor has entered into an Expense Limitation Agreement with the Small Cap Value Fund under which it has agreed until July 1, 2012 to waive its fees and to reimburse other expenses of the Fund, if necessary, in an amount that limits the Fund's annual operating expenses (exclusive of interest, taxes, brokerage commissions, acquired fund fees and expenses, extraordinary expenses and payments, if any, under a Rule 12b-1 Plan) to not more than 1.25% of its average daily net assets. The Expense Limitation Agreement cannot be terminated prior to July 1, 2012 without the approval of the Board.*

For the fourth quarter of 2011, the CM Advisors Small Cap Value Fund (“the Fund”) increased 13.04%, net of fees and expenses. However, its benchmark, the Russell 2000 Value Index, increased 15.97% for the same period. Thus, on a relative basis, the Fund underperformed by 293 basis points⁽¹⁾, or 2.93%.

From April 15, 2011 (inception) through December 31, 2011, the Fund declined 9.00%, net of fees and expenses. The Russell 2000 Value Index was down 9.96% for the same period. Thus, the Fund outperformed its benchmark by 96 basis points, or 0.96%.

Our three worst individually performing securities during the quarter were **CPI Corp (CPY)**, **Innovative Solutions & Support Inc (ISS)**, and **A.M. Castle & Company (CAS)**. We sold our positions in both CPY and CAS, which cost the Fund 87 and 36 basis points, respectively in total return. While ISS also weighed down performance during the quarter, it remains a significant holding.

Our three best performing securities were **Apogee Enterprises (APOG)**, **Toll Brothers Inc (TOLL)**, and **Korn/Ferry International (KFY)**, which contributed 106, 92 and 79 basis points, respectively to the total return.



Portfolio Manager Commentary

As value investors, our normal reaction to price declines for our portfolio of companies is to purchase more shares rather than sell. When we do sell a stock, it is usually because the price has risen to the point where the reward versus risk is no longer attractive. **CPI Corp** and **A.M. Castle & Company** are worth some discussion as they highlight a less pleasant but important facet of our sell discipline.

CPI Corp's ("CPI") core business is portrait photography, primarily at Wal-Mart and Sears. Over the last several years, the introduction of digital photography has caused structural changes to the portrait photography industry. Additionally, their core customer demographic has faced significant recessionary pressures. Combined, these headwinds have resulted in declining business. However, over the past couple of years the company has largely offset the lower customer visits with improved product offerings and higher ticket pricing. We felt the structural challenges were well understood and being properly addressed by management, and as the recessionary pressures subsided, cash flow would expand. In the meantime, we estimated the company would maintain free cash flow, reduce debt, and be well positioned as the economy improved.

On December 23, 2011, management issued third quarter results and guided the market to expect a severe decline in revenues for their current, critical holiday quarter, which caused the stock to fall over 60% in a single day. Most concerning to us was the dramatic projected decline in fourth quarter EBITDA⁽²⁾. While sittings appeared okay given the environment (estimated to be down single digits), their average ticket imploded due to very poor customer conversions, resulting in a near 50% reduction in EBITDA. While the market reaction was severe, in our opinion it was appropriate given the results. We sold the stock for a loss because the upside was now limited by much lower cash flow levels. The reward to risk was simply not attractive even after the large share price decline.

Our most important admission about CPI, however, is that it was a mistake. We allowed our long history and familiarity with the company, along with the historically strong free cash flows produced by the business, to cloud our judgment. In retrospect, we recognized the structural changes and recessionary pressures the company faced would require strategic investment with strong operational execution. However, we significantly underestimated the costs and operational conflicts this dual mandate imposed while fighting both wars. We had enough information and insights that we should have known the risks were too high. The entire portfolio has been reviewed with this lesson in mind.

A.M. Castle & Company ("Castle"), in our opinion, is a reflection of the risks in small-cap investing. When these risks go against us, as they will from time to time, we re-evaluate and act accordingly.



Castle's core business, distribution of specialty steel products, had suffered a cyclical decline with commodity price weakness and customer destocking. Prior to the announced acquisition of Tube Supply in November 2011, the stock was trading close to tangible book value and had very little debt. This is typically a great buy point for cyclical growth businesses with strong cross-cycle margins and market position. We felt they would easily survive the downturn and become very profitable in future years, and the stock would eventually trade on a multiple of earnings.

The announcement regarding the acquisition of Tube Supply put us on alert because it was a fairly large purchase for Castle. As portfolio managers, we have a negative bias towards large acquisitions, particularly when debt is involved. Castle's valuation was still very attractive though, and there appeared to be a strong business fit with Tube Supply, so we did not sell right away.

In early December 2011, management announced financing terms for the acquisition at 12.75% interest on the senior secured notes, and 7% interest on convertible preferred notes that effectively diluted existing shareholders by 20%. These rates were far above anyone's expectations and the stock fell 30% immediately. This was a tough pill to swallow for two reasons: there were no reliable financials available on Tube Supply because it was a private company; and the financing terms placed management's motivations and judgment in question. After a careful review of possible outcomes, our calculation of reward versus risk was no longer attractive and we exited the position.

Again, we highlighted the above losses because they illustrate an important part of our sell discipline: when confronted with new information that suggests our original thesis was wrong (CPI) or has changed significantly (Castle), we must revisit our valuation estimates and calculate reward versus risk at the current share price. If it does not stack up against other opportunities, the right decision is to exit, no matter how far the stock has fallen.



A brief note regarding our relatively lackluster performance against the benchmark this fourth quarter: the Russell 2000 Value Index, which is a common benchmark for small-cap value funds, has a 36% weighting in financial companies. The CM Advisors Small Cap Value fund has just a 4% weighting. While our financial stocks did well versus those in the Index (+24.6% vs. +16.3%), this underweighting cost the Fund 496 basis points or 4.96% against the Index. Secondly, a few of our housing related holdings went against us during the quarter as well; however, as we begin the New Year, these housing related holdings are adding to relative performance.

Why such a large underweighting in financials? Financials are prominent in value indices because they frequently trade at low multiples of book value and earnings. There is usually a good reason



for this: they are often highly leveraged, opaque businesses and therefore difficult to value with any certainty. If we limit our historical risk analysis to the past 10 or 15 years, we can often find “cheap” financial companies. However, we feel a much longer time horizon is appropriate for this segment and, as a result, we don’t find many bargains at current prices.

We remain very committed to the CM Advisors Small Cap Value Fund. As of December 31, 2011, our employees and principals have invested approximately \$7 million into the Fund.

Sincerely,

Jim Brilliant, CFO, CIO, Portfolio Manager
CM Fund Advisors

Footnotes

1. Basis points = 1/100th of 1%
2. EBITDA = Earnings before interest, taxes, depreciation, and amortization

Important Risk Information

Investment in the Fund is subject to investment risks, including, without limitation, market risk, small cap risk, interest rate risk, management style risk, business and sector risk, other investment company risk, and credit risk. For more information about the Fund, including the Fund's objectives, charges, expenses and risks (including more information about the risks listed above), please read the prospectus.

An investor should consider the investment objectives, risks, and charges and expenses of the Fund carefully before investing. The prospectus contains this and other information about the Fund. A copy of the prospectus is available by calling 1-800-664-4888 or writing the advisor at 805 Las Cimas Parkway, Suite 430, Austin, Texas 78746. You may also call the Fund directly at 1-888-859-5856. The prospectus should be read carefully before investing. The information presented on this page is not an offer to sell or a solicitation of an offer to purchase the Fund.

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