

US equities had a mixed Q1 with the R2000 rising 0.9% while the S&P 500 fell 4.6%. PVFIX shares rose 3.9% leaving YTD return slightly ahead of the R2000. We ended the quarter with 35 major positions with a weighted average market cap of \$910 million, a security yield of 1.2% and a price to book ratio of 1.1%. Cash is 44.4% earning approximately 3.6% in a government money market fund as we search for opportunities. Cash was boosted significantly in early January when we received proceeds from the sale of our largest position, Gulf Island Fabrication.

A year ago, we were dealing with the disruption from the first round of tariffs that sparked widespread global inflation fears. Now we are facing the fallout from the Iran War that not only spiked global energy prices but also threatens to raise the cost many goods and services worldwide. Of course, a lot will depend on how long the Strait of Hormuz remains closed through which about 20% of the world's oil transits. How long it takes to rebuild key energy infrastructure (tank farms, pipelines, ports etc.) is also unknown. All this points to possible higher inflation making it unlikely the Fed will lower short term interest rates, an almost certainty a few months ago.

Other issues remain. Many worry that the woes experienced by private credit may spread to other economic sectors including the balance sheets of bank and non-bank lenders. The impact of artificial intelligence (AI) also remains to be seen. US tech giants now make up about 32% of S&P 500 many of which have bet their future (often debt financed) on AI. Should reality fall short of expectations, big tech valuations could be seriously impacted. Finally, consumer spending (2/3 of economy) is being driven by higher income demographics benefitting from recent gains in equities, digital assets, real estate and other assets. For the moment the unemployment rate remains steady but that could change quickly if any dislocation causes asset prices to fall significantly.

Luckily our large cash position has helped cushion the downside while providing dry powder for opportunities. As always, we remain disciplined on the prices we pay vs. the value received. Even with the most recent decline, most stocks in our universe are not yet compelling bargains. While some of our positions are down, we feel company prospects are good. All have strong balance sheets, capable management teams and viable business models. Most have been through economic downturns before and are adept at adapting quickly to uncertain times.

Q1 portfolio activity favored sells over buys. In addition to the sale of Gulf Island mentioned above, we trimmed positions in Bristow, Seaboard and StealthGas on valuation, all were sold at long term capital gains to minimize taxes. We took advantage of price weakness to add to Culp, San Juan Royalty Trust, Seacor Marine, Shoe Carnival and Unifi at favorable prices.

As you can see on the next page, contributors to performance slightly outweighed detractors. Results were enhanced by Ingles Markets which faces a possible proxy battle and Seaboard which benefitted from improved hog markets and marine transport results. Results were hampered by Culp and PetMed Express which are in the midst of painful restructurings to combat lower sales. We are positioned to invest our cash as opportunities become available and are searching diligently for such opportunities. Your portfolio manager remains a large Fund shareholder.

TOP 10 POSITIONS

	% net assets
1. Ingles Markets- southeastern retail grocery chain	4.6
2. Hurco Cos.- machine tool maker with worldwide distribution	4.3
3. Unifi- texturized nylon/polyester yarn used to produce fabrics	3.8
4. Seaboard- agricultural conglomerate	2.9
5. First Acceptance Corp.- nonstandard auto insurance	2.8
6. Bristow Group- helicopter services to commercial/government clients	2.8
7. Seacor Marine- offshore supply vessels	2.8
8. Weyco Group- wholesale & retail men's shoes	2.7
9. Culp- fabrics for furniture & mattress coverings	2.7
10. StealthGas- fleet of liquid petroleum gas (LPG) tankers	<u>2.7</u>
Total	32.1%

YTD TOP 5 Contributors (includes dividends)

1. Ingles Markets	1.1%
2. Seaboard.	0.9
3. Bristow Group	0.8
4. StealthGas	0.7
5. Diodes	0.4%

YTD TOP 5 Detractors (includes dividends)

1. Culp	-0.8%
2. PetMed Express	-0.6
3. Aersale	-0.3
4. San Juan Royalty Trust	-0.3
5. Hurco	-0.2%

SECURITY CLASSIFICATIONS

Government Money Market Fund	44.4%
Consumer Goods & Services	13.6
Energy	8.7
Transportation	7.9
Industrial Goods & Services	7.1
Apparel & Textiles	7.0
Banks & Thrifts	3.2
Insurance	3.1
Agriculture	2.8
Electronics	2.0
Closed end funds	<u>0.2</u>
TOTAL	100.0%

*Letter contents are unaudited and past returns do not predict future results. Investment return and principal value of a Fund investment may fluctuate so that redeemed shares may be worth more or less than original cost. Results do not reflect taxes payable on distributions or redemptions of shares held in taxable accounts. The R2000 is an unmanaged index and unavailable for investment. Additional material including Prospectus, SAI is available at www.pinnaclevaluefund.com or by calling 1-877-369-3705 X111.