

Pinnacle Value Fund Semi-Annual Report

June 30, 2019

Dear Fellow Shareholders,

Our Fund's NAV rose 4.1% in the first half of 2019. We ended June at 36 positions with a weighted average market cap of \$400 million, a yield of 1.6% and a price to book ratio of 100%.

Total Return	YTD	2018	2017	2016	2015
Pinnacle Value Fund	4.1%	(11.8)%	(0.1)%	16.5%	(6.0)%
Russell 2000	17.0	(11.0)	14.6	21.4	(4.4)
S&P 500	18.5	(4.4)%	21.8%	12.0%	1.4%

(all returns include dividend reinvestment. Past returns do not predict future results. Results do not reflect taxes payable on distributions or redemptions of shares held in taxable accounts).

State of the Market

In early January the Fed signaled a patient approach to raising interest rates and a few months later indicated no further rate hikes in 2019. It appears the first rate cut may come as early as July and be followed by several more before year end. Combined with perceived trade progress, a strong but slowing economy, low unemployment and benign inflation, this was just what the market ordered. U.S. equities staged a strong rally during the first half regaining some of the ground lost in late 2018. In short order, sentiment swung from extreme pessimism to unbridled optimism. Against this backdrop, high growth sectors (i.e. technology) did especially well with investors willing to pay premium valuations for quality, high growth firms.

Despite the boundless enthusiasm for US equities large and small, we remain cautious. In our opinion most of the positives mentioned above are fully reflected in stock prices. However, storm clouds continue to gather. These include record levels of government, corporate and US household debt driven by unusually low interest rates; a 10 yr+ economic expansion which is clearly slowing causing earnings estimates to trend lower; simmering trade issues worldwide which are starting to dent economic activity; corporate profits which are close to peaking and reduced share repurchases which have been a pillar of market support in recent years.

Despite these potential headwinds, stock market valuations remain robust. We remain unconvinced that the good times will roll on forever and continue to let our cash levels build even though this hurts short term performance. This dry powder will help us during any dislocation that may be triggered by an unanticipated event and magnified by the quant funds and algorithms that sell into an increasingly illiquid market.

Performance update

We are disappointed by the absolute and relative performance of the Fund relative to the benchmark R2000. Stock selection accounted for the largest part of the shortfall and while many holdings delivered positive performance, several did not. The Fund was under weighted in the “hot” technology sector and over weighted in the energy sector which remains out of favor.

We recently made changes to our selection process aimed at improving the quality of our holdings especially concerning balance sheet strength. We are also less patient with companies that are not tracking as expected. We’ve observed that surprises from quality companies and management teams are mostly positive while the opposite is true for lower quality companies and teams. Several of the latter have been removed from the portfolio, the stocks may be statistically cheap but if management isn’t delivering as expected, we’ll move on. Such changes often take time to implement. Exiting positions is fairly easy in a buoyant market but replacing them with reasonably valued, quality names is more challenging. So we’ll be patient- our focus list contains many quality small cap value names which will go into the portfolio at the right price which we are hopeful Mr. Market will show us in the near future.

Below are the lists of major contributors to and detractors from Fund performance. We have talked about many of these names previously so we’ll be brief. Four of the five contributors were energy related including Dorian LPG, Powell Industries, Seacor Marine and Permian Royalty Trust. All benefitted from higher oil & gas prices. OPEC is showing remarkable discipline in limiting production volumes and many onshore shale producers are under pressure to produce profits and cash flows rather than growth. This will likely limit production and support prices.

The list of major detractors is more eclectic and includes a retailer, two insurance companies, a natural gas royalty trust and a special situation. One of the challenges of any investor with a down position is knowing when to hold ‘em and when to fold ‘em. We sold the retailer, Christopher & Banks after losing confidence in management. We trimmed Kansas City Life after a recent acquisition was less accretive than expected. We continue to hold Atlas Financial, San Juan Basin Royalty Trust and BKF Capital believing their issues are resolvable over time.

By now you should have received your quarter end statement. Should you have any questions about your account or the Fund, don’t hesitate to call or write. We are positioned to invest our cash when opportunities become available and are searching diligently for such opportunities. Your portfolio manager continues to buy Fund shares and remains a major shareholder.

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TOP 10 POSITIONS

	% net assets
1. ERA Group- helicopter services	8.2
2. Dorian LPG- tanker transportation of liquid petroleum gas	8.0
3. Williams Industrial Services- engineering/design/construction	5.1
4. Gulf Island Fabrication- marine construction & fabrication	3.9
5. Permian Basin Royalty Trust	2.9
6. Seacor Marine- offshore supply vessels	2.7
7. EMC Insurance- regional property & casualty insurer	2.7
8. Powell Industries-	2.4
9. San Juan Royalty Trust	2.2
10. Sprott Gold Miners ETF	<u>2.0</u>
Total	40.1%

YTD TOP 5 Contributors (realized & unrealized gains)

1. Dorian LPG	\$1,060,600
2. Powell Industries	267,600
3. Seacor Marine	201,000
4. Permian Basin Royalty Trust	141,900
5. Sprott Gold Miners ETF	<u>132,000</u>
Total	\$1,803,100

YTD TOP 5 Detractors (realized & unrealized losses)

1. Christopher & Banks	\$232,100
2. San Juan Royalty Trust	168,400
3. Atlas Financial	145,700
4. Kansas City Life	102,700
5. BKF Capital	<u>96,700</u>
Total	\$745,600

SECURITY CLASSIFICATIONS

Government Money Market Funds	39.2%
Energy	17.1
Transportation	9.3
Construction & fabrication	9.1
Insurance	8.0
Industrial goods & services	5.4
Closed end & exchange traded funds	5.1
Financial services	2.7
Consumer goods & services	2.5
Real Estate	1.8
Banks & thrifts	<u>0.8</u>
Total	100.0%