

Pinnacle Value Fund Semi- Annual Report

June 30, 2022

Dear Fellow Shareholders,

<u>Total Return</u>	<u>YTD</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Pinnacle Value Fund	(8.9)%	14.3%	3.4%	10.7%	(11.8)%
Russell 2000	(22.6)	14.8	20.0	25.5	(11.0)
S&P 500	(20.0)%	28.7%	18.4%	31.5%	(4.4)%

(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.)

Fund Performance

As you can see from the abovebox scores, US equities had a rough first half with the R2000 down 22.6% while the S&P 500 fell 20.0%. The Pinnacle Value Fund fell 8.9%, slightly better than the R2000. While being down is never fun, we feel the Fund is well positioned and benefitted from our large cash position which helped cushion the downside and provided the firepower to take advantage of opportunities in a declining market. More below.

As shown on the next page, detractors to performance outweighed contributors which you might expect in a down market. Most of the major detractors were long held, larger positions that face operating headwinds we view as temporary, not permanent. These include Williams Industries (industrial staffing services), Culp Inc. (furniture/mattress fabrics), Graham Corp. (industrial equipment) and Gulf Island Fabrication.. All have solid niches, capable managers and positive long-term outlooks. We purchased additional shares of each at attractive prices and attended Gulf Island's annual meeting in Houston which was very informative.

Major contributors to performance included Dorian LPG which operates a fleet of liquid petroleum gas (LPG) tankers and Seacor Marine which operates a fleet of supply vessels serving offshore energy rigs. Both were buoyed by continued high energy prices.

We did more portfolio buying than selling as we took advantage of lower prices to add to existing positions and establish new ones. We added to Culp Inc., Graham Corp., Gulf Island, Heartland Trucking, Hurco Machine Tools, Universal Stainless and Williams Industries. New positions include Coda Octopus, a subsea mapping software developer; Daktronics which makes/installs electronic scoreboards/ signage/video displays and Miller industries, a leader in vehicle towing and recovery equipment. All have interesting niches, solid balance sheets and capable managements. Major sales included Dorian LPG which hit our target price and Independence Holding and National Security which were acquired. All provided attractive long term rates of return during the period held.

Outlook & Current Positioning

The markets continue to be impacted by multiple forces including high inflation, geopolitical instability and rising interest rates. Inflation is running at the highest levels in 40 years as any of you who have been to the super market or gasoline station know. Consumers are feeling the pinch and low consumer confidence is worrisome since consumer spending drives 2/3 of the US economy. While unemployment remains low, a relative lack of available workers has fueled wage growth adding to inflation concerns. Workers who are employed are increasingly looking to organize unions at major employers like Amazon and Starbucks. Russia's invasion of Ukraine created further uncertainty leading to increased commodity volatility and fears of an energy shortage especially in natural gas dependent Europe.

Borrowing costs have risen from historically low levels which may limit consumer demand for homes, vehicles and credit card purchases. Business borrowing costs will also rise which could cut into profit margins and put a damper on M&A activity which has been an important driver of market strength in recent years. Expanding credit was a large driver of the most recent economic boom and a slowing economy and/or rising rates could spell trouble for highly leveraged firms. Importantly, higher interest rates often lower stock market valuations since fixed income vehicles become more attractive and P/E (price/earnings) multiples often contract..

Against this backdrop, investor psychology has changed dramatically. What had been a "no fear" market has given way to concern and doubt about whether the Fed can engineer a "soft landing" that combats inflation without slowing the economy. While we hope this occurs, we remain cautious since we believe earnings estimates remain too high and stock prices could be vulnerable to economic reality. So we'll stay conservative, watch for opportunities to put cash to work, try to keep risk to a minimum and let valuations be our guide.

Please be advised that we will make a distribution of net realized capital gains in December most of which we expect to be long-term. We'll have an estimate in late November which we'll post on the website. For those of you who own shares in taxable accounts, you may want to delay any Fund purchases until after the distribution to avoid any unwanted tax consequences.

By now you should have received your yearend 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 as opportunities become available and are searching diligently for such opportunities. Your portfolio manager remains a major Fund shareholder and buys shares opportunistically.

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TOP 10 POSITIONS	% net assets
1. Gulf Island Fabrication- engineering/design/construction	6.7
2. Bristow Group- helicopter services	5.5
3. Graham Corp.- industrial equipment for govt./ commercial clients	5.2
4. Powell Industries- electrical equipment & services	4.0
5. Williams Industries- industrial staffing & services	3.7
6. Weyco Group- wholesale & retail shoes	3.8
7. Culp Inc.- fabrics for furniture & mattress coverings	3.0
8. Patriot Transport- tank truck operator	2.6
9. Seacor Marine- offshore supply vessels serving worldwide clients	2.1
10. Hurco Cos. Inc- machine tool systems	<u>2.1</u>
Total	38.7%

YTD TOP 5 Contributors (includes dividends)

1. Dorian LPG	1.1%
2. Seacor Marine	0.7
3. Costar Technologies	0.1
4. Weyco Group	0.1
5. Espy Manufacturing & Electronics	0.1%

YTD TOP 5 Detractors (includes dividends)

1. Williams Industries	- 2.3%
2. Bristow Group	-1.5
3. Culp Inc.	-1.3
4. Graham Corp	-1.2
5. Gulf Island Fabrication	-1.1%

SECURITY CLASSIFICATIONS

Government Money Market Funds	37.5%
Industrial Goods & Services	14.8
Construction & Fabrication	10.8
Consumer Goods & Services	10.8
Energy	9.4
Technology	4.5
Transportation	4.5
Closed End & Exchange Traded Funds	2.6
Insurance	2.0
Banks & Thrifts	1.7
Real Estate	<u>1.4</u>
Total	100.0%