

Pinnacle Value Fund Semi- Annual Report

June 30, 2023

Dear Fellow Shareholders,

<u>Total Return</u>	<u>YTD</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Pinnacle Value Fund	9.1%	1.1%	14.3%	3.4%	10.7%
Russell 2000	8.1	-20.5	14.8	20.0	25.5
S&P 500	16.9%	-18.1%	28.7%	18.4%	31.5%

(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 above box scores, US equities had a robust first half with the R2000 up 8.1% while the S&P 500 rose 16.9%. The Pinnacle Value Fund rose 9.1%, slightly better than the R2000. We feel the Fund is well positioned with large cash balances (earning 5% in a government MMF) providing the firepower to take advantage of future opportunities.

As shown on the next page, contributors to performance outweighed detractors which you might expect in an up market. Performance was driven in part by positive contributions from Daktronics, Graham Corp. and Powell Industries. Daktronics continues to win new electronic scoreboard business as stadiums continue to be built/upgraded across the country. Graham Corp. continues to execute well on new US Navy contracts for the latest aircraft carriers and submarines. Finally, Powell Industries continues to benefit from the energy/petrochemical build out along the Gulf Coast.

Our major detractors included Gulf Island Fabrication and Williams Industrial Services. Gulf Island is making slow progress with their turnaround efforts and continues to benefit from its strategic location close to the Gulf of Mexico. Williams Industrial continues to struggle with execution and balance sheet issues which will likely result in a restructuring or company sale.

We did more portfolio selling than buying as we took advantage of higher prices to lighten up on positions that approached fair value including Graham Corp., Patriot Transportation and Powell Industries. We also exited Costar Technologies which received an acquisition bid. We added to several positions on price weakness including Culp Fabrics, Gulf Island, Hurco machine tools and OP Bank. We established two new positions: Select Water Solutions provides water services (sourcing, transfer, disposal) to the unconventional oil & gas industry. Stealthgas owns and operates a fleet of 27 LPG (liquid petroleum gas) tankers. As you probably know, LPG is primarily propane and butane which continue to exhibit healthy demand worldwide as a “clean” source of energy.

Outlook & Current Positioning

At this point we are in a holding pattern. We like what we own but are hesitant to increase our positions at current prices. We've trimmed back positions we view as fairly valued or where fundamentals deteriorated. We have a "shopping list" of companies we'd like to own at the right price. These are firms we know well and may have owned in the past. Most have been around for decades, have solid business niches, responsible management teams and clean balance sheets. We stay current on all and are ready to buy at the right price. As a wise investor once said, paying too high a price can turn an excellent investment into a mediocre one.

While our crystal ball is no better than others, we continue to view today's market as fairly valued with a minimal margin of safety. While 2022 was a tough year, animal spirits have been rekindled this year on hopes the Federal Reserve will pause if not lower interest rates. Artificial Intelligence has jumpstarted a "tech renaissance" that's driven the NASDAQ and S&P 500 higher. Sentiment has shifted dramatically from the lows of October 2022 with many investors believing we are now on the cusp of a new bull market. We have returned to a "fear of missing out" mentality as investors once again embrace the idea that "there is no alternative" to US equities.

However, let's look at the facts/reality. The Fed has stated repeatedly that it is not finished raising rates as it tries to whip inflation. Inflation will likely remain high due to wage pressures and continued government stimulus programs. Corporate profits as a % of GDP are at record highs and likely to come down which could pressure profit margins and EPS. Corporate buybacks, a key source of demand for US equities, are declining as companies preserve cash in case of a recession. The fallout from the recent banking crisis will likely continue as credit standards tighten and banks pull back on lending to strengthen capital ratios to satisfy the regulators. Lots to think about...

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 June 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

1. Gulf Island Fabrication- engineering/design/construction	5.6%
2. Bristow Group- helicopter services	5.0
3. Graham Corp.- industrial equipment for govt./ commercial clients	4.5
4. Daktronics- electronic displays	3.6
5. Seacor Marine- offshore supply vessels	3.6
6. Weyco Group- wholesale & retail shoes	3.5
7. Culp Inc.- fabrics for furniture & mattress coverings	3.2
8. Hurco- machine tool systems	2.3
9. Powell Industries- electrical equipment & services	2.2
10. Universal Stainless & Alloys- specialty metals	<u>2.2</u>

Total **35.7%**

YTD TOP 5 Contributors (includes dividends)

1. Daktronics Inc.	2.1%
2. Graham Corp.	2.0
3. Powell Industries	2.0
4. Universal Stainless	1.1
5. Seacor Marine	0.7%

YTD TOP 5 Detractors (includes dividends)

1. Gulf Island Fabrication	- 2.6%
2. Williams Industrial Services	-1.4
3. The Buckle	-0.5
4. Hurco Cos.	-0.4
5. OP Bank	-0.2%

SECURITY CLASSIFICATIONS

Government Money Market Funds	39.4%
Energy	13.8
Industrial Goods & Services	12.8
Consumer Goods & Services	11.5
Construction & Fabrication	7.1
Technology	4.3
Transportation	3.6
Closed End & Exchange Traded Funds	2.9
Banks & Thrifts	2.9
Real Estate	0.9
Insurance	<u>0.8</u>

Total **100.0%**