

US equities had a rough Q3 with the R2000 down 5.1% while the S&P 500 fell 3.3%. PVFIX shares rose 4.4% putting YTD performance at +13.8% vs +2.5% for the R2000 which we feel is acceptable given our large cash position that now earns 5% in a government MMF. We ended the quarter with 42 major positions with a weighted average market cap of \$420 million, a security yield of 1.2% and a price to book value ratio of 1.1%. Cash is 44.5%, up slightly from 38.2% at yearend as we trimmed back several positions (see below).

There has been no change to our fundamental outlook. The market remains volatile as it deals with multiple uncertainties- how high the Fed will raise rates, inflation, the health of corporate earnings, the impact of recent bank failures and the possibility of a recession. The Fed continues to talk tough about keeping rates high to combat inflation but recently indicated the pace and magnitude of future rate increases may be slowing. Higher rates will likely impact demand for homes, autos, appliances and other big ticket purchases. Corporate profit margins are probably past peak levels for this cycle as more companies are forced to absorb higher labor and material costs in order to maintain business. Some firms are already scaling back earnings expectations and we may see more as the quarters unfold. Even if there are no more bank failures (a big if), credit is tightening and likely to get tighter. Less credit available to consumers and businesses most likely means slower growth. Consumer demand already appears to be slowing as paychecks buy less these days and stimulus money is receding. Many firms leveraged up during the good times and have too much debt with no room for error should interest rates rise further. We try to use volatility to our benefit by adding to positions at favorable prices when the market trades lower and reducing positions at favorable prices when the market trades higher.

Q3 portfolio activity was skewed towards security sales as we took advantage of higher prices to reduce positions that approached fair value like Daktronics, Graham Corp. and Powell Industries or where fundamentals deteriorated such as Gulf Island and Williams Industrial Group. The resulting net capital gains are mostly long term which should help minimize taxes for taxable accounts. We added one new position, Unifi, a Greensboro NC based producer of texturized nylon/polyester yarn used to produce fabrics for apparel, furniture and vehicles. We also added to existing positions Hurco Cos., Crown Crafts and First Acceptance on weakness.

As you can see on the next page, YTD contributors to performance outweighed detractors. Our biggest contributors included Graham Corp., Daktronics and Powell Industries. Graham Corp is doing solid business providing vacuum and heat transfer equipment to navy, petrochemical and power generation clients. Daktronics is rebounding as easing supply chain issues provide the components required convert a robust backlog to sales. Finally, Powell Industries continues to supply the electrical equipment & systems to build out the energy infrastructure along the Gulf Coast. Major detractors included Gulf Island Fabrication and Williams Industrial Group. Gulf Island is having trouble landing major fabrication contracts to help absorb excess fabrication capacity and Williams Industrial filed for reorganization when it failed to raise additional capital.

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.

| TOP 10 POSITIONS | % net assets |
|--|---------------------|
| 1. Gulf Island Fabrication- engineering/design/construction | 5.0 |
| 2. Bristow Group- helicopter services to commercial/government clients | 4.6 |
| 3. Graham Corp.- industrial equipment for govt./commercial clients | 4.1 |
| 4. Culp Inc.- fabrics for furniture & mattress covering | 3.4 |
| 5. Weyco Group- wholesale & retail shoes | 3.2 |
| 6. Daktronics- electronic displays | 3.2 |
| 7. Hurco Cos.- machine tool maker w/ worldwide distribution | 3.1 |
| 8. Seacor Marine- offshore supply vessels serving clients worldwide | 3.0 |
| 9. Dorian LPG- owns/operates fleet of liquid petroleum gas tankers | 2.4 |
| 10. Stealthgas- owns/operates fleet of liquid petroleum gas tankers | <u>2.2</u> |
| Total | 34.2% |

YTD TOP 5 Contributors (includes dividends)

| | |
|------------------------|------|
| 1. Daktronics | 3.4% |
| 2. Graham Corp | 3.0 |
| 3. Powell Industries | 2.8 |
| 4. Seacor Marine | 1.4 |
| 5. Universal Stainless | 1.0% |

YTD TOP 5 Detractors (includes dividends)

| | |
|----------------------------|--------|
| 1. Gulf Island Fabrication | - 2.5% |
| 2. Williams Industrial | -2.1 |
| 3. Buckle | -0.5 |
| 4. Sprott Gold Miners ETF | -0.1 |
| 5. Hope Bancorp | -0.1% |

SECURITY CLASSIFICATIONS

| | |
|------------------------------------|---------------|
| Government Money Market Funds | 44.5% |
| Industrial Goods & Services | 11.3 |
| Consumer Goods & Services | 11.3 |
| Energy | 13.2 |
| Construction & Fabrication | 5.6 |
| Electronics | 3.9 |
| Transportation | 2.9 |
| Banks & Thrifts | 2.9 |
| Closed End & Exchange Traded Funds | 2.6 |
| Real Estate | 0.9 |
| Insurance | <u>0.9</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 shares, when redeemed, 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 1-877-369-3705 X115.