

Dear Fellow Shareholders,

U.S. small cap equities had an acceptable Q3 with the R2000 up 3.6% while the S&P 500 rose 7.7%. The Pinnacle Value Fund fell 2.6% bringing YTD returns to -2.4% vs. +11.5 for R2000. We ended the quarter with net assets of \$47.8 million and 44 positions with a weighted average market cap of \$507 million, a security yield of 1.7% and a price to book value ratio of 0.9X.

Portfolio activity was modest in Q3. We added to our position in Dorian LPG which owns and operates a global fleet of LPG (liquid petroleum gas) tankers. The industry suffers from overcapacity (too many ships) and is ripe for consolidation that we think Dorian may be part of. We also bought more San Juan Basin Royalty Trust which passed its most recent monthly distribution due to higher than expected capital expenditures. A conversation with management convinced us that once the higher capex is complete, the distribution should be reinstated which may lead to a higher share price. We added to our Sprott ETFs which own a variety of precious metal mining companies. These should provide a hedge against inflation which we feel is coming because of tariffs and higher wage/ raw material costs. Perhaps you've noticed this on the supermarket shelves. Finally, we initiated a position in a Turkish ETF in order to own the many high quality blue chip Turkish stocks that are down significantly due to recent political turmoil and a falling currency that we view as temporary but with an uncertain recovery timeline.

We trimmed our positions in First Acceptance, Ensco, ERA Helicopters and Stage Stores most of which were sold for long term capital gains. All were sold for valuation reasons except for Stage Stores which we view as increasingly risky given its high debt levels.

The biggest contributors to performance during Q3 were Gulf Island Fabrication, Costar Technologies and Dorian LPG. Gulf Island sold a couple of surplus shipyards and announced major new contract awards; Costar made a large acquisition which it expects will soon be accretive to earnings and Dorian LPG is the subject of an unwanted merger attempt.

The biggest detractors from performance came from some of our bigger positions including Williams Industries, Permian Basin Royalty Trust and Christopher & Banks. Williams seems to be in perpetual reorganization as they attempt to shrink the business to profitability AND restructure the balance sheet. Not surprisingly, there have been bumps along the way which new management has dealt with directly but Wall Street remains unconvinced and the shares unloved. Permian Basin Royalty Trust may face reduced distributions because of pipeline bottlenecks that limit oil sales from the area, a situation we view as temporary until additional pipeline capacity comes on stream in 2019. Women's retailer Christopher & Banks is making slow turnaround progress under a new CEO who brings fresh merchandising and operational skills to the mix. We added modestly to some of these positions on weakness and continue to monitor all closely.

While performance has lagged, we are optimistic about the portfolio. We are positioned to invest our cash when opportunities become available and are searching diligently for such situations.

Important tax note: As in prior years, we'll most likely pay a distribution of net capital gains at year end which'll be taxable to those who hold shares in taxable accounts. If you hold shares in taxable accounts, you may want to defer purchases of additional Pinnacle Value Fund shares until after the distribution is paid in late December. Please call if you have questions/comments.

| Top 10 positions: | % net assets |
|---------------------------------------------------------------------|---------------------|
| 1. SWK Holdings- life sciences finance | 6.0 |
| 2. ERA Group- helicopter services | 5.4 |
| 3. Gulf Island Fabrication-marine goods & services | 4.8 |
| 4. Dorian LPG- fleet of liquid petroleum gas tankers | 4.0 |
| 5. Permian Basin Royalty Trust- oil royalty trust | 3.5 |
| 6. Williams Industrial Services- construction, repair & maintenance | 3.2 |
| 7. Kansas City Life- life policies & annuities | 3.1 |
| 8. Seacor Marine- offshore supply vessels | 2.9 |
| 9. First Acceptance- non standard auto insurance | 2.9 |
| 10. EMC Insurance- regional P&C insurer | <u>2.3</u> |
| Total | 38.1% |

Q3 TOP 5 Contributors (realized & unrealized gains)

| | |
|--------------------------------|------------------|
| 1. Gulf Island Fabrication | \$220,600 |
| 2. Costar Technologies | 122,600 |
| 3. Dorian LPG | 93,700 |
| 4. Turkish ETF | 61,600 |
| 5. American National Insurance | <u>51,200</u> |
| Total | \$549,700 |

Q3 TOP 5 Detractors (realized & unrealized losses)

| | |
|--------------------------------|--------------------|
| 1. Williams Industries | \$695,800 |
| 2. Permian Basin Royalty Trust | 283,900 |
| 3. Christopher & Banks | 153,200 |
| 4. San Juan Royalty Trust | 141,100 |
| 5. SWK Holdings | <u>138,100</u> |
| Total | \$1,412,100 |

Security Classifications

| | |
|------------------------------------|---------------|
| Government Money Market Funds | 38.7% |
| Energy | 19.8 |
| Insurance | 12.4 |
| Industrial goods & services | 11.5 |
| Financial services | 7.4 |
| Closed end & exchange traded funds | 6.4 |
| Consumer goods & services | 1.9 |
| Real Estate | 1.1 |
| Banks & thrifts | <u>0.8</u> |
| Total | 100.0% |

*Letter contents are unaudited and past returns do not predict future results. Investment return and principal value of an investment in the Fund will fluctuate so that shares, when redeemed, may be worth more or less than original cost. Results do not reflect taxes payable on distributions or redemption of shares held in taxable accounts. Fund holdings are subject to change and are not recommendations to buy or sell any security. The R2000 index is an unmanaged index, does not incur expenses and is unavailable for investment. Additional material including Prospectus and SAI is available at www.pinnaclevaluefund.com or 1-877-369-3705.