

## Pinnacle Value Fund Annual Report

December 31, 2022

Dear Fellow Shareholders,

<b>Total Return</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Pinnacle Value Fund	1.1%	14.3%	3.4%	10.7%	(11.8)%
Russell 2000	-20.5	14.8	20.0	25.5	(11.0)
S&P 500	-18.1%	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

Our Fund's NAV rose 1.1% in 2022 versus the benchmark Russell 2000 which fell 20.5%. While we feel our stock selection was acceptable, we were also assisted by our large cash position which helped cushion the downside and now earns 4.1%. The portfolio remains conservatively positioned and we have cash to take advantage of any market dislocation. We continue to search for undervalued equities with strong fundamentals and reasonable valuations that provide a margin of safety to help limit the possibility of capital loss.

Overall the markets had a dismal first half followed by a slightly better second half. Macro factors such as inflation expectations, rising interest rates, recession fears, DC gridlock, slowing corporate profits and a Fed pivot to a more restrictive monetary policy all took a toll. At this point, higher for longer seems to be the Fed's posture towards interest rates. But unemployment remains low, wages are rising and recent inflation reports have been modestly positive. Economic forecasts are all over the map so stay tuned.

### Contributors to and Detractors from Performance

As you can see from the following page, there were several contributors to performance, most of which were tied to robust energy prices. Seacor Marine, a Houston based operator of offshore supply vessels benefitted from higher offshore drilling rig activity worldwide. Powell Industries, also based in Houston, provides the electrical equipment needed to build out the petrochemical infrastructure now occurring along the Gulf of Mexico coast. Gulf Island Fabrication made an accretive acquisition, is finishing up marginal contracts and won a large fabrication contract for an offshore liquefied natural gas (LNG) facility. Finally, Dorian LPG continues to take advantage of robust demand for liquid petroleum gas (LPG) worldwide for heating and transportation delivered by its super tankers.

Detractors from performance include Williams Industrial Services which lost some major awards and continues to deal with cost overages on several major contracts. Management is reducing costs aggressively but they must figure out a way to grow revenues profitably. Another detractor was Culp Inc., a supplier of fabric to the furniture and bedding/mattress industries. Culp suffered from supply chain disruptions, inflationary pressures, a challenging labor market and significant manufacturing/sourcing in China where US- Sino relations are growing frostier. Finally, Bristow Group, which operates a worldwide fleet of helicopters, is having trouble transitioning from servicing offshore oil and gas rigs to a more diversified customer base including government and military helicopter search and rescue missions.

### **Outlook & Portfolio Positioning**

The market remains volatile and has traded lower as it attempts to ascertain future interest rates and corporate earnings. For the moment the Fed has adopted a hawkish tone on interest rates as an important means of fighting inflation. How high interest rates may go to slow the economy remains to be seen but the Fed appears adamant about getting inflation under control. Regards corporate earnings, some firms are already scaling back expectations and we may see more as the quarters unfold. Consumer demand appears to be slowing as paychecks buy less these days and stimulus money is receding. Many businesses are having trouble passing through higher material and labor costs which reduces margins. Many firms leveraged up during the good times and have too much debt and could become distressed if interest rates rise further. Geopolitical tensions continue to simmer with almost daily headlines concerning Russia, China, Iran or North Korea.

So, we'll stay conservative, let valuations be our guide and try to keep risk to a minimum. We'll continue to take profits on fully valued positions and try to keep gains long term to minimize taxes. Given current valuations, we feel there is no room for error in today's market.

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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**President & Portfolio Manager**  
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**TOP 10 POSITIONS**

	<b>% net assets</b>
1. Gulf Island Fabrication-engineering/design/construction	7.4%
2. Graham Corp- industrial equipment for govt./commercial clients	5.8
3. Bristow Group- helicopter services for govt./commercial clients	5.1
4. Powell Industries- electrical equipment & services	4.7
5. Seacor Marine- offshore supply vessels	3.1
6. Weyco Group- wholesale & retail shoes	3.0
7. Culp Inc.- fabrics for furniture & mattress coverings	2.7
8. Williams Industrial Services- industrial staffing & services	2.5
9. Hurco Cos.- machine tool systems	2.5
10 Patriot Transport- tank truck operator	<u>2.2</u>
<b>Total</b>	<b>39.0%</b>

**YTD TOP 5 Contributors (includes dividends)**

1. Seacor Marine	1.9%
2. Powell Industries	1.8
3. Gulf Island Fabrication	1.6
4. Dorian LPG	1.6
5. Graham Corp	0.6%

**YTD TOP 5 Detractors (includes dividends)**

1. Williams Industrial Services	-3.3%
2. Culp Inc.	-1.3
3. Bristow Group	-0.8
4. First Acceptance	-0.5
5. Patriot Transport	-0.3%

**SECURITY CLASSIFICATIONS**

Government Money Market Funds	38.2%
Industrial Goods & Services	15.4
Consumer Goods & Services	11.3
Energy	10.2
Construction & Fabrication	10.2
Transportation	4.6
Technology	4.0
Closed End & Exchange Traded Funds	3.0
Banks & Thrifts	1.5
Real Estate	1.1
Insurance	<u>0.5</u>
<b>Total</b>	<b>100.0%</b>