

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Value Manager Sees Upside in Ethan Allen, Seacor Marine and AerSale



JOHN E. DEYSHER, CFA, is President of Bertolet Capital LLC, adviser to the Pinnacle Value Fund. He is responsible for the fund's daily investment activities and has more than 40 years of investment management experience. From 1990 until 2002, Mr. Deysher was a Portfolio Manager, Senior Analyst with Royce & Associates, an investment firm specializing in the securities of small cap companies and adviser to the Pennsylvania Mutual Fund. Mr. Deysher began his investment career with Kidder Peabody in 1983, where he managed equity and fixed income portfolios for individuals and small institutions. He holds a bachelor's degree from the Pennsylvania State University, and master's degrees from both Indiana University, Bloomington (Business) and the University of California, Berkeley (Engineering). He is a CFA charterholder, and lives and works in New York City.

SECTOR — GENERAL INVESTING

TWST: Give us a brief history of your fund, your role, and tell us how you go about building your portfolio.

Mr. Deysher: The Pinnacle Value Fund (PVFIF) is an SEC-registered mutual fund launched in April 2003 where I've been portfolio manager since inception. We have a mandate to invest in small and micro-cap companies that we feel are undervalued relative to asset values or earnings power. Most of these companies trade below the radar screen of large institutions, and our goal is long-term capital appreciation with income as a secondary objective. Our value proposition is high-conviction ideas with a long-term time horizon.

We build the portfolio stock by stock starting with idea generation. We get ideas from a variety of sources. We run proprietary screens using factors that are important to us. We look at SEC filings to assess whether the insiders are buying or selling. We do lots of reading, both of mainstream publications and specialty publications.

From there we do comprehensive grass roots research to learn how the industry works and how the company makes money. We'll evaluate competitors, vendors, customers, barriers to entry and the threat of substitute products. Finally, we'll interview top management to assess their strategic, operational and financial priorities.

TWST: What are some of your longest-term holdings?

Mr. Deysher: We're long-term investors and our portfolio turnover rate is about 24% per year, so our average holding period is little over four years. Some long-term holdings include **First Acceptance** (OTCMKTS:FACO), a regional specialty insurer we've owned since 2018. We've owned **Friedman Industries** (NASDAQ:FRD), a steel service center since 2016. Our oldest holding is **Hope Bancorp** (NASDAQ:HOPE), which we've owned since 2011.

All of these stocks have done well and we expect them to be continued long-term holdings.

TWST: So, it's understood, no matter what the market scenario is like, it's always good to hold small caps, under-the-radar names. But what are the particular benefits now of owning a slice of the Pinnacle Value Fund as compared to other investment styles or cap sizes?

Mr. Deysher: We think there are several benefits to owning the Pinnacle Value Fund now. We focus on a specific asset class, which is U.S. small and micro-cap value. We have no style drift or market cap creep. Our weighted average market cap is about \$670 million, which is far smaller than many of our peers.

We think focusing on smaller market caps allows us to uncover inefficiently priced securities since there is less competition. We do all the research first hand with a very disciplined research process. Finally, the portfolio manager and his family have a large fund investment so we're motivated to do well.

TWST: How correlated to overall market movements is the fund — the small, micro-cap value names you hold — compared to other cap sizes?

Mr. Deysher: We have a fairly high active share, meaning that most of our names are not included in the benchmark Russell 2000 — the R2000. So, we're not really correlated with the benchmark. Some of our names go up when the R2000 goes down and vice versa. Our goal is to match the R2000 on the upside and outperform it on the downside.

TWST: And talk to us a bit about the subsectors that are most heavily weighted in the fund, and those that are underweighted.

Mr. Deysher: The subsectors where we are most heavily weighted include retail, energy and transportation. Our underweighted subsectors are banks/thrifts, insurance and technology. This is not by

design, it's the outcome of our research effort which focuses on finding undervalued securities regardless of the industry.

TWST How have those heavily weighted sectors performed since the beginning of 2026, maybe as compared to '25?

Mr. Deysher: Most of our heavily weighted sectors have done well. The consumer is two thirds of the economy and continues to show resiliency which has helped our retail stocks. Energy stocks have done well largely on higher oil prices resulting from the Gulf of Hormuz conflict. Finally, our transportation stocks have done well due to a fairly robust economy and limited capacity additions by the competitors.

TWST: And can you give us a few of your favorite names in each of those sectors, and which you might like for the long term and/or short term?

Mr. Deysher: In retail, we like furniture companies because they have been under pressure from higher mortgage rates which limit new home sales and remodeling that drive furniture sales. We own **Ethan Allen** (NYSE:ETD) which most folks know from their strong brand and 170 stores they have nationwide. **Ethan** sources about 75% of their goods from domestic factories, which makes them less vulnerable to tariffs.

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Ethan has a strong balance sheet, yields 6.6%, and should do well when housing rebounds. They just announced a \$3/share special dividend continuing a trend of special dividends.

In the energy space, we hold **Seacor Marine** (NYSE:SMHI) which owns and operates 44 offshore supply vessels that service offshore drilling rigs worldwide. With the disruption in the Strait of Hormuz, oil prices are higher, and many energy companies are revisiting their offshore exploration and development plans. There's also a growing consensus that onshore shale oil production may be plateauing, which is another reason the majors are looking to go offshore. All of this bodes well for offshore supply vessel firms like **Seacor**.

In transportation we own **Aersale** (NASDAQ:ASLE), an aviation services company that should benefit from the huge increase in flight hours by commercial and military aircraft worldwide. Their asset management business sells and leases used aircraft, engines, and airframes. Their second business is MRO, which stands for maintenance, repair and overhaul of existing aircraft, which must undergo periodic inspections to keep the flying public safe.

TWST: What, if anything, might you be considering now, monitoring, or just thinking about either adding to the portfolio or trimming?

Mr. Deysher: We are looking to own homebuilder stocks like **Green Brick Partners** (NYSE:GRBK) being hurt by higher mortgage rates. We also like supermarkets which we think are recession-resistant but the industry is super competitive so careful research is critical. We've been trimming throughout the year as we view many valuations to be stretched.

TWST: And you mentioned that you tend to avoid healthcare names? Why so?

Mr. Deysher: Healthcare is a field that we have limited historically because most good companies often trade at high valuations.

Often, we don't fully understand the technology which can change quickly. So, we spend most of our time on companies we understand and can get our arms around to really figure out what's likely to make the stock price go up.

TWST: Do you hold any AI? Any names you like there?

Mr. Deysher: We do not own any AI companies. There's a lot of money being thrown at the AI space to build out the required data centers and energy infrastructure. Most of the companies involved are large cap and often trade at robust valuations.

However, we do own some companies, which we'll call low-tech companies, that have exposure to high-tech. For example, we own shares of a company called **Benchmark Electronics** (NYSE:BHE) which is an electronics contract manufacturer. We also own shares of **Diodes** (NASDAQ:DIOD), which makes electronic components for multiple industries.

TWST: It sounds like you put boots on the ground and meet with top management of some of these names. Have any of these boots-on-the-ground meetings ever changed your view of a company, wanting to make you trim it or sell it? Any examples?

Mr. Deysher: Yes, absolutely. We meet with top management, which is a critical part of our due diligence. We've met with the top management of virtually all of our companies, either at their office, our office, or at industry conferences.

We also participate in conference calls on a quarterly basis and more frequently if needed. Annual company meetings are a great place to gather information and speak with the executives and the board directly.

1-Year Daily Chart of AerSale Corporation



Chart provided by TradingView

We rarely come away from a meeting thinking that we should sell the stock. If we take the time to attend a meeting, it's usually to confirm our investment thesis. Sometimes we are disappointed but oftentimes we come away thinking we should buy more.

A good example is an annual meeting we attended last year with **Omega Flex** (NASDAQ:OFLX). They make specialized piping. We were the only shareholder there, and we had a good opportunity to speak with management and the board. We came away convinced that it was a solid product and a solid company, we actually bought more stock.

TWST: Do you consider insider buying when you evaluate a name?

Mr. Deysher: Yes, that's one of our key research factors: What are the insiders doing?

Insiders may sell for a variety of reasons: estate planning, to pay for college educations or fund retirement plans. But they normally buy for one reason — they think the stock is going up. Insider buys are important, especially significant insider buying by multiple insiders.

TWST: Can you share any of those key insider buying signals you're seeing related to a particular name currently?

One that we've owned for a long time is a company called **Culp** (NASDAQ:CULP). They make fabrics for furniture and mattress coverings. The company has a restructuring plan in place to right size capacity. The insiders have been consistent buyers for several months now. The shares have risen a bit but hopefully the insiders are pointing us in the right direction.

TWST: Do you see that small caps and micro-caps are more likely to be takeover targets and possibly have more M&A than larger caps? What are you seeing now?

Mr. Deysher: We agree. M&A activity has been quite robust in our space and that's likely to continue. There are large pools of capital that private equity, venture capital and hedge funds want to put to work but they're being more disciplined and patient now.

We normally don't make investments on the basis that a company will be acquired and invest because of undervalued assets or potential earnings power. A company must stand on its own merit and if acquired, that's icing on the cake.

We've had two takeovers so far this year. The first was our largest position, **Gulf Island Fabrication**, which was acquired in January by a strategic buyer at \$12 a share — our average cost was \$3.90 a share. In May, **Tri Pointe Homes** was acquired by a strategic buyer at \$47 a share and our average cost was \$15.20 a share. There may be other takeover targets in the portfolio, but we never know when or why.

TWST: As you look into the rest of '26 and maybe further on, what are your top concerns? What worries you?

Mr. Deysher: You're right, we have a few concerns. The economy has been on a roll for several years post pandemic and unemployment remains fairly low. Whether this continues remains to be seen. The stock market has gone up a lot and trades at rich valuations, some might even say in bubble territory.

Another big concern is the future direction of interest rates. We have a new Fed Chairman, Kevin Warsh, who's indicated he might not be so willing to lower interest rates to keep Wall Street happy. He wants to reduce inflation which is having a major impact on consumer confidence.

We also worry about interest rates ticking up, especially those that impact consumer and business borrowing. Our national debt is now \$40 trillion and deficits are running in the hundreds of billions. Also concerning is the impact of tariffs on the world economy.

TWST: And if we are in some type of bubble, which you mentioned being a worry, it might be good to hold names in the most

resilient subsectors, for example supermarkets. Can you tell us about any supermarket stocks or other resilient names that would stay strong if we were to have a downturn?

Mr. Deysher: Yes, supermarkets can be resilient but it's a very competitive business with razor thin margins. A supermarket stock that we think is a good buy now is **Ingles Markets** (NASDAQ:IMKTA), a regional chain based in Asheville, North Carolina. They have 198 stores and they own 85% of them, including the land underneath, which provides an advantage versus many competitors who lease their stores.

They have a tight footprint. They operate all stores within 280 miles of their central warehouse, and they're one of the few remaining independent supermarkets that has not been bought by a big chain. It was founded in 1963, and we think the book value is significantly understated and could be sold to a strategic buyer in a heartbeat.

Ingles recently had a dissident shareholder elected to the board, and hopefully that person can help unlock some value that's embedded in the **Ingles Market** stock price.

TWST: Tell us why you think, amid the current market and the macro and political environment, it makes sense to invest in the Pinnacle Value Fund.

Mr. Deysher: There are lots of macro factors that are important. There are conflicts in the Middle East and Ukraine which are impacting energy prices and inflation. We're not sure where the economy, unemployment or interest rates are going. There's also the possibility that the Republicans could lose control of Congress in the midterm elections, which would derail some of their pro-market initiatives.

So, there are lots of potential headwinds out there which we do not think are reflected in the market. So, we'll stay conservative and let valuations be our guide. Our fund is very conservatively managed with an emphasis on capital preservation and margin of safety. We build our portfolio stock by stock with deep, independent research.

Perhaps most importantly, we have a fair amount of cash which will help cushion the downside on any market dislocation and provide the fire power to exploit opportunities.

TWST: Anything else you'd like to discuss before we conclude?

Mr. Deysher: We make our shareholders four promises. The first promise is we make mistakes, but we'll try to hold damage to a minimum. The second promise is we invest on the basis of value, not popularity. The third is we'll be disciplined in style and execution. And finally, our family has a substantial investment, so we eat our own cooking, which is important to most of our shareholders.

TWST: Thank you. (VSB)

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