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THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Risk Minimization Is Key to Small and Microcap Investing

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

(AHW547) TWST: Please introduce your fund. And in comparison to the overall market, how has the fund performed of late?

Mr. Deysher: The Pinnacle Value Fund is an SEC-registered mutual fund launched on April 1, 2003 with a mandate to invest in small and micro-cap companies we feel are undervalued relative to asset values or earnings power. Most trade below the radar screen of large institutions. We seek compelling opportunities with significant upside potential and small downside risk.

We look for companies with strong balance sheets, capable managements, attractive business niches, sound accounting practices, and large insider ownership. Our value proposition is easy — buy high conviction ideas with a long-term time horizon.

Our goal is to outperform the benchmark Russell 2000 in down markets while matching the Russell 2000 in up markets. That has been the trend over the last couple of years. For the first half of this year, the fund is up 3.9%, while the Russell 2000 is up 1.7%.

There's a lot of volatility in the market, but volatility is our friend since it provides the opportunity to buy undervalued shares at low prices and sell fully valued shares at higher prices. Buy low, sell high.

TWST: Did the fund like the recent rate cut of 50 basis points? Did it have an effect?

Mr. Deysher: Yes. It did have an effect, but most of the impact was prior to the rate cut itself because the Fed had telegraphed they were going to cut rates. Most stocks moved up in anticipation of a rate cut. It was a question of whether the rate cut was smaller or larger, and it was a larger one. So yes, the fund's NAV rose in anticipation of the rate cut.

TWST: I believe you spoke with us last year. Since then, have there been any changes to your portfolio, any additions? Or where might you have lightened up or let go?

Mr. Deysher: Since last year, we bought several positions, but the main ones were **Culp** (NYSE:CULP), **Gulf Island Fabrication** (NASDAQ:GIFI) and **Hurco** (NASDAQ:HURC), mostly on price weakness. All have viable business models, acceptable managements, and strong balance sheets. In terms of sales, we trimmed several positions, including **Bristow** (NYSE:VTOL), **Daktronics** (NASDAQ:DAKT), **Dorian** (NYSE:LPG), and **Graham** (NYSE:GHM), which we view as fully valued. All were sold at long-term capital gains to help minimize taxes.

TWST: Can you give us a closer look at those three you bought? I believe they were Culp, Gulf Island and Hurco?

Mr. Deysher: Culp is a High Point, North Carolina-based producer of synthetic fabrics used in upholstered furniture and mattress ticking, both of which face slowing demand after the pandemic-driven boom. But furniture and mattresses eventually need to be replaced and **Culp** is in a good position once demand rebounds. In the meantime they announced a restructuring to reduce costs and the insiders are buying.

Gulf Island Fabrication makes metal structures/modules for offshore and onshore construction projects especially for LNG infrastructure along the Gulf Coast. Management has done a good job at rationalizing costs and made an accretive acquisition.

Finally, Indianapolis-based **Hurco** makes CNC — computer numerically controlled — machine tools for independent job shops serving multiple industries. Machine tool makers are going through a cyclical slowdown because of higher interest rates that inhibit demand since most are bought on credit. They make a quality product, the balance sheet is strong and management has been buying shares.

TWST: Do you expect the fund to see any effects from Biden's recent ban on Chinese chips and cars?

Mr. Deysher: Our exposure is probably minimal since none of our companies import Chinese chips or cars that face bans or tariffs. Most of our companies that faced higher Chinese tariffs found alternate sources of supply away from China.

TWST: So overall, which sectors and which names outperformed and which were weak?

Mr. Deysher: Good question. We don't normally invest in sectors. We prefer a stock-by-stock approach. But in recent quarters, the best performers were **Gulf Island Fabrication** and **First Acceptance Insurance** (OTCMKTS:FACO).

Gulf Island continues to win new business for their strategically located facility in Houma, Louisiana, as they continue to scout for acquisitions. Nashville-based **First Acceptance** sold their high cost brokerage operation and is now focused on non-standard auto underwriting, which is starting to bear fruit.

The major detractors from the performance were **Hurco** and **Culp**. As discussed earlier, **Hurco** is facing a slowdown in machine tool demand, and **Culp** is facing a slowdown in sales of synthetic fabrics for furniture and mattress ticking. Both firms are well positioned for when demand picks up.

1-Year Daily Chart of Culp Inc.

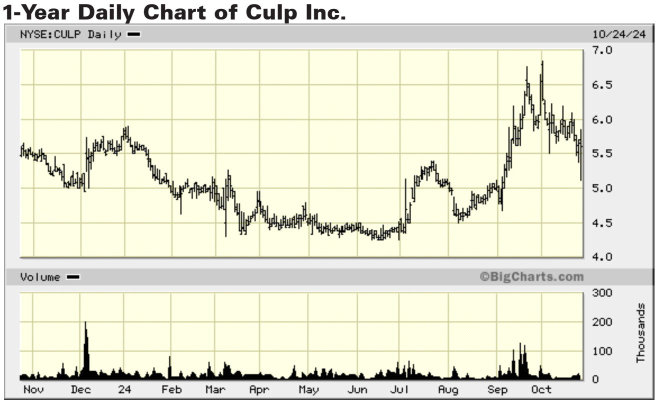

Chart provided by www.BigCharts.com

TWST: Does that have anything to do with inflation? Weak consumer?

Mr. Deysher: Yes, consumers are facing inflation, just as businesses are. Machine tools and furniture are discretionary big-ticket items and higher prices limit demand. Oftentimes purchases require financing and higher interest rates makes this challenging. Hopefully lower rates will help spur demand.

TWST: What's your process for assessing a company's future and its profitability? And where do you start? How do you find these companies?

Mr. Deysher: Oftentimes, future prospects are indicated by where the company has been in the past. Most of our target firms have been around for decades, and we may have owned them in the past. We're most interested in a company where the share price has declined, indicating something is wrong, and it's our job to assess whether this adversity is permanent or temporary.

If we think the business is permanently impaired because of a balance sheet issue or change in fundamentals, we'll move on. But in many cases, our analysis indicates the adversity may be temporary.

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A common example of a temporary adversity is a lull in the business cycle that temporarily depresses revenues and earnings. This generally leads to a share price decline, which is often an attractive entry point if we think the business will rebound. However, this may take time to occur, which is why we only invest in companies with strong balance sheets that provide the runway for recovery.

In terms of the process itself, we start with ideas which come from multiple sources. We run screens, we look at SEC filings, we talk to other like-minded investors, we go to industry conferences and we look at the new low list every day.

Once we have an idea we do the grassroots research to determine how the industry works and how the company makes money. We'll evaluate the financials, the management, competitors, vendors, customers, insider ownership and business models. We'll look at conference call transcripts and do a literature search.

When we have a good understanding of how the business and industry works we'll do a top management interview to assess their strategic, operational, and financial priorities.

TWST: Can you give us an example of some of your most memorable interviews with top management that steered you in the right direction or the wrong direction?

Mr. Deysher: Talking with management is a critical part of our due diligence. We've met with the managers of most of our companies either at their office, our office or at industry conferences. We recently attended the annual meeting of a company where we were the only shareholder there. We had the opportunity to speak with the board of directors and management. It was a very productive meeting.

In evaluating management, we look at a few things. Are they honest, competent, intelligent? Are they hands-on, energetic, opportunistic? We like managers who act as owner-operators and not just caretakers. We like the insiders to have a significant ownership share.

We look at prior experience, compensation/incentives, related party transactions and whether they've run a public company before. Are they being open and honest in answering our questions or are they trying to promote their own agenda?

Oftentimes good managers will deliver positive surprises while mediocre managers deliver negative surprises.

TWST: What are their top worries? Are you finding any commonalities insofar as their top concerns?

Mr. Deysher: Yes. We think most of our managers are fairly confident of their business models and balance sheets. We think their biggest concerns are about where the economy is going and the Fed's ability to engineer a soft landing.

While employment remains strong and inflation is trending down, there are signs the economy may be slowing, such as higher credit card and auto loan delinquencies.

Managers are also concerned with geopolitics. There's a lot of tension in the world right now, Russia-Ukraine, the Middle East, China and how those situations may impact consumer and industrial demand here and worldwide.

TWST: And what are they mostly optimistic about, if anything?

Mr. Deysher: They're optimistic about the fact that the Fed is lowering interest rates. The Fed has telegraphed how many cuts they're planning over the next couple of years and if this spurs demand, most of our companies should do well.

The other one is **AerSale** (NASDAQ:ASLE), a Coral Gables, Florida, aviation firm that provides support services to owners and operators of commercial aircraft who can't or won't do it on their own. It's an outsourcing play.

1-Year Daily Chart of Gulf Island Fabrication Inc.

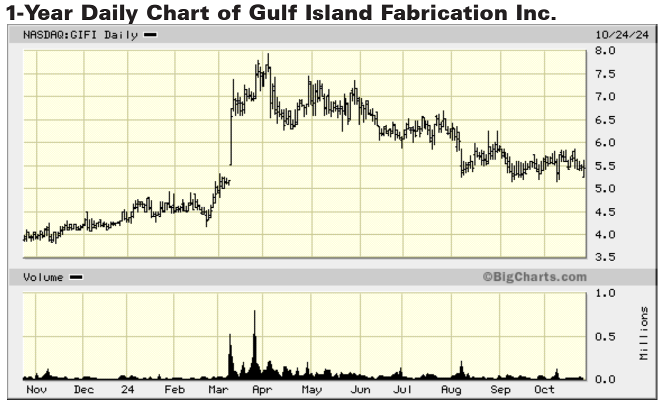

Chart provided by www.BigCharts.com

While commercial aviation is a growing industry, **AerSale** is dealing with higher costs, and they recently disappointed investors. They're lowering costs which should help drive margins, earnings, and the share price higher

"Most of our positions are small companies and logical targets, but we don't invest solely because we think it's going to be a takeover target. We do the work, we look at the fundamentals, the management teams, and the valuation, and if all those align, we'll generally take a position."

Lower interest rates mean more spending money in people's pockets who may be more willing to make larger purchases and borrow more to buy a home, vehicle or other big-ticket item. However, consumers must have confidence they'll continue to be employed.

TWST: Any other notable strategies about how the small and micro caps are dealing with inflation?

Mr. Deysher: Most of our companies are trying to pass through higher costs of raw materials and labor as higher prices, but if the customers start to resist, they may need to keep prices stable and accept lower margins in order to maintain market share. Many are reducing their own costs to hold their margins. So our companies are fairly active in trying to pass through higher prices or reduce their own costs.

TWST: Any new names you're watching, that are waiting in the wings? And tell us what you're waiting for?

Mr. Deysher: Yes. We've got a couple of sleepers that we view as trading under the radar. The first is **Omega Flex** (NASDAQ:OFLX), an Exton, Pennsylvania, maker of flexible metal hose used in commercial and residential construction. The business is highly profitable but also highly cyclical so lower interest rates may spur recovery in construction spending. The balance sheet is strong giving them breathing room until the eventual recovery.

TWST: And what's the level of M&A that you're seeing of late? Is it higher or lower than usual?

Mr. Deysher: We normally don't make purchases based on M&A. A company should stand on its own and if acquired, that's icing on the cake. We've had some M&A takeouts in the past, but it's been fairly quiet this year.

There's a lot of economic uncertainty, and we think prospective buyers, both strategic and financial, are thinking carefully about how a potential slowdown might impact future earnings. There's still an appetite for reasonably priced deals, but buyers are being more disciplined.

TWST: And are you watching any probable takeover targets?

Mr. Deysher: Most of our positions are small companies and logical targets, but we don't invest solely because we think it's going to be a takeover target. We do the work, we look at the fundamentals, the management teams, and the valuation, and if all those align, we'll generally take a position. And if it's acquired, as some have been acquired in the past, that's great, but we generally invest with a long-term horizon, and if management does its job, the shares should go higher.

TWST: Do you expect to see significant changes related to Republican versus a Democratic win?

Mr. Deysher: Well, a lot will depend on what happens in the congressional races. If either party wins the presidency plus both houses of Congress, it will be easier to pass their agendas than if we have a divided government.

But regardless of who wins, we don't think there is much of an appetite among lawmakers for big stimulus programs like we've seen in the past. The pandemic is largely behind us, and many believe big stimulus programs will reignite inflation.

We also think that lawmakers will need to address the federal budget deficits, which are now running about $2 billion a year, and the national debt, which now totals $34 trillion. These levels are probably unsustainable, but reforms will be difficult. Raising taxes or reducing spending is never popular, but we cannot continue the current policy of kicking the can down the road.

TWST: Any favorite names that you can share with us that lead in developing game-changing breakthrough technologies? Any where you see good investment opportunity?

Mr. Deysher: We normally don't invest in companies that have significant exposure to technology because it often changes quickly, and we may not understand it. However, we do invest in low-tech companies that have exposure to high-tech.

For example, we've owned shares of **Benchmark Electronics** (NYSE:BHE) and **Kimball Electronics** (NASDAQ:KE), both of which are contract electronics manufacturers. We also own shares of **Daktronics**, a well-known maker of electronic scoreboards, signage, and video displays. If you've been to a sports stadium or concert arena recently, you probably have seen their product.

We've also owned electronics distributors in the past, but most have been acquired. These are a few ways to play high tech in a low tech way.

TWST: What's your best advice to investors wanting to get into the space? Is this a good time, or do we wait?

Mr. Deysher: Most investors should have a portion of their equity portfolio invested in small companies which can offer significant capital gains if purchased thoughtfully. Investing in this space requires patience and you must give your investment thesis time to work and don't sell too soon when it does.

Risk minimization is key so stay with conservative balance sheets, business models and management teams. Small companies must have the ability to survive when things get tough.

You must do your homework and know your company. You must be disciplined when buying a position, don't overpay. And finally, don't follow the crowd. Think independently. Sometimes it makes sense to be buying when others are selling and selling when others are buying.

TWST: Anything else you think is important for investors to be aware of?

Mr. Deysher: Yes, let's conclude with four promises that we make to our investors. The first is that we will make mistakes and try to hold damage to a minimum. The second is that 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 our interests are completely aligned with our investors.

TWST: Thank you. (VSB)

JOHN E. DEYSHER, CFA
President
Pinnacle Value Fund
Bertolet Capital LLC
(212) 725-0805
www.pinnaclevaluefund.com
email: deysher@pinnaclevaluefund.com