

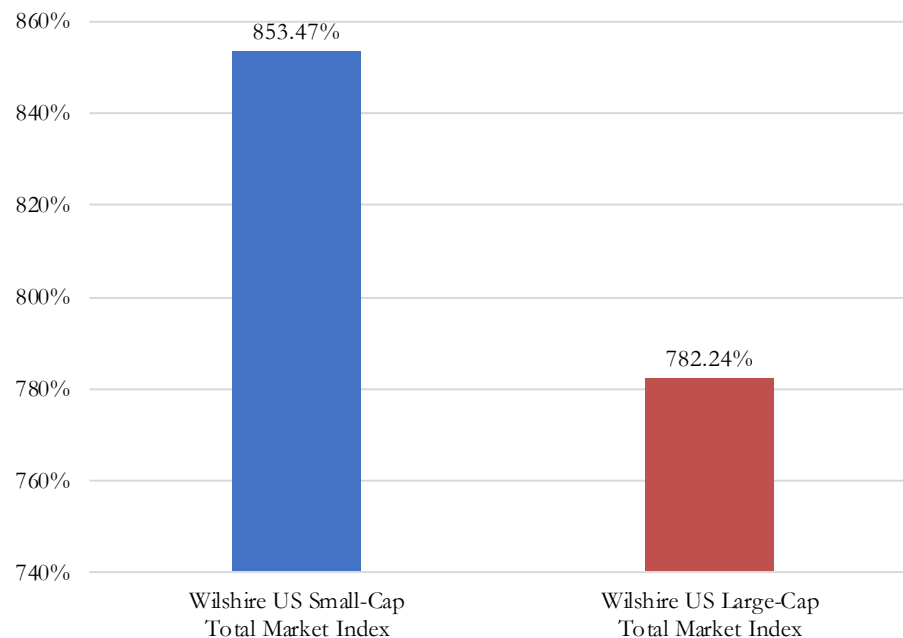
# Private Capital Management Value Fund (VFPIX)

## Why Invest in Small-Cap Stocks Now?

The key questions that should be answered before making any investment, are "why?" and "why now?" Of course, diversification is a good and prudent response, but not specifically compelling. So, while acknowledging diversification's benefits and importance – let's move on to answers that are more particularized and immediate.

History has shown that a good reason to own small-cap stocks is because over the last 25 years they have performed better as a group than large-cap stocks. The graphic below tracks the comparative performance of small-cap and large-cap stock indexes since 1996.

### *Cumulative Performance Since December 1996*



As of August 31, 2022. <https://www.longtermtrends.net/large-cap-vs-small-cap/>

Data Sources: Federal Reserve Bank of St. Louis: Wilshire US Large-Cap Total Market Index and Federal Reserve Bank of St. Louis: Wilshire US Small-Cap Total Market Index

***No assurances can be given that PCM will attain its investment objective or that an investor will not lose invested capital. Past performance is not a guarantee of future results. Investing involves risk including the possibility of the loss of invested capital.***

Why have small-caps done better historically, especially when small companies frequently are less well known to the investing public? In our view, one reason is that markets are good at rewarding investors when they take on more risk. It is widely accepted that stocks earn more than bonds over time. Investment theory tells us this is correct because there is more

volatility and downside risk inherent in owning equities versus investment grade bonds, which generally sit atop a company's capital pyramid (and may therefore be more protected in the event of a bankruptcy).

With respect to the asset class of publicly traded stocks – “off-the-radar,” smaller company stocks frequently trade with more volatility than large company stocks. Smaller companies frequently possess less business model diversification than their larger peers. They also receive less research coverage. Of course, as the preceding graph shows, markets historically have rewarded small-cap investors for the additional volatility and risk they accept. Small-cap investors have had the opportunity to realize higher rolling period (5-year and 10-year) returns with impressive frequency over the last century.

In evaluating the opportunity for investors to allocate capital to small-cap stocks today, we would point to a second and more immediate reason to give this asset class careful consideration.

**Over the past year, there has been a dramatic correction in small-cap valuations.**

### **Valuations Have Corrected Over the Last 12 Months**

#### **P/E Ratio Percentage Declines vs. a Year Ago**

	Value	Blend	Growth
Large	-24.1%	-26.0%	-30.2%
Mid	-29.1%	-35.0%	-49.0%
Small	-29.5%	-42.0%	-61.4%

*Source: J.P. Morgan Asset Mgmt, FactSet, Russell Investment Group, Standard & Poor's*

As of June 30, 2022

The graphic at right (courtesy of JPMorgan Asset Management) highlights the percentage of decline in Price to Earnings (“P/E”) ratios across small-cap stocks versus a year ago. Across the small-cap category we have seen P/E ratios correct in excess of 50%. As long-term investors, we view this valuation correction as a compelling opportunity to allocate new capital into this historically outperforming equity market segment!

So, while small company stocks have historically performed better because of the volatility and risk investors accept to own them, in today's market they also offer investors a superior relative value opportunity as a result of dramatically lower P/E ratio valuations versus a year ago. These are our answers to the “why?” and “why now?” questions for small-cap equities posited above.

If you agree that the data present a compelling case for small-cap historical outperformance and a current market opportunity, we would urge you to consider the PCM Value Fund (VFPIX). The PCM Value Fund is an actively managed, small-cap strategy with an established record of outperforming its small-cap benchmark index (Russell 2000) over the past 1-year, 3-year, 5-year, and 10-year periods.

We welcome the opportunity to answer any questions you may have on small-cap investing.

PCM Value Fund Class I				
As of 6/30/2022	1- Year	Annualized Return Periods		
		3- Year	5- Year	10- Year
<b>Class I</b>	<b>-9.21%</b>	<b>10.33%</b>	<b>8.62%</b>	<b>10.14%</b>
Russell 2000	-25.20%	4.21%	5.17%	9.35%

***The performance data quoted represents past performance. Past performance is no guarantee of future results. Investment return and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. The performance shown reflects fee waivers / reimbursements in effect, without which performance would have been lower. Total returns are based on net change in NAV with reinvestment of all dividends. Current performance may be lower or higher than the performance data quoted. The returns shown do not reflect a 2% fee applied to shares redeemed within 30 days of purchase. For performance current to the most recent month-end, please call 1-800-763-0337. The Fund's Gross Expense Ratio is 1.73%.***

***Investors should consider the relevant objectives, risks, charges, and expenses of the Fund carefully before investing. The prospectus contains this and other important information about the Private Capital Management Value Fund, and it may be obtained by visiting our website at [www.pcmvaluefund.com](http://www.pcmvaluefund.com). Read it carefully before investing.***

Shares of the Private Capital Management Value Fund are distributed by Foreside Funds Distributors LLC, not an adviser affiliate.

Mutual Fund investing involves risk and it is possible to lose money by investing in a fund. The Fund frequently maintains a more concentrated portfolio than many diversified funds and its value may fluctuate more widely. The Fund may engage in strategies that are considered risky or invest in stocks of companies that are undervalued which may result in greater volatility. The Fund invests primarily in small-cap companies, which involve additional risks such as limited liquidity and greater volatility. The Fund has a value-oriented approach and is subject to the risk that a security believed to be undervalued does not appreciate as anticipated or experiences a decline in value.

#### **Definitions:**

**Index:** An indicator or measure of something. In finance, it typically refers to a statistical measure of change in a securities market. In the case of financial markets, stock and bond market indexes consist of a hypothetical portfolio of securities representing a particular market or a segment of it.

**Price-to-Earnings (P/E) Ratio:** The ratio for valuing a company that measures its current share price relative to its earnings per share (EPS).  $P/E \text{ Ratio} = \frac{\text{Market value per share}}{\text{Earnings per share}}$

**Russell 2000:** The Russell 2000 Index is an unmanaged index consisting of the smallest 2,000 companies in the Russell 3000 Index, as ranked by market capitalization.

**Wilshire Large-Cap:** The Wilshire Large-Cap includes the top 750 ranked components of the Wilshire 5000 index measured by market capitalization.

**Wilshire Small-Cap:** Wilshire Small-Cap includes the components between 750 and 2500 measured by market capitalization.

**SOURCE:** Investopedia, Informa Investment Solutions