PRIVATE CAPITAL MANAGEMENT VALUE FUND

Annual Investment Adviser's Report
April 30, 2023
(Unaudited)

Dear Fellow Shareholder:

The 12 months ending April 30, 2023 posed an astonishing array of challenges for equity markets including elevated and persistently "sticky" inflation numbers that drove interest rate increases by the Federal Reserve, continuing geopolitical uncertainty, unprecedented levels for the U.S. national debt, the possibility of recession, and finally, several high-profile bank failures. Against this backdrop we are pleased with the performance of the Private Capital Management Value Fund's Class I shares ("PCM Value Fund"), which reported a gain of 13.96% for the 12 months ending April 30, compared to a loss of -3.65% for the small-cap Russell 2000® Index. Looking forward, we believe that "peak inflation" is now in the rear-view mirror. Nevertheless, the base case for interest rates staying "higher for longer" remains rooted in sound logic with continued labor market tightness complicating the path back to sub 3% inflation. To us this implies that while the U.S. economy remains fundamentally sound, recessionary concerns are likely to persist with markets continuing to show volatility into the fall months.

PCM Value Fund Class I				
		Annualized Return Periods		
As of 8/31/2023	1-Year	3-Year	5-Year	10-Year
Class I	4.42%	23.46%	7.86%	9.48%
Russell 2000	4.65%	8.12%	3.14%	7.96%

Though hyperbolic language is overused nowadays, it is hard to find appropriate adjectives to capture the significance of what transpired in March with Silicon Valley Bank[1] (SVB). Simply put, while banks have failed in the past, and inevitably more will fail in the future, to witness a $205 billion institution collapse in essentially two days is truly, truly remarkable. Though it appears that this banking crisis quite literally appeared overnight, SVB's financials tell a different story. The reality is that management, analysts and regulators failed to recognize a financial construct that was simply unsustainable in the current interest rate environment. The explanation is a little complex, but nevertheless worthwhile.

To a significant extent, all banks borrow short term (mostly from depositors) and lend long term. The difference between the cost of these short-term funds (interest paid to depositors) and the yield on long-term assets (payments from the bank's borrowers and other earning assets) produces a bank's gross profit, typically referred to as its "net interest margin". For most businesses, borrowing short and lending long is an extremely bad idea. However, banks have a unique advantage. The government guarantees deposits (through the Federal Deposit Insurance Corporation) up to $250,000 per depositor, so bank customers at this deposit level have no risk. Good banks build a persistent and sustainable "deposit franchise" through myriad services to their customers. Ideally, this results in a large number of relatively small and statistically predictable relationships that prove to be very durable over time. Prudent institutions know better than to build a deposit base that is reliant on a relatively small number of very large relationships. In this regard, all signs suggest that SVB was not a prudent bank.

Over 90% of SVB's funding came from large, uninsured deposits – those above the FDIC's $250,000 threshold – sourced heavily from the venture capital ecosystem in California. Obviously, these are extremely sophisticated customers who are interconnected professionally and, to some extent, personally. The bank then invested a large portion of these deposits in relatively long duration – and by today's standards, low yielding – government bonds. While this balance sheet construct generated a relatively

The performance data quoted represents past performance. Past performance is not 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. Current performance may be lower or higher than the performance data quoted. For performance current to the most recent month-end, please call 1-800-763-0337. The Fund's Gross Expense Ratio is 1.67%. The Russell 2000 Index is an unmanaged index that consists of the smallest 2,000 companies in a group of 3,000 U.S. companies in the Russell 3000 Index, as ranked by market capitalization. It is not possible to invest directly in an index.

[1]As of August 31, 2023, the Fund did not maintain a position in SIVB.

small net interest margin, the bank generated substantial profits because this exercise was done on a massive scale. Unfortunately, as interest rates climbed rapidly last year and the bank's sophisticated customer base demanded higher deposit rates, there was insufficient yield on these bond assets to allow the bank to compete with other institutions – with the result that depositors started moving money away. These outflows revealed a fatal flaw in the bank's strategy. While the government bonds SVB held were 100% "money good" if held to maturity, in the short run they had declined in value due to rising interest rates. Unfortunately, as deposit outflows continued, the bank was forced to sell these bonds at a loss to meet liquidity requirements.

Now trapped, SVB attempted to raise additional capital. This action, however, simply codified and exposed the bank's now desperate position, and customers abandoned the bank at a truly unprecedented rate. Within two days, $42 billion of deposits had been withdrawn and regulators were forced to seize the institution. Wall Street quickly went to work looking for similarly situated banks, and several – namely PacWest, Western Alliance and First Republic[2] – emerged as the most unfortunate proxies. Deposit flight ultimately forced First Republic to merge with J.P. Morgan[3], while (as of this writing) Western Alliance appears to have satisfactorily addressed the market's concerns. PacWest is attempting to restructure itself.

Although there has been a substantial drawdown in bank stocks due to this crisis, we want to be clear that SVB and First Republic were outliers to an extraordinary degree. To state the obvious, Wall Street (not to mention embarrassed regulators) has subsequently spent a great amount of effort examining the industry and nothing comparable to SVB or First Republic has surfaced. More importantly, the banks held by the PCM Value Fund are characterized by low levels of uninsured deposits, broad, diverse and stable customer bases, pristine asset quality, robust liquidity and strong capital positions. While annoyed by the near-term performance from our bank stock portfolio, we are not at all concerned about the long-term health and well-being of these institutions or their investment potential.

We do feel, however, that the knock-on effects of this crisis will impact economic growth, particularly during the second half of 2023. Bankers generally work off the same playbook: when frightened, they will look to reduce leverage and fortify their institution's balance sheet. By curtailing lending, banks can "shrink" and de-lever because total assets are reduced as existing loans are repaid while liquidity is increased and capital ratios improve. We expect that this newfound hesitancy to lend, otherwise described as a "credit crunch", will act as an additional headwind for the economy, above and beyond the Federal Reserve's monetary tightening efforts.

One could make a salient argument that a modest credit crunch could help the Fed engineer a "soft landing" for the economy, potentially limiting the need for further policy action. On the other hand, the current worry beads noted above are complex and interconnected. Additional knock-on effects from elevated interest rates can be expected to continue to play out through the economy. Issues regarding government spending will remain contentious and provide a basis for political posturing on both sides of the debate. It remains a stark fact, however, that if long-term rates were to rise to the level of current inflation, our nation's $31 trillion in debt would prove very difficult to sustain. Meanwhile, on the geopolitical front we are seeing global competitors mount attempts to challenge the U.S. dollar's place as the world's reserve currency. While the dollar's position remains comparatively unchallenged at the moment, this privilege should not be taken for granted.

As the Fund's portfolio manager, we tend to spend an inordinate amount of time analyzing and evaluating the quality of governance at the companies in which the Fund invests. This makes perfect sense for us as bottom-up stock pickers making long-term investments. Decades-long experience has taught us that a weak board, poor management or pervasive institutional dysfunction can sow the seeds of decline for even the best businesses. From this perspective we can say that we would never accept the level of dysfunction in a Fund investment that we witness on an almost daily basis from America's elected leaders in Washington. This being the case, it is a happy truth that the U.S. economy over time is much more significantly driven by small businesses, the U.S. consumer, main street and entrepreneurs than by Beltway politics and infighting.

So, political commentary aside, we are both pleased with the Fund's performance over the last year and confident in the business opportunities for the companies that comprise the Fund's portfolio. As we move toward the end of the year, we expect that

---

[2]As of August 31, 2023, the Fund did not maintain a position in PACW, WAL, or FRC.
[3]As of August 31, 2023, the Fund did not maintain a position in JPM.

Annual Investment Adviser's Report (Concluded)
April 30, 2023
(Unaudited)

investors will increasingly focus on the fact that the U.S. economy has remained resilient and, on balance, continues to move incrementally in a positive direction. While volatility is never comfortable, this is a good environment for disciplined and judicious investors.

We appreciate your continued support.

Private Capital Management

Mutual Fund investing involves risk and it is possible to lose money by investing in a fund. The Fund is a diversified fund, but nevertheless has invested a significant portion of its assets in the securities of a relatively smaller number of issuers, which may cause the Fund's value to fluctuate more widely than some other diversified funds. As a result of the Fund's investment approach and the relative price movements of certain Fund holdings, as of April 30, 2023 the Fund's holdings profile reflected a portfolio concentration level normally associated with a non-diversified fund. This may result in the Fund exhibiting greater volatility and less liquidity than other diversified funds.

Investors should consider the investment 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. Read it carefully before investing.

The performance shown reflects fee waivers/reimbursements in effect, without these waivers, performance would have been lower. Total returns are based on net change in NAV with reinvestment of all dividends. The returns shown do not reflect a 2% fee applied to shares redeemed within 30 days of purchase.

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

This letter is intended to assist shareholders in understanding how the Fund performed during the six months ended April 30, 2023 and reflects the views of the investment adviser at the time of this writing. Of course, these views may change and do not guarantee the future performance of the Fund or the markets.

Portfolio composition is subject to change. The current and future portfolio holdings of the Fund are subject to investment risks.