INVESTMENT PERFORMANCE (%) as of September 30, 2019

	Total Return				Total Return
	Inception	Quarter	YTD	1 Year	Since Inception
Palm Valley Capital Fund	**4/30/19**	**0.50%**	**N/A**	**N/A**	**1.20%**
S&P Small Cap 600 Index		**-0.20%**			**-2.13%**
Morningstar Small Cap Index		**-1.81%**			**-3.14%**

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be higher or lower than the performance quoted. Performance of the Fund current to the most recent quarter-end can be obtained by calling 904-747-2345.

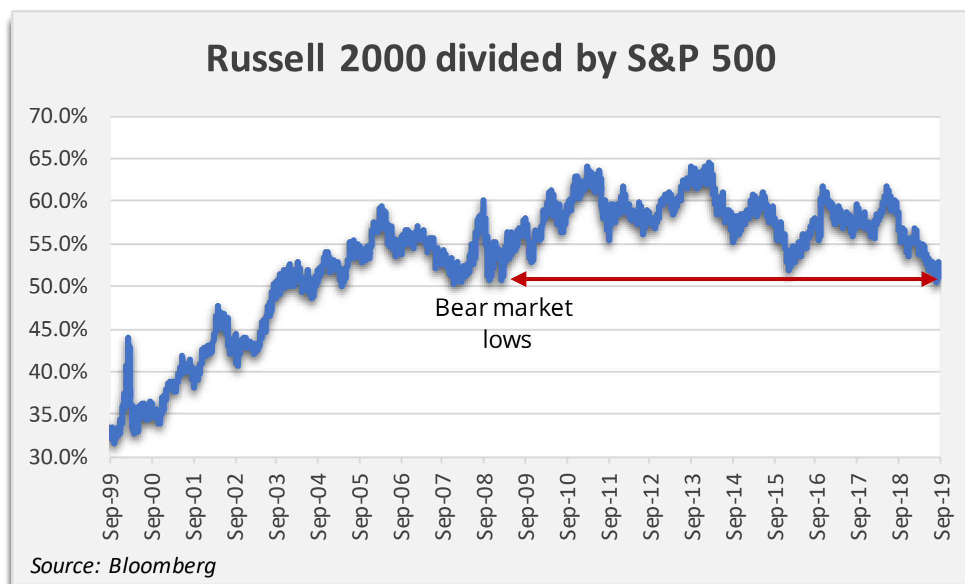
As of the most recent prospectus, the Fund's gross expense ratio is 2.02% and the net expense ratio is 1.25%. Palm Valley Capital Management has contractually agreed to waive its management fees and reimburse Fund operating expenses through at least April 30, 2021.

October 1, 2019

"This is not your father's Oldsmobile."
-1988 General Motors ad campaign

Dear Fellow Shareholders,

As we finished August, the financial media devoted increasing coverage to the relative underperformance of small caps versus large cap equities over the prior year. The Russell 2000 Index peaked on August 31, 2018. Over the next twelve months, it lost 12.9% versus a 2.9% gain for the S&P 500 Index. Pundits noted that **the price level of small caps hadn't been this low relative to larger companies since the bear market trough in 2009.** Some financial professionals argued that this presented a compelling buying opportunity for U.S. small caps. They appeared vindicated in September when the herd rotated sharply from large caps to small caps and from growth



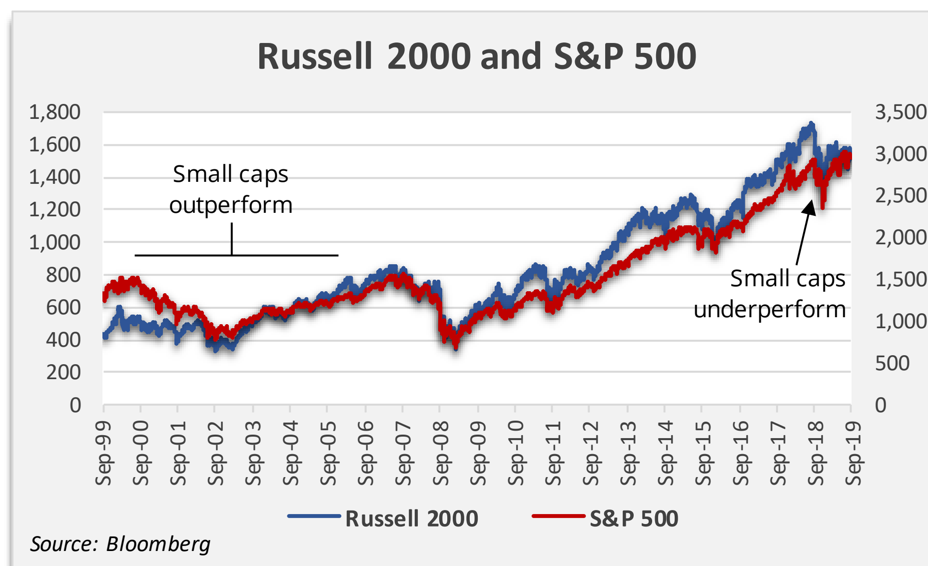
Source: Bloomberg

stocks to value stocks. It remains to be seen whether this transition will turn into something sustainable, since most of the relative bounce in small caps had dissipated by the end of the month.

We'll be blunt: **most small caps are not cheap and neither are most value stocks** (in our opinion). To much of the finance industry, value stocks represent the half of the market trading at lower Price-to-Book ratios and with less historical and projected sales and earnings growth. On the other hand, value *investors* are seeking stocks trading at a discount to fair value. **Today, many of the stocks comprising value investors' portfolios are not classical value stocks and many value stocks do not offer value.** This is not…your father's ~~Oldsmobile~~ value fund. And this is not 1999, when many value stocks were selling at significant discounts to fair value, based on our judgment. In fact, "value" might be one of the most overused words in finance! With that said, certain small cap and value stocks may be *relatively* cheap compared to other segments of the market. After all, professional investing is a relative sport for almost everyone. Almost.

At Palm Valley, we practice an absolute return investment process. If forced to choose between a Treasury bill or a "less overvalued" stock, we'd pick the former. Most investment managers must play in the sandbox of their designated asset class—cash is not an alternative for more than a small portion of their portfolio. In their communications to shareholders this quarter, many managers will probably discuss September's growth-to-value shift and describe how it affected their relative performance. Either they were canny enough to invest in beaten-down value stocks or they were caught off guard by the shift to lower-quality businesses. Few will shrug and state the rotations are tantamount to rearranging the deck chairs on the Titanic. As a business, there are distinct disadvantages to managing absolute return portfolios, which is why hardly anyone does it. However, one perk is that we can be brutally honest in our opinions about the market.

Since the bear market trough on March 9, 2009, the small cap Russell 2000 Index has appreciated at a 16.7% annualized rate versus 17.5% annualized for the large cap S&P 500 Index (returns through 9/30/19). The performance has been strong in both cases, and **small and large cap benchmarks are far above their 2007 peaks in the previous bull market.**

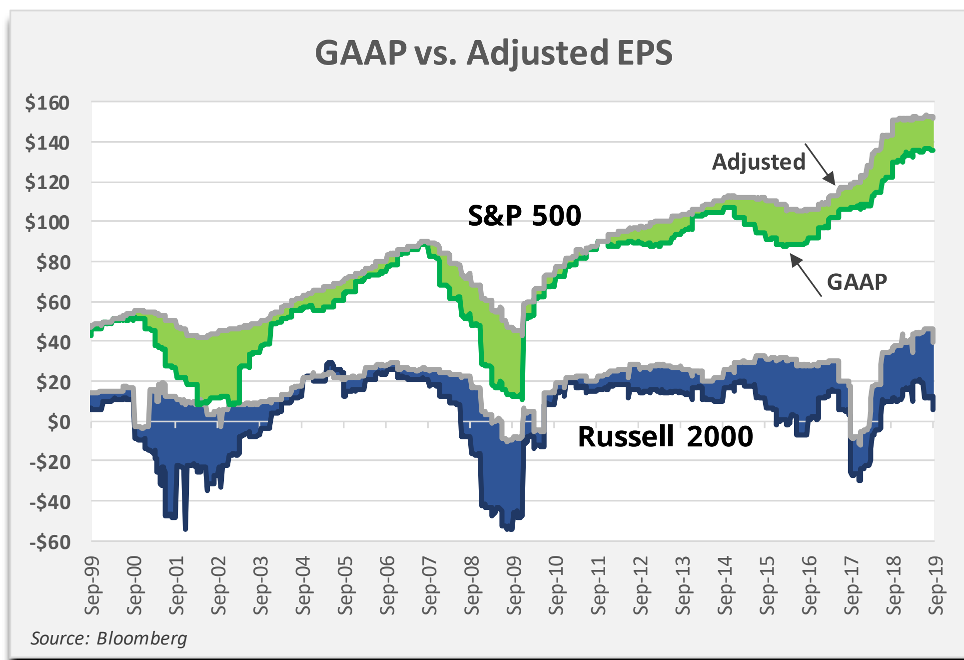


Before judging the quality of an investment opportunity, we believe it's important to review the earnings power of the business. When assessing the Russell 2000, EPS (earnings per share) for the index comes in several different flavors: true earnings based on Generally Accepted Accounting Principles (GAAP), adjusted EPS excluding "unusual" items, earnings of profitable companies only, and forward EPS based on analyst estimates for the upcoming year. Choosing which EPS to utilize can lead to dramatically different conclusions about the expensiveness of the U.S. small cap market.

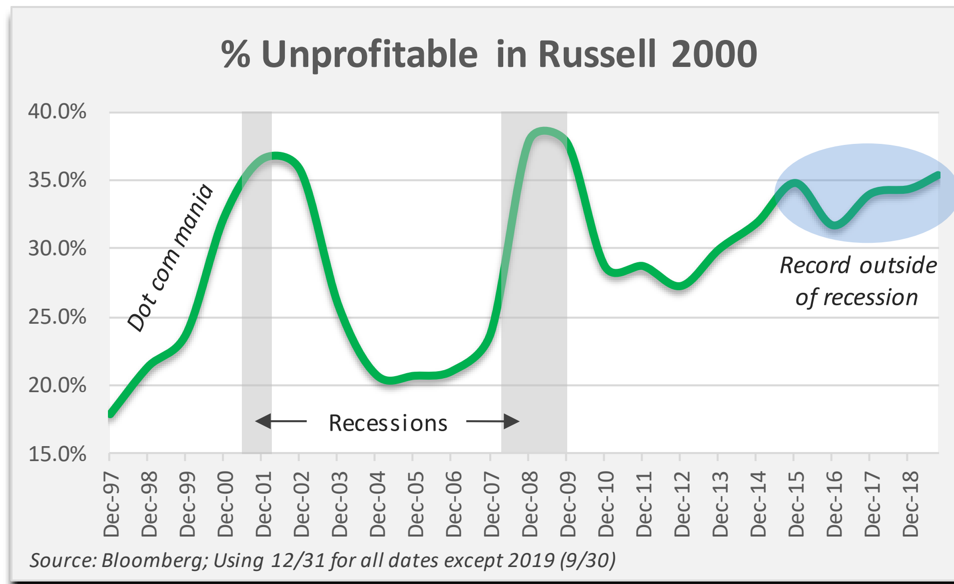
Russell 2000 Earnings Per Share

as of September 30, 2019	EPS	P/E
GAAP Earnings	5.12	297.0
Earnings before unusual items	37.19	40.9
Forward EPS (2020)	71.99	21.1
Earnings from profitable companies	102.63	14.8

There is a significant disparity between GAAP and adjusted earnings (Non-GAAP) for the Russell 2000. For the S&P 500, the percentage "gap" between GAAP and Non-GAAP earnings is much narrower. This isn't surprising, since the S&P is perceived as a blue-chip index with high quality companies. Even during recessions, the aggregate EPS of the S&P 500 has remained in positive territory. This is not the case for the Russell 2000. **Over the last 20 years, 30% of the time the GAAP earnings for the Russell Index have been negative**, including most recently in 2017.



How can aggregate GAAP earnings for a diversified group of 2,000 public small cap companies be barely positive ten years into an economic expansion when earnings for large corporations are at record highs? The Russell Index is heavily populated with speculative companies, and many of these businesses lose money. **Over 35% of companies that comprise the Russell Index today are unprofitable.** This appears to be a record outside of recessionary periods, including during the technology mania of the late '90s.



Source: Bloomberg; Using 12/31 for all dates except 2019 (9/30)

If you think sectors that sound recession-friendly like consumer non-cyclicals would be a good place to hide from speculation, you would be wrong. Nearly two-thirds of firms classified as non-cyclicals in the Russell 2000 lose money. This list is dominated by biotechs, small pharmaceutical companies, and medical device businesses. Runner-up for likelihood of unprofitability goes to the technology sector, which includes software, computer, and semiconductor companies. The communications sector is not far behind, and it counts telecom and Internet firms as its more speculative components. In general, small cap companies in these sectors are not unprofitable because of the economic cycle but instead due to their individual business models, which are frequently predicated on spending large sums and losing money before achieving profitability. Better yet, their desired endgame is often a takeover. **Palm Valley generally avoids companies without a proven history of profitability over the business cycle.**

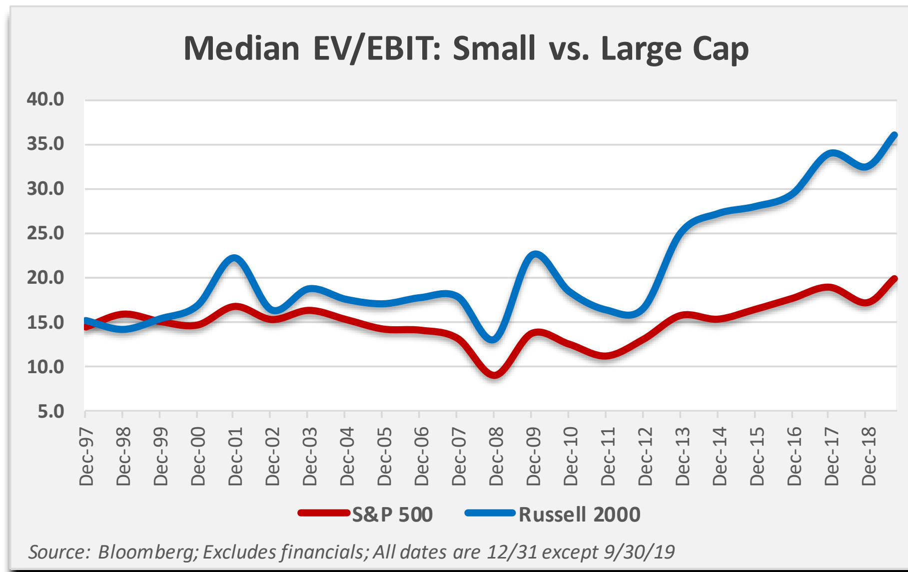
Russell 2000 Constituents

	Unprofitable Companies		**All Companies**	
Sector	# Firms	Aggregate Profit (Loss) (mil $)	# Firms	Aggregate Profit (Loss) (mil $)
Basic Materials	13	($1,615)	55	$3,049
Communications	56	($12,614)	115	($9,601)
Consumer Cyclical	54	($7,650)	237	$7,816
Consumer Non-cyclical	331	($35,171)	507	($21,350)
Energy	41	($11,468)	117	($348)
Financial	59	($4,951)	498	$29,254
Industrial	57	($4,144)	243	$9,585
Technology	75	($6,991)	141	($3,488)
Utilities	4	($209)	35	$2,487
Total	690	($84,814)	1,948	$17,404

Source: Firms with Net Income data on Bloomberg as of September 30, 2019.

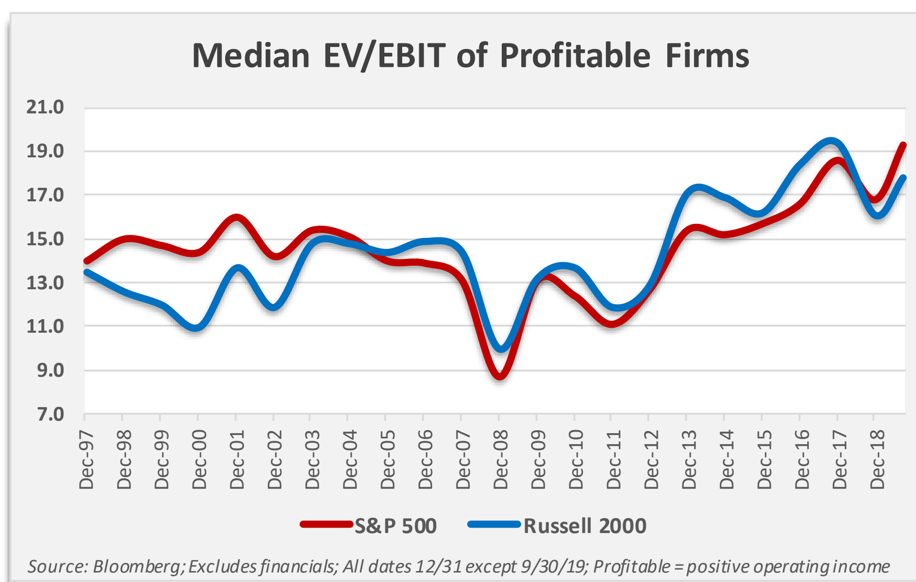
Aggregate valuation multiples for indexes like the Russell 2000 can create confusion, and adjustments often only exacerbate distortions. We prefer to focus on valuations for the typical company in the index as represented by the median multiple. In last quarter's letter, we shared a chart showing that the median EV/EBIT multiple of the Russell 2000 Index was at record levels. This chart is reproduced below but now

includes the S&P 500. We believe it makes a powerful case that **the typical small cap stock is expensive compared to historical levels and is not cheap compared to the average large cap**.



Source: Bloomberg; Excludes financials; All dates are 12/31 except 9/30/19

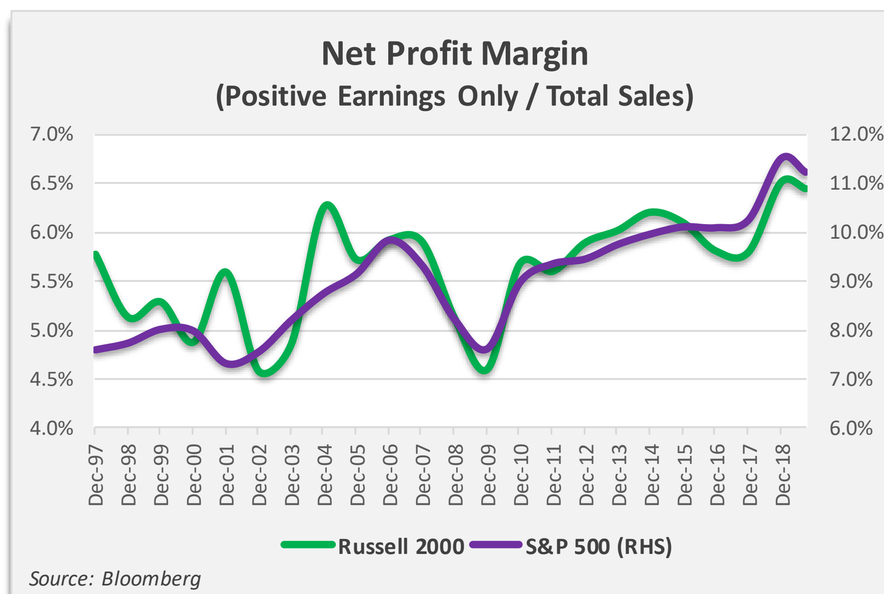
However, **small cap indexes are bifurcated between speculative business that rarely make money and other companies where profits are not elusive and typically trend with the business cycle**. Since the Russell 2000 contains so many unprofitable firms, the median company is skewed toward very high valuation multiples. **Ignoring unprofitable companies, the median EV/EBIT multiple for small caps is very similar to large caps.** The S&P 500's median EV/EBIT is the highest it has been in at least twenty years, including the tech bubble, while the Russell 2000 median multiple is modestly off the highs. Are small caps relatively attractive? Maybe to some investors. Attractive on an absolute basis? Not in our opinion.



Source: Bloomberg; Excludes financials; All dates 12/31 except 9/30/19; Profitable = positive operating income

Whether or not you factor in unprofitable companies, the typical small cap's EV/EBIT multiple is not far from a historical peak. High leverage and low tax rates are currently flattering P/E multiples, especially for *profitable* small caps, but in our opinion, this is not sustainable. Tax policy can quickly change as political winds shift, and small cap financial leverage is greater than it has been in at least a generation. **Looking ahead, we believe leverage and taxes are more likely to be headwinds than tailwinds for profitability.** Moreover, financial companies significantly reduce the aggregate P/E multiple for the Russell Index. If interest rates are heading toward zero, does that augur well for the banks, insurance companies, and other financials that account for most of the net income in the Russell? Based on lessons gleaned from Europe and Japan, we don't think so.

Profit margins for profitable public companies are near record highs. Margins jumped after the passage of U.S. tax reform and have edged lower in 2019. We believe margins for high quality firms are elevated and susceptible to contraction. **What would our economy look like without ongoing debt accumulation?** A reduction in government spending would pressure corporate profitability, in our opinion. While there is little political willpower to constrain borrowing, at some point we expect the growth in the annual U.S. deficit to slow. Declines in the rate of incremental borrowing, whether by governments, corporations, or consumers, have the potential to adversely impact the performance of public companies.



Wrapping up:

- *Small caps have underperformed large caps over the past year, even with the recent reversal.*
- *Both small and large caps have compounded at similar attractive rates over this bull market.*
- *Index levels are almost double what they were at the prior market peak.*
- *Small cap earnings quality is generally inferior to large caps.*
- *A significant percentage of small cap companies lose money.*
- *Valuations for the median small cap company are at all-time highs and well above large caps.*
- *When only considering profitable companies, small and large cap multiples are at similar high extremes.*
- *Margins for profitable public companies are near record levels.*

Based on these observations, we believe the U.S. small cap market contains meaningful risk for investors, and we have positioned the Palm Valley Capital Fund (the Fund) accordingly. As of September 30, 2019, the Fund held 92.9% of its assets in cash and equivalents. For the three months ending on 9/30/19, the Fund returned 0.50% versus a 0.20% decline for the S&P Small Cap 600 and 1.81% loss for the Morningstar Small Cap Total Return Index.

As a group, our equity holdings performed better than the Fund's benchmarks during the quarter. Only one position impacted the Fund's value by more than 10 basis points over the three-month period: Crawford & Co. (ticker: CRD/B). When reporting second quarter earnings in August, Crawford's management reaffirmed the company's full year guidance based on new business wins. One of the firm's major peers, York Risk Services Group, was acquired in early July by Sedgwick, Crawford's largest competitor and an industry consolidator. We estimate Sedgwick is paying approximately 10x EBITDA for York, which is nearly twice Crawford's EV/EBITDA multiple.

Top Holdings (9/30/19)*	% Assets
Crawford & Company	2.56
Crimson Wine Group	1.21
Natural Gas Services Group	0.91
Protective Insurance	0.79
Adams Resources & Energy	0.75
Gencor Industries	0.51
Amdocs	0.40

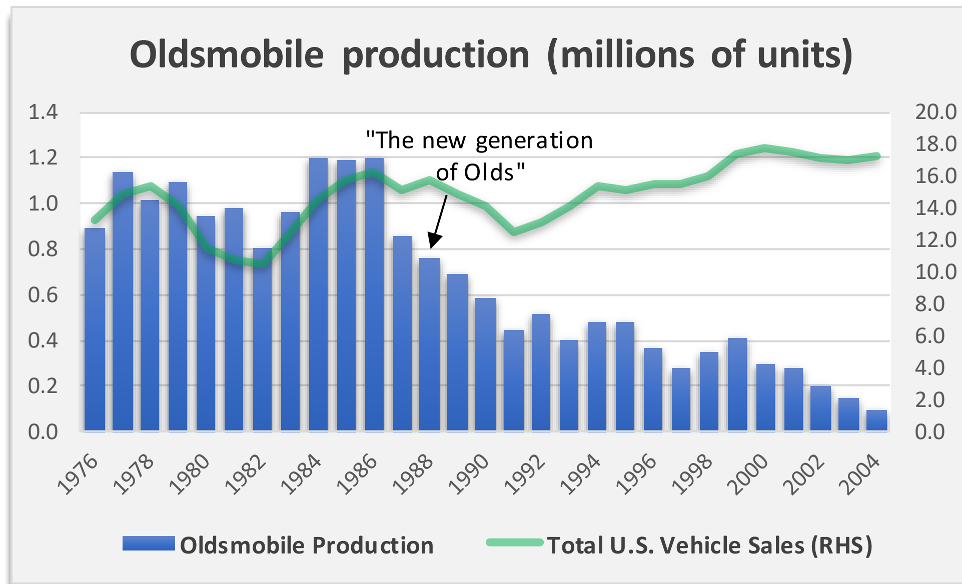
**The Fund had 7 equity holdings as of this date.*

The Fund sold four holdings during the quarter—Scholastic (ticker: SCHL), United-Guardian (ticker: UG), Gencor Industries (ticker: GENC), and Weis Markets (ticker: WMK). Each of these securities reached our calculated valuations. We repurchased one, Gencor, before the quarter ended.

While we did not acquire any new positions over the last three months, we did manage weights based on the size of our estimated discounts. Specifically, we added to our position in Natural Gas Services (ticker: NGS) as it was dragged down by severe pressure on the energy sector, and we subsequently trimmed our stake when the shares partially rebounded.

1978: Oldsmobile Cutlass – 520,279 units sold

The Oldsmobile Cutlass was the best-selling car in the U.S. from 1978-1981. From 1984-1986, Oldsmobile production peaked at around 1.2 million vehicles, and Oldsmobile had the third largest market share after Chevy and Ford. Sales slid in 1987, which was blamed on a lack of differentiation between the Oldsmobile and Buick brands. General Motors introduced new models in 1988, which were 8" shorter and 300 lbs. lighter. Consumers didn't love them. To respond to sagging sales, GM launched a bold new marketing campaign during the 1988 Olympics that was designed to court a younger consumer. Unfortunately for GM, the "This is not your father's Oldsmobile" campaign alienated Oldsmobile's core customer—50+ year old fathers. Also, younger demographics never bought into the message. Oldsmobile's sales continued to decline, and GM decided in 2000 to terminate the brand.



We can't help but notice a parallel to today's investing climate. The Church of Absolute Return investing expanded after the credit crisis, when memories of massive portfolio losses were fresh in the minds of investors. Subsequent market intervention by the Fed and other central banks helped propel asset prices skyward. The strategies of many absolute return and value investors appear to be failing, so they have abandoned old customs, like buying stocks for less than they are worth. Changing your investment stripes is risky. Absolute return investing is hard and requires extreme patience. At its core, it aims to maximize returns for customers by minimizing losses during extreme environments. While we will make mistakes, we won't repeat the missteps of Oldsmobile and others by deviating from our process and promise to you.

Thank you for your support.

Sincerely,

Eric Cinnamond Jayme Wiggins

Mutual fund investing involves risk. Principal loss is possible. The Palm Valley Capital Fund invests in smaller sized companies, which involve additional risks such as limited liquidity and greater volatility than large capitalization companies. The ability of the Fund to meet its investment objective may be limited to the extent it holds assets in cash (or cash equivalents) or is otherwise uninvested.

Before investing in the Palm Valley Capital Fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. The Prospectus contains this and other important information and it may be obtained by calling 904-747-2345. Please read the Prospectus carefully before investing.

Past performance is no guarantee of future results. *Dividends are not guaranteed and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.*

Fund holdings and sector allocations are subject to change and are not a recommendation to buy or sell any security.

The S&P Small Cap 600 Index measures the small cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The Morningstar Small Cap Total Return Index tracks the performance of U.S. small-cap stocks that fall between 90th and 97th percentile in market capitalization of the investable universe. ***It is not possible to invest directly in an index.***

The Palm Valley Capital Fund is distributed by Quasar Distributors, LLC.

Definitions:
Basis point: One hundredth of a percentage point (0.01%).
Earnings per share: Net income divided by shares outstanding.
P/E Ratio: Stock price divided by earnings per share.
Price-to-Book Ratio: A stock's price divided by its book value, or shareholder's equity, per share.
Enterprise Value to EBIT: Enterprise Value (EV) equals Market Cap plus total debt minus cash and equivalents. EBIT equals Earnings before Interest and Taxes. EV/EBIT is a valuation metric.
Russell 2000: The Russell 2000 Index is an American small-cap stock market index based on the market capitalizations of the bottom 2,000 companies in the Russell 3000 Index.
S&P 500: The Standard & Poor's 500 is an American stock market index based on the market capitalizations of 500 large companies.