PALM VALLEY
CAPITAL MANAGEMENT

Palm Valley Capital Fund (PVCMX)
First Quarter 2020 Commentary

INVESTMENT PERFORMANCE (%) as of March 31, 2020

	Total Return				Total Return
	Inception	Quarter	YTD	1 Year	Since Inception
Palm Valley Capital Fund	**4/30/19**	**0.79%**	**0.79%**	**N/A**	**2.22%**
S&P Small Cap 600 Index		**-32.65%**	**-32.65%**		**-28.68%**
Morningstar Small Cap Index		**-31.61%**	**-31.61%**		**-28.01%**

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.

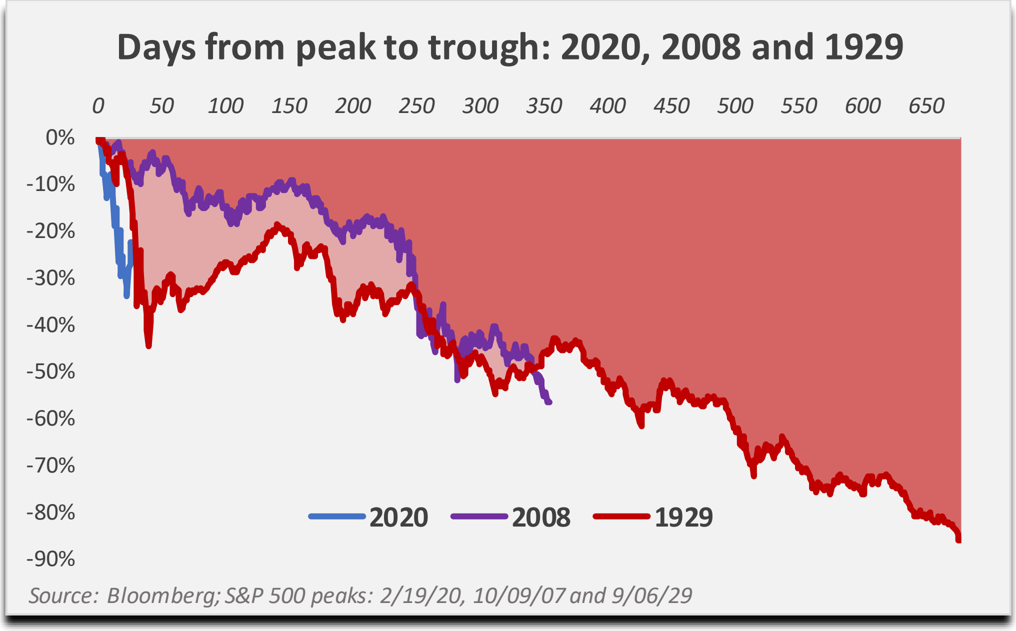
As of the most recent prospectus, the Fund's gross expense ratio is 2.02% and the net expense ratio is 1.25%. Palm Valley Capital Management has contractually agreed to waive its management fees and reimburse Fund operating expenses through at least April 30, 2021.

Here I Come to Save the Day

April 1, 2020

Dear Fellow Shareholders,

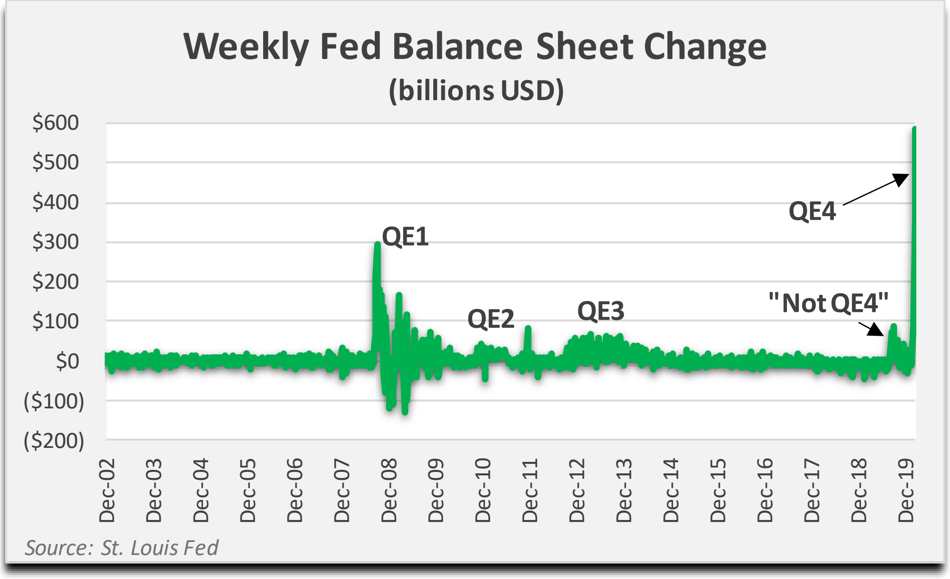
The longest running bull market in U.S. history began on March 9, 2009. It ended on March 12, 2020. The global spread of the new coronavirus (COVID-19) sent stocks and bonds reeling. The plunge in equities was the swiftest ever. The S&P 500 cratered 34% from its all-time high on February 19th to its low on March 23rd. Small cap value stocks sank 43% over the same period (Russell 2000 Value Index). Certain sectors, like energy, lost more than half their value in a month. A basket of small cap restaurant companies dropped by nearly two-thirds from peak-to-trough. Comparisons were first made to 2008. Then, to 1929.



Source: Bloomberg; S&P 500 peaks: 2/19/20, 10/09/07 and 9/06/29

During February, when the incipient virus was mainly confined to China, U.S. investors maintained a sanguine outlook, pushing stocks to record levels. That optimism disintegrated as the coronavirus was imported to our shores. Fear struck when the first cases of local transmission were reported in California. Initially widely dismissed as "no worse than the flu," America gradually, and then suddenly, got serious about the coronavirus.

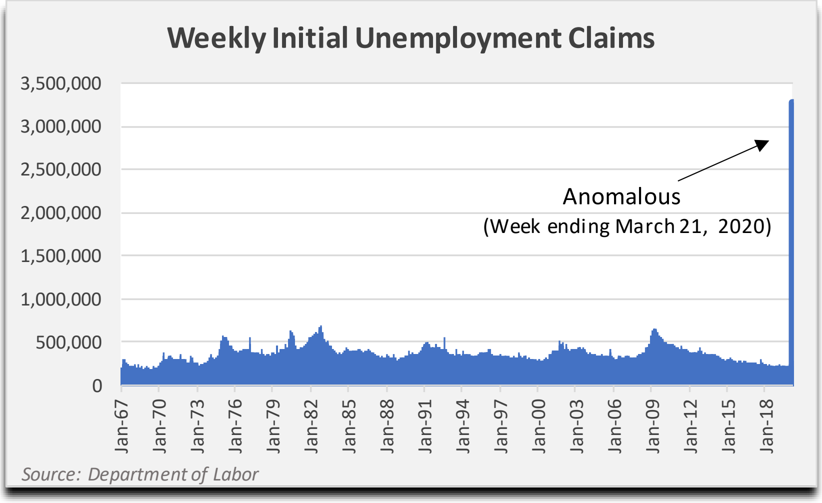
With much of the economy shut down to reduce the transmission of the virus, the economic fallout will be severe. **The U.S. government is injecting an avalanche of money to try to ameliorate the situation.** The Federal Reserve was first out of the gates, announcing a 50 basis points emergency rate cut, and then a massive expansion of its repo purchases. That didn't succeed in arresting the panic in stocks, so they slashed interest rates to zero and promised to backstop commercial paper. The market kept lurching lower. Stocks didn't stabilize until the Fed announced they would buy corporate bonds (and bond ETFs) and make unlimited purchases of Treasuries and mortgage-backed securities. Congress followed by passing a $2 trillion stimulus package that included direct payments to citizens, loans to small businesses, and bailouts for big ones. This new debt issued by the U.S. Treasury will be quickly monetized by the Federal Reserve. Winter has come, but if we burn enough dollars, maybe it'll keep us from freezing!



Source: St. Louis Fed

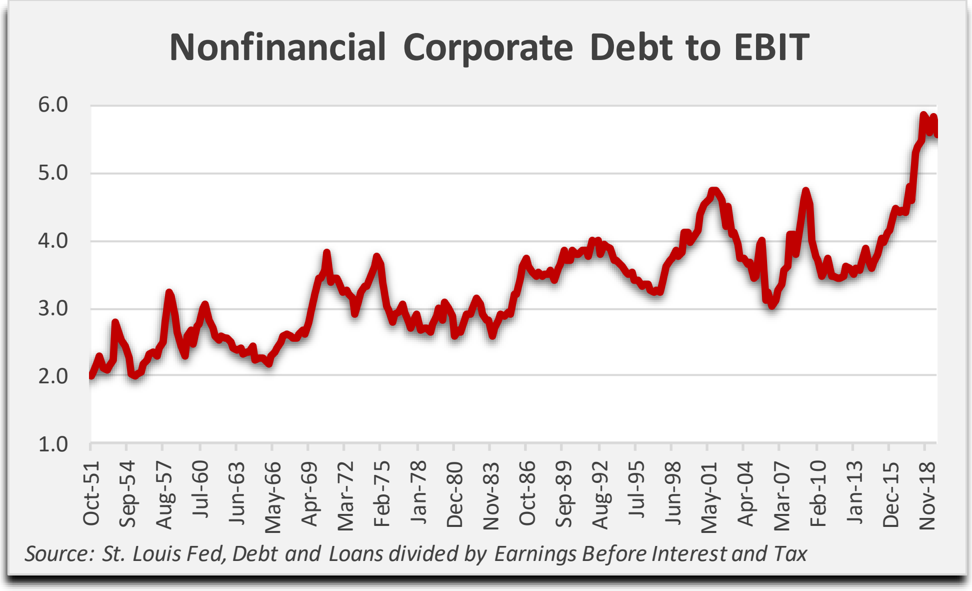
The total stimulus price tag will be trillions of dollars. The cost keeps growing, and there is minimal resistance to this "free" money. By asking the nation to make a collective sacrifice to stay indoors, Uncle Sam is trying to soften the blow. Few will care to sweat the details, like the pork included in Congress' stimulus package or that the Fed is circumventing the law in purchasing corporate debt by setting up special lending facilities. The distribution of printed dollars will be unfair and prone to abuse by large and small businesses. It will include bailouts of insolvent public companies that decided borrowing to buy back shares at record prices was a better use of capital than maintaining a rainy-day fund. Smaller operations can expect the government to cover payroll and rent for a few months in exchange for maintaining headcount, regardless of how severely they've been impacted by the pandemic. Nevertheless, most people will reason that something imperfect is better than nothing.

While the coronavirus was the catalyst to send markets spiraling, we believe the Fed is the culprit for why the financial damage turned so bad, so quickly. Goaded by investors, politicians, and others, central banks suppressed interest rates and printed money for years, leading to a buildup of debt and risk-taking that could not be managed through an economic pothole. For corporations and investors, financial prudence was unnecessary with a Fed backstop (see "Risk Management—Why Bother?"). And when the chickens came home to roost, the average Joe took it on the chin. Unemployment claims skyrocketed to 3.3 million for the week ending March 21st, trouncing a previous weekly peak by a factor of more than 4x. Hordes of businesses will be pushed to the brink as revenues disappear but costs remain. In an attempt to offset the damage that was exacerbated by their prior actions, the Fed has gone all-in on monetary policy.


Weekly Initial Unemployment Claims

Source: Department of Labor

As the lender of last resort, the Fed has an important role to play in the developing crisis. Undoubtedly, they will overstep. Walter Bagehot advised in *Lombard Street* (1873) that to avoid a credit crunch central banks should lend freely at a high rate of interest on good collateral. Central bankers have the first part down. We're not so sure about the rest. Former Fed Vice Chairman Bill Dudley wrote in a Bloomberg article this morning: *"..the Fed's backstop puts an upper limit on the cost of credit. Companies won't borrow at higher rates if they have the option of going straight to the central bank."* That'll teach 'em. The Fed will strive to keep bond yields pinned down to prevent the inevitable cascade of bankruptcies and blowups that results from excessive leverage. The level of corporate debt relative to operating income has never been greater, and this is *before* the impending drop in earnings from the economic shutdown.

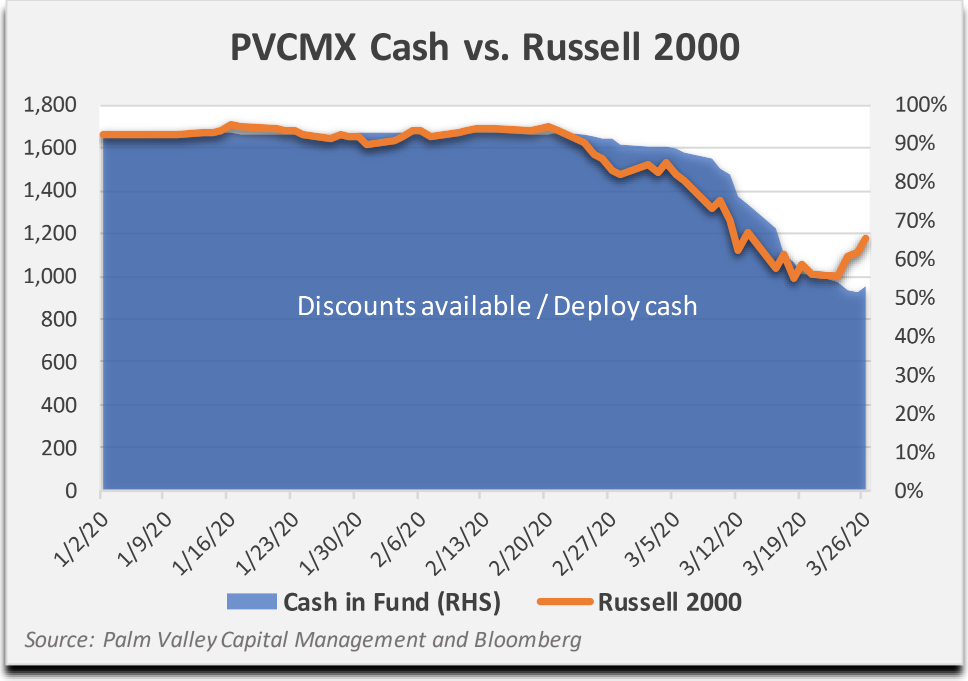

Nonfinancial Corporate Debt to EBIT

Source: St. Louis Fed, Debt and Loans divided by Earnings Before Interest and Tax

We tracked the return of Russell 2000 members with greater than 3x Net Debt to EBITDA from the beginning of the year to the end of the first quarter. This basket was down 35.2% on a capitalization-weighted basis, with the average leveraged firm falling 42.4%, or approximately 1000 basis points worse than small caps in general. In contrast, a capitalization-weighted basket of unprofitable Russell constituents fell only 25.0% in Q1, less than the index, while the average unprofitable firm's decline was in line with the index (-32.2%). In other words, you outperformed relatively if you rode out the storm in money-losing, but higher market cap, members of the Russell. Where's the justice in that!

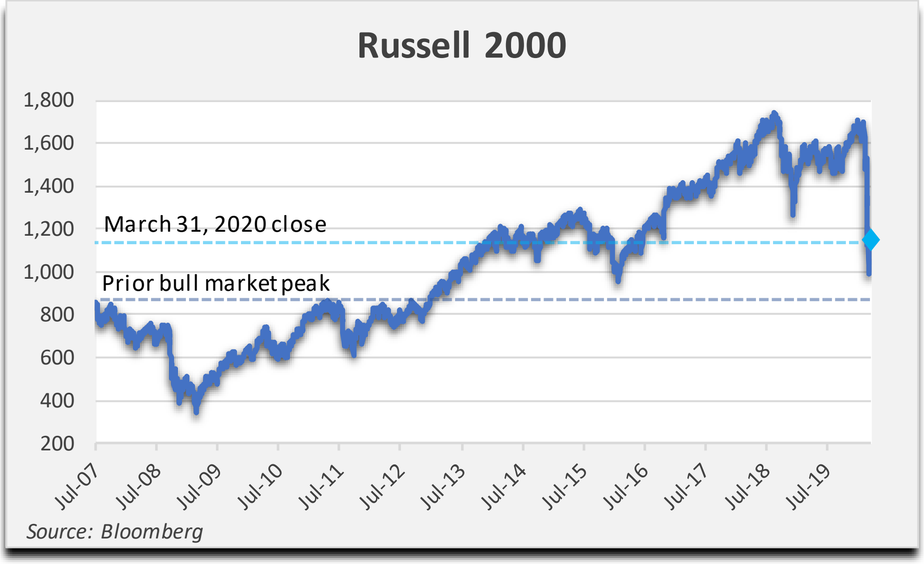
The Palm Valley Capital Fund gained 0.79% for the quarter ending March 31, 2020, while the S&P Small Cap 600 and the Morningstar Small Cap Indexes lost 32.65% and 31.61%, respectively. **The Fund began the quarter with 92.4% of its assets held in cash and equivalents and ended the period with 52.0% cash.** Our Fund uses an absolute return investment strategy. Prior to this quarter, it was difficult to find small cap stocks trading at a discount to our intrinsic value estimates. As a result, we mostly held cash. When the market cracked in February and March, more securities met our return criteria. This allowed us to deploy a significant percentage of our liquidity in a relatively short period. As we become more invested, our portfolio's risk rises, but so does our ability to achieve our absolute return goals.

Despite the grim economic outlook now unfolding, small cap stocks (Russell 2000) rallied 16% from their bottom on March 18th through the end of the quarter. The rebound produced gains for several of our new investments. Therefore, we avoided the brunt of the losses and were able to participate in part of the gains, which resulted in a positive return for the Fund during a difficult quarter for the market. **We believe that the Palm Valley Capital Fund's cash flexibility positions us well to respond in volatile investment environments like we experienced in the first quarter.**



Source: Palm Valley Capital Management and Bloomberg

The market's decline in February and March was painful to most equity investors. The Russell 2000 fell 42% from its 2020 peak to its trough before partially recovering. Large capitalization stocks were not hit as hard, with the S&P 500 down 34% from its all-time high to its bottom. The S&P ended the quarter down 20%. The declines, while rapid, have so far been relatively benign compared to other notable bear markets. In the 2007-2009 episode, the S&P tanked 55% from peak-to-trough. The Russell 2000 dropped as much as 59% during the

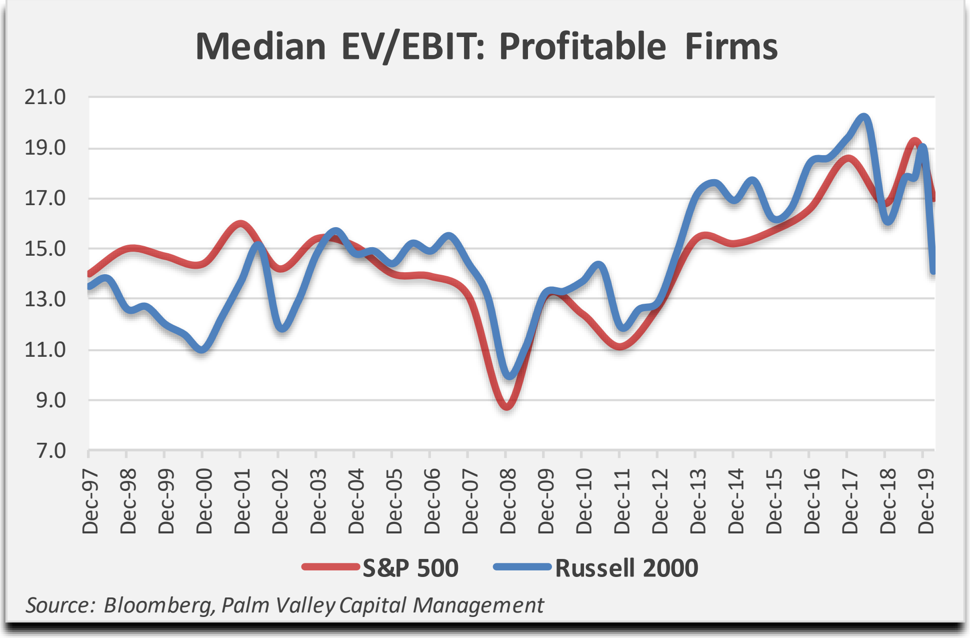


Source: Bloomberg

credit crisis. Stocks started their 2020 slide from an extremely high perch. As a result, small caps closed this quarter still well above their prior bull market peak in 2007.

Although recent losses were widespread, they were not evenly distributed. The shares of larger firms were less impacted despite their relative outperformance in recent years. These companies are (were) generally better supported by actual earnings than their small cap counterparts. Even so, on a relative basis, large cap valuations are looking rich. Those industries perceived as more vulnerable to the economic shutdown fared worse, as did firms with leveraged balance sheets. Since inception, Palm Valley has strived to limit the financial risk in the Fund as we feared a recession and corporate credit crisis could permanently impair equity values. The intrinsic value of many companies will decline as a result of the coronavirus shutdown, since the loss of business is unlikely to be fully offset by government handouts.

One reason we didn't reduce cash levels in the Fund even further during the market's downswing was because most higher quality companies didn't become cheap, in our opinion. **You can't start from nosebleed valuations, have an average bear market decline, and assume everything must be on sale.**

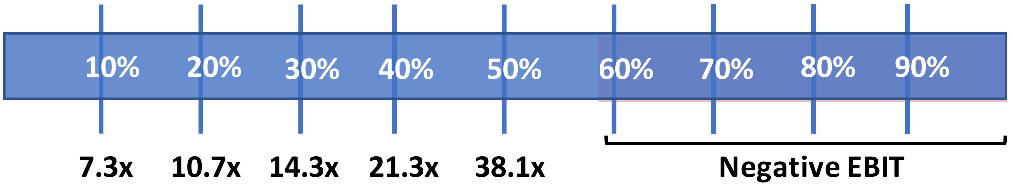


Source: Bloomberg, Palm Valley Capital Management

Nonetheless, for the bargain hunter, small cap valuations improved this quarter. The EV/EBIT ratio of the median non-financial *profitable* small cap declined to 14.1x from 18.9x at the start of the year. This just takes the average multiple back to the range of the years leading up to the financial crisis of 2008. So, if you thought small caps must be dirt cheap now, think again. Furthermore, the earnings part of this equation is headed lower, which will make valuations appear more expensive once companies report results. Lastly, we believe profitability has been artificially enhanced by credit growth, and it remains to be seen whether this will be a tailwind for U.S. companies going forward.

Russell 2000 Non-financials EV/EBIT Deciles

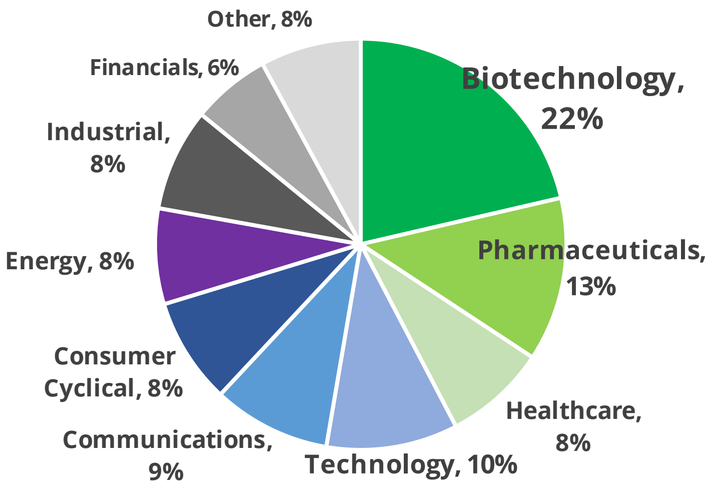
March 31, 2020



Source: Bloomberg; Palm Valley Capital Management

Including unprofitable companies, the median small cap multiple is still very high at 38.1x, but this figure is losing its utility given the shrinking proportion of public firms that make money. Over 41% of non-financial Russell 2000 Index members reported negative operating profit over the trailing twelve months, all pre-coronavirus. Unprofitable biotechnology and pharmaceutical companies now account for almost 13% of the entire small cap index. Including financials, the percentage of Russell members with negative net income was 38%. Many banks may soon be reporting losses from bad loans.

Who Are the Unprofitable Small Caps?



Source: Bloomberg; Russell 2000

Despite our concerns about the overall quality of reported earnings, at Palm Valley Capital we are not investing under the assumption that the world is ending. Our goal is to find values among the survivors during a period of substantial economic uncertainty. While the coronavirus pandemic was a surprise to almost everyone, it's times like these that reinforce the necessity of incorporating a risk premium into equity valuations, even if the environment appears favorable. Think of the risk premium like the United States Postal Service: it can seem a bit antiquated, but "*neither snow nor rain nor heat nor gloom of night*" keeps it from delivering.

Palm Valley Capital Fund Q1 2020 New Purchases

Company	Ticker	Company	Ticker
Advance Auto Parts	AAP	iShares Silver Trust	SLV
Alamos Gold	AGI	Kelly Services	KELYA
Benchmark Electronics	BHE	Osisko Gold Royalties	OR
Carters Inc	CRI	Scholastic Corp	SCHL
Cass Information Systems	CASS	Skechers USA	SKX
Dick's Sporting Goods	DKS	SP Plus	SP
Euronet Worldwide	EEFT	Sykes Enterprises	SYKE
EZCORP	EZPW	Unifirst Corp	UNF
Gencor Industries	GENC	United-Guardian	UG
Healthcare Services Group	HCSG	Weis Markets	WMK
Helmerich & Payne	HP		

During the quarter, we purchased 21 new names for the Fund. This was an unusually high amount of activity that will not be matched in most quarters and was directly tied to market volatility.

- **Advance Auto Parts (AAP)** is a leading auto parts retailer that sells to professional and retail customers. Auto parts stores have been deemed essential businesses by most states. We bought shares of Advance Auto during the swoon in retail stocks at a low multiple of trailing earnings. We believe auto parts sales will not be as dramatically affected as many other retailers during this time.
- **Alamos Gold (AGI)** is a Canadian-based gold producer with three operating mines in North America. We believe Alamos's 9.7 million ounces of proven and probable gold reserves are selling at a discount to our calculated replacement valuation. Furthermore, we are attracted to the company's debt-free balance sheet and its ability to generate free cash flow at current gold prices. As global central banks aggressively expand their balance sheets, we are comforted owning Alamos's high-quality tangible assets.
- **Benchmark Electronics (BHE)** is an electronics contract manufacturer and service provider. Benchmark provides its services to a variety of original equipment manufacturers (OEMs) in the computing, industrial, medical, and semiconductor industries. We are attracted to Benchmark's very strong and liquid balance sheet, which includes $5.60/share in net cash and $19/share in net working capital. At the time of purchase, Benchmark was trading at a discount to its net working capital and our discounted cash flow valuation.
- **Carters (CRI)** is the largest branded marketer in North America of apparel for babies and children and owns the *Carter's*, *OshKosh*, and *Skip Hop* brands. Although COVID-19 related store closures will temporarily impact Carter's retail operations, we believe the firm will emerge from the shutdown with its market leadership intact. Moreover, we think sales of baby and kids' clothes will better endure a period of economic difficulty.
- **Cass Information Systems (CASS)** provides payment and information processing services to large manufacturing, distribution, and retail businesses across the U.S. and is more popularly known for its *Cass Freight Index*. The firm also provides commercial banking services with a primary focus on faith-

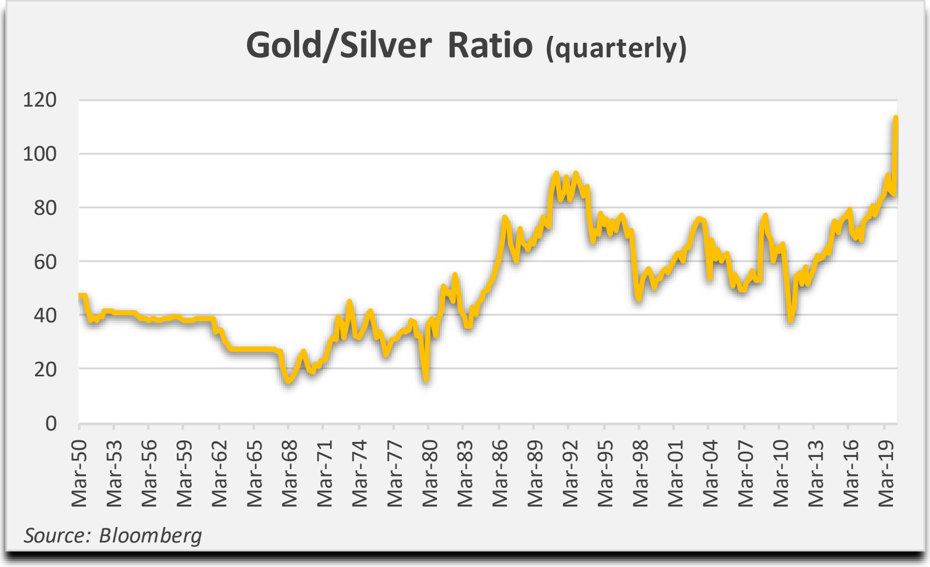
based ministries. We believe the larger transaction processing segment is a high-quality operation with significant recurring revenue. The banking segment has historically experienced limited charge-offs, even during recessions.

- **Dick's Sporting Goods (DKS)** is a market leading retailer of sporting goods. Through its 850 stores, Dick's provides consumers with an extensive selection of sporting equipment, apparel, and footwear. Although we understand the challenges Dick's and other retailers are facing, we are encouraged by the company's abundant liquidity ($69 million in cash and $1.36 billion credit facility availability) and underleveraged balance sheet (0.35x Debt to EBITDA). We expect Dick's will survive the current retail recession and believe its stock is selling below our discounted cash flow valuation.
- **Euronet Worlwide (EEFT)** is an electronic payments provider that offers ATM and point-of-sale services, prepaid mobile airtime and other electronic payment products, and global money transfer services. The majority of revenue comes from Europe. The company has been a strong grower, but the stock was cut in half during the market freefall. We believe the shares offer value.
- **EZCORP (EZPW)** is the second largest operator of pawn shops in the U.S. and Mexico. The enterprise value per store is a fraction of its top competitor and is a discount to typical transaction multiples in the space. EZCORP's balance sheet largely consists of assets such as cash, plus gold jewelry inventory and pawn loans, which can be converted to cash relatively quickly. We bought the shares at a significant discount to tangible book value and believe EZCORP's business model is resilient during economic downturns.
- **Gencor Industries (GENC)** is one of two major domestic manufacturers of asphalt plants. Its business is highly dependent on highway maintenance and construction expenditures. Fluctuations in government infrastructure spending have historically caused Gencor's operating results to be cyclical. To adjust for the booms and busts in Gencor's business, we use a normalized free cash flow assumption in our valuation model. Gencor's valuation is boosted by its extraordinarily strong and liquid balance sheet. Highlights include $8.30/share in cash and marketable securities, $10.50/share in net working capital, and 27 acres of land near downtown Orlando.

Top 10 Holdings (3/31/20)	% Assets
Amdocs	4.57%
A-Mark Precious Metals	3.71%
Sykes Enterprises	3.26%
iShares Silver Trust	3.18%
Weis Markets	3.09%
Crawford & Company Class B	2.93%
Osisko Gold Royalties	2.57%
Protective Insurance Class B	2.45%
Bonanza Creek Energy	2.28%
Scholastic Corp	2.02%

- **Healthcare Services Group (HCSG)** is the leading provider of facility maintenance and dietary services for nursing homes, rehabilitation centers, and hospitals. The company provides services to over 3,000 facilities in the United States. We are attracted to Healthcare Services' long operating history (founded in 1976), stable end markets, and strong balance sheet. We consider its business and stock to be high-quality. As such, we were pleasantly surprised when its shares fell sharply and traded below our calculated valuation during the quarter.
- **Helmerich & Payne (HP)** is the number one land drilling company in the United States. Founded in 1920, Helmerich & Payne has a long history of successfully navigating through the frequent booms and busts of the energy industry. As oil and natural gas prices plummeted during the quarter, Helmerich & Payne's stock fell sharply and traded below our calculated value of its 331 land rigs. Although we expect results to suffer in the near-term, we believe the company's balance sheet will allow it to survive the current bust in the energy industry. As of December 31, 2019, the company had $412 million in cash and has no debt maturities until 2025.

- **iShares Silver Trust (SLV)** is an ETF that owns silver. Given the Fed's return to zero interest rates, its unprecedented money printing, and our country's enormous debt growth, we like precious metals. Silver, which has more industrial uses than gold, has underperformed the yellow metal for several years. The price of silver dropped sharply along with the stock market during the quarter, which we attribute to desperate investors seeking any source of liquidity. Eventually, we expect the gold/silver ratio to narrow.



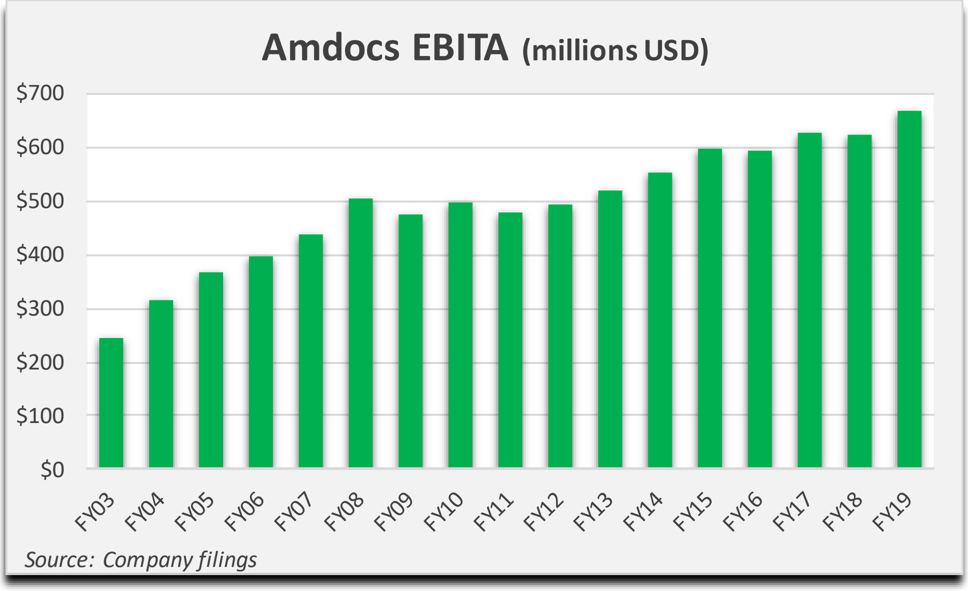
Source: Bloomberg

- **Kelly Services (KELYA)** is a longstanding, low-margin staffing business with specialties in scientific and clinical, engineering, IT, finance, manufacturing, and K-12 educational placements. The business is average, but the balance sheet is superb. Staffing businesses will struggle in the near-term, however, we acquired Kelly's shares for a steep discount to its liquid net assets, which include receivables and marketable securities. Kelly experienced minimal losses on its receivables during the 2008 credit crisis, and even if charge offs were 20x worse this cycle, the valuation discount would remain intact.
- **Osisko Gold Royalties (OR)** is the fourth largest precious metals royalty and streaming company. Its cornerstone asset is a gold royalty on the Canadian Malartic mine in Quebec. The firm has a greater percentage of its portfolio in North America than any of its top peers, which reduces political risk. We purchased the shares at just over 10x trailing cash flow and at a discount to NAV based on current metals prices. Our Osisko investment should be a diversified, cash-generative way for us to express our fondness for precious metals in this environment.
- **Scholastic (SCHL)** is the world's top publisher and distributor of children's books and provides instructional materials for grades pre-K to 12. Popular original titles include *Harry Potter*, *The Hunger Games*, *Captain Underpants*, *Dog Man*, and *Clifford the Big Red Dog*. While children's book sales are relatively recession-resistant, Scholastic's school-based book fairs and clubs will be adversely impacted by the closure of schools across the country. Nevertheless, the firm entered the crisis with a cash-rich balance sheet and significant owned real estate assets. We bought the stock at a discount to tangible book value.
- **Skechers (SKX)** is a leading global footwear brand with sales evenly balanced across domestic wholesale, retail, and international channels. The firm earns approximately 20% of revenue from China, so Skechers' results will show an early impact from the coronavirus. Nevertheless, the company has over $900 million of cash and investments with limited debt. We believe Skechers will be well-positioned to exit the crisis and regain its momentum.
- **SP Plus (SP)** provides professional parking management, ground transportation, remote baggage check-in and handling, and other solutions. Aviation comprises half of the business. However, over 80% of the company's gross profit is earned from management contracts where SP Plus receives a fee

regardless of the financial performance of its client. We were willing to accept moderate financial risk in buying SP, which has debt, given the steep drop in its share price.

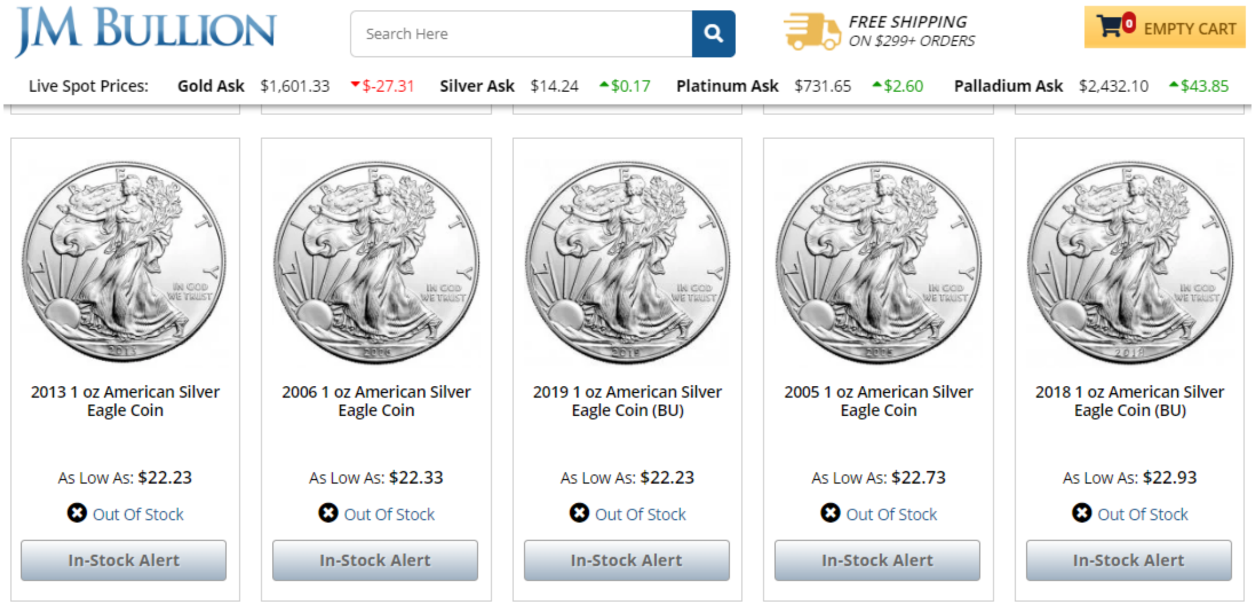
- **Sykes Enterprises (SYKE)** is a business process outsourcing (BPO) provider—a fancy name for call centers! Sykes provides its services to a variety of industries, including: communications, financial services, healthcare, technology, and retail. Sykes's operating results tend to fluctuate with its capacity utilization, or how effectively it matches the number of operators with incoming calls. Based on our assumption of normalized capacity utilization and profit margins, we believe Sykes' stock is selling at a discount to our valuation. Furthermore, we consider the company's balance sheet to be very strong, with cash exceeding debt.
- **Unifirst (UNF)** is a market leading provider of workplace uniforms and protective clothing in the United States. Founded in 1950, UniFirst has a long history of generating free cash flow and maintaining a very strong balance sheet. As of December 31, 2019, the company had $18.70/share in cash and no debt. We used the market's carnage as an opportunity to buy UniFirst at a discount to our calculated valuation.
- **United-Guardian (UG)** manufactures and markets cosmetic ingredients, pharmaceuticals, and medical lubricants. Low-quality Asian competitors have undercut United's cosmetics business, which provides lubricating ingredients for skin creams. This has been offset by rapidly growing sales of a new dosage of *Renacidin*, United's main pharmaceutical product. United is conservatively managed and has strong margins, ample cash, and no debt.
- **Weis Markets (WMK)** operates 200 grocery stores in Pennsylvania and surrounding states. The company has a very strong balance sheet with no debt and $130 million in cash and marketable securities. Weis also owns 95 of its stores, a 1.3 million square foot distribution center, an ice cream plant, and a meat processing facility. Weis provides a 3% dividend yield and has consistently generated free cash flow over the past decade.

We completely sold out of one position in the first quarter: Advance Auto Parts (AAP). The stock rallied to our valuation shortly after our purchase. We also sold Amdocs (DOX) at our valuation early in the quarter and repurchased it after the stock declined to a discount. Amdocs is currently the Fund's largest holding. The stock fell meaningfully this quarter despite the firm's historically resilient recurring revenue business model and its excellent balance sheet, with zero debt and nearly $500 million of cash.



Source: Company filings

The three positions adding most to the Fund's performance during the quarter were A-Mark Precious Metals (AMRK), Benchmark Electronics (BHE), and Healthcare Services Group (HCSG). Benchmark and Healthcare Services were purchased during the rout and rebounded strongly into quarter end. In last quarter's letter, we wrote: "*A-Mark's trading operations earn higher profits when gold and silver prices are volatile and the spreads on physical metals are large, such as in 2008-2009, 2011, and 2015*." The coronavirus pandemic and resulting plunge in equities has caused a surge in demand for physical gold and silver. The U.S. Mint temporarily sold out of Silver Eagles in March. Major online gold and silver retailers also have limited inventories (see below). The current premium you must pay over spot silver to buy a 1 oz. American Silver Eagle is $8.49 to $11.00 per coin, or 60% to 77% of spot prices, versus ~$2 before the crisis. This is an extremely favorable trading environment for A-Mark.



Live Spot Prices: Gold Ask $1,601.33 ▼$-27.31 Silver Ask $14.24 ▲$0.17 Platinum Ask $731.65 ▲$2.60 Palladium Ask $2,432.10 ▲$43.85

2013 1 oz American Silver Eagle Coin	2006 1 oz American Silver Eagle Coin	2019 1 oz American Silver Eagle Coin (BU)	2005 1 oz American Silver Eagle Coin	2018 1 oz American Silver Eagle Coin (BU)
As Low As: $22.23	As Low As: $22.33	As Low As: $22.23	As Low As: $22.73	As Low As: $22.93
☒ Out Of Stock	☒ Out Of Stock	☒ Out Of Stock	☒ Out Of Stock	☒ Out Of Stock
In-Stock Alert	In-Stock Alert	In-Stock Alert	In-Stock Alert	In-Stock Alert

The Fund's three greatest detractors during the first quarter were Bonanza Creek Energy (BCEI), Natural Gas Services (NGS), and Crawford & Company (CRD/B). The energy positions were owned at the start of the quarter, so they felt the full extent of the drawdown, which was most severe for the energy sector. Unlike most of their peer group, Bonanza Creek and Natural Gas Services have strong balance sheets. We believe they can survive the dire conditions facing the industry long enough for supply to come back into balance with reduced demand. We also owned Crawford at the beginning of the quarter, and it was one of the larger weightings in the portfolio. The firm failed to meet fourth quarter guidance due to a reduction in claims from weather catastrophes and some client losses. The shares are trading at a double-digit yield to our normalized free cash flow estimate.

Uncertain times lie ahead. **As we are writing this letter, the Palm Valley Capital Fund is roughly half-invested. We like the absolute return potential of our existing positions, and we believe we're in a good spot to deal with any outcome for stock prices.** If the market resumes its decline, we will attempt to capitalize on opportunities to acquire undervalued high-quality small caps at bargain levels. If stocks rally from here, we hope for our equities to participate in the upside, and we'll reduce portfolio risk as prices approach our valuations. We believe our ability to hold cash is one of the built-in advantages of our absolute return approach. We don't try to time the market. Our investment process does the heavy lifting for us.

After the 2008 financial crisis, Former Fed Chairman Ben Bernanke wrote a memoir called *The Courage to Act*. Bernanke applauded himself and his colleagues for purportedly saving the world from another Great Depression. The Amazon book reviews were overwhelmingly positive, with an average rating of 4.5 out of 5 stars. One ardent and uninformed fan wrote, "*Ben Bernanke saved the United States and possibly the world from a devastating Second Great Depression. He along with Hank Paulson and Tim Geithner kept our economy afloat. Their pictures should be on our $20, $50 and $100 dollar bills because if they had not intervened, we would have descended into chaos, killing each other and bartering with meager food grown on our lawns.*" Yikes.

It's unfortunate that Ben Bernanke, Alan Greenspan, and Janet Yellen are not yet widely viewed as the irresponsible architects of some of history's biggest financial bubbles. If they were, it might have prompted wiser actions from our current Federal Reserve, who showed their true colors when they stopped normalizing interest rates in December 2018 when the stock market stumbled. They also resumed Quantitative Easing last fall, long before a pandemic threatened to derail the global economy. Until now, supporting equity prices has been this Fed's chief priority.

It goes without saying that some things are more important than the stock market. We are grateful for the first responders, medical professionals, and grocery store employees that are on the front lines of this virus, risking exposure every day. We pray our country can safely emerge from the pandemic before too long, so we can begin to repair the economic damage.

We also hope the right lessons are learned from this ordeal. **The Fed did not save the day.** They have rewarded speculators for years and promoted the credit growth that necrotized into a near fatal condition for the economy. Their big monetary band-aids may get us over this hump, but will the Fed's unprecedented actions engender a new scourge that money printing is powerless to fight—inflation? America has grown accustomed to asset inflation, but when admiring 401(k) balances takes a backseat to fretting over rising grocery bills…the Fed's jig is up.

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.
Capitalization-weighted: A method of measuring a group of companies where the weighting assigned to each is based on its market capitalization, so larger firms represent a greater share of the total.
Corporate Debt to EBIT: Total corporate borrowings divided by the sum of earnings before interest and taxes for all companies.
Discounted Free Cash Flow (DCF): A valuation method used to estimate the value of an investment based on its future free cash flows. DCF determines the present value of expected future free cash flows using a discount rate, or required return.
Enterprise Value: Market cap plus total debt minus cash and equivalents, adjusting for noncontrolling interests.
Enterprise Value to EBIT (EV/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.
ETF: An exchange traded fund is an investment fund that trades on stock exchanges, like stocks.
Free cash flow: Cash from operating activities minus capital expenditures.
NAV: Net asset value is the value of an entity's assets minus its liabilities.
Net Debt/EBITDA: Total debt minus cash and equivalents divided by EBITDA (earnings before interest taxes depreciation and amortization).
Net working capital: The difference between a company's current assets and current liabilities.
Quantitative Easing (QE): Monetary policy where a central bank purchases government bonds or other financial assets to create liquidity in an economy.
Risk premium: The return in excess of the risk-free rate an investment is expected to yield.
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.
Russell 2000 Value Index: Measures the performance of Russell 2000 companies with lower price-to-book ratios and lower forecasted growth rates.
S&P 500: The Standard & Poor's 500 is an American stock market index based on the market capitalizations of 500 large companies.
Tangible book value: Stockholder's equity minus goodwill and intangibles.