

Three interesting topics have made their way around our office during the last several months. First, the publication of *Flash Boys* reminded us how much we don't know about the trading world, and then again how much history repeats itself.

Trading on inside information is both ancient history and modern fact. Although it is difficult to define precisely, you know it when you see it. When we were reading the book, several of us harkened back to the SOES bandits of the 1990s, the crash of 1987 that spawned the bandits, which begat the dark pools, and so on back through the ages.

If a smart person figures out that every time IBM trades 1,000 shares on an uptick, the next 1,000 shares are likely to be traded on an uptick as well, where's the harm? That is the essence of "technical analysis," which is using your best mental faculties to observe a trend and capitalize on it. However, if a market exchange offers to sell you that information from their unsuspecting clients, that is not fair play. It's like your realtor secretly revealing to a prospective buyer of your house the bottom line price you're willing to accept. You're at a distinct disadvantage in that negotiation, a position you would not willingly put yourself in.

Unfortunately, there are bright intelligent people sitting in business and law school classes today who will find loopholes and ambiguous wording to create an ethically-questionable trading edge. What's worse, they will offer that insight to the employer that pays them the most money. Hopefully, the regulatory bodies we have in place will uncover and close these loopholes over time. However, it's like weeding a garden: when you kill one, another will quickly take its place. It's the unfortunate nature of things that result in a "participation penalty" for many investors—a kind of tax that rears its ugly head in different guises, no matter what regulatory reforms are pushed through.

At Pacific Ridge, we take a pragmatic approach to high frequency (insider) trading. We have determined that the kind of trading most susceptible to inside manipulation are large market orders that require immediate filling. Because we deal in small companies, we don't typically give large market orders and we are willing to wait for good execution. While we can't completely avoid the penalty, we do all we can to minimize its impact to our clients .

Another topic of note is the extended small cap stock run that is perceived to be over. Since April, the mainstream press has published numerous stories, charts, and data on the overbought small cap market, along with a warning that investors should flee.

The small cap indexes are clearly more expensive today than their large cap counterparts. As determined by PE ratios, PB ratios, and many other valuation measures, small caps trade at a premium to large stocks, as they rightly should. Smaller companies represent greater earnings growth potential than large cap stocks. Trees do not grow to the sky, and young saplings have a greater potential for future growth.

Still, a look beneath the aggregate numbers yields something very interesting. According to our analysis, there are 500 companies with a forward PE below 16 in the Russell 2000, while there are

only 319 in the Russell 1000. Likewise, there are over 600 companies with a PE greater than 20 in the Russell 2000, and only 317 in the Russell 1000. What does this mean? If we look at companies on an equal weighted basis (as active managers typically do), the stock buying opportunity for inexpensive companies is still greater among smaller companies. While we are cognizant that the size of this opportunity changes throughout the economic cycle, we don't adjust our value bias based on it. Slow and steady wins the race.

On a final note, we've relocated our offices across the street and up three flights of stairs. With a bit more space and a more accommodating layout, our new digs will let us serve you better today and into the future. With a practical and ethical approach to trading and our contrarian strategy of asset management, we look forward to welcoming you to our nice but not "flashy" offices on your next visit to the Portland area.

Sincerely,

Pacific Ridge Capital Partners

**Small Cap Value
Portfolio Statistics
March 31, 2014**

	PRCP Small Cap Value	Russell 2000® Value
Number of Holdings	113	1,374
Weighted Average Market Cap (\$M)	678	1,601
Average Market Cap (\$M)	651	912
Median Market Cap (\$M)	514	626
Price/Earnings (FY1)	16.2	17.0
Price/Earnings (FY2)	13.5	14.9
Price/Book	1.7	1.5
Dividend Yield	1.0%	1.9%
Beta (vs Russell 3000)	1.3	1.2
L.T. Growth Forecast Median	13.4%	11.1%
Annual Turnover	23.0%	

**Micro Cap Value
Portfolio Statistics
March 31, 2014**

	PRCP Micro Cap Value	Russell Microcap® Value
Number of Holdings	67	1,065
Weighted Average Market Cap (\$M)	278	475
Average Market Cap (\$M)	272	291
Median Market Cap (\$M)	241	237
Price/Earnings (FY1)	18.2	16.5
Price/Earnings (FY2)	14.6	14.4
Price/Book	1.5	1.4
Dividend Yield	1.6%	1.7%
Beta (vs Russell 3000)	1.3	1.1
L.T. Growth Forecast Median	15.0%	12.0%
Annual Turnover	31.9%	

Composite Performance Tables

Small Cap Value

	Q1'14	YTD	1 Year	3 Year	Since Inception
PRCP Small Cap Value - Gross	1.8	1.8	34.4	14.4	20.1
PRCP Small Cap Value - Net	1.5	1.5	33.1	13.3	18.9
Russell 2000® Value	1.8	1.8	22.7	12.7	17.5

Micro Cap Value

	Q1'14	YTD	1 Year	3 Year	5 Year	Since Inception
PRCP Micro Cap Value - Gross	3.5	3.5	34.8	17.4	32.4	10.2
PRCP Micro Cap Value - Net	3.1	3.1	32.8	15.7	30.5	8.6
Russell Microcap® Value	1.8	1.8	29.3	14.4	24.6	4.2

The firm maintains composites on both its strategies. The Small Cap Value Composite inceptioned on August 1, 2010. The Micro Cap Value inceptioned on April 1, 2007. All returns greater than one year are annualized. The performance results of the Micro Cap Value strategy includes accounts managed at another advisor. The Firm maintains a complete list and description of composites and a presentation that complies with the requirements of GIPS® standards, which is available upon request by contacting Peter Trumbo, Chief Compliance Officer at (503) 886-8972 or Peter.Trumbo@PacificRidgeCapital.com. The portfolio statistics are shown as supplemental information only and complements the full disclosure presentation (fully compliant GIPS presentation).

About Pacific Ridge Capital Partners, LLC

Pacific Ridge Capital Partners is an employee-owned firm. We generate our own investment ideas using fundamental analysis and bottom-up stock picking. The investment team applies a consistent, patient and disciplined process that results in low turnover and stability. Our proven philosophy has performed well over many investment cycles and it is the consistent application of this strategy that makes Pacific Ridge unique.

The principals of Pacific Ridge Capital Partners are invested along with our clients in each of our strategies.

PRCP Small Cap Value – Our Small Cap Value strategy generally purchases stocks in the bottom three-quarters of the Russell 2000® Index. This smaller capitalization segment has a large number of underfollowed companies, providing us the greatest opportunity to exploit market inefficiencies. The typical range of holdings is between 100 and 150.

PRCP Micro Cap Value – Our Micro Cap Value strategy generally purchases stocks in the Russell Microcap® Index. This segment is widely underfollowed, providing us the greatest opportunity to exploit market inefficiencies. The typical range of holdings is between 50 and 80.

We believe these market cap segments offer great potential returns and additional diversification for our clients.

For further information about Pacific Ridge Capital Partners and our investment strategies, we invite you to contact Peter Trumbo via email at Peter.Trumbo@PacificRidgeCapital.com or by phone at (503) 886-8972.

Disclosures

Pacific Ridge Capital Partners, LLC (“Pacific Ridge”, “PRCP”, or “the Firm”) is an employee-owned investment advisor registered with the Securities and Exchange Commission under the Investment Advisor Act of 1940. The Firm was established in June 2010, and has one office located in Lake Oswego, Oregon. Pacific Ridge claims compliance with the Global Investment Performance Standards (GIPS®).

Sources: Pacific Ridge; FactSet Research Systems (“FactSet”); and Russell Investment Group (“Russell”) who is the source and owner of the Russell Index data.

The current annual investment advisory fees for the portfolios managed in the Firm’s Small and Micro Cap Value strategies are 1.00% and 1.50% of assets, respectively. Returns for the composites are presented gross and net of management fees and other expenses and includes realized and unrealized gains and losses, cash and cash equivalents and related interest income, and accrued based dividends. The Firm calculates time weighted rates of return by geometrically linking portfolio simple rates of return at least monthly, with adjustments made for significant external cash flows. The composite returns are calculated by asset weighting the individual portfolio returns using beginning of the period values. All returns are calculated after the deduction of the actual trading expenses incurred during the period.

The information provided should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in our strategy at the time you receive this report or that securities sold have not been repurchased. It should not be assumed that any of the holdings discussed herein were or will be profitable or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. Past performance is no guarantee of future results.

Although the statements of fact and data in this report have been obtained from, and are based upon, sources that the Firm believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions included in this report constitute the Firm’s judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

The Russell 2000® Value Index measures the performance of the Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. For comparison purposes, the index is fully invested, which includes the reinvestment of income. The return for the index does not include any transaction costs, management fees or other costs.

The Russell Microcap® Value Index measures the performance of the microcap segment of the U.S. equity market. For comparison purposes, the index is fully invested, which includes the reinvestment of income. The return for the index does not include any transaction costs, management fees or other costs.

Returns and asset values are stated in US dollars.