Walthausen Small Cap Value Fund

Quarterly **Fund Commentary**

Ticker Symbols: Institutional Class WFICX | Investor Class WSCVX

Q2 2021

Environment

As the pandemic recedes in the United States, the consumers who had been spending on products, particularly homes and recreational equipment, have shifted their spending to entertainment, restaurants and travel. People are tired of isolation and wanted to get out. This is giving a new boost to the economy and confounding those who thought a recovery might fizzle when the stimulus money stopped coming. In fact, the consumers' balance sheet is in good shape and workers are demanding and receiving hefty pay increases or moving on to new jobs. We are hearing about rising wages across the board, from restaurant workers to lawyers. The current topic is inflation and is it here to stay. This is always a hard question, and in fact, inflation is hard to measure but it is wages rising faster than productivity and prices rising. Inflation is sustained by the expectation that prices will continue to rise and thus it is better to buy now than to postpone until later. For example, with mortgage rates low and home prices rising it made perfect sense to buy now rather than later. Perfect sense to buy too large a house, a house that you cannot afford since you are borrowing dollars, dollars that will be devaluated substantially before you pay off the mortgage. We do not see any indication of a will in Washington to dampen demand by reducing spending, increasing taxes or boosting the cost of money. While we are aware that nothing grows to the sky, the near-term outlook is for a prosperous economy with an inflationary bias.

The stock market has, after an exuberant first quarter, settled down to a leisurely pace. Earnings are coming in well above expectation with the strong demand and shortages giving companies extra flexibility to increase prices. In this environment, the earnings results were judged not by whether you hit expectations but by whether the earning surprise was spectacular rather than just very good. Those who scored only an average have seen their stocks languish. With most companies still in restrained spending mode from the pandemic, most companies have improved their balance sheets and the pace of acquisitions has picked up.

In the first quarter there was no clear dominance but the larger cap stock outpaced smaller. In larger cap stocks, growth returned to a clear dominance. Small cap and microcap value inched ahead of growth. The strength of the Russell 2000 Value Index in some part reflected the spectacular moves of a few MEME stocks, a surge of money into small cap value index funds, and a general speculative tone in the market. This worked against our relative performance as our portfolio continues to focus on companies with good returns on invested capital and a clear strategy for building value. It is frustrating to see the index that we are measured against driven by "uninvestable" stocks. On the other hand, it is hard not to delight in the sight of the individual stock players putting their fingers in the eyes of the efficient market hypothesis acolytes. Clearly the speculators are saying that we all know that markets are made to be manipulated; the situation is ripe. The cost of trading has fallen to almost nothing and execution for trades, particularly small trades, is instantaneous. Non-colluding groups of buyers can and will move small stocks, particularly heavily shorted ones, to crazy extremes.

Portfolio Performance

Portfolio Factors

For the quarter of Fund (Investor Class) fell behind our benchmark by 132 basis points. Fortunately, the first quarter's outperformance helped so we were ahead by 190 basis points for the first half. For the quarter we were penalized by allocation while selection was neutral. The pain was from allocation where we gave up 108 basis points which came from being underweight in Consumer Discretionary, Energy and Real Estate. Those groups were the best performing sectors in the index and we were meaningfully light in each of these groups. In both energy and consumer discretionary our selections did not do well. In energy, we entered the quarter with two holdings, both exploration and production companies, that focus in natural gas production. We could see that they were well financed and that the diminished drilling levels could tilt the supply/demand equation toward higher prices. That worked okay, but the market rewarded the oil producers, most of whom looked like bankruptcy risks earlier in the year, if they were not already in reorganization. The higher oil price moved those stocks ahead briskly.

Stock Selection: Contributors

The top five performing stocks included two interesting engineering companies; Williams Industrial Services (WLMS) and Ameresco (AMRC). Williams primarily provides field services (construction, maintenance and demolition) for the nuclear power industry. The stock has reacted well to the news that the company will have a major role in decommissioning the Indian Point nuclear power complex near New York City. Ameresco specializes in building and maintaining secure power grids. The stock has performed well for us, but the market continues to grow and the company is able to take on larger more complex projects.

The best contributor was Signet Jewelers (SIG). They own several large chains including Kays, Zale's and Piercing Pagoda. The current management has done several very important things to improve results. These actions include reducing the number of mall-based stores while building internet sales. They have done a better job of building distinct strategies for each brand, they have outsourced credit granting and they have worked to rationalize their inventory. The company has profited from the spending as the pandemic abated but we continue to hold the stock because of the longer term potential inherent in the changes that management has made. The second largest contributor was VSE Corporation (VSEC). The company is fast developing as a major distributor of critical components for the maintenance of commercial and military aircraft. After Ameresco and Williams, the third and fourth largest contributors, a relatively new holding US Concrete agreed to be bought at a good premium and we were able to sell the position above the takeout price.

Portfolio Contributors – Q2 2021

Security	Average Weight (%)	Contribution
Signet Jewelers Limited	2.11	0.70
VSE Corp.	2.21	0.52
Ameresco, Inc. Class A	1.98	0.49
Williams Industrial Services Group, Inc.	1.03	0.49
U.S. Concrete, Inc.	0.58	0.48

Stock Selection: Detractors

The detractors were led by Kimball Electronics (KE), a contract manufacturer of electronic systems. The market seems to be worried that shortages of semiconductors will hurt near term performance as customers like the auto makers slow down their production because of lack of supplies. While it is likely that these shortages are severe enough to dampen Kimball's earnings growth for a quarter or two, we note that the shortages are a symptom of the increased presence of complex electronics in almost everything. That mega trend augers well for Kimball. One of the other large detractors was Mercer International (MERC), a very efficient pulp producer. Interesting pulp prices seem to be holding up well, but the stock slid in the quarter on news that log prices are coming back down. In our analysis it is more important that pulp demand is good and that Mercer is a low-cost producer. We are sticking with those stocks and selectively adding to the position. Among the five detractors were two solid regional banks; in fact, the banks were all indifferent performers in the quarter. In fact, none of the seventeen regional banks which we owned kept up with the Russell 2000 Value benchmark. Though the banks were prospering, the market sought more exciting stocks to focus on. Accuray (ARAY) was the other security in the five most significant detractors.

Portfolio Detractors – Q2 2021

Security	Average Weight (%)	Contribution
Kimball Electronics, Inc.	1.45	-0.23
Accuray Inc.	2.10	-0.23
Mercer Int'l Inc.	1.93	-0.23
NBT Bancorp, Inc.	2.00	-0.18
Lakeland Financial Corp.	1.57	-0.17

Portfolio Changes and Positioning

The portfolio continues to be well positioned with a diverse portfolio of stocks in companies where we are comfortable that their managements have the resources and a viable plan to build long term value. During the quarter, the pace of turnover returned to its more usual pace with the sale of eight holdings and the purchase of six new names. Of the sales, three, Southwestern Energy (SWN), Atlantic Power (AP) and Bryn Mawr Bank (BMTC), were the result of acquisition activity. In the case of Southwestern, we sold because of a large acquisition that they were doing. In the cases of Bryn Mawr and Atlantic Power, we were working out of a position after the announcement that they were to be acquired. The other five were the result of the stocks hitting our target price. As stocks approach their target price, we review the outlook and consider whether the evidence encourages us to adjust the target. In the case of HNI Corp. (HNI), the indifferent outlook for their office furniture segment combined with good price appreciation encouraged us to sell. In the cases of McGrath RentCorp. (MGRC) and Miller Industries (MLR), while we like the companies and believe that they are well managed, we could no longer see meaningful near-term upside for the stock price. We sold Big Lots (BIG) on a favorable stock price movement and our visit to a newly opened store, where we found traffic very poor and the choice of location questionable. We sold Community Bank (CBU), a stock which we have successfully held for quite a few years, again, due to the stock price moving to a premium valuation. It is worth commenting that the lackluster performance for the quarter was not due to problems with specific stocks.

Our six additions were from a variety of industries and followed no single theme. We added Gulfport Energy (GPOR), a natural gas producer. They are a good replacement for Southwestern Energy. Gulfport has recently emerged from bankruptcy, a failure which was due to prior management making a too large and too costly commitment to capacity for transportation of gas. The company's acreages and their drilling efficiency are all good, and the balance sheet post reorganization is satisfactory. We added Thermon (THR), an engineering company which provides and maintains the heating systems that process industries require to function properly. We added two financial companies, Horizon Bancorp (HBNC), a well-run Indiana bank, and Green Dot (GDOT), an interesting company that is providing banking services to the underbanked through strong technology and by partnering with major retailers. We added Apria (APR), a home health services company, as well as UFP Technologies (UFPT), a company which uses advanced materials to solve problems. A good example is packaging for devices like knee replacements.

The portfolio continues to have a market cap which is significantly smaller than the Russell 2000 Value benchmark. The portfolio's weighted average market cap is now about 57% of our benchmark's weighted average market cap. This is by design as we believe that the smaller market cap stocks receive less attention from analysts and institutional investors, and are more likely to trade less efficiently. We view this as a competitive advantage. Our Return on Assets and Return on Equity are strong and compare very well with the data for the benchmark. We believe that this has meaningful implications for the portfolio's future returns. Put very simply, Return on Invested Capital is the best signal of a company's ability to generate the capital to fund growth. The benchmark is now showing negative returns on equity and our portfolio is running at 8.1%.

Exhibit 1: Sector Allocation - % over/underweight vs. Russell 2000 Value Index

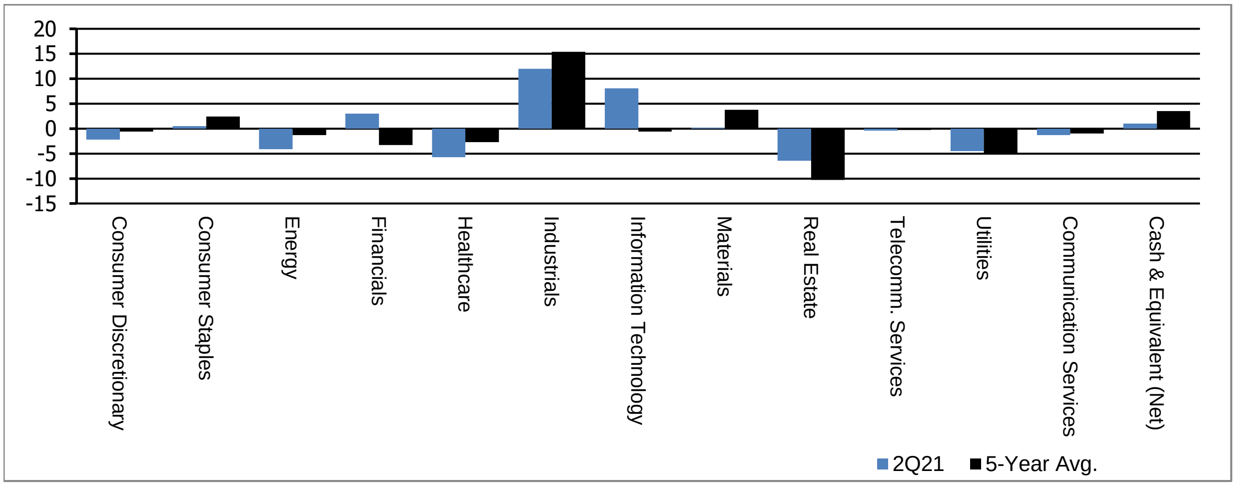

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2000 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Top Ten Holdings (%)

Signet Jewelers Ltd.	2.7
Kelly Services Inc. Class A	2.4
UMH Properties, Inc.	2.3
Perdoceo Education Corp.	2.2
Camden National Corp.	2.1
Textainer Group Holdings Ltd.	2.1
Accuray, Inc.	2.1
Methode Electronics, Inc.	2.0
Mercer International, Inc.	2.0
Ameresco, Inc.	2.0
Total % of Portfolio	21.9

Fund Characteristics

	Fund	Russell 2000 Value Index
Number of Holdings	64	1,384
Return on Equity[1]	8.1	-1.6
Weighted Avg Market Cap (Millions)	1,830	3,001
Price/Book[2]	1.9	1.6
P/E using FY1 Estimate[3]	14.0	14.3
Long Term Debt/Total Capitalization[4]	28.4	38.4
Information Ratio (TTM)[5]	.44	-
Active Share[6]	95.9	-

Source: FactSet Research

Portfolio Performance

	Q2 21	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date
Walthausen Small Cap Value Fund: Investor Cl	3.24	63.55	7.60	11.70	10.22	11.77	2/01/08
Russell 2000 Value Index[7]	4.56	73.28	10.27	13.62	10.85	8.98	
Walthausen Small Cap Value Fund: Institutional Cl	3.32	63.95				19.46	12/31/18
Russell 2000 Value Index[7]	4.56	73.28				21.40	

Total Expense Ratio: 1.30% for Institutional Class, 1.35% for Investor Class. Net Expense Ratio: 0.98% for Institutional Class, 1.21% for Investor Class. Expense ratio per the June 1, 2021 prospectus.

The Net Expense Ratio includes a waiver. The Advisor has contractually agreed to waive Services Agreement fees and Management Fees to the extent necessary to maintain total annual operating expenses of the Institutional Class shares and Investor Class Shares, excluding brokerage fees and commissions, taxes, borrowing costs (such as (a) interest and (b) dividend expenses on securities sold short), the cost of acquired funds and extraordinary expenses at 0.98% and 1.21% respectively, of its average daily net assets through May 31, 2022. The Advisor may not terminate the fee waiver before May 31, 2022. The Trustees may terminate the expense waiver upon notice to the Advisor. From the prospectus dated June 1, 2021.

Performance data quoted represents past performance and does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The current performance may be lower or higher than the performance data quoted. Investors may obtain performance data current to the most month-end by calling (888) 925-8428. Periods over one year are annualized.

Disclosures

[1]Return on Equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. ROE is a measure of how effectively management is using a company's assets to create profits.

[2]Price/Book measures the weighted average of the price to book value of all the stocks in the fund's portfolio, excluding companies with negative book values. Book value is the total assets of a company less total liabilities.

[3]P/E using FY1 Estimate is a ratio reflecting the amount of earnings estimated for next year per dollar of amount share price. For the fund, the individual P/E stock ratios are then weighted by their portfolio and market values to calculate a weighted average for the portfolio as a whole. Companies with negative earnings are excluded from the calculation. This ratio is not a forecast of the fund's future performance.

[4]Long Term Debt/Capitalization is a ratio that measures the proportion of long term debt used to finance assets, as a percentage of the firm's total capitalization.

[5]The Information Ratio is a measurement of portfolio returns beyond the returns of a benchmark, in this case the Russell 2000 Value Index, compared to the volatility of those returns.

[6]Active Share is a measure of the percentage of portfolio holdings that differs from the benchmark index.

[7]The Russell 2000® Value Index measures the performance of the small cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth sales.

[8]Return on Assets (ROA) is a measure of how efficient a company's management is in generating earnings from their economic resources or assets on their balance sheet.

[9]Return on Invested Capital is a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments. The return on invested capital ratio gives a sense of how well a company is using its capital to generate profits.

<ins>An investment in the Fund is subject to investment risks, including the possible loss of the principal amount invested.</ins> The Fund invests in the stocks of small capitalization companies, which may subject the Fund to additional risks. The earnings and prospects of these companies are generally more volatile, and they may experience higher failure rates than do larger companies. Their stocks are subject to a greater degree of volatility, trade in lower volume and may be less liquid. Investment in the Fund is also subject to common stocks risk, value investing risk, sector risk, securities lending risk, and investment management risk. Fund holdings and asset allocations are subject to change and are not recommendations to buy or sell any security.

Investors should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. The prospectus contains this and other information about the Fund. You may obtain a prospectus by calling (888) 925-8428. The prospectus should be read carefully before investing. Distributed by Rafferty Capital Markets, LLC – Garden City, NY 11530, Member FINRA.

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