Environment

In the 4th quarter of 2020 we wrote as to how messy markets can get at inflection points. In general, market participants fall in line with the theme that has been working. For the past several years, large cap growth equities were working and with the majority of the market buying into it, it continued to work. Occasionally, the theme will morph into a new variant, such as the large growth theme moving to the mid-cap growth theme, but the move isn't too dramatic. But every now and then the market will make a U-turn, a complete pivot that is so extreme that the market is forced to jump into unfamiliar territory with a shoot first, ask questions later game plan. This is what we saw in the 4th quarter of '20 when it seemed that a bell was rung signaling the large cap growth game is now the small cap value game. This resulted in all small cap equities rising at a rapid rate regardless of the fundamentals. In fact, during the quarter the lower the quality of the company, the greater the stock increase.

During the 1st quarter of 2021, small caps continued their rise with the Russell 2000 reaching a peak on March 15th and through this period the silliness continued most clearly illustrated by the meme stock craze. Stocks were being peddled on social media at a dizzying rate where the common denominator was the greater the outstanding short position, the better the idea. Big hedge funds had built these oversized short positions and by rallying the internet troops they could collectively squeeze the short and "stick it to the man".

During this six-month period another big market move was taking place. The 10-year yield went from 0.68% to 1.74%. This is an incredible move in just 6 months! And it's not a coincidence that this was the backdrop to a small cap rally. We commented in the 1st quarter report that through history, small caps outperform large caps when the 10-year yield is rising. Additionally, history tells us that low, and rising inflation is also a strong backdrop for small cap equities, particularly small cap value.

The 2nd quarter was a bit of a conundrum to us as we saw the US 10-year yield steadily fall despite all indications that the economy was growing strongly and signs of inflation above the Fed target rate were plentiful. This decline of the US 10-year yield continued into the 3rd quarter. The only explanation that we can provide is that during this period, the Fed was relentless in their insistence that they saw the inflation data as "transitory". That the data was skewed as it was being compared to abnormally low data from the year before coinciding with the brunt of the Covid surge, or that it was the normal volatility found in various data sets that they were sure was going to reverse.

However, throughout the 2nd and 3rd quarters our team asked every management team that we spoke to if they think inflation is transitory and how hard was it to raise prices. A rough review of the findings is that 90% felt that the inflation we were experiencing was not transitory and 100% said that they were putting through price increases with ease. By this account the US 10-year yield should not have been falling.

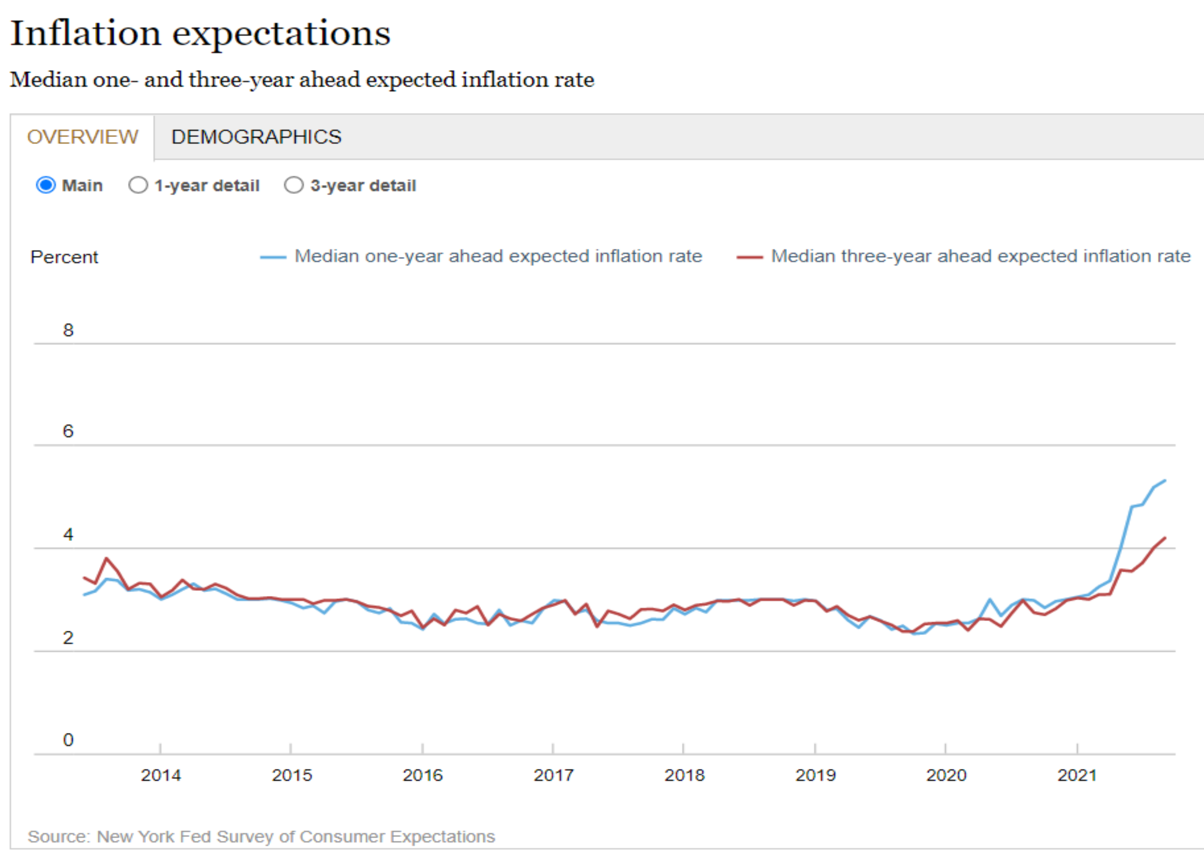
Forgive me for being long-winded but this is the setup needed to explain what we saw in the 3rd quarter. As we entered the 3rd quarter the US 10-year yield had fallen to 1.45% and would eventually bottom out at 1.13%. This had many of the financial news talking heads claiming that we were due for a market crash, explaining that the market had gone too far, too fast. A few were still bullish pointing to Wall St earnings estimates that still anticipated strong year over year growth expectations. What we got was the equivalent of betting "0" or "00" in roulette. Market prognosticators are always arguing the market will go up or down. But there is a 3rd option; the market will go sideways. From February 2021 through to September 2021 the Russell 2000 went sideways with an uncharacteristically low volatility for a full 8-month period. In fact, the chart below shows that for the better part of 8 months the Russell 2000 Value benchmark traded within a 11% variance. This is a pretty rare occurrence.

It would be a mistake to conclude then that not much has been happening. In fact, there has been quite a lot of excitement going on below the surface. One of the most exciting aspects of the 3rd quarter has been the resurgence of fundamentals. For the first time in a long time, factor analysis identified stocks with high ROIC / ROE, high earnings yield, and low leverage as the outperformers of the quarter. Additionally, profitable companies outperformed money losing companies by a meaningful amount. So, at least for a quarter, it seems that fundamentals matter again. And as I stated in a recent client meeting, we feel like we are in a fair fight again. This is very good news for active managers.

What about all of that discussion of the US 10-year yield? Well there is something interesting going on there, too. As the yield was dropping into the middle of the 3rd quarter we asked every bank management team if the falling yield made sense to them. The vote was nearly unanimous; no, it didn't make sense. To paraphrase an aggregation of the answers, based upon the conversations they were having with their customers, upward price moves are for real and they don't see them reversing. But, the Fed has stated that they are going to keep rates low so the market is following.

This reminded me of an interview I saw in the early 90's with the famed investor, Jim Rogers. He was being asked about the direction of rates and Rogers responded, "Up". The interviewer challenged him on this, stating that the Fed had indicated they weren't going to raise rates. Rogers became visibly exasperated and responded forcefully, "the Fed doesn't set rates, the market sets rates". He furthered his point by stating that the Fed is made up of a group of academics who get driven home in black cars and never go grocery shopping for themselves. Adding that if they did, they would see that there is inflation out there and it's for real.

Our view is that the Fed did a very good job of selling their insistence that the inflation data indicating a higher than desired level, was transitory. That the data would soon reverse. The data hasn't reversed, and the Fed has only just started to lower their use of the transitory description. However, in the last few weeks of the 3rd quarter the direction of the US 10-yr yield did reverse and started climbing again. The yield at the end of August 2021 was 1.30% and by the end of September was 1.53%. Looking at the chart below, I like to think that the market finally started listening to the *'people'* and not the Fed.



As Jim Rogers said, the people going into their local supermarket see inflation and it's at a rate that's a good bit higher than anything we have seen in quite some time. This data is consistent with all of the feedback that we are getting from the many management teams with whom we have spoken. One corporate officer even went so far as to say it was *easy* to put through price increases. We have never heard that before.

This all sits well with us. Repeating, small cap equities perform better when the US 10-year yield is rising. Small cap equities and small cap value equities, in particular, do better when inflation is low and rising. Our portfolio is well positioned for this environment. And now that fundamentals seem to matter again, we feel like we are once again in a fair fight. A fight that we are sure that we will win.

Performance

During the 3Q21 the Fund outperformed the Russell 2000 Value Index benchmark by 305 basis points. We were pleased to see almost all of our relative outperformance was due to stock selection. Our selections in Information Technology, Consumer Discretionary, and Healthcare were contributors to performance, while the Industrial sector was the only one that detracted from performance, and then only marginally. Our Industrial selections were negative to performance.

Names Added

During the 3Q21 we added four names and exited four names. We are finding attractive opportunities in a number of sectors. A few examples include:

Valvoline (VVV) is a company that sells branded lubricants and operates car service locations. We are pleased to see the company take a much more aggressive approach to service location growth after the spin-off from Ashland a few years ago. The company recently disclosed a desire to separate the service business from the lubricants business. The same store sales (SSS) performance of the service location post COVID has been very impressive and is one of the highest brick and mortar growth rates in the US. We feel very confident that calendar 2022 SSS can comp higher than 2021 numbers, which is hard to say about many retail names that have experienced very strong SSS bolstered by stimulus payments.

Seaboard (SEB) is a conglomerate with operations in meat processing, commodity trading and milling, marine shipping, and power generation. We had been monitoring the company's capital deployment towards two compelling projects. The first is a renewable diesel facility and the second is a floating power barge. The company has experience in making biodiesel and has invested incremental capital to build a renewable diesel facility. Renewable diesel sells for a premium to biodiesel and regular diesel due to its "green" premium. We believe that the facility has very attractive economics based on our understanding of the renewable diesel refining process from our previous investment in Darling Ingredients (DAR). We believe that investors are overlooking the highly incremental EBITDA stream that will come from this facility, which will have a meaningful portion of its raw material feedstock coming from the nearby Guymon hog processing facility. The power barge investment is an effort to lower emissions and become a more competitive natural gas power producer in the Dominican Republic. We believe that the power barge and the renewable diesel facility will generate a meaningful step up in companywide profitability in 2022.

Alight (ALIT) is a provider of benefits management software. The company came back to public market through SPAC transaction. The last few months have seen many special purpose acquisition company (SPAC) transactions falter after their conversions, this presented us with an opportunity to look at the space as a source of new ideas, as we also noticed that street coverage is lacking on many names. Alight has actually been around for many years as part of the Aon Hewitt, and the business was acquired by private equity for a number of years. The company has very sticky long term contracts with a number of Fortune 500 companies. Unlike a number of other companies coming to the market through SPAC transaction, this is not a unicorn, this is a cash flow generating company with massive scale and a deep moat. We look forward to shareholders being rewarded for growing profits and cash flow. We think the valuation gap to smaller peers is closed once coverage picks up and ALIT has more reported results under their belt.

We are looking forward to 3Q21 earnings releases, as we believe our held names will start to differentiate themselves from the benchmark. In a fair fight the stronger, better, faster competitor wins. An ability to compound 2022 results on top of 2021 results will be a clear differentiating factor that the market will be reviewing heading into 2022. We believe we are positioned well.

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

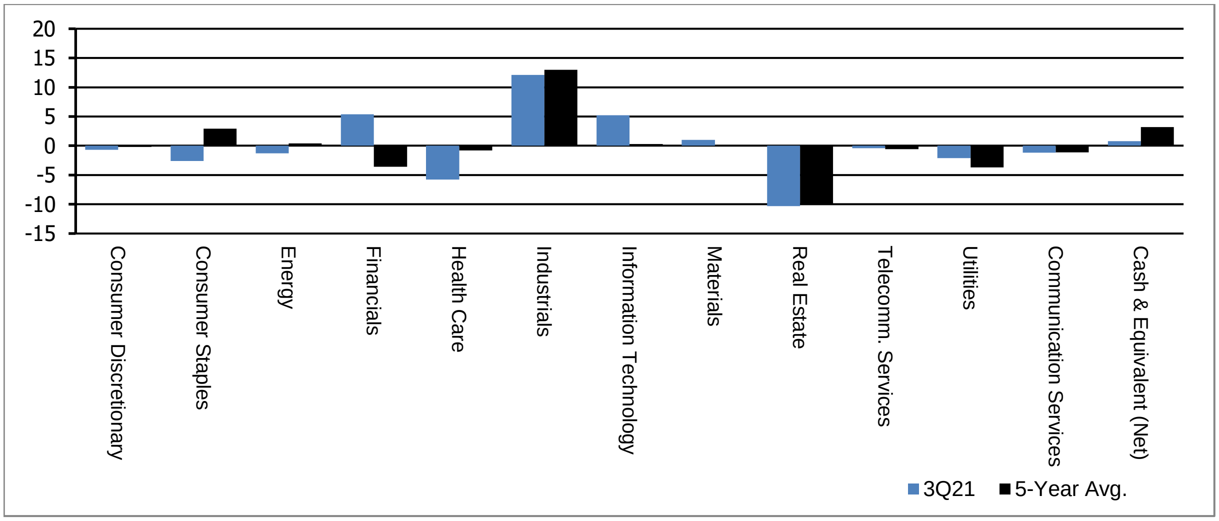


Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2000 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Top Ten Holdings (%)

Concentrix Corp.	3.9
Cleveland-Cliffs, Inc.	3.4
Ryder System, Inc.	3.2
PacWest Bancorp	3.2
WSFS Financial Corp.	3.1
Hub Group, Inc. Cl A	3.0
Granite Construction, Inc.	3.0
Webster Financial Corp.	2.9
Wesbanco, Inc.	2.9
Hancock Whitney Corp.	2.9
Total % of Portfolio	31.6

Fund Characteristics

	Fund	Russell 2000 Value Index
Number of Holdings	38	1,429
Return on Equity[1]	3.1	-1.3
Weighted Avg Market Cap (Millions)	$4,057	$2,865
Price/Book[2]	1.7	1.5
P/E using FY1 Estimate[3]	11.6	12.8
Long Term Debt/Total Capitalization[4]	31.7	42.8
Information Ratio (TTM)[5]	.47	-
Active Share[6]	96.2	-

Source: Factset Research

Portfolio Performance

	Q3 21	1 Year	3 Year	5 Year	10 Year	Since Inception (12/27/10)
Walthausen Focused Small Cap Value Fund: Institutional Class	0.07	53.62	8.10	11.14	13.11	10.23
Russell 2000 Value Index[7]	-2.98	63.92	8.58	11.03	13.22	10.03

Total Expense Ratio: 1.05%. Net Expense Ratio: 0.85%.
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 to the extent necessary to maintain total annual operating expenses of the Institutional 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 0.85% of its average daily net assets through October 31, 2025. The Advisor may not terminate the fee waiver before October 31, 2025. 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/Total 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 values.

[8]The Russell 2500® Value Index measures the performance of the small cap value segment of the U.S. equity universe. It includes those Russell 2500 companies with lower price-to-book ratios and lower forecasted growth sales.

[9] The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index

[10] Return on Invested Capital (ROIC) 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.

[11]Same-Store Sales measures the sales of a company's existing stores that have operated for more than one year, excluding sales of new stores.

[12]A special purpose acquisition company (SPAC) is a company with no commercial operations that is formed strictly to raise capital through an initial public offering (IPO) for the purpose of acquiring or merging with an existing company

An investment in the Fund is subject to investment risks, including the possible loss of the principal amount invested. 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.

Contributors and detractors performance data and analytics provided by FactSet. To measure performance for periods when portfolio holdings change, portfolio analysis calculates the security weights and returns on a daily basis, then geometrically link returns across the measurement period.

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