Environment

During a strong 2021, the US small cap market seemed to be getting back on stable footing. Quality, profitability, and low valuation factors all seemed to be winning. Fundamentals mattered again. And then January 2022 reared its ugly head. It was the second worst January on record for small cap equities as measured by the Russell 2000 benchmark, punctuated by achieving the ignominious label “correction threshold” during January’s last week. This was just the beginning of what was a volatile quarter.

What was the issue that stoked the markets ire; a resurgence of the pandemic, fear of runaway inflation, the unprovoked military invasion of a sovereign country by the world’s second largest natural gas and oil exporter, an inversion of the yield curve? Of course, the answer is “e) All of the above”. When the market is dealing with this many significant issues, volatility is the most likely outcome. However, we are dealing with two forms of volatility. The most obvious is in the daily market price swings. The other is more insidious, as it’s the volatility of market participant’s forecast as to where these macro events lead us and the portfolio construction that coordinates with those forecasts. These dramatic swings in the markets short term posturing has the effect of making the long-term investor seem foolish in the interim. And that’s where we find ourselves.

We have maintained a significant weighting in banks. As the quarter began, increasing interest rates and the markets pressure on the Federal Reserve to raise rates faster, was promising for our bank holdings, as this should translate into higher lending yields and income. But then the market concluded that rates were moving up so quickly that it would have an adverse effect on our bank’s securities portfolios necessitating market value write-downs. This has since started to morph into a belief that rates won’t continue to rise as the geopolitical events will create a deceleration in world GDP which will bring about credit challenges for the banks. To summarize, in 12 weeks the market opinion of the banks went from expectations of growing earnings by lending out their excess deposits at higher rates, to having to incur near-term losses as a result of higher rates to incurring credit losses on the loans they haven’t yet made at these higher rates. As we said, these short-term swings can make the long-term investor appear foolish.

While on the topic of rates, a comment on the yield curve inversion that recently occurred. As students of the market, we are well aware of the yield curve’s predictive capacity. When the market foresees higher risk in the near term than in the long term, as expressed by demanding a higher rate of return for lending money short-term as compared to its demand for long-term lending, it is simply stating a belief that a recession is near. However, the markets ability to properly express a view of risk versus time period is dependent upon the market working in an efficient manner with all participants following a maximize return for risk taken philosophy. This has not been the case since the Federal Reserve became the largest market participant as a result of quantitative easing; and likely won’t be the case until the feds balance sheet has been reduced to its future target level. From the beginning of 4Q20 to the beginning of 4Q21, the US 10yr yield rose approximately 80 basis points from around 0.70% to 1.50%. During this same time period the US 30yr fixed rate mortgage, which typically moves in synch with the 10yr yield, rose just 10 basis points from 3.08% to 3.18%. Compare this to the current quarter where the 10yr bond yield rose a similar 80 basis points (1.50% to 2.30%) while the 30yr fixed mortgage rate rose 160 basis points (3.30% to 4.90%)! This asynchronous reaction to a similar move in the referenced risk-free rate was due to the US Treasury’s January announcement that the Fed was winding down its purchasing of mortgage backed securities with the objective ceasing purchases by March. The US Treasury has been the largest participant in the fixed income market but its’ motivation has not been to maximize return for risk taken. As long as this is the case, the yield curve has lost its predictive ability.

So as long-term investors, what are we to do? We will maintain our focus on the long-term and persevere through these shorter periods. We will digest today's current events so as to understand the long-term economic drivers that will result. As a result of Covid, China has locked-down Shanghai, a city several times larger than New York and home to the largest port in the world. This will further fuel reshoring efforts and supply chain adjustments. This will be a positive for many small US companies. The cost of energy in Europe is likely to be significantly higher for years to come creating a competitive advantage for many small US companies. The war in Ukraine will have an effect on the worlds agriculture markets for years to come which will present opportunities for many small US companies. This is a very challenging period but we also see it as a very opportunistic time to be a US small company investor with a long-term investment horizon.

On a final note, our hearts and prayers go out to the people of Ukraine. We pray for peace, the well-being of families and the collective support of the world to help rebuild once this incursion comes to an end.

Performance

The portfolio outperformed the Russell 2000 Value benchmark by 289 basis points during the quarter. We were pleased to see that essentially all of our outperformance was the result of our selections. Our selections in Healthcare, Materials, Financials, and Industrials were all meaningfully additive to performance. Our selections in Consumer Discretionary and Utilities were laggards.

Within the healthcare sector, all three of our selections generated positive returns versus a benchmark sector that generated a negative return. We believe the benchmark performance is reflective of many healthcare companies that are not cash flow generative and which will have their business models challenged by higher interest rates. Our healthcare holdings all generate free cash flow. When looking at the individual names, LHC Group (LHCG), a provider of post-acute care, benefited from the announced acquisition of the company for a $170 per share cash consideration by UnitedHealth Group. Encompass Health Corp (EHC), a skilled nursing facility and home health operator benefited indirectly from the announced LHCG acquisition as well as an improving labor outlook as pandemic impacts lessen. Merit Medical Systems (MMSI), a developer and manufacturer of consumable medical products, benefitted from an improving outlook for medical procedure volumes, and news reports that the company is exploring a sale.

Strong performance in the materials sector came largely from Cleveland Cliffs (CLF), which is benefiting from rising steel prices. Within financials, the absolute performance was negative, but better than the benchmark. The balance sheet quality of our bank holdings is likely helping performance. In the industrial sector, we were aided by a strong contribution from Kirby Corp (KEX), a provider of barge transportation and diesel engine services, and Triton International (TRTN), a shipping container lessor. Kirby is benefiting from increased refinery and chemical plant utilization in the US, while Triton is benefiting from elevated container demand and long term leases entered into during the pandemic.

Top Contributors

Chesapeake Energy Corp (CHK), a US focused E&P company, and Helmerich & Payne (HP), an energy drilling company, both benefited from rising energy prices improving the demand outlook. Cleveland Cliffs was mentioned earlier.

Top Detractors

Cavco Industries (CVCO), a manufactured housing company, saw a share price impact from rising interest rates. We note that backlog remains meaningful, and manufactured housing affordability remains very strong. We continue to hold the position. Vista Outdoor (VSTO), a manufacturer of outdoor sports and recreation products, appeared to trade lower on unfavorable market sentiment and commentary from other consumer discretionary names. Based on our work, we believe that the company's product sales volume and pricing remain attractive. We continue to hold the position. LCI Industries (LCII), a manufacturer of recreational vehicle components, has been negatively impacted by falling consumer sentiment, increasing interest rates, and increased gasoline prices. We have been reducing exposure to the company.

Portfolio Contributors – Q1 2022

Security	Average Weight (%)	Contribution
Cleveland-Cliffs, Inc.	3.30	1.40
Chesapeake Energy Corp.	3.16	1.03
Helmerich & Payne, Inc.	1.81	0.81
Kirby Corp.	3.54	0.68
Triton International Ltd. Cl A	2.76	0.44

Portfolio Detractors – Q1 2022

Security	Average Weight (%)	Contribution
Cavco Industries, Inc.	3.10	-0.81
Vista Outdoor, Inc.	2.46	-0.67
LCI Industries, Inc.	1.42	-0.58
Valvoline, Inc.	2.84	-0.51
Granite Construction, Inc.	2.52	-0.46

Names Added

Aerojet Rocketdyne Holdings (AJRD) is a developer and manufacturer of rocket proposition systems. The termination of the acquisition of the company by Lockheed Martin in February 2022 presented us with an opportunity to establish the position. We felt that Aerojet would benefit from increased commercial and defense spending on rocket systems over the next few years. Helmerich & Payne Inc (HP), mentioned earlier, should be a beneficiary of increased drilling activity created by the increase in global energy prices. Mercury Systems (MRCY), an aerospace and defense components manufacturer, should experience increased revenues as the US government looks to increase defense spending in response to recent Russian military actions.

Names Sold

First American Financial Corp (FAF), a title insurance company, saw its share price appreciate during our holding period and was close to our price target. With the outlook for higher interest rates, we felt earnings performance had peaked. We had owned Primerica Inc (PRI), a term life insurance business with an asset management business, for a number of years and have been pleased with the consistent growth in the term book, increasing AUM in the asset management business, and attractive return of capital to shareholders. However, the company entered into the Medicare insurance sales business with the acquisition of e-TeleQuote in 2021 and the acquisition has proven to be a poor allocation of capital and reduced their ability to return capital to shareholders. As a consequence, we sold the position.

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

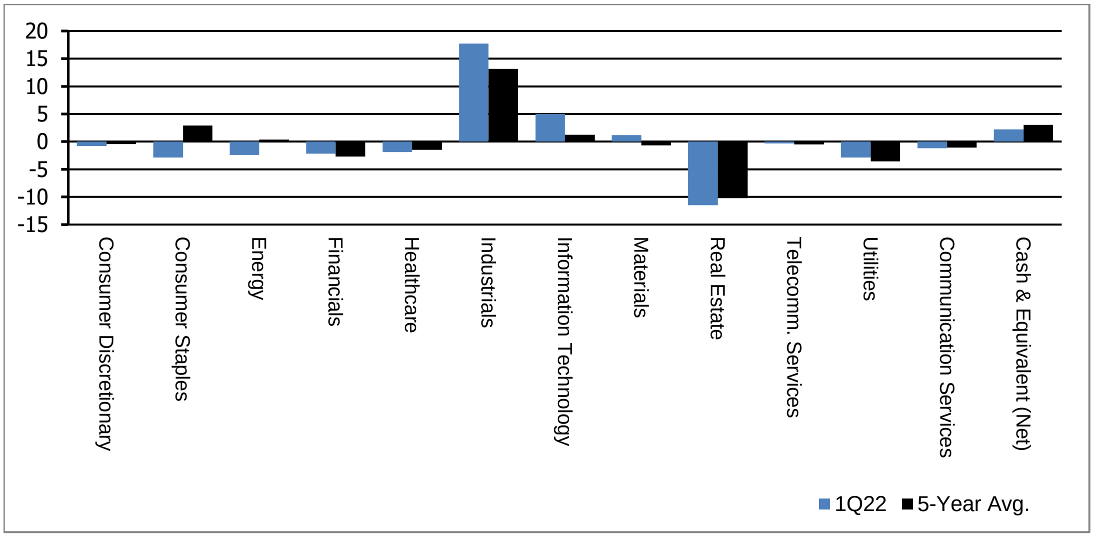

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2000 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Top Ten Holdings (%)

Chesapeake Energy Corp.	3.7
Kirby Corp.	3.6
Cleveland-Cliffs, Inc.	3.5
Beacon Roofing Supply, Inc	3.3
Concentrix Corporation	3.0
Ryder System, Inc.	3.0
Seaboard Corp.	3.0
Hub Group, Inc. CL A	3.0
Hancock Whitney Corp.	2.9
Independent Bank Corp.	2.9
Total % of Portfolio	31.9

Fund Characteristics

	Fund	Russell 2000 Value Index
Number of Holdings	37	1,436
Return on Equity[1]	15.7	8.1
Weighted Avg Market Cap (Millions)	4,611	3,109
Price/Book[2]	1.8	1.5
P/E using FY1 Estimate[3]	11.7	12.1
Long Term Debt/Total Capitalization[4]	28.8	37.6
Information Ratio (TTM)[5]	0.39	
Active Share[6]	95.7	

Source: Factset Research

Portfolio Performance

	Q1 22	1 Year	3 Year	5 Year	10 Year	Since Inception (12/27/10)
Walthausen Focused Small Cap Value Fund: Institutional Class	0.49	8.14	14.11	9.99	10.99	10.38
Russell 2000 Value Index[7]	-2.40	3.32	12.73	8.57	10.54	10.48

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 May 31, 2026. The Advisor may not terminate the fee waiver before May 31, 2026. 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.

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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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