Walthausen Small Cap Value Fund

Quarterly **Fund Commentary**

Ticker Symbols: Institutional Class WFICX | Investor Class WSCVX | **Q1 2022**

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 underperformed the Russell 2000 Value benchmark by 373 basis points during the quarter. Around 60% of the underperformance was from selection. Selections in Industrials, Financials, and Consumer Discretionary weighed on performance. A 318 basis point sector underweight in the energy sector was a drag as the sector was the strongest performer during the period, returning 44.75%. Selections in the Healthcare and Materials sector were additive to performance.

Within the industrials sector, holdings with direct and indirect exposure to discretionary spending underperformed. We experienced negative contributions from Allied Motion (AMOT), a designer and manufacturer of motion control products with automotive end market exposure, VSE Corp (VSEC), a provider of MRO services for the aerospace industry, and Patrick Industries (PATK), a manufacturer of recreational vehicle parts. Reviewing financial holdings, we do not believe there is a strong reason for selection underperformance. Generally, our community banks slightly underperformed during the period. Within consumer discretionary, selections that were most exposed to consumer financing were underperformers: Legacy Housing (LEGH) and Skyline Champion (SKY), a manufactured home builder, and M/I Homes (MHO), a home builder.

Top Contributors

ProPetro Holding Corp (PUMP), a hydraulic fracturing service provider benefited from rising energy prices and an improving utilization outlook. Bowlero Corp (BOWL) is a bowling alley operator. We believed that the shares were trading at an attractive valuation after the completion of a SPAC transaction. Unlike a number of recently public companies, Bowlero has a cash flow generating business model. We also believed that the company was experiencing an improvement in demand due to a decrease in COVID cases. The shares responded favorably to 4Q21 results, which included positive commentary regarding the 1Q22 reporting period. Gulfport Energy Corp (GPOR), a gas focused E&P company operating in the Utica shale and South Central Oklahoma Oil Province (SCOOP) formation benefited from the rising price of natural gas.

Top Detractors

ANI Pharmaceuticals Inc (ANIP), a generic drug company, reported earnings for Q421that showed greater than expected roll out costs for the Cortrophin drug and greater than expected revenue erosion in legacy generic products. We felt that the two factors had meaningfully lowered the return outlook for the business and we exited the position. Skyline Champion, mentioned earlier, was a drag on performance after being one of our top contributors in 4Q21. The market sold off almost all housing related names in the 1Q22. We maintain our position in the company as we believe that, despite an increase in interest rates, manufactured housing provides the most affordable solution to homebuyers. Monro Inc (MNRO), an auto repair and service provider, reported 4Q21 earnings that were below expectations, but showed meaningful progress on sales and year-over-year operating margin improvement. With miles driven getting back to normal, and with consumers owning vehicles longer, the demand outlook remains favorable. We continue to own the shares.

Portfolio Contributors – Q1 2022

Security	Average Weight (%)	Contribution
ProPetro Holding Corp.	2.00	0.96
Bowlero Corp. Cl A	1.12	0.54
Gulfport Energy Corp.	1.57	0.39
Commercial Metals Company	2.19	0.33
Mercer International, Inc.	1.96	0.32

Portfolio Detractors – Q1 2022

Security	Average Weight (%)	Contribution
ANI Pharmaceutical, Inc.	1.19	-0.67
Skyline Champion Corp.	1.92	-0.62
Monro, Inc.	1.73	-0.47
VSE Corporation	1.60	-0.45
Stewart Information Svcs Corp.	1.61	-0.41

Names Added

During the quarter, we added five securities. Bowlero Corp, mentioned earlier, has a business model that exhibits very high incremental margins and has numerous organic and inorganic growth opportunities. Encore Wire Corp (WIRE), a manufacturer of electrical wires and cables, has an attractive valuation, and we have been impressed by the capital allocation decisions of the management team. The company's manufacturing operations are very efficient at converting raw material into finished product, and as a result free cash flow performance has been very strong. The company has maintained a net cash balance sheet and used that free cash flow to repurchase common stock and invest in cost reducing capital projects. Haemonetics Corp (HAE), is a provider of hematology products. The company should benefit from the introduction of a new plasma product that reduces collection time, while also receiving a benefit from more normalized sales volumes as the pandemic recedes. Oceaneering International Inc (OII), a provider of offshore underwater services, should benefit from increased demand due to increasing energy prices. Orion Engineered Carbons (OEC), is a manufacturer of carbon black, and tire manufacturers are large consumers of that product. The company should see an increase in sales volumes as miles driven increases tire demand.

Names Sold

Albany International (AIN), a manufacturer of paper machine clothing and aerospace parts, had performed well. When the shares hit our price target, we exited the position. Apria Inc (APR), a provider of home healthcare equipment primarily focused on respiratory therapy, disclosed that the company would be acquired by Owens & Minor. We felt that the purchase consideration was fair and exited the position. Global Industrial (GIC), a distributor of commercial products, benefitted from good sales and margin performance during COVID. The shares met our price target and we exited the position. Green Dot Corp (GDOT), a financial technology company with a bank holding company, moved to our downside price target and we exited the position. We exited three community banks; Pinnacle Financial Partners Inc (PNFP) and Stock Yards Bancorp (SYBT) were both sold when they achieved price targets, while Great South Bancorp (GSBC) was sold due to the bank not meeting our earnings expectations. ANI Pharmaceuticals Inc (Ticker: ANIP), was discussed earlier.

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

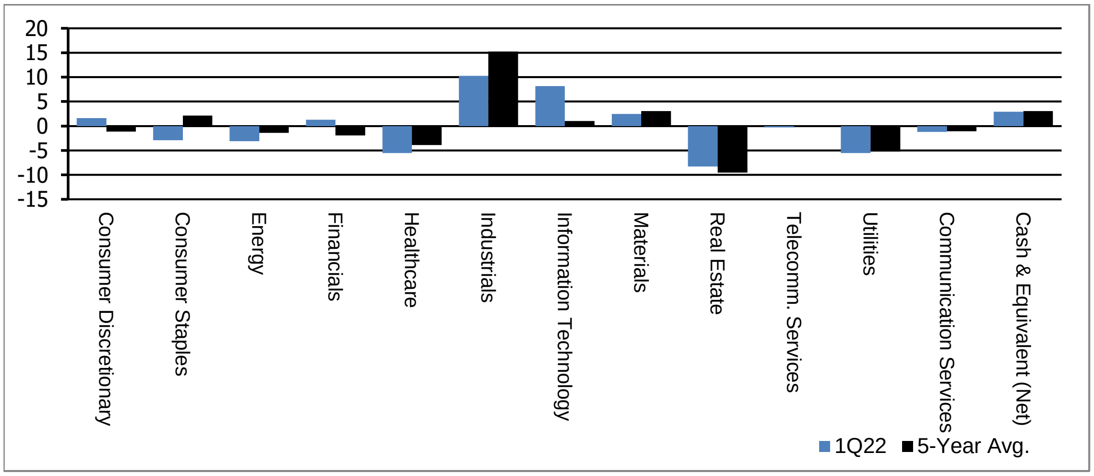

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2000 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Top Ten Holdings (%)

Heritage-Crystal Clean, Inc.	2.7
Commercial Metals Co.	2.5
Titan Machinery, Inc.	2.4
UMH Properties, Inc.	2.3
ProPetro Holding Corp.	2.3
Gulfport Energy Corp.	2.0
Mercer International, Inc.	2.0
Bowlero Corp.	2.0
Tennant Co.	2.0
City Holding Company	2.0
Total % of Portfolio	22.2

Fund Characteristics

	Fund	**Russell 2000 Value Index**
Number of Holdings	60	1,436
Return on Equity[1]	15.8	8.1
Weighted Avg Market Cap (Millions)	1,625	3,109
Price/Book[2]	1.7	1.5
P/E using FY1 Estimate[3]	12.0	12.1
Long Term Debt/Total Capitalization[4]	27.5	37.6
Information Ratio (TTM)[5]	0.39	-
Active Share[6]	96.42	-

Source: FactSet Research

Portfolio Performance

	Q1 22	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**Since Inception**	**Inception Date**
Walthausen Small Cap Value Fund: Investor Cl	-6.12	3.25	11.32	7.16	9.88	11.12	2/01/08
Russell 2000 Value Index[7]	-2.40	3.32	12.73	8.57	10.54	8.39	
Walthausen Small Cap Value Fund: Institutional Cl	-6.13	3.46	11.56			14.69	12/31/18
Russell 2000 Value Index[7]	-2.40	3.32	12.73			15.65	

Total Expense Ratio: 1.35% 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] *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*

[9] *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.*

[10]*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.*

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