Environment

Much like fate, the equity market is a cruel mistress. In our Q1 2022 report we commented that the small cap equity markets started the year with its second worst January on record and during the month had breached the technical level of "correction threshold". As if 'second worst' start to a year wasn't enough, in Q2, the small cap market as measured by the Russell 2000 Index, said, "here, hold my beer", and proceeded to fall another 17%, thus producing the worst first half return in its 42-year history. And it wasn't just small caps. Large cap equities, as measured by the S&P 500, had the worst 6 month start to a year in over 50 years. Large caps outperformed small caps again; however, small value outperformed small growth for the seventh consecutive quarter, as measured by the Russell 2000 Value and Russell 2000 Growth Indexes.

But wait, there's more bad news. The AAII Bull-Bear Sentiment Survey hit its second lowest level in 40 years and is still falling. The NFIB Small Business Survey Outlook hit its lowest level in over 50 years. The University of Michigan Consumer Sentiment Index is at a 70-year low and the Bank of America Global Fund Manager survey indicates fund managers are as pessimistic as they were at the lowest point of the Great Financial Crisis.

With all of this, one might expect an equity manager to be accessing a therapist daily. However, for those who have been doing this for as long as we have, there is good in all of this bad. Bear markets require a flushing to reach their natural end. Often referred to as a capitulation point, it's when the market in general has unanimously determined that things are so bad that they have to get out, to the point that there are no more sellers to drive down stock prices. And to that regard, all of the negative items that I highlighted above, we believe to be contrarian indicators that are coming together to become the foundation of bottom in the market.

Are we at the bottom? We're not ready to make that call. But we do see an interesting setup for the next couple months. There is a strong argument that we have reached the peak inflation level and future readings may be lower. The US economy is decelerating and some international economies are currently in contraction. Combined, it appears to us that the Federal Reserve rate hiking initiative to combat inflation is closer to its end than its beginning. While still a few months away, the mid-term elections are approaching and the equity markets generally do well post the election. While sentiment of market participants is near all-time lows, actual corporate balance sheet destruction isn't apparent as indicated by the extremely low percent of distressed debt in the high yield debt market.

As we see it, it's been over 15 years since the market has seen inflation stay above 2% with a more normal interest rate curve (an end to free money). This is a back drop that has supported small cap value in the past. The strengthening US dollar will be a headwind for larger companies with significant international business, favoring investments in smaller companies with a domestic focus. After a period of disappointment of the promise of future earnings that didn't materialize, investors are prone to focus on those companies that have earnings and cashflow today; value companies, and more specifically, quality value companies. And here is the big one. In the past 42 years, the Bloomberg Aggregate Bond index has had a negative calendar year return just four times. The largest negative return was in 1994 when it posted a -2.92% return. The most recent negative return was last year, 2021 with a -1.50% return. There has never been 2 consecutive years of negative returns. The 1H22 US Aggregate Bond Index return was down over 9%. If that were to hold, it would be the largest negative return and the first time in 42 years there was back to back negative returns. For the last decade, bond funds have been winning assets at the expense of equity funds. In general, the market understands that equity returns coming out of recessions can be explosive. The thought of asset allocators moving away from bonds in an effort to make up for the worst 18-month negative return period has us very excited. Bear markets are not fun. But if you can keep your focus, while all of those about you are losing theirs, there is a lot more to be gained ahead of you than what was lost behind you. We are keeping our focus.

Performance

The Fund outperformed the Russell 2000 Value Index benchmark for the quarter. As a result of having a meaningful underweight in Consumer Staples and Utilities, the best performing benchmark sectors, sector allocation detracted from performance. Security selection was able to make up for the sector allocation challenge with some strong performances found in the Industrials and Consumer Discretionary sectors which also overcame challenging security issues in Financials and Materials.

Noteworthy was the extreme volatility and dispersion of performance that was experienced. The quarter was marked by the ongoing incursion of Ukraine and rising energy commodity prices. Consequently, amongst our top performers are defense and energy companies. The challenge of inflation and the corresponding increasing of rates by the Fed had many opining upon the onset of recession. With this, we find banks as part of our strong performers and represented in our biggest detractors. Significant dispersion was found in market prognostication as well as security performance!

Top Contributors

AAON, Inc. (AAON), was a new addition to the portfolio in the quarter. The company engineers and manufactures air conditioning and heating equipment. We have known AAON for a long time keeping a watchful eye for when we may have an opportunity to buy this quality company at an attractive price. The pandemic was a tough period for the company as new buildings and system upgrade projects slowed down significantly. Despite this, the share price held up pretty well until the beginning of this year when supply chain challenges slowed down manufacturing. Additionally, they announced a sizable acquisition at the end of last year that will take them into a more sophisticated product line. These developments and the growing talk of recession saw the shares fall in price, providing us with the opportunity we had been waiting for. While the threat of a near term recession could slow their growth somewhat, their substantial backlog has us believing that they will be able to power through and the market will again assign the shares a higher multiple consistent with historical levels.

Two other strong contributors were Aerojet Rocketdyne Holdings, Inc. (AJRD), a technology-based manufacturer of aerospace and defense products and systems, and Mercury Systems Inc. (MRCY), a global commercial technology company serving the aerospace and defense industry. With geopolitical tensions running high, it’s not too hard to understand why the market has been attracted to these companies. Both of the companies had challenges coming into the year. Over 18 months ago, Aerojet Rocketdyne agreed to be acquired in a deal that was then challenged by the federal government and eventually fell through. A divided board resulted in a proxy fight for control and many investors walking away from the situation. We are confident, now that the proxy fight is behind us and the prospect of growing defense budgets in front of us, that the company will again prosper. Mercury Systems had a decade of strong earnings growth that was interrupted by the pandemic. The pandemic slowed them down; but, then reaching end of life on some projects and concerns in 2021 that defense budgets may be restrained, investors lost interest in the shares. Knowing that the company had a strong management team who would be able to get earnings going in the right direction again, had us interested in the company. When the geopolitical situation flared up, we believed that investor perception of the company would change soon.

Top Detractors

Cleveland-Cliffs Inc. (CLF) is a vertically integrated steel manufacturer. Steel is an economically sensitive industry and the growing discussion of recession has caused investors to sell the shares, despite the fact that the company is producing record levels of earnings and cash flow. At the current valuation, and the understanding that a significant amount of their business is under contract at very attractive commodity prices, we are believers in the investment. PacWest Bancorp (PACW), has not been able to take advantage of increasing interest rates and loan demand to increase earnings similar to their peers. Alight Inc. (ALIT) is a business process outsource company that came public via a SPAC process last year. We believe that the company's business continues to grow and that they should be able to meet earnings and revenue expectations. However, as a new company without an established core investor set, the shares have been distributed as market volatility increased.

Portfolio Contributors – Q2 2022

Security	Average Weight (%)	Contribution
AAON, Inc.	0.18	0.14
Aerojet Rocketdyne Holdings, Inc.	3.09	0.10
LCI Industries	0.95	0.09
Mercury Systems, Inc.	2.04	0.03
Helmerich & Payne, Inc.	2.99	-0.03

Portfolio Detractors – Q2 2022

Security	Average Weight (%)	Contribution
Cleveland-Cliffs, Inc.	2.81	-1.81
PacWest Bancorp	2.17	-0.96
Alight, Inc. Class A	2.49	-0.86
Triton International Ltd. Class A	2.44	-0.80
Industrial Logistics Properties Trust	1.53	-0.68

Names Added

Two securities were added to the portfolio during the quarter; Northern Oil and Gas, Inc. (NOG), an E&P company whose commodity portfolio is heavily weighted towards oil, and AAON, discussed earlier. The E&P industry is under severe investor pressure to maintain strict financial discipline and healthy balance sheets with a focus on returning capital to shareholders. With a strong balance sheet and a plan to return capital to shareholders, we see Northern Oil & Gas as well positioned to take advantage of what we believe will be an extended period of higher commodity prices.

Names Sold

Triton International Ltd. (TRTN) was a successful investment that we held for quite some time. This lessor of shipping containers continues to generate strong earnings and cash flow; however, it's hard to imagine that their business fundamentals could get any better than what FY20 and FY21 provided. We note that with a softening world economy as a headwind for Triton, it was time to harvest gains and move on. Also sold during the period was LCI Industries (LCII), a manufacturer of products and components for the RV, marine and manufactured housing industries. Despite record sales and earnings, the company's share price had weakened due to a drop off in retail RV demand, their largest end market. Though earnings are strong and valuation is low, it's hard to see growth in their earnings future until we see a strengthening economy and improving consumer sentiment ahead. We will continue to monitor this quality company.

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

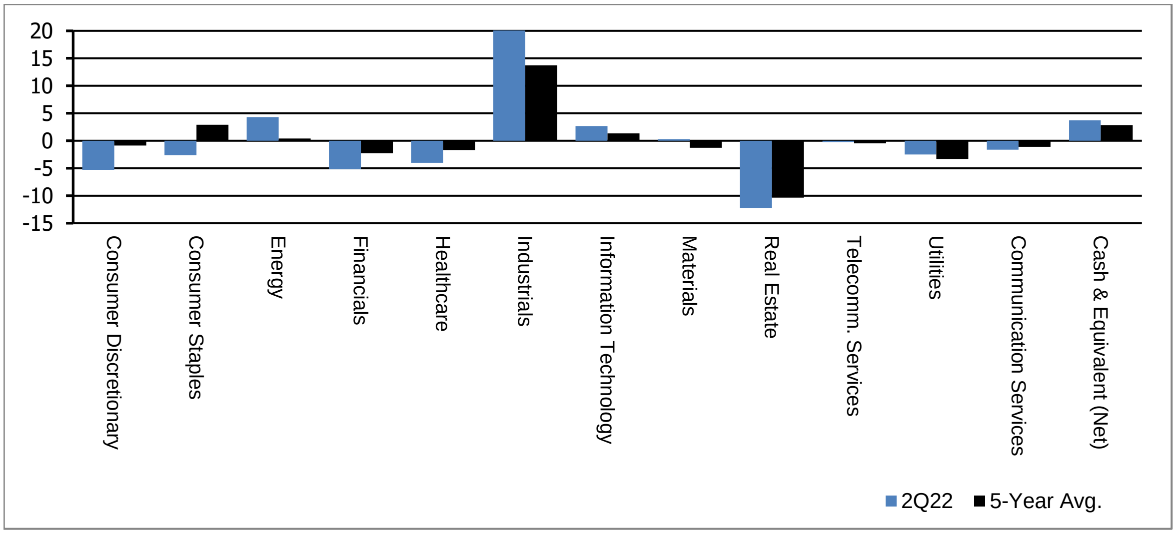

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2000 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Top Ten Holdings (%)

Chesapeake Energy Corp.	4.1
Kirby Corp.	3.6
Beacon Roofing Supply, Inc.	3.4
Seaboard Corp.	3.4
Aerojet Rocketdyne Holdings	3.4
Independent Bank Corp.	3.3
Hub Group, Inc. CL A	3.2
Ryder System, Inc.	3.2
Helmerich & Payne, Inc.	3.1
Wesbanco, Inc.	3.0
Total % of Portfolio	33.7

Fund Characteristics

	Fund	Russell 2000 Value Index
Number of Holdings	37	1,404
Return on Equity[1]	13.9	6.0
Weighted Avg Market Cap (Millions)	3,862	2,187
Price/Book[2]	1.6	1.2
P/E using FY1 Estimate[3]	10.0	9.9
Long Term Debt/Total Capitalization[4]	26.7	33.7
Information Ratio (TTM)[5]	0.39	
Active Share[6]	96.8	

Source: Factset Research

Portfolio Performance

	Q2 22	1 Year	3 Year	5 Year	10 Year	Since Inception (12/27/10)
Walthausen Focused Small Cap Value Fund: Institutional Class	-14.73	-9.03	6.15	5.76	9.56	8.63
Russell 2000 Value Index[7]	-15.28	-16.25	6.18	2.93	9.05	7.96

Total Expense Ratio: 1.05%. Net Expense Ratio: 0.85%.
Expense ratio per the June 1, 2022 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, 2027. The Advisor may not terminate the fee waiver before May 31, 2027. The Trustees may terminate the expense waiver upon notice to the Advisor. From the prospectus dated June 1, 2022.

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]The Russell 2000® Growth Index measures the performance of the small- cap growth segment of the US equity universe. It includes those Russell 2000® companies with higher price-to-value ratios and higher forecasted growth values.

[11]The S&P 500 Index measures the value of the stocks of the 500 largest corporations by market capitalization listed on the New York Stock Exchange or Nasdaq.

[12]The Bloomberg US Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. Investors frequently use the index as a stand-in for measuring the performance of the US bond market.

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 Foreside Fund Services, LLC – Portland, ME 04101, 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.

Walthausen Funds
(888) 925-8428
www.walthausenfunds.com