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 (American Association of Individual Investors) Bull-Bear Sentiment Survey hit its second lowest level in 40 years and is still falling. The NFIB (National Federation of independent Business) 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 US Aggregate Bond Index ("the Agg") 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 Agg 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 benchmark for the quarter; a Pyrrhic victory to say the least. Outperformance came from strong security selection as sector allocation was a fairly meaningful headwind. A majority of the challenge of sector allocation came from the absence of investments in the Consumer Staples and Utility sectors, the first and second best performing sectors for the period. Additionally, the portfolio was underweight the Energy sector, another strong performing sector, and this was compounded by poor stock selection within.

Strong security selection was seen in the Financials and Consumer Discretionary sectors. Strength in the financials is particularly satisfying as we have spent a fair amount of time discussing our thesis with owning a healthy number of banks. Increasing interest rates and loan demand should translate into greater net interest income and earnings. In fact, four of the top six contributors for the period, Trico Bancshares (TCBK), NBT Bancorp (NTBT), First Financial Corp (THFF) and City Holding Corp (CHCO) were banks. Our performance in the consumer discretionary sector is notable as the return bested the aggregate benchmark return while the benchmark sector return was the worst of all sectors. Notable performers were Bowlero (BOWL), M/I Homes Inc. (MHO) and Monro Inc. (MNRO).

Top Contributors

Trico Bancshares (TCBK), NBT Bancorp (NBTB), and First Financial Corp (THFF) were three of the top four contributors to returns for the period. All three of these are community banks from various parts of the country. What they have in common is a low loan to deposit ratio, low cost deposits and a local economy that is driving loan growth. Rising interest rates are driving loan yields higher and general economic demand and inflation are increasing the need for working capital borrowings. We expect that near-term earnings will exceed current expectations and that future earnings estimates will be increasing for our community bank holdings in general.

Another noteworthy contributor was Haemonetics Corp. (HAE), a global healthcare company, which engages in the development and distribution of hematology products and solutions. Demand for the company’s plasma collection and blood bank management systems declined greatly during the pandemic. Demand has started to return as the effects of the pandemic wane, though the market has been skeptical of how quickly this would play out. During the period, Haemonetics reported its second consecutive quarterly earnings that exceeded expectations and the market has started to notice. As we believe that visitations to plasma centers, blood banks and the level of discretionary surgical treatments still have room to grow to pre-pandemic levels, so do we believe that the company’s earnings still have room to grow.

Top Detractors

Two of the largest drags on performance were from the energy sector. ProPetro Holdings (PUMP) is a fracking services company. With the price of oil and natural gas rising through the year, demand for services from the oil and gas producers has grown dramatically. This is a relatively recent phenomena that we noticed beginning in the fourth quarter of 2021. This demand has seen the utilization of equipment and the daily rate charged rise considerably for ProPetro. We have seen this happen before in the oilfield and recognize that analysts are often slow to pick up on the rate of change and underestimate the leverage in the earnings model. We still believe all of this to be true; however, in mid-June the market took a nasty turn for the energy names and the company's share price was hit harder than most. We believe that when service company earnings are reported, the shares are likely to bounce back.

Earthstone Energy (ESTE), is an oil and gas producer with significant oil reserves in the Delaware Basin. The company has demonstrated disciplined growth over its history, and as we reviewed the changing commodity price environment we determined that this would be a strong backdrop for them. As mentioned earlier, the market turned strongly negative on the energy stocks mid-June, around the same time Earthstone announced an acquisition. The merits of the acquisition are sound and we believe commodity prices will stay stronger for longer. With that backdrop, we don't see the share price remain at the current low valuation for long.

UMH Properties (UMH) was the second largest detractor during the period. It is a REIT that engages in the ownership and operation of manufactured home communities. It faced a double headwind as rapidly rising interest rates has put the REIT sector on its heels, and the equity market soured on housing related names, despite a US housing market that is structurally undersupplied, particularly at the lower market value end of the spectrum.

Advansix, Inc. (ASIX) produces nylon resin products and other additives. The firm's products include nylon resin, caprolactam, ammonium sulfate fertilizer and chemical intermediates. Mostly known as a nylon chemical company, for those that have never heard of them, we are interested in the company's exposure to ammonium sulfate fertilizer, a product that in many ways is a byproduct of their nylon product efforts. We have seen fertilizer prices rise dramatically as a result of record high natural gas prices, much of that a result of the Russian incursion into Ukraine. Much like the energy stocks we spoke of earlier, Advansix' s share price took a big hit in June as the market turned on commodity-oriented businesses. We believe that this is a temporary move and the market will react favorably when its leverage to higher fertilizer prices is seen in their upcoming earnings reports.

Portfolio Contributors – Q2 2022

Security	Average Weight (%)	Contribution
Trico Bancshares	1.83	0.25
NBT Bancorp, Inc.	2.00	0.10
Haemonetics Corp.	1.44	0.08
First Financial Corp.	1.87	0.08
Bowlero Corp. Class A	2.13	0.08

Portfolio Detractors – Q2 2022

Security	Average Weight (%)	Contribution
ProPetro Holding Corp.	2.31	-0.74
UMH Properties, Inc.	2.06	-0.61
Earthstone Energy, Inc. Class A	0.31	-0.59
Advansix, Inc.	1.29	-0.59
Commercial Metals Company	2.53	-0.54

Names Added

Three securities were added to the portfolio during the period. Addus Homecare Corp. (ADUS), is a provider of in-home personal care services. It operates through the following segments: Personal Care, Hospice, and Home Health. The company's business was hit particularly hard during the pandemic as house visitation had to be curtailed and staffing became challenging. We know it to be a well-run company and recognized that the challenges were macro in nature, and when the challenges of the pandemic receded they would get back to their winning ways. So far, fundamental developments are positive. The other two new securities are Earthstone Energy and Advansix discussed above.

Names Sold

Three securities were sold from the portfolio. Legacy Housing (LEGH), and M/I Homes Inc. (MHO) are both in the home building industry. After determining that rising interest rates and current home price sticker shock were going to slow down the home buying market to an extent that the earnings outlook for both of these companies was going to turn down, we sold these holding from the portfolio. Patrick Industries Inc. (PATK), a manufacturer of components for RVs, boats and manufactured housing was sold after we saw retail demand for RVs, their biggest segment, begin to soften. It is a quality company and we will keep an eye out for an opportunistic time to own it again.

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

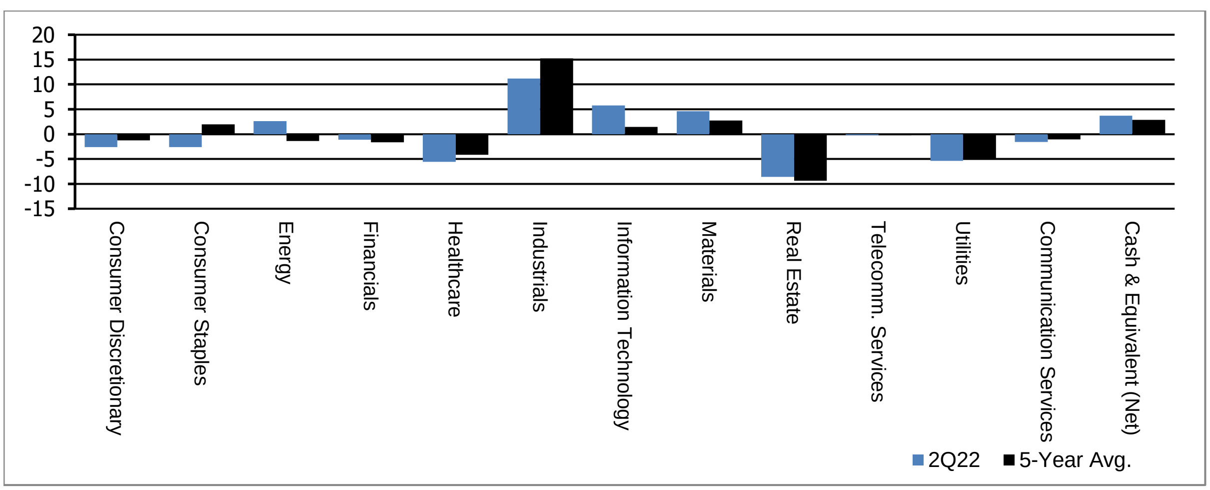

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2000 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Walthausen Small Cap Value Fund

Quarterly **Fund Commentary**

Ticker Symbols: Institutional Class WFICX | Investor Class WSCVX

Q2 2022

Top Ten Holdings (%)

Heritage-Crystal Clean, Inc.	2.8
Bowlero Corp.	2.4
Commercial Metals Co.	2.3
City Holding Company	2.2
NBT Bancorp	2.2
Titan Machinery, Inc.	2.1
Trico Bancshares	2.1
Seacoast Banking Corp	2.1
Gulfport Energy Corp	2.0
First Financial Corp.	2.0
Total % of Portfolio	22.2

Fund Characteristics

	Fund	Russell 2000 Value Index
Number of Holdings	61	1,404
Return on Equity[1]	13.0	6.0
Weighted Avg Market Cap (Millions)	1,414	2,187
Price/Book[2]	1.6	1.2
P/E using FY1 Estimate[3]	9.6	9.9
Long Term Debt/Total Capitalization[4]	26.9	33.7
Information Ratio (TTM)[5]	0.38	-
Active Share[6]	95.9	-

Source: FactSet Research

Portfolio Performance

	Q2 22	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date
Walthausen Small Cap Value Fund: Investor Cl	-13.93	-13.92	5.52	3.15	8.54	9.97	2/01/08
Russell 2000 Value Index[7]	-15.28	-16.28	6.18	4.89	9.05	7.00	
Walthausen Small Cap Value Fund: Institutional Cl	-13.88	-13.76	5.75			8.82	12/31/18
Russell 2000 Value Index[7]	-15.28	-16.28	6.18			9.16	

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, 2022 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, 2023. The Advisor may not terminate the fee waiver before May 31, 2023. 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/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]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.

[10]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.

[11]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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