YORKTOWN FUNDS
Small Cap Overview

Q1 2022

Michael J. Borgen
Meghan N. Chicoine

Commentary

Market volatility and uncertainty during the first quarter of 2022 caused great suffering for small cap stocks. 2022 to date has been dominated by a series of negative events resulting in the first stock market correction in 23 months. Much of the correction was due to moves by a more hawkish Fed, the realization that inflation was not as transitory as hoped, continued supply chain issues, and a tragic conflict unfolding in Ukraine. During Q1, the S&P 500 recorded its worst January since 2009, entering correction territory with a 10%+ decline in February.

Portfolio Review

Like the rest of the equity market, the Yorktown Small Cap Fund had a tough go of it during the very volatile first quarter of 2022. During the quarter the Fund lost ground declining by -9.14% versus a decline of -7.21% for the Russell 2000 Growth Index and -9.83% for the Russell 2000 Index. From an attribution standpoint, during the quarter the negative relative performance was 100% attributable to sector allocation, as stock selection aided relative performance. Stand out sector performance in transportation, non-energy minerals and retail trade contributed positively to relative performance while health technology, consumer services and energy minerals detracted from relative performance. From a holdings basis, Cleveland-Cliffs was the standout performer gaining 47.96%, followed by Matson Inc. (+34.42%) and LPL Financial Holdings (+14.29%). On the negative side of the coin, Intellia Therapeutics (-38.54%), Wingstop (-29.57%), and Repligen Corporation (-28.98%) did not live up to expectations. At the end of the quarter, the finance sector, electronic technology sector and the retail sectors were the largest weighted sectors in the portfolio while the consumer non-durables, consumer durables and the process industries were least weighted save for the sectors that are not currently represented in the portfolio.

Looking Forward

As we look ahead to the remainder of 2022, we believe that supply chains will continue to be impacted, therefore putting pressures on increased inflation. On a positive note, we believe that the rising inflationary rate environment will be relatively short-term in nature. We do not see inflation remaining at the current high level over a long period of time, but we do believe that rates will settle at a higher range than we have grown accustomed to in the last decade. In addition, the decade of cheap capital is over and done which will create headwinds that will pose various market challenges. The Federal Reserve's move to raise rates in March of 2022 was a soft starting point that will undoubtedly get more aggressive through the end of 2022 and likely beyond. That being said, it's not about the pace at which the Fed raises rates, it's where the final Fed Funds rate ends up. As investors, it will be vital to hold a portfolio of the highest quality companies at attractive valuations, as high inflationary and interest rate environment will prove to be very punishing to many companies. We expect value companies to continue to outperform growth companies as they have done so far in 2022. We see opportunity taking shape both now during the uncertainty and in the future. Historically, value has outperformed growth during rising rate environments which has a greater impact on growth company profit margins. Finally, the continued humanitarian issue in Ukraine will impact the market from volatility and global growth perspective as the uncertain situation evolves.

In the near-term, we believe that haphazard or fear selling has provided an attractive entry point into high quality stocks which previously, in our opinion, were overvalued. We have and will continue to take advantage of opportunities and will maintain a portfolio of high-quality, fundamentally strong companies, as we believe this will provide the best results during periods of uncertainty. As investors it is imperative that we understand that there is a shift that has taken place in the investment landscape. Uncertainty is high, investing is more complicated, and we believe active management, stock selection, and tactical risk management will be necessary to navigate the market and investments throughout 2022.

To view standardized performance:

Download Fact Sheet

Michael Borgen, Sapphire Star Capital

Subadvisor to the Yorktown Small-Cap Fund

Michael Borgen, Portfolio Manager, is responsible for the Small Cap Strategy at Yorktown Funds.

Meghan N. Chicoine, Sapphire Star Capital

COO & CCO

You should carefully consider the investment objectives, potential risks, management fees, charges and expenses of the fund before investing.

The fund's prospectus contains this and other information about the fund and should be read carefully before investing. You may obtain a current copy of the fund's prospectus by calling 800-544-6060.

Ultimus Fund Distributors and Yorktown Funds are not affiliated

The performance quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 1-800-544-6060.

Annual Operating Expenses: Per the most recent prospectus, (1) Fund total operating expense ratios are: Class A, 1.93%; Class L, 2.68%; Institutional Class, 1.68% and (2) Fund net annual operating expense ratios are: Class A, 1.45%, Class L, 2.20%, Institutional Class, 1.20%. The net annual expense ratio takes into account contractual management fee waivers that are in effect until May 31, 2022.

Investing involves risk, including loss of principal. Small cap investing involves greater risk not associated with investing in more established companies, such as greater price volatility, business risk, less liquidity, and increased competitive threat.