

Conestoga Small Cap Investors CCASX

Worthy of confidence.

Morningstar's Take CCASX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Silver

Morningstar Pillars

Process	● Above Average
Performance	—
People	● Above Average
Parent	● Above Average
Price	—

Role In Portfolio

Supporting Player

Fund Performance

Year	Total Return (%)	+/- Category
YTD	-26.15	-1.58
2021	16.13	4.24
2020	30.34	-8.28
2019	25.18	-2.49
2018	0.61	6.37

Data through 8-31-22

9-09-22 | by Tony Thomas

Conestoga Small Cap has the resources and approach to succeed in the long term. Its two share classes continue to earn a Morningstar Analyst Rating of Silver. The strategy is closed to most new investors.

The fund's advisor, Conestoga Capital Advisors, is a small but well-run shop. Two veteran investors, cofounder Bob Mitchell and Joe Monahan, co-lead this strategy, with Mitchell having served here since the fund's October 2002 inception. They're part of a tight-knit team of eight (five portfolio managers, two analysts, and a trader) that has proven adept at smaller-cap stock investing, both here and at Conestoga SMid Cap CCSMX. While the firm has doubled its equity-fund offerings the past 15 months with micro-cap and mid-cap launches, all four strategies share the same basic approach and many holdings, thus easing concerns that the team is overstretched.

The approach here follows reasonable, clear guidelines. The managers target firms that can grow earnings at least 15% per year and generate 15% or more return on equity over the next three to five years. Low debt and decent insider ownership help. The team has long built its portfolio on mostly profitable, financially healthy companies relative to its small-growth Morningstar Category peers and the Russell 2000 Growth Index; as a result, Conestoga's managers, once invested, often stick with companies for years to benefit from expected gains. Conestoga has also handled capacity pretty well, closing the fund to most new investors in 2018 amid a spike in assets. The team rightly keeps a vigilant eye on the smid-cap fund's growth and have given it an even lower capacity limit than this strategy to protect fundholders in both camps and keep concerns about individual holdings' liquidity in check.

This style of investing can amply reward patient investors. The strategy tends to fare better than most peers and the benchmark in downturns while keeping up in rallies, helping the fund build a long-term edge.

All told, the Conestoga team and its approach here are worthy of confidence.

Process Pillar ● Above Average | Tony

Thomas 09/09/2022

A straightforward, well-executed approach earns an Above Average Process rating.

Clear parameters guide the managers' search for small-cap stocks. They like profitable firms with strong competitive positions and growth characteristics, including the ability to grow earnings and returns on equity at a 15% clip over the next three to five years. (They often measure profitability by adjusted EBITDA rather than net income to better gauge the health of a company's main business activities.) They also prefer

companies with modest debt loads--typically those with debt/capital ratios under 40%. Significant insider ownership (usually 10% or more) helps. Overall, the team's goal is to pick stocks likely to double (via total return) over the next three to five years.

The managers invest with conviction and patience. Their total holdings usually fall within a narrow range (45-55), and they tend to hang on to their picks for at least a few years. By mandate, the team must keep 80% of assets in firms whose market capitalizations fall within the Russell 2000 Index's range at purchase, though they're willing to hold a company as it grows into mid-cap territory if they like its fundamentals. While the portfolio is generally well-diversified across individual holdings and sectors, the managers may have up to 3 times the Russell 2000 Growth Index's weighting (with an absolute cap of 40% of assets) in any one sector. They also stay fully invested, often keeping cash levels below 5%.

This portfolio consistently delivers on its managers' growth and profitability expectations. In the past 10 years through July 2022, its holdings have produced net positive historical earnings growth every month except February 2022; the Russell 2000 Growth Index, by comparison, did that 83% of the time. As a result, the portfolio's average return on invested capital often well exceeds the index's: in July, it was a healthy 9.0% versus the benchmark's 1.2%. The team's aversion to debt-ridden companies also stands out, with the July portfolio's average debt/capital ratio at a modest 28%--well below the index's 37%.

Sector weightings may veer widely from the index. Industrials have made up the largest sector weighting in the portfolio since late 2021; at 34% in July, it was double the index's allocation. Technology is also a favorite hunting ground. Conversely, stakes in consumer cyclicals or financials are often light to nonexistent.

The team is patient and willing to hold its best picks as they grow. The portfolio's average annual turnover rate in the five years through 2021 was a modest 20%, far less than the small-growth Morningstar Category median of 60%. Indeed, long-term holdings are staples here: 47% of July's assets were in stocks owned for five years or longer, including medical instrument supplier and mid-cap stock Repligen RGEN, first bought in 2014 and one of 29 holdings shared with Conestoga SMid Cap CCSMX.

Performance Pillar | Tony Thomas 09/09/2022

This fund has an attractive risk/reward profile. From its October 2002 inception through August 2022, the Investor share class gained 11.3% annualized, beating more than 80% of small-growth Morningstar Category peers and topping the Russell 2000 Growth Index's 10.2%. Relative to the index, the fund tends to be less volatile (as measured by standard deviation) and more durable in selloffs. Indeed, the fund fell only 79% as far as the benchmark in downturns during that two-decade period. The managers' preference for profitable, steady growth companies drove these impressive results.

Keeping that preference in mind helps make sense of recent performance, too. Low interest rates following the pandemic's onset fueled speculative stocks—not this fund's typical fare—in 2020's last nine months, and the fund had a mediocre calendar-year showing as a result. Things improved in 2021, when three top-15 holdings entering the year—Fox Factory Holding FOXF, SiteOne Landscape Supply SITE, and Trex TREX—helped lead the way. All three benefited from increased recreational and home-renovation spending during the pandemic—though the Conestoga team began investing in each well before coronavirus arrived. Those same three stocks sold off sharply in 2022 through August, however, as the pandemic eased—and that rattled the typically sturdy strategy in a difficult market environment for growth stocks.

People Pillar Above Average | Tony

Thomas 09/09/2022

An experienced investment team with a sensibly distributed workload earns an Above Average People rating.

Robert Mitchell is key to the team's continuity and culture. A 27-year industry veteran, Mitchell cofounded Conestoga with William Martindale in 2001. As CIO, he has crafted small teams to oversee Conestoga's strategies, which range from micro-cap to mid-cap and are suitable for this group given their similar approaches and many shared holdings. Here, 40-year industry veteran Joseph Monahan, who co-leads Conestoga's new micro-cap fund, doubles as Mitchell's co-lead manager and a source of new ideas.

Mitchell's positive influence reaches farther. He began freeing up the managers (who also analyze companies) by hiring Conestoga's first dedicated analyst, David Neiderer, in 2013; he later added Larry Carlin (2015) and Ted Chang (2020) to the research bench. He also hired Derek Johnston, with whom he comanages Conestoga SMid Cap CCSMX, in 2015. Johnston and Chang, colleagues at a previous firm, now lead Conestoga Mid Cap CCMAX, melding Chang's mid-cap expertise with Johnston's insights on rising smid-cap companies.

The managers have multiple stakes in this fund's success. As of September 2021, Mitchell invested \$500,001-\$1 million and Monahan had \$100,001-\$500,000—moderate amounts given their tenures—yet each owns a portion of the firm, for which this strategy is the flagship offering.

Parent Pillar Above Average | Tony

Thomas 10/12/2020

A well-run firm with proven investment strategies earns Conestoga Capital Advisors an Above Average Parent rating.

The firm's gradual evolution has helped preserve its culture. Founded in 2001, Conestoga has handled its few departures (all retirements) well. Since 2019, co-founder Bob Mitchell and three other managing partners have extended ownership to almost all the firm's 14 employees. This aids retention and gives staff a stake in Conestoga's success. Opportunistic hiring has built out the firm's trading resources, and mid-cap analyst Ted Chang's hire in 2020 complements the small-cap equity shop's core strengths.

Conestoga offers a simple, well-crafted investment lineup. Its two main strategies, small-cap and small-/mid-cap equity (available either as mutual funds or in separate accounts), use clear parameters to focus on profitable, low-debt companies. Both have attractive risk/reward profiles and solid track records. The investor-friendly firm keeps its mutual fund fees competitive by offering generous waivers.

Managing strategy capacity is the firm's main challenge. The small-cap offering gathered assets quickly in 2017-18 before a gradual closure brought flows under control. That move, plus the firm's conservative limit on the related (and still open) small-/mid-cap strategy, should help protect the Conestoga portfolios' attractive features.

Price Pillar | Tony Thomas 09/09/2022

It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's middle quintile. That's not great, but based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we think this share class will still be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Silver.

Total Returns % (As of 9/30/2022)	Average Annualized Total Returns							
	QTD	YTD	1-Yr	3-Yr	5-Yr	7-Yr	10-Yr	Since Inception 10/1/2002
CONESTOGA SMALL CAP FUND								
CCASX– Investors Class	-4.29	-32.15	-28.78	2.65	6.03	10.89	10.98	10.74
Russell 2000® Growth Index	0.24	-29.28	-29.27	2.94	3.60	7.12	8.81	9.60

Gross expense ratio: 1.45%, Net expense ratio: 1.10%; Conestoga Capital Advisors, LLC (the Adviser) has contractually agreed to limit the Fund's Investor Class net annual operating expenses to 1.10% of the Fund's average daily net assets until at least January 31, 2023, subject to termination at any time at the option of the Fund. There is no guarantee that the agreement to limit the Fund's annual operating expense will be renewed or extended.

Performance is based upon closing NAV calculation on listed dates and represents past performance. Past performance does not guarantee future results and current performance may be lower or higher than the performance quoted. Performance data includes reinvestment of dividends. Investment returns and principal value of an investment in Conestoga Small Cap Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For the Fund's daily NAV, list of additional holdings, total return as of the most recent month-end and a copy of the Fund's prospectus, please visit www.conestogacapital.com or call 1-800-320-7790.

Mutual Fund Investing involves risk, principal loss is possible. Investment in the Fund is subject to investment risks, including, without limitation, equity risk, market risk, management risk, small company risk, foreign investment risk, currency risk, large redemption risk. Funds that invest in small and mid-cap stocks are often more volatile than large cap stocks. Smaller companies generally face higher risks due to their limited product lines, markets and financial resources. For more information about the Fund, including the Fund's objectives, charges, expenses and risks (including more information about the risks listed above), please read the prospectus.

An investor should consider investment objectives, risks, charges, and expenses carefully before investing. Download a prospectus, which contains this information or call toll free 1-800-494-2755. Read the prospectus carefully before investing or sending money.

The Russell 2000® Growth Index measures the performance of the small cap growth segment of the US equity universe. The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. An individual cannot invest directly in an index.

A rate of return (**ROE**) is the gain or loss on an investment over a specified time period, expressed as a percentage of the investment's cost. Gains on investments are defined as income received plus any capital gains realized on the sale of the investment.

Earnings before interest, taxes, depreciation, and amortization (EBITDA) is a widely used measure of core corporate profitability. By stripping out the non-cash depreciation and amortization expense as well as taxes and debt costs dependent on the capital structure, EBITDA attempts to represent cash profit generated by the company's operations.

Standard deviation is a measure of the dispersion of a set of data from its mean. If the data points are further from the mean, there is higher deviation within the data set. Standard deviation is calculated as the square root of variance by determining the variation between each data point relative to the mean.

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