Environment

The second quarter was abnormally quiet. After the plunge and rebound in oil and most commodities and the signs of an imminent meltdown in China last quarter, US equity markets rose a bit with value leading the way, though much more of that was a search for yield in the Utilities and REITs rather than any search for fundamental value.

The US economy is giving mixed messages. We are pleased to see the steady decline in unemployment. We think that the many help wanted signs that we see on stores, restaurants, etc. confirm that the government data is correctly painting the picture. We think that the loud and insistent pronouncements of a few older, wild haired gentlemen can be dismissed as political posturing, but yet the Federal Reserve continues to keep interest rates at unbelievably low levels. Frankly, we are in a low growth environment. The spurt in growth coming out of the financial meltdown of 2007-2008 was largely driven by a rebuilding of inventories, a surge in investment in shale gas & oil, and China's major infrastructure spending. Those are all passed. With excess capacity worldwide in most commodities and manufacturing, we cannot expect much growth from capital investment.

The good news is that the consumer is in good shape and the level of consumer debt is rising only modestly. Though mortgage debt is rising, the credit quality of the borrowers remains very high. Home equity lines of credit are low and credit card balances have been declining. The only area of concern is the persistent increase and high delinquency of student debt. We see the same picture in corporate borrowing; yes it is hurting our bank holdings that rates are low and companies large and small are being conservative, but with consumers and businesses in good shape we think that it is most likely that the economy will continue to expand. We may have reached a point where wages start to move up and new minimum wage laws may accelerate that, but that would not be bad. Perhaps, with higher wages, the workforce participation will increase. If those things happen, interest rates will inevitably move toward more normal levels.

That being said, we are concerned with what higher interest rates will do to the stocks which we own; the picture is mixed. Balance sheets are strong and the valuations of our holdings are typical of the values which these companies have held over the recent decades. If interest rates move up more rapidly than the market expects, there is likely to be selling pressure overall, especially if higher rates quickly curb demand. We don't see that as likely in the next few quarters.

Performance Review

Portfolio Factors

The returns for the Fund exceeded the Russell 2000 Value Index benchmark by 47 basis points. Our allocations worked against us. The Utilities sector, where we had only a small position, was a top performer while Consumer Discretionary, where we had almost double the index weight, was the worst performing group. We did pick up some advantage by retaining an overweight in Materials, a group which bounced back strongly as steel and some other commodities saw some price relief. In total, allocation penalized us by 96 basis points for the quarter with Consumer Discretionary and Utilities accounting for 54 and 28 basis points respectively.

It is worth noting that Real Estate, which on August 31, 2016 will be broken out as a separate GICS sector in the index, averaged 16.7% of the benchmark for the quarter. We continue to be absent from these holdings and, as such, were penalized 42 basis points during the period. We are confident that our decision to largely avoid this group is the correct long term decision. We believe that the leveraged structure of these vehicles exposes us to the inevitable but unpredictable risk of higher interest rates.

Stock Selection: Contributors

While the overweight in Consumer Discretionary impacted negatively, our selections did well; in particular, American Public Education (APEI), Superior Industries (SUP), Unifi (UFI), Interval Leisure Group (IILG) and Big Lots (BIG). We have held each of these stocks for quite a few quarters and were pleased to see them getting greater recognition. We were also delighted that there is no central theme for what is a very diverse group of names. These holdings are a for profit school, an automobile wheel maker, a yarn texturizer, a time share vacation company and a discount retailer. We also did very well with our one holding in the Consumer Staples sector, MGP Ingredients (MGPI). It is a relatively new holding and is the kind of company that we love to find. It is a distiller of industrial and consumer alcohol. The stock was virtually forgotten while management shifted strategy to much higher value aged spirits.

The biggest contributor, Tutor Perini (TPC), was a rebound. We had purchased this engineer and construction contractor because it had a good backlog of civil and commercial work and the stock was down because of some typical delays in work. They initially got worse but we added to the position when it became evident that Ron Tutor, company founder, was getting more deeply involved in the day to day running of the company, which has proved to be very helpful. The second biggest contributor was the previously mentioned MGP Ingredients, followed by GCP Applied Technologies (GCP). This is a recent spinoff from W.R. Grace and fits with our long practice of looking for companies which bring a strong technical advantage to their customers.

Superior Industries (SUP), a wheel maker, which is benefiting from strong sales of automobiles and light truck but getting an even larger profit boost as they realize the efficiencies of a new plant in Mexico, was the fourth largest contributor. Finally, Southside Bancshares (SBSI), a Texas banking group, rebounded from concerns about the impact of lower oil prices on the region's banks as the market realized their lack of direct or indirect exposure to the oil industry.

Portfolio Contributors – Q2 2016

Security	Average Weight (%)	Contribution
Tutor Perini Corporation (TPC)	1.73	0.77
MGP Ingredients (MGPI)	1.42	0.68
GCP Applied Tech. (GCP)	1.77	0.43
Superior Industries Int'l (SUP)	2.30	0.43
Southside Bancshares (SBSI)	1.72	0.38

Stock Selection: Detractors

There were two names that were the large detractors. The most disappointing was the decline in the price of Seaworld Entertainment (SEAS). We were very pleased that management elected to cease the breeding of Orca whales. Not only was it the right thing to do but it makes economic sense. Unfortunately, the rise of the US dollar and the decline of the Brazilian currency, as well as perhaps the fear of the Zika virus, have reduced attendance at all the theme parks.

The second big detractor was Bassett Furniture (BSET), which reported a disappointing quarter on the last day of the quarter. The culprit seems largely to have revolved around the timing of the Memorial Day sale. We are still comfortable with the strategy and the outlook for the home furniture industry. Other stocks that detracted included Briggs & Stratton (BGG), Lionbridge Technologies (LIOX), and Houston Wire & Cable (HWCC). None of these were individually significant and we continue to hold each of those stocks.

Portfolio Detractors – Q2 2016

Security	Average Weight (%)	Contribution
SeaWorld Ent. (SEAS)	1.85	-0.69
Bassett Furniture (BSET)	1.61	-0.47
Lionbridge Tech. (LIOX)	0.84	-0.18
Houston Wire&Cable (HWCC)	0.53	-0.15
Briggs and Stratton (BGG)	1.34	-0.14

Portfolio Changes

During the June quarter we closed out seven positions, five of those based on the price appreciation of the stocks. The list included AAON (AAON), Big Lots, CVB Financial (CVBF), Chart Industries (GTLS) and Standex (SXI). None of these represented a takeover or rumor of a takeover. In spite of very low interest rates and many companies struggling with excess cash and low growth, the appetite for risky M&A activity seems to be absent. We also sold Capella Education (CPLA) as we were not comfortable that their strategy was strong enough to overcome the challenges that the education industry is facing.

We purchased eight new stocks which brought our portfolio holdings to eighty four, a number which is typical of our small cap value series. Of these holdings, three were smaller weighted positions in micro-cap stocks. They include ARC Document Solutions (ARC), a printer of construction documents, Jakks Pacific (JAKK), toy manufacturer, and Huttig Building products (HBP), a distributor of millwork.

The other purchases were split between the Industrial and Consumer Discretionary sectors. We have looked at Interface (TILE) for many years and have grown to admire the way that they have defended and enhanced their position with carpet tile in the fiercely competitive flooring materials industry. We believe that the current stock price is very attractive. We also purchased a position in NEXEO (NEXO), a chemicals distributor, which came public via a merger with a blank check development stage company. The actual merger was unusually complex and involved some last minute drama but the underlying business is strong and well managed. We liked the opportunity to buy a good company at a meaningful discount to its peers. We also added Regal Beloit (RBC), a company which has focused on being a best in class maker of electric motors for air-conditioning, appliances and a variety of other uses. We liked the high returns on invested capital which management achieves and the modest valuation. We also added Dana Holdings (DAN), a maker of drive train equipment to both heavy and light vehicles. The outlook for their markets is mixed but we liked the improvements that the company has made to its product offerings.

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

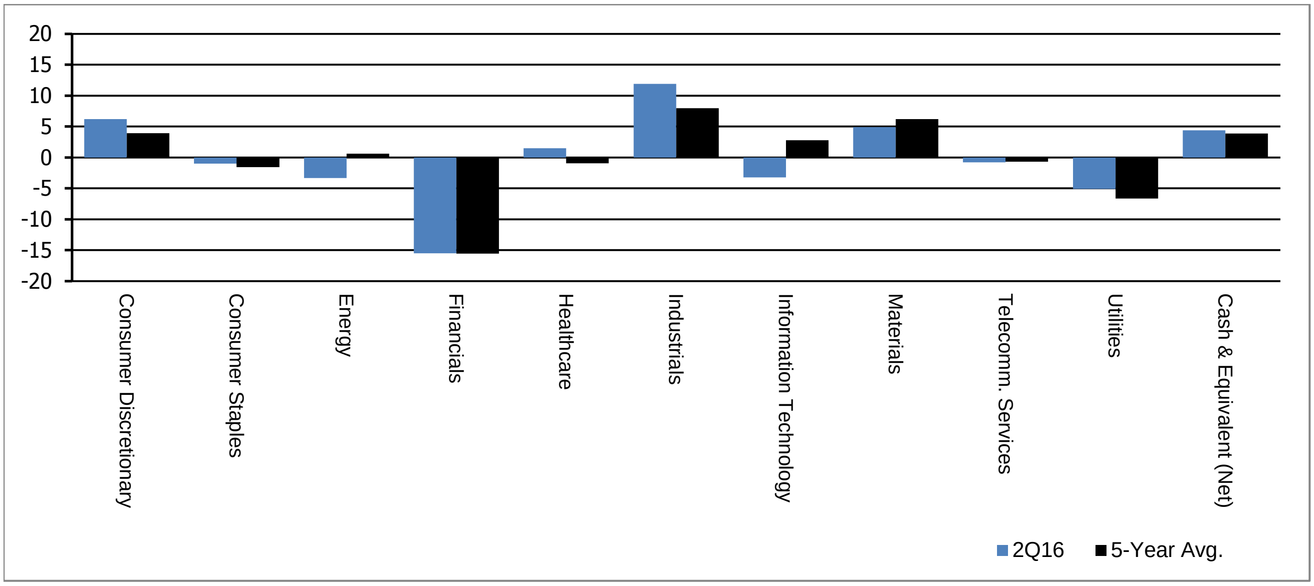

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2000 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Outlook

While the year started out on a note of fear, the economy seems to be expanding slowly and pretty steadily. Interest rates continue to be unsustainably low but, for the time being, likely to stay there. Our holdings are concentrated in strong companies with good business models and strong balance sheets. The markets have avoided a bear market which seemed to be developing late last year and early this year. While we do not see the valuations of the stock that we own as excessive, we understand that the market and all the stock within it are vulnerable when interest rates move back toward normal level. We think that because of our avoidance of yield stocks, we are less vulnerable to the effect of such an event than our benchmarks.

Top Ten Holdings (%)

Mueller Water Products, Inc.	2.1
McGrath Rentcorp	2.1
Superior Industries International, Inc.	2.1
MGP Ingredients, Inc.	2.0
LHC Group, Inc.	1.9
Southside Bancshares, Inc.	1.9
Interval Leisure Group, Inc.	1.9
Tutor Perini Corp.	1.9
Unifi, Inc.	1.9
Ply Gem Holdings, Inc.	1.8
Total % of Portfolio	19.6

Fund Statistics

	Fund	Russell 2000 Value Index
Number of Holdings	84	1,361
Median Market Cap (Billions)	$648.4	$571.4
Weighted Avg. Market Cap (Billions)	$1,003.5	$1,589.8
Price/Book[2]	1.4	1.2
P/E using FY1 Estimate[3]	15.4	14.9

Source: FactSet Research

Portfolio Performance

	Q216	1 Year	3 Year	5 Year	Since Inception (2/1/08)
Walthausen Small Cap Value Fund	4.78	-7.40	4.21	8.76	11.82
Russell 2000 Value Index[1]	4.31	-2.58	6.36	8.15	6.57

Total Expense Ratio: 1.25%. Expense ratio per the June 1, 2016 prospectus.

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.

[1]*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.*

Disclosures

[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.*

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 Rafferty Capital Markets, LLC – Garden City, NY 11530, 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.

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