Walthausen Select Value Fund

Quarterly **Fund Commentary**

Ticker Symbols: Institutional Class WSVIX | Retail Class WSVRX

As of March 31, 2016

Environment

The quarter started out with a spasm of negative attitude with markets dropping in harmony with falling oil and natural gas prices. The correlation was a bit hard to understand. Yes the drop in oil, natural gas and other commodity prices had created distress in some quarters. In the U.S., we did see an impact in much of the industrial economy as a good part of the uptick in sales for the past several years had been to equip the oil field for increased drilling, production and transportation. That surge in exploration and production helped the economy and often the jobs were good paying jobs. So while the slowdown hurt, the fact remains that the U.S. is an importer of oil and so a drop helps the balance of trade and the vast majority of people in the country benefit from lower energy prices in the day to day expense of fueling their cars and trucks and heating their homes.

But we can't just look at the United States; we no longer dominate the world economy the way that we used to. China buys more cars than we do and they make half the steel in the world so the possible ramifications of the slowing growth in China are widespread. This slowdown, coupled with expansion in production capacity, has put pressure on raw material prices and hurt a number of countries as well as companies who are raw material dependent. That turbulence may have sparked worries about the debt obligations of those countries and companies and caused a rush to safety.

However, the dust settled quickly as oil prices came back a bit, though not enough to make the shale oil plays attractive. As we look at the U.S., we see a relatively healthy economy. Employment is continuing its steady improvement and home prices are gradually rising. Credit, though slightly tighter, is still widely available at very attractive rates and consumer confidence appears solid. Corporate America continues to be rather restrained, corporate profits are very strong and balance sheets are in good shape. The excesses of the shale oil rush and the probably excessive valuations of the "Unicorns" (private companies valued at $1 billion or more) are in our opinion not likely to roil the credit markets or have much impact on the consumers' willingness to spend. With the U.S. economy beginning its eighth year of expansion we usually look for a recession on the horizon, but we don't currently see it. The excessive behavior which spawns a credit crisis is not evident. However, China and the murky behavior of a colossus which is half communist totalitarian and half go-go capitalist could create a crisis.

By the end of the quarter markets revived sharply closing the quarter about where the year began. In fact, the Russell 2500 Value Index achieved a 3.33% return. The past year's underperformance of the small cap value segment of the domestic equities market has created an interesting opportunity where many more stocks are selling at levels which represent good business value.

Performance Review

Portfolio Factors

The Walthausen Select Value Fund had a difficult quarter underperforming the return of its benchmark. The bulk of the shortfall came from allocation. Our largest challenge came from our absence from Utilities. That sector, which accounts for over 10% of the benchmark, gained over 13% in value. We surmise that this gain was due to the Federal Reserve postponing an increase in interest rates, the benefit of which may readily evaporate. The worse performing sector was Healthcare. Our overweight position impacted somewhat. Energy had another down period but with much reduced velocity. Due to the falling prices of oil, natural gas and coal, and the related drop in equity prices, the sector at a weight of 4.3% does not weigh very much on results. Even so, we were glad to be absent from the group. The one sector which showed outstanding performance with a return of greater than 10% was Materials. A modest overweight helped us there.

Stock Selection: Contributors

Several recent purchases added to our performance. These included Commercial Metals (CMC), La-Z-Boy (LZB) and Kirby Corp (KEX). We added Commercial Metals, a steel maker which we have owned before, because we continue to believe that this is a very strong operation. With new management they have shed a few marginal operations but we also believed that they stood to benefit from the improving environment for non-residential construction, very low cost for the scrap steel which they use to make steel, the new FAST Act (federal transportation funding) and possibly the antidumping suits. Kirby is another name which we have owned in the past. We are convinced that Kirby's barge operation is well positioned to benefit from the increasing domestic production of chemicals. The stock has, however, been under some pressure because of the downturn in the less important of their businesses, Diesel Engine Services, and we saw an opportunity to buy a very strong company at an advantageous price. The third of best contributors that was relatively new to the portfolio is La-Z-Boy. That well established maker of home furniture has been busy reinventing itself and is using its captive retail store to make a big push to enhance consumer perception of quality. That is translating into better margins and much better returns on invested capital. They are virtually debt free and using their cash flow to buy in stock as well as add more locations of company owned retailer, Furniture Galleries. The top five contributors were rounded out by two old favorites, Big Lots (BIG) and Deluxe Corp (DLX). We continue to hold each of these stocks.

Portfolio Contributors – Q1 2016

Security	Average Weight (%)	Contribution
Commercial Metals (CMC)	2.75	0.74
La-Z-Boy (LZB)	1.87	0.69
Kirby Corporation (KEX)	1.89	0.57
Big Lots (BIG)	2.75	0.47
Deluxe Corp (DLX)	2.90	0.44

Stock Selection: Detractors

We have exited three of the five worst performers. With regret, we sold DeVry Education Group (DV). We were convinced that the company's medical, nursing and international operations had very substantial value but a Federal Trade Commission suit charging misleading advertising seems likely to be a very substantial drag on this for-profit education stock. We also sold Rackspace (RAX), a provider of cloud services. While the higher service model has some intuitive appeal, we became increasingly concerned that the very intense competition from heavy weight players, particularly Amazon, will prevent this company from showing good returns on invested capital. We also sold Lexmark (LXK) which we had purchased several years ago believing that they would be able to direct their massive cash flows from their commercial printer business to businesses with potential from growth. Unfortunately, the cash flow from printers has shrunk faster than we expected and the acquisitions have not panned out too well. We were also negatively impacted by the decline in the prices of Trinity Industries (TRN) and Air Methods (AIRM). We believe that the values are compelling for these two names and their business models are strong. In total, selection created a penalty of 38 basis points versus the benchmark.

Portfolio Detractors – Q1 2016

Security	Average Weight (%)	Contribution
DeVry Education Group (DV)	2.66	-0.59
Rackspace Holdings (RAX)	2.51	-0.59
Lexmark International (LXK)	2.31	-0.41
Trinity Industries (TRN)	2.44	-0.32
Air Methods Corp (AIRM)	2.43	-0.31

Portfolio Changes

During the quarter we added four new holdings, a number of which we consider typical. We previously mentioned La-Z-Boy and Kirby. We also found a very attractive opportunity with GCP Applied Technologies (GCP), a spinoff from W R Grace. We had, in the past, admired some of the businesses within Grace but were cautious because of the substantial post retirement and asbestos liabilities. The new spinoff gives us some of those businesses but sheds the liabilities. We also acquired M.D.C. Holdings (MDC), a well-positioned home builder selling at a price which suggested that investors believed that the value of their holdings will decline even though the data shows rising prices for new and resold homes.

We sold five positions including DeVry (DV), Rackspace (RAX) and Lexmark (LXK) mentioned earlier. We also sold Swift Transportation (SWFT) as we were disappointed that the company was not better able to improve rates and margins in an improving economy with a shortage of drivers. We also sold Carlisle Companies (CSL) based on its valuation. Also, during the quarter we bought and sold Eagle Materials (EXP). We bought a strong company at a good price and a quick price recovery suggested that we move on.

Exhibit 1: Sector Allocation - % over/underweight vs. Russell 2500 Value Index

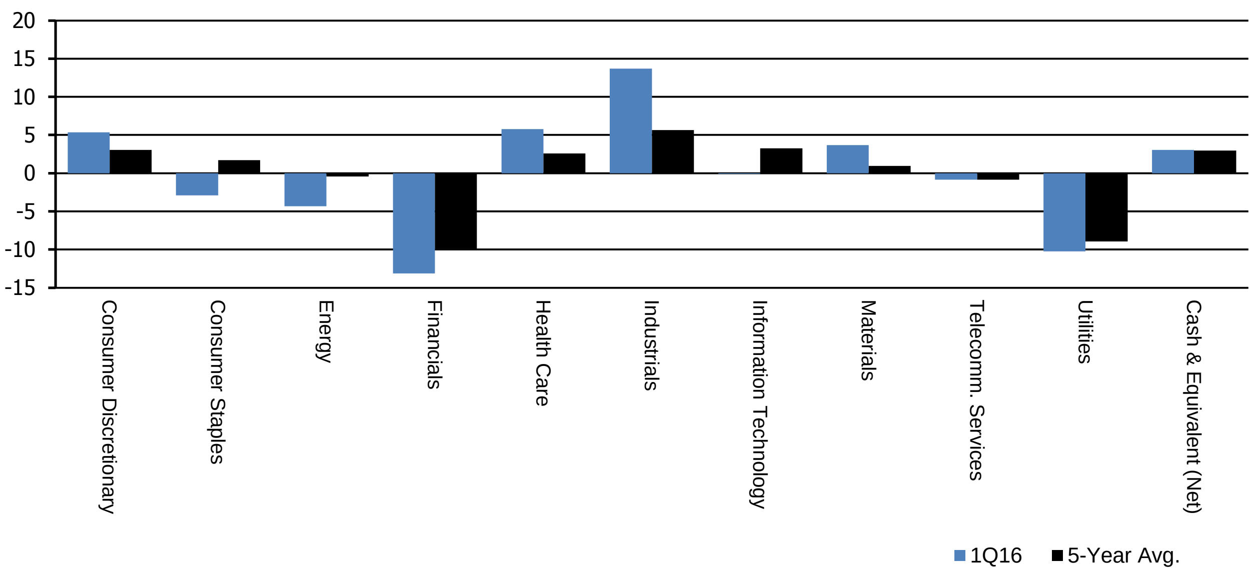

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2500 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Outlook

The year started on a note of fear. The markets then stabilized and recovered, perhaps largely due to renewed commitment to use monetary policy by both the Federal Reserve Bank and governments abroad to keep interest rates low and credit available. Though the markets recovered and economic growth is tepid, our review of the portfolio suggests that the businesses are strong and the stock prices are still attractive.

Top Ten Holdings (%)

Deluxe Corp.	3.0
GATX Corp.	3.0
Commercial Metal Co.	2.9
Seaworld Entertainment Inc.	2.9
La-Z-Boy Inc.	2.9
AptarGroup Inc.	2.8
HealthSouth Corp.	2.8
Kindred Healthcare, Inc.	2.7
M.D.C. Holdings Inc.	2.6
Molina Healthcare, Inc.	2.6
Total % of Portfolio	28.3

Fund Statistics

	Fund	Russell 2500 Value Index
Number of Holdings	39	1,675
Median Market Cap (Billions)	$2,692.7	$879.4
Weighted Avg. Market Cap (Billions)	$2,940.9	$3,885.8
Price/Book[2]	1.9	1.5
P/E using FY1 Est[3]	14.0	16.6

Source: FactSet Research

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As of March 31, 2016

Portfolio Performance

	Q1 16	1 Year	3 Year	5 Year	Since Inception (12/27/10)
Walthausen Select Value Fund: Institutional Class	1.78	-8.56	6.18	8.82	9.52
Walthausen Select Value Fund: Retail Class	1.65	-8.84	5.93	8.53	9.24
Russell 2500 Value Index[1]	3.33	-5.20	7.16	8.33	9.45

Total Expense Ratio: 1.45%. Expense ratio per the June 1, 2015 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 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.

The Net Expense Ratio includes a waiver. The Advisor has contractually agreed to waive, for the Institutional Class Shares through May 31, 2016, 0.25% of the 0.45% Services Agreement fees applicable for Fund average daily net assets up to $100 million. The Advisor may not terminate the fee waiver before May 31, 2016. From the prospectus dated June 1, 2015.

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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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.

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