Walthausen Select Value Fund

Quarterly **Fund Commentary**

Ticker Symbols: Institutional Class WSVIX | Retail Class WSVRX

As of March 31, 2017

Environment

The honeymoon is under way. The November election of Donald J. Trump was greeted with a surprising surge of investor enthusiasm as punters moved to buy stocks to position themselves for a stronger economy, particularly a stronger industrial economy and lower taxes.

So will the promises of the new administration bear fruit? Will investor enthusiasm be rewarded? Will the seeming divisive new administration prove to be temporary? We're not certain but think that it is only prudent to consider the enhanced political risk. The market only reached the current elevated levels on speculation that the new administration will achieve faster economic growth, with higher wages and lower taxes. So far the results are unimpressive. Perhaps the market is assuming that the foibles of an inexperienced President will soon pass.

We continue to be surprised by the strength of the US equity markets. In the first quarter the broad market experienced gains with large cap and growth stocks leading. By any measure equity market values are at very high levels. While some talking heads have concluded that there is no bubble, our observation is that the extended period of excessively cheap money has gradually excited the speculative instincts. We see it most vividly in venture capital markets and in the heavy trading of an increasing array of ETFs. We think that as the economy continues to expand, interest rates will rise and that will challenge the current high values that prevail in the market.

The credit markets tend to be good indicators of the health of the business cycle and we have started to observe the deterioration of loan performance during the quarter, particularly in the auto financing companies. The average loan term has increased and average credit score of the applicants has fallen. We see weakness in reported results from retailers and restaurants which indicate to us that the consumer is strained. This, coupled with our view of rising rates, could squeeze the consumer and lead to increasing loan losses. Given this, we lowered our exposure to banks and scrutinized our bank holding's exposure to auto lending along with reducing our exposure to auto parts suppliers.

We believe the fund is well positioned although cash is higher than usual. We continue to find it challenging to find stocks that meet our standards at prices that we find attractive. Markets are made with the meetings of human buyers and sellers. The mood can change rapidly and dramatically. With that in mind, and considering the high corporate profits and high values that stocks are trading at, we prefer to remain conservative in our stock selections.

Performance Review

Portfolio Factors

For the first quarter the relative and absolute strength of growth stocks illustrated the speculative fervor which has influenced the market. Thus we are delighted, and more than a bit surprised, that the fund achieved relatively good performance for the quarter with a gain of 4.1%, well ahead of the 1.62% achieved by the Russell 2500 Value Index which we benchmark ourselves against.

Stock Selection: Contributors

The best performer in the fund was Textainer Group (TGH), a container leasing company which benefited from better prices for used containers. Both the price of new and used containers tracks fairly closely with the price of steel which had hit a low point in the spring of 2016, causing the price of used containers to drop to prices well below book value. So the company had to write down containers as they came off lease. However, the market has corrected in part because the container builders slowed production and the inventory of containers available for lease dropped and thus prices have rebounded. Other contributors were Westlake Chemical (WLKP), a very cost efficient chemical company and Primerica (PRI), an insurer and a long term holding. Primerica writes relatively small life insurance policies and IRA retirement investments. Because it relies on a large group of sales people, many of whom are selling on a part time basis, the rules that would have increased the requirements for licensing could have slowed their growth but that change seems to have been discarded. Rounding out the top five were GCP Applied Technologies (GCP), a producer of specialty chemicals, primarily for the construction market and M.D.C. Holdings (MDC), a home builder.

Portfolio Contributors – Q1 2017

Security	Average Weight (%)	Contribution
Textainer Group Hldgs (TGH)	2.46	1.94
GCP Applied Tech. (GCP)	2.42	0.52
Primerica, Inc. (PRI)	2.76	0.50
M.D.C Holdings (MDC)	2.75	0.48
Westlake Chemical Corp (WLK)	2.65	0.47

Stock Selection: Detractors

The performance was penalized by Vista Outdoor (VSTO). Their sales and earnings slowed as the enthusiasm for buying weapons and ammunition dropped after the election. We have exited Suburban Propane (SHP) after our analysis suggested that the second straight unusually warm winter was reducing demand for propane and could cause this MLP to reduce its payout. We are staying with our positions in EMCOR Group (EME), McGrath RentCorp (MGRC) and Commercial Metals (CMC) in spite of disappointing performance because we consider them to all be fundamentally very strong companies.

Portfolio Detractors – Q1 2017

Security	Average Weight (%)	Contribution
Vista Outdoor (VSTO)	1.71	-1.14
Suburban Propane (SPH)	2.00	-0.40
McGrath RentCorp (MGRC)	2.28	-0.33
EMCOR Group (EME)	2.40	-0.31
Commercial Metals (CMC)	2.14	-0.28

Portfolio Changes

We had fairly modest turnover in the portfolio in the quarter, selling Pitney Bowes (PBI) due to disappointing execution, Polaris (PII) due to recurring design problems in their equipment as well as selling Suburban Propane (SPH).

We acquired Electronics for Imaging (EFII). The stock became attractive as we have seen the company use its technological depth in printing technologies to expand the reach of its wide format printing segment into proprietary inks and systems for printing on fabric and on corrugated. These breakthroughs have expanded the market potential of this company.

We ended the quarter with a higher than usual cash position, reflecting the difficulty of finding stocks that we are comfortable buying at current prices. Given our current views, we are comfortable with the quality of the current holdings.

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

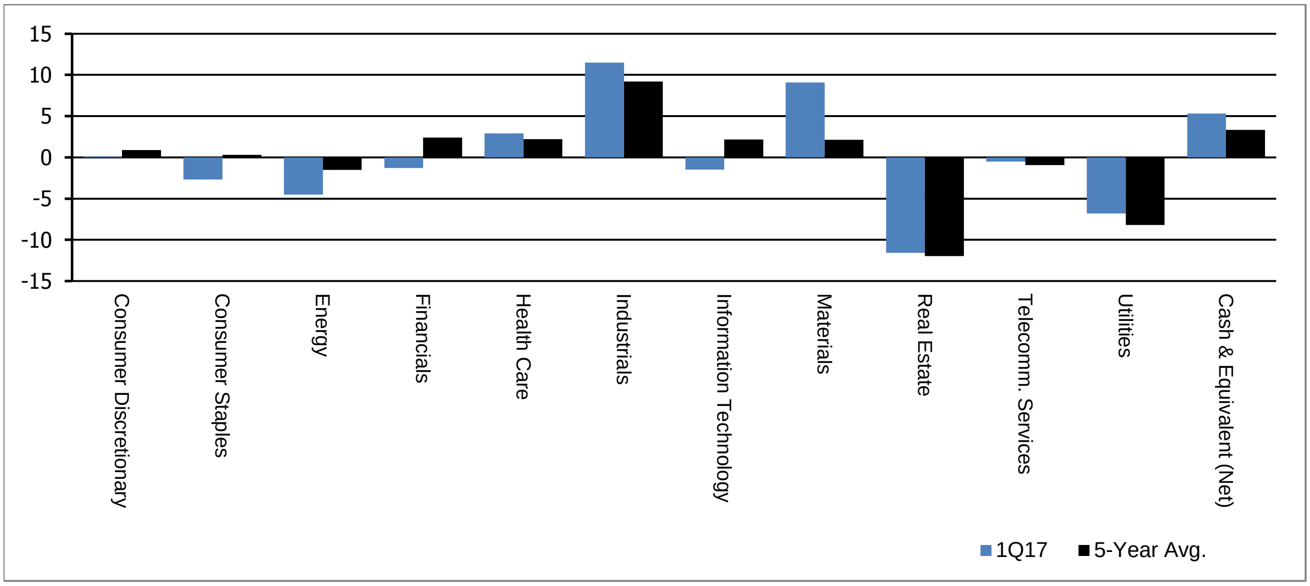

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2500 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Top Ten Holdings (%)

Seaboard Corp.	2.8
FirstCash, Inc.	2.8
Essent Group Ltd.	2.8
Westlake Chemical Corp.	2.7
ITT, Inc.	2.7
MDC Holdings, Inc.	2.7
Vishay Intertechnology, Inc.	2.7
GATX Corp.	2.7
Electronics for Imaging, Inc.	2.7
Primerica, Inc.	2.7
Total % of Portfolio	27.3

Fund Statistics

	Fund	**Russell 2500 Value Index**
Number of Holdings	38	1704
Median Market Cap (Billions)	$3,435.6	$995.4
Weighted Avg. Market Cap (Billions)	$3,541.0	$4,425.9
Price/Book[1]	2.0	1.7
P/E using FY1 Estimate[2]	17.6	18.4

Source: FactSet Research

Portfolio Performance

	Q1 17	1 Year	3 Year	5 Year	Since Inception (12/27/10)
Walthausen Select Value Fund: Institutional Class	4.13	17.06	2.86	12.01	10.69
Walthausen Select Value Fund: Retail Class	4.10	16.83	2.63	11.75	10.42
Russell 2500 Value Index[3]	1.62	23.13	7.55	12.92	11.48

Total Expense Ratio: 1.45%. Net Expense Ratio: 1.20% for Institutional Class, 1.45% for Retail Class. Expense ratio per the June 1, 2016 prospectus.

The Net Expense Ratio includes a waiver. The Advisor has contractually agreed to waive, for the Institutional Class Shares through May 31, 2017, 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, 2017. From the prospectus dated June 1, 2016.

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]*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.*

[2]*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.*

[3]*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.*

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.

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
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