Environment

The second quarter of 2018 was an interesting quarter. Through rising rates and spiraling international discord, the US equity markets rose with smaller market cap stocks leading the way. My best guess is that the leadership of smaller stocks was based on the notion that these more domestically oriented firms will benefit disproportionately from the lower corporate tax rate. While that is a bit of a generalization, it is largely correct. The companies that are highly profitable, particularly those whose earnings come from domestic operations, should benefit.

I am pleased to see the country prospering and with unemployment rates falling further than I had thought possible. However, three factors worry me; tariffs, trade and taxes. Increasingly, trade has been a driver of growing prosperity across the globe. The few countries that have divorced themselves from world trade, like Cuba and North Korea, have drifted into deep poverty. China was poor and enjoyed a strict diet until they embraced trade. The US has benefited from lower barriers as costs of apparel, small appliances, televisions, computers, and virtually everything that we buy at Wal-Mart has fallen in real terms. US companies and workers benefit as well. An improved standard of living has increased demand for higher quality products where the US can excel and sell into a broader market. For example, a Timberland boot may be sold in France, designed and tested in the US and made in Vietnam but everyone prospers.

There is a thought that the loud push for trade reform is a well thought out strategy to improve the patchwork of trade agreements so that they are fairer to the United States. Though the popularity of trade reform may be a reaction to perceived loss of status as other countries flourish, I worry that the current threats of broad punitive tariffs and the counter threats will be real. Yes, I understand that threats of tariffs which originate outside of the World Trade Organization or other agreements may bring people to the negotiating table, and I do understand that US Trade Representative Robert Lighthizer is very able and well respected, but I wonder about the strategy's efficacy. While the US is well respected in most parts of the world, there has been resentment over our propensity to throw our weight around since the Second World War. Can Canadian Prime Minister, Justin Trudeau renegotiate NAFTA without looking like he has been pushed around? Will Canadian voters still support their Prime Minister when our president has insulted him and his country? That is the risk. I think it is likely that the rhetoric has escalated to the point that negotiating with the US is politically too risky.

Tariffs are taxes. So then the question is, who pays the tax? Ultimately, I think that everyone does. If low cost imports are challenging US producers of an item, higher tariffs brings the price up for everyone. As tariffs go up it will be a tax on consumers throughout the world. With labor supply tight it could mean greater inflationary pressure, unless it first results in less consumption and a slower economy. Recent labor department data shows that voluntary job departures are steadily growing. The data also shows that the salary gain for quitting for a new job is advancing, and advancing more rapidly than wages in general. Though management teams thus far have not generally acknowledged that they are needing to make more attractive offers to recruit new workers, I am confident that salaries for new hires are rising and rising in excess of inflation.

Finally, I am concerned by the impact of the recent tax reforms. Setting aside that we are all delighted by a lower tax burden I feel that budget deficits need to be contained when the economy is strong. I subscribe to the tenet that when the economy is floundering you prime the pump by reducing taxes and increasing spending. The recent tax reforms stimulate just as unemployment is at very low levels. I recognize that I am an outlier on this point. I read that economists, with the benefit of sophisticated models, argue that we needn't worry about this because additional workers will appear as the discouraged workers return to the work force. I am not sure. My sense is that much of the past elasticity in the labor supply has been met with immigrant labor. Many observers also argue that the Federal Reserve will use higher interest rates to control growth and inflation. However, with unemployment at sustainable levels and the real interest rate at zero, I don't think that there is an appetite to cool the economy.

The future is murky and unknowable, but right now it seems unusually difficult to discern. I spend a lot of time listening to and observing company managements. They are acting in ways that confirm that the outlook is less certain than usual. I notice that corporate management has been aggressive in pursuing the risky option of increasing acquisitions. At the same time they are personally purchasing less of their own stock.

We stress looking for companies that are well managed which have competitive advantages. This generally leads us to companies with managements who are good shepherds of shareholder capital who can also adjust prices and costs as circumstances demand. As the economy evolves and possibly faces the challenges of tariffs and/or inflation, we prefer to hold companies that possess these attributes.

Performance Review

Portfolio Factors

For the quarter, the Select Value Fund underperformed the benchmark Russell 2500 Value Index. All of the shortfall was from sector allocation. The largest factor was our overweight position in Industrials, the worst performing sector in the index, and by an absence from Real Estate, which performed well. Fortunately, our selections in Industrials were good versus the benchmark. I am not sure why the Industrials as a group did poorly. Perhaps it was concern that tariffs on steel and aluminum will raise costs. Higher steel and aluminum prices will hurt manufacturers in general but we don't see the tariff situation resolving with only raw metal. There are too many workers in metal using industries and very few in metal producing industries. For example, Century Aluminum (CENX), a major US aluminum producer, employs only 1,864 workers and as many as half are located in Iceland. We fell short in our Energy selections in part because companies with exposure to the Permian Basin saw their stocks punished because the rapid acceleration in production was constrained by inadequate pipeline capacity. We see this as a temporary problem as this basin once again is proving to be richer than previously imagined.

Stock Selection: Contributors

The top contributors were from a variety of industries. We have stuck with SeaWorld (SEAS), our best performer, for quite a few discouraging quarters because we believed that their properties held great unrealized value. This quarter, with some small signs of improvement, the stock did well. Vishay Intertechnology (VSH), a leading producer of electronic components, benefited from rising demand as digital electronics are increasing as they are omnipresent in almost everything and most notably in automobiles. Other winners were Encompass Health (EHC), Whiting Petroleum (WLL) and Hub Group (HUBG).

Portfolio Contributors – Q2 2018

Security	Average Weight (%)	Contribution
SeaWorld Entertainment, Inc.	3.02	1.21
Vishay Intertechnology, Inc.	2.88	0.63
Encompass Health Corp.	3.13	0.55
Whiting Petroleum Corp.	1.42	0.50
Hub Group Inc. Cl. A	2.77	0.47

Stock Selection: Detractors

While Whiting Petroleum, an exploration and production (E&P) name in the Bakken, did well, Callon Petroleum (CPE), a well-positioned E&P name in the Permian, was our biggest detractor. We also suffered with Triumph Group (TGI). We are convinced that the new management group has taken strong actions which are setting the company up for strong profits in the future but the market is not convinced. Amkor Technology (AMKR), Goodyear Tire & Rubber (GT) and Loral Space & Communications (LORL) all lagged.

Portfolio Detractors – Q2 2018

Security	Average Weight (%)	Contribution
Callon Petroleum Co.	2.73	-0.51
Triumph Group, Inc.	2.06	-0.48
Amkor Technology, Inc.	2.33	-0.41
Loral Space	2.22	-0.24
Goodyear Tire	1.97	-0.24

Portfolio Changes

We added three new names. We chose Whiting Petroleum (WLL) as a good pick as because of their strength in the Bakken and their decision to focus resources by exiting less promising acreage. We also added Granite Construction (GVA), as we saw potential from their acquisition of Layne Christiansen and a refocus of their construction business away from some of the very challenging mega projects. The third addition was NCR Corporation (NCR). We added the position because of the unrecognized strength of their service and software business.

We sold four stocks. We sold First Cash (FCFS), as it had reached our price target. The sale of Winnebago (WGO) was more complicated. We had taken some profits earlier in the year and repurchased some when the stock retreated. We were somewhat concerned that RV dealers were going into the spring with excess inventory but decided to sell after they purchased

Chris-Craft. While we respect the venerable brand name, we could not see the synergy and were disconcerted by management's staunch insistence to not discuss the terms of the transaction. We also exited Rogers Corp (ROG), because we believed that the stock was ahead of itself based on an expectation or early adoption of 5G. Finally, we exited Commercial Metals (CMC), as the stock of that rebar maker and fabricator showed insufficient upside potential.

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

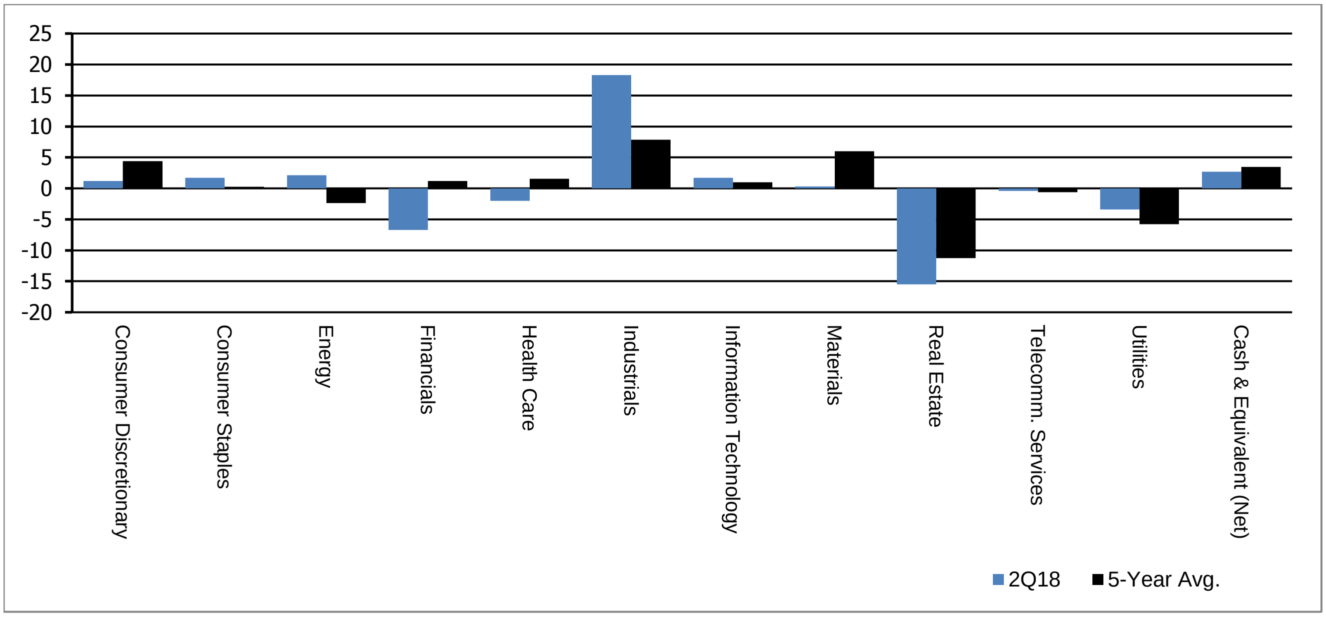

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2500 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Top Ten Holdings (%)

Energen Corp.	3.4
Vishay Intertechnology, Inc.	3.4
Encompass Health Corp.	3.1
Hub Group, Inc.	3.0
Commerce Bancshares, Inc.	3.0
Darling Ingredients, Inc.	2.9
Simpson Manufacturing Co.	2.9
GATX Corp.	2.8
American States Water Co.	2.8
John Wiley & Sons, Inc.	2.8
Total % of Portfolio	30.1

Fund Statistics

	Fund	Russell 2500 Value Index
Number of Holdings	39	1,727
Median Market Cap (Millions)	$2,798.1	$1,245.6
Weighted Avg Market Cap (Millions)	$3,689.1	$4,716.6
Price/Book[1]	2.2	1.6
P/E using FY1 Estimate[2]	15.9	15.9

Source: FactSet Research

Walthausen Select Value Fund

Quarterly **Fund Commentary**

Ticker Symbols: Institutional Class WSVIX | Retail Class WSVRX

As of June 30, 2018

Portfolio Performance

	Q2 18	1 Year	3 Year	5 Year	Since Inception (12/27/10)
Walthausen Select Value Fund: Institutional Class	4.46	12.13	8.31	9.49	11.05
Walthausen Select Value Fund: Retail Class	4.35	11.75	8.03	9.22	10.76
Russell 2500 Value Index[3]	5.80	11.49	9.76	10.78	11.13

Total Expense Ratio: 1.36%. Net Expense Ratio: 1.11% for Institutional Class, 1.36% for Retail Class. Expense ratio per the June 1, 2018 prospectus.

The Net Expense Ratio includes a waiver. The Advisor has contractually agreed to waive Services Agreement fees to the extent necessary to maintain total annual operating expenses of the Institutional Class Shares, excluding brokerage fees and commissions, taxes, borrowing costs (such as (a) interest and (b) dividend expenses on securities sold short), the cost of acquired funds and extraordinary expenses at 1.10% of its average daily net assets through May 31, 2019. The Advisor may not terminate the fee waiver before May 31, 2019. The Trustees may terminate the expense waiver upon notice to the Advisor. From the prospectus dated June 1, 2019.

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
(888) 925-8428
www.walthausenfunds.com