Walthausen Select Value Fund

Quarterly **Fund Commentary**

Ticker Symbols: Institutional Class WSVIX | Retail Class WSVRX

As of September 30, 2018

Environment

Managing a portfolio when storm clouds on the horizon are ever more threatening is a balancing act. We are positioned to participate in the current growth, but are also careful to avoid undue risks as this economic expansion continues. The concerns that we voiced in our second quarter commentary are still prevalent today. If anything, they have become more acute. We boiled it down to tariffs, trade and taxes. Nothing has been close to settled on the issue of tariffs. Our preliminary deals with Mexico and Canada seem likely to have a very modest impact. The trade war with China has become a shouting match and the threats have escalated to a point where neither side can easily back down. This is all starting to turn into cost pressure for US based manufacturers. Some of the cost pressure is from the domestic steel mills, using the tariffs and strong economy to mandate higher prices. We have not seen trade slow down yet and lower taxes are having the intended effect of accelerating an already well developed expansion.

As the economic upturn ages, labor and material costs are climbing, which validates the Fed's tightening strategy. We think that it is the correct thing to do, but it's still a guess as to what will happen as we transition from quantitative easing to tightening. To the extent lending terms have loosened up, we are concerned that the seeds are sown for another difficult period. This seems to be most prevalent in the bond market, and particularly in high yield bonds. The market has been aware of these risks for some time, and in our experience, the markets can, and usually do, ignore developing problems for longer than one might think.

Recognizing these risks, we are avoiding finance companies and concentrating on high quality community and regional banks. These banks are not relying on volatile sources of funds, and their loan books are generally not overextended. On the non-financial stocks, we closely examine their plans for growth, the risks that they are taking, and the flexibility of the business model. In short, we are looking for companies that will grow, but can also come out of a contractionary period stronger.

With that in mind, we are cautiously plying our craft. We continue to find companies where improving fundamentals are not being recognized. We are, as is typical for us, substantially overweight in Industrials and Materials, two sectors which are generally considered more cyclical. The individual selections in these sectors are heavily weighted toward companies with strong balance sheets and where management is in a position to offset rising prices with moderate price increases. The companies that we favor have also generally shown an ability to adjust costs effectively in periods of weak demand. We continue to hold very little in Utilities and Real Estate, two groups where the valuation is dependent upon dividend yield. The long stretch of low interest rates has been kind to these stocks, but it also, in our opinion, makes them risky as rates trend up.

Performance Review

Portfolio Factors

For the quarter, the Fund posted a return that exceeded that of the benchmark Russell 2500 Value Index. In total, allocation was a strong positive factor which was partially offset by weakness in selection. Our selections in Energy, Financials and Materials performed well and our absence from Real Estate benefitted the portfolio as the sector was down slightly in the quarter. Health Care was the benchmark's best performing sector. Our holding there performed well, but the underweight to the sector muted the overall contribution. The next best sector in the benchmark was Industrials. We were significantly over-weight, but the underperformance in two specific holdings muted performance. Our overweight to Consumer Staples detracted from performance as it was the benchmark's worst performing sector.

Stock Selection: Contributors

Our winners were comprised of a diverse group of companies. They were led by Energen (ENE), an oil exploration company with valuable acreage in the Permian Basin. The company agreed to be acquired at an attractive premium. We also did well with Primerica (PRI), Simpson Manufacturing (SSD), Triumph Group (TGI) and GATX Group (GATX). In each case we can point to continued evidence that management is building value and continue to hold the positions.

Portfolio Contributors – Q3 2018

Security	Average Weight (%)	Contribution
Energen Corp.	3.12	0.55
Primerica, Inc.	3.11	0.54
Simpson Manufacturing Co.	2.95	0.49
Triumph Group, Inc.	2.55	0.47
GATX Corp.	3.03	0.46

Stock Selection: Detractors

Detractors were led by United Natural Foods (UNFI). We believe that the shift to healthier foods is a long term trend, and that Amazon's acquisition of Whole Foods, their largest customer, would be a positive for the company. Unfortunately, they demonstrated lower than expected efficiency and contracted for an ill-advised acquisition. We took our lumps and moved on.

In addition to the challenges posed by United Natural Foods, Granite Construction (GVA), McGrath RentCorp (MGRC), and Amkor Technologies (AMK) all were detractors. With Granite, we expected profits to expand as they worked through some large and difficult contracts and began to concentrate on modest size highway work. In McGrath's case, the stock retreated with oil prices, apparently due to a mistaken and outdated belief that the company receives large profits from providing container services to shale drilling operations. We believe that Amkor is a strong company with a good business model, despite the stock selling off over the quarter. We like the opportunities all three possess and continue to hold the positions.

Portfolio Detractors – Q3 2018

Security	Average Weight (%)	Contribution
United Natural Foods, Inc.	0.70	-0.66
Granite Construction, Inc.	2.39	-0.50
McGrath RentCorp	2.12	-0.30
Amkor Technology, Inc.	2.34	-0.29
Hub Group, Inc. Cl. A	2.87	-0.25

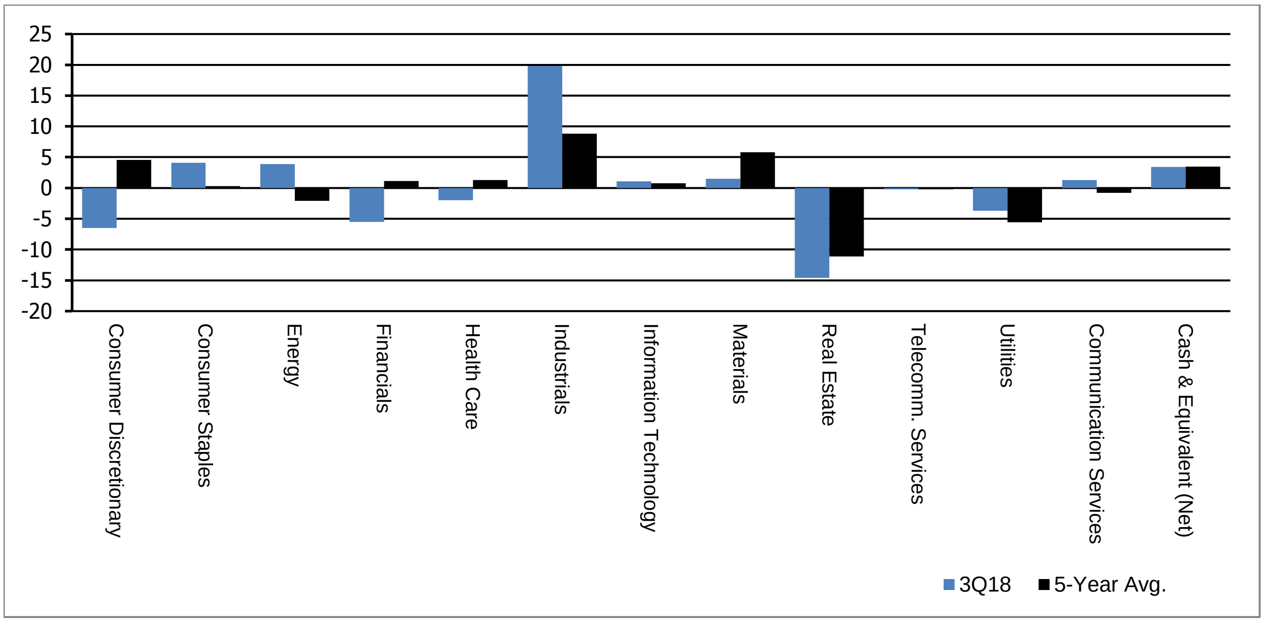
Portfolio Changes

During the quarter we sold a few more names than we bought. We sold Westlake Chemical (WLK) and SeaWorld Entertainment (SEAS), as both had hit their price targets. Additionally, we sold Goodyear Tire & Rubber (GT), Loral Space & Communications (LORL), United Natural Foods and Steelcase (SCS) as we saw evidence that the potential for appreciation was less than previously anticipated.

We added Casey's General Store (CASY), a Midwest convenience store chain, after we observed that several years of investing to upgrade their stores would result in expanded earnings in coming years. We added Sanderson Farms (SAFM), as we believe that profits have an opportunity to be surprisingly good, after the chicken market, and the protein market in general, has hit a cyclical bottom. We also added Oshkosh Corp (OSK) after concluding that the value of a relatively new contract for military trucks is not fully recognized in the stock price.

We have modestly shifted the composition of the strategy from an equal weight, 40 stock portfolio, to a conviction weighted portfolio with 40 or fewer stocks. As has been typical, the strategy continues to own fundamentally strong companies with businesses that generate good cash flow and where management has the executional ability to invest that capital to benefit shareholders. We believe that the strategy is positioned appropriately given our cautiously optimistic outlook.

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



Top Ten Holdings (%)

Energen Corp.	3.6
Sanderson Farms, Inc.	3.5
Electronics For Imaging, Inc.	3.4
Moog, Inc.	3.4
Milacron Holdings Corp.	3.3
Primerica, Inc.	3.3
Callon Petroleum Co.	3.3
ITT Corp.	3.3
Simpson Manufacturing Co.	3.2
CVB Financial Corp.	3.2
Total % of Portfolio	33.5

Fund Statistics

	Fund	Russell 2500 Value Index
Number of Holdings	36	1,749
Median Market Cap (Millions)	$3,222.9	$1,184.4
Weighted Avg Market Cap (Millions)	$3,746.0	$4,957.5
Price/Book[1]	2.2	1.7
P/E using FY1 Estimate[2]	17.2	15.9

Source: FactSet Research

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Portfolio Performance

	Q3 18	1 Year	3 Year	5 Year	Since Inception (12/27/10)
Walthausen Select Value Fund: Institutional Class	2.76	10.80	12.64	7.94	11.06
Walthausen Select Value Fund: Retail Class	2.69	10.48	12.34	7.66	10.77
Russell 2500 Value Index[3]	2.67	10.24	14.51	9.99	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