Environment

For quite a few quarters we have been wondering why large cap growth is out performing small cap value by massive amounts; why that continues and why the performance gap has been widening. Perhaps it is a harbinger of a shift back to a more normal time. A time when the warmth of investor enthusiasm shines on small cap value. In September, the small cap value segment of the market outperformed large cap growth. Perhaps this, and the spectacular unraveling of WeWork, will bring a new skepticism regarding the hyper growth model which has entranced the investment world. We are not sure that we have reached the turn, yet it does seem very likely, with the cumulative effect of the WeWork debacle, the poor reception of the Peleton (PTON) IPO, and the sharp decline of Uber (UBER) and Lyft (LYFT) stocks, that we may be seeing a shift in market direction. Even if October shows September to be a false signal, we think that the exhaustion of the hyper growth investment strategy is becoming very evident.

While investors have pulled back from that hyper growth investing we have seen that the economy is showing signs of slowing. We are all concerned that this could signal a recession. Recall that recessions are generally launched by a credit crunch or an energy shock. Neither of these events are easily predicted except after the fact. An energy shock does not seem likely with the ample oil and gas reserves that shale drilling is bringing on stream. Even the devastating attack on the Saudi facility failed to move oil prices up for more than a few days. Credit crunches are tough to predict. Almost certainly the extended period of growth and low interest rates have given ample opportunities for mistakes. We see the boom in venture capital as the signature excess of this expansion. As that winds down people will be hurt, but not in the broad and devastating way that the housing debacle and bank crisis hit the entire country. Employment is strong and wages are finally starting to rise particularly among lower income workers. We think that full employment and rising wages will sustain consumer spending. The housing market is healthy. Industrial activity, which has been stalled by the uncertainty surrounding trade activity, will respond favorably to consumer activity. While we continue to vigilantly observe, our current thought is that we may have a growth slowdown but not a recession.

Performance Review

Portfolio Factors

The Fund posted returns for the quarter that basically matched that of the Russell 2500 Value benchmark and exceeded the return of the Russell 2000 Value secondary benchmark. A performance headwind created by our allocation decisions was made up for by our stock selection choices. The decline of treasury yields was an important backdrop to the quarter. The effects of declining yields can be seen in the sector performance of the benchmarks as the two most rate sensitive sectors, REITs and Utilities were the top two performing sectors in the benchmark.

Fortunately, we were able to overcome our significant underweight in these two sectors via strong stock selection, most notably in the Consumer Discretionary sector. A strong underlying current in the equity markets this quarter was the performance of companies related to the homebuilding industry. We participated in this strength via our investments in Cavco Industries and M.D.C. Holdings. Effective stock selection was also found in the Financials sector.

Stock Selection: Contributors

As mentioned above, M.D.C. Holdings (MDC) and Cavco Industries (CVCO) are both in the homebuilding industry and were the first and third largest contributors to performance this quarter. The homebuilder segment is experiencing several tailwinds including low and declining mortgage rates, YoY decrease in the cost of basic building materials and strong demand supported by low unemployment, a step up in wages and high consumer confidence. Particularly noteworthy is that demand exceeds supply for new housing, particularly at the entry level category. MDC is a national homebuilder who has increased earnings steadily over the past 5 years. They have taken note of the increasing demand at the entry

level housing category and over a year ago started to skew their business to this more affordable segment. This decision has paid off well for them and we continue to see strength in this market. CVCO is in the manufactured home business. Today's manufactured home is a far cry better than what many may envision, with almost all of the details found in site-built homes including granite countertops, premium flooring, modern bath appointments and wired for technology. What they do not have is the price tag of the site-built home alternative and in this regard are a great option for the first time homebuyer.

Other strong performers were American States Water Company (AWR), McGrath RentCorp (MGRC) and World Fuel Services Corporation (INT). In all three cases these companies have been able to maintain the strong performance of the recent past with management executing in a manner that we have come to expect.

Portfolio Contributors – Q3 2019

Security	Average Weight (%)	Contribution
M.D.C. Holdings, Inc.	3.73	1.05
American States Water Co.	3.14	0.60
Cavco Industries, Inc.	2.87	0.53
McGrath RentCorp	3.94	0.44
World Fuel Services Corp,	3.86	0.41

Stock Selection: Detractors

Granite Construction Inc. (GVA), was the biggest disappointment for the quarter. I have been a close follower of GVA for nearly two decades and have known the GVA management team to be of high quality. Over that time period the company expanded their business from small and medium civil engineering construction jobs to include large and very large civil engineering projects that often exceeded $100 million in scope. These very large projects often took the form of joint ventures where GVA was not the project manager. Too many of these projects ran into trouble and shareholders realized that the expected profits from these trophy projects never materialized. We knew this when we went into the investment as management had already stated that there were problems and that they were going to move away from these mega projects and only take work where they were the project manager. However, during the quarter we learned that the mega projects that were winding down were performing even worse than expected and significant amounts of previously accounted for profits had to be written off. At this point we realized that we were not able to assess the liabilities that may still be at risk as these final projects wind down and exited the position. GVA is a good company that expanded their business beyond their area of proficiency. We will continue to follow it looking for the point where we feel confident that these challenged projects are completely out of their system as we still see the infrastructure business as a potentially rewarding place to be.

As mentioned in the previous quarter, we have been monitoring the energy sector closely and it pains me to say that four of the worse ten stocks for the quarter were from the energy sector. All four, Whiting Petroleum (WLL), Southwestern Energy (SWN), Callon Petroleum (CPE) and Carrizo Oil & Gas (CRZO) are exploration and production companies. It's a huge understatement to say that this group of companies is currently out of favor. Most analysts will conclude that many of these companies are trading below the asset value of their reserves, however, the market just doesn't seem to care and the stocks keep going down. We have exited from two of these positions, Whiting and Callon, and Southwestern is at a much-reduced weighting.

Portfolio Detractors – Q3 2019

Security	Average Weight (%)	Contribution
Granite Construction, Inc.	1.11	-1.02
Whiting Petroleum Corp.	0.75	-0.92
Southwestern Energy Co.	0.99	-0.56
Callon Petroleum Co.	0.69	-0.50
Moog, Inc. Class A	3.34	-0.40

Portfolio Changes

We exited from four positions during the quarter and added two. Two of the exited positions were from the energy sector, Whiting and Callon which we have discussed previously, and two were from the Industrial Sector, Granite Construction (previously mentioned)

and Simpson Manufacturing Co (SSD). Simpson was a disappointing experience as they are in an industry that is doing well, homebuilding products, and a product position, the number one market share in framing connectors and truss plates, that should make for a winning combination. Unfortunately, we feel we were let down by management who simply hasn't been able to reach the goals that they have set for themselves in the strategic plan.

Two names were added to the portfolio, Carrizo Oil & Gas and Kemet Corporation (KEM). Carrizo is in the energy sector and is in the midst of a plan to combine with Callon Petroleum. Selling Callon to buy Carrizo accomplished a few things. It enabled some realized gain/loss efficiency and placed us on the better side of the market arbitrage of the Callon/Carrizo combination. We also reduced our exposure to the sector.

Kemet Corporation is a manufacturer of passive electronic components. One of its primary components is capacitors, a device that is part of nearly every piece of electronic equipment or device. Many in the component industry have followed the direction of consumer electronic products, like cellular phones, which have an ever lower voltage requirement in an ever smaller format. While Kemet does compete in this market, they made the decision to advance their capabilities in the larger format capacitors that are able to handle harsher environments as those found in automobiles. Several competitors made the decision to move away from these larger capacitors. With the increasing electrification of cars, the demand of these larger and more robust capacitors has remained quite strong, while the smaller, low voltage capacitor business is currently at an oversupplied cyclical low point. We currently see Kemet's stock price overly penalized due to the market's interpretation of the smaller capacitor market without giving the larger capacitor product line its due. In time, the oversupplied situation will correct and Kemet should be able to post some robust profits.

Portfolio Positioning

We are happy with the current position of the portfolio with all valuation metrics right in line with those of our value benchmarks. The weighted average market capitalization inched up to $3.5 billion, a size with which we are very comfortable. The aggregated balance sheet of the portfolio remains strong with a LT Debt to Capital ratio holding the 30% level. The portfolio leverage is lower than that of the benchmark while profitability margins are noticeably higher. We are comfortable with this portfolio despite the vicissitudes of the domestic and international economic backdrop. We appreciate the trust that you have displayed by investing with us.

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

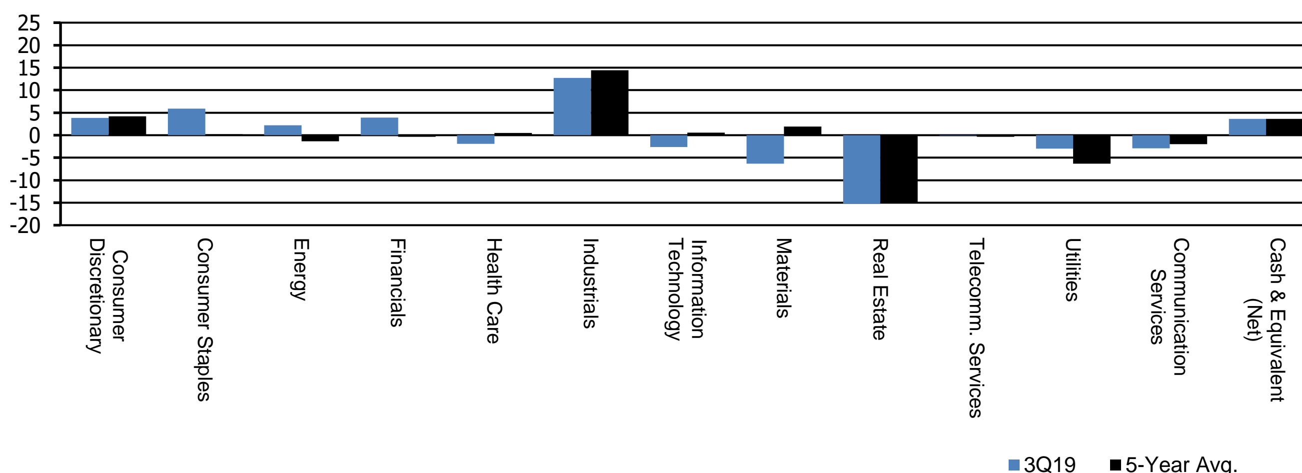

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2500 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Top Ten Holdings (%)

Holding	%
MDC Holdings, Inc.	4.2
McGrath Rentcorp	4.1
World Fuel Services Corp.	4.0
Wyndham Destinations, Inc.	4.0
Oshkosh Corporation	3.6
PacWest Bancorp	3.5
Encompass Health Corp.	3.5
Amerisafe, Inc.	3.5
Emcor Group, Inc.	3.4
Cavco Industries, Inc.	3.4
Total % of Portfolio	37.2

Fund Statistics

	Fund	Russell 2500 Value Index
Number of Holdings	31	1,804
Median Market Cap (Millions)	$3079.4	$984.3
Weighted Avg Market Cap (Millions)	$3511.7	$5122.1
Price/Book[5]	1.9	1.5
P/E using FY1 Estimate[6]	13.4	14.7

Source: FactSet Research

Portfolio Performance

	Q3 19	1 Year	3 Year	5 Year	Since Inception (12/27/10)
Walthausen Select Value Fund: Institutional Class	-0.26	-4.24	8.74	5.02	9.20
Walthausen Select Value Fund: Retail Class	-0.35	-4.46	8.46	4.76	8.91
Russell 2500 Value Index[1]	0.13	-4.35	6.87	6.98	9.24
Russell 2000 Value Index[2]	-0.57	-8.24	6.54	7.17	8.26

Total Expense Ratio: 1.35%. Net Expense Ratio: 1.10% for Institutional Class, 1.35% for Retail Class. Expense ratio per the June 1, 2019 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, 2020. The Advisor may not terminate the fee waiver before May 31, 2020. 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.

[4]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 values.

Long Term Debt to Capitalization ratio is the ratio that shows the financial leverage of the firm. This ratio is calculated by dividing the long term debt with the total capital available of a company. The total capital of the company includes the long term debt and the stock of the company.

Note that Peleton (PTON), Uber (UBER, Lyft (LYFT) and WeWork are not holdings of the Fund.

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.