Environment

What a Quarter! After ending 2019 on a high note, the economy seemed poised to show another year of growth. Though we were seeing signs of slowing in Europe and China, the stimulus from the prior year tax cut and deft management by the Federal Reserve was working. In spite of full employment, the economy seemed set for continued growth. Inflation was not a worry.

What a difference a quarter makes. A three-pronged crisis exploded, taking down equity and credit markets around the globe. We had already seen the signs that oil prices were falling fast. The strains on the overnight money rates indicated that liquidity had become uncomfortably tight, and then the Coronavirus exploded from an outbreak in Wuhan China into a global pandemic in just a few months. We are still in the midst of all three crises as they feed off of each other. Let’s take a moment to look at each of the parts.

The oil price crisis began in the usual way. Demand grows at a very modest rate and new supplies – in this case shale oil from the US and new supplies from Russia – challenge the market prices, and key players endeavor to control prices. However, since new supplies are coming on, and because some player like the US cannot participate in the price fixing, and other players (not named) cannot resist the urge to cheat, it falls apart. In general, for the US this is a mixed crisis. The oil producers, their suppliers, their bankers etc. suffer, but the consumer, commerce and industry all benefit from lower costs. A decade or two ago, when the US was an oil importer, it was a pretty clear benefit to our economy. Now, it is not so clear. The shale oil industry is a big consumer of capital, a big buyer of equipment and a payer of some top wages. While that crunch was evident all through 2019, the industry is virtually dead as the economy has ground to a halt as people stopped traveling and stayed home.

We are not in a position to add any wisdom to the discussion of the pandemic. We can see that the only effective means to curb the disease is a “freeze in place”. Everyone stays home. The few examples where the spread of the disease has been halted have involved draconian measures to force social distancing. All of the projections regarding the duration and spread of the virus rely on assumption of the degree and effectiveness on the physical distancing.

With the economy shutting down, the liquidity strains of last year have emerged as a full-blown credit crisis. A credit crisis is part of every recession. As the crisis began to unfold, company after company looked to build cash balances. While the door was closed to bond offerings below investment grade, the blue-chip issues rushed to raise extraordinary amounts of cash via bond offerings. Companies cancelled share repurchase programs; a few managements even indicated that dividends will be skipped and executive compensation reduced. The Federal Reserve weighted in with aggressive programs to bolster banks’ ability to lend. The President has signed a $2.2 trillion Coronavirus Stimulus bill. It is massive and seems to have stabilized markets to a degree but while the virus rages it cannot do much more than reduce anxiety. It is a broad law aimed at helping businesses, large and small, and the broad population. Certainly, it is a good move. Its initiatives include massive enhancements to unemployment and incentives for companies to retain employees. While it calms the market, the scale and breadth of the program makes us understand that we are in the midst of an unpredictable storm.

Although it is tempting to throw in the towel and retreat to a money market fund, as many are now doing, we think that this is the wrong thing to do. We know that viruses do run their devastating course. We know that while this sharp economic contraction will put quite a few companies out of business, and impoverish many people, more companies will survive and many people will emerge from this forced austerity with money in their pockets and a strong will to resume life. It is our mission as active managers to identify the companies that will come out strong. We are bearing down on that task with great energy and believe that we will show the value that active management adds in time of turmoil.

Starting in late February, as the scope of the pandemic became clearer, investors sold stocks rapidly with some of the largest single day losses that we have seen. It surprised us how little specific company fundamentals played in the selling. We would have thought that the selling pressure would have been more intense in the high-flying growth stocks, but it wasn't. In fact, the Russell 2000 Value Index fell almost three times as fast as the Russell Top 200 Growth Index. We think that the values that we are able to find are quite favorable. We also think that the cash generating characteristics of the companies that we invest in are very interesting in the current environment.

Portfolio Performance

For the Walthausen Small Cap Value Fund, the results compared favorably with the benchmark for the quarter on a relative basis. The difference was selection. The allocation was neutral with gains from being underweight in Energy were offset by a substantial penalty from being light on Utilities. Some conservative stocks such as Stepan Company (SCL), a maker of surfactants used in household products, and Silgan Holdings (SLGN), a can and other packaging maker, held up well, as did our bank holdings, particularly Community Bank System (CBU) and City Holding Company (CHCO). Among our holdings, only Vista Outdoor (VSTO), a maker of sporting goods, including ammunition and accessories for hunting and shooting sports, appreciated in value.

Portfolio Positioning

We did reduce the number of holdings where it seemed that the developing crisis could overwhelm them. We sold all of our stocks with a direct exposure to energy exploration and development. We also sold several consumer stocks including G-III Apparel (GIII) and SeaWorld Entertainment (SEAS). We added a few strong new companies when a price opportunity was appealing, but shifted most of the sales proceeds to our best stocks.

Our strategy remains unchanged. We remain fully invested and will use the market volatility to find opportunities to enhance the quality of our holdings.

Thank you for your support.

Exhibit 1: Sector Allocation - % over/underweight vs. Russell 2000 Value Index

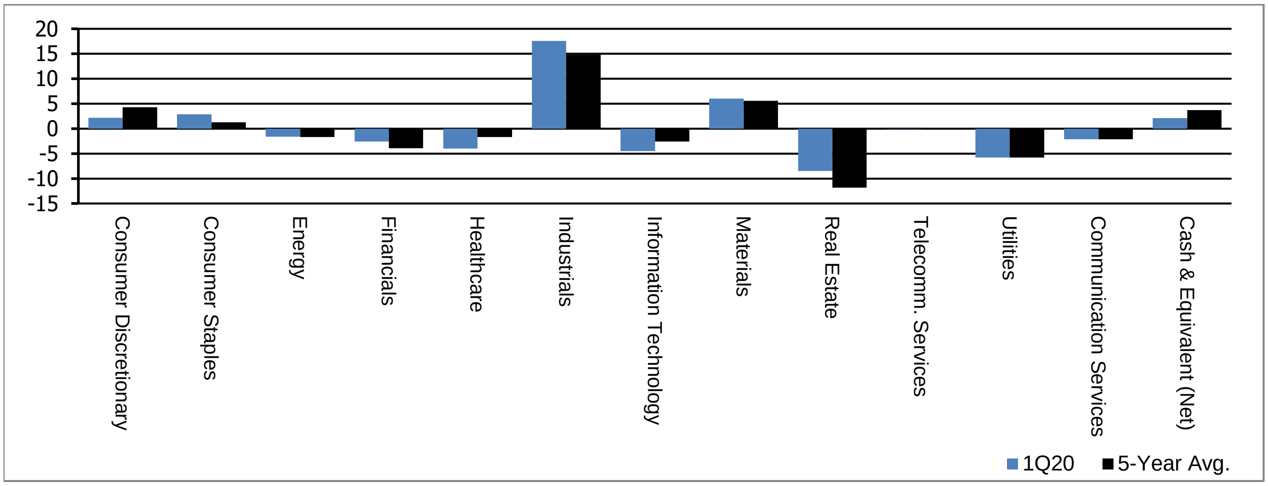

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2000 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Top Ten Holdings (%)

Great Lakes Dredge and Dock Corp.	3.5
Ameresco, Inc.	3.0
Darling International, Inc.	3.0
Silgan Holdings, Inc.	2.9
Stepan Company	2.8
McGrath Rentcorp	2.8
UMH Properties, Inc.	2.7
Miller Industries, Inc.	2.7
Landec Corp.	2.7
Vista Outdoor, Inc.	2.6
Total % of Portfolio	28.7

Fund Statistics

	Fund	Russell 2000 Value Index
Number of Holdings	56	1,391
Median Market Cap (Millions)	$698.8	$425.8
Weighted Avg Market Cap (Millions)	$1,032.5	$1,637.3
Price/Book[1]	1.1	0.9
P/E using FY1 Estimate[2]	11.6	10.4

Source: FactSet Research

Portfolio Performance

	Q1 20	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date
Walthausen Small Cap Value Fund: Investor Cl	-34.21	-29.35	-10.22	-4.12	5.76	7.01	2/01/08
Russell 2000 Value Index[3]	-35.66	-29.64	-9.51	-2.42	4.79	3.60	
Walthausen Small Cap Value Fund: Institutional Cl	-34.16	-29.17				-16.72	12/31/18
Russell 2000 Value Index[3]	-35.66	-29.64				-17.44	

Total Expense Ratio: 1.37% for Institutional Class, 1.27% for InvestorClass. Net Expense Ratio: 0.98% for Institutional Class, 1.21% for Investor 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 and Management Fees to the extent necessary to maintain total annual operating expenses of the Institutional Class shares and Investor 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 0.98% and 1.21% respectively, 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 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.

The Russell Top 200® Growth Index measures the performance of the especially large cap segment of the U.S. equity universe. It includes those Russell 200 Index companies with higher growth earning potential.

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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