Environment

We hear it in the news reports and see it in the headlines. The markets are back. They have regained all of the ground lost during the precipitous drop in March. Even our friends have commented that surely, we feel happier now that the markets have bounced all the way back. We just lower our heads and ask them to please, take note of the details.

For the 6 months ending June 30, 2020, the S&P 500, the index that garners most of the media's attention, was off just 3%. A rather modest number in the midst of a pandemic. But a deeper look into that index reveals a much more challenging situation. For that same period, more than two-thirds of the stocks that make up that index were down YTD. The median stock was down over 12%. The bottom quartile of stocks is down over 26%. Certainly, a darker picture than what one hears on the nightly business report.

What explains the difference between the headline hoopla and the dismal details? The S&P 500 is a market weighted index. The price movement of the larger companies effects the index return more than a similar price movement of a smaller company. At the end of June, the top five weighted stocks in the S&P 500 accounted for approximately 22% of the market weight of the index! That's right; the price change of just 5 stocks in a 500 stock index accounts for more than 20% of the total return of that index. And those 5 stocks happen to be pandemic winners; MSFT, AAPL, AMZN, FB, and GOOG. The last time this broadly followed index was skewed to this degree was just before the tech bubble burst.

A review of points in history when the market has been skewed to so few stocks teaches us that it doesn't end well. Eventually, the valuations become too stretched for even the most optimistic of forecasters. Human nature is such that, at some point, investors will begin looking around for the next big thing. And when that happens there will be a lot of money looking to sell just a few stocks. Perhaps at that moment, small, domestic, profitable companies trading at attractive valuations is where investors will see the opportunity for that next big thing. We understand by looking at the details that there are far more stocks 'on sale' that few are noticing while there are just a few stocks grabbing all the headlines with many clamoring about. When those few stocks begin to sink I fear that there will be a deficit of life rafts.

Portfolio Performance

<u>Portfolio Factors</u>

After a strong first quarter, the Select Value strategy had one of its worst quarters trailing both the Russell 2000 Value Index and Russell 2500 Value benchmarks substantially. This setback brought our YTD performance back to a 210 bps lead over the Russell 2000 Value and almost even with the Russell 2500 Value. At risk of over simplifying the situation, our stocks didn't fall as much in the first quarter and therefore didn't snap back as hard in the second quarter. That said, there were some performers that stood apart from the rest.

This recession is not like most. Where one would normally expect higher priced consumer discretionary items to suffer greatly during a recession, we are seeing the opposite in the RV and boating industries today. RV sales had been lackluster for the better part of 2019; however, towards the end of that year we noticed an improvement. LCI Industries (LCII) is a supplier of parts to the RV and marine industries that we have known for many years. When we noticed the uptick in RV sales we brushed up our LCII file and after assuring ourselves that this was still the quality company that we remember, we added it to the portfolio. Only four months later the country was entering quarantine mode and it appeared that this investment was going to be one big swing and miss. However, we stayed in contact with the company and others in the industry and heard a consistent story of how demand was still out there. We held tight, and though the stock did have a terrible down draft at one point, it has rebounded smartly rising sharply during the quarter, and as of June 30, 2020 the stock was up high single digits for the year to date.

Stock Selection: Contributors

MDC Holdings (MDC), a home builder, Cavco Industries (CVCO), an industrial company who makes manufactured homes, and Essent Group (ESNT), an underwriter of mortgage insurance, are all in the top five performers this quarter, and as you can tell from the brief descriptions, they are all involved in the housing market. As we said earlier, this isn't your ordinary recession as sales of large ticket items have continued to be quite strong.

Portfolio Contributors – Q2 2020

Security	Average Weight (%)	Contribution
LCI Industries	2.94	1.64
Merit Medical Systems, Inc.	3.18	1.42
M.D.C. Holdings, Inc.	2.89	1.41
Essent Group Ltd..	3.09	1.05
Cavco Industries, Inc.	3.07	1.03

Stock Selection: Detractors

Our biggest drag on performance was AMN Healthcare Services (AMN), a company whose primary business is nurse staffing solutions. In some cases, they match nurses to hospitals who need additional staff, while in other cases, hospitals may outsource the management of the entire nurse staffing responsibility to AMN. Going into a health crisis one would have thought that this was the right business at the right time. However, with the highly contagious nature of Covid-19, most non-Covid-19 parts of the healthcare system were shut down creating a very unbalanced scenario that was more challenge than benefit to AMN.

Tapestry, Inc (TPR), is a maker of luxury accessories that you may recognize as Coach, Kate Spade, and Stuart Weitzman handbags. The Coach brand is strong and we know that sales of Coach handbags held up reasonably well through the last recession. The other two brands are newer to the company and we believe that TPR management will be able to improve the profitability of these lines. Just as we were beginning to buy this position the stock fell sharply to end the quarter. This was unfortunate, but as we expect to be owners of this quality company for sometime to come, we are able to overlook this short-term noise for now.

Hub Group, Inc (HUBG) an intermodal services broker, Amerisafe, Inc (AMSF), a worker's comp insurance underwriter and, CVB Financial (CVBF) a regional bank in southern California round out the top five detractors. Of these, HUBG was sold from the portfolio as our thesis of an improving backdrop of their intermodal business was not proving out.

Portfolio Detractors – Q2 2020

Security	Average Weight (%)	Contribution
AMN Healthcare Services, Inc.	2.01	-0.74
Tapestry, Inc.	0.56	-0.38
Hub Group, Inc., Class A	1.08	-0.33
Amerisafe, Inc.	3.71	-0.24
CVB Financial Corp.	2.47	-0.19

Portfolio Changes and Positioning

During the quarter we added three new holdings to the portfolio; Tapestry Inc (TPR), which was spoken to above, WSFS Financial (WSFS), a regional bank in Wilmington, DE, and Northwestern Corporation (NWE), an electric utility headquartered in Sioux Falls, SD. Sold from the portfolio were four securities. Hub Group (HUBG) was spoken to above. NCR Corp (NCR), a maker of ATMs and POS systems for restaurants and hotels, and Wyndham Destinations (WYND), a seller of vacation timeshares, were both sold due to the challenges that the pandemic presents. Lastly, Bank of Hawaii (BOH) was sold due to a high valuation and there being more compelling alternatives.

In the aggregate, the valuation of the portfolio is near or below that of the benchmarks in all cases. Leverage as measured by LT Debt to Capital is significantly below the benchmark return on equity and estimated 3 – 5 year EPS growth is significantly above. We are happy with the quality of companies and low valuations that make up the portfolio, and are working tirelessly to find opportunities to improve.

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

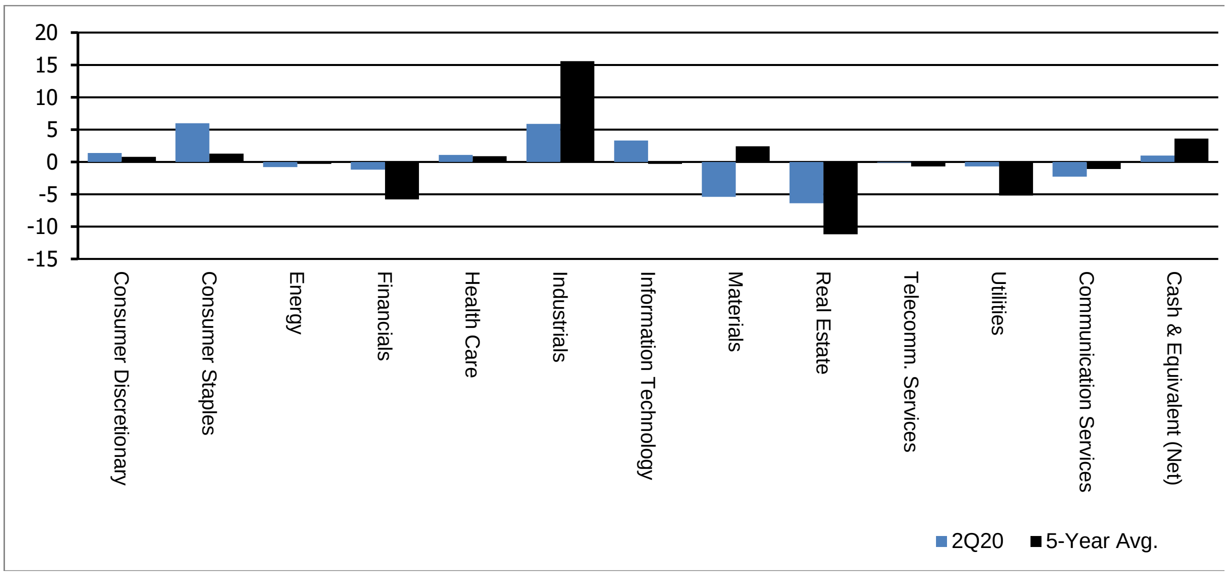

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2000 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Top Ten Holdings (%)

Industrial Logistics Prop.	4.0
Darling Ingredients, Inc.	3.9
Essent Group Ltd.	3.7
EMCOR Group, Inc.	3.5
WSFS Financial Corp.	3.4
LCI Industries, Inc.	3.4
Amerisafe, Inc.	3.4
Onto Innovation, Inc.	3.3
Columbia Banking System	3.3
MDC Holdings, Inc.	3.3
Total % of Portfolio	35.2

Fund Characteristics	Fund	Russell 2000 Value Index
Number of Holdings	34	1,490
Return on Equity[1]	13.7	5.9
Weighted Avg Market Cap (Millions)	$2,973	$1,641
Price/Book[2]	1.5	1.0
P/E using FY1 Estimate[3]	18.6	14.5
Long Term Debt/Total Capitalization[4]	25.3	36.7
Information Ratio (TTM)[5]	.45	-
Active Share[6]	97.0	-

Source: Factset Research

Portfolio Performance

	Q2 20	1 Year	3 Year	5 Year	Since Inception (12/27/10)
Walthausen Select Value Fund: Institutional Class	12.08	-15.08	-2.06	1.26	6.62
Russell 2000 Value Index[7]	18.91	-17.48	-4.35	1.26	5.50
Russell 2500 Value Index[8]	20.60	-15.50	-2.60	1.85	6.56

Total Expense Ratio: 1.35%. Net Expense Ratio: 1.10%.
Expense ratio per the June 1, 2020 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, 2021. The Advisor may not terminate the fee waiver before May 31, 2021. The Trustees may terminate the expense waiver upon notice to the Advisor. From the prospectus dated June 1, 2020.

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]Return on Equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. ROE is a measure of how effectively management is using a company's assets to create profits.

[2]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.

[3]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.

[4]Long Term Debt/Total Capitalization is a ratio that measures the proportion of long term debt used to finance assets, as a percentage of the firm's total capitalization.

[5]The Information Ratio is a measurement of portfolio returns beyond the returns of a benchmark, in this case the Russell 2000 Value Index, compared to the volatility of those returns.

[6]Active Share is a measure of the percentage of portfolio holdings that differs from the benchmark index.

[7]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.

[8]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.

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