Environment

Inflection points can be messy. And when it happens within a period like the year 2020, well, messy maybe isn't a strong enough adjective. We have been writing for a while now about the dominance of large cap performance over small cap and the dominance of the growth investing performance over value. We wrote of sticking to our fundamental process while waiting for the time when a broader more balanced market backdrop would once again allow our investment style to flourish.

And in came the fourth quarter of 2020. Small caps, as measured by the Russell 2000 Index, beat large caps, as measured by the S&P500, by a positive 19%! The Russell 2000 Value Index bested the Russell 2000 Growth Index by nearly 4%. The Russell 2000 Value posted its best quarter ever up 33%. This is everything that we wanted, right? Well, not quite. A lot of these results are very impressive; however, they must be considered in context. The Russell 2000 Value posted that best quarter ever number just three quarters after having posted its worst quarter ever (-35%). The SPDR S&P Regional Banking ETF (KRE) was up over 46% during 4Q20 but was down more than 7% for the year. So, while it is a step in the right direction, it's not yet the broad and balanced market that we are hoping for.

A review of what powered the fourth quarter results helps to put our performance in perspective. The stocks that did the best fell into the following groups; low priced or "penny stocks", low ROE, highly shorted, and unprofitable stocks. All of these factors fall into the broad category of low-quality stocks, a segment of the market that we find to be speculative and inconsistent with our philosophy of finding good businesses via our disciplined fundamental research. It is not unusual to experience this phenomenon when a market pivots. After the market's collective mindset has decided that a group of stocks should be thrown upon the dust heap, this group is often the first that gets dusted off when that mindset changes. This can be quite the challenge for the disciplined long-term investor. We all want to have good competitive performance; however, wading into the speculative pool taking excess stock specific risk just isn't an option. Having done this for as long as we have, we take solace from our experience that these periods do not last long and that over the long-term the cream rises to the top. So, while we are thrilled by the idea that we may be at the beginning of a market that is more favorable to the small value opportunities that we seek out, and we are truly excited as experience has taught us these periods can last for a long time, we also understand that the period of inflection from one type of market to another can be quite messy.

Portfolio Performance

Portfolio Factors

The Fund trailed the Russell 2000 Value Index benchmark during the quarter, the magnitude of which erased the outperformance that had been generated through the first three quarters of the year. Stock selection within the Industrial and Financial sectors was where most of our challenge was found. The industrial sector saw just one holding, Hub Group (HUBG), which was just added back to the portfolio this quarter, return less than 10% for the period. Our holdings are better described as long-distance runners but the past three months were a sprint. Financials is our largest sector by weight, and while our bank holdings did fairly well, more than a third of our sector weight is made up of insurance businesses which did not perform as well. Since the investment portfolio is such a large part of an insurance company's business and usually has a heavy allocation to fixed income securities, the portfolio value declines as interest rates rise and for this reason these stocks were discarded by the market.

Another soft spot in the quarter was a lack of any exposure to the Materials sector, the second-best performing sector in the benchmark. We find that many of the companies in this sector are very heavily levered and dependent upon commodity prices for their profitability. The hard to predict nature of commodity prices make these very difficult investments for us. This quarter saw commodity prices move upward smartly and adroit traders took advantage of these stocks.

Stock Selection: Contributors

The largest contributor to this quarter's performance was Tapestry, Inc. (TPR) which nearly doubled in price during the quarter. We purchased the company, the maker of Coach and Kate Spade handbags, this summer after management was able to obtain some covenant relief from their bankers and we determined that the current valuation overly discounted the current environment. The market quickly rerated their expectations for the company with the news of a Covid vaccine and prospects of a return to a more normal retail environment in the near future. The next two largest contributors to performance were WSFS Financial Corp (WSFS) and Sterling Bancorp (STL). Sterling was added to the portfolio in 2019 when we saw that the market hadn't recognized the much-improved balance sheet and business model that management had created after the company's merger with Astoria Financial. After the market crashed in the first quarter, we added to this position and added WSFS to the portfolio as we felt that the market had incorrectly assigned a credit loss expectation to these, and most, banks that was analogous to the great financial crisis resulting in overly discounted valuations. Buying ensued in these stocks as the market learned during the quarter that the credit story of the banks was not as bad as feared. Bank holdings were five of the top 10 contributors to performance during the period.

Portfolio Contributors – Q4 2020

Security	Average Weight (%)	Contribution
Tapestry, Inc.	3.27	2.62
WSFS Financial Corp.	3.77	2.17
Sterling Bancorp	3.53	2.13
Onto Innovation, Inc.	3.43	1.81
Columbia Banking System, Inc.	3.50	1.67

Stock Selection: Detractors

National Instruments Corp (NATI) was the largest drag on performance this quarter. We had purchased the company shortly after the market debacle in the spring feeling that the shares had been caught up in the downdraft despite the stability of their market and the strong market position of their products. We were initially happy with the business updates that were provided until they announced an acquisition that didn't make sense to us. We completed the process of exiting the position during the quarter. AMERISAFE (AMSF) is an insurance company which primarily underwrites workers compensation insurance. This is a very difficult line of business to underwrite and the company has been successful through the years. However, as we thought about how the pandemic would affect this line of business, we concluded that a tough business was going to get even tougher and that we should step to the sidelines. We completed the sale of this position during the quarter. Another challenging position for us was Cavco Industries (CVCO), a producer of manufactured houses. We are quite excited regarding the outlook for the company's business as housing demand is nearly outstripping supply, and this is very much the case in the lower price points where it competes. Cavco, like most of the companies in the home building industry, performed very well during the summer when the market recognized how the pandemic had increased demand for single family homes. As we moved through the fourth quarter, the market muted their enthusiasm for the company, and most homebuilding stocks, asking if perhaps this is as good as it gets. We don't think so and feel there is growing demand for economically priced homes for the foreseeable future.

Portfolio Detractors – Q4 2020

Security	Average Weight (%)	Contribution
National Instruments Corp.	0.53	-0.11
First American Financial Corp.	2.51	0.00
Cavco Industries, Inc.	2.58	0.02
M.D.C. Holdings, Inc.	1.92	0.03
Casey's General Stores, Inc.	2.72	0.05

Portfolio Changes and Positioning

We moved out of four holdings and added five during the quarter. We previously discussed, two of the positions that we exited were AMERISAFE and National Instrument. Additionally, after a very successful run, we sold our position in American States Water Company (AWR) as the valuation had ascended to a level that we simply could not defend any longer. Lastly, we sold out of Darling Ingredients (DAR). We have discussed the company in previous updates as a wonderful illustration of our process. We detected a business that was underappreciated by the market, determined that there was a competent management team with a sound business plan, bought the shares at an attractive valuation and then maintained our discipline by holding the position when the business was performing, even though the stock price didn't seem to follow. The market came around to seeing what we saw and we were rewarded for it.

Having owned it previously, Hub Group (HUBG) is an intermodal company that we purchased for the portfolio as we anticipate that the increase in shipping volumes and the expectation for improving intermodal rates will translate into strong earnings growth. The Hanover Group (THG), is a property and casualty insurance underwriter. Insurance premium rates have been under pressure for an extended period. During this period, Hanover has had to be more disciplined with their underwriting and cull off riskier policies. Our research tells us that the insurance market is on the cusp of price increases and this, with a clean book of business, has them positioned for strong results in the future. Also added to the portfolio was Hancock Whitney Corp (HWC), a regional bank headquartered in New Orleans, LA, Independent Bank Corp (INDB), a regional bank headquartered in Rockland, MA, and Wesbanco Inc. (WSBC), a regional bank headquartered in Wheeling, WV. In all three cases we have found regional banks with a strong market presence and credit culture where we believe that the market has underpriced the shares as they have overestimated the credit losses that will result due to the pandemic affected economy.

We strive to put together a portfolio of quality companies at attractive prices all the while challenging ourselves to find even better opportunities for investment. We believe we have done so and currently have a portfolio with forward valuations and earnings growth expectations that are better than the benchmark. The portfolio has return metrics, return on assets and return on equity, and profitability margins that far exceed the makeup of the benchmark while carrying less debt. We are confident in the portfolio currently constructed but will strive to improve upon it each day.

Walthausen Focused Small Cap Value Fund

Quarterly **Fund Commentary**

Ticker Symbol: Institutional Class WSVIX | **As of December 31, 2020**

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

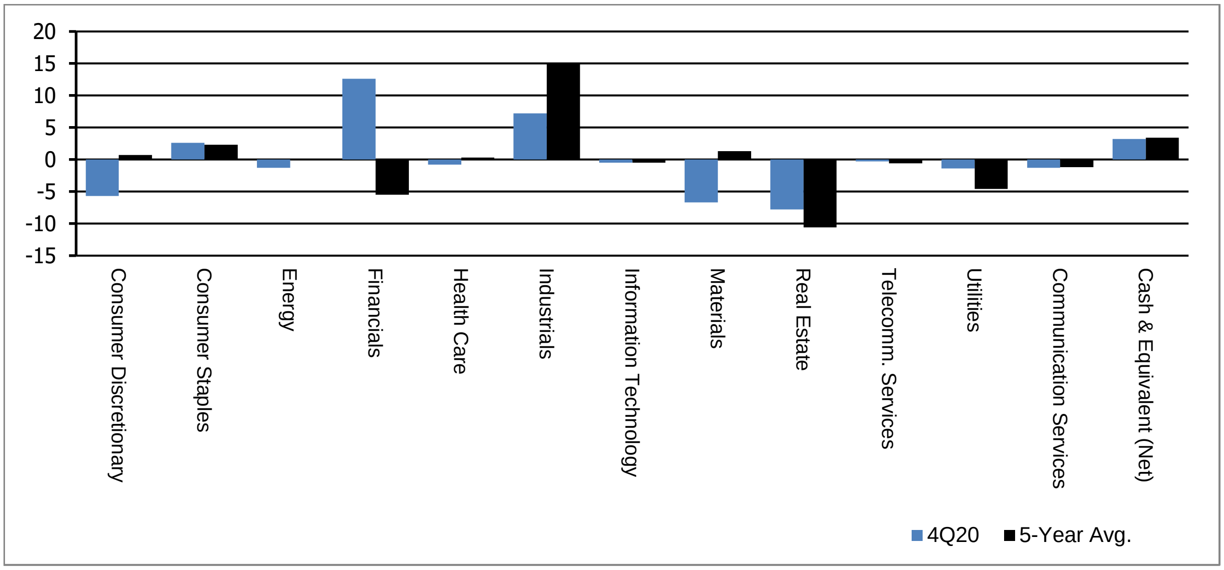

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2000 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Top Ten Holdings (%)

WSFS Financial Corp.	4.0
Sterling Bancorp	3.8
Columbia Banking System	3.5
EMCOR Group, Inc.	3.4
Axis Capital Holdings Limited	3.3
Pacwest Bancorp	3.3
Triton International Limited	3.2
Tapestry, Inc.	3.2
Onto Innovation, Inc.	3.2
Hancock Whitney Corp.	3.1
Total % of Portfolio	34.0

Fund Characteristics

	Fund	Russell 2000 Value Index
Number of Holdings	35	1,486
Return on Equity[1]	11.0	4.8
Weighted Avg Market Cap (Millions)	$3,680	$2,462
Price/Book[2]	1.5	1.4
P/E using FY1 Estimate[3]	17.8	15.7
Long Term Debt/Total Capitalization[4]	25.9	39.6
Information Ratio (TTM)[5]	.49	-
Active Share[6]	96.0	-

Source: Factset Research

Portfolio Performance

	Q4 20	1 Year	3 Year	5 Year	10 Year	Since Inception (12/27/10)
Walthausen Focused Small Cap Value Fund: Institutional Class	27.00	-0.23	3.41	8.26	9.04	8.94
Russell 2000 Value Index[7]	33.36	4.63	3.72	9.65	8.66	8.56
Russell 2500 Value Index[8]	28.51	4.88	4.34	9.43	9.33	9.29

Total Expense Ratio: 1.05%. Net Expense Ratio: 0.85%.
Expense ratio per the October 15, 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 0.85% of its average daily net assets through October 31, 2025. The Advisor may not terminate the fee waiver before October 31, 2025. The Trustees may terminate the expense waiver upon notice to the Advisor. From the prospectus dated October 15, 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.

[9]The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index

[10]The Russell 2000® Growth Index measures the performance of the small cap growth segment of the US equity universe. It includes those Russell 2000® companies with higher price-to-value ratios and higher forecasted growth values.

Return on Assets is an indicator of how well a company utilizes its assets, by determining how profitable a company is relative to its total assets.

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.

Walthausen Funds
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