Environment

The quarter started out with a spasm of negative attitude with markets dropping in harmony with falling oil and natural gas prices. The correlation was a bit hard to understand. Yes the drop in oil, natural gas and other commodity prices had created distress in some quarters. In the U.S., we did see an impact in much of the industrial economy as a good part of the uptick in sales for the past several years had been to equip the oil field for increased drilling, production and transportation. That surge in exploration and production helped the economy and often the jobs were good paying jobs. So while the slowdown hurt, the fact remains that the U.S. is an importer of oil and so a drop helps the balance of trade and the vast majority of people in the country benefit from lower energy prices in the day to day expense of fueling their cars and trucks and heating their homes.

But we can’t just look at the United States; we no longer dominate the world economy the way that we used to. China buys more cars than we do and they make half the steel in the world so the possible ramifications of the slowing growth in China are widespread. This slowdown, coupled with expansion in production capacity, has put pressure on raw material prices and hurt a number of countries as well as companies who are raw material dependent. That turbulence may have sparked worries about the debt obligations of those countries and companies and caused a rush to safety.

However, the dust settled quickly as oil prices came back a bit, though not enough to make the shale oil plays attractive. As we look at the U.S., we see a relatively healthy economy. Employment is continuing its steady improvement and home prices are gradually rising. Credit, though slightly tighter, is still widely available at very attractive rates and consumer confidence appears solid. Corporate America continues to be rather restrained; corporate profits are very strong and balance sheets are in good shape. The excesses of the shale oil rush and the probably excessive valuations of the “Unicorns” (private companies valued at $1 billion or more) are, in our opinion, not likely to roil the credit markets or have much impact on the consumers’ willingness to spend. With the U.S. economy beginning its eighth year of expansion we usually look for a recession on the horizon, but we don’t currently see it. The excessive behavior which spawns a credit crisis is not evident. However, China and the murky behavior of a colossus which is half communist totalitarian and half go-go capitalist could create a crisis.

With a strong March, the Russell 2000 Value Index had regained all the earlier losses and was ahead by 1.70%. Value beat Growth handily, suggesting that once again after a few years of dominance by growth, value stock could once again return to a leadership position. Analysis of our fund’s holdings suggests that there is real value in the fund’s holdings.

Performance Review

<u>Portfolio Factors</u>

Our returns in Q1 fell short of the benchmark with our sector allocations working against us. Surprisingly, both the Utilities and Materials sectors showed double digit gains for the quarter. Our very low exposure to utilities cost us 90 basis points, and while we did benefit from an overweighting in materials, the benchmark weighting for utilities is over two times that of materials so the gain was not as meaningful. It is hard to reconcile the appreciation of the defensive utilities with the strong performance of the economically sensitive materials stocks. It is also hard to understand why the defensive Healthcare group was the worst performing sector for the quarter. A modest overweight in that group further impacted our performance. Stock selection also negatively impacted, detracting 64 basis points from returns.

<u>Stock Selection: Contributors</u>

The Consumer Discretionary stocks were the biggest contributors to performance. No single theme dominated, so perhaps the strength that we saw indicated that the market is confirming our belief that the consumer is not exhausted. The consumer contributors were led by Superior Industries (SUP). The company is prospering due to elimination of some high cost factories and the ramp up of newer capacity in Mexico as well as continued strong demand for new automobiles in the United States. We have been enthusiastic about the prospects for the company for a few years as we have been watching the new CEO bring stronger bottom line emphasis to the company. The second largest contributor was Bassett Furniture (BSET). Again, this is a stock which we have held for a while. The company is benefitting from stronger consumer spending but more importantly the management team is continuing to improve both their retail operations and becoming more effective in making upholstered furniture. The third largest contributor was Briggs & Stratton (BGG). There is a similar story here as well due to better consumer confidence, but more importantly, better placement and better margins as management has been upgrading the product offering while being careful of costs. An old favorite, Big Lots (BIG) performed well. This is a solid, high return on capital name catering to the value conscious consumer.

Rounding out the top five was another old favorite, Rogers Corp (ROG). While much of their market, particularly cell phones, was lackluster, the Arlon acquisition is working well and the market seemed to recognize that this stock had been sold down too far last year. While we took some profits on these stocks during the quarter, we continue to hold all five names.

Portfolio Contributors – Q1 2016

Security	Average Weight (%)	Contribution
Superior Industries Int'l (SUP)	2.36	0.59
Bassett Furniture Inds (BSET)	1.84	0.54
Briggs and Stratton Corp. (BGG)	1.41	0.54
Big Lots (BIG)	2.07	0.39
Rogers Corporation (ROG)	1.76	0.38

Stock Selection: Detractors

The worst performers were two materials stocks, Rayonier Advanced Materials (RYAM) and Intrepid Potash (IPI). Rayonier has a strong position in cellulose specialty fibers and is well positioned in an industry with only a few competitors. Unfortunately, a large use of the fibers is to cigarette filters and much of the end market is in China. The Chinese are looking to reduce smoking and to reduce the use of premium cigarettes to gain favors. This has dampened demand and put a lot of pressure on prices. Because of that and financial leverage in the company, we elected to exit this position. Intrepid Potash is miner of potash which has a real and continuing use in agriculture. The market has been under pressure because of expansion by some miners and the stock has declined severely. However, the company has little debt and some very low cost mines. We are retaining our position.

The other three largest detractors from performance included NMI Holdings (NMIH), a mortgage insurance company, LHC Group (LHCG), a provider of post-acute care health services, and M/I Homes (MHO), a home builder. We have retained our positions in all three of these stocks as we believe that their businesses are solid and their financial positions are sound.

Portfolio Detractors – Q1 2016

Security	Average Weight (%)	Contribution
Rayonier Adv. Matls (RYAM)	0.70	-0.67
Intrepid Potash (IPI)	0.60	-0.64
NMI Holdings (NMIH)	1.51	-0.56
LHC Group (LHCG)	1.82	-0.53
M/I Homes (MHO)	1.87	-0.41

Portfolio Changes

During the quarter we closed out seven positions. Four of these were cases where we felt that the stocks had achieved their potential. The list included Kaiser Aluminum (KALU), Trimas (TRS), and Multi-Color (LABL). The fourth, Apollo Education Group (APOL), which when we had bought this debt free for-profit education company, had fallen to the point where cash on hand exceeded the value of the stock rallied on rumors that a private capital firm was about to acquire it. We sold this small position at a solid gain on the rumor, which proved to be true.

We sold Comtech Telecommunications (CMTL) after the company announced the acquisition of another company that we perceived to be a fairly lackluster company, and which would double the size. Given that Comtech was not performing well itself, we concluded that there was no reason to be confident that the acquisition would enhance the firm's value. We sold Lexmark (LXK), a longer term position, because their printer business was declining faster than we had expected and their acquisitions were not adding value.

We added nine stocks. We have known AAR Corp (AIR) for quite a few years and have noted that the company has a very strong position in the aircraft maintenance industry. When the stock sold down to below tangible book value, we felt this represented an excellent opportunity. The company had shed some operations and is in a very strong financial position. The risk is that they dilute value with a poorly thought out acquisition. Hyster-Yale (HY) was another name which we know well. We think that management is doing a good job, particularly the step-by- step redesign of its product line of lift trucks. When the stock fell in price, apparently on concerns of a recession, we added a position. Other finds were more interesting. We added GCP Applied Technologies (GCP), a producer and seller of specialty construction chemical and building materials. We had admired these businesses but were cautious about the numerous liabilities which W R Grace carried. However, when some of the best parts were spun off to a new corporation without those liabilities, we were very interested. We were also pleased to add Suburban

Propane (SPH), a Master Limited Partnership which is a major retailer of propane. The price of the units dropped precipitously because of the warm winter (less propane sales and a drop in the price) and probably cash needed to meet redemptions by funds which specialize in MLPs. We concluded that the dealer's markup is very consistent and that the gradual global warming trend poses no threat to this business. Though mark-to-market accounting has clouded the reported results, the dollar margin per gallon which Suburban receives is quite consistent.

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

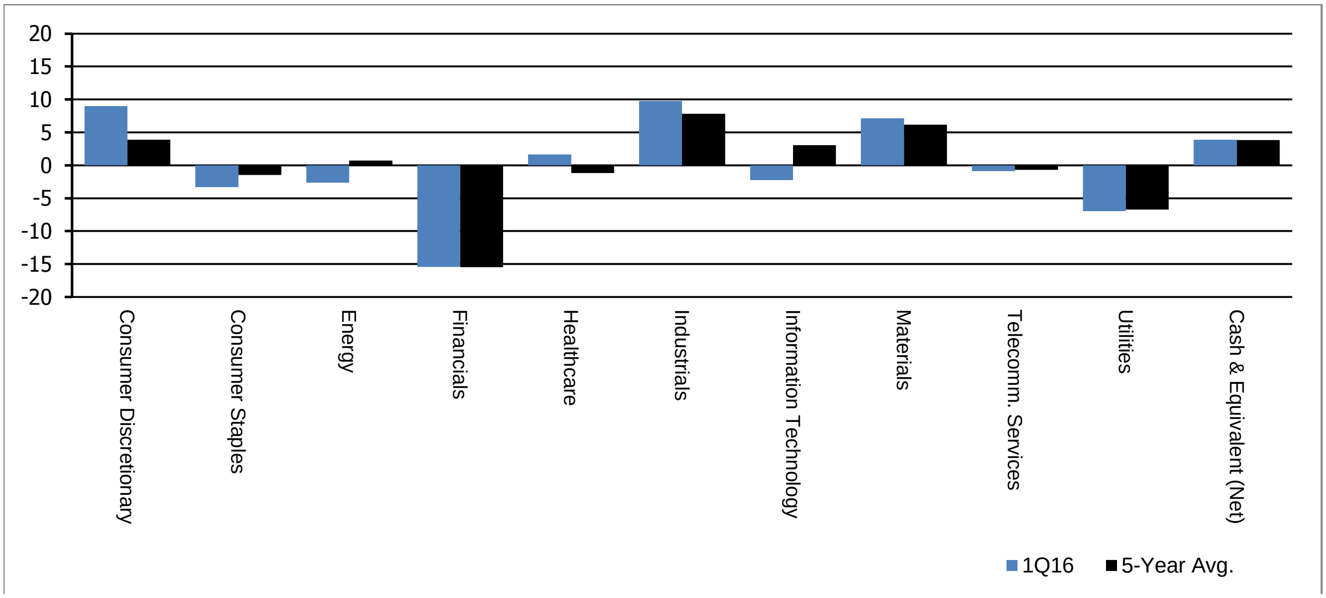

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2000 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Outlook

The year started on a note of fear. The markets then stabilized and recovered, perhaps largely due to renewed commitment to use monetary policy by both the Federal Reserve Bank and governments abroad to keep interest rates low and credit available. Though the markets recovered and economic growth is tepid, our review of the portfolio suggests that the businesses are strong and the stock prices are still attractive

Top Ten Holdings (%)

SeaWorld Entertainment, Inc.	2.5
Ply Gem Holdings, Inc.	2.4
Superior Industries International, Inc.	2.3
Mueller Water Products, Inc.	2.3
Big Lots, Inc.	2.1
Kindred Healthcare, Inc.	2.0
Ferro Corp.	1.9
Rogers Corp.	1.8
Bassett Furniture Industries, Inc.	1.8
M/I Homes Inc.	1.8
Total % of Portfolio	20.9

Fund Statistics

	Fund	Russell 2000 Value Index
Number of Holdings	82	1,325
Median Market Cap (Billions)	$620.4	$595.4
Weighted Avg. Market Cap (Billions)	$973.3	$1,738.8
Price/Book[2]	1.4	1.4
P/E using FY1 Estimate[3]	15.2	16.2

Source: FactSet Research

Walthausen Small Cap Value Fund

Quarterly **Fund Commentary**

Ticker Symbol: WSCVX | **As of March 31, 2016**

Portfolio Performance

	Q116	1 Year	3 Year	5 Year	Since Inception (2/1/08)
Walthausen Small Cap Value Fund	-0.23	-13.17	3.43	6.92	11.56
Russell 2000 Value Index[1]	1.70	-7.72	5.73	6.67	6.23

Total Expense Ratio: 1.23%. Expense ratio per the June 1, 2015 prospectus.

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.

[1]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.

Disclosures

[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.

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.

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