Walthausen Select Value Fund

Quarterly **Fund Commentary**

Ticker Symbols: Institutional Class WSVIX | Retail Class WSVRX

As of March 31, 2018

Environment

The first quarter could be a sign of things to come. Stocks showed vulnerability for the first time in quite a while. Most interestingly, investors began selling the stocks that have been leading the market higher over the past several years. We have been commenting consistently for several quarters on the eerily consistent appreciation of the US equity markets which continued through January. Volatility returned in force during February and March and it seems like investor complacency has been disrupted which could make this year much more challenging.

Much has been said about market leadership. For a period now approaching ten years, growth investing has been driving the market higher and the leadership during the past couple of years has been clustered around a narrow group of sectors and stocks. This has led to an even greater concentration of market capitalization within this group which exacerbates the movements of most market cap weighted indices. Today, Technology, Financials and Health Care collectively make up the majority of the total US equity market. We are beginning to see that the trust people have placed in certain technology firms is waning as people recognize that these firm's ownership of so much information could lead to potentially dangerous outcomes. A shift in investor sentiment, if and when it occurs, may result in these high flyers falling to more earthly valuations, and in the process will damage the market cap weighted indices. This may make these instruments more vulnerable than we believe some investors realize.

All of this puts small to mid-cap value stocks in an interesting position. At this point, the economy seems to be buzzing along well. Employment is healthy, taxes are a bit lighter for most Americans, and wages are rising. Looking further into 2018, we expect that small cap company profits will grow well, even before we consider the positive impact of lower tax rates and changes that will encourage investing in capital projects; two factors that bode well for the companies we like to own. The recent trade tariffs are, at this point, largely inconsequential to the companies we hold and rising interest rates are not a current concern as we favor companies that typically have good to improving cash flow, thus diminishing their sensitivity to capital markets and rising rates.

Although the number of candidates has gotten fewer and our process of selection has gotten tighter, we continue to find attractive companies that possess good to improving return on invested capital with good cash flow. This is partly attributable to the fact that small cap value has lagged growth considerably over the recent years and that, as of the writing of this commentary, the market has narrowed as new 52 week highs are losing ground to new lows. In this, we see a hint of where a hoard of new value stocks may come from.

We maintain our cautious optimism and feel comfortable with the holdings in our portfolios as they represent a diversified group of fundamentally strong companies that, in our opinion, are poised to perform well on a relative basis whether this past quarter becomes something more, or if the march onward and upward continues.

Performance Review

Portfolio Factors

The benchmark Russell 2500 Value Index did not have a good quarter, as it was again left in the dust by growth names. We are pleased, however, to report that relative to the index, both the retail and institutional share classes outperformed the benchmark. Our Stock selection accounted for the bulk of the outperformance.

Healthcare was the best performing sector in the benchmark and we unfortunately were underweighted. Our one holding, Encompass Health (EHC), did quite well, and we were delighted to see this stock finally receive the investor attention we believe it deserves, as our holdings in continuum of care providers languished for most of last year. We continue to be convinced that the industry is developing toward a more integrated approach that will favor these stocks. Information Technology also did well. We were slightly overweight but our selections fell short.

The portfolio was helped by our absence in Real Estate as rising rates placed it in the benchmark's worst performing sector. The Energy and Materials sectors also underperformed. We were overweight in both but our selections were strong enough to produce a positive return.

Stock Selection: Contributors

We note that the top five contributors represented five different sectors (Information Tech, Financials, Healthcare, Industrials and Energy). The largest contributor was DST Systems (DST), a data management company which is being acquired. We also did well with First Cash (FCFS), a pawn shop operator, and Encompass Health (EHC). McGrath RentCorp (MGRC) also appreciated as it became clear that demand for the temporary modular structures that they provide is getting healthier. The five best performers were rounded out by Callon Petroleum (CPE), an energy exploration company, which a few years ago successfully shifted investments out of the Gulf of Mexico and into the Permian Basin.

Portfolio Contributors – Q1 2018

Security	Average Weight (%)	Contribution
DST Systems Inc. (DST)	0.32	0.81
FirstCash Inc. (FCFS)	2.67	0.47
Encompass Health Corp. (EHC)	2.67	0.38
McGrath Rentcorp (MGRC)	2.69	0.36
Callon Petroleum (CPE)	2.53	0.36

Stock Selection: Detractors

The largest detractors were Winnebago Industries (WGO) and Rogers Corporation (ROG). We had done very well with both stocks and took some gains last year. Winnebago retreated in the first quarter on anxiety that the resurgence in sales of recreational vehicles is coming to an end. We are sticking with our position as we believe the management team has the right strategy. Rogers Corp (ROG), like Winnebago, was one of the best performing stocks in Q4 2017. We had taken some profits and are weighing the balance of the position in the face of some uncertainty about the current year. We also saw underperformance on the part of Goodyear Tire and Rubber (GT). The company's bread and butter is the replacement market. That business is fairly steady, although from quarter to quarter there may be fluctuations as raw material prices can cause some demand pressure and margins. Hub Group (HUBG), a well-run provider of intermodal services, had a very good quarter and yet the stock languished. We believe the opportunity remains intact and continue to hold the stock.

Portfolio Detractors – Q1 2018

Security	Average Weight (%)	Contribution
Winnebago Industries (WGO)	2.20	-0.79
Rogers Corp. (ROG)	2.33	-0.67
Goodyear Tire (GT)	2.31	-0.45
Hub Group Inc. (HUBG)	2.60	-0.35
Vishay Inc (VSH)	2.45	-0.30

Portfolio Changes

We added four new stocks in the quarter. We added Valvoline (VVV) after careful research suggested that the model of quick oil changes was meeting a growing consumer demand for efficient and convenient oil changes. We also added Mueller Industries (MLI), a producer of copper tubing and brass products, mostly for the plumbing industries. We believe they have a strong management team and that the stock is not well understood or appreciated. We also initiated a position in United Natural Foods (UNFI). We had been observing the company for a while and believe that the Amazon acquisition of Whole Foods, United's largest customer, is a positive for the company. Lastly, we added American State Water (AWR). We think that this is a well-managed water utility that could benefit from growing population and the increasing interest by municipalities in selling their water systems to companies such as American Water. We sold DST Systems (DST) because of the pending acquisition, and exited our positions in Deluxe (DLX) and Snap On Inc. (SNAP), as both stocks had achieved our targets. We sold our position in Vista Outdoor (VSTO) and although their core hunting rifles and ammunition segments appear likely to rebound, the shifting environment regarding gun sales and an overleveraged position degraded our thesis. We also exited Dorian LPG Ltd. (LPG) which we had received as a dividend from our position in SEACOR Holdings (CKH).

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

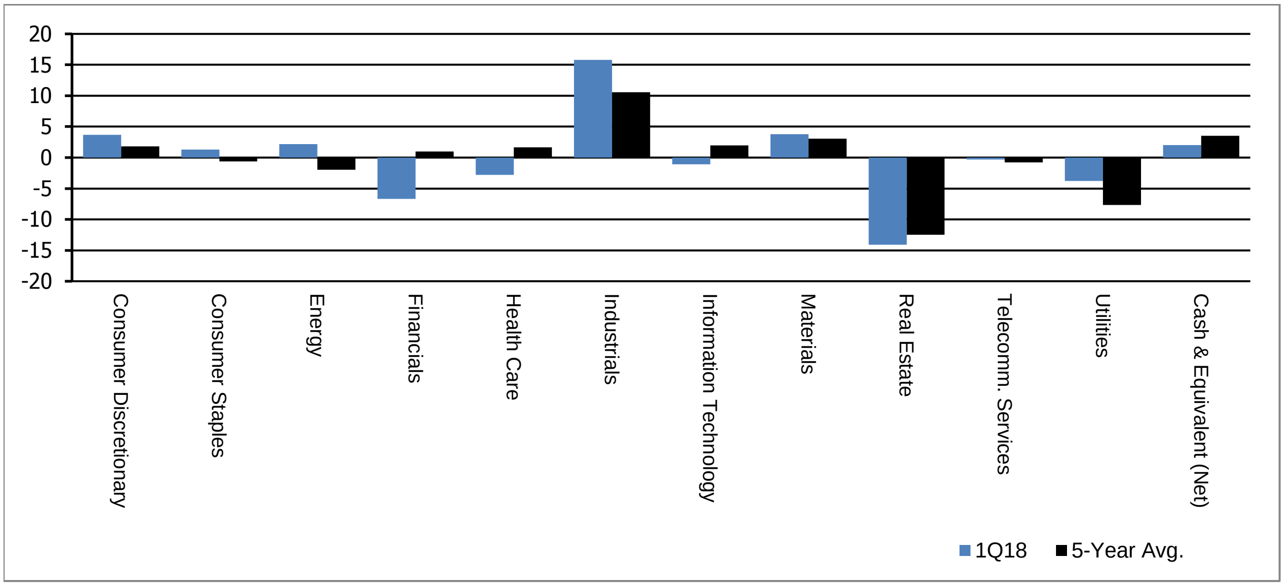

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2500 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Source: FactSet Research

Top Ten Holdings (%)

Callon Petroleum Co.	3.0
McGrath Rentcorp	3.0
FirstCash Inc.	3.0
Energen Corp.	2.9
SEACOR Holdings	2.9
Encompass Health Corp.	2.9
Milacron Holdings Corp.	2.9
John Wiley & Sons Inc. Class A	2.8
Commerce Bancshares Inc.	2.8
American Financial Group Inc.	2.7
Total % of Portfolio	28.9

Fund Statistics

	Fund	Russell 2500 Value Index
Number of Holdings	40	1,762
Median Market Cap (Millions)	$2,633.9	$1,067.2
Weighted Avg Market Cap (Millions)	$3,589.2	$4,729.6
Price/Book[1]	2.2	1.6
P/E using FY1 Estimate[2]	16.0	16.0

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As of March 31, 2018

Portfolio Performance

	Q1 18	1 Year	3 Year	5 Year	Since Inception (12/27/10)
Walthausen Select Value Fund: Institutional Class	-1.34	11.34	6.02	9.30	10.78
Walthausen Select Value Fund: Retail Class	-1.36	10.99	5.73	9.04	10.50
Russell 2500 Value Index[3]	-2.65	5.72	7.26	9.88	10.67

Total Expense Ratio: 1.36%. Net Expense Ratio: 1.11% for Institutional Class, 1.36% for Retail Class. Expense ratio per the June 1, 2017 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, 2018. The Advisor may not terminate the fee waiver before May 31, 2018. The Trustees may terminate the expense waiver upon notice to the Advisor. From the prospectus dated June 1, 2017.

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.

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.

Walthausen Funds
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