Walthausen Select Value Fund

Quarterly **Fund Commentary**

Ticker Symbols: Institutional Class WSVIX | Retail Class WSVRX

As of December 31, 2018

Environment

The fourth quarter was a trying period in a trying year. We had been commenting for a few years that the market seemed frothy. Through much of this, our tried and true philosophy of buying stock where we could see signs that management was fundamentally building value, and where this value building process was not being recognized in the market, benefited our investors. In 2018, we continued to make such investments, and the companies, in large, met our expectations. However, the market neglected to recognize the progress that these companies made. Instead, the market rewarded Utilities and, until the fourth quarter, growth stocks as well.

We ask, why did the market melt down in the fourth quarter after having held up so well for so long? This question certainly provoked a lot of discussion in our shop and among investors. A number of factors were cited from uncertainty about the commitment by the Federal Reserve to raise rates, to concerns about trade barriers, to growing signs that the rapidly expanding Chinese economy was slowing, and to growing uncertainty about international relations and the United States role in that. We think that the answer is never certain or simple. Multiple factors do play a part and these factors can combine into a pessimism which pervades the market even when the economy is growing nicely.

As we sit here in early January, we need to ponder the question of where do we go from here. Without doubt the US economy is strong, but with unemployment at very low levels, can it get much better. Certainly the fiscal stimulus from the tax cuts will continue to help, but if the economy continues to grow in the face of low unemployment, won't interest rates continue to rise as the economy moves toward overheated.

But let's get to the core of the matter. Credit drives the world economy. Credit provides the funding for businesses and consumers to invest and spend. Few businesses expand and few consumers buy houses or autos without credit. Thus, the inversion of the yield curve is important. Simply stated, most financial institutions borrow short and lend long. Thus, when short term rates move up to parallel or exceed longer rates, then credit tightens and the economy can move toward contraction. For example, if you own a bond fund you probably are noticing that rates on bank CD's are rising but your returns on the bond fund are dropping. You are not alone in thinking of moving from the bond fund. So the bond fund shrinks a bit and their appetite for buying new bonds withers. The Bank that is accepting your deposit is not being more aggressive in lending. Their money is costing them and their peers more so they need to get higher rates and be more careful in their lending. We have already seen some of these effects as the new issuance of corporate bonds tightened in December.

Does this clearly predict that US equity markets will be down in 2019? No it does not. We are convinced that the market will shift back toward more normal behavior as money is less plentiful and has a cost. We think that the stocks of companies that do not make cash returns will be at risk. We know that markets do adjust but we believe that the market, up or down, will shift toward one that is less enamored with yield stocks like Utilities or REITs. The yield in short term money is now competitive, so there is much less call to buy Utilities. REITs look less interesting as their cost of money rises. As has been true in the past, our investment style tends to do best in more difficult times.

Performance Review

Portfolio Factors

The fourth quarter was a challenging period as our benchmark Russell 2500 Value dropped by a disconcerting amount. The smaller the stocks were, the further they fell, a factor which contributed to our underperformance. Our Walthausen Select Value composite marginally more than the benchmark. Sector allocation was the primary cause of the shortfall. We experienced a 108 basis point headwind for not having any exposure to the Real Estate sector. The fact that the interest rate sensitive real estate sector was one of the better performing sectors is a bit of a head scratcher as we see the equity markets concerns around interest rates as a leading cause of the declines we experienced. We also lost ground as a result of being over weighted in Energy and Industrials. Energy was a double whammy as we also experienced poor stock selection.

Stock Selection: Contributors

Our top performing holding during the quarter was American States Water Company (AWR). As its name suggests, it is a water utility and its strong performance has a lot more to do with the fact that it's a utility and less about company specifics. It is gratifying to see that when the market was flocking to safety, it saw AWR as a go-to quality investment as it outperformed the utility sector by a significant amount. All three of our Consumer Staples holdings were nice contributors as Casey's General Stores (CASY), Darling Ingredients (DAR), and Sanderson Farms (SAFM) all meaningfully outperformed the index sector average. We were encouraged to see the performance of Casey's, a convenience store operator, and Sanderson Farms, the third largest poultry producer in the US, as they are relatively new additions to the portfolio.

Portfolio Contributors – Q4 2018

Security	Average Weight (%)	Contribution
American States Water Co.	2.70	0.18
Columbia Banking System, Inc.	1.55	0.02
Casey's General Store, Inc.	2.57	0.01
McGrath RentCorp	2.25	-0.08
Darling Ingredients, Inc.	2.76	-0.10

Stock Selection: Detractors

Energy companies were by far the worst performers for the period. Whiting Petroleum (WLL), Callon Petroleum (CPE), Southwestern Energy (SWN), all E&P companies, and Oil States International (OIS), an oil services company, all saw horrific price declines during the period. During the quarter the benchmark WTI crude price fell 38% and momentum players selling of energy stocks got stronger with every downtick. Testament to this is the 38% decline in the share price of Southwestern Energy. The company is primarily a natural gas producer. The average natural gas price during the quarter was the highest in over four years! So much for the markets ability to differentiate. We are confident in the business models of all of these companies and suspect that both the commodity price and the market's valuation of our holdings will bounce back.

Portfolio Detractors – Q4 2018

Security	Average Weight (%)	Contribution
Whiting Petroleum Corp.	1.94	-1.53
Oil States International, Inc.	1.92	-1.42
Callon Petroleum Company	2.57	-1.38
Southwestern Energy Company	2.03	-1.11
Milacron Holdings Corp.	2.00	-1.08

Portfolio Changes

Turnover activity involved the sale of three stocks and the purchase of four new stocks. Energen Corporation was acquired by Diamondback Energy (FANG) and we decided to take advantage of a run up in the share price at the beginning of the quarter as the merger date approached, and sell out of the position. Given the events that followed in the energy sector, it was a fortuitous decision. Milacron Holdings (MCRN) is a manufacturer of plastic processing equipment and systems. Milacron has an attractive aftermarket and consumables business that we felt was under managed and a manufacturing profile that could be managed to greater profitability. With the most recent update, we concluded that the economic slowdown in China was presenting a greater headwind than we anticipated, and management's efforts to adjust the profile and increase the profitability of the business were not happening at an acceptable pace.

We added four new companies to the portfolio, an energy company, a technology company and two banks. Southwestern Energy was spoken to earlier, and admittedly, our timing could have been better. We like the company because of its natural gas focus and what we see as strong fundamentals for the commodity. LogMeIn (LOGM) is a market leader in its business of providing remote access and collaboration services. After years of high growth, the company saw a downtick in their business and told the market that expectations needed to be turned down a notch. The market reacted by throwing the baby out with the bath water and we saw the opportunity to own a quality company at a decade low valuation. The two banks are PacWest Bancorp (PACW) and Columbia Banking System (COLB). In both cases we have banks that have a very strong deposit franchise, a dynamic market to be a lender, a low deposit to loan ratio, and a high capital position. Combined with an attractive valuation, these are all of the traits that we look for in our bank investments.

These adjustments were consistent with our long standing investment philosophy of owning quality companies that have a history of superior returns on invested capital at attractive valuation multiples. The portfolio is well diversified with an average market capitalization (measured by the weighted average) smaller than the index. Additionally, the portfolio has return characteristics, return on assets, and return on equity, that are well in excess of the benchmark while sporting a balance sheet with lower leverage as measured by long term debt to capital.

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

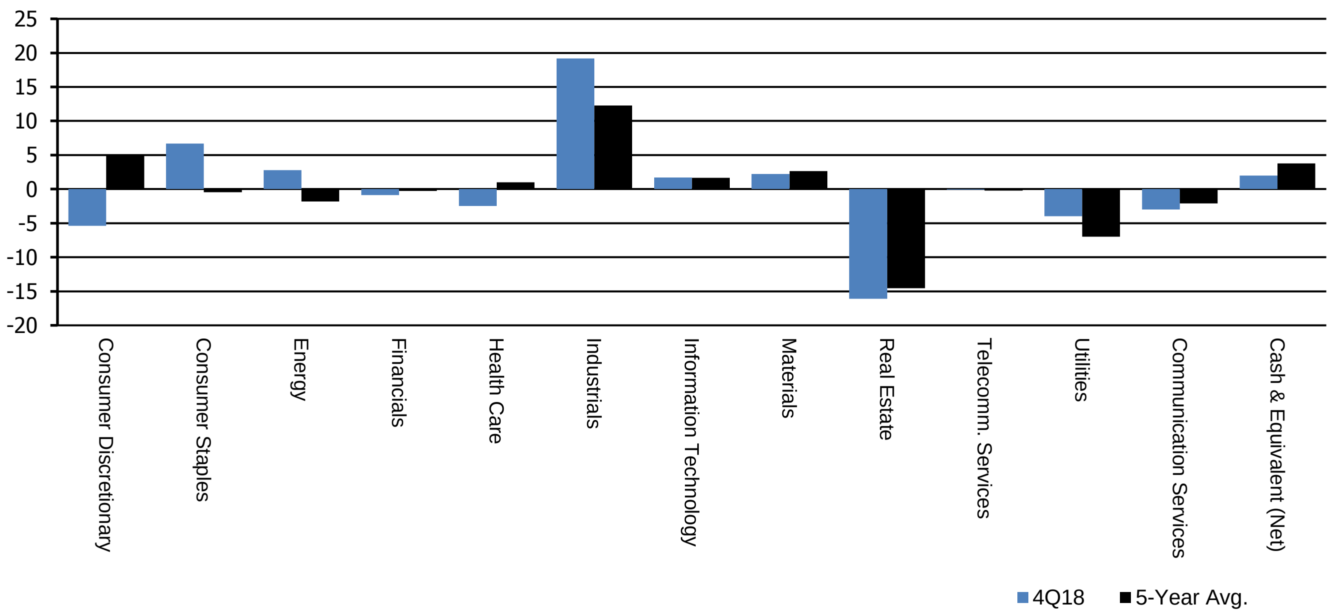

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2500 Value Index benchmark have not changed greatly from today’s levels versus the five year average.

Walthausen Select Value Fund	Quarterly **Fund Commentary**
Ticker Symbols: Institutional Class WSVIX | Retail Class WSVRX	**As of December 31, 2018**

Top Ten Holdings (%)

Sanderson Farms, Inc.	3.5
American States Water Company	3.4
Casey's General Stores, Inc.	3.4
Oshkosh Corporation	3.3
Granite Construction, Inc.	3.3
EMCOR Group, Inc.	3.3
CVB Financial Corp.	3.2
MDC Holdings, Inc.	3.1
ITT, Inc.	3.1
Darling Ingredients, Inc.	3.0
Total % of Portfolio	32.6

Fund Statistics

	Fund	**Russell 2500 Value Index**
Number of Holdings	35	1,748
Median Market Cap (Millions)	$2,689.7	$914.7
Weighted Avg Market Cap (Millions)	$3,217.7	$4,312.3
Price/Book[1]	1.6	1.4
P/E using FY1 Estimate[2]	13.0	13.1

Source: FactSet Research

Portfolio Performance

	Q4 18	**1 Year**	**3 Year**	**5 Year**	**Since Inception (12/27/10)**
Walthausen Select Value Fund: Institutional Class	-18.84	-14.05	4.94	1.84	7.85
Walthausen Select Value Fund: Retail Class	-18.89	-14.27	4.63	1.58	7.56
Russell 2500 Value Index[3]	-17.12	-12.36	6.59	4.16	8.19
Russell 2000 Value Index[4]	-18.67	-12.86	7.37	3.61	7.44

Total Expense Ratio: 1.36%. Net Expense Ratio: 1.11% for Institutional Class, 1.36% for Retail Class. Expense ratio per the June 1, 2018 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, 2019. The Advisor may not terminate the fee waiver before May 31, 2019. The Trustees may terminate the expense waiver upon notice to the Advisor. From the prospectus dated June 1, 2018.

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.

[4]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

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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