Environment

The first quarter of this year was quite a surprise after the meltdown of the fourth quarter of 2018. Starting on the last days of the year, the market began a remarkable comeback which lasted through February. With that rebound the market regained most of what it had lost in the fourth quarter. But where are we now? Value seemed poised for a comeback as the Q4 meltdown (technically a bear market some say) put fear into the equation. Value investors rightly believed that the tone of the market was changing in their favor. It did not. Growth beat value again with the Russell 2000 Growth Index up 17.4% while the Russell 2000 Value Index was up only 11.93%.

We all wonder why value doesn't emerge. The long term data suggested that value always beats growth over long periods of time and small cap will generally exceed large cap over the cycle. However, the data for this cycle is a dramatic challenge to that thesis. Just looking at the Russell index data we can see that the core large cap index beats the core small cap over the 1, 3, 5 & 10 year periods. The same is even truer when you compare growth to value. We wonder whether this is a permanent change in how the market values companies or another of the anomalies which emerge from time to time in the stock market. If it is the latter, we think that we can look forward to a period of excellent relative performance for small cap value stocks.

When we look at the data again we see that the Russell 1000 Growth Index has been compounding at a 17.52% rate for the last decade while the Russell 2000 Value Index has compounded at 14.12%. Both are great returns, but when you take it out for the 10 years the returns are very different. The growth investor has $500 on the $100 invested while the small cap value friend has $375 and the difference has gotten worse in recent years. Over the last twelve months the large cap growth investor got a 12.75% return while the small cap value investor got nothing (0.17%).

To understand whether this is a permanent change to a new investment paradigm, or an odd and temporary situation, we need to look at what this cycle has been. It has been unusual, starting with the great recession where it appeared that the financial meltdown could rival, and perhaps exceed, the depression of the 1930s, with the remaining commercial and investment banks all toppling one after the other. Fortunately, the catastrophe was averted by forceful intervention here and around the globe. The banks were refinanced with TARP and the interest rates were brought down to unbelievably low levels. Quite correctly, corporation after corporation pulled back and worked hard to rebuild its balance sheet, holding off expansion plans and avoiding acquisitions. In order to get the economy moving the Federal Reserve kept interest rates low and the Federal Government accepted the inevitability of large fiscal deficits and gradually the economy began to revive. However, growth was slow and inflation tame so interest rates were kept low. Investors gradually learned that risk had very little penalty and corporations began to take on more risk via ever larger acquisitions and aggressive share repurchases. Unicorns began to bloom, bragging that growth was all important and that profitability was very secondary as it would inevitably follow hyper growth. The recent IPO of Lyft is a clear indicator that the risk that profits don't materialize is a minor concern.

We must ask whether this will change and when? Our experience has taught us that the markets and investor emotions move in cycles and that inevitably the exuberance that we see now will turn to fear. We are tempted to try to use data to predict when the "music" will stop but we know that economics is really a study of human behavior in the face of an uncertain future. At some point people will get more cautious. Right now people are feeling good. Wealth is high with higher stock markets and home prices inflated by low interest rates and the decade of stock appreciation. We think that more than enough complacency and debt has accumulated. We are worried.

We have always observed that the cheapest and most reliable source of capital is retention of profits and that small companies will be leaner, more flexible and less prone to hubris than the large companies. Further, we have concluded that the management of small companies, if they are good, are much closer to the customer and much closer to the pulse of the business than large ones.

Our investment discipline causes us to examine the companies that we invest in closely, looking to understand their potential to achieve high returns on invested capital and to have the plans and potential to reinvest the returns in building a stronger more profitable company. We want to own a position in these companies at a reasonable discount to the prospective value of the business. We would expect that after a decade of almost uninterrupted price appreciation of the market, it had become too difficult to find stocks with the characteristics that we seek at prices that we are comfortable. However, thanks in part to the poor performance of value names, we are able to build a portfolio that we are pleased with.

Performance Review

Portfolio Factors

The equity markets got off to a rip-roaring start in January and February, finishing with a slight pull back in March. The Select Value Composite trailed its primary benchmark, the Russell 2500 Value Index, by 136bps for the quarter. We were satisfied during the first two months being able to stay at par with such a rapidly ascending benchmark. March saw us give up some performance, notably when the interest rate curve moved toward inversion mid-month. Sector allocation and stock selection were both to blame for the underperformance. An absence of exposure to the Real Estate sector was our largest sector challenge as it was the third best performing sector in the benchmark. Additionally, given the very large returns during the quarter, our cash balance was a noticeable detractor, even though it was a seeming small weight at just 3.4% of the portfolio.

Stock Selection: Contributors

Providing another quarter of strong performance was Sanderson Farms (SAFM), the third largest poultry producer in the nation. We invested in the company when it appeared that most of the cyclical challenges that this business must contend with were against them, knowing that this quality management team had successfully dealt with these challenges in the past and believed that they would again. An increase in pork prices (a competing protein product) and an improvement of sentiment regarding the future international trade environment, has found investors coming back to the stock and bidding up its price. Mueller Industries (MLI), a manufacturer of brass and copper offerings, was a very strong performer during the quarter as the market reacted very favorably to their 4th quarter earnings release. MLI is a nice example of how we seek to find companies where we note that fundamentals are improving, yet this change isn't reflected in the stock price. Upon reporting the substantial year over year improvement for the last quarter, and commenting that they expect this improvement to continue, the stock appreciated over 13%. Surprisingly, this $2.5 billion in enterprise value company doesn't have any Wall St. coverage.

Portfolio Contributors – Q1 2019

Security	Average Weight (%)	Contribution
Sanderson Farms	3.57	1.09
Mueller Industries	3.26	0.94
Southwestern Energy	2.60	0.86
Oshkosh Corp	3.49	0.73
EMCOR Group	3.25	0.66

Stock Selection: Detractors

Notable amongst the detractors was Columbia Banking Systems (COLB), a community bank headquartered in Tacoma, WA. This is a strong banking franchise that has demonstrated good credit quality, loan growth and deposit gathering skills over the years. Noteworthy is their very low cost deposit base which is usually a good thing. However, if the market suddenly shifts its forecasts in interest rates from trending up to trending down, this low cost deposit base is seen as a negative. If interest rates decline, loan yields should decline, however if your deposit costs have only a limited ability to move lower, and can't decline commensurate to your loan yields, the bank's profitability will be compromised. This is where the company finds itself today.

A challenged performance also came from Encompass Health Corporation (EHC), a post-acute healthcare service company. Encompass has been performing as we had expected, posting results that met or exceeded expectations of EBITDA and EPS, however the specter of a reduction in the reimbursement rates from government backed health plans has turned investors sentiment towards the stock negative. It has been a very strong performing company over the past decade and has successfully dealt with the challenge of reimbursement rates during that time. We expect that they will continue to do so.

Portfolio Detractors – Q1 2019

Security	Average Weight (%)	Contribution
Wyndham Destinations	1.60	-0.28
Columbia Banking System	2.91	-0.27
Encompass health Corp	2.76	-0.14
Essent Group	0.17	-0.06
Vishay Intertechnology	1.77	-0.03

Portfolio Changes

The portfolio exited from five holdings during the quarter and added three. In four of the five names exited we had lost faith in the company's ability to grow in the way we had originally envisioned. Quite simply, we were wrong in our view of the strength of the business. The fifth holding, Log Me In (LOGM), a software service company offering remote access and collaborative services, announced during its quarterly results conference call a new business strategy. With our investment thesis, which had been based on the previous business strategy, now invalidated, we stayed true to our process and sold the position.

We added two companies that are in the consumer discretionary sector, Wyndham Destinations (WYND) and Dave & Buster's Entertainment (PLAY), and one in the financial sector, Essent Group (ESNT). Wyndham is a vacation time share company that separated from the Wyndham Hotel company June 2018. The time share business is a very strong cash flow generating business. Additionally, we believe that it is not a very well understood business. Over the course of the past year we had watched as the stock price experienced an extended steady decline and can only surmise that there were still some investors from the time of the split that didn't fully understand what they owned and were continual sellers. We understand and like the business, most particularly how Wyndham is positioned in the market, and expect good things in the future. Dave & Buster's is a restaurant concept that combines arcade games and meals for the family. These are large retail units that have a very impressive return on investment. Essent Group is a mortgage insurance company that started in the midst of the financial crisis when it was determined that additional insurance coverage capacity was needed. The mortgage banking community still has scars from that time period, and since then have been diversifying their insurance amongst a greater number of providers, of which Essent has been a beneficiary, and we believe will continue to be so.

Portfolio Position

We are pleased with where the portfolio is placed today. With the exception of P/B, we are at or below the benchmark in each pertinent valuation metric. The return metrics of our companies as measured by ROA and ROE, as well as the profitability metrics as measured by operating margin, net margin and historic eps growth, are all significantly above the comparative average of the benchmarks, all the while employing a lower level of leverage. This is a portfolio that we believe is poised for strong returns and allows us to sleep comfortably at night. We thank you for the trust and confidence you have shown in investing with us. We are confident that this is the type of portfolio one would want to be a part of when/if economic winds of change begin to blow.

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

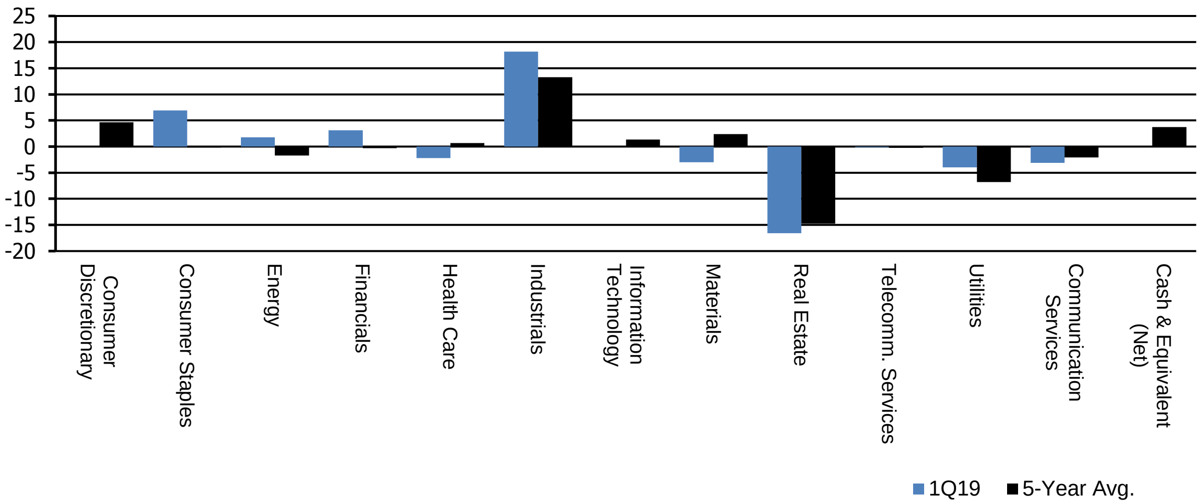

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2500 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Top Ten Holdings (%)

Sanderson Farms, Inc.	3.8
NCR Corp.	3.6
McGrath RentCorp	3.6
Bank of Hawaii Corp.	3.6
Oshkosh Corporation	3.6
PacWest Bancorp	3.4
CVB Financial Corp.	3.3
EMCOR Group, Inc.	3.3
Granite Construction, Inc.	3.2
Darling Ingredients, Inc.	3.2
Total % of Portfolio	34.6

Fund Statistics

	Fund	Russell 2500 Value Index
Number of Holdings	35	1,723
Median Market Cap (Millions)	$2,947.0	$1,039.7
Weighted Avg Market Cap (Millions)	$3,553.5	$4,927.0
Price/Book[5]	1.9	1.5
P/E using FY1 Estimate[6]	13.7	14.7

Source: FactSet Research

Portfolio Performance

	Q1 19	1 Year	3 Year	5 Year	Since Inception (12/27/10)
Walthausen Select Value Fund: Institutional Class	11.69	-2.70	8.24	3.35	9.05
Walthausen Select Value Fund: Retail Class	11.65	-2.96	7.96	3.09	8.77
Russell 2500 Value Index[1]	13.12	1.84	9.85	6.02	9.56
Russell 2000 Value Index[2]	11.93	0.17	10.86	5.59	8.69

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.

The Russell 2000® Growth Index measures the performance of the small cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth sales.

The Russell 1000® Growth Index measures the performance of the large cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price/book ratios, higher predicted and historical growth rates.

Return on Assets (ROA) is a profitability ratio that indicates how profitable a company is relative to its total assets.

Return on Equity (ROE) is a profitability ratio that measures the ability of a company to generate profits from its shareholders' investments in the company.

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.

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