Walthausen Small Cap Value Fund

Quarterly **Fund Commentary**

Ticker Symbols: Institutional Class WFICX | Investor Class WSCVX

As of December 31, 2019

Environment

December ended a decade which will certainly be remembered as the decade of growth investing. The returns are astounding. The ten year return for investing in the Russell Top 200 Growth Index annualizes at 15.58%, while the Russell 2000 Value Index achieved only a 10.56% return. When investors face a difference of that magnitude for a year or two, sensible investors shrug it off as the cost of diversification. Every year, some asset classes will underperform but then it will quickly shift back. The pattern has long been set. We have always assumed that the academic research, which showed that small cap and value stocks have edged out large caps and growth stocks over the long term, would hold true. A decade is long term and this time small cap value hasn't rebounded. As the decade progressed, the dominance of large growth stocks over small value has accelerated.

The tide of large growth stocks has risen with hardly a pause. For 2019, the Russell Top 200 Growth Index was up an astounding 36.48%, leaving the Russell 2000 Value Index with a pitiful relative return of 22.39%. We know that King Canute was correct that humans cannot win a fight with the tides. That force of nature, including the forces of the market, can overwhelm and thwart well established patterns. Market shifts, as we must remember, are very powerful. The market shifts, surges, and collapses as circumstances, perceptions and expectations change.

Don't fight the tide! But don't we need to remember that tides come in and go out? Remember your Shakespeare: "There is a tide in the affairs of men, which taken at the flood, leads on to fortune. Omitted, all the voyage of their life is bound in shallows and miseries. On such a full sea are we now afloat. And we must take the current when it serves or lose our ventures."

So, the question remains are we at the flood tide? Are we at full sea? It is difficult to know since the gravitational forces which move the stock markets are more complex and unpredictable than the celestial forces which move the sea.

My personal, and self-interested, sense is that yes, we are at the full sea. We have had a decade of money flowing into growth companies, many of which are young and unseasoned. A number of these companies have run adrift as, one by one, the market has taken a look at companies such as Uber, Lyft & Peloton and found them wanting. It is not just the unicorns as they endeavor to mutate from mythological concept to public company, but well regarded growth companies like Facebook, Amazon and Boeing that have all come under very intense criticism by the press and during congressional hearings.

Performance Review

Portfolio Factors

For the fourth quarter, the market continued strong with Growth taking the lead. The strength in the market reflected continued aggressive fiscal and monetary stimulus. That stimulus, combined with high employment and rising wages across all skill levels, translated into continued strength in consumer spending. The promise of a resolution to the trade dispute with China may encourage business to commit capital. To date, the combination of low unemployment and rising wages has not provoked meaningful inflation. The stock market's enthusiasm persisted up until the end of December.

The Fund return for the quarter compared favorably with the Russell 2000 Value Index benchmark. The gain was largely driven by several allocation factors. In particular, we had only small weightings in both the Utilities and Real Estate sectors, which were both poor performing sectors. In both cases, our selections did a bit better than the index. We were also assisted by a significant overweight in Industrials, but unfortunately our selections did not fare as well. The benefit of those weightings was offset by our underweight in Healthcare and Information Technology, as those sectors were buoyed by the market's persistent enthusiasm for growth, and were compounded by poor selections. Our stock selection typically concentrates on companies with strong but cautious approaches to building value, and a stable market position. Thus, we were not surprised that our selections in Healthcare and Information Technology lagged in this enthusiastic market.

Stock Selection: Contributors

The top performers in the fourth quarter were a pleasingly diverse group. The leading contributor was Darling Ingredients (DAR). We like that Darling is a well run leader in the rendering business but are really enthusiastic about their partnership with Valero Energy, in Diamond Green, a renewable diesel refinery. There is an increasing demand for that environmentally friendly fuel, a fuel which is refined from the waste animal grease that Darling gathers. The refinery is quite profitable and is continuing to expand, and we are delighted that the stock is getting more attention. We also did well with Atkore (ATKR), a leading provider of cabling systems for commercial construction. Healthy construction spending is good for Atkore's revenues, and management's action in helping folks who install the wire and cable are improving the bottom line even faster. The top five contributors were rounded out by Allied Motion (AMOT), Heritage- Crystal Clean (HCCI), and SeaWorld (SEAS). The first two are well run industrial companies where management has long shown a talent for adding value. In both cases, the companies are gathering favorable attention from the investment community. SeaWorld has been a rockier holding for us. We understood well the potential of these amusement park properties. Now management is starting to manage the company more effectively and the stock has responded. We are pleased with the progress in each of these five companies and are convinced that there is good potential for further appreciation.

Portfolio Contributors – Q4 2019

Security	Average Weight (%)	Contribution
Darling Ingredients, Inc.	2.56	1.05
Allied Motion Technologies	2.09	0.69
Atkore Int'l Group, Inc.	1.67	0.59
Heritage-Crystal Clean, Inc.	2.25	0.40
SeaWorld Entertainment, Inc.	1.95	0.36

Stock Selection: Detractors

We had our share of disappointing stocks. The losers were led by Lydall (LDL), a producer of materials used in filtration media, gaskets, and thermal barriers. Lydall has acquired several complementary businesses in recent years and perhaps due to the strain of acquisitions and integration, we have seen operational performance falter. Because a new CEO is just stepping in, we elected to step away from this holding until we got a better picture of the new CEO's effectiveness. Performance also lagged at MTS Systems (MTSC). This maker of test equipment used in the design of transportation equipment and other structures, saw a revenue shortfall and we were a bit disappointed that they did not adjust costs more quickly. Even so, we have retained this position based on the favorable demand picture, as equipment designers are under intense pressure to reduce weight.

We also saw the price of Freightcar America (RAIL) decline due to slack demand for new freight cars in the North American rail system. We are disappointed but believe that the current management's extensive redesign of their product offering and very effective changes in the production facility in Alabama auger well for their profit outlook. Further, the balance sheet is excessively liquid and their stock is trading at a very meaningful discount to the value of its liquid assets. With those factors in mind, we continue to hold the stock. We also saw underperformance from Allscripts Healthcare Solutions (MDRX), a provider of management systems to healthcare organizations. In this instance, the stock reacted adversely to the issuance of a new convertible debenture. Kelly Services (KELYA) rounded out the top five detractors.

Portfolio Detractors – Q4 2019

Security	Average Weight (%)	Contribution
Lydall, Inc.	0.68	-0.40
FreightCar America, Inc.	0.31	-0.30
MTS Systems Corporation	1.52	-0.23
Allscripts Healthcare	1.67	-0.19
Kelly Services, Inc. Cl A	1.75	-0.13

Portfolio Changes

In the fourth quarter we added eight new positions and exited seven positions. Perhaps the most significant new positions were three new energy stocks - DMC Global (BOOM), Select Energy (WTTR) and Seacor Holdings (CKH). We made a decision to restructure our energy holdings by reducing our exposure to the exploration & production companies and concentrate on companies which will benefit from the technologies which are rapidly evolving in petroleum extraction. DMC Global and Select Energy are particularly good examples. DMC has developed and makes a more advanced explosive device used to perforate the pipe. DMC Global's devices are quicker and more precise, which allows for a better producing well. Select has great expertise and resources for providing, recycling and disposing of the massive amounts of water used in shale oil drilling.

We also initiated positions in Skyline Champion (SKY), a maker of manufactured homes and Patrick Industries (PATK), a maker of components for RV's and manufactured homes. The decisions to add these two stocks was based on our research that showed that the outlook for manufactured homes is brighter than it has been for decades. The manufactured home industry has matured and consolidated and the product is better than it has ever been. The cost difference between available new site built homes and manufactured homes has expanded and the availability of affordable financing has improved. We, of course, looked inside Skyline and Patrick and, in both cases, found well run, nicely profitable companies which are well positioned in their industries.

We returned to two stocks which we had previously owned, Andersons (ANDE), a trader in agricultural commodities and distributor of agricultural chemicals, and Materion (MTRN), a maker of specialty metals. In both cases. we are pleased with the progress that the management teams are making and were delighted to buy the stocks back at better prices. The new names were rounded out with the addition of Bio Telemetry (BEAT), a maker of remote cardiac monitoring devices.

We exited Stoneridge (SRI), a maker of components for trucks and autos, and BMC Stock Holdings (BMCH), a fabricator and distributor of mill work to home builders. In both instances, the stocks achieved our price targets and we sold the position. We previously commented on the factors behind our sale of Lydall and Dycom. The other three exits, Quad Graphics (QUAD), Intrepid Potash (IPI) and Delphi (DLPH), were also due to factors which caused us to reevaluate our investment theses. In the case of Quad Graphics, we liked the extraordinary efficiency of their large printing facilities and management's commitment to lean manufacturing. We believed that the merger of LSC Communications (LKSD), a weaker competitor, into Quad, gave an opportunity for further cost reduction and an opportunity to moderate the price reductions that were occurring in this shrinking industry. We did recognize that there were potential antitrust issues but given that LSC was clearly failing, we expected approval by the regulators. We were surprised when this didn't happen and elected to move on. We had been interested in the meaningful turnaround efforts at Delphi Technologies. However, as we watched, it became evident that the changes would take longer than we had anticipated so we sold. In Intrepid Potash, we were intrigued with the potential of applying the extensive water rights from their mines in Arizona to the shale drilling industry. Unfortunately, it did not seem that the payoff from the sale of water to the shale drillers would live up to our expectations and we moved on.

Portfolio Positioning

Our portfolio remains positioned with a weighted median market capitalization at a meaningful discount to the index. It is well diversified with a portfolio of seventy holdings. The growth rates and return on invested capital are better than the index, but valuation as viewed in price earnings, is about level with our benchmark. We believe that the portfolio is well positioned for the new year.

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As of December 31, 2019

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

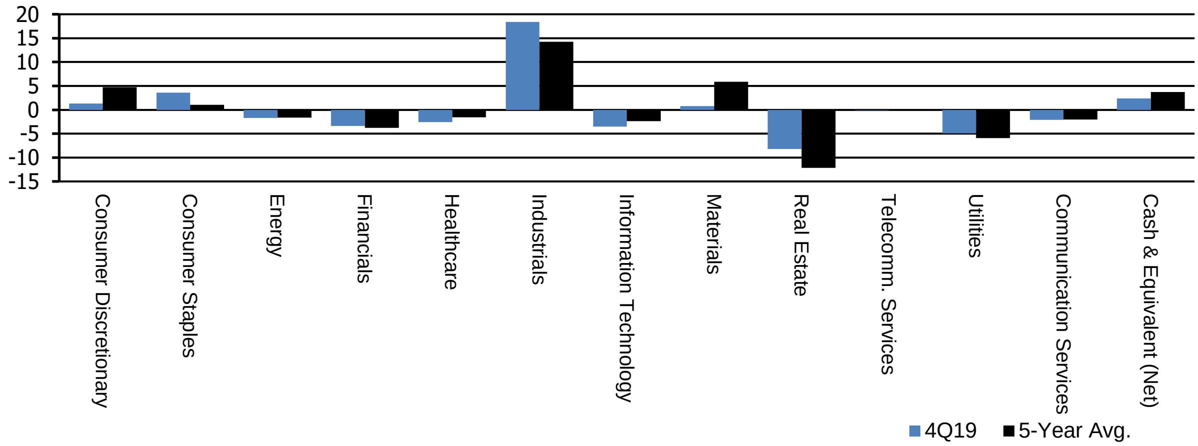

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2000 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Top Ten Holdings (%)

Darling International, Inc.	3.3
Great Lakes Dredge and Dock Corp.	2.8
Landec Corp.	2.8
Heritage-Crystal Clean, Inc.	2.5
McGrath Rentcorp	2.4
AAR Corp.	2.4
Mobile Mini, Inc.	2.3
Allied Motion Technologies, Inc.	2.3
Primerica, Inc.	2.3
Kulicke & Soffa Industries, Inc.	2.2
Total % of Portfolio	25.3

Fund Statistics

	Fund	Russell 2000 Value Index
Number of Holdings	71	1402
Median Market Cap (Millions)	$1116.0	$714.5
Weighted Avg. Market Cap (Millions)	$1585.6	$2179.2
Price/Book[1]	1.7	1.3
P/E using FY1 Estimate[2]	16.5	14.5

Source: FactSet Research

Portfolio Performance

	Q4 19	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date
Walthausen Small Cap Value Fund: Investor Cl	8.72	20.69	2.61	4.33	11.83	10.99	2/01/08
Russell 2000 Value Index[3]	8.49	22.39	4.77	6.99	10.56	7.59	
Walthausen Small Cap Value Fund: Institutional Cl	8.79	20.99				20.90	12/31/18
Russell 2000 Value Index[3]	8.49	22.39				22.39	

Total Expense Ratio: 1.37%. Net Expense Ratio: 0.98% for Institutional Class, 1.21% for Investor Class. Expense ratio per the June 1, 2019 prospectus.

The Net Expense Ratio includes a waiver. The Advisor has contractually agreed to waive Services Agreement fees and Management Fees to the extent necessary to maintain total annual operating expenses of the Institutional Class shares and Investor 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 0.98% and 1.21% respectively, of its average daily net assets through May 31, 2020. The Advisor may not terminate the fee waiver before May 31, 2020. The Trustees may terminate the expense waiver upon notice to the Advisor. From the prospectus dated June 1, 2019.

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 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.

The Russell Top 200® Growth Index measures the performance of the especially large cap segment of the U.S. equity universe. It includes those Russell 200 Index companies with higher growth earning potential.

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.

Walthausen Funds
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