Environment

The record setting performance of the fourth quarter of 2020 was followed up by very strong returns by the Fund for the first quarter of 2021. In our fourth quarter report we commented that inflection points in the market can be messy. That "messiness" continued into the first quarter with the most notorious of events being the "Meme Stock" hysteria which saw stocks that were being heavily bandied about on social media, many of which had significant short positions, have daily moves with a volatility that took most professional investors by surprise.

The meme stock hysteria occupied many financial news programs through the first half of the quarter at which point there was a change in programming. We began to hear more and more opinions that coalesced around several reasons to be wary of small cap equities. In general, the opinions stated that the small cap market had run too much, that it is too expensive, or how rising rates and inflation are going to challenge small cap equities. These are some important issues that need to be addressed.

The market certainly has had a strong run since the pandemic induced collapse that took place last March. Market prognosticators enjoy picking the nadir of such events as a starting point to exclaim just how much the market has run in an effort to state that the next correction is upon us. Simple math is that if the market falls 50% and then rises 50% off of the bottom, you are still 25% below where you started. So, while that 50% return off the bottom in this example may be attention grabbing, it's not the complete story. We like to take a longer-term perspective looking to where the small cap market was at the beginning of 2020 before the pandemic was the story. The small cap value market is up approximately 35% from the beginning of 2020 through the end of the 1Q21, a healthy amount but quite reasonable in our minds given that the segment of the market was very much out of favor and was looking ahead to an economic forecast that was discouraging at best. More on this below.

Another refrain is that the small cap market is now too expensive or that the market is back to the level it was pre-pandemic and we still haven't put the pandemic behind us. Commentators can be quite clever as to how valuation is used to support an argument. Today, if you were to use trailing results to calculate valuation, the results would be very high given the poor earnings performance over the past 12 months. Even if you were to use consensus forward looking estimates, we would argue that while the analysts are forecasting improvement, their expectations are still quite subdued due to the challenging year they have just experienced. Moving away from the devilish details of valuation calculations let's look at this from a big picture perspective. Should the market be back to the level it was pre-pandemic when we haven't defeated Covid yet? Let's look at the economic backdrop of the small cap equity market going into 2020. Small caps had an earnings peak in 3Q18 and had four quarters of year over year earnings declines. At the beginning of 2020 we were expecting to get back to earnings growth, albeit at a low level. From the St Louis Federal Reserve, in 4Q19 the consensus expectation for 2019 GDP was for a deceleration to 2.5% followed by another deceleration to 1.8% in 2020. Low and decelerating GDP scenarios are not favorable to small cap equities. Jump ahead to today, the IMF US GDP forecasts for 2021 and 2022 are 6.4% and 3.5%. The US hasn't seen a real GDP growth rate of 3.5% since 2004! With this improvement in economic backdrop we would happily own equities today at the same price.

And lastly, the argument that rising rates and higher inflation expectations are bad for small cap equities. We have heard this argument from time to time, and at the end of the day, the facts just don't support it. Furey Research Partners has completed some really good analysis of this topic and the data shows us that small cap equities outperform large cap when the 10-year yield is rising. With regards to inflation, periods of low but rising inflation have produced very strong nominal returns for small cap equities as well as strong returns relative to large caps. In fact, the most recent example of a true value led market was from 2002 thru 2006. During that period GDP rose quickly to above 4% and held steadily above 3% for three years continuously. Inflation started low and steadily increased to above 4%. Small cap value managers remember that period fondly. Lastly, small cap value has strongly outperformed small cap growth during periods of greater than or equal to 2% inflation.

Coming back to where we started, inflection points in the market are messy. A change in leadership is hard for many to accept. Is the beginning of a new period of small cap value leadership upon us? We don't know for sure; however, we do recognize that a lot of the arguments against it do not hold water and we see the beginnings of an economic environment that have previously proven to be quite advantageous to our sector of the market.

Portfolio Performance

Portfolio Factors

Despite the returns generated for the three months ending March 31, 2021, the Fund underperformed the Russell 2000 Value benchmark by 192 basis points. A review of the attribution of our performance shows that the deficit is about equally explained by sector allocation and stock selection. It's the stock selection drag that raises our ire as this is where we see ourselves earning our keep. Our performance was feast or famine. The best performing sector for the benchmark was the Energy sector with a three month return of 43%, whereas our only holding, World Fuel Services Corp (INT), returned just 13%. On the other hand, Information Technology was one of the poorer performing segments of the benchmark with a 14% return while our portfolio holdings combined for a return of over 40%. Our largest sector exposure is the Financial sector and here our equity sector underperformed. Similar to last quarter, our bank holdings performed well but our insurance related holdings underperformed. We discussed previously that the insurance stocks often lag the market when interest rates are rising and accordingly we reduced our exposure to the industry; just not enough.

Stock Selection: Contributors

Our largest contributor to performance was PacWest Bancorp (PACW), a commercial bank headquartered in Los Angeles. PacWest is a nationwide lender that participates in some lending that would be considered niche. Because they have the expertise to lend where others aren't comfortable, they can earn a greater return. However, when investors become concerned that the banks may run into credit issues, the company often gets discounted more than most. This certainly happened this cycle. We have known PacWest for quite some time and were confident that they were on top of their credit discipline and we also had forecasted that this economic downturn was not going to be a credit challenge for the banks. We were right in both cases, and upon recognizing this, the market rushed back into the stock, making it one of the sector's strongest performers over the past six months. Sterling Bancorp (STL) was a top five contributor for the period. Sterling was interesting to us after they had completed a large acquisition of Astoria Financial in 2017 and undertook a significant repositioning of the bank's balance sheet and their lending focus. We saw the early signs of success of this plan when we decided to add it to the portfolio in the fourth quarter of 2019. Of course, then the pandemic hit and Sterling's stock price fell, but a bit more than most banks most likely because not all saw that their repositioning plan was nearly complete and the expense reduction efforts that they had employed pre-pandemic were more appropriate than they ever imagined. We stayed close to management and recognized that, despite the movement of the stock price, the business fundamentals were moving in accordance with our thesis. We are proud to say that our confidence in this management team had us buying shares during the depths of the market's despair in April, May and June.

Portfolio Contributors – Q1 2021

Security	Average Weight (%)	Contribution
G-III Apparel Group	0.21	-0.13
Encompass Health Corp.	2.93	-0.03
Industrial Logistics Prop. Trust	2.60	-0.03
Axis Capital Holdings	2.87	-0.02
LCI Industries	2.38	0.11

Stock Selection: Detractors

Our worst performer for the quarter was G-III Apparel Group (GIII), which was only in the portfolio for a week. After our research determined that we had a good opportunity with G-III we started to accumulate a position towards the end of the quarter. The share price was weak closing the quarter resulting in this poor period report. However, we are confident that over the course of our two to three year time horizon we will be happy with our decision. Encompass Health Corporation (EHC) operates rehabilitation facilities and provides home health and hospice services. The pandemic produced a challenging operating environment for the company as many patients were not interested in having people come into their homes during lock down, nor were they interested in going to a rehab facility. Encompass figured out how to handle the new complexities that Covid has brought to their business and by 4Q20 had gotten their sales and earnings back on track with where they were pre-pandemic. After the initial scare, the pandemic did bring to light the advantages that come with the home healthcare model. The home healthcare segment of the company is of particular interest to us as when we review their competitors who are solely focused on home healthcare services, we note that those competitors are awarded higher multiples by the market. We expect that the market will soon recognize this differential to the benefit of Encompass. So, what then explains the underperformance? The company was a top 10 performer for the Fund last calendar year and this past quarter the stock simply treaded water; and treading water when the benchmark is up over 20% is a bad thing. We are confident in this business and the management and believe that this pause is just that, a pause.

Portfolio Detractors – Q1 2021

Security	Average Weight (%)	Contribution
PacWest Bancorp	3.71	1.72
Onto Innovation	3.25	1.15
Tapestry, Inc.	3.19	1.11
Sterling Bancorp	3.76	1.04
Concentrix Corp.	1.45	0.93

Portfolio Changes and Positioning

We sold four positions out of the portfolio and added two during the quarter. GATX Corp (GATX), a rail car lessor that we had owned for more than five years, was sold as we do not foresee much of an improvement in lease rates, and GATX had appreciated to a historically high valuation. We also sold CVB Financial (CVBF), which is a California based bank whose valuation had reached the high point of its historical range and we saw better opportunities in other banks.

Speaking of other banks, we added Webster Financial (WBS), a Connecticut based bank, during the quarter. With Webster, we saw the opportunity to add another quality bank to the portfolio whose current valuation allowed for attractive upside. Concentrix Corp (CNXC) is a recent spin out from SYNNEX Corporation and is a business outsource solutions provider of telecommunication services. Where IPOs often come to market as a parade, we have found that spinoffs often enter the market as a clandestine operation and as a result we have a good history of recognizing quality companies that have been spun out on their own before the market has had a chance to review. Eventually, when the market recognizes the opportunity, we are often rewarded for our early mover position. Within the Consumer Discretionary sector, we added G-III Apparel Group, a designer and marketer of women's apparel mentioned earlier. Our research suggests that the US consumer is anxious to get out and refresh their wardrobe post vaccination and we expect G-III to be a beneficiary of this demand. We also added a steel company, Cleveland-Cliffs Inc. (CLF). The company is interesting as only a short time ago they were an iron ore mining company, but after two significant acquisitions, they are a top US steel company. The acquisitions had added a significant debt load, and during the depths of the pandemic, investing in the company seemed too risky of a proposition. However, coming out of the recession, with increasing steel prices and the expectation of strong cash flow, we see the opportunity for Cleveland-Cliffs to quickly reposition their leverage, attracting the favor of additional investors.

We have worked hard to construct a portfolio with an attractive set of companies that will excel in a post-vaccine economy. Economic expectations are for growth levels higher than we have seen in quite some time and that is exciting. We believe that the building blocks that are necessary for a pivot to a small cap and value equity led market are apparent. Accordingly, we are enthusiastic about what lies ahead and confident that the portfolio is ready for it. We thank you for the trust that you demonstrate by investing with us.

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

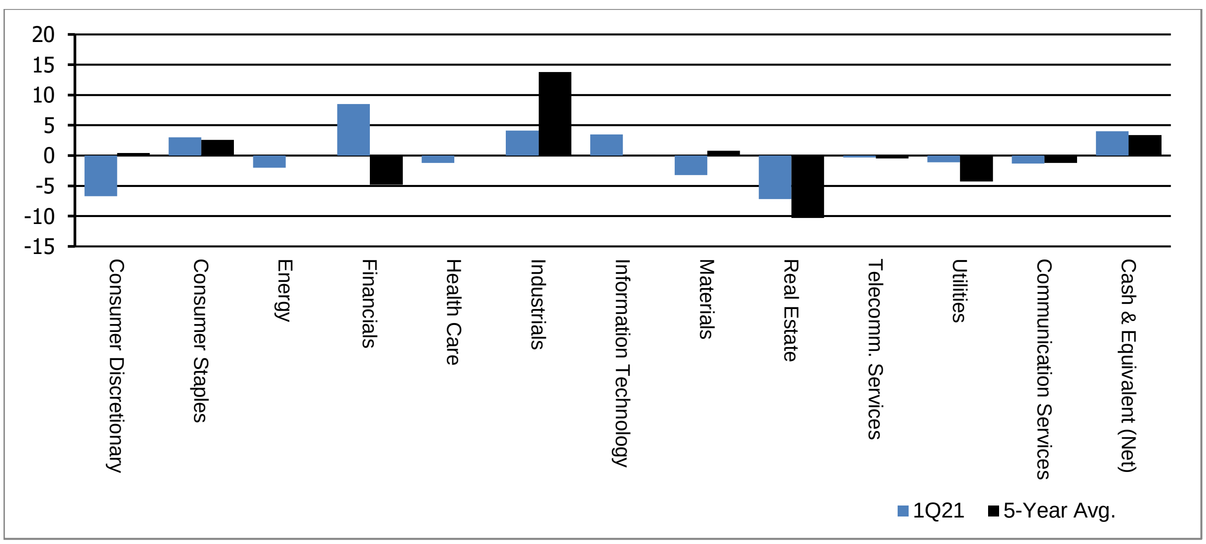

Exhibit 1 above highlights the fact that sector weight differentials between the Fund and the Russell 2000 Value Index benchmark have not changed greatly from today's levels versus the five year average.

Walthausen Focused Small Cap Value Fund

Quarterly **Fund Commentary**

Ticker Symbol: Institutional Class WSVIX | **Q1 2021**

Top Ten Holdings (%)

Hancock Whitney Corporation	3.4
Wesbanco, Inc.	3.4
Sterling Bancorp	3.4
Hub group, Inc. Cl A	3.4
Concentrix Corporation	3.4
Cleveland-Cliffs, Inc.	3.2
ITT, Inc	3.1
Webster Financial Corp.	3.1
WSFS Financial Group	3.1
Triton International Ltd	3.0
Total % of Portfolio	32.5

Fund Characteristics

	Fund	Russell 2000 Value Index
Number of Holdings	37	1,507
Return on Equty[1]	6.1	-1.7
Weighted Avg Market Cap (Millions)	4,466	3,082
Price/Book[2]	1.8	1.7
P/E using FY1 Estimate[3]	15.0	15.6
Long Term Debt/Total Capitalization[4]	25.2	40.7
Information Ratio (TTM)[5]	.47	-
Active Share[6]	95.9	-

Source: Factset Research

Portfolio Performance

	Q1 21	1 Year	3 Year	5 Year	10 Year	Since Inception (12/27/10)
Walthausen Focused Small Cap Value Fund: Institutional Class	19.25	71.19	10.16	11.74	10.27	10.60
Russell 2000 Value Index[7]	21.17	97.05	11.57	13.56	10.06	10.39
Russell 2500 Value Index[8]	16.83	87.47	10.88	12.15	10.23	10.73

Total Expense Ratio: 1.05%. Net Expense Ratio: 0.85%.
Expense ratio per the October 15, 2020 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 0.85% of its average daily net assets through October 31, 2025. The Advisor may not terminate the fee waiver before October 31, 2025. The Trustees may terminate the expense waiver upon notice to the Advisor. From the prospectus dated October 15, 2020.

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]*Return on Equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. ROE is a measure of how effectively management is using a company's assets to create profits.*

[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.*

[4]*Long Term Debt/Total Capitalization is a ratio that measures the proportion of long term debt used to finance assets, as a percentage of the firm's total capitalization.*

[5]*The Information Ratio is a measurement of portfolio returns beyond the returns of a benchmark, in this case the Russell 2000 Value Index, compared to the volatility of those returns.*

[6]*Active Share is a measure of the percentage of portfolio holdings that differs from the benchmark index.*

[7]*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.*

[8]*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.*

[9]*The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index*

[10]*The Russell 2000® Growth Index measures the performance of the small cap growth segment of the US equity universe. It includes those Russell 2000® companies with higher price-to-value ratios and higher forecasted growth values.*

[11]*Return on Assets is an indicator of how well a company utilizes its assets, by determining how profitable a company is relative to its total assets.*

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.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and service mark of MSCI Inc. ("MSCI") and Standard & Poor's, a division of the McGraw-Hill Companies, Inc. (S&P) and is licensed for use by Licensee. Neither MSCI, S&P nor any third party involved in making or compiling the GICS classification makes any express or implied warranties or representations with respect to such standard or classification nor shall any such party have any liability there from.
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
(888) 925-8428
www.walthausenfunds.com