

Walthausen & Co., LLC

Part 2A of Form ADV ***Firm Brochure***

Effective: March 28, 2019

This brochure provides information about the qualifications and business practices of Walthausen & Co, LLC. If you have any questions about the contents of this brochure, please contact us at 518-348-7217 or mhodge@walthausenco.com . The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Walthausen & Co, LLC also is available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 144996.

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ITEM 2 - MATERIAL CHANGES

This item is used to provide our clients with a summary of new and/or updated information. We will inform you of any material revision(s) based on the nature of the updated information.

Consistent with the rules introduced in July 2010, we will ensure that you receive a summary of any material changes to this and subsequent brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

In terms of this brochure dated March 28, 2019, there are no material changes to our previously published brochure dated August 8, 2018.

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ITEM 4 - ADVISORY BUSINESS

Introduction

Walthausen & Co, LLC ("Walthausen") is a SEC-registered investment adviser with its principal place of business located in Malta, NY. Walthausen began conducting business in 2007.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company):

John Butler Walthausen

Investment Advisory Services – Separate Accounts

Walthausen provides discretionary investment advisory services to:

- Pension and profit sharing plans
- Corporations
- Healthcare organizations
- Foundations, endowments and other charitable organizations
- Trusts and high net worth individuals

Accounts are managed as separate accounts. Services may be provided on either a direct advisory basis or on a sub-advisory basis.

The firm specializes in providing investment advisory services using a value strategy in the micro, small and small to mid capitalization segments of the US domestic equities market. This value strategy involves investing in companies that appear underpriced according to certain financial measurements of their worth or business prospects.

Advisory accounts are managed on a discretionary basis. Some institutional clients may impose restrictions based on the stated investment policies of the institution. This may include restrictions on investing in certain securities, types of securities, or industry sectors, among other things.

Investment vehicles used in managing client portfolios may include:

- Exchange-listed securities
- Securities traded over-the-counter
- Warrants
- Convertible securities

Cash and cash equivalents are also utilized in managing portfolios. However, given that client portfolios are structured with the goal of being fully invested in micro, small cap and small to mid cap securities, cash is generally used as a vehicle for opportunistic purchases rather than as a defensive vehicle. In addition, Walthausen does not manage the cash portion of client portfolios.

Three strategies are offered; Small Cap Value, Select Value, and Micro Cap Value.

Small Cap Value

This strategy focuses on capturing value at the lower end of the market capitalization range investing in securities with market caps of between \$250 million and \$2.5 billion on initial purchase. We believe that a focus on smaller stocks, many of which fall below the range that many investment managers search, allows for identifying and capturing unusual inefficiencies. Stock selection is focused on identifying unique situations that tend to be more numerous in the small cap universe. Portfolio returns can be less consistent than those in the small to mid-cap strategy (Select Value) because shares of these smaller companies tend to be more volatile. Typically, client portfolios are constructed using 60 to 90 securities. We select securities based on a two to three

year investment horizon.

The benchmark for this strategy is the Russell 2000 Value Index which measures the performance of the small cap value segment of the U.S. equity universe. It includes companies with lower price-to-book ratios and lower forecasted growth values.

Select Value

This strategy focuses on capturing value at the higher end of the small cap value market capitalization range, investing in companies with market caps of between \$1 billion and \$7.5 billion on initial purchase. The strategy focuses largely on companies where management has a proven record of generating above average returns on invested capital. We believe that the value of many companies in this category is underestimated as there are often no specific corporate developments that have generated investor interest. This can lead to lower valuations and lower volatility. The balance of the portfolio consists of companies that are classified as special situations, which may include spinoffs, turnarounds, and companies working to reduce high debt levels. Typically, client portfolios are constructed using 30 to 40 securities. We select securities based on a two to three year investment horizon.

The primary benchmark for this strategy is the Russell 2500 Value Index which measures the performance of the small to mid cap value segment of the U.S. equity universe. It includes companies with lower price-to-book and lower forecasted growth values. A secondary benchmark, the Russell 2000 Value Index, was established as of December 31, 2018. It is included as a secondary benchmark as increasingly investors have expressed a view of the strategy as a small capitalization product, and as such review the strategy against both the Russell 2500 Value Index and the Russell 2000 Value Index due to the characteristics of both indices.

Micro Cap Value

This strategy focuses on capturing value at the lower end of the market capitalization range investing in securities with market caps of between \$50 million and \$1 billion on initial purchase. We believe that a focus on micro-cap stocks, many of which fall below the range that many investment managers search, allows for identifying and capturing unusual inefficiencies. Stock selection is focused on identifying unique situations that tend to be more numerous in the micro-cap universe. Portfolio returns can be less consistent than those in the small (Small Cap Value) and small to mid-cap strategy (Select Value) because shares of these smaller companies tend to be more volatile.

Typically, client portfolios are constructed using 50 to 60 securities. We select securities based on a two to three year investment horizon.

The benchmark for this strategy is the Russell Microcap Value Index which measures the performance of the microcap value of the U.S. equity market. It includes companies with lower price-to-book ratios and lower forecasted growth values.

Investment Advisory Services – Mutual Funds

Walhausen serves as the sponsor and investment adviser to Walhausen Funds, an open-end management company registered under the Investment Act of 1940. Walhausen Funds is comprised of two funds; the Walhausen Small Cap Value Fund, and the Walhausen Select Value Fund. Walhausen provides investment management services to the funds in accordance with the investment objectives and policies set out in each Fund's prospectus and Statement of Additional Information filed with the U.S. Securities and Exchange Commission. We provide the investment management services to the Fund pursuant to a management agreement between Walhausen and Walhausen Funds.

Interested investors should refer to each Fund's prospectus and Statement of Additional Information for important information regarding objectives, investments, time-horizon, risks, fees, and additional disclosures. These documents are available on-line at www.walhausenfunds.com. Prior to making any investment in the fund, investors and prospective investors should carefully review these documents for a comprehensive

understanding of the terms and conditions applicable for investment in the mutual funds.

In addition, we offer investment advisory services as a sub-advisor to mutual funds in the small cap value and small to mid cap value segments of the U.S domestic equity market.

Research Advisory Services

Walhausen participates in a Unified Management Account (“UMA”) program by way of purchase and sale recommendations and security weightings in the form of model portfolios in its Select Value strategy. The overlay manager for the program is provided with the recommendations and then exercises discretionary authority on behalf of clients of the program with respect to any purchase or sales recommendations. The overlay manager may or may not decide to implement all of Walhausen’s recommendations as to securities held in the UMA program accounts. Walhausen receives a fee for providing the recommendations.

Assets Under Management

As of 3/27/2019, Walhausen was actively managing \$923,619,194 of clients' assets on a discretionary basis.

ITEM 5 - FEES AND COMPENSATION

Investment Advisory Services – Separate Account Fees

Small Cap Value:

First \$5 million	1.00%
Next \$20 million	0.90%
Next \$25 million	0.80%
Over \$50 million	0.70%

Minimum Fee = \$50,000

Select Value:

First \$5 million	0.95%
Next \$20 million	0.85%
Next \$25 million	0.75%
Over \$50 million	0.65%

Minimum Fee = \$47,500

Micro Cap Value:

First \$5 million	1.25%
Next \$20 million	1.15%
Next \$25 million	1.10%
Over \$50 million	1.00%

Minimum Fee = \$62,500

A minimum of \$5,000,000 of assets under management is required for this service. This account size may be negotiable under certain circumstances. Walthausen may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

Although Walthausen has established the aforementioned fee, we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs are considered in determining the fee schedule. These include the amount of assets to be placed under management; whether the account is managed on a direct advisory basis or on a sub-advisory basis; anticipated future additional assets; and related accounts, among other factors. The specific annual fee schedule is identified in the contract between the adviser and each client.

Fees Billed in Advance or Arrears:

Advisory fees are billed in advance at the beginning of each calendar quarter based upon the asset value (market value) of the client's account as calculated by Walthausen's portfolio accounting system, at the end of the previous quarter. In some cases, a client who selects a certain qualified custodian to maintain custody of their account, may, as part of their agreement, authorize Walthausen to directly deduct fees from their account. The same basis for calculation of the fees is used for these type of accounts. The custodian is required to send a statement on at least a quarterly basis to the client showing the advisory fee. Clients may choose to pay the management fee directly.

Some advisory fees may be billed in arrears at the end of each calendar quarter based upon the asset value (market value) of the client's account at quarter-end, on an average assets managed basis over the course of the quarter, or some other basis agreed to with the particular client.

Clients are billed on a quarterly basis in accordance with the terms set forth in the Client Management Agreement, or in the case of sub-advisory accounts, in accordance with the terms set out in the sub-advisory agreement.

Direct Billing:

Additional Information relating to Fees and Expenses

Termination of the Advisory Relationship: A client agreement may be canceled at any time, by either party, for any reason upon receipt of thirty (30) days written notice. Upon termination of any advisory account, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will prorate the reimbursement according to the number of days remaining in the billing period.

Additional Fees and Expenses: In addition to our advisory fees, clients are also responsible for brokerage and other transaction costs imposed by broker dealers which effect transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

Advisory Fees in General: Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

Limited Prepayment of Fees: Under no circumstances do we require or solicit payment of fees in excess of \$1200 more than six months in advance of services rendered.

Investment Advisory Services – Mutual Funds

Walthausen provides the investment advisory services to the two existing Walthausen Funds mutual funds pursuant to a management agreement between Walthausen and Walthausen Funds.

Walthausen Small Cap Value Fund

For its services, Walthausen receives an investment management fee equal to 1.00% of the average daily net

assets of the Fund. In addition, Walthausen has a services agreement with the Fund whereby the firm receives an additional fee of 0.45% on the first \$100 million of assets under management, 0.25% on assets in excess of \$100 million, and 0.15% on assets in excess of \$500 million and is obliged to pay the operating expenses of the Fund excluding management fees, 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.

There are two classes of shares available; Institutional and Investor. Walthausen 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. Walthausen may not terminate the fee waiver before May 31, 2020.

Walthausen Select Value Fund

For its services, Walthausen receives an investment management fee equal to 0.90% of the average daily net assets of the Fund. In addition, we have a services agreement with the Fund whereby we receive an additional fee of 0.45% on the first \$100 million of assets under management, 0.25% on assets in excess of \$100 million, and 0.15% on assets in excess of \$500 million and are obliged to pay the operating expenses of the Fund excluding management fees, 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.

There are three classes of shares available; Institutional Class, Retail Class, and R6 Class, available only to qualified retirement plans. Walthausen has contractually agreed to waive, for the Institutional Class shares through May 31, 2019, 0.25% of the 0.45% services agreement fees applicable for Fund average daily net assets up to \$100 million. Walthausen may not terminate the fee waiver before May 31, 2019. In terms of the R6 Class, Walthausen has contractually agreed to waive Services Agreement fees to the extent necessary to maintain total operating expenses at 0.98% of its average daily net assets through May 31, 2018. Walthausen may not terminate the fee waiver before May 31, 2019.

Further details regarding fees can be found in each fund's prospectus and Statement of Additional Information, and on the Walthausen Funds web site at www.walthausenfunds.com.

Research Advisory Services

Walthausen receives an annual fee of 0.30% for providing recommendations to a UMA program based on the assets under management in the program. The program is described in Item 4.

ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Walthausen does not charge performance-based fees.

ITEM 7 - TYPES OF CLIENTS

Walthausen provides advisory services to the following types of clients, as disclosed in Item 4:

- Pension and profit sharing plans
- Corporations
- Healthcare organizations
- Foundations, endowments and other charitable organizations
- Trusts and high net worth individuals
- Registered investment companies (mutual funds)
- Unified Management Account (UMA) programs

As disclosed in Item 5, our firm has established certain initial minimum account requirements, based on the nature of the service(s) being provided. For a more detailed understanding of those requirements, please review the disclosures provided in each applicable service.

ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Method of Analysis

Walthausen uses the following method of analysis in managing client assets.

Fundamental Analysis

We believe that successful investors buy companies after a detailed analysis of a company's fundamental characteristics. The analysis we perform involves a process that concentrates on understanding the components, quality and sustainability of a company's cash flow, and the ability of management to employ that cash flow to enhance the company's value.

We look at specific financial factors using this bottom up approach. We focus on individual stocks and their financial condition and management of the company, rather than focusing on economic and market cycles. We try to understand the company we research as if looking to buy the company, not just a tradable security. Industry conditions are also taken into account after initial company analysis when considering a company for purchase.

As fundamental analysis does not attempt to anticipate market movements, this presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

Investment Process – Micro Cap, Small Cap and Small to Mid Cap Companies

Overview

We believe that the process we employ to identify micro, small and small to mid cap stocks to add to client portfolios, addresses the major issues unique to that universe:

- A wealth of choices given the number of companies that make up that universe
- The lack of liquidity that may impact our ability to buy and sell the stock
- Checkered operating histories in smaller companies
- Businesses with narrowly focused businesses

Given these, and other factors, we believe that a consistent methodology is required to efficiently identify the most promising portfolio candidates. The focus is placed on the most promising of the many small and small to mid cap stocks in the market.

Narrowing the focus

We have developed a proprietary scoring system that can be applied to the entire population of companies within the universe of micro, small and small to mid cap companies. We have learned that simple screening does not provide the best results because it tends to eliminate stocks from consideration which have just one obvious flaw, even if it has many other favorable characteristics. Companies are scored based on twelve specific criteria across five broad categories:

- Valuation
- Wall Street sentiment – how broadly a company is followed by Wall Street analysts
- Insider sentiment – has management been buying stock for themselves, and/or buying stock of the

- company in the open market
- Financial strength – how much debt does the company have on its balance sheet
- Confirmation of improving company fundamentals – the focus is on revenue and margin growth

Each stock is ranked by deciles for each criterion and weighted. The scores for different characteristics are then averaged to arrive at a ranking. This is only a starting point in the process. The criteria tested reflects our observations of factors which characterize promising stocks.

Detailed analysis

Detailed analysis is then conducted on companies which score well in our ranking process. Publicly available company filings are reviewed and historical financial models built using formats that are consistent. This allows us to more easily find the information that we need to do our analysis. In constructing the models, the two critical areas for us are the cash flow statement and balance sheet because we believe that they, in combination, allow us to evaluate a company's sustainable free cash flow. Our definition of free cash flow is cash flow from operations less capital expenditure. To determine this, we tie in the income statement with the balance sheet and cash flow statements.

Once we complete the historical analysis and review of SEC filings including 10Ks, 10Qs and proxy statements, we look to the future. We examine press releases, conference calls, presentations, information from competitors and economic data and begin to project future sales, earnings, cash flow and potential uses of cash. Again, we consider cash flow to be critical. A strong sustainable free cash flow gives management choices. They can use the cash flow to invest and expand, acquire other companies, reduce debt, buy in stock or pay dividends. Expectations against company guidance and investment analysts published estimates are then reviewed.

At that point, after having completed our research and identifying important business issues, we may meet with or speak with company management. The basis of this step is to determine if our understanding of the company's business is correct, as well as to ascertain where management sees potential to build shareholder value, what the specific initiatives are, what the time line is and what the risks are.

Portfolio Construction and Risk Control

After our analysis has been completed, we will look to purchase a stock for client portfolios if:

- the company is trading in the market at a discount valuation
- the company is capable of sustaining ample free cash flow as defined above
- management has, in our opinion, an achievable plan for building shareholder value; and
- management's historic record suggests that they are capable of implementing their strategy

We look to minimize stock's specific risks by building diversified portfolios for clients. We begin by analyzing and understanding the risks as well as the potential rewards in each stock. Portfolios are then built one stock at a time with the goal of being well diversified across a broad range of industries. We maintain the balance of the portfolios by constant trimming and rebalancing.

Sell Discipline

Constantly monitoring developments for each company in a client's portfolio is just as critical to us as the initial research performed before purchase. A sell decision can be triggered by several changes - some good and some bad. Our tracking helps us to identify which stocks to sell. The primary reasons we will elect to sell or reduce a position are:

- management is no longer doing a good job of implementing their stated strategy
- a shift of stated strategy signaling that management or the Board has lost confidence in the original strategy we supported
- demand, pricing and cost factors for the company's product and services changes

- price appreciation and valuation hit targets – when initial price targets are met we begin selling a portion of the position. We then go back and do a new analysis asking the question: “Would we buy this stock at this price at this time?” If not, then we sell the position. If the answer is yes, then we have done a constructive rebalancing.

Risks for all forms of analysis.

Our securities analysis methods rely on the assumption that the publicly-available sources of information about the companies whose securities we purchase and sell, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

Risks of micro cap, small cap and small to mid capitalization companies.

The earnings and prospects of these companies are generally more volatile than larger companies. They may have:

- higher failure rates
- lower trading volumes which may increase the volatility of price movements
- limited markets, product lines or financial resources

Risks of investing in common stocks.

Client portfolios are primarily invested in common stocks. Some of the risks associated with common stock investing include:

- financial risk of selecting individual companies that do not perform as anticipated either in terms of revenues or earnings
- the risk that either domestic and/or international stock markets may experience turbulence and instability which may impact a company's, and consequently, a portfolio's market value

Risks of value investing.

Value investing attempts to identify companies selling at a discount to their intrinsic value. However, a company's intrinsic value may never be fully realized by the market, or a company judged to be undervalued may actually be appropriately priced. This is a case where the strategy may fail to produce the intended results from the investment.

Sector risk.

Although client portfolios are built on an individual stock basis, there is the possibility that stocks within the same group of industries, or sectors of industry, will decline in price due to sector-specific market or economic developments.

Risk of Loss.

Securities investments are not guaranteed and clients may lose money on the investments that we make on their behalf.

ITEM 9 - DISCIPLINARY INFORMATION

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Our firm and our management personnel have no reportable disciplinary events to disclose.

ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Our firm and our related persons are not engaged in other financial industry activities and have no other industry affiliations.

Mutual Fund

As disclosed in "Advisory Business" (Item 4) and "Fees and Compensation" (Item 5) of this brochure, Walthausen is the investment adviser to the Walthausen Small Cap Value Fund and the Walthausen Select Value Fund, investment companies registered under the Investment Company Act of 1940. We are related to the mutual funds through common control. Please refer to these items for a detailed explanation of this relationship.

In terms of potential conflicts of interest related to the mutual funds with respect to allocation of client portfolio purchases and sales, refer to Item 12, "Brokerage Practices".

ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our partners and employees, including compliance with applicable federal securities laws.

Walthausen and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons.

In addition, our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our partners and employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Walthausen access persons, and/or individuals related to Walthausen, may buy or sell for their personal accounts securities identical to or different from those purchased or sold for our clients. In addition, any related person(s) may have an interest or position in a certain security or securities which may also be purchased or sold for a client. To avoid actual or potential conflicts of interest with our clients, access persons are required to obtain written approval before purchasing and selling any security for their own or a related account, as defined in our Code.

It is the expressed policy of our firm that no partner or employee of the firm may purchase or sell any security on the same day a similar transaction(s) is being implemented for an advisory account, thereby preventing such employee(s) from having a conflict of interest with transactions placed on behalf of advisory accounts.

Walthausen's Code of Ethics also incorporates the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

The Code of Ethics also includes policies and procedures covering the following subjects:

- Gifts and entertainment
- Directorships of public companies
- Duty of confidentiality

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent to mhodge@walthausenco.com, or by calling us at 518-348-7217.

ITEM 12 - BROKERAGE PRACTICES

Walthausen provides investment management services on a discretionary basis. The firm requires clients to provide us, as part of our advisory agreement, authority to determine the broker-dealer to use and the commission costs that will be charged to these clients for these transactions. Clients who are involved in commission recapture programs, or who direct brokerage to one of more brokers they specify may limit Walthausen's discretion with respect to the selection of broker-dealers. (Please see the section regarding Walthausen's brokerage policies in these circumstances).

When exercising discretion over client brokerage, Walthausen endeavors to seek the best execution of clients' transactions under the circumstances of any particular transaction. Accordingly, the firm will execute securities transactions for clients in such a manner that the clients' total cost or proceeds in each transaction is the most favorable under the circumstances. We take a number of factors into account in determining the use of any broker-dealer including, amongst other things; ability to consistently execute orders on a cost-effective basis, business reputation and financial position, provision of prompt and accurate execution reports, preparation of timely and accurate confirmations, prompt delivery of securities and cash proceeds, provision of meaningful research services that can be utilized in making investment decisions, and provision of other desired and appropriate services.

In making its determination on a transaction by transaction basis, Walthausen will consider the full range and quality of a broker's services in placing its orders including, among other things; the execution capability, commission rate, financial responsibility, value of research, and general responsiveness to the firm. We may, therefore, use a broker who provides useful research and securities transaction services even though a lower commission may be charged by a broker who offers no research services and minimal securities transaction assistance. We view costs as important in trading, but we believe they must be viewed in conjunction with other factors in determining the ultimate value added to an investment strategy.

There may be an additional number of both qualitative and quantitative factors that add value to the trading process. These factors used to assess execution quality may include the opportunity for price improvement from the national best bid and offer, character of the market (e.g. price, volatility, relative liquidity, and pressure on available communications), number of primary markets checked, occasion and accessibility of the broker-dealer to primary markets, size and type of transaction, client's investment objectives and constraints.

Execution of client transactions varies according to the security traded and prevailing market circumstances while also meeting the portfolio manager's objectives. These may include everything from market liquidity, the portfolio manager's risk tolerance, the investment time frame, and benchmark considerations as well as overall market sentiment. We believe that balancing these considerations will potentially lead to more efficient trading and lower trading costs, which should help overall portfolio performance.

Use of Soft Dollars

Walthausen seeks to obtain best execution on all client transactions over which Walthausen exercises discretion. However, under circumstances consistent with applicable law and regulation (safe harbor under Section 28(e) of the Securities and Exchange Act of 1934), Walthausen may select broker-dealers that provide the firm with proprietary and third party brokerage and research services in connection with commissions paid on transactions it places for client accounts (use of "soft dollars"). These eligible brokerage and research services may be obtained via Client Commission Arrangements which provide for the broker-dealer to pay a portion of the commissions paid by client accounts for securities transactions to providers of certain research services designated by Walthausen, or via broker-dealers who provide proprietary research services to Walthausen that the firm believes are useful in its investment making process. Walthausen does not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients,

believing that the research we receive will help us to fulfill our overall duty to our clients.

Certain items obtainable with soft dollars may not be used exclusively for either execution or research services. The cost of such "mixed-use" products or services will be fairly allocated and Walthausen makes a good faith effort to determine the portion of such products or services which may be considered as investment research and the portion not considered as research. The percentage of the product or service Walthausen uses for investment research may be paid with client commissions, while Walthausen will use its own funds to pay for non-research purposes. In making this good faith allocation, Walthausen faces a potential conflict of interest. However, the firm believes that its allocation procedures are reasonably designed to ensure that it appropriately allocates the anticipated use of such products or services to their investment research and non-investment research uses.

When Walthausen uses client brokerage commissions to obtain research or brokerage services, the firm receives a benefit to the extent that Walthausen does not have to produce such products internally or compensate third-parties with our own money for the delivery of such services. Therefore, such use of client brokerage commissions results in a conflict of interest, because we may have an incentive to direct client brokerage to those brokers who provide research and services we utilize. In addition, to the extent that Walthausen uses brokerage commissions paid in connection with client portfolio transactions to obtain these research services, the brokerage commissions paid by the clients might exceed those that might otherwise be paid for execution only. In order to manage such conflicts, Walthausen has adopted policies and procedures designed to ensure that the value, type, and quality of any products and services it receives from broker-dealers are permissible under applicable law, and that transactions are placed based on best execution considerations.

Walthausen uses research and services that benefit all client accounts; however we do not seek to allocate soft dollar benefits to client accounts proportionately to the commission credits that accounts generate.

Within our last fiscal year, we have obtained the following products and services on a soft-dollar basis:

- traditional proprietary research reports analyzing the performance of a particular company or industry sector
- discussions with research analysts
- meetings with corporate executive to obtain oral reports on performance of their company
- attendance at seminars/conferences as they relate to research of companies
- software that provides analysis of client portfolios
- research relating to the market for securities, such as market data, trade analytics, and advice on market color and execution strategies
- post-trade services incidental in executing transactions for client portfolios
- communication services relating to execution of transactions, clearing and settlement of transactions, and other functions incidental to effecting securities transactions.

Client Directed Brokerage

Clients may direct Walthausen to place some or all of the transactions for their accounts through a broker-dealer they specify. In this situation, Walthausen will attempt to continue to seek best execution for a client's account; however the client should understand that such arrangements may affect or prevent Walthausen's ability to achieve lower commission rates or selecting broker-dealers based on the most favorable price and execution for any transaction.

In the case of clients who utilized commission recapture programs, Walthausen does, wherever possible, aggregate transactions with other clients and then engage in "step-out" brokerage transactions to satisfy the clients request to direct brokerage. In a "step-out" transaction, Walthausen directs a trade to a broker with an instruction to execute the transaction but "step-out" a portion of the transaction to a second broker who clears and settles that portion of the trade. In this case, the client designated broker who is stepped out to receives a commission. Walthausen believes this arrangement affords the opportunity both to seek best execution with respect to the transaction and also to comply with the client's direction.

Recommendations for the UMA program

The overlay manager of the UMA program will be sent model portfolio recommendations in a timely manner in relation to the entry of transactions into the firm's order entry system for discretionary accounts managed by Walthausen. The UMA program overlay manager has investment discretion and is responsible for execution of transactions for its clients' accounts. The overlay manager may or may not decide to implement all of Walthausen's recommendations as to securities held in the UMA program accounts. Walthausen is not aware when any transactions are executed after the provision of the recommendations. As a result, both Walthausen and the overlay manager may be executing trades in the same security at the same time.

Aggregation of Clients Transactions

The firm will endeavor to make all investment allocations in a manner that it considers to be the most equitable to all accounts. Any aggregation of orders must be consistent with the firm's fiduciary obligations and the governing documents of each of the client accounts, taking into consideration diversification, investment objectives, existing investments, liquidity, contractual commitments or regulatory obligations, and other similar considerations. The firm's general policy is to have all client accounts receive the same average price for all transactions in a particular security on a particular day, with all other transactions costs shared on a pro-rata basis so that no client will be favored over any other client as a result of trade allocations.

Exceptions to this general policy may occur whereby accounts managed within a broad investment strategy may not be included in aggregated trades. Certain managed client accounts may have investment stipulations or directed brokerage arrangements, as set out in written client agreements, which may preclude them from any aggregated order transactions. This may result in forgoing potential benefits associated with aggregation of orders, including possible higher transaction costs, and other efforts to achieve best execution.

In addition, clients may, as set forth in their investment management agreement with the firm, request that their account be managed broadly in line with one of the three strategies offered by the firm, Micro Cap Value, Small Cap Value or Select Value, but with special requirements that require the firm to modify the existing strategy by adjusting the market capitalization range of the eligible investment universe to meet the client's particular guidelines. This may also involve the use of different indices on which to benchmark performance. Some accounts may also not participate in a specific transaction or require a different allocation relative to other accounts in their respective strategy due to tax efficiency, daily cash flow and/or industry or security-specific restriction considerations. As a result, these accounts may not be included in bunched trades in a particular security on a particular day, but may purchase or sell that particular security at a different time and/or may enter into transactions in which other accounts managed in a similar broad strategy do not participate.

Walthausen's aggregation trading procedures are as follows:

- Transactions for any client account may not be aggregated for execution if the practice is prohibited by or inconsistent with the client's advisory agreement with Walthausen or our firm's order allocation policy.
- The trading desk, in concert with the portfolio manager, is responsible for determining that the purchase or sale of the particular security involved is appropriate for the client and consistent with the client's investment objectives and guidelines or restrictions applicable to the client's account.
- In the event of accounts that, (i) have directed brokerage arrangements; (ii) have daily cash flow considerations; (iii) may be managed with tax efficiency considerations; (iv) have industry or security-specific restrictions; or (v) have other specific investment stipulations, these accounts might not be included in a bunched order with other accounts managed in a similar strategy. Orders for these accounts may be entered for that specific security at a different time or date, and as a result may involve trading on their own without being bunched with other accounts managed in a similar broad strategy, or may be excluded from any purchase or sale of that security.
- Prior to entry of an aggregated order, a pre-allocation must be completed which identifies each client account participating in the order and the proposed allocation of the order, upon completion, to those

clients.

- Due to limited availability of a security, price limits, or other factors, an order may not be completed in full. If the order cannot be executed in full at the same price and time, the securities purchased or sold by the close of each business day will generally be allocated on a pro rata basis among the participating client accounts in accordance with the initial pre-allocation of the order. However, adjustments to this pro rata allocation may be made based on factors such as avoiding excessive transaction charges or bringing weightings in a security to similar levels across accounts. This may involve rotating allocations across accounts over the course of time taken to fill the full order. This may be more or less advantageous to any one account. As a result, the amount, timing, structuring, or terms of an investment by a client account may differ from, and performance may be higher or lower than, investments and performance of other client accounts.
- Generally, each client that participates in the aggregated order does so at the average price for all transactions made to fill the order, and shares in the commissions and other transaction charges on a pro rata basis in proportion to the client's participation.
- Walhausen's chief compliance officer periodically tests to see that trades and allocations have been made in a manner that satisfies the firm's duty to seek best execution for clients. Comparison of the performance of like accounts is also a tool utilized to determine if trades and allocations have been made in an equitable fashion.
- Walhausen's client account records separately reflect, for each account in which the aggregated transaction occurred, the securities which are held by, and bought and sold for, that account.
- No client or account will be favored over another.

ITEM 13 - REVIEW OF ACCOUNTS

Client Portfolio Reviews

The underlying securities within client portfolios are continually monitored by the firm's portfolio manager, while accounts are reviewed by the compliance department on at least a monthly basis. Accounts are reviewed in the context of keeping broadly in line with each client's stated investment objectives and guidelines. This includes the firm's mutual funds where the Funds' holdings are reviewed in accordance with the investment objectives and guidelines detailed in the Funds' prospectus and Statement of Additional Information. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

These accounts are reviewed by the portfolio managers and the chief compliance officer.

Client Reports

In addition to the monthly statements and confirmations of transactions that clients receive from their custodians, we provide quarterly reports summarizing account performance, beginning and ending account value, top ten holdings, sector weightings, and portfolio characteristics. The report also contains commentary from the portfolio manager on the factors impacting performance in that quarter, how the portfolio is currently positioned and our outlook for the foreseeable future. In certain cases, the provision of written reports is not a requirement as part of the specific advisory agreement with a client.

In the case of the Walhausen Funds mutual funds, a quarterly fund fact sheet is prepared and posted to the Walhausen Funds web site (www.walhausenfunds.com). A quarterly fund commentary is also posted to the Walhausen Funds web site. A commentary in the form of a shareholder letter prepared by the Funds' portfolio manager is incorporated into both the Funds' Semi Annual and Annual Reports.

ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

Walhausen may pay referral fees to independent persons or firms ("Solicitors") for introducing clients to us. Under the provisions of Section 206-4(3) of the Advisors Act, Walhausen or the Solicitor will provide the prospective client, prior to, or at the time of entering into a written advisory contract, with a copy of this document (our firm brochure) and a separate disclosure statement that includes the following information:

- the Solicitor's name and relationship with our firm;
- the fact that the Solicitor is being paid a referral fee;
- the amount of the fee; and
- that the fee paid to us by the client will not be increased above our normal fees in order to compensate the Solicitor.

It is Walhausen's policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

Current Solicitor Arrangements

Walhausen does not currently have any agreements in place for Solicitors to introduce clients to the firm.

ITEM 15 - CUSTODY

Our firm does not have actual or constructive custody of client accounts.

Under Rule 206(4)-2, the custody rule under the Advisors Act, Walhausen may be deemed to have custody as a result of any authority the firm may have received from a client to deduct advisory fees directly from the client's account. Walhausen has policies and procedures in place that take into account how and when clients will be billed; are reasonably designed to ensure that the amount of assets under management on which the fee is billed is accurate and has been reconciled with the assets under management reflected on the statements of the client's qualified custodian; and are reasonably designed to ensure that clients are billed accurately in accordance with the terms of the advisory agreement in place. Qualified custodians are required to provide account statements on at least a quarterly basis that include the advisory fee. Policies and procedures are also in place in the event that client assets are inadvertently sent to Walhausen.

ITEM 16 - INVESTMENT DISCRETION

Walhausen accepts and manages accounts on a discretionary basis. Accordingly, we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- determine the security to buy or sell; and/or
- determine the amount of the security to buy or sell
- determine which broker/dealer will be utilized to effect transactions
- determine the commission rate to be charged for each transaction

Clients give us discretionary authority when they sign a client management advisory agreement with our firm. In some cases, at a client's request, we may accept restrictions placed by the client on the purchase of certain securities for their accounts, or direct transactions to a particular broker/dealer. This is also discussed in Item 4 "Advisory Business" and Item 12 "Brokerage Practices".

Walhausen also provides purchase and sale recommendations and security weightings in the form of a model

portfolio to a UMA program. In this case, Walthausen does not have discretionary authority which lies with the overlay manager of the program. More information is available in Item 4.

ITEM 17 - VOTING CLIENT SECURITIES

Walthausen acts as discretionary investment advisor for clients. The conditions that govern the firm's authority to vote proxies on behalf of clients are contained in our investment advisory agreement. The advisory contract states that Walthausen will vote proxies on behalf of its clients unless specifically requested not to do so by the client. If clients' request to vote proxies on their own behalf, they will receive proxy related information directly from their custodian.

We will vote proxies in the best interests of our clients and in accordance with our established policies and procedures. It is our policy to vote client shares primarily in conformity with Glass- Lewis & Co. recommendations. Glass-Lewis is a neutral third party proxy advisory firm that issues recommendations based on its own internal guidelines. Using Glass-Lewis recommendations assists in limiting conflict of interest issues between Walthausen and its clients. Policies and procedures are also in place to address the handling of any conflicts of interest that may arise. Our third party proxy voting service provider, Broadridge Financial Solutions, and Walthausen, retain a record of all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created that was material to making a decision how to vote proxies, and a copy of each written client request for information on how we voted proxies.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting Mark Hodge at Walthausen by telephone, email, or in writing. Clients may request, in writing, information on how their proxy shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for their account(s), we will promptly provide such information to the client (within three business days)

We will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies.

ITEM 18 - FINANCIAL INFORMATION

Under no circumstances do we require or solicit payment of fees in excess of \$1200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

As an advisory firm that maintains discretionary authority for client accounts, we are also required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual obligations.

Walthausen has no financial circumstances to report.

Walthausen has not been the subject of a bankruptcy petition at any time during the past ten years.