

Walthausen & Co., LLC

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

Effective: March 30, 2020

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 30, 2020, the following changes to our previously published brochure dated March 28, 2019 have been made.

Item 4 has been amended to remove the paragraph discussing the offering of research advisory services. The firm no longer provides that service to the Unified Management Account program previously referenced.

In addition, Item 8 has been updated to reflect enhancements to the firm's investment process for the three strategies offered by the firm.

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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 may have greater variability than those in the Select Value strategy, which, on average, invests in companies with longer and more stable business histories and more consistent return characteristics. 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 Cap Value and Select Value strategies because shares of these micro cap companies tend to have greater variability.

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.

Assets Under Management

As of 3/26/2019, Walhausen was actively managing \$541,061,267 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. Walhausen may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

Although Walhausen 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, 2020, 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, 2020. 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, 2020. Walthausen may not terminate the fee waiver before May 31, 2020.

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.

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)

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 mispricing in small cap value securities is the result of investor misperception of business opportunities, and that the only way to identify and take advantage of this is by way of painstaking fundamental research and a critical review of management's business plan. 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 and Small Cap Companies

We have a consistent and repeatable process to identify promising portfolio candidates that exhibit those traits we value most when investing in our small cap universe. The goal of the process is to ultimately supply the portfolio managers with a list of names where we understand the dynamics of the business better than others, and can take advantage of that knowledge to capture inefficiencies in pricing in the market. Importantly, research analysts and portfolio managers are in constant discussion throughout the process.

The process involves the following steps: identify a candidate; review regulatory documents to learn the business and history; review sales and earnings surprise history and transcripts to understand the current investor sentiment towards the company; have discussions with management to fully understand the business plan; create a proprietary financial model with two year forecasting; and finally review the valuation and determine risk versus reward prices.

Experience has taught us that a review of our universe from various angles enables us to identify a diversified pool of quality candidates. Methods utilized to search for candidates include: a proprietary scoring system which focuses on finding companies on the cusp of positive change; a screen to identify stocks that are trading at the low end of their historical valuation; tracking insider transactions for indications that management is confident of future prospects; attending investor conferences and corporate analyst events to learn details of corporate plans.

As a name emerges the analyst will review the company's public filings and historic results to identify critical factors in the company's outlook and to put some parameters on how the company may be valued. The analyst will then bring the name up for broad discussion with the investment team. At this point a name may be put aside if there are factors which cause us to feel that it would not be a good investment. If the decision is to go forward, the analyst will have a better idea of what the critical questions are.

Upon deciding to move ahead with an idea we move on to a detailed analysis of the company. This is where the preponderance of our analyst's time is spent. Our detailed analysis involves an exhaustive review of all regulatory filings including 10Ks, 10Qs and proxy statements. We research all available information including credit agreements, industry publications, and news articles, etc., so that we may understand the business and build historical models. Models are constructed using consistent formats that allow us to easily identify accounting effects and to find pertinent information enabling us to compare to other companies that we understand. In constructing the model, the two critical areas for us are the cash flow statement and balance sheet because they allow us to evaluate a firm's sustainable free cash flow. Given the importance that we place on a company's cash flow, we pay particular attention to the accounting footnotes contained within.

The next step is to understand the market's current sentiment toward the company. Has the company been meeting market expectations? Are market participants pessimistic or angry? Supportive or overly optimistic? To

asses sentiment we will review the history of earnings and revenue surprises. We will review the types and tone of questions asked during conference calls and investor conference appearances. We will speak to sell side analysts to learn what questions and concerns clients most often mention when discussing the company and what issue they most often cite for buying or selling the stock.

We then interview management to learn of and scrutinize their business plan. We will evaluate the plan in regards to what we believe are astute business decisions as well as how it addresses the market issues learned previously. We prefer to meet in person and can often accomplish this via investor conferences, but typically communication is via teleconference. The focus of these meetings is to thoroughly vet management's business strategy and their long term expectations of their markets. With this further insight of the business, and applying our years of experience of what are reasonable growth and margin expectations, the analyst will forecast the model two years forward.

If upon review of the two year forecast the stock seems promising, the analyst will put together a thesis statement of why we should own the stock. The thesis statement is our 'Intellectual Discipline' and will be our 'flag in the ground' as to why we have invested. In essence, it will state the two or three critical metrics that the analyst expects to reach in order for the forecasted model to be realized. Next, using the historical valuation metrics of the company and the prospective results of our model two years out, the analyst will calculate a target for where the stock price could go upon achieving the modeled results; The Reward Price. Additionally, the analyst is asked to stress test the model, adjusting for where the assumptions may be wrong. Using these underachieving results and historic valuation metrics that correlate with this disappointing scenario, the analyst will calculate downside price target; The Risk Price.

The thesis statement is fortified with a pro and cons list, along with the reward to risk ratio, and these are then discussed with the portfolio managers who will make the final investment decision. The model, and the reward and risk prices, are dynamic and will be updated whenever new developments occur. The thesis statement, however is a constant, and if it is no longer valid the security is likely to be sold.

Portfolio Construction

Utilizing a bottoms-up methodology, we strive to construct a diversified portfolio of quality companies with the best reward to risk ratios as determined by our analysts with an understanding of the specific business risks as reviewed by the portfolio manager.

We are interested in companies that have a history of good margins and generating profits. We are interested in companies where management has meaningful ownership. Historically speaking, many of the characteristics that we look for in a quality company are consistent with the tenets of today's ESG investor. We recognize that at its core, a business is nothing more than a collection of people and that you need to have good people to have a good business. We want to own businesses that are run by good people.

The portfolio manager begins with the research recommendations of the analyst. The portfolio manager and analyst will fully evaluate the business and the reward to risk opportunity. Different businesses have different levels of complexity, some management teams are better than others, and macroeconomic changes affect some more than others. Taking these factors as a backdrop to the reward to risk ratio, the portfolio manager will determine if this opportunity is worthy of a position in the portfolio. This same information will be utilized for determining position weights.

The portfolios are built on individual stock selection. We want, as much as is possible, to have stocks which react to different external factors. As a result of this, we often have a portfolio that has sector weightings that are notably different than the benchmark. We are aware of the sector weightings in the benchmark, but frequently will be absent from sectors or industries when we consider the outlook to be poor, the risks too high or valuations unattractive.

The reward prices and risk prices as determined by our analyst team are not static values nor are they triggers. They are guideposts that frame the investment opportunity. Of critical importance is the thesis statement that the analyst has developed for advocating the investment. The thesis is our intellectual discipline. It is provided to the entire investment team and is the line in the sand as to why we own a stock. We are patient investors with a two year time horizon and understand that business results don't always present in a smooth pattern. Understanding this, if the business develops in such a way as to invalidate the thesis, the stock will be sold. And every member of the investment team has the right to challenge the ongoing validity of any thesis.

Constantly monitoring developments for each company in a client's portfolio is just as critical to us as the initial research performed before purchase. The analyst who was responsible for the addition of a company to the portfolio has the primary responsibility of monitoring the company's ongoing performance. The investment group acts as a team monitoring the portfolio. The entire team is responsible for reviewing the portfolio and bringing forth challenges to stock price underperformance, to portfolio weighting and to the company's results as compared to the initial investment thesis, the intellectual discipline statement.

Every time that a company reports earnings or has a meaningful public comment, the thesis is reviewed. During every weekly investment meeting time is allotted to a collaborative challenge of the portfolio.

A decision to reduce or sell a position comes down to three primary reasons: the investment thesis is invalidated by company performance or macroeconomic events; continual stock price decline tells us that we have erred in our review of the company or missed something in our analysis; the stock price has appreciated to or near our price target and we want to reduce valuation risk. Importantly, the decision to reduce or sell involves the same review of investment thesis, reward to risk ratio and critique of the business as the decision to add to or buy a position.

We use cash to accommodate transactions. Typically, we hold 2-5% of the portfolio in cash to give us the opportunity to make purchase and sales at best prices.

Risk Control

Risk in the portfolio comes in two forms. Individual company risk and valuation risk. Individual company risk is ascertained via the in-depth research analysis completed and the experience of the portfolio managers. The portfolio manager uses the level of specific business risk when determining the size of the investment within the portfolio. The reward price and risk price of each stock was determined by understanding the historical valuation range that the market has given to a stock and we will use these price targets to understand the valuation risk the current stock price implies. As the reward to risk ratio decreases, so should the allocation to that stock.

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 and small cap 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, Walhausen is the investment adviser to the Walhausen Small Cap Value Fund and the Walhausen 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.

Walhausen 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.

Walhausen access persons, and/or individuals related to Walhausen, 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.

Walhausen'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@walhausenco.com, or by calling us at 518-348-7217.

ITEM 12 - BROKERAGE PRACTICES

Walhausen 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 Walhausen's discretion with respect to the selection of broker-dealers. (Please see the section regarding Walhausen's brokerage policies in these circumstances).

When exercising discretion over client brokerage, Walhausen 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.

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 for a particular strategy 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 flows or raising cash requests from clients, 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.

Walhausen'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 Walhausen 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 managers, 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 Walthausen Funds mutual funds, a quarterly fund fact sheet is prepared and posted to the Walthausen Funds web site (www.walthausenfunds.com). A quarterly fund commentary is also posted to the Walthausen 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

Walthausen 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, Walthausen 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 Walthausen'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

Walthausen 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 Advisers 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".

ITEM 17 - VOTING CLIENT SECURITIES

Walhausen 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 Walhausen 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 Walhausen 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 Walhausen, 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 Walhausen 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.

Walhausen has no financial circumstances to report.

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