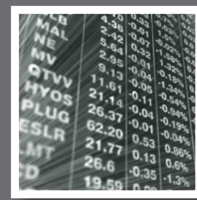
CASTLE FOCUS FUND



Commentary :: Q4 2011

Investor Class: MOATX Class C: CASTX

Portfolio Manager Commentary

EQUITIES — A STORE OF VALUE

St. James Investment Company
Sub-Advisor to the Fund

MOATX
CASTX

January 6, 2012

The past decade has not been an easy environment for investors, as fundamentals often appear to mean little, if anything. The market paints with a broad and emotional brush. Everything goes up and down at the same time.

Day by day, investors struggle to understand the investment puzzle before them. The markets sit center to an ongoing battle between the opposing forces of inflation and deflation, growth and depression, credit expansion and credit destruction, centralization and de-centralization, managed paper money and gold, bull and bear, greed and fear. There is clearly something important going on in the world economy but that something is hard to specifically define or even understand.

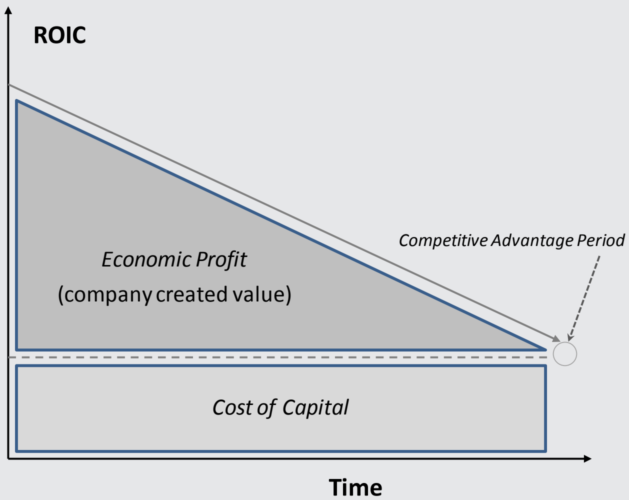
In today's volatile markets, many investors are beginning to question the value of their investments. Specifically, it has become difficult to understand what serves as a store of value in today's markets. By definition, a store of value is any form of commodity, asset, or money that has value and can be stored and retrieved over time. Possessing a store of value is the underlying basis for any economic system, as some medium is necessary in order for individuals to engage in the exchange of goods and services. As long as a currency is relatively stable, money (such as a dollar bill) is the most common store of value found in an economy.

If a store of value is an asset that can be stored and retrieved over time, how does one value the asset? Logically, the market determines the economic value of any good or service. Value is linked to price through the mechanism of exchange. When an economist observes an exchange, he sees two functions at work: those of the buyer and those of the seller. Just as the buyer reveals what he is willing to pay for a certain amount of a good or service, so too does the seller reveal what it costs him to give up that good or service.

Said another way, value is how much a desired object or condition is worth relative to other objects or conditions. Economic values are expressed as "how much" of one desirable condition or commodity will, or would be given up in exchange for some other desired condition or commodity. Austrian economist Ludwig von Mises stated that "value," or exchange value, was always the result of subjective value judgments. There was no price of objects or things that could be determined without taking these value judgments into account, as determined by markets.

In a market-based economy, value is the defining dimension of measurement. People invest with the expectation that when they sell, the value of each investment will have grown by a sufficient amount above its cost to compensate for risk. This is true for any investment, whether it is stocks, bonds, real estate, oil and gas royalties or timber. With regards to publicly traded stocks, a company's ability to create value for its shareholders and the amount of value it creates are the primary measures by which we judge a company.

As fundamentally-based value investors, we believe that companies create value when they invest capital to generate future cash flows at rates of return exceeding the cost of their capital. We define cost of capital as the rate investors require for the use of their capital. The faster companies can increase their revenues and deploy more capital at attractive rates of return, the more value they create. The combination of growth and return on invested capital (ROIC) relative to the company's cost of capital is what drives value. Companies can sustain strong growth and high returns on invested capital only if they have a well-defined competitive advantage — the core concept behind any company's business strategy.

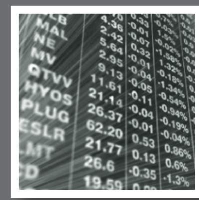


We appreciate that creating sustainable value is truly a long-term endeavor. Competition tends to erode a company's competitive advantages which in turn lower its return on invested capital. Therefore, companies must continually seek and exploit new sources of competitive advantage if they are to create long-term value. Company management must resist the temptation to take short-term actions that creates illusory value quickly at the expense of the real thing in the long term. Creating value for shareholders is not the same as meeting Wall Street analysts' consensus earnings forecast for the next quarter. Creating value means balancing near-term financial performance against what it takes to develop a healthy company that can create value for decades ahead—something very few companies can accomplish. This principle of value creation is not original. In fact, British economist Alfred Marshall first spoke about the returns on capital relative to the cost of capital in his Principles of Economics published in 1890.

Value exists at the intersection between scarcity and usefulness. It is critical to understand that when we evaluate a company, our judgment of value is based on the entire long-term stream of cash, not just the benefits received in the first few years. Those investors who are familiar with the dividend discount model, for example, know that the bulk of the "value" of a stock is not in the near-term cash flows the stock will throw off in the first few years, but in the very long-term "tail" of those cash flows (otherwise known as the "terminal value" expected in a buyout).

The stock market is where one tries to find the intersection between price and value for publicly-traded companies. Unfortunately, the stock market remains a source of confusion for many people. Some view today's markets as a form of gambling, almost certain that if you invest, you will likely end up losing money. Others realize that they should invest for the long-run but remain hesitant due to the market's inherent volatility.

Putting one's fears aside, stock exchanges play an important role in today's free-market economies. They facilitate capital transfers from less productive to more productive companies, providing resources for growing industries and contributing to the overall growth of the economy. However, stock exchanges have not always been what they are today, and their current state is a product of a 500-year evolution.

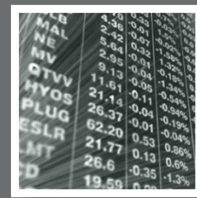


Stock exchanges originated during the Renaissance, when Venetian bankers in the 14th century developed systems of securities exchange, allowing traders to buy and sell government and business debt obligations. In 1531 the first formal market exchange was founded in Antwerp, Belgium, where it traded a variety of notes and bonds, although no actual stocks changed hands. The first joint-stock companies appeared as a result of sea expeditions of the 17th century, particularly to the East Indies. Long sea voyages from Europe to distant countries in search of spices and other valuable products were extremely profitable enterprises. However, they were also incredibly risky due to weather, poor sea navigation and occasional pirate attacks. Investors, who provided funds for such expeditions, wanted to spread their risk by investing in a number of expeditions rather than sponsoring just one voyage. In response, the first joint-stock companies were formed, giving investors an opportunity to buy individual stocks that paid out dividends from the proceeds an expedition would bring.

As the first joint-stock companies formed, a need emerged to have a place where investors could trade stocks. In most cities, particularly London, trades took place in coffee shops (the famous London Stock Exchange originated in a 17th century coffee house). And yet, from the earliest coffee shop-based exchanges to today's most technologically modern exchanges, the purpose remains the same – to buy and sell fractional units of ownership in businesses. There's an old Wall Street adage meant to inspire investors that says "it's not a stock market, but a market of stocks." Although the adage is correct, in today's stock market we find that computer trading, dark pools and exchange-traded funds now dominate market action on a daily basis. Everything moves up or down at speeds faster than a normal person can physically process. Some estimate that high frequency trading accounts for 70% of market volume on a daily basis. According to Alan Newman of *Crosscurrents*, the average holding period for U.S. stocks is now just 2.8 months. In the 1980s, the average holding period was two years, and in the 1970s, it was seven years.

A study by Mercer, the consulting firm, and IRRC Institute, an investing think tank, asked the managers of more than 800 institutional funds how often they traded. Two-thirds had higher turnover than they predicted; on average, they underestimated their turnover rate by 26 percentage points. Even though most are judged by performance over three-year horizons, their average holding period was about 17 months, and 19% of the managers held the typical stock for one year or less.

For individual and professional investors alike, more trading doesn't ensure higher returns. An analysis of nearly 2 million trades by discount-brokerage customers found that those who traded the most earned returns no higher than those who traded the least. After deducting brokerage costs, the most active traders fell far behind the least active. According to Morningstar, mutual funds with the highest portfolio turnover rates have underperformed the slowest-trading funds by an annual average of 1.8 percentage points over the past decade. Although we understand that stock exchanges play an important role, we also know that the stock market is a giant distraction to the business of investing. We recall what Warren Buffett



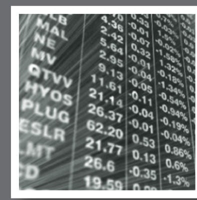
wrote in February 1992, when the Dow Jones Industrial Average (DJIA) was at 3200: “The stock market serves as a relocation center at which money is moved from the active to the patient.” Regardless how stock exchanges continue to technologically evolve, we remain patient money looking to accept reallocated capital from active money.

As Benjamin Graham defined it, investing requires “thorough analysis” and “promises safety of principal and an adequate return.” Trading on rumors, hunches or fears should never be confused with investing. Graham insisted that “the typical individual investor has a great advantage over the large institutions”—largely because individuals, unlike institutions, need not measure performance over absurdly short horizons. The faster one trades, the more one fritters away this advantage. Graham used an imaginary investor called Mr. Market to demonstrate his point that a wise investor chooses investments on their fundamental value rather than on the opinions of others or the direction of the markets. Graham’s concept of Mr. Market:

> *Imagine that in some private business you own a small share that cost you $1,000. One of your partners, named Mr. Market, is very obliging indeed. Every day he tells you what he thinks your interest is worth and furthermore offers either to buy you out or to sell you additional interest on that basis. Sometimes his idea of value appears plausible and justified by business developments and prospects as you know them. Often, on the other hand, Mr. Market lets his enthusiasm or his fears run away with him, and the value he proposes seems to you a little short of silly.*
>
> *If you are a prudent investor or a sensible businessman, will you let Mr. Market’s daily communication determine your view of the value of a $1,000 interest in the enterprise? Only in case you agree with him or in case you want to trade with him. You may be happy to sell out to him when he quotes you a ridiculously high price, and equally happy to buy from him when his price is low. But the rest of the time you will be wiser to form your own ideas of the value of your holdings, based on full reports from the company about its operations and financial position.*

As patient and intelligent investors we find ourselves in that very position — partial owners of listed companies. Based on our own analysis and judgments, we can take advantage of the daily market price or leave it alone. Price fluctuations have only one significant meaning for us — they provide us with an opportunity to buy wisely when prices fall sharply and to sell wisely when prices increase a great deal. At most other times we do better to simply forget about the stock market and focus on evaluating the operating results of our portfolio companies.

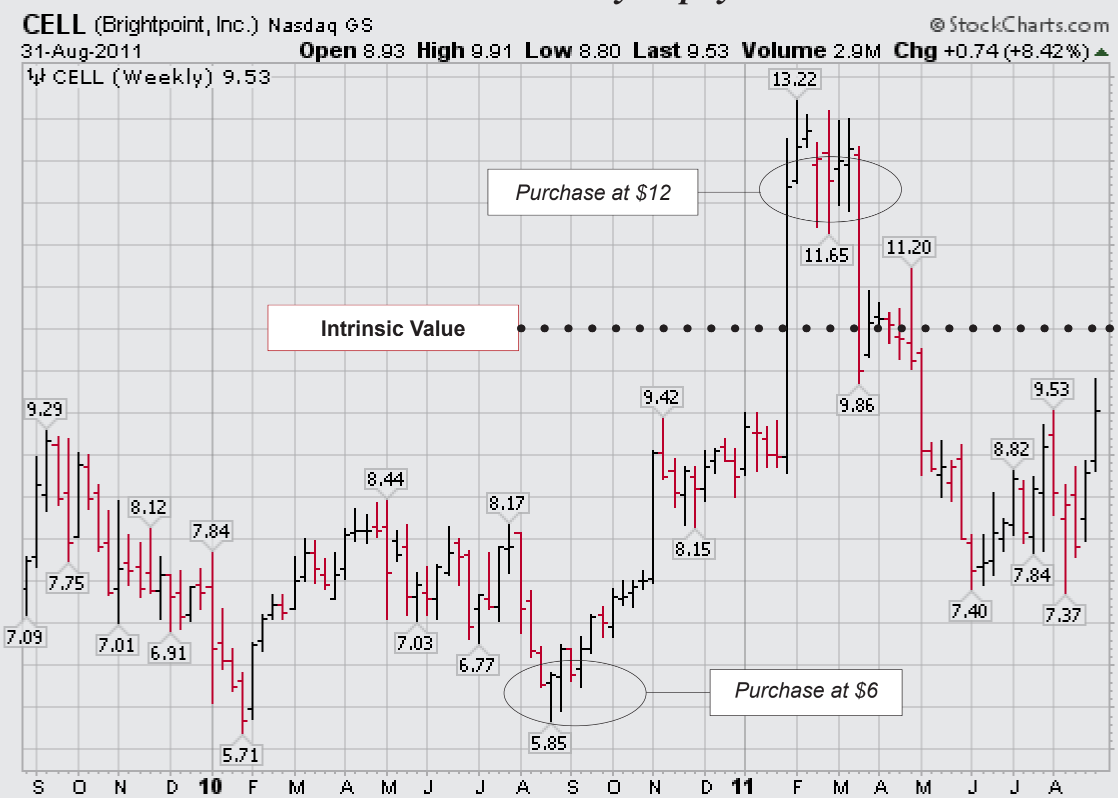
An investor who understands that equities can be a store of value must accept that each security traded on a stock exchange represents a fractional unit of business ownership. Each morning, when we open up the newspaper or turn on the television, we can find Mr. Market’s prices. It is our choice whether or not to act on today’s prices. If we find a company that Mr. Market is offering for less than we believe it is worth, we take advantage of him and buy or increase our position. As long as the company remains fundamentally sound, Mr. Market will one day return and offer to buy the same company from us for a higher price. By thinking of stock prices in this way — as mere quotes from an emotionally unstable business partner — we are free from the emotional attachment most investors feel toward rising and falling stock prices. Oddly enough, we actually welcome falling prices as they provide us opportunities to deploy additional capital in great businesses.



Benjamin Graham is universally credited with introducing the concept of margin of safety to the investment world. Graham learned firsthand the value of investing with safety in mind early in his career, when his investment portfolio was nearly wiped out by the stock market crash of 1929. When discussing this concept in *The Intelligent Investor,* Graham wrote, *"To have a true investment there must be present a true margin of safety. And a true margin of safety is one that can be demonstrated by figures, persuasive reasoning, and by reference to a body of actual evidence."* A margin of safety is often defined as the difference between intrinsic value of a stock and its current market price. In other words, a stock that is trading significantly below its intrinsic value has a wide margin of safety, while a stock trading at or above its intrinsic value has no margin of safety. The more cheaply we can buy a stock relative to its intrinsic value, the bigger the margin of safety.

The concept of pricing lies at the core of value investing; an investor attempts to profit in the long term by purchasing stocks at a substantial discount to their intrinsic value, while a speculator attempts to profit by successfully predicting the short term fluctuations of a stock's price. In other words, the speculator believes price volatility and the ability to predict the direction of that volatility is most important. Price volatility is important to the investor as well but only when price is considered in relation to the calculated value of the stock. The investor seeks to purchase stocks when the market is overly pessimistic. In doing so, the investor attempts to purchase a stock at a substantial discount to its calculated intrinsic value. During periods of market optimism, the investor is perfectly happy to sell his stock when the market offers a price which approaches or exceeds his calculated intrinsic value of the equity.

"Price is what you pay…"





As an example, let's assume that a company has an intrinsic value of $10 per share, earns $1 per share, and pays out 35% of it earnings ($0.35) in dividends. We assume that after a period of seven years, the price of the stock equals the company's intrinsic value of $10. Several possible scenarios an investor might face: buy the stock at $6, $8, $10, or $12 per share.

Intrinsic value	$ 10.00
Earnings	$ 1.00
Earnings grow th rate	0.0%
Dividend payout	35.0%
Investment holding period	7 years

Purchase price	$ 6.00	$ 8.00	$ 10.00	$ 12.00
Margin of safety	40.0%	20.0%	0.0%	-20.0%
Dividend yield at purchase	5.8%	4.4%	3.5%	2.9%
Average annual price appreciation	7.6%	3.2%	0.0%	-2.6%
Average annual total return	13.4%	7.6%	3.5%	0.3%

Purchase price can clearly have an enormous impact on investor returns. The difference between buying our hypothetical company at $6 and $12 is the difference between compounding your investment over the next seven years at 13.4% and 0.3%. Therefore, an investor must buy below intrinsic value in order to earn a reasonable return on their stock purchase. Knowing the price you pay is simple and straightforward. Although many investors have an intuitive understanding of value, its deeper meaning is often only vaguely understood.

When buying a stock, how does one know if he or she is getting value for their money? The answer depends on the amount of cash that the business one purchases can generate. Companies create value by investing capital and generating a return on that investment. Some of the cash that a company generates pays operating expenses, some of the cash gets reinvested back into the business, and the remainder we call free cash flow. Free cash flow is often called "owners earnings" – the amount of money that can be taken out of a business every year by the owners without negatively impacting the company's operations. Therefore, the value of any company depends on the probability that free cash flows will materialize (risk), how large these cash flows will be (growth), how much investment is needed to operate the business (return on capital), and how long can the business generate excess profits (competitive advantage period).

Regardless of how much cash the business can generate, the price one pays for this future flow of cash will determine its value. If one pays too much, one receives very little value. Therefore, if value is what investors seek, then investors must focus on the potential cash flows that they expect to receive. Unfortunately, few market participants focus on this critical element. Instead, participants more commonly focus on a stock's price and its movement. In other words, it is common to believe that a rising stock price is good, and a falling stock price is bad.

In order to receive value, an investor must know how to calculate value. Valuing a stock is difficult due to the uncertainty. When we buy a car, we can easily compare the price of the same model car at several dealers. When valuing companies, we find that every company is slightly different, which makes comparisons difficult. Further, growth rates, returns on invested capital, durability of competitive advantage, profit margins, tax rates and a number of other factors all affect the value of a business, so comparing two companies with each other can be difficult. Additionally, the value of a company is directly tied to its future financial performance, which is unknown although we can make an educated guess. It is for these reasons that most people focus on what is easily obtainable – the stock price – rather than on the more difficult to ascertain — business value. Fortunately, we do not need to know the precise value of a company before buying its shares. What we need to know is that the price we pay is sufficiently lower than the most likely value of the business.

Time is the key element that favors the investor over the speculator. In other words, patience becomes instrumental in the ultimate success or failure of the investor seeking value in equities. The element of patience and the ability to remain disciplined while the rest of the investment world reacts to daily fluctuations in stock prices is a fundamental requirement for all successful value investors.

After a phenomenal increase in stock prices during the 1980s and 1990s, many people still buy stocks today with the idea that their share prices will increase by 20% or more in a year. Unfortunately, these individuals do not truly understand the concept of compounding returns or why anyone would want to own the same company's stock for decades. The reason we own common stocks is that ideally they grow their earnings over time and increase their cash payouts to investors. Reinvesting these payouts allows one to greatly increase the return from equities over time. Importantly, increasing earnings and dividends also protects investors from inflation—but only if an investor buys the right kinds of stocks and only if an investor holds them for the long term.

Given the extraordinary level of volatility in today's markets, our investment goal over the next several years remains to acquire a portfolio of high-quality common stocks at safe and cheap prices. According to Benjamin Graham in *The Intelligent Investor,* safe and cheap means the company has enough earnings and cash flow to realistically take itself private at current interest rates. In other words, the company's shares trade at a price low enough that the company could realistically buy back all of its shares outstanding. We believe that over the next twenty years and beyond, this type of portfolio is one of the best means to build and sustain wealth. Although simple in theory, many find themselves unable to execute this strategy—they cannot separate price from value.

When investing, our focus always remains on the importance of cash flow as a determinant of long-term investment returns– more specifically, cumulative future cash flows discounted by the appropriate interest rate. In the long run, it is economic profits, not expectations or emotions, which determines investment returns. The late Peter Bernstein, author and economist, described it most accurately: "Financial markets are nothing more than arenas where investors who need cash today can obtain it by selling the present value of future cash flows to other investors willing to wait for the cash payoffs from their capital. If you invest without expecting future cash flows, then you might as well collect art or play the slot machines." When the second-by-second fluctuations of stock prices obscure this certainty, it is counterproductive for investors who want to accumulate assets for their financial futures.

For much of the 20th century, sovereign bonds, particularly United States Treasuries, were considered the least risky assets to own. Investors understood that while corporations and other entities might default, the United States, which is the largest economy in the world, will always be able to service its debt obligations by virtue of its economic strength. However, following the credit crisis in 2008, governments and central banks around the world chose two policies to combat debt deflation. The first was to move private sector debt (i.e., mortgage-backed assets and derivatives) onto the public or sovereign

balance sheets. This was most common in developed countries such as the United States and United Kingdom. The second policy that central banks and governments chose to enact was to create money in order to provide capital injections into their respective economies in an attempt to promote economic growth.

Both of these policies put sovereign balance sheets at risk and damaged their trustworthiness. The first policy didn't actually involve dealing with the debts via default or restructuring. Rather, the contaminated debts and derivatives were merely moved from the private sector onto the public's balance sheet. At the same time, the second policy (monetary intervention) materially increased both public debt and fiscal deficits. Consequently, the risk profile for all asset classes changed dramatically. For instance, compare Exxon Mobil and the United States:

	Exxon Mobil	United States
Debt to Maket Capitalization | GDP	37%	100%
Earnings/Market Capitalization | Tax Receipts/GDP	8%	15%
Cash on Balance Sheet (billions)	$ 7.8	$ 73.0
Credit Rating	AAA	AA+
Annual Yield	2.3%	0.1%

From a balance sheet perspective, Exxon Mobil is more attractive with less debt and a higher yield. The company also has a higher credit rating and a history of increasing its payout to investors (the company has raised its dividend every year for 26 years). In contrast, lending money to the United States equates to receiving little to no yield (0.31%). It also means one is more likely to see their investment lose money in real terms (after inflation). Additionally, consider that the US is currently running a deficit of $1.5 trillion, carries a debt-to-GDP ratio of 100%, and currently shows no foreseeable change in these policies.

We find ourselves in a strange environment in which a single corporation such as Exxon Mobil is perhaps more trustworthy from an investment perspective than US Treasuries. In terms of value, investors should always be wary of any reflexive faith in sovereign long-dated, low yielding bonds. Francois Velde is a senior economist at the Federal Reserve Bank of Chicago and published a paper in November 2009 titled "The Case of the Undying Debt." Velde chronicled the history of a life annuity issued by the French government from its origin in 1738 to the present day. Life annuities were a standard instrument of public finance in pre-revolutionary France. The life annuity paid Claude Linotte and his wife, their children and all their descendants the sum of 1,000 livres per year. As long as Linotte's descendants live, so too does the annuity. In 1738, 1,000 livres equaled ten ounces of gold, or the equivalent of $17,250 in today's money. After 250 years under the rule of revolutions, democrats, and socialists through periods of war, peace, depressions and prosperity, Linotte's life annuity generates today an annual income that equals 0.0015 ounces of gold, or $2.59.

In comparison to Linotte's shrinking stream of annuity income, stocks of well-financed, high-quality, US multinationals sell valuations not seen in years and yet continue to grow. Many of the companies provide dividend yields exceeding the 10-year Treasury note. Consider Johnson & Johnson as example. From the company's founding in 1886 through 2010, sales increased to $61.9 billion from $0.1 million, or by 11.6% a year. Today's reported earnings are $12.2 billion from $0.19 million in 1896—a compound average annual grow rate of 10.4%. Johnson & Johnson paid its first dividend in 1944, the year the company went public, for a split-adjusted sum of $0.00015 per share. Today, Johnson & Johnson pays a dividend of $2.28 — an annual rate of growth of 15.8%. Shareholders' equity grew to $50.6 billion in 2009 from $38 million in 1943, or by 11.5% per annum.

If price is what you pay, value is what you get... Since 2000, Johnson & Johnson experienced annual growth in sales, net income and book value of 8.5%, 11.5% and 12.1%, respectively, while the dividend grew by 13.5% per year. In contrast, the share price increased by only 3.3% per year. We often wonder how a high quality company would look ten years from today if the next decade delivered business results identical to those of the past decade while the share price remained flat.

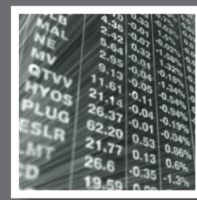
	Current			Historical 10-year CAGR		In ten years time... 2021			
Company	Price	Book Value / share	Dividend / share	Book Value / share	Dividend / share	Book Value / share	P/B	Dividend / share	Dividend Yield
Exxon Mobil	$ 80.00	$ 34.85	$ 1.85	10.5%	7.0%	$ 94.59	0.85	$ 3.64	4.5%
Wal-Mart Stores	$ 59.00	$ 19.60	$ 1.46	12.0%	18.5%	$ 60.87	0.97	$ 7.97	13.5%
Johnson & Johnson	$ 64.00	$ 23.45	$ 2.25	12.0%	13.5%	$ 72.83	0.88	$ 7.98	12.5%
Proctor & Gamble	$ 65.00	$ 24.14	$ 1.97	19.0%	11.0%	$ 137.47	0.47	$ 5.59	8.6%
Microsoft	$ 25.00	$ 6.82	$ 0.64	15.0%	21.5% *	$ 27.59	0.91	$ 4.49	17.9%
						Average	**0.81**		**11.4%**

	In ten years time... 2021	
Company	Total dividends received	% of cost
Exxon Mobil	$ 27.35	34.2%
Wal-Mart Stores	$ 41.71	70.7%
Johnson & Johnson	$ 48.20	75.3%
Proctor & Gamble	$ 36.57	56.3%
Microsoft	$ 21.74	87.0%
	Average	64.7%

Johnson & Johnson, as an example, would sell at book value and yield 11.6%. By comparison, how might US Treasurys compare with Johnson & Johnson's 12% per year of internal compounding? With the 10-year Treasury note yielding just 2%, it is mathematically impossible for US sovereign bonds to match the investment capital compounding potential of high quality equities. To better illustrate this point, imagine we buy a 10-year Treasury yielding 2% at par, or $100. If so, why would we pay more than $120 for that 10-year note? For $120, we pay for the opportunity of receiving 10 years of $2-per-$100 coupons plus our investment principal over the next decade, discounted at zero percent.

By comparison, in ten year's time, our equally-weighted, hypothetical collection of five high quality companies would collectively trade below book value and yield over 11%. More importantly, in tangible terms, ten years of increasing dividends would collectively return almost 65% of our original investment capital.

The simplistic beauty of markets is that they are timeless. In a small green booklet titled One-Way Pockets by Don Guyon, the author describes several studies he did on the trading behavior of accounts in 1914. Guyon analyzed the accounts of half a dozen of the firm's most active traders during a period known as the war brides market. The war brides market was during 1914-15, the beginning of WWI, when defense stocks and industrials surged due to the war. Guyon found that even though such stocks had already made large moves up, his firm's clients still had big stakes in them but with small profits. This was not a unique circumstance. From his experience in the brokerage business, Guyon found that this was the way the top of every bull market looked. In 1917, there was a bear market, and every one of these traders lost money.



Why? Guyon looked at the five leading stocks these accounts traded: United States Steel, Crucible Steel, Baldwin Locomotive, Studebaker Corp. and Westinghouse Electric. He analyzed the buy and sell decisions on each account. Guyon discovered that although each of these five stocks appreciated significantly during the war brides market, each account still lost money — "the average price at which each stock was bought for the six accounts was higher than the average price at which it was sold." Each trader bought these stocks mostly after they had already gone up significantly, and then they subsequently sold them when they fell.

Guyon did another study in which he looked at the order books of his firm's accounts, plotting the buys and sells day-by-day from March 1916 to March 1917. A similar pattern emerged. The traders would buy a stock after the stock had risen. They would sell into declines. As Guyon wrote:

> *"This analysis of transactions affords corroborative evidence of the same general trading faults that were revealed in the six accounts previously reviewed. Once again, the public sold too soon, repurchased at higher figures, bought more after the market had turned and, finally, liquidated on the breaks."*

Tips, rumors, news — Guyon thought this only confused investors and pushed them to make emotional and poorly-timed decisions. Incredibly, Guyon's studies stand the test of time. His main point was simply that "the great majority of speculators are… consistent losers in Wall Street." Guyon's studies only reaffirm what has always been true of the stock market. People chase price moves, rather than buy, hold and sell based on careful consideration of what they own. We find it amazing that a man writing in 1917 could essentially be describing today's markets. No matter what time or place, people are people, markets are markets, and they seem to behave in a universal manner.

The Washington Post recently reported that investors withdrew a net $16.1 billion from U.S. stock funds in November, extending a string that began in May. In fact, through November, investors withdrew a net $65 billion from stock funds which exceeds the full-year total of 2010, when they pulled a net $49 billion from stock funds. With increasing volatility, investors quickly forget that publicly-traded equities can serve as a powerful store of value over time but only if an investor exercises careful analysis and patient price discipline. To do so, an investor must identify strong businesses that can generate above-average profits for many years and then wait to buy the shares of those businesses only when they trade for significantly less than intrinsic value.

Kind regards,

Robert J. Mark
Portfolio Manager

Larry J. Redell

The Castle Focus Fund's prospectus contains important information about the Fund's investment objectives, potential risks, management fees, charges and expenses, and other information and should be read and considered carefully before investing. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. You may obtain a current copy of the Fund's prospectus by calling 1-877-743-7820. Distributed by Rafferty Capital Markets, LLC-Garden City, NY 11530, Member FINRA.

The risks associated with the Fund, detailed in the Prospectus, include the risks of investing in small and medium sized companies and foreign securities which may result in additional risks such as the possibility of greater price volatility and reduced liquidity, fluctuations in currency exchange rates, and political, diplomatic and economic conditions as well as regulatory requirements in foreign countries. There also may be risks associated with the Fund's investments in exchange traded funds, real estate investment trusts ("REITs"), significant investment in a specific sector, and non-diversification

As of 12/31/11, Johnson & Johnson (JNJ) and Exxon Mobil (XOM) represented 4.31% and 3.25% of the Fund's net assets, respectively.