Portfolio Commentary

MOATX
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MARKET COMMENTS

Many consider the stock market to be the greatest creator of wealth over the long term. Including the reinvestment of dividends, the stock market produced an annual return of 7% between 1914 and 2014, roughly double the rate of inflation. Although the market offers many different strategies, few garner more attention than growth investing and value investing. Growth investors typically seek companies offering a superior growth rate relative to their peers and the overall stock market. Companies that grow faster are often trendsetters and priced to retain their superior growth for the foreseeable future. By comparison, value investors seek investments trading at a discount to the company's estimated fair value. Value stocks usually possess mature business models that seek to maintain strong pricing power and modest growth. Value stocks typically reward long-term shareholders with dividends, stock repurchases or a combination of both.

Based on a study by Bank of America/Merrill Lynch over a ninety-two year period, growth stocks returned 12.6% annually since 1926. However, value stocks generated an annual average return of 17% over the same window. Counterintuitively, value stocks tend to outperform during periods of economic growth, while growth stocks perform better when the economy is weak. This characteristic helps explain why value stocks outperformed growth stocks for over a century—the U.S. economy expanded for a much longer period of time than it contracted or stagnated. However, the market has experienced a reversal to this trend since the end of the 2008 credit crisis. Growth stocks have substantially outperformed value stocks, a rare anomaly.

The unique conditions of the last decade have fueled enthusiasm for the highest growth strategies, while value-oriented managers have severely lagged the broader indices. In timely fashion, Morningstar recently published a paper titled *"How Long Can a Good Fund Underperform its Benchmark?"*[1] Morningstar examined mutual fund slumps by using existing fund histories from the United States, Canada, Europe, and developed Asian markets. The authors calculated gross returns over fifteen years (2003 through 2017) by adding each fund's expense ratio back to its reported results.

[1] Paul Kaplan and Maciej Kowara, "How Long Can a Good Fund Underperform Its Benchmark?" Morningstar, March 2018.

Of the 5,500 equity funds that qualified for the study, two thirds had higher returns over that fifteen-year period than did their costless benchmarks. An impressive showing but survivorship bias can impact the results, as several thousand funds that existed in 2003 disappeared before 2017 concluded. The true winning percentage was probably closer to 50%. Still, a meaningful number of funds outperformed their relevant indexes over a fifteen-year period.

The conclusions of the study are surprising, as strategies that outperformed trailed their benchmark for an average of nine to twelve years over the fifteen year investment horizon. Further, just as the winners suffered through periods when they looked like losers, so too did the losers often appear to be winners. On average, funds that trailed the indexes for the full fifteen years had eleven and twelve-year stretches of outperformance. The study concludes that the conventional performance-measurement periods (3-year, 5-year and 10-year) are far too short to determine management skill and *"Investors who believe they picked a good fund must show more patience than is commonly assumed."*

As value investors we choose the investing path that most closely fits our philosophy, as we remain price-sensitive and cognizant of risk. When taking the road less traveled we recognize that other paths often appear more attractive, but ultimately the intrinsic value of a stock - or index - is the financial gravity that has allowed value to outperform growth so dramatically over the last century. While today's popularity of passive investing drives the valuations of the indices and select growth stocks to record levels, we take comfort in the lessons of history that we are, yet again, avoiding another mania that will look obvious in hindsight.

As managers of client capital, we understand that performance numbers end the discussion. Given the unique market conditions of the last decade, many portfolio managers have generated strong near-term results by violating their own philosophy and "evolving" their investment process. In contrast, every notable investor we respect has achieved their long-term success through a strong faith in the values and principles at the heart of their process. These seasoned and highly successful investors have long recognized what the Morningstar study recently proved: a value-oriented, consistently-applied process will likely underperform more often than outperform – yet ultimately dominate over a complete market cycle. Remaining true to one's philosophy and process is not only the right path, it's ultimately the most profitable path.

With kind regards,

Robert J. Mark
Portfolio Manager

The opinions expressed are those of the Fund's portfolio manager and are not a recommendation for the purchase or sale of any security.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The Prospectus contains this and other important information about the Fund, and it may be obtained by calling 1-877-743-7820, or visiting www.castleim.com. Read it carefully before investing.

The expense ratio excluding acquired fund expenses for the Investor Share Class is 1.34% (2.34% for Class C). The expense ratio including acquired fund expenses for the Investor Share Class is 1.41% (2.41% for Class C). Effective November 1, 2017 the Adviser has contractually agreed to waive Services Agreement fees by 0.24% of its average daily net assets through October 31, 2018. The Services Agreement fee waiver will automatically terminate on October 31, 2018 unless it is renewed by the Adviser. The Adviser may not terminate the fee waiver before October 31, 2018. The total expense ratio excluding the Services Agreement fee waiver for the Investor Share Class is 1.65% (2.65% for Class C).

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, different financial and accounting standards, 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 nondiversification. Technology companies held in the Fund are subject to rapid industry changes and the risk of obsolescence. The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund.

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