TANDEM
INVESTMENT ADVISORS

Castle Tandem Fund Update

The Castle Tandem Fund typically holds between 30 and 45 equity holdings and cash. When we are finding fewer investments to allocate to we will have a higher cash position. Conversely, when we are finding a greater number of investment opportunities we will hold less cash as we allocate to those positions. Our cash position is an outcome of our investment process, rather than a market call. As of May 31st, the Castle Tandem fund had 31 equity positions and 19.78% cash ("cash equivalents and other assets less liabilities"). The cash position has given us a buffer with the recent market volatility while also giving us the ability to be buyers without having to sell equities.

HISTORICAL TOTAL RETURNS (%)
As of 5/31/19

	1 Month	Since Inception (3/15/19)
Castle Tandem Fund	-2.62	0.96
S&P 500	-6.35	-2.10

Performance quoted represents past performance. Past performance is no guarantee of future results. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. Current performance may be lower or higher than performance shown. You may obtain performance data current to the most recent month end by calling 703-260-1921.

The expense ratio for the Institutional Share Class is 1.18%. Effective March 15, 2019 the Adviser has contractually agreed to waive Services Agreement fees by 0.40% of its average daily net assets through October 31, 2020. The Services Agreement fee waiver will automatically terminate on October 31, 2020 unless it is renewed by the Adviser. The Adviser may not terminate the fee waiver before October 31, 2020. The total expense ratio excluding the Services Agreement fee waiver for the Institutional Share Class is 1.58%.

With two-thirds of the quarter in the books and 98% of S&P 500 constituents having reported their quarterly results, 1st quarter year-over-year sales growth came in at 5.33%, while earnings per share ("EPS") increased by 1.10%. As the quarter has progressed, estimates for the 2nd quarter have slowly been coming down. On March 31, 2019, estimates for S&P 500 sales and EPS growth stood at 4.69% and 1.57%, respectively. This compares to current estimates for sales growth of 4.19% and a decline of 0.73% in EPS. Relative to the S&P 500, the fundamentals of our core holdings have held up quite well. Core holdings are holdings in all of Tandem's strategies, and will include holdings that are not in the Castle Tandem Fund. For the 1st quarter, sales growth was 12.42% with EPS growth of 13.26%. Similar to the 2nd quarter, estimates for our core holdings have come down from the 1st quarter results, but continue to grow. As of today, estimates for 2nd quarter sales growth is 11.77% and EPS growth is 7.24%. By and large, our companies continue to do what is required of them – demonstrate consistent revenue, earnings and cash flow growth.

As volatility picked up in May, we got the opportunity to round out our existing Signature Bank New York (SBNY) position in TANDX. Regional banks were hit particularly hard in May as interest rates got pummeled and the yield curve continued to invert. An inverted yield curve is not too kind to banks; however, the valuation of SBNY, coupled with their growth in net income and book value, make SBNY attractive at current prices. Now that the taxi medallion write-offs are largely behind the company, SBNY's business is poised to reaccelerate.

If uncertainty, fear and volatility continue to gain traction in this market, it is likely we will have additional opportunities to invest our cash. In the meantime, we remain patient. As long as short-term interest rates stay elevated, we will continue with our cash strategy of rolling over 1-month T-bills.

Financial Markets Review

"Now that people are dismissing the notion of a business cycle, the ability for a country to enter a recession and speculators all but betting the house that volatility will not rise in the near future, we might look back and conclude the "wall of worry" was officially breached in April 2019."

– Tandem Investment Advisors, 5/3/2019

Last month, we touched on how the most recent direction in stock prices has a way of setting market narrative. There was chatter that the business cycle was now a thing of the past and the odds of a Western country ever entering a recession going forward were remote, at best. As the S&P 500 steadily rose through April, it became increasingly evident that complacency was back and many of the concerns that arose over the preceding six months were no longer concerns. And with that, on April 30th the S&P 500 closed out the month at an all-time high.

As we entered the first few days of May, it was evident the script had flipped. The perceived belief that the U.S/China trade spat was concluding was quickly squashed when President Trump issued a deadline to increase the 10% tariffs to 25% on an additional $200 billion worth of goods. And just for good measure, he didn't want to leave Mexico out of the tariff party, so President Trump slapped a 5% tariff on them with specific dates as to when those tariffs would increase. By no means am I an expert on foreign economic policy and I don't pretend to be one. The threat and implementation of tariffs might ultimately be a great tactic for long-term change; however, I can promise you there will be short-term pain.

The pain was certainly felt within U.S. equity markets in May. The S&P 500 declined for the fourth straight week to end the month lower by 6.58%. This was the first monthly decline of the year and the worst May since 2010. Along with declines in the S&P 500, the Nasdaq, Russell 2000 and DJIA also posted losses of 7.93%, 6.64% and 6.69%, respectively. Meanwhile, U.S. Treasury yields continued their march lower and seemingly flew off a cliff in the last two weeks of the month. Over the past four weeks, the 10-year and 30-year Treasury bond fell 37 basis points, while the 5-year Treasury note fell 36 basis points. The 10-year Treasury - the most talked about maturity - yields 2.13%, which is now down 112 basis points over the past six months. That is an absolute stunning move! As the longer end of the Treasury market fell, the shorter end also declined, but not by nearly as much. The 3-month T-bill and 6-month T-bill declined 7 and 10 basis points, respectively. What this boils down to is that the Treasury curve has just inverted by an even greater amount than it already was, which has historically not been a good omen for the U.S. economy. In fact, 1-month T-bills are now inverted out past 10-year Treasury bonds, as the 1-month T-bill yields 2.34% compared to a 2.13% 10-year Treasury.

The recent sharp decline in equity markets, government bond yields and commodities are all signs of slowing growth ahead. And, one thing I'm pretty sure of is the Federal Reserve will be there cutting rates in the very near future.

Currently, the market is pricing in a 15% chance of a rate cut at the June meeting, 47% chance at the July meeting and a 75% chance at the September meeting. The 15% chance in the meeting 3 weeks from now actually seems a little low to me. Considering the Fed Funds rate is now higher than all U.S. Treasury maturities, except for the 30-year, which is only 7 basis points higher, I think it's almost a given that the Fed will cut rates in a few weeks. In my mind, it is only a question of how much they will cut. If markets continue to rapidly deteriorate over the next couple of weeks, I think a 25-basis point rate cut would almost be a certainty. And, it would not shock me in the least to see a 50-basis point cut. The question at that point would be how the markets respond to such a move. Over the short-term, I think it would undoubtedly be positive for U.S. stock prices, as we've been groomed to celebrate central bank intervention. In the longer-term, it will be interesting to see if the Fed really has the power to suspend the business cycle, which was being predicted no more than six weeks ago.

Billy Little, CFA
Lead Portfolio Manager
Castle Tandem Fund

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

As of March 31, 2019, Signature Bank New York (SBNY) represented 1.70% of the Castle Tandem Fund's total net assets.

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. Distributed by Rafferty Capital Markets, LLC Garden City, NY 11530.

The risks associated with the Fund are detailed in the Fund's Prospectus. Investments in the Fund are subject to common stock risk, sector risk, and investment management risk. The Fund's focus on large-capitalization companies subjects the Fund to the risks that larger companies may not be able to attain the high growth rates of smaller companies. Because the Fund may invest in companies of any size, its share price could be more volatile than a fund that invests only in large-capitalization companies. Fund holdings and asset allocations are subject to change and are not recommendations to buy or sell any security.