

July 11, 2022

The Fund has a beta¹ of 0.62 (3 yrs vs S&P 500). Do you manage the Fund with an eye toward producing a lower beta, or is that an ancillary outcome of your investment process?

We do not manage the Fund with a target beta in mind. The Fund's beta is ultimately a byproduct of our investment process. We are looking to own companies that can consistently grow revenues, earnings, and cash flows through any economic cycle. Inherently, these characteristics are a trait of companies that tend to be less volatile than the overall market. If a company's fundamentals are less volatile than the overall market and less cyclical than the economy, the share price of that company tends to also be less volatile throughout an entire market cycle. A portfolio made up of these less volatile companies should ultimately move up and down less than the overall market, which explains the Fund's low beta.



Billy Little, Jr., CFA
Portfolio Manager

The Fund's sector weightings look quite different from the S&P 500. Can you explain your portfolio construction and why you look different?

The Fund is very much an active investment strategy. We are not attempting to look like and even more so, perform like the S&P 500. The investment strategy of the Fund is referred to as being "bottom-up". This means we look to build out a portfolio at the micro level based on the merits of individual companies and we are less focused at the macro level. Ultimately, we are sector agnostic and do not give consideration to how the Fund's sector weightings compare to that of a broader index, like the S&P 500.

Our strict investment criteria of growing revenues, earnings, and cash flows through any economic cycle, preclude a lot of companies from being added to the portfolio. These companies are often very cyclical in nature and not able to consistently grow their fundamentals. Many companies in the Energy sector are too cyclical and dependent upon the economic cycle. Due to this, you will often find that the Fund does not have any exposure to the Energy sector. On the flipside, many companies in the consumer staples, healthcare and utilities sectors are able to grow their revenues and earnings through any economic cycle. These companies are less dependent on the economic cycle and therefore, we tend to be "overweight" these sectors when compared to the S&P 500.

Where is the Fund's cash position? Can you speak to how and why you allocate to cash?

As of 6/30/22, roughly 12% of the Fund's assets are sitting in cash. To put this into perspective, at the end of Q3'21, the Fund had a cash allocation of over 25%. Over the past couple of quarters, there have been more opportunities to add to existing holdings or take new positions than we have seen in quite some time.

Unlike a lot of equity funds, we do not have a mandate to be fully invested at any given time. However, what is very important to note is that we also do not consciously allocate to cash. The cash in the Fund is a byproduct of our investment process. It is as simple as this – If there are more stocks ranked a buy than

a sell in our quantitative model; cash in the Fund will decrease. Vice versa, when there are more stocks ranked a sell than a buy in our quantitative model; cash in the Fund will increase. We do not believe it is our job to invest for the sake of investing. We are looking to be opportunistic with our purchases (and sales) and therefore, we are willing to be patient.

Can you describe the investment process that the team uses when managing the Castle Tandem Fund (TANDX)?

Tandem believes that companies capable of growing their earnings regardless of economic circumstances are more likely to reward patient shareholders. To perform well over a complete market cycle, companies should demonstrate consistent growth in earnings, revenue, and cash flow through any economic environment. Because of this consistent growth in business, dividends must grow as well. Tandem believes dividend growth justified by earnings growth should allow stocks to perform well over time regardless of economic or market conditions.

Tandem's strict multi-factor quantitative model is broken up into two parts – screener and valuation tool. The screener identifies companies that meet the criteria discussed above that we require of a holding. The valuation part of the model seeks to identify which of these companies are mispriced in the market. Much of this process is quantitative, meaning it is computer model driven. The second step of the investment process is what we call the semi-quantitative review. It is a detailed review of the findings from our quantitative model and done to confirm the signal from our model. Once a signal is confirmed, it moves on to the Investment Team for a final review. This review is conducted to confirm the results and inputs that went into the quantitative model. And, to review any quantitative or qualitative risk factors that cannot be picked up by the model.

Tandem's investment process ranks all companies that meet the criteria set forth above as either buy, accumulate, hold or sell. After the investment process identifies a stock for purchase and Tandem's portfolio managers approve, the security must be bought. Tandem does not presume to know the best entry point. Therefore, buys are typically incremental. Every stock held in the Fund is regularly subjected to the investment process and reviewed as ranking changes demand. Tandem considers its hold discipline to be "Buy and be Vigilant". If a company is ranked a sell, Tandem will seek to sell a portion of the position in every quarter it remains so ranked. Valuation sales cease when the company is reduced to an acceptable minimum percentage of The Fund. We do not liquidate a stock based on valuation. Fundamentals of all holdings are constantly monitored. If a stock fundamentally deteriorates, or becomes something not contemplated at time of purchase, the position must be liquidated.

We believe that our entire investment process and philosophy is based around our systems and adherence to our disciplines. We think that Tandem's investment process, being built on systems rather than interpretation, produces a more consistent, repeatable, and less volatile experience for the retail investor.

So the process is designed to identify dividend-growers that are able to consistently grow through any economic environment. Factset Research Systems is a long-time holding. In your process, what is it about Factset that gives you confidence it can grow earnings in an inflationary environment or during a recession?

FactSet Research Systems has a long history of growing revenues, earnings, and cash flows through any economic cycle. They demonstrated the ability to do so during the Tech Bubble, Great Financial Crisis, and the Covid-19 Pandemic. There are not a lot of companies out there that can lay claim to that type of consistent growth in fundamentals. FactSet is a financial data company that provides subscription services to their software applications. The world today, regardless of industry, consumes copious amounts of information and data. And that is what FactSet provides. In addition, the ability to sell their services through multi-year contracts that adjust for inflation, allows them to weather any speed bumps in the general economy.

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

The Standard & Poors 500 Index (S&P 500) is an index of 500 stocks.

As of June 30, 2022 the Castle Tandem Fund held the following positions mentioned in this report: FactSet Research Systems, Inc. (FDS, 4.71% of Fund total net assets).

¹Beta is a measure of the portfolio's volatility relative to the market.

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.

Important Risk Information

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.

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