



Financial Markets Review

After a dismal August and September where the S&P 500 declined 4.08% and 9.21%, respectively, the market was due for a bounce. Over the past month, equity markets staged a bit of a comeback. Small caps led the charge, as the Russell 2000 rose 11.01% in October 2022. Meanwhile, the S&P 500 climbed a more modest 8.10%.

The most recent recovery in equity prices looks and feels a lot like the rally we witnessed earlier this summer. In June, investor sentiment was extremely negative and very one-sided. Typically, when everyone is on the same side of a trade, the money to be made is on the other side. At the time, the fear was inflation spiraling out of control and all it took was one CPI report to calm those fears. Once peak inflation and peak Fed became ingrained into our way of thinking, the market began pricing rate cuts in early 2023. All of those people that were selling equities in June were now buying them with both hands in July and August.

Fast forward to the end of August and after another hot Consumer Price Index (CPI) report was released, the Fed made it very clear they have no intention of letting up with their restrictive policy. Everyone who ended up buying with both hands in the hopes of a Fed policy change in August was now relegated to selling because their thesis got turned upside down. And so, selling ensued until markets got into a dark place toward the end of September as fears of a financial market meltdown grew louder. The meltdown never happened and the sight of central banks, such as the Bank of England and Bank of Japan, intervening in their respective bond and currency markets was all it took for equities to stage another rally.

Bear markets rarely go down in a straight line. They are designed to absolutely grind you down to the point where you can't take any more and decide to throw up the white flag. We believe that it is then that markets can set a credible bottom and a new bull market can commence. Right now, the market seems to get close to that utter despair moment, but ends up roaring back quickly. Is this because we have been trained to believe the Fed will come to the rescue at the first sign of trouble? The Fed might very well have our back, but we don't believe its when the S&P 500 is trading near 3,900 and inflation is running in excess of 3 times their desired rate.

As a reminder, Fed Chair Powell made the following comments during his annual Jackson Hole speech only two months ago.

"Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance. Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain."

Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy."

Fed Chair Powell, August 26, 2022

Not much has changed in the economy since he spoke those words. Inflation remains stubbornly high, labor remains strong, and the economy continues to chug along as reported by the most recent 2.6% Gross Domestic Product (GDP) report. Most of these indicators are lagging, but they do guide the Fed in their decision making. Unfortunately, if you take a deeper look into economic data points or listen to company earnings calls, the economy is slowing down rather quickly and likely headed for a recession. Just the other day, the CEO of Maersk, which is the world's largest owner of container ships, had this to say on their earnings call.

"However, it is clear that freight rates have peaked and started to normalize during the quarter, driven by both decreasing demand and easing of supply chain congestion."

With the war in Ukraine, an energy crisis in Europe, high inflation, and a looming global recession there are plenty of dark clouds on the horizon. This weighs on consumer purchasing power which in turn impacts global transportation and logistics demand."

Soren Skou, CEO of Maersk, November 2, 2022

As awful as it might sound, these are the things the Fed wants to see and hear. Their best shot at bringing inflation down is through the weakening of the economy. They want and need the economy to slow and have made this rather clear to everyone. After all, when was the last time the Federal Reserve was proactive in setting monetary policy. The answer is... never! So, this means the Fed is going to continue tightening monetary policy until they actually see inflation lower, which will likely come at the expense of higher unemployment and an economic recession.

The "pivot" that the market wants so badly from the Fed is not coming any time soon. Fed Chair Powell even said so himself during his recent FOMC meeting's press conference.

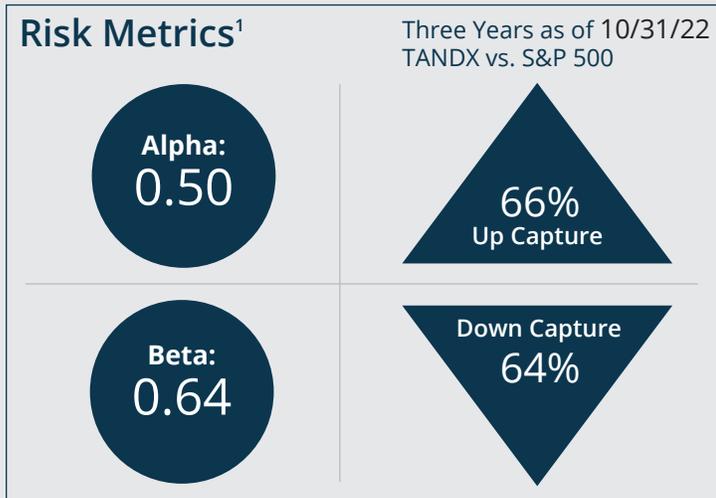
"We still have some ways to go. And incoming data since our last meeting suggests that the ultimate level of interest rates will be higher than previously expected."

It's very premature to think about or talk about pausing our rate hikes."

Fed Chair Powell, November 2, 2022

So, we believe the equity market rallies that occur on the back of these "pivot" narratives are unfounded and can be chalked up to just another bear market rally. Short-term interest rates are headed higher, which means equity valuations are likely headed lower and overall volatility will likely remain heightened. It's the same market environment we've had for close to a year now; nothing has changed.

Castle Tandem Fund Update



Historical Total Returns (%)² as of 10/31/22

	YTD	Annualized		
		1 Year	3 Year	Since Inception (3/15/19)
Castle Tandem Fund	-10.36	-6.07	7.68	8.80
S&P 500	-17.70	-14.61	10.22	10.94

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.

With all of that being said, the Castle Tandem Fund is not the market. The Fund is made up of individual companies that have demonstrated the ability to consistently grow their revenues, earnings, and cash flows through any economic cycle. When our quantitative model signals a company to be overvalued based on these metrics, we trim a portion of the position. And, when our quantitative model signals a company to be undervalued based on these metrics, we will initiate a new position or add to it if we already own the company. If a company fails to meet this criteria, we liquidate the position from the Fund. This discipline and process allow us to do what we consistently say that we do – take advantage of opportunities. And bear markets create just that, they allow active managers like us to take advantage of opportunities to trim overvalued positions and add to undervalued positions as volatility stays high.

Over the past several weeks, we have been able to take advantage of a market that has caused certain stocks to be undervalued and an opportunity to exit a position that no longer met our criteria:

- We have completed the liquidation of the Fund's position in Walgreens Boots Alliance (WBA). We thought that WBA started to stumble just before the COVID pandemic, but the company did just enough to continue meeting our fundamental growth criteria. It wasn't until more recently that WBA succumbed to rising costs, which dented margins and impaired earnings and cash flow.
- On the flip side, we had the opportunity to begin building a new position in a REIT, which acquires, owns, and manages industrial properties in six major coastal cities. This company has a history of successfully acquiring and managing industrial real estate properties, which has allowed them to grow their dividend at a 13% CAGR over the past 11 years.



William "Billy" L. Little, Jr., CFA
Senior Vice President
18 Years of Investment Experience

Billy Little is a shareholder, Senior Vice President, and Portfolio Manager for Tandem Investment Advisors, Inc. Mr. Little began his career in the investment industry in 2004, as a Financial Advisor with Ameriprise Financial in Baltimore, Maryland. Mr. Little joined Tandem in 2006. Mr. Little oversees Tandem's corporate financials, including business planning, budgeting, and vendor negotiations. Mr. Little also directs Tandem's quantitative and fundamental research. He is a regular member of the CFA Institute and past President of the CFA Society South Carolina. Mr. Little graduated from the College of Charleston with a Bachelor of Arts in Business Administration with a concentration in Finance.

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

¹ *Alpha measures the excess return of an investment vehicle, such as a mutual fund, relative to the return of its benchmark, given its level of risk (as measured by beta). Beta is a measure of the portfolio's sensitivity to the market. The up capture and down capture ratios are statistical measures of a manager's overall performance in upward moving and downward moving markets, respectively.*

² *The expense ratio for the Institutional Share Class is 1.19%. Effective November 1, 2022 the Adviser has contractually agreed to waive Services Agreement fees by 0.40% of its average daily net assets through October 31, 2023. The Services Agreement fee waiver will automatically terminate on October 31, 2023 unless it is renewed by the Adviser. The Adviser may not terminate the fee waiver before October 31, 2023. The waiver may be terminated by the Board of Trustees. The total expense ratio excluding the Services Agreement fee waiver is 1.59%.*

The Standard & Poors 500 Index (S&P 500) is an index of 500 stocks. The Russell 2000 Index measures the performance of the small-cap segment of the US equity universe. Gross Domestic Product is the total monetary value of the goods and services produced domestically by a country. The Consumer Price Index measures the monthly change in prices paid by U.S. Consumers.



CASTLE TANDEM FUND

TANDX :: Institutional Shares

Commentary :: November 10, 2022

As of the date of this report, the Castle Tandem Fund does not own Walgreens Boot Alliance, Inc. (WBA) or A.P. Moller Maersk (AMKBF).

The investment objectives, risks, charges and expenses of Castle mutual funds must be considered carefully before investing. The prospectus for each Fund contains this and other important information about the investment company, 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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