TANDEM INVESTMENT ADVISORS®

Castle Tandem Fund Update

It is very easy to get caught up in an individual stock, equity market or any asset, for that matter, that consistently moves higher in price. Rising prices tend to beget higher prices until they no longer do. And they tend to mask risks that are always inherent, but easy to ignore. Having and adhering to a disciplined investment approach is never more valuable than when sustained movements in price begin to elicit emotional decision making.

Tandem serves as the sub-advisor to the Castle Tandem Fund, and the Fund follows our Large Cap Core strategy. At Tandem, it is our job to buy low and sell high. This process may sound very elementary; however, you might be shocked by how few people actually practice it. Individuals are humans with emotions and investing is a highly emotional endeavor. It is all too easy to throw away your process in favor of following the herd, which would fall squarely in the category of emotional decision making. We follow a very disciplined quantitative process that doesn't allow emotions to guide our decision making. For this reason, we can objectively seek to fulfill our job of buying low and selling high.

More recently, as equity prices have continued to march higher, our process has identified more opportunities to reduce exposure to several core holdings than it has to increase our exposure. Over the past few weeks, we have trimmed our position for valuation reasons in the following companies: Republic Services (RSG) and AbbVie (ABBV). With respect to AbbVie, it has been struggling to grow as it lost exclusivity with its largest drug Humira. The lack of growth has been the driver behind the recent sales. Acting on a signal to take some off the table for valuation reasons is our way of managing risk in the portfolio and specifically our position in that company.

Lastly, we parted ways with Hormel Foods (HRL), a long-time holding of the Castle Tandem Fund. We fully liquidated the position based on the company failing to meet our criteria of consistent earnings growth. Hormel had been fighting deteriorating margins for several quarters due to ever-increasing input costs. It appeared that Hormel was set to overcome this issue and take a step forward, but they were just not able to get past this issue. As margins continued to deteriorate, the impact on earnings growth was too much to overcome. This ultimately caused Hormel to violate our quantitative screen and be liquidated from the Fund.

At the end of the day, each of these transactions, whether it be a sale for valuation or fundamental reasons, was a direct result of us staying disciplined and adhering to our process.

Financial Markets Review

Major U.S. equity indices closed the month of February on a positive note, with the Nasdaq and small-cap Russell 2000 leading the charge. Notably, the S&P 500 achieved a significant milestone by eclipsing the 5000 mark for the first time on February 9th, setting multiple new all-time highs along the way. The S&P 500 surged by 5.17%, with the Nasdaq and

Russell 2000 posting gains of 6.12% and 5.52%, respectively. By the end of the month, the S&P 500 had closed higher 16 of the previous 18 weeks, tying a record win streak going back over 50 years.

Over the past several weeks, there has been a notable shift in market expectations surrounding rate cuts. As we noted earlier this year, a massive divergence was forming between market and Fed expectations. At one point in January, the market was pricing in 150-175 basis points of rate cuts, whereas the Fed's projection was closer to 75 basis points. Market participants were either expecting inflation to vanish and/or economic growth to fall off a cliff. So far, we have seen little evidence of either scenario playing out.

Mixed economic releases in February and through the first week of March added complexity to the market narrative. While the January Consumer Price Index ("CPI") report initially sparked fears of resurgent inflation, subsequent reports painted a more nuanced picture. Higher than expected growth in nonfarm payrolls and Gross Domestic Product ("GDP") contrasted with a steeper than anticipated decline in retail sales, coupled with consumer sentiment and both ISM Manufacturing and Services reports missing consensus expectations.

Depending on the day and economic report that is released, it is becoming increasingly more evident that there is no discernible trend in the economy. To bring it all back to the plane landing analogy that we've all discussed ad nauseum for two years now, it appears that a landing is not in our immediate future. But rather, for the time being, this plane has enough fuel to just continue circling the airport.

We are currently living in the much sought after Goldilocks economy – not too hot, not too cold, but just right. On the corporate side, according to the latest Earnings insight report from FactSet, 47 S&P 500 companies cited the term "recession" on their Q4 conference calls, which is the lowest since Q4 2021. In addition, the Conference Board's Measure of CEO Confidence hit a two-year high. On the equity market side, as mentioned earlier, the S&P 500 has closed higher nearly every week since the end of October. And, it has now been over a year since the last time the S&P closed the day lower by 2% or more. Animal spirits are alive and well no matter where you turn!

This begs the question, what, if anything, is there to worry about? Sure, there is always something to worry about – inflation could reaccelerate, economic growth could contract, and the list goes on. However, at this very moment, it's hard to see what could go wrong tomorrow. The last time we were in a period where everything felt so good was in 2017, during a time when economists and financial pundits couldn't stop talking about "synchronized global growth". The equity market acted in-kind, as the S&P 500's worst drawdown throughout 2017 was less than 3%. By the end of 2017, the S&P 500 had risen a record 14 consecutive months and 21 out of the previous 22 months. We are certainly not at that point yet or at that level of complacency; however, I am reminded of a quote that I first commented on back in 2017 from Seth Klarman who is the Founder and CEO of Baupost Group.

> *"When share prices are low, as they were in the fall of 2008 into early 2009, actual risk is usually quite muted while perception of risk is very high. By contrast, when securities prices are high, as they are today, the perception of risk is muted, but the risks to investors are quite elevated."*
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> **Seth Klarman, Founder, CEO, and Portfolio Manager of Baupost Group**

Again, we are not reliving 2017 right now. That year was historic on so many different levels and it's unlikely we will see another year just like it. So far, the current equity rally is being measured by weekly win streaks, whereas 2017 was being measured in months and quarters. However, the overarching point is still the same – increasing prices can often mask the perception and reality of underlying market risks.

We don't seem to be at the point of across-the-board feverish speculation, like what we saw throughout 2021. There is certainly some of that popping up in several semiconductor stocks and cryptocurrencies. However, the risk today is more akin to 2017, where many investors got lulled to sleep by an equity market that did nothing but go up. There was no volatility to speak of, so there was no incentive to manage risks. Investors kept pushing prices higher, while giving every reason why valuation didn't really matter. Valuation does matter. It might not matter in the short term, but ultimately the price you pay today or the valuation at which you transact goes a long way in determining your future return.

William "Billy" L. Little, Jr., CFA
Senior Vice President
19 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.

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. The Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Gross domestic product (GDP) is the total monetary value of all the finished goods and services produced in a country during a specific time period. The ISM manufacturing index (PMI) measures U.S. economic activity through a survey of purchasing managers at more than 300 manufacturing firms. The ISM services index is an economic index based on surveys of purchasing and supply executives at non-manufacturing/services firms. The Conference Board Measure of CEO Confidence™ is a barometer of the health of the US economy from the perspective of US chief executives.

As of December 31, 2023 the Castle Tandem Fund held the following positions mentioned in this report: Republic Services, Inc. (RSG, 2.65% of Fund total net assets), AbbVie, Inc. (ABBV, 1.20% of Fund total net assets), Hormel Foods Corporation (HRL, 2.23% of Fund total net assets).

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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