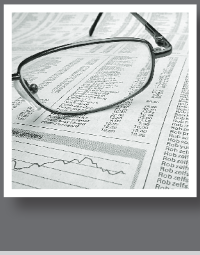
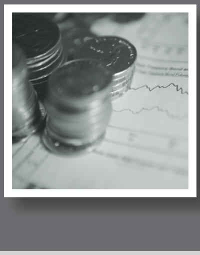
CASTLE FOCUS FUND





PM Commentary

Investor Class: MOATX Class C: CASTX

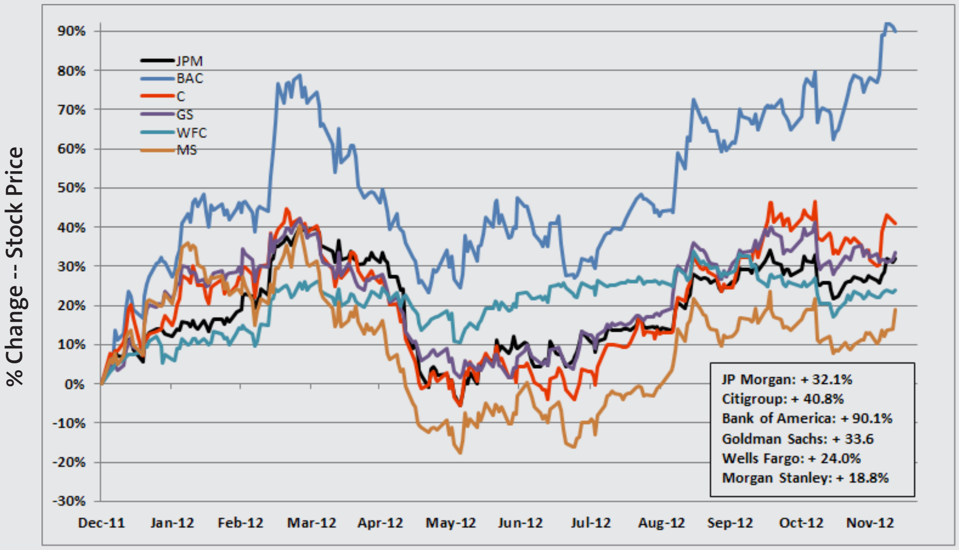
QE, Bank Balance Sheets and Relative Performance

At St. James Investment Company (sub-advisor to the Castle Focus Fund) we best describe our investment process as a *long-only approach to absolute-return investing.* Our hope is that this characterization appropriately conveys our emphasis on risk. We feel strongly that protecting capital on the downside – thereby not interrupting the compounding process – is the key to outperforming benchmarks over the long-term.

While we have served as sub-advisor to the Castle Focus Fund since June 2010, we believe it is important that shareholders remember we have been running this strategy for our clients since 1999. That long-term track record is included in the Fund's prospectus for your inspection. Historically our contrarian, concentrated approach has resulted in wide deviations from the S&P 500 on a year-in, year-out basis. It is our belief that our willingness to be meaningfully different is the only way to produce attractive long-term results.

It has been interesting to observe that our strategy is seemingly inversely correlated with Federal Reserve activity. When the Fed has been active in the capital markets (QE1, QE2, Operation Twist, etc.), we have noticed that the Fund's holdings have tended to trail the performance of the broad market. However, during periods when Bernanke and his team take a break, our holdings have done well versus the S&P 500. From our perspective, the "risk-on / risk-off" moniker assigned to Federal Reserve market activities appears appropriate.

In today's Fed-fueled market, our aversion to investing in the large financial services companies has explained much of the Fund's performance deviation from traditional benchmarks. In 2011, this omission from the Fund's portfolio proved rewarding --The Fund was up 7.41% in 2011 while the S&P 500 was up 2.11%. However, the big banks are all up dramatically this year through December 11, 2012:



So why don't we relent, join the crowd, and invest in a big bank? After all, the banks are an important component to the S&P 500, so omission will certainly create some deviations from the most commonly referenced benchmark.

The simple truth is we can't invest in any of these large banks and remain true to our discipline, as we believe it is impossible to understand the financial condition of any of these companies. To provide some basic examples, Alex O'Neil (CPA / St. James Financial Analyst) has reviewed J.P. Morgan's recent filings (This company is not a holding of the Fund). Suffice to say, although Jamie Dimon refers to his company's balance sheet as a fortress, it looks more like a labyrinth:

DERIVATIVES

While it is quite common for banks to engage in derivative transactions, JP Morgan has amassed a stunning $72 trillion in notional derivative exposure (4.5x the U.S. GDP). With U.S. commercial banks holding a total of $222 trillion in notional derivatives in the second quarter of 2012, JP Morgan has exposure to almost a third of all the derivative contracts held by U.S. banks.

PM Notional Derivative Exposure		
(billions)	**Value**	**% of Total**
Interest Rate Contracts	54,463	75.2%
Credit Derivatives	6,198	8.6%
Foreign Exchange Contracts	9,195	12.7%
Equity Contracts	1,294	1.8%
Commodity Contracts	1,233	1.7%
Total	**72,383**	**100%**

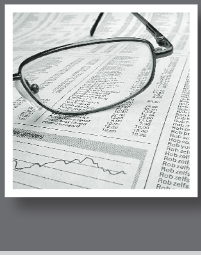
JPMorgan is quick to point out that the notional values significantly exceed the possible losses that can arise from derivative transactions and the risk is well controlled by simply netting the exposure. We're skeptical, as this bilateral netting assumes an orderly collapse of all contracts equally. However, the implosion of AIG and Lehman highlighted a key problem in bilateral netting, as the failure of a counter-party can quickly impair a seemingly well-hedged portfolio. Given that the Fed felt compelled to step in, the fallout was averted. However, going forward, there is no real understanding how the JPMorgan balance sheet might endure another crisis.

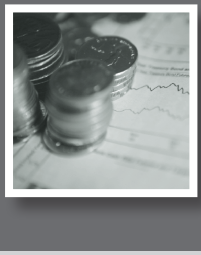
Of note, during Q2 of 2012 the bank took a $4.4 billion pre-tax loss on "whale" sized credit default swap positions undetected by risk management for some time.

BOOK VALUE

Supporting the trillions of derivatives which are supposedly well matched, book value represents what is left for equity holders after all assets are sold off and creditors are paid.

JPM	Q3 2012	FY 2011	2010	2009	2008
Total Assets	2,321,284	2,265,792	2,117,605	2,031,989	2,175,052
Less Intangibles					
Goodwill	48,178	48,188	48,854	48,357	48,027
Mortgage Service Rights	7,080	7,223	13,649	15,531	9,043
Other Intangibles	2,641	3,207	4,039	4,621	5,581
Tangible Assets	2,263,385	2,207,174	2,051,063	1,963,480	2,112,401
Total Liabilities	2,121,591	2,082,219	1,941,499	1,866,624	2,008,168
Tangible Book Value	141,794	124,955	109,564	96,856	104,233





It obviously concerns us that JPMorgan's tangible book value of $141 billion is a fraction of notional derivative exposure – about 0.2%. Further, it's confusing that bank filings only disclose a mere $80 billion and $73 billion of net derivative receivables and payables exposure, respectively. If JPMorgan is truly well hedged, the $4.4 billion "whale" loss is unbelievably extraordinary – suggesting that the true exposure is likely greater. Our best guess is something less than $72 trillion.

VARIABLE INTEREST ENTITIES (VIE'S)

JPMorgan discloses only that the bank is "involved with several types of off-balance sheet arrangements, including through unconsolidated special-purpose entities (SPE), which are a type of VIE". References to Enron's utilization of similar structures aside, JPMorgan management admits "for certain liquidity commitments to SPEs, JPMorgan could be required to provide additional funding".

LOAN LOSS RESERVES

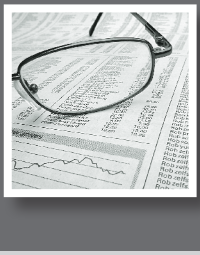
Loan loss reserves are valuation reserves (contra-assets) against a bank's total loans outstanding on the balance sheet. Recently these reserves have become an important source of profit for the banks:

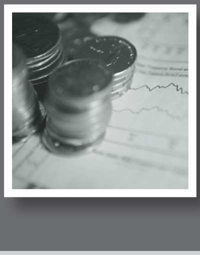
JPM	YTD	3Q12	2Q12	1Q12
Income before tax expense	21,967	7,986	7,000	6,981
LLR Releases	4,800	900	2,100	1,800
LLR Releases / Pre-Tax Income	21.9%	11.3%	30.0%	25.8%

Since Q2 of 2010, JP Morgan has booked approximately $12.7 billion in pre-tax income from these releases. However, since Q4 of 2011, non-performing loans for the bank have been increasing to the tune of $1.4 billion. As management admits "the allowance for credit losses involves significant judgment on a number of matters". Given the growing significance of these releases to earnings, we question if this "judgment" is appropriately conservative:

	Loan Loss		LLR
Period	Reserve	NPL's	Releases
Q2-2010	35,836	16,179	1,500
Q3-2010	34,161	15,503	1,500
Q4-2010	32,266	14,841	1,070
Q1-2011	29,750	13,441	2,000
Q2-2011	28,520	11,928	1,000
Q3-2011	28,350	11,005	100
Q4-2011	27,609	9,993	730
Q1-2012	25,871	10,605	1,800
Q2-2012	23,791	10,068	2,100
Q3-2012	22,824	11,370	900

To be clear, we are not betting against JPMorgan or any other bank, nor are we suggesting there is an impending collapse. However, we are admitting that we are completely uncomfortable with the opaque nature of the disclosures and the corresponding risk, which is unquantifiable.





We are quick to caution potential investors that, unlike many of today's money managers, our role is not to keep up with a popular benchmark. We seek only to protect and compound client assets. As a result, we view speculating on the "unknown" as unconscionable and reckless.

Presently, we would describe JPMorgan and most other large banks as "unknown"…...at best.

FUND PERFORMANCE AS OF SEPTEMBER 30, 2012

	TOTAL RETURN			AVG. ANNUAL RETURN
	Last 3 Months	Year to Date	One Year	Since Inception (6/30/10)
Castle Focus Fund Investor Class (MOATX)	4.82%	6.42%	14.78%	11.13%
Fund Benchmark: S&P 500	6.35%	16.44%	30.20%	18.51%
Castle Focus Fund Class C (CASTX) with Load	3.57%	4.64%	12.60%	10.06%
Castle Focus Fund Class C (CASTX) without load	4.57%	5.64%	13.60%	10.06%

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. The expense ratio excluding acquired fund expenses for the Investor Share Class is 1.35% (2.35% for Class C). The expense ratio including acquired fund expenses for the Investor Share Class is 1.39% (2.39% for Class C). Effective October 29, 2012 the Adviser has contractually agreed to waive Services Agreement fees by 0.23% of its average daily net assets through October 31, 2013. The Services Agreement fee waiver will automatically terminate on October 31, 2013 unless it is renewed by the Adviser. The Adviser may not terminate the fee waiver before October 31, 2013. You may obtain performance data current to the most recent month-end by calling 703-260-1921.

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 securities mentioned in this commentary (JP Morgan, Citigroup, Bank of America, Goldman Sachs, Wells Fargo, Morgan Stanley, and AIG) are not holdings of the Fund.

The Castle Focus Fund's prospectus contains important information about the Fund's investment objectives, potential risks, management fees, charges and expenses, and other information and should be read and considered carefully before investing. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. You may obtain a current copy of the Fund's prospectus by calling 1-877-743-7820. Distributed by Rafferty Capital Markets, LLC-Garden City, NY 11530, Member FINRA.

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, 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 non-diversification.