



FAM Equity-Income Fund

Annual Shareholder Letter 2011

December 31, 2011

Dear Fellow FAM Equity-Income Fund Shareholder,

2011 was a terrific year for the Fund! Here are some of the highlights:

- FAM Equity-Income Fund posted +6.79% return for 2011 on top of +17.5% return in 2010.
- Fund returns have beaten the S&P 500 Index over 1, 3, 5, 10, and 15 years.
- Zero realized capital gains passed onto shareholders for the fourth consecutive year.¹
- *Wall Street Transcript* publishes interview with Fund Co-Manager.
- *SmartMoney* featured the Fund in an article, "Funds That Fought Volatility – and Won."

The Fund gained +6.79% for the year, ahead of the S&P 500 Index which was up +2.11%. The Fund also outpaced the Russell 2000 Index which lost -4.18%. We are gratified that the Fund has beaten the return of the S&P 500 over 1, 3, 5, 10, and 15 years. Additionally, the Fund has outperformed the Russell 2000 over all the same time periods, except for the 10-year number.

	1 Yr. (2011)	3 Year	5 Year	10 Year	15 Year
FAM Equity-Income Fund	+6.79%	+15.06%	+0.82%	+4.64%	+6.98%
S&P 500 Index	+2.11%	+14.11%	-0.25%	+2.92%	+5.45%
Russell 2000 Index	-4.18%	+15.63%	+0.15%	+5.62%	+6.30%

The greatest positive impact on performance during the year resulted from building a cash balance in June immediately after some weak U.S. economic data was released. We trimmed a number of names and completely sold some others that we did not want to hold in the event the economy slowed down further. Shortly thereafter, the market went into a tailspin on the U.S. debt-ceiling debate which resulted in debt downgrade and fears of Europe splitting apart, as well as worries of a global slowdown. We used that severe decline in stock prices to aggressively deploy that cash into high-quality companies that were then selling at what we considered to be bargain-basement prices.

The best sectors of the market (S&P 500 Index) in 2011 were Utilities, Health Care, and Consumer Staples. The one thing that all these sectors have in common is that they are generally considered to be defensive. Conversely, the top-contributing sectors in the FAM Equity-Income Fund were Industrials, Consumer Discretionary, and Energy. These sectors tend to be leveraged in improving American and growing global economies. We have gone to great lengths to invest the assets of the Fund into companies that are succeeding in the current economy. Many of these corporations are taking advantage of growth trends in the U.S. and abroad. Others are bringing out new and innovative products which allow them to take market share. Still others are transitioning their business model to take advantage of the shift from print to digital content.

The other common theme of the investments in the Fund is that every single holding generates more cash than is needed to reinvest in the businesses to fuel future growth. The excess cash is available to pay dividends, buy back stock, or make acquisitions.

Dividends

Research has shown that since 1926, dividends have contributed approximately one-third of total investment returns.² Given the importance of dividends to long-term investment returns, the Fund seeks to

¹ In 2008 the Fund paid out a fraction of one cent in capital gain related to a REIT investment.

² S&P Indices - Research Insights, January 2010; "S&P 500 Dividend Aristocrats."

invest in dividend-paying companies. Every holding in the Fund pays a dividend. Additionally, we believe it is important for corporations to increase their dividends over time. To illustrate this point, in 2011 dividend-paying businesses in the S&P 500 Index which grew their dividends greater than 10% over the last five years, returned +5.9% for the year on average. Companies that paid dividends but grew them less than 10% over the last five years, gained only +1.9% on average. Non-dividend paying corporations in the S&P 500 returned a meager +1.7%, on average, for the year. Faster growth in dividends has a correlation to higher stock returns. The reason these enterprises performed so well is because they were able to grow in the current economy. They are investing in their operations and still have enough extra cash to increase the dividends paid to shareholders. This is the type of business in which we prefer to invest.

The FAM Equity-Income Fund stacks up favorably to both the S&P 500 Index and the Russell 2000 Index regarding dividends. The Fund has a higher gross dividend yield and, more importantly, the holdings in the Fund have grown their dividends at an annualized rate of 12% over the last five years (see table).

The following table highlights the dividend characteristics of the FAM Equity-Income Fund's portfolio of companies.

	Gross Dividend Yield / Treasury Yield	5 Year Dividend Growth (Annualized)
FAM Equity-Income Fund ³	+3.10%	+12%
S&P 500 Index	+2.10%	-3%
Russell 2000 Index	+1.40%	0%
10 Year Treasury Note	+1.88%	N/A
5 Year Treasury Note	+2.90%	N/A

Source: Thomson Reuters Baseline

Best and Worst Performing Companies

For the second year in a row the best-performing company in the Fund was Ross Stores (+53%), which added \$2.769 million to the value of the portfolio. Ross continues to execute well which has driven same-store sales growth beyond Wall Street expectations. The business will likely grow earnings by more than 20% this fiscal year, on top of 31% growth in the previous year. Also, management continues to use free cash flow to buy back shares. We have owned shares in Ross for a decade and our initial purchase per share, split adjusted, was \$5.42. As of December 31, 2011, the stock was trading at \$47.53. We believe the stock still has room to grow and is a compelling investment.

The second-largest contributor in the Fund was EOG Resources (+8.5%) adding \$1.021 million to the portfolio. EOG posted excellent earnings growth in 2011 driven by oil production and new oil finds. We took advantage of the volatility in the stock market in August and October and more than doubled our position at very attractive prices.

The worst-performing company in the Fund was Courier Corp. (-19.0%), which negatively impacted the value of the Fund by \$1.021 million. Courier continues to struggle in this economy which was exacerbated by the bankruptcy of Borders Group. As the stock price has come down over the last few years, we have purchased shares at lower-and-lower prices. Our thinking was that earnings would eventually rebound and the value of the business would ultimately be recognized. The most recent quarterly earnings for Courier were pretty good and beat analysts' expectations by a wide margin. The stock was up 100% at year-end from its lows set in October.

The second-worst investment in the Fund was Protective Life (-13%), which hurt the value of the Fund by \$0.810 million. We liquidated this position during the year in order to upgrade the portfolio. Over the summer, we had terrific opportunities to invest in corporations that are growing faster and are more profitable than Protective. Reinvesting the proceeds of the sale into these companies helped the performance of the Fund for the remainder of the year.

Thoughts for 2012

As we do every year, we do our best to visit every company in the portfolio and sit down with management to make sure the investment is tracking to our expectations. We want shareholders in the Fund to earn an adequate return over time while taking below-average risk. We also want to ensure that the people running these corporations are honest and ethical. We hold ourselves to the highest standards of honesty and

³ Gross Dividend Yield = average dividend yield on portfolio holdings before expenses.

integrity and expect nothing less from the management teams of the holdings in the portfolio.

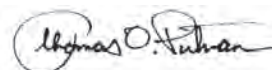
Regarding the investment environment, we have seen slight but steady improvement in the U.S. economy for the last 18 months. We expect this trend to continue. We have no way of handicapping events in Europe or their impact on stock prices. We do know that stock valuations are not far above historical lows reached after the crash of 1987 and the financial crisis of 2008. That makes us bullish on the potential for above-average equity returns for the rest of the decade.

We believe it is easier and more productive to focus on our holdings and their strategies for growing their businesses, rather than getting bogged down by macro worries and fear. If we make the right investments, everything else should fall into place. The majority of the companies in the Fund are growing through these turbulent and uncertain economic times. We have no reason to believe this will change over 2012. As for the upcoming U.S. presidential election, we predict that it will indeed happen and that there will be a winning candidate. Just like our stock picks, we don't like to speculate.

Once again, we thank you for your investment in the Fund. We are working diligently on your behalf.

Sincerely,


Co-Manager


Co-Manager

EQUITY-INCOME FUND TOP TEN HOLDINGS

Name	% of Total Net Assets
Ross Stores, Inc.	6.1%
John Wiley & Sons, Inc.	4.8%
EOG Resources	4.5%
McGrath RentCorp	4.4%
IDEX Corporation	4.0%
U. S. Ecology	3.8%
Meredith Corp.	3.8%
Stryker	3.5%
Xilinx, Inc.	3.4%
Arthur J. Gallagher	3.3%
TOTAL NET ASSETS	\$127,274,814

The portfolio is actively managed and current holdings may be different.

AVERAGE ANNUAL TOTAL RETURNS AS OF DECEMBER 31, 2011

The performance data quoted represents past performance.

FAM EQUITY-INCOME FUND	SINCE INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	TOTAL ANNUAL FUND OPERATING EXPENSES*
Investor Shares	7.40% (4/1/96)	4.64%	0.82%	15.06%	6.79%	1.41*

* Disclosure: Expenses are from the most recent prospectus. When excluding Acquired Funds Fees and Expenses, which are not direct costs paid by the Fund's shareholders and fee waivers, the total operating expense as reported in the Fund's audited financial statements is 1.40%.

Past performance is not indicative of future results, current performance may be lower or higher than the performance date quoted. Investment returns may fluctuate; the value of your investment upon redemption may be more or less than the initial amount invested. Please consider a fund's investment objectives, risks, charges and expenses carefully before investing. The FAM Funds prospectus or summary prospectus contains this and other important information about the FAM Equity-Income Fund and should be read carefully before you invest or send money. The principal risks of investing in the Funds are: stock market risk (stocks fluctuate in response to the activities of individual companies and to general stock market and economic conditions), stock selection risk (Fenimore utilizes a value approach to stock selection and there is risk that the stocks selected may not realize their intrinsic value, or their price may go down over time), and small-cap risk (prices of small-cap companies can fluctuate more than the stocks of larger companies and may not correspond to changes in the stock market in general). To obtain a prospectus or summary prospectus and performance data that is current to the most recent month-end for each fund as well as other information on the FAM Equity-Income Fund, please go to famfunds.com or call (800) 932-3271.