



FAM Funds

MANAGED BY FENIMORE ASSET MANAGEMENT, INC.

FAM Value Fund

Annual Shareholder Letter 2011

December 31, 2011

Dear Fellow FAM Value Fund Shareholder,

At December 31st, the net asset value of the Investor Class of the FAM Value Fund was \$45.15. This represents a decrease of -0.41% from the beginning of the year. For comparison, the S&P 500 Index increased +2.11% and the Russell 2000 Index decreased -4.18%.

2011 in Review

2011 was not an awful year for investors, but it certainly felt that way. The stock market fell modestly, but had wide swings during the year which created anxiety for investors. The main story was the European financial crisis. This report first surfaced during calendar 2010, but returned with a vengeance in 2011. There were a series of European government announcements claiming a solution to the crisis, only the markets found the solutions inadequate. This pattern resulted in a very volatile stock market with large fluctuations, both positive and negative. Another important story was the inability of our own government to deal with America's long-term financial problems. Given that 2012 will be an important election year, we expect the dysfunction from Washington, D.C. to continue. Despite the inaction of governments, the U.S. economy seems to be continuing on a slow recovery from the recession of 2008/2009.

Portfolio Activity

We exited five positions during the year selling all of our shares in Federated Investors, Joy Global, MICROS Systems, Strayer Education, and Westamerica Bank. We sold Federated Investors due to concerns about an extended period of low interest rates and the fact that the money market fund industry has a large exposure to the debt of European financial institutions. Joy Global was a terrific holding for the Fund. We originally purchased the stock during the global financial crisis in the fall of 2008. Our average cost was less than \$40 a share. We sold the stock this year near \$100 a share, doubling our money in less than three years. Joy Global is a great company, but we felt the high valuation reflected the company's good prospects. MICROS Systems, Strayer Education, and Westamerica Bank were small positions in the Fund that were sold to pursue other opportunities.

During the sharp market decline in August and September, we were fairly active purchasing both new and existing holdings. From July 29 to September 30, 2011, the stock market declined more than -12%. This decline created lower prices and we believe some good bargains in the market. We purchased shares in 12 different companies, including five new ideas: Microchip Technology, NBT Bancorp, Questar, Sigma-Aldrich, and Waters Corporation.

Performance Detail

Best Performers

The Fund's best performer, on a dollar-weighted basis, was longtime holding White Mountains Insurance (+35.4%) with a gain of \$12.103 million. White Mountains is an insurance holding company with three primary assets: OneBeacon Insurance, Esurance, and White Mountains Reinsurance. In May the business announced the sale of the Esurance division to Allstate for \$1.1 billion. This sale is a great transaction and will unlock \$600 million of additional value for shareholders. While the shares have had a strong year, the stock price still sells at a significant discount to the company's book value.

The second-largest contributor to positive performance was Ross Stores (+52.7%) gaining \$9.111 million. Ross has been an amazing story over the last five years. In the five years ending January 2011, the corporation grew its earnings per share from \$1.36 to \$4.62, a compound growth rate of 28% per year. The Ross Stores retailing formula of selling designer clothing at a discounted price has been a big hit with consumers. Ross Stores is one of the best stocks we have owned over the last 10 years. The current price is almost nine times the original price we paid for the stock in 2001.

The third-best performing stock was YUM! Brands up +22.4% (gaining \$4.895 million) at year-end. YUM!

Brands is a global restaurant enterprise with three well-recognized brands – KFC, Pizza Hut, and Taco Bell. YUM! is a leader in international restaurant locations with a fast-growing business in China and other Asian nations.

Worst Performers

The worst performer, on a dollar-weighted basis, was Ultra Petroleum (-38%) with a \$6.395 million loss. Ultra Petroleum is a natural gas company with significant assets in Wyoming and Pennsylvania. The business is a low-cost producer of natural gas and has high margins and returns on equity. The stock has declined in tandem with the 24% decline in natural gas prices over the last year.

The second-worst performer was TCF Financial (-29%) with a loss of \$5.915 million. TCF is a bank with headquarters in Minneapolis, MN. The company's profits were impacted by the passage of the Durbin amendment which reduced the amount of fees that banks can charge on debit card purchases. While TCF is not a large bank, they are one of the 20-largest debit card issuers in the country. Even with this change, the corporation remains more profitable than the average bank.

The Fund's third-worst performer was Protective Life (-13%) generating a loss of \$5.519 million. Protective is a life insurance company with headquarters in Birmingham, AL. Given the fears about Greece and the European debt crisis, many financial stocks declined during the year including Protective.

Our Investment Strategy

At our 25th Annual Shareholder Informational Meetings in October someone asked the question, "What will it take to improve the economy?" Implied in this question is some amount of impatience about the current rate of improvement. We will address the question and outline some strategies that can be successful in this environment.

The recession that occurred in 2008/2009 was not a normal recession, but a recession accompanied by a financial crisis. While this is unusual, it is not as rare as you might think. There have been 17 countries around the world that have had a similar event since 1991. This subject, a recession with a financial crisis, has been studied by two finance professors who have published their findings in a book entitled, *This Time Is Different*.¹ The book is a definitive study of this type of recession and the authors describe the sequence of events. First, the seeds of the crisis are a sharp and unsustainable increase in home prices. Next, housing prices decline by 35% from their peak; stock prices decline by 50% from peak-to-trough; unemployment increases and stays elevated for a considerable time; and government debt increases, on average, by 86% from pre-crisis levels.

Does this sound familiar? This is exactly what is happening in the United States today. So what does the textbook say about what happens next? The net result of these financial events is that a country's economic growth is slower-than-average for a number of years following the recession. While improvements have been made slowly over the last two years, and we think this pace will continue in 2012, we cannot simply rely upon the economy to help our investments grow.

If this is the case, what can investors do to earn a positive return? We have three ideas that we are using in the managing the Fund today.

1. Own the Winners. Invest in companies that are currently doing well; they do not need a better environment. We invest in many companies that will report record earnings this year. These businesses have grown their earnings through the recession and are now earning all-time high profits. These corporations do not need a better environment – they are winning now. Companies that we expect to report record-high earnings in 2011 include: Bed Bath & Beyond, Donaldson Company, Ross Stores, and IDEX Corporation.
2. Go Global. While the USA may be experiencing a period of slow-growth, over the long term the world is growing and American companies expanding overseas can benefit. The Fund currently invests in 15 companies that derive more than one-third of their sales from abroad. Examples include: John Wiley & Sons, Microchip Technology, Waters Corporation, and YUM! Brands.
3. Buy Dividend-Paying Stocks. Today, you can own a portfolio of dividend-paying stocks that generate more current income than many long-term bonds. Dividends have been a significant portion of stock returns over time and provide investors with a cash return on their investment. The Fund holds 14 stocks that have a current dividend yield of at least 2%. Given the strong cash flows of these companies, we expect many of them to increase their dividends over time.

¹ Carmen M. Reinhart & Kenneth S. Rogoff, Authors.

We would like to add an insight from Benjamin Graham, the father of value investing. He said, "Investment is most intelligent when it is most businesslike." We could not agree more. A core tenet of our investment philosophy is focusing our efforts on great corporations with underlying economic growth potential. The challenge in the short term is to separate stock price fluctuation from perceived "value." Just because a stock's price goes down in value does not mean that the company is performing poorly, nor does an increasing stock price equate to strong economic expansion of the business – remember Enron, WorldCom, and the Tech Bubble. This is where our research and investment discipline play a key role in removing the emotion from investing. Over the long term and through various economic calamities, we have had success staying the course and buying stocks of financially sound businesses.

This remains true today. The enterprises that we are targeting for investment have the following attributes in common:

1. They are highly profitable.
2. The balance sheets are strong with little or no debt.
3. They generate more cash than they need which can be used for dividends, investment for future growth, and stock buyback.
4. They have strong management teams that, in many cases, are delivering record results.

With the overall stock market trading at 20-year low valuation levels, we are confident that a port-

folio of stocks from high-quality businesses with considerable future economic growth potential can produce attractive results for investors. Remember that it takes time for the true value of a company to be reflected in its stock price.

Thank you for investing with us in the FAM Value Fund.



John D. Fox, CFA
Co-Manager



Thomas O. Putnam
Co-Manager

VALUE FUND TOP TEN HOLDINGS

<u>Name</u>	<u>% of Total Net Assets</u>
White Mountains Insurance	6.6%
Brown & Brown, Inc.	6.1%
Mednax, Inc.	5.6%
John Wiley & Sons, Inc.	4.2%
Berkshire Hathaway	4.2%
IDEX Corp.	4.1%
Ross Stores, Inc.	3.9%
Markel Corp.	3.8%
YUM! Brands, Inc.	3.8%
Zebra Technologies	3.3%
TOTAL NET ASSETS	\$702,405,949

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 VALUE FUND	SINCE					TOTAL ANNUAL FUND OPERATING EXPENSES*
	INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	
Investor Shares	9.80% (1/2/87)	4.81%	0.15%	12.50%	-0.41%	1.24*

* 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 1.23%.

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 Value 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 Value Fund, please go to famfunds.com or call (800) 932-3271.