



Dear Fellow Equity-Income Fund Shareholder:

For the first six months of the year the Investor Class of the Fund lost a fraction of a percent, declining -0.17%. This compares favorably to the Russell 2000 Index which declined -2.0% and the S&P 500 Index which fell -6.7% over the same time period. We attribute our performance to the continuing rebound of our financial companies as well as consumer and technology investments.

The market made a strong comeback from the lows of 2009 and continued that run until April of this year. At that point investors began worrying about European debt and a softening in the U.S. economic recovery. These fears prompted a sell-off in the stock market and a flight to safety. Today there continues to be much talk of the U.S. having a double-dip recession.

From our perspective it is more important to focus on what we know, rather than what we don't know. Yes, we do see a slowing in the economy, but it is uncertain whether this is merely a pause in economic growth or the beginning of the economy rolling over into recession. It's important to understand that everyone has an opinion on the future, *but nobody* knows how the future will unfold – not even the pundits we see on TV day-after-day.

What *we do know* is that investors are better served being optimistic rather than pessimistic, perhaps even opportunistic. The optimistic investor is always looking for opportunities while the pessimistic investor misses out on the up markets as they seek shelter and put cash under the mattress. This recent market correction has provided us with the opportunity to buy some stocks that have attractive dividend yields.

Portfolio Actions

Over the first half of the year we took advantage of a number of opportunities to increase the dividend yield of the Fund. We purchased Arthur J. Gallagher (AJG) which had a dividend yield of 5.3% as of the end of the quarter, and NBT Bancorp (NBTB) which yielded 3.9%. We also added to our holdings in OneBeacon (OB) which has a dividend yield of 5.9%, U.S. Ecology (ECOL) which yields 4.9%, and Xilinx (XLNX) with a 2.5% yield.

At the end of June, the combined dividend yield of the equities in the Fund was significantly higher than both the S&P 500 and the Russell 2000 indices (See table)¹. Additionally, the five-year historical growth in the dividend is much higher for those companies in the Fund compared

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to the indices. In fact, more than 40% of the businesses in the Fund have increased their dividend this year. The new purchases and additions had a large impact on boosting the yield of the Fund and we continue to look for further opportunities to increase the dividend income even more.

	<u>Dividend Yield (as of 6/30/10)</u>	<u>5 Yr. Growth in Dividends</u>
FAM Equity-Income Fund	3.0%	12%
S&P 500 Index	2.1%	1%
Russell 2000 Index	1.2%	4%

1 Source: Baseline

The Dividend Advantage

Dividends are an often overlooked part of investors' total return, yet they have provided a meaningful percentage of that return. To illustrate this point we can look at the return of the S&P 500 Index and the amount of that total return that came from dividends. Since 1926, dividends have contributed approximately one-third of total return of the S&P 500 (known as the S&P Composite Index before 1957), while capital appreciation has contributed two-thirds². This is why the Equity-Income Fund focuses on companies that pay a significant dividend and have a history of increasing their dividends. We believe that dividends give an investor a "head start" on returns.

A more instructive example on the importance of dividends comes from one of the holdings in the Fund, McGrath RentCorp. Ten years ago, if you had invested \$10,000 in McGrath, you would have received \$6,523 in dividends and your shares would have grown to \$26,376 as of June 30, 2010, for an annualized rate of return of 12.6%. Dividends, which grew annually, are 28% of the return. Stock appreciation accounts for 72%. Your annual dividends would currently be more than \$1,000 – up from \$329 in the first year. McGrath's dividend was a significant and tangible part of the total return.

2 Source: S&P Indices Research Insights: S&P 500 Dividend Aristocrats, January 2010

Best & Worst Performing Companies

Ross Stores (ROST), an off-price retail company, was the largest contributor to the performance of the Fund year-to-date on a dollar-weighted basis. The total return on the stock was +25.5% and added +\$0.9 million to the value of the Fund during the period. After posting +53% earn-



ings growth last year, the company continues to generate same-store sales that are above management's initial expectations. This led management to raise earnings guidance for the full year. The company also raised its quarterly dividend 44% in March of 2010.

M&T Bank (MTB) was the second largest contributor to performance of the Fund in dollar terms generating a total return of +30.8% during the period. The investment added +\$0.5 million to the value of the Fund. The stock appreciated because of earnings that were ahead of Wall Street's expectations. We see clear evidence that the situation in the banking sector is improving. Also, there was speculation by others on Wall Street near the end of the second quarter that M&T would make a transformative acquisition. This speculation also played a role in the strong performance of the stock year-to-date.

The worst performing company on a dollar-weighted basis was Federated Investors (FII) which subtracted -\$0.7 million (-22.9%) from the value of the Fund. Earnings at Federated have been negatively impacted by fee waivers in their money funds business as well as asset outflows. On the positive side, management paid a special cash dividend to shareholders of \$1.26 per share in the first quarter in addition to the regular \$0.24 quarterly dividend.

Courier Corporation (CRRC) was the second worst performing company in dollar terms declining by -\$0.5 million (-11.4%) during the period. Courier traded down in the quarter due to fears of general economic decline as well as state budget stress. Since a large part of Courier's revenue comes from printing elementary through high school (el-hi) textbooks, investors worry about the states having enough money to buy new textbooks. Management has offset some of the el-hi business by shifting more toward higher education textbooks as colleges have seen growth in enrollment. Currently the stock has a 7% dividend yield which is well covered by cash flow.

Moving Forward

We recognize that certain (not all) economic indicators are weakening which makes forecasting the future very difficult. To some extent this has already been reflected in the weak stock market. However, we know that every Bear Market (downturn) is followed by a Bull Market (upturn). We also know from studying the stock market that the typical Bull Market is longer in duration and appreciates more than the declines experienced in down markets. This has been true for the last 100 years.

We also understand the mentality that "this time it's different." All market corrections are preceded by different economic and financial conditions as are all recoveries. Despite differences

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in every crisis, they all have common threads: investor confidence and faith in the system are always shaken and need to be rebuilt; the Government typically steps in to make sure the event will never happen again and enacts new legislation; and the media sensationalizes the bad news because it's just too early to believe, or even recognize, the positive data points that are slowly emerging.

Instead of getting bogged down by conjecture, we focus on investing in good businesses with honest and capable management teams that generate more cash than they need for their operations. We look for durable, competitive advantages that are strengthened over time. Owning these types of businesses that have promising long-term growth potential is the best hedge against the unknowable outcomes of today's or the future's issues.

As always, we appreciate your continued support and are working diligently on your behalf.

Paul Hogan, CFA
Co-Manager

Thomas O. Putnam
Co-Manager

Average Annual Total Returns as of June 30, 2010

	1-Year	3-Year	5-Year	10-Year	Life of Fund (4/1/96)
FAM Equity-Income Fund					
(Investor Shares)	16.94%	-9.03%	-2.03%	6.10%	6.49%
(Advisor Shares)*	16.00%	-10.02%	-2.99%	N/A	*
S&P 500 Index	14.34%	-9.84%	-0.81%	-1.61%	5.18%
Russell 2000 Index	21.48%	-8.60%	0.37%	3.00%	5.81%

*FAM Equity-Income Fund Advisor Shares were launched on July 1, 2003. The return since inception is 1.35%

The graph and performance table do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. This information represents past performance of the FAM Equity-Income Fund and is not indicative of future results.