



FAM Funds

MANAGED BY FENIMORE ASSET MANAGEMENT, INC.

CHAIRMAN'S COMMENTARY — ANNUAL REPORT 2009

December 31, 2009

Dear Fellow Shareholder:

Ten Years Gone

The date of this letter signifies both the end of the year and the close of the decade. Whether you call this past decade the “OOs” or “oughts,” most investors are happy just to forget it and look forward to better days. A recent article in the *Wall Street Journal* depicted the historical returns of the U.S. stock market by decade since the 1830s. The decade that just ended was the worst in history — even worse than the 1930s by roughly a quarter of a percent on an annualized basis. In fact, the decades of 1930 and 2000 were the only two in history that resulted in negative returns. However, we are optimistic about the next decade and frame our rationale below.

As we recollect, in 1999 optimism reigned supreme. New catch phrases of the time like “the internet changes everything,” “peace dividend,” and “the Goldie Locks economy” were the fashionable declarations of the day. This optimism transcended all areas of business and was reflected in stock prices — particularly in large growth and technology-oriented companies. At the start of 2000, the price-to-earnings (P/E) ratio for the S&P 500 Index was 30 times earnings. More intriguing, however, were the lofty valuation levels of well-known growth companies that traded at even higher P/E ratios. For example, at the end 1999, the P/Es for Intel, General Electric, and Microsoft were 35 times, 48 times, and 61 times, respectively. As a point of reference, the average P/E multiple over the last 20 years has been around 18 times earnings for the S&P 500. Truth be known, the valuation levels observed at the end of the 1990s were just too high for investors to earn a satisfactory return. Subsequently, over the next 10 years, valuations decreased to more average levels and the returns were negative for most stocks.

We contrast the optimism of 1999 with the widespread pessimism of today. The topics constantly at the forefront include excessive government debt, future tax increases, “Obama Care,” the jobless recovery, and the ticking time bombs of potential budget disasters in many states including *our* domicile, New York. These issues certainly concern us. However, we can’t help but ponder that perhaps the pessimism of 2009 is as overdone as the optimism of 1999. We question the current level of pessimism because, in part, we continue to see positive developments and trends emerging — especially in three areas.

Number one — the economies of most of the industrialized nations are stabilizing and recovering, including the U.S. Nearly each day, the U.S. government releases some piece of economic data — some important, some obscure. Our back of the envelope estimate is that nine out of every ten data points we receive are positive. For instance, this past week we received encouraging statistics on existing home sales, durable goods orders, personal income, and weekly jobless claims — items not necessarily reported as headline news.

Number two — the financial markets worldwide are getting better. This part of the economy is invisible to most people. We track the capital markets by following multiple resources including an “alphabet soup” of indicators like the “VIX,” “the TED spread,” “LIBOR,” and “CDS” prices. Without delving into the minutiae, the indicators we examine continue to exhibit signs of improvement and, in many cases, have returned to levels recorded before Lehman Brothers filed for bankruptcy in September of 2008.

Number three — American corporations have changed their strategy from one of defense to offense as a result of improvements and opportunities currently available in the capital markets. Barely one year ago corporate executives were as anxious as anyone on Main Street and it was apparent in the ways they were operating their businesses. Instead of running their businesses for future growth, they operated to generate cash. Rather than hiring people and investing in capital equipment, managers fired people, cancelled projects, and drastically cut orders for new inventory to sell at a future date. As you can infer, when captains

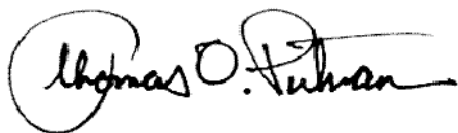
of industry are operating in this “survival mode,” it’s not positive for economic growth. To contrast, today we observe corporate managers thinking strategically about the future. They are making investments and acquisitions and are once again interested in growth. This is obviously positive for the U.S. economy, global economies, and eventual collective rebound to the growth phase of the economic cycle.

So what might the next decade hold for equity investors? To attempt to approximate an answer, we must first examine the three primary components that generate long-term returns for stocks: 1) the multiple of earnings you pay when you buy; 2) the growth of earnings; and 3) the multiple of earnings you receive when you sell. First, the current valuation level of the market (multiple of earnings) is about one-half of what it was at the start of the decade, which means our “buy” price for the market is much lower now. Second, corporate earnings for 2009 were at depressed levels so companies should show decent earnings growth in the near term. Going forward, earnings will probably grow at less than historical rates following an above average rate of return due to the snapback in profits from the 2009 lows. Third, the major risk to the downside lies in this last important component of a return. Interest rates will likely be higher in the future potentially reducing the multiple were we to “sell” in 2019. When we put all of this into the proverbial crystal ball we estimate that returns for the market in aggregate for the next decade should be better than the last, but probably less than the above average, mid-teen annual rates of return witnessed during the 1980s and 1990s.

Your next question naturally should be, “How will FAM Funds do in this environment?” The companies we look for tend to have good profitability, little debt, and require less capital reinvestment. These attributes are positive and support significant *cash profit* generation which can be deployed to fund growth or otherwise increase the value of the company — this benefits us as shareholders. When these financial characteristics are combined with the superior management teams of our company holdings, we feel very optimistic about the propensity of our investment strategy to help you attain your financial objectives and to create wealth for you over the long term.

On behalf of the entire FAM Funds Team, I wish you and your loved ones health, happiness, and prosperity in the New Year.

Sincerely,



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Chairman
Fenimore Asset Management, Inc.

Research Team

Andrew F. Boord
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For FAM Funds’ Top Ten Holdings, Performance History and Disclosure, please see the next page.



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FAM VALUE FUND TOP TEN HOLDINGS

Name	% of Total Inv.
White Mountains Insurance Group	5.1%
Brown & Brown	5.1%
Mednax	4.9%
Berkshire Hathaway	4.4%
John Wiley & Sons	4.2%
IDEX Corporation	3.6%
Yum! Brands	3.5%
Markel Corporation	3.3%
EOG Resources	3.2%
Meredith Corporation	3.1%
TOTAL INVESTMENTS	\$664,122,238

FAM EQUITY-INCOME FUND TOP TEN HOLDINGS

Name	% of Total Inv.
John Wiley & Sons	6.0%
Stryker Corporation	5.8%
Johnson & Johnson	5.2%
McGrath RentCorp	5.2%
Meredith Corporation	5.0%
Donaldson Company	4.9%
IDEX Corporation	4.6%
Courier Corporation	4.5%
Ross Stores	4.5%
Brown & Brown	4.4%
TOTAL INVESTMENTS	\$77,564,501

The portfolios are actively managed and current holdings may be different.

AVERAGE ANNUAL TOTAL RETURNS AS OF DECEMBER 31, 2009

The performance data quoted represents past performance.

FAM VALUE FUND	SINCE INCEPTION	10 YEAR	5 YEAR	1 YEAR	TOTAL ANNUAL FUND OPERATING EXPENSES*
Investor Shares	9.96% (1/2/87)	6.53%	-0.16%	22.18%	1.40*
FAM EQUITY-INCOME FUND	SINCE INCEPTION	10 YEAR	5 YEAR	1 YEAR	
Investor Shares	6.75% (4/1/96)	5.91%	-1.32%	21.43%	1.72*

***Disclosure:** The actual total annual FAM Value Fund operating expense is 1.24% as reported in the Fund's 12/31/08 audited financial statement. The total annual FAM Equity-Income Fund operating expense is 1.40%, after reimbursements, as reported in the Fund's 12/31/08 audited financial statement. The "Total Annual Fund Operating Expenses" includes Acquired Fund Fees and Expenses which are those expenses incurred indirectly by the Funds as a result of investments in shares of one or more investment companies or pooled investment vehicles (referred to as "Acquired Funds"). The costs associated with investments in the acquired funds are not direct costs paid by Fund shareholders.

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 contains this and other important information about the FAM Value Fund and 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). For performance data that is current to the most recent month-end for each fund as well as other information on the FAM Value Fund and FAM Equity-Income Fund, please go to www.famfunds.com or call (800) 932-3271.

The recent growth rate in the stock market has helped to produce short-term returns for some asset classes that are not typical and may not continue in the future. Because of ongoing market volatility, fund performance may be subject to substantial short-term changes.