



RESEARCH *Insights*

November 8, 2010

Fenimore Asset Management - Manager of FAM Funds

FAM Funds' 24th Annual Shareholder Informational Meetings were held on October 12th. Our Research Team spent the bulk of each meeting in audience Q&A. Here are some of the questions with summarized answers. These excerpts were previously published in our November 2010 shareholder newsletter *Mutual Advice*.

How can you make money in a slow-growth economy?

John: We are not counting on a robust economy or a lot of growth in the near term, but we do have a lot of enthusiasm for many individual businesses and what they are doing. During the third quarter, we met with about 25 of our holdings. The CEOs agree that it's a difficult environment, but they have plans to grow their businesses over the next three to five years in two main ways. First, they are looking to expand through mergers and acquisitions. Recently, we have had several businesses in FAM Funds grow through this method. Second, we see growth through international expansion. About half of our holdings in the mutual funds conduct business in the U.S. and overseas. Overall, our investments generate a lot of free cash flow and with that money they can conduct mergers and acquisitions, expand globally, increase dividends, buy their own stock back, and more to create value for shareholders.

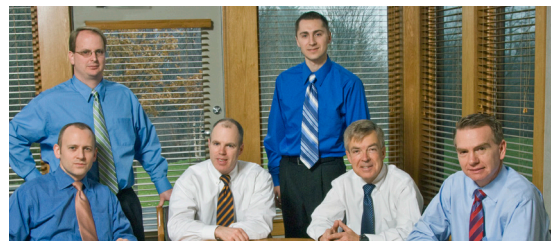
How will the new health care legislation affect FAM's health care holdings?

Eric: Our strategy on investing in health care was to limit our exposure in the sector so that we were

not overweighted. We also stayed away from businesses that we felt could be caught in the crosshairs of the new regulations such as health insurance providers or ones that relied completely on government reimbursement. So far our game plan has worked out pretty well and we continue to research health care areas that we feel are safer over the long term such as lab instrumentation and the dental field. In fact, one of our new holdings is Patterson Companies which is a dental products distributor.

Are there green energy opportunities? What about your energy holding?

Marc: Our focus isn't so much on green energy. We hope that renewable energy is successful, but at this point it doesn't have the free cash flow, profitability, long track record, or characteristics that we're seeking. The opportunities we're seeing are in the oil and gas business, specifically the E&P (exploration and production) companies. Take for example, our E&P holding EOG Resources; they look for, find, and get out of the ground oil and natural gas mostly right here in the U.S. We are researching other businesses in this space.



RESEARCH TEAM

Seated: Eric Elbell, Paul Hogan, Tom Putnam, John Fox.
Standing: Andrew Boord, Marc Roberts.

Andrew: We do own stock in Brookfield Asset Management (BAM) which is a large owner of dams, the original green energy. It's a very good business and much larger than solar and wind combined. It's a very well run company and we have looked for other opportunities in this area, but governments own a lot of the dams.

Due to government regulations, are you still comfortable with your insurance and bank holdings?

John: About one-third of the holdings in the Value Fund are in financials. Our insurance stocks are primarily property and casualty such as auto, homeowners, and commercial. The banks are mostly small community and regional banks. The government regulations are targeting the very large banks. On the insurance side we're not seeing much of an impact. We feel the valuations of bank and insurance stocks are attractive right now so we are comfortable investing in these areas.

Andrew: The regulations are focused on the 15 or so largest banks—we don't invest in these

banks. Our banks focus on traditional banking and don't get involved with sub-prime lending, hedge funds, or derivatives. The regulations may hit them somewhat and the way they charge customers may change, but I think they'll be fine.

With more publishing going electronic, what's the impact on John Wiley & Sons?

Paul: Wiley's primary business is publishing scientific, medical, and technical journals. The real value is the ability to search through these electronic articles quickly and efficiently. Wiley also publishes higher education textbooks. Wiley makes money regardless of how their content is distributed. Their margin on electronic publishing is actually higher than traditional printing because they do not have to concern themselves with expensive shipping and distribution, inventory, or returns from college bookstores.

What's the difference between a Roth and Traditional IRA?

John: The simple answer is that the money that is invested in a Roth IRA has the potential to come out tax-free when you with-

draw it. And your money in a Traditional IRA may be taxed when you withdraw it. There are many other details and considerations for each individual, so please speak with our Retirement Plans Specialist Peter Sweetser.

How concerned are you about the unemployment rate?

Tom: Many people who lost their jobs will not get called back. During good times, some businesses may add costs that they don't necessarily need and when they learn they can operate without these expenses, it makes the company healthier over the long

term. As we visit the holdings in FAM Funds, we are seeing that many are in the hiring mode, but it will be a gradual recovery as far as unemployment is concerned. 9.6% unemployment is a large number—similar to what we experienced in 1981 and 1982. We know that unemployment is a major focus and we would like it to bounce back, but it is a lagging indicator. What typically happens is that businesses start to recover and then they begin to think about hiring back; so the economy must grow before the unemployment rate declines significantly.

EQUITY-INCOME FUND TOP TEN HOLDINGS		VALUE FUND TOP TEN HOLDINGS	
Name	% of Total Net Assets	Name	% of Total Net Assets
John Wiley & Sons, Inc.	5.6%	Brown & Brown, Inc.	5.5%
Ross Stores, Inc.	5.5%	Berkshire Hathaway	4.8%
McGrath RentCorp	5.3%	White Mountains Insurance	4.6%
Donaldson Company	5.1%	Mednax, Inc.	4.2%
Meredith Corporation	5.1%	IDEX Corporation	4.0%
IDEX Corporation	5.0%	John Wiley & Sons, Inc.	3.9%
Johnson & Johnson	4.8%	YUM! Brands, Inc.	3.7%
Courier Corp.	4.3%	Markel Corporation	3.3%
Stryker Corp.	4.2%	Meredith Corporation	3.2%
Xilinx, Inc.	4.1%	Zebra Technology	3.2%

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.