



## Dear Fellow Value Fund Shareholder:

At June 30, 2009 the net asset value of the Investor Class of the FAM Value Fund was \$33.17. This represents an increase of 2.9% from the beginning of the year. For comparison, the S&P 500 increased 3.2% and the Russell 2000 increased 2.6%.

### First Half of 2009 in Review

2009 didn't begin any better than 2008 with stocks down -19 % through the end of February. Widespread selling continued into the first week of March and then abruptly stopped. The combination of extremely low prices and some not-so-bad economic news sent stocks soaring. Since the close on March 9, the market is up more than 35% as of June 30, 2009. The Fund's holdings have participated nicely in this rally and we own some stocks that are up 50% to 100% from their low prices. The most recent quarter ending June 30, 2009 was the fourth best quarter in the history of the Fund and the best quarter since 1997.

### Portfolio Activity

We added to nine of our existing holdings during the market decline in the first quarter of the year. We also purchased two new stocks - Cognex and Patterson Companies - during the first half of 2009. In addition to these buys we did have one significant sale - Vulcan Materials. In January of this year the government announced a \$700 billion stimulus plan. Investors became excited that companies like Vulcan would benefit from this government spending. As a result, the stock price was bid up to what we thought was a high price. We also had concerns about Vulcan's balance sheet and debt levels. Vulcan was a very successful investment for us and one of our best performers for a number of years.

### Performance Detail

#### Best Performers

Our best performing stock, on a dollar basis, was Meredith Corporation (\$5.9 million gain), up 52% year-to-date. Meredith is a magazine publisher and owner of broadcast television stations. While you may not know the name Meredith, you will certainly recognize its magazine titles such as Better Homes & Gardens, Ladies Home Journal and MORE. Meredith's revenue is dependent on advertising expenditures by American business. It is typical for advertisers to reduce ad spending in a recession and, as a result, Meredith has experienced a decline in sales and profits. Investors, too, had gotten negative on the company. However, when the company reported its earnings for the quarter ending March 31, 2009 the results were better than expected and the stock went up significantly.



The second best performing stock was Mednax, formerly known as Pediatrix Medical Group. Mednax is up 33% year-to-date, generating a gain for the Fund of \$5.7 million. The company's primary business is providing services in neonatal intensive care units at hospitals. One of every eleven babies born in this country requires some specialized treatment at the time of birth. The Mednax doctors are at the hospitals 24 hours a day and can provide the needed care. These doctors are highly trained in treating babies in emergency situations. In addition to the pediatric care business, the company is using its significant free cash flow to invest in other medical service businesses.

The third best performer was CarMax (\$4 million gain), up 86% year-to-date. CarMax is a used car superstore with 100 locations around the country. The company sells used cars at a fixed price. All cars can be previewed on the company's website: Carmax.com. A transparent sales process and great customer experience has made CarMax a destination of car shoppers. Since used cars sell at a significant discount to new cars, CarMax may have an advantage over new car dealers as the American consumer continues to look for good values.

### **Worst Performers**

Our worst performer, on a dollar basis, was White Mountains Insurance with a loss of \$3.8 million. While the stock price was only down 14%, it is a large holding and therefore had a large dollar impact on the Fund. The financial crisis had a significant negative impact on the company's investment portfolio. At the beginning of the crisis the company had more than \$1.5 billion invested in equities. As the stock market declined last year the company recognized significant losses in capital. Management is taking a number of steps to rebuild the capital position. Almost all of its equity securities have been sold leaving a very low-risk investment portfolio. In addition, management is exiting a number of businesses to free up additional capital. We believe these efforts are the correct ones and that the company will rebuild its net worth over time. In the meantime, the stock trades at 65% of book value. This is the lowest valuation of any of the 17 insurance companies that we follow.

The second worst performer was General Electric generating a loss of \$2 million. The percentage decline in GE stock of 25% was the worst in the portfolio. GE is a very visible company and the problems of its finance company are well known. Since the fall of last year, management has been taking steps to reduce the risk at the company's finance division - GE Capital. Management has raised capital, reduced the dividend, and decreased the size of the balance sheet. All of these actions are good steps in reducing the risk of GE Capital. We sold a significant portion of our GE holdings last year. At this time the position is less than 1% of Fund assets.



Our third worst performer, on a dollar basis, was the Fund's largest holding - Brown & Brown - with a loss of \$1.8 million. The stock is down 4% year-to-date. Brown & Brown is an insurance broker that sells insurance to middle market companies. The company's sales and earnings are being impacted by a soft insurance market and the general decline in the economy. We believe both of these forces are temporary. As insurance premium rates increase and the economy improves, we believe Brown & Brown will have a significant increase in earnings. In the meantime, we can afford to wait as the company generates significant amounts of free cash flow and has a strong balance sheet.

### **Our Investment Strategy**

There is a great deal of attention paid to short-term movements in the stock market. We have daily, and even hourly, television programs that report on market prices. However, these price gyrations do not affect the underlying value of the businesses that trade on the market. The true value of any asset (stocks, a privately owned business, bonds, real estate) is based on the amount of cash that asset will generate in the future. Therefore, our investment approach is focused on analyzing businesses and the amount of cash they can generate for their owners. Businesses that can generate cash will survive the recession and thrive in a better economy.

We own a portfolio of terrific businesses that are financially strong and generate large amounts of free cash flow. For example, let's look at our largest holding - Brown & Brown. Last year this company generated more than \$240 million in cash profits. In order to keep its business running, it had to invest \$14 million back into the business buying new computers and equipment. After this investment, the company still has \$226 million of free cash flow. It is this cash generation ability that makes Brown & Brown a valuable company. Given management's excellent long-term track record we believe it can increase the value of the company over time. Today, we can purchase the company's stock at less than 12 times current earnings. This multiple is below the company's long-term average and well below the market's twenty-year average multiple.

This is just one example, but we own a few dozen businesses with similar profiles. While we wait patiently for the value of our stocks to be recognized by the market we continue to conduct exhaustive, original research on your behalf. In fact, since the beginning of the year we have met face-to-face with 27 of the companies that we own in the Fund. We will continue to carefully monitor each holding to ensure that it measures up to our standards.



## Long-Term Returns

	Average Annual Total Returns as of June 30, 2009				Life of Fund
	1-Year	3-Year	5-Year	10-Year	(1/2/87)
FAM Value Fund					
(Investor Shares)	-17.18%	-7.50%	-1.73%	4.00%	9.36%
(Advisor Shares)*	-18.52%	-8.67%	-2.82%	N/A	*
S&P 500 Index	-26.15%	-8.23%	-2.25%	-2.24%	8.57%
Russell 2000 Index	-25.01%	-9.89%	-1.71%	2.38%	7.71%

*\*FAM Value Fund Advisor Shares were launched on July 1, 2003. The return since inception is 0.65%*

*The performance table does 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 Value Fund and is not indicative of future results.*

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

Sincerely,

John D. Fox, CFA  
Co-Manager

Thomas O. Putnam  
Co-Manager