



MUTUAL Understanding

FAM Funds' Quarterly Newsletter to Investment Advisors

FOURTH QUARTER 2011

FIRM OVERVIEW

Fenimore Asset Management is an independent investment advisory firm founded in Cobleskill, NY in 1974. Fenimore is the investment advisor to FAM Funds the FAM Value Fund (FAMVX - 1987) and the FAM Equity-Income Fund (FAMEX - 1996).

INVESTMENT PHILOSOPHY

Fenimore is a bottom-up value investor. Our investment selection process focuses on individual companies, not sectors and we consider each investment as if we were going to buy the entire company. Our in-house Research Team conducts exhaustive, original research and visits every company in the Funds at least annually. We have an unwavering commitment to our disciplined value approach to investing. While past performance is no guarantee of future results, our long-term goal is to preserve investors' capital and achieve admirable returns with low turnover.

MARKET COMMENTARY

2011 was an emotional roller coaster leaving many frustrated with the slow rate of economic improvement, Washington's lack of direction, and stock market volatility. Despite this, the S&P 500 Index increased +11.8% for the 4Q as the stock markets exhibited resiliency rallying off of near lows in September. The rebound was bolstered by steady improvement in various economic data. Comparatively, FAMVX was up +13.3% and FAMEX +16.3.

With the overall stock market still trading at or near 20-year low valuation levels, we estimate that a portfolio of stocks from high-quality businesses with considerable economic growth potential can produce attractive results in ensuing quarters. While improvements in the U.S. economy have been made slowly, we are not simply relying upon a "rising tide to raise all ships." We are capitalizing on three strategies that we calculate will yield alpha in the future.

1. Own the Winners. We invest in many companies that grew their

earnings through the recession and will report all-time high profits in 2011.

- 2. Go Global.** U.S. businesses that are expanding overseas are benefiting. We are investing in multiple companies that derive more than one-third of their sales globally.
- 3. Buy Dividend-Paying Stocks.** A portfolio of dividend-paying stocks can generate more current income than many long-term bonds. The Funds are invested in numerous stocks that have a good dividend yield and dividend growth history. Given their strong cash flows, we expect many to increase their dividends over time.

FAM FUNDS QUARTER IN REVIEW

The continued volatility provided opportunities to increase positions in high-quality, undervalued stocks with a sharpened focus on "global powerhouses" and/or dividend-payers. We believe that these characteristics will continue to be attractive in an ever-increasing global economy and in light of America's economy.

We purchased one new holding in FAMVX and eight in FAMEX while adding to existing positions. We also sold one position in FAMEX while trimming positions in both Funds, where appropriate, based on higher valuations, or slower growth estimates, and/or good opportunities to add to other holdings with strong potential.

VALUE FUND SNAPSHOT

During the 4Q the top performer, on a *dollar-weighted basis*, was **Brown & Brown (BRO, +27.6%)**. BRO's 3Q earnings showed improvement and BRO was successful in closing acquisitions in the 4Q. BRO has no net debt and the valuation is still good. The second-largest contributor was **EOG Resources (EOG, +39.0)**. EOG posted excellent earnings growth in 2011 driven by oil production and new oil finds. EOG also has a major 2012 cost-reduction program to further reduce expenses. The rally in oil in the 4Q also boosted sector stocks, includ-

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ing EOG's. The third-largest contributor was **Mednax (MD, +14.9%)**. MD announced a good third quarter with positive internal growth and a large acquisition. Management continues to see acquisition opportunities and this reaffirms our positive long-term stance.

4Q negative performance was stock specific. **Digital River (DRIV, -27.5%)** declined the most in *dollar terms*. DRIV is a leader in outsourced e-commerce solutions worldwide and reduced its sales outlook for the second time in two quarters. Despite its sales outlook, we see growth opportunities considering our initial buy price, DRIV's significant market share, and cash on the balance sheet. **Waters Corporation (WAT, -1.90%)** was the second-largest negative contributor. Waters posted sales of \$454.5M for the previous quarter versus estimates of \$452M. Despite this growth, there was softness in European and U.S. industrial markets. Also, management decreased expectations for 2011 due mostly to currency and tax rate, and there was a slight drop in growth assumptions. We are optimistic about Waters' long-term growth opportunities and it continues with its quarterly stock buyback program which should add share value. The third-largest de-

tractor was **Brookfield Asset Management (BAM, -0.25%)**. On a simple price appreciation basis BAM was slightly down, but it was positive (+0.18%) with dividends reinvested. BAM is a global asset manager with more than \$100 billion of assets under management. BAM executed several bargain purchases from distressed sellers during the financial crisis which should add nicely to future earnings growth.

EQUITY-INCOME FUND SNAPSHOT

The Equity-Income Fund's top 4Q performer, in *dollar terms*, was **EOG Resources (EOG, +39.0%)** for the same reasons outlined in FAMVX. The second-largest contributor was **Courier Corporation (CRRC, +83.3%)**. CRRC had a good quarter after posting several disappointing quarters. These most recent quarterly earnings beat analysts' expectations by a wide margin. The stock was up 100% at year-end from its lows set in October. The third-largest contributor was **Ross Stores (ROST, +21.1%)**. Ross exceeded same-store sales ex-

pectations. Comparable sales are running +5% for the first 11 months of its fiscal year and sales are up +9%. Increased sales levels and terrific in-store execution have led to higher gross margins which are driving earnings growth. Ross continues to buy back millions of shares.

The only material negative performer, in *dollar terms*, was **Flowers Foods (FLO, -1.7%)**. As expected,

earnings were flat with last year and sequentially. Higher commodity costs were the primary factor that eroded gross margin. Meanwhile, management bought back 460k shares. FLO should return to 10% growth in 2012; commodity costs are expected to moderate which will improve margins. Its U.S. expansion continues as it introduces the Nature's Own and Tastykake brands into new markets.

VALUE FUND TOP TEN HOLDINGS

Name	% of Total Net Assets
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

EQUITY-INCOME FUND TOP 10 HOLDINGS

Name	% of Total Net Assets
Ross Stores, Inc.	6.1%
John Wiley & Sons, Inc.	4.8%
EOG Resources	4.5%
McGrath RentCorp	4.4%
IDEX Corporation	4.0%
U. S. Ecology	3.8%
Meredith Corp.	3.8%
Stryker	3.5%
Xilinx, Inc.	3.4%
Arthur J. Gallagher	3.3%
TOTAL NET ASSETS	\$127,274,814

The portfolios are 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 INCEPTION						TOTAL ANNUAL FUND OPERATING EXPENSES*
	15 YEAR	10 YEAR	5 YEAR	3 YEAR	1 YEAR		
Investor Shares	9.80% (1/2/87)	7.79%	4.81%	0.15%	12.50%	-0.41%	1.24*
FAM EQUITY-INCOME FUND	SINCE INCEPTION						TOTAL ANNUAL FUND OPERATING EXPENSES*
	15 YEAR	10 YEAR	5 YEAR	3 YEAR	1 YEAR		
Investor Shares	7.40% (4/1/96)	6.98%	4.64%	0.82%	15.06%	6.79%	1.41*

*Disclosure: Expenses are from the most recent prospectus. The actual total annual FAM Value Fund operating expense is 1.23% as reported in the Fund's audited financial statement. The total annual FAM Equity-Income Fund operating expense is 1.40%, after reimbursements, as reported in the Fund's 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") and fee waivers (for the FAM Equity-Income Fund only). 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 or summary 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).

To obtain a prospectus or summary prospectus and 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 famfunds.com or call (800) 932-3271.



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