



# Mutual Understanding

FAM Funds' quarterly newsletter for Investment Advisors.

## FAM FUNDS – FIRST QUARTER 2010

### FAM FUNDS CONTACTS

Our doors are always open for you to meet with our team. If you would like us to visit your office, please contact:

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We also have an internal specialist who will provide you with timely and comprehensive information. Contact:

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### FAM OVERVIEW

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

### FAM 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 we own 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

Despite a slow start to the 1Q, the S&P 500 Index gained +5.2% in the quarter. Comparatively, the FAM Value Fund was up +6.94% and the FAM Equity-Income Fund increased +8.69%.

We reiterate our outlook for continued improvement in the overall environment based on the three key factors. First, companies are operating for growth instead of survival – an enormous change from just one year ago – and this should lead to job creation and increased output in the future. Second, the economy continues to show signs of sequential improvement in the majority of the data reported over the last 12 months. Third, valuations of companies we follow remain at reasonable levels.

We do not make investment decisions predicated solely on macroeconomics. What unfolds in Washington and the global economy are variables beyond anyone's control and only time will reveal answers to the many questions. We have conviction in our process despite what occurs because of our extensive knowledge of the businesses and management teams we track, and our faith in capitalism winning out in the end. More than ever, we stress the

importance of staying disciplined and investing in sound companies. As Peter Lynch said, "The key to making money on stocks is to not get scared out of them."

We all would like to see a faster and greater rebound; however, this is probably wishful thinking given the financial challenges at both the national and state levels. It will take *more time* and *more patience*. Simultaneously, we are seeing incremental progress in the economy and stock market as we move toward brighter days.

### FAM QUARTER IN REVIEW

We invested in two new holdings for the Value Fund and two for the Equity-Income Fund. Plus, we sold one position in each of the Funds. We also added to existing positions and trimmed positions where appropriate based on higher valuations and slower growth estimates.

### FAM VALUE FUND SNAPSHOT

During the 1Q, the largest contributor to positive returns on a *dollar-weighted basis* was **Berkshire Hathaway (BRK-A, +22.8%)**. A portion of the increase in price was likely attributable to the inclusion of Berkshire in the S&P 500 Index in January. A company's addition to the S&P 500 often boosts its share price because many portfolio managers try to track the index and must buy shares of businesses that enter it. The second best performing security was **Protective Life (PL, +33.8%)**. As liquidity fears waned in the second half of 2009 and the rally in the capital markets continued through this 1Q, PL benefited as investors started to realize its value and bid up its stock price. Also, the value of PL's investments on its balance sheet increased bolstering book value. We maintain that PL is still at the lower end of its valuation range at current prices and could see more upside in its stock price. The third largest contributor in *dollar terms* was **Ross Stores (ROST, +25.6%)**. ROST had a good year and earnings per share were up 52% in the 4<sup>th</sup> quarter 2009. ROST bought back \$300M of stock in 2009 and increased its dividend from \$0.11 to \$0.16 per share. We estimate that ROST still has significant growth potential.

1Q negative performance was stock specific among the two poorest performers. **Mednax (MD, -3.2%)** declined the most in *dollar terms*. Despite continued strong operating results, shares of MD traded lower. We hypothesize that very strong performance in the stock price in the second half of 2009 enticed some investors to take profits and reduce their exposure. We reiterate our favorable long-term outlook for MD and view the 1Q stock price change as inconsequential. **EOG Resources (EOG, -4.3%)** was the second largest negative contributor. Energy stocks were among the poorest performing in the 1Q and the industry was flat overall. Further, EOG reserves did not come in as high as expected which sent the stock price down. However, we still like EOG very much. EOG has one of the best balance sheets in its industry and continues to be one of the lowest cost exploration and production

companies in its peer group. We estimate that its transformation into an oil company will contribute greatly to its future growth.

**FAM EQUITY-INCOME FUND SNAPSHOT**

The Equity-Income Fund's top 1Q performer in *dollar terms* was **Ross Stores (ROST, +25.6%)** for the same reasons it performed well in the Value Fund. The second best performing security was **OneBeacon (OB, +26.8%)**. Due to a recent restructuring of its business, we feel OB has considerable growth potential. It sold its less valuable insurance lines and kept its highly profitable specialty insurance business while reducing its catastrophe risk significantly. OB's restructuring also generated several hundred million dollars in excess capital that can be deployed for the benefit of shareholders. The third largest contributor was **Courier Corporation (CRRC, +17.6%)**. CRRC, a leading book manufacturer and specialty publisher, had improved sales and earnings for the last quarter in 2009 reflecting improvements in both of its business segments – this boosted CRRC's 1Q stock performance. In CRRC's book manufacturing segment, gains were strongest in religious scriptures and college textbooks. Plus, increased capacity utilization and cost reductions during the recession helped boost margins. Finally, the stock has a strong dividend yield.

The *only* negative performer in the 1Q was **EOG Resources (EOG, -4.3%)** declining the most in *dollar terms* for the same reasons detailed in the Value Fund.

**FAM VALUE FUND TOP TEN HOLDINGS**

Name	% of Total Inv.
White Mountains Insurance Group	5.2%
Brown & Brown	4.8%
Berkshire Hathaway	4.6%
Mednax	4.5%
John Wiley & Sons	4.1%
IDEX Corporation	3.6%
Yum! Brands	3.6%
Markel Corporation	3.5%
Meredith Corporation	3.3%
Heartland Express	3.1%
<b>TOTAL INVESTMENTS</b>	<b>\$701,916,372</b>

**FAM EQUITY-INCOME FUND TOP TEN HOLDINGS**

Name	% of Total Inv.
John Wiley & Sons	5.7%
Stryker Corporation	5.4%
Ross Stores	5.2%
McGrath RentCorp	5.1%
Meredith Corporation	5.1%
Johnson & Johnson	4.8%
Courier Corporation	4.8%
Donaldson Company	4.7%
IDEX Corporation	4.5%
OneBeacon insurance Group	3.8%
<b>TOTAL INVESTMENTS</b>	<b>\$84,419,733</b>

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

**AVERAGE ANNUAL TOTAL RETURNS AS OF MARCH 31, 2010**

*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	10.17% (1/2/87)	7.52%	1.40%	46.95%	1.40*
FAM EQUITY-INCOME FUND	SINCE INCEPTION	10 YEAR	5 YEAR	1 YEAR	
Investor Shares	7.26% (4/1/96)	7.15%	0.70%	48.55%	1.72*

**\*Disclosure:** Expenses are from the most recent prospectus. The actual total annual FAM Value Fund operating expense is **1.26%** 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"). 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](http://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.*



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