



Mutual Understanding

FAM Funds' quarterly newsletter for Investment Advisors.

FAM FUNDS – SECOND QUARTER 2010

FAM FUNDS CONTACTS

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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

After four consecutive quarters posting positive returns, the stock market rally lost its upward drive in the middle of the 2Q and pessimism reclaimed the spotlight. Just as many felt that the economy and stock market were gaining momentum and turning the corner, the proverbial apple cart was upset. In late April, fears of sovereign debt crises in Europe and a double-dip recession in the U.S. scared many investors out of the stock market. The S&P 500 Index dropped -11.4% during the quarter.

We maintain our outlook for continued, albeit slow, improvement in the overall environment based on what we are observing at the company level for American corporations. Ultimately, it is the profitability of businesses that drives the stock market higher. Despite the litany of gloom and doom and decline in the 2Q, the companies in FAM Funds remain strong and continue to gain strength as evidenced by earnings growth.

FAM QUARTER IN REVIEW

We sold one position in the Value Fund. We also added to existing positions in the Equity-Income Fund and trimmed positions in both Funds, where appropriate, based on higher valuations and/or slower growth estimates.

FAM VALUE FUND SNAPSHOT

During the 2Q, the largest contributor to positive returns on a *dollar-weighted basis* was **Brown & Brown (BRO, +7.21%)**. Management indicated signs of a turn in the insurance market on its 1Q conference call. Also, as the economic comparisons get easier and premium rates stabilize, there is better visibility into future earnings which supports our estimates for growth going forward. In addition, the company made a number of acquisitions after a very quiet 2009 which should also translate to increased growth over time. The second best performing security was **EOG Resources (EOG, +5.99%)**. EOG announced a major oil find in the Eagle Ford shale in Texas. In addition, the company increased its estimate of oil and gas reserves at other properties. Given the challenging circumstances for off-shore drilling due to the BP disaster, news of the on-shore find and the reassurance of reserves at producing properties likely contributed to the increase in EOG's stock price. The third largest contributor in *dollar terms* was **Forward Air (FWRD, +3.88)**. It was a quiet 2Q in terms of reporting; however, all signs indicate that the freight market is strengthening as demand is up. FWRD's stock likely benefited from the positive news for the sector.

2Q negative performance was stock specific among the poorest performers. **Franklin Resources (BEN, -22.09%)** declined the most in *dollar terms*. BEN is a global investment management organization known as Franklin Templeton Investments and their revenues are tied very directly to the stock market. Usually BEN goes up more than the market when it's rising and down more when it is falling; so their 2Q performance is not surprising. We still feel that BEN is very strong with more than \$4 billion of cash and significant profits. **IDEX Corporation (IEX, -13.30%)** was the second largest negative contributor. IEX is best known for its expertise in highly engineered fluidics systems and components as well as proficiency in fire and safety products. IEX sold-off in 2Q because investors are afraid that the economy will falter. In the 1Q IEX posted good results with 6% organic growth in sales and they expect 5% to 6% organic growth in 2Q. We believe the current low-level industrial production points to higher industrial activity in the future which will benefit IEX. The third largest detractor was **White Mountains Insurance Group (WTM, -8.67%)**. Unusually, WTM's book value was down in the 1Q compared to the industry which affected its stock's 2Q performance. We are still positive about WTM and believe it has promising long-term growth potential, especially from its current book value.

FAM EQUITY-INCOME FUND SNAPSHOT

The Equity-Income Fund's top 2Q performer in *dollar terms* was **EOG Resources (EOG, +5.99%)** and the second best performing security was **Forward Air (FWRD, +3.88)** for the same reasons detailed in the Value Fund. The third largest contributor was **M&T Bank Corporation (MTB, +7.0%)**. The stock appreciated because of earnings that

were ahead of expectations. We see clear evidence that the situation in the banking sector is improving. Also, there was speculation by others on Wall Street near the end of 2Q that MTB would make a transformative acquisition. This speculation also played a role in the strong performance of the stock year-to-date.

The top negative performer in *dollar terms* was **Courier Corporation (CRRC, -25.18%)** which is a leading book manufacturer and specialty publisher. CRRC traded down in 2Q due to fears of general economic decline as well as state budget stress. Since a large part of CRRC's revenue comes from printing elementary through high school (el-hi) textbooks, investors worry about states having enough money to buy new textbooks. Management has offset some of the el-hi business by shifting more toward higher education textbooks as colleges have seen growth in enrollment. Currently, the stock has a 7% dividend yield which is well covered by cash flow keeping it safe. The second largest negative contributor in *dollar terms* was **Franklin Resources (BEN, -22.09%)** for the same reasons detailed in the Value Fund. The third largest detractor was **Federated Investors (FII, -20.70%)** FII is also an asset management firm. However, unlike Franklin Resources, their primary business is money market funds. The current low interest rate environment is temporarily hurting the money fund business and as a result pressuring FII's earnings. Over time higher interest rates should improve the attractiveness of money funds and result in higher profitability for FII. Until this occurs, we remain confident in FII's financial strength.

FAM VALUE FUND TOP TEN HOLDINGS

Name	% of Total Net Assets
Brown & Brown	5.6%
White Mountains Insurance Group	5.1%
Berkshire Hathaway	4.9%
Mednax	4.7%
Yum! Brands	4.0%
John Wiley & Sons	3.9%
IDEX Corporation	3.4%
Markel Corporation	3.4%
EOG Resources	3.3%
Meredith Corporation	3.2%
TOTAL NET ASSETS	\$647,800,936

FAM EQUITY-INCOME FUND TOP TEN HOLDINGS

Name	% of Total Net Assets
Ross Stores	5.7%
John Wiley & Sons	5.6%
McGrath RentCorp	5.3%
Stryker Corporation	5.2%
Meredith Corporation	5.1%
Donaldson Company	4.9%
Johnson & Johnson	4.8%
IDEX Corporation	4.3%
OneBeacon Insurance Group	4.2%
Xilinx	4.2%
TOTAL NET ASSETS	\$76,528,055

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

AVERAGE ANNUAL TOTAL RETURNS AS OF JUNE 30, 2010

The performance data quoted represents past performance.

	SINCE INCEPTION	10 YEAR	5 YEAR	1 YEAR	TOTAL ANNUAL FUND OPERATING EXPENSES*
FAM VALUE FUND					
Investor Shares	9.73% (1/2/87)	6.40%	-0.58%	18.20%	1.28*
FAM EQUITY-INCOME FUND					
Investor Shares	6.49% (4/1/96)	6.10%	-2.03%	16.94%	1.49*

***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") 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 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.



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