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Paul C. Hogan — Research Analyst & Co-Manager of the FAM Equity-Income Fund

Paul started, “I follow the majority of our industrial companies. If you look at the S&P 500 Index, industrials have been the best performing sector so far this year. This is very positive! Industrials are cyclical by nature and when the economy is expanding, more companies make things, more people buy, more manufacturing lines are implemented, and exporting increases.” From about 2004 through 2008, the cycle grew nicely and then we had the financial crisis.

One CEO made the remark to Paul in December of 2008, “It was as though somebody flipped a light switch and all economic activity stopped.” And that was the case for a number of months, but what we have seen for the last nine months is that there have been consecutive increases in industrial production throughout the economy. “We feel very good about the industrial sector and think we are in a sustained upward trend,” Paul said.

Paul spoke about a few industrial companies. Donaldson, a company that makes filters, is a pretty good bellwether for the economy. From the largest industrial mining equipment to a tiny filter that goes into a laptop disk drive, their filters are everywhere. Donaldson has seen their early cycle businesses improving and gathering steam and their mid-cycle businesses have stabilized. “If they hit the high-end of the range for their earnings this year, then their earnings will have surpassed the previous highs they achieved in 2008. That’s an improvement!”

Paul also commented on IDEX, a company that manufactures pumps and in the most recent quarter they saw their order activity grow 10%. They think that orders will continue to increase and are also optimistic about being able to make acquisitions and grow their business.

Paul ended with transportation where we are definitely seeing an increase in freight volume. “February was better than January, and March was better than February, so that is certainly positive!” Freight rates and capacity are improving.