

# FAM Equity-Income Fund (FAMEX)



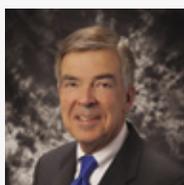
FAM FUNDS

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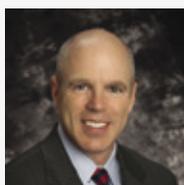
## Quarterly Advisor Commentary

for Professional Investment Advisors  
data as of 3/31/19

### Portfolio Managers



**THOMAS O. PUTNAM**  
since  
1/2/1987



**PAUL C. HOGAN, CFA**  
since  
4/1/1996

### First Quarter 2019

#### TOP CONTRIBUTORS (stock price change in %)

Xilinx	1.63%
Stryker Corp.	1.21%
Versum Materials	1.19%
CDW Corp.	1.16%
Air Products & Chemicals	0.96%

#### TOP DETRACTORS (stock price change in %)

US Ecology	-0.24%
International Flavors & Fragrances	-0.06%
National Instruments	-0.03%
Franklin Resources	0.02%
Stock Yards Bancorp	0.02%

## MARKET AND PERFORMANCE REVIEW

Stocks rallied in the quarter. After a difficult fourth quarter of 2018 in the financial markets, the Federal Reserve signaled patience entering 2019 with respect to future interest rate hikes and ultimately made it clear that it planned to hold rates steady through year-end. Taken together with an end to the U.S. government shutdown and improved prospects for a resolution to the U.S.-China trade dispute, the Fed's policy pivot apparently outweighed concerns about slowing growth and led to a significant market advance. The broad U.S. market, as gauged by the S&P 500 Index, returned 13.65% for the quarter.<sup>1</sup>

The benchmark Russell Midcap Index returned 16.54% for the first quarter. The information technology and energy sectors led performance within mid-cap stocks, while communication services, consumer staples, utilities and financial stocks lagged.<sup>2</sup> The return for FAM Equity-Income Fund in the quarter modestly lagged that of the mid-cap benchmark, as will often be the case during a strong upward move in stocks. The Fund's cash position was the leading detractor, followed by selection within industrials, financials and energy. Positive contributions were led by an overweight to and selection within information technology, followed by selection within healthcare and materials.

## NOTABLE FUND HOLDINGS

- **Versum Materials (VSM)** saw its shares appreciate significantly as the supplier of specialized materials used in the manufacture of semiconductors inked a transaction to merge with Entegris. Shortly after the merger was announced, German company Merck KGaA submitted a substantially higher bid for Versum. The stock price moved toward the higher bid, but Versum management maintained that the Entegris merger was in the best long-term interests of shareholders. We decided to sell our shares and lock in the quarter-to-date gain of approximately 75%.
- Three positions saw share price declines in the quarter, most notably hazardous waste disposal firm **US Ecology (ECOL)**. The decline was driven by management's 2019 outlook, which was below Wall Street's expectations. Management also indicated that they expect most of the growth to occur in the second half of the year. The stock was trading at an above-average valuation, so it wasn't surprising to see it sell off on the outlook.
- **International Flavors and Fragrances (IFF)** was the second worst performing company in the Fund. IFF is experiencing higher input costs as well as lower organic growth. In addition, management is working on integrating the Frutarom acquisition. This is a relatively new holding in the Fund, and the issues impacting results are what provided us with the opportunity to purchase shares in this high-quality company.
- Shares of **National Instruments Corp. (NATI)**, a provider of test and measurement equipment and software for a wide variety of industries, declined slightly in the quarter due to a slowdown in China and Europe. This softness is expected to persist for the next one or two quarters. We believe NATI remains well positioned in the industry and has a long runway for growth as they continue to expand into higher value-add system solutions for customers.

<sup>1</sup>FactSet & Bloomberg, 3/31/19

<sup>2</sup>FactSet & Bloomberg, 3/31/19

## Top 10 Holdings

CDW Corp.	7.07%
Stryker Corp.	5.71%
Air Products & Chemicals	5.62%
Arthur J. Gallagher & Co.	4.86%
Ross Stores	4.84%
Ingersoll Rand	4.52%
Avery Dennison Corp.	4.51%
Xilinx	4.09%
Digital Realty Trust	3.98%
Microchip Technology	3.95%

## Portfolio Information

FAMEX (Investor Shares)  
CUSIP: 314465204  
Inception Date: 4/1/1996

Fund Size: \$291,363,109



## PORTFOLIO ACTIVITY

- **Fastenal Company (FAST)** was a new purchase during the quarter. While the industrial supply company has been growing nicely, the valuation multiple has contracted which means the stock has underperformed over the past year. We took advantage of the lower valuation to take an initial position in what we believe to be a high-quality company.
- A small position was initiated in **Roper Technologies (ROP)** during the quarter. Roper has consistently grown faster than its industrial peers, which we attribute to exceptional management that has positioned the business in sustainable high growth markets. We expect to add to the position over time.
- Additions to existing positions included **Broadridge Financial Solutions (BR)**, **Watsco (WSO)**, **Digital Realty Trust (DLR)**, **IDEX Corp. (IEX)**, **Marriott International (MAR)**, **Microchip Technology (MCHP)**, **US Ecology (ECOL)**, **Ingersoll Rand (IR)**, and **Avery Dennison Corp. (AVY)**.
- In addition to exiting Versum Materials, we eliminated our position in **Franklin Resources (BEN)** as the asset manager has been a chronic underperformer and we don't see a near-term path for a return to its historical growth rates.
- **Penske Automotive Group (PAG)** was also removed from the portfolio. While Penske is a well-managed company, we believe the growth rate from here will be below its historical average due to the auto industry being at near-peak sales.
- **Xilinx (XLNX)** was trimmed due to an elevated valuation. **T. Rowe Price Group (TROW)** was trimmed as well, based on valuation and a lowered outlook for growth.
- The Fund ended the quarter with a modestly elevated cash level of 9.5%, due principally to the sale of Versum Materials and Penske Auto Group, as well as cash inflows near the end of the quarter

## OUTLOOK

Stocks rebounded in the first quarter despite slower global growth, with the aid of accommodative central banks and an easing in trade concerns. Should volatility return to the market, we have cash at the ready to build positions as well as buy new names on our watchlist. We will continue to "let our compounders compound" as stocks over time typically reflect the growth of their underlying businesses. We expect that the Fund's holdings should continue to increase their cash dividends to shareholders.

*Past performance is not indicative of future results, current performance may be higher or lower 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 Equity-Income Fund and should be read carefully before you invest or send money. The principal risks of investing in the fund 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 performance data that is current to the most recent month-end for each fund as well as other information on the FAM Equity-Income Fund, please go to [famfunds.com](http://famfunds.com) or call (800) 932-3271.*

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