FAM Equity-Income Fund *(FAMEX)*

FAM FUNDS

In-depth research. Insightful investing.

Quarterly Advisor Commentary

for **Professional Investment Advisors**
data as of **12/31/18**

Portfolio Managers

THOMAS O. PUTNAM
since 1/2/1987

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

Fourth Quarter 2018

TOP CONTRIBUTORS
(stock price change in %)

Xilinx	0.27%
McCormick & Company	0.09%
Interpublic Group of Companies	0.05%
Forest City Realty Trust	.002%
Sonic Corp.	.001%

TOP DETRACTORS
(stock price change in %)

EOG Resources	-1.30%
Ross Stores	-0.90%
Stryker Corp.	-0.73%
South State Corp.	-0.72%
CDW Corp.	-0.68%

MARKET AND PERFORMANCE REVIEW

The fourth quarter of 2018 saw a sharp decline in U.S. equities, leading major indices into negative territory for the full year. After showing resilience in the face of adverse geopolitical headlines for much of the year, stocks moved lower in October on concerns that the U.S. Federal Reserve was preparing to exceed market expectations for interest rate hikes in 2019. The sell-off gained momentum as signs of slowing growth overseas highlighted the downside risks to a global trade war. Finally, the prospect of a government shutdown and uncertainty around the outlook for U.S. economic growth and corporate earnings in 2019 further weighed on sentiment as the year ended.

The benchmark Russell Midcap Index returned -15.37% for the fourth quarter. Within mid-cap stocks, defensive sectors turned in the best performance including utilities, real estate, and consumer staples. Energy was the biggest laggard within the Index by a wide margin.

The -9.97% return for FAM Equity-Income Fund in the quarter exceeded that of the mid-cap benchmark. Stock selection had a positive effect on relative performance, led by results within information technology, consumer discretionary, financials, and materials. Selection lagged only within utilities, while an underweight to real estate also detracted.

NOTABLE FUND HOLDINGS

- Positive contributions to performance were led by **IDEX Corp. (IEX)**, a provider of fluidic devices such as pumps, meters and controls to a wide range of industries. IDEX reported solid growth for the third quarter and reiterated a strong outlook in the fourth quarter. The consistent organic growth of this company has commanded a premium multiple.
- **McCormick & Company (MKC)** shares benefited from investors shifting assets into defensive consumer staples names on concerns over a global slowdown and higher interest rates. The company also continues to benefit from the acquisition of Reckitt Benckiser Group (Frank's RedHot and French's brands).
- Advertising company **Interpublic Group of Companies (IPG)** was the third largest contributor to performance in the quarter due to timing of our exit. We sold the position in early November before the significant market decline, preserving a modest positive return for the quarter.
- On the downside, shares of oil & gas exploration company **EOG Resources (EOG)** declined with the price of oil. The stock tends to trade with the commodity in the short term.
- Shares of **Ross Stores (ROST)** declined along with the overall market. However, the off-price retailer's significant weighting in the portfolio drove an outsized effect.
- **Stryker Corp. (SYK)** shares declined slightly less than the market, but as the second largest position in the Fund the impact was notable. We view Stryker as continuing to fire on all cylinders and it is one of the fastest growing medical technology companies.

Top 10 Holdings

CDW Corp.	7.35%
Air Products & Chemicals	5.82%
Arthur J Gallagher & Co.	5.66%
Stryker Corp.	5.60%
Ross Stores	5.13%
Ingersoll Rand	4.35%
Xilinx	4.29%
Avery Dennison Corp.	4.05%
Digital Realty Trust	3.96%
Microchip Technology	3.52%

Portfolio Information

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

Fund Size: $240,545,373

PORTFOLIO ACTIVITY

- We initiated a position in **Broadridge Financial Solutions (BR)** during the quarter. Broadridge offers a wide array of products serving financial services firms and public companies. Their flagship product is Proxy Edge which aggregates shareholder and voting information. The company has a significant base of recurring revenue along with a long history of growth augmented by acquisition. Broadridge earns close to a 20% return on invested capital and has more than doubled its dividend over the last five years.
- We took a small position in **Marriott International (MAR)** after the hotel chain disclosed a data breach, sending the stock nearly 25% below its 52-week high. The company has more than doubled its dividend over the last five years. We view Marriott as a premier lodging franchise and expect to build a larger position over time.
- The downward pressure on stocks during the quarter gave us the opportunity to add to several existing positions. These include pressure-sensitive label manufacturer **Avery Denison Corp. (AVY)**, data center-based **REIT Digital Realty Trust (DLR)**, HVAC distributor **Watsco (WSO)**, regional bank **M&T Bank Corp. (MTB)**, flavor and scent manufacturer **International Flavors & Fragrances (IFF)**, off-price retailer **Ross Stores (ROST)**, regional bank **South State Corp. (SSB)**, and accounting staffing firm **Robert Half International (RHI)**.
- We exited positions in REIT **Forest City Enterprises (FCE-A)** and fast food chain **Sonic Corp. (SONC)** as they were acquired. As noted, we exited **Interpublic Group of Companies (IPG)** because we believe their competitive position and the broader advertising industry has weakened. Finally, we trimmed the Fund's position in hazardous waste disposal company **US Ecology (ECOL)** on valuation concerns.
- The Fund ended the quarter with a slightly elevated level of cash, at 8.67%, due to positive flows into the Fund and the timing of transactions in the portfolio.

OUTLOOK

We are experiencing a slowdown in global growth, driven in part by both tariffs and central bank monetary tightening. As growth slows, valuations can be expected to contract. We believe stocks will settle in at some point and again reflect the growth in their underlying businesses, but when this may happen is difficult to predict.

In the meantime, we are taking advantage of lower prices to make modest adjustments to the portfolio, increasing select positions and adding new names which we estimated were too expensive to buy just three months ago.

We are cautious about valuations at current levels. As always, our team continues to seek to invest in good businesses, which we believe should compound over time, at prices below what we think they are worth.