

# FAM Small Cap Fund (FAMFX & FAMDX)



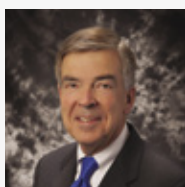
FAM FUNDS

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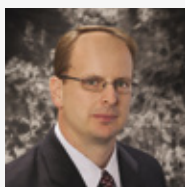
## Quarterly Advisor Commentary

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

### Portfolio Managers



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



**ANDREW F. BOORD**  
since  
1/1/2016

### MARKET AND PERFORMANCE REVIEW

Stocks rallied in the quarter and seemed to be driven, in large part, by a looser tenor to global central bank policy. 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>

Small-cap stocks returned 14.58% in the quarter as measured by the Russell 2000 Index benchmark. Within small-cap stocks, information technology, energy and real estate stocks led performance, while consumer staples, financials and utilities lagged. In terms of style, the Russell 2000 Growth Index returned 17.14% while the Russell 2000 Value Index returned 11.93%.<sup>2</sup>

The FAM Small Cap Fund's return trailed the quarterly return for the Russell 2000 benchmark. Stock selection within consumer discretionary and industrials led positive contributions to return versus the benchmark. Selection within healthcare and information technology weighed most heavily on return.

### First Quarter 2019

#### TOP CONTRIBUTORS

(stock price change in %)

Frontdoor	1.24%
Monro	1.03%
Multi-Color Corp.	0.79%
PC Connection	0.73%
Colliers International Group	0.70%

#### TOP DETRACTORS

(stock price change in %)

Natus Medical	-0.99%
Diamond Hill Investment Group	-0.22%
Hallmark Financial Services	-0.07%
US Ecology	0.01%
Winmark Corp.	0.08%

### NOTABLE FUND HOLDINGS

- Positive contributions to performance in the quarter were led by **Frontdoor (FTDR)**, the leading U.S. home warranty provider. Frontdoor has an effort underway to disrupt the broader home repair universe, utilizing technology and a network of more than 45,000 independent repair technicians. The company saw its shares rebound on improved results and we believe Frontdoor has the potential to expand its profits over time.
- Auto repair chain **Monro (MNRO)** was the second largest contributor. After a couple of soft years, results have improved — most likely due to a combination of macro factors including colder winters and more cars on the road plus improved store level execution.
- A position in label manufacturer **Multi-Color Corp. (LABL)** also added to relative performance in the quarter. The stock had declined considerably, likely due to concerns over a recent acquisition along with expectations for a sluggish environment. The company announced in late February that it had entered into an agreement to be acquired by a private equity firm at a premium of more than 30% above its recent trading range.
- Medical device company **Natus Medical (BABY)** was the biggest drag on performance in the quarter. Natus has a new CEO and several new board members who are focused on improving the company's results through such steps as reducing overhead and shutting down unprofitable products. In our view, Natus demonstrated progress toward these goals in the most recent quarter, but apparently some investors were disappointed or expected the new board members to force a quick sale of the business.

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

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

## Top 10 Holdings

Frontdoor	5.48%
Hostess Brands	5.24%
Monro	4.95%
ExlService Holdings	4.67%
National Commerce Corp.	4.54%
Choice Hotels International	4.31%
CBIZ	4.29%
Colliers International Group	4.24%
Penske Auto Group	4.16%
Pinnacle Financial Partners	4.13%

## Portfolio Information

**FAMFX** (Investor Shares)  
CUSIP: 314465501  
Inception Date: 3/1/2012

**FAMDY** (Institutional Shares)  
CUSIP: 314465600  
Inception Date: 1/1/2016

Fund Size: \$174,823,445

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 Small Cap 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 Small Cap Fund, please go to [famfunds.com](http://famfunds.com) or call (800) 932-3271.

- **Diamond Hill (DHIL)** also detracted as few areas of the market are as out of favor as micro-cap, active investment managers. We believe that the pessimism around the segment has gone too far and that the firm's stock is cheap at current levels.
- Shares of **Hallmark Financial Services (HALL)** also declined despite the property and casualty insurer posting strong results. We believe the stock remains inexpensive.

## PORTFOLIO ACTIVITY

- We did not introduce any new ideas during the quarter but added to eight positions.
- We completed the sale of hazardous waste disposal company **US Ecology (ECOL)** in the quarter. We have a positive view on the business but exited due to a high valuation and perceived better opportunities. Additionally, we trimmed information technology solutions provider **PC Connection (CNXN)** based on valuation.
- Despite entering the quarter with minimal cash of 2.7% and being a net buyer of stocks, we ended March with a slightly elevated cash level of 7.2% of assets, the result of strong inflows.

## OUTLOOK

Last quarter, we noted that many of the worries then overhanging the market could ease as 2019 progresses. Indeed, stocks rebounded in the first quarter despite slower global growth with the aid of more accommodative central banks and an easing in trade concerns.

It is a bit of a quiet period today, but a few weeks ago when our holdings were more communicative the evidence on balance seemed to suggest that the economy was growing, perhaps not rapidly, but at a solid pace. We are seeing a variety of positive and negative macro data points, so a trend is difficult to determine. For now, our base case is continued modest economic growth, but of course we are prepared to adjust accordingly should the picture change. Each company is impacted differently by shifting conditions and we think that some are better positioned than others to maintain pricing and adapt via cost reductions as necessary.

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