FAM Value Fund
(FAMVX & FAMWX)

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

JOHN D. FOX, CFA
since 5/1/2000

DREW P. WILSON, CFA
since 7/17/2017

Fourth Quarter 2018

TOP CONTRIBUTORS
(stock price change in %)

AutoZone	0.31%
YUM! Brands	0.03%
Forest City Realty Trust	0.01%
Franklin Resources	-0.01%
Dollar General Corp.	-0.02%

TOP DETRACTORS
(stock price change in %)

EOG Resources	-1.24%
Mohawk Industries	-1.13%
Ross Stores	-1.12%
IDEX Corp.	-1.01%
FLIR Systems	-0.99%

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 drew to a close.

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

The -12.52% return for FAM Value Fund in the quarter exceeded that of the mid-cap benchmark. Stock selection had a positive effect on relative performance, led by results within financials, consumer discretionary, and healthcare. A total lack of exposure to both utilities and consumer staples detracted, as did an underweight to real estate.

NOTABLE FUND HOLDINGS

- Positive contributions to relative performance in the fourth quarter were led by **AutoZone (AZO)**, which saw its shares move higher despite the sharp decline in the broader market. AutoZone benefited from strong quarterly results and improved sentiment with respect to the longer-term prospects for brick-and-mortar auto part retailers.
- A number of the Fund's larger holdings declined significantly less than the market, including business insurance company **Brown & Brown (BRO)**, conglomerate holding company **Berkshire Hathaway (BRK.A)**, and **CDW Corp. (CDW)**, a provider of technology products and services to businesses, governments, and educational institutions. In addition, entering the quarter with a good cash position helped.
- Most of the Fund's industrial names declined notably in the quarter. Shares of both industrial air filtration company **Donaldson Company (DCI)** and **FLIR Systems (FLIR)**, the leading provider of thermal imaging cameras to businesses and governments, were down more than 25%.
- Within consumer discretionary, shares of flooring manufacturer **Mohawk Industries (MHK)** continued to suffer from the housing supplier sell-off. Poor results have been driven by high material prices and freight rates. Mohawk is a franchise company and we believe its management is excellent, so we added to the position on weakness.

PORTFOLIO ACTIVITY

- We were very active in the quarter, adding to 13 existing holdings and initiating one significant new position. The increases to existing positions were executed across several industries including banking, energy, and industrials. In each

Top 10 Holdings

CDW Corp.	6.14%
Ross Stores	5.96%
IDEX Corp.	5.32%
Markel Corp.	5.12%
Brown & Brown	4.67%
Berkshire Hathaway	4.40%
Brookfield Asset Management	3.73%
CarMax	3.41%
AutoZone	3.38%
Illinois Tool Works	3.24%

Portfolio Information

FAMVX *(Investor Shares)*
CUSIP: 314465105
Inception Date: 1/2/1987

FAMWX *(Institutional Shares)*
CUSIP: 314465709
Inception Date: 1/1/2017

Fund Size: $1,132,404,096

case, we took advantage of market weakness to purchase shares at a price that we believed failed to reflect the true intrinsic value of the company.

- The new company, **Avery Dennison (AVY)**, is the world leader in manufacturing pressure-sensitive labels used on thousands of products from bottles to automotive tires. The company's size and 40% market share give it an advantage over its competitors in product pricing and delivery. Return on invested capital is above 15% and Avery generates significantly more cash than is needed to grow the business. We purchased the stock after it declined more than 25% from its high.
- We sold the majority of our shares in the advertising agency **Interpublic Group of Companies (IPG)**. We originally purchased the stock in April of 2012 when IPG was the operating laggard among the four global advertising holding companies. We thought the problems were solvable by a new management team and were correct as the stock price doubled over six years. However, the emergence of new competitors such as Google and Facebook undermined the traditional advertising model. In addition, IPG made a large acquisition funded in part by increased debt.
- The Fund's longtime real estate investment trust holding **Forest City Enterprises (FCE-A)** was acquired for $25.35 per share in cash by Brookfield Asset Management (BAM), one of our other holdings. We had made a substantial purchase in 2016 at below $19 a share and valued the company at $25 a share. The acquisition closed in December and we were able to redeploy the cash proceeds into other investments.
- At the end of 2018, the Fund's cash position was at the lower end of our typical 5% to 10% range at 5.49%.

OUTLOOK

Investors have been concerned about tariffs, slower economic growth in China and Europe, political uncertainty, and the future level of U.S. interest rates. Recent corporate news and economic data indicate that the global economy is slowing and earnings expectations for 2019 may be too high. We should learn much more in the third week of January when companies begin to report their financial results.

The companies we hold are generating significant cash profits that can be used for investment, acquisitions, dividends, or stock buybacks. We believe we have invested in management teams that can use these cash profits wisely and create value per share.

After a few years of writing about fair-to-high valuations, the recent decline in stock prices has created more opportunities to purchase shares in well-run companies at a discount to what we think they are worth.