

FAM Small Cap Fund (FAMFX & FAMDX)



FAM FUNDS

In-depth research. Insightful investing.

Quarterly Advisor Commentary

for Professional Investment Advisors
data as of 9/30/18

Portfolio Managers



THOMAS O. PUTNAM
since
1/2/1987



ANDREW F. BOORD
since
1/1/2016

MARKET AND PERFORMANCE REVIEW

Domestic equity returns were in firmly positive territory in the third quarter. In our opinion, market sentiment continued to be supported by robust economic growth and better-than-expected corporate earnings. As a result, stocks continued to grind higher despite the Federal Reserve's rate hiking trajectory and concerns around U.S. trade policy. The Fed raised rates by a quarter point on September 26, its third such increase of 2018, while signaling the likelihood of an additional increase before year-end.

In a reversal of the trend that characterized the first half of the year, small-cap stocks lagged their large-cap peers. Relative performance of smaller stocks had benefited from expectations that domestically focused companies would be less impacted by a potential trade war, but this thesis appeared to become less compelling in the third quarter. Within small-cap stocks, information technology, healthcare, and industrial issues led performance, while the energy and consumer staples sectors were the biggest laggards.¹ Value lagged within small caps, as the Russell 2000 Growth Index returned 5.36% while the Russell 2000 Value index rose only 1.13%.

The FAM Small Cap Fund's return of 3.48% modestly lagged the return for the Russell 2000 benchmark for the quarter. Stock selection within consumer discretionary led positive contributions to returns versus the benchmark, followed by selection within industrials, information technology, and energy. Positioning with respect to financials, healthcare, and consumer staples detracted from relative performance.

Third Quarter 2018

TOP CONTRIBUTORS (stock price change in %)

Sonic Corp.	1.01%
Monro	0.74%
ExlService Holdings	0.70%
PC Connection	0.68%
Boston Omaha Corp.	0.65%

TOP DETRACTORS (stock price change in %)

Hostess Brands	-0.80%
Diamond Hill Investment Group	-0.61%
National Commerce Corp.	-0.54%
Carriage Services	-0.47%
FRP Holdings	-0.16%

NOTABLE FUND HOLDINGS

- A position in **Sonic Corp. (SONC)** was the leading individual contributor to performance relative to the benchmark in the quarter. We purchased shares of Sonic in early 2017 when most fast food chains stumbled for a variety of reasons that we thought would pass with time. As Sonic reported improving results, the shares advanced nicely. We exited the position late in the quarter on the announcement of plans for Sonic to be acquired by Roark Capital Group, owner of Arby's and Buffalo Wild Wings.
- Other notable positive contributions came from positions in automotive repair chain **Monro (MNRO)**, operations management and analytics company **ExlService Holdings (EXLS)**, enterprise technology solutions provider **PC Connection (CNXN)**, billboard and insurance conglomerate **Boston Omaha Corp. (BOMN)**, and hazardous waste compliance and disposal company **US Ecology (ECOL)**. The common thread in share price strength for these companies was generally the posting of improved results.
- On the downside, negative contributions were led by snack manufacturer **Hostess Brands (TWNK)**, investment manager **Diamond Hill Investment Group (DHIL)**, and bank holding company **National Commerce Corp. (NCOM)**. While Hostess reported disappointing results, we expect improvement in the relatively near future. Results for Diamond Hill and National Commerce were solid, but both active asset managers and banks have been out of favor.

¹FactSet 9/30/18

Top 10 Holdings

ExlService Holdings	5.00%
CBIZ	4.74%
National Commerce Corp.	4.65%
Monro	4.45%
Choice Hotels International	4.44%
PC Connection	4.18%
Hostess Brands	4.17%
Multi-Color Corp.	4.17%
US Ecology	4.10%
Natus Medical	3.96%

Portfolio Information

FAMFX (Investor Shares)

CUSIP: 314465501

Inception Date: 3/1/2012

FAMDX (Institutional Shares)

CUSIP: 314465600

Inception Date: 1/1/2016

Fund Size: \$185,911,376



PORTFOLIO ACTIVITY

- No new positions were added in the quarter.
- We added to a number of existing positions, most notably regional bank **Pinnacle Financial Partners (PNFP)**. We also added to conglomerate **Boston Omaha Corp. (BOMN)**, funeral home company **Carriage Services (CSV)**, multinational commercial real estate broker/manager **Colliers International Group (CIGI)**, investment manager **Diamond Hill Investment Group (DHIL)**, snack manufacturer **Hostess Brands (TWNK)**, label manufacturer **Multi-Color Corp. (LABL)**, and medical equipment company **Natus Medical (BABY)**.
- We finished selling **Consolidated-Tomoka Land Co. (CTO)** as part of a swap for Colliers International Group that we began to execute in the prior quarter. As noted above, we also sold Sonic Corp. after the takeover was announced.
- We trimmed several winners at higher valuations, such as payroll services company **CBIZ (CBZ)**, real estate company **FRP Holdings (FRPH)**, automotive repair chain **Monro (MNRO)**, enterprise technology company **PC Connection (CNXN)**, point of sale and security technology company **ScanSource (SCSC)**, and hazardous waste services firm **US Ecology (ECOL)**.
- In part due to our exiting Sonic near quarter-end, we ended the quarter with a cash level of 8.49% of assets.

OUTLOOK

While in our opinion the economy remains strong, we are monitoring a wide range of macroeconomic and geopolitical trends including inflation, higher interest rates, and increasing tariffs. That said, our efforts remain focused on understanding a few great businesses. This is where we believe our edge comes from, not macroeconomic or geopolitical analysis. We continue to view our portfolio as a collection of excellent businesses that should, in our opinion, do well over the next 5 to 10 years regardless of the macro environment.

One area where valuations have declined, and we currently see opportunities, is community and regional banks. Additionally, in our experience, value stocks perform well over the long term. Given the extended period of outperformance growth stocks have experienced, we expect value to return to favor.

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 or call (800) 932-3271.

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