

# FAM Value Fund (FAMVX & FAMWX)



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



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



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

### 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.

The benchmark Russell Midcap Index returned 5.00% for the third quarter. Within mid-cap stocks, performance was led by the telecommunication services, healthcare, information technology, and industrials sectors, while returns for materials, real estate, financials, energy, and consumer staples lagged. Growth outperformed value in the quarter, while larger-cap stocks outperformed their smaller-cap counterparts.<sup>1</sup>

The return of 6.68% in the quarter for the FAM Value Fund exceeded the return for the mid-cap benchmark. Positive contributions to the Fund's relative performance were led by selection within consumer discretionary and financials, as well as by an overweight selection to and selection within industrials. The most significant detractors from the Fund's performance were an underweight selection to and selection within information technology along with selection within healthcare.

### NOTABLE FUND HOLDINGS

- In terms of individual names, off-price retailer **Ross Stores (ROST)** had the largest positive impact on the Fund's performance during the quarter. Off-price retailers, in general, have continued to do well and Ross reported better-than-expected growth in both same-store sales and earnings. In addition, guidance for the full year was increased.
- Shares of industrial air filtration company **Donaldson Company (DCI)** also experienced strong gains. Donaldson reported excellent results for the fiscal year ending July 2018 with sales up 15% and earnings per share (EPS) up 18%. The outlook for fiscal 2019 is for EPS growth in excess of 15%.
- On the downside, flooring manufacturer **Mohawk Industries (MHK)** saw its shares suffer from this year's housing supplier sell-off as well as from poor second quarter results. A litany of items from raw material price increases to higher freight rates will hurt margins for the fiscal year. Management is taking steps to increase product pricing and reduce costs. Mohawk is a franchise company with excellent management and we believe the problems should be temporary.
- **Microchip Technology (MCHP)**, a manufacturer of memory and processing components used in a wide range of electronic devices, was the second largest detractor from performance during the quarter. Management indicated that incremental sales from the recent acquisition of MicroSemi would be lower than expected for two or three quarters as excessive inventory at distributors is brought down to more normal levels. As a result, paydown of the debt incurred to fund the acquisition will be delayed. In addition, there are concerns about a turn in the cycle for semiconductor companies.

### Third Quarter 2018

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

Ross Stores	0.88%
Donaldson Company	0.69%
CDW Corp.	0.53%
IDEX Corp.	0.51%
AutoZone	0.51%

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

Mohawk Industries	-0.37%
Microchip Technology	-0.27%
T. Rowe Price	-0.13%
Interpublic Group of Companies	-0.08%
M&T Bank Corp.	-0.08%

<sup>1</sup>FactSet 9/30/18

## Top 10 Holdings

Ross Stores	6.07%
CDW Corp.	5.76%
IDEX Corp.	5.42%
Markel Corp.	4.83%
Brown & Brown	4.29%
Berkshire Hathaway	3.94%
AutoZone	3.73%
Brookfield Asset Management	3.71%
CarMax	3.47%
EOG Resources	3.32%

## PORTFOLIO ACTIVITY

- During the quarter, we added to our existing position in **Mohawk Industries (MHK)**.
- There were no material reductions to existing positions.
- At period-end, the Fund's cash position was 6.49%. This in line with its normal range.

## OUTLOOK

We continue to view the extent to which the recently launched trade war impacts economic growth and corporate profits as a key variable. In the absence of a global slowdown which could stem from escalating trade barriers, we remain vigilant for any signals of an increase in inflation that could lead to higher interest rates. Finally, while in our opinion there are currently no signs of imminent recession, we are watching the credit cycle closely and monitoring speculative activity.

Under all conditions, we will remain focused on maintaining a collection of quality holdings while continuing to look for other businesses that we would like to invest in at the right price. One area where valuations have declined, and we currently see opportunities, is community and regional banks.

## Portfolio Information

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

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

Fund Size: \$1,317,242,500

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

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