



FAM FUNDS

Managed by
FENIMORE ASSET MANAGEMENT

FAMFX & FAMDX FAM SMALL CAP FUND QUARTERLY ADVISOR COMMENTARY Q4•2019

For Professional Investment Advisors
Data as of December 31, 2019

PORTFOLIO MANAGERS



ANDREW F. BOORD
since 1/1/2016



KEVIN D. GIOIA, CFA
since 10/1/2019



THOMAS O. PUTNAM
since 3/1/2012

PORTFOLIO INFORMATION

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

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

Fund Size: \$200,958,300

Market and Performance Review

Returns for U.S. equities were well into positive territory for the fourth quarter, capping a strong 2019 for the market. Investors were heartened by evidence of improving economic growth both domestically and overseas, the prospect of a truce in the U.S.-China trade war, and another reduction in the U.S. Federal Reserve's benchmark lending rate.

Domestic small-cap stocks as gauged by the Russell 2000 Index returned a positive 9.94% for the quarter, modestly outperforming their large-cap counterparts.¹ Within small-cap stocks, health care stocks led performance for the quarter, followed by information technology, while utilities and real estate were the biggest laggards. In terms of style, the Russell 2000 Growth Index returned 11.39% while the Russell 2000 Value Index returned 8.49%.²

FAMFX/FAMDX's return meaningfully lagged that of the Russell 2000 benchmark for the quarter. Stock selection within health care was the biggest detractor from return versus the

benchmark, driven by holdings within biotechnology. Positioning with respect to consumer discretionary also weighed on return. Selection within industrials and a lack of exposure to utilities led positive contributions to performance.

Notable Fund Holdings

- Positive contributions to performance were led by **Carriage Services (CSV)**. The funeral home company reported strong operating results on better execution connected to changes in incentive compensation. The company also made three acquisitions which were material in relation to CSV's prior business.
- A position in **PC Connection (CNXN)** also contributed notably. Shares of the technology solutions provider outperformed despite some softening in its business in the quarter, attributable to the inherently "lumpy" buying patterns of customers.
- **Hallmark Financial Services (HALL)**, a leading detractor for the quarter, is a specialty insurer with strong positions in several niche markets (e.g., insurance for small airplanes). The company overall had a very strong quarter with improved underwriting results and mid-teens book value growth. However, pressures on the commercial auto segment have weighed on sentiment with respect to the stock.
- **Frontdoor (FTDR)** also weighed on results. The home service plan company had an excellent year and continues to execute on a number of exciting initiatives including a potential on-demand offering.

Portfolio Activity

- We added to our position in transportation logistics company **Landstar System (LSTR)** as the valuation became more attractive after the overall trucking industry came under pressure. The portfolio's position in auto repair chain **Monro (MNRO)** was increased after a slow quarter resulted in an attractive valuation. We added to **Matador Resources (MTDR)** as well, as the entire energy space was under pressure in 2019, providing an opportunity to add shares at an attractive valuation.
- We made a full sale of **AngioDynamics (ANGO)** after the medical device company made speculative acquisitions and the CFO departed. We sold the rest of our position in boutique investment manager **Diamond Hill Investment Group (DHIL)** on the view that we could find higher quality businesses in which to invest the proceeds.
- The portfolio's cash position ended the quarter at 9.1%, at the high end of our typical range. We are actively sourcing new ideas moving into 2020 and will look to work this down. Should the market give us an opportunity, we would also be interested in adding to our existing companies.

¹ Bloomberg as of 12/31/19

² Bloomberg as of 12/31/19

Market Perspective

On the trade side, we appear to be moving toward a resolution between China and America. As we write this letter, the President has confirmed that the United States will sign a “Phase 1” agreement with China and immediately begin negotiations on “Phase 2.” The easing of trade tensions is a positive for corporate earnings and removes a major uncertainty for corporate management teams. With low interest rates and a seeming resolution to the trade war, we see more of the same for the economy – modest GDP growth, job creation, and higher corporate profits.

Political and macroeconomic developments are important, but the vast majority of day-to-day issues that initially grab headlines ultimately prove inconsequential. To win the marathon of investing we must focus on the real source of returns – the companies in which we invest. The universe of investable small companies totals roughly 2000. Of those, about 40% don’t make money.³ Many others have no competitive advantages or operate in a “faddish” space in our opinion. Our focus on long-term results keeps us focused on the approximately 100 to 200 companies that meet our quality criteria.

³FactSet as of 12/31/19

TOP 10 HOLDINGS			
CBIZ	5.45%	Colliers International Group	4.42%
Hostess Brands	5.30%	Carriage Services	4.20%
Frontdoor	5.04%	Pinnacle Financial Partners	4.20%
Choice Hotels International	4.99%	CenterState Bank Corp.	4.15%
ExlService Holdings	4.69%	Monro	4.13%

TOP 5 CONTRIBUTORS*			TOP 5 DETRACTORS*		
Name	Average Weight (%)	Contribution (%)	Name	Average Weight (%)	Detraction (%)
Carriage Services	4.20%	0.86%	AngioDynamics	SOLD	-0.48%
PC Connection	3.25%	0.73%	Hallmark Financial Services	3.10%	-0.27%
Choice Hotels International	4.99%	0.71%	Frontdoor	5.04%	-0.12%
CBIZ	5.45%	0.70%	Floor & Decor Holdings	3.11%	-0.02%
Franklin Electric Co.	3.51%	0.59%	Diamond Hill Investment Group	SOLD	-0.01%

*Reflects top contributors and top detractors to the fund’s performance based on each holding’s contribution to the overall fund’s return for the period shown. The information provided does not reflect all positions purchased, sold or recommended for advisory clients during the period shown. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed. Past performance is no guarantee, nor is it indicative, of future results. For more detailed information on the calculation and methodology as well as a complete list of every holding’s contribution to the overall fund’s performance during the time period shown, please call (800) 932-3271 or visit the fund’s website at famfunds.com. Portfolio composition will change due to ongoing management of the fund. References to individual securities are for informational purposes only and should not be construed as an offer or a recommendation, by the fund, the portfolio managers, or the fund’s distributor, to purchase or sell any security or other financial instrument. The summary is not advice, a recommendation or an offer to enter into any transaction with Fenimore or any of its affiliated funds. The portfolio holdings as of the most recent quarter.

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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