



FAM FUNDS

Managed by
FENIMORE ASSET MANAGEMENT

FAMVX & FAMWX

FAM VALUE FUND
QUARTERLY ADVISOR
COMMENTARY Q2•2019

For Professional Investment Advisors
Data as of June 30, 2019

PORTFOLIO MANAGERS



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



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



THOMAS O. PUTNAM
since 1/2/1987

PORTFOLIO INFORMATION

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

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

Fund Size: \$1,336,389,788

Market and Performance Review

U.S. equities delivered positive returns in the second quarter, although there was significant interim volatility. After a strong April, stocks declined in May on data suggesting slower economic growth and President Trump's announcement of plans to impose 25% tariffs on some \$200 billion in imports from China. This was punctuated by an inversion of the yield curve which many investors interpreted as a sign of imminent recession.

The stock market rebounded in June, with gains driven principally by a shift in U.S. Federal Reserve policy. In contrast to expectations going into 2019 that the benchmark overnight lending rate was headed higher, the Fed signaled that it was prepared to cut rates one or more times before year-end. Along with a firming in the corporate earnings outlook, the increasingly accommodative nature of Fed policy outweighed concerns around growth and trade as the quarter drew to a close.

The Fund's benchmark, the Russell Midcap Index, returned 4.13%. Once again, "growth" stocks performed better than "value" stocks at all capitalization levels. Within mid-cap stocks, the materials, financials, information technology, and industrial sectors led performance, while energy, consumer staples, and real estate stocks lagged.

Within this context, the return for FAM Value Fund beat its benchmark. Outperformance was largely driven by selections within the consumer discretionary and information technology sectors.

Notable Fund Holdings

- Positive contributions to performance in the quarter were led by **CDW Corp. (CDW)**, a technology reseller of hardware and IT solutions. CDW continued its strong performance as revenue and earnings exceeded expectations in the most recent quarter, driven by upgrades of client devices. The firm's balance sheet is now under-levered relative to management targets, which supports the potential for acquisitions going forward. As CDW gets larger, we believe their competitive advantages should increase.
- The Fund's position in **CarMax (KMX)** was another leading contributor. The largest used car retailer in the United States had positive momentum coming into the second quarter after reporting an earnings beat for the fourth quarter of 2018. This momentum accelerated in late June as CarMax again reported quarterly earnings that were above expectations.
- Life sciences laboratory instrument manufacturer **Waters Corp. (WAT)** led detractors as it reported a significant earnings miss driven by slower-than-expected sales in Europe and China, as well as in the company's pharmaceutical end markets.
- The stock price for **Forward Air Corp. (FWRD)** declined as the provider of expedited ground transportation delivery services reported a first quarter miss on both sales and earnings. The company also indicated that its growth plan would require capital investment beyond what had been communicated previously.

Portfolio Activity

- No new positions were initiated in the quarter. The Fund slightly increased positions in insurance holding company **Markel Corp. (MKL)** and energy company **EOG Resources (EOG)** on what we deemed were attractive relative valuations.
- In addition to our concerns about **Forward Air** mentioned above, the company is branching into new transportation services as its core expedited less-than-truckload service faces profitability headwinds. Taken together, these factors create additional uncertainty with respect to the earnings power of the business. We exited our position in Forward Air.
- The Fund had a 6.9% cash position at quarter-end, which is within a normal range.

Outlook

The global economy is showing signs of slowing growth, particularly in Asia and Europe. The cyclical backdrop along with fears of the consequences of a protracted trade dispute with China could create headwinds to revenue growth here in the U.S. We are monitoring the companies we follow for indications of a slowdown.

At this writing, world leaders are meeting in Japan to discuss international issues. At the top of the agenda are global trade and tariffs. The leaders of China and the U.S. plan on meeting in a few days to discuss their differences. While we hope that cooler heads will prevail, we make no prediction about the upcoming talks. We do know that the management teams of our holdings effected by tariffs have been busy working on contingency plans to lessen the impact. We have talked to managers who are raising prices, reducing costs, working with new suppliers, and, if necessary, moving their manufacturing facilities out of China. We believe the Fund is well positioned, with many holdings that should be able to extend their competitive advantages in challenging environments.

We will continue to follow our business-first approach as we conduct in-depth, firsthand research at the company level. Our steadfast focus is to invest in a collection of what we believe are quality businesses with solid earnings, as stock prices tend to follow corporate earnings over longer periods of time.

TOP 10 HOLDINGS	
CDW Corp.	7.16%
IDEX Corp.	6.17%
Ross Stores	6.04%
Markel Corp.	4.99%
Brown & Brown	4.84%

CarMax	4.02%
Brookfield Asset Management	3.96%
Berkshire Hathaway	3.90%
Illinois Tool Works	3.29%
FLIR Systems	3.23%

TOP 5 CONTRIBUTORS*		
Name	Average Weight (%)	Contribution (%)
CDW Corp.	7.16%	0.96%
CarMax	4.02%	0.78%
IDEX Corp.	6.17%	0.75%
Brown & Brown	4.84%	0.58%
Air Products & Chemicals	2.99%	0.48%

TOP 5 DETRACTORS*		
Name	Average Weight (%)	Detraction (%)
Waters Corp.	2.78%	-0.47%
Forward Air Corp.	SOLD	-0.12%
Covetrus	0.26%	-0.08%
EOG Resources	2.84%	-0.02%
Landstar System	1.66%	-0.02%

*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 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 or call (800) 932-3271.

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