FAM FUNDS
Managed by
FENIMORE ASSET MANAGEMENT

FAMVX & FAMWX

FAM VALUE FUND
QUARTERLY ADVISOR COMMENTARY Q4•2019

For Professional Investment Advisors
Data as of December 31, 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: $1,410,394,704

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.

The U.S. stock market as gauged by the S&P 500 posted a positive return of 9.07% for the quarter. The FAMVX/FAMWX benchmark, the Russell Midcap Index, returned 7.06%.[1] Value stock returns lagged those of their growth counterparts across capitalization ranges. Within mid-cap stocks, health care, information technology and energy stocks led performance, while the real estate and utilities sectors were the biggest laggards.

The quarterly return for FAMVX/FAMWX was essentially in line with its benchmark. A lack of exposure to both real estate and utilities added to relative performance. Selection within health care and the portfolio's cash position weighed most heavily on performance.

Notable Fund Holdings

- Positive contributions to performance were led by **CDW Corp. (CDW)**, a technology reseller of hardware and IT solutions. CDW's results reflected continued strong execution, with above-expectations earnings and raised guidance.
- **Illinois Tool Works (ITW)** was another leading contributor. The industrial systems, equipment and components manufacturer reported an earnings' beat on better-than-expected margin improvement, which more than offset the impact of below-expectations organic sales growth.
- A significant position in commercial and specialty insurer **Markel Corp. (MKL)** was the leading detractor. While Markel reported third quarter earnings in line with expectations, tepid sentiment with respect to the broader insurance industry primarily weighed on the stock. We still like the business.
- A position in fast food company **YUM! Brands (YUM)** also weighed on performance. The company reported earnings that were below expectations and several operating metrics deteriorated during the quarter. Most notably, it has become clear to us that the revitalization of the Pizza Hut brand in the U.S. will take longer and be more costly than originally anticipated. We continue to hold the stock.

Portfolio Activity

- We had two significant additions to the portfolio during the quarter: **Genpact (G)** and **Vulcan Materials (VMC)**. Genpact is a professional services firm that uses tools of the digital economy such as AI and machine learning to help its customers achieve their cost saving and productivity goals. Vulcan Materials is the largest U.S. producer of construction aggregates such as crushed stone, sand and gravel. We believe the company is well positioned to benefit from any infrastructure spending as well as residential and non-residential construction.
- We sold all of our shares in **Henry Schein (HSIC)** and **Covetrus (CVET)** after a relatively brief holding period. Henry Schein is a distributor of dental products to office-based practices and also had a veterinary business, which it spun out in early 2018 into a separate enterprise, Covetrus. The expectation was that Covetrus would trade at a much higher multiple than the dental business and that the sum of both stock prices would be greater than HSIC's by itself. However, we came to a less favorable view of the veterinary business and lost some confidence in management, leading us to sell both stocks.
- The portfolio ended the quarter with a slightly elevated 6.5% cash position.

[1] *Bloomberg as of 12/31/19*

Market Perspective

On the trade side, we appear to be moving toward a resolution between China and America. The President has confirmed that the U.S. 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 as well as the overall economy.

The U.S. market returned more than 30% in 2019 as gauged by the S&P 500 Index.[2] However, these gains are somewhat exaggerated as they came following the sharp decline in valuations seen in 2018's fourth quarter.

That said, we are on the high side of valuations, with the S&P 500 trading at a multiple of earnings that is moderately higher than the long-term average. In our view, this implies the potential for mid-to-high single digit market returns, rather than a crash.

Should there be a correction, we believe our focus on valuation and quality should have us well-positioned. Since the start of the current bull market in 2009, there have been six market declines of 10% or more.[3] During each correction, we outperformed the benchmark and were able to take advantage of valuation opportunities to put money to work.

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[2] Bloomberg as of 12/31/19
[3] Bloomberg as of 12/31/19

TOP 10 HOLDINGS

Ross Stores	6.69%	Brookfield Asset Management	4.52%
IDEX Corp.	5.81%	Berkshire Hathaway	3.92%
CDW Corp.	5.65%	CarMax	3.82%
Brown & Brown	5.37%	Illinois Tool Works	3.69%
Markel Corp.	4.93%	FLIR Systems	2.93%

TOP 5 CONTRIBUTORS*

Name	Average Weight (%)	Contribution (%)
CDW Corp.	5.65%	0.79%
Illinois Tool Works	3.69%	0.50%
Brown & Brown	5.37%	0.48%
Ross Stores	6.69%	0.39%
Brookfield Asset Management	4.52%	0.38%

TOP 5 DETRACTORS*

Name	Average Weight (%)	Detraction (%)
Markel Corp.	4.93%	-0.17%
YUM! Brands	0.95%	-0.12%
Stryker Corp.	2.84%	-0.08%
Dollar General Corp.	1.62%	-0.03%
FLIR Systems	2.93%	-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.*

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