FAM FUNDS
Managed by
FENIMORE ASSET MANAGEMENT

FAMEX
FAM DIVIDEND FOCUS FUND
QUARTERLY ADVISOR COMMENTARY Q4•2019

For Professional Investment Advisors
Data as of December 31, 2019

PORTFOLIO MANAGERS

PAUL C. HOGAN, CFA
since 4/1/1996

THOMAS O. PUTNAM
since 4/1/1996

PORTFOLIO INFORMATION

FAMEX (Investor Shares)
CUSIP: 314465204
Inception Date: 4/1/1996

Fund Size: $454,617,043

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 Dividend Focus Fund's benchmark, the Russell Midcap Index, returned 7.06%.[1] Value stock returns lagged those for 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 Dividend Focus Fund's return in the quarter modestly trailed that of the mid-cap benchmark. Positive contributions were led by underweights to real estate and utilities and selection within consumer discretionary, while selection within health care and cash holdings weighed most heavily on return.

Notable Fund Holdings

- **CDW Corp. (CDW)**, a technology reseller of hardware and IT solutions, was the leading positive contributor for the quarter. CDW continued to post results well in excess of Wall Street expectations. The company has had great success in selling solutions for security, collaboration, mobile, data centers and the cloud.
- A position in **Microchip Technology (MCHP)** also added to performance. The semiconductor manufacturer has made good progress paying down debt from its acquisition of MicroSemi. Distributor inventories are at historically low levels, indicating an upturn for the industry is likely around the corner. We added to the position during the quarter.
- A common theme with leading detractors is an acquisition that will be slightly dilutive in the near term, but accretive over the long term. **US Ecology (ECOL)** was the worst-performing holding during the quarter due to its proposed acquisition of NRC Group. NRC Group saw a softening in its business in the quarter, dragging down the value of US Ecology. After meeting with management to get a deeper understanding of the deal, we came away less enthusiastic on the company.
- **Digital Realty Trust (DLR)** traded down after the announcement of its acquisition of Interexion. The transaction should ultimately increase the organic growth of the business, but will be dilutive to earnings in the near term. We continue to believe that data centers are attractive investments and added slightly to our position.

Portfolio Activity

- During the quarter we initiated a position in **Vulcan Materials (VMC)**. Vulcan Materials is the largest U.S. producer of construction aggregates such as crushed stone, sand and gravel, and we believe it is well positioned to benefit from any infrastructure spending as well as residential and non-residential construction.
- We added to 17 existing positions during the quarter. Conversely, we trimmed positions in **Snap-on (SNA)**, **T. Rowe Price Group (TROW)**, and **Watsco (WSO)**.
- The portfolio ended the year with 5.4% cash, down from 9% at the start of the fourth quarter.

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

Market Perspective

We expect all our holdings to increase their earnings this year and raise their dividend. We will pay particular attention to whether or not each holding is strengthening its competitive position.

We believe the valuation of our holdings in aggregate is fair-to-slightly-above-fair. The names that are trading above our estimate of fair value have the potential to grow their earnings faster than we expect, which closes the price/value gap. We would not make significant investment decisions based on a value that was just slightly above or below our estimate of fair value.

The market has been in an upward trend for a decade and valuations are near the high end of their range. Future returns will likely be lower moving forward. History demonstrates that a recession could come at some point, but predicting the timing is difficult. We believe the best way to create long-term value is to let the compounders compound. This means not artificially contorting the portfolio because of a slowing economy, threats of new tariffs, or even political outcomes.

TOP 10 HOLDINGS

CDW Corp.	6.82%	Arthur J Gallagher & Co.	4.97%
Microchip Technology	5.21%	Ingersoll-Rand	4.86%
Stryker Corp.	5.01%	Genpact	4.44%
Air Products & Chemicals	4.99%	Broadridge Financial Solutions	4.31%
Ross Stores	4.99%	Avery Dennison Corp.	3.74%

TOP 5 CONTRIBUTORS*

Name	Average Weight (%)	Contribution (%)
CDW Corp.	6.82%	0.95%
Microchip Technology	5.21%	0.60%
Marriott International	3.16%	0.58%
Avery Dennison Corp.	3.74%	0.51%
Ingersoll-Rand	4.86%	0.36%

TOP 5 DETRACTORS*

Name	Average Weight (%)	Detraction (%)
Digital Realty Trust	2.74%	-0.23%
US Ecology	2.07%	-0.21%
Stryker Corp.	5.01%	-0.09%
Broadridge Financial Solutions	4.31%	-0.01%
Roper Technologies	1.64%	0.00%

**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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