



FAM FUNDS

Managed by
FENIMORE ASSET MANAGEMENT

FAMFX & FAMDX FAM SMALL CAP FUND QUARTERLY ADVISOR COMMENTARY Q2•2019

For Professional Investment Advisors
Data as of June 30, 2019

PORTFOLIO MANAGERS



ANDREW F. BOORD
since 1/1/2016



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: \$181,283,672

Market and Performance Review

Similar to the broader U.S. stock market, small-cap stocks have rebounded sharply year-to-date. However, second quarter returns were modest. Small-cap stocks returned 2.10% in the quarter as measured by the Russell 2000 Index. As of June 30, 2019, the Russell 2000 remained about 10% below its August 31, 2018 peak.

Within small-cap stocks, industrial, utility, and financial stocks led performance for the quarter, while the energy, communication services, and consumer staples sectors posted notable negative returns. In terms of style, the Russell 2000 Growth Index returned 2.75% while the Russell 2000 Value Index returned 1.38%. In addition to the second quarter, growth stocks have outperformed their value counterparts over the year-to-date and trailing 1-, 3-, 5-, and 10-year periods.

The FAM Small Cap Fund's return meaningfully exceeded that of the Russell 2000 benchmark for the quarter. Stock selection within consumer discretionary, real estate, and consumer staples led positive contributions to return versus the benchmark. Selection within industrials was the only notable detractor.

Notable Fund Holdings

- Positive contributions to performance in the quarter were led by **Frontdoor (FTDR)**, the leading U.S. home warranty provider. Frontdoor surprised investors by reporting better-than-expected results in May. We believe that more investors are beginning to understand the potential for the company to expand beyond its home warranty core to add an "on demand" home services option.
- After roughly two years of frustrating results, property and casualty insurer **Hallmark Financial (HALL)** rewarded our patience in the second quarter. Hallmark is trying to build a specialty insurer with strong positions in several niche markets (e.g., insurance for small airplanes). Progress had been masked by troubles with the truck insurance line, but results are now improving.
- **AngioDynamics (ANGO)** was a drag on performance. Our thesis has been that new management would scrape the scale off a mediocre company to reveal the promising businesses hidden within. Management has acted swiftly to take costs out, shed the worst business lines, and reinvest in the most promising units, such as their Oncology and Thrombosis divisions. The sale of the low margin, fluid management unit has hurt earnings in the near term but leaves AngioDynamics with what we believe are two good businesses and the cash to make bolt-on acquisitions.
- **ScanSource (SCSC)** weighed on performance in the quarter. ScanSource's primary business is to distribute bar code readers, point of sale terminals, and other technology products to value-added resellers. After several years of management promising improved profitability, reporting some progress, and then repeatedly disappointing, we decided the wise move was to sell our shares.

Portfolio Activity

- We took advantage of what we estimate were attractive prices to add to two positions, business services provider **CBIZ (CBZ)** and commercial real estate services company **Colliers International Group (CIGI)**.
- New positions in the quarter included **Healthcare Services Group (HCSG)**, an outsourced provider of housekeeping and food services to assisted living centers. A position in **Floor & Decor Holdings (FND)** was added during the quarter as well. Floor & Decor operates flooring superstores, with much larger selection than the big box hardware stores and significantly lower prices than the typical small, local stores. We also added a position in **Entegris (ENTG)**, a supplier of chemicals, filters, and related equipment to the semiconductor manufacturing industry. New and more complicated devices require both more chemicals and improved filtration, while the number of semiconductors manufactured annually continues to grow dramatically.

- We trimmed our **Diamond Hill Investment Group (DHIL)** position. Our thinking was that we could take a modest “tax loss” now and then consider repurchasing the shares after the company discloses more about its leadership transition. We sold our shares of **Multi-Color Corp. (LABL)** after the label solutions provider announced its sale to a private equity firm. As described above, we exited our **ScanSource (SCSC)** position in the quarter. Finally, we sold our few shares in used-goods retailer **Winmark Corp. (WINA)** as we have not been able to build a meaningful position.
- The Fund’s cash position at the end of June was a fairly modest 4.8%, down from 7.2% at the end of March.

Outlook

It is an interesting time to invest in small businesses. Dynamic, faster growing enterprises we characterized as too expensive a couple years ago trade at even higher valuations today. Additionally, many we would deem speculative such as unprofitable biotech, crypto currency providers, and cannabis firms, are attracting a lot of attention. Simultaneously, many solidly profitable businesses with more modest growth rates have not seen the same jump in valuation multiples.

Will value ever outperform growth again? We are not foolish enough to say when, but experience, plus a knowledge of stock market history, assures us that these cycles should reverse eventually. Furthermore, we are encouraged by many studies that have shown that value stocks have historically outperformed growth stocks over the long term. To paraphrase a recent comment by a friend of ours, “How can buying something for less than it is worth ever be a bad idea?”

TOP 10 HOLDINGS	
Frontdoor	6.69%
Hostess Brands	5.85%
ExlService Holdings	4.97%
Monro	4.71%
Choice Hotels International	4.66%

Colliers International Group	4.51%
CBIZ	4.40%
Penske Auto Group	4.26%
CenterState Bank Corp.	4.25%
Pinnacle Financial Partners	4.19%

TOP 5 CONTRIBUTORS*		
Name	Average Weight (%)	Contribution (%)
Frontdoor	6.69%	1.40%
Hallmark Financial Services	3.09%	0.83%
Hostess Brands	5.85%	0.78%
FRP Holdings	4.07%	0.60%
Choice Hotels International	4.66%	0.51%

TOP 5 DETRACTORS*		
Name	Average Weight (%)	Detraction (%)
AngioDynamics	3.18%	-0.51%
ScanSource	SOLD	-0.35%
Franklin Electric Co.	3.23%	-0.23%
Healthcare Services Group	1.93%	-0.18%
PC Connection	2.85%	-0.14%

**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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