FAM FUNDS
Managed by
FENIMORE ASSET MANAGEMENT

FAM Dividend Focus Fund

Semi-Annual Shareholder Letter 2020

June 30, 2020

Dear Fellow Dividend Focus Fund Shareholder,

The start of 2020 continued the strong momentum of 2019. In the first two months, America signed a trade deal with China, companies reported record profits and a great finish to 2019, and job growth remained strong with unemployment at 3.5%.[1] This helped push U.S. equities to all-time highs through mid-February.

However, the emergence of COVID-19 as a global outbreak turned the first half of 2020 into one of the most tumultuous and uncertain times for businesses and the stock market. The associated shutdowns, in an attempt to slow the spread of the virus, brought much damage to the economy. As the assessment of the economic damage and uncertainty about the future grew, stocks sold off in historic proportions including a -10% single day drop for the Dow Jones Industrial Average on March 12.[2]

The Dividend Focus Fund (the "Fund) was not immune to this market volatility. The Fund was up +2.3% through Feb 14, 2020 before dropping -36.0% through March 23, then rebounding +39.1% through the end of June 30. This resulted in a -8.7% return for the Fund through six months compared to -3.1% for the S&P 500 Index and -9.1% for the Russell Midcap Index.[3]

At the peak of the crisis, we believe the focus was stress testing companies' balance sheets and liquidity, that is the amount of cash a business has access to relative to its expenses and debt obligations. This was particularly important for industries that were disproportionately impacted by the COVID-19 crisis like airlines, cruise lines, and hotels.

While we had to assess liquidity on a small number of our holdings, the majority have remained in great shape, in our opinion, throughout the crisis. This is due to our unwavering commitment to our investment research process which focuses on investing in quality businesses with good balance sheets. On top of that, our focus on dividend growers narrows the quality filter even more. We believe one of the best signals a company can give about the future sustainability and growth of their cash flows is a growing dividend payout.

The Dividend Focus Fund, based on its portfolio construction as of June 30, held only one dividend suspender (Ross Stores) and zero dividend cutters. Ross Stores, which has raised its dividend annually since its inception in 1994, suspended its quarterly dividend after temporarily closing all its stores in late March (most have since reopened). The business, which has been one of the best long-term holdings in the Fund, remains committed to paying a dividend in the long run.

With only Ross Stores suspending their dividend, that means 29 companies (or 97%) of the 30 holdings in the Fund maintained or raised their dividend payout. This compares to 51 of 403 companies (13%) in the S&P 500 that announced dividend cuts or suspensions (additionally, 17 have yet to declare while 85 companies are non-dividend payers). In fact, since the beginning of March, the Fund saw at least eight holdings announce dividend increases.

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[1] U.S. Bureau of Labor Statistics, as of 2/29/2020

[2] Bloomberg, as of 6/30/2020

[3] Bloomberg, as of 6/30/2020

Portfolio Activity

With a 30%+ market selloff, there was a higher than usual level of portfolio activity as we were on the offensive. The Fund's managers upgraded the portfolio, from our viewpoint, by purchasing several high-quality businesses that we have long followed but waited on for attractive entry prices. We invested in 7 new names and added to 18 existing positions while also exiting 10 names (primarily to make room for our new purchases).

Purchases

Here are the new holdings:

- **Cintas (CTAS)** is the largest provider of uniform rentals, first aid, and safety products in the U.S. and Canada. Cintas utilizes its scale advantage to enable them to acquire and serve customers at a lower cost than their competitors. We also like Cintas' high rates of recurring revenue and strong historical customer retention rates. The company has also paid a dividend every year since it went public in 1983.

- **Jack Henry & Associates (JKHY)** provides critical core processing software to financial institutions which creates high recurring revenue and strong profitability. The firm continues to grow through increased tech spending by banks and credit unions. Management has a strong track record of capital allocation and runs the company with a clean balance sheet, typically net cash. It has grown its dividend for 26 straight fiscal years.

- **Paychex (PAYX)** provides HR, payroll, and benefits and insurance services for small- and medium-sized businesses. They serve approximately 670,000 clients and more than 12 million employees. Paychex benefits from increased regulations, which drive more outsourcing of payroll and HR solutions. The stock often trades around employment numbers, which enabled us to build our position in the stock.

- **ResMed (RMD)** is a leading provider of air flow medical devices for the treatment of sleep apnea. ResMed also has a growing respiratory care (i.e., ventilators) and software business. An intense focus on innovation (more than 5,700 patents), and a large under-penetrated sleep-end market, should support continued strong top-line growth, which has averaged more than 10% over the last five+ years. ResMed's strong, consistent cash generation enables a capital allocation policy that prioritizes paying a dividend.

- **Republic Services (RSG)** is the second largest solid waste collection and recycling provider in North America. Trash collection is a highly durable business with predictable cash generation which supports M&A (mergers and acquisitions) and a very shareholder friendly capital allocation policy. RSG has returned nearly $5 billion in cash to shareholders (approximately 18% of its current market cap) over the last five years in dividends and stock buybacks.

- **Steris (STE)** provides sterilization equipment and services to healthcare providers like hospitals, surgical centers, and outpatient GI procedure centers as well as medical device and pharma manufacturers. The company benefits from growth in medical procedures and more than 75% of its revenue is recurring. Additionally, the medical industry is highly regulated, which makes Steris' products and methods very sticky with customers. The business has paid a growing dividend every year since 2005.

Sales

- **Essential Utilities (WTRG)** was formerly known as Aqua America until its purchase of a natural gas utility in late 2018 (transaction closed in March 2020). We thought this acquisition was outside their core competency and believed they paid a more than full price at 15 times EBITDA (earnings before interest, taxes, depreciation, and amortization). We were initially attracted to WTRG due to the economics of water utilities and this deal complicated that thesis, so we decided to fully exit our position.

- **First Hawaiian Bank (FHB)** was sold as the environment for banks has worsened with rate cuts and increased credit loss uncertainty. Compounding the poor banking environment is First Hawaiian's geographic footprint in the state of Hawaii, whose GDP is highly dependent on tourism. Visitor arrivals fell by 99% in May and June due to the coronavirus and it may be years before this normalizes.

- **Ingersoll-Rand (IR)** was sold after its separation from Trane Technologies (TT). In the first half of 2020, Ingersoll Rand split its HVAC business off into a separate company (Trane Technologies) and the remaining industrial compressor, vacuum, and blower business merged with competitor Gardner Denver and kept the Ingersoll-Rand name and ticker. We are happy to continue to own the durable HVAC business in a pure play format, but sold IR which is more cyclical and doesn't pay a dividend.

- **Marriott International (MAR)** was sold as their business suffered greatly from the virus outbreak. Liquidity concerns forced the company to complete several debt raises and suspend their dividend "until further notice." We believe there is too much uncertainty in its immediate future and, with increased balance sheet risk, we decided to move on.

- We sold our stake in **Monro (MNRO)** not because anything was wrong with the business or our investment thesis, but rather to use the proceeds to fund some of our recent purchases in enterprises that we hope will be even better compounders.

- A small stake was purchased in **Penske Auto Group (PAG)** early in the quarter as we looked to put cash to work at attractive valuations in a fully valued market. This was subsequently sold after they suspended their dividend.

- **National Instruments (NATI)** was sold as we believe results have been subpar despite a decent operating environment over the last few years. The company also recently completed a corporate reorganization and last year surprisingly announced a CEO transition after only three years.

- **Snap-on (SNA)** was another business that was sold as growth issues have persisted for several years. The operation's stagnation increased our concerns about inventory levels and operating margins along with their ability to continue to create value for shareholders.

- **US Ecology's (ECOL)** $900 million acquisition of NRCG in 2019 was another example, we believe, of a company completing a merger and acquisition too far away from its core competency. The deal created a lot of execution risk in our view and we exited our remaining position.

- **Watsco (WSO)** was sold at the beginning of the year after running up +30% in 2019. Recent results have been below our expectations as their technology spending has weighed on margins and the sustainable level of growth has come into question. Additionally, its dividend payout ratio (dividends/FCF) has run in excess of 86% over the last two years, which could put it at risk for a cut.

Closing Thoughts

As we look out into the second half of 2020, the virus that has created so much uncertainty the last few months remains very present in our lives and does not look to be going away any time soon. If we had to shut down again, it wouldn't be unreasonable to think equity markets could re-test their lows from earlier in the year, though the Federal Government and Federal Reserve have shown a desire to intervene quickly and at any cost.

On top of that, we are getting close to a presidential election and will surely hear predictions about policy changes that will happen based on the way the ballot box tilts. But the short answer on these things – when we will return to normal or who will win the election – is that nobody knows. And we are fine with that. To paraphrase investor Peter Lynch, if we spent 15 minutes trying to predict those things, it would be 15 minutes too much.

Instead, we will continue to focus our time on finding high-quality businesses that we estimate will compound their earnings and grow their dividends over the long term. This approach to investing keeps us disciplined during periods of market disruption and enables us to be opportunistic – it's not every day that what we believe are the best businesses in the world go on sale! The future will always include uncertainty; however, in our experience, sticking to our time-tested investment philosophy helps the Dividend Focus Fund to not only weather these disruptive periods but emerge even stronger.

Welcome to the Team

William Preston, CFA, was named co-manager of the Fund after working closely with the current managers for several years. Will is an exceptional analyst and has a great eye for identifying quality businesses. His addition to the team should complement the Fund's management very well.

As always, we thank you for investing in the Dividend Focus Fund and continue to work diligently on your behalf.

Best & Worst Performers for 12/31/19 to 6/30/20*

Top 5 Contributors	Average Weight (%)	Contribution (%)	Top 5 Detractors	Average Weight (%)	Detraction (%)
Ingersoll-Rand	SOLD	1.10%	Ross Stores	4.60%	-1.38%
Pool Corp.	3.60%	0.98%	CDW Corp.	6.20%	-1.42%
Entegris	4.12%	0.63%	Monro	SOLD	-1.44%
Digital Realty Trust	3.63%	0.57%	Trane Technologies	4.38%	-1.75%
Fastenal Co.	3.68%	0.51%	Marriot International	SOLD	-2.32%

This reflects the FAM Dividend Focus Fund's best and worst performers, in descending order, based on individual stock performance and portfolio weighting. Past performance does not indicate future results.

Performance (as of 6/30/20)

	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception 4/1/1996
FAM Dividend Focus Fund	-8.70%	-2.00%	9.24%	10.33%	12.39%	8.89%
Russell Midcap Index	-9.13%	-2.24%	5.79%	6.76%	12.35%	9.78%
S&P 500 Index	-3.08%	7.51%	10.73%	10.73%	13.99%	8.73%

Past performance does not indicate future results.

Paul Hogan, CFA
Co-Manager

Thomas O. Putnam
Co-Manager

William W. Preston
Co-Manager

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Performance data quoted above is historical. Past performance is no guarantee of future results. Current performance may be higher or lower than the performance data quoted. The principal value and investment return of an investment will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost.

**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*.

FAM DIVIDEND FOCUS FUND TOP 10 HOLDINGS

As of 6/30/20

Name	% of Total Net Assets
CDW Corp.	6.20%
Air Products & Chemicals	5.97%
Broadridge Financial Solutions	5.94%
Microchip Technology, Inc.	5.85%
Arthur J. Gallagher & Co.	5.75%
Stryker Corporation	4.92%
Ross Stores	4.61%
Genpact Limited	4.47%
Trane Technologies	4.38%
Entegris, Inc.	4.13%
TOTAL NET ASSETS	$406,538,768

AVERAGE ANNUAL TOTAL RETURNS AS OF JUNE 30, 2020

The performance data quoted represents past performance.

	SINCE INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	TOTAL FUND OPERATING EXPENSES*
FAM DIVIDEND FOCUS FUND	8.89% (4/1/96)	12.39%	10.33%	9.24%	-2.00%	1.26%*

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**FAM Dividend Focus Fund Disclosure: The Fund's total annual operating expense ratio as stated in the fee table of the Fund's most recent prospectus is 1.26%. The total operating expense as reported in the FAM Dividend Focus Fund's audited financial statements as of 12/31/19 is 1.24%. The Advisor has contractually agreed, until 5/1/2021, to waive fees and/or reimburse the Fund certain expenses (excluding interest, taxes, brokerage costs, Acquired Fund Fees and Expenses, dividend expense and extraordinary expenses) to the extent necessary to maintain Net Fund Operating Expenses for Investor Shares at 1.26%.*

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