

# Chairman's Commentary

Semi-Annual Report 2019

**June 30, 2019**

**Dear Fellow Shareholder,**

## **Introduction**

Blink and you missed it! The "Almost Bear Market" (coined by *Barron's*) of 2018 was gone nearly as fast as it came. In the 66 trading days between the September 20, 2018 high in the S&P 500 Index and the Christmas Eve low, this index of large company stocks fell -19.8% — just shy of the 20% deemed to be a bear market. It took just 82 trading days for the S&P to recover all of its losses and achieve a new high on April 23, 2019. For the first half of 2019, the S&P set four new highs and finished the period just shy of its all-time high. Indeed, it was a very good first half of the year in U.S. equity markets; by some measures the best since 1997. Large company stocks, as measured by the S&P, returned 18.5%. Smaller company stocks, as measured by the Russell 2000 Index, returned 16.9%.<sup>1</sup>

Within this context, our three mutual funds performed very well on an absolute basis and relative to their benchmarks (please see individual fund letters). While it is nice to have such a strong start to the year, we are long-term investors who are singularly focused on the long-term growth in the value of the businesses in which we invest. If the value of the company grows, stock prices are likely to follow. (For an illustration of this, please see the FAM Value Fund's letter.)

One thing we hope you did not blink and miss was the renaming of the FAM Equity-Income Fund to the FAM Dividend Focus Fund. Rest assured, not one thing about this Fund has changed except the name. It will continue to focus on U.S. firms that both pay a dividend and grow their dividends as earnings grow. (Please see the FAM Dividend Focus Fund's letter for more details.)

## **Full Circle**

It is difficult to isolate reasons for any market movements, let alone the sharp drop and quick reversal of the past nine months. However, from our viewpoint, two of the major contributing factors were trade tensions with China and interest rate expectations.

The trade dispute, which has been escalating for more than 15 months, is having a dampening effect on growth in the U.S. and China. As of this writing, there is a "truce" but no lasting agreement between the two countries and the outcome is naturally hard to handicap. Nearly all of the management teams of FAM Funds' holdings have assessed the likely consequences of a protracted — and escalating — trade dispute and are taking steps to minimize the economic impact.

Another factor contributing to the markets' fall and recovery was interest rate expectations. In October of 2018, Federal Reserve Chairman Powell unnerved the market by hinting that interest rate hikes would continue more-or-less programmatically. This was seemingly confirmed by comments made in mid-December. In January of this year, Powell took a more dovish stance and indicated that the Federal Reserve was going to be more flexible and was in no rush to raise rates. Since then, the markets' expectation of Fed actions has gone from rate hikes to rate cuts. The (first order) effect of lower rates is a positive for stocks and this change in expectations helped fuel the recovery.

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<sup>1</sup> Bloomberg, as of 6/30/19

## Margin of Safety

We believe that to win in investing, first you must not lose. Accordingly, our overarching goal is to first preserve capital, then grow it. Key to this goal of preservation is "margin of safety," a term coined by Ben Graham and David Dodd in their groundbreaking investment book *Security Analysis*. To paraphrase these grandfathers of value investing, they said that because you cannot know the precise value of a business you should pay less for it than you think it is worth. That way, if you are wrong in your appraisal, you reduce the risk of suffering a permanent capital loss — this is your margin of safety.

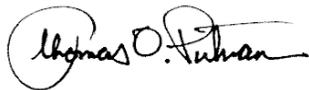
We firmly believe this, but at Fenimore the concept of margin of safety does not stop there. It is interwoven throughout our entire investment philosophy and process. We focus on businesses with durable competitive advantages to reduce the risk that the value of our holdings will be competed away. We only look at companies with a history of value growth rather than speculate on an unproven business or turnaround. We avoid firms with excessive debt to reduce the chances that the creditors will replace us as owners. Additionally, we seek management teams who have a history of astute capital allocation to reduce the risk that our appraisals will be undermined by value-destroying decisions. Then, we try to visit those managers at least once a year to ensure they are sticking to their value-building plans. The list goes on and on. This approach of buying stocks in what we believe are good enterprises, with strong balance sheets and skilled management, at attractive prices was built on the bedrock of margin of safety.

## Outlook

When we talk about the abundance or scarcity of opportunities on the investment landscape, we are referring to the margin of safety that we estimate is available in *purchase prices*. Given the rebound in stock prices, we again are experiencing a general shortage of margin of safety. Many U.S. equities are priced for a long stretch of revenue growth greater than GDP (Gross Domestic Product) growth, margin expansion, and low interest rates. In other words, many are priced for perfection.

While we do not see signs of a pending recession in America, we are very long into this expansion and some global economies seem to be facing headwinds. A protracted trade dispute could strengthen economic headwinds here at home and in China. However, some of the inflationary pressures on corporate costs have abated (e.g., logistics and transportation costs) and lower rates should be beneficial to many companies. We do not know how this will all play out, but we like the prospects of our collection of what we think are financially strong, competitively advantaged businesses with skilled management teams.

If our team can be of assistance, please call us at **800-932-3271** or visit us in Albany or Cobleskill. Thank you for entrusting us with your hard-earned wealth.



Thomas O. Putnam, Chairman

### Research Team

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*The opinions expressed herein are those of the portfolio managers as of the date of the report and are subject to change. There is no guarantee that any forecast made will come to pass. This material does not constitute investment advice and is not intended as an endorsement of any specific investment.*

*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.*

FAM VALUE FUND TOP 10 HOLDINGS

As of 6/30/19

<u>Name</u>	<u>% of Total Net Assets</u>
CDW Corp.	7.1%
IDEX Corp.	6.1%
Ross Stores, Inc.	6.0%
Markel Corp.	5.0%
Brown & Brown	4.8%
CarMax, Inc.	4.0%
Brookfield Asset Management Inc. - Class A	3.9%
Berkshire Hathaway	3.9%
Illinois Tool Works, Inc.	3.3%
Flir Systems, Inc.	3.2%
TOTAL NET ASSETS	\$1,336,389,788

FAM DIVIDEND FOCUS FUND TOP 10 HOLDINGS

As of 6/30/19

<u>Name</u>	<u>% of Total Net Assets</u>
CDW Corp.	6.7%
Air Products & Chemicals	5.5%
Stryker Corporation	5.1
Arthur J. Gallagher & Co.	5.0%
Broadridge Financial Solutions	4.9%
Microchip Technology, Inc.	4.8%
Ross Stores	4.7%
Ingersoll Rand	4.6%
Avery Dennison Corp.	4.2%
IDEX, Corp.	3.5%
TOTAL NET ASSETS	\$358,844,173

FAM SMALL CAP FUND TOP 10 HOLDINGS

As of 6/30/19

<u>Name</u>	<u>% of Total Net Assets</u>
Frontdoor, Inc.	6.7%
Hostess Brands, Inc.	5.8%
ExlService Holdings, Inc.	5.0%
Monro, Inc.	4.7%
Choice Hotels International, Inc.	4.7%
Colliers International Group	4.5%
CBIZ, Inc.	4.4%
Penske Auto Group, Inc.	4.3%
CenterState Bank Corp.	4.2%
Pinnacle Financial Partners	4.2%
TOTAL NET ASSETS	\$181,283,672

*The portfolios are actively managed and current holdings may be different.*

AVERAGE ANNUAL TOTAL RETURNS AS OF JUNE 30, 2019						
The performance data quoted represents past performance.						
	SINCE INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	TOTAL FUND OPERATING EXPENSES*
FAM VALUE FUND <i>Investor Class (1/2/87)</i>	10.56%	13.31%	9.89%	13.23%	12.43%	1.19%*
<i>Institutional Class (1/2/17)</i>	10.57%	13.36%	9.99%	13.39%	12.63%	1.00%*
FAM DIVIDEND FOCUS FUND (4/1/96)	9.38%	14.40%	11.42%	15.87%	19.64%	1.24%*
FAM SMALL CAP FUND <i>Investor Class (3/1/12)</i>	11.04%	N/A	6.67%	8.27%	-0.69%	1.29%*
<i>Institutional Class (1/1/16)</i>	11.11%	N/A	6.77%	8.42%	-0.58%	1.18%*

*\*Disclosure: The Fund's total annual operating expense ratio as stated in the fee table of the Fund's most recent prospectus is 1.19% after fee waivers of (0.01)% for the Investor Class. The Fund's total annual operating expense ratio as stated in the fee table of the Fund's most recent prospectus is 1.00% after fee waivers of (0.11)% for the Institutional Class. When excluding Acquired Funds Fees and Expenses, which are not direct costs paid by the Fund's shareholders, and fee waivers, the total annual operating expense as reported in the FAM Value Fund's audited financial statements for the Investor Class is 1.18% after a fee waiver of (0.01%) and the Institutional Class is 0.99% after a fee waiver of (0.11%) as of 12/31/18. The Advisor has contractually agreed, until May 1, 2020, 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 1.18% and Institutional Shares at 0.99%.*

*Institutional Class shares became available for sale on January 1, 2017. For performance prior to that date, this table includes the actual performance of the Fund's Investor Class (and uses the Fund's Investor Class' actual expenses), without adjustment. The performance results shown on this and the next page for the periods prior to January 1, 2017, the date of commencement of operations for Institutional Shares, are for the Investor Shares, which are subject to higher fees due to differences in the shareholder administrative services fees and certain other fees paid by each class. Institutional Shares and Investor Shares would have substantially similar performance results because the shares of each class are invested in the same portfolio securities of the Fund. Because of the difference in the level of fees paid by Investor Shares, the returns for the Investor Shares may be lower than the returns of the Institutional Shares.*

*\*Disclosure: The Fund's total annual operating expense ratio as stated in the fee table of the Fund's most recent prospectus is 1.24%. The total operating expense as reported in the FAM Dividend Focus Fund's audited financial statements as of 12/31/18 is 1.23%. The Advisor has contractually agreed, until May 1, 2020, 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%.*

*\* Disclosure: The Fund's total annual operating expense ratio as stated in the fee table of the Fund's most recent prospectus is 1.29% after fee recoupment of 0.01% for the Investor Class. The Fund's total annual operating expense ratio as stated in the fee table of the Fund's most recent prospectus is 1.18% after fee recoupment of 0.01% for the Institutional Class. When excluding Acquired Funds Fees and Expenses, which are not direct costs paid by the Fund's shareholders and fee waivers, the total annual operating expense as reported in the FAM Small Cap Fund's audited financial statements for the Investor Class is 1.27% and the Institutional Class is 1.16% as of 12/31/18. The Advisor has contractually agreed, until May 1, 2020, 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 1.42% and Institutional Shares at 1.20%.*

*Institutional Class shares became available for sale on January 1, 2016. For performance prior to that date, this table includes the actual performance of the Fund's Investor Class (and uses the Fund's Investor Class' actual expenses), without adjustment. The performance results shown on this and the next page for the periods prior to January 1, 2016, the date of commencement of operations for Institutional Shares, are for the Investor Shares, which are subject to higher fees due to differences in the shareholder administrative services fees and certain other fees paid by each class. Institutional Shares and Investor Shares would have substantially similar performance results because the shares of each class are invested in the same portfolio securities of the Fund. Because of the difference in the level of fees paid by Investor Shares, the returns for the Investor Shares will be lower than the returns of the Institutional Shares.*

*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. All returns are net of expenses.*

*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](http://famfunds.com) or call (800) 932-3271.*

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