FAM FUNDS
Managed by
FENIMORE ASSET MANAGEMENT

FAM Value Fund

Semi-Annual Shareholder Letter 2019

June 30, 2019

Dear Fellow Value Fund Shareholder,

Overall, through the first half of 2019, it has been great for investors with price appreciation in bonds, stocks, and real estate. The two significant economic trends are the level of interest rates and the tug of war between China and the United States over trade. The stock market has been reacting to changes in these two themes throughout the year. For example, the U.S. stock market rose quickly at the start of the year increasing more than 17% by April 30. During May, the market declined almost -7% from its high as trade talks between America and China seemed to break down.[1] Prices turned up quickly in June when it appeared that the talks would resume. Another boost for the market came from a change of heart from the Federal Reserve. After increasing short-term interest rates last year, the current consensus is that the next move by the Federal Reserve will be to reduce interest rates.

The reason these topics are important to the stock market is because they are important to the economy and corporate earnings. Stock prices, and hence the stock market, tend to follow corporate earnings over long periods of time. For example, let's look at the earnings and stock price of a company that everyone knows – McDonald's (not held in FAM Funds). Twenty years ago (fiscal year 1999), the business earned $1.39 a share and the stock price was $40. Last year, McDonald's earned $7.45 a share and the current stock price is $207.66.[2] The stock price has increased by five times over those two decades and the earnings per share are up a little more than five times. Stock prices tend to follow earnings over time.

If we think about the various combinations of interest rates and tariffs, we can see why they would impact stock prices. In a world with much higher interest rates and slower global trade due to tariffs, corporate earnings would probably decline and stock prices would drop accordingly. In a world with low interest rates and low tariffs fostering robust global trade, it becomes easy to imagine higher earnings and perhaps prices.

This link between corporate profits and stock prices is important. While quick stock market moves (up or down) can appear random, these fluctuations generally reflect the process of market participants changing their views around the growth of the economy and corporate earnings in the near term. Over the longer term, we believe good businesses become more valuable and that their stock price should move in sync with the company's profits.

Portfolio Activity

Sales

As mentioned, it has been a great year in the stock market – which means rising prices. As a result, we only made nominal purchases, but sold a few. Our sales were not at high valuations, but with an eye to increasing the quality of the Fund's holdings.

[1] Bloomberg, as of 6/30/19
[2] FactSet, as of 6/30/19

During the first six months of the year, we sold our entire position in **Franklin Resources (BEN)**, **Interpublic Group of Companies (IPG)**, **MEDNAX (MD)**, and **Forward Air Corp. (FWRD)**. In the first three cases, we sold holdings where we believe the intrinsic value of each business is not growing and, in fact, may be declining. While each of these three stocks trade at low price-earnings multiples (13x, 12x, and 7x, respectively as of 6/30/19) and may be considered "cheap" by some investors, we think each operation faces challenges including disruptive competition and high fixed cost structures.[3] Additionally, we were not comfortable with the debt level of two of these operations. Finally, we sold our shares in Forward Air as we believe we can find a higher quality business to replace it.

We sold longtime holding **Franklin Resources** as results continued to disappoint. Franklin is a global asset manager with approximately $700 billion in assets under management. The firm owns a number of investment management brands including Franklin Funds, Mutual Shares, and Templeton. Franklin has been challenged by new competitors and poor performance in some of its large mutual funds. To date, the investment performance has not improved and the firm continues to report declines in assets under management, sales, and operating income. While the stock has a low price-earnings multiple and could jump on a turnaround in results, we believe the long-term trends for the business are negative and it may be difficult for Franklin to increase its value per share.

We sold the last of our shares in the advertising agency **Interpublic Group of Companies**. We originally purchased the stock in April of 2012 when IPG was the operating laggard among the four global advertising holding companies. These enterprises are in the flow of advertising dollars spent around the world helping organizations with creative ideas, purchasing advertising time, and developing advertising campaigns. Historically, ad agencies were great businesses as they earned a commission on every dollar spent by advertisers to promote their products. IPG was the laggard of the big four, but we thought the problems were solvable by a new management team. We were right. The new team fixed the balance sheet and increased profit margins over the last seven years. Due to the good operating performance, the stock price doubled. In the last few years, we have been questioning the ad agency business model given the amount of new competition and industry disruption. The emergence of new competitors such as Google and Facebook may have changed the game for the traditional advertising model. In addition to our concerns about competition, IPG made a large acquisition funded in part by increased debt. The higher debt added to our concern and we sold all of our shares.

MEDNAX was a long-term holding with our first purchase in October of 2004 at around $13 a share. We sold the last of our shares at $35 earlier this year. While that might appear to be a victory, it was not. Our average sales price before 2019 was $73 with some of our sales as high as $85.

MEDNAX is a great case study in the importance of management's skill in capital allocation. During our first decade of ownership, the CEO ably managed the operation producing growth in sales and earnings per share during 9 of 10 years. However, a few years ago, things began to change as MEDNAX acquired new companies that they believed were adjacent to their core business, but in fact were quite different. In addition, one of the acquisitions increased MEDNAX's exposure to Medicare reimbursement which generates much lower revenue per procedure. As a result, their profit margins declined. To make matters worse, management incurred some debt to make these acquisitions. We learned a number of important lessons that we plan to employ in the future.

After a reasonably successful holding period, we sold most of our shares in **Forward Air**. Forward is a trucking and transportation firm with a few interesting businesses, but a checkered past of making acquisitions. The company named a new CEO last fall and we were studying his actions before making any changes in our position. After a few quarters, we believe we can redeploy the money invested in Forward into better opportunities. One potential is our current transportation holding, **Landstar System (LSTR)**, which is a trucking firm that does not own any trucks. This structure gives Landstar very high returns on capital and significant cash profits, which we prefer to Forward's more capital-intensive business.

[3] FactSet, as of 6/30/19

Closing Thoughts

As we write this letter, world leaders are meeting in Japan to discuss international issues. At the top of the agenda are global trade and tariffs. The leaders of China and the United States plan on meeting in a few days to discuss their differences. As mentioned, continued increases in tariffs and slowing global trade are not a positive for corporate profits. Hopefully, cooler heads will prevail, but we make no prediction about the talks. We do know that the management teams of our holdings impacted by tariffs have been busy working on contingent plans to lessen the effect. We have spoken with managers who are raising prices, reducing costs, working with new suppliers, and, if necessary, moving their manufacturing facilities out of China.

In closing, we would like to reiterate our investment philosophy and process. Our philosophy can be summed up in the idea of intrinsic value. We believe that every asset, be it a bond, piece of real estate, or company has a value that is "intrinsic" to that asset. The value of an asset comes from the amount of cash it produces and the rate of growth of that cash flow into the future. If you know the future outcomes of these two variables, it is fairly easy to figure out what an asset is worth. This is how we think about valuing companies and therefore the value of their stock. A share of stock represents a fractional ownership in that business; therefore, the price of the stock should track the value of that business over time. Of course, making accurate projections about the future is difficult. So, we build guardrails into our investment process to protect us if our forecasts are wrong.

Our process focuses on four criteria:

1. A good business that is growing and protected by some competitive advantage
2. A strong financial position with low debt, high profit margins, cash profits, and high returns on capital
3. An excellent management team that exhibits both honesty and the ability to allocate capital for the benefit of the shareholders
4. A purchase price that is below what we think the stock is worth

Once we purchase a stock, we follow it closely and try to meet with management face-to-face at least once a year. We also monitor the price-to-value relationship over time. As long as the stock does not become significantly overvalued, we tend to hold our stocks for many years. This long-term view is reflected in the Fund's low turnover ratio which is significantly lower than the mutual fund industry average. One benefit of a long holding period is that when we do sell a stock and realize a capital gain, it is usually a long-term gain which is taxed at a lower rate than a short-term gain.

FAM Funds will continue to follow our business-first approach as we conduct in-depth, firsthand research at the company level. Our steadfast focus is to invest in a collection of what we estimate to be quality businesses with solid earnings because stock prices tend to follow earnings over long periods of time – regardless of the short-term political or economic environment.

Thank you for investing with us in the FAM Value Fund.

Best & Worst Performers for 12/31/18 to 6/30/19*

Top 5 Contributors	Average Weight (%)	Contribution (%)	Top 5 Detractors	Average Weight (%)	Detraction (%)
CDW Corp.	7.16%	1.96%	Berkshire Hathaway	3.90%	0.15%
IDEX Corp.	6.17%	1.67%	MEDNAX	SOLD	0.05%
CarMax, Inc.	4.02%	1.11%	Interpublic Group	SOLD	0.05%
Ross Stores	6.04%	1.00%	Franklin Resources	SOLD	0.04%
Air Products & Chemicals	2.99%	0.90%	Covetrus	0.26%	-0.20%

This reflects the FAM Value 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 6/30/19)

	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception 1/2/1987
FAM Value Fund Investor Shares	20.47%	12.43%	13.23%	9.89%	13.31%	10.56%
Russell Midcap Index	21.35%	7.83%	12.16%	8.63%	15.16%	11.53%
S&P 500 Index	18.54%	10.42%	14.19%	10.71%	14.70%	10.44%

Past performance does not indicate future results.

John D. Fox, CFA
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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 VALUE FUND TOP 10 HOLDINGS

As of 6/30/19

Name	% of Total Net Assets
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

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 *Investor Class (1/2/87)*	10.56%	13.31%	9.89%	13.23%	12.43%	1.19%*
Institutional Class (1/2/17)	10.57%	13.36%	9.99%	13.39%	12.63%	1.00%*

** 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.

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 or call (800) 932-3271.

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