FAM Equity-Income Fund

Annual Shareholder Letter 2018

December 31, 2018

Dear Fellow Equity-Income Fund Shareholder,

The Fund performed well in a turbulent market posting a slightly positive return of +0.06%. This result was considerably ahead of our benchmark the Russell Midcap Index, which fell -9.06% for the year. The Fund also performed better than the S&P 500 Index which declined -4.38% for the year.[1] According to Morningstar, an industry-rating firm, 94% of all U.S. Equity Midcap funds posted negative returns for the year while only 6% earned returns above zero. We are pleased to be part of that 6%.[2]

We attribute the outperformance of the Fund relative to the Russell Midcap Index to three factors. Firstly, over the last few years, we exited positions that were disappointments rather than waiting for them to work out their problems in the hope of generating a higher return. This process of quickly getting out of poor performers and weaker holdings allowed us to concentrate more assets in names that had demonstrated the ability to compound capital. The result of this strategy was that more than 45% of the Fund's holdings posted a positive return in the down market. Our batting average was even better for the largest holdings with seven out of the Top 10 Holdings posting positive results. This was due to the strength of the businesses in the portfolio and their ability to compound capital over time.

The second reason the Fund beat the benchmark, in our opinion, is our strategy of letting the "compounders" compound. This simply means resisting the temptation of trimming names in the portfolio when they perform well and grow to larger weightings in order to recycle the capital into names that may not be performing as well. In our minds, this is like cutting the flowers and watering the weeds. In theory, this sounds like a good strategy, but, in practice, our team believes it diminishes long-term returns. We define compounders as companies that have consistently performed well and have a long runway for growth. They also tend to earn high returns on invested capital.

Thirdly, two companies in the portfolio were acquired at significant premiums and the transactions closed in December. These acquisitions immediately added to performance, but also had the effect of insulating a small portion of the portfolio to the fourth quarter's market gyrations.

The overarching strategy of the Fund is to invest in companies that pay a dividend and consistently increase that dividend over time. Every Fund holding pays a dividend and the majority grow that dividend every year. In fact, on average, the companies in the Fund have increased their dividends more than 10.6% compounded over the last five years (as of 12/31/18).[3] We believe dividend growth is important because companies that are growing their cash flow are potentially able to consistently grow their dividends. We favor investing in businesses that are growing their dividends quickly because it usually means the underlying company is expanding. It also means that they are generating more cash than needed to reinvest back into the operation. These growing dividends contribute to the total return of the investment.

Portfolio Activity

There was considerable activity in the portfolio during the past year. The focus was on selling a few underperforming names that were disappointments where our team could not make the investment case that holding the names would be better than reinvesting that capital into higher quality names. We also replaced two companies that were acquired late in the year. Overall, it is our belief that the new portfolio holdings are of much higher quality than the positions we exited.

[1] Bloomberg, 12/31/18

[2] Morningstar.com, 12/31/18

[3] FactSet & Bloomberg, 12/31/18

Purchases
We bought shares in **Avery Dennison (AVY)**. Based on sales and market share, they are the leader in manufacturing pressure-sensitive labels. We were attracted to Avery because of their ability to grow over the business cycle and their remarkable consistency. During our due diligence, we learned how strong their competitive position is with 40% market share and how they can pass on higher prices to customers.[4] This dynamic is rare. We were also impressed with the management team. We first started buying shares in the second quarter and added to the position throughout the year as the price fell.

Broadridge Financial Solutions (BR) was invested in during the fourth quarter after the price declined significantly from its peak. Broadridge offers a broad array of products serving financial services firms and public companies. Their flagship product is Proxy Edge which aggregates shareholder and voting information. The company has a long history of growth augmented by acquisition. It also has a significant base of recurring revenue. According to our estimates, Broadridge earns close to a 20% return on invested capital, has more than doubled their dividend over the last five years, and regularly buys back stock. We expect that financial firms could increasingly outsource many of their functions to companies such as Broadridge as complexity grows and the cost to maintain in-house systems increases.

We initiated a position in **Forest City Realty Trust (FCE.A)** in the first quarter after the stock sold off. The board concluded their strategic review process and decided that shareholder value would be better enhanced on a standalone basis rather than pursuing the sale of Forest at the price of received offers. Our valuation work indicated a significantly higher value than the price we paid for the initial position. A few months later, this proved correct as Forest accepted a higher acquisition price.

Our team also bought an initial position in **International Flavors & Fragrances (IFF)**. IFF is a global manufacturer and supplier of flavor and fragrance ingredients that are used in a wide variety of consumer products. Their broad geographic footprint, defensive end markets, and diversified customer base support consistent financial results and a growing dividend. International Flavors recently completed the acquisition of Israeli-based competitor Frutarom, which led to a sell-off in their stock price as concerns emerged over the price of the transaction and the use of debt to partially fund the deal. We believe the acquisition better aligns International Flavors with changing consumer trends and the balance sheet concerns are very manageable. The sell-off presented us with an opportunity to start our initial position.

We bought shares in **Watsco (WSO)** – the largest HVAC distribution company in the U.S. They represent 1,000 manufacturers, serve their customer base of 80,000 contractors through 568 stores in 37 states, and carry more than 300,000 SKUs.[5] Watsco's locations are primarily in the Sun Belt states with the highest concentration of stores in Florida and Texas. We believe this is an attractive industry because every air conditioning unit the firm sells will ultimately break or wear out and need to be replaced. When units break, they are typically replaced immediately and customers are less price sensitive. The replacement cycle of Watsco's growing installed base increases the profitability of each store and their operation is driven primarily by replacement of existing units. In fact, replacement sales make up 85% of industry revenue.

We took a small position in **Marriott International (MAR)** after the company disclosed a data breach that sent the stock lower to nearly 25% below its 52-week high. Marriott has more than doubled their dividend over the last five years.[6] We believe this hotel chain is a premier lodging franchise and expect to build a larger position over time.

In addition to new holdings, our team put capital to work by adding to existing names including **Digital Realty Trust (DLR)**, **Ingersoll Rand (IR)**, **M&T Bank (MTB)**, **Snap-on (SNA)**, **Versum Materials (VSM)**, **Ross Stores (ROST)**, **Robert Half International (RHI)**, and **US Ecology (ECOL)**. The sell-off in the market at year-end gave us a good opportunity to buy shares in these companies at what we estimated to be attractive prices.

Sales
Interpublic Group of Companies (IPG) was sold from the portfolio because we believe the advertising market is shifting more in favor of online firms such as Google and Facebook. This puts Interpublic Group at a disadvantage that could increase over time. We were able to get a good price for our shares before the market turned down.

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[4] Avery Dennison 2017 Annual Report
[5] Watsco 2017 Annual Report
[6] FactSet & Bloomberg, 12/31/18

We exited a long-term holding, **Flowers Foods (FLO)**, at a price approximately 49% above the low set in September of 2016. This was a case where we wanted to move on from the holding 18 months earlier, but estimated we could get a higher price for our shares by just waiting. The return from the low point was double the market return. The moral of the story, in this case, is that patience pays.

Fast food restaurant company, **Sonic Corp. (SONC)**, is no longer held in the portfolio after it was acquired for cash. Sonic was sold at a 21% premium over the previous 30-day trading range.[7] The transaction closed on December 6.

Forest City Realty Trust (FCE.A) was also acquired for cash by Brookfield Asset Management. We only held this position for a few months before the transaction was announced and the price represented a premium of 26% over the previous closing price.[8]

We sold our position in **Patterson Companies (PDCO)** after a long string of missteps by management. Patterson was one of the premier companies in the distribution of dental products, but poor management allowed their strong position to be competed away. The business struggled as the market slowed and price inflation disappeared. This meant that pricing pressure could have a more pronounced impact on earnings growth.

Macquarie Infrastructure (MIC) was sold from the portfolio as well. When we initially invested in Macquarie, we liked the assets they held – petrochemical storage tanks, general aviation operations, power generation, and a gas utility – and believed management had a growing track record of creating value through additional acquisitions. However, Macquarie announced a softening in their storage tank business in February 2018 and we had viewed this as their most stable segment. In our view, the fundamental deterioration was swift and, given the immediate capital needs this created, it led them to substantially cut their dividend.[9] Our team determined the financial profile no longer fit FAM Funds' criteria and exited the entire position.

In addition to exiting positions, we trimmed **US Ecology (ECOL)** due to its strong performance over the last 12 months and high valuation. Their business tends to be lumpy, so we expect to be able to buy those shares back at a lower price in the future. We also trimmed **Franklin Resources (BEN)** because we believed it was an inferior holding.

Closing Thoughts

Our team is optimistic over the long term and believes the Fund's holdings should be able to continue their growth leading to higher dividends to shareholders. In short, the "compounders" should continue to compound. In the near term, however, the picture is murkier and the market could exhibit more turbulence. While this may be uncomfortable for many investors, it has historically provided the Fund with great purchasing opportunities. We have cash at the ready to potentially invest in more great companies or add to existing holdings when opportunities arise.

As always, we will continue to work diligently on your behalf. Thank you for investing with us in the FAM Equity-Income Fund.

Best & Worst Performers for 2018

Best Performers		Worst Performers	
CDW Corp.	1.13%	South State Corp.	-0.85%
Sonic Corp.	1.12%	Patterson Companies	-0.74%
Xilinx	0.96%	Microchip Technology	-0.69%
Arthur J. Gallagher & Co.	0.92%	Macquarie Infrastructure	-0.65%
US Ecology	0.78%	EOG Resources	-0.65%

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.

[7] Bloomberg, 12/31/18
[8] Bloomberg, 12/31/18
[9] FactSet & Bloomberg, 12/31/18

Performance (as of 12/31/18)

	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception 4/1/1996
FAM Equity-Income Fund	0.06%	0.06%	11.07%	7.97%	12.41%	8.59%
Russell Midcap Index	-9.06%	-9.06%	7.04%	6.26%	14.03%	9.63%
S&P 500 Index	-4.38%	-4.38%	9.26%	8.49%	13.12%	8.17%

Past performance does not indicate future results.

Paul Hogan, CFA
Co-Manager

Thomas O. Putnam
Co-Manager

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 EQUITY-INCOME FUND TOP 10 HOLDINGS	
As of 12/31/18	
Name	% of Total Net Assets
CDW Corp.	7.3%
Air Products & Chemicals	5.8%
Arthur J. Gallagher & Co.	5.6%
Stryker Corp.	5.6%
Ross Stores	5.1%
Ingersoll Rand	4.3%
Xilinx, Inc.	4.3%
AveryDennison Corp.	4.0%
Digital Realty Trust	3.9%
Microchip Technology	3.5%
TOTAL NET ASSETS	$240,545,373

AVERAGE ANNUAL TOTAL RETURNS AS OF DECEMBER 31, 2018
The performance data quoted represents past performance.

	SINCE INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	TOTAL FUND OPERATING EXPENSES*
FAM EQUITY-INCOME FUND	8.59% (4/1/96)	12.41%	7.97%	11.07%	0.06%	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 1.26%. The total operating expense as reported in the FAM Equity-Income Fund's audited financial statements as of 12/31/17 is 1.25%. The Advisor has contractually agreed, until May 1, 2019, 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%.*

Past performance is not indicative of future results, current performance may be lower or higher 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 Equity-Income Fund and should be read carefully before you invest or send money. The principal risks of investing in the Funds 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 Equity-Income Fund, please go to famfunds.com or call (800) 932-3271.

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