



FAM FUNDS

Chairman's Commentary

Annual Report 2018

December 31, 2018

Dear Fellow Shareholder,

We began last year's annual letter by recounting a *Wall Street Journal* article that described 2017 as "the year pretty much everything went up." The opposite was true this year – 2018 could aptly be described as "the year pretty much everything went down." 2017's celebration of coordinated global growth turned to fears of a global slowdown. Safe-haven assets such as U.S. Treasuries were among the few winners. The total return of U.S. stocks as measured by the S&P 500, an index of the 500 largest corporations, was -4.38%. Smaller companies, as measured by the Russell 2000 Index, fared worse returning -11.01%.¹

Within this context, we believe that FAM Funds performed well (please see individual fund letters for details). A standout was the FAM Equity-Income Fund, which outperformed most funds and indices during the year. A down year such as 2018 is not a surprise given the strength of equity markets in all but one of the last six years. And, for us, it is not disheartening either. As we had written a year ago, price-earnings multiples coming into 2018 were becoming stretched and opportunities were few. Today, the opposite is true. Valuations are becoming reasonable and opportunities plentiful. While there may be more fear in the markets, we at FAM Funds are becoming more excited.

Volatility → Opportunity

If investors were asked to describe the domestic stock markets in 2018 using only one word, many might say "volatile" (partially because you could not escape this word in the financial press). The placid 2017 market carried over into a very strong January of 2018. Then fears of inflation and rising interest rates caused investors to reassess the earnings growth and valuations of businesses, creating a surge in volatility through May. Things calmed down over the summer as the S&P 500 climbed to new highs on September 20. Along the way, on August 22, it was crowned the longest bull market in history at 3,453 days. No sooner had the coronation celebration ended when investors became fearful of a global slowdown and escalating trade wars. By the end of December, the longest running bull market threatened to give way to a bear market.

Opportunity → Activity

Long-term shareholders and those who have read our literature know that while downside volatility is not fun, FAM Funds embraces it rather than fears it. How? One insight crucial to embracing turbulent markets is that **price does not equal value**. The stock prices of many wonderful companies **fell 30% or more** in 2018, but we estimate that in most of these cases their value did not. This created an opportunity for long-term investors such as us. Similar to the shoppers who get excited when prices of ultra-high-definition television sets are marked down 30% on Black Friday, we get excited when market leading, highly profitable, growing, well-capitalized businesses trade 30% cheaper.

Our team used this environment of improving opportunities to enhance, in our opinion, the collective quality and expected return of our funds. Between the three funds, we took ownership stakes in 11 new businesses ranging from dental/medical distributors and label makers to faucet manufacturers and the company responsible for your neon orange fingers after eating a bag of CHEETOS®. We believe these are good firms and have long admired them, but we estimated that they were too expensive to offer us an adequate margin of safety. As volatility picked up through the year, more of these long admired and perennially expensive "wish list" companies began approaching attractive valuations. We hope to buy shares of more of these in 2019! Additionally, we added to many existing positions.

¹ Bloomberg, 12/31/18

Preparation → Opportunity

Warren Buffett's business partner Charlie Munger, paraphrasing Louis Pasteur, said, "Opportunity comes to the prepared mind." We agree. The seven members of your investment research team spent countless hours on the road in 2018 visiting the management teams of companies we are either already invested in or assessing for future ownership. In addition, our analysts talked to hundreds of management teams over the phone. All these conversations, more than 275 in all, become tiles in the mosaic of opportunities and threats on the investment landscape. We get a better picture of the prospects for each enterprise, their competitors, and businesses in associated industries. Each interaction adds to the mosaic and helps us refine our investment opportunity set and outlook.

From company managements, we heard recurring concerns about tariffs and inflation in 2018. However, we heard much optimism about the ability to grow revenue (organically and by acquisition), improve profitability, invest in future growth, and return capital to us – the owners. Indeed, the median 2019 estimated revenue growth rate for all our fund holdings is approximately 5%, on top of nearly 7% in 2018. Median earnings per share growth in 2019 is expected to be more than 8%, after 20% tax-reform-infused growth in 2018.² These are healthy numbers that reflect the optimism heard from many management teams. Some could certainly fall short of these expectations because growth is not as easy to achieve as in years past. But many could, in our opinion, continue to grow their earnings power and drive increases in per share value.

Outlook

Though the FAM Funds team is optimistic, we do not have our heads in the sand. Your team is monitoring the trade issue and ability of our holdings to protect profit margins if the trade war intensifies or lingers on while watching for signs of a protracted downturn in China. We are also paying close attention to inflationary pressures on wages, raw materials, and other operating expenses such as transportation. Most of our holdings' leaders have thus far been able to reduce the effects of these dynamics by a combination of raising prices, making operational improvements, and rerouting supply chains. Though optimistic, we are on the lookout for signs of a significant economic slowdown. If one occurs, investing in market leading, conservatively capitalized, and well-run businesses should serve us well as it has since we first opened our doors.

Please call us at **800-932-3271** if you have questions or need some reassurance. We also welcome you to visit us in our Albany or Cobleskill offices. Thank you for the ongoing trust and confidence that you place in us.



Thomas O. Putnam, Chairman

Research Team

Andrew F. Boord

John D. Fox, CFA

Kevin D. Gioia, CFA

Paul C. Hogan, CFA

William W. Preston, CFA

Drew P. Wilson, CFA

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.

² FactSet, 12/31/18

FAM VALUE FUND TOP 10 HOLDINGS

As of 12/31/18

<u>Name</u>	<u>% of Total Net Assets</u>
CDW Corp.	6.1%
Ross Stores	5.9%
IDEX Corp.	5.3%
Markel Corp.	5.1%
Brown & Brown	4.7%
Berkshire Hathaway, Inc. - Class A	4.4%
Brookfield Asset Management Inc. - Class A	3.7%
CarMax, Inc.	3.4%
AutoZone	3.4%
Illinois Tool Works, Inc.	3.2%
TOTAL NET ASSETS	\$1,132,404,096

FAM EQUITY-INCOME FUND TOP 10 HOLDINGS

As of 12/31/18

<u>Name</u>	<u>% of Total Net Assets</u>
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

FAM SMALL CAP FUND TOP 10 HOLDINGS

As of 12/31/18

<u>Name</u>	<u>% of Total Net Assets</u>
Hostess Brands, Inc.	5.4%
Frontdoor, Inc.	5.0%
National Commerce Corp.	4.9%
CBIZ, Inc.	4.9%
ExlService Holdings, Inc.	4.8%
Choice Hotels International, Inc.	4.7%
Monro	4.7%
Natus Medical, Inc.	4.6%
Diamond Hill Investment Group	4.2%
Pinnacle Financial Partners	4.1%
TOTAL NET ASSETS	\$147,820,716

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

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 VALUE FUND <i>Investor Class (1/2/87)</i>	10.08%	11.55%	7.18%	8.26%	-6.18%	1.20%*
<i>Institutional Class (1/2/17)</i>	4.96%	N/A	N/A	N/A	-6.00%	1.01%*
FAM EQUITY-INCOME FUND	8.59% (4/1/96)	12.41%	7.97%	11.07%	0.06%	1.26%*
FAM SMALL CAP FUND <i>Investor Class (3/1/12)</i>	9.49%	N/A	3.70%	5.58%	-9.37%	1.34%*
<i>Institutional Class (1/1/16)</i>	5.71%	N/A	N/A	5.71%	-9.29%	1.21%*

**Disclosure: The FAM Value Fund's total annual operating expense ratio as stated in the fee table of the Fund's most recent prospectus is 1.20% 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 1.01% after fee waivers of (0.18)% for the Institutional Class. The total annual operating expense as reported in the Fund's audited financial statements is 1.18% as of 12/31/2017 after a fee waiver of (0.01)% for the Investor Class. 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 1.18% and Institutional Shares at 0.99%.*

**Disclosure: The FAM Equity-Income 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%.*

** Disclosure: The Small Cap Fund's total annual operating expense ratio as stated in the fee table of the Fund's most recent prospectus is 1.34% 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 1.21% after fee waivers of (0.02)% 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 as of 12/31/17 Investor Class is 1.30% and Institutional Class is 1.20% as of 12/31/17. 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 Institutional Shares at 1.20%.*

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 Value Fund, FAM Equity-Income Fund or FAM Small Cap 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 Value Fund, FAM Equity-Income Fund or FAM Small Cap Fund, please go to famfunds.com or call (800) 932-3271.

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