FAM FUNDS

FAM Value Fund

Annual Shareholder Letter 2016

December 31, 2016

Dear Fellow Value Fund Shareholder,

The stock market experienced a number of ups and downs during the year, but finished strongly producing a double-digit gain for 2016. The year began poorly with stocks declining through the second week of February; however, initial concerns over a global recession proved to be unfounded and the market rebounded. Election results had a major influence on stock markets around the world. In June, a surprise vote by the United Kingdom was the catalyst for a quick market decline of -5%. The even more surprising U.S. elections led to a major rally with the U.S. stock market increasing by almost +5% from Election Day through year-end.

Performance Detail

At December 31, 2016 the net asset value of the FAM Value Fund was $66. This represents a total return of 15.60% from the beginning of the year. For comparison, the S&P 500 Index increased 11.96% and Russell Midcap Index increased 13.80%.

Performance	1-Year	3-Year	5-Year	10-Year	Since Inception (1/2/87)
FAM Value Fund	15.60%	8.81%	13.79%	6.75%	10.46%
Russell Midcap Index	13.80%	7.92%	14.72%	7.86%	11.54%
S&P 500 Index	11.96%	8.87%	14.66%	6.95%	10.16%

Best Performers

Brown & Brown was the best performing stock for the year, on a dollar-weighted basis, with a gain of $16.60 million. Brown & Brown is a long-term holding in the Fund with an original purchase date in the 1990s. It is a national insurance agency with headquarters in Daytona Beach, FL. Sales and earnings results have been fairly consistent over the last few years and Brown & Brown has embarked on a stock repurchase program which is adding to earnings per share growth. The company does business primarily in the United States and should be a significant beneficiary of lower corporate tax rates. The stock performed well this year gaining 15% thru Election Day and increased another 21% after the election.

The second-best performer was **Illinois Tool Works** with a gain of more than $10.90 million. Illinois Tool is a diversified industrial company serving a number of end markets including automobile manufacturers, food equipment, and welding equipment. Management has done an excellent job increasing profit margins over the years using their “80/20” operating system. Under this system, management focuses on the 20% of the customers that account for 80% of the revenues. As a result, operating margins have increased from 15% five years ago to 22% in the latest four quarters ending September 30, 2016.

The third-best performing stock was **EOG Resources** with a gain of $10.73 million for the year. EOG is an energy firm with headquarters in Houston, TX. The stock performed well during the year due to the considerable increase in commodity prices and EOG’s announcement of a large acquisition. We continue to be impressed with management’s focus on maintaining a strong balance sheet and earning high rates of return on capital.

Worst Performers

The worst performing stock for the year, on a dollar-weighted basis, was **MEDNAX** with a loss of -$2.26 million. MEDNAX is a national medical group that comprises the nation’s leading providers of neonatal, anesthesia, maternal-fetal, and pediatric medical and surgical subspecialty services. During the year, the company experienced greater than expected demand for its radiology services. As a result, it had to recruit and train many more doctors than expected. This increased hiring and training elevated expenses while reducing profit margins for the year. We expect this margin pressure to be a short-term issue that should be resolved in 2017. When resolved, we expect that margins and operating profit margin should begin to increase.

Patterson Companies was the second-worst performer with a loss of -$1.44 million. In November, Patterson reported poor results for its second fiscal quarter ending October 2016. The issues involved slow growth in its core dental business and margin pressure on pharmaceuticals sold in their animal health division. While we were disappointed in the operating results, the company has a strong competitive position in its industry and generates generous amounts of cash profits.

Fossil Group was the third-worst performer with a loss of -$277,406. We sold our shares as described below within the "Portfolio Activity" section.

Portfolio Activity

Purchases

We purchased a position in one new company and added to 12 positions during the market decline in January and February. These purchases represented a broad range of industries including Industrials, Retailers, Investment Managers, and Energy. The top three additions, on a dollar-weighted basis, were **Franklin Resources, CarMax,** and **Graco.**

The new holding was **Landstar System**, a transportation firm with headquarters in Jacksonville, FL. We say "was" because we sold the stock in December after it appreciated more than 35% from our original purchase price.

Sales

During the year, we completed full-sales of the following holdings: **Fossil Group; Knight Transportation; John Wiley & Sons; McGrath RentCorp;** and **Xilinx.** Additionally, we sold a considerable part of our holding in **White Mountains Insurance Group** and three small positions that we received in spinoffs: Brookfield Business Partners, Interval Leisure, and YUM China.

Fossil Group was a small position which we sold after they continued to report results far below what we expected.

McGrath RentCorp was a long-term holding in the Fund that we decided to exit. Observing the operation over a long period of time we noticed that, despite some acquisitions to diversify the business and continued investments in fixed assets, McGrath was unable to grow earnings per share or returns on equity. While the near-term results have been impacted by the decline in oil prices, which can reverse, we felt the long-term track record of earnings growth was below what we look for in our investments so we sold the entire position.

John Wiley & Sons is a premier publisher of professional journals, textbooks, and general business books. While Wiley is managing the paper to digital transition with a number of acquisitions, we thought the continued headwinds from digital adoption would weigh on future growth. The stock was quite low in February, but rebounded nicely and we sold our shares near what we thought the operation was worth.

Knight Transportation is a trucking company that has been highly profitable for many years. For the last few years, trucking has been a very difficult industry and the near-term outlook into next year continues to look challenging. Earlier in the year, we sold the majority of the position and put some of the proceeds into Landstar System which we estimated to have better cash flow and return on invested capital characteristics. By year-end, we had exited our position in Knight completely.

Xilinx is a semiconductor firm that designs and markets programmable circuits and chips. We purchased a position in the Fund in January 2015 after a disappointing earnings report caused the stock to decline below what we thought it was worth. Since our original purchase, the stock appreciated to more than our estimate of fair value and we sold the few remaining shares in the portfolio.

Outlook

Given the number of surprises in 2016, it strikes us as a bit presumptuous to write an outlook for 2017. *The only thing we are sure of is that there will be more surprises.* However, given the significant changes resulting from the presidential election a few comments are warranted. The surprise election of Donald Trump caused a reappraisal by investors about the future prospects for a variety of businesses. The major economic items from the Republican platform appear to be lower corporate and individual tax rates, increased spending on infrastructure, and less government regulation.

Investors are anticipating these changes will lead to higher growth, inflation, and interest rates. In response, since the election interest rate sensitive stocks, such as real estate and utilities, have underperformed and stocks that will benefit from lower taxes and higher interest rates have outperformed the market. This group includes banks and companies that derive the majority of their sales in the United States. The old saying that "the devil is in the details" certainly applies as a lot has to happen before policy ideas become the law of the land. The above trends certainly impacted the Fund's performance positively in the last two months of the year. The top-five performing stocks since the election were our three banks and two domestic businesses that pay the full United States corporate tax rate.

Despite all the political change, the economic landscape looks very familiar. Overall, growth has maintained a modest pace, unemployment continues to decline, housing is recovering, and, despite the recent increase, interest rates are low by historical standards.

The trends in Corporate America also continue on their recent course. Based on the outlooks from a number of corporations that gave 2017 forecasts during December investor meetings, we see more of the same. Most managements are forecasting low, single-digit, organic growth rates and a continued focus on increasing profit margins. We also expect growth in dividends per share and stock repurchases in 2017. The net result of these trends could be a record year for corporate earnings. We should point out that the stock market has already anticipated this good news. The price to earnings ratio on the S&P 500 Index is the highest in more than a decade and many individual stocks that we look at are trading at, or above, our estimate of fair value.

While there have been many changes during the last year, we are sticking with our proven philosophy and process. We continue to look for investment ideas that meet our four core criteria. First, the company must operate in a profitable business and possess a competitive advantage. Second, it must have a strong financial position with a reasonable level of debt, high returns on capital, and substantial cash profits. Third, the operation must be ably managed by people that exhibit both integrity and the ability to allocate capital for the benefit of the shareholders. Our final criteria is price. If we find a company that has the first three attributes, we will purchase the stock if it sells below our assessment of the business' intrinsic value. Once we purchase a stock, we monitor the operation's performance and constantly compare the stock price to our estimate of value. We tend to keep our investment as long as the stock does not become significantly overvalued. This process results in the Fund owning a relatively concentrated group of high-quality holdings and having a low level of portfolio turnover. We believe this approach should allow us to benefit from the growth of businesses over time with a minimum impact from capital gains taxes.

As always, thank you for investing with us in the FAM Value Fund.

John D. Fox, CFA
Co-Manager

Thomas O. Putnam
Co-Manager

FAM VALUE FUND TOP 10 HOLDINGS

As of 12/31/16

Name	% of Total Net Assets
Brown & Brown, Inc.	5.0%
Ross Stores, Inc.	4.9%
IDEX Corporation	4.7%
Markel Corporation	4.5%
CDW Corporation	4.1%
Illinois Tool Works Inc.	3.8%
Berkshire Hathaway, Inc. - Class A	3.6%
CarMax, Inc.	3.6%
Brookfield Asset Management Inc. - Class A	3.3%
EOG Resources, Inc.	3.2%
TOTAL NET ASSETS	$1,099,819,250

AVERAGE ANNUAL TOTAL RETURNS AS OF DECEMBER 31, 2016
The performance data quoted represents past performance.

	SINCE INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	TOTAL ANNUAL FUND OPERATING EXPENSES*
FAM VALUE FUND	10.46% (1/2/87)	6.75%	13.79%	8.81%	15.60%	1.18%*

** Disclosure: Expenses are from the most recent prospectus. The total operating expense as reported in the Fund's audited financial statements as of 12/31/15 is 1.18%.*

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 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, please go to famfunds.com or call (800) 932-3271.