FAM FUNDS

FAM Equity-Income Fund

Semi-Annual Shareholder Letter 2018

June 30, 2018

Dear Fellow Equity-Income Fund Shareholder,

Volatility has returned to the market in 2018. Several cross-currents have been the chief drivers including the significantly lower corporate tax rate, rising interest rates, and the implementation of tariffs on certain foreign goods. The tax rate has propelled smaller company performance as they derive a larger portion of their profits in the U.S. and benefit the most from the lower tax rate. Higher interest rates have weighed on utilities and real estate which rely on new funding for growth. This funding is more expensive now. Additionally, tariffs on steel are impacting industrial companies.

Fund highlights:

- 80% of the companies in the Fund increased their dividend over the last 12 months.
- Companies in the Fund have grown their dividends, on average, by a 10.5% compound annualized growth rate over the last five years as of 6/30/18.
- We sold two underperforming holdings and replaced them with, what we estimated to be, two names that have better long-term prospects.

Performance Detail

The FAM Equity-Income Fund, which invests primarily in dividend-paying, mid-cap companies, performed ahead of our benchmark, the Russell Midcap Index, year-to-date. At the same time, over 1, 5, and 10 years the Fund is slightly behind the benchmark. Performance year-to-date was driven primarily by our holdings in the industrials, consumer discretionary, and information technology sectors. This performance was somewhat offset by weakness from businesses in the utilities and healthcare areas.

Performance	Year-to-Date	1-Year	3-Year	5-Year	10-Year	Since Inception 4/1/1996
FAM Equity-Income Fund	3.28%	11.18%	11.72%	11.44%	9.90%	8.94%
Russell Midcap Index	2.35%	12.33%	9.58%	12.22%	10.23%	10.45%
S&P 500 Index	2.65%	14.37%	11.93%	13.42%	10.17%	8.71%

Best Performers

CDW Corp. (CDW) was once again the best performer in the Fund adding $2.54 million, on a dollar-weighted basis, for the first six months of the year. This technology reseller provides solutions for small- and medium-sized businesses as well as local, state, and federal government entities. CDW also has expertise in bringing unique IT solutions to the education and healthcare markets. Customers seek out their expertise in mobile, security, networking, cloud, and collaboration solutions. The firm is growing faster than the overall information technology space largely by taking market share from smaller competitors that do not have the same breadth of expertise. CDW continues to report sales and earnings above investor expectations and this has pushed the stock higher.

US Ecology (ECOL) was the second-best performer for the period with a gain of $1.67 million. This hazardous waste treatment and landfill company is benefiting from the strong economy as well as environmental cleanup projects. This comes on the heels of a more challenging environment experienced over the previous two years. We like US Ecology because it is mostly a fixed-cost operation so, once their costs are covered, any revenue from incremental waste volume increases the bottom line. Additionally, the business is highly regulated and this keeps new entrants out of the market. US Ecology's permitted landfills are extremely valuable assets because no one wants a hazardous waste landfill in their backyard. This makes opening a new landfill virtually impossible.

Interpublic Group of Companies (IPG) was the third-best performer in the Fund with a total gain of $1.33 million. IPG is a global advertising agency headquartered in New York City. Interestingly, the stock struggled in 2017 as investors became concerned about the future of advertising agencies in the face of new competition from Google and Facebook. However, IPG's first quarter results showed some of the strongest growth in the industry and reduced these fears. As a result, the stock price has increased 16% year-to-date.

Worst Performers

Patterson Companies (PDCO) posted the largest loss, on a dollar-weighted basis, at -$1.83 million. Our team has followed this dental and animal health products distributor since 2000 and was very impressed with the steady growth in the dental industry that was underpinned by the aging U.S. population. Unfortunately, the price of the stock consistently reflected those growth prospects. Fast forward to 2011, we finally had an opportunity to purchase the stock at what we felt was an attractive valuation. From that point, the stock did fine, but never matched the performance of earlier years. Part of the issue may have been the CEO changes. In 2015, Patterson began struggling with several issues and poor management execution derailed the dental division until, finally, the CEO was fired. Despite new management, the business has shown few signs of stabilizing. We believe that the competitive position of Patterson has been so eroded that it no longer makes sense to hold shares over the long term. We trimmed the position significantly and will try to sell the remaining shares at higher prices.

Macquarie Infrastructure Company (MIC) was the second-largest detractor with a loss of -$1.55 million for the first half of the year. Part of their growth strategy was to acquire good assets which would generate significant cash flow that could be used for further growth projects. As asset prices rose, Macquarie found it hard to buy assets at reasonable prices and so their growth profile slowed. This was followed by a softening in their storage tank business that provides stable cash flow. The announcement drove the stock lower on the fear of a ratings downgrade on their debt which could lead to possible financial distress. We sold the entire position because Macquarie no longer fits our profile of having a strong balance sheet with investment opportunities that generate incremental returns.

Aqua America (WTR) was the third-worst performer with a loss of -$694,444. Aqua is a water utility serving primarily Pennsylvania, Texas, and Ohio. The recent negative performance of the stock is more a reflection of the company being a utility. Overall, utilities have underperformed the market due to rising interest rates. Aqua, however, is doing quite well. They reported results last year with earnings beating expectations. Management guidance for 2018 was a little lighter than expected; however, management indicated that they have several acquisitions lined up for the year and can likely file for a rate case in Pennsylvania (their largest territory). These actions should modestly add to 2018 earnings, but could have a larger impact on 2019 earnings. We remain bullish on the water utility space due to the large investment opportunities ranging from upgrading 100-year-old water pipe infrastructures to acquiring underperforming municipal water and wastewater systems.

Portfolio Activity

Purchases

We purchased a small, initial position in **Avery Dennison Corp. (AVY)**, the leader in pressure-sensitive material used for labels. Essentially, Avery sells massive clear and white rolls to more than 10,000 converters who print the labels and apply them to packaging and containers for companies such as Procter & Gamble. It tends to be a regional business because it is not cost effective to ship the product long distances. Additionally, Avery has vertically integrated by making their own adhesives and this gives them better profit margins. They dominate the label and packaging market with 40% global market share — twice as large as their nearest competitor. Their label and packaging business has been a terrific, steady-growth operation with the top line growing consistently in the 3% to 5% range (excluding the impact from currency translation). The corporation has a strong balance sheet with only a modest amount of debt and generates an abundance of excess cash flow that management has used to buy back stock. Over the last four years, Avery has bought back 15% of the outstanding shares and grown their dividend by a 13% compound annualized growth rate.

We initiated a position in **Forest City Realty Trust (FCE.A)** late in the first quarter after the stock sold off due to the board not accepting a takeover offer. They decided that shareholder value would be better enhanced on a standalone basis, rather than pursuing the sale of the company at the price of received offers. Our valuation work concurs and indicates a significantly higher business value than the price we paid for our initial position.

During the period, we also added to existing positions in **Ingersoll-Rand (IR)**, **Snap-on (SNA)**, **Versum Materials (VSM)**, **US Ecology (ECOL)**, and **McCormick & Company (MKC)**.

Sales

We exited **Flowers Foods (FLO)**, which was a disappointment since their acquisition of Hostess Breads (different from Hostess Brands held in the FAM Small Cap Fund), and sold the shares at a price approximately 49% above the low set in September 2016. This was a situation where we wanted to move on from the holding 18 months ago, but estimated that we could most likely get a higher price for our shares in the future. The return from the low point was double the market return. The moral of the story is that it pays to have patience.

We sold **Macquarie Infrastructure (MIC)** as detailed within “Worst Performers.”

As mentioned above, we significantly reduced our position in **Patterson Companies (PDCO)** while also trimming our position in **Franklin Resources (BEN)** considerably.

Outlook

Economic activity remains strong and gross domestic product (GDP) growth is accelerating. Overall, this is showing up in revenue growth for the Fund’s holdings. In addition, the new lower corporate tax rate is providing a meaningful boost to profitability. In general, we are seeing firms invest the extra cash flow back into their operations. This includes projects that might have been capital constrained in the past. This is good news for Corporate America.

Business valuations have backed off slightly and are more in line with historical norms due to both higher earnings from the lower tax rate and the market only appreciating modestly year-to-date. Meanwhile, we continue to follow our steadfast strategy of investing in quality enterprises, at prices below what we think they are worth, that our team believes can compound over the long term.

As always, we continue to work diligently on your behalf.

Paul Hogan, CFA
Co-Manager

Thomas O. Putnam
Co-Manager

FAM EQUITY-INCOME FUND TOP 10 HOLDINGS
As of 6/30/18

Name	% of Total Net Assets
CDW Corp.	7.6%
Stryker Corp.	6.3%
Air Products & Chemicals	5.9%
Arthur J. Gallagher & Co.	5.2%
Ross Stores	5.1%
Microchip Technology	4.6%
EOG Resources	4.2%
IDEX Corp.	3.7%
Interpublic Group of Companies	3.7%
US Ecology	3.5%
TOTAL NET ASSETS	$230,709,029

AVERAGE ANNUAL TOTAL RETURNS AS OF JUNE 30, 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	8.94% (4/1/96)	9.90%	11.44%	11.72%	11.18%	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.

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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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