



FAM FUNDS

Chairman's Commentary

Semi-Annual Report 2018

June 30, 2018

Dear Fellow Shareholder,

The S&P 500 Index began this year just as last year ended — up and to the right. At its high on January 26, the index was up nearly 7.5%; however, investors were reminded that equity markets can, in fact, be volatile as the S&P fell more than 10% in less than two weeks. It then vacillated to a mid-year close of 2.65%. There are several reasons for the return of these price swings, but the following changes stand out in our opinion: inflation, interest rates, trade, and taxes. Having a strong foundation gives us the confidence to stick to our time-tested process during volatile times and our team gets energized about the possibility of buying stock in quality businesses at bargain prices.

Volatility¹

After a very calm 2017, the return of volatility to U.S. stock markets has been the focus of many news stories. Looking at one measure of volatility — the number of days the S&P 500 moves +/- 1% — the difference is clear when comparing last year to this year. Throughout 2017, that number was only eight days which was a record low. In just the first half of 2018, it moved +/- 1% for 36 days.

For long-term, patient, value investors, price volatility can create opportunities — especially when combined with healthy economic fundamentals. This has, indeed, been the case. Fenimore Asset Management, the investment advisor to FAM Funds, purchased stock in six new businesses and added to 17 existing positions among the mutual funds. Additionally, our research analysts have visited or spoken with 100 management teams of “new ideas” and added many prospects to our roster. We continue to have a positive outlook for stocks over the long term.

Inflation

Similar to volatility, signs of inflation resurfaced in 2018. While a little bit of inflation is good for an economy, too much can erode wealth. In our 2017 year-end letter, we wrote that inflation was a worry as we noticed more of our management teams were contending with rising costs. Soon after the letter went out, it is likely that investors became nervous by strong wage growth in the January employment report and this sent stocks careening into correction territory by mid-February. However, in addition to rising wages, commodity, energy, and transportation costs have increased as well. These costs are forcing some corporations to raise prices in order to maintain profits.

One indicator of a quality business (a primary filter for FAM Funds' holdings) is the ability to raise prices without much pushback from customers. Overall, our portfolio companies have been successful in doing so, but it is something we continue to watch.

Interest Rates

Interest rate levels are notoriously difficult to explain, let alone predict, but higher inflation expectations are a reason for rising interest rates. Rising rates often indicate stronger economic activity, but can have a dampening effect on business values and equity prices through a combination of higher corporate and investor borrowing costs, an increase in the relative attractiveness of fixed income investments, and lower earnings multiples.

We believe that our aversion to companies with a lot of debt, as well as our more recent strategic avoidance of firms that suffer with higher interest rates, has put overall portfolio holdings in a good position should rates continue to rise.

¹FactSet & Bloomberg, 2018

Tariffs and Trade

The President is increasing tariffs, among other tactics, in an attempt to make good on his campaign promise to improve the relative competitiveness of American businesses. This is leading to increased tensions with some of our largest trading partners while creating uncertainty and volatility in equity markets.

Nobody knows what will happen from these maneuvers or their eventual impact on business values. At the same time, our holdings' management teams are implementing plans to help lessen the negative impacts of the various anticipated scenarios.

Tax Reform — The Upside

Lower taxes are a big reason why S&P 500 earnings have grown more than 20% so far this year. Overall, this change has increased the after-tax earnings power of U.S. enterprises and, thus, their values. Specifically, the bill lowered the corporate income tax rate from 35% to 21%. However, we estimated that effective tax rates were going to be somewhere in between. For the companies we follow, most ended up in the range of 24% to 27% which, in most cases, is a considerably lower rate than they used to pay.

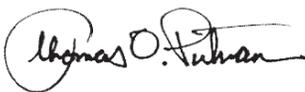
While the lowering of the tax rate created a one-time boost in earnings, tax reform is also increasing economic activity as many companies are investing a portion of their tax savings back into their operations. We are seeing this in the form of raising wages, enhancing benefits, hiring more employees, building plants, acquiring new firms, and increasing research budgets. These dynamics have helped push consumer and business confidence to new highs creating a virtuous cycle of economic growth. We believe that this should continue to benefit our investments.

Outlook

Despite the rise in macroeconomic headwinds, the fundamental backdrop for American businesses looks great from our viewpoint. Confidence appears to be high, corporations are investing, consumers are spending, and global growth is driving export demand. The companies represented in the S&P 500 are expected to grow revenues by more than 8% this year which, if accomplished, would be even faster than last year.

Rest assured, despite the hype, 2018's volatility is normal when looking at historical data. It is important for investors to keep stock price fluctuations in perspective. To reiterate, our team views volatility as an opportunity to invest in high-quality businesses at a discount as we seek to build your wealth over time. Given the positive results that we are currently observing at the company level, we believe that it continues to be a favorable environment for investing. Of course, we are monitoring inflation, interest rates, and trade issues. At the same time, we are excited by the volatility they have created — and hope you are as well — as we continually seek to improve the overall quality of FAM Funds' investments.

Please call us at **(800) 932-3271** if you have any 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.



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FAM VALUE FUND TOP 10 HOLDINGS

As of 6/30/18

<u>Name</u>	<u>% of Total Net Assets</u>
CDW Corp.	5.6%
Ross Stores	5.5%
IDEX Corp.	5.2%
Markel Corp.	4.7%
Brown & Brown	4.3%
Berkshire Hathaway, Inc. - Class A	3.7%
CarMax	3.6%
Brookfield Asset Management Inc. - Class A	3.6%
EOG Resources	3.4%
AutoZone	3.4%
TOTAL NET ASSETS	\$1,247,619,447

FAM EQUITY-INCOME FUND TOP 10 HOLDINGS

As of 6/30/18

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

FAM SMALL CAP FUND TOP 10 HOLDINGS

As of 6/30/18

<u>Name</u>	<u>% of Total Net Assets</u>
National Commerce Corp.	5.2%
CBIZ	4.9%
Sonic Corp.	4.5%
FRP Holdings	4.3%
Hostess Brands	4.3%
ExlService Holdings	4.3%
PC Connection	4.2%
Diamond Hill Investment Group	4.2%
Choice Hotels International	4.1%
Monro	3.9%
TOTAL NET ASSETS	\$178,973,704

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

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 VALUE FUND <i>Investor Class (1/2/87)</i>	10.50%	9.90%	11.69%	9.77%	11.62%	1.20%*
<i>Institutional Class (1/2/17)</i>	11.66%	N/A	N/A	N/A	11.82%	1.01%*
FAM EQUITY-INCOME FUND	8.94%	9.90%	11.44%	11.72%	11.18%	1.26%*
FAM SMALL CAP FUND <i>Investor Class (3/1/12)</i>	13.02%	N/A	11.05%	8.72%	10.33%	1.34%*
<i>Institutional Class (1/1/16)</i>	13.73%	N/A	N/A	N/A	10.48%	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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