FAM FUNDS

FAM Small Cap Fund

Semi-Annual Shareholder Letter 2018

June 30, 2018

Dear Fellow Small Cap Fund Shareholder,

We are living through an era similar to the late 1990s as many investors seek to own stock in "exciting" firms with the potential for significant growth in the future. The fact that "growth" stocks continue to dramatically outperform "value" stocks supports this statement. For example, the gulf between the small-cap Russell 2000 Growth Index and Russell 2000 Value Index is significant. Year-to-date, the Russell 2000 Growth is outperforming the Russell 2000 Value by 4.26 percentage points. The gap is more than double that over the past 12 months. Historically, the stock market has gone through repetitive cycles when growth stocks outperform and then eventually value stocks take the lead.[1] Although the past does not indicate future results, trailing in a growth market is not unusual or disconcerting to us.

Looking under the hood, we see strong performance among healthcare and technology stocks as well as "growthier" consumer cyclicals. While some of these in-favor enterprises are solid (highly profitable companies that we would like to invest in at the right price), many lose money. These unprofitable establishments attract investors because they have a great story about how they *might* become big winners. This is especially apparent among healthcare stocks where approximately 78% of all small-cap healthcare organizations are unprofitable.[2] At the same time, in our experience, value stocks perform well over the long term. This gives us reassurance as we adhere to our consistent, value-oriented investment approach with a preference for well-run, quality businesses in sound financial condition.

Performance Detail

As of June 30, 2018, the FAM Small Cap Fund had underperformed its primary benchmark, the Russell 2000 Index, over these periods:

Performance	Year-to-Date	1-Year	3-Year	5-Year	Since Inception 3/1/2012
FAM Small Cap Fund Investor Shares	5.82%	10.33%	8.72%	11.05%	13.02%
Russell 2000 Index	7.66%	17.57%	10.96%	12.46%	13.26%
S&P 500 Index	2.65%	14.37%	11.93%	13.42%	13.74%

Best Performers

With a gain of $3.17 million, **CBIZ (CBZ)** was our strongest performer, on a dollar-weighted basis, in the first half of 2018. CBIZ is a publicly-traded accounting and consulting firm that usually flies under the radar with most investors. With the passage of the new tax act, investors seem to be taking more notice of CBIZ concluding that they could pick up incremental work helping their clients comply with the new rules. We trimmed our position late in the second quarter due to a high valuation, but remain big fans.

FRP Holdings (FRPH) was our second-largest contributor with a gain of $2.45 million. FRP is a small and unusual firm, in our opinion, and therefore tends to be unknown to many investors. The company holds a variety of real estate assets and rock quarries. Recently, FRP took advantage of lower tax rates and seemingly high valuations and sold most of their warehouses for $347 million — this clearly pleased investors. FRP moves forward with attractive assets in Southeastern Washington, D.C., a collection of rock quarries, and a large pool of cash to reinvest or return to owners.

[1] Bloomberg, 2018
[2] FactSet, 2018

Sonic Corp. (SONC) was the third-largest contributor with a gain of $1.88 million. Sonic has built a dominant position in the drive-in restaurant business — they are number one in the United States. The company has more than 3,500 drive-ins and about 95% are owned by franchisees who pay them a royalty based on sales. As a result, the corporation is highly profitable with limited need to reinvest and free cash flow typically runs high. We purchased shares in early 2017 when Sonic, and most other fast food chains, stumbled for a variety of reasons thinking that this would pass with time. As Sonic reported improving results, the shares advanced nicely. We continue to believe that Sonic can do even better over time.

Worst Performers

Boston Omaha Corp. (BOMN) was our worst performer, on a dollar-weighted basis, with a loss of -$1.29 million in 2018's first half. Boston Omaha's stock price shot up in 2017's fourth quarter to unrealistic levels in response to news articles highlighting Co-CEO Alex Rozek's family relationship to Warren Buffett. The year-to-date decline strikes us as a return to normal, so we bought a few more shares.

Multi-Color Corp. (LABL) was our second-largest loser, costing the Fund -$839,444. Multi-Color is a label maker supplying customers in the food and beverage, home and personal care, wine and spirits, and healthcare markets globally. The company struggled a bit in the second quarter. One reason, based on our research, was because they tried to keep up with better-than-expected sales volumes. We believe this is a minor issue that should eventually prove irrelevant.

Hostess Brands (TWNK) was our third-largest detractor with a loss of -$574,218. Hostess is one of our favorite ideas today. We believe the price decline is at least, in part, due to a recent acquisition of Cloverhill Bakery. Cloverhill has its own brands, such as Big Texas Cinnamon Roll, and co-packs for other sweet baked goods manufacturers. Hostess bought Cloverhill for a small price, after its former owner essentially ran the business into the ground, but must bear some losses while they fix it. This could modestly depress earnings for a few quarters. Ultimately, we think that Hostess should end up with a nicely profitable bakery acquired at a low price and the true value should be reflected in the stock price.

Portfolio Activity

Our goal remains to carefully construct a concentrated, yet fairly diversified, portfolio of top-notch holdings in strong financial positions run by impressive management teams. In any given period, we sell or trim positions that either worked out so well that the valuations are now quite high or, sometimes, no longer meet our rigorous criteria. Similarly, we find opportunities to buy a few more shares in companies we already hold and admire as well as establish positions in new ideas. Occasionally, we may even sell "good" ideas to replace them with what are hopefully "great" ideas that can generate even better returns over the coming years. Our team describes this as "making the train faster." Our recent moves are described below.

Sale & Purchase

While the Fund has long been a shareholder in **Evolution Petroleum Corp. (EPM)**, over time we concluded that **Matador Resources Co. (MTDR)** was an even better investment opportunity from our viewpoint. Matador's primary asset is oil-rich land in West Texas and New Mexico. Additionally, senior management has a tremendous capital allocation track record in our opinion — something sadly unusual among energy companies. In an effort to make the train faster, we sold Evolution's stock and bought Matador's.

Additional Purchases

Natus Medical (BABY) was added to the portfolio. Natus is a medical instrument/device company with impressive franchises in newborn care (e.g., newborn hearing), neurology (e.g., sleep diagnostics), and otometrics (e.g., hearing aid tuning). However, the business stumbled recently, the largest factor being unexpected difficulty integrating an acquisition in the otometrics space. Natus was built primarily from management buying and fixing underperforming firms, which gives us confidence that these issues should soon pass. Some of our best purchases have come from a good corporation faltering temporarily and we believe Natus falls into this category.

Late in the second quarter, we purchased shares in **Colliers International Group (CIGI)**. Colliers is a multinational commercial real estate broker/manager. There is much to like about Colliers from our vantage point. This includes senior management's fantastic long-term record, a good underlying business, significant growth potential, a strong brand, an entrepreneurial culture, and considerable free cash flow to reinvest into sensible bolt-on acquisitions.

We also added to several existing positions as prices provided opportunities.

Additional Sales
We sold our shares in **Westwood Holdings Group (WHG)**. Our team decided to own more shares in one investment manager, **Diamond Hill Investment Group (DHIL)**, rather than a modest amount in two.

A decision was made to exit our position in **Lindsay Corp. (LNN)** as well. Lindsay's primary business is selling agricultural irrigation equipment around the world. Despite no material change in commodity prices, and therefore demand, Lindsay's share price advanced approximately 50% over the two years the stock was held in the portfolio.

Mistras (MG) was sold early in the year. Mistras provides testing and related services to a few industries, but particularly refineries and petrochemical plants. Those customers reduced their demand for services when oil prices began falling in late 2014 and Mistras' share price fell as well. We started buying shares shortly thereafter with the theory that this was a good enterprise facing a difficult environment that could revert to normal in time. Yet, as oil prices began to rebound off their early 2016 bottom, demand for Mistras' services improved only modestly. Clearly, something seems to have changed in the industry dynamic so we decided to exit the position. Thankfully, a small positive return was generated.

Finally, we trimmed a few positions as prices provided opportunities.

Outlook
We believe that most of our holdings are executing their strategic plans quite well. On average, the companies held in the Fund are growing nicely while generating significant cash earnings to either reinvest into acquisitions, repay debt, or return to owners through dividends and/or stock buybacks. Times are good, from our perspective, and we are pleased with how our collection of businesses are progressing.

At the same time, the main macro factors we are watching are inflation and interest rates. It is interesting to us that the number of Fund holdings mentioning inflationary pressures — usually wages at the lower end of the pay scale and more recently commodities like tariff-impacted metals — increased considerably in the past few quarters. Falling interest rates and inflation have been an almost constant backdrop for most of us under the age of 55, so a shift to rising inflationary pressures could be important.

Broadly speaking, we are thinking through two considerations. The first is at the company level. Most businesses are saying that they are experiencing inflation, but, not to worry, they will pass it through to their customers. It is highly unlikely that *all* firms can pass through their inflationary pressures quickly and completely. Many may struggle to raise prices and others may be able to do so, but only after a time lag. Both scenarios lead to lower earnings, at least until pricing catches up with cost pressures. This is not necessarily the end of the world, but investors may be too complacent currently and surprised by a few companies missing earnings estimates.

The second issue is the macroeconomic picture. As the world adjusts to this new reality of higher inflation, several things could happen. It seems that investors are aware of rising inflationary pressures, but, for now, the "crowd" may not be too concerned. We wonder if the crowd might, at some point, begin to worry. This has implications for many asset classes.

For example, the value of an asset is the total of all future cash flows discounted back to the present value. What this means is that the higher the assumed interest rate, the lower the present value of those cash flows. If investors begin to factor higher interest rates into their math, then valuations of assets could fall. Obvious examples include assets and companies with limited ability to grow earnings such as real estate (with long duration leases) and utilities.

Another potential outcome from this second concern is that the Federal Reserve, in their efforts to keep inflation from accelerating to more problematic levels, might accidentally raise short-term interest rates too high and choke off economic growth. Historically, several recessions were the result of this scenario.

However, please keep in mind that *we are not* making predictions. Instead, we are only communicating that this is something we are monitoring. Inflation might prove completely tame. It may also come paired with strong economic growth. From a valuation standpoint, fast earnings growth might offset any pressure from higher interest rates.

As we have communicated consistently for more than 40 years, we are bottom-up stock pickers. Fenimore Asset Management, the investment advisor to FAM Funds, believes that earnings growth is the key, but we also keep an eye on potential macro issues. If the companies held in the Fund grow their earnings, then stock prices should eventually follow. Our team finds it reassuring and exciting to consider the portfolio holdings. For instance, we believe that, under most conceivable scenarios, in 10 years **Carriage Services** should conduct more funerals, **Sonic** and **Choice Hotels** should both receive franchise fees from more units, **CBIZ** should provide tax and accounting services to additional clients, people should likely continue to splurge on **Hostess Brands** snack cakes, and the number and value of buildings **Colliers International** represents should rise.

Thank you for investing with us in the FAM Small Cap Fund.

Andrew F. Boord	Thomas O. Putnam
Co-Manager	*Co-Manager*

FAM SMALL CAP FUND TOP 10 HOLDINGS

As of 6/30/18

Name	% of Total Net Assets
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

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 SMALL CAP FUND *Investor Class* (3/1/12)	13.02%	N/A	11.05%	8.72%	10.33%	1.34%*
Institutional Class (1/1/16)	13.73%	N/A	N/A	N/A	10.48%	1.21%*

** Disclosure: The 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 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 Small Cap, please go to famfunds.com or call (800) 932-3271.

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