FAM FUNDS

FAM Value Fund

Semi-Annual Shareholder Letter 2018

June 30, 2018

Dear Fellow Value Fund Shareholder,

Stocks began the year on a tear with the U.S. stock market up more than 5% by the end of January. However, things changed quickly as the market declined 10% from its high by the second week of February. The speed of the decline caught some investors by surprise and there were a number of articles about the return of volatility. After a few more ups and downs, the market generated a small gain for the first six months. The news in the second quarter was focused on the possibility of trade tariffs implemented by the U.S.A. and its main trading partners.

Performance Detail

At June 30, 2018, the net asset value of the FAM Value Fund was $73.91. This represents an increase of 0.53% from the beginning of the year. For comparison, the S&P 500 Index increased 2.65% and Russell Midcap Index increased 2.35%.

Performance	Year-to-Date	1-Year	3-Year	5-Year	10-Year	Since Inception (1/2/87)
FAM Value Fund	0.53%	11.62%	9.77%	11.69%	9.90%	10.50%
Russell Midcap Index	2.35%	12.33%	9.58%	12.22%	10.23%	11.65%
S&P 500 Index	2.65%	14.37%	11.93%	13.42%	10.17%	10.44%

Best Performers

The best performer for the first six months of the year, on a dollar-weighted basis, was **CDW Corp. (CDW)** with a total gain of $10.05 million. We have owned CDW twice in the last decade. We originally invested in the business in 2004 and owned the stock until it was acquired by a private equity firm in 2007. In 2013, the company was taken public again by the private equity owners. After the public offering, we kept our eye on CDW making our first purchases in January 2014 in the mid-20s per share. The corporation had a little too much debt, but we were assured that management would use their significant free cash flow to reduce debt to a reasonable level. This is exactly what happened. In addition to reducing debt, their sales and earnings have grown nicely and the stock is above $80 per share resulting in an excellent return over four years.

The second-best performer was **Interpublic Group of Companies (IPG)** with a total gain of $6.62 million. IPG is a global advertising agency headquartered in New York City. Interestingly, the stock was on our worst-performers list 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.

The third-best performer was **EOG Resources (EOG)** with a gain of $5.82 million. EOG is an energy producer which has benefited from the increase in oil prices. The price of oil has increased significantly over the last year benefiting energy producers of all types. We like EOG due to their two-pronged strategy of focusing on rate of return – versus production growth – and maintaining a strong balance sheet. After the 2014 collapse in oil prices, the firm focused their strategy to only drilling wells where they believed they could make a 30% return at $40 per barrel of oil. Furthermore, they committed to investing only their operating cash flow and not borrowing additional sums to fund production. Today, these decisions have given EOG a high return on capital and what we think is an excellent balance sheet compared to the rest of the industry.

Worst Performers
The worst performer year-to-date, on a dollar-weighted basis, was **Illinois Tool Works (ITW)** with a loss of -$7.08 million. ITW is a diversified industrial company serving a number of end markets including automobile manufacturers, food equipment, and welding equipment. Management has increased profit margins over the years using their "80/20" operating system. Under this structure, management focuses on the 20% of customers that account for 80% of the revenues. As a result, operating margins have increased from 16% five years ago to more than 23% in the latest fiscal year. We believe the stock has declined because ITW is a global supplier to the automobile industry which is in the crosshairs of the current global trade dispute. After the decline from its peak, the stock seems reasonably priced trading right at its 10-year average price-earnings ratio.

The second-worst performer was **Mohawk Industries (MHK)** with a loss of -$6.39 million. Mohawk is one of the two leading flooring producers in the United States and is headquartered in Calhoun, Georgia, an area of the country known as the "Carpet Capital of the World." We believe the stock is down for two reasons. The first is an industry-related issue. It is our observation that many businesses that supply the housing industry have declined year-to-date. This could be due to concerns about input cost inflation and the ability of these corporations to pass along price increases to their customers. Mohawk has a long history of passing along raw material increases, as needed, and reducing costs in their manufacturing operations. If there is a raw material price increase, then the impact should be short-lived. The second reason we think the stock is down is a company-specific matter. It is due to a large capital investment program Mohawk is undertaking to increase capacity in luxury vinyl tile. We recently met with management at their headquarters to discuss this issue and came away thinking that they would be judicious in adding capacity. We continue to like Mohawk's competitive position and its owner-operator management.

The third-worst performer was **Patterson Companies (PDCO)** with a loss of -$5.24 million. Patterson is a distributor of dental and veterinary supplies and has been struggling for some time, so we were encouraged when the board of directors named a new CEO in November 2017. New management is often a catalyst for change and can lead to excellent stock returns. A recent example in our Fund is FLIR Systems, which has appreciated nicely in the last year after a new CEO implemented needed change. Unfortunately, there has been little change implemented at Patterson. We are disappointed that the new CEO has not even announced a fresh strategy. After a recent earnings report, we took advantage of a significant increase in their stock price to sell the Fund's position. At the same time, we believe there are opportunities in this industry as a litany of bad news, from potential new competition to an FTC lawsuit, has caused stock prices to decline to interesting levels. As a result, we took advantage of negative industry reports to acquire shares of Patterson's competitor – **Henry Schein (HSIC)**.

Portfolio Activity

Purchases
During the first half of this year, we purchased one new position, **Henry Schein (HSIC)**, and added a small amount to three existing holdings: **Air Products & Chemicals (APD)**, **Dollar General Corp. (DG)**, and **Mohawk Industries (MHK)**.

As mentioned, our new holding is **Henry Schein**. Schein is a distributor of dental, medical, and veterinary products to office-based practices. The main product categories are consumables, equipment, and software. It is a global enterprise with one-third of its sales outside of the United States. Our team has long admired the firm and its management. The business has a long track record of success with a 10-year sales growth rate of almost 8% per year and eight consecutive years of earnings per share growth. This strong performance has always been reflected in the valuation of Schein's stock. Over the last 10 years, the stock has had an average price-earnings ratio of nearly 19 times earnings and has regularly traded above 20 times earnings. Given the uncertainty in the industry, we were able to purchase the stock in the first quarter at less than 17 times earnings.

Since our purchase, Schein reported solid first quarter earnings with positive organic sales growth in all segments. Additionally, management is taking steps to unlock shareholder value through the creation of a software joint venture and the spin out of their veterinary business into a separate entity. While there are questions about the role of distributors in the dental industry going forward, we believe Schein's lead over the other players and the proactive moves by management should result in a higher stock price.

Sales
During 2018's first six months, we completed two full sales: **Loews Corp. (L)** and **Patterson Companies (PDCO)** which we detailed above. We also sold half of our holdings in **Franklin Resources (BEN)**.

Loews Corp. is a holding company in New York City managed by the Tisch family. Loews has five primary assets: a partial ownership in three public enterprises (Boardwalk Pipeline, CNA Insurance, and Diamond Offshore) and full ownership of Loews Hotels and Consolidated Container Company. In addition, there is a multibillion-dollar investment portfolio. It is fairly simple to add up the value of the pieces and determine a per share value. The challenge has been that the public stock price of the parent, Loews Corp., has always traded at a significant discount to the sum of the parts. We believe this is due to the poor capital allocation decisions of management. After observing management's decisions over a few years, we determined the company's value was growing at only a modest rate and that it was unlikely that the discount to fair value would close. We sold the stock when the market was roaring in January after a 40% increase in Loews stock price from two years earlier.

We sold half of our shares in longtime holding **Franklin Resources**. Franklin is a global asset manager with approximately $700 billion in assets under management. The firm owns several brands including Franklin Funds, Mutual Shares, and Templeton. Franklin has been challenged by new competitors and poor performance in some of its large mutual funds. While we were certainly aware of these challenges, we were holding the stock for two reasons – it was cheap on a price-earnings multiple basis and Franklin should benefit from changes in the new tax law. Franklin held billions of dollars in cash overseas and should have benefited from any change in the tax laws allowing U.S. corporations to bring cash home on a favorable basis. Of course, the tax law did change, but when management announced their plans for the billions parked overseas both we and the market were disappointed. We sold the shares in March after receiving $3.23 per share in dividends.

Outlook

Do Not Try To Time The Market

We are writing this letter at an interesting time, June 30, 2018. This is because 10 years ago we were just a few months away from the collapse of Lehman Brothers, AIG, money market funds, and other events from the "Financial Crisis" and "Great Recession." So, you might be surprised to read that it was a great time to buy stocks! For investors who did not need short-term access to their investments and had a long-term (five years plus) time horizon, it was a good opportunity to buy. The trailing 10-year return on the FAM Value Fund at June 30, 2018 was 9.90%. What this means is that if a shareholder purchased $10,000 of the Fund on June 30, 2008, they would have more than $25,000 today (this assumes all dividends and capital gains were reinvested).[1] Of course, the shareholder had to remain invested, which was not easy given all the negativity during the ensuing two years. However, the market recovered and reached new, all-time highs.

The Importance Of Management

You may have noticed a few spots in this letter where we mentioned our reaction to what management had done as motivation for us to buy or sell a stock. Our research analysts believe that one of the most important aspects that determines an investment's long-term success is the quality of management. Accordingly, we continue with our objective that an analyst should meet face-to-face with the leaders of each Fund holding at least once a year. Given our long holding period, we have been meeting with some management teams for more than a decade and have gotten to know them very well.

When we meet with management, we are looking for two qualities – honesty and ability. As the Co-CEO of Markel Corporation, Tom Gayner, says, "If management is honest, but not able then no one will make money. If management is able but not honest, they will make money but not the shareholders." Ability comes in two categories – business operations and capital allocation.

Operating skill is the ability to have the right strategy and execute. Good operators have a track record of growing sales, increasing margins, and generating a growing stream of cash profits.

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[1] Cumulative performance of a hypothetical $10,000 investment in FAM Value Fund. The returns are net of the Fund's expenses, but do not reflect the payment of any brokerage commissions or brokerage costs incurred as a result of buying or selling FAM Value Fund shares or trading FAM Value Fund shares on an exchange and do not reflect the deduction of taxes to which an investor would be subject as a result of owning or selling shares of FAM Value Fund. If they did, the returns would be lower than those shown.

Skill at capital allocation is different. Capital allocation is the ability to maximize the use of the company's assets and cash flow. The decisions that management makes in this area are critical to investment success. This is very important to the Fund's holdings because, by design, we seek to invest in enterprises that generate more cash than they need to run the operation. Our longtime holding Brown & Brown is a great example. Last year, Brown & Brown generated $442 million of cash flow and required only $24 million of investment back into the firm. In this case, the management team has more than $400 million to allocate on behalf of the shareholders. Their decisions on what to do with that "extra" cash are extremely important to future stock returns.

What We Look For In A Stock
In addition to high-quality leaders, we continue to look for investments that have three other attributes.

The first characteristic is a business that we can understand that is protected by some competitive advantage. In order to value a company, you need to have some sense of future sales and profits. While this is always difficult to forecast, it becomes virtually impossible with exciting new industries like driverless cars, drones, virtual reality, social media, and genomics. These are thrilling fields and their advances are changing our world, but selecting the winners in each industry and predicting the profits is extremely difficult. Therefore, we stick to businesses we know that are more predictable such as banking, insurance, retail, industrials, and real estate.

The second attribute we look for is a strong financial position. We prefer companies that are growing and have high returns on capital, low debt, and significant cash profits.

Thirdly, if we can find a profitable, well-managed business whose stock we may want to purchase, we will only invest if its price is at a discount to our assessment of fair value. This is the last part of our investment equation. We spend considerable time estimating the "intrinsic value" of every corporation we invest in or research. Our team purchases new holdings or adds to existing stocks when the market price is below what we think the business is worth.

Our tendency is to then hold the stock for a considerable time as long as the company's value is growing and the stock price does not become significantly overvalued in the market. The FAM Funds bias of holding for the long term is why our turnover ratio is much lower than industry averages. In our experience, we also make the most money when we hold for an extended time. Another nice, potential advantage of a long holding period is the realized capital gains that we do experience are taxed at the lower, long-term capital gains rate.

Due to our diligent, in-depth research, we are pleased with the collection of quality holdings within the portfolio as well as the potential businesses we have vetted and desire to invest in at the right price. We would not be surprised if stock markets continue to be volatile. If volatility continues, it can provide opportunities to invest in quality enterprises – that meet our criteria – at a discount. This is key as we seek to continually enhance the Fund's holdings while preserving and growing your wealth over the long term.

Thank you for investing with us in the FAM Value Fund.

John D. Fox, CFA
Co-Manager

Thomas O. Putnam
Co-Manager

Drew P. Wilson, CFA
Co-Manager

FAM VALUE FUND TOP 10 HOLDINGS

As of 6/30/18

Name	% of Total Net Assets
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

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 *Investor Class (1/2/87)*	10.50%	9.90%	11.69%	9.77%	11.62%	1.20%*
Institutional Class (1/2/17)	11.66%	N/A	N/A	N/A	11.82%	1.01%*

**Disclosure: The 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, untl 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%.*

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.

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