FAM SMALL CAP FUND

Annual Shareholder Letter 2020

December 31, 2020

Dear Fellow Small Cap Fund Shareholder,

One of the Fund's managers played a couple years of high school baseball. Frankly, he was not that talented and remains short and slow to this day, but he learned many lessons that actually apply to investing. All young ballplayers aspire to be like their baseball heroes and hit towering home runs. Who wouldn't like the glory? The standing ovations? The problem is that when a batter tries to hit home runs, they can end up with a few home runs and lots of strikeouts. Instead, a good hitter learns to "just hit the ball hard somewhere." As a result, the number of strikeouts usually drops precipitously. The batter is also more likely to produce hard-hit ground balls and line drives that can turn into many singles, a few extra base hits, and occasional home runs.

This lesson has always applied to investing, from our standpoint, but it seemed particularly appropriate in 2020. As COVID-19 spread and many businesses were hit by a drop in demand or government-mandated closures (particularly in March and April), a few investments turned into permanent losses of capital — or strikeouts. Oddly, by the second half of 2020, many investors forgot about those painful strikeouts and instead obsessed on trying to hit home runs.

We believe you can see this phenomenon in the returns of domestic small-cap stocks. The Russell 2000, our primary index we compare performance against, fell -40.4% to a yearly low on March 18, 2020. Then, as conditions improved and the animal spirits returned, the index ended the year up an amazing +19.9%. The breakdown underlying this 19.9% return was fascinating from our viewpoint. Of the 2000 companies represented in the Russell 2000 Index, 131 have revenues less than $1 million, so they barely exist to some extent; yet those tiny, speculative businesses rose an average of 35.7%.[1]

Speculators are always around. History is filled with stories of "get-rich-quick schemes" and speculative bubbles. For whatever reason, speculation seems more common lately. We see excesses in many areas including the excitement over the revolutions in electric vehicles and genomics, the hope the Biden administration will trigger a boom in renewable power, work-from-home "plays," and a surge in online trading (and usage of leverage and options) by individual investors. Many of these investors seem to be riding high on the excitement of recent gains, but we believe many might ultimately be disappointed.

[1] *FactSet as of 12/31/2020*

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We could write a letter on each of these speculative areas, but will focus on electric vehicles (EVs for short) because they are a good example. EVs are impressive and we think they could gradually displace the internal combustion engine and reduce pollution. There is much to be excited about. However, along with the traditional auto manufacturers, dozens of new global EV companies, and even a few tech giants, are competing for the same customers. Predicting which one(s) wins and how profitable they will ultimately be is a truly daunting task.

Today, our research shows that most EV companies are burning significant amounts of cash and would run out of money if not for enthusiastic investors buying more stock to fund these efforts. We would say predicting which firm will win and how much they will earn in 10 years is impossible and therefore buying shares in any one player is a gamble. While a few should win, we believe that many investors are going to be disappointed.

Our thinking is anchored in history. For instance, today's EV excitement is oddly similar to another transportation revolution — the "British Bicycle Mania" of the 1890s. The new "safety-bicycle" triggered a boom in demand with many people seeking their first bike. In turn, this caused a rush to start new manufacturers to provide bicycles and their components. Many new businesses sold stock to the excited public, stock prices boomed in the late 1890s, and by the end opportunists sold stock in new companies of dubious quality. Eventually, demand stabilized (after all, there are limits on how many a family needs), the supply of bikes surged, the excitement subsided, and stock prices crashed.[2]

The EV situation is also similar to the early days of the American automobile. At the time, it must have been obvious that the automobile was revolutionary, but picking the winners proved extremely difficult. At least two hundred auto manufacturers were created in the early days (around 1900 to 1915).[3] Most efforts failed early, but a few persevered into the '20s and '30s, only to fail as well.[4] This left Ford, General Motors, and Chrysler as the winners after a battle of more than 20 years. It is possible that EVs will become a tremendous success, but picking the eventual winners seems impossible.

What have we been doing while some others speculate? Our team is just trying to hit the ball hard somewhere. To us, this means focusing on the fundamentals of our quality/value approach. We seek already impressive companies that are both highly profitable today and likely to be so for many years, run by talented and ethical leadership teams, in solid financial shape, and available for purchase at a reasonable or better valuation. Our team thinks this process works well over the long term. We may still strikeout at times with a poor stock pick, but we expect that our solid, fundamental approach should lead to many hits and an occasional home run.

Activity

Relative to our normal pace of trading, this was an incredibly busy time. In a typical year, we might sell a few positions when we learn a business, while solid, is not quite

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[2] See "Boom and Bust" by Quinn and Turner for a good read

[3] Upstate New York was the home of many early manufactures including Buffalo Automobile and Auto-Bi Company (1900-1902), Buffalo Electric Vehicle (1912 – 1915), Empire Steamer (1902-1904), Wilson (Wilson, 1903-1905), Van Wagoner (Syracuse, 1899-1903), H.A. Moyer (Syracuse, 1908-1915), Covert (Lockport, 1901-1907), and Selden (Rochester, 1905-1912)

[4] Examples of publicly traded auto companies that failed wiping out investors include Auburn (1938), Durant (1931), Elgin (1924), Hupp (1939), Moon (1930), Peerless (1931), Pierce-Arrow (1938), Rickenbacker (1927), Saxon (1923), and Stevens Duryea (1927)

up to our high standards. Similarly, a very impressive company with strong leadership might temporarily hit a rough patch so we are able to buy some shares at an attractive valuation. This "normal" pattern was in effect during January and February, but March and April were two of the busiest months of our careers. Subsequent trading conditions, while still challenging, were almost a calm after the storm.

Clearly, everything changed when COVID-19 arrived on the scene. The economy slowed and then OPEC and Russia crushed oil prices to compete for market share. We responded aggressively. While we could no longer travel, we hit the phones hard. We not only spoke to our companies, but tracked down competitors, customers, suppliers, and other industry experts. Similarly, our team read everything we could find. Our first focus was to avoid strikeouts by making sure all our holdings could survive these extraordinary challenges. At the same time, we realized that investors were seemingly selling everything — including what we estimated were some fantastic businesses with great futures.

Pre-Virus
In the pre-virus period, we made three moves — selling **PC Connection (CNXN)** as well as buying **Nomad Foods (NOMD)** and **OneSpaWorld (OSW)**.

After a strong run, we sold long-term holding **PC Connection (CNXN)**. CNXN, a distributor of computer equipment and software, is a solid but cyclical business. After reporting strong earnings for several quarters, the stock traded at a valuation considerably above its historical norm. Furthermore, while we consider the business and leadership above average, we thought we could do even better.

The proceeds were primarily invested into a new idea — **Nomad Foods (NOMD)**, a producer of branded frozen food products in Europe. Product categories include fish, vegetables, and meat substitutes. Management's plan is to continually improve the brands they control while seeking opportunities to buy and upgrade similar companies. In the past, key members of senior management pursued this strategy at other businesses and created significant returns for shareholders. As COVID-19 rolled across Europe, Nomad became one of the few beneficiaries of the pandemic as consumers stopped visiting restaurants and increasingly ate at home.

In late January, we introduced a new idea into the Fund — **OneSpaWorld (OSW)**. In hindsight, this move was unfortunate. OSW's primary business lies in managing spas on cruise ships, almost all of which outsource spa services. OSW dominates the business with more than 90% market share and is typically highly profitable. Historically, OSW grew through recessions and past virus outbreaks like H1N1, SARS, and MERS, as cruise ship owners slashed ticket prices to keep their vessels full. At the time of our purchase, COVID-19 looked, to us, comparable to past viruses. By the time it was clear that it was a serious threat to the industry, the stock price had collapsed. While both frustrated and disappointed, we decided that the right course of action was to hold our position. We believe that, eventually, the public will resume cruising and OSW should benefit. As optimism grew in the second half of the year about the potential for improved cruising conditions, the stock price partially rebounded.

Additionally, we took advantage of pullbacks in Monro **(MNRO), Boston Omaha Corp. (BOMN)**, and **Landstar Systems (LSTR)** to add to these positions. We also trimmed **Franklin Electric (FELE)**. While we continue to admire FELE, the valuation seemed high enough that it made sense to sell a few shares.

The Virus Emerges
Virtually overnight, everything changed. We responded with a two-pronged approach. First, we wanted to make sure that all our holdings could make it through the downturn and removed any problematic positions. Second, we looked for opportunities to "go on offense" and purchased shares in what we estimated were outstanding companies while they were "on sale."

As the market retreated, our first new idea was **Descartes Systems (DSGX)**. DSGX offers a variety of software products for logistics companies across the globe for tasks like tracking packages, routing trucks, and complying with a litany of customs regulations. We studied DSGX for a few years, but this was the first time the stock price was reasonably priced in our view. Since our purchase, DSGX has reported solid results. While revenues from some clients (such as airlines that carry freight below passengers) dropped, others (like retailers needing software to implement more home deliveries) stepped up their purchases.

Sadly, in the middle of the advancing storm, our longtime holding **Hallmark Financial (HALL)** reported they were having significant problems in their insurance line for small trucking operators. A series of massive jury verdicts threw the industry into turmoil. As a result, even for HALL's small fleet customers, litigation is now more prevalent and costly. We decided the best move was to exit the position.

After selling our shares in Hallmark, we quickly redeployed the proceeds into two other insurers — **The Hanover Group (THG)** and **White Mountains Insurance Group (WTM)**. You will be glad to know that neither has a large truck insurance business. Both are solid insurers we have known for years that were available at reasonable, if not attractive, prices in our opinion.

In January, two of our banks — **CenterState Bank Corp. (CSFL)** and **South State Corp. (SSB)** — announced they were merging, a transaction that closed in June. As a result, two modest positions would eventually become one large position. In March, we chose to trim both positions and this added to our dry powder to make opportunistic purchases during the contraction.

In mid-March, we began buying a position in **SPS Commerce (SPSC)**, the dominant player in supply chain software. Thousands of suppliers worldwide pay SPSC a fee to communicate with retailers like Costco, Fastenal, and Walgreens. In our view, SPSC is another example of a dynamic, high-growth business that rarely trades at an attractive valuation level. Since our purchases, company earnings have grown nicely.

Later in March, we opened a new position in **ONE Gas (OGS)**, the natural gas utility for most of Kansas, Oklahoma, and parts of Texas. From our viewpoint, OGS is a solid operator with strong management (we have met with them several times over the years). After the decline, the price was low enough that, in our opinion, their nice dividend plus reasonable growth should lead to solid shareholder returns in just about any economic scenario. Since our purchase, they reported solid earnings.

In early April, we introduced another new idea — **Ollie's Bargain Outlet Holdings (OLLI)**. OLLI is an off-price retailer that buys unwanted inventory cheaply from manufacturers and retailers (e.g., end of season extras, label changes, or the inventory of failed stores) and then passes those bargains to consumers through hundreds of modest stores. We long admired OLLI and were pleased to finally be able to buy shares at an attractive valuation. While OLLI was initially impacted by less store traffic, they were considered "essential" and had significant financial strength; therefore, we felt confident they could not only survive but return to growth when conditions improved.

Furthermore, we theorized that in these tough times consumers would increasingly seek out bargains just as more excess inventory was available, which has been the case in recent quarters.

In addition to buying new positions as prices fell, we added to several existing positions. We think **Floor & Decor (FND)** can take share from the big-box hardware stores and "mom-and-pop" flooring stores for years to come. While it was shocking to see so many of their stores closed, we felt confident they would survive; in part, because of their quick pivot to using FaceTime to serve customers and allowing order pickups off the loading docks. FND has not only survived, but thrived as more consumers focus on home improvements.

In late April, we added to our position in **Pinnacle Financial Partners (PNFP)**, a bank held in the Fund for many years. In our opinion, it is obvious that most banks will struggle for some time. However, we felt the prices were overly pessimistic given PNFP's favorable medium- to long-term prospects.

With so many opportunities to purchase new ideas and add to existing holdings, we had to make some tough decisions and prioritize our favorite ideas. As a result, we trimmed our position in **Carriage Services (CSV)** in April, an operator of funeral homes and cemeteries, and sold all shares in **Thermon Group Holdings (THR)**, a provider of heating systems used primarily by companies in the petrochemical industry. While we admire Thermon, in our view, the collapse in oil prices and lack of economic growth means they are probably facing a multi-year period of few new construction projects. In both cases, we expected to redeploy the proceeds into better opportunities.

Conditions Improve
The stock prices of most smaller companies bottomed between mid-March and early April and then began marching higher. Consequently, our trading activity slowed.

In late May, we added an initial position in **Trisura Group (TRRSF)**, a small insurer serving clients in both Canada and the United States. At the same time, we funded the purchase in part by trimming both of our food industry positions — **Hostess Brands (TWNK)** and **Nomad Foods (NOMD)**.

In June, after a decent rebound from the downturn's scariest moments, we sold our shares in our lone energy holding, **Matador Resources (MTDR)**. The proceeds were largely redeployed into **U.S. Physical Therapy (USPH)**.

The sale of **MTDR** deserves an explanation. We have long been cautious about investing in oil due to the massive commodity price swings. However, we were so impressed by MTDR's leadership that we held a modest-sized position. Clearly, the swings in 2020's commodity prices overruled the firm's management team despite their strength. The huge drop in demand due to COVID and squabbling among the major oil producers triggered a huge price drop. We did not panic-sell at the bottom, but did exit once prices began rebounding.

USPH is one of the largest operators of physical therapy offices. Typically, they partner with a local physical therapist who is well positioned to obtain referrals from local doctors. USPH handles the business aspects and the local partner focuses on building relationships and serving patients. While hurt by a drop in non-essential surgeries and sports injuries, we expected patient volumes to rebuild eventually and recent volumes are much better. Additionally, we expect that USPH should continue to organically add offices and purchase small competitors for many years.

In August, we purchased a modest new position in **Brookfield Infrastructure Corp. (BIPC)**. We have owned a position in Brookfield Asset Management (BAM) in our other strategies for many years. BAM established Brookfield Infrastructure Partners LP (BIP) in 2008 and continues to manage and hold shares in BIP; however, it was initially a limited partnership and owning limited partnership units in a mutual fund is difficult. Thankfully, on March 31, 2020, they created C-corp shares which we bought a few months later. BIPC owns a collection of infrastructure assets around the world including a UK utility, Brazilian toll roads, Australian railroads, and Indian cell towers. In addition to strong underlying businesses, in our opinion, management has historically shown significant skill allocating capital, often buying good assets from financially distressed owners.

By late summer into fall, stock prices of numerous companies had rebounded significantly from the coronavirus lows. Many investors were apparently looking through the near-term earnings impact of the pandemic and anticipated a fairly quick return to normal. In some cases, a return to a "new normal" that is projected to be better than the old normal.

However, there were some interesting exceptions from our vantage point. In particular, some investors worried about banks due to both potential credit losses on loans to virus-impacted businesses (e.g., hotels) and the extremely low interest rates. Many bank shares were trading at low valuations relative to their history and past acquisition multiples. While we are unlikely to successfully predict interest rate moves, we did gradually grow comfortable estimating that any loan losses would be manageable.

As a result, over many months we added to our two existing bank positions, **South State Bank (SSB)** and **Pinnacle Financial Partners (PNFP)**, and established new positions in two banks — **Home BancShares (HOMB)** and **Cambridge Bancorp (CATC)**. HOMB is a regional bank operating primarily in Arkansas and Florida, while CATC is a Boston-area bank focused mostly on jumbo mortgages for high-net-worth families and commercial real estate loans. We owned both banks previously and know their leaders well. So far, prices are higher on all the bank shares purchased.

Closing Thoughts

The year of 2020 was truly wild. We had to consider many unusual factors, obviously including the virus, but also government shutdowns, swings in consumer behaviors, and federal government economic responses in an election year. All this on top of the usual long list of factors we consider.

Yet, in many ways, it reinforced our long-held beliefs. Our focus remains on the fundamentals of our quality/value process. We remain obsessed with companies that are already highly profitable (not those promising profits, someday) and, in our estimation, are likely to remain so for many years. Additionally, we seek leadership teams with equal parts strong talent and morality, as well as businesses with modest or lower levels of debt. If we get all this right, then our holdings should grow their intrinsic values nicely over time. Finally, we aspire to buy shares at or below a conservative estimate of a company's intrinsic value, such as its worth to a logical, cash buyer. This is our version of hitting the ball hard and we remain convinced it should lead to attractive long-term results.

We remain honored that you place your trust and capital with us. Thank you for investing alongside us in the FAM Small Cap Fund.

TOP 5 CONTRIBUTORS AND DETRACTORS*
12/31/2019 TO 12/31/2020

TOP 5 CONTRIBUTORS		
NAME	AVERAGE WEIGHT (%)	CONTRIBUTION (%)
Floor & Decor Holdings	5.38%	2.59%
Entegris	4.49%	2.49%
SPS Commerce	3.47%	2.14%
Trisura Group	2.72%	1.22%
Boston Omaha Corp.	4.04%	1.16%

This reflects the FAM Small Cap Fund's best and worst performers, in descending order, based on individual stock per-formance and portfolio weighting. Past performance does not indicate future results.

TOP 5 DETRACTORS		
NAME	AVERAGE WEIGHT (%)	CONTRIBUTION (%)
Hallmark Financial Services	Sold	-2.03%
Monro	3.33%	-1.20%
Thermon Group Holdings	Sold	-1.19%
Natus Medical	1.69%	-1.09%
CenterState Bank Corp.	Merged	-1.08%

Past performance does not indicate future results.

Andrew F. Boord
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**Reflects top contributors and top detractors to the fund's performance based on each holding's contribution to the overall fund's return for the period shown. The information provided does not reflect all positions purchased, sold or recommended for advisory clients during the period shown. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed. Past performance is no guarantee, nor is it indicative, of future results. For more detailed information on the calculation and methodology as well as a complete list of every holding's contribution to the overall fund's performance during the time period shown, please call (800) 932-3271 or visit the fund's website at famfunds.com. Portfolio composition will change due to ongoing management of the fund. References to individual securities are for informational purposes only and should not be construed as an offer or a recommendation, by the fund, the portfolio managers, or the fund's distributor, to purchase or sell any security or other financial instrument. The summary* *is not advice, a recommendation or an offer to enter into any transaction with Fenimore or any of its affiliated funds. The portfolio holdings as of the most recent quarter most recent quarter.*

TOP 10 HOLDINGS AS OF 12/31/2020

FAM SMALL CAP FUND	% OF PORTFOLIO
Floor & Decor Holdings	5.38%
ExlService Holdings	4.76%
Entegris	4.49%
CBIZ	4.45%
Pinnacle Financial Partners	4.45%
Frontdoor	4.42%
Colliers International Group	4.40%
Choice Hotels International	4.26%
Boston Omaha Corp.	4.04%
Landstar System	3.64%
TOTAL NET ASSETS	**$242,749,894**

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

AVERAGE ANNUAL TOTAL RETURNS AS OF 12/31/2020

	SINCE INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	TOTAL FUND OPERATING EXPENSES*
FAM SMALL CAP FUND INVESTOR CLASS (3/1/12)	11.40%	N/A	10.46%	8.18%	10.10%	1.29%*
INSTITUTIONAL CLASS (1/1/16)	11.48%	N/A	N/A	8.31%	10.25%	1.20%*

The performance data quoted represents past performance.

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**FAM Small Cap Fund Disclosure: The Fund's total annual operating expense ratio as stated in the fee table of the Fund's most recent prospectus is 1.29% 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 1.20% 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 for the Investor Class is 1.28% and the Institutional Class is 1.19% as of 12/31/19. The Advisor has contractually agreed, until 5/1/2021, 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 1.42% and Institutional Shares at 1.20%.*

Institutional Class shares became available for sale on January 1, 2016. For performance prior to that date, this table includes the actual performance of the Fund's Investor Class (and uses the Fund's Investor Class' actual expenses), without adjustment. The performance results shown on this and the next page for the periods prior to January 1, 2016, the date of commencement of operations for Institutional Shares, are for the Investor Shares, which are subject to higher fees due to differences in the shareholder administrative services fees and certain other fees paid by each class. Institutional Shares and Investor Shares would have substantially similar performance results because the shares of each class are invested in the same portfolio securities of the Fund. Because of the difference in the level of fees paid by Investor Shares, the returns for the Investor Shares will be lower than the returns of the Institutional Shares.

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