FAM FUNDS
Managed by
FENIMORE ASSET MANAGEMENT

FAM VALUE FUND
Annual Shareholder Letter 2020

December 31, 2020

Dear Fellow Value Fund Shareholder,

2020 is a year that no one expected and we would all like to forget. As we write this letter, the country is in a race between increasing infections and the rollout of two vaccines from Pfizer/BioNTech and Moderna. So far, the rollout has been slow with just over two million people in the United States receiving the vaccine as of December 29. While we are certainly not medical experts, we believe the pace of vaccinations should increase and eventually we will return to activities that we all miss — travel, dining out, live entertainment, and getting together with family and friends.

If we told you on New Year's Eve 2019 that the upcoming year will bring a pandemic, the worst recession since the 1930s, and a contentious presidential election, the natural reaction would be to sell everything on the first business day of the new year! Of course, this would have been a mistake with the stock market producing above-average returns in 2020. While the market indices showed annual returns of 9% to 20%, there was a big difference in the performance of various groups of stocks. Technology stocks were the best performing group and were up more than 43% on the year. Some of the worst performing groups included energy firms (down 32%) and airline stocks (down 28%).[1]

An easy way to think about the groups is stay-at-home versus mobility. Technology stocks benefited from people working from home and online shopping. Workers needed new equipment to be productive at home and people increased their online purchases as stores were temporarily closed. Stay-at-home really hurt entertainment, restaurants, cruise ships, airlines, and demand for gasoline which is a key factor for oil companies.

Another aspect of the stock market this year, in our opinion, was a high degree of speculation with renewed interest in initial public offerings (IPOs) and day trading. *The Wall Street Journal* reports that 2020 was a record year for IPOs with 454 new companies raising $167 billion. The amount raised is about 50% above the previous record set in 1999.

Another parallel to 1999 is the return of online day trading. Some of you might remember early E*TRADE brokerage commercials in the late 1990s. At the time, E*TRADE was a new kind of broker offering online accounts and day trading. The E*TRADE of our current day is Robinhood. Robinhood allows you to trade stocks, options, and crypto currencies from your mobile phone. They opened three million new

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

accounts in 2020.[2] Even a personal finance writer at *The Wall Street Journal* gave it a try, opening an account with $200 provided by his editor. His stated goal was to make as much money as fast as possible!

Looking back on the year, it reinforces our belief that no one can predict what's going to happen in the economy or the stock market. With perfect foresight into the events of 2020, a prognosticator would have probably advised selling everything and putting it under the mattress. Of course, the correct advice was to buy the most speculative stocks possible.

Portfolio Activity

During January and February, we were cautious buying only one stock, **Monro (MNRO)**, and selling the majority of our shares in two industrial stocks — **Donaldson (DCI)** and **Snap-on (SNA)**.

In early March, we switched from sellers to buyers as the stock market quickly declined more than 30%. Since we did not know the magnitude or duration of the market decline, we decided to buy, slowly.

Our team focused on buying stock in the highest quality businesses from our viewpoint — both new investments and existing holdings. From the day the market went down 10% from the peak, February 27,[3] to the first week of April, we purchased 17 stocks for a total of $73 million. These purchases were primarily funded by reducing our cash position from more than $80 million to less than $40 million and assorted sales including **Monro** and **FLIR Systems (FLIR)**.

Sales

In the first half of the year, we sold most of our shares in **Donaldson**, and all our shares in **Snap-On**, **FLIR Systems, Marriott International (MAR)**, and **Monro**. A discussion of these sales can be found in our Semi-Annual Letter as of June 30, 2020. In the second half of the year, we made three significant sales: **Mohawk Industries (MHK**), **Waters Corporation (WAT)**, and **Xilinx (XLNX)**.

Mohawk is one of the two largest flooring manufacturers in the United States. Historically a manufacturer of carpet, Mohawk added other popular flooring choices like hardwood and ceramic. The company also expanded overseas acquiring several large flooring businesses in Europe. This expansion of product line and geography proved very successful and, over the five years ending in December 2017, the stock more than tripled. Unfortunately, that was the stock's high-water mark.

While management had done an admirable job diversifying away from domestic carpet, they missed a major competitive threat that has emerged in the last few years. Low price imports from China, called LVT (luxury vinyl tile), began to take market share from traditional flooring. LVT is much lower in cost and has acceptable quality for the consumer. As LVT grew at a very high rate, management tried to get in the game by building LVT manufacturing capacity.

Unfortunately, Mohawk has not been able to produce the product at the planned volumes and continues to lose market share to lower-priced products. While the new plant investment may ultimately be successful, we decided to reinvest the money from Mohawk into two other companies, **Analog Devices (ADI)** and **Vulcan Materials Company (VMC)**, that we believe have better long-term prospects.

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[2] *BusinessofApps.com, 11/11/2020*
[3] *Bloomberg as of 12/31/2020*

Waters Corporation makes specialty instruments for use in scientific and manufacturing processes. The instruments are very specialized and require regular servicing which creates a nice continuing revenue stream. We observed that Water's sales growth was below that of its competitors and that a number of key employees had left. After the CEO was fired in June, we suspected the problems we were monitoring may be bigger than we originally thought and sold our shares.

The final significant sale in the latter half of the year was **Xilinx** when it was acquired by another company at a substantial gain.

Purchases
The majority of our stock purchases occurred in the first half of the year when we bought 18 stocks — 16 of those 18 purchases occurred between February 27 and April 3. The holdings are listed below.

Securities Purchased in the FAM Value Fund Between Feb 27 and April 3, 2020

Analog Devices	Genpact
Berkshire Hathaway	Landstar System
Black Knight	STERIS
Broadridge Financial Solutions	Stryker Corp.
CarMax	The Hanover Group
Fastenal Co.	Vulcan Materials
Fidelity National Information Services	Xilinx
Fortune Brands Home & Security	Zebra Technologies

In the second half of the year, we had two periods when we added to existing positions.

The first was early October when we purchased additional shares in **Fidelity National Information Services (FIS)** after their third quarter earnings report. FIS is a provider of what's called "CORE" banking systems. A core system is the software a bank uses to run its internal operations. It is a very stable business, in our opinion, with good pricing power as it is very difficult for a bank to switch its core system. The act of switching has been described to us as doing a "heart and lung transplant at the same time." In addition to a stable software business, FIS has a global payments operation where they make money on debit and credit payments around the world. About 25% of this business is travel and dining related which has seen a large decline during the pandemic. Our team believes that once hospitality companies return to normal, the payments operation should provide a real boost to FIS' earnings.

Our last group of purchases occurred in early November on the announcement of the favorable results of the Pfizer vaccine Phase 3 trial. We purchased small amounts of a number of stocks that performed poorly to that point in 2020, but we believed should benefit from a return to normal. This group included an aircraft parts supplier, an energy firm, a handful of banks, and the previously mentioned FIS.

Closing Thoughts

In the 2020 Semi-Annual Letter we wrote the following:

> *Given the highly uncertain outlook, we are focusing on buying shares of stock in what we deem to be the best companies at good prices, increasing the quality of our holdings, and reducing our exposure to balance sheets with debt. Two of our sales, Marriott International and Monro, were some of our highest debt businesses.* ***We are conscience that this strategy will likely underperform the initial snapback in stock prices during a recovery, but believe it's the best long-term (2+ years) strategy for protecting capital in a potential decline and achieving long-term returns.***

Since May, the FAM Value Fund has underperformed its primary benchmark, the Russell Midcap Index, resulting in the annual return lagging the benchmark by about 10% for the year. When we study the year-to-date performance, it's clear that the Fund's Top 10 Holdings appreciated significantly less than the market overall. With the Top 10 Holdings comprising almost 50% of the portfolio's assets, this was too large of a drag to overcome.

When we examine these holdings, they fall into three groups:

1. **Physical Retailers**
   CarMax and Ross Stores: Store closures and stay-at-home orders reduced traffic for brick-and-mortar retailers resulting in lower profits for the year. However, these two companies are "category killers" in their respective industries, used cars and off-price retail, and are long-term winners in our view. Current Wall Street estimates project significant increases in sales and earnings for next year.

2. **Financial Institutions**
   Berkshire Hathaway, Brookfield Asset Management, and Markel Corporation: These three businesses are involved in various parts of the financial markets including insurance, investment management, private equity, and real estate. While all three stocks underperformed the markets, we believe each company made good progress in growing their intrinsic value. We value Berkshire and Markel on book value per share. We expect both to be very profitable in 2020 and report all-time high book values as of December 31. We value Brookfield by adding the value of their investments to the value of their asset management business. They are one of the largest and most successful asset managers in the world and we expect the earnings in that business to grow well in excess of 15%. Our estimates of Brookfield's value per share is also at an all-time high. We believe all three companies are quality enterprises and can compound shareholder value for many years.

3. **Operating Businesses**
   The remainder of the Top 10 Holdings are a mix of financial, industrial, and technology companies that had varied results in 2020. Three of these firms grew pre-tax profits in the pandemic year while two experienced declines in profits of 10% to 17%.

As our team assesses these 10 positions, we still believe they are excellent businesses with good prospects for future growth trading near their intrinsic values. In a few cases, we see fairly good discounts from their value.

Our Investment Philosophy and Process
Finally, especially during these extraordinary days, we feel it is important to reiterate our investment approach as we did in our 2019 letters.

Our philosophy can be summed up in the idea of intrinsic value. We believe that every asset, be it a bond, piece of real estate, or company has a value that is "intrinsic" to that asset. The value of an asset comes from the amount of cash it produces and the rate of growth of that cash flow into the future. If you know the future outcomes of these two variables, it is fairly easy to figure out what an asset is worth.

This is how we think about valuing companies and therefore the value of their stock. A share of stock represents a fractional ownership in that business; therefore, the price of the stock should track the value of that enterprise over time. Of course, making accurate projections about the future is difficult. As a result, we build guardrails into our investment process to mitigate risk if our forecasts are wrong.

Our process focuses on four core criteria:

1. A good business that is growing and protected by some competitive advantage
2. A strong financial position with low debt, high profit margins, cash profits, and high returns on capital
3. An excellent management team that exhibits both honesty and the ability to allocate capital for the benefit of the shareholders
4. A purchase price that is below what we think the stock is worth

Once we purchase a stock, we follow it closely and try to meet with management face-to-face at least once a year. We also monitor the price-to-value relationship over time. As long as the stock does not become significantly overvalued, we tend to hold onto our stocks for many years.

This long-term view is reflected in the Fund's low turnover ratio which is significantly lower than the mutual fund industry average. One benefit of a long holding period is that when we do sell a stock and realize a capital gain, it is usually a long-term gain which is taxed at a lower rate than a short-term gain.

FAM Funds will continue to follow our business-first approach as we conduct in-depth, firsthand research at the company level. Our steadfast focus is to invest in a collection of quality businesses that we think are becoming more valuable over time — regardless of the short-term political or economic environment.

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

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

TOP 5 CONTRIBUTORS		
NAME	AVERAGE WEIGHT (%)	CONTRIBUTION (%)
Zebra Technologies Corp.	3.14%	1.25%
Brown & Brown	6.37%	1.07%
Graco	3.63%	1.02%
IDEX Corp.	6.65%	0.91%
Black Knight	3.14%	0.88%

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

TOP 5 DETRACTORS		
NAME	AVERAGE WEIGHT (%)	CONTRIBUTION (%)
EOG Resources	1.69%	-1.12%
FLIR Systems	Sold	-0.89%
Mohawk Industries	Sold	-0.73%
Marriott International	Sold	-0.54%
M&T Bank Corp.	1.59%	-0.53%

Past performance does not indicate future results.

John D. Fox, CFA
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Portfolio Manager

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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 VALUE FUND	% OF PORTFOLIO
Ross Stores	6.97%
IDEX Corp.	6.65%
Brown & Brown	6.37%
CDW Corp.	5.15%
Brookfield Asset Management	4.78%
Markel Corp.	4.40%
CarMax	4.20%
Illinois Tool Works	4.14%
Berkshire Hathaway	4.02%
Graco	3.63%
TOTAL NET ASSETS	**$1,427,876,154**

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 VALUE FUND INVESTOR CLASS (1/2/87)	10.53%	11.25%	12.05%	9.31%	6.82%	1.20%*
INSTITUTIONAL CLASS (1/2/17)	10.56%	N/A	N/A	9.52%	7.03%	1.12%*

The performance data quoted represents past performance.

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**FAM Value Fund Disclosure: The Fund's total annual operating expense ratio as stated in the fee table of the Fund's most recent prospectus is 1.26% 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 1.00% after fee waivers of (0.12)% 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 Value Fund's audited financial statements for the Investor Class is 1.18% after a fee waiver of (0.01%) and the Institutional Class is 0.99% after a fee waiver of (0.12%) as of 12/31/19. The Advisor has contractually agreed, 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 1.18% and Institutional Shares at 0.99%.*

Institutional Class shares became available for sale on January 1, 2017. 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, 2017, 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 may be lower than the returns of the Institutional Shares.

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