

2020 YEAR-END NEWSLETTER

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PRESIDENT'S MESSAGE

Deb Pollard, *President*

INVESTMENT INSIGHTS John Fox, CEO



TOMORROW'S GONNA BE A BRIGHTER DAY

People of a certain age might remember a Jim Croce song by that name. I'm of a certain age and as we head into a new year, I'm feeling pretty confident that Jim's words will ring true when it comes to our nation's economic outlook and, in particular, the businesses we invest in on your behalf.

You Already Can See it in the News:

- The economy and Gross Domestic Product are improving.
- Unemployment is trending down.
- Key high-frequency data, like hotel and airline reservations, restaurant seatings, and credit card spending, continue to increase from the spring's lows.
- We are watching all these indicators and have an eye on the recent increase in positive coronavirus tests around the country.
- As we went to press, there was good news that COVID-19 vaccines are not too far off, so we should be looking at an eventual further reopening of the economy.

Company-Level News and Actions

Our optimism also stems from what the members of our Research Team are hearing directly from the businesses your money — and ours — are invested in. After all, when we buy stocks, we're not buying "the stock market," we're buying partial ownership stakes in specific, carefully selected businesses. It's their successes and failures over the long term that determine the growth of our investments, not the market's daily fluctuations.

Fenimore's researchers talk on a regular basis with our holdings' senior leaders, and we've

heard a noteworthy leap in optimism and confidence as 2020 draws to a close. However, their actions speak even louder than words:

- Companies are reinstating, and even increasing, dividends.
- Businesses that were forced to lay people off, reduce compensation, and cut capital expenditure budgets earlier in the year are now making upward adjustments.
- Stock buybacks are returning (a real show of self-confidence on the parts of those businesses).
- There's renewed interest in mergers and acquisitions.
- Companies that had stopped issuing earnings projections for their next quarter or fiscal year due to the extreme economic uncertainty are beginning to offer this guidance once again.

Fenimore's Approach

Fenimore's team seeks to invest for the long term in a relatively small number of handpicked, quality businesses with little or no debt; strong cash profits; high returns on invested capital; a track record of growth over time; and proven, honest managers. We believe these characteristics can position a business to perform well in even the most challenging economic times.

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LEARNING TO DANCE IN THE RAIN

2020 has certainly been a year defined by change. The COVID-19 pandemic has impacted the way we all live and work.

At Fenimore, our focus is on continual improvement in the areas we can affect and remaining humbled by the ones we cannot. Changes that we implement are always made with the best interests of our investors in mind, and with a strong commitment to providing excellent service (As we like to say, we want to Wow you!).

I read this quote recently and think it sums up our approach perfectly, "Life isn't about waiting for the storm to pass. It's about learning how to dance in the rain."

Investor Outreach

As the initial shift from in-office to remote work began, the way we engage with our investors needed to change. Our team quickly adapted to interacting with you through virtual meetings and more telephone conversations. Early in the pandemic, we made a determined effort to stay in touch through a weekly email providing insights into our investment decisions, holdings, and team's perspective on the broader investment landscape.

Your response to this outreach was extremely positive, and we look forward to communicating in new and even more engaging ways in 2021. If you did not receive these communications and would like to be added to our email distribution list, please contact us. We would love to connect with you.

We also held our first virtual events in September (Fenimore Talks in conjunction with the University at Albany) and October (the FAM Funds Annual Shareholder Informational Meeting) and will continue to look for opportunities to engage with you directly and hear what's on your mind. We greatly appreciate the input!

A Culture of Collaboration

We believe that a key component of our long-term success is attributable to the strong culture that our founders — Tom and Dusty Putnam — created and cultivated. Being together as much as possible under the same roof enables our team to engage in a more spontaneous sharing of ideas and opinions about our investment and service opportunities. That collaboration inevitably results in better decisions for us — and you.

Although we are still in a transition period of days in the office and days at home, we look forward to the full reopening of our offices. More importantly, we look forward to freely greeting you at the front door in both Cobleskill and Albany!

Finally, I am pleased to introduce four new associates and announce three promotions (see page 3). We continue to build our team to ensure everyone can maximize their time on what they do best — invest in quality companies and find new and better ways of serving you.

New Initiatives

We have been busy working on several new initiatives to improve and strengthen business operations. We have also made some strategic organizational changes to better align our human and system resources.

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INVESTOR EDUCATION

IRAs

RMD Age Change: 70½ to 72

- The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 pushes back the age at which retirement plan participants need to take required minimum distributions (RMDs) from age 70½ to 72.
- The SECURE Act also allows retirees to make contributions indefinitely to a Traditional IRA if they have earned income (this feature was already in place for Roth IRA owners).¹

IRA Beneficiaries — Your Annual Review

We recommend that you review, and update as necessary, both your primary and contingent IRA beneficiaries annually. If your situation has changed, there may be unintended consequences from your beneficiary designations.

¹www.irs.gov/retirement-plans

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SAVINGS ACCOUNTS

Retirement Accounts
Whether you are just getting started, changing jobs, doing a 401(k) rollover, or running a business, our team can guide you. Accounts include:

- Traditional IRA, Roth IRA, SEP Account, SIMPLE IRA, 403(b)(7), and Individual(k)

Education Savings Accounts
Are you ready to pay for your child's college education? If not, we can help.

- Coverdell Education Savings Account (ESA)

Other Types of Accounts

- Uniform Transfers to Minors Act Account (UTMA)
- Trust accounts
- Taxable accounts

REMOVE THE EMOTION FROM INVESTING

The numerous news headlines processed every day can cause an investor to be fearful and make misguided decisions with their assets. The good news is that there is a calm and sensible investment approach called dollar-cost averaging (DCA) that can help mitigate the angst.

- DCA is a long-term strategy that involves investing a fixed-dollar amount into a mutual fund account (for example) at regular intervals. It takes advantage of the cyclical nature of the stock market and allows you to focus on long-term growth and ignore short-term market conditions.
- Since you always invest the same amount, you purchase more shares when the price is low and fewer shares when the price is high. DCA's premise is that your average cost per

TAKE ADVANTAGE OF
FAM FUNDS' LOW
MONTHLY MINIMUM — \$50
Call 800-932-3271 to Learn More

IS A ROTH IRA CONVERSION
RIGHT FOR YOU?

Concerned about future tax rates? You may want to consider converting your Traditional IRA to a Roth IRA. A Roth conversion is a permissible transaction that allows you to pay income taxes on some or all your retirement assets when you convert and benefit from tax-free withdrawals in the future.

Some benefits:

- A Roth IRA allows for an after-tax contribution, tax-deferred growth, and tax-free distributions at retirement age.
- You may pay lower taxes if your current tax rate is lower than your expected tax rate in retirement.
- Inheritance or long-term wealth accumulation goals — Roth IRAs do not require investors to take required minimum distributions at age 72. Also, inherited Roth accounts offer tax-free distributions to any beneficiaries.
- Tax diversification — What are your other

FIXED INCOME & BALANCED
PORTFOLIOS

Are you aware that Fenimore provides fixed income offerings?

- Our fixed income strategy's primary objective is capital preservation with income generation. We construct bond portfolios to provide stability with current income.
- We design balanced portfolios for those who seek both long-term capital appreciation and current income by investing in stocks, bonds, and cash.
- The minimum Fenimore Asset Management relationship for a fixed income account is \$500,000.

IF YOU ARE INTERESTED IN
UNDERSTANDING HOW FIXED
INCOME SECURITIES MAY
COMPLEMENT YOUR PORTFOLIO,
PLEASE CALL 800-721-5391



share may be less than your average price per share, thus reducing your investment risk over time.

- DCA also allows for small investments that, when done consistently over time, can grow into big savings.

Automatic investing from your bank account is an easy way to make saving a habit while bringing some peace to your life.

Dollar-cost averaging is a plan of continuous investment in securities regardless of their inconsistent prices. Of course, you must consider your financial ability to continually purchase shares. As with all investment methods, there is no performance guarantee.

sources of retirement income? Having both tax-free and taxable distributions gives you greater control.

When is a conversion appropriate?

- If your income is too high to contribute directly to a Roth IRA or if you have existing funds invested in a Traditional IRA, you may want to consider a Roth conversion.
- If you feel your tax bracket is lower now than it will be in the future when you take a Roth IRA distribution, this could be an appropriate strategy.

There are other considerations, so we encourage you to speak with us to learn more. We always recommend including your accountant or tax preparer in the final decision.

YOU CAN CONVERT A
TRADITIONAL IRA FROM
ANOTHER COMPANY INTO
A FAM FUNDS ROTH IRA



THE SHOW MUST GO ON

Our two signature fall events had to be held virtually in 2020. If you missed them — the **Shareholder Meeting and Fenimore Talks presentation** — you'll find video clips at fenimoreasset.com. Go to **"Investment Views"** and click **"Video Vault."**

Annual Shareholder Meeting Highlights

"Resilience" was the theme of this FAM Funds event that included a lively Q&A session.

- Portfolio managers discussed their steadfast focus on investing in quality businesses that have the potential to perform well in even the most challenging environments and are durable enough to come out the other side primed for growth.
- John Fox, Fenimore's CEO, spoke of how the dramatic stock market downturn at the start of the pandemic provided a fertile opportunity to invest in what we believe are quality companies at attractive prices. He also praised the ability of many of our holdings to produce positive earnings during COVID-19 and said, "We'll do our best to stay resilient and invest in resilient businesses."

Fenimore Talks Takeaways

How did the Fenimore Team manage their holdings in the face of the coronavirus and shutdown of large parts of the global economy? Research analysts provided a fascinating inside look during our Fenimore Talks program in collaboration with the University at Albany.

- We began on defense, with a thorough review of each of our holdings, followed by a strategic selling of those we felt were particularly vulnerable. From there we pivoted to offense, buying many positions in what we deem to be terrific businesses at discounted prices.
- Relationships were the rule in this tumultuous time, as we gathered intelligence and insights through direct conversations with leaders of current and prospective holdings.
- Through it all we stuck to our plan — Fenimore's stress-tested, long-term investment approach.

PRESIDENT'S
MESSAGE

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In September, we outsourced a portion of our mutual fund back-office operations to Ultimus Fund Solutions. Ultimus has been a key partner for several years handling FAM Funds accounting services. We are now utilizing their expertise to enhance the regulatory and operational areas of the business while maintaining all shareholder communications and interactions here at Fenimore. The goal is to combine our strengths with Ultimus' strengths. Our team can now focus even more attention on service and the things that make a difference to you.

Other activities include additional resources dedicated to data analysis and management, enhancements to our customer relationship management software, and our IT infrastructure.

In 2021, you will also see the outcomes of a lot of hard work in the areas of educational content, a complete website refresh, and more digital and social media updates. Stay tuned!

In reflection, I am proud to say that our team has accomplished much and stands together stronger than ever. We look forward to working with you in the new year. Please stay in touch and stay healthy. Onward and upward to 2021!

FENIMORE TEAM HIGHLIGHTS

MOVING UP



Will Preston is now **Portfolio Manager of the FAM Dividend Focus Fund**. He joined longtime Fenimore Investment Research Analyst Paul Hogan and Fenimore Founder and Executive Chairman Tom Putnam in managing the portfolio. Will is a firm Principal and served as an Investment Research Analyst since 2016. Will's insights and analytical abilities have contributed greatly to the Fund's performance in recent years.

Keith Cataldo was promoted to **Director of Trading & Operations**. Keith has directed Fenimore's trading since 2015 and now brings his talents to our client operations. In his new role, Keith manages both teams by monitoring key metrics for the daily performance of all portfolios to ensure accuracy and efficiency through trade and operational execution. He also oversees daily trading and operational procedures to ensure consistent and efficient workflows.



Matt Lavery moved up to **Business Intelligence Associate**. He is creating systems, designing processes, and overseeing data architecture and analytics to facilitate firmwide reporting of information. Matt joined Fenimore in 2017 as a Data Analyst. He holds a bachelor's degree in Finance from Siena College and an MBA in Finance from Sage Graduate College.

WELCOME ABOARD

Liza Baran joined our team as **Director of FAM Funds Shareholder Services**. She is responsible for strategic planning and overseeing day-to-day operations and servicing to create the best experience for our shareholders. Before joining us, Liza was Vice President at Ayco (a Goldman Sachs Company) for 15 years overseeing advisory teams and working directly with investors. Liza earned a bachelor's degree in Finance from Siena College and master's degree in Business Administration from the University at Albany.



Marc Roberts rejoined Fenimore as an **Investment Research Analyst** after spending four years in Chicago serving in the same role. Prior to working in the Midwest, Marc was employed here for more than eight years as an analyst and portfolio manager. He has extensive experience and picked up right where he left off – contributing several new ideas to our list of potential quality investments. It's good to have Marc back on the team.

Donna Rios came aboard as Fenimore's new **Administrative Assistant**. Donna is the welcoming face when guests enter our Cobleskill office and the friendly voice when people call our main number. Additionally, she provides support to Client Relationship Managers and FAM Funds Shareholder Services. Donna's background includes 27 years of administration at law firms and she is a Notary Public.



Drew VanArsdale, **Investment Operations Associate**, earned a bachelor's degree in Business Administration in Financial Services with a minor in Marketing from SUNY Cobleskill while achieving the highest GPA in his class/degree program. He received the outstanding student Financial Services BBA Award and is working toward his MBA in Finance & Business Analytics at Siena College. Drew works with our Client Relationship Managers and supports system accounting and performance functions.

COMMON CENTS PLANNING



1. SAFETY NET

In an ideal world, investors should have at least six months, and as much as two years, of living expenses set aside before they invest in stocks. Although you may not be there yet, it is a worthwhile goal. Having a sufficient cash reserve – in good times and bad – should provide flexibility and allow you to make rational, unforced financial decisions.

The first step is to create a budget so that you can make saving a habit. The amount of this emergency fund should be based on your circumstances.

2. YEAR-END GIFTING

For 2020, you can make a tax-free gift of up to \$15,000 (\$30,000 if you and your spouse elect to split gifts on your federal tax return) to an unlimited number of individuals. A gift of an appreciated security is also a great way to transfer wealth while possibly reducing your future tax liability.

3. HSA: A TRIPLE-TAX ADVANTAGE

A Health Savings Account (HSA) is only offered in conjunction with a High-Deductible Health Plan (HDHP) – the plan type, if available, you elect during your employer's health insurance open enrollment period. An HSA can offer much more than just an interest-bearing account to help cover out-of-pocket medical costs. It should be considered as a potential long-term vehicle to cover future medical expenses.

Automatic payroll deductions present an excellent way of forced savings into an HSA and the HSA offers a triple-tax advantage:

1. Tax deduction
2. Tax-deferred growth
3. Tax-free withdrawal if used for medical expenses

There are more advantages to consider. Additionally, it is good to check with the HSA's trustee to review your investment options.

4. ESTATE PLANNING REVIEW

It is a sound practice to review your estate planning documents and account beneficiaries regularly to ensure that they reflect the desired distribution of your affairs. These documents include health care proxies, powers of attorney, last will and testament, and trusts. If you have not had these documents prepared or reviewed by an estate planning attorney, we encourage you to do so to ensure that your objectives will be fulfilled.



WE RECOMMEND INCLUDING
YOUR ACCOUNTANT OR TAX
PREPARER IN YOUR DECISIONS

INVESTMENT INSIGHTS → CONTINUED FROM PAGE 1

When it comes to your hard-earned assets, we won't speculate. Instead, our analysts seek to make informed investment decisions based on what we believe to be a company's long-term prospects, considering both the environment in which they're currently operating and the environment we expect they'll be operating in down the road. The arrival of the COVID-19 pandemic offers a prime example of this reasoned, strategic approach.

Active Management

At the start of the pandemic, we conducted extensive evaluations of each of the businesses in

which we held ownership stakes, focusing on how we believed the economic shutdown would impact them. Namely, what their business would look like two years down the road when, we believe, things will have finally returned to "normal." We also revisited several companies we had considered purchasing in the past to evaluate their two-year prospects and to see whether their stock prices were at attractive levels.

These analyses led to a series of transactions — one of our most active periods ever — in which we sold our interests in a number of companies we were concerned about and bought more of those

whose prospects we like. Today, I am pleased to say, we don't ask if we think our holdings will survive, but rather how much we think they're going to grow.

Looking Ahead

I hope you share our optimism in what 2021 has in store. Be sure to schedule at least an annual consultation with us to discuss your financial goals and review your holdings.

On behalf of everyone at Fenimore Asset Management, thank you for the trust and confidence you place in us. We wish you and yours a safe and happy new year.

WOWING OUR INVESTORS: WHAT IT MEANS

Wowing. It's a phrase you'll hear around the Fenimore offices in Cobleskill and Albany. It's what we set out to do every time we come to work — and we hope it's how you feel every time you work with us. We asked our two managers of investor services what wowing means to them.



Kevin Smith: Trust and Transparency

- At Fenimore, relationships are our most valuable currency. Our entire approach is based around relationships, not transactions. We keep our investors' best interests in mind with every recommendation we make and, as with any strong relationship, trust and transparency are key.
- We believe that “Knowing What You Own” is essential to these relationships. When you buy stock in a business, you're buying part of that business and we believe you should know what it's all about and how our investment process works.
- With Fenimore, you can even ask our research analysts about any one of your portfolio's holdings. They'll answer your questions and explain why we believe that company deserves your investment. They'll also tell you about its leaders and share stories of walking through their facility.
- You have access to a team of experienced service professionals who can help you navigate the investment landscape. When you receive your investment statement, we believe it should reflect more than ticker symbols and numbers. It should provide an understandable roadmap for your financial future.

Ultimately, we hope you say “Wow, Fenimore is the right place for me.”

Liza Baran: We're Here for You

Fenimore's goals are twofold:

1. Provide our investors with financial peace of mind.
2. Deliver quality, personalized service that wows you every time.

Our team members serve as your personal liaisons each step of the way. Should you have any questions about your investments or want to talk about changes in your life situation or plans, we're here for you. We average more than 20 years of experience within Shareholder Services and are eager to help.

Additionally, service representatives meet weekly with our Research Team, ensuring that we understand the investment decisions Fenimore is making on your behalf and that we're ready to explain them to you.

So, what's next?

In the coming year, we are focused on enhancing our service offerings with new ways of providing even greater financial education online, in print, and, hopefully, once again through in-person events. Please contact us if we can be of assistance. Our associates look forward to serving you.

COBLESKILL & ALBANY OFFICES

Please call **800-721-5391** to speak with a service professional or to schedule a video conference or in-person meeting (as state guidelines permit).



IN THE COMMUNITY

FAM 5K “Day of Thanks”

Fenimore did not hold this year's 27th Annual FAM 5K “Fund” Run/Walk, but we wanted to thank the five local charities the race supports.

On September 25, our associates delivered gift baskets and checks to each organization as well as the local police and fire departments.

The five charities are:

- Catholic Charities of Delaware, Otsego, and Schoharie Counties
- Cobleskill Regional Hospital
- Helios Care
- Schoharie Arc
- Schoharie County Community Action Program

COVID-19 Relief

We donated significant financial resources to several regional hospitals, first responders, and human services organizations (especially those who provide basic needs such as food and shelter).

Good Medicine

Team members donned their gardening gloves, grabbed their tools, and set out to beautify Cobleskill Regional Hospital's grounds this past spring. It was our way of saying thanks to our hometown heroes for their service during the pandemic.



Manager of the **FAM FUNDS**

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Fenimore 2020 Year-End Newsletter

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