FAM FUNDS

Managed by
FENIMORE ASSET MANAGEMENT

FAM SMALL CAP FUND

Semi-Annual Shareholder Letter 2021

June 30, 2021

Dear Fellow Small Cap Fund Shareholder,

The strong rebound in stock prices, which began after 2020's pandemic lows, has certainly continued during the first half of 2021. We are pleased to report that the FAM Small Cap Fund ("the Fund") outperformed the Russell 2000 year-to-date, returning 18.00% versus 17.54%. Since our inception on March 1, 2012, the Fund has returned 12.75% versus the Russell 2000's 13.35%.[1]

Generally, in our view, economic conditions are improving nicely as many of us leave our homes and begin spending again. As our team assesses the pandemic's impacts on the Fund's holdings through June, they fall into three basic groupings:

1) Companies hurt by the pandemic, but that are now rebounding
2) Businesses that actually benefited, but might face difficult comparisons
3) Firms that were relatively unaffected

Two that were hit the hardest by COVID-19, especially early on, are in travel: **Choice Hotels International** and **OneSpaWorld Holdings**. Thankfully, consumer travel rebounded nicely in recent months, so Choice (which franchises brands like Comfort Inn, Cambria, and WoodSpring Suites) has seen a nice uptick in profits. OneSpa, which runs spas for most of the major cruise lines, is only now beginning to see a rebound in demand. These two examples demonstrate that some of our companies have mostly rebounded while others are still improving, but we believe that all our impacted holdings should return to normal.

Several companies actually did better due to the pandemic. For instance, when consumers stocked up on food, sought out bargains, and, sadly, required more funeral services. This demand helped **Nomad Foods**, **Ollie's Bargain Outlets**, and **Carriage Services**, respectively. The big open question for these enterprises is how many of their new customers will stick around as conditions normalize. A few may end up with new customers; but, even if demand reverts lower to pre-virus levels, our team still thinks each is a solid operation with a bright future.

Finally, many of our holdings are quite stable, in our opinion, and thus were not materially impacted by the pandemic or gradual re-starting of the economy. Examples include: software firms, such as **Descartes Systems Group** and **SPS Commerce**,

[1] *FactSet as of 6/30/2021*

where revenues are generally contractually locked in; our utility-like infrastructure business, **Brookfield Infrastructure Corporation**; and our largely government-mandated companies in insurance (e.g., **Trisura Group**) and taxes/accounting (e.g., **CBIZ**).

As you probably know, the recovery is uneven and supply is struggling to keep up with demand in spots. These shortages are impacting the economy in a variety of ways and adding to concerns about inflation with much of the inflationary pressure coming from higher prices for oil, used cars, and airfares. Our research analysts follow all the relevant macroeconomic statistics but find many additional insights from speaking with companies (both owned and unowned).

A few of our businesses are reporting higher costs including labor, materials, or freight costs. We watch this closely, but so far it seems that each operation has a reasonable plan to adjust and/or the negative impact should be modest. It also helps that most of the Fund's holdings have little or no debt and high profit margins. Several will just pass the increased costs through as higher prices. Others will cut costs or find additional suppliers to blunt the effect. A few companies, like our payments businesses that are paid a percentage of transaction values, should benefit modestly.

Many enterprises are looking for an opportunity to profit from these conditions. This should undoubtedly be part of the solution to shortages and higher prices. Examples include transportation companies ordering additional trucks and shipping containers, lumber mills adding capacity, automakers working with semiconductor firms to add capacity, airlines bringing more planes out of storage, and energy firms drilling more wells. Traditionally, capitalism self-corrects when prices are abnormally low or high. We expect a similar response this time.

While we are not too worried about shortages and the resulting inflation, we confess some trepidation about governmental efforts to keep interest rates low and flood the economy with stimulus while running massive deficits. Our team is not alone in having this concern – no investor has seen a scenario quite like this one. Clearly, a government response to COVID-19 was warranted and helped, but the size was massive and essentially a never-before attempted experiment. It is difficult to estimate the long-term effects. We read opinions from economists across the spectrum, but generally their writings tell us more about their own biases rather than the current environment. Our default position, based in part on a study of history and human nature, is always one of optimism; however, we are monitoring the situation closely.

Economic conditions are never perfect, yet investors seem to do well over time if they focus on the basics. As always, we remain committed to our quality-value approach of holding what we deem are 20 to 30 profitable businesses in strong financial condition, with top-notch leadership, and with the ability to be much larger in time. While remaining patient and disciplined, we hope to buy shares in these quality businesses when they trade at attractive prices.

Portfolio Activity

The 2020 pandemic gave us many interesting opportunities, so we entered 2021 with only 1.5% cash in the Fund. Given the strong surge in small-cap stock prices, it is probably not surprising that the cash level increased in 2021. Cash balances rose, but still to a reasonable 5.9% as of June 30, 2021.

Purchases

So far, this year is similar to others in that many of what we consider our best opportunities included adding shares to our existing holdings. These are companies we know well and, in some cases, studied for many years, so we are usually ready when prices warrant additional purchases. During the first half of 2021, we added to eight existing positions

— **Boston Omaha Corporation (BOMN)**, **Brookfield Infrastructure Corporation (BIPC)**, **Cambridge Bancorp (CATC)**, **CBIZ (CBZ)**, **ExlService Holdings (EXLS)**, **Monro (MNRO)**, **Nomad Foods (NOMD)**, and **OneSpaWorld Holdings (OSW)**.

Additionally, we invested in three new ideas we find exciting:

Dream Finders Homes (DFH) is a somewhat unorthodox homebuilder. Over the years, Fenimore's research team repeatedly studied the housing industry, eventually deciding that we admired the asset-light model employed so successfully by NVR Homes (a FAM Value Fund holding). Most builders use debt to buy land in bulk and then gradually sell lots as homes are built. NVR works with landbanks who buy and develop neighborhoods. NVR buys one lot at a time from the landbanks as they build new homes. As a result, NVR generates much better returns on capital and free cash flows — all with less risk due to not holding debt-financed land during inevitable recessions. Dream Finders' leadership team saw this advantage too and set out to follow a similar strategy.

We first learned of DFH after one of our holdings, Boston Omaha, became a minority investor in 2017. Fortunately, we met DFH's management at a Boston Omaha investor meeting shortly thereafter and discussed their asset-light approach to homebuilding. This early look, and our experience with homebuilders, helped us when they became a publicly traded company in early 2021. Our plan is to hold Dream Finders for many years through inevitable economic and housing cycles. We believe they can continue to generate high returns on equity while reinvesting those profits into additional projects with similarly high returns. If they are successful, then we believe investors should do quite well.

Cass Information Systems (CASS) is neither fish nor fowl — it is both a large payments processor and a modest-sized bank. We owned Cass before, during 2012 and 2013, but sold after a significant and rapid return. Cass finally returned to a more reasonable valuation, in our opinion, due to a combination of the virus-induced economic slowdown and decline in short-term interest rates, which are quite important to their business model. We believe our entry point should allow for fine returns even if interest rates are slow to rebound and potentially even better returns if the Federal Reserve raises short-term rates.

On the payments side, Cass takes all the shipping and utility bills for many large companies, searches for errors, pays the bills, and provides customers with useful data to better manage these costs. Through expertise and economies of scale, Cass can usually do this cheaper and better than in-house operations. Cass gets both processing fees and "float" income (interest income from holding the payments from their clients for a few days before paying the individual vendors).

On the bank side, Cass uses both traditional bank deposits and the float from the processing business to invest in bonds and loans. A large part of the payment processing float is invested in short-term bonds, so the recent decline in interest rates is a headwind. Cass has been an excellent lender with de minimis credit losses over at least the past 20 years — in part by focusing on loans to mega churches, fast food franchises, trucking companies, and small businesses around St. Louis.

Finally, late in the second quarter, we began buying shares in **Paya Holdings (PAYA)**. Paya is a payments gateway integrated in more than 2,000 business-to-business software packages. Once integrated, software vendors can then offer remote card and ACH payments to their end users. Paya connects these payments to the major transaction networks and provides valued-added pieces such as generating invoices,

establishing recurring payments, and flowing the data back into the customer's other software systems to eliminate manual reconciliations. Paya typically gets paid either a small percentage of each transaction or a per-item fee on ACH transactions. The firm favors industries where domain expertise is valuable such as physicians' practices, government offices, schools, and churches. Growth should come from a combination of factors including adding new software partners, increasing penetration of the customers of current software partners, and the underlying growth of their customers' spending.

Sales

We trimmed two positions ─ **Boston Omaha Corp. (BOMN)** and **Natus Medical (NTUS)** ─ in the first half of 2021. Additionally, we exited four investments ─ **Entegris (ENTG)**, **Floor & Decor (FND)**, **ONE Gas (OGS)**, and **The Hanover Insurance Group (THG)**.

Our trim of **Boston Omaha** occurred in February after a tremendous run up in the stock price. While we greatly admire Boston Omaha, we saw no justification for the stock price to rise so dramatically. So, we sold 90,000 shares. Later, in April, when the price returned to more reasonable levels, we repurchased half of those shares.

We also sold some of our **Natus Medical** shares to fund the purchase of **Paya**. While we admire Natus and their strong positions in businesses like neonatal hearing and neurological monitoring, our goal is to hold what we deem are the best 20 to 30 small companies. As we expect Paya's future performance to be even more impressive, it made sense to swap.

Our four outright sales fell into two buckets ─ immaterial positions and successes.

During 2020's downturn, we purchased small positions in both **ONE Gas**, a natural gas utility, and **The Hanover Insurance Group**, a property and casualty insurer. However, both rose in price before we accumulated enough shares of either for the position to be meaningful. Therefore, we opted to sell our shares and focus our efforts elsewhere.

The second bucket consisted of **Entegris**, a semiconductor chemicals firm, and **Floor & Decor**, a flooring superstore retailer. Thankfully, in both instances our returns were impressive in our view and they each became so large they were then considered mid-cap stocks. To keep the portfolio focused on smaller businesses, we sold our shares in each.

Closing Thoughts

It is becoming a tradition in our letters to highlight the difference between investing and speculating, in part because speculation has been popular in recent years. Put simply, investing is putting out money today with a logical thesis regarding how even more money can be generated in the future from the underlying enterprise's cash earnings. Meanwhile, speculating is just buying something and hoping somebody else is willing to pay an even higher price in the future. Investing is calm, rational, and fact-based, in our opinion, while speculating is just another form of gambling, but with no free drinks.

We do not speculate on unprofitable businesses hoping they become "the next Microsoft" or develop the cure for cancer; however, this seems to be a common approach among investors in small-cap stocks. Likewise, we do not speculate on cryptocurrencies, another investment class with no underlying cash income. Nor do we buy stock in organizations facing difficult futures even if they are capable of short-term stock price pops, such as mall-based retailers lacking a strong online presence.

For decades, Fenimore Asset Management has focused on quality companies. Our goal remains to invest in the highest quality businesses — those already very profitable and with sustainable competitive advantages and strong management — that can be much larger in the future. Often, we own the "disruptors" (enterprises taking share and income from their old, inflexible competitors). Our returns come primarily from the earnings growth of these companies. The logic of our approach seems self-evident to us and allows us, and we hope you too, to sleep well at night.

Our plan for the remainder of 2021 and beyond is more of the same: closely monitor our holdings; identify what we think are the best quality, small-cap businesses we do not own; continue to dig deeper on all these companies by regularly interacting with management and industry experts; and be ready to buy more shares when their stock prices are attractive. We feel confident that if we focus on executing our process effectively, then the Fund should generate fine long-term returns.

As always, we are grateful and honored that you trust us with your hard-earned capital. Thank you for investing with us in the FAM Small Cap Fund.

TOP 5 CONTRIBUTORS AND DETRACTORS*

12/31/2020 TO 6/30/2021

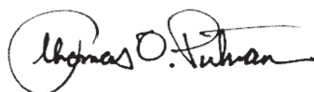
TOP 5 CONTRIBUTORS		
NAME	AVERAGE WEIGHT (%)	CONTRIBUTION (%)
Trisura Group	3.29	2.12
Pinnacle Financial Partners	4.98	1.64
Boston Omaha Corp.	3.54	1.26
ExlService Holdings	4.85	1.13
Colliers International Group	4.40	1.05

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 (%)
U.S. Physical Therapy	2.13	-0.04
ONE Gas	0.09	-0.09
OneSpaWorld Holdings	1.72	-0.14
SPS Commerce	2.83	-0.24
Cass Information Systems	0.88	-0.30

Past performance does not indicate future results.

Andrew F. Boord
Portfolio Manager



Thomas O. Putnam
Portfolio Manager

Kevin Gioia, CFA
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 6/30/2021

FAM SMALL CAP FUND	% OF PORTFOLIO
ExlService Holdings	5.67%
Pinnacle Financial Partners	5.07%
CBIZ	5.03%
Colliers International Group	4.59%
Trisura Group	4.26%
Brookfield Infrastructure Corp.	4.06%
Choice Hotels International	3.94%
Monro	3.73%
Frontdoor	3.65%
Landstar System	3.55%
TOTAL NET ASSETS	**$293,568,937**

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

AVERAGE ANNUAL TOTAL RETURNS

AS OF 6/30/2021

	SINCE INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	TOTAL FUND OPERATING EXPENSES*
FAM SMALL CAP FUND INVESTOR CLASS (3/1/12)	12.75%	N/A	12.53%	12.19%	54.11%	1.29%*
INSTITUTIONAL CLASS (1/1/16)	12.83%	N/A	12.66%	12.29%	54.21%	1.19%*

The performance data quoted represents past performance.

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Risk Disclosures: The principal risks of investing in the fund 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).

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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 1.19% 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 1.18% as of December 31, 2020. The Advisor has contractually agreed, until May 1, 2022, 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.

FENIMOREASSET.COM

800.932.3271 • 518.234.7462 • F 518.234.7793 384 North Grand Street, PO Box 399, Cobleskill, NY 12043

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