FAM FUNDS
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FENIMORE ASSET MANAGEMENT

# FAM VALUE FUND

## Semi-Annual Shareholder Letter 2021

June 30, 2021

Dear Fellow Value Fund Shareholder,

Last June, we wrote about how difficult it is to predict what is going to happen in the world and the reaction of financial markets. We recounted the emergence of the coronavirus, the ensuing three-week bear market, and the incredible speed of the stock market recovery. We ended the year-to-date summary with the words, "No one knows."

So, of course, 2021 is unfolding very much as we expected. Since the November 9, 2020 announcement of the Pfizer vaccine trial results, we have had a simple formula for forming our outlook. Our belief was that vaccines would work and America would vaccinate several hundred million people in 2021. The effectiveness of the vaccines would turn the tide on the virus and lead to a reopening of the economy due to a return to mobility and pent-up demand for the things we all missed in the stay-at-home period. The demand for restaurants, travel, sporting events, and in-person shopping would drive a very strong economic recovery. This recovery would be boosted by low interest rates and a record amount of dollars in consumers' hands from government stimulus payments. This economic recovery would increase the sales and profits at American corporations resulting in growing intrinsic values for companies and, hence, stock prices.

Over the long term, stock prices follow earnings so this expected increase in earnings is very important to stock price performance. As we write this letter, investors expect that the companies in the S&P 500 should post record earnings per share this year — about 8% to 10% above the record level set in 2019. The outlook for 2022 is also positive.[1]

While events are happening very much as we expected, there are always surprises. One of the risks to the current environment is that the economy grows too fast causing the rate of inflation to increase. If this increase in inflation is reflected in higher interest rates, then it might cause investors to re-evaluate the prices they will pay for financial assets like bonds, real estate, and stocks. This could lead to a decline in prices of those assets. However, longer-term interest rates peaked in March and have declined leaving us scratching our heads about future growth and inflation. Also, as the COVID-19 Delta variant gains ground in America, there is some concern and it bears watching.

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

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## Portfolio Activity

**Purchases**

It has been a quiet six months in terms of trading activity. We purchased two new securities, **Amphenol Corporation (APH)** and **Progressive Corporation (PGR)** in the FAM Value Fund ("the Fund") and continued to purchase shares in **Fidelity Information Services (FIS)**.

**Amphenol's** tagline is "Enabling the Electronics Revolution." The firm manufactures small electrical parts, called connectors, that are used in thousands of different products around the world. Some of their major markets are aerospace, automotive, and digital devices and networks. The world is going digital as it uses more electronics every day. We believe that Amphenol is very well positioned to benefit from this trend. In fact, you probably use their products daily. For example, if you watch the in-flight entertainment on an airplane, have a blind-spot monitor on your car, or stream a movie on your wireless television, you are likely using an Amphenol product.

The company meets our high standards for financial performance with a decade of double-digit earnings growth, high profit margins, and a strong balance sheet with $2.4 billion in cash as of March 31, 2021. The stock has performed extremely well over time with a total return during the last 5 and 10 years in excess of 15% per year as of June 30, 2021.

We have been studying Amphenol for several years and initiated a small position in the Fund at what we believe is a fair value for the business.

**Progressive Corporation** is well known through their TV commercials and company spokesperson, Flo. Progressive is the third-largest personal automobile insurance business in America. In an industry that grows mid-single digits per year, Progressive is growing double digits taking share from other insurers. Progressive is one of the pioneers in selling insurance directly to consumers, without an agent, which has been extremely successful. They were also one of the first to really embrace the use of data to price insurance. The company collects more than 100 pieces of data on prospective insureds using this information to segment their customers and set insurance prices. Historically, that has allowed them to be more profitable than other insurance firms. When we examined Progressive's insurance profitability, we learned they have made a profit in 39 of the last 40 quarters.

Progressive is also one of the first businesses to employ use-based insurance (UBI) which tracks a person's driving over a period of 30 days to see how risky they are as a driver. Through digital tools, the company can tell how fast you drive, how hard you brake, and how many left turns you make per day. One of our research analysts did the 30-day trial and was not offered a lower insurance rate — this makes us believe he has a bit of a lead foot!

A recent edition of *Barron's* featured their list of the top 30 CEOs in corporate America. On the list was Tricia Griffith, CEO of Progressive. Tricia started as a claims representative in 1988 and was promoted to CEO in 2016. In the article she says, "We're putting our foot on the gas pedal for growth and profit." Our team can't wait!

The other major purchase was continued investment in **Fidelity National Information Services (FIS)**. 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. In our opinion, it is a very stable business 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 in the pandemic. We continue to believe payment flows for travel and entertainment will recover. When they do, FIS should be growing their sales and earnings at a very good pace. Current estimates for 2021 and 2022 reflect 15% earnings-per-share growth for both this year and next.

**Sales**
To fund our purchases, we used cash on hand and made a number of sales of small positions. The Fund sold all its shares in **First Hawaiian Bank (FHB)**, **HEICO Corporation (HEI)**, **STERIS Corporation (STE)**, **The Hanover Insurance Group (THG)**, and **White Mountains Insurance Group (WTM)**. Each of these positions was less than 0.50% and in total they comprised 1.6% of the Fund's assets as of December 31, 2020. While each of these stocks represents what we believe is a good business that is well managed, our team did not believe they were at prices that we could add to the position and make it more meaningful. For example, in March of 2020 during the pandemic bear market, we purchased some shares in STERIS at $109. Today, the stock is more than $200 a share making the future return profile much different from one year ago.

There was one significant trim where we sold one-half of our position in **Zebra Technologies Corporation (ZBRA)**. Zebra is a fantastic company, in our view, that we have known for many years. The business began as the leader in barcode printers and has evolved into mobile computing and data analysis. For example, Walgreens uses Zebra handheld scanners and software to track inventory in its almost 10,000 stores. The data provided by Zebra's systems allow store managers to know what is on the shelf in every store in real time.

We owned the stock once before in the years 2006 to 2014. In 2014, the company announced an acquisition that was to be funded using a significant amount of debt. This was unusual since Zebra typically had a net-cash position on their balance sheet. The acquisition increased the ratio of debt to cash flow to more than five times. Our team likes to see companies operate at three times or less. As a result of the debt level, we sold the stock in 2014.

Fast forward to 2019, Zebra's earnings per share more than doubled and the debt level was less than two times cash flow. We repurchased the stock near $200 a share in 2019 and added to the position in 2020. Since our recent purchases, the stock more than doubled and we sold part of the position as the valuation exceeded what we expected.

## Closing Thoughts

As we write this letter, we see the U.S. economy growing at very high rates as more than 300 million vaccines have been delivered into arms. Government restrictions on mobility have been lifted and people are enjoying a return to normal. One small example, there were more than 40,000 people in attendance at the Fourth of July baseball doubleheader between the Mets and Yankees at Yankee Stadium!

The combination of a return to normal, government stimulus, low interest rates, and an increase in the number of people working, is generating strong economic growth and, hence, profits for many firms. While we know there will be surprises, at this point we see the current trends continuing. Of course, the stock market figured this out and stock prices have advanced significantly since the March 2020 bottom. When we look at prices compared to intrinsic values, we do not see a lot of bargains from our viewpoint. However, a great business purchased at fair value can be a good investment as company values tend to grow 8% to 15% per year over time.[2]

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[2] *Fenimore Asset Management Research, as of 6/30/2021*

There are certainly risks to this outlook including higher inflation, higher interest rates, a Federal Reserve policy mistake, and the unknown consequences of the government borrowing to provide a bridge through the pandemic. Of course, the virus is still with us and constantly evolving. To date, the vaccines are effective against the current variants, but this could change in the future.

Although the following is reproduced from previous letters, we believe it is vital to summarize our philosophy and process and reiterate that they remain unchanged.

**Our Investment Philosophy and Process**
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 our stocks for many years.

This long-term view is reflected in the Value 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*
### 12/31/2020 TO 6/30/2021

| TOP 5 CONTRIBUTORS | | |
|---|---|---|
| NAME | AVERAGE WEIGHT (%) | CONTRIBUTION (%) |
| CDW Corp. | 5.79 | 1.83 |
| CarMax | 4.52 | 1.67 |
| EOG Resources | 2.22 | 1.19 |
| Brookfield Asset Management | 4.78 | 1.12 |
| Zebra Technologies Corp. | 2.34 | 1.04 |

*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 (%) |
| HEICO Corp. | 0.10 | 0.01 |
| Home BancShares | 0.41 | 0.01 |
| Brookfield Asset Management Reinsurance Partners | 0.00 | -0.01 |
| Progressive Corp. | 0.57 | -0.05 |
| Black Knight | 2.56 | -0.40 |

*Past performance does not indicate future results.*

**John D. Fox, CFA**
Portfolio Manager

**Thomas O. Putnam**
Portfolio Manager

**Drew P. Wilson, CFA**
Portfolio Manager

*The opinions expressed herein are those of the portfolio managers as of the date of the report and are subject to change. There is no guarantee that any forecast made will come to pass. This material does not constitute investment advice and is not intended as an endorsement of any specific investment.*

*Performance data quoted above is historical. Past performance is no guarantee of future results. Current performance may be higher or lower than the performance data quoted. The principal value and investment return of an investment will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost.*

**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 VALUE FUND | % OF PORTFOLIO |
|---|---|
| Brown & Brown | 6.30% |
| Ross Stores | 6.21% |
| IDEX Corp. | 6.07% |
| CDW Corp. | 6.02% |
| Brookfield Asset Management | 5.21% |
| CarMax | 4.47% |
| Markel Corp. | 4.46% |
| Illinois Tool Works | 4.00% |
| Berkshire Hathaway | 3.75% |
| Graco | 3.35% |
| **TOTAL NET ASSETS** | **$1,619,352,670** |

*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 VALUE FUND INVESTOR CLASS (1/2/87) | 10.83% | 12.07% | 14.08% | 14.39% | 39.39% | 1.20%* |
| INSTITUTIONAL CLASS (1/2/17) | 10.86% | 12.16% | 14.27% | 14.60% | 39.63% | 1.12%* |

*The performance data quoted represents past performance.*

### Important Disclosures:

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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 1.19% 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, 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 December 31, 2020. The Advisor has contractually agreed, 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 1.18% 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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