FAM SMALL CAP FUND

Annual Shareholder Letter 2021

December 31, 2021

Dear Fellow Small Cap Fund Shareholder,

For 2021, the FAM Small Cap Fund achieved a total return of 27.72% for Investor Shares and 27.82% for Institutional Shares. These returns are net-of-fees and represent outperformance of 12.90% and 13.00%, respectively, compared to the total return of 14.82% for the Russell 2000 Index (the benchmark we use for performance comparisons). Since its inception on March 1, 2012, the Small Cap Fund has returned 12.96% for Investor Shares and 13.04% for Institutional Shares versus the Russell 2000's 12.35%.

As a reminder, we focus exclusively on what we consider to be quality companies with strong leadership and a solid financial position. These businesses usually have some competitive advantage which allows them to be more profitable and/or grow faster than their peers. Furthermore, we want to invest in these potential jewels at reasonable, if not attractive, valuations. This typically means that the business is "under a cloud" (i.e., temporarily stumbling) or "under a rock" (i.e., unknown by many investors) at the time of purchase. Our hope is that if we get all this right, then our holdings should be much larger and more profitable in the future. This in turn should lead to healthy returns for us shareholders.

Our focus on quality means we ignore certain industries and numerous companies. Of the roughly 2,000 businesses in our investable universe, many are average in our opinion. Many others are hopelessly tied to an unpredictable commodity price, which makes any predictions of future earnings extremely difficult and thus hard to invest in from our viewpoint. Others are on the wrong side of disruption and face a highly uncertain future as newer, and often technology-enabled, competitors chip away at their customer base.

We also avoid speculation. A speculator buys a stock just because it has been going up and hopes it will continue to increase so they can sell it to some other over-excited investor. Or they buy shares in a young, exciting company that promises to disrupt an established industry, yet they don't bother to do the work to understand the sustainability of any competitive advantages or the underlying unit economics of the business. Other speculators, usually with no real unique insights, bet on unproven, development-stage drugs with the hope that they will "win the lottery" and the drug makes it through a multi-year process and ultimately wins FDA approval.

There will be times when the stock prices of what we consider to be lower quality firms boom, such as when commodity prices rise and there are regular waves of speculation.

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We have certainly seen quite a lot of this the past few years. However, we believe the path to long-term success is best served by owning a portfolio of quality businesses that, on average, can be much larger and more valuable in the future under a variety of economic and political conditions.

Sure, our holdings may be temporarily impacted by the macro events of the day, but we believe that most control their own destinies and we find great comfort knowing that most are regularly adding to their earnings power. For example, our retailers systematically add more stores (each a potential profit center). Our banks consistently add more depositors and borrowers, often by out serving what we believe are bloated and sluggish "megabanks." Our software firms keep adding customers who wish to displace manual processes and use data to eliminate costs. If our businesses keep adding the building blocks of new customers, new products and services, and more, then they should ultimately be considerably larger and more profitable in the future.

Finally, we like the recurring nature of many of our holdings. While not true in every case, many have fairly consistent revenue streams. A quick glance at the Small Cap Fund's portfolio should find many steady and ideally growing businesses in food, water, funerals, taxes, insurance, auto and home repairs, healthcare, software subscriptions, etc. While recurring revenue businesses are not always as exciting during economic booms, they can be much easier to own under challenging conditions. Additionally, the lower volatility in earnings makes predicting the future much simpler, thus hopefully leading to fewer analytical mistakes.

Performance Contributors and Detractors

Our five largest contributors to performance in 2021 were **ExlService Holdings (EXLS), Carriage Services (CSV), Colliers International Group (CIGI), Trisura Group (TSU),** and **CBIZ (CBZ).** These five are a nice demonstration of much of what we try to do as investors. All have grown profits at a healthy clip and we think should continue to do so. Each was initially purchased when they were either under a cloud or under a rock. For example, we bought our first shares in ExlService Holdings in 2016 after they reported a disappointing quarter. We bought shares in Trisura in 2020 when the world was emerging from the worst days of COVID-19 and few investors knew about this small Toronto company developing an impressive insurance services business. Additionally, we added to our positions in four of the five companies during the last two years when the stock prices declined for a variety of reasons.

Our five largest detractors were **Ollie's Bargain Outlet Holdings (OLLI), Paya Holdings (PAYA), Frontdoor (FTDR), Healthcare Services Group (HCSG),** and **US Physical Therapy (USPH).** The well-known supply chain issues and related explosion in shipping costs impacted both Ollie's, a discount retailer, and Frontdoor, a home warranty company that struggled to source both repair parts and appliances. Furthermore, the "sellers' market" in existing housing meant fewer sellers provided home warranty plans as an inducement to attract buyers. In both cases, we think these short-term issues should eventually abate and that they have great long-term outlooks. We added to both positions in 2021.

Paya got caught up in a broad sell-off in payments stocks just after our initial purchase at what we estimated was a reasonable valuation. Investor concerns have many subtexts, but they seem to be primarily concerned that disrupters are seeking to route payments away from the traditional Visa and Mastercard systems (not held in the Small Cap Fund). After much research, we concluded that Paya seems largely insulated from such a risk and thus added to our position.

As you might expect during a global pandemic, the healthcare services industry has been facing considerable challenges. Healthcare Services Group provides housekeeping, laundry, and food services to senior housing operators. Between years of suboptimal changes in Medicare reimbursement levels and then virus-reducing occupancy levels, many senior housing operators are facing severe financial distress. Some are unable to pay their suppliers. Ultimately, we decided that despite our admiration for Healthcare Services Group, the easier path was to sell the stock and move on. It is hard to build a good business when your customers are regularly distressed.

The last name on the detractors' list, US Physical Therapy, partners with physical therapists to build practices. Early on during COVID, volumes declined as fewer people had surgeries (e.g., hip replacements) or sports injuries. Volumes have rebounded nicely, but the stock has been under pressure seemingly because a competitor has repeatedly posted disappointing results, there are concerns about upcoming Medicare rate cuts, and there are fears that the new Omicron variant will impact volumes. We continue to believe US Physical Therapy has a bright future and are comfortable holding our shares.

Portfolio Activity

We entered the year with, in our opinion, a fine collection of quality businesses run by impressive leadership teams. So, we did not feel much pressure to find many new ideas. However, ultimately, we believe that our team did find opportunities to upgrade the portfolio.

Purchases

During 2021, we purchased five new ideas and added to several of our favorite positions. While perhaps not considered as "exciting" as finding new ideas, experience has shown us that adding shares to companies we know very well can be quite rewarding. Even in years of exceptional overall returns, individual stocks can show considerable price volatility, giving us opportunities to buy shares at an attractive price. Our largest addition in 2021 was the purchase of more shares in **Ollie's Bargain Outlet Holdings (OLLI).**

Our five new positions in 2021 were:

Dream Finders Homes (DFH) is a home builder run by what we believe is a dynamic leadership team with a bit of an unorthodox approach to home building. Most builders use debt to buy land in bulk and then gradually sell lots as homes are built, which has two drawbacks. First, growth requires spending ever-increasing amounts to buy raw land so many home builders generate little real cash flows over the years. More significantly, whenever recessions hit, traditional home builders often get stuck with vast tracts of unsold land and scary levels of unpaid debt.

By using options, Dream Finders works with land developers and purchases one lot at a time, but typically only when a customer has agreed to buy the home. This does cost a bit more, but by better matching the timing of cash inflows (from the customer) to cash outflows (to the land developer), Dream Finders is an "asset-light" business generating considerable amounts of free cash flow and industry-leading returns on equity. With more free cash flow, Dream Finders should be able to grow faster than a typical home builder. The current environment of good demand, but cost inflation and delays from component shortages, is definitely tricky; however, management seems to be adapting well and we believe that the company should be much larger and significantly more profitable in the future.

Cass Information Systems (CASS) is a mix of both a large payments processor and a modest-sized bank. We owned stock in CASS during 2012 and 2013, but sold it after a significant and rapid return. During and after the virus-induced economic slowdown and decline in short-term interest rates, Cass returned to what we estimated was a more reasonable valuation. We believe our attractive entry point should allow us to earn fine returns even if interest rates remain low, with potentially even better returns if short-term interest rates rise.

On the payments side, Cass takes all the shipping and utility bills for many large businesses, 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 earns both processing fees and "float" income (interest income from holding the payments from their clients for a few days before paying the individual vendors). Processing should grow from adding new customers as well as from the underlying growth at existing customers.

On the bank side, Cass uses both traditional bank deposits and the float from the processing business to invest in bonds and loans. Cass has been an excellent lender with immaterial credit losses over at least the past 20 years — in part by focusing on loans to megachurches, fast food franchises, trucking companies they know from processing payments, and small businesses around St. Louis.

Our third new investment was **Paya Holdings (PAYA),** an electronic payments gateway integrated in more than 2,000 business-to-business software packages. Once a payments gateway is integrated, software vendors can then offer remote card and ACH payments to their end users, typically small businesses and nonprofits. Paya connects these payments to the major transaction networks and provides value-added services such as generating invoices, establishing recurring payments, and flowing the data back into the customer's other software systems to eliminate manual reconciliations. Paya favors industries where domain expertise is valuable such as doctors' offices, municipalities, schools, churches, and political campaigns. Growth results from a combination of factors including the growth at existing merchants, adding new merchants, and adding new software system partners serving additional industries.

Ryan Specialty Group (RYAN) is a wholesale insurance broker and managing underwriter that provides distribution, underwriting, product development, administration, and risk management services. Revenue is generated primarily through commissions and fees. For retail insurance brokers, the firm assists in the placement of complex or otherwise hard-to-place risks. For insurance carriers, the company works with retail and wholesale insurance brokers to source, onboard, underwrite, and service these same risks. While there will undoubtedly be some insurance cycles to contend with, we really like the long-term growth picture of more underlying demand for insurance from economic growth, inflation, and newer types of risk (e.g., cyber insurance) combined with a consolidating market where the strong players like Ryan should only get stronger.

Chemed (CHE) is a bit of an oddity. It is a holding company with what we believe are two impressive but unrelated businesses — Vitas, the largest hospice care operator in the U.S., and Roto-Rooter, known primarily for emergency plumbing repairs. Both units grow modestly with, ordinarily, little cyclicality while generating significant amounts of free cash flow. One of the keys to the story, in our opinion, is management's excellent capital allocation skills. While Chemed will make acquisitions, they avoid large, expensive, and risky deals. Instead, they focus on a combination of occasional low-risk

purchases of Roto-Rooter franchises and significant repurchases of outstanding shares. The combination of solid but modest revenue growth, expanding profit margins, bolt-on acquisitions, and a shrinking share count led to impressive earnings per share growth. For example, adjusted earnings per share rose from $4.17 in 2010 to $18.08 in 2020.[1]

We have long admired Chemed and its leadership team, but finding an attractive valuation to purchase shares was difficult. Finally, in 2021, the stock declined primarily on fears that the aftereffects of COVID will depress earnings in the hospice business and this afforded us what we considered an attractive entry price. It is undeniably true that the coronavirus led to fewer people entering nursing homes and nursing homes tend to identify patients in need of hospice care earlier than primary care physicians and families. As a result, this led to fewer hospice patients and thus lower earnings for the Vitas division. However, it seems likely to us that in time patterns should return to normal and hospice-related profits should rebound. Additionally, it helps that the Roto-Rooter business continues to grow swiftly and management continues to repurchase shares.

Sales

We trimmed five holdings in 2021, mostly because we thought the valuations were high enough that doing so made sense. Experience has taught us that unless valuations are quite extreme, selling shares in what we believe are wonderful businesses often leads to disappointment and regret. Therefore, our goal is to trim positions only when the odds are highly in our favor. Usually, we only trim small amounts and look to repurchase the shares later at better prices if possible.

Furthermore, we sold eight entire positions. Generally speaking, these sales fell into two categories:

- The first group included investments that performed well, grew, and could no longer be considered small-cap stocks. In 2021, we exited both **Entegris (ENTG)** and **Floor & Decor Holdings (FND)** when they became so large that they were generally considered mid-cap stocks.
- The second group comprised companies we think are well run with bright futures, but they faced a combination of challenges. Some were profitable for the portfolio. Perhaps others were not the shining stars we once thought. In two cases, we only bought a few shares in the coronavirus downturn and after the prices rose we did not see a clear path to building reasonably sized positions. In some cases, we found new ideas (or the opportunity to buy more shares in existing positions) that were significantly more attractive. During 2021, we sold **ONE Gas (OGS), The Hanover Insurance Group (THG), Natus Medical (NTUS), FRP Holdings (FRPH), White Mountains Insurance Group (WTM),** and **Healthcare Services Group (HCSG).**

Closing Thoughts

Although there are many things to worry about as we exit 2021 such as inflation, supply chain troubles, and the potential for higher interest rates, we feel very comfortable with the FAM Small Cap Fund's portfolio. Undoubtedly, while we could witness positive or disappointing surprises in several investments, we believe, on average, they should prove to be quality businesses run by first-class leaders that operate with a safe financial condition and have the potential to be much larger in 5 to 10 years.

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[1] *Per Chemed's 12/7/21 investor presentation. Past performance does not indicate future results.*

Our plans for 2022 are similar to past years. We have several projects under way to dig even deeper into our existing holdings; this includes finding additional industry experts to speak with about these operations. We are not "buy-and-hold" investors, but more "buy-and-keep-learning" investors. Our team is also studying some potentially interesting opportunities. However, our best opportunities are usually to keep picking up additional shares in existing positions when they go "on sale."

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*

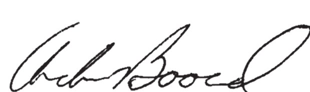
12/31/2020 TO 12/31/2021

TOP 5 CONTRIBUTORS		
NAME	AVERAGE WEIGHT (%)	CONTRIBUTION (%)
ExlService Holdings	5.61%	3.28%
Trisura Group	3.77%	2.92%
Carriage Services	3.27%	2.82%
Colliers International Group	4.85%	2.70%
Pinnacle Financial Partners	5.11%	2.22%

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 (%)
Paya Holdings	1.21%	-1.29%
Ollie's Bargain Outlet Holdings	2.41%	-1.07%
Frontdoor	3.82%	-1.00%
Healthcare Services Group	1.94%	-0.56%
Cass Information Systems	1.89%	-0.37%

Past performance does not indicate future results.



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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 12/31/2021

FAM SMALL CAP FUND	% OF PORTFOLIO
ExlService Holdings	7.09%
Colliers International Group	5.60%
CBIZ	5.52%
Pinnacle Financial Partners	5.04%
Carriage Services	4.76%
Choice Hotels International	4.75%
Trisura Group	4.23%
Chemed Corp.	3.76%
Landstar System	3.69%
Hostess Brands	3.55%
TOTAL NET ASSETS	**$318,001,151**

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

AVERAGE ANNUAL TOTAL RETURNS

AS OF 12/31/2021

	SINCE INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	TOTAL FUND OPERATING EXPENSES*
FAM SMALL CAP FUND INVESTOR CLASS (3/1/12)	12.96%	N/A	11.07%	21.29%	27.72%	1.29%*
INSTITUTIONAL CLASS (1/1/16)	13.04%	N/A	11.19%	21.43%	27.82%	1.19%*

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.