FAM SMALL CAP FUND

Semi-Annual Shareholder Letter 2022

June 30, 2022

Dear Fellow Small Cap Fund Shareholder,

During the first half of 2022, the FAM Small Cap Fund (FAMFX) declined -15.66%. Our primary benchmark index, the Russell 2000, dropped -23.43% during the same period. Since our inception on March 1, 2012, the Small Cap Fund has returned 10.47% versus the Russell 2000's 8.88%.[1]

The first half of the year was a rather difficult period with waves of interrelated issues, including: supply chain bottlenecks; labor inflation and shortages; the war in Ukraine; spiking inflation, which includes much needed commodities; higher interest rates; some early signs that higher interest rates are slowing demand in pockets; and concerns that ultimately the higher interest rates will push the economy into a recession.

We too are concerned by these issues and most of our companies are negatively impacted by one or more of them. However, none of the problems appear too severe so far and we remain convinced that our holdings are well positioned to not only weather the storm, but to continue to grow profits very nicely over the long term. It is definitely frustrating to watch our stock prices decline, but we believe, ultimately, "this too shall pass." Today's difficulties should be added to the long list of recessions, inflationary periods, wars, panics, pandemics, and more that our great country has pushed through on its way to increased prosperity. It is this long-term growth in prosperity and profits that we believe should drive our stock prices higher.

Focused On Quality/Value Investing

Longtime shareholders have heard us proclaim the advantages of a "quality/value investing" approach for many years, but it is worth repeating during these challenging days.

Our goal is to own companies with competitive advantages that allow them to be more profitable and have a brighter future than the average business. Furthermore, we like them to possess relatively clean balance sheets and generate ample cash profits. They may use debt strategically, but ideally never to excess.

While inflation and/or recessions undoubtedly hurt company profits, a business with high profit margins and in sound financial condition can absorb these problems much easier than one with thin margins and too much debt. This doesn't mean our holdings

[1] *FactSet as of 6/30/2022*

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can dodge bullets. They are definitely impacted by the broader environment of inflation, higher interest rates, and potentially an economic downturn — but so far we believe all of them can deal with whatever economic situation that may develop.

Ultimately, what will matter is the longer-term growth in earnings. If our holdings can continue to grow by beating their competitors, providing value to customers, and using their capital wisely, then eventually their earnings power should grow and share prices should advance as well.

What We Don't Do — Speculate

What we do in managing the FAM Small Cap Fund is important, but what we *don't do* may be even more critical. We don't speculate. Not with your hard-earned capital or ours. When other "investors" are routinely buying proverbial lottery tickets and winning, we may look hopelessly dull and crusty. But we believe prudence wins in the end.

Cycles of speculative excess followed by regret reoccur throughout history, so it may not be surprising to find great quotes from long ago that are still relevant:

> ***"I can calculate the movement of the stars, but not the madness of men."***
> – Sir Isaac Newton after apparently losing money in the South Sea Bubble, which popped in 1720
>
> ***"Investment is most intelligent when it is most businesslike."***
> – Benjamin Graham, Chapter 20 of The Intelligent Investor, first published in 1949

The winter of 2020/2021 may have been the peak of the most recent speculative excesses seen among small-cap stocks. Not participating (or "remaining prudent") definitely hurt our relative performance at the start, but the unwinding of these excesses was a major factor in our relative outperformance in 2021 and for the first six months of 2022.

Our 2020 Annual Letter included the following paragraph:

> "Speculators are always around. History is filled with stories of 'get-rich-quick schemes' and speculative bubbles. For whatever reason, speculation seems more common lately. We see excesses in many areas including the excitement over the revolutions in electric vehicles and genomics, the hope the Biden administration will trigger a boom in renewable power, work-from-home "plays," and a surge in online trading (and usage of leverage and options) by individual investors. Many of these investors seem to be riding high on the excitement of recent gains, but we believe many might ultimately be disappointed."

Rather than buying a share and hoping that some "greater fool" comes along to pay an even higher price, we continue to focus on the fundamentals of quality investing. We still seek impressive companies that are: both highly profitable today and likely to be so for many years; run by talented and ethical leadership teams; and in solid financial shape. When they occasionally trade at attractive valuations, we try to buy more shares. Our goal is to do this while never getting carried away when greed or fear runs rampant. We think that our fundamental approach should lead to long-term investment success.

Performance Contributors and Detractors

Our five largest contributors to performance in the first half of 2022 were **Ollie's Bargain Outlet Holdings (OLLI)**, **Hostess Brands (TWNK)**, **ExlService Holdings (EXLS)**, **CBIZ (CBZ)**, and **U.S. Physical Therapy (USPH)**. Each of these companies has a different story, but essentially Hostess, ExlService, CBIZ, and U.S. Physical Therapy are all solid businesses, in our opinion, with limited cyclicality or exposure to inflation risks. This appears to have made them favorites in this seemingly risky environment. In the case of Ollie's, investors seem to realize that the burden of higher shipping costs is likely to lessen going forward and the significant amount of excess goods available to discounters like Ollie's could be a nice tailwind.

Our five largest detractors were **Carriage Services (CSV)**, **Colliers International Group (CIGI)**, **Choice Hotels International (CHH)**, **Trisura Group (TSU)**, and **Pinnacle Financial Partners (PNFP)**. In each case, it appears that investors are concerned about a slowing economy and potentially lower earnings. This is despite each of these holdings reporting fine earnings so far in 2022 and giving no indications that they are expecting a material drop in profitability.

The issue with Carriage, which owns funeral homes and cemeteries, is less about the economy. Results have been excellent, but investors wonder how much is due to management's execution and how much is the sad result of a higher death rate in 2020 and 2021. Time will tell, but either way we believe they should do well over the medium to long term.

We remain patient, long-term holders of quality businesses and are not concerned about any potential short-term declines in earnings — as long as we remain convinced that each company can be much larger and more profitable in the long term.

Portfolio Activity

We entered 2022 with what we considered to be a fine collection of quality businesses run by strong leaders. In each case, when we established these positions, we realized that if we want to be long-term holders, then it is inevitable we will face recessions, wars, inflation, and the like. We favor enterprises that are not overly impacted by these issues, usually have some ability to raise prices as needed, have considerable cash profits, and demonstrate an ability to reinvest at impressive rates of return. In short, we believe each Small Cap Fund holding should be able to power through and grow profits significantly over the long term.

As a result, generally we were well prepared and did not feel any pressure to make large, wholesale changes in the portfolio. However, we are always interested in improving our collection of businesses. As stock prices stumbled downward in recent months, we took advantage of several opportunities — both adding to existing positions as well as introducing three new ideas.

Purchases

The most straightforward opportunities were to purchase additional shares in the businesses we already own. In virtually every case, we have spent years getting to know these companies – this puts us in what we believe is a nice position to take advantage of opportunities. So far in 2022, we have added to our positions in **Boston Omaha (BOMN), Carriage Services (CSV)**, **Descartes Systems (DSGX)**, **Frontdoor (FTDR)**, **Home Bancshares (HOMB)**, **Nomad Foods (NOMD)**, **Ollie's Bargain Outlet Holdings (OLLI)**, and **SPS Commerce (SPSC)**.

Additionally, we took advantage of falling prices to establish new positions in **Hagerty (HGTY)**, **FirstService Corporation (FSV)**, and **Floor & Decor (FND)**.

We built a position in **Hagerty**. Hagerty is the largest provider of auto insurance for collectible automobiles including antiques, exotic super cars, and muscle cars. Hagerty has several advantages over competitors including extensive valuation data, a highly specialized claims adjusting network, selling agreements with several major standard auto insurers, and a collection of related businesses (such as running major auto shows that improve the customer experience).

Hagerty makes most of their money from managing the insurance program for a commission and then shares in the insurance risk (and usually profits) with Markel Corp (MKL), a longtime holding in the FAM Value Fund. Markel is also a significant owner of Hagerty shares. Currently, Hagerty is spending considerable time and money setting up an integrated referral system with State Farm that should add materially to profitability as State Farm's collector car policies move to Hagerty. Longer term, Hagerty should be able to keep pressing their advantages and grow market share.

After years of studying and waiting for the right opportunity, we finally purchased shares in **FirstService** as the stock price declined. FirstService has two divisions. FirstService Residential is the largest North American manager of condo and homeowners' associations. They collect the rent, staff the offices, manage the grounds, and take care of a litany of back-office functions for a fee. Size gives them several advantages over their local competitors. The second division, FirstService Brands, houses a collection of businesses including two major restoration brands (e.g., repairs after a fire or flood) and home service brands like California Closets and CertaPro Painters.

FirstService is a fairly asset-light operation that generates considerable free cash flow, which historically management reinvests through acquisitions of smaller players to build up their brands. **Colliers International Group**, another holding in the portfolio, was incubated at FirstService before being spun off as a separate firm in 2015.

Long-term shareholders may remember that we purchased shares in **Floor & Decor Holdings** in 2019 and 2020, later selling them in 2021 for a nice gain. At that time, the price had advanced enough that we could no longer view it as a small business so it fell outside of our targeted universe. As stock prices fell in 2022, Floor & Decor returned to an attractive valuation, in our view, and a level we felt made it once again a "small-cap" company. We are big fans and pleased to be investors again.

The thesis for Floor & Decor has not changed, but they are further along in executing their plan. They simply have a better mousetrap, with much more selection and/or better prices than the small "mom-and-pop" retailers and large home improvement store chains. While inflation, higher interest rates, and potentially slowing demand could all impact near-term results (which is why the stock price declined), we believe the long-term potential remains outstanding. Floor & Decor should be able to keep opening new stores and grow market share for many years.

Sales
To fund these purchases, we had to sell and trim a few positions. In the case of each sale, we believe we sold "good" businesses to buy "great" businesses. Sales included **U.S. Physical Therapy (USPH)**, **Cambridge Bancorp (CATC)**, and **Monro (MNRO)**. We trimmed shares in **ExlService Holdings (EXLS)**, **Penske Automotive Group (PAG)**, and **OneSpaWorld Holdings (OSW)**.

Closing Thoughts

The first half of 2022 was marked by a great many issues of concern. Investors don't like fear. At some point, investors may gain some clarity on some of these issues. Inflationary pressures might ease as the weight of higher interest rates lowers demand.

Entrepreneurs responding to higher prices by adding capacity in areas like container shipping, warehouses, and trucking, may help supply chains normalize. The war in Ukraine might end. Oil production might begin to accelerate, lowering prices.

When stress is high investors often forget that conditions can improve. We believe that eventually all these issues should begin to abate or at least we should be better able to handicap the magnitude of the impact on corporate profits. This is one of the reasons we remain long-term optimists.

Our plan from here is to keep following our quality/value investing process. We want to own shares in 25 to 30 companies that can post better-than-average stock performance over the medium to long term. To do this, we must keep studying our holdings, regularly confirming our thesis on each firm. We must make sure that they really are as impressive as we thought.

Simultaneously, we continue to learn about potential new investments. Occasionally, we must take advantage of mispriced securities by making purchases. Hopefully, by carefully studying a limited number of excellent enterprises, we can make the right portfolio decisions that lead to impressive long-term results.

10TH Anniversary

Our team was proud to celebrate the 10-year anniversary of the FAM Small Cap Fund in early March. We will continue to strive to deliver strong long-term performance while mitigating risk. As always, we are grateful and honored that you trust us with your hard-earned capital. Thank you for investing with us.

TOP 5 CONTRIBUTORS AND DETRACTORS*

12/31/2021 TO 6/30/2022

TOP 5 CONTRIBUTORS

NAME	AVERAGE WEIGHT (%)	CONTRIBUTION (%)
Ollie's Bargain Outlet Holdings	3.18%	0.90%
ExlService Holdings	6.76%	0.32%
Paya Holdings	2.16%	0.22%
Hostess Brands	3.95%	0.19%
CBIZ	6.02%	0.14%

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 (%)
Carriage Services	3.84%	-1.72%
Choice Hotels International	4.47%	-1.40%
Colliers International Group	5.09%	-1.32%
Dream Finders Homes	2.52%	-1.25%
Pinnacle Financial Partners	5.01%	-1.20%

Past performance does not indicate future results.

Andrew F. Boord
Portfolio Manager

Kevin D. 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 6/30/2022

FAM SMALL CAP FUND	% OF PORTFOLIO
ExlService Holdings	7.11%
CBIZ	6.61%
Colliers International Group	4.85%
Pinnacle Financial Partners	4.48%
Ollie's Bargain Outlet Holdings	4.45%
Hostess Brands	4.32%
Choice Hotels International	3.99%
Chemed Corp.	3.92%
Brookfield Infrastructure Partners	3.70%
Carriage Services	3.64%
TOTAL NET ASSETS	**$273,000,964**

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

AVERAGE ANNUAL TOTAL RETURNS

AS OF 6/30/2022

	SINCE INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	TOTAL FUND OPERATING EXPENSES*
FAM SMALL CAP FUND INVESTOR CLASS (3/1/12)	10.47%	10.75%	7.30%	9.08%	-8.71%	1.27% (gross) 1.26%* (net)
INSTITUTIONAL CLASS (1/1/16)	10.55%	10.84%	7.41%	9.18%	-8.61%	1.16% (gross) 1.15%* (net)

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 1.27% 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 1.16% 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 1.26% and the Institutional Class is 1.15% as of December 31, 2021. 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.

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