FAM SMALL CAP FUND

Annual Shareholder Letter 2022

December 31, 2022

Dear Fellow Small Cap Fund Shareholder,

For 2022, the FAM Small Cap Fund (FAMFX) declined -12.42%. In comparison, the Russell 2000 Index (the benchmark we use for performance comparisons) fell -20.44%. Since its inception on March 1, 2012, the Small Cap Fund returned 10.34% versus the Russell 2000's 8.83%.[1]

Our team focuses 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 larger and more profitable in the future. This in turn should lead to healthy returns.

Owning quality businesses for the long term, with the occasional adjustment, continued to be our game plan in 2022.

We believe that our quality/value approach aided our relative performance in 2022. In periods when aggressive speculation abates, we tend to outperform as we did this year. This is, in our opinion, simply because we were not "rolling the dice" on companies that promised a bright future while losing vast amounts of money. A few high-risk enterprises may pull this off and eventually turn profitable and grow into wonderful operations; however, the majority will probably learn that it is much easier to make a promise than build a business. Many of these unprofitable companies are seeing lower revenues and thus greater losses. Their investors are increasingly unwilling to provide capital to finance those losses and, with lower stock prices, employees with worthless stock options are asking for higher cash compensation. While we seek growing businesses, our holdings tend to produce nice profits and generate plenty of cash while not being dependent on the capital markets to finance their growth.

Similarly, when there are signs of economic weakness and concerns that a recession is coming, stocks of weaker businesses tend to decline more than the indices. While the best company in an industry might struggle during a downturn, the weaker players often fail or are so damaged they emerge from the downturn even further behind. Our quality/value approach tends to keep us invested in what we deem to be the strongest companies that are best suited to handle a downturn.

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[1] *FactSet as of 12/31/2022*

The other aspect of our quality/value approach is that we love a good bargain. In periods of economic weakness and declining stock prices, we often find interesting opportunities to upgrade the portfolio.

Portfolio Activity

Like past years, we began the year with what we thought was a fine collection of quality businesses run by impressive leadership teams. But, as always, we kept digging — both retesting our conclusions and looking for opportunities to improve the portfolio.

Sales

We trimmed seven positions in 2022. With four of those trims, we thought the valuations were high enough that selling a few shares made sense while still retaining the bulk of our position. Additionally, we sold some shares of three positions late in the year to reduce our tax bill.

We also exited five positions completely.

We sold our position in **Cambridge Bancorp (CATC)** and used most of the proceeds to add to our position in **Home Bancshares (HOMB)**. While we admire Cambridge greatly, we believe that Home has a bright future and elected to concentrate on them.

For many years **Monro (MNRO)** was an excellent operator of automotive repair shops in our view, but unfortunately their glory days seem to be behind them. After a few frustrating years of waiting for them to return execution back to previous levels, we decided to move on.

We also closed out our position in **U.S. Physical Therapy (USPH)** and reinvested the proceeds into **FirstService Corporation (FSV)**. This was a difficult decision as we really admire USPH and their leadership who excelled even while regularly facing reimbursement cuts from the government. Ultimately, we think the future is brighter as an investor in FirstService (please see "Purchases").

OneSpaWorld Holdings (OSW) proved to be an unfortunate investment for us. We purchased our first shares weeks before COVID-19 hit, which was bad news for this operator of cruise ship spas. The stock declined so dramatically that we elected to maintain our position and wait for better days. While OSW certainly made significant progress and is possibly on the cusp of a return to old levels of profitability, they increased their borrowings considerably during the pandemic. Consequently, when it became clear that a recession was quite possible and that it could be challenging for them to handle it given their debt levels, we elected to sell our shares.

Ryan Specialty Holdings (RYAN), a quite successful investment for us in our opinion, was also sold. The valuation was uncomfortably high and it was increasingly more of a mid-cap stock and a bit out of place for a small-cap fund. Additionally, we believed we could reinvest the proceeds well, including adding to our new position in **SiteOne Landscape Supply (SITE)** (please see "Purchases").

Purchases

As usual, the most straightforward opportunities were to purchase additional shares in businesses we already own. In virtually every case, we have spent years studying these companies — which put us in what we believed was a good position to take advantage of opportunities. In 2022, we added to our positions in nine companies.

Additionally, we took advantage of falling prices to establish new positions in **Hagerty (HGTY)**, **FirstService Corporation (FSV)**, **Floor & Decor (FND)**, and **SiteOne Landscape Supply (SITE)**. With the exception of Hagerty, the other three investments had depressed stock prices explained at least in part due to fears that a housing slowdown would pressure earnings. While a cyclical slowdown in housing and remodeling is likely, we believed that the stock prices more than reflected this risk and should do well from here, especially over the mid to long term.

We built a position in **Hagerty**, which is the largest provider of auto insurance for collectible automobiles including antiques, exotic super cars, and muscle cars. From our viewpoint, 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 and auctions 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 Corporation (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 technology referral system with State Farm (not a portfolio holding). While this should add materially to profitability as State Farm's collector car policies move to Hagerty, for now it is obscuring their earnings power. Our thesis is that Hagerty should be able to keep pressing their advantages, grow market share, and produce higher profits over the long term.

After years of studying and waiting for the right opportunity, we finally purchased shares in **FirstService** after the stock price declined significantly. FirstService has two divisions. FirstService Residential is the largest manager of condo and homeowners' associations in North America. 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 advantages over their smaller competitors. The second division, FirstService Brands, houses a collection of service 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 small players to build up their brands. **Colliers International Group (CIGI)**, another holding in the portfolio, was incubated at FirstService before being spun off as a separate company in 2015. Inflation and labor shortages hurt FirstService's profits in 2022, but less so as the year went on. Additionally, there is a concern that homeowners will spend less on remodeling in 2023, which would hurt units like California Closets. All of the above is likely why the stock price declined significantly giving us this opportunity.

Long-term shareholders may remember that we purchased shares in **Floor & Decor Holdings** in 2019 and 2020, later selling our position in 2021 for a nice gain in our opinion. At the time, the price advanced enough that we could no longer view it as a small business so it fell outside of our targeted universe. However, the stock price fell again in 2022, in part due to fear of a slowdown in housing. At the lower price, we believed it was once more at an attractive valuation and a "small-cap" company, so we re-established a position. We are big fans and pleased to be investors again.

The thesis for Floor & Decor has not changed and now they are further along in executing their plan. They simply have a better mousetrap in our opinion, 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, 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.

Our final new investment of the year was **SiteOne Landscape Supply**, the nation's largest distributor of landscaping materials. Primarily, they sell plants, stones, irrigation systems, lawn chemicals, and more to professional landscapers. Size and a keen focus on execution are their advantages in our view. SiteOne routinely purchases small, usually one-location competitors and improves them over time by implementing their systems and harnessing their larger buying power.

SiteOne's stock price fell significantly from its peak in late 2021 over fears of a slowdown. This gave us the opportunity to purchase shares at what we believed was an attractive level. While landscaping spending could certainly slow, a significant portion of their sales are tied to more recurring activities such as traditional maintenance, so they should be able to power through any temporary downturn.

Closing Thoughts

Obviously, 2022 was a year with plenty of things to worry about, including inflation, rising interest rates, and the war in Ukraine. Investors don't like fear.

Currently, we see definite signs that higher interest rates are dramatically impacting the most sensitive areas of the economy, such as homes and automobiles where a consumer typically needs to borrow money to make a purchase. This weakness will likely spread to other parts of the economy over time.

Also, on the falling inflation side of the ledger, businesses are responding to the inflationary pressures that came from supply-chain issues. Many moved some of their supply chain closer to home and added capacity in warehouses and freight moving equipment, all of which is helping to alleviate bottlenecks and lower inflation.

However, we are still seeing considerable inflation in many areas such as wages and housing. As a result, the Federal Reserve and other central banks are likely to continue raising interest rates until overall inflation rates decelerate more meaningfully.

For now, we are watching this tug of war, waiting to see when inflation is clearly on the retreat. We have no doubt that the Federal Reserve will beat back inflation, as they always have in the past. However, economic conditions, and thus corporate earnings, could easily get worse before rebounding. With stock prices down considerably, this may already be "priced in."

Rather than make guesses about difficult to predict near-term conditions, our plan is to keep following our quality/value investing process. We want to own shares in 25 to 30 companies that we believe 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.

Simultaneously, we continue to learn about potential new investments. Occasionally, we take advantage of what we think are quality, mispriced securities and make 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.

Thank you for investing with us and for your ongoing trust. We will continue to work diligently on your behalf.

TOP 5 CONTRIBUTORS AND DETRACTORS*
12/31/2021 TO 12/31/2022

TOP 5 CONTRIBUTORS		
NAME	AVERAGE WEIGHT (%)	CONTRIBUTION (%)
ExlService Holdings	7.11%	1.19%
CBIZ	6.48%	1.10%
Paya Holdings	2.33%	0.78%
Cass Information Systems	2.68%	0.56%
Hostess Brands	4.21%	0.45%

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	3.30%	-2.80%
Colliers International Group	4.74%	-2.17%
Dream Finders Homes	2.07%	-1.60%
Frontdoor	2.70%	-1.48%
Choice Hotels International	4.18%	-1.37%

Past performance does not indicate future results.

Andrew F. Boord
Portfolio Manager

Kevin D. Gioia, CFA
Portfolio Manager

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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 12/31/2022

FAM SMALL CAP FUND	% OF PORTFOLIO
ExlService Holdings	7.48%
CBIZ	7.07%
Trisura Group	4.99%
Pinnacle Financial Partners	4.29%
Hostess Brands	4.12%
Colliers International Group	4.12%
Chemed Corp.	4.03%
Choice Hotels International	3.80%
Landstar System	3.73%
Boston Omaha Corp.	3.70%
TOTAL NET ASSETS	**$287,042,013**

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

AVERAGE ANNUAL TOTAL RETURNS

AS OF 12/31/2022

	SINCE INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	TOTAL FUND OPERATING EXPENSES*
FAM SMALL CAP FUND INVESTOR CLASS (3/1/12)	10.34%	10.16%	7.21%	7.19%	-12.42%	1.27% (gross) 1.26%* (net)
INSTITUTIONAL CLASS (1/1/16)	10.42%	10.25%	7.32%	7.31%	-12.32%	1.16% (gross) 1.15%* (net)

The performance data quoted represents past performance.

Important Disclosures:

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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, 2023, 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.