FAM FUNDS
Managed by
FENIMORE ASSET MANAGEMENT

FAM VALUE FUND

Annual Shareholder Letter 2022

December 31, 2022

Dear Fellow Value Fund Shareholder,

There were few places to hide from falling prices in U.S. financial markets in 2022. The S&P 500 Index, a measure of the largest U.S. publicly traded companies, returned -18.11%, its worst showing since 2008 and third worst in the past 40 years. The Nasdaq Composite, which is heavily weighted toward technology companies, fell -32.54%. Most other broad stock indices declined as well. Bonds also fared poorly as yields rose and prices dropped. The Bloomberg Aggregate Index, the broadest measure of U.S. investment grade fixed income securities (government, agency, and corporate), fell -13.01%, its worst performance since the index was created in 1976.[1]

There are several reasons for the 2022 decline in equity prices. A significant factor was the Federal Reserve's rapid raising of interest rates (in response to high and persistent inflation). Because inflation is largely a problem of demand outstripping supply, one way to fight inflation is to reduce demand by making it more costly to consume goods or services. If the Fed accomplishes its goals, sales growth at American businesses will slow. In addition, higher interest rates will increase borrowing costs for indebted companies. These will likely be a one-two punch on earnings for many firms. Lastly, higher rates reduce the amount investors are willing to pay for a share of stock. If an investor can get more yield on a bond today than yesterday, they would require a higher return (in the form of a lower price) for stock today than yesterday since stocks and bonds are competing for their investing dollar.

Another factor was that stocks began the year at relatively high valuations. It may be hard to remember in a year like this, but stocks had a remarkable run in the preceding three years with the S&P 500 returning 31.2%, 18.0%, and 28.5% in 2019, 2020, and 2021, respectively. Including 2022, the S&P's compounded average annual return was nearly 19% over four years. This is in the context of a return of 9.80% over the past 20 years.[2] One of the several reasons for optimism is that valuations for many businesses have become much more reasonable and expected returns from here have improved.

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

Within this environment, the FAM Value Fund (FAMVX) outperformed its benchmark, returning -14.12% versus the Russell Midcap Index's -17.32%.[3] The Value Fund has historically outperformed in down markets (including this year). The reasons for this tendency are rooted in the foundations of our investment philosophy: paying reasonable prices for what we believe are high-quality businesses with strong balance sheets and skilled management teams. Down markets often precede or coincide with economic volatility or uncertainty (as was the case this year). High-quality enterprises often defend (or even improve) their earnings power better than low-quality businesses. Stronger balance sheets mean our companies face less earnings volatility — or even existential uncertainty — than highly levered operations. Strong, proven management teams are often able to adroitly allocate capital to strengthen competitive positions. And being mindful of valuations typically means less room for prices to fall. Looking back, we saw many instances of these factors in play. Of course, we couldn't fully escape the headwinds, but we were very pleased with how our holdings' management teams performed faced with these challenges.

Contributors & Detractors

Our top three contributors to performance in 2022 were **EOG Resources (EOG), AutoZone (AZO)**, and **Progressive Insurance (PGR)**.

- **EOG** is one of the largest and best-run oil producers in the country in our view. Out of the 11 economic sectors, energy was one of only two that was up in 2022 due largely to higher global energy prices as a result of Russia's invasion of Ukraine. In addition, EOG continued to reduce its costs and improve productivity so that it could return more cash to shareholders, which management did with a special dividend.

- While best known for its stores, one-third of **AutoZone's** sales "goes out the back door" in a delivery truck to local garages and service stations. This part of their business benefited from the inventory shortage of new cars and higher interest rates causing fewer used car sales. Both dynamics are causing people to keep their cars longer. Older and/or higher-mileage cars require more maintenance which means more parts sold by AutoZone.

- **Progressive** is one of the largest auto insurers in the United States. In addition to personal auto, Progressive has growing businesses in commercial transportation, homeowners, and small business insurance. Auto insurers' claims costs have been rising due to more frequent and more costly accidents. Progressive reacted very quickly to these trends by raising prices, which slowed policy growth but helped grow profit margins in their insurance operations. Furthermore, higher interest rates mean that they should earn more interest income on the premiums collected and held for potential claims payments (also known as "float").

Our top three detractors from performance in 2022 were **CarMax (KMX)**, **Brookfield Asset Management (BN/BAM)**, and **Zebra Technologies (ZBRA)**.

- **CarMax** is the largest used car retailer in America. Several factors weighed on KMX's performance this year. First, a lack of availability of new cars drove used car prices to historically high levels. Higher prices, combined with rapidly rising interest rates, made consumers either unwilling or unable to purchase a (used) car. This headwind should moderate as slower demand leads to lower prices, which is already happening. A longer-term issue is that competitive dynamics have raised the cost of doing business and potentially diminished the profitability of the used car industry. Though competitor

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

Carvana (not held in the portfolio) is struggling right now, it introduced the idea of a fully online used car transaction — from appraisal and trade of an old car to shopping, financing, and delivery of a new car. CarMax responded by building the infrastructure to match this capability, which is showing signs of success but has eaten into earnings. We believe CarMax's omnichannel approach of giving consumers a choice between transacting in-store and online should be successful in the end.

- **Brookfield Asset Management** is one of the largest and best-run alternative asset managers in our opinion, though less known than many of its publicly traded peers such as KKR and Blackstone (not held in the portfolio). Alternative asset managers, as a whole, performed relatively poorly this year. Most use a fair amount of debt when buying assets so higher interest rates mean higher deal costs. In addition, inflation, slower economic growth, and higher interest rates mean their portfolio companies are likely worth less. For sure, these factors are headwinds for Brookfield, but they are less affected than many of their peers for several reasons including less use of debt, assets that either are immune to or actually benefit from inflation, and a stronger balance sheet.

- **Zebra Technologies** is a leading provider of barcode scanner and RFID systems (e.g., the scanner at the grocery store). However, the company faced several challenges this year including a slowing of capital expenditures by retailers, supply chain disruptions, setbacks in expansion of their distribution network, and elevated transportation costs. We believe most of these challenges are temporary and Zebra should continue to lead significant growth in global scanning and asset tracking applications over the coming years.

Portfolio Activity

By our standards, we were active in 2022. We initiated two new positions, sold out of five positions, and added to or trimmed a myriad of positions as volatility gave us opportunities to increase the quality and/or expected return of the fund in our estimation.

Purchases

The two new businesses we invested in were **Booking Holdings (BKNG)** and **Burlington Stores (BURL)**. We refer you to our Semi-Annual Letter where both companies were profiled.

We added to several positions in the first half of 2022: **Amphenol (APH)**, **Analog Devices (ADI)**, **Clarivate (CLVT)**, **Fidelity Information Services (FIS)**, **M&T Bank (MTB)**, **Pinnacle Financial Partners (PNFP)**, **SouthState Corporation (SSB)**, and **Zebra Technologies (ZBRA)**. Our second half additions were small by comparison and limited to **Analog Devices** and **Zebra Technologies**.

Sales

Sales and trims were primarily executed to raise cash for what we thought were higher quality and/or better return opportunities.

Our full sales during the year were **Broadridge Financial (BF)**, **Genpact (G)**, **Burlington Stores (BURL)**, **NVR (NVR)**, and **Clarivate (CLVT)**.

Position trims included **Berkshire Hathaway (BRK.A)**, **Brown & Brown (BRO)**, **EOG Resources (EOG)**, **IDEX Corporation (IEX)**, **Illinois Tool Works (ITW)**, **Markel Corporation (MKL)**, **M&T Bank (MTB)**, **AutoZone (AZO)**, and **Black Knight (BKI)**.

In addition to these actions, in the fourth quarter two of our portfolio holdings spun off a portion of their operations into stand-alone, publicly traded companies. This added two more holdings, albeit small ones, to the Value Fund. The first was **Fortune Brand Holdings (FBHS)**, which formed **MasterBrand Cabinet (MBC)** with its MasterCraft cabinet segment. MBC is now the largest stand-alone cabinet manufacturer in the United States. The remaining business was renamed **Fortune Brands Innovation (FBIN)** and is comprised of the plumbing, outdoor materials, and security divisions.

The second was **Brookfield Asset Management's (BAM)** spinoff of 25% of its asset management division. The newly formed entity took the old name and ticker of BAM. And the former Brookfield Asset Management was renamed **Brookfield Corporation (BN)**. At the close of the year, we continued to hold both newly formed businesses.

Closing Thoughts

We closed our Semi-Annual Letter with two causes for optimism:

1. Prospective returns were likely to be better.
2. Market volatility creates opportunity for investors with the right temperament.

Though the Value Fund is up more than 8% from that time and we have made many "tweaks" to the portfolio, we feel both are still applicable. To these, we would like to add a few more bright spots we have observed since we last wrote:

- The rate of inflation is slowing in many areas.
- Supply chains are healing.
- Transportation costs are falling.
- Job postings are getting easier to fill.
- Individuals and institutions are acclimating to higher interest rates.
- Capital is being deployed more thoughtfully.

Some of these are interrelated and some are evidence that the Fed's medicine is starting to work. However, as Benjamin Franklin said, "There is such a thing as too much of a good thing." If the Fed overcorrects, some of these pluses could become minuses.

One of our greatest sources of optimism, though, comes from having watched the people we have partnered with during the last three years. It is hard to overstate the challenges faced by American businesses during the pandemic and its aftermath. Almost without exception, our portfolio companies performed remarkably well under the circumstances in our opinion. This is largely because of creative, focused, and resilient people — from the CEO to the salesclerk — skillfully navigating the turbulent environment. The past three years have been an unrelenting test of our notion that we own strong, competitively advantaged businesses with fantastic leaders.

Thank you for investing with us in the FAM Value Fund.

TOP 5 CONTRIBUTORS AND DETRACTORS*

12/31/2021 TO 12/31/2022

TOP 5 CONTRIBUTORS		
NAME	AVERAGE WEIGHT (%)	CONTRIBUTION (%)
EOG Resources	3.14%	1.28%
AutoZone	3.16%	0.69%
Progressive Corp.	1.91%	0.41%
Ross Stores	5.07%	0.33%
Markel Corp.	4.87%	0.29%

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 (%)
CarMax	3.37%	-2.46%
Brookfield Corp.	5.30%	-2.16%
Zebra Technologies Corp.	2.79%	-1.86%
Brown & Brown	7.14%	-1.41%
Fidelity National Information Services	2.41%	-1.07%

Past performance does not indicate future results.

John D. Fox, CFA
Portfolio Manager

Drew P. Wilson, CFA
Portfolio Manager

Marc D. Roberts, 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 VALUE FUND	% OF PORTFOLIO
CDW Corp.	6.91%
IDEX Corp.	6.83%
Brown & Brown	6.63%
Ross Stores	6.52%
Markel Corp.	4.92%
Illinois Tool Works	3.89%
Air Products & Chemicals	3.75%
Vulcan Materials Co.	3.62%
Stryker Corp.	3.53%
Brookfield Corp.	3.47%
TOTAL NET ASSETS	**$1,442,334,419**

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 VALUE FUND INVESTOR CLASS (1/2/87)	10.15%	10.94%	7.10%	4.85%	-14.12%	1.19% (gross) 1.18%* (net)
INSTITUTIONAL CLASS (1/2/17)	10.19%	11.06%	7.30%	5.04%	-13.96%	1.12% (gross) 0.99%* (net)

The performance data quoted represents past performance.

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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% 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, and fee waivers, the total annual operating expense as reported in the FAM Value Fund's audited financial statements for the Investor Class is 1.18% and the Institutional Class is 0.99% after a fee waiver of (0.12%) as of December 31, 2021. The Advisor has contractually agreed, 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 1.18% 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.

FENIMOREASSET.COM

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