FAM SMALL CAP FUND

Annual Shareholder Letter 2023

December 31, 2023

Dear Fellow FAM Small Cap Fund Shareholder,

For 2023, the FAM Small Cap Fund (FAMFX) rose 20.11%. In comparison, the Russell 2000 Index[†] (the benchmark we use for performance comparisons) rose 16.93%; however, we find longer-term returns more meaningful. Over the prior 10 years, the fund returned 8.45% versus the Russell 2000's 7.16%. Since its inception on March 1, 2012, the Small Cap Fund has returned 11.13% versus the Russell 2000's 9.49%.[1] We are quite pleased with this performance.

This performance is an output of our philosophy and process. 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. If we get all this right, then our holdings should be larger and more profitable in the future and lead to healthy long-term returns. As always, owning quality enterprises for the long term, with the occasional adjustment, continues to be our game plan in 2024.

To provide some real-world examples of our philosophy in practice, here is a quick summary of our top three holdings (as a percentage of the portfolio).

CBIZ (CBZ) is a large American provider of financial, insurance, and advisory services with 120+ offices. They are essentially a large accounting firm with a significant employee benefits and insurance unit. Their key differentiators include a well-known brand, a larger collection of services than their small peers, and a strong culture. CBIZ has a diverse client base, but is particularly strong with middle-market companies and their owners that need more depth of services than small firms provide. About 75% of their revenues are recurring, like annual tax returns or regular payroll processing.

Growth comes from both organic means and acquisitions. Most years, the core business grows modestly by adding a few more customers, cross-selling additional services to existing customers, and moderate price increases that generally follow the rate of inflation. They produce considerable free cash flow which allows management to regularly purchase smaller companies, often adding additional service lines to existing offices and sometimes entering new cities. We purchased our first shares in 2017 at what we estimated to be a reasonable valuation and the company has grown earnings at a healthy clip.

[1] *FactSet as of 12/31/2023*

Colliers International (CIGI) is a global provider of real estate services operating in 66 countries. They do not own real estate directly, but rather provide services to commercial real estate owners and lenders. Services include property management, engineering and construction management, and leasing. They also own an investment management arm focused on both real estate and infrastructure asset classes that produces about one-third of their adjusted EBITDA.[2] While there is variability such as the current decline in demand for brokering the sales of office buildings, the volatile business lines tend to normalize over time and approximately 70% of their adjusted EBITDA is considered recurring.

Growth comes from multiple engines. First, a decentralized entrepreneurial culture has generated healthy organic growth over time. Additionally, management has proven to be adept at acquisitions, spending more than $3.5 billion, and producing 15%+ returns on invested capital. We purchased our first shares in 2018 and have added to the position on stock price declines as recently as November of 2023.

ExlService Holdings (EXLS) is an analytics and digital operations provider. Customers include 9 of the top 10 U.S. insurers, 6 of the top 10 U.S. healthcare payers, and 8 of the top 10 U.S. banks. The analytics segment helps customers aggregate, manage, and analyze their data (which includes utilizing artificial intelligence). End uses are quite diverse but include point-of-sale lending, bank statement mining, and early identification of high-risk patients. The digital operations segment often takes on an entire client operation under a multi-year contract, such as running the claims management department for an insurer. They then digitally transform the operation to reduce costs and improve customer satisfaction. Approximately 80% of revenues are recurring.

Growth comes from the natural demand from customers to reduce costs, increase delivery speed, and improve customer satisfaction. EXLS regularly sees the opportunity to do more for existing customers and pick up additional customers. The company generates significant amounts of free cash flow which is allocated to both occasional acquisitions and repurchasing their own shares below management's estimate of their worth. We initiated our position in 2016 after the firm reported a soft quarter.

Portfolio Activity

While we began the year with what we considered to be a fine collection of investments in impressive companies, we can never rest on our laurels. Conditions change and even the best businesses can fade over time. Additionally, we occasionally make a mistake. Therefore, much of what we did in 2023 was retesting our earlier conclusions by interacting with our holdings as well as other less-biased sources such as former employees and customers. While many call us "buy-and-hold" investors, we think of ourselves more as "buy-and-constantly-recheck" investors. Overall, we were pleased with the portfolio and only made modest adjustments in 2023.

Sales

During 2023, we completely exited four positions and made two small trims.

We sold our position in **Paya Holdings (PAYA)** in January after they announced their sale to a larger competitor. We purchased our shares in the second half of 2021 as the stock price was declining. At the time, we thought it was a nice opportunity to invest in what we considered to be a quality business that could grow at a fast pace for many years. But as sometimes happens, we did not get the opportunity to hold our shares for the long term.

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[2] *Earnings before interest, taxes, depreciation, and amortization.*

In June, news broke that a competitor was interested in purchasing **Carriage Services (CSV)**, an owner of funeral homes and cemeteries. The stock price surged on the news, at which time we sold half of our position. While we hoped to sell the rest at an even higher price, by November, it was clear that a transaction was unlikely. With no sale on the horizon, plus the recent or upcoming departure of key executives we admired, we opted to sell our remaining shares.

In August, we exited our position in **Penske Automotive Group (PAG)** at a substantial gain. Our first purchase came just after Brexit, in June of 2016, when shares in Penske, which owns quite a few UK auto dealerships, sold off. Even with some headwinds during COVID, earnings marched higher. By the summer of 2023, it was difficult to call Penske a "small cap" any longer, so we sold our shares and concluded this positive chapter.

We awoke to the news in early September that Smucker's (not held in the fund) was purchasing **Hostess Brands (TWNK)** at a premium price. We sold our shares a few days later. While pleased to enjoy the profits, we were sad to see Hostess go. It is a well-run company in our view with strong brands and a leadership team that made intelligent acquisitions.

Finally, we sold a small piece of our holdings in **SPS Commerce (SPSC)** and **CBIZ (CBIZ)**. We remain happy shareholders of both companies and believe they should grow much larger over time. SPS Commerce, a software firm that connects thousands of suppliers to many major retailers, hit a valuation high enough that a modest reduction in the position size made sense. Similarly, we trimmed our position in CBIZ, described earlier in the letter, due to a combination of a large position size, high valuation, and some evidence that demand for some of their more economically sensitive business lines might slow.

Purchases
During 2023, we purchased three new positions in the fund and added shares to 11 existing holdings.

Our first purchase of the year was **Element Solutions (ESI)** in July. Element provides plating chemicals utilized in a variety of applications including the assembly of printed circuit boards for electronics and wear protection in many industrial applications. Often, Element's chemists assist manufacturers in devising specific chemistry for new applications and are, to some extent, "designed in" for the length of the product's existence. This creates high switching costs and makes it a fine business. Furthermore, management, led by CEO Ben Gliklich, is adept at allocating their ample free cash flow well, often purchasing small product line extensions that add nicely to profits. Earnings were a bit depressed in 2023 on lower demand for a few products, especially cell phones. Such cycles are inevitable, so we were delighted to take advantage of the opportunity and buy a position in Element at what we expect should prove to be a low entry point.

In August, after years of waiting for a reasonable valuation, we added a modest position in **Exponent (EXPO)**. We increased the position in the fall after they reported soft third-quarter earnings. Exponent is essentially a company of scientific and engineering expert consultants, the largest in their field. The majority of their work comes from litigation, such as after a catastrophic failure when they are hired to determine the root causes. The rest is more proactive, like helping a business develop a leading-edge technology with complicated science. A modest slowdown in proactive demand from consumer electronics firms scared investors with more of a short-term focus. Given our longer-term view, we were pleased to become shareholders.

Our last purchase of the year was **Dutch Bros (BROS)**. Dutch Bros operates approximately 800 beverage-focused, drive-through shops with plans to reach 4,000 units within 10 to 15 years. For a variety of qualitative reasons, including a strong service culture, Dutch Bros' stores almost always achieve impressive unit-level economics in our view. We believe that they should attain their goal of 4,000 units and produce significantly higher profits over the coming years.

Dutch Bros went public in the fall of 2021 and for many months traded at a high valuation. As the old saying goes, "If a stock is priced for perfection, then results better be perfect." They were not. Dutch Bros struggled with some issues around softer demand, wage inflation, and construction cost inflation that we believe should pass. None of these issues were shocking given the macro environment. Furthermore, we don't think they impact their long-term potential. We took advantage of the pullback to what we believed was a more reasonable valuation and bought our shares.

Outlook

Lately, of course, the major economic story has been the tensions between rising interest rates, inflation, employment levels, and more. This created some volatility in stock prices in 2023 which we believe helped us make some attractive purchases. At this point, investors are considerably calmer as it seems that inflation is abating while the economy is growing more slowly without stumbling into a recession.

As we consider what might happen in 2024, we will not make the mistake of espousing grand, macroeconomic predictions like so many others — this is a futile game. Instead, our focus remains on identifying what we deem to be the best companies, adding shares if they are available at reasonable prices, and holding them for many years as they grow earnings. Our plan is to keep retesting the reasoning behind why we own stock in each of the fund's businesses and make sure that their leaders are maintaining, if not strengthening, their competitive advantages. Simultaneously, we will keep looking for even better opportunities.

While we will not make a prediction, we will point out that years lacking political surprises, economic anxieties, and volatile stock prices are historically very rare. Therefore, we expect that 2024 could be an interesting year.

Thank you for your trust and investing with us in the FAM Small Cap Fund.

TOP 5 CONTRIBUTORS AND DETRACTORS*
12/31/2022 TO 12/31/2023

TOP 5 CONTRIBUTORS		
NAME	AVERAGE WEIGHT (%)	CONTRIBUTION (%)
Dream Finders Homes	2.90%	4.27%
CBIZ	7.55%	2.50%
Hostess Brands	3.22%	2.17%
Colliers International Group	5.06%	1.80%
SPS Commerce	3.77%	1.72%

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 (%)
Boston Omaha Corp.	3.12%	-1.87%
Trisura Group	3.94%	-1.23%
ExlService Holdings	6.61%	-0.88%
Brookfield Infrastructure Corp.	3.79%	-0.41%
Hagerty	2.19%	-0.08%

Past performance does not indicate future results.

Andrew F. Boord
Portfolio Manager

Kevin D. Gioia, 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 12/31/2023

FAM SMALL CAP FUND	% OF PORTFOLIO
CBIZ	7.16%
Colliers International Group	5.84%
ExlService Holdings	5.39%
Pinnacle Financial Partners	4.42%
Dream Finders Homes	4.21%
Chemed Corp.	3.65%
SiteOne Landscape Supply	3.65%
Brookfield Infrastructure Corp.	3.58%
Landstar System	3.50%
Trisura Group	3.50%
TOTAL NET ASSETS	**$362,861,659**

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

AVERAGE ANNUAL TOTAL RETURNS

AS OF 12/31/2023

	SINCE INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	TOTAL FUND OPERATING EXPENSES*
FAM SMALL CAP FUND INVESTOR CLASS (3/1/12)	11.13%	8.45%	13.42%	10.34%	20.11%	1.26% (gross) 1.26%* (net)
INSTITUTIONAL CLASS (1/1/16)	11.22%	8.55%	13.54%	10.44%	20.20%	1.16% (gross) 1.16%* (net)

The performance data quoted represents past performance.

PERFORMANCE DISCLOSURES

Performance data quoted above is historical. Past performance is not indicative of future results, current performance may be higher or lower than the performance data quoted. Investment returns may fluctuate; the value of your investment upon redemption may be more or less than the initial amount invested. All returns are net of expenses. To obtain performance data that is current to the most recent month-end for each fund as well as other information on the FAM Funds, please go to fenimoreasset.com or call (800) 932-3271.

Please consider a fund's investment objectives, risks, charges and expenses carefully before investing. The FAM Funds prospectus or summary prospectus contains this and other important information about each Fund and should be read carefully before you invest or send money. To obtain a prospectus or summary prospectus for each fund as well as other information on the FAM Funds, please go to fenimoreasset.com or call (800) 932-3271.

IMPORTANT RISK INFORMATION

Risk Disclosures: The principal risks of investing in the fund are: stock market risk (stocks fluctuate in response to the activities of individual companies and to general stock market and economic conditions), stock selection risk (Fenimore utilizes a value approach to stock selection and there is risk that the stocks selected may not realize their intrinsic value, or their price may go down over time), and small-cap risk (prices of small-cap companies can fluctuate more than the stocks of larger companies and may not correspond to changes in the stock market in general).

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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 1.26% 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 1.25% and the Institutional Class is 1.15% as of December 31, 2022. The Advisor has contractually agreed, until May 1, 2024, 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 cap 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.*

†The Russell 2000 is an unmanaged index that measures the performance of a small-cap segment of the U.S. equity universe. This benchmark is used for comparative purposes only and very generally reflects the risk or investment style of the investments reported.

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