

# FAM FUNDS

Managed by  
FENIMORE ASSET MANAGEMENT



## FAM SMALL CAP FUND

Semi-Annual Shareholder  
Letter 2024

June 30, 2024

Dear Fellow FAM Small Cap Fund Shareholder,

For the first half of 2024, the FAM Small Cap Fund's (FAMFX — Investor Shares) return was basically flat, with a decline of -0.04%. In comparison, the Russell 2000 Index<sup>†</sup> (the benchmark we use for performance comparisons) rose 1.73%. However, we find long-term returns more meaningful. Over the prior 10 years, FAMFX returned 8.37% versus the Russell 2000's 7.00%. Since its inception on March 1, 2012, FAMFX has returned 10.66% versus the Russell 2000's 9.25%. We are pleased with this long-term performance.<sup>1</sup>

Our team focuses exclusively on owning what we believe are high-quality, small-cap firms run by top-notch leaders. In our experience, unless an investor pays too much for the investment, returns to shareholders tend to mirror the underlying company's returns on equity. Put simply, high-quality businesses with excellent leadership tend to outperform less impressive competitors over time.

The holdings we prefer usually possess competitive differentiators that allow them to be more profitable and/or grow faster than their peers. Examples include valuable brands, network effects, and cost advantages. Our goal is to maintain high standards. Of the approximately 2,000 enterprises in our investable universe, it is challenging to find even 100 that have sustainable advantages and meet our rigorous criteria.

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 to many investors) at the time of purchase. Some of our top investments came when industries faced inevitable down cycles, specific companies underperformed, or unexpected macro events emerged knocking stock prices temporarily lower.

If we get all of this right, then our holdings should be larger, more profitable, and more valuable in the future and this should lead to healthy returns for our investors.

### The Environment

While we remain forever focused on owning what we deem to be high-quality businesses that can do well over time, we are keenly aware of current conditions. Today, we are seeing several crosscurrents, including:

**COVID:** Even now, we still see COVID's impact. For example, many companies experienced

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<sup>1</sup> FactSet as of 6/30/2024

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shortages in the pandemic's immediate aftermath and responded by dramatically increasing their orders. They were hoping that if suppliers filled a small percentage of their orders, then they would have enough parts to serve their customers. Eventually, supply chains normalized and they ended up with too much inventory. Many are now reducing their orders to work off their excesses and this has created a headwind for firms.

**Higher Interest Rates:** Raising interest rates makes certain goods more expensive like homes and automobiles. Similarly, the math behind numerous commercial construction projects does not work at current interest rates. We can see the effect at multiple companies, not just the obvious ones like automotive OEMs (original equipment manufacturers) and homebuilders. For example, lower income consumers are under the most stress, which impacts firms that serve this particular demographic. Similarly, banks' profits are under pressure as the cost of deposits rose much faster than the interest rates on loans. Bank earnings should rebound as loans renew and reprice at higher rates.

**Artificial Intelligence (AI):** The rapid advancement of older versions of machine learning to the new large language model (LLM) AI has been amazing to watch. Almost all of our holdings are working on ways to use AI, and a few are actually involved in the broader data center ecosystem. News articles focus on grand topics, such as the Nvidia (not held in the fund) semiconductor chips often used to process the calculations behind AI, and speculate about what the future might look like. When we speak with our companies, it sounds as if AI benefits are modest today but could be more interesting over time.

The combination of the above factors is increasingly impacting the results of many enterprises in our investable universe.

## Portfolio Activity

We entered 2024 with what we believed was a fine portfolio of high-quality companies and a moderate amount of extra cash. While we did not feel compelled to make any major changes, we were on the lookout for potential improvements.

### Purchases

We recently reinitiated a position in **OneSpa World Holdings (OSW)** (3.08%)\*, the worldwide leader in operating spas on cruise ships. Shareholders may remember our first investment in OneSpa. In January of 2020, in an unfortunately timed trade, we bought our first shares of OneSpa just days before COVID emerged. As you can imagine, the stock price was crushed as business essentially shut down. They survived the pandemic through strong leadership, hard work, and taking on additional debt. While we held our shares until the stock price partially rebounded, ultimately we exited the position at a loss in the summer of 2022. At that time, rising interest rates influenced us to exit the position. While we still admired the firm, their balance sheet was stretched. Our concern was that consumers might slow spending while OneSpa's cost to borrow money might spike higher, putting them in a tight financial situation.

Thankfully, for their sake, we were wrong. Business improved dramatically over the past two years, profits surged back to normal, and OneSpa was able to pay off a majority of their debt. Given their much cleaner balance sheet, continued position as a virtual monopoly, return to normal in the cruising industry, and what we think is a reasonable valuation, we decided to invest in OneSpa again.

**ESAB Corporation (ESAB)** (2.00%), our newest investment, is a global leader in welding equipment and related consumables with a particularly strong position in some of the world's higher growth regions. They also operate a successful smaller business in gas equipment

*\*Percentage is the company's weight in the portfolio as of 6/30/2024.*

that includes proportioning values used in medical and industrial facilities. ESAB possesses a number of competitive advantages, in our opinion, such as a well-regarded brand, specialized products, and a broad product lineup that makes them popular with the largest distributors and end users desiring more complicated solutions.

ESAB should compound earnings over the long term through a combination of organic growth driven by economic expansion, continuous self-improvement efforts, and a shift by their customers toward increased automation. Additionally, bolt-on acquisitions that bring them new regions or incremental technology should augment their operation. After years of studying the corporation, we finally purchased shares when the stock retreated over fears of a slowdown. So far, it appears that ESAB is not experiencing the same sluggish demand reported by one of their more U.S.-centric peers. We believe that even if demand does wane temporarily, investors can do well over the long term from here given that their current stock price has already declined due to "priced-in" sluggishness.

In addition to our two new investments, we took advantage of what we believed were attractive opportunities to buy more shares in five of our existing holdings: **Exponent (EXPO)** (3.58%), **Brookfield Infrastructure Corporation (BIPC)** (3.94%), **Frontdoor (FTDR)** (3.32%), **Nomad Foods (NOMD)** (3.39%), and **SiteOne Landscape Supply (SITE)** (3.10%). These are companies we know well and admire.

### Sales

In June, we sold our shares in **Ollie's Bargain Outlet Holdings (OLLI)** (0.00%). While we enjoyed our profitable four-year relationship with Ollie's and admire their leadership team, ultimately we decided to exit the position. Over time, we came to appreciate just how difficult it is to run a discount retailer. Finding enough overruns, label changes, discontinued flavors, and more to continually restock hundreds of stores is just hard. These challenges should only increase as they expand. As we often say, you do not earn points for difficulty in investing, so we decided to reallocate the money to other opportunities.

Additionally, we trimmed two positions. First, we sold a few shares of **Dream Finders Homes (DFH)** (2.54%) in January after a strong price surge to high valuations. We also trimmed some shares of **CBIZ (CBZ)** (7.02%) as the position grew quite large while the valuation was on the high side of normal.

### Closing Thoughts

Our plan for the remainder of 2024 is the same one that we have executed over the life of the Small Cap Fund. We want to own what we think are excellent businesses with competent and ethical leaders and strong financial positions. Occasionally, we see valuations low enough to justify purchases or so high that a trim or sale makes sense, but generally we want to hold our shares for the long term and let the results of these businesses drive returns. Our day-to-day activities revolve around regularly rechecking our theses by visiting with our holdings, finding competitors, customers, and industry experts to speak with, and reading all the related news we can find.

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\*

12/31/2023 TO 6/30/2024

TOP 5 CONTRIBUTORS		
NAME	AVERAGE WEIGHT (%)	CONTRIBUTION (%)
CBIZ	7.50%	1.28%
Dutch Bros	3.13%	0.89%
Hagerty	1.74%	0.54%
Element Studios	3.14%	0.48%
Trisura Group	3.99%	0.43%

*This reflects the FAM Small Cap Fund's best and worst performers, in descending order, based on individual stock performance and portfolio weighting. Past performance does not indicate future results.*

TOP 5 DETRACTORS		
NAME	AVERAGE WEIGHT (%)	CONTRIBUTION (%)
Dream Finders Homes	3.31%	-1.15%
SiteOne Landscape Supply	3.51%	-1.05%
Colliers International Group	5.20%	-0.87%
Boston Omaha Corp.	2.80%	-0.53%
Pinnacle Financial Partners	4.07%	-0.37%

*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 6/30/2024

FAM SMALL CAP FUND	% OF PORTFOLIO
CBIZ	7.02%
ExlService Holdings	5.36%
Colliers International Group	5.04%
Dutch Bros	4.05%
Trisura Group	4.02%
Pinnacle Financial Partners	3.97%
Brookfield Infrastructure Corp.	3.94%
Exponent	3.58%
Element Solutions	3.55%
Choice Hotels International	3.48%
<b>TOTAL NET ASSETS</b>	<b>\$370,605,011</b>

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

## AVERAGE ANNUAL TOTAL RETURNS

AS OF 6/30/2024

	SINCE INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	TOTAL FUND OPERATING EXPENSES*
FAM SMALL CAP FUND INVESTOR CLASS (3/1/12)	10.66%	8.37%	10.10%	4.41%	8.24%	1.25% (gross) 1.25%* (net)
INSTITUTIONAL CLASS (1/1/16)	10.75%	8.48%	10.21%	4.52%	8.33%	1.15% (gross) 1.15%* (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](http://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](http://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 1.25% 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 1.15% 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 1.24% and the Institutional Class is 1.14% as of December 31, 2023. The Advisor has contractually agreed, until May 1, 2025, 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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