FAM FUNDS
Managed by
FENIMORE ASSET MANAGEMENT

FAM DIVIDEND FOCUS FUND

Annual Shareholder Letter 2024

December 31, 2024

Dear Fellow FAM Dividend Focus Fund Shareholder,

2024 was another strong year for U.S. equities despite a sluggish December. U.S. stock returns were fueled by economic resilience, falling inflation, the Federal Reserve's decision to start cutting interest rates for the first time in four years, and ongoing enthusiasm for artificial intelligence which is elevating earnings growth expectations for the coming years.

The S&P 500 Index,* widely regarded as a proxy for the U.S. equity market, was a standout. It hit 57 all-time highs in 2024 and notching back-to-back 20% return years for the first time since 1998. Across the board, other U.S. equity indices posted solid returns.[1]

The S&P 500's run continues to be heavily influenced by a familiar group called the "Magnificent Seven." These seven companies — Apple, Microsoft, Alphabet (Google), Amazon, Nvidia, Meta (Facebook), and Tesla — make up more than 30% of the index and drove more than half of the S&P's gains for the year. While impressive, this is actually a step down from 2023 when these stocks accounted for approximately 65% of the market's annual return.[2] This highlights how much these giants shape the market's direction every year.

Since the October 2022 lows, the market has surged almost 70%, equating to a 27% CAGR (compound annual growth rate)! The 26-month bull market has pushed valuations to elevated levels with the S&P 500's forward price-to-earnings ratio at 21.5 times compared to the 10-year average of 18.5 times.[3] This reflects some level of investor animal spirits and expectations for mid-teens earnings growth in the next couple of years — a backdrop that potentially leaves little room for disappointment.

Performance

For the year, The Dividend Focus Fund (FAMEX) returned 7.58% compared to 15.34% for our benchmark, the Russell Midcap Index.** While the fund delivered outperformance in the first half of the year, a series of challenges in the second half weighed on full-year results.[4]

First, a few holdings across a broad range of industries including pool supplies, IT services, life sciences equipment, and semiconductors, experienced prolonged cyclical downturns despite early optimism that a recovery was underway. Second, two of our larger holdings saw challenges emerge that raised investor concerns beyond the typical pressures of an

[1,2,3,4] FactSet as of 12/31/2024

** The S&P 500 Index is a stock market index tracking the stock performance of 500 of the largest companies listed on stock exchanges in the United States.*

*** The Russell Midcap is an unmanaged index that measures the performance of a mid-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.*

end-market cycle. Lastly, a broader selloff hit many high-quality stocks, including some of our holdings, late in the year. For context, the Russell Midcap dropped a little more than -7% in December, marking its worst December since 2018.[5]

The second half of the year, or six months, is just that — six months. Periods of underperformance are inevitable, but Fenimore's investment strategy is built with this in mind, prioritizing long-term compounding and not short-term performance. *We firmly believe a concentrated portfolio of quality businesses should outperform over the long term and remain confident our fund is still comprised of such companies.*

The businesses we invest in are rigorously vetted and continually monitored through our disciplined research process. This not only helps to strengthen our confidence in owning the right companies for the long term, even when investor sentiment seems negative, but it also enables us to act decisively when circumstances change. Currently, we believe that many of our holdings can maintain or potentially strengthen their differentiators and deliver solid underlying earnings and cash flow growth. In fact, FAMEX's 2024 projected weighted-average earnings growth is set to outpace its Russell Midcap benchmark, highlighting the portfolio's returns being driven by fundamental earnings growth. This is in contrast to the multiple expansion that drove the majority of the Russell Midcap's return this year.

Dividends

The Dividend Focus Fund builds on Fenimore's four core investment criteria with one additional principle: invest in companies that consistently grow their dividends. While the dividend modestly contributes to the fund's total return, a sound dividend growth policy serves as an effective investment filter in our research process. First, it demonstrates that the business generates more cash flow than it needs for reinvestment. Second, management's commitment to growing dividends reflects their confidence in the stability and growth of that cash flow. Finally, it enforces disciplined capital allocation, helping to ensure that resources are deployed wisely.

Over the past 12 months, 96% of FAMEX's holdings (26 out of 27) increased their dividend, with an average year-over-year increase of 9.7%. Over the past five years, the average CAGR for dividends across all holdings was 10.5%, which we view as a good proxy for long-term underlying cash flow growth. The top three dividend growers were **Amphenol Corporation (APH)** (50%), **Cintas Corporation (CTAS)** (16%), and **Verisk Analytics (VRSK)** (15%).[6]

Portfolio Activity

Purchases

We initiated one new position during the year in **Houlihan Lokey (HLI)** (1.1%).[7] Houlihan is a leader in mid-market M&A (mergers and acquisitions) advisory, restructuring, and valuation services. HLI specializes in working with firms through the M&A process, helping sellers identify buyers and maximizing the value of their business. HLI's competitive position is underpinned by a compelling financial sponsorship network, deep industry expertise, a global reach, and a 50-year track record.

The company's restructuring segment offers a countercyclical revenue stream, providing stability during downturns by assisting with bankruptcies and reorganizations. Along with

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[5] FactSet as of 12/31/2024
[6] FactSet as of 12/31/2024
[7] Percentage is the company's weight in the portfolio as of 12/31/2024.

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its valuation services, the diversification of its revenue streams supports cash flow generation regardless of the market cycle.

We believe the business is well-positioned for long-term growth. It is supported by several secular trends such as the expansion of private markets, increasing M&A transaction values and deal count, and the ability for independent investment banks to continue to capture share from bulge bracket banks.

Beyond its operational strengths, we believe Houlihan Lokey has a strong collaborative culture and significant employee ownership that fosters alignment with long-term investors. Financially, the business delivers a high-teens return on invested capital, requires minimal reinvestment, and generates robust free cash flow which supports a steadily growing dividend. With its distinctive culture, operational resilience, and strong financials, we believe Houlihan Lokey is poised to deliver long-term outperformance.

We also added to several holdings in the year, putting either fund inflows to work or reinvesting proceeds from sales/trims (see below). These adds included **Broadridge Financial Solutions (BR)** (5.1%), **Entegris (ENTG)** (3.8%), **HEICO Corp. (HEI.A)** (4.1%), **IDEX Corp. (IEX)** (3.7%), **Jack Henry & Associates (JKHY)** (2.8%), **Martin Marietta Materials (MLM)** (3.9%), **Paychex (PAYX)** (4.3%), **STERIS (STE)** (2.7%), **Verisk Analytics (VRSK)** (2.6%), and **Watsco (WSO)** (2.0%).

Sales

We exited two positions in 2024, **Air Products and Chemicals (APD)** (0.0%) and **T. Rowe Price (TROW)** (0.0%). Both were sold early in the year. Here is what we wrote in our semi-annual letter about our decision to exit these positions:

"In the case of Air Products, the company started making a big bet on renewable hydrogen, and the speed and scale at which they were investing created uncharacteristic execution issues. While renewable hydrogen may prove to be a long-term winning investment, this strategy reduced transparency around future volumes, pricing, and unit economics, and, in our view, elevated the risk profile of the business. Our concerns remained after in-person meetings with management, so we decided to move on to reduce potential risk.

With respect to T. Rowe, we determined the traditional asset management model faces long-term structural headwinds given fee compression and the growing investor preference for exposure to alternative assets, which has often come at the expense of actively managed equities. Lingering question marks remain over T. Rowe's ability to slow, let alone reverse, negative asset flows."

We also had three trims in the year.

First, we reduced our position in **Trane Technologies (TT)** (8.9%), which remains our largest holding. This trim was driven by our risk management framework which caps exposure to any single stock at 9%.

Second, we trimmed our position in **Avery Dennison Corp. (AVY)** (1.9%) after the firm issued long-term financial targets that appeared more conservative than usual. This prompted a slight recalibration to reflect the revised financial profile relative to the rest of our holdings.

Lastly, we reduced our position in **Microchip Technology (MCHP)** (2.1%). A CEO departure late in the year highlighted some capital allocation and operational missteps that extended beyond a typical semiconductor downturn. While we are optimistic about Microchip's ability to recover, we chose to limit our exposure to manage the risk of the recovery taking longer — or proving to be more difficult — than anticipated.

Closing Thoughts

We are delighted to share some exciting news! Our colleague Hunter Frayne, whose work greatly supports the Dividend Focus Fund, has earned the CFA® designation and has been promoted to Investment Research Analyst. This accomplishment is a testament to Hunter's dedication and hard work and reflects Fenimore's commitment to developing what we believe is exceptional talent to help ensure that we can continue to deliver value for our shareholders in the coming years.

While 2024 brought some challenges, we believe that the resilience and quality of the businesses we own remain firmly in place. Industry cycles will turn and, when they do, we are confident the strength of our holdings should come to the forefront.

Looking ahead, the stock market will probably grapple with familiar macroeconomic questions. What will be the impact of a new administration's policies? Is inflation truly under control? Can the Federal Reserve continue to lower interest rates? Is this the year fiscal policies will have negative consequences?

While we've been challenged with these questions in the past, our investment strategy is not dependent on correctly predicting outcomes to these questions. (We certainly have views on these macro questions, though history suggests they're more likely to entertain than to be accurate.) Instead, we focus on identifying what we deem to be high-quality businesses with durable competitive advantages and allow them to compound value over the long term. Remaining consistent and disciplined with this investment approach can deliver lasting results in our view — regardless of how broader economic uncertainties play out.

As always, we are incredibly grateful to all our shareholders and thank you for your continued support.

Top 5 Contributors and Detractors*
12/31/2023 to 12/31/2024

TOP 5 CONTRIBUTORS		
NAME	AVERAGE WEIGHT (%)	CONTRIBUTION (%)
Trane Technologies	8.47	3.60
Arthur J. Gallagher & Co.	7.31	1.82
HEICO Corp.	3.84	1.01
Stryker Corp.	4.92	1.00
Republic Services	3.91	0.82

This reflects the FAM Dividend Focus 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 (%)
Microchip Technology.	4.49	-1.56
CDW Corp.	6.38	-1.29
Entegris	4.30	-0.66
Pool Corp.	2.62	-0.41
STERIS	2.50	-0.15

Past performance does not indicate future results.

Paul Hogan, CFA
Portfolio Manager

William Preston, 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 12/31/2024

FAM DIVIDEND FOCUS FUND	% OF PORTFOLIO
Trane Technologies	8.67%
Arthur J. Gallagher & Co.	7.89%
Stryker Corp.	5.14%
Broadridge Financial Solutions	5.08%
CDW Corp.	5.03%
Ross Stores	4.84%
Paychex	4.33%
HEICO Corp.	4.14%
Republic Services	4.10%
Cintas Corp.	3.88%
TOTAL NET ASSETS	**$749,741,676**

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

AVERAGE ANNUAL TOTAL RETURNS AS OF 12/31/2024

	SINCE INCEPTION	10 YEAR	5 YEAR	3 YEAR	1 YEAR	TOTAL FUND OPERATING EXPENSES*
FAM DIVIDEND FOCUS FUND INVESTOR CLASS (4/1/96)	9.53%	11.07%	9.65%	3.69%	7.58%	1.22% (gross) 1.22%*(net)

The performance data quoted represents past performance.

**FAM Dividend Focus Fund Disclosure: The Fund's gross annual operating expense ratio as stated in the fee table of the Fund's most recent prospectus is 1.22%. The gross operating expense as reported in the FAM Dividend Focus Fund's audited financial statements as of December 31, 2023, is 1.21%. 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 1.26%. There are no sales charges.*

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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.

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