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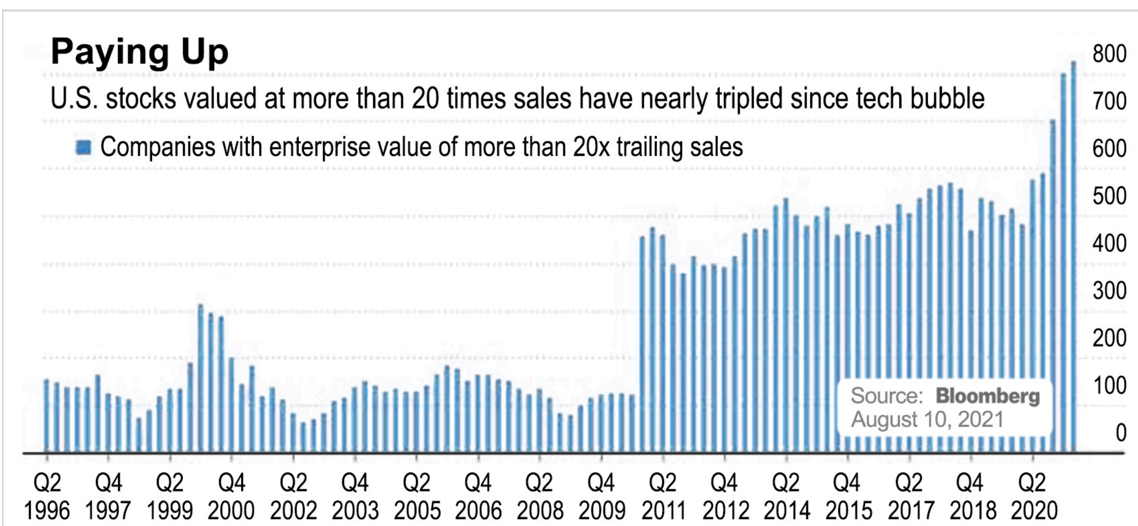
FIDUCIARY MANAGEMENT, INC.
Investment Counsel

September 30, 2021

INVESTMENT STRATEGY OUTLOOK - ALL CAP EQUITY

The FMI All Cap portfolios declined approximately 1.0% in the September quarter compared to a loss of 0.10% for the Russell 3000 Index and 0.93% for the Russell 3000 Value Index. Health Technology, Electronic Technology, and Technology Services detracted from relative performance versus the Russell 3000. Our underweighting in these technology sectors hurt relative performance. From a stock perspective, Smith & Nephew PLC, Koninklijke Philips N.V., and PPG Industries Inc. all declined in the period; Smith & Nephew was affected by the Delta variant, Philips by a product recall, and PPG by supply chain delays and higher costs. All of these appear to be temporary headwinds, and we are optimistic about a rebound in each issue. On the positive side, Consumer Durables, Retail Trade, and Commercial Services all added to relative performance. Sony Group Corp., FirstCash Inc., and Robert Half Intl. Inc. outperformed from an individual stock perspective. Year-to-date the All Cap portfolio has underperformed both the growth-driven Russell 3000 and the Russell 3000 Value. We have been underweight stocks that have been the biggest beneficiaries of the so-called "COVID trade" and we don't own many of the deeper-value names that bounced hard once vaccines became available. We do own one of our highest-quality portfolios in memory, at a discount valuation. We are confident that this is a winning combination longer-term, and have recently increased our own investments in the portfolio.

The market favored growth in the latter part of the second quarter, and for most of the third. Worries about the Delta variant and its effect on the economy turned investors toward the same forces that have prevailed since early 2020, when COVID first surfaced. The S&P 500, driven mostly by higher-multiple growth stocks, has performed strongly since the start of the pandemic (+37.3% from February 1, 2020 through September 30, 2021). Curiously, in a time of uncertainty and difficulty, many of the most speculative stocks have done even better. Bitcoin-sensitive stocks were up 274.9%, and the most liquid shorted stocks, popular with the Reddit/Robinhood crowd, were up 172.6%. Non-profitable technology stocks were up 157.7%. In fixed income, speculative grade issues have lapped Treasuries. New issues of money-losing companies are at a record level, and ones that trade for greater than 20 times sales remain commonplace. Currently there are over 800 companies with an enterprise value-to-sales multiple greater than 20 (see the following chart), compared to approximately 300 at the peak of the 2000 market. This measures only companies with sales, so it excludes a significant number of development-stage biopharmaceutical companies with sizeable market values. Historically, the 5-year forward relative return for stocks with a price-to-sales ratio in excess of 15 has been -28%[1]. Will this be a new era?



Bob Farrell, a dean of Wall Street thinkers from the mid-1960s through the early 2000s, published his "Ten Market Rules to Remember" in 1998 (see Appendix), the third of which was, "There are no new eras," meaning that change, technological breakthroughs, and progress are always part of the landscape. Innovation, by its nature, is unique, but its impact within the stock market does not last forever. We haven't entered a new era for growth. One "proof" of that is the rate of economic growth over recent decades. Despite fantastic innovations in technology, health care, and entertainment, real GDP growth has been relatively steady over each of the past three decades. In fact, even with all the new marvelous technology, productivity growth has actually lagged historical rates over the past ten years. There is no new era to justify today's extraordinarily high valuations. In the decade ending 2020, the S&P 500 (iShares S&P 500 ETF as a surrogate) revenue and earnings growth were roughly 4.5% and 8.2%, respectively. If eight stocks are removed (Facebook Inc., Apple Inc., Amazon.com Inc., Alphabet Inc. (Google), Microsoft Corp., NVIDIA Corp., Netflix Inc., and Tesla Inc.), the revenue and earnings growth for the remaining companies were approximately -1.5%. Ending 12/31/20, the median stock return of the iShares S&P 500 over the past decade was 11.2%. Multiple expansion is clearly responsible for a large share of the market's return. Since

[1] Eric Savitz. "Pricey Tech Stocks Still Carry Big Risks, Bernstein Analyst Cautions." *Barron's*, March 22, 2021.

2020 was a depressed endpoint, we analyzed the five years ending December 31, 2019. During that period, S&P 500 sales grew at a compound rate of about 5.0%, and earnings advanced at around a 10.6% clip. Without the aforementioned eight names, we estimate that revenue grew just 0.1% and earnings gained 5.2%, compounded. The desire to hold the S&P 500 has been a self-fulfilling prophesy in recent times, but we contend that it won't always be this way. Investors seem immune to the notion that the reverse can happen, and yet history tells us that this occurs with great regularity. It just hasn't happened recently!

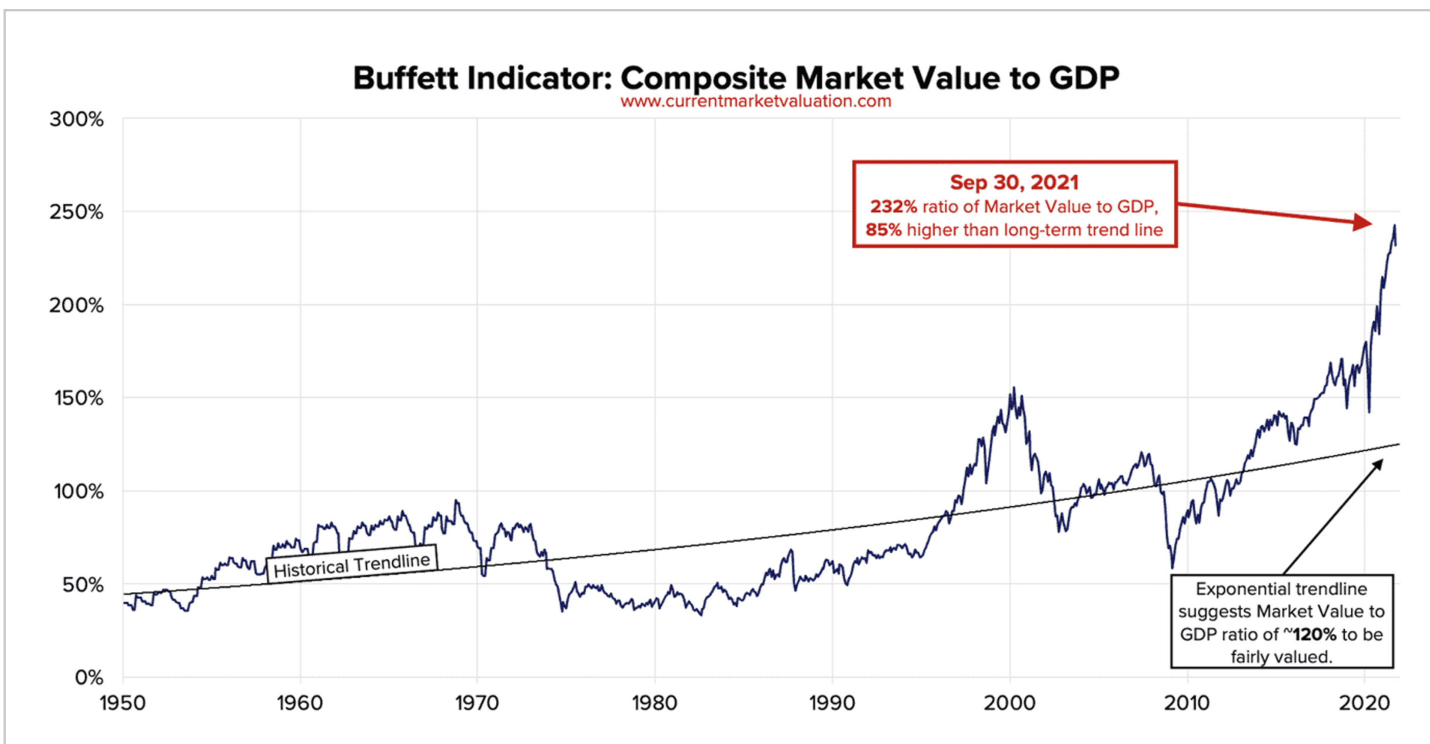
2000 Market Versus Today

Today we have a market picture that is very reminiscent of the 2000 period. Information Technology and Communication Services stocks constituted 39.9% of the market at the end of 1999. Information Technology (to include social media and Amazon) and Communication Services were 42.8% of the S&P 500 as of September 30. Technology's weighting in the stock market is roughly five times its weighting in the real economy. Valuations were extreme in 2000, and are, on many measures, even more so today. The market capitalization-to-GDP ratio is the highest ever (see chart below). Investor sentiment is very bullish. "Retail" involvement in the market was high in 2000, but with the dawn of free stock trading, has recently expanded dramatically. Margin debt is also near a record high.

There are, however, some important differences. Many companies are "investing" through the income statement rather than the balance sheet. By this we mean that they are expensing customer acquisition or network development expenses on the profit and loss statement, rather than through capital investments made on the balance sheet, and this depresses current earnings. Notable companies like Amazon and Netflix have done this. These successful "deferral" models have been copied by hundreds of companies. Today there is an obsession with top-line growth almost to the total exclusion of profits. It seems that for emerging companies, showing profit is a sign of weakness, because it means one is not driving (spending) hard enough on revenue generation. Some deferral models will work, but many will not. Underpricing a product or service to drive sales growth may, in the end, just turn out to be an unprofitable endeavor. Another big difference between 21 years ago and today is that the cone of overvaluation was fairly confined to a few sectors then, whereas extended valuations permeate most sectors today. At the beginning of 2000, if one avoided tech and telecom, it was possible to build a portfolio of excellent companies with price-to-earnings multiples in the low-to-mid-teens. Buying a portfolio of roughly the same quality today, while avoiding the extremely high multiple ideas, would cost closer to 20 times earnings. Finally, from a macro standpoint, there are several major differences to highlight. Inflation is on the rise today, and was going the other way in the early 2000s. This may eventually influence interest rates, which have been ground-hugging for over a decade. Companies are running hot with leverage up dramatically. The government seems to be on a nonstop spending spree; government debt exceeds $28 trillion and the deficit/GDP is as high as it has been since WWII.

Economic Growth Generally Positive

Despite these concerns, however, we remain generally optimistic about economic growth. A huge contingent of workers remain on the sidelines due to COVID-19. There are roughly 8 million officially unemployed, and perhaps as many as 10 million more who are no longer counted, because they are not actively seeking work. Incentives to forgo work must lessen. It seems like nearly all sectors are complaining about worker shortages: restaurants, hotels, technicians, nurses, tradesmen, and teachers, to name just a few. There are officially an incredible 10.9 million job openings. Wages are rising, which may bring people back into the workforce. As people return to work, economic growth will accelerate, creating even more employment opportunities. Additionally, one of our greatest competitive advantages as a nation is access to



immigrant labor. Countries we compete with have low birth rates and highly restrictive immigration. We need comprehensive laws and clarity in this area, but potentially, this is a huge long-range positive.

Another important aspect to growth that has been improving lately is capital formation. Orders for durable goods, excluding defense, are up 26.6% year-to-date through August, which is an easy comparison due to COVID, but they are also up 2.2% compared to 2019. According to S&P Global Ratings, global capital expenditures are projected to jump 13% this year. We've waited a long time for this, and although it is too early to call it a trend, the signs are encouraging.

Inflation

The inflation we have been warning about over the past few years is here. The Fed claims it is a blip and will soon disappear, i.e., return to 2% (which for some reason is considered good), and in the short run, the Delta variant's impact could slow the economy and lessen inflation. Additionally, as the most acute supply chain bottlenecks ameliorate, prices are likely to settle down, but the conditions for secularly higher rates of inflation appear to be in place. Wages are very sticky on the downside and constitute a sizeable percentage of most companies' costs. In nearly every industry we analyze, wages are rising at rates that haven't been seen in years. Prices for many consumer products, including food and energy, are rising, and prices for nearly every service one could think of are increasing as well. It is beginning to feel more like the 1970s every day. Producer prices have escalated dramatically. The Producer Price Index was up 8.3% for the 12 months ended August, after having gained steadily all year. Inflation psychology seems to have changed, too. People now expect to see higher prices, surcharges, special fees, etc. Moreover, one of the greatest dampeners of inflation over the past 20 years has been China. As more manufacturing moved or threatened to move to China, it suppressed domestic wages and inflation. Cheap imports from China also depressed U.S. product prices. The great migration of hundreds of millions of rural folks moving to Chinese cities has largely played out. Today, China's working-age population is starting to fall. Wages are rising significantly and import prices are rising. Add to this the massive amount of quantitative easing. Nearly everything that worked to lower inflation for many years is now going in reverse.

Interest Rates

How will rates respond to inflation, and to all the newly created money that is likely to get deployed in coming quarters and years? How will they react to the long-awaited Fed tapering? How will huge deficit spending programs impact rates? How sustainable are deeply negative (~-5% today) real returns on cash and short-term investments? Will a decade-plus of extremely low and unprecedented rates give way to something more normal in the future? We think the answer is yes, although of course, we cannot predict the timing. We envision a different environment than the one that has prevailed in recent years. Buying growth and so-called story stocks and ignoring valuations and balance sheets has been a winning formula for quite some time. We are content to own sound companies with durable business franchises and reasonable valuations, knowing that long-term, this has worked. Below we have highlighted a couple of portfolio companies.

PACCAR Inc. (PCAR)

(Analyst: Dain Tofson)

Overview

PACCAR is a highly efficient manufacturer and financier of light, medium, and heavy-duty trucks and related parts. The company reports three principal segments – Truck, Parts, and Financial Services – and a trivial Other segment, which includes an industrial winches business. In 2020, Truck and Other were 71% of sales and 37% of pretax profit; Parts was 21% of sales, 49% of pretax profit; and Financial Services was 8% of sales, 14% of pretax profit. Geographically, the United States accounted for 56% of sales; Europe, 26%; and other geographies, 18%. The company controls three brands: Peterbilt (United States and Canada), Kenworth (United States, Canada, Mexico, and Australia), and DAF (primarily Europe, Brazil, and Australia); each is supported by a strong, independent dealer network.

Good Business

- PACCAR has been a long-term organic market share gainer in its markets, aided by consistent investment, robust new product development, and a strong independent dealer network.
- The truck manufacturing industry is highly consolidated in North America, and PACCAR's manufacturing business operates with few plants, requires little inventory, often generates negative working capital (cash in before delivery), and achieves best-in-class margins. As a result, its manufacturing return on invested capital averages greater than 20% -- better than most industrial businesses.
- Parts sales have grown at a 6% compound annual growth rate (CAGR) over the last 15 years.
- Although the truck industry is cyclical, PACCAR has been profitable for 82 consecutive years.
- The company has no manufacturing debt, and the Financial Services segment is conservatively capitalized.
- The company is investing in alternative powertrain and autonomous driving technology, and commercial production of Peterbilt, Kenworth, and DAF electric trucks began this year.
- All three of the truck brands carry a premium over competitor truck resale value.
- Trucking is a necessary business, and market level replacement demand is able to be estimated.

Valuation

- The stock trades at 2.5 times price-to-book (P/B) versus its 10-year average of 2.9 times.
- If Financial Services is valued at 1 times book (which is conservative given the historical performance), then PACCAR's manufacturing business trades at 9.3 times earnings before interest and taxes.
- PACCAR trades at 13.9 times earnings per share (EPS) versus its 10-year average of 15.1 times.
- PACCAR dividend yield is 2.6%, including episodic dividends.

Management
- Preston Feight has been CEO since 2019 and has been with PACCAR for over 20 years, having previously held leadership roles at DAF and Kenworth. He is an engineer by education and is well-suited to oversee PACCAR's investments in alternative powertrain and autonomous driving technology.
- Mark and John Pigott, great grandsons of the founder, sit on PACCAR's board, and the Pigott family is estimated to own around one-third of PACCAR shares. The founding family influence has helped management maintain a customer-first mindset and long-term view.
- Growth has been organic since 1996, and the dividend payout has averaged 50% for many years.
- Long-term executive compensation is aligned with shareholders and tied to the 3-year change in net income, return on sales, and return on capital compared with peer companies.

Investment Thesis
PACCAR is a high-quality, high-return manufacturing business run by a capable management team. It is currently trading at a discount to its history on P/B due to supply chain issues. While frustrating, we believe the supply chain issues are temporary and are masking what is a solid mid-term financial outlook from new products and continued growth in the parts business. On the former, the company is currently undergoing one of the biggest product portfolio updates in its history. We believe the new products will drive solid price realization, market share gains, and earnings upside relative to expectations. On the latter, the parts business has grown at a 6% CAGR over the last 15 years and should continue to grow as PACCAR increases proprietary content on trucks and enhances the distribution network. Ultimately, we believe PACCAR is a quality compounder at an attractive valuation and have added to our position on the stock's weakness.

Berkshire Hathaway Inc. – Cl B (BRK/B)
(Analyst: Rob Helf)

Description
Berkshire Hathaway is a diversified holding company engaged in several business activities, including Insurance and Reinsurance, Freight Rail Transportation, Utilities and Energy, Manufacturing, Service and Retail, and Finance. Berkshire owns Burlington Northern Santa Fe (BNSF), one of the country's largest railways and a vital business for transporting a range of products and commodities. Insurers such as GEICO, Berkshire Hathaway Primary Group, and Berkshire Hathaway Reinsurance Group are significant contributors to operating income and generators of "float" for reinvestment. Additionally, well-known manufacturers, wholesalers, and retailers owned by the company include: Precision Castparts Corp. (aerospace components), The Lubrizol Corp. (specialty and performance additives), Marmon Holdings, Inc. (diverse industrials), Clayton Homes (traditional and off-site built housing), Benjamin Moore & Co. (paints and coatings), Shaw Industries Group, Inc. (floor coverings), and McLane Co., Inc. (wholesale distribution), to name a few. The businesses are managed on a decentralized basis. Finally, as of 6/30/21 on Berkshire's Annual Report, their equity portfolio included significant positions in publicly traded Apple Inc. ($124 billion), Bank of America Corp. ($43 billion), American Express Co. ($25 billion), The Coca-Cola Co. ($22 billion), The Kraft Heinz Co. ($13 billion), and others.

Good Business
- The largest contributors to Berkshire's pre-tax earnings are: Insurance (26%), Manufacturing, Service and Retail (33%), and BNSF (22%). Insurance, Finance, and Utilities cumulatively account for 45% of after-tax income. Overall, the company has a portfolio of necessary businesses.
- The collection of insurance businesses can be defined as market-leading, strongly profitable (95% combined ratio), financially sound, and characterized by recurring premium revenues. All are rated AA+ or higher.
- The company's businesses generally have a significant cost advantage over their competitors.
- Berkshire's float from its insurance units totals over $130 billion and is available for acquisitions. This figure has grown at greater than 17.5% per annum since 1970.
- Its share of undistributed earnings from investees is approximately $12 billion, or $5 per Class B share.

Valuation
- The stock currently trades at 1.3 times book value, which is a slight discount to its 15-year average of 1.45 times, and the company's intrinsic value is estimated to far exceed its historical carrying value.
- The company's share repurchase program limits potential downside, as it will repurchase shares at or below 1.2 times book value, or $250 per B share.
- On a sum-of-the parts basis, we conservatively value the Berkshire operating businesses at approximately $210 per B share. The undistributed earnings of the company's equity portfolio, along with potential returns on the insurance float, adds approximately $140 per B share in value.
- Based on "look through" EPS, Berkshire trades at 16.3 times, which is a significant discount to the median of a typical S&P 500 company. At a median multiple, the B shares would trade over $400.

Management
- Warren Buffett (Chairman and CEO, age 91) and Charlie Munger (Vice Chairman, age 97) are the largest shareholders and have been at the helm for over 50 years. Buffett owns 38% of the company.

- The quality of Berkshire's management team is very strong, although Buffett's succession concerns are warranted. Given his age, we believe the market has already discounted his passing. Should the company then be broken up, the sum of the parts vastly exceeds the current market value.
- It appears that Greg Abel, a vice chairman of Berkshire and presider over the non-insurance businesses, will replace Buffett upon his death or retirement.
- Todd Combs and Ted Weschler, who both joined in 2011, are very capable investment managers.

Investment Thesis

Berkshire Hathaway has assembled a collection of industry-leading companies that utilize the advantage of a large, permanent capital base to drive performance. There are some very appealing economically offensive aspects of the portfolio, while the large excess cash position provides defensiveness relative to an expensive market. We expect the game plan to continue, i.e., strong operations and value-added acquisitions that will increase the intrinsic value of the company at above-average rates going forward. We view Berkshire as solid grower (8-10% book value growth) that is attractive relative to the overall market.

Thank you for your confidence in Fiduciary Management, Inc.

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Appendix:

Bob Farrell's Ten Market Rules to Remember

1. Markets tend to return to the mean over time.
2. Excesses in one direction will lead to an opposite excess in the other direction.
3. There are no new eras — excesses are never permanent.
4. Exponential rapidly rising or falling markets usually go further than you think, but they do not correct by going sideways.
5. The public buys the most at the top and the least at the bottom.
6. Fear and greed are stronger than long-term resolve.
7. Markets are strongest when they are broad and weakest when they narrow to a handful of blue-chip names.
8. Bear markets have three stages — sharp down, reflexive rebound and a drawn-out fundamental downtrend.
9. When all the experts and forecasts agree — something else is going to happen.
10. Bull markets are more fun than bear markets.

Fiduciary Management Inc.
All Cap Equity Composite
12/31/2010 - 12/31/2020

Year	Total Return Gross of Fees %	Total Return Net of Fees %	*Benchmark Return %	Number of Portfolios	Dispersion %	Three Year Ex-Post Standard Deviation Composite	Three Year Ex-Post Standard Deviation *Benchmark	Total Composite Assets End of Period ($ millions)	Total Firm Assets End of Period ($ millions)	Percentage of Firm Assets %
2011	3.85	3.14	1.03	23	0.41	19.57%	19.35%	$ 127.4	$ 12,273.6	1.04%
2012	16.06	15.34	16.42	30	0.27	14.87%	15.73%	$ 168.5	$ 15,253.5	1.10%
2013	29.61	28.70	33.55	35	0.69	11.72%	12.53%	$ 211.6	$ 19,705.3	1.07%
2014	12.65	11.91	12.56	41	0.31	8.43%	9.29%	$ 268.0	$ 21,001.1	1.28%
2015	-0.14	-0.82	0.48	42	0.45	9.70%	10.58%	$ 263.7	$ 21,042.9	1.25%
2016	16.71	15.90	12.74	39	0.37	10.50%	10.88%	$ 275.9	$ 22,626.7	1.22%
2017	18.56	17.75	21.13	35	0.35	9.66%	10.09%	$ 258.8	$ 25,322.0	1.02%
2018	-5.05	-5.70	-5.24	34	0.38	10.08%	11.18%	$ 212.8	$ 19,833.6	1.07%
2019	27.65	26.87	31.02	20	0.83	10.29%	12.21%	$ 208.5	$ 22,609.9	0.92%
2020	7.19	6.59	20.89	21	0.49	18.11%	19.41%	$ 206.6	$ 16,284.2	1.27%

*Benchmark: Russell 3000 Index®

Returns reflect the reinvestment of dividends and other earnings.
The above table reflects past performance. Past performance does not guarantee future results. A client's investment return may be lower or higher than the performance shown above. Clients may suffer an investment loss.

Fiduciary Management, Inc. claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Fiduciary Management, Inc. has been independently verified for the periods 12/31/1993 - 12/31/2020. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The All Cap Equity Composite has had a performance examination for the periods 12/31/2007 - 12/31/2020. The verification and performance examination reports are available upon request.

FMI was founded in 1980 and is an independent investment counseling firm registered with the SEC and the State of Wisconsin. The firm manages over $16.2 billion in assets of pension and profit sharing trusts, mutual funds, Taft-Hartley funds, insurance company portfolios, endowments and personal trusts. The firm includes both institutional and mutual fund business. Although the firm has participated in wrap programs, it is a separate and distinct business, and is excluded from firm-wide assets.

The FMI All Cap Equity Composite was created and incepted on 12/31/2007. These accounts primarily invest in small, medium and large capitalization US equities.

The FMI All Cap Equity Composite reflects time-weighted and asset-weighted returns for all discretionary accounts. From December 31, 2007 all accounts were managed for at least one month. All returns are calculated using United States Dollars and are based on monthly valuations using trade date accounting. All accounts in this composite are fee paying. Gross of fees returns are calculated gross of management fees and custodial fees and net of transaction costs. Net of fees returns are calculated net of actual management fees and transaction costs and gross of custodial fees and withholding taxes. Dispersion is calculated using the equal weighted standard deviation of all accounts in the composite for the entire period. As of 12/31/2011, the trailing three year annualized ex-post standard deviation for the Composite and Benchmark are required to be stated per GIPS®. FMI uses gross returns to calculate these.

Currently, the advisory fee structure for the FMI All Cap Equity Composite portfolios is as follows:

Up to $25,000,000	0.65%
$25,000,001-$50,000,000	0.55%
$50,000,001-$100,000,000	0.50%
$100,000,001 and above	0.45%

The firm generally requires a minimum of $3 million in assets to establish a discretionary account. High Net Worth individuals may establish an account with a minimum of $1,000,000, however, the firm reserves the right to charge a minimum dollar fee for High Net Worth individuals depending on the client servicing involved. The minimum account sizes do not apply to new accounts for which there is a corporate, family, or other substantial relationship to existing accounts. In addition, the firm reserves the right to waive the minimum account size and minimum annual fee under certain circumstances. A complete list and description of all firm composites and FMI distributed mutual funds are available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

The Russell 3000 Index® measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. The All Cap Equity composite uses the Russell 3000 Index® as its primary index comparison.