

### About the Manager

Fiduciary Management Inc. (FMI), founded in 1980, is an independent money management firm based in Milwaukee, Wisconsin. We have one investment team, philosophy and process that manifests itself within our equity strategies (US Small Cap since 1980, US Large Cap since 2000, US All Cap since 2007, Hedged International Equity since 2010, Focused Global Equity since 2013, Unhedged International Equity since 2019, and Global Equity since 2023). Over the years, we have selectively added research professionals to the firm, and have trained them in our philosophy.

### Portfolio Objective and Philosophy

We approach the valuation of each potential investment as if we were to purchase the company or business outright. Our goal is to invest in companies that have a solid business franchise but are trading below the true economic value of the business. Our value orientation normally leads us to stocks that suffer from controversy, misunderstanding or some other fundamental issue. Our research attempts to determine whether these problems are temporary or permanent. FMI's holding period is long-term (three to five years), which gives time for the uncertainty to lift or the problems to ameliorate.

There are many outstanding business franchises domiciled outside of the United States. Our investment philosophy, strategy and research tactics can be applied in many locales, and this ability will be increasingly important as the world shrinks. We designed the strategy with the vision to remain true to our core investment philosophy and disciplines. The lack of good data, transparency, and trust with respect to management strategy, return on invested capital, governance, and a host of other areas makes it impossible for us to look at many international companies in a way that is comparable to how we operate domestically. While there may be good mainland Chinese, Russian or emerging market companies, most will not fit our criteria. This may change over time, but for the time being our strategy will focus primarily on companies domiciled in developed countries generally having a global footprint (including emerging markets). Geographic exposure will be a consideration but won't drive the investment decision. Our strategy will strive to have industry diversification with exposure to most of the major economic sectors. The strategy is offered in both a currency hedged and unhedged version.

### Idea Generation

The FMI International portfolio typically holds 25-40 global companies. The portfolio turnover is low, so in a given calendar year we will typically purchase 5 to 8 new companies. A new idea will come from a variety of sources including company visits, conferences, trade periodicals, and company screens. The universe of countries we select from have adopted International Financial Reporting Standards (IFRS) or U.S. GAAP, and we further limit the list of potential candidates by generally focusing on companies with a market capitalization greater than US \$5 Billion. Other considerations in the initial analysis include:

- Is this a good business?
- Does the company fit FMI's valuation discipline?
- Does the firm earn a return above its cost of capital through a cycle?
- Is there anything about the company or stock that would cause us to dismiss it?
  - Level of company disclosure... is there enough detail to conduct our due diligence?
  - Management Reputation and Track Record

All new ideas are generated by the research team, which is headed by the Chief Investment Officer. Initially, before serious research is conducted, potential ideas are discussed and vetted among the CIO and analysts. If the initial review of a company is promising, then the in-depth research begins.

### Research Process

The three primary areas the analyst focuses on when evaluating a company are: 1) Business Model Evaluation, 2) Valuation and 3) Company Management Assessment. The following is a sample list of key issues we need to have answered as part of the research on a company:

#### Is this company a Good Business?

- Durable...Tough to Replicate
- Recurring Revenue and/or modestly priced products/services
- Attractive Return on Invested Capital (ROIC) Prospects
- Understandable Business
- Reasonable ability to control destiny (cost, regulations, etc.)
- Solid Balance Sheet

#### Is the company trading at a Reasonable Valuation?

- Price relative to balance sheet metrics
- Valuation relative to ROIC
- Relative Valuation vs. Historical Metrics
- Stock Price < Intrinsic Value

#### Assess Company Management

- Capable Management Team
  - Smart Strategic Decisions
  - Acquisition Activity
- Ownership Structure
  - Compensation Policy
  - Shareholder-Oriented

The analyst determines which valuation metrics are most appropriate for the company (EV/EBIT, Price/Sales, Price/Book, Price/Earnings), while also factoring in the normalized margin and return profile. The company's valuation is compared versus history and the market, while also looking at comparable peer multiples, sum of the parts analysis (SOTP), private and public transaction data, and discounted future cash flows (DCF) using a normalized cost of capital. If the stock's valuation is deemed to be meaningfully below intrinsic value, we have a potential candidate for purchase.

#### **Return on Invested Capital (ROIC) Model**

Amongst many tools we utilize to evaluate a company is a ROIC analysis. This is used to determine if a company is generating a return that is higher than the cost of its capital, and therefore, adding value to shareholders. We will review 10 years (or more) of filings and company reports to look for items that impact both the NOPAT and the invested capital base of a company. For example, a write-off due to a bad acquisition may trigger a red flag. The analyst will then evaluate the basis of the write-off and determine whether a portion should be added back to the firm's capital base in order to get a more reliable picture of the company's ROIC over time. The purpose of the ROIC analysis is to determine not only the true ROIC in the business, but also the incremental ROIC. Our goal is to find companies that can generate a positive spread over the cost of capital through a full business cycle.

#### **Purchase Decision**

A new company is written up in a detailed report that incorporates a series of questions that FMI uses as a framework for all of our research reports. This report is distributed among the Portfolio Management Committee (PMC) members for review and comment. The PMC and partners meet every Tuesday morning, and the analyst will update the group with how the research is progressing. Anyone may raise issues or concerns during these discussions. If the company makes it through the PMC process, and an acceptable level of conviction is achieved, the appropriate weighting (considering liquidity, valuation, etc.) is discussed and determined. Typically, a new company purchased in the International portfolio will have an initial position size between 2% and 4%. The exact weighting is dependent on a variety of factors including the 1) valuation, 2) portfolio fit, and 3) trade implementation. The initial weighting will be determined by the primary analyst and the Chief Investment Officer. FMI seeks exposure to a broad range of economic and industry sectors.

#### **Sell Decision**

At the time a company is purchased in the portfolio, the analyst will assign a valuation target at which the company should be trimmed or sold from the portfolio. Over time, the majority of our sell decisions have been based on valuation (approximately 70-80%). The other 20-30% of sell decisions are derived from a fundamental change in the business or something that we missed in the original research. FMI does not have an automatic sell rule on a stock decline, though any decline in a stock price is certainly a concern and is reviewed. We will re-underwrite the idea to see if we missed something in our research. In most of the cases, a stock price decline is an opportunity to add to the position.

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