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INVESTMENT STRATEGY OUTLOOK – INTERNATIONAL EQUITY

December 31, 2015

After a sharp correction in August and September, global stock markets rallied in the fourth quarter to close out a volatile 2015. The FMI International portfolios advanced by approximately 4.2% in the quarter, compared with an MSCI EAFE Index gain of 6.34% in local currency and 4.71% in U.S. Dollars (USD). Our relative performance was aided by the Consumer Non-Durables, Finance, and Distribution Service sectors, as Process Industries, Electronic Technology, and Consumer Durables failed to keep pace. LG Household & Health Care, Electrocomponents, and Amorepacific generated the strongest individual performance, while Potash Corp., Rolls-Royce Holdings, and Smiths Group declined in value.

We initiated two new positions in the quarter: Isuzu Motors Ltd. and Shaw Communications Inc. Isuzu Motors was a restructuring story from 1999-2009, consolidating plants and product lines, diversifying production and supply chain by geography, and improving their balance sheet. Today, Isuzu has a net cash position, production facilities are efficient, and its focused lineup of commercial vehicles claims at least one #1 position in over 30 countries. While growth should come from penetration and development of the ASEAN[1] region, India, the Middle East, and Africa, shares are attractively priced due to a stagnant domestic Japanese truck market, concerns around Chinese and ASEAN growth, and elevated investment ahead of a plant start-up in India. Shaw Communications is the leading cable company in Western Canada with additional interests in satellite television and media channels. Weakness in the Alberta economy, fiber investment by telco competitor Telus, à la carte TV programming regulations, and a sell-side preference for wireless are combining to pressure the stock. The current valuation does not adequately reflect the stability of the core franchise and the growth of business network and infrastructure services that may occur. The company is a dividend stalwart and could be acquired by Rogers Communications.

We also sold our Pirelli & Co. holding in the period, after it had received a €15 per share tender offer from China National Chemical Corporation in an effort to take the company private.

For the full calendar year, the strategy generated a return of approximately 4.2%, while the MSCI EAFE increased by 5.33% in local currency and fell by 0.81% in USD. An elevated cash position and low weighting in Japan contributed to our relative underperformance versus the local index. We were cautious in 2015, as stock prices have been outpacing fundamentals in recent years, and valuations remained above historical levels. Experimental quantitative easing (QE, a.k.a. money printing) policies, pioneered by the U.S. Federal Reserve and adopted by the European Central Bank (ECB) and Bank of Japan (BOJ), have sparked a steep increase in financial asset prices, despite subpar economic and business conditions. This is a dangerous combination that heightens downside risks. From our vantage point, central bank policies are severely misguided, and it is naive to think that coining money can be the cure of all evils, especially in the absence of much-needed structural reforms. Due to heightened valuations, cash will remain elevated until sufficient absolute values begin to resurface.

Performance Review

With our fifth year officially complete, we'd like to briefly remind investors of our investment philosophy and objectives. For over 36 years, Fiduciary Management, Inc. has managed concentrated portfolios, with a value-based

[1] Association of Southeast Asian Nations.

approach aimed at identifying high-quality businesses led by strong management teams, and priced at attractive valuations. We look to invest in durable businesses with sustainable competitive advantages and barriers to entry, and supported by robust balance sheets. We often invest in businesses where there is a cloud (or controversy) hovering over the company, but one that is temporary in nature and expected to clear. Valuation is of the utmost importance, with a keen focus on downside protection. We invest primarily in companies domiciled in developed countries, and that in most cases have a global footprint, including emerging markets. Company market capitalizations will generally exceed $5 billion, and our long-term investment horizon leads to low portfolio turnover.

Historically the firm's legacy strategies (Small Cap and Large Cap) have added significant value in market downturns, generally outperforming during bear markets while capturing much of the upside as stocks rise. Over time this has generated above-average long-term investment returns, while taking below-average levels of risk.[2] Over the first five years the International strategy has followed a similar path. We held up well in a tumultuous 2011, and captured most of the gains during 2012-2015, while taking less risk than the market.[3] A summary of the strategy's performance and risk profile is provided in the table below.

While we have stuck to our process, the elevated cash position has been the largest detractor during the last five years, accounting for a 6%+ headwind compared with the MSCI EAFE's cumulative local return. We did not foresee a multi-year bull market in the face of weak business fundamentals. In the absence of compelling investment opportunities, we opted not to pay up for overvalued stocks. Was this the right decision? Despite the near-term headwinds, we believe it was the prudent course of action. While some of our "value" peers chase growth or momentum stocks, we refuse to change our stripes; we invest our clients' capital when reasonable absolute valuations are on our side. As is often said, you can't eat relative performance. We are eager to deploy the remainder of our cash when the opportunity set improves.

Gross of Fees Performance as of December 31

Year	FMI Intl.	MSCI EAFE (USD)	MSCI EAFE (Local)
2011	-0.78%	-12.14%	-12.15%
2012	19.35%	17.32%	17.31%
2013	25.89%	22.78%	26.93%
2014	5.66%	-4.90%	5.92%
2015	4.24%	-0.81%	5.33%
Cumulative Return Since Inception 12/31/10-12/31/15	64.20%	19.37%	45.93%

Risk (Standard Deviation) as of December 31, 2015

	1 Year	3 Year	Inception: 12/31/10
FMI International Composite	9.9%	8.1%	9.3%
MSCI Daily Total Return Net EAFE (USD)	14.6%	12.5%	14.9%
MSCI Daily Total Return Net EAFE (Local)	15.3%	11.2%	12.1%

Annualized Standard deviation calculation is based on monthly performance returns from Bloomberg.

Our position in Potash Corp. also weighed heavily on our results, creating a 4% cumulative headwind, on a relative basis. Undoubtedly, Potash Corp. has been a difficult stock to own over the past two years. Fertilizer pricing has come under pressure along with key crop prices, as harvests have been plentiful. Brazil, a large market, has fallen into a deep recession. Further, potash supply concerns have intensified as the global commodities bubble deflates and foreign exchange transitions present new challenges. That said, we have the advantage of investing for the long haul and continue to view Potash Corp.'s cash flow generation potential favorably as its decade-long capital

[2] As measured by standard deviation.
[3] As a reminder, the majority of the strategy has been currency hedged since its inception.

spending program comes to an end. At today's stock price, the market is unfairly discounting the future value of its hard-to-replicate assets, and the investment case remains attractive.

On a positive note, South Korea was a fruitful hunting ground as we capitalized on extreme discounts in AmorePacific and LG Household & Health Care's preferred shares, which were among our top performers. A strong return from Accenture, Henkel, and SMC Corp. also helped to boost relative performance. Overall, we are generally pleased with the results, especially when considering that growth has outperformed value over this time horizon. As illustrated in the table to the right, value investors have been swimming upstream on a global basis for at least a decade.

We are confident that this trend will reverse in due course, as empirical evidence strongly supports the case for value investing, which has historically generated superior investment performance over time.

Total Returns Through 12/31/15

	1 yr.	3 yr.	5 yr.	10 yr.	15 yr.
MSCI World Value Index	-4.0%	28.2%	42.2%	58.3%	100.1%
MSCI World Growth Index	3.5%	40.5%	55.8%	89.8%	94.9%
Value Underperformance	***-7.5%***	***-12.3%***	***-13.6%***	***-31.5%***	***5.2%***
Russell 1000 Value Index	-3.8%	44.6%	70.6%	81.7%	135.1%
Russell 1000 Growth Index	5.7%	59.5%	88.6%	126.8%	89.0%
Value Underperformance	***-9.5%***	***-14.9%***	***-18.0%***	***-45.1%***	***46.1%***
Russell 2000 Value Index	-7.5%	29.7%	44.7%	72.0%	224.8%
Russell 2000 Growth Index	-1.4%	49.2%	66.0%	114.9%	140.6%
Value Underperformance	***-6.1%***	***-19.5%***	***-21.3%***	***-42.9%***	***84.2%***
MSCI EAFE Value Index	-4.9%	12.5%	18.3%	32.2%	92.6%
MSCI EAFE Growth Index	4.6%	23.7%	28.3%	56.7%	76.8%
Value Underperformance	***-9.5%***	***-11.2%***	***-10.0%***	***-24.5%***	***15.8%***
MSCI Europe Value Index	1.5%	32.5%	42.2%	32.1%	51.7%
MSCI Europe Growth Index	16.4%	50.1%	66.7%	96.9%	64.1%
Value Underperformance	***-14.9%***	***-17.6%***	***-24.5%***	***-64.8%***	***-12.4%***
MSCI Emerging Markets Value Index	-18.6%	-25.9%	-29.5%	39.6%	281.2%
MSCI Emerging Market Growth Index	-11.3%	-11.8%	-13.9%	44.7%	203.1%
Value Underperformance	***-7.3%***	***-14.1%***	***-15.6%***	***-5.1%***	***78.1%***

Source: Bloomberg

Eurozone: Far From Normal

The eurozone's negative-yielding government debt "mania" reached new heights in the quarter, topping €2.6 trillion in October.[4] To our amazement, Italy joined a short list of countries, including Germany, France and Switzerland, that were able to issue new debt at a negative yield. The *Financial Times* writes that "the negative yield for Italian debt means investors are now paying to lend to a country which has one of the highest debt-to-GDP ratios in the world and has long been a byword for fiscal profligacy. It marks a dramatic turnaround for Italy's short-dated borrowing rate, which hit 8.12 per cent at the height of the eurozone debt crisis."[5] Meanwhile, the Italian government recently announced that it needs to rescue a number of its local banks,[6] which is concerning. The eurozone's rate environment is so far from normal, that "in Denmark, thousands of homeowners have ended up with negative-interest mortgages. Instead of paying the bank principal plus interest each month, they pay principal minus interest," according to *The Wall Street Journal*.[7] Banks are paying home buyers to borrow money! This is hard to fathom. Moral hazard is increasing by the day.

At the same time, stock prices have become so reliant on the central bank's QE drip, that when ECB President Mario Draghi's growth plans in early December underwhelmed, it quickly prompted a sell-off in financial markets. Apparently extending the bond-buying timeline until March 2017 (from September 2016), widening the scope to

[4] "The European Credit Strategist: It's NIRP mania!" Bank of America Merrill Lynch, October 29, 2015.
[5] Elaine Moore and Claire Jones. "Nervous investors pay to lend to Italy." *Financial Times*, October 27, 2015.
[6] Giovanni Legorano. "Italy Approves Rescue Plan for Four Local Banks." *The Wall Street Journal*, November 22, 2015.
[7] Tommy Stubbington. "Less Than Zero: Living With Negative Interest Rates." *The Wall Street Journal*, December 8, 2015.

include municipal bonds, and cutting the deposit rate another 10 basis points (to -0.3%) was not enough. There was hope that Draghi would increase the bond buying pace from €60 billion per month and lower interest rates further.[8] "Super" Mario failed to pull another magic rabbit from his hat. Draghi was quick to respond to criticism, assuring that "there cannot be any limit to how far we are willing to deploy our instruments," and that "there is no doubt that if we had to intensify use of our instruments to insure that we achieve our price stability mandate, we would."[9] In a perfect world, central bankers and policy makers would take a step back and evaluate the effectiveness of their policies. When something fails, common sense would prevail and a new course of action would be charted. In reality, even though a fairly compelling case can be made that QE does not work and European growth remains anemic, Draghi is sticking to his guns: "We are doing more because it works, not because it fails. We want to consolidate something that has been a success."[10] Success! By what reasonably objective measure?

We find it interesting that Europe is not looking to "consolidate the success" of Spain and Ireland, two of the eurozone's fastest growing economies. We do not think it is purely a coincidence that these two countries have more actively embraced austerity and structural reforms, and after a few years of adjustment their economies are starting to thrive. Maybe austerity is not the deadly economic poison that some prominent economists have repeatedly claimed. Spain and Ireland have reduced government expenditure as a percentage of GDP dramatically, and the results speak for themselves. Perhaps central bankers and policy makers should take note.

In Spain, GDP is expected to grow by 3.2% this year, more than twice the eurozone average.[11] Consumer and business confidence is on the rise, demand is increasing, and unemployment is finally starting to decline. The country has cut government expenditure from 48.0% of GDP in the midst of a recession in 2012, to 44.5% by 2014.[12] They have restructured the banking sector, reformed the labor market (making it easier to dismiss workers), lowered taxes, and reduced the budget deficit (from 8.9% in 2011, to 4.4% in 2015). Businesses have become more competitive, wages have fallen and exports have risen dramatically. There is still plenty of room to improve, especially as it relates to productivity and unemployment.[13]

Ireland grew GDP by 5.2% in 2014, and is expected to grow by 5.6% in 2015.[11] They have reduced government expenditure from 45.5% of GDP in 2011, to 38.2% in 2014.[12] Following a similar playbook, Ireland cleaned up their banking sector, raised the retirement age, decreased welfare benefits, kept taxes low, and reduced the budget deficit (from 12.7% in 2011, to around 2% in 2015) significantly. Falling wages and better productivity have improved the country's competitiveness, leading to a boost in exports. Lower unemployment (from 14.7% in 2012, to below 9% in 2015) has also helped to drive domestic consumption.[14]

While Spain and Ireland are still in the early days of their economic rebirth, initial data points are encouraging. Additionally, lower energy costs and currency values have certainly helped; however, we feel strongly that structural reforms and austerity have been the prime factors in the rebound.

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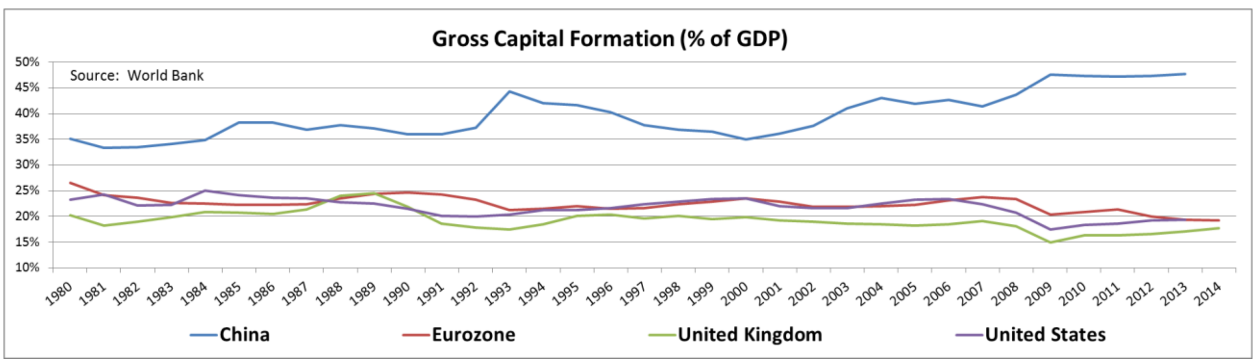
[8] Claire Jones. "ECB stimulus underwhelming but not trivial." *Financial Times*, December 3, 2015.
[9] Agence France-Presse (AFP). "There cannot be a limit' to stimulus, says ECB president Mario Draghi." *The Telegraph*, December 4, 2015.
[10] Jack Ewing. "Draghi Announces Further E.C.B. Stimulus Measures, but Investors Are Unimpressed." *The New York Times*, December 3, 2015.
[11] OECD estimates, November 2015.
[12] Eurostat data.
[13] Tobias Buck. "Spain: Recovery position." *Financial Times*, October 22, 2015.
[14] World Bank data. *Bloomberg*.

Japan: Little To Show

Despite having the world's most aggressive QE program, Japan Prime Minister Shinzo Abe has little to show for it, as growth has been elusive. GDP is forecasted to grow by 0.6% in 2015, and just shy of 1% in 2016.[15] In a new study by the Brookings Institute, Joshua K. Hausman of the University of Michigan and Johannes F. Wieland of the University of California at San Diego write, "While Japan's recent expansionary monetary policy known as Abenomics continued to weaken the yen, raise stock prices, and generate positive inflation, the real effects have been modest, with net exports and consumption contributing surprisingly little to growth since the program was launched 3 years ago […] consensus forecasts are for the level of GDP over the next five years to be nearly the same as that forecast in October 2012 -- before Abenomics began."[16] What might Abe's course of action be in light of new evidence? Undoubtedly, more of the same (QE); he and Draghi are drinking from the same punch bowl.

China: A Bumpy Transition

China's growth continues to rapidly slow, despite various stimulus attempts. The "official" GDP figures came in at 6.9% in the September quarter, the slowest pace since 2009. Alternative GDP estimates by independent third parties are as low as around 3%,[17] which is probably closer to reality. Imports and exports continue to fall, and weak manufacturing and construction partially offset encouraging developments in services and consumption. China is attempting to shift from an economy reliant on an unsustainable level of fixed investment to one that is more consumer and services-driven. As illustrated in the chart below, it will be a long (and potentially painful) journey as China moves towards a more sustainable economic model. Gross capital formation is expected to fall to 44% of China's GDP in 2015.[18] While this is a step in the right direction, it remains exceptionally high by historical standards.



In our September letter we described a credit or real estate crisis in China as our biggest concern. New data points in the fourth quarter support this notion. Bloomberg reports that China "has a $1.2 trillion Ponzi finance problem," with 45% of new debt being used to pay interest on existing obligations. They write that, "record amounts of debt to repay interest" is "raising the risk of defaults and adding pressure on policy makers to keep financing costs low. The amount of loans, bonds and shadow finance arranged to cover interest payments will probably rise five percent this year to a record 7.6 trillion yuan ($1.2 trillion), according to Beijing-based Hua Chuang Securities Co." Corporate defaults are on the rise and debt continues to balloon.[19] Meanwhile, Bernstein contends that "evidence is building that construction in China has gone ex-growth," as further weakness in the real estate market becomes apparent.[20] Commodity prices have given up nearly 20 years of price gains in the midst of this volatile backdrop. If China continues to unravel, it will likely have severe global implications.

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15 OECD estimates, November 2015.

16 http://www.brookings.edu/about/projects/bpea/papers/2015/hausman-wieland-abenomics-update.

17 Justin Fox. "China Can't Kick Habit of Worshiping GDP." *Bloomberg*, October 28, 2015.

18 "People's Republic of China." IMF Country Report. Page 66.

19 "China Has a $1.2 Trillion Ponzi Finance Problem." *Bloomberg News*. November 19, 2015.

20 Phil Roseberg et al. "The End Of An Era For Chinese Construction And What It Means For Cement." October 9, 2015.

When we originally launched the International strategy, we were skeptical of investing directly in China, as a base level of trust did not exist with regard to governance, transparency, disclosure, and accounting. We could not gain confidence in the numbers, the companies or the government. Those fears have been borne out time and again over the last five years. The level of corruption is much deeper than we originally thought, with examples of fraud, manipulation, counterfeiting, stealing, and cheating all too common. We remain reluctant to invest directly in China's equity markets. Our exposure to China will come through multinational companies that are far better equipped to navigate the landscape.

We strive to generate above-average returns while taking below-average risk. We aim to give our investors exposure to undervalued, high-quality global franchises that will grow and compound value over time. We believe we can offer investors a less risky alternative to overseas investing versus a traditional international portfolio. Nevertheless, equity investing is inherently risky and over short-term periods there may be negative returns. Avoiding permanent impairment of capital, however, is paramount. Investors can take comfort knowing that our team will always "eat our own cooking," investing alongside our clients in each of our investment products.

Thank you for your support of Fiduciary Management, Inc.

Fiduciary Management Inc.
International Equity Composite
12/31/2010 - 09/30/2015

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	-0.78	-1.52	-12.15	1	0.00	n/a	n/a	$ 16.7	$ 12,273.6	0.14%
2012	19.35	18.46	17.31	1	0.00	n/a	n/a	$ 76.3	$ 15,253.5	0.50%
2013	25.89	24.95	26.93	1	0.00	9.78	12.22	$ 165.8	$ 19,705.3	0.84%
2014	5.66	4.87	5.92	1	0.00	7.49	10.33	$ 771.6	$ 21,001.1	3.67%
Q1 2015	8.22	8.02	10.85	1	0.00	7.31	10.66	$ 1,674.6	$ 21,939.0	7.63%
Q2 2015	-1.79	-1.97	-1.82	1	0.00	6.77	9.42	$ 2,222.8	$ 22,136.3	10.04%
Q3 2015	-5.86	-6.04	-8.98	2	0.00	7.64	10.75	$ 2,335.1	$ 20,632.7	11.32%

*MSCI EAFE Net Local 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, Incorporated (FMI) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. FMI has been independently verified for the periods 12/31/1993 - 09/30/2015. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The International Equity Composite has been examined for the periods 12/31/2010-09/30/2015. The verification and performance examination reports are available upon request. Benchmark returns are not covered by the report of independent verifiers.

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 $20.6 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 International Equity Composite was created on December 31, 2010. This composite invests mainly in a limited number (usually between 25-35) of large capitalization (namely, companies with more than $5 billion market capitalization) foreign companies.

The International Equity Composite reflects time-weighted and asset-weighted returns for all discretionary accounts. 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, gross of custodial fees, gross of withholding taxes 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®. For the periods 2011-2012, the information is not available for the International Equity Composite.

Currently, the advisory fee structure for the International Equity Composite portfolios is as follows:

Up to $25,000,000	0.70%
$25,000,001-$50,000,000	0.65%
$50,000,001-$100,000,000	0.60%
$100,000,001 and above	0.55%

The firm generally requires a minimum of $25 million in assets to establish a discretionary account. 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 is available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The MSCI EAFE Net Local Index® is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Net Local Index consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. It is reported in local currency and net of hedges. The International Equity composite uses the MSCI EAFE Net Local Index® as its primary index comparison.