FIDUCIARY MANAGEMENT, INC.
Investment Counsel

100 East Wisconsin Avenue, Suite 2200
Milwaukee, Wisconsin 53202
414-226-4545
www.fiduciarymgt.com

INVESTMENT STRATEGY OUTLOOK – INTERNATIONAL EQUITY

September 30, 2017

With a backdrop of accelerating economic growth, international equity markets continued their steady ascent in the September quarter. The FMI International portfolios gained approximately 3.0% in the period, while the MSCI EAFE Index advanced 3.36% in local currency (LOC) and 5.40% in U.S. Dollars (USD). Currency hedging negatively impacted the strategy's relative performance, as did an elevated cash balance. Finance, Communications, and Process Industries were the top-performing sectors, with Fairfax Financial, Potash Corp., and Samsung Electronics generating strong individual returns. Conversely, Consumer Durables, Producer Manufacturing and Commercial Services failed to keep pace. Whitbread, WPP, and Amorepacific Corp. each detracted from the overall results.

After years of stimulus, quantitative easing (QE), manipulated interest rates, and rising asset prices, we are now witness to the "the broadest synchronized upswing the world economy has experienced in the last decade," per the International Monetary Fund (IMF). In the June quarter, Eurozone GDP grew at its fastest pace (2.2%) since the European debt crisis six years ago, while Japan posted 4.0% growth -- the strongest among G7 industrial economies, and the sixth consecutive quarter of expansion. China's growth came in ahead of expectations, at 6.9% in the first and second quarters. World GDP is now expected to reach 3.5% in 2017 and 3.7% in 2018, up from 3.1% last year.[1] Don't break out the champagne just yet.

Despite the recent uptick, world economic growth is still forecast to be below the 1987-2007 average of around nearly 4%, even with global central banks pulling out all the stops. The Organisation for Economic Co-operation and Development (OECD) cautions that "strong and sustained medium-term growth is far from secured," with weak investment, subdued inflation and slow wage growth among their concerns.[2] Instead of blindly cheering on a modest pickup in economic activity, investors should be questioning how much real underlying progress has been made, and at what cost? What will happen when central banks actually start to take their foot off the gas? It would be one thing if stock market valuations were undemanding, but today that couldn't be farther from the truth.

Quantitative Tightening

Never before has the world seen such widespread and coordinated central bank intervention. Negative interest rates remain *en vogue*, and the runaway QE freight train, pumping trillions of dollars into financial markets, continues to barrel down the track. Leading developed market central banks – the U.S. Federal Reserve (Fed), the European Central Bank (ECB), the Bank of Japan (BOJ), the Bank of England (BOE), and the Swiss and Swedish central banks – now hold over $15 trillion of assets, greater than four times their pre-crisis level, as reported by the *Financial Times*. This includes more than $9 trillion in government bonds, an astounding approximately 20% of the $46 trillion of total debt owed by their respective governments.[3] The BOJ, the most radical of the group, owns nearly 45% of all Japanese government bonds (JGBs),[4] and upwards of 71% of domestic exchange-traded fund (ETF) assets.[5] Meanwhile, the Fed has amassed $1.8 trillion of mortgage-backed securities, equating to approximately 18% of all first mortgages in America,[6] while the ECB owns over 10% of the eurozone's corporate debt.[7] Central banks have spent around $2 trillion in 2017 alone, matching the annual run rate in recent years in less than nine months.[8] And while the Fed has stopped expanding its balance sheet, the rest of the world certainly has not, as can be seen in the following charts.

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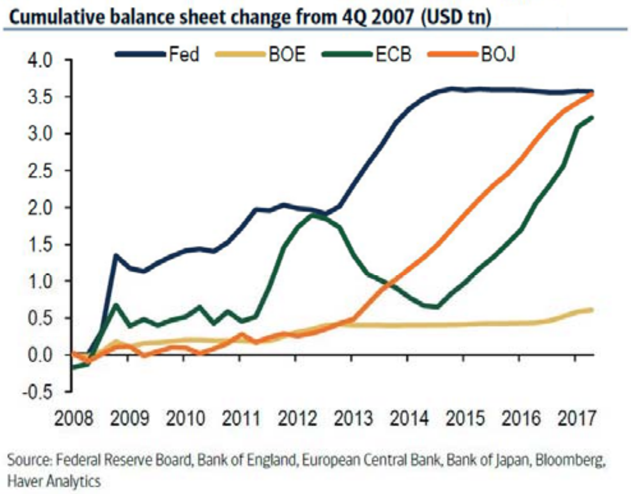
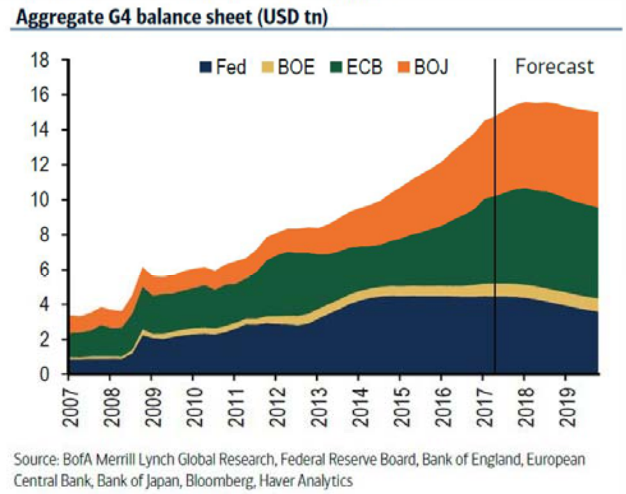
[1] OECD Interim Economic Outlook. September 20, 2017.
[2] Ibid.
[3] Kate Allen and Keith Fray. "Decade of QE leaves big central banks owning fifth of public debt." *Financial Times*. August 15, 2017.
[4] "At the end of August 2017, BoJ owned 44.7% of the JGB market, up from 44.3% in July." *Japan Macro Advisors*. September 4, 2017.
[5] Masahiro Hidaka and Toru Fujioka. "Japan Central Bank's ETF Shopping Spree Is Becoming a Worry." *Bloomberg*. July 17, 2017.
[6] *Grant's Interest Rate Observer*. June 30, 2017.
[7] Simon Ballard, Paul Cohen and Cecile Gutscher. "How 1,000 Corporate-Bond Buys Upended Europe's Debt Market." *Bloomberg.* September 6, 2017.
[8] Michael Hartnett and Jared Woodard. "The Flow Show." *Bank of America Merrill Lynch*. September 7, 2017.





Source: "Global Economic Weekly." Bank of America Merrill Lynch. September 15, 2017.

Fortunately, we may soon be approaching an inflection point, as central banks are finally starting to consider dialing back their extraordinary stimulus. The Fed plans to start slowly unwinding its balance sheet in October, while gradually raising interest rates in the coming year. The ECB is scheduled to discuss how they can start winding down their €2 trillion QE program, with speculation that they may start tapering monthly asset purchases in early 2018. The BOE seems poised to raise interest rates, stating that "some withdrawal of monetary stimulus was likely to be appropriate over the coming months." Japan, on the other hand, appears set to maintain unconventional monetary policies for the foreseeable future. In aggregate, central bank balance sheets may actually start to decline as early as next year (a good thing).

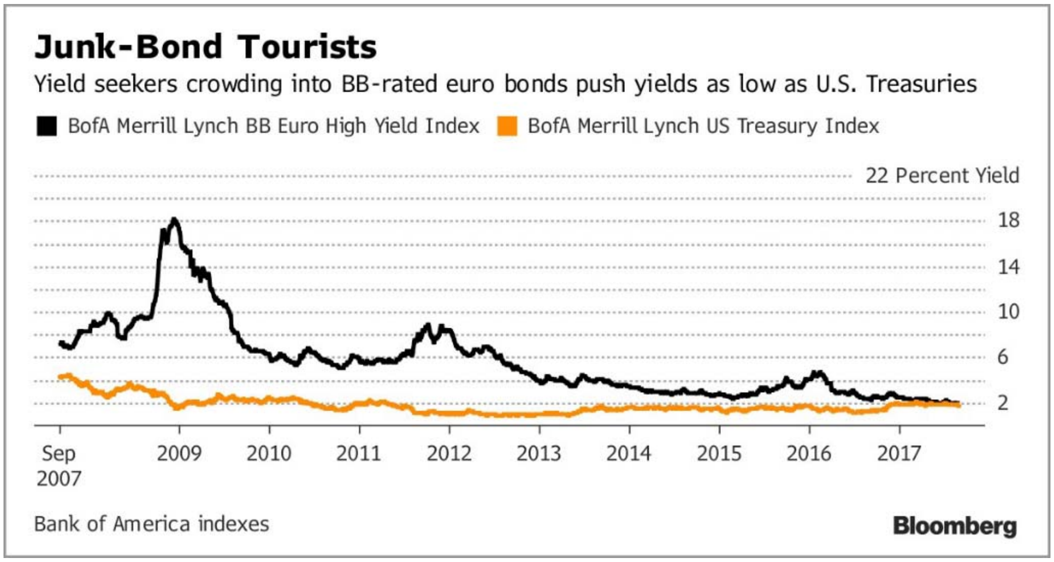
The conventional wisdom is that QE has worked well and can be unwound gracefully. Proponents will point to the recent acceleration in growth and appreciation in asset prices (stocks, bonds, real estate, crypto currencies, etc.) as evidence of success, though this is not the whole story. If you believe Fed Chair Janet Yellen, reducing the Fed's balance sheet will be akin to "watching paint dry," a non-event for financial markets. This is wishful thinking. To our surprise, Yellen also recently surmised that we are unlikely to see another financial crisis "in our lifetimes" and described this year's low inflation as a bit of a "mystery." Perhaps her predictions (and credibility) should be taken with a grain of salt.

We have reiterated many times over that printing money does not solve real-world problems. Critics of the central banks' heavy hand (count Fiduciary Management, Inc. among them) would point to the misallocation of resources (zombie companies, highly-valued asset markets, etc.), the rise of wealth inequality, artificial suppression of interest rates (leading to increased risk-taking, debt levels, and financial engineering), slow economic growth (vs. history), absence of volatility, and increased investor complacency. There is also the potential for a debt trap, where governments and companies have levered up their balance sheets at a time when borrowing was cheap, but will struggle to service the debt when interest rates rise.

Even if we were willing to give central bankers the benefit of the doubt (which we are not), and assumed that QE was good for the economy and financial markets, how can the unwinding of these same policies also be good? You can't have it both ways: "heads you win, tails you win more." Something has to give.

Valuation As Our Guide

Unfortunately, stocks have outpaced fundamentals in recent years. High-quality businesses often trade at a standard deviation or more above historical averages, leaving little-to-no margin for error. Companies will struggle to grow into their current valuation multiples, absent a significant acceleration in their business trajectories. Meanwhile, fixed income yields are near the lowest in history. Some investors believe this is justification for today's lofty equity prices (e.g., using a lower discount rate on future cash flows), but we are not comfortable making this assumption; free money won't last forever. The following chart depicts how far from "normal" we have come:



As reported by *Bloomberg*, in August, "the yield on debt issued by European junk-rated companies traded in line with that of U.S. Treasuries for the first time on record." [9] To earn a measly yield of around 2.4%, investors could buy either high-yield Euro corporate junk bonds with a significant risk of default, or U.S. treasuries, considered one of the safest and most boring investments in the world. This pari-passu relationship would never exist during normal times, but reflects the profound impact central banks are having on financial markets, and results in what looks like a bond bubble. Deutsche Bank Chief Executive Officer John Cryan explains that "There has been absolutely no price discovery now in corporate bonds, so we don't really know the price of credit, which is a very dangerous situation."[10] We agree. When central bankers flood the market with over $8.5 trillion of negative-yielding debt and drive down interest rates, investors start to stretch for yield and increase risk across asset classes, including equities. This is not likely to end well. The notion that central banks can change course without rocking the boat appears optimistic, at best.

Costly Hires

On the surface, labor markets in Europe and Japan have been improving. Unemployment is at an 8-year low in the eurozone (9.2%) and a 23-year low in Japan (2.9%). Nonetheless, long-term economic prosperity has been elusive in both geographies. Over the last ten years, the eurozone layered on roughly €3.6 ($4.2) trillion of government debt, while Japan added ¥242 ($2.2) trillion. What have they gotten for all the money they've spent? Approximately 3.1 million and 820 thousand new jobs, respectively.[11] While the following math is crude, this equates to roughly $1.4 and $2.6 million spent for every job created, and *cumulative* job growth of only 2.1% and 1.3%, respectively. While headline employment appears to be on the mend, when you peel back the onion, the underlying progress does not instill confidence.

Too Big To Fail

After the financial crisis (and for good reason), European authorities created rules that were designed to avoid using public money to bail out troubled banks. Today, regulators can trigger a conversion of debt to equity, force bondholders to take losses, compel bankers to recapitalize, and thus spare losses to taxpayers. In theory, this will help avoid a moral hazard, defined as "a situation in which people or organizations do not suffer from the results of

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[9] Simon Ballard, Paul Cohen and Cecile Gutscher. "How 1,000 Corporate-Bond Buys Upended Europe's Debt Market." *Bloomberg.* September 6, 2017.
[10] *Almost Daily Grant's*. July 18, 2017.
[11] *Bloomberg* data.

their bad decisions [someone else bears the burden], so may increase the risks they take."[12] As is the case elsewhere in Europe (i.e., EU budget deficit rules), regulatory enforcement can be lax and rules are often broken without consequence. In Italy, taxpayers now face a bill of up to €22 billion ($26 billion), and they are on the hook to bail out three troubled Italian banks. Italy nationalized *Banca Monte dei Paschi di Siena SpA*, and cleaned up the mess at *Banca Popolare di Vicenza SpA* and *Veneto Banca SpA*, before selling the "good assets" to *Intesa Sanpaolo SpA* for 1 euro.[13] These midsized banks were apparently "too big to fail," with the Italian government using a loophole in Europe's new banking rules to prop up the institutions with taxpayer money. This sets a dangerous precedent, and may lead to a lack of accountability and increased risk-taking. In a free market system, businesses (including banks) must to be allowed to fail, and cannot rely on government bailouts every time they run into trouble. While Italy may have shored-up the weakest links in its banking system in the near term, Italian lenders still own around €173 billion of bad debt.[14] If they are not careful, it may only be a matter of time before history repeats itself.

Rocket Man

North Korea gets the award for geopolitical drama in the quarter, and still stock markets didn't skip a beat. The rogue nation recklessly fired two ballistic missiles over Japan, and issued a statement that Japan "no longer needed to exist" and should be "sunken into the sea" by a nuclear bomb; for good measure, they added that the U.S. mainland should be reduced to "ashes and darkness." While President Trump's intemperate remarks about destroying North Korea didn't help matters, we find it noteworthy that China President Xi Jinping has not put the hammer down on North Korea, instead letting the U.S. do the dirty work. It calls into question whether China is serious about becoming a global leader in geopolitics. Meanwhile, the Japanese stock market advanced by 4.6% in the period, and the Korean market was up slightly. Risk is a secondary consideration when global central bankers have your back, so it seems.

Caution Flags

In China, a potential credit bubble remains top-of-mind. After its annual review of the economy, the IMF warned that China's credit growth was on a "dangerous trajectory" with "increasing risks of a disruptive adjustment and/or a marked growth slowdown." As summarized by *The Guardian*, "the IMF expressed concern at the methods used to keep the economy expanding rapidly – an increase in government spending to fund infrastructure programmes and a willingness to allow state-controlled banks to lend more for speculative property developments." In addition, debt is becoming "less effective as a means of stimulating activity," as "China needed three times as much credit in 2016 to achieve the same amount of growth as in 2008."[15] Not long after the IMF report, S&P Global Ratings cut China's credit rating from AA- to A+, citing increased "economic and financial risks" and "diminished financial stability."[16]

Neither of these reports came as a surprise. In fact, they are probably well overdue. We have written extensively about China in prior letters, detailing our view that its economy is fraught with risk. The banking system and real estate markets are especially vulnerable, and a collapse of either would be felt well beyond China's borders. Our trepidation remains, and we will continue to keep our distance.

Attractive investment opportunities are few and far between in global financial markets today. While stocks are expensive, inevitably the "good times" will come to an end. Eventually fear will replace greed, volatility will return, and discipline will supersede speculation. Valuations will once again matter to investors. Instead of piling in and reaching for returns, the herd will be moving quickly toward the exits. It's at that point when contrarian investing and active management will prove their value. In the meantime, we will continue to manage our portfolios conservatively, waiting patiently for opportunities to present themselves. Though we may miss out on some of the upside by refusing to chase the market, we hope to make that up in spades in the downturn. Avoiding permanent impairment of capital

[12] Cambridge Business English Dictionary.
[13] Edward Robinson and Sonia Sirletti. "Italian Banks Hit Reset as Taxpayer Billions Bail Out Lenders." *Bloomberg.* July 5, 2017.
[14] Valentina Romei and Thomas Hale. "Italian banks' bad loans fall sharply as economy rebounds." *Financial Times*. September 12, 2017.
[15] Larry Elliot. "IMF warns China over 'dangerous' growth in debt." *The Guardian.* August 15, 2017.
[16] "S&P Cuts China's Credit Rating, Citing Risk From Debt Growth." *Bloomberg.* September 21, 2017.

is paramount. Investors can take comfort knowing that our team will always "eat our own cooking." Highlighted below are a couple of our more recent investments.

Millicom International Cellular S.A. (MIC SS)

(Analyst: Dan Sievers)

Description

Millicom International Cellular provides wireless service under the Tigo brand to 32 million customers across seven Latin American markets (55% of customers in Guatemala and Colombia) with an average revenue per user (ARPU) of around $8.00, and likewise, wireless service to 21 million customers across four African markets (49% of customers in Tanzania) with an ARPU of about $2.50. Additionally, Millicom offers traditional cable internet and other service with a monthly ARPU of around $28.00 to 3.2 million consumers and businesses (within a footprint of 8.6 million homes passed) across the seven Latin American countries. In 1998, Millicom operations were diffuse across 21 markets, but today the company is focused mainly on converged communications in its seven Latin American markets, where broadband penetration is low (and rising). Trailing 12 months' contribution of Latin American earnings before interest, taxes, depreciation and amortization (EBITDA) on a proportionate ownership basis is as follows: Guatemala (24%), Paraguay (20%), Colombia (16%), Bolivia (14%), Honduras (12%), El Salvador (9%), and Costa Rica & Nicaragua (5%). Millicom remains 37% owned by Kinnevik AB (KINV.B SE), which is controlled by the Stenbeck family in Sweden.

Good Business

- Millicom is the number one or two provider in wireless and cable across each of its key Latin American markets, where the closest rival is generally America Movil (AMXL-MX), Telefonica (TEF-ES), or both. While wireless customer penetration in these markets is already high (impeding reported customer growth), smartphone penetration is currently only 45%, and only 15% of customers are 4G data users (vs. 28% in Chile and 67% in North America). Customer migration to 4G data is currently producing more than two times current monthly ARPU.
- The scale of Millicom's fixed hybrid fiber/coaxial (HFC) cable networks represents a large barrier to entry and is a strong upgradable foundation from which Millicom can expand the network, while maintaining attractive marginal cable economics (passing homes at an initial cost of $100 and connecting homes at $28 monthly ARPU requires modest customer penetration assumptions to produce strong incremental returns on invested capital). In the past twelve months, Millicom passed an additional 1.2 million homes (+18%) bringing the total to 7.9 million. Millicom's long-term target is 15 million homes passed. In Millicom's markets, 2015 fixed internet penetration ranged from only 7% to 37%.
- Mobile network owners benefit significantly from ownership of in-footprint fixed networks, as common distribution endpoints can better bundle and sell products (reducing churn) while wireless towers can be more efficiently planned to take advantage of fixed fiber network backhaul as data traffic increases over time (helping to future-proof wireless networks for a fiber-intensive 5G future).

Valuation

- At November 2016 lows near $42.00, Millicom shares were down 65% from their mid-2011 highs.
- Millicom trades for 6.0 times enterprise value-to-proportionate EBITDA (2017 estimate) and 5.6 times EV/EBITDA (2018 estimate), with modest proportionate net debt leverage of 2.2 times (below global and regional peer averages). Millicom announced the sale of what is arguably its most challenged wireless-only network (Senegal) for 6.3 times EBITDA. HFC cable infrastructure typically receives higher multiples. A 7.0 times EBITDA multiple on estimated 2018 EBITDA would translate to roughly $93.00 stock, or approximately 37% upside from today's $68.00 price.

Management

- Chief Executive Officer Mauricio Ramos (49) joined Millicom in March of 2015 following nine years as president of Liberty Global's Latin American division (now LiLAC). Mr. Ramos was John Malone's Director at Columbus International (now part of LiLAC), is Chairman of the Latin American Cable Operators Association (TEPAL), and joined the board at Charter (CHTR) in May of 2016. Mr. Ramos has made multiple open market purchases of Millicom stock since November 2016.
- Chief Financial Officer Tim Pennington (58) joined Millicom in February 2014 from Cable & Wireless (now part of LiLAC).

Investment Thesis

In building some of the earliest wireless voice networks in (mostly) secondary Latin American markets, Millicom secured good low-band voice-coverage spectrum (an advantage) and rode the wave of voice customer additions to high margins and high returns (peaking in 2011). As Latin American customers began consuming mobile data, they have assigned increasingly little value to Mobile Voice & SMS (short message/texting) service, sending that revenue line into a long decline (consistent with other geographies). The financial impact of this decline was compounded by a huge multi-year profit margin reset as Millicom invested to rebuild and densify its networks for mobile data (3G/4G), subsidized some smartphone adoption, made missteps into internet content, and wisely invested in HFC cable, preparing the company for a converged fixed/mobile future. A gradual margin recovery began to take hold in the first half of 2015 on the back of the favorable mix shift in revenues to mobile data and cable services, but steep ongoing declines in Mobile Voice & SMS (-17% in the 2nd quarter of 2017) have recently dragged four quarters of organic growth into modestly negative territory, scaring off short-term oriented investors and providing an attractive entry point in the shares. With Mobile Voice & SMS down to just 33% of Latin American service revenue, ongoing strong growth from an ever-larger mobile data and cable services footprint (now 66% of Latin American service revenue) will lead the return to positive and accelerating organic growth. With the return of organic growth in Latin America, the ongoing divestiture of African wireless networks, and the possible relisting of shares in the U.S., we expect investors to reassess and rediscover Millicom's networks.

Travis Perkins PLC (TPK LN)

(Analyst: Jordan Teschendorf)

Description

Travis Perkins (TPK) is the largest supplier of building materials in the United Kingdom, operating wholesale distribution and retail home improvement do-it-yourself (DIY) businesses across a network of over 2,000 branches. Within the U.K. marketplace, the group is the largest general merchant, the largest supplier of plumbing and heating equipment, the number three player in DIY, and a leading supplier of specialist building products. The group's businesses are organized and managed through four divisions, with fiscal year 2016 sales exposure as follows: General Merchanting (33%), Plumbing & Heating (22%), Contracts (20%), and Consumer (25%).

Good Business

- TPK's large scale and branch density provide it with a competitive advantage in terms of purchasing, distribution, fulfillment, and IT investment capability, versus generally fragmented and unsophisticated competitors.
- The company's core business sells predominantly heavy products with a low value-to-weight ratio, thus providing it protection from online disintermediation and ensuring that branches remain highly relevant.
- In 2016, about 70% of TPK's revenue was related to remodeling maintenance and improvement work, which has proven to be a faster-growing and less volatile market than new construction over full market cycles.
- The company has invested over £330 million of growth capital in the last three years (excluding property additions) to extend its leadership in the U.K. market through an enhanced supply chain, IT infrastructure, and new format stores.

- Despite temporarily high investment levels, the company's return on tangible invested capital (adjusted for leases) remains above its cost of capital, averaging 15.8%, 15.8%, and 17.2% over the last 3, 5 and 10-year periods, respectively.
- TPK is in a strong financial position, with net debt of £377 million relative to fiscal 2016 trading profit of £409 million, and lease-adjusted leverage of approximately 2.6x. These metrics have consistently improved over the last five years.

Valuation

- Travis Perkins' shares are down 25% over the last two years, lagging the FTSE All-Share Index by nearly 50%.
- The company's enterprise value-to-sales multiple is 0.63 times, which is 18% below the trailing 10-year average of 0.77 times, and 24% below the trailing 5-year average of 0.83 times (over one standard deviation).
- The company's 12-month forward enterprise value-to-EBITDA multiple is 7.8 times, which is 14% below the 5-year average of 9.1 times, and slightly below the 10-year average of 8.0 times.
- The company pays a progressive dividend (2.50-3.25 coverage) that yields nearly 3.2% on an annualized basis.

Management

- John Carter was appointed Chief Executive Officer in January 2014, having served as Chief Operating Officer from 2005 to 2011. Mr. Carter began his career at Sandell Perkins in 1978, before the merger with Travis & Arnold to form Travis Perkins in 1988. He succeeded Geoff Cooper who joined TPK in 2005, soon after the Wickes acquisition (a part of Consumer).
- Tony Buffin was appointed COO in March 2017 and has commercial responsibility for the Plumbing & Heating and Toolstation businesses. Mr. Buffin joined TPK in April 2013 as Chief Financial Officer, and previously served as CFO of Coles (part of Wesfarmers Group).
- Compensation for executives and branch managers is tied, in part, to lease-adjusted returns on capital.

Investment Thesis

Travis Perkins has built a solid franchise serving the U.K. trade market, operating a dense branch network and investing ahead of competition to drive market outperformance across most of its businesses. Elevated investment spending over the last three years strongly positions the company to participate in the growth of its end markets, of which housing and infrastructure have historically been structurally undersupplied, with volumes still substantially below peak levels. Macroeconomic concerns surrounding Brexit and the anticipated hit to consumer confidence and housing-related expenditures have weighed heavily on the share price, which has given us an opportunity to build a position in this above-average business at a reasonable price.

Thank you for your confidence in Fiduciary Management, Inc.

Fiduciary Management Inc.
International Equity Composite
12/31/2010 - 03/31/2017

Year	Total Return Gross of Fees %	Total Return Net of Fees %	*Benchmark Return %	Number of Portfolios	Dispersion %	Three Year Ex-Post Standard Deviation Composite	*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%
2015	4.24	3.46	5.33	2	0.00	8.14	11.73	$ 2,832.9	$ 21,042.9	13.46%
2016	11.04	10.23	5.34	3	0.38	7.39	11.53	$ 5,946.2	$ 22,626.7	26.28%
Q1 2017	5.94	5.75	4.71	3	0.05	7.16	11.23	$ 7,376.1	$ 24,541.9	30.06%

*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 - 03/31/2017. 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 12/31/2010-03/31/2017. 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 $24.5 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 25-40) 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.