

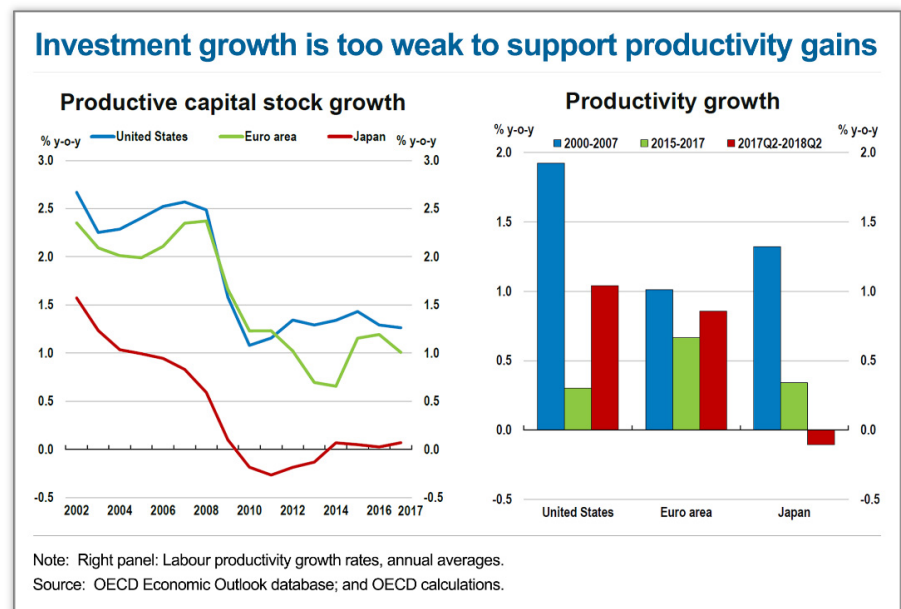
INVESTMENT STRATEGY OUTLOOK – INTERNATIONAL EQUITY
September 30, 2018

From a macroeconomic standpoint, several negative data points have surfaced: there are signs that global economic growth may have peaked; capital investment disappointed; debt levels continued to rise; trade growth slowed thanks to rising trade tensions and heightened policy uncertainty; housing markets waned; and emerging market currencies and financial markets came under intense pressure. However, after a slow start to the year, developed international stock markets continue their path toward recovery. The FMI International portfolios added approximately 0.7% in the quarter, compared with an MSCI EAFE Index return of 2.36% in local currency and 1.35% in U.S. Dollars (USD). The Consumer Services, Electronic Technology and Consumer Durables sectors performed well on a relative basis, partially offset by Producer Manufacturing, Commercial Services, and Distribution Services. Top individual gains were logged by Whitbread, Isuzu Motors and Safran, while Smiths Group, Travis Perkins and Schlumberger each declined in value. Cash detracted from overall returns.

To justify today’s expensive stock valuations, investors need to believe companies will be able to quickly grow into their current multiples. In our view, expectations are lofty and don’t leave much room for error. A number of signposts continue to give us reason for pause.

Structural Growth Challenges

At its core, long-term economic growth is driven by a combination of three key factors: productivity growth, more people working, and people working more hours. Productivity, or the improvement in output per hour worked, can be enhanced by capital investments, as advancements in innovation and technology can help drive efficiency improvements. As capital stock ages, organic investment in property, plant and equipment and research and development (R&D), is paramount in driving future growth. In recent years, however, capital investment and productivity have fallen well short of historical norms, despite an accommodative monetary environment where money was virtually free. Instead, companies have often opted to lever up their balance sheets to acquire businesses or do share buybacks at high valuations, neither of which does much to grow the economic pie. While a momentum and growth-driven stock market might cheer on this form of capital allocation, long-term shareholder value is unlikely to

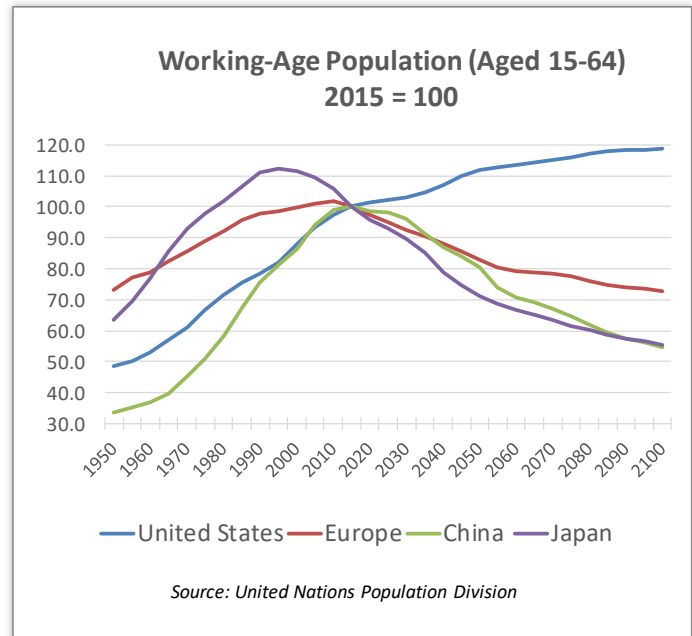


be enhanced by debt-fueled financial engineering. As shown in the accompanying charts from the Organisation for Economic Co-operation and Development (OECD), current “investment growth is too weak to support productivity gains.”¹ This is a major problem, and one which requires a significant change in mindset to fix. For the economy to sustainably grow at higher levels, companies must invest organically and improve their productivity.

¹ Laurence Boone – OECD Chief Economist, presentation. “OECD Interim Economic Outlook: High uncertainty weighing on global growth.” September 20, 2018.

Given that faster growth has not come from productivity, economic output will be more reliant on the number of people working, and number of hours worked. Unfortunately, the outlook on this front is equally challenged. The United Nations Population Division forecasts a steady decline in working-age population in Europe, Japan and China, as illustrated in the nearby chart.² Despite massive long-term financial implications, this structural challenge gets very little airtime from the financial press.

The Economist aptly describes the problem at hand: “A place with fewer workers must raise productivity even more to keep growing economically. It will struggle to sustain spending on public goods such as defense. The national debt will be borne on fewer shoulders. Fewer people will be around to come up with the sort of brilliant ideas that can enrich a nation. Businesses might be loath to invest. In fast-shrinking Japan, even domestic firms focus on foreign markets. The old will weigh more heavily on society, too. [...] In Japan, where young people are few and lives are long, demographers expect there to be 48 people over the age of 65 for every 100 people of working age in 2020. In 1990 there were just 17.” With debt levels rising steadily and more people exiting the workforce, the math starts to break down. The current trajectory is simply not sustainable. Fortunately, there are a number of potential solutions to this predicament: countries can look to increase the number of women in the workforce, push back the retirement age (and related benefits), increase immigration, and improve birth rates. Significant policy changes would be necessary, some of which (such as higher retirement age and immigration) would likely face stiff political opposition.³ Change is never easy, but at some point, tough decisions will have to be made. Ultimately, we see this headwind getting worse before it gets better.



Corporate Debt: “Tidal Wave”

Coming out of the great financial crisis of 2008-09, the expectation was for significant deleveraging. Quite the opposite has occurred; while households and banks have repaired their balance sheets to some degree, governments, central banks, nonfinancial corporations and shadow banks have more than picked up the slack. In July, the Institute of International Finance (IIF) estimated that total global debt has reached \$247 trillion (318% of GDP),⁴ which compares with \$167 trillion in 2007 (287%).⁵

Recent reports by the McKinsey Global Institute (MGI) have studied the corporate debt sector, which often slips under the radar. Thanks to ultra-low interest rates, nonfinancial corporate debt has more than doubled over the last decade, growing by \$37 trillion to reach \$66 trillion in mid-2017, according to MGI. Approximately two thirds of the growth in corporate debt has come from developing countries, which comes with heightened risk, especially when loans are issued in USD.⁶ Turkey and Argentina are feeling this pain (see following chart), as their currencies have outright collapsed, with a significant share of debt in foreign currencies, large external financing needs and high domestic inflation, among other factors. Contagion has been limited to emerging markets thus far, and the hope is that it will remain contained.

² <http://www.un.org/en/development/desa/population/>

³ “Many countries suffer from shrinking working-age populations,” *The Economist*, May 5, 2018.

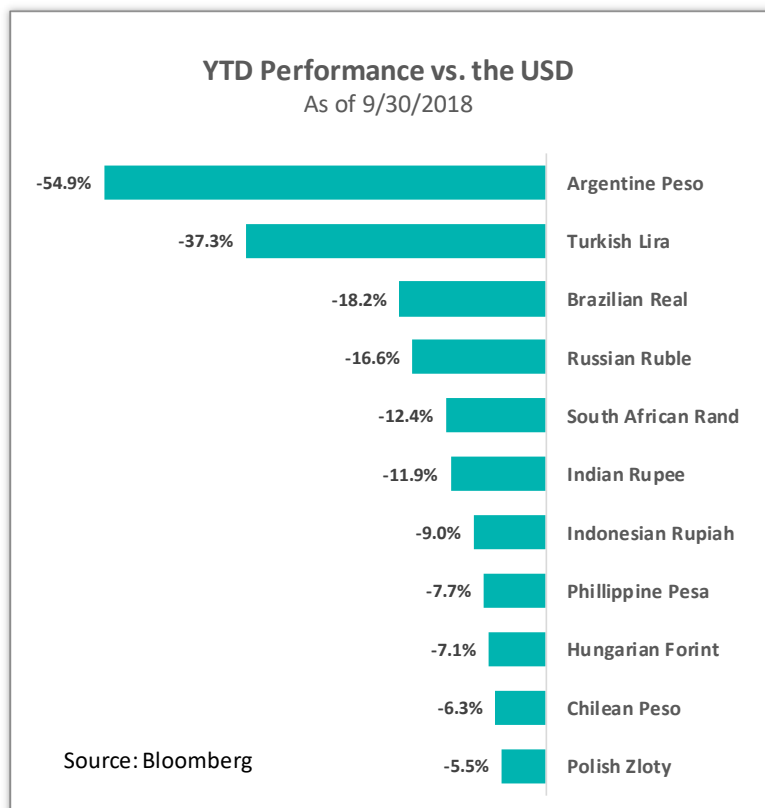
⁴ “Global Debt Monitor - July 2018.” Institute of International Finance, July 19, 2018.

⁵ “IIF Quarterly Global Debt Monitor – May 2018.” Institute of International Finance, May, 2018. GDP data taken from IMF database (<https://www.imf.org/external/datamapper/datasets/WEO/1>).

⁶ McKinsey Global Institute discussion paper, “Rising Corporate Debt: Peril or Promise?” June 2018. “A decade after the Global Financial Crisis: What has (and hasn’t) changed?” McKinsey Global Institute briefing note. September 2018, 2.

Not surprisingly, China has accounted for more than half of the growth in global corporate debt, and now has one of the highest corporate debt ratios in the world. Approximately 30% to 35% of corporate debt in China is associated with construction and real estate,⁷ which we view as a major risk point. Even though a housing and/or credit crisis in China has yet to come to bear, that doesn't mean it eventually won't.

Globally, corporate borrowers have shifted toward bond financing instead of bank loans, as demand has been strong, with bond investors starved for yield. Unfortunately, over the past decade there has been a deterioration in credit quality. According to PIMCO, the net leverage ratio for investment grade BBB issuers has risen from 1.7 times in 2000 to 2.9 times in 2017, a significant increase. The debt rating agencies' willingness to move the goal posts is a troubling development. Meanwhile, loan covenant quality has recently hit record lows, according to Moody's,⁸ while corporate defaults are already above their 30-year average, despite an extraordinarily low interest-rate environment.⁹



MGI warns that “a tidal wave of corporate bond refinancing is coming.” They estimate that, “From 2018 to 2022, a record amount of bonds—between \$1.6 trillion and \$2.1 trillion annually—will mature. [...] as much as \$10 trillion of bonds will come due over the next five years.” Rising interest rates complicate the situation, and can make refinancing more difficult and expensive, increase the risk of default (i.e., lower interest coverage ratios), and in some cases can make debt burdens unsustainable.¹⁰ If we get a recession or a bear market during this period, the risks will be magnified. Investing in companies with strong balance sheets—a key tenant of FMI’s investment process—is as important today as it has ever been. Balance sheets don’t seem to matter...until they do.

International Discount: Misunderstood

As we have articulated in prior letters, stock valuations are elevated, both in domestic (U.S.) and international markets. Through quantitative easing (QE) and artificially-low interest rates, global central banks have achieved at least one of their key policy objectives: to increase asset prices. The subsequent wealth effect, which they predicted would trickle down and drive faster growth...? Don’t hold your breath. Domestic stocks are now trading in the 9th or 10th decile of historical valuation, one of the more expensive stock markets on record.¹¹ That said, there is a commonly-held view among investors that developed international stocks are significantly cheaper than their domestic counterparts.

We believe this notion is misguided, especially relating to the high-quality types of businesses we look to own. To start, sector weightings play a significant role in aggregate index valuations. Looking at the U.S. versus Europe, according to Bloomberg (as of 9/24/18) the Standard & Poor’s 500 Index has a whopping 25.8% weighting in technology, one of the most expensive high-flying sectors in the economy, compared to the STOXX 600 Index at a 5.9% weighting. Conversely,

⁷ McKinsey, 2.

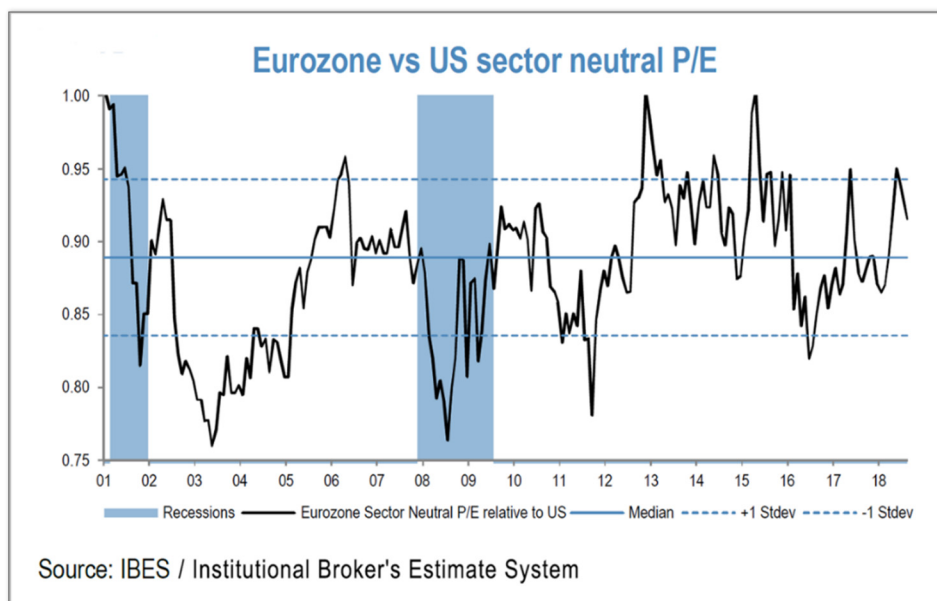
⁸ Alexandra Scaggs. “Loan covenant quality hits record low, says Moody’s.” *Financial Times*, July 24, 2018.

⁹ McKinsey, 13.

¹⁰ McKinsey, 13.

¹¹ Leuthold valuation data.

the STOXX 600 has a higher weighting in financials (19.8% vs. the S&P 500 at 13.8%), one of the cheapest sectors, but also one which is fraught with risk (i.e., European banks). To improve comparability, JPMorgan tracks a “sector neutral” price-to-earnings (P/E) ratio of the Eurozone vs. the U.S., where they look at sector multiples assuming the same weights. On this basis (see nearby chart), the Eurozone trades at a slight discount (single-digit percentage) to the U.S., and above its historical average.¹²



From a bottom-up perspective, our company research in the trenches tells a similar story. While international stocks might appear to be marginally cheaper on the surface, finding great businesses at reasonable (or better yet, inexpensive) prices today is about as difficult overseas as it is in the U.S. The current environment is the most challenging period for new idea generation in FMI'S 37+ year history. As investors gravitate up the business-quality spectrum, the concept of an “international discount” becomes even more difficult to prove. To illustrate the point, we've compiled a list of 25 quality international companies (see nearby table), each of which has a comparable peer trading on

International Company	Ticker	EV/EBIT (LTM)	vs.	Domestic Company	Ticker	EV/EBIT (LTM)
L'Oreal SA	OR-FR	24.1		Estee Lauder Companies Inc. Class A	EL	22.8
Reckitt Benckiser Group plc	RB-GB	18.8		Procter & Gamble Company	PG	16.8
Essity AB Class B	ESSITY.B-SE	17.8		Kimberly-Clark Corporation	KMB	14.6
Siemens AG	SIE-DE	17.6		Emerson Electric Co.	EMR	17.7
Makita Corporation	6586-JP	16.2		Stanley Black & Decker, Inc.	SWK	15.1
Airbus SE	AIR-FR	36.3		Boeing Company	BA	19.7
Air Liquide SA	AI-FR	18.4		Air Products and Chemicals, Inc.	APD	21.0
NIPPON PAINT HOLDINGS CO.LTD.	4612-JP	18.7		Sherwin-Williams Company	SHW	26.6
SAP SE	SAP-DE	23.4		Oracle Corporation	ORCL	14.0
Experian PLC	EXPN-GB	22.9		Equifax Inc.	EFX	23.4
Fresenius Medical Care AG & Co. KGaA	FME-DE	15.8		DaVita Inc.	DVA	13.9
Novartis AG	NOVN-CH	22.6		Pfizer Inc.	PFE	19.9
Compass Group Plc	CPG-GB	18.2		Aramark	ARMK	24.0
Smith & Nephew plc	SN-GB	19.7		Stryker Corporation	SYK	25.0
Givaudan SA	GIVN-CH	28.7		International Flavors & Fragrances Inc.	IFF	19.6
Heineken Holding N.V.	HEIO-NL	14.4		Anheuser-Busch InBev SA/NV	BUD	17.2
Danone SA	BN-FR	15.5		General Mills, Inc.	GIS	16.1
WPP Plc	WPP-GB	10.1		Omnicom Group Inc	OMC	9.4
Adecco Group AG	ADEN-CH	8.9		ManpowerGroup Inc.	MAN	7.0
InterContinental Hotels Group PLC	IHG-GB	17.8		Marriott International, Inc. Class A	MAR	21.6
Compagnie Financiere Richemont SA	CFR-CH	18.3		Tiffany & Co.	TIF	18.6
adidas AG	ADS-DE	19.7		NIKE, Inc. Class B	NKE	31.2
Canadian National Railway Company	CNR-CA	17.9		Union Pacific Corporation	UNP	17.6
Ryanair Holdings Plc	RY4C-IE	10.0		Southwest Airlines Co.	LUV	11.1
Bridgestone Corporation	5108-JP	7.5		Goodyear Tire & Rubber Company	GT	8.9
	Average	18.4		Average	18.1	
	Median	18.2		Median	17.7	

Source: FactSet; data as of 9/21/18

U.S. stock exchanges. Of course, there are idiosyncratic factors at each of these businesses, and there will never be a perfect match in terms of the comps. That said, we think this sample gives a reasonable approximation of the respective opportunity sets. In aggregate, the international basket trades at a slight premium to the domestic, not the wide discount some industry pundits would have you believe.

At the end of the day, stocks are expensive virtually everywhere (in developed markets), not just in the U.S. Central bankers' money-printing machines have juiced asset classes far and wide.

Glass Half Full

To summarize: Expectations seem high? Check. Leverage is abundant? Check. Risks appear to be intensifying? Check. Growth stocks are outperforming value stocks? Check. Stocks are expensive? Check. Yet we are encouraged? How can

¹² Mislav Matejka, Prabhav Bhadani, and Nitya Saldanha. “Equity Strategy: Keep OW US versus Eurozone...” J.P. Morgan Cazenove, August 28, 2018.

that be? Well... for the first time in a long time, fear is starting to creep back into the investor psyche. While some complacency still remains, stock markets are actually going down with regularity, which is how markets are supposed to work. When companies miss earnings, management has a misstep, or when negative macro news hits the wires, stocks are reacting. This is all good news. With volatility come buying opportunities. Great businesses don't typically go on sale for no reason--but when they do, investors need to be ready to capitalize.

In mid-September, Bank of America Merrill Lynch estimated that global stocks, excluding U.S. technology stocks, were down 7% year-to-date (YTD).¹³ The emerging market pullback is a big part of this, but the MSCI EAFE Index (USD) is down over 1% YTD as well. Markets move in cycles, and when the next downdraft comes, we plan to make the most of it.

Below we highlight a couple of our international investments:

Merlin Entertainments PLC (MERL LN)
(Analyst: Jordan Teschendorf)

Description

Merlin is the second largest theme park operator in the world by attendance, operating 122 primarily family-focused attractions and over 4,000 themed hotel rooms in 25 countries across three divisions, with 2017 sales/profit exposure as follows: Midway: 41%/42%, LEGOLAND Parks: 38%/44%, Resort Theme Parks: 21%/14%. Attractions include LEGOLAND Parks (LLP), LEGOLAND Discovery Centers (LDC), Madame Tussauds, SEA LIFE, The Dungeons, The Eye Brand, Little Big City, Peppa Pig and Bear Grylls branded attractions, and branded resort theme parks (RST: Alton Towers, Thorpe Park, Chessington World of Adventures, Warwick Castle, Gardaland and Heide Park). Midway Attractions are predominantly indoor attractions located in city centers or resorts and providing visits of shorter duration, while theme parks are outdoor attractions offering accommodations, rides, shows, and interactive experiences across a central theme. Approximately 66 million visitors came through Merlin's attractions in 2017, with an average spend per visitor of approximately £20.

Good Business

- Merlin's return on invested capital is well above its cost of capital, averaging 12.6% over the past five years.
- The business is easy to understand, faces limited risk of disruption, and benefits from increasing spend on experiences.
- The company has an impressive track record of defensive growth, evident in part by positive visitation, revenue, and EBITDA (earnings before interest, taxes, depreciation, and amortization) growth through the global financial crisis. Most attractions are highly differentiated and modestly priced, enforcing strong value.
- Merlin's licensing and co-operation agreement with LEGO A/S confers global exclusivity to operate existing LEGOLAND parks in perpetuity and global exclusivity to open further parks until beyond 2050 (with extensions thereafter). LEGO is the world's largest toy company, and one of most valuable global consumer brands. This intellectual property further differentiates Merlin and is key to LEGOLAND Parks' financial record of double-digit growth with attractive returns on capital.
- We view the company's opportunity to add themed accommodations to its parks as capable of generating £10-£20 million of annual EBITDA at high incremental returns over the next five years and beyond.
- Merlin's business is increasingly diversified by geography, with the UK representing 31% of 2017 sales, down from 43% in 2011 and 49% in 2008. We expect this trend to continue, contributing to a higher valuation over time.
- The balance sheet is appropriately financed with 2.4 times net leverage.

Valuation

- Merlin's stock price is up only modestly from its closing price the day it came public in late 2013, despite growing earnings per share by nearly 20%. Total return has lagged the FTSE All-Share Index by 17%--the entirety of this underperformance due to price movement following its fiscal third quarter 2017 results.

¹³ Michael Hartnett. "The Thundering Word: The Long View." Bank of America Merrill Lynch, September 16, 2018.

- The company trades at approximately 17.7 times forward earnings estimates, which have recently been reset to account for a more challenging external environment. This is near the lowest valuation for Merlin since it has been publicly traded and compares to an average multiple of 20 times forward earnings.
- On an enterprise value basis, shares currently yield nearly 6% on trailing underlying free cash flow, which we expect to grow at a mid-to-high single-digit rate over the next several years.

Management

- CEO Nick Varney (54) led a management buyout of Vardon Attractions in 1999 to form Merlin. He beneficially owned 6.681 million shares at the end of last year, worth £26 million at the current price.
- The LEGO family office (KIRKBI) holds an approximately 30% ownership in Merlin, keeping them invested in the company's long-term success.
- Our initial view of management is that of highly disciplined capital allocators, willing to invest for the long term in the group's highest returning projects. Management aims to earn 20% EBITDA return on capital employed (ROCE) on all capital expenditure (CapEx). Long-term compensation is tied to earnings per share (EPS) growth and ROCE (after-tax and includes all intangible assets) over a three-year period. No awards are earned if ROCE does not exceed 8.0%.

Investment Thesis

Merlin's like-for-like revenue and margins have come under pressure over the last few years as a result of slower underlying market growth and adverse external factors, including poor weather, foreign exchange volatility, and terror attacks in markets important to the group (London, Manchester, Munich and Berlin). Elevated uncertainty associated with Britain's exit from the EU, and potential for prolonged pressure on consumer spending in the important UK market (approximately 30% of EBITDA) have further weighed on sentiment. While there is limited visibility today, we believe that over time, the market will look past these external factors and apply a higher multiple to the company's growing earnings stream. Notwithstanding near-term pressure that could persist within Midway, we think Merlin can grow earnings at a reasonable rate over the next several years, given its significant opportunity to expand LEGO-themed attractions and accommodations, which hold global appeal and represent approximately half of group EBITDA. Across consumer-facing businesses, we view the company's global and perpetual exclusivity to operate and expand LEGO's physical and tangible presence as a unique and irreplaceable asset not fully reflected in the group's valuation.

Samsung Electronics Co. Ltd. (005935 KS)

(Analyst: Dan Sievers)

Description

Samsung Electronics was founded in 1969 and is headquartered 45 minutes south of Seoul. It is broadly organized as a Components Business (75% of 2017 operating profit), which includes semiconductor production (DRAM, NAND, and System LSI) and display panels (OLED, LED, and LCD technologies); and a Sets Business (25% of 2017 operating profit), which includes mobile computing products (smartphones, tablets, laptops, and telecom equipment), consumer electronics (televisions, monitors, and home appliances), and medical equipment. Sales to external customers in 2017 were 34% Americas, 19% Europe, 18% Asia & Africa, 16% China, and 13% Korea.

Good Business

- Samsung Electronics has established leadership positions in most of its key Components Businesses. It is the global #1 producer of both DRAM and NAND memory and #1 in OLED display technology. In the Sets Businesses, the company remains #1 in total global smartphone units and television display units. Samsung has been gaining some global share in semiconductor foundry, home appliances, and medical and telecom equipment.
- The value of Samsung's franchise resides principally in its leading Components Businesses, where components go into both Samsung and other manufacturers' products worldwide. Even so, some observers continue to overstate the importance of the company's mobile smartphone business (22% of 2017 operating income).
- In 2017, Samsung ranked #2 on the list of U.S. patent recipients, and Interbrand ranked it the #6 best global brand.

- Barriers to entry continue to rise in the global semiconductor production industry. Samsung has the resources and technology to invest for the long term and has indeed led the global semiconductor industry in CapEx spending in eight of the last ten years. In 2017, the company spent KW 28 trillion (\$25 billion) on semiconductor CapEx and another KW 14 trillion (\$12 billion) on display CapEx, with additional company-wide R&D investment of KW 16 trillion (\$14 billion).
- Samsung reported a return on equity of 21% in 2017, despite a drag from an inefficient over-capitalized balance sheet. As of the second quarter of 2018, the company had KW 70 trillion (\$62 billion) in net cash on the balance sheet.

Valuation

- The company remains a very cheap enterprise at 4.4 times 2017 enterprise value-to-earnings before interest and taxes (EV/EBIT), 2.6 times 2017 EV/EBITDA, and 1.2 times book value. Samsung Electronics can be owned at an even more attractive valuation via the preferred shares (3.7% dividend yield) which trade at a 19% discount to the common shares (3.0% dividend yield) and sport an undemanding 5.7 times price-to-earnings (trailing 12 months).
- Despite significant increases in direct returns of capital to shareholders (through dividends and buybacks), net cash continues to build on the company's balance sheet (which increases future optionality).

Management

- Samsung's founding family continues to hold significant influence through high-single-digit economic ownership of the company's shares and much higher (although well short of majority) voting control. We expect Samsung heir Jae Yong Lee (48) to have a visible role, but do not view his role as critical to Samsung's success. Historically, South Korean corporate governance has been lacking, but the company's governance has shown improvement in recent years, exemplified by the 2017 separation of the Chairman and CEO roles. Samsung Electronics is largely unencumbered by Samsung Group cross-holdings.
- In the third quarter of 2017, an orderly management transition occurred amongst Samsung's CEO with 36-year Samsung veteran Dr. Ki-nam Kim (UCLA PhD) being elevated to lead the Components Businesses.
- Over the past five years, dividends have grown at a 40% compound annual growth rate (CAGR) and shares outstanding have shrunk at a 2% CAGR.

Investment Thesis

Samsung has produced strong results over the past three years, but investors are currently concerned about the very high level of profitability in its leading global memory business (DRAM and NAND), where profit margins are expected to decline over the next few years. Despite this expected decline in memory profitability, the company's leading competitive position in memory is unlikely to be threatened over the next several years as capacity additions have become more difficult (rising entry barriers) and established competitors have become more rational (partly due to consolidation). We see the potential for both revenue growth and margin improvement in a variety of Samsung Electronics' other businesses such as System LSI (semiconductor components & foundry), Display (OLED components), and Consumer Electronics. When taken together, we think Samsung's preferred shares are very cheap at 5.4 times estimated 2018 earnings.

Thank you for your confidence in Fiduciary Management, Inc.

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

Year	Total Return Gross of Fees %	Total Return Net of Fees %	*Benchmark Return %	Number of Portfolios	Dispersion %	Three Year Ex-Post Standard Deviation		Total Composite Assets End of Period (\$ millions)	Total Firm Assets End of Period (\$ millions)	Percentage of Firm Assets %
						Composite	*Benchmark			
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%
2017	16.51	15.70	15.23	3	0.02	7.04	11.20	\$ 8,209.3	\$ 25,322.0	32.42%

*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 - 12/31/2017. 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 12/31/2010-12/31/2017. 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 \$25.3 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.