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INVESTMENT STRATEGY OUTLOOK – INTERNATIONAL EQUITY

March 31, 2019

Equities rebounded sharply in the March quarter despite global economic growth continuing to lose momentum, high policy uncertainty, and ongoing trade tensions. Central banks have performed a U-turn on raising interest rates, to the delight of market participants. After a brief reprieve in the fourth quarter, stock valuations are back on the rise and continue to be highly valued relative to historical measures.

The FMI International portfolios gained approximately 8.6% in the period, which fell short of the MSCI EAFE Index advance of 10.59% in local currency and 9.98% in U.S. Dollars (USD). Sector underperformance was driven by Producer Manufacturing, Commercial Services and Consumer Non-Durables, with Retail Trade, Technology Services, and Finance picking up some of the slack. On an individual basis, Ferguson, DKSH and Jardine Strategic each detracted, while Accenture, B&M European Value Retail and Electrolux performed well. Growth outperformed value in the quarter, which didn't help our relative performance; neither did our residual cash position.

Over FMI's 39-year track record, our portfolios have tended to lag in market rallies while protecting better when times get tough – a winning equation through a full market cycle. Our underperformance in the quarter was consistent with this pattern, albeit disappointing on a relative basis.

Have No Fear: Central Bankers Are Here

How quickly times can change. In recent years, one of the most popular themes in the financial world was "synchronized global growth." After years of money printing, quantitative easing (QE) and artificially low interest rates, the world's 45 major economies were suddenly growing in harmony (in 2017).[1] Did all these experimental central bank policies actually work? Were we on a new path toward prosperity? Not so fast. Despite *extraordinary* levels of central bank intervention, world economic growth over the last five years has averaged only ~3.4%, compared to the prior 20-year average of ~3.8%. Looking forward, in their latest economic outlook (March 2019), the Organisation for Economic Co-operation and Development (OECD) writes, "Growth has been revised downwards in almost all G20 economies, with particularly large revisions in the euro area." World GDP is expected to grow at 3.3% in 2019, which is down from 3.6% in 2018, and 0.2% lower than the OECD's November forecast. Eurozone growth is anticipated to decelerate from 1.8% last year to 1% in 2019 as industrial output has been weak, external demand has softened, and uncertainty around Brexit remains. Japan's growth is projected at a measly 0.8%, weighed down by lackluster industrial production and export data. Growth in the U.S. and China is also expected to slow as trade tensions have persisted in addition to economic headwinds in the auto and housing sectors.[2]

When we penned the December letter, it appeared central banks were taking a few *imperative* steps towards monetary policy normalization. No longer. The Federal Reserve (Fed) abruptly reversed course. Chairman Jerome Powell described interest rates as "a long way" from neutral in early October and remarkably back-tracked to "just below" neutral by late November. It's amazing what a brief stock market correction can do to one's psyche. Subsequently, plans for three interest rate hikes in 2019 are now down to zero and the unwinding of the Fed balance sheet will cease in September. At the European Central Bank (ECB), Mario Draghi decided to extend interest rates at record lows through at least the end of the year, likely ending his 8-year tenure without raising interest rates even once. He also offered up a new batch of cheap, long-term loans to eurozone banks, perhaps a sign that the ECB has concerns about the banking sector. Wait a minute -- weren't these TLTROs (Targeted Longer-Term Refinancing Operations) meant to be an *emergency* measure? Meanwhile, the Bank of Japan stands ready to ramp up stimulus, while China has introduced policy support through infrastructure spending, tax cuts, local government bond issuance, and cuts for banks' reserve requirements.

These "synchronized" moves reek of desperation and call into question the true underlying health of economic and business fundamentals. In a world where $11 trillion of negative-yielding bonds and over $21 trillion in central bank balance sheets don't do the trick, what comes next?[3] We hope not more of the same, although central bankers claim to have more policy options up their collective sleeves.

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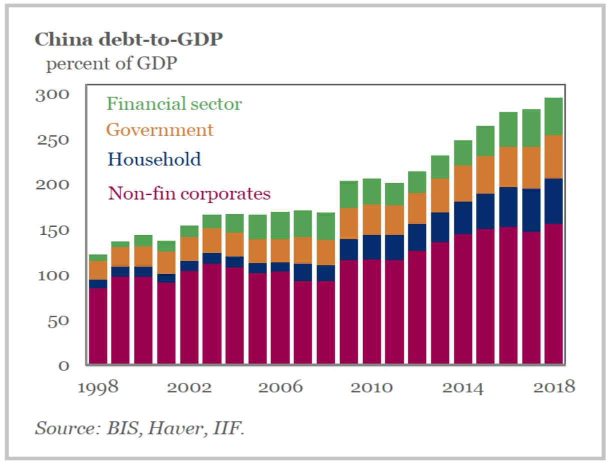
[1] Josh Zumbrun. "The World's Economies Are Growing in Rare Harmony." *The Wall Street Journal*, January 22, 2018.
[2] OECD Interim Economic Outlook. March 6, 2019.
[3] Daniel Kruger. "Negative Yields Mount Along With Europe's Problems." *The Wall Street Journal*, February 18, 2019. Bloomberg data.

China: Too Good to Be True?

According to their National Bureau of Statistics (NBS), China's GDP growth decelerated to 6.6% in 2018, the lowest level in 28 years.[4] Despite the slowdown, China continues to be the world's biggest driver of growth. Using International Monetary Fund (IMF) projections, China's share of global GDP growth is expected to rise from 27.2% in 2019 to 28.4% in 2023.[5] This does not tell the full story, however. We have long been skeptical of the "official" numbers coming out of China. A recent study by the Brookings Institute confirms our doubts, calling into question the accuracy of the NBS data. The research suggests that the NBS is struggling to adjust inflated data from local officials, some of which they have openly admitted are "falsified." Per the *Financial Times*, "The [Brookings Institute] economists used data on the collection of value added tax to adjust China's historical GDP growth series. The tax data, which have been compiled through a computerized system since 2005, are highly resistant to fraud and tampering, they argue." The analysis covers the years 2008-16 and it concludes that the official NBS data for nominal GDP has been overstated by 1.7 percentage points per year, which would make the size of the economy approximately 12% smaller in 2016 than officially reported.[6] With global GDP growth below historical norms, even with an assist from inflated China statistics, perhaps the economic backdrop is indeed weaker than advertised.

Unfortunately, the accuracy of the NBS data is the least of our worries in China. A credit or housing crisis would be at the top of our list. As illustrated in the Institute of International Finance (IIF) chart to the right, China's debt has exploded in the last decade and is fast approaching 300% of GDP. Total debt has sextupled (6x) since 2007, compounding at nearly 20%. Corporate sector debt accounts for 157% of GDP (the highest in the world) and compares with a developed market average of 91% in the U.S., Europe, and Japan.[7] At the current debt level, Haibin Zhu, Chief China Economist at J.P. Morgan, estimates that 70% of new annual financing will be used to service the interest payment burden, leaving only 30% to support new economic activity. Zhu writes that this is a "key reason why credit policy transmission has been weakened in recent years."[8] It's no wonder credit growth has dwarfed GDP growth over the last decade.



It is estimated that 30-35% of the corporate debt in China is associated with construction and real estate,[9] and ~25% of China's GDP has been driven by property-related industries. After a historic building boom, China now has approximately 65 million empty apartments across the country, according to estimates by Gan Li, a professor at Southwestern University of Finance and Economics in Chengdu. This accounts for 21.4% of the housing stock, up from 18.4% in 2011. As a frame of reference, 65 million would equate to nearly half of the *total* number of housing units in the U.S. (139 million). According to Xiang Songzuo, a professor at Renmin University in Beijing, "about 80% of Chinese people's wealth is in the form of real estate, totaling over $65 trillion in value -- almost twice the size of all G-7 economies combined. A significant slowdown could, therefore, have a substantial impact on citizens' financial health." In addition, property developers are saddled with debt; Moody's classifies 51 out of the 61 Chinese property companies as junk-rated. Meanwhile, the government has been cracking down on shadow banking, which had been an important source of financing for real estate developers.[10] As China's property market continues to show signs of a slowdown, the negative implications could start to have ripple effects.

What We Don't Own

We believe that the FMI International strategy is a unique product when compared with the MSCI EAFE Index and our peers. In addition to running a concentrated portfolio (25-40 holdings) of high-conviction ideas, our sector and geographic exposure differs significantly, given that we do not manage to a benchmark. We look to own high-quality businesses with sustainable competitive advantages, strong management teams, and attractive valuations. Value-oriented, bottom-up security analysis

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[4] Issaku Harada. "China's GDP growth slows to 28-year low in 2018." *Nikkei*, January 21, 2019.

[5] By Alexandre Tanzi and Wei Lu. "Where Will Global GDP Growth Come From in the Next Five Years?" Bloomberg, October 28, 2018.

[6] Gabriel Wildau. "China economy 12% smaller than claimed, report alleges." *Financial Times*, March 6, 2019.

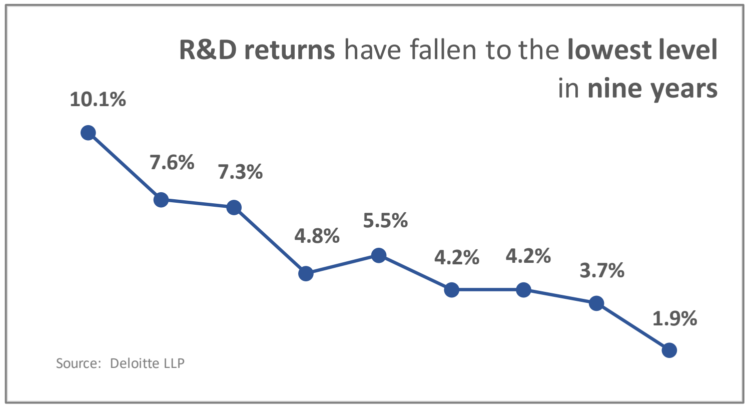
[7] "Global Debt Monitor." Institute of International Finance. January 15, 2019 and May 2018.

[8] Haibin Zhu. "Through the looking glass: China in 2030." J.P. Morgan, February 4, 2019. Pg. 7.

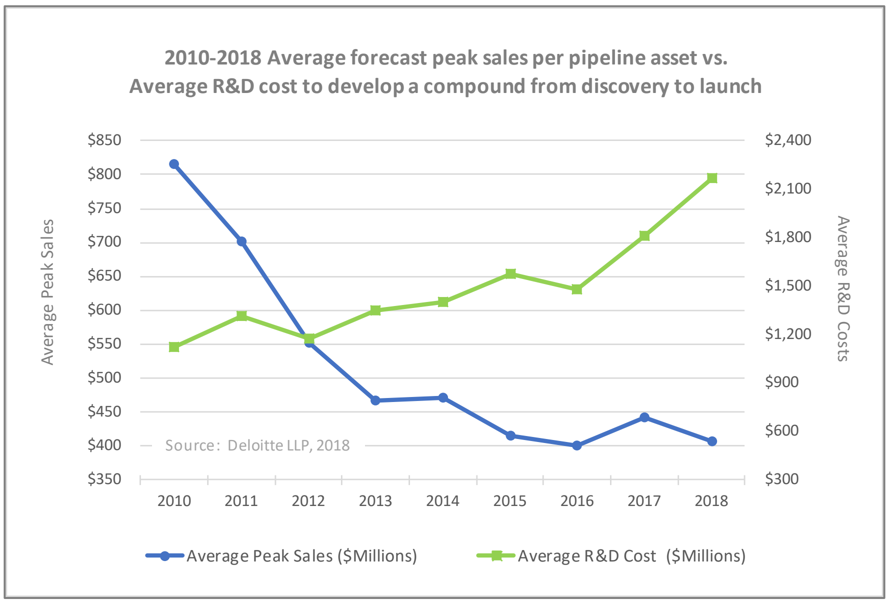
[9] "Rising Corporate Debt: Peril or Promise?" McKinsey Global Institute discussion paper. June 2018. "A decade after the Global Financial Crisis: What has (and hasn't) changed?" McKinsey Global Institute briefing note. September 2018.

[10] Kenji Kawase. "China's housing glut casts pall over the economy." Nikkei Asian Review. February 13, 2019.

drives the path of the portfolio, with an intense focus on downside protection. While we regularly feature descriptions of our holdings in our letters, we thought it would be informative to highlight a couple things that we *don't* own. These active decisions are equally important to the long-term performance of the portfolio.



Big Pharma: Despite pharmaceuticals having an 8.3% weighting in the MSCI EAFE Index, we are not invested in this segment. In short, we believe Big Pharma is a value trap and has become uneconomic. Since 2010, Deloitte has tracked the research and development (R&D) productivity for the top twelve global publicly-listed pharmaceutical companies: Amgen, AstraZeneca, Bristol-Myers Squibb, Eli Lilly, GlaxoSmithKline, Johnson & Johnson, Merck & Co., Novartis, Pfizer, Roche, Sanofi, and Takeda. As illustrated by the chart to the right, R&D returns for the cohort have plunged, falling from 10.1% in 2010 to just 1.9% in 2018.



The reason that returns have deteriorated is twofold: costs are rising rapidly and forecast revenue is falling – a toxic combination. The cost to bring a compound to market has increased by over 80% the past eight years, from $1.188 billion in 2010 to $2.168 billion in 2018. At the same time, forecast peak sales per asset have more than halved since 2010, falling from $816 million to $407 million (see chart to the right). Even with record-low interest rates, it's very difficult to make the case that Big Pharma has been earning its cost of capital in recent years. At the 1.9% return reported in 2018, they are unquestionably destroying value.[11]

For years, Big Pharma has seen the writing on the wall and have opted to shoot their way out with expensive mergers and acquisitions (M&A). *Informa Pharma Intelligence* estimates that in 2018, biopharma M&A activity reached an astounding ~$265 billion, up 26% versus 2017. Takeda's $64 billion acquisition of Shire led the charge.[12] In early 2019, Bristol Myers Squibb announced a ~$95 billion acquisition of Celgene, in the largest pharmaceutical deal on record (eclipsing Pfizer's 2000 acquisition of Warner-Lambert for $89 billion).[13] While it might be easier to buy growth than to build it, acquisitions often fail to earn their cost of capital, and especially at today's lofty valuations. Studying the long-term fundamentals of Big Pharma is instructive. For the cohort, return on invested capital (ROIC) peaked at 29.8% in 2000. ROIC has since collapsed, averaging just 11.4% over the last five years, down by over 60%.[14] To make matters worse, the 5-year average is *overstated*, as it fails to capture the tens of billions of dollars of impairments and write-downs that are ignored by Wall Street but help to inflate the ROIC calculation (i.e., lower invested capital, depreciation, and amortization in subsequent years). Return on *incremental* invested capital (ROIIC) is clearly trending down. While some of our peers flock to the low "adjusted" price-to-earnings multiples, we think the Big Pharma stocks are more expensive than they appear and the structural challenges are far deeper than commonly perceived. Until the facts change, we'll pass.

[11] "Unlocking R&D productivity: Measuring the return from pharmaceutical innovation 2018." Published electronically by Deloitte.
[12] "Pharmaceutical sector M&A resurgence in 2018." The Pharma Letter, December 31, 2018.
[13] Michael Erman and Ankur Banerjee. "Bristol-Myers to buy Celgene for $74 billion in largest biopharma deal." Reuters, January 3, 2019.
[14] FactSet Data.

European Banks: While banks are a popular "deep value" trade amongst many value managers, we have been reluctant to go down this path. Banks account for 10.7% of the MSCI EAFE Index and are not present in the FMI International portfolios. In our March 2018 letter, we articulated several reasons why we have historically avoided banks. At a high level, banking is largely a commoditized business and we have an aversion to balance sheets that are opaque and highly levered. In addition, capital controls vary by regions, making the underlying economic viability and returns more difficult to assess. In Europe in particular, we have written at length about the financial health of the banking system (especially in Italy) and the subpar growth outlook for the region. We remain just as skeptical today.

A recent article published by *The Wall Street Journal* is a cautionary tale and reinforces our apprehension. The authors describe a $1.6 billion loss at Deutsche Bank from a complex municipal bond investment they made in 2007. The loss equates to "roughly quadruple its entire 2018 profit—and ranks as one of the banking industry's biggest soured bets in the last decade." Most troubling, however, was that "Deutsche Bank resisted for years reducing the value of those bonds and related derivatives on its books to a level that markets suggested they were worth, and it brushed aside concerns raised by the bank's financial auditors about how it was valuing the trade." Banks have some flexibility in how they can value "illiquid" trading positions on their books, and clearly management took some creative liberties in this case. Meanwhile, "the bank was telling investors its internal financial controls were sound, and it raised billions of dollars in the capital markets without any disclosure of the bond valuation issue. Behind the scenes, the badly timed bet exerted a sustained drag on the bank's finances." After Deutsche Bank liquidated the position in 2016, "bank executives debated whether to restate past financial results, but never did so."[15] How convenient.

This disturbing case study illustrates the danger of balance sheet opacity. What you see *is not* always what you get. We would not be surprised to see similar impairments hiding out in banks in Italy, Spain, Greece, etc. Additionally, in the European Union (EU), sovereign debt is still imprudently treated as a "risk-free" asset, which means banks can hold an unlimited amount in EU government bonds without capital requirements. It is our perception that EU sovereign debt is far from "risk-free," as illustrated by the European debt crisis a few short years ago. In our view, European banks are cheap for a reason. The downside risks are significant and extend well beyond our comfort level. We will continue to keep our distance for the foreseeable future.

For a few investment ideas that we actually do like, please see the company descriptions that follow. In a world where valuations are elevated, remarkably, we were able to buy Hyundai Motor Company's core business for less than 1 times earnings, after adjusting for cash and non-core assets. Good, old-fashioned value investing. Ben Graham would be proud.

Hyundai Motor Company Preferred (005387 KS)

(Analyst: Andy Ramer)

Description

Hyundai Motor Company is one of the largest auto manufacturers in the world. Revenues and earnings before interest and taxes (EBIT), by division, are: Auto (77% revenues and 83% EBIT), Finance (16% and 15%), and Others (7% and 2%). The company produces a full range of sedans and SUVs under key brands such as Sonata, Tucson, Santa Fe, Palisade, and Genesis, with the following volume by region: China 18%, Korea 15%, U.S. 15%, India 11%, Western Europe 11%, Latin America 8%, Eastern Europe 4%, and Others 18%.

Good Business

- The company has put a lot of effort into improving its J.D. Power initial quality study (IQS) and vehicle dependability study ratings to strengthen its brand perception. As a result, its ratings have improved continuously, with it having ranked No. 3 overall in the 2018 IQS.
- Contrary to market perception, Hyundai is well prepared in the Electric Vehicle (EV) space with competitive technology. To capture EV demand going forward, the company is planning an aggressive EV model cycle, with 16/22 models by 2020/2025, versus eight models in the first half of 2018.
- Vehicles are big-ticket items that are inherently more cyclical, but many consider them to be a necessity. Further, penetration per capita in the emerging markets, which accounts for 55% of Hyundai's unit sales, remains well below that of developed markets.

[15] Jenny Strasburg and Gretchen Morgenson. "Deutsche Bank Lost $1.6 Billion on a Bond Bet." *The Wall Street Journal*, February 20, 2019.

- Up until the "perfect storm" in recent years, the Auto division generated an ROIC ex-cash that was in the mid-teens. The business has had to contend with a stronger Korean Won, labor strikes, weak performances in China (a Terminal High Altitude Area Defense [THAAD] issue) and the U.S. (unattractive product lineup mix heretofore) and recalls.
- This is an easy business to understand.
- The company has net cash of ₩14.5 trillion in the Auto business and investment assets (at a 35% discount) of ₩7 trillion.

Valuation

- The preferred shares are being valued at 5.5 times forward earnings per share (EPS) and 30% of book value. The dividend yields over 5%.
- Merrill Lynch's estimates suggest the current market cap implies the Auto business is being valued at less than 1 times earnings, if we factor in Hyundai's non-operating asset values (e.g., stakes in subsidiaries and net cash). Assumptions include 1.) a 40% discount to the value of the ex-KEPCO site where the Global Business Center will be built, 2.) a 40% discount to Hyundai's stakes in unlisted affiliates and 30% discount for listed companies, and 3.) an additional 10% discount for crossholding. Activist Elliott Advisors has similarly highlighted this extreme valuation in their letters to the company.

Management

- M.K. Chung, Chairman, is no longer in charge; his son, E.S. Chung, Chief Vice Chairman, now oversees the entire Group's operations. He is moving to address the challenges facing Hyundai's Auto business specifically and the auto industry at large… and, in the process, clearing out the old guard.
- Details as to when and how the company will improve corporate governance and capital allocation practices are still lacking. However, E.S. Chung has stated that the restructuring plan will be executed in a way that earns minority shareholders' support and satisfies all parties.
- Up until recently, Hyundai's Key Performance Indicators (KPIs) were ineffective, with the company's focus skewed towards unit sales. However, at the beginning of 2018, leadership announced a new set of KPIs that are focused more on profitability rather than volume.
- Hyundai's heavy investment in recruiting designers since 2015 is expected to start to pay off as new models roll out over the next few years. Luc Donckerwolke, who has overseen design at the company for four years now, is the former design director at VW's Audi, Bentley, and Lamborghini.

Investment Thesis

We believe most of the negatives are discounted in the share price. With an earnings rebound on the horizon driven by a combination of new model momentum and increasing SUV sales, and pending initiatives to remove the "Korea discount" by overhauling corporate governance, we expect to see a marked improvement in the company's valuation.

B&M European Value Retail S.A. (BME LN)

(Analyst: Jordan Teschendorf)

Description

B&M is the largest discount retailer group in the U.K., with small and growing operations in Germany and France. The company operates 860 stores across the U.K. under the B&M (591 stores and 94% of EBITDA[16]) and Heron Foods (269 stores and 4% of EBITDA) brands, primarily outside of Southeastern England; 88 stores in Germany under the Jawoll brand (2% of EBITDA); and 95 stores in France under the Babou brand (closed 10/19/18). Its core B&M franchise operates low-cost store formats, typically 18,000-20,000 square feet in size. It offers an assortment of branded consumables (grocery and fast-moving consumer goods products) at "everyday low prices" that are typically 20% cheaper than major supermarkets and a wide assortment of direct-sourced private label general merchandise at deep discounts to specialty retailers (30%+).

Good Business

- B&M stores perform well in a variety of economic environments, evident by consistently growing same store sales over the last decade. The company generated positive comparable store sales through the recession (+10.4% average in fiscal 2008-2010).

[16] Earnings before interest, taxes, depreciation and amortization.

- A simple and low-cost operating model (rents, labor and overhead), direct sourcing, and concentrated stock keeping units allow B&M to offer products at very low prices, while a rotating assortment of seasonal merchandise adds newness and excitement to the offer (a "treasure hunt" experience).
- Approximately 75% of the company's products are priced below £5 and the stores' core customers are working class. B&M's average basket size of ~£13 makes online selling and delivery uneconomic.
- The company has consistently gained share in the growing U.K. discount general merchandise industry, and appears to be establishing itself as the dominant player. Discount retail in the U.K. remains underpenetrated relative to many other developed markets, including the U.S.
- B&M's 5-year average lease-adjusted ROIC is in the mid-20 percent range, well above the company's cost of capital. Its stores have cash payback periods (inclusive of working capital) of less than 15 months.
- The balance sheet is adequately capitalized (2.0 times net debt-to EBITDA) and the business generates strong cash flow.
- The business is easy to understand.

Valuation

- We established our initial position with the stock trading below 14 times forward EPS estimates, compared to its long-term average of just over 20 times.
- The stock trades at 1.1 times forward enterprise value-to-sales compared to its long-term average of 1.5 times; operating margin has fluctuated between 8.1%-8.6% over the last four years, averaging 8.3%, and the tax rate is approximately 20%.
- B&M pays an annual dividend targeted at 30-40% of earnings, yielding approximately 2.2% on our average cost.

Management

- Simon Arora has been CEO of the company since December 2004, following the acquisition of B&M jointly with his family. The Arora family owns 14.98% of the common stock (currently worth £580 million), aligning interests with long-term shareholder value creation.
- Compensation for executive officers is modest. Long-term incentives are based on absolute EPS growth (50%) and relative total shareholder return (50%). The company pays an ordinary dividend and aims to return surplus cash to shareholders, most recently through a special dividend of £100 million paid July 2016.

Investment Thesis

B&M is a relatively defensive and growing business that performs well in most economic environments, thus the stock has often traded at a premium valuation. An opportunity recently presented itself as investors grew concerned with the U.K. economic backdrop and somewhat disappointing like-for-like sales growth during the first half of fiscal 2019, causing the stock to sell off over a third of its value during an 8-week period. We believe the company's value proposition remains strong, that B&M still has ample room to grow its store base in the U.K. towards its 950-store long-term target, and that it is well-positioned for strong double-digit EPS growth in the years ahead in all but the most challenging market environments. While not core to our thesis, we view B&M's growing international businesses as free options adding to upside potential. We view the stock as attractively priced on an absolute and relative basis considering the company's growth profile.

Thank you for your confidence in Fiduciary Management, Inc.

Fiduciary Management Inc.
International Equity Composite
12/31/2010 - 12/31/2018

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%
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%
2018	-8.63	-9.27	-10.99	3	0.12	7.22	9.69	$ 6,287.8	$ 19,833.6	31.70%

*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 - 12/31/2018. 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 12/31/2010-12/31/2018. 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 $19.8 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.