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INVESTMENT STRATEGY OUTLOOK – INTERNATIONAL EQUITY

September 30, 2019

In the face of deteriorating economic and business fundamentals, international stock markets continued to advance in the third quarter (in local currencies), thanks to yet another round of support from global central banks. The FMI International portfolios gained approximately 0.3% in the period, compared with the MSCI EAFE Index's return of 1.75% in local currency and a decline of 1.07% in U.S. Dollars (USD). The Technology Services, Distribution Services and Finance sectors aided the Fund's relative performance, while Producer Manufacturing, Industrial Services, and Consumer Non-Durables weighed on the results. The top individual contributors were Smith & Nephew, B&M European Value Retail and Chubb Ltd., as Jardine Strategic, Schlumberger and Fairfax Financial Holdings underperformed. Growth continued to outperform value in the quarter, adding to the challenging backdrop.

Dark & Stormy

There are no shortages of geopolitical risks in today's macro environment, with the U.S. & China and Japan & Korea engulfed in escalating trade wars, extreme unrest and protests in Hong Kong, lingering Brexit uncertainty, and a drone bombing of Saudi Arabia's oil interests, to name a few. As a result, economic growth continues to decelerate, with the Organisation for Economic Co-operation and Development (OECD) cutting its September forecast for global GDP growth to 2.9% in 2019 (from a 3.2% estimate in May) and 3.0% in 2020 (from 3.4%), the weakest annual growth since the 2009 financial crisis. *GDP has now been revised downward in almost all G20 economies*, as trade growth has collapsed, industrial production is falling, investment and productivity are weak, and employment growth has slowed. According to the OECD, "The global outlook continues to darken" as "trade and political tensions fuel risks of persistent low growth."[1]

In the second quarter, economic growth in Europe's two biggest economies, Germany and the United Kingdom (UK), each turned negative and may be on the verge of a recession. China is feeling the pain of the trade war as its growth fell to 6.2%, the slowest pace since 1992. Not surprisingly, China's "official" government statistics are being questioned, with *The Wall Street Journal* reporting, "Some economists who dissected China's GDP numbers say more accurate figures could be up to 3 percentage points lower, based on their analysis of corporate profits, tax revenue, rail freight, property sales and other measures of activity that they believe are harder for the government to fudge […] government efforts to keep the economy from cratering, such as infrastructure spending, lending and other stimulus, can obscure areas of weakness or smooth headline growth numbers."[2] At the same time, U.S. growth is also losing momentum, with a new forecast of 2.0% in 2020, down from 2.9% in 2018. Japan is expected to fall to 0.6% from 0.8%.[3]

In response to an increasingly fragile and uncertain economic outlook, world central bankers are resorting to the same old playbook. Through early September, global central banks had delivered 32 interest rate cuts in 2019, according to data from the Bank of International Settlements (BIS). Additionally, *Bloomberg* reports that, "Over the next 12 months, interest-rate swap markets have priced in around 58 more rate cuts, assuming central banks maintain their current trajectories in easing."[4] Notably, the European Central Bank (ECB) is back in the money-printing business, cutting interest rates further into negative territory and restarting its €2.6 trillion Quantitative

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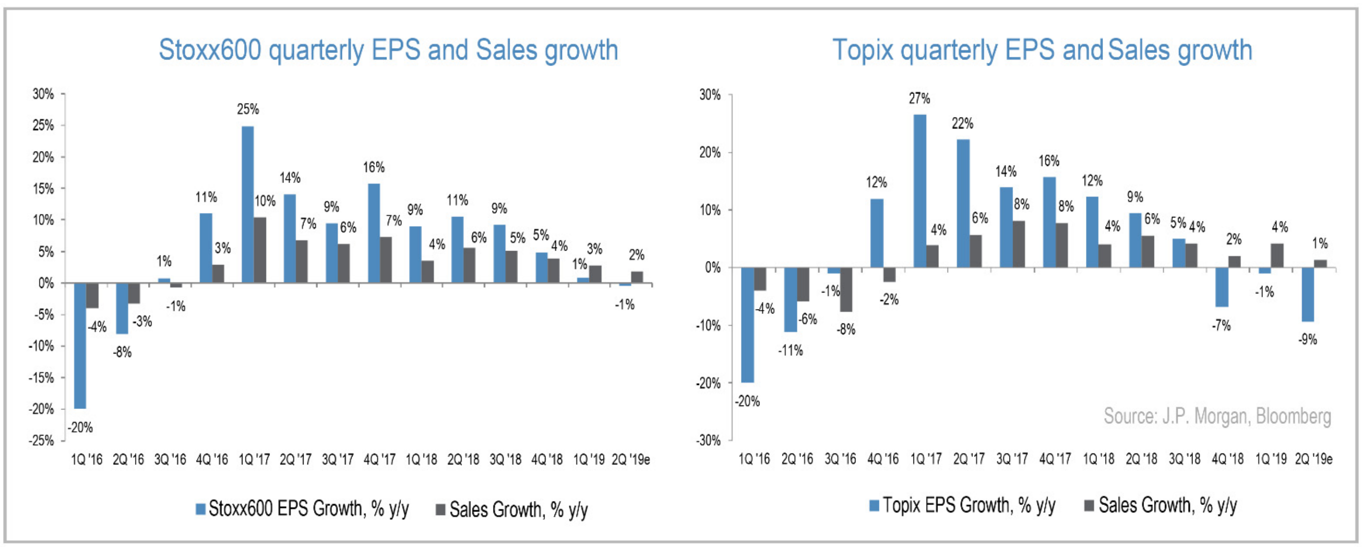
[1] Laurence Boone, OECD Chief Economist. "OECD Interim Economic Outlook. Warning: low growth ahead." Presentation slide deck and press release. September 19, 2019.
[2] Mike Bird and Lucy Craymer. "China Says Growth Is Fine. Private Data Show a Sharper Slowdown." *The Wall Street Journal*. September 8, 2019.
[3] Boone (n 2)
[4] Stephen Spratt. "After 32 Rate Cuts in 2019, Traders Say Many More Are Coming." *Bloomberg*. September 5, 2019.

Easing (QE) program with €20 billion per month of bond purchases.[5] While markets regard easy money as a bullish signal, we view it far more skeptically – as a sign of desperation.

The recent flurry of central bank activity has led to a massive spike in negative-yielding bonds, reaching a record $17 trillion in late August, an astounding 30% of global investment-grade bonds.[6] Negative yields hit several eye-opening new milestones, including 10-year mortgages in Denmark[7] (you get paid to buy a house!), "high-yield" junk bonds in Europe,[8] and 30-year German government debt.[9] We continue to believe that owning risk-bearing assets at a guaranteed loss defies logic and does not pass the common-sense test. As mentioned last quarter, manipulating interest rates is a dangerous game with significant long-term ramifications. These experimental policies are ill-advised and will likely do more harm than good. At some point investors will lose faith in the all-encompassing power of central banks, realizing that these institutions can't solve the world's problems with the swipe of a pen. When that day comes, financial markets will come under pressure.

Fundamental Disconnect

Given the precarious economic landscape, we would not have been surprised to see equity markets decline in 2019, yet the opposite has transpired, as a seemingly never-ending flow of monetary and fiscal stimulus has rejuvenated investor euphoria. Year-to-date, the Stoxx600 and Topix indexes, proxies for Europe and Japan, have gained a robust 20.32% and 8.66%, respectively. Meanwhile, earnings growth has come to a screeching halt, declining by 1% and 9%, respectively, in the second quarter (see charts below).[10] Clearly there is a growing disconnect between stock prices and the unraveling of business fundamentals.

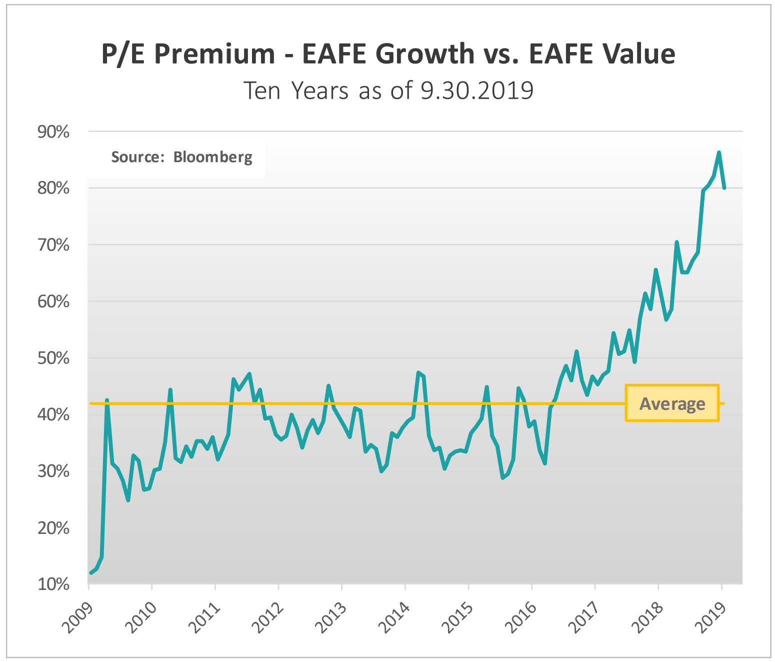


As we have highlighted in prior letters, equity valuations are elevated by historical standards. To justify today's lofty valuations, investors must believe that ultra-low interest rates are here to stay. With hundreds of years of financial market history on our side, we take the other side of that bet. Excessive money printing should eventually lead to inflation. We have already seen it on the asset side (i.e., stocks, bonds, real estate, art, and private equity), and it is likely just a matter of time before it makes its way to the consumer. We view the current environment as the

[5] Martin Arnold. "Over to you, Draghi tells eurozone." *Financial Times*. September 12, 2019.
[6] John Ainger. "The Unstoppable Surge in Negative Yields Reaches $17 Trillion." *Bloomberg*. August 30, 2019.
[7] Oliver Telling. "Negative Mortgages Set Another Milestone in No-Rate World." *Bloomberg*. August 18, 2019.
[8] Paul J. Davies. "Oxymoron Alert: Some 'High Yield' Bonds Go Negative." *The Wall Street Journal*. July 14, 2019.
[9] Dhara Ranasinghe, Michelle Martin. "Germany sells new 30-year bond with negative yield, a first." *Reuters*. August 21, 2019.
[10] Mislav Matejka, Prabhav Bhadani, and Nitya Saldanha. "Equity Strategy: Q2 Earnings Season Tracker." J.P. Morgan Cazenove. August 9, 2019.

exception, not the rule. In the long run, we expect to see a reversion to the mean, not only for interest rates and asset valuations, but for value versus growth.

Over the past decade, equity markets have been driven by growth and momentum stocks. The MSCI EAFE Growth Index has outpaced the value index by ~10% this year alone, and by ~50% cumulatively over the past ten years. As market participants are willing to ascribe higher and higher prices to their beloved growth stocks, the valuation premium for growth versus value has ballooned. Compared with a 10-year average premium on a price-to-earnings (P/E) basis of ~42%, today investors are paying an ~80% premium for growth stocks, per the Bloomberg chart to the right. In the fullness of time, we have great confidence that value will outperform (as it has done historically), *because human nature never changes*. Fear and greed will forever hinder investor objectivity.



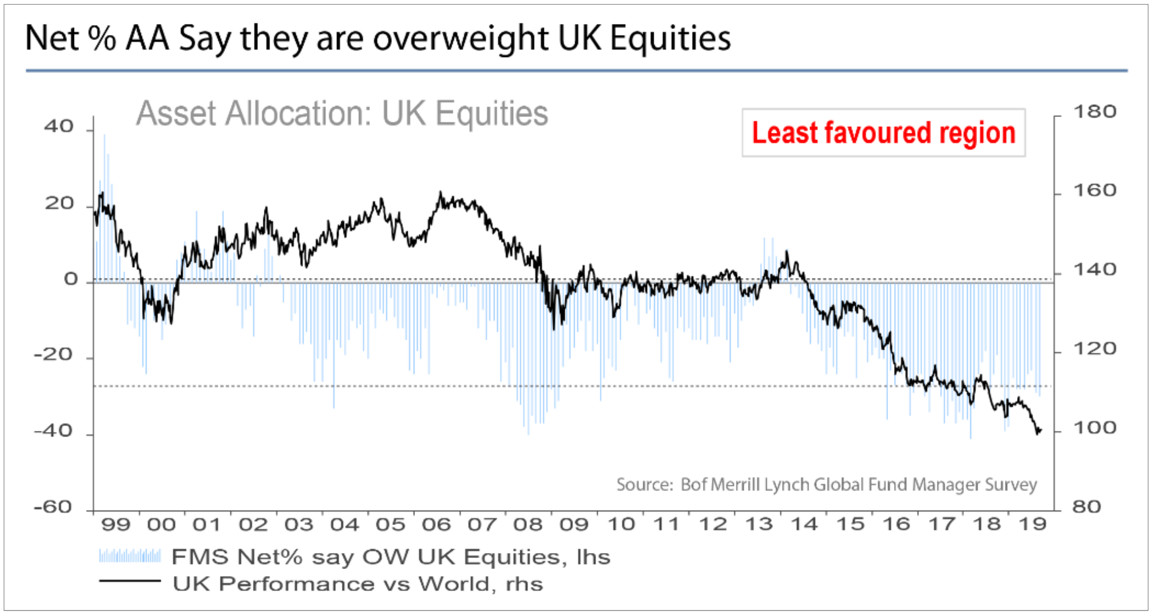
Given the macro concerns, the valuation spread between defensive and cyclical stocks has also become extended. Unfortunately, perceived "safety" stocks come with a high price tag today. As cyclical and deeper-value stocks have continued to underperform, we've looked to take advantage. In the quarter we trimmed several of our stalwart defensive holdings such as Nestlé, Compass Group, and Smith & Nephew, rotating equity exposure into out-of-favor stories such as Amorepacific, Schlumberger, and B&M European Value Retail, which trade at meaningfully lower valuations. More of the same is likely to follow.

A Lonely Road

As we wrote in our March 2018 letter, "Being contrarian can be defined as 'opposing or rejecting popular opinion; going against current practice.' In other words, zigging when everyone else is zagging. In equity investing, in order to beat the market (or your peers), you have to do something different from the market." With a relatively concentrated portfolio of 25-40 companies, we expect that we will typically look quite a bit different than our peers and benchmarks. While we strive to have industry and geographic diversification, we do not have predefined weightings, and let the bottom-up stock-picking and opportunity set dictate the direction of the portfolio. The portfolio may look very different today than it will in five or ten years, depending on where we are finding value at a given point in time.

Today, one of our biggest country overweights is the UK, where a Brexit cloud has enabled us to invest in a collection of world-class businesses at discount valuations. Except for Whitbread and B&M, which are domestically-focused, the rest of our UK holdings are multinational companies with a vast majority of their revenue outside the UK. Ultimately, we think Brexit will be a long-term positive for the UK, even if there is near-term pain, as the British will finally rid themselves of the shackles and dysfunction of the European Union (EU). However, if Brexit gets squashed and the UK remains in the EU (exactly what Europe wants), we would expect to see the stock market react favorably, as investors are likely to cheer the status quo.

As value investors who often go against the grain, we were encouraged to see the UK listed as the world's "least favoured region" to invest in, per the September *Global Fund Manager Survey* by Bank of America Merrill Lynch. We view this as a positive contrarian indicator. With the UK stock market underperforming in recent years, investors have been vacating in droves and are now 30% underweight, per the accompanying chart.[11] As many investors have indiscriminately sold out of their UK-traded stocks, we've been there to pick up the pieces.



Japan, on the other hand, is our biggest country underweight. Over the years, we have sold several of our Japanese holdings as they reached full valuations (Shimano, Shin-Etsu Chemical, SMC Corp., and Makita Corp.). Finding replacements has been challenging. In addition to Japan's structural headwinds (excessive government debt, unsustainably-low interest rates, an aging and shrinking population, and relatively weak growth prospects), historically we have found that many Japanese companies have subpar corporate governance, and do not run their businesses in the best interest of shareholders, often lagging in areas of profitability and capital efficiency. Fortunately, we are slowly starting to see some improvements on this front.

After being elected in 2012, Japanese Prime Minister Shinzo Abe has been on a mission to improve the country's economic malaise, coming up with a three-pronged approach (known as the "three arrows") comprised of: 1) monetary easing, 2) fiscal stimulus, and 3) structural reforms. Putting the first two arrows aside for the time being, Abe's structural reforms are aimed at enhancing and encouraging private investment, including the introduction of corporate governance and stewardship codes. These codes address several important topics, including improved disclosure and transparency, board of directors' independence and diversification, the unwinding of cross-shareholdings, setting clear performance metrics with an emphasis on a return on equity (ROE), increased spending and investment, and engaging in a constructive dialogue with shareholders.

While there is still a long way to go, we have started to see some early signs of progress. Japanese boards are becoming more independent: Between 2014 and 2019, the number of companies on the Tokyo Stock Exchange with at least two independent directors rose from 21.5% to 93.4%.[12] Cross-shareholdings are slowly being reduced, down 12% over the past five years.[13] ROE has improved, up from 8.1% in 2013 to 9.8% in 2018, in conjunction with an improvement in net profit margins from 4.4% to 6.1%.[14] Japanese companies have doubled their shareholder returns (including dividends and share buybacks) over the past five years,[15] setting a record for share buybacks in

[11] Michael Hartnett, Jared Woodard, and Tommy Ricketts. "Global Fund Manager Survey." Bank of America Merrill Lynch. September 17, 2019.
[12] https://www.jpx.co.jp/english/listing/others/ind-executive/index.html
[13] Tatsuhisa Shirakabe. "Corporate Japan sheds more cross-shareholdings." *Nikkei Asian Review*. September 5, 2019.
[14] Factset data.
[15] Nikkei staff writers. "Japan's listed companies double shareholder returns over 5 years." *Nikkei Asian Review*. January 17, 2019.

2018.[16] Activist campaigns are on the rise, with new engagements reaching an all-time high in 2018, and some of the more successful campaigns (e.g., Olympus) garnering significant investor attention.[17] Engagement appears to be improving, as companies are building out their investor relations efforts. In summary, while it may be years before Japan fully adopts best practices on corporate governance and shareholder-friendly management, they appear to be moving in the right direction, which is encouraging. If they remain committed to this reform agenda, our investable universe in Japan will meaningfully expand.

For a recent example of where we have found value in Japan, please see the Sony Corp. investment case below. A description of Whitbread, a long-term UK-based holding, follows. Both illustrate our value-oriented process, where we seek to invest in quality businesses trading at a discount to intrinsic value.

Sony Corp. (6758 JP)

(Analyst: Dan Sievers)

Description

Sony Corp., founded in 1946, is a multinational "creative entertainment" conglomerate headquartered in Minato, Tokyo. For fiscal year 2018 (ended 3/31/19), Sony's segments included Games & Network Services (G&NS; 26% of sales, and 36% of operating profit), Music (9%, and 15%), Pictures (11%, and 6%), Electronics Products & Solutions (EP&S; 26%, and 9%), Semiconductors, or Imaging & Sensing Solutions (I&SS; 10%, and 17%), Financial Services (14%, and 19%), and All Other (4%, and -2%). The Financial Services division is Sony's 65% ownership of Sony Financial Holdings (SFH: 8729 JP). Sales to external customers in fiscal year 2018 were 30% Japan, 23% U.S., 21% Europe, 11% Asia-Pacific, 9% China, and 6% Other.

Good Business

- Sony owns attractive leading global businesses that include the #1 video game company by revenue, #2 in recorded music (and #1 in music publishing), a top 5 film and television studio (including Sony, Columbia, TriStar, etc.), and Sony is the #1 producer of complementary metal-oxide-semiconductor (CMOS) image sensors.
- Sony's G&NS division is much more than Sony PlayStation (PS) hardware (PS5 is expected before December 2020). Around 15-20% of top-rated PS4 games (and a higher percentage of bestselling games) are from Sony's first party studios or are otherwise exclusive to PlayStation. Like Microsoft's Xbox or the Apple App Store, PlayStation charges a platform fee on all third party game sales and smaller in-game purchases. Further, the number of PS Plus subscribers ($60 per year in the U.S.) has grown to 36 million. PS Plus service is required for online multi-player gaming and comes with other benefits like online storage and free games and should generally ease (and encourage) transition to PS5.
- Sony is a strong #2 (to Vivendi's Universal Music Group) in a global recorded music industry that has returned to sustainable growth, largely due to subscription streaming music services, such as Spotify, Apple Music, and others. Similarly, portions of Sony Pictures new and library content are in strong demand from subscription video on-demand services globally.
- Sony's Semiconductor division is the technology leader in CMOS image sensors, where Sony has >50% market share (almost two times the share of #2 Samsung Electronics). This market benefits from the proliferation of image sensors and cameras on smartphones, automobiles, industrial robots, virtual reality devices, etc. Improvement here does not require constant migration of expensive leading-edge equipment, as image sensors are hybrids between analog and digital semiconductors.
- As of 6/30/2019, Sony (excluding SFH) had net cash of over ¥153 billion ($1.4 billion), and equity investments (M3, Olympus and Spotify) worth more than ¥800 billion ($7.4 billion).

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[16] Suryatapa Bhattacharya and Kosaku Narioka. "Once a Miser, Japan Inc. Is Opening Its Wallet to Buy Back Shares." *The Wall Street Journal*. July 10, 2019.

[17] Thomas Franck. "Once shunned, activist investors are now seeing a 'wave of change' in Japan." www.cnbc.com. June 9, 2019.

Valuation

- Using lower-than-global-peer multiples for G&NS, Music, Pictures, Semiconductors, and other Electronics, we arrive at a sum-of-the-parts value above ¥8,500 (>32% upside), including a 10% conglomerate discount.
- Sony's valuation remains undemanding at 14.5 times P/E and 6.6 times EV/EBITDA[18] (excluding SFH) on fiscal year 2019 estimates. Any positive contribution from portfolio streamlining actions or from share repurchases could provide upside to future earnings estimates and/or reduce the conglomerate discount.

Management

- Since Kenichiro Yoshida (age 59), who has been with Sony for 36 years, became Chief Financial Officer in 2014 and Chief Executive Officer in 2018, a number of actions have been taken to improve capital efficiency, to include exiting PCs in 2014 and batteries and camera modules in 2016; the recent sale of their equity stake in Olympus (7733 JP); and two share repurchases totaling ¥300 billion, or $2.8 billion in 2019.
- At Sony's May 2019 Investor Relations Day, they introduced a fiscal year 2025 return on invested capital target of 20%-25% for the Semiconductor segment.
- In Sony's August 2019 Corporate Report, the CFO wrote, "We have adopted return on invested capital (ROIC)-based management and now emphasize mid-term cash flow rather than short-term income on our P&L [profit and loss] statement."

Investment Thesis

Sony's shares have performed well over the past five years, as group ROE has increased significantly, but shares are trading at forward multiples of earnings (fiscal years 1 and 2) that are closer to one standard deviation below 5-year averages. There are still a number of investor concerns, including ongoing losses in smartphone production (a business line in restructuring mode), but the most acute primary concern is that Sony is very late in the PS4 console cycle, while cloud-centric entrants like Google Stadia are preparing to launch. Investors may be anchoring on prior console cycles, but the PlayStation platform now has millions of subscribers to PS Plus, which provides full game downloads and simple in-game purchases that facilitate personal gaming libraries and accounts worth migrating from PS4 to PS5. This concern may also be causing investors to overlook strengths in Sony's other leading segments. We think Sony's PlayStation is well-positioned for future strength, but even if the console cycle transition produces turbulence, Sony's other leading businesses and strong balance sheet provide investors with plenty of ways to win over a multi-year investment horizon, with a potential secondary source of future upside through improved capital efficiency and further reduction of their complexity.

Whitbread PLC (WTB LN)

(Analyst: Jordan Teschendorf)

Description

Whitbread is the largest hospitality group in the UK, with approximately 800 hotels (~76,000 rooms; over 90% of estimated proforma EBIT[19]) and over 700 restaurants (under 10% of estimated proforma EBIT), approximately 98% of which are co-located with a Premier Inn. Premier Inn has a growing pipeline of rooms in the UK (~13,000) and an increasing presence in the German market (~40 hotels with ~7,300 rooms), where Whitbread is early in its efforts to replicate its successful UK model. Prior to its recent sale to The Coca-Cola Company for £3.9 billion, the Costa Coffee franchise was also a part of Whitbread. At the time of the sale in January 2019, Costa was the second largest global coffee chain comprised of over 3,800 global equity and franchised coffee shops, 8,000 express kiosks, and various wholesale businesses.

[18] Enterprise value-to-earnings before interest, taxes, depreciation and amortization
[19] Earnings before interest and taxes

Good Business

- Whitbread has successfully exited non-core businesses over the last ten years, and has focused on organic growth, driving improved margins and returns on capital. The business is now very easy to understand.
- The company is the UK market leader in the economy hotel business with a very strong and trusted brand.
- Premier Inn drives a high (97%) and growing proportion of its bookings directly (PremierInn.com, Premier Inn mobile app, etc.), which allows it to sell its inventory of rooms with very low distribution costs, invest at higher rates than competitors, and maintain a superior product at its low price points. The company has grown its UK market share from 6% in 2010 to 9% in 2016, and targets a 2020 estimate of 11%.
- The company's lease-adjusted ROIC was 10% in fiscal year 2019. Returns have averaged 10-11% over the last 3, 5, and 10-year periods, respectively, well in excess of the company's cost of capital.
- Whitbread has historically been a conservatively-financed enterprise and we expect this to continue for the foreseeable future. Following the sale of Costa, the company's balance sheet carried over £2.5 billion in net cash, £2.0 billion of which was returned to shareholders via a tender offering earlier this year.

Valuation

- Despite a 24% move off its local low in November 2017, the stock remains 20% down from its high in spring 2015, significantly underperforming the FTSE All-Share Index since that time. Sales and profits from the continuing businesses have each grown over 25% since fiscal 2015.
- After adjusting for excess cash on its balance sheet, the company's 12-month forward EV/EBITDA multiple is approximately 9.5 times, a discount to its long-term historical valuation multiple, and a 30% discount to the average of U.S. hotel group peers.
- Whitbread owns the majority of its hotels freehold (63%), which confers operational, site access, and quality control benefits. A third-party valuation range of £4.9-5.8 billion was shared by the company at its February 2019 investor day based on estimated individual sale and leaseback transaction values. While we don't expect a wholesale shift to an asset-light model, the property has tangible value, nonetheless, equal to an estimated 70-85% of the group's adjusted enterprise value.

Management

- Alison Brittain joined Whitbread as CEO Designate in September 2015 before taking over as Chief Executive Officer in December 2015. She previously served as Director of Retail at Lloyds Banking Group (2011–2015). Positive contributions thus far can be seen across long-term strategy (Costa & Germany), cost control (£250 million savings, upsized), and investment (system upgrades).
- Nicholas Cadbury has been Group Finance Director since 2012, previously serving as CFO of Premier Farnell Plc.
- The management team prioritizes returns on capital when considering growth, and this measure is linked to the long-term incentive plan. The sale of Costa for a premium valuation (16.4 times EBITDA) and ongoing delivery of cost savings within the business reflect very positively on this management team.

Investment Thesis

Premier Inn has proven to be a relatively resilient business capable of growing organically and taking market share in many economic environments. After a period of impressive fundamental growth, Whitbread's shares have come under pressure as investors are cautious on the UK hotel cycle and general sentiment of the UK consumer, particularly in the context of Brexit uncertainty. This uncertainty, and a significant slowdown in growth, provided us with the opportunity to invest in a high-quality, well-managed, and conservatively-financed company at a relatively attractive valuation. We expect that Whitbread will continue investing in and growing its business through this period of uncertainty, emerging on the other side as a stronger company. Fundamentally, over the long term, we believe Whitbread has solid growth prospects and should be able to generate sustainable double-digit returns on its invested capital.

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.