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INVESTMENT STRATEGY OUTLOOK - INTERNATIONAL EQUITY

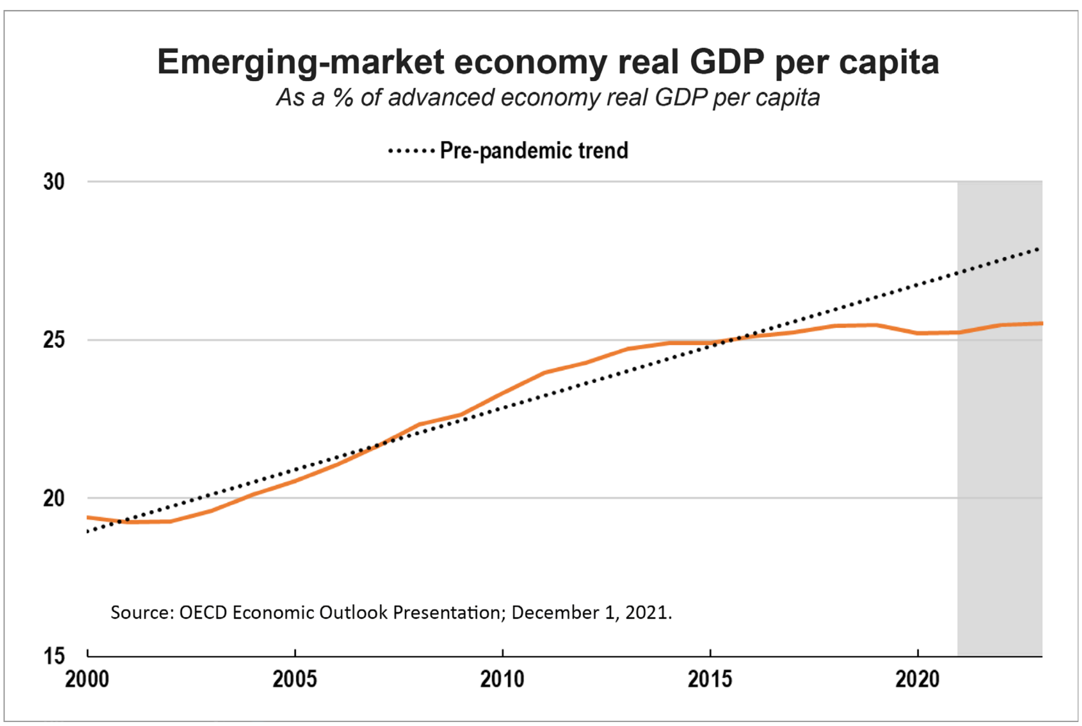
The FMI International portfolios gained approximately 3.9% (gross)/3.7% (net) on a currency hedged basis and 3.4% (gross)/3.2% (net) currency unhedged in the December quarter, compared with an MSCI EAFE Index gain of 3.91% in local currency (LOC) and 2.69% in U.S. Dollars (USD). The MSCI EAFE Value Index rose 2.35% in LOC and 1.17% in USD, trailing the MSCI EAFE Growth Indices by around 3%. FMI's top performing sectors were Distribution Services, Finance, and Consumer Durables, while Consumer Non-Durables, Producer Manufacturing, and Health Technology each underperformed. Ferguson, Sony Group, and Smiths Group were among the strongest individual contributors, as Koninklijke Philips, Milllicom International Cellular, and Nabtesco each failed to keep pace. A strong USD was a tailwind for FMI's currency hedged performance.

For the full calendar year, the FMI International portfolios advanced approximately 15.8% (gross)/15.0% (net) on a currency hedged basis and 10.4% (gross)/9.6% (net) currency unhedged, compared to the MSCI EAFE Index gain of 18.70% in LOC and 11.26% in USD. The MSCI EAFE Value Index added 17.99% in LOC and 10.89% in USD, coming up just short of the MSCI EAFE Growth Indices. FMI's currency hedged performance was boosted by a strong USD, but to a lesser degree than the LOC benchmarks. Several idiosyncratic developments weighed on our relative performance, but we believe these setbacks are temporary in nature, creating an opportunity to drive future returns (more on this later). We continue to be as confident as ever in the portfolio.

State of the Dis-Union

World growth continues to rebound from the pandemic, but is expected to slow to pre-crisis levels as the new year progresses. In 2022, growth rates in developed regions such as the U.S., Europe, and Japan are projected to be well ahead of 2019 levels, coming off a strong recovery in 2021. The catch-up for emerging markets, however, has been more muted (see the following chart), with meaningfully lower vaccination rates and stimulus levels. This has negatively impacted our holdings with outsized emerging market exposure (such as Unilever and Jardine Matheson Holdings), despite attractive long-term prospects. Notably, China's growth has stalled, and is expected to decelerate in 2022 (5.1% growth, from 8.1% in 2021), as it is facing a property slowdown, energy shortages, and lingering weakness in consumer activity[1].

The Omicron COVID-19 variant has taken the world by storm, proving to be highly contagious. However, evidence thus far suggests that the variant is less severe than previous strains, which is a significant and encouraging development. A combination of vaccination and mass low-grade infection should help combat the virus. The near-term impact on the economy remains uncertain as several countries once again imposed significant restrictions. Among others, the Netherlands and Austria reinstated strict nationwide lockdowns, Japan and several European countries tightened travel restrictions, Ireland introduced a curfew for pubs and restaurants, and China continued with its "zero-COVID" policies. It is likely that restrictions will loosen as people learn to live *with* the virus, not run from it. We are starting to see reduced isolation and quarantine recommendations, which is promising. In the meantime, growth will continue to be impacted to varying degrees.



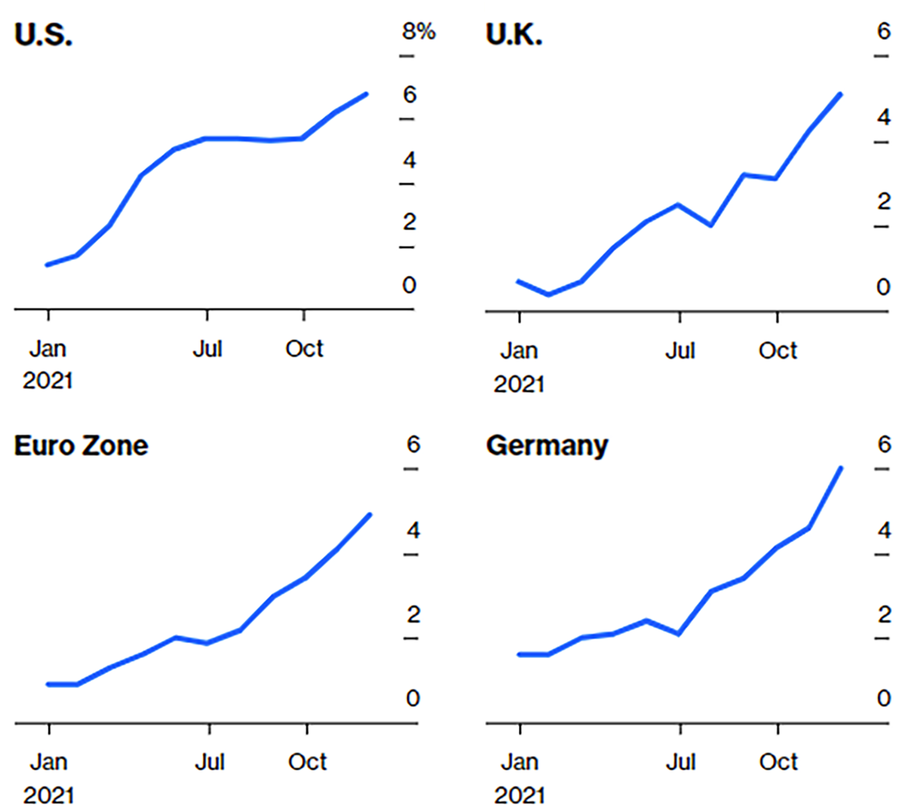
[1] OECD Economic Outlook Presentation. December 1, 2021.

Up, Up, and Away

Per our discussion in the September letter, inflation is not just a U.S. problem. Inflation accelerated in the fourth quarter across the globe (see charts below)[2], from food, energy, and shelter, to transportation, wages, and commodities. The Consumer Price Index reached a 10-year high in the United Kingdom (at 5.1%)[3], a 29-year peak in Germany (6.0%)[4], and a 25-year high in the Eurozone (4.9%)[5]. In China, the Producer Price Index reached a 26-year pinnacle (12.9%)[6], pushing up prices for countries that import Chinese goods. Interestingly, the majority (55%) of fund managers *still* think inflation is transitory, according to a recent Bank of America investor survey[7]. We remain in the minority, as relentless money printing (for over a decade) and an astounding $32 trillion in global monetary and fiscal stimulus since 2020[8] won't just disappear without a trace.

Encouragingly, the Bank of England started raising interest rates (the first rate increase among major economies), while the European Central Bank (ECB) and Federal Reserve (Fed) have begun tapering their asset purchases (with the Fed expected to raise rates in 2022). Baby steps, we admit, but additional rate hikes could be on the horizon, should inflation continue to run rampant. As previously described, higher rates would be music to value investors' ears (and FMI portfolios), given that growth stocks have been the primary beneficiaries of ultra-low interest rates.

Inflation has surged past the 2% rate many central banks target



Sources: National statistics offices via Bloomberg

Market Froth

Stock valuations are elevated in an absolute sense, with accommodative policies continuing to encourage speculation. Thanks to unprecedented Central Bank intervention, the natural pricing functions of financial markets are distorted. Returns in the bond market are virtually non-existent. If over $11 trillion in negative-yielding bonds globally weren't concerning enough, now European *junk bonds* collectively have a *negative real yield* (nominal yield minus inflation) for the first time in history[9]. Given the inherent risks in junk bond investing, market participants have historically received around a 6.6% real yield (average since 2000) on

[2]https://www.bloomberg.com/opinion/articles/2021-12-20/what-eight-charts-are-telling-us-about-markets-in-2022?sref=vqHOAy1P.

[3]Elliot Smith. "UK inflation hits 10-year high ahead of key Bank of England meeting." *CNBC*, December 15, 2021.

[4]Jana Randow. "German Inflation Surges to 6% as ECB Insists Spike Will Pass." *Bloomberg*, November 29, 2021.

[5]Silvia Amaro. "Euro zone inflation rate hits a record 4.9% for November." *CNBC*, November 30, 2021.

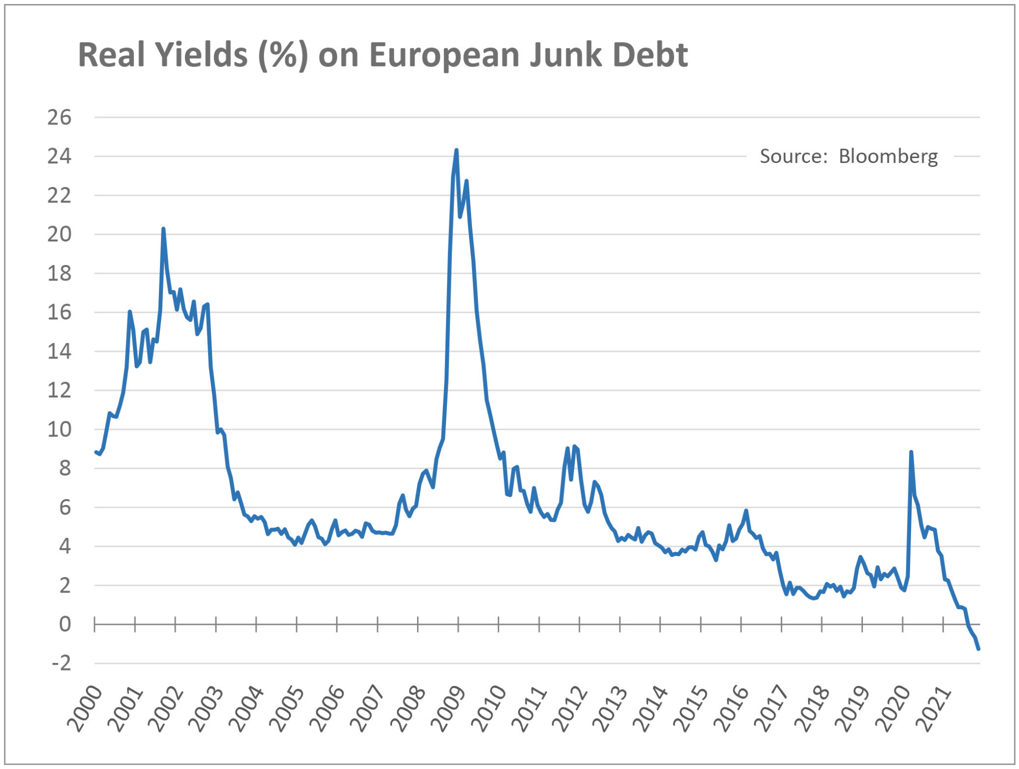
[6]"China Factory Inflation Slows in November From 26-Year High." *Bloomberg News*, December 8, 2021.

[7]Michael Hartnett, David Jones, Shirley Wu, and Myung-Jee Jung. "Global Fund Manager Survey: FOMCash." *BofA Global Research*, December 14, 2021.

[8]Michael Hartnett, David Jones, Shirley Wu, and Myung-Jee Jung. "The Flow Show: Every Little Thing Xi Does Is Magic." *BofA Global Research*, December 10, 2021.

[9]Tatiana Darie. "Run-it-Hot Eurozone Economy Robs Junk Bond Market of Real Yield." *Bloomberg*, September 6, 2021.

these holdings, as illustrated on the right. Today, the real yield is -1.3%[10]. Despite going down the risk spectrum, junk bondholders are not being adequately compensated. Investors are rightly turning to equities, which have the best shot at earning attractive real returns, but this puts upward pressure on stock valuations as well.



A November study by McKinsey Global Institute (MGI) observed an unusual disconnect between asset growth and the economy in recent years:

> *Though the growth in wealth usually tracks GDP growth, since the beginning of this century wealth has soared while GDP growth has been tepid. At a global level, wealth is now up by nearly 50% from the pre-2000 average relative to GDP. Asset prices rising faster than general inflation drove much of this increase, while net new investment contributed only 28% to wealth growth. Declining interest rates combined with inelastic land markets in real estate underpinned asset price growth.*[11]

If the historical relationship between wealth and GDP returns, lower asset prices could follow.

Similarly, balance sheet leverage has increased significantly, creating additional risk. Per MGI, "Financial claims and obligations also grew much faster than GDP. Our balance-sheet view highlights that for every $1 in net new investment, we have created nearly $2 in debt. In other words, half of all new debt is backed by asset value increases or not backed by assets at all, rather than financing new capital stocks."[12] Brookings Institution estimates that private debt globally "jumped by 15 percentage points of GDP to 165 percent of GDP in 2020, its highest level since records started in 1970," while "global government debt registered its fastest single-year jump to roughly 100 percent of GDP, its highest level in half a century."[13]

Despite frothy financial markets, we believe the FMI International portfolios are well-positioned. In addition to owning strong, differentiated businesses, our companies are well-run, have robust balance sheets, and trade at discount valuations. From a relative standpoint, FMI is fishing in one of the most attractive ponds! With international stocks lagging U.S. stocks, and value underperforming growth in sizable measure over the last decade, the setup on a valuation front is compelling. The portfolio remains at a significant discount to the MSCI EAFE Index, partially driven by the risk reward opportunity and our overweight in the U.K.

A Flicker at the End of the Tunnel

We have spoken at length about the exceptional divergence between growth and value stocks in recent years. Needless to say, we have been swimming upstream given our firm's value orientation. After a brief reprieve in late 2020 (fourth quarter) and early 2021 (first quarter), there has been yet another rotation back into growth stocks following the emergence of the COVID-19 Delta and Omicron variants. The MSCI EAFE Growth Index has beaten the MSCI EAFE Value Index by over 10% since mid-May, and 43%

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[10] Source: *Bloomberg.*

[11] Jonathan Woetzel, Anu Madgavkar, and Jan Mischke. "Global Wealth Has Exploded. Are We Using It Wisely?" *McKinsey Global Institute*, November 26, 2021.

[12] Ibid.

[13] M. Ayhan Kose, Peter Nagle, Franziska Ohnsorge, and Naotaka Sugawara. "Debt tsunami of the pandemic." *Brookings Institution,* December 17, 2021.

cumulatively over the past three years. Seemingly, the lower the quality and more speculative the equity, the greater the reward... this is not our kind of party.

There is a flicker of light at the end of the tunnel, however, with the FMI Small Cap portfolio (U.S. small-mid-cap portfolio) as the potential beacon. Unlike in the large-cap arena (both International and U.S.), small-cap domestic investors became more discerning in 2021, bringing the high-flying growth stocks back down to earth. For the full year, the Russell 2000 Value Index outperformed the Russell 2000 Growth Index by over 25%, with the FMI Small Cap portfolios picking up over 15% versus the core Russell 2000 benchmark, illustrating just how quickly performance can flip. We strongly believe it is just a matter of time before the FMI International and FMI Large Cap portfolios follow suit.

Today's Losers… Tomorrow's Winners

Last quarter we highlighted three stocks (Fresenius Medical Care, Smith & Nephew, and Safran) facing acute COVID pressures, but where the long-term investment case remains compelling. Below, we describe two additional holdings that underperformed in 2021, but that we believe have bright futures. We added to both of these holdings over the course of the year.

Koninklijke Philips N.V. (PHIA NA) is a top-10 global MedTech company with a strong position in diagnostic imaging, patient monitoring, respiratory care, and personal health. In normal times, the business should be able to grow the top line in the mid-single-digits, with potential to drive several hundred basis points of margin improvement. However, a €500 million sleep device product recall (to be completed by Fall 2022) has weighed heavily on the stock. In limited circumstances, including when unapproved ozone cleaning is used, a sound abatement foam component may degrade. This foam is being extensively tested for potential harmful effects (including carcinogens). Relatedly, Philips Respironics' facility in Pennsylvania has received a Form 483 letter from the FDA with several "observations" that need to be addressed. We believe the €13 billion hit (-30%+) to the market cap far exceeds virtually all worst-case fundamental scenarios. Sleep system hardware accounts for only ~7% of the company's sales. Prior to the recall, the stock had been trading at a sizeable discount to MedTech peers, despite having a good chance of growing earnings faster than the sector. The gap has widened dramatically, creating an attractive setup for those who are willing to see through this bump in the road.

Samsung Electronics Co. Ltd. Preferred (005935 KS) is the world's dominant semiconductor memory producer (#1 is DRAM & NAND), the #2 semiconductor foundry, the leader in display technologies, and a leader in consumer electronics (mobile devices, televisions, appliances, 5G equipment, medical devices, and more). The memory industry's competitive structure is favorable, and secular demand growth ("content per box") is strong. Memory markets have seen structural improvement through consolidation, broadening bespoke demand, increasing scale advantages, and rising barriers to entry. Samsung has the leading cost and technology position. Cyclical concerns, including the near-term trajectory of DRAM pricing, led to weakness in the stock following a strong 2020. However, we believe these concerns will prove short-lived as the industry gradually becomes less cyclical (higher highs and higher lows) and the long-term secular prospects for the company remain robust. As of 9/30/21 they had over $84 billion of net cash on the balance sheet (20% of the market cap), and a throwaway valuation of around 11 times next twelve months earnings and 5 times EV/EBITDA. Samsung Electronics continues to be one of the highest conviction ideas across our portfolios.

We want to remind our readers that investors can be fixated on benchmark returns, in both good and bad times. What is equally, if not more important, however, is *how much risk* is taken to generate those returns. Given FMI's focus on business quality, balance sheet, valuation and downside protection, we believe we are taking significantly less risk than the average manager, and the market as a whole. We strive to generate attractive *risk-adjusted* returns. Even though our shareholders may not have needed the downside protection ex-post, it still makes sense to operate with prudence ex-ante. Investors never know in advance when they might run into more difficult times.

Thank you for your continued support of Fiduciary Management, Inc.

Fiduciary Management Inc.
International Equity Hedged Composite
12/31/2010 - 12/31/2020

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%
2018	-8.63	-9.27	-10.99	3	0.06	7.22	9.69	$ 6,287.8	$ 19,833.6	31.70%
2019	18.11	17.29	21.67	3	0.08	8.30	9.48	$ 7,522.0	$ 22,609.9	33.27%
2020	0.98	0.25	0.84	3	0.27	17.52	15.65	$ 3,576.9	$ 16,284.2	21.97%

*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, Inc. claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Fiduciary Management, Inc. has been independently verified for the periods 12/31/1993 - 12/31/2020. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The International Equity Hedged Composite has had a performance examination for the periods 12/31/2010 - 12/31/2020. The verification and performance examination reports are available upon request. As of January 1, 2021 the International Equity Composite was renamed the International Equtiy Hedged Composite.

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 $16.2 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 Hedged Composite was created and incepted on 12/31/2010. 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 Hedged 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®. FMI uses gross returns to calculate these.

Currently, the advisory fee structure for the International Equity Hedged 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 and FMI distributed mutual funds are 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 Hedged composite uses the MSCI EAFE Net Local Index® as its primary index comparison.

Fiduciary Management Inc.
International Equity Unhedged Composite
12/31/2019 - 12/31/2020

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			
2020	4.88	4.09	7.82	1	0.00	n/a	n/a	$ 56.7	$ 16,284.2	0.35%

*MSCI EAFE Net Index (USD)®

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