

INVESTMENT STRATEGY OUTLOOK - INTERNATIONAL EQUITY

In the December quarter, the FMI International Strategies gained approximately 13.5% (gross)/13.3% (net) on a currency hedged basis and 19.7% (gross)/19.5% (net) currency unhedged, compared with the iShares Currency Hedged MSCI EAFE ETF increase of 9.75% and 17.65% for the iShares MSCI EAFE ETF. The iShares MSCI EAFE Value ETF advanced 20.45%¹ over the same period. FMI's top performing sectors included Retail Trade, Consumer Services, and Consumer Non-Durables, while Health Technology, Producer Manufacturing, and Process Industries each underperformed. B&M European Value Retail S.A., Arch Capital Group Ltd., and Schlumberger Ltd. were among the strongest individual contributors, as DKSH Holding AG, DBS Group Holdings Ltd., and Roche Holdings Ltd. lagged the market. A weak USD was a headwind for FMI's currency hedged performance in the period, after USD strength earlier in the year.

For the full calendar year, the Strategies fell by approximately 8.5% (gross)/9.2% (net) on a currency hedged basis and 16.4% (gross)/17.0% (net) currency unhedged. The iShares Currency Hedged MSCI EAFE ETF declined by 4.79% and the iShares MSCI EAFE ETF fell by 14.36%, while the iShares MSCI EAFE Value ETF dropped 5.18%. FMI's currency hedged performance was boosted by significant appreciation in the USD over the course of the year.

Our minimal exposure to energy, commodities, and defense weighed on our relative performance, given their rapid appreciation after the start of the Ukraine war. In prior shareholder

letters, we have discussed why we typically tread lightly in some of these sectors, as they do not fit our eye in terms of business quality and long-term value creation. Unfortunately, those were the top performing macro themes in Europe this year (and the only ones with positive stock market returns): EU defense (54.2%), oil majors (32.1%), commodity exposed (16.0%), and EU miners (12.6%).² Furthermore, our performance was negatively impacted by several of our healthcare and UK consumer holdings, but despite some recent challenges, the long-term prospects continue to look attractive from today's depressed levels.

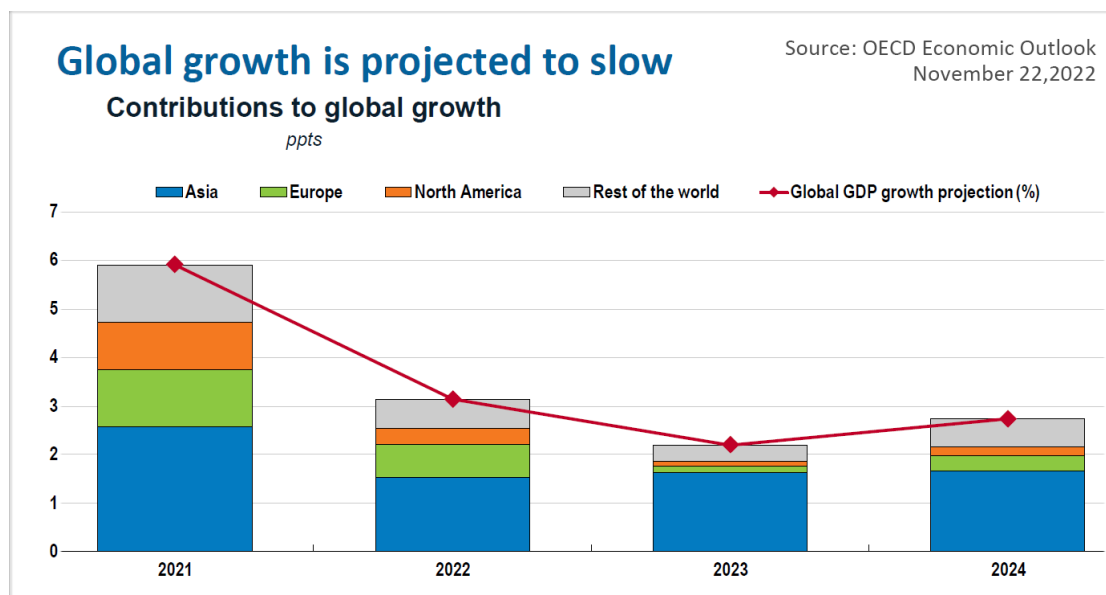
We view the current backdrop as far more conducive for stock picking than was the case in recent years, as valuations have compressed, investor sentiment is low, and interest rates are finally on a path toward normalization. Owning high-quality businesses with strong balance sheets that trade at a discount to the market should be a winning formula, once again. We have great confidence in the value of our portfolios.

All Is Not Lost

The global economy has faced several outsized challenges over the past year, including Russia's invasion of Ukraine, an energy crisis, China's zero-COVID lockdown policy, the highest inflation we have seen in several decades (global inflation is forecast at 8.8% in 2022, up from 4.7% in 2021), and the normalization of monetary and fiscal policies from extraordinarily accommodative levels. As illustrated in the chart below, economic growth decelerated

in 2022 and is projected to slow further in 2023. Expectations are for the weakest growth since 2001, notwithstanding the Global Financial Crisis and acute phase of the COVID-19 pandemic.³

Despite the more difficult near-term outlook, all is not lost. Several encouraging data points to consider: labor markets remain tight globally and nominal wages are on the rise (though they have still yet to catch up with inflation in most economies), China is finally re-opening, supply chain disruptions are improving,



¹Bloomberg - returns do not reflect management fees, transaction costs or expenses. Performance is based on market price returns. Beginning 8/10/20, market price returns are calculated using closing price. Prior to 8/10/20, market price returns were calculated using midpoint bid/ask spread at 4:00 PM ET.

²Bloomberg. Goldman Sachs EU Macro/Thematic performance table.

³"Executive Summary." International Monetary Fund. October 2022.

iShares MSCI EAFE ETF

Source: FactSet Data

	Average Weight	Total Return	Contribution to Return
Total	100.00	61.02	61.02
PE LTM Quintile 1: 37.6 - 100.0	21.27	85.14	17.48
PE LTM Quintile 2: 21.0 - 37.5	23.06	99.68	21.17
PE LTM Quintile 3: 13.0 - 21.0	20.06	57.97	11.80
PE LTM Quintile 4: 8.7 - 12.9	17.89	30.72	5.24
PE LTM Quintile 5: 0.5 - 8.7	17.42	31.33	5.31

iShares MSCI EAFE ETF 1/03/2017 through 12/31/2021.

Price-to-Earnings Last Twelve Months: Money-losing companies are ascribed a 40 P/E ratio to them (which is probably conservative) and those with P/E ratios greater than 100 are capped at 100.

inflation appears to have peaked (global inflation is expected to fall to 6.5% in 2023⁴), and Europe's economy has fared better than many had feared in the wake of the Ukraine war.

We are optimistic over the long-term and believe economic growth may surprise on the upside in the coming years. In our view, the normalization of interest rates is a very encouraging development, as ultra-low rates led to significant speculation, asset price inflation, financial engineering, and value-destructive merger and acquisition activity. We expect that normal interest rates will help force companies to prioritize organic capital investment and research and development, which would do a lot more for underlying economic growth, value, and employment than the aforementioned.

To put the speculative excess into perspective, a recent McKinsey Global Institute discussion paper is informative, as it describes how the global balance sheet expanded "inexorably" from 2000

to 2021. Though real assets and net worth grew from around four times GDP to over five times, "only about one-fifth of wealth growth came from savers channeling money into new investment, with asset price inflation on the back of low interest rates contributing close to 80 percent." Balance sheets levered up considerably, as "liabilities and debt in China, Europe, Japan, and the United States were higher relative to GDP at the end of 2021 than at the time of the 2008 global financial crisis. For every dollar of net investment, \$1.90 of additional debt was created outside the financial sector." Remarkably, during the depths of the pandemic (2020 and 2021), balance sheet growth exploded, as "global wealth relative to GDP grew faster than in any other two-year period in the past nine decades ... the creation of new debt accelerated to \$3.40 for each \$1.00 in net investment."⁵ Broadly, highly levered balance sheets have not been penalized in recent years, but that can change quickly.

With radical levels of stimulus, there was no shortage of risk-taking. As seen in the table below, for the five years ending in 2021, the higher the price-to-earnings multiple, generally the better the stock performance. This flies in the face of history and is typically the exception, not the rule. The past few years, as we have all experienced, have been anything but typical.

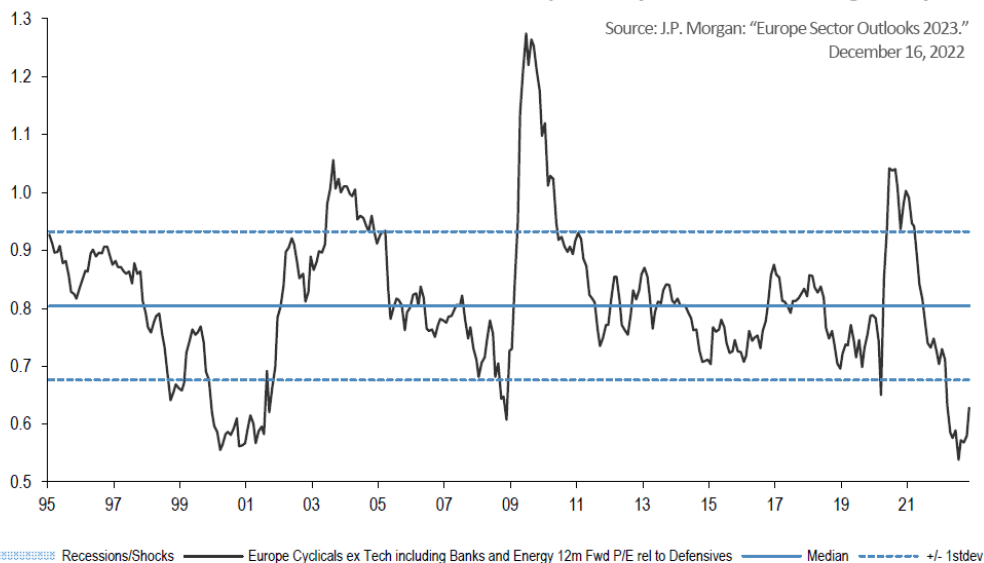
We believe fiscal and monetary authorities over-reached, with an astounding \$30 trillion of stimulus in 2020 and 2021, and unprecedented levels of interest rate suppression. For the first time in financial market history, not only did we have negative interest rates, but \$18.4 trillion of negative-yielding debt! Fortunately, that debt has fallen to \$24.4 billion.⁶ It is our belief

that we were well overdue for a correction in stocks, bonds, and real estate, which we now have today. Hopefully the days of free money and reckless money printing will soon be a memory, and we will welcome a normal cost of capital with open arms. From a relative standpoint, our portfolios should stand to benefit as these experimental policies continue to unwind.

Today's Flavor: Out of Favor

As we highlighted last quarter, valuations finally appear to be incorporating a lot of bad news. Companies with economic sensitivity have been particularly hard-hit, with industries that touch housing, construction, consumer durables, semiconductors, and retail under significant pressure, to name a few.

Cyclicals are at peak earnings, but have already derated substantially, to past recession lows, and should be an opportunity as we move through the year



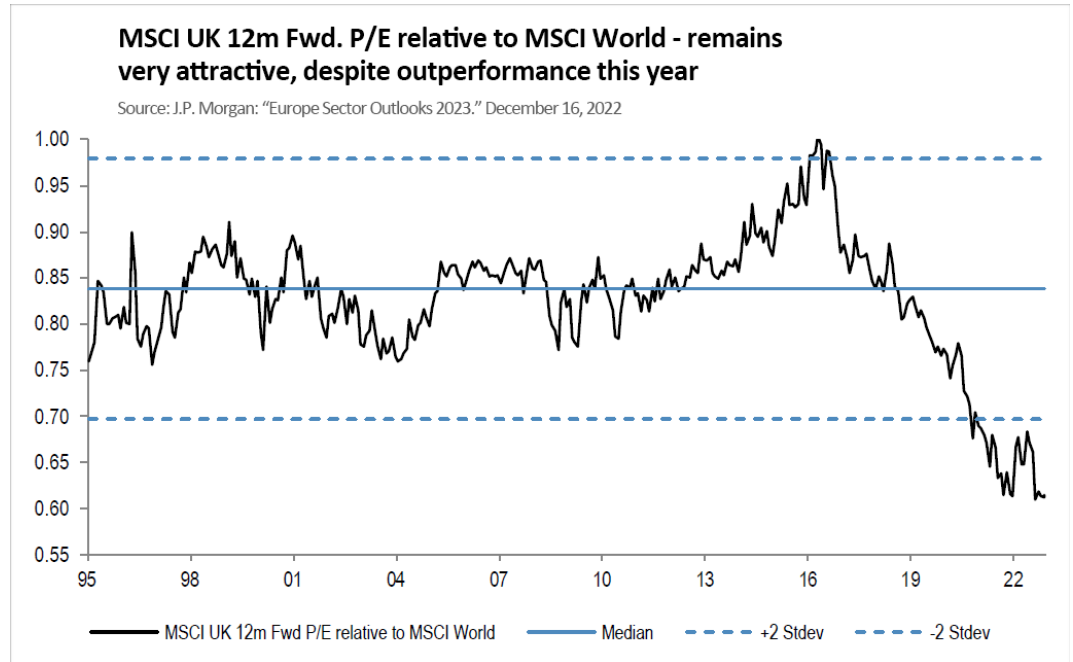
⁴"Executive Summary." International Monetary Fund. October 2022.

⁵Jan Mischke, Eckart Windhagen, Olivia White, Jonathan Woetzel, Sven Smit, Michael Birshan, Szabolcs Kemeny, and Jorge Sanchez Cumming. "Global balance sheet 2022: Enter volatility." McKinsey Global Institute, December 15, 2022.

⁶Bloomberg.

Meanwhile, steady, non-cyclical businesses (“defensives”) have outperformed, despite higher valuations. As illustrated above, the valuation spread between defensives and cyclicals is close to a multi-decade high.

Over the past year, we have purchased and added to a number of high-quality cyclicals, including Ashtead Group (new position), Rexel, Booking Holdings Inc., Safran, and Sony Group Corp., while exiting defensives Secom and Chubb Ltd. Our team spends significant time assessing what companies will earn “on average” over a cycle and whether each stock represents good value based on this. We would rather buy a somewhat cyclical company that is cheap on average earnings



than pay a steep price for a steadier business. Ironically, despite the recent bear market, many defensives are still trading at nosebleed valuations. Multiples for steady stories have rerated dramatically over the past ten years. It seems foolish to chase these stocks today.

The market’s intense loathing for UK consumer stocks fits squarely into this rubric, as UK consumption has been the worst performing macro theme in Europe in 2022 (-44.7%).⁷ We highlighted our UK consumer holdings (Greggs PLC, B&M European Value Retail S.A., Howden Joinery Group) in our 2022 shareholder letters, and continue to believe their long-term risk-to-rewards are compelling. As illustrated above, UK valuations are being offered at a significant discount to the rest of the world – at more than two standard deviations below the historical median.

While it can be nerve-wracking, the best time to buy out-of-favor assets is often when they are most hated. As Warren Buffett astutely opined: “The most common cause of low prices is pessimism—sometimes pervasive, sometimes specific to a company or industry. We want to do business in such an environment, not because we like pessimism but because we like the prices it produces. It’s optimism that is the enemy of the rational buyer ... Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can’t buy what is popular and do well.”⁸ This gets at the heart of value investing. When the crowd is lining up at the exits, it’s likely a signal that we should be taking a closer look.

As a reminder, at FMI we set out to put together a focused portfolio of competitively advantaged businesses trading at a discount to our estimates of intrinsic value. We prioritize downside protection, with an emphasis on balance sheet and management strength. From time-to-time, our “quality value” investment style can fall out of favor (i.e., growth-driven or commodity-driven stock markets). However, through full market cycles, we have a proven long-term track record of outperformance, all while taking on less risk than the market. Our investment process has withstood the trials of decades of financial market history, successfully navigating public equities for over 40 years. We are independent and owner-operated; we invest in the very same stocks and portfolios as our shareholders. In short, we win when our clients win.

We are pleased to announce that in the New Year, Jonathan Bloom has been elevated to Co-Chief Investment Officer alongside Patrick English. This is a formalization of the co-vetting work they have done together over the last seven years, while Jonathan served as Director of Research.

Thank you for your confidence in Fiduciary Management, Inc.

⁷Bloomberg. Goldman Sachs EU Macro/Thematic performance table.

⁸<https://www.ruleoneinvesting.com/blog/how-to-invest/warren-buffett-quotes-on-investing-success/>

Fiduciary Management Inc.
International Equity Hedged Composite
12/31/2010 - 12/31/2021

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		Total Firm Assets End of Period (\$ millions)	Percentage of Firm Assets %
						Composite	*Benchmark	Assets End of Period (\$ millions)	End of Period (\$ millions)		
2012	19.35	18.46	18.82	≤ 5	0.00	n/a	n/a	\$ 76.3	\$ 15,253.5	0.50%	
2013	25.89	24.95	21.39	≤ 5	0.00	9.78	16.17	\$ 165.8	\$ 19,705.3	0.84%	
2014	5.66	4.87	-6.20	≤ 5	0.00	7.49	13.20	\$ 771.6	\$ 21,001.1	3.67%	
2015	4.24	3.46	-1.00	≤ 5	0.00	8.14	12.46	\$ 2,832.9	\$ 21,042.9	13.46%	
2016	11.04	10.23	1.38	≤ 5	0.38	7.39	12.00	\$ 5,946.2	\$ 22,626.7	26.28%	
2017	16.51	15.70	25.10	≤ 5	0.02	7.04	11.03	\$ 8,209.3	\$ 25,322.0	32.42%	
2018	-8.63	-9.27	-13.81	≤ 5	0.06	7.22	10.82	\$ 6,287.8	\$ 19,833.6	31.70%	
2019	18.11	17.29	22.03	≤ 5	0.08	8.30	10.97	\$ 7,522.0	\$ 22,609.9	33.27%	
2020	0.98	0.25	7.58	≤ 5	0.27	17.52	17.63	\$ 3,576.9	\$ 16,284.2	21.97%	
2021	15.81	14.95	11.46	≤ 5	0.00	17.57	16.54	\$ 3,541.7	\$ 17,068.4	20.75%	

*iShares MSCI EAFE ETF®

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 - 12/31/2021. 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 - 12/31/2021. The verification and performance examination reports are available upon request.

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 \$17.1 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 inception on 12/31/2010. Prior to 01/01/2020, this composite was referred to The International Equity Hedged Composite. 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 iShares MSCI EAFE ETF® seeks to track the investment results of the MSCI EAFE Index (the "Underlying Index"), which has been developed by MSCI Inc. (the "Index Provider" or "MSCI"). The Underlying Index is a free float-adjusted, market capitalization-weighted index designed to measure large- and mid-capitalization equity market performance of developed markets outside of the U.S. and Canada. The Underlying Index includes stocks from Europe, Australasia and the Far East and, as of July 31, 2021, consisted of securities from the following 21 developed market countries or regions: 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 (the "U.K."). The MSCI EAFE Net Index (USD)® 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 Index (USD)® 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 iShares MSCI EAFE ETF® as its primary benchmark comparison. In September 2022, the benchmark was changed from MSCI EAFE Net Index (USD)® to iShares MSCI EAFE ETF® for all periods.

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Fiduciary Management Inc.
International Equity Unhedged Composite
12/31/2019 - 12/31/2021

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	7.58	≤ 5	0.00	n/a	n/a	\$ 56.7	\$ 16,284.2	0.35%
2021	10.43	9.64	11.46	< 5	0.00	n/a	n/a	\$ 108.6	\$ 17,068.4	0.64%

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Currently, the advisory fee structure for the International Equity Unhedged Composite portfolios is as follows:

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