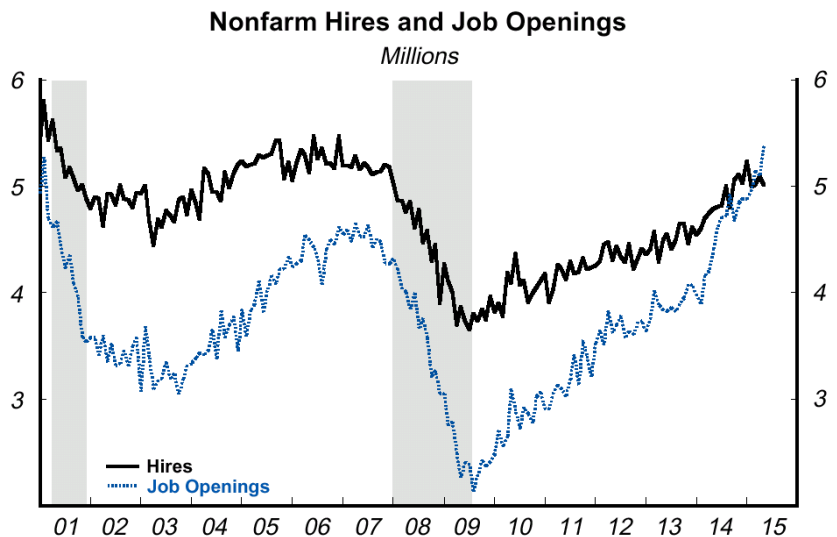


## INVESTMENT STRATEGY OUTLOOK – LARGE CAP EQUITY

June 30, 2015

The FMI Large Cap portfolios were up approximately 0.4% in the quarter ending June 30, 2015, compared to a gain of 0.28% for the benchmark Standard & Poor's 500 Index (S&P 500). Sectors that showed good performance included Technology Services, Finance and Consumer Durables, while Producer Manufacturing, Process Industries and Commercial Services lagged the benchmark. Cash was also a negative contributor. Accenture, Comerica and Stanley Black & Decker outperformed in the quarter. Berkshire, Potash and Omnicom hurt relative performance. There weren't many big movers in either direction during the quarter and portfolio activity remained relatively muted. The research team has been building a deep list of candidates while awaiting prices that make more sense.

The economy may be poised to accelerate but overall, the data remains mixed. Durable goods orders slipped 1.8% in May but new home sales climbed 24% in the first five months of the year. First quarter annualized Gross Domestic Product growth was down 0.2% but estimates for the second quarter in late June hovered in the 2.0-3.0% range. Despite what looks like a moderately better economic tone in the second quarter, the list of companies reducing sales and earnings estimates continues to grow (e.g., United Technologies, Oracle, Emerson, Wal-Mart), adding to the malaise from the commodity-



related sectors, whose fortunes began to weaken last year. According to a June 19 report from FactSet, S&P 500 earnings are expected to be down 4.7% in the second quarter. Excluding Energy, however, earnings and sales growth expectations are closer to flat. Retail sales have perked up recently after starting the year in a funk. Real wage growth, which has been fairly stagnant for over a decade, is estimated to have grown at a low single-digit positive annual rate in the June quarter. Job openings, depicted in the chart above by the lower line, are growing, and while hires (upper line) have continued to lag, the data seems to provide some hope that both employment and wages are poised for stronger growth.

Despite the May setback in durable goods, there has been a slight improvement in capital investment year-to-date, as well as with research and development (R&D) spending. These two elements are critical to improving long-term organic growth. Productivity growth over the past several years has been weak (about a half to two-thirds of its long-term growth rate) but will undoubtedly improve if these two figures become more robust.

You would never know the economy was so choppy by looking at the stock market, particularly areas of the market that are showing classic signs of speculative fever. Stocks of companies with low-to-no earnings, low-to-no dividends, and high valuations are outperforming stocks with the opposite characteristics. Mergers and acquisitions (M&A) activity is on pace to exceed all previous records this year. Recently Fitbit came public at \$20.00 and within two days was trading over \$32.00. In late June it sported a market value of \$6.7 billion on earnings of \$132 million (50x price-to-earnings ratio). And this was considered one of the higher quality initial public offerings (IPOs). *The Wall Street Journal* reported that Fitbit was only the second of twelve technology IPOs this year that had net income. Somebody forgot to tell Fitbit that the sky is the limit if you aren't constrained by pedestrian elements like net income! Healthcare, and particularly biotechnology, have been the hottest sectors. Some of the announced deals (not necessarily consummated) in the healthcare area include:

**Mylan buying Perrigo:** 8.3x sales; 28.6x earnings before interest, taxes, depreciation and amortization (EBITDA) (\$34.9 billion deal)

**Teva buying Mylan:** 4.4x sales; 18.3x EBITDA (\$34.8 billion deal)

**AbbVie buying Pharmacyclics:** 27.1x sales; 156.0x EBITDA (\$19.8 billion deal)

**Shire buying Actelion:** 8.9x sales; 25.1x EBITDA (\$18.9 billion deal)

**Endo International buying Par Pharmaceutical:** 7.4x sales; 41.1x EBITDA (\$10.2 billion deal)

**Alexion Pharma buying Synageva BioPharma:** 1361.3x sales; no earnings (\$7.9 billion deal)

**Shire buying NPS Pharma:** 22.6x sales; 603.3x EBITDA (\$5.1 billion deal)

**Actavis buying Allergan:** 9.3x sales; 31.2x EBITDA (\$65 billion deal)

**Allergan buying Kythera Biopharms:** 165.0x sales; no earnings (\$2.1 billion deal)

The Kythera deal is heartwarming, as it addresses society's pressing need to reduce chin fat, a.k.a. double chins. Thank goodness for Kythera that Hostess (maker of Twinkies) was recently rescued out of bankruptcy and is once again busy helping to ensure a steady supply of double chins. The environment has gotten so frothy that sometimes one wonders if Wall Street analysts realize what they are saying. In late June, Hill-Rom Corporation announced the acquisition of Welch Allyn, and the title of one Wall Street firm's research report was *The Deal You Wanted*. The analyst began, "The rationale is spot on, even as the fit is not perfect and the deal is expensive." Further into the report he says the deal "drives scale and financial leverage." And finally, "Our year three ROIC [return on invested capital] of approximately 6% is lower than we would have liked..." For the uninitiated, 6% is the return on the deal the acquirer hopes to achieve three years from closing, assuming that aggressive cost cuts and revenue synergies materialize. Click your heels three times and repeat "There's no place like home," and you might get there.

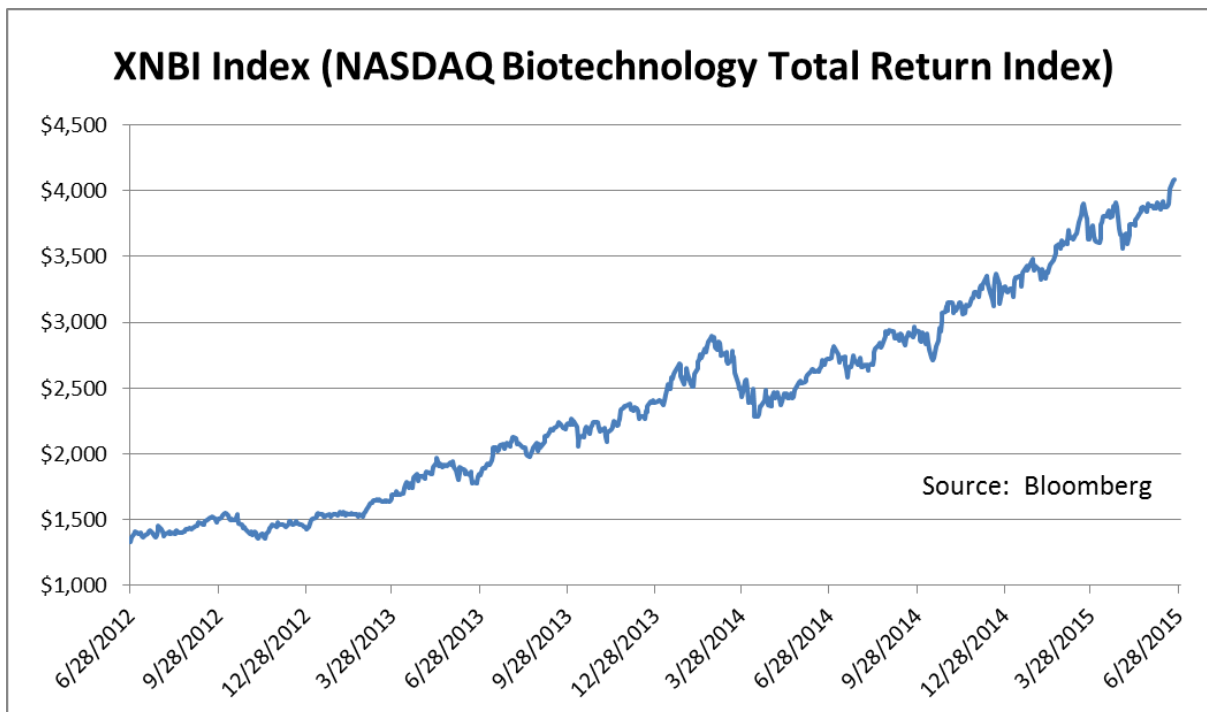
Following is a list of the fifty largest stocks (market value), as of late June, in the Health Technology sector. The summary statistics are remarkable, if not eye-opening. On a weighted average basis this group of companies trades for 7.3x sales, 24.9x EBITDA and 36.7x earnings. These are 40-100% higher than the market's valuation, which itself is nearly as expensive as it has ever been. As our collective trained eyes go down the list it is abundantly clear that for the vast majority of these companies, inorganic (M&A) growth vastly outweighs organic growth. The whole sector (FactSet: Health Technology) has been a huge winner in recent years, gaining approximately 121.1% over the past three years (ending June 19) compared to 65.6% for the S&P 500.

Top 50 Healthcare Technology Companies- June 18, 2015

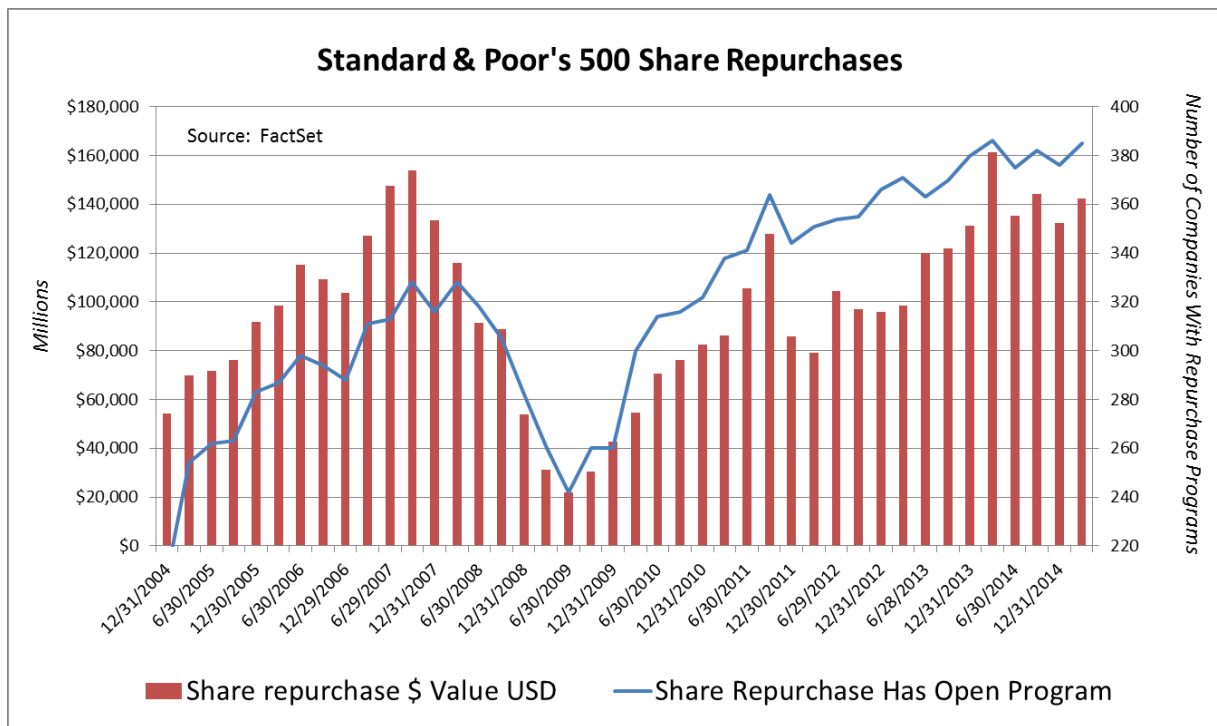
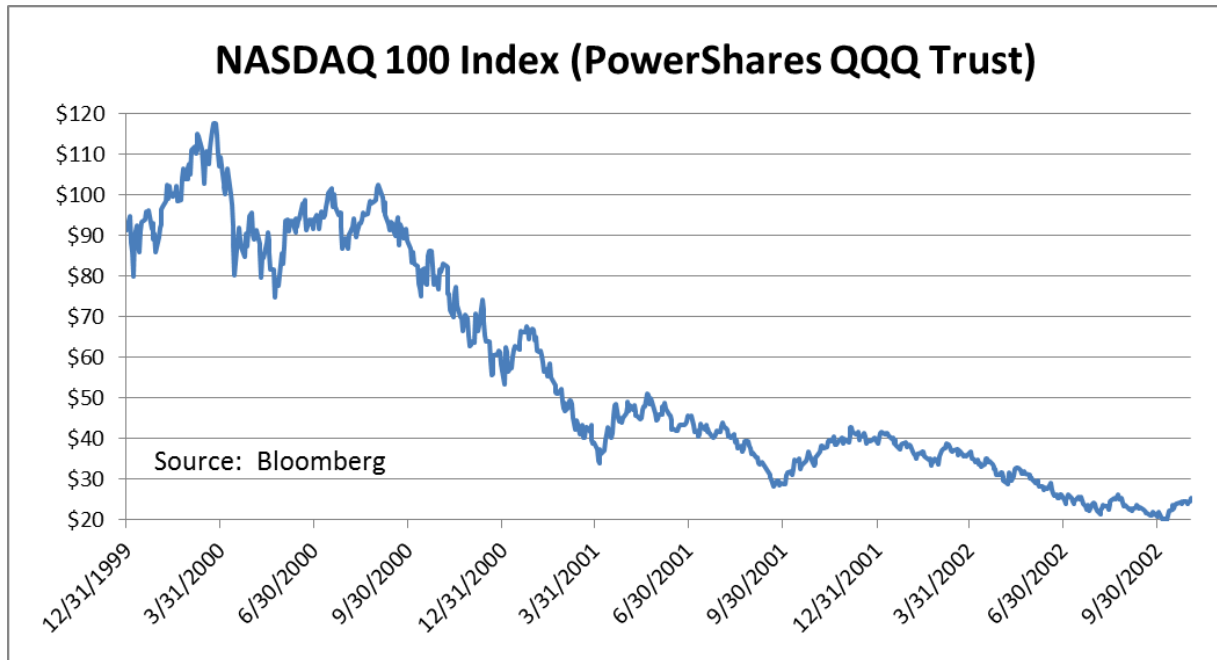
Source: FactSet

Company Symbol	Company Name	Market Value (\$US)	Enterprise Value/ Sales	Enterprise Value/ EBITDA	Price/ Earnings	Company Symbol	Company Name	Market Value (\$US)	Enterprise Value/ Sales	Enterprise Value/ EBITDA	Price/ Earnings	
JNJ	Johnson & Johnson	278,586.7	3.6	10.6	17.6	ILMN	Illumina, Inc.	31,524.8	15.9	52.2	92.3	
NVS	Novartis AG Sponsored ADR	245,810.3	5.2	17.0	24.4	VRTX	Vertex Pharmaceuticals Incorporated	31,088.1	50.3	#N/A	#N/A	
PFE	Pfizer Inc.	211,639.1	4.5	11.5	24.3	BDX	Becton, Dickinson and Company	29,483.6	4.6	18.6	24.2	
GILD	Gilead Sciences, Inc.	179,027.2	6.7	11.0	16.4	PRGO	Perrigo Co. Plc	26,509.8	6.6	39.6	73.3	
MRK	Merck & Co., Inc.	165,715.3	4.4	7.3	14.3	ZTS	Zoetis, Inc. Class A	25,268.6	5.9	24.9	43.5	
NVO	Novo Nordisk A/S Sponsored ADR Class B	144,803.9	9.2	16.9	31.2	BSX	Boston Scientific Corporation	24,147.1	3.8	65.1	93.4	
SNY	Sanofi Sponsored ADR	128,908.4	3.2	10.5	22.3	BMRN	BioMarin Pharmaceutical Inc.	22,224.7	26.9	#N/A	#N/A	
AMGN	Amgen Inc.	121,755.3	6.1	14.3	23.9	STJ	St. Jude Medical, Inc.	21,250.4	4.3	16.5	22.0	
AGN	Allergan plc	118,659.0	8.9	108.5	#N/A	ZMH	Zimmer Holdings, Inc.	19,306.3	4.1	13.4	27.0	
BMY	Bristol-Myers Squibb Company	111,055.6	6.9	32.5	55.5	INCY	Incyte Corporation	18,881.8	32.4	490.7	#N/A	
ABBV	AbbVie, Inc.	109,890.4	5.7	30.6	63.3	ISRG	Intuitive Surgical, Inc.	18,252.8	7.7	27.1	44.3	
MDT	Medtronic Plc	109,068.8	6.2	19.6	26.5	EW	Edwards Lifesciences Corporation	15,598.3	6.2	12.0	19.3	
GSK	GlaxoSmithKline plc Sponsored ADR	104,376.3	3.1	14.6	22.9	HSP	Hospira, Inc.	15,311.3	3.6	22.7	45.5	
BIB	Biogen Inc.	94,456.6	9.2	20.1	32.4	SNN	Smith & Nephew PLC Sponsored ADR	15,268.5	3.7	6.6	12.2	
CELG	Celgene Corporation	92,951.4	11.6	32.1	48.7	ENDP	Endo International Plc	14,885.4	6.3	#N/A	#N/A	
LLY	Eli Lilly and Company	88,000.9	4.7	21.3	37.5	MNK	Mallinckrodt Plc	14,156.5	5.3	#N/A	#N/A	
AZN	AstraZeneca PLC Sponsored ADR	84,511.0	3.6	19.0	68.5	A	Agilent Technologies, Inc.	13,286.7	2.3	11.1	27.1	
VRX	Valeant Pharmaceuticals International, Inc.	80,073.1	10.8	25.3	86.0	PLL	Pall Corporation	13,267.3	4.7	22.5	46.2	
ABT	Abbott Laboratories	74,348.5	3.5	17.4	33.3	BCR	C. R. Bard, Inc.	12,805.2	4.0	20.3	46.9	
REGN	Regeneron Pharmaceuticals, Inc.	54,500.8	17.5	62.7	172.5	ALNY	Alnylam Pharmaceuticals, Inc	11,323.4	163.9	#N/A	#N/A	
TMO	Thermo Fisher Scientific Inc.	51,620.0	3.9	15.4	27.5	WAT	Waters Corporation	11,288.7	5.3	17.2	26.8	
TEVA	Teva Pharmaceutical Industries Limited Sponsored ADR	51,159.8	3.0	10.5	16.9	JAZZ	Jazz Pharmaceuticals Plc	11,032.4	9.3	34.3	217.7	
SHPG	Shire PLC Sponsored ADR	49,175.6	8.5	14.0	14.4	HOLX	Hologic, Inc.	10,638.6	5.3	17.6	210.4	
BAX	Baxter International Inc.	37,661.6	2.7	12.3	15.2							
ALXN	Alexion Pharmaceuticals, Inc.	36,738.3	15.5	37.8	56.4							
SYK	Stryker Corporation	36,722.7	3.7	21.8	73.1							
MYL	Mylan N.V.	35,515.2	4.8	23.4	31.0							
								<b>Average</b>	<b>66,470.6</b>	<b>11.2</b>	<b>34.5</b>	<b>49.5</b>
								<b>Median</b>	<b>36,730.5</b>	<b>5.3</b>	<b>19.0</b>	<b>31.2</b>
								<b>Weighted Average</b>	<b>127,985.6</b>	<b>7.3</b>	<b>24.9</b>	<b>36.7</b>

The figures for the far more speculative biotechnology group are even more astounding. Over half of these companies lose money yet retain mountainous market values. Over the past three years, the NASDAQ Biotech Index (XNBI) has gained 188%. This group's performance is highly reminiscent of the way the NASDAQ 100 Index (QQQ) behaved in the 1997-2000 period.



When the tide turned on the QQQ in March of 2000 it lost 81.7% of its value over the next 30 months.



The rise of so-called activism and an aggressive brand of private equity investing are emblematic of a market where financial engineering appears to be one of the last remaining drivers of stock prices. Without a doubt there are undermanaged companies that could deploy capital more effectively, and we applaud those activists and private equity sponsors who facilitate this. In fact, a Harvard study and a more recent analysis by *The Economist* seem to indicate that activism creates long-term value and cumulatively, there is little evidence of so-called “asset stripping.” Today, however, there seems to be an increase in the Johnny-come-lately activists

who strive for quick hitters in companies that really should not, for example, be borrowing money to buy back stock. Most target stocks are not particularly cheap and it remains to be seen if the increased leverage will be rued in a different (higher) interest rate environment. Investment bankers are happy to push companies to “do something.” The result is a plethora of spin-offs, carve-outs, go-privates, or as in the case of Danaher, just a breaking of the company in two to facilitate better deal-making impact. The implied threat from activists and the perceived lack of investment opportunities may be why so many companies are buying back their stock despite highly elevated valuations, rather than making long-term investments in their businesses. As the second chart on Page 4 demonstrates, corporate executives are really good at piling in late in the game, paying up for stock.

Pershing Square is the public investment vehicle of a highly-acclaimed activist with a fabulous long-term record. Still, it is fascinating to see the “look through” metrics of the Pershing Square portfolio (as of 3/31/15, excluding a short position). It’s interesting that this noted value investor owns a portfolio that trades at 8x sales, nearly 22x EBITDA and 24.5x “adjusted” earnings. The P/E ratio using GAAP (generally accepted accounting principles) earnings is far higher, by the way, because in nearly all cases, the adjusted earnings don’t include stock compensation or amortization of intangibles and other “non-cash” items. In the case of Valeant Pharmaceuticals, the company adjusts for an inventory step-up, a PP&E (property, plant and equipment) step-down, in-process R&D and a multitude of restructurings such that it is virtually impossible to know what constitutes true earnings. Of course, we don’t know what the portfolio looks like this minute, nor do we know if the portfolio is hedged with derivatives or other vehicles. It is simply an observation that the Pershing Square portfolio has already benefitted dramatically from this manager’s skill and appears to be very expensive based on conventional metrics.

Pershing Square (3/31: \$US)		Price	Shares	MV	Position Size	Cash	Debt	EV	2014		LTM EPS	LTM GAAP EPS	EV/REV	EV/EBITDA	P/E*	P/GAAP EPS*	
									Rev	EBITDA							
VRX	Valeant	\$228	342.5	\$78,090	25.8%	\$12,219	\$25,898	\$91,769	\$8,264	\$3,924	\$8.96	\$2.95	11.1	23.4	25.4	77.3	
APD	Air Products and Chemical	\$146	214.8	\$31,275	20.8%	\$196	\$4,512	\$35,591	\$10,452	\$2,626	\$6.22	\$4.77	3.4	13.6	23.4	30.5	
CP	Canadian Pacific	\$167	164.0	\$27,454	17.0%	\$145	\$5,020	\$32,328	\$5,994	\$2,640	\$8.17	\$7.92	5.4	12.2	20.5	21.1	
ZTS	Zoetis	\$50	500.0	\$25,200	12.9%	\$559	\$3,243	\$27,884	\$4,785	\$1,337	\$1.60	\$1.18	5.8	20.9	31.5	42.7	
QSR	Restaurant Brands Intl	\$38	202.3	\$7,606	9.8%	\$1,022	\$8,961	\$15,545	\$1,197	\$706	(\$0.73)	(\$2.34)	13.0	22.0	nm	nm	
PAH	Platform Specialty Products	\$27	192.6	\$5,152	7.3%	\$297	\$3,424	\$8,279	\$843	\$177	\$0.63	(\$1.65)	9.8	46.7	42.5	nm	
HHC	Howard Hughes	\$148	39.7	\$5,876	3.7%	\$458	\$2,108	\$7,525	\$635	\$367	\$2.90	(\$3.75)	11.9	20.5	51.0	nm	
ACT	Allergan Plc	\$302	392.4	\$118,505	2.7%	\$2,100	\$42,700	\$159,105	\$13,062	\$2,784	\$15.08	(\$8.28)	12.2	57.1	20.0	nm	
<b>Total</b>					100.0%												
												<b>Weighted Average</b>		<b>8.0</b>	<b>21.5</b>	<b>24.5</b>	<b>35.4</b>
												<b>Median (Long Position)</b>		<b>10.5</b>	<b>21.4</b>	<b>25.4</b>	<b>36.6</b>

\* Pershing Square also maintains an estimated \$1 billion short exposure to Herbalife at a \$47.09 average cost.

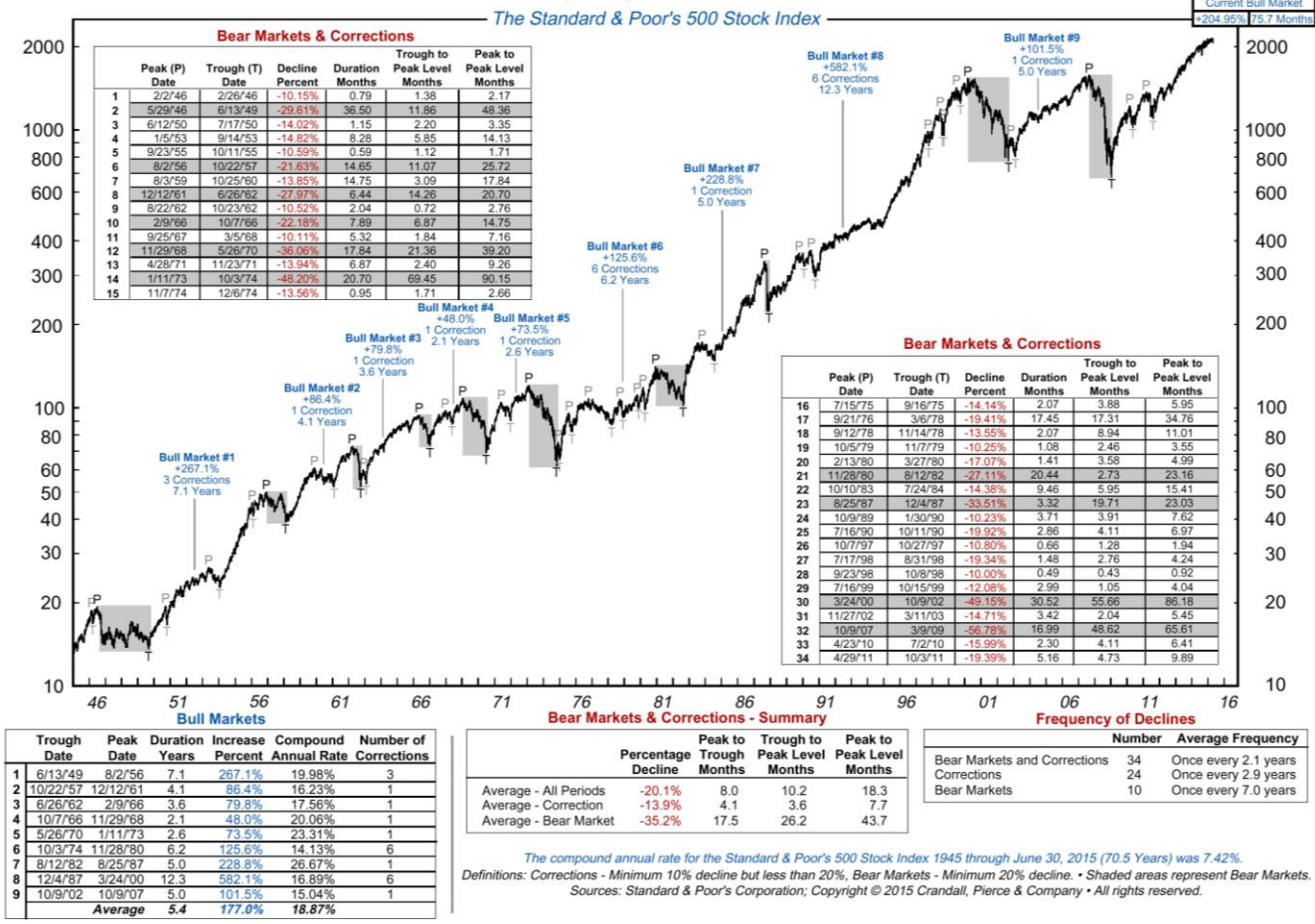
\*\* Table does not include Ira Sohn presentation (post 3/31/15 13F filing) disclosed new positions in Jarden (55.3x LTM GAAP P/E) and Nomad Holdings (negative GAAP EPS), or small positions in Fannie Mae, and Freddie Mac.

Source: Fiduciary Management, Inc. via <http://www.sec.gov/>

The success of stocks such as Valeant is further evidence of what unnaturally-low interest rates can foist on the economy and stock market. Valeant borrows at extremely low rates to purchase companies in a hot sector (Healthcare). They then slash corporate expenses, including research and development; lower taxes by taking advantage of their tax jurisdiction; and create a lot of confusion with complex accounting and “one-time” (the ultimate oxymoron) restructurings to deliver rapidly growing “adjusted” earnings which Wall Street laps up with gusto. People who praise the Fed and other central banks fail to grasp the casino that their misguided policies have created. The surge in deal activity does not reflect a healthy or vibrant economy that benefits the masses. It reflects a world in which those that own financial assets, which is largely the top 10%, and their facilitators, e.g., money managers, investment bankers, lawyers, accountants and brokers, win big. The wealth effect the Fed has been trying to achieve for seven years has worked brilliantly... for the wealthy. The populists have it wrong, too, as this is not a zero sum game where the wealthy’s good fortune hurts the masses, but it does give the illusion that things are better than they really are, and takes policy makers’ collective eyes off of strategies that would drive stronger organic growth and fiscal health.

We hesitated to wind up with such a busy chart, but with a magnifying glass we feel you'll find it very useful. Following is the history (since 1945) of the stock market in a single diagram. The line in the chart is the S&P 500 annotated by bull markets. Each annotation states the cumulative return, the number of corrections (greater than 10% declines but less than 20%) and the duration of the bull market. The tables in the upper left and lower right portion of the diagram show all of the bear markets (20% or greater declines) and corrections. Below the chart are tables showing a summary of bull markets, bear markets and frequency of declines, respectively. Putting today's bull market into perspective, it is 75 months old, has had two corrections, and has gained approximately 205%, making it the third longest and fourth greatest in terms of return. These gains are remarkable considering the starting valuation in 2009 was not particularly cheap from a long-term historical perspective, and the underlying fundamentals six years later remain tepid. Investors seem to be unaware or unconcerned about high valuations. They seem to believe interest rates and inflation will remain low forever, or at least the next five to ten years. And finally, they seem to believe sales and earnings are going to somehow grow at a double-digit rate for the foreseeable future, without triggering higher rates or inflation. All of this is possible, but highly unlikely if history is any guide. We remain cautious about the backdrop for equity performance in the near-term and are diligently trying to find appropriate long-term investment ideas.

### Bulls, Bears & Corrections Frequency, Magnitude and Duration



Thank you for your support of Fiduciary Management, Inc.

**Fiduciary Management Inc.  
Large Cap Equity Composite  
12/31/2004 - 03/31/2015**

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			
2005	10.22	9.57	4.91	28	0.29	n/a	n/a	\$ 192.2	\$ 3,174.4	6.05%
2006	17.91	17.15	15.79	49	0.30	n/a	n/a	\$ 491.0	\$ 3,589.4	13.68%
2007	5.05	4.34	5.49	86	0.48	n/a	n/a	\$ 1,000.2	\$ 3,960.4	25.26%
2008	-26.38	-26.91	-37.00	130	0.63	n/a	n/a	\$ 1,969.3	\$ 4,062.5	48.48%
2009	30.92	30.09	26.46	252	1.22	n/a	n/a	\$ 3,820.3	\$ 7,008.9	54.51%
2010	12.52	11.81	15.06	394	0.31	n/a	n/a	\$ 5,923.2	\$ 9,816.0	60.34%
2011	2.35	1.74	2.11	509	0.37	18.34%	18.70%	\$ 8,434.8	\$ 12,273.6	68.72%
2012	16.02	15.32	16.00	575	0.32	13.94%	15.09%	\$ 11,270.3	\$ 15,253.5	73.89%
2013	31.87	31.10	32.39	685	0.31	11.38%	11.94%	\$ 15,785.5	\$ 19,705.3	80.11%
2014	13.52	12.81	13.69	725	0.25	8.54%	8.98%	\$ 16,084.1	\$ 21,001.1	76.59%
Q1 2015	2.02	1.86	0.95	726	0.08	8.91%	9.45%	\$ 16,064.4	\$ 21,939.0	73.22%

\*Benchmark: S&P 500 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. (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 - 03/31/2015. 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 Large Cap Equity composite has been examined for the periods 12/31/2000 - 03/31/2015. 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 \$21.9 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 FMI Large Cap Equity Composite was created in December 2000. These accounts primarily invest in medium to large capitalization US equities.

The FMI Large Cap Equity Composite reflects time-weighted and asset-weighted returns for all discretionary accounts with a market value greater than \$500,000 as of month end beginning January 1, 2012. From December 31, 2000 thru September 30, 2002 all accounts included were managed for at least one quarter, from October 1, 2002 to present all accounts were managed for at least one month. 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®.

Currently, the advisory fee structure for the FMI Large Cap Equity Composite portfolios is as follows:

Up to \$25,000,000	0.65%
\$25,000,001-\$50,000,000	0.55%
\$50,000,001-\$100,000,000	0.45%
\$100,000,001 and above	0.40%

The firm generally requires a minimum of \$3 million in assets to establish a discretionary account. High Net Worth individuals may establish an account with a minimum of \$1,000,000, however, the firm reserves the right to charge a minimum dollar fee for High Net Worth individuals depending on the client servicing involved. 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 S&P 500 Index® is widely regarded as the best single gauge of the U.S. equities market. This index includes 500 leading companies in leading industries of the U.S. economy. Although the S&P 500® focuses on the large cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

The Large Cap Equity composite uses the S&P 500 Index® as its primary index comparison.