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September 30, 2022

INVESTMENT STRATEGY OUTLOOK - LARGE CAP EQUITY

The FMI Large Cap portfolios declined approximately 6.0% (gross)/6.1% (net) in the September quarter compared to a 4.88% decline in the S&P 500 Index, and a 5.56% decline in the iShares Russell 1000 Value ETF[1]. Relative to the S&P 500 Index, sectors that helped included Producer Manufacturing, Finance, and Process Industries. Underperforming sectors included Electronic Technology, Health Services, and Retail Trade. Carlisle Cos. Inc., Charles Schwab Corp., and Avery Dennison Corp. aided performance while Fresenius Medical Care (Fresenius), Koninklijke Philips N.V. (Philips), and Sony Group Corp. all detracted. Both stocks and bonds entered bear market territory this year on multiple concerns, some of which will be addressed shortly.

While the markets have been difficult, the team has not been this optimistic about future performance in many years, perhaps not since the Great Financial Crisis. There are several factors that give us optimism:

- Valuations are attractive on both an absolute and relative basis.
- The sentiment of the market is negative, which is a contrarian's delight.
- The strength and durability of the current portfolio has rarely been stronger.
- The full cycle return on invested capital of the constituents is very good.
- Many current holdings are significantly depressed, and we view them as coiled springs.
- The era of ultra-low interest rates appears to be over. This should favor our approach.

Many of the worrisome issues and themes we have discussed in recent years are coming to pass. Rates have escalated rapidly. Reckless, and even feckless, monetary policies have been revealed. The bond market has suffered steep declines. Stocks are in disarray. The private equity and leverage bubbles have started to burst. Inflation is much higher. A "black swan" geopolitical event (Russia's war on Ukraine) has transpired. Many of the risk items that sky-high valuations suggested would not occur are now happening. But the time to be "negative" has passed. These worries are out in the open and recognized, and now fear is the prevailing sentiment. History suggests this is the time to be more constructive. We are positive about the future and feel the set up for stocks is the best it has been in years.

We will delve into this theme shortly. Before that, we want to address some issues that have held back the performance in recent periods. Although the FMI Large Cap strategy has a greater percentage of its holdings' revenue in the U.S. than the S&P 500, about 15% of the portfolio, on average, in recent years has been in American Depositary Receipts (ADRs). We felt these franchises were better values than their U.S. counterparts, as depicted in the nearby table.

Unfortunately, the unprecedented strength of the U.S. Dollar (USD) has hurt performance of these shares (which can easily reverse), but significant idiosyncratic factors have been more impactful. Philips, for example, has declined dramatically in response to issues surrounding their respiratory business, including a product recall and FDA letter. While this is less than 10% of Philip's revenue and earnings, the impact on the market capitalization has been severe. Fear of a large legal settlement and negative news flow has, in our opinion, far exceeded the likely outcome. Fresenius, which provides dialysis care, was hurt by excess mortality during COVID. Post-COVID inflation has taken a much greater-than-expected bite out of earnings (and the stock price). Smith & Nephew PLC has suffered disproportionately from COVID (deferred elective procedures), supply chain problems, and mismanagement in their orthopedic franchise. We probably should have anticipated the inflation issue at Fresenius, and we could have better understood the management issues at Smith & Nephew, but when we re-

Sponsored ADR's	EV/EBITDA NTM	U.S. Stock	EV/EBITDA NTM	Discount
SAP SE	11.1x	Salesforce Inc.	13.6x	-18%
		Workday Inc.	20.4x	-46%
Unilever PLC	12.4x	Procter & Gamble Co.	15.2x	-18%
		Colgate-Palmolive Co.	14.7x	-16%
Sony Group Corp.	6.6x	Electronic Arts Inc.	10.8x	-39%
		Warner Music Group Corp.	12.8x	-48%
Smith & Nephew PLC	9.3x	Stryker Corp.	17.4x	-47%
		Zimmer Biomet Holdings Inc.	11.5x	-19%
Koninklijke Philips N.V.	7.0x	Boston Scientific Corp.	16.4x	-57%
		Medtronic PLC	12.6x	-44%
Fresenius Medical Care AG & Co. KGaA	7.0x	DaVita Inc.	8.6x	-19%

Source: FactSet - EV/EBITDA NTM as of 9/30/2022

[1]Source: Bloomberg - 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.

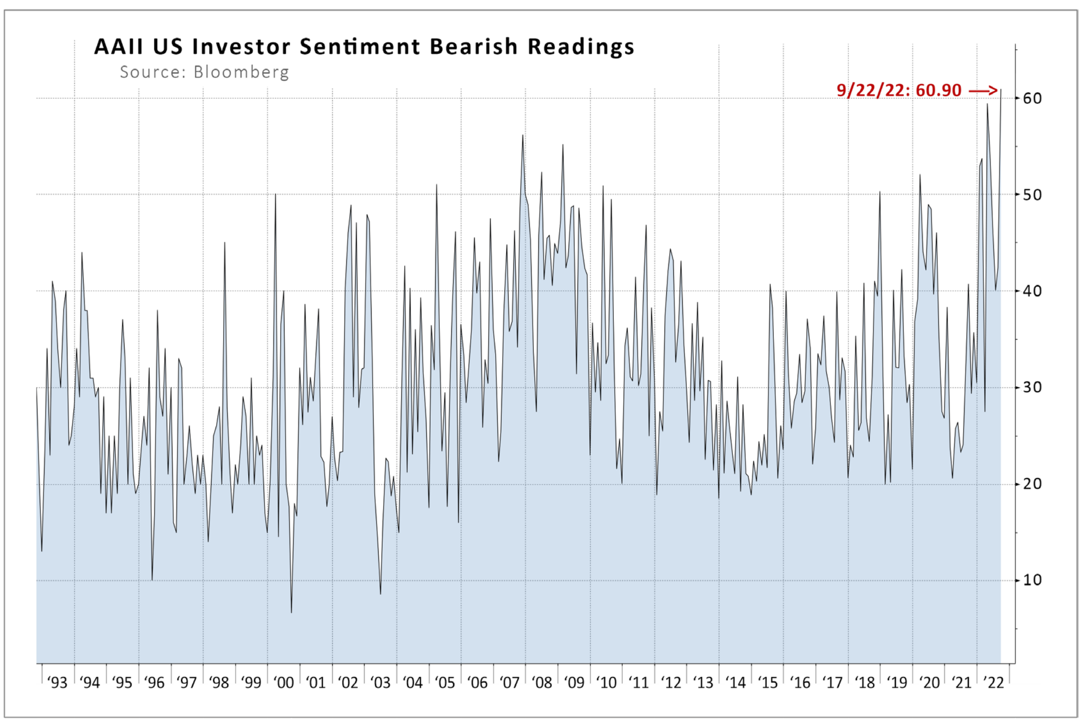
underwrote these investments, we felt the stock's long-term upside potential was high. The decline in SAP SE is related to market fears about the success of their efforts to transition the software business from a site license model to a cloud-based recurring revenue construct. Based on our research, we believe the company is on a positive cloud development path and that better stock performance is likely. Finally, the portfolio has been hurt by very little exposure to energy and commodity related businesses. We feel these types of companies can periodically be great "trading" stocks, but over long periods of time, they generally underperform due to their low business quality attributes.

September 30, 2022 Weighted Average	FMI Large Cap	iShares S&P 500	Discount to S&P 500
P/E (1 Year Trailing)	20.5x	29.3x	30%
FY2 P/E	13.6x	19.4x	30%
P/S	2.1x	4.5x	53%
EV/EBITDA	12.5x	18.1x	31%
Average Discount			36%

**Estimated valuations for FMI and the iShares are weighted average valuation calculations, not reweighted to exclude cash, and financial companies are excluded from the EV/EBITDA calculation. Valuations for both the portfolio and the ETF are modified based on criteria identified by FMI. For more detailed information regarding these valuations, please contact FMI.*

The team's optimism starts with valuations. The portfolio trades at a modest 13.6 times projected 2023 earnings, 2.1 times the latest twelve month's revenue and 12.5 times the trailing year's EV/EBITDA[2]. On these metrics that is about a 36% discount to the iShares S&P 500 ETF, as illustrated by the table on the right. The Large Cap portfolio also trades at a discount to the large cap value benchmark.

Bearish sentiment indicators (see chart below) are high. We view this as a positive. It is very difficult to avoid dwelling on "losses," but there is nothing we can do about the past. If the business is sound and the balance sheet is solid, then the stock is likely to recover. Unfortunately, most investors react to the past rather than looking forward. The current portfolio constituents are characterized by good balance sheets, solid return structures, and competitive strengths. Strong companies on sale for reasonable prices are a source of optimism, not pessimism.



Financial markets are apoplectic about interest rates. The overwhelming consensus opinion is that higher rates will crush the economy for an extended period. We think the fear that has been fanned by the rate move may indeed result in a temporary hit to the economy or a recession, but at FMI, we like to turn our analysis 180 degrees. Did the move from "normal" interest rates, prior to the Great Financial Crisis, to zero percent rates for years afterwards cause the economy to boom? No! Economic growth was historically weak over the past 15 years. Abnormally low rates boosted asset prices and set the mergers and acquisitions (M&A) and private equity markets aflame, but it did very little for organic economic growth. We had a boom in financial engineering. So why will economic growth be terrible when the reverse conditions prevail? We think economic growth will be much better over the next decade than it has been over the last. Price to earnings (P/E) multiples, however, will likely be lower. Inflation is obviously very elevated but appears to finally be on a downward path. We don't know if the inflation rate will get back to 2% anytime soon but feel it will be significantly lower than it has been over the past year. Earning an outsized spread over inflation in stocks, like we have seen for many years, is probably not in the cards, but we believe quality, value-oriented equities, especially our stocks, have the best chance of beating inflation over a three-to-five-year time horizon.

Before delving into a couple of portfolio companies in greater detail, we want to illustrate what's happened since our January investment in CarMax Inc., a stock highlighted in the March letter. It illustrates our investment approach. CarMax is currently out-of-favor, yet it has a winning business model, and a

[2]Enterprise Value to Earnings before interest, taxes, depreciation, and amortization.

leading share of the used car market. With just 4% of a $270 billion market, it has a long runway for growth. Over the past few years, the bears believed that Carvana Co. and other "online" car resellers were going to take the used car market by storm, leaving CarMax in the dust. Carvana's stock was a rocket and at one point carried a market valuation in excess of $40 billion, despite the company losing money hand over fist. Our research indicated that customers wanted multiple ways to purchase used cars (not just online like Carvana) and that CarMax offered not only the more traditional car lot sale, but also a full online and delivered-to-the-home model. CarMax was (and remains) profitable and has a good balance sheet. Carvana was chewing through cash and relied on capital markets to fund its growth-at-all-cost approach. Carvana's stock is down roughly 90% year-to-date; they've had to raise equity, and some question their viability. CarMax is also down significantly, reflecting recession fears, higher borrowing rates, and tough earnings comparisons, which we discussed in March. So, while the stock has been difficult, we feel CarMax is actually stronger from a competitive standpoint. It looks like we will have to wait out a downturn, but from today's valuation, we feel the next several years hold a lot of promise for the stock.

Below are two more examples of good business franchises trading at attractive values.

Avery Dennison Corp. (AVY)

Analyst: Ben Karek

Description

Avery Dennison is a vertically integrated manufacturer of pressure sensitive labels and assorted tickets and tags. Pressure sensitive labels are used on products such as beverages, shampoo, shipping packages, pharmaceuticals, etc. Avery reports in three segments: Pressure Sensitive Materials (65% of sales), Retail Branding & Information Solutions (26%), and Industrial & Healthcare Materials (9%). Avery primarily manufactures locally and operates 200 manufacturing and distribution facilities in over 50 countries.

Good Business

- Avery is the global leader in its main product lines and is 2.5 times larger than its next largest competitor in pressure sensitive labels. This confers scale benefits that allow it to earn best-in-class margins while still leading on innovation.
- Avery is minimally cyclical. Fast turning product lines, including consumer goods, retail, and logistics/shipping account for ~80% of sales. Avery has proven adept at cost management in periods of lower demand.
- Avery's product usage is not impacted by the shift to private label and/or start up brands, a perennial challenge in home and personal care/consumer packaged goods categories.
- Avery's products are low-cost relative to the total product, yet they convey high value information to the consumer (brand image, product quality, etc.).
- Avery has 50%+ market share in ultra-high frequency radio frequency identification (UHF RFID) tags, which are undergoing secular growth in the +15-20% range.
- Avery's historical and incremental returns on capital are high. ROIC was 18% in 2021, up from 9% in 2012, driven by both capital discipline and operating profit growth.
- Avery's balance sheet is appropriately levered.

Valuation

- With high-single-digit long term earnings growth expectations and a 20% return on invested capital, 16 times forward earnings and 11.4 times forward EBITDA are reasonable absolute multiples.
- Prior to this period of raw material inflation and a potential macro slow down, Avery traded at 25 times forward earnings and 16 times forward EBITDA. The P/E is below the 5-year average and EV/EBITDA is equal to the 5-year average.
- RFID is 8% of sales and continues to grow well above the company average. We believe that this could structurally increase Avery's trading multiple in the next 3-5 years.

Management

- CEO Mitch Butier was a chief architect of Avery's Economic Value Added (EVA) strategy. He has previously served as COO and CFO for Avery Dennison. His track record since becoming CEO in 2016 is very strong. Mitch owns 270 thousand shares, worth $50 million at today's prices.
- Avery's incentives are aligned with shareholders. Short term incentives are based on organic sales, adjusted earnings per share (EPS), and free cash flow. Long term incentives are driven by total shareholder return and EVA.

Investment Thesis

Avery has two key drivers that allow them to grow organic revenue above GDP: high value categories and emerging markets. 60% of sales are now exposed to one or both categories. Of note within high value products, Avery is by far the market leader in UHF RFID tags used in end markets like apparel, aviation, and food. This business is growing 15-20% and has a long runway in both existing and yet to be tapped end markets. These factors allow for long run volume growth in the 4% range. This story is simple to understand and, in more benign times, generates a lot of interest from investors. Combined with a long running cost efficiency program and share buybacks, we expect a reasonably stable high single digit percentage earnings growth profile. This is particularly valuable as Avery is run on EVA and thus consistently balances growth, margins, and returns on capital (i.e. they are not growing for growth's sake). Avery has run into a few headwinds that are giving us an opportunity to invest. First, Avery's commodity raw materials are derived from paper and oil, both of which have seen significant spikes driven by supply and demand factors. This has put pressure on Avery's margins as it takes one to two quarters to catch up to cost inflation. Given the magnitude and duration of the inflation, there is concern around when they will recapture price/cost neutrality. Second, inflation combined with other macro challenges (like the war in Ukraine), have led to concerns about a global recession. Although Avery is much less cyclical than average, it is more cyclical than some other packaging companies and thus is sold quickly when macro fears emerge. We believe all these factors to be transitory, and thus believe that the valuation is attractive.

Ferguson PLC (FERG)

Analyst: Jordan Teschendorf

Description

Ferguson is the world's largest distributor of plumbing and heating products to trade professionals with sales and trading profit of $22.8 billion and $2.1 billion, respectively. Following disposals of lower quality international businesses over more than a decade, concluding with the recent sale of the UK business in January 2021, Ferguson's operations are now entirely focused on the attractive North American market. Ferguson's sales exposure by end market is split Residential (54%), Commercial (32%), Civil/Infrastructure (7%), and Industrial (7%), with sales further split 60%/40% remodel, maintenance, and improvement (RMI) versus new construction. Ferguson's U.S. headquarters is in Newport News, Virginia.

Good Business

- Ferguson has exited many unprofitable or low-returning businesses over the last decade and reoriented towards organic growth and selective bolt-on acquisitions, driving improved margins and returns on capital.
- The business is easy to understand, occupies a critical role between fragmented suppliers (over 37 thousand) and customers (over 1 million), and consistently grows 3-4% ahead of the end markets that it serves.
- The company's scale, branch density, and distribution footprint provide it with a competitive advantage in terms of purchasing, fulfillment, contractor relationships, and superior service levels versus its fragmented competition.
- In 2021, approximately 60% of Ferguson's sales were related to RMI work, which is less cyclical and typically carries higher margins than sales to the new build market. This mix compares favorably with the group's 31% RMI exposure in 2008.
- Ferguson's U.S. business has a terrific long-term track record, with operating profit growing in the double-digits over the trailing 10, 20, and 30-year periods. We believe the customer value proposition and franchise continue to strengthen with scale, which should flow through to improving economics for shareowners.
- Ferguson maintains a solid balance sheet, and is a strong free cash flow generator, with total cash returns exceeding $9.0 billion over the last decade.

Valuation

- The stock trades at 11.3 times forward EPS estimates, approximately two standard deviations below its long-term average and a double-digit discount to its closest U.S. peers.
- The below average valuation does not adequately reflect the company's increasingly attractive business mix as well as the continued strengthening of Ferguson's competitive positioning.
- Ferguson pays regular and special dividends and recently restarted its share repurchase program (repurchased more than $500 million in the third quarter of fiscal year 2022 alone).

Management

- Over the last decade, management has focused on organic growth and returns, strengthening its already market leading U.S. business and divesting operations in several less attractive geographies.
- Kevin Murphy was elevated to group CEO in 2019, previously serving as CEO of Ferguson (U.S.A.) and COO. He has built a solid track record of profitable and disciplined growth through prioritizing data/analytics, digital capability, and talent management to position Ferguson closer to its trade customers. He joined Ferguson decades ago through the acquisition of his family's business.
- Operating profit/EPS growth and cash conversion are components of the compensation plan, capturing the essence of value creation for a physical distribution business.
- We believe Ferguson has a strong corporate culture.

Investment Thesis

Ferguson provides FMI exposure to the building, repair, and replacement of critical components, touching virtually every modern physical structure and piece of infrastructure in North America. Given its advantages, including its scale, branch density, distribution footprint, and technology and service superiority, we expect Ferguson will continue to take share in its markets over time. Concerns over rising interest rates, consumer confidence, and normalizing demand patterns in residential end markets (~55% of sales) have recently weighed on sentiment. We acknowledge these concerns, but note the company's track record of managing through cycles, stronger outlook in several non-residential markets, and significantly improved business mix this cycle (U.S. pure play, higher repair & replacement, network density, etc.). Assuming reasonably supportive end markets and continued strong execution, Ferguson should be capable of growing underlying EPS at a double-digit annual rate through the cycle while maintaining 20%+ returns on capital and balance sheet strength. The stock is attractively valued on an absolute and relative basis. Additionally, we think it is likely that Ferguson will be added to S&P 500 and other U.S. indices within the next year.

Thank you for your confidence in Fiduciary Management, Inc.

Fiduciary Management Inc.
Large Cap Equity Composite
12/31/2011 - 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: 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 %
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%
2015	-1.54	-2.16	1.38	655	0.27	9.94%	10.48%	$ 14,304.1	$ 21,042.9	67.98%
2016	14.85	14.16	11.96	636	0.32	10.48%	10.59%	$ 12,562.9	$ 22,626.7	55.52%
2017	19.90	19.24	21.83	628	0.32	9.70%	9.92%	$ 12,722.2	$ 25,322.0	50.24%
2018	-3.07	-3.62	-4.38	540	0.29	9.85%	10.80%	$ 9,901.1	$ 19,833.6	49.92%
2019	24.58	23.94	31.49	371	0.42	9.95%	11.93%	$ 10,493.0	$ 22,609.9	46.41%
2020	11.32	10.70	18.40	266	0.55	17.09%	18.53%	$ 8,684.6	$ 16,284.2	53.33%
2021	19.33	18.77	28.71	219	0.32	17.08%	17.17%	$ 9,177.4	$ 17,068.4	53.77%

*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. 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 Large Cap Equity Composite has had a performance examination for the periods 12/31/2000 - 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 FMI Large Cap Equity Composite was created and incepted on 12/31/2000. 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®. FMI uses gross returns to calculate these.

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

Up to $25,000,000	0.55%
$25,000,001-$50,000,000	0.50%
$50,000,001-$100,000,000	0.45%
$100,000,001 and above	0.35%

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 and FMI distributed mutual funds are 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.