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INVESTMENT STRATEGY OUTLOOK - LARGE CAP EQUITY

The FMI Large Cap Strategy gained approximately 12.1% (gross)/12.0% (net) in the December quarter compared to a 7.56% gain in the S&P 500 Index and a 12.22% gain in the iShares Russell 1000 Value ETF[1]. Relative to the S&P 500 Index, sectors that contributed this quarter included Finance, Technology Services, and Industrial Services. Detracting sectors included Producer Manufacturing, Health Technology, and Energy Minerals. Stand-out stocks in the December quarter included Arch Capital Group Ltd., SAP SE, and Schlumberger Ltd., while Carlisle Cos. Inc., Koninklijke Philips N.V., and CarMax Inc. all declined. Many stocks are down precipitously from their peaks, including a few in the portfolio. Unlike the unproven and unprofitable companies that have come public in recent years, many of whom lack the wherewithal to survive without outside capital, we feel our portfolio of companies have the financial strength to weather idiosyncratic problems or cyclical weakness. The current roster of the FMI Large Cap Strategy constituents is as strong as we can recall over its 22-year history, and in aggregate, trade at a significant discount to the iShares S&P 500 ETF and iShares Russell 1000 Value ETF on most of the valuation metrics we measure. As we observe the meltdown in speculative areas such as special purpose acquisition companies (SPACs) and cryptocurrency, we are encouraged, and reminded of an old quote: “If you fall, I will be there” -- Floor. Perhaps this signifies the end of a wild and unsustainable period where abnormally low interest rates and a virtual suspension of concern regarding high valuations made people feel there was little downside to investing. Our relative caution has gone unrewarded for some time, but lately it appears to have helped.

It is impossible to know if the December quarter’s rally spells the end of the 2022 bear market (lasting roughly 9 months). Many prior bear markets have had a distinct sawtooth action, with strong rallies segueing into lower lows, before eventually reaching a “final” bottom and beginning a new bull market. The nearby table updates the one from the June 30th letter, depicting all the bear markets in the post WWII period.

Historically, in the S&P 500, the median bear market declined approximately 33% from top to bottom and lasted about 17 months, but there is a wide variance in the results and there is no formula for stock market cycles. Many leading pundits on Wall Street seem convinced we are headed for a recession in 2023 and a few see very difficult conditions for stocks, which is an anomaly for Wall Streeters, who are typically overly optimistic. Additionally, a December 7th survey of CEOs by the Conference Board showed that 98% are predicting a recession within 12-18 months. We don’t usually pay much attention to these sorts of surveys. After all, if one reaches far enough, it’s a virtual certainty that there will be a recession. “99.9% of CEOs predict a recession within the next decade,” is hardly a newsworthy headline, however, there is significant worry about the economy in the relatively near term. One look at the industries surrounding housing, consumer durables (autos, appliances, etc.), semiconductors, and retail trade warrants concern. The question is, does it make much of a difference in the long run when it comes to equity returns? Stocks that are sensitive to the economy have already been clobbered. Is now the time to dump them or are they already discounting a recession? 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.

Bear Markets In The S&P 500

Date of S&P 500 High	Date of S&P 500 Low	Loss (%)	Duration (Mos.)
September 7, 1929	June 1, 1932	-86.0	33
March 6, 1937	March 31, 1938	-54.5	13
November 9, 1938	April 28, 1942	-45.8	42
May 29, 1946	June 13, 1949	-29.6	37
August 2, 1956	October 22, 1957	-21.6	15
December 12, 1961	June 26, 1962	-28.0	7
February 9, 1966	October 7, 1966	-22.2	6
November 29, 1968	May 26, 1970	-36.1	18
January 11, 1973	October 3, 1974	-48.2	21
September 21, 1976	March 6, 1978	-19.4	18
November 28, 1980	August 12, 1982	-27.1	21
August 25, 1987	December 4, 1987	-33.5	4
July 16, 1990	October 11, 1990	-19.9	3
March 24, 2000	October 9, 2002	-49.1	31
October 9, 2007	March 9, 2009	-56.8	17
February 19, 2020	March 23, 2020	-33.9	1
January 3, 2022	October 12, 2022	-24.5	9
	Average:	**-37.4**	**17**
	Median:	**-33.5**	**17**

[1]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.

U.S. Average Real GDP Growth

1948 - 1962:	3.9%
1963 - 1977:	3.9%
1978 - 1992:	3.0%
1993 - 2007:	3.2%
2008 - 2022:	1.7%

Source: Bloomberg

We want to reiterate the message delivered in recent letters: 2022 ushered in an era that we believe will be much healthier for underlying economic growth than was the case from 2008-2022 (post GFC). The last 15 years have been one of the slowest periods of economic growth since WWII. It was earmarked by extremely low interest rates, which were essentially two standard deviations from normal. Conventional wisdom suggests low rates should make the economy boom. That didn't happen. In fact, the opposite occurred (as illustrated in the nearby table).

Low rates spurred uneconomic activity, including financial engineering (suspect mergers and acquisitions, noneconomic companies coming public, a huge increase in leverage, etc.) that did little to drive GDP growth. Within reason, we believe a higher level of interest rates will dull the incentives for financial engineering and make organic investment much more attractive. Normal, rather than microscopic discount rates will make future earnings relatively less valuable than near term earnings. Obviously, if interest rates reprise the early 1980s, we are all in for big trouble, but that seems unlikely in our opinion. Quantitative tightening is underway, supply chain bottlenecks are alleviating, and commodity prices are cooling. Inflation, while high, has been coming down. The remaining wild card is the complete lack of fiscal discipline by our so-called representatives and leaders. That needs fixing, but we don't think it alone will significantly disrupt the debt markets. A return to a normal cost of capital, which has prevailed for most of stock market history, should work in favor of our portfolio over the long run.

Investing, at its core, has not changed. The basic emotions of fear and greed are still at the root of stock prices. Good businesses with solid barriers to entry, competent management, reasonable valuations, and effective balance sheets have and should continue to work in the stock market and remain our stock-in-trade. A number of the old standby techniques, however, seem more challenged today. For example, investing on a "sum-of-the-parts" basis, behind an "owner operator", or in a cheap conglomerate has generally struggled over the past decade. Even many cash rich balance sheet stocks have underperformed. Below we've outlined some of the investing lessons we've learned over the past many years:

- What is the 30,000-foot view, or the elevator pitch? Can you convince the average investor to buy the stock in 30 seconds? If not, move on. The market has little patience for overly complex stories. It can be considered if there is a clear path to simplicity, such as a divestiture, but otherwise be circumspect. This is not to suggest that the research effort will be simple, but only that the evaluated story must be easily described and digested.

- Dirt cheap stocks can be fertile investment ground, but more often than we care to believe, are value traps. "Sufficiently cheap" is probably a better construct for buying good businesses. Truly good businesses rarely reach the basement level of cheap.

- Turnarounds are very difficult. Managements vastly underestimate the amount of time and effort needed to fix a division or business. Many turnarounds never actually get fixed, and the ones that do typically take years and sometimes require more than one new management team. Be careful of situations where the management wants to fix a troubled business before selling it. That usually doesn't happen, and more often than not, that division is sold down the road as an underperformer at a fire sale price.

- Be wary of "roll-ups." Serial acquirers often run into the wall trying to manage a collection of separate businesses. Truly "bolt-on" acquisitions that are integrated into a single enterprise resource planning system are exceptions to the rule.

- Run and hide from the "transformational deal" or "must have" acquisition. These are code words for overpaying.

- The great asset allocator ideas, like Berkshire Hathaway, are few and far between. For every one of these, there are ten that don't work. Sellers usually know the value of the business better than the buyers and very few CEOs are great investors.

- If the management doesn't care about the stock price, why should you? It is striking, even with managements who have significant skin in the game, how many will engage in unfriendly shareholder activity. Owner-operators who are already very wealthy don't often act like a hungry CEO whose net worth is on the line.

- A cash-rich balance sheet can be a sign of weakness rather than strength, particularly if the business is a positive free cash flow generator. The proper balance sheet condition might show cash of zero or even a modest amount of net debt. Letting cash build on the balance sheet may indicate a management unwilling to work in the interest of shareholders.

- Be on the alert for stocks that require investors to think completely differently about the idea, rather than the stock market's well-established viewpoint. For example, if the market views a particular business or industry as "low multiple," don't make rerating a basis for investment. Even if the historical earnings performance warrants a higher multiple, it is wishful thinking to believe that will occur. Any rerating should be treated as an added bonus.
- Don't discount the importance of liquidity. Reality can change conviction. One of the greatest advantages of buying liquid public companies is that when an idea no longer looks attractive, one can exit. The liquidity premium is meaningful in good times and escalates dramatically in stressed times.
- Pay attention to what managements do rather than what they say. It is simply remarkable how often managements will say something like "we are focused on ROIC," and then subsequently do a highly dilutive acquisition. Look closely at the incentive compensation and make sure it is aligned with shareholders' best interests. Most CEOs think they are better than they are!
- "Don't swim with a drowning man." In other words, be careful investing in an industry that has a desperate competitor as they can potentially wreak havoc on the industry. If one does invest in situations where there might be a potentially destructive player, make sure their position is not significant enough to cause permanent damage.

Looking back at these lessons, we are reminded of the late, great investor John Templeton's words: "Only one thing is more powerful than learning from experience, and that is not learning from experience." We think these lessons have been taken to heart, and as we said at the outset, the FMI Large Cap portfolio has as many fine businesses at reasonable prices as we can ever recall. There is no way, of course, to know if the bear market is over, but we don't believe it really matters for long-term investors. We remain optimistic about our ability to outrun inflation as well as other bogeymen that always grace the investment landscape.

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.

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.