

Fiduciary Management, Inc.

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Quarterly Review - Sept 30, 2021

FMI Small Cap Equity

Performance	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
Small Cap (Gross)	0.67%	21.27%	51.35%	12.30%	13.07%	13.82%	14.09%
Small Cap (Net)	0.48%	20.60%	50.22%	11.45%	12.19%	12.90%	13.21%
Russell 2000 Index	-4.36%	12.41%	47.68%	10.54%	13.45%	14.63%	11.05%
Russell 2000 Value Index	-2.98%	22.92%	63.92%	8.58%	11.03%	13.22%	12.27%

Inception: January 1, 1980

Performance is preliminary and subject to reconciliation.

Investment Philosophy:

Purchase durable business franchises that are selling at a discount to their intrinsic value.

Investment Process:

We utilize a business owner's approach to investing, thoroughly investigating the economics of the business and the quality of the management team. Some of the characteristics of good businesses include strong recurring revenue and attractive returns-on-invested capital (ROIC). We have a strong orientation to low absolute and relative valuation, which are key to the execution of our investment strategy. A new idea will come from a variety of sources including company visits, screens, conferences, trade periodicals and general reading. All members of the research team are responsible for fundamental research.

Once an investment opportunity is identified it is put through an extensive due diligence process, which typically includes management interviews and site visits. When an acceptable level of conviction is achieved, the appropriate weighting (considering liquidity, valuation, etc.) is discussed and determined. A new company purchased in the portfolio will usually have an initial position size of 1-3%. The portfolio generally consists of 40-50 companies and is well diversified across sectors.

We are long-term investors, a typical holding period for our companies is three to five years, and portfolio turnover averages 20-40% per annum.

Portfolio Management Committee (PMC)	Research Team
Jonathan T. Bloom, CFA	✓
John S. Brandser	
Patrick J. English, CFA	✓
Robert M. Helf, CFA	✓
Julia L. Jensen	✓
Benjamin D. Karek, CFA	✓
Andy P. Ramer, CFA	✓
Daniel G. Sievers, CFA	✓
Matthew T. Sullivan, CFA	✓
Jordan S. Teschendorf, CFA	✓
Dain C. Tofson, CFA	✓

Please note disclosure footnote on reverse side.

(1) Estimated valuations are based on a representative account from the FMI Small Cap Equity Composite, and are weighted average calculations, not reweighted to exclude cash, and financial companies are excluded from the EV/EBITDA calculation. Valuations for the portfolio are modified based on criteria identified by FMI. For more detailed information regarding these valuations, please contact FMI.

Top 10 – Portfolio Holdings:

Carlisle Companies Inc.	5.9%
FirstCash Inc.	5.1%
Houlihan Lokey Inc. CI A	4.9%
Interpublic Group of Cos. Inc.	4.8%
Genpact Ltd.	4.6%
Robert Half Intl. Inc.	4.1%
Zions Bancorp N.A.	4.1%
TriMas Corp.	3.5%
Henry Schein Inc.	3.4%
Arrow Electronics Inc.	3.3%

Portfolio Characteristics: (1)

P/E Ratio (trailing one year)	26.8x
FY1 P/E Ratio (forward 4 quarters)	18.8x
P/S Ratio	2.0x
P/B Ratio	3.6x
EV/EBITDA Ratio	13.3x
Number of Holdings	40
Active Share	99%

Recent Purchase:

Beacon Roofing Supply Inc. Ticker: BECN Added: September 2021

Beacon Roofing is the largest publicly traded (#2 overall) distributor of roofing materials and complementary building products in the U.S. and Canada. Beacon serves 90,000 contractor/customers from over 400 branches throughout all 50 states (97% of sales) and 6 Canadian provinces (3% of sales). Beacon makes 1.7 million annual deliveries (within a 2-hour radius) using its owned fleet of specialized trucks. Since the sale of the non-core Interiors division (2021), their run-rate sales have been 53% residential roofing, 25% commercial roofing, and 22% complementary building products (siding, windows, specialty exterior building products, insulation, and waterproofing systems). Beacon is a simple business largely driven by non-cyclical, non-discretionary demand. It is estimated that roughly 80% of roofing sales are replacement and that the U.S. housing stock is, on average, over 40 years old. 94% of U.S. re-roofing demand is thought to be non-discretionary (leaks, weather damage, old age, etc.). While Beacon achieved scale in an industry that has consolidated significantly over the last decade, under prior management they were saddled with (1) a challenging and costly integration, (2) substantial debt and interest costs, and (3) a separate Interiors business. Under their new CEO, the company has refocused on its core roofing/exterior business (productivity, margin improvement, and organic growth), while divesting the Interiors business and substantially de-risking the balance sheet. The company now tracks ROIC and we see signs that new management may restore ROIC as a key operating metric and compensation criterion. We believe the company should grow nicely in the years ahead. We initiated a 1.5% position in September 2021.

Recent Sale:

Graham Holdings Co. Ticker: GHC Sold: September 2021

Graham Holdings has been a holding since September 2014. Our interest in the stock was piqued when The Washington Post Company sold their namesake newspaper and building, and renamed themselves Graham Holdings. It seemed that management was willing to make tough decisions to unlock shareholder value. We were surprised to find that their Cable One business (plus net cash) was worth the majority of their market cap. Over the years, Graham was a net seller of valuable assets, most notably the 2015 spin-off of Cable One (CABO) and the more recent sale of podcast businesses Megaphone and Gimlet Media to Spotify (for about \$500 million). We sold our remaining Cable One shares in 2019 at a significant gain since the spin-off. Today, Graham has a \$2.9 billion market cap and consists of Kaplan International Education and Test Prep, seven broadcast television stations, and several manufacturing, home healthcare, and consumer businesses. It also has a pension plan that is overfunded by ~\$1.3 billion, and net cash and investments of around \$300 million. Graham's businesses are pretty defensive and mundane, but the in-person nature of some of them factored into underperformance during the 2020 bear market. If pandemic-related pressures continue to ease, partially impaired businesses may see strong eventual (if not immediate) recoveries. Including spin-offs, the stock has been a solid performer, although we feel they should have gone further with divestitures over the past three years. With that in mind, we decided to exit our position for more compelling opportunities. We sold our 2.5% position in September 2021.

**Fiduciary Management Inc.
Small Cap Equity 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	5.64	4.79	-4.18	179	0.34	21.17%	24.99%	\$ 2,523.2	\$ 12,273.6	20.56%
2012	11.34	10.43	16.35	182	0.40	15.46%	20.20%	\$ 2,609.5	\$ 15,253.5	17.11%
2013	33.43	32.33	38.82	180	1.04	12.51%	16.45%	\$ 2,801.8	\$ 19,705.3	14.22%
2014	7.99	7.06	4.89	178	0.39	9.65%	13.12%	\$ 3,006.5	\$ 21,001.1	14.32%
2015	-5.72	-6.52	-4.41	171	0.34	11.18%	13.98%	\$ 2,597.2	\$ 21,042.9	12.34%
2016	21.65	20.65	21.31	171	0.46	12.02%	15.77%	\$ 2,596.0	\$ 22,626.7	11.47%
2017	15.42	14.49	14.65	171	0.84	11.12%	13.91%	\$ 2,774.0	\$ 25,322.0	10.96%
2018	-8.10	-8.83	-11.01	160	0.74	11.73%	15.79%	\$ 2,220.4	\$ 19,833.6	11.20%
2019	27.14	26.17	25.53	119	1.83	12.44%	15.71%	\$ 2,415.0	\$ 22,609.9	10.68%
2020	4.40	3.60	19.96	104	1.49	21.15%	25.27%	\$ 2,079.2	\$ 16,284.2	12.77%

*Benchmark: Russell 2000 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 Small Cap Equity Composite has had a performance examination for the periods 12/31/1993 - 12/31/2020. 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 \$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 FMI Small Cap Equity Composite was created and inceptioned in January 1980. These accounts primarily invest in small to medium capitalization US equities.

The FMI Small 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. A small percentage of composite assets (typically ranging from 0-5%) historically has been invested in unmanaged fixed income securities at the direction of account holders. From December 31, 1993 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 Small Cap Equity Composite portfolios is as follows:

Up to \$25,000,000	0.85%
\$25,000,001-\$50,000,000	0.80%
\$50,000,001-\$100,000,000	0.70%
\$100,000,001 and above	0.60%

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 Russell 2000 Index® measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 8% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Small Cap Equity composite uses the Russell 2000 Index® as its primary index comparison.

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