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INVESTMENT STRATEGY OUTLOOK – SMALL CAP EQUITY

September 30, 2014

The FMI Small Cap portfolios declined approximately -4.6% in the three months ended September 30 compared to a decline of -7.36% for the benchmark Russell 2000 Index. Health Services, Process Industries, and Health Technology all detracted from performance. Hanger, H.B. Fuller, Lindsay and Valmont Industries were all down in the period. On the positive side, Industrial Services, Energy Minerals and Finance all aided relative performance, primarily because of our underweighting and stock selection. Individual securities that did relatively well in the period included Dresser–Rand Group, MKS Instruments and Dun & Bradstreet. Small cap stocks underperformed larger cap stocks in the quarter and while down, have yet to experience a significant correction. The market has continued its remarkable and almost uninterrupted run, now exceeding 66 months. We haven't been willing to pay up for stocks… at least not the ones the market favors today. Puma Biotechology, InterMune, Inc., and Avanir Pharmaceuticals were the top three contributors to the benchmark this quarter. Each one has years of losses, a high cash burn rate and is not projected to make money any time soon. It is an indication of the speculative nature of this market. Our research team continues to scour the landscape for good values but these are still fairly rare. We are finding a few special situations and relative values to tide us over until turbulence resurfaces. Perhaps a continuation of the weakness present at the end of the quarter will give us more attractive opportunities.

The longer the market goes without a large correction, the more we encounter some common questions from our shareholders, clients and consultants. Below we take our best shot at addressing them before reviewing a couple of investments.

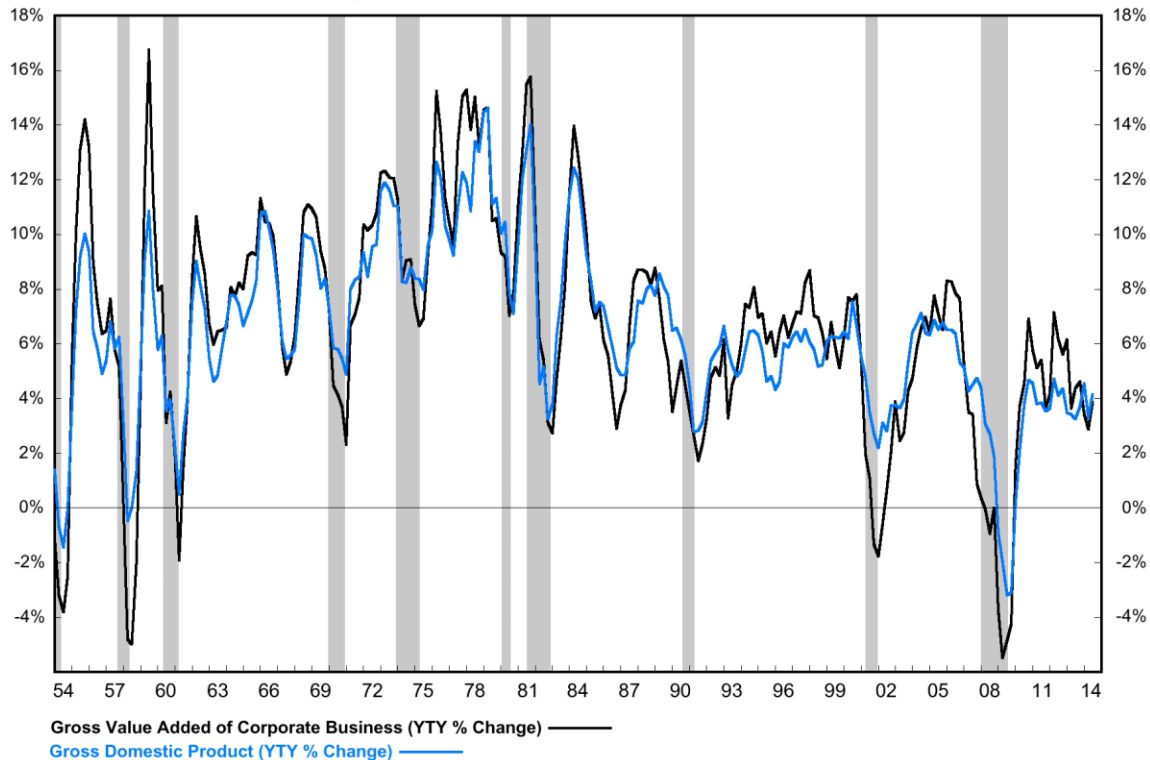
At what rate should the stock market appreciate?

Before answering this, let's look at what stocks have achieved over the long term. According to the most reliable data from Ibbotson Associates, from 1926-2013 large company stocks have had a compound annual return of approximately 10%, with price appreciation constituting roughly 6%, and 4% coming from the dividend yield.

If one views the stock market as a proxy for the growth of corporations (sales and earnings), it is logical to expect the market to appreciate at roughly the rate of corporate sales and earnings growth. It just so happens that sales and earnings for the S&P 500 and broader measures of corporate earnings have, over long periods of time, grown at approximately the same rate of about 6%, although the figure is highly volatile over short time frames. Margins have also gone through years of expansion and contraction, which of course influences the growth rate of earnings compared to sales. In recent years margins have reached all-time highs so it wouldn't be surprising to see them contract, causing earnings growth to lag sales growth.

Since the S&P 500 total sales typically make up about two-thirds of the economy's gross domestic product (GDP), and Bureau of Economic Analysis (BEA) compiled corporate revenue figures are an even larger percentage of GDP, it is not surprising that the growth rates for both corporate sales and the economy, as measured by GDP, have been roughly similar over long periods of time. Following is a chart of corporate

revenue compared to nominal GDP and it is easy to see the high correlation. From 1926 through June of 2014, the nominal GDP growth rate has been 6.1%, although recently it has been much less.



Sources: Bureau of Economic Analysis • Copyright © 2014 Crandall, Pierce & Company • All rights reserved.
Shaded areas represent recessionary periods.

So, the logical or natural rate at which stock prices "should" appreciate appears to be about 6% (total return would include the dividend yield), but of course investors and speculators sometimes do not have long-term time horizons and also, perhaps do not have a deep appreciation of where we are on the valuation-growth rate spectrum. Investor perceptions, manifested in valuations, tend to dominate short-to-intermediate performance of the stock market. Interest rates, inflation, and a whole host of factors play into valuations. If we go back in time, we find some very interesting data. In some sense, we can look at the modern investment world in two phases, post WWII (we'll start with 1947) up to 1982, and from that period through today. From June of 1947 through June of 1982 the S&P 500 had a total price change of 620%, or 5.8% compounded annually (the total return was 10.6% with dividends… those were the years of big dividends!). S&P 500 earnings grew 6.3% from 1947-1982. In that same period, nominal GDP gained 1238.5%, or 7.7% compounded annually. So, stock market price returns lagged both nominal GDP and corporate earnings.

In the second period, from June of 1982 through June of 2014, the S&P 500 had a total price change of 1688.4%, or 9.2% compounded annually (12.2% with dividends). The S&P 500 earnings grew at roughly the same rate as they did in the prior period. Nominal GDP, on the other hand, gained 417.5%, or just 5.3% compounded. Obviously, the stock market trounced both the economy and earnings in this time frame. Over

the last five and a half years alone, the total price change of the S&P 500 was 191.5% (21.5% compounded) compared to nominal GDP growth of just 23.7%[1] (3.9% compounded).

In summary, stocks should (over time) roughly match the underlying growth of the economy and the fundamentals of the corporations that constitute the economy. Historically this rate of growth has been approximately 6%. The last few years have been characterized by a significant increase in stock prices relative to the growth in the economy and the underlying performance of U.S. corporations. The result is a stock market that is very expensive. The Leuthold Group data of 48 different valuation measures (most series exceed 60 years) that we tally every quarter puts the average current market valuation in the 9th decile (10 being the most expensive).

Why can't valuations remain high?

The simple answer is they can… for a while. And a "while" can be pretty long, as we have seen over the last several years. The Fed has had an "emergency" policy in place for six years and while we will spare the reader a rehashing of prior letters which articulate the damaging short- and long-term elements of this approach, it certainly has helped drive stocks higher and make valuations expensive. Each time reported data is weaker than expected it fuels the market to go higher as investors gain confidence that interest rate policies will remain loose. The prevailing sentiment today is that the "Fed has investors' backs." Thus, issues that would normally cause the stock market to correct remain at bay. Subpar economic growth, rather than being a negative, is actually the opposite in today's market. Modest inflation and low interest rates are taken as a given for the future. It is ironic how opposite the sentiment is today from what it was in 1982. This was a period of very high interest and inflation rates and very low valuations. Sentiment was awful. Today, on the other hand, investors are presented with conditions that are essentially the opposite: low inflation, rock bottom interest rates and sky-high valuations. 1982 turned out to be one of the greatest buying opportunities of all time. Logically, how could 2014 also be a great buying opportunity? Yet that is the Wall Street pitch. It should come as no surprise that we do not believe it!

Valuations are unlikely to remain high forever. Aside from being tied to the fundamentals of the economy and the companies that make up the economy (and being completely out of sync there) they are tied to sentiment and emotion. Right now the sentiment is that nothing will derail the equity train. Our experience tells us something will. History suggests the same. The fact that so far this market has shrugged off massive destabilization in the Middle East; a new terrorist threat in ISIS (Islamic State in Iraq and Syria); a renewed Cold War; an economic U-turn in Europe, Japan, Brazil and Russia; the failure of Fed Policy; and the lack of any nod to business or free market principles in Washington, should worry rather than embolden investors. Deep down people know that things are not right. How can an economy be right if nearly 37% of the working-age citizens are not working? Real household incomes, except for those at the top, have been stagnant to declining for over a decade. More people than ever are living off the taxpayer. Companies are not investing enough in capital. The past ten years have seen the lowest capital investment relative to GDP since records have been kept. Companies are underinvesting in people. New healthcare mandates, higher taxes and a mountain of new regulations all thwart the effort. Instead, companies borrow at manipulated rates and buy back stock, lifting earnings per share for Wall Street while fattening management and board paydays. CEOs make nearly ten times what they made 30 years ago relative to the average hourly worker. This income disparity is translated to great wealth disparity by the Fed's interest rate policies, which make financial asset owners even wealthier. Will this fuel class animosity and a deepened political crisis? What will happen to stock multiples if labor unrest grows? Minorities, particularly African-Americans, have fallen further behind despite all the subsidies, food stamps and other government help. Our answer to this issue is to throw more money over the

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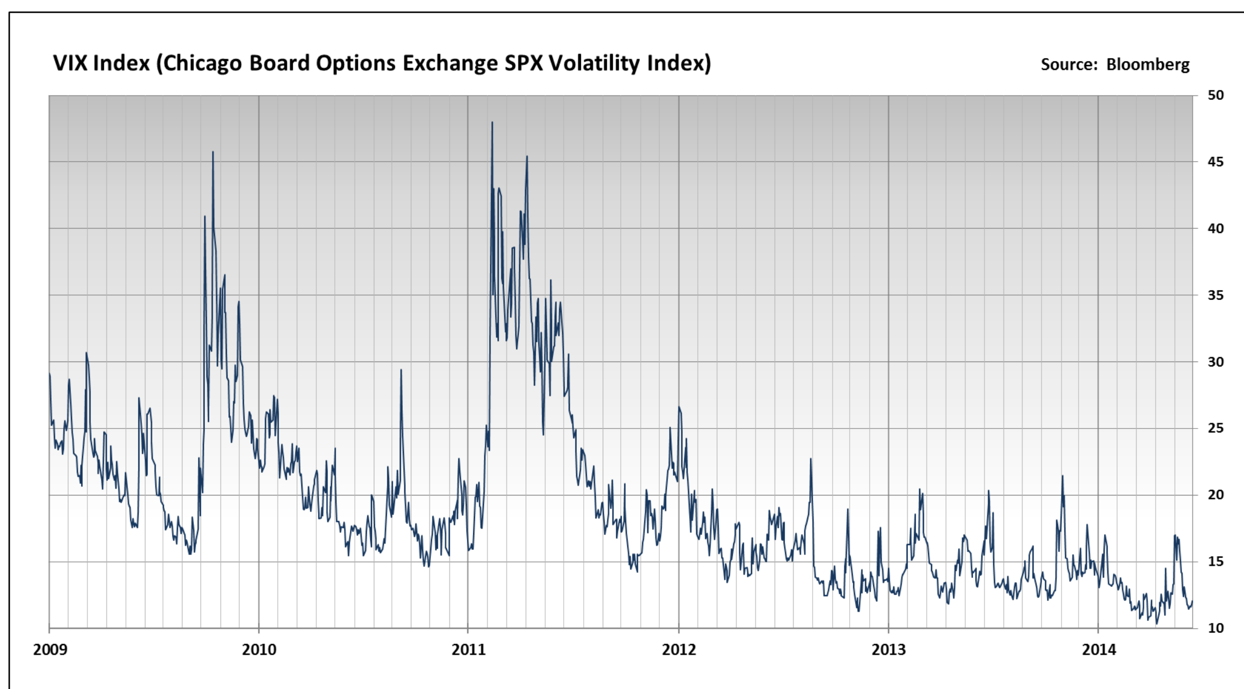
[1] Nominal GDP estimated using 3% for the September 2014 quarter.

wall instead of addressing cause and effect. How will stock markets react to the next Ferguson, Missouri? The market sees through all of this until it doesn't. We don't have any idea when this will happen, and frankly, we wouldn't be that worried about it (from a stock market perspective) were it not for the high valuation levels. Low valuations favor the optimist; high valuations favor the skeptic.

Why are cash levels elevated?

Cash levels are elevated because a number of stocks have reached full value and have been sold, and a number of others have been trimmed as they approach full value. The difference between today and other points in FMI's history is that just about every sector of the market is elevated and very few companies are trading at significant discounts to fair value. This bull market has seen almost no corrections, and in recent years has not delivered the sort of industry or sector declines that are normal even in an overall rising market. This has prevented us from reloading and staying fully invested. Volatility has been below-average in recent years as can be seen by the following chart.



What would it take for you to have a stronger period of outperformance?

To expect stocks to appreciate at 15-20% when the "natural" growth rate of the economy and earnings is around 6% is completely unrealistic. When a market phase is extended (this bull run is now over 66 months old, making it one of the longest on record) people believe it is a new paradigm. But it never is, because humans will always be susceptible to the emotions of greed and fear. We are very confident that opportunities will eventually present themselves through a general market decline or increased sector volatility. In the meantime, we are relegated to special situations or relative value ideas. It is unlikely we would outperform in a market that continues to rise uninterruptedly. Historically, we have performed very well in choppy and down markets. Nobody cheers for poor markets, but these periods are inevitable and we would be surprised if they weren't a source of outperformance. So, we need to be patient and avoid the temptation to play somebody else's game.

Why not just invest in an index fund?

There are times and circumstances that may make sense for this approach. If you don't have the time, mindset or wherewithal to identify truly talented active managers, then buying an index fund might be a reasonable approach. After a market has been crushed, when nearly all stocks are cheap, is often an advantageous time. There is a tendency, however, for investors to believe it is less risky to buy an index fund. As with any asset, an index fund can become overvalued when the underlying stocks become overvalued. These types of funds are particularly risky at cycle highs, which we believe we are near today. We remember like it was yesterday when John Bogle, Chairman and CEO of Vanguard and the unofficial spokesman for passive investing, stood on the proverbial mountaintop in 1999 telling everyone they should index. Let's look at what that did for investors. From the peak in March of 2000 to the trough in October of 2002, the S&P 500 (and the Vanguard 500) declined approximately 45.8%. The Russell 2000, a benchmark for smaller capitalization stocks, fell by 37.2%. The FMI small cap strategy is mirrored by the FMI Common Stock Fund, whose numbers are used in this analysis. The FMI Common Stock Fund gained 16.4% during this time frame. If we go "peak to peak" (March of 2000 to October of 2007) the S&P 500 gained 15.8% and the Russell 2000 advanced 61.0%. The FMI Common Stock Fund was up 156.3%. Following is a table looking at returns following peaks, as well as a column for the FMI Common Stock Fund since its inception.

TOTAL RETURNS	"Peak to Peak" 3/24/00 - 10/12/07	"Peak to Peak" 3/24/00 - 8/29/14	"Peak to Bottom" 3/24/00 - 10/4/02	"Peak to Bottom" 10/12/07 - 3/6/09	"FMIMX Inception to Top" 12/18/81 - 8/29/14
Standard & Poor's 500 Index	15.8%	72.9%	-45.8%	-54.7%	3718.1%*
Russell 2000 Index	61.0%	147.1%	-37.2%	-57.4%	2622.5%
Vanguard 500 Index Fund	15.0%	70.4%	-45.8%	-54.7%	
FMI Common Stock Fund	156.3%	391.1%	16.4%	-45.3%	4618.0%

** 12/31/81 - 8/29/14*

As is our custom in September, we highlight a couple of investments.

UniFirst Corporation (UNF)

(Analyst: Rob Helf)

Description

Boston-based UniFirst is the third largest uniform rental provider in North America with approximately 8% of market share in a $16 billion market. The company's primary business is to design, manufacture and market company uniforms for rental, and then clean, maintain and repair them on a weekly basis.

Good Business

- The largest four participants control less than 50% of the industry; there is plenty of room for consolidation. UniFirst has demonstrated skill in making tuck-in acquisitions.
- The industry has historically grown faster than GDP.
- The revenue model is generally recurring, with 5-year contracts and price escalators.
- The company has no customers comprising greater than 1% of overall revenues.
- The economics of a rental program are profitable for both UniFirst and the customer when compared to an in-house uniform program.

- Over the past ten years, revenues and earnings per share (EPS) have grown at 8% and 14%, respectively. We expect approximately 9-10% earnings growth over the next five years.
- Excluding unneeded cash ($6.50 per share), UniFirst generates a low double-digit return on invested capital (ROIC).
- The company has historically generated free cash flow at 90% of net income.

Valuation

- UniFirst trades at 16.3 times and 15.0 times fiscal 2015 (August) and 2016 EPS estimates, respectively. Excluding excess cash, the multiple is about 6% cheaper.
- Historically, the company has traded at 15.0 times next 12 months earnings, in a range of 12.6 to 17.4 times.
- On an enterprise value-to-sales basis, the company is valued at 1.3 times, which is above its historical average of 1.1 times; however, it is attractive relative to the 13-14% margins it currently generates.
- UniFirst trades at a discount to its competitors.

Management

- Ron Croatti is Chairman, President and CEO. He has been part of UniFirst since 1965. He became CEO in 1991 and President in 1995. Ron's family started the company in 1936 as an industrial laundry/delivery company. He and his family have a 25% ownership interest in the company.
- Steven Sintros has been VP and CFO since 2009. He has been with the company since February of 2004 and served as its Corporate Controller until January 13, 2009. He previously served as manager with Ernst & Young LLP and Arthur Andersen LLP.
- Bruce P. Boynton is Senior VP, Operations and is also COO of the Canadian operations.

Investment Thesis

UniFirst is one of the most profitable participants in the uniform rental industry, primarily by focusing on the details of this simple but necessary business. Most companies that have a margin structure and growth profile like UniFirst trade at a significant premium to the company. The premium is nonexistent in UniFirst because it is unlikely to be bought out, given its high insider control. When interest rates and market sentiment changes, takeover premiums will fall and UniFirst should experience strong relative performance.

Genpact Ltd. (G)

(Analyst: Karl Poehls)

Description

Genpact is a global leader in business process management (BPM) and information technology (IT) outsourcing services. The company executes its strategy according to its proprietary Smart Enterprise Processes (SEP) framework. Genpact was spun off from General Electric (GE) in 2007 and continues to operate with an intense focus on Lean and Six Sigma. The company has broad exposure across a number of industry verticals, employs over 60,000 professionals around the globe, delivers services to more than 700 clients from a network of more than 70 delivery centers, and competes in 18 countries while supporting more than 30 languages.

Good Business

- Genpact is a leading provider of BPM and IT outsourcing services with the majority of its revenues derived from Fortune Global 500 and Fortune 1000 companies.
- The company estimates that more than 80% of its revenues can be considered recurring in nature and organic growth has averaged 11% over the past five years.

- In 2012, customer satisfaction scores reached an all-time high.
- The company's products and services provide customers with a tangible return on investment (ROI).
- Genpact has a strong balance sheet with net debt-to-EBITDA (earnings before interest, taxes, depreciation and amortization) and interest coverage ratios of 1.2 and 9.6 times, respectively.
- Over the past five years, the company's return on invested capital (ROIC) has averaged 10%, which exceeds its cost of capital. We expect Genpact's ROIC will approach 13-15% over the next few years.

Valuation

- Since the spin-off from GE in August of 2007, Genpact's stock price has significantly underperformed the Standard & Poor's 500 and Russell 2000 indices by 30% and 45%, respectively.
- The stock trades for 1.8 times revenue, which compares to an expected operating margin (earnings before interest and taxes) of 14% in 2014 and a trailing 5-year average of 15.3%.
- Genpact's trailing price-to-earnings (P/E) multiple is 16.3 times. Over the trailing 5-year period, the company's stock has traded for an average P/E of 17.5 times.
- Acquisitions of comparable companies in the IT services, business processing outsourcing (BPO), enterprise software, and financial processing industries typically occur at 10-16 times EBITDA. Genpact's shares trade for approximately 11 times EBITDA.

Management

- Current CEO, N.V. "Tiger" Tyagarajan, has led the company since June of 2011. He is considered a pioneer of the BPO industry and has a deep knowledge of Lean and Six Sigma. Mr. Tyagarajan owns 450,000 shares of Genpact's common stock.
- Bain Capital has approximately $1 billion invested in the company, which represents 27% of the outstanding shares. Further, representatives of Bain occupy four seats on Genpact's board of directors. We believe this significant ownership interest will help to drive future shareholder value creation.

Investment Thesis

In February, Genpact issued 2014 financial guidance that was below expectations and the stock sold off 17%. Management is taking the hard step of driving short-term profit margins down by investing in the business to accelerate future top-line growth. This appears to be the correct path for the long term and has given us the opportunity to invest in a relatively high-growth franchise, with a sticky customer base and strong balance sheet, at a reasonable price.

Thank you for your confidence in Fiduciary Management, Inc.

Performance for Period Ended September 30, 2014	FMI Common Stock Fund
3 Months	-4.90%
1 Year	10.44%
3 Year Annualized Total Return	19.62%
5 Year Annualized Total Return	13.80%
10 Year Annualized Total Return	10.75%
Since Inception	12.34% (12/18/81)

The Russell 2000 Index, benchmark for FMIMX, 1-year and annualized 5-year and 10-year returns through September 30, 2014 were 3.93%, 14.29% and 8.19%, respectively. An investment cannot be made directly into an index.

Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

As of the Funds' Prospectuses dated January 31, 2014, the FMI Common Stock Fund's annual operating expense ratios is 1.19%, Risks associated with investing in the Fund is as follows:

FMI Common Stock Fund: Stock Market Risk, Small & Medium Capitalization Companies Risks (which includes the potential for greater volatility and less financial resources than Large Cap Companies), Value Investing Risk and Foreign Securities Risk (fluctuation of currency, different financial standards, and political instability).

For details regarding these risks, please refer to the Fund's Prospectus or Summary Prospectus dated January 31, 2014. Please note the FMI Common Stock Fund is currently closed to new investors.

This report is not authorized for use as an offer of sale or a solicitation of an offer to buy shares of the Fund unless accompanied or preceded by the Fund's current prospectus.

For more information about the FMI Funds, call 1-800-811-5311 for a free Prospectus or Summary Prospectus. Please read these Prospectuses carefully to consider the investment objectives, risks, charges and expenses, before investing or sending money. These Prospectuses contain this and more information about the FMI Funds. Please read the Prospectuses or Summary Prospectuses carefully before investing.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index which comprises the 3,000 largest U.S. companies based on total market capitalization.

The Vanguard 500 Index Fund is the industry's first index fund for individual investors and has diversified exposure to the U.S. equity market. The fund invests in 500 of the largest U.S. companies, which span many different industries. Risks associated with the fund include: Stock market risk, which is the chance that stock prices overall will decline; and Investment style risk, which is the chance that returns from large-capitalization stocks will trail returns from the overall stock market. As of 4-28-14 the expense ratio is 0.17%. As of 9-30-14, the 1-5- and 10-year returns were 19.54%, 15.53% and 7.99%, respectively.

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Fiduciary Management Inc.
Small Cap Equity Composite
12/31/2003 - 06/30/2014

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 %
2004	20.92	20.02	18.33	181	1.00	n/a	n/a	$ 1,486.6	$ 3,085.8	48.18%
2005	11.12	10.26	4.55	186	0.69	n/a	n/a	$ 1,605.8	$ 3,174.4	50.59%
2006	18.46	17.56	18.37	147	0.73	n/a	n/a	$ 1,606.8	$ 3,589.4	44.77%
2007	-0.92	-1.72	-1.57	161	0.85	n/a	n/a	$ 1,520.2	$ 3,960.4	38.39%
2008	-21.06	-21.69	-33.79	145	1.16	n/a	n/a	$ 1,212.4	$ 4,062.5	29.84%
2009	35.72	34.56	27.17	165	0.97	n/a	n/a	$ 2,004.6	$ 7,008.9	28.60%
2010	23.45	22.43	26.85	170	0.48	n/a	n/a	$ 2,477.7	$ 9,816.0	25.24%
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%
Q1 2014	2.21	1.99	1.12	180	0.16	12.85%	16.55%	$ 2,900.3	$ 19,764.3	14.67%
Q2 2014	5.35	5.13	2.05	179	0.22	12.84%	16.74%	$ 3,115.5	$ 20,679.0	15.07%

*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. (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 - 06/30/2014. 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 Small Cap Equity composite has been examined for the periods 12/31/1993 -06/30/2014. 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 $20.6 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 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®.

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

Up to $25,000,000	0.90%
$25,000,001-$50,000,000	0.85%
$50,000,001-$100,000,000	0.75%
$100,000,001 and above	0.65%

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 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.