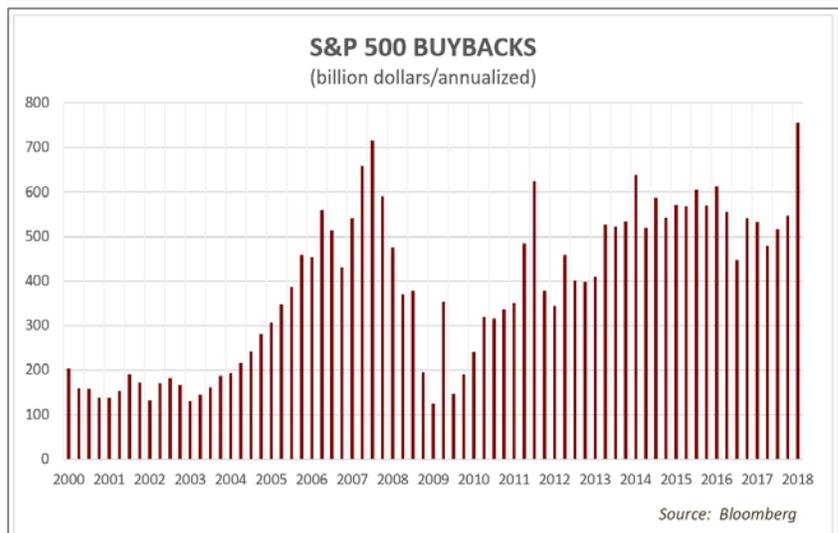
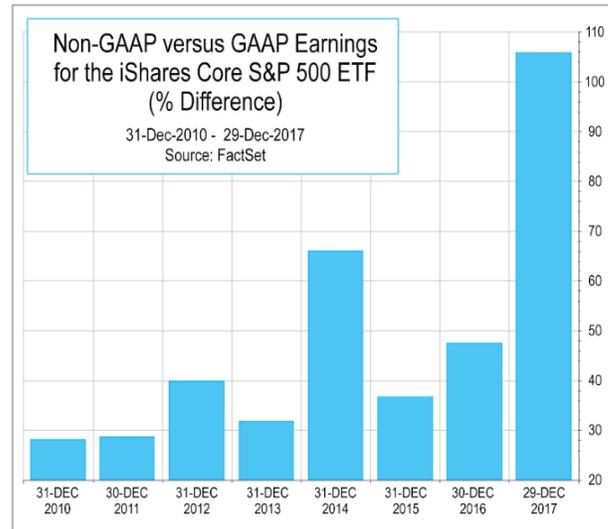


INVESTMENT STRATEGY OUTLOOK – SMALL CAP EQUITY
June 30, 2018

The FMI Small Cap portfolios gained approximately 1.2% in the June quarter compared to 7.75% for the Russell 2000 Index. Sectors that helped included Producer Manufacturing and a few areas where we had little or no exposure, including Consumer Durables and Transportation. On the flipside, Commercial Services, Health Services and Technology Services all hurt. From an individual stock perspective, Kennedy-Wilson Holdings, FirstCash and ePlus all added to performance while ManpowerGroup, Genpact, MEDNAX, Allscripts Healthcare and Anixter International detracted. Applied Industrial Technologies was sold in the quarter due to valuation and an increase in balance sheet risk from a recent acquisition. Elevated cash levels also hurt in the period. It was a tough quarter. Since the beginning of the year, over 100% of the iShares Russell 2000 ETF (benchmark surrogate) performance was driven by less than 10% of the stocks. In other words, the top 200 stocks were up approximately 8.2% in the quarter, and the rest of the index was actually down roughly 0.6%. Not only did growth and momentum stocks take off, which would have hurt our relative performance anyway, but an unusual number of stocks also suffered significant drops in the period. While this is uncommon, it has happened previously. In 2003 the small cap market was driven by growth stocks and more speculative issues, and we lagged significantly. We more than made up for this in the following several years. There are no guarantees in this business, but our philosophy and process have not changed, and we are confident in our ability to deliver in the long run. We always “reunderwrite” stocks that fall and this process is ongoing with two of the companies. The others appear sound and are candidates for additional commitments.

Today’s stock market is very reminiscent of previous speculative periods. In a nod to the bacchanalian year 1999, over two-thirds of the IPOs in the past eighteen months were money-losing companies. Over the past forty years, money-losing companies constituted just 38% of new offerings. Today’s figures don’t include the herd of money-losing “unicorns,” which are private startup companies valued over a billion dollars. Wall Street’s deception, otherwise known as “adjusted earnings” (non-GAAP¹), is just an in-your-face version of the ‘90s bull market’s beat-the-quarter-by-a-penny phenomenon practiced so assiduously by the likes of Jack Welch at GE and Dennis Kozlowski at Tyco. Today’s record-high share buyback activity (despite high valuations), frenzied mergers and acquisitions action, and massive levering of corporate balance sheets, completes the financial engineering trifecta. The



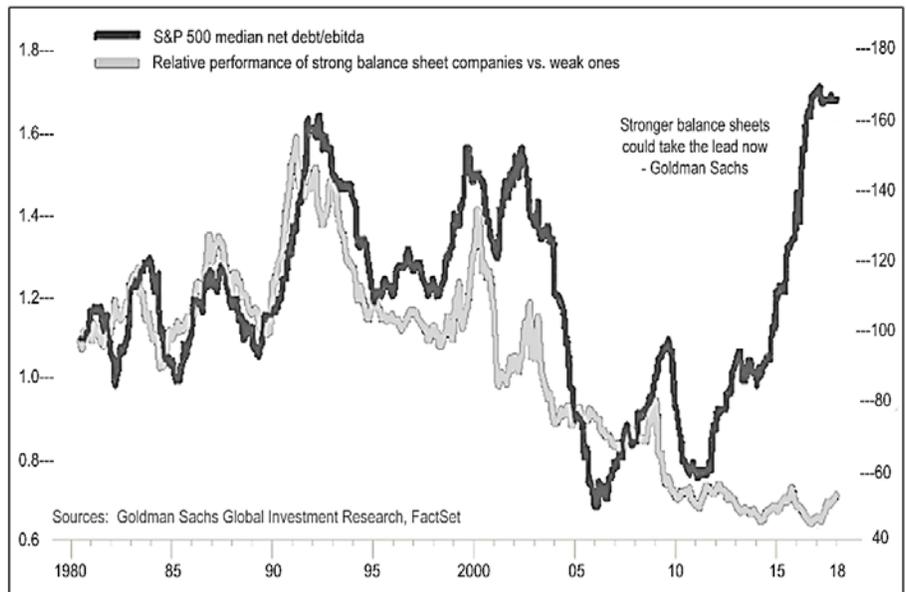
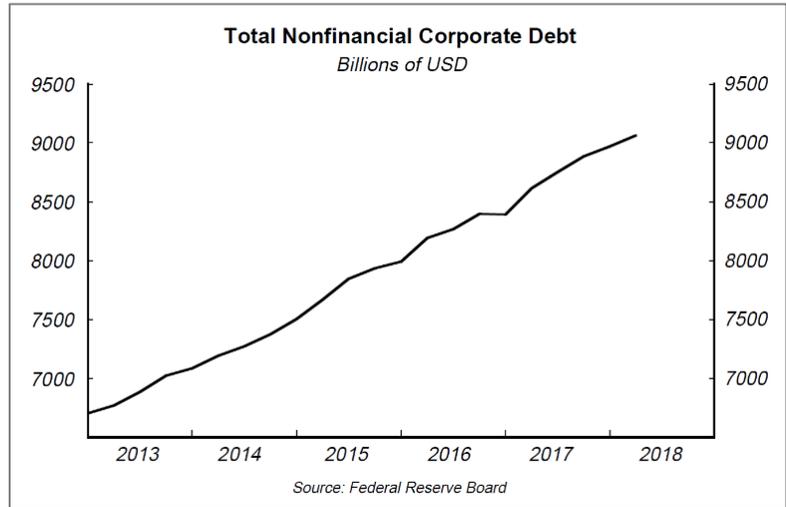
¹ Generally Accepted Accounting Principles

obsession with market share (revenue) to the detriment of earnings (think Amazon, Netflix, and many of the biotechnology companies) harkens back to the Japanese bull market of the 1980s, where investors were told that market share was all that mattered, and that they shouldn't worry about valuations since the Japanese valued companies differently. The same dynamic took place ten years later in the Internet 1.0 bull market, when investors were counseled to count eyeballs instead of dollars. The way the stock market is being driven by a narrow group of names (FAANG² and their ilk) takes a page out of the "nifty fifty" playbook, circa 1972, when stocks like Eastman Kodak, Avon Products and Sears ("one decision stocks") were among the most popular. As in almost all bull runs, growth stocks have been beating value stocks, and investors can't fathom how it could ever flip.

As the chart from Goldman Sachs below attests, weaker balance sheet companies have outperformed better balance sheet companies during this cycle. Moreover, year-to-date through June 21, money-losing companies in the S&P 500 and S&P 600 are up approximately 7.8% and 14.4%, respectively, compared to the corresponding benchmark returns of 3.81% and 11.99%. The "winners" of this market -- the top 10% of the various market cap-weighted indices (50 in the S&P 500 and 60 in the S&P 600) -- trade at a price-to-sales (P/S) ratio of 6.4x and 4.5x, respectively. By way of comparison, the median P/S for the S&P Industrials over the past sixty years is 1.0x. Historically, markets driven by a narrow group of names with inferior balance sheets has been a danger sign. Balance sheets are an afterthought in bull markets. It only takes a bit of fear to see investors refocusing on companies' financial strength.

No deal seems too audacious for this market. Recently Comcast Corp. has been battling with Disney over Twenty-First Century Fox assets in a deal that could result in Comcast having \$170 billion in debt, according to Moody's. Earlier in the quarter, Comcast bid approximately \$31 billion for Sky. While the outcome was in doubt at the time of this writing, it says a lot about market sentiment and appetite for risk when a company with one of the industry's lowest leverage ratios (Comcast) is willing to shoulder this amount of debt.

The Comcast/Disney bidding war followed the AT&T purchase of Time Warner, a deal that saddles AT&T with an eye-popping \$180 billion of debt. Smaller, but perhaps even more risky from a financial perspective, was the Novartis purchase of AveXis for \$7.9 billion and Celgene's take-out of Juno, also for \$7.9 billion. Both target companies have little to no revenue. These sorts of deals have become commonplace and it's no wonder the return on invested capital (ROIC) of the pharmaceutical sector has plummeted.



² Facebook, Apple, Amazon, Netflix and Alphabet's Google

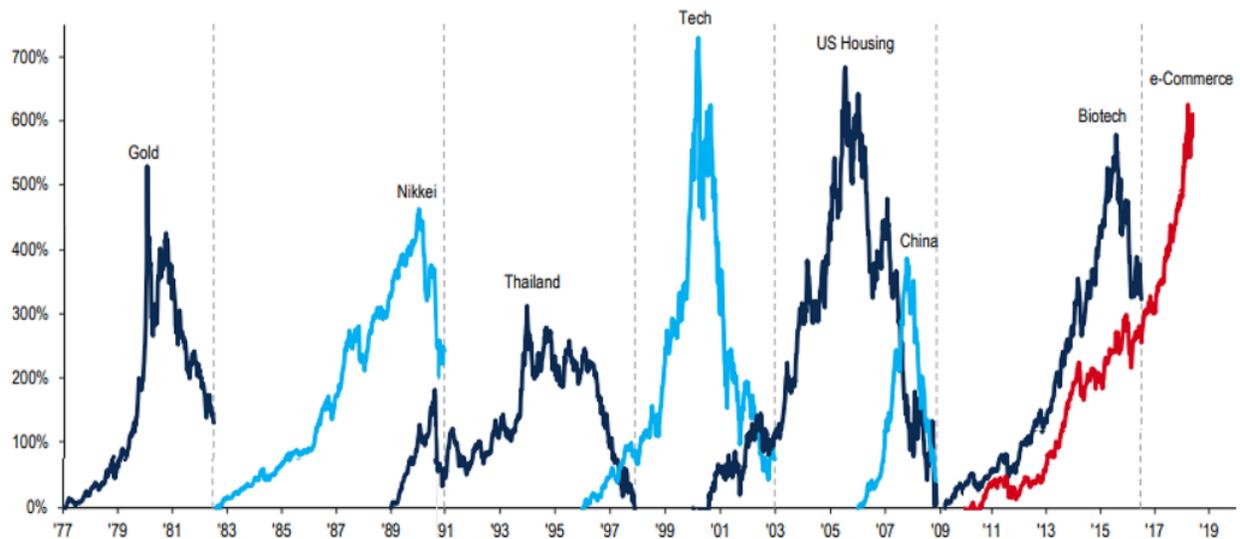
Historians and market observers have always used shorthand anecdotal references to mark unusual excesses or behaviors. In the 1960s, conglomerates such as LTV, Litton, and ITT Corp. became market leaders. The conglomerates and their CEOs gained great fame as master acquirers, using techniques not unlike today's mergers and acquisitions players. Many of the '60s vintage dealmakers had spectacular falls when the frenzy subsided. In the early 1980s, the first big wave of tech and biotech companies came public -- including Compaq, Apollo, Lotus, Amgen, Biogen, etc. -- only to crash spectacularly in the mid-'80s. In the late 1980s, the Nikkei 225 index went into orbit (along with Japanese real estate values). At its peak, the largest Japanese stock, Nippon Telegraph and Telephone, had a market cap bigger than the top eight U.S. companies, and the value of a slice of Tokyo real estate was ostensibly worth more than all the real estate in California. On a price basis, the Nikkei 225 lost over 80% of its value over the next twenty years and even today, is more than 40% lower than in December of 1989. The 1990s U.S. bull market was, of course, earmarked by many highly-valued tech stocks that ended up losing 100% of their value (Boo.com, eToys.com, Looksmart, etc.). Even solid companies like Cisco, Applied Materials, and Intel lost an average of 80% by the bottom in 2002. The big popular winners in the middle of the last bull market, including Bank of America, Federal National Mortgage Association and American International Group, lost an average of over 95% of their value in the '08-'09 bear market. Last year we called out the spectacular rise of Bitcoin and the other cryptocurrencies. Today, Bitcoin is down over 75% from last December.

Jeffrey Gundlach, from DoubleLine Funds, recently highlighted the following chart showing today's eCommerce stocks in relation to past equity bubbles. Gundlach also points out that today's U.S. tech market cap exceeds the entire Eurozone market cap, and Facebook's market value alone is greater than MSCI India, which is a proxy for the Indian equity market. Time will tell whether today's apparent bubble will be earmarked by the shorthand reference "FAANG." Bob Farrell, a renowned market strategist for Merrill Lynch in the '70s, '80s and '90s, had certain rules of investing, the most notable being, "There are no new eras -- excesses are never permanent." Year-to-date, the five FAANG stocks account for 79% of the performance of the S&P 500. The market cap of FAANG is \$3.2 trillion. For the same price, one could own every single company in the S&P 400 and S&P 600 and still have nearly \$500 billion left over! That \$500 billion could buy five blue chips such as Dollar General, Stanley Black & Decker, Honeywell, Bank of New York, and Aetna, leaving almost \$250 billion to spare.

Equity Bubbles

- Dow Jones eCom index (Amazon, Netflix, Google and Facebook) up 617%, 3rd largest bubble of past 40 years
- U.S. tech market cap (\$60 trillion) exceeding that of all companies in the Eurozone (\$5.0 trillion)
- Facebook (25,000 employees) market cap > MSCI India (1.3 billion people)

Asset price bubbles of the past 40 years



Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg, DoubleLine Funds. Note: Gold (XAU Curncy), Japanese Equities (NKY Index), Thai Equities (SET Index), Tech (NDX Index), US Housing (S\$HOME Index), Commodities (SHCOMP Index), Biotech (NBI Index), e-Commerce (DJECOM Index).

A comment we hear almost daily is, “Ok, we get that stocks are overvalued, and that businesses and governments are levered to the hilt, but I don’t see any catalyst that will change the trajectory of the market.” What people miss is that it is rarely one thing that puts the market on a new path. It is usually the culmination of many elements that are ignored, and then for unknown reasons, investors start to pay attention to the opposite narrative. Interestingly, we are starting to see some of that today. For example, the economy appears to be quite strong. As of June 19, the second quarter *GDP Now* forecast was for 4.7% real growth. If it comes to pass, it would be the second strongest quarter since 2006, yet some of the cyclical stocks have already rolled over, perhaps anticipating the next recession. ManpowerGroup’s stock, for example, has dropped from \$133 to \$86 since January, even though the consensus earnings estimate for this temporary services company has risen from \$8.30 to \$8.80. Lennar, one of the largest homebuilders in the U.S., has seen its stock drop 17% while the consensus earnings estimate since January moved higher.

For much of this bull market, most stocks were moving higher in lockstep; however, this has recently changed. An increasing number of stocks are off their 52-week high even while the benchmarks are near record levels. For example, as of 6/21/18, in the S&P 500, 56% of the stocks are down at least 10% from their highs. 21% are down more than 20% from their respective 52-week highs. A similar story exists in the smaller cap indices. Underneath the surface there may be some value ideas developing, although we hasten to add that valuations remain very high by historic standards. Nevertheless, the pool of potentially interesting value ideas may be filling, even while the party continues for the most popular names.

Finally, investors rarely win in all types of markets. Momentum works, until it doesn’t. Growth works, until it doesn’t. Value is on the bottom now, but is unlikely to stay there. While it’s impossible to know where the market will go over the short run, in the long run, stocks should reflect fundamentals, and that is the basis for FMI’s existence. In hindsight, one could say we have been too cautious over the past few years; however, with overvalued stocks pervasive, and signs of speculative excess everywhere, we think a more risk-averse outlook is warranted.

Thank you for your confidence in Fiduciary Management, Inc.

Fiduciary Management Inc.
Small Cap Equity Composite
12/31/2006 - 12/31/2017

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			
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%
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%

*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 - 12/31/2017. 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 - 12/31/2017. 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 \$25.3 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.