100 East Wisconsin Avenue, Suite 2200
Milwaukee, Wisconsin 53202
414-226-4545
www.fmimgt.com

December 31, 2021

INVESTMENT STRATEGY OUTLOOK - SMALL CAP EQUITY

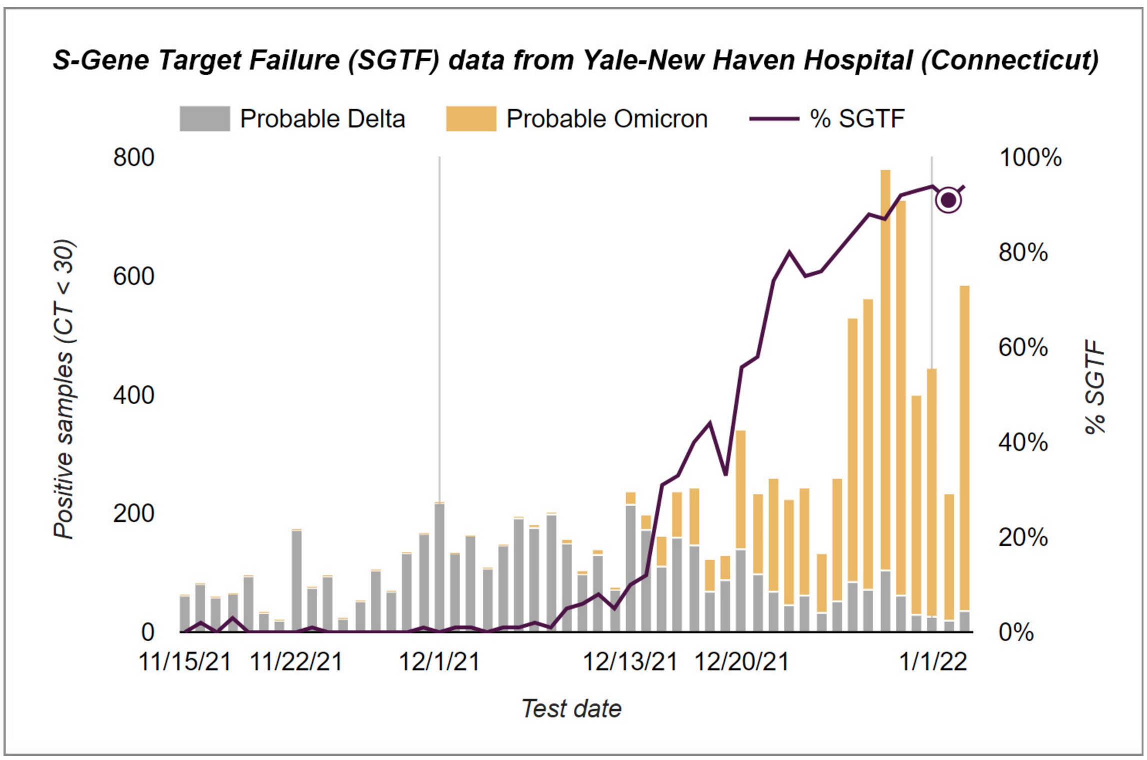
The FMI Small Cap portfolios gained approximately 8.6% (gross)/8.4% (net) for the December quarter and 31.7% (gross)/30.8% (net) for the calendar year. This compares to 2.14% and 14.82% for the Russell 2000 Index, and 4.36% and 28.27% for the Russell 2000 Value Index for the quarter and calendar year, respectively. Relative to the Russell 2000, sectors that helped performance in the quarter included Producer Manufacturing, Health Technology, and Technology Services. Detracting sectors included Finance, Electronic Technology, and Utilities. Carlisle, Genpact, and Arrow Electronics were standout stocks in the quarter, while FirstCash Holdings, Flowserve, and Herbalife Nutrition lagged. Some of the more speculative stocks have retreated, helping the relative performance of the Small Cap portfolio. Perhaps a rediscovery of business quality and balance sheets is occurring. We remain hopeful!

The Small Cap portfolios have taken less risk than the market and still achieved strong absolute returns. It's easy to look back at a particular time frame and say one could have done better owning an index fund, for example, but the risk profile of the Russell 2000 has been at a very high level for some time. Valuations are at or near all-time highs. Consider this: real GDP over the past two years is up approximately 1.9% cumulatively, or less than 1% compounded, assuming the fourth quarter of 2021 comes in at The Conference Board's estimate of 6.5% -- yet the Russell 2000 is up 37.7%, or 17.3% compounded, over this period! Investors have been lulled into a state of complacency, expecting far higher-than-average returns because that has been the experience in recent years. The returns are out-of-step with underlying earnings (normalized for the COVID rebound) and balance sheet quality. Equity buyers may not be fully appreciating the risks they have been taking. The absence of poor results ex-post doesn't change the ex-ante risk. A reckless driver can repeatedly run red lights without getting into an accident, but eventually, he is almost assured of wrecking. Until recently, the market has had little concern about valuations regressing to the mean (or worse), and balance sheet quality has been an afterthought. When the air comes out of the many overpriced stocks, we expect and are hopeful that the portfolio's relative performance should continue to gain. That process may have already begun, as we outline further in the letter. The current portfolio is as solid as any we can recall, from a fundamental business standpoint, and the setup from a big picture angle also appears favorable. The team is optimistic.

COVID-19

We are very encouraged by the pathway of the Omicron strain of COVID-19. In a matter of weeks, it has essentially driven out almost all of the more dangerous Delta strain.[1]

The data from South Africa, the UK, and increasingly, the United States, shows vastly lower severity (fewer hospitalizations, lower hospital stays, and fewer deaths) than prior strains of COVID. It is, of course, much more contagious, but the silver lining in this is that it speeds up the effective end of the pandemic. Without minimizing the terrible realities of COVID, millions of people have



[1]Source: https://COVIDtrackerct.com/variant-surveillance/

now gotten Omicron and have experienced modest or no ill effects, especially if they have been vaccinated or have previously had COVID. In these situations, it appears the case fatality rate is likely on par with the flu, and this makes the disease less scary. Almost everyone now has family members, friends, and coworkers who have had it, and there seems to be an increasing willingness to work through it without locking down or severely restricting economic activity. That is not true in all places, however, and some government leaders appear to be using a 2020 playbook, but gradually, more normal business activity will take hold. A strong employment recovery is now easier to envision.

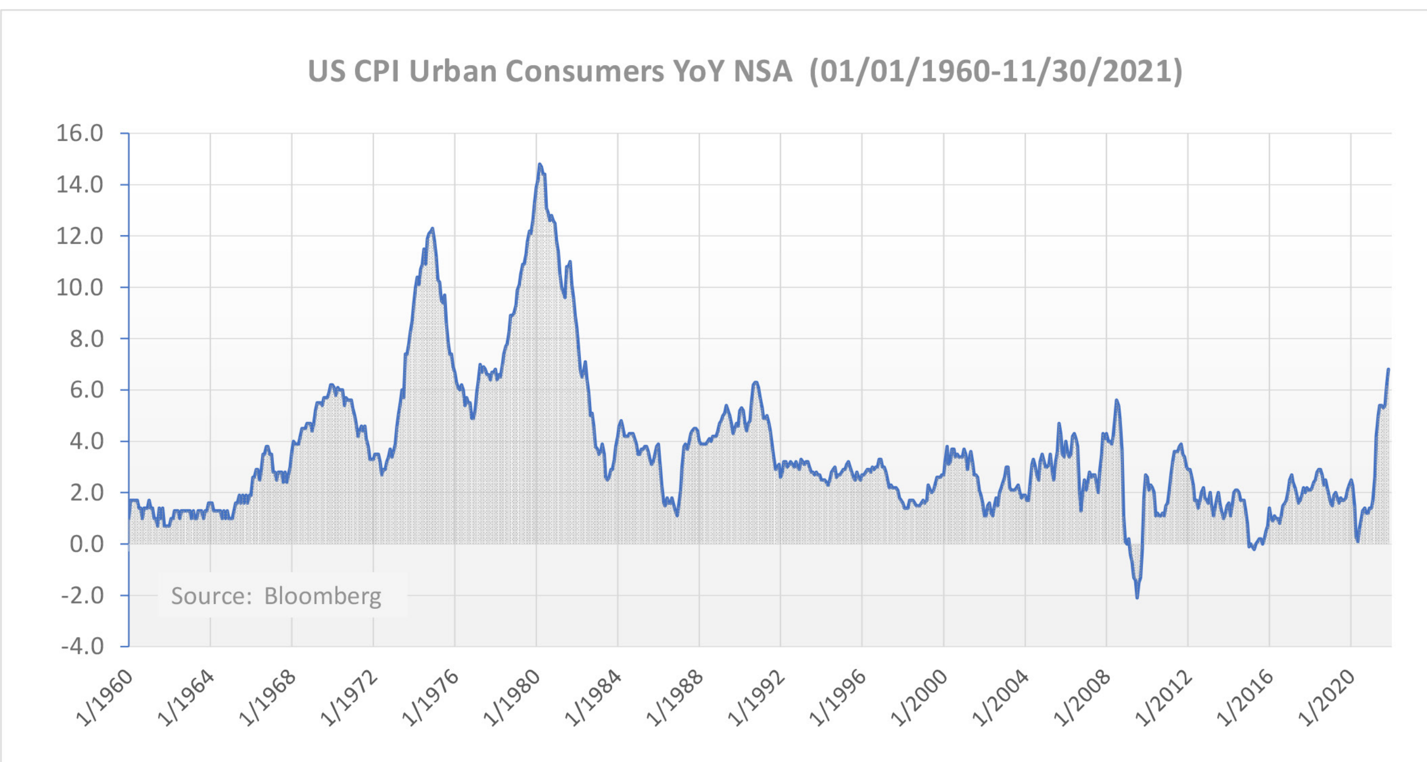
While the original SARS-CoV-2 and Delta variant initially hurt the relative performance of the Small Cap portfolio, we believe conditions are changing. Solid economic growth is likely to resume after a few months of reduced activity related to Omicron. This will broaden the appeal of more companies and sectors.

Economic Growth

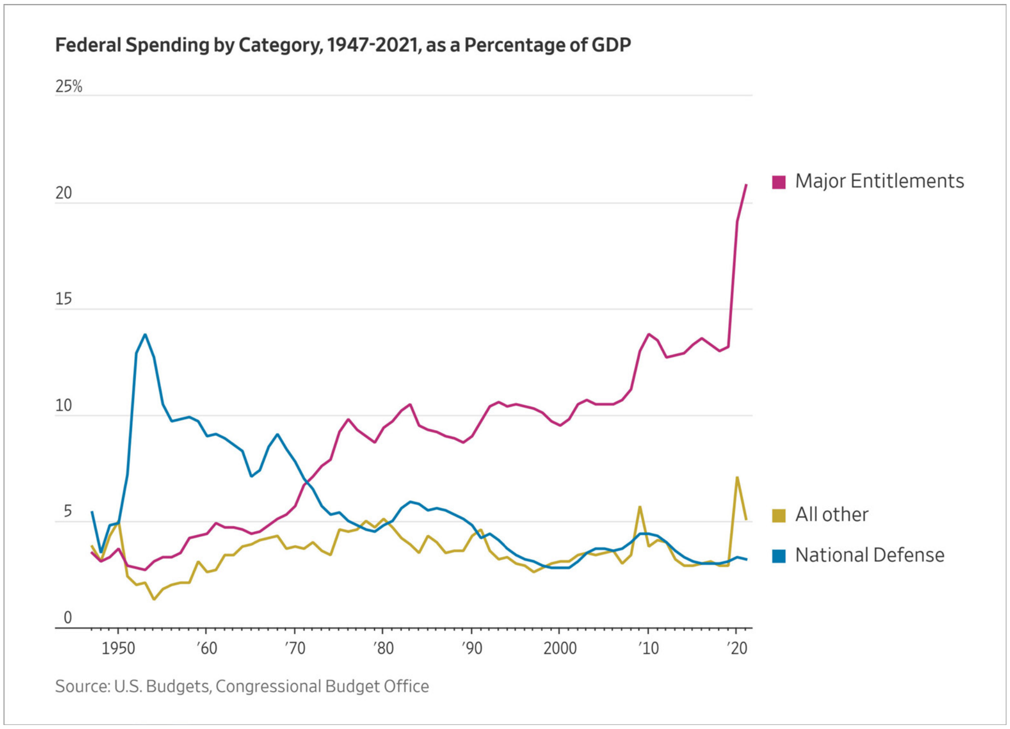
Real GDP for 2021 grew roughly 5.6% over the depressed minus 3.5% 2020 figure.[2] The first quarter of 2022 is likely to be negatively impacted by Omicron, but even with this, underlying demand appears to be solid. The slowdown is unlikely to extend beyond winter. There are still about 4 million people that have not gone back to work from the beginning of the COVID crisis nearly two years ago. At least another 3-5 million working-age people who are no longer counted in the official "unemployed" category could come back into employment if work becomes attractive enough… and wages are certainly rising. We think many, if not most of the people that ceased working in 2020-2021 will eventually reengage. Childcare problems will lessen as COVID recedes. Burnout will ameliorate. Most schools will stay open. Fears will subside. Lockdowns should be a thing of the past. The savings that many have been living on will be depleted. The notion that the 50-something crowd can cruise into early retirement and live off their bull market portfolios will likely prove untenable in the aftermath of the next bear market… and there will always be bear markets! The demand for labor remains strong; the Labor Department reports that at the end of December, there were 10.6 million job openings. We see economic expansion being driven by re-employment for quite some time.

Inflation/Interest Rates

It is interesting how widespread the belief is that inflation (6.8% in November) will be temporary, and that we will quickly return to a sub-2% rate. One look at the bond market, with the 10-year yield at 1.51% (12/31/21), shows the credit markets are not concerned with inflation at all. The Fed only recently acknowledged that inflation is lasting longer than they expected. Still, Powell and company see the situation as merely transient. But as we indicated in our last letter, many forces are at work to keep inflation elevated. Higher wages and increased salary expectations are becoming the norm. Cost-of-living adjustments in labor contracts are making a comeback after 40 years. Greater regulatory costs are becoming a permanent feature of the landscape as the administrative state continues its inexorable growth. Higher transportation and reshoring expenses will play out over years. Expanded cradle-to-grave benefits are increasingly more difficult

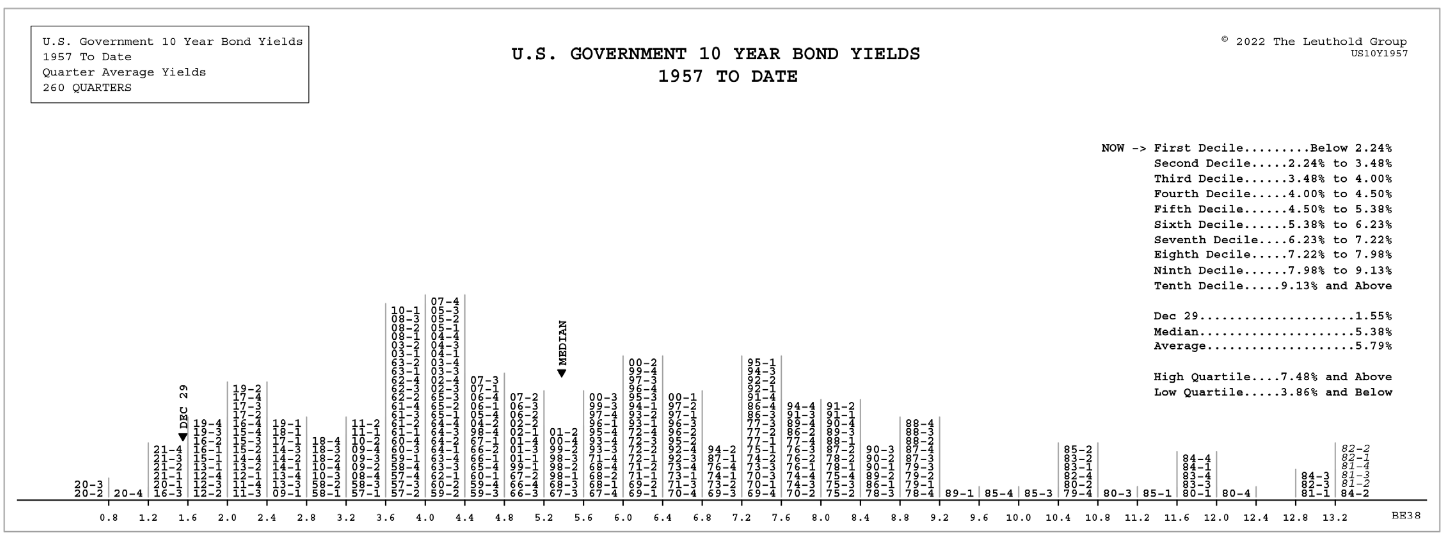


[2]Using the Conference Board's 6.5% estimate of real GDP in the fourth quarter of 2021.



to block, even when funding them is virtually impossible (see the chart on the left). An inflation mindset appears to be taking hold.

We do not see how interest rates can remain low if inflation continues at an elevated level. Low rates are the lynchpin for the investment world. Valuations depend on exceptionally low discount rates. The whole complexion changes if we move back toward something that approaches historical norms. The median 10-year Treasury yield over the past 65 years, as the following chart shows, is over 5%, putting today's figure in the first decile. With inflation running well over 5% and short-term rates near zero, how long will financial markets stand for negative 5%-plus real yields? The last time we had today's kind of inflation the 10-year Treasury yield was over 10%!



The Fed's desire to avoid roiling the capital markets by returning to a normal interest rate policy has gone on for over a decade. Jim Grant, the publisher of *Grant's Interest Rate Observer*, recently reminded readers that Jerome Powell himself, when he was a Fed governor nine years ago, warned against quantitative easing (QE), moral hazard, and the so-called "Fed put," and remarked,

> *I think we are actually at a point of encouraging risk taking, and that should give us pause. Investors really do understand now that we will be there to prevent serious losses […] Meanwhile, we look like we are blowing a fixed income duration bubble right across the credit spectrum that will result in big losses when rates come up down the road.*

In recent years Powell has been the cheerleader of such policies, while sound money voices, such as the economist and former Fed nominee, Judy Shelton, have been attacked by the media and some politicians as having "non-mainstream" beliefs. The fact that nothing visibly bad has happened after a decade or so means… what exactly? That it is a good idea to print money and encourage reckless behavior? That the Fed should be in cahoots with the fiscal authorities to accommodate unbridled deficit spending?

The truth is that something bad has already been happening due to easy Fed policies. As former Federal Reserve board member Kevin Warsh recently commented,

> *Extraordinarily aggressive monetary policy, namely quantitative easing, discourages investments in real assets like capital equipment relative to financial assets such as stocks. That's why nonresidential capital investment in the real economy […] is running 7% below the pre-pandemic trend and 25% below trend since the advent of QE.*[3]

The Fed can blow smoke about the environment and other things completely outside of its mandate, but it is fairly clear that their policies are largely driven by a subservience to Wall Street.

Time Horizon

One of the most interesting aspects of investing is the role of time horizon. When something predicted doesn't happen relatively quickly, people tend to reflexively view it as incorrect. Sometimes things simply take a lot longer to unfold than most expect. The market works on its own schedule… occasionally one that is far beyond most investors' time horizons, yet the risk inherent in an unsustainably low interest rate environment does not disappear even if "nothing bad" happens for years. A structurally unsound bridge can remain functional for years before, "out of nowhere," it collapses. When we observe highly questionable and speculative behavior being rewarded, we always have to remind ourselves of Warren Buffett's quip about the stock market being a voting machine in the short run, but a weighing machine in the long run. Patience, combined with fundamentally sound businesses, usually wins.

Market

As mentioned at the outset, stocks are very rich by historical standards. David Rosenberg, the highly esteemed strategist and economist, recently said, "Yes, we are in a huge -- perhaps unprecedented -- equity market bubble, and it keeps getting bigger and bigger." The market has been riding an epic wave of unprecedented conditions, including a rate structure perpetuated by a Fed that views every hiccup (housing crunch, stock market hit, coronavirus, etc.) as a justification for QE. They have virtually destroyed the meaning of cost-of-capital. Profligate and highly speculative behaviors have not been penalized much in recent years. Eventually, the Fed will likely have to deal with stubbornly high inflation and a loss of credibility. Governments will face the consequences of budgets that have no possible chance of ever being balanced. This may feed into stagflation. Ultimately these realities get reflected in the stock market. Confidence will wobble and speculative stocks will come under increasing pressure. This process may already be underway.

Notable Names Down From Their Highs

Company	Ending Price	52-Week High	% Off High
Koss Corporation	10.68	127.45	-91.6%
Workhorse Group Inc.	4.36	42.96	-89.9%
Lordstown Motors Corp. Class A	3.45	31.57	-89.1%
SmileDirectClub Inc Class A	2.35	16.08	-85.4%
Stitch Fix, Inc. Class A	18.92	113.76	-83.4%
Peloton Interactive, Inc. Class A	35.76	171.09	-79.1%
Express, Inc.	3.08	13.97	-78.0%
BARK Inc Class A	4.22	17.25	-75.5%
Chegg, Inc.	30.70	115.21	-73.4%
Zillow Group, Inc. Class A	62.22	212.40	-70.7%
Beyond Meat, Inc.	65.16	221.00	-70.5%
Teladoc Health, Inc.	91.82	308.00	-70.2%
GameStop Corp. Class A	148.39	483.00	-69.3%
Nikola Corporation	9.87	30.40	-67.5%
Groupon, Inc.	23.16	64.69	-64.2%
Penn National Gaming, Inc.	51.85	142.00	-63.5%
DraftKings Inc Class A	27.47	74.38	-63.1%
Plug Power Inc.	28.23	75.49	-62.6%
AMC Entertainment Holdings, Inc. Class A	27.20	72.62	-62.5%
Bumble, Inc. Class A	33.86	84.80	-60.1%
Pinterest, Inc. Class A	36.35	89.90	-59.6%
TripAdvisor, Inc.	27.26	64.95	-58.0%
Novavax, Inc.	143.07	331.68	-56.9%
Wix.com Ltd.	157.79	362.07	-56.4%
Squarespace, Inc. Class A	29.50	64.71	-54.4%

Source: FactSet. Data as of 12/31/21 using Vanguard Total Stock Market Index ETF.

A number of popular "meme stocks" have recently taken a dive. From their highs last year, Workhorse Group Inc. is down 89.9%, GameStop Corp. is off 69.3%, and AMC Entertainment Holdings Inc. is down 62.5%. Many other high-multiple stocks (high multiple of sales… most do not have earnings) have been hammered: SmileDirectClub Inc. is down 85.4%; Zillow Group, Inc., 70.7%; Peloton Interactive, Inc., 79.1%; and DraftKings Inc., 63.1%. The table on the left includes some others.

People who invest on momentum face a dilemma: sell into weakness as the models dictate, or suddenly turn into a contrarian. History would suggest that the latter rarely happens. Speculative stocks will find a bottom after the momentum players are done selling, but that process seems barely underway. After raising

[3] Kevin Warsh. "The Fed Is the Main Inflation Culprit." *The Wall Street Journal,* December 12, 2021.

a record amount of money in 2021, two thirds of 2021 IPOs are now below their offering price. While events don't transpire exactly the same in each cycle, a similar pattern occurred in 2000. The largest, most popular names fell only modestly in the first five months after the market peaked on March 9th of that year, even while the most speculative names were crushed. Then, in the fall, the bigger names toppled. The Nasdaq-100 Index dropped 82.4% from the peak on March 9th to the bottom on October 7th of 2002. From September 1st of 2000 to the bottom the hit was <80%>, so most of the damage came well after the speculative bubble was first pricked. The situation is a bit more mixed today, with several of the largest companies continuing to grow nicely… and some of these are not trading at nosebleed multiples. Therefore, we don't see the market's comeuppance necessarily playing out completely along market cap lines, although that feature will dominate if true fear is pervasive. The Russell 2000 remains very expensive. If rates start moving toward normal historical levels, reflecting the issues we have already described, valuations are likely to decline. That should work in favor of the Small Cap strategy. 2021 was a good rebound year for the portfolios, gaining over 15 percentage points relative to the Russell 2000 benchmark. We are confident that the portfolio will continue to be successful over the long run.

Thank you for your investment with Fiduciary Management, Inc.

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 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 %
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 incepted 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 mutal 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.