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September 30, 2022

INVESTMENT STRATEGY OUTLOOK - SMALL CAP EQUITY

The FMI Small Cap Strategy declined approximately 1.0% (gross)/1.2% (net) in the September quarter compared to a 2.19% decline in the Russell 2000 Index and a 4.61% loss in the Russell 2000 Value Index. Relative to the Russell 2000, sectors that helped included Retail Trade, Finance, and Electronic Technology. Underperforming sectors included Health Technology, Distribution Services, and Commercial Services. BJ's Wholesale Club Holdings Inc., FirstCash Holdings Inc., and Plexus Corp. aided performance while Simpson Manufacturing Co. Inc., Arrow Electronics Inc., and Concentrix Corp. all detracted. Both stocks and bonds entered bear market territory this year on multiple concerns, some of which will be addressed shortly.

While the markets have been difficult, the team has not been this optimistic about future performance in many years, perhaps not since the Great Financial Crisis. There are several factors that give us optimism:

- Valuations are attractive on both an absolute and relative basis.
- The sentiment of the market is negative, which is a contrarian's delight.
- The strength and durability of the current portfolio has rarely been stronger.
- The full cycle return on invested capital of the constituents is very good.
- Many current holdings are significantly depressed, and we view them as coiled springs.
- The era of ultra-low interest rates appears to be over. This should favor our approach.

Many of the worrisome issues and themes we have discussed in recent years are coming to pass. Rates have escalated rapidly. Reckless, and even feckless, monetary policies have been revealed. The bond market has suffered steep declines. Stocks are in disarray. The private equity and leverage bubbles have started to burst. Inflation is much higher. A "black swan" geopolitical event (Russia's war on Ukraine) has transpired. Many of the risk items that sky-high valuations suggested would not occur are now happening. But the time to be "negative" has passed. These worries are out in the open and recognized and now fear is the prevailing sentiment. History suggests this is the time to be more constructive. We are positive about the future and feel the set up for stocks is the best it has been in years.

We will delve into this theme shortly. Before that, we want to address some stocks that have lagged recently and why we have decided to stick with them or cut them loose. Arrow Electronics has been a long-term holding for the strategy. The stock is much more volatile than the underlying fundamentals. Arrow distributes semiconductors and technology hardware, and those end markets are in a cyclical downturn, taking the stock with them. Arrow has proven its ability to adjust to the cycles and ultimately thrive, and with the valuation low, our current plan is to stick with it. Henry Schein Inc., like Arrow, is a distributor, primarily in the dental arena, but also in medical supplies. Fears about slowing dental markets and tough comparisons have hurt the stock in the short run. We do not think Henry Schein's competitive position has diminished. With a reasonable valuation for a high-quality defensive company, we've increased our investment. On the flipside, we exited Phibro Animal Health Corp., the animal health products producer. Inconsistent execution doomed this idea. It was a small holding that was proving more trouble than it was worth. Concentrix, which had been a good stock initially, fell significantly since the last quarter. The market was spooked by a modest slowing of growth. We were more concerned about a ramping up of the mergers and acquisitions (M&A) rhetoric and decided to move to the sidelines.

The team's optimism starts with valuations. The strategy trades at a modest 13.1 times projected 2023 earnings, 1.3 times the latest twelve month's revenue and 10.4 times the trailing year's EV/EBITDA[1]. On these metrics that is about a 54% discount to the iShares Russell 2000 ETF, as illustrated by the nearby table. The strategy also trades at a discount to the small cap value benchmark.

September 30, 2022 Weighted Average	FMI Small Cap	iShares Russell 2000	Discount to Russell 2000
P/E (1 Year Trailing)	16.1x	29.4x	45%
FY2 P/E	13.1x	23.5x	44%
P/S	1.3x	5.3x	75%
EV/EBITDA	10.4x	20.6x	50%
Average Discount			54%

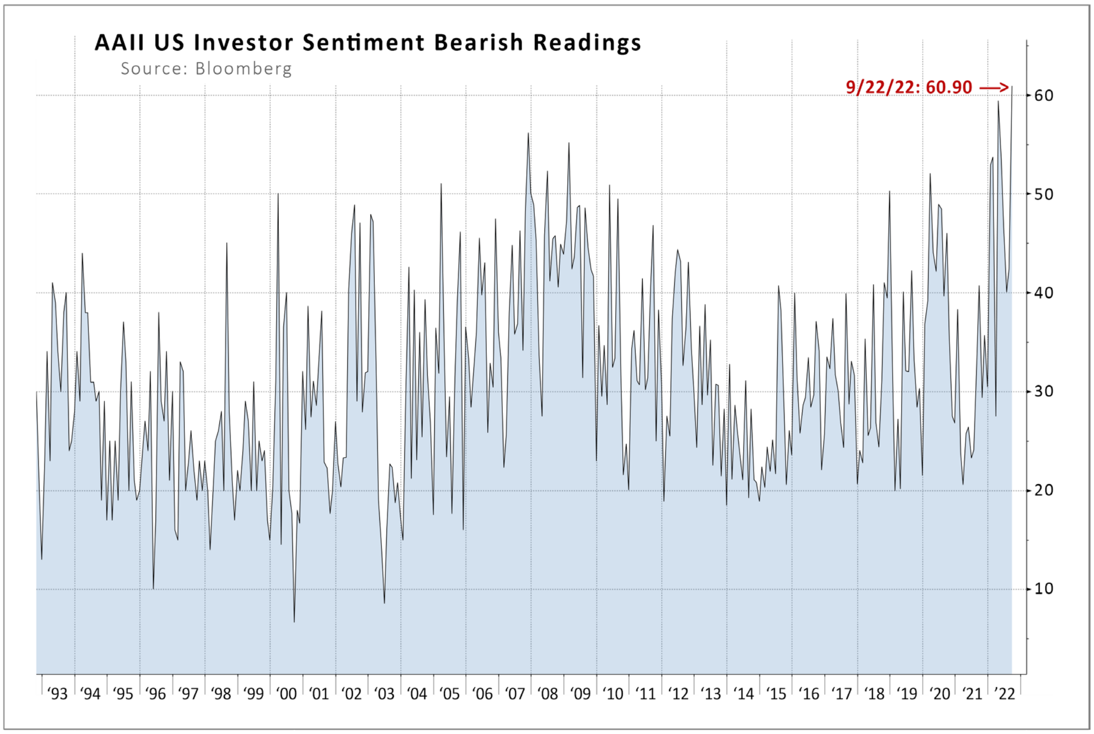
**Estimated valuations for FMI and the iShares are weighted average valuation calculations, not reweighted to exclude cash, and financial companies are excluded from the EV/EBITDA calculation. Valuations for both the portfolio and the ETF are modified based on criteria identified by FMI. For more detailed information regarding these valuations, please contact FMI.*

[1]Enterprise Value to Earnings before, interest, taxes, depreciation, and amortization.

Bearish sentiment indicators (see chart below) are high. We view this as a positive. It is very difficult to avoid dwelling on "losses," but there is nothing anyone can do about the past. If the business is sound and the balance sheet is solid, then the stock is likely to recover. Unfortunately, most investors react to the past rather than look forward. The current portfolio constituents are characterized by good balance sheets, solid return structures, and competitive strengths. Strong companies on sale for reasonable prices are a source of optimism, not pessimism.

Financial markets are apoplectic about interest rates. The overwhelming consensus opinion is that higher rates will crush the economy for an extended period. We think the fear that has been fanned by the rate move may indeed result in a temporary hit to the economy or a recession, but at FMI, we like to turn our analysis 180 degrees. Did the move from "normal" interest rates prior to the Great Financial Crisis, to zero percent rates for years afterwards cause the economy to boom? No! Economic growth was historically weak over the past 15 years. Abnormally low rates boosted asset prices and set the mergers and acquisitions (M&A) and private equity markets aflame, but it did very little for organic economic growth. We had a boom in financial engineering. So why will economic growth be terrible when the reverse conditions prevail? We think economic growth will be better over the next decade than it has been over the last. Price to earnings (P/E) multiples, however, will likely be lower. Inflation is obviously very elevated but appears to finally be on a downward path. We don't know if the inflation rate will get back to 2% anytime soon, but feel it will be significantly lower than it has been over the past year. Earning an outsized spread over inflation in stocks, like we have seen for many years, is probably not in the cards, but we believe quality, value-oriented equities, especially our stocks, have the best chance of beating inflation over a three-to-five-year time horizon.

Before delving into a couple of portfolio companies in greater detail, we want to discuss what's happened since our late 2021 investment in Skechers U.S.A. Inc., a stock highlighted in the March letter. It illustrates our investment approach. Skechers has performed about in line with the small cap benchmarks since purchase but is down approximately 30% in absolute terms. Earnings estimates for 2022 are only down about 11% since we bought it. China lockdown issues and European exposure have been cited as factors. We expect some of these pressures to continue for a few months or quarters, but the franchise remains strong, and we've added to the stock. Management has performed admirably for decades at Skechers and we think the odds favor the stock at today's attractive valuation.



Below are two more examples of good business franchises trading at attractive values.

Simpson Manufacturing Co. Inc. (SSD)

Analyst: Rob Helf

Description

Simpson Manufacturing Co. Inc., designs, engineers, and manufactures wood and concrete construction products. These include connectors, truss plates, and fasteners/fastening systems, as well as concrete construction products (adhesives, specialty chemicals, mechanical anchors, powder actuated tools, and reinforcing fiber materials). Structural connectors are typically steel devices used to strengthen, support, and connect load-bearing elements within a building. We estimate that wood connector products are 80% of both revenue and gross profits for the company. Importantly, most of the wood products are for new home construction (50%), with the balance being multi-family construction and repair and remodel (30%).

Good Business

- Simpson is a leader in structural connector manufacturing with a solid track record of organic growth and profitability. Management estimates that the company has over 75% of market share in the connector industry.
- The company's competitive advantages are built on the Strong-Tie brand, engineering excellence, and superior customer service. This has led to strong pricing power and increasing profitability and cash flow. Simpson maintains significant scale as it manufactures over 15,000 wood products and 1,000 concrete products.

- Simpson's products enhance structural integrity in the event of natural disasters (hurricanes, earthquakes, fires). The company actively works with state and local code writers to improve construction practices, which leads to mandating the use of structural connectors.
- Much of the country's population growth is occurring in the Western and Southern regions, which have home building codes that often require greater use of structural connectors in construction.
- The company generates mid-to-high teens margins and returns on invested capital (ROIC). Since 2018, ROIC has become an important part of management compensation.
- Free cash flow has approximated 90% of net income over the past 6 years.
- Simpson has $275 million of net cash and anticipates deploying about 50% of operating cash flow towards dividends and share repurchases.

Valuation
- Simpson trades for 11.4 times trailing twelve-month earnings per share (EPS) and 12 times 2023 estimated EPS. Historically, Simpson has traded between 21-34 times trailing EPS and 20-30 times projected earnings.
- In the last 5 years, the company has focused the business on profitability and ROIC. We argue that this should result in a higher multiple going forward.
- The shares traded at 11 times forward EPS in 2009, the worst housing crisis in recent times.

Management
- Karen Colonias is the current CEO and has been with Simpson since 2004. She will retire as CEO on December 31, 2022.
- Michael Olosky has been President and COO since 2020 and will replace Colonias as CEO at the end of the year. Prior to Simpson, Olosky spent 22 years in numerous leadership positions at Henkel, most recently as Regional President North America/Head of the Electronics and Industrial Division. Olosky has a BS in Mechanical Engineering from Michigan Tech and an MBA from Michigan State.
- Brian Magstadt has served as CFO since 2012. Magstadt has served in numerous financial positions at Simpson since 2004. He is a CPA and has an MBA from Santa Clara University.
- Since 2018, a significant portion of executive compensation has been tied to ROIC.

Investment Thesis
Simpson is a leading producer in a very good, but cyclical business. The company's highly engineered and patented Strong-Tie connectors provide robust architectural integrity for a modest price and are the industry standard. The high-margin products are specified and mandated in the design of new homes, especially in the South and West where natural disasters have increased the importance of the products. The recent share performance reflects a market that is focused on short-term new housing activity. Additionally, earnings comparisons are difficult as the company raised prices last year ahead of higher steel costs. Management has been transparent with this price/cost dynamic. We believe these concerns are embedded in the valuation which is near all-time lows. This is a high-quality company trading at a low valuation due to near-term macro worries and tough comparisons.

Genpact Ltd. (G)

Analyst: Julia Ramon

Description
Genpact is a global business process management and outsourcing provider that works with clients to help them design, transform, and run business-critical operations. Genpact reports under two segments: Data-Tech-AI (~45% of revenue) and Digital Operations (~55% of revenue). Data-Tech-AI consists of client projects where Genpact is designing, building, and transforming businesses using technology. Digital Operations consists of more traditional business process outsourcing work such as operating and streamlining workflows and processes. The company has broad exposure across a number of industry verticals, employs over 114,000 professionals around the globe, and operates in over 30 countries.

Good Business
- Genpact is an industry-leading provider of business process outsourcing and digital transformational services and has experience running thousands of processes for hundreds of Fortune Global 500 clients. Its process excellence and proprietary methodologies of delivery have been developed and fine-tuned over its two decades+ of operations.
- The company estimates that more than 80% of its revenues are somewhat recurring in nature, with average deal length around 3 years and annual client retention in the high-90 percentage range.
- Over the trailing 3, 5, and 10-year periods, Genpact has grown revenue at an average rate of 10.1%, 9.5%, and 9.6%, respectively. The company expects organic growth to exceed 10% per year over the next several years, along with accelerated margin expansion through scale efficiencies.
- Genpact's solutions provide customers with a tangible return on investment primarily by helping customers decrease costs, drive growth, and reduce risks.
- The company estimates its current total addressable market opportunity is approximately $750 billion and growing in the high single digit percent range annually.
- Over the trailing 5-year period, the company's ROIC has averaged approximately 12%, which exceeds its cost of capital.
- Genpact has a good balance sheet with a net debt-to-EBITDA ratio of 1.7 times.

Valuation

- Genpact trades (on a GAAP basis) at a forward price-to-earnings multiple of 17.4 times and a price-to-sales multiple of 1.9 times, both of which are roughly a standard deviation below the 10-year average.
- Our expectation for accelerating organic growth and margin expansion over the next several years supports a valuation multiple above the company's historical average.
- The stock trades at a significant discount to the Russell 2000, despite having above-average business quality and a higher expected EPS growth rate.

Management

- Current CEO, N.V. "Tiger" Tyagarajan, has led the company since June 2011. He is considered a pioneer of the industry and has a deep knowledge of Lean and Six Sigma. He beneficially owns 3.05 million shares.
- Genpact has an experienced management team, and its average named executive officer tenure is greater than 10 years.

Investment Thesis

Genpact is a global leader in the business process outsourcing industry. Over the past decade, Genpact has significantly diversified its client base away from its former parent company (General Electric Company) by aggressively growing other client revenue and winning new customers. General Electric is now just ~9% of revenue. Additionally, over the last several years, management has invested significantly to add vertical expertise, enhance its brand image, and grow its digital transformation offerings. As a result, Genpact is winning large new deals with blue-chip companies and continues to gain share in a market that is already secularly growing. We think Genpact is well positioned for 10%+ organic sales growth with margin expansion over the next 3-5 years and expect the business to perform well in most economic environments (revenue and operating income grew at double-digit rates through the Great Financial Crisis). Overall, we think Genpact's strong growth profile, defensive business aspects, solid balance sheet, and attractive valuation make for a good outlook.

Thank you for your confidence in Fiduciary Management, Inc.

Fiduciary Management Inc.
Small 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	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%
2021	31.74	30.77	14.82	102	0.60	21.11%	23.35%	$ 2,294.9	$ 17,068.4	13.45%

*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 - 12/31/2021. 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 Small Cap Equity Composite has had a performance examination for the periods 12/31/1993 - 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 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.