



## FMI Funds Annual Update

November 2019

Fund Information			
<b>Ticker</b>	FMIQX	FMIYX	FMIUX
<b>Asset Class Category</b>	Larger-Cap Blend	International Blend	Smaller-Cap Blend
<b>Share Class</b>	Institutional	Institutional	Institutional
<b>Min. Initial Investment</b>	\$100,000	\$100,000	\$100,000
<b>Availability*</b>	TD, Fidelity NTF	TD, Fidelity NTF	TD, Fidelity NTF
<b>Expense Ratio</b>	0.66%	0.76%	0.89%
<b>Opinion</b>	<i>Recommended</i>	<i>Recommended</i>	<i>Recommended</i>
<b>Firm</b>	Fiduciary Management, Inc.		
<b>Managers</b>	Team		
<b>Phone</b>	800-811-5311		
<b>Web Address</b>	www.fmifunds.com		

\*Certain restrictions apply. Please check with your broker/dealer for details.

### Market Environment

With growth and momentum styles/factors continuing to lead the market and valuations generally elevated, Jonathan Bloom, portfolio manager and director of research at FMI, said during our most recent conversation that this is one of the toughest environments they've faced. The team noted in their third quarter commentary that "from an investment landscape perspective, stocks remain near the high end of historical valuation ranges."

In the commentary, they also noted a decision facing investors who typically look for high-quality business models. That decision is to either (1) hold onto stocks perceived as safe that have performed well despite high valuations or (2) purchase some of the deep cyclical names that have underperformed and may already be discounting a recession. FMI writes that they "find themselves leaning toward the latter." In recent times we have spoken to some other value-oriented investment managers who are contemplating a similar choice as the valuation spread between defensive names and cyclical names has widened.

### Highlighted Position

**Booking Holdings** was purchased in the Large Cap portfolio during the second quarter. It is the world's largest online travel agency (OTA) with products such as Booking.com, Priceline.com, Kayak, and OpenTable. Booking operates in essentially a two-player market for online hotel travel, with **Expedia** being the second: Together they control over 90% of the hotel OTA market.

In his director of research role, Bloom is tasked with helping vet ideas early in the process with analysts. As part of this, he is looking for ways to kill an idea early. For Booking, there were a few areas they drilled into.

First was the threat from **Alphabet** (Google), who is the dominant search engine and diverts a lot of traffic to Booking's platform. The concern was Google may get into the OTA business themselves. However, FMI concluded that replicating Booking's relationships with the numerous independent hotels would be a challenging undertaking for Google. Bloom says Booking has a salesforce and feet on the ground that work with all the independent hotels. Also, OTAs are one of the biggest advertisement spenders on Google's search platform, so there's more incentive for Google to grow the ad dollars they get from OTAs than to jump into a new business.

The second risk they had to get comfortable with was around branded hotels. Compared to all the independent hotels on the platform, the large, branded hotels have much more negotiating power and could lead to lower take-rates for Booking.

Another worry early in the process was "alternative accommodations" such as Airbnb; however, Bloom says Booking actually has more alternative rooms on their platform than Airbnb does.

Recent concerns around slowing topline growth at Booking allowed the team to purchase the stock. Revenue growth had slowed from north of 20% to the mid-teens due to the slowdown in Europe (they do a lot of business with all the

FMI Large Cap Top 10 Holdings (9/30/19)	
Berkshire Hathaway	5.2%
Dollar General	5.0%
JPMorgan Chase	4.3%
Masco	4.3%
Honeywell International	4.2%
Dollar Tree	4.2%
UnitedHealth Group	4.1%
Quest Diagnostics	4.1%
Chubb	3.7%
Omnicom Group	3.4%
<b>Total</b>	<b>42.5%</b>

FMI International Top 10 Holdings (9/30/19)	
Ferguson	5.0%
Smiths Group	3.4%
Chubb	3.4%
Samsung Electronics Preferred	3.3%
Whitbread	3.1%
Henkel AG	2.9%
Fairfax Financial Holdings	2.9%
Merlin Entertainments	2.9%
Smith & Nephew	2.8%
Schlumberger	2.6%
<b>Total</b>	<b>32.3%</b>

FMI Common Stock Top 10 Holdings (9/30/19)	
Carlisle Companies	5.4%
Avery Dennison	4.7%
Graham Holdings	4.4%
Genpact	4.3%
White Mountains Insurance Group	4.0%
Interpublic Group of Companies	3.4%
TriMas	3.2%
HD Supply Holdings	3.0%
Woodward	2.9%
The Howard Hughes Corporation	2.9%
<b>Total</b>	<b>38.2%</b>

FMI Large Cap Top Five Sectors (9/30/19)	
Finance	16.4%
Retail Trade	12.3%
Producer Manufacturing	11.0%
Consumer Non-Durables	9.8%
Health Services	8.2%
<b>Total</b>	<b>57.7%</b>

FMI International Top Five Sectors (9/30/19)	
Consumer Services	13.1%
Consumer Non-Durables	10.8%
Commercial Services	10.4%
Electronic Technology	8.1%
Consumer Durables	7.3%
<b>Total</b>	<b>49.7%</b>

FMI Common Stock Top Five Sectors (9/30/19)	
Producer Manufacturing	23.4%
Finance	22.4%
Commercial Services	12.3%
Distribution Services	9.0%
Process Industries	6.2%
<b>Total</b>	<b>73.3%</b>

small independent hotels in Europe) and Booking's decision to dial back advertising on Google to focus more on direct traffic to their own pages. The business model is more profitable when they don't have to pay Google for the traffic. Bloom says they were able to purchase the stock at 17x forward earnings, which is a good value when the market is trading in the low- to mid-20x range. He considers Booking an above-average business with upwards of 80% returns on investment that trades at a significant discount to the market. The heavy lifting of building out the platform is done, and now Booking is clipping a coupon for every transaction that goes through their platform.

## Team Update

Earlier this year, long-time analyst Matthew Goetzinger left the firm. We discussed the circumstances behind his departure and are not concerned. Around the same time, the team brought on Dain Tofson as a research analyst. Tofson was previously a member of the Artisan Global Value investment team where he worked with well-known value manager Dan O'Keefe. Tofson has experience covering financials, which was an area Goetzinger specialized in. Tofson and another analyst, Ben Karek, will assume coverage of many of Goetzinger's names.

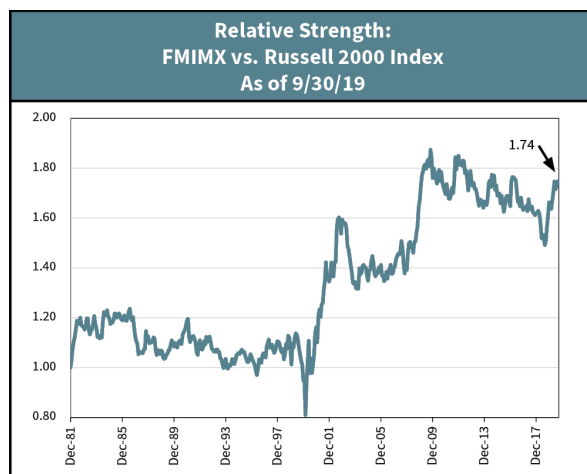
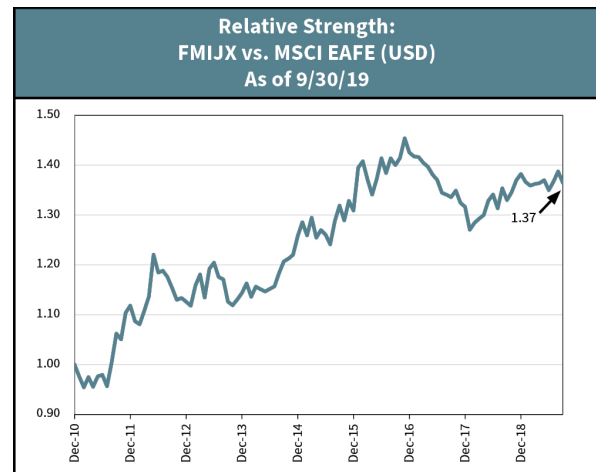
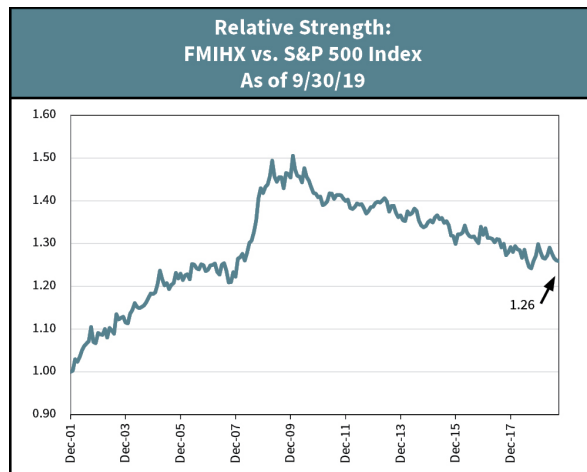
FMI's typical approach is to hire analysts with little investment experience so they can be groomed in the FMI way. Tofson and Andy Ramer have been the exceptions, and they

have assimilated well in the team because their prior experience was relatable to how FMI executes its investment approach. Bloom adds the reason they prefer to hire analysts who have a "clean sheet of paper" is that they don't have a lot of bad habits that need to be broken and they can learn from the ground-up how FMI invests. Bloom says Tofson has investment experience already, but it came from a like-minded investment shop that uses a similar approach of looking for high-quality businesses at a discount to intrinsic value. There are nuances to the process and culture that need to be learned, though it's also clear they aren't trying to teach a growth-oriented investor how FMI invests.

## Investment Philosophy & Process

FMI looks to buy companies that have durable franchises whose stocks are trading at a discount to their estimate of the companies' intrinsic value. They focus on evaluating three attributes of a company: the business model, the valuation, and company management. The team largely relies on an ROIC framework in order to evaluate business models and estimate intrinsic values. By understanding how cash is being reinvested in a business and what type of return that cash is generating, the team can identify companies generating returns higher than their cost of capital.

FMI defines good business models as those that have a defensible niche and are able to survive the ups and downs of a business cycle. The team's definition of a defensible niche

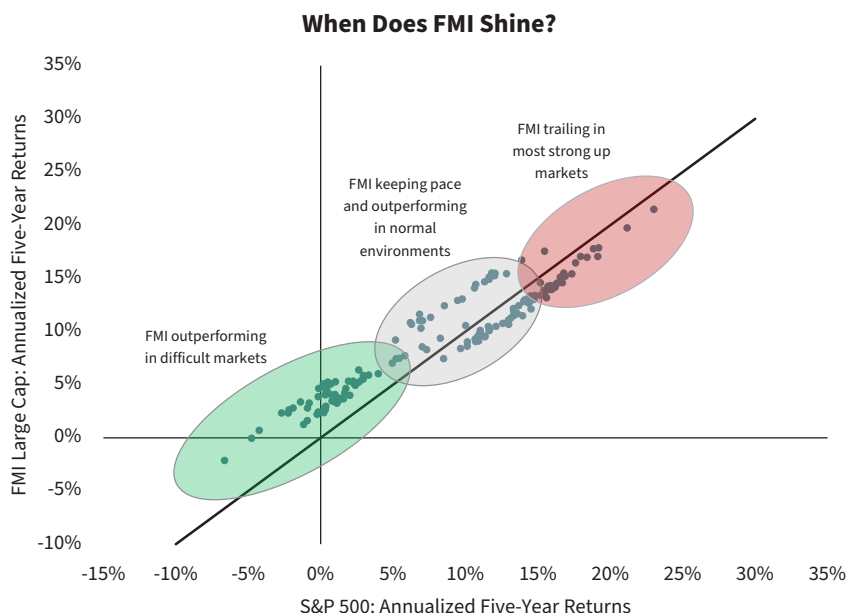


advantage. Typically, businesses that meet these characteristics are well established with modest growth profiles. FMI's objective in understanding a company's business model and drivers of historical ROIC is to gain confidence in their ability to assess future ROIC and profitability. The team will then compare a company's future profitability with the current valuation relative to the market and/or peer group.

This in-depth business-model research helps FMI identify valuation metrics for estimating a company's intrinsic value. The work also helps determine whether historical valuation comparisons are relevant (for example, a company's business model may be entirely different than what it was 10 years ago, thus making historical comparisons irrelevant). This historical valuation analysis may be supplemented by other valuation techniques such as sum-of-the-parts analysis (valuing different pieces of a business separately) and private- and public-market transaction data (for example, valuation multiples used in an acquisition).

can include a high degree of recurring revenue, a well-established customer base, and/or sustainable competitive

Performance as of 9/30/19	Q3 2019	One Year	Three Years	Five Years	Ten Years	Since Inception
<b>FMIHX</b>	<b>0.25%</b>	<b>5.72%</b>	<b>11.97%</b>	<b>9.43%</b>	<b>11.81%</b>	<b>9.08%</b>
S&P 500 Index	1.70%	4.25%	13.39%	10.84%	13.24%	7.67%
<b>FMIQX</b>	<b>0.30%</b>	<b>5.89%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>13.40%</b>
S&P 500 Index	1.70%	4.25%	13.39%	10.84%	13.24%	14.53%
<b>FMIJX</b>	<b>0.03%</b>	<b>1.27%</b>	<b>5.59%</b>	<b>5.85%</b>	<b>N/A</b>	<b>8.25%</b>
MSCI EAFE (USD)	-1.07%	-1.34%	6.48%	3.27%	4.90%	4.47%
MSCI EAFE (LOC)	1.75%	1.56%	8.30%	6.02%	7.04%	7.11%
<b>FMIYX</b>	<b>0.06%</b>	<b>1.42%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>6.27%</b>
MSCI EAFE (USD)	-1.07%	-1.34%	6.48%	3.27%	4.90%	7.43%
MSCI EAFE (LOC)	1.75%	1.56%	8.30%	6.02%	7.04%	8.11%
<b>FMIMX</b>	<b>-1.01%</b>	<b>5.28%</b>	<b>10.22%</b>	<b>7.82%</b>	<b>10.77%</b>	<b>11.73%</b>
Russell 2000 Index	-2.40%	-8.89%	8.23%	8.19%	11.19%	10.10%
<b>FMIUX</b>	<b>-0.97%</b>	<b>5.40%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>11.71%</b>
Russell 2000 Index	-2.40%	-8.89%	8.23%	8.19%	11.19%	10.31%



Source: Morningstar. Data as of 9/30/19.

In evaluating company management, FMI focuses on areas that company management can control. FMI assesses the management team's track record, checks to make sure incentives are in line with shareholders' interests, and discusses business strategy with management in order to assess the likelihood of meeting stated goals and objectives.

### Performance Analysis & Opinion

FMI Large Cap has gained 18.0% this year through October 31, 2019, which compares to an 23.2% gain for the S&P 500 Index. The fund's trailing returns over the past one, three, and five-years are lagging those of the benchmark. FMI invests in mature and stable businesses with modest growth profiles so it's not surprising to see them lag a strong market like we've seen in recent years. We would expect FMI's conservative nature and disciplined process to benefit shareholders during difficult market environments. Albeit a

short period, they performed as expected during the fourth quarter 2018 drawdown (falling 9.5% compared to 13.5% for the S&P 500).

The chart to the left provides a good visual for how we think and expect the FMI Large Cap strategy to perform in different market environments. Points above the 45-degree line represent five-year periods when the strategy is outperforming the S&P 500, while points below the line are when FMI is trailing the index. FMI has historically done well in difficult market environments and has done so in every five-year period with sub-5% returns. In normal markets, we'd expect the strategy to keep pace with the index

most of the time. But in strong up markets when stocks are gaining in excess of 15% annualized over five years, we wouldn't expect that strategy to keep pace. Nothing in our recent conversations with the team about their process make us think we should reevaluate our return expectations for the fund.

Based on our due diligence and ongoing research, we remain confident that FMI Large Cap, FMI International, and FMI Common Stock will outperform their respective benchmarks over the long term. We do not have any material concerns and believe the FMI team remains disciplined in executing their investment process. We are impressed with the clear investment discipline of the team, and more importantly, the way in which they execute and adhere to it.

—Rajat Jain, CFA, and Kiko Vallarta, CFA

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9/30/20 Top 10 Holdings					
FMI Large Cap Fund		FMI International Fund		FMI Common Stock Fund	
Berkshire Hathaway Inc. Cl B	6.70%	Ferguson PLC	6.60%	Avery Dennison Corp.	6.40%
Masco Corp.	5.30%	B&M European Value Retail S.A.	5.70%	HD Supply Holdings Inc.	5.10%
Dollar General Corp.	5.20%	Samsung Electronics Co. Ltd. Preferred	5.30%	Genpact Ltd.	4.90%
Quest Diagnostics Inc.	4.60%	Sony Corp.	4.40%	Carlisle Cos. Inc.	4.80%
Unilever PLC - SP-ADR	4.20%	Booking Holdings Inc.	4.10%	FirstCash Inc.	4.10%
Booking Holdings Inc.	4.00%	Unilever PLC	4.00%	Robert Half International Inc.	3.70%
Comcast Corp. - Cl A	3.90%	Henkel AG & Co. KGaA	3.70%	Houlihan Lokey Inc.	3.40%
UnitedHealth Group Inc.	3.80%	Smiths Group PLC	3.50%	Arrow Electronics Inc.	3.40%
Dollar Tree Inc.	3.70%	Vivendi S.A.	3.40%	TriMas Corp.	3.30%
Sony Corp. - SP-ADR	3.70%	Koninklijke Philips N.V.	3.30%	Interpublic Group of Cos. Inc.	3.10%
9/30/20 Top 5 Sectors					
FMI Large Cap Fund		FMI International Fund		FMI Common Stock Fund	
Finance	20.8%	Consumer Services	14.3%	Finance	23.6%
Producer Manufacturing	16.1%	Consumer Non-Durables	12.6%	Producer Manufacturing	20.5%
Retail Trade	12.0%	Retail Trade	11.0%	Commercial Services	15.6%
Consumer Non-Durables	9.9%	Electronic Technology	10.1%	Distribution Services	13.3%
Health Services	8.4%	Commercial Services	9.9%	Process Industries	8.7%

Performance	Q3 2020	One Year	Three Years	Five Years	Ten Years	Since Inception
FMIHX	7.67%	0.71%	6.25%	9.70%	10.80%	8.61%
S&P 500 Index	8.93%	15.15%	12.28%	14.15%	13.74%	8.06%
FMIQX	7.74%	0.84%	6.40%	N/A	N/A	10.05%
S&P 500 Index	8.93%	15.15%	12.28%	14.15%	13.74%	14.69%
Performance	Q3 2020	One Year	Three Years	Five Years	Ten Years	Since Inception
FMIJX	4.53%	-10.06%	-2.34%	3.66%	N/A	6.21%
MSCI EAFE (USD)	4.80%	0.49%	0.62%	5.26%	4.62%	4.05%
MSCI EAFE (LOC)	1.22%	-4.74%	0.55%	4.83%	6.26%	5.83%
FMIYX	4.52%	-9.95%	-2.21%	N/A	N/A	1.87%
MSCI EAFE (USD)	4.80%	0.49%	0.62%	5.26%	4.62%	5.62%
MSCI EAFE (LOC)	1.22%	-4.74%	0.55%	4.83%	6.26%	4.67%
Performance	Q3 2020	One Year	Three Years	Five Years	Ten Years	Since Inception
FMIMX	1.60%	-11.51%	-0.13%	5.94%	8.45%	11.06%
Russell 2000 Index	2.56%	-14.88%	-5.13%	4.11%	7.09%	10.80%
FMIUX	1.60%	-11.41%	-0.02%	N/A	N/A	5.29%
Russell 2000 Index	2.56%	-14.88%	-5.13%	4.11%	7.09%	1.60%

Note: Returns for periods less than one year are not annualized. Returns may not match those reported by other sources such as Morningstar due to slight valuation differences at the end of the reporting period.

*Performance data quoted represents past performance; past performance does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of a Fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting*

*www.fmifunds.com or by calling 1-800-811-5311. The returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.*

As of the Funds' Prospectus dated January 31, 2020, the FMI Large Cap Fund, FMI Common Stock Fund and FMI International Funds' Investor Class annual operating expense ratios are: 0.80%, 1.01% and 0.90%, respectively. The FMI Large Cap Fund, FMI Common Stock Fund and FMI International Funds' Institutional Class annual operating expense ratios are: 0.67%, 0.90%, and 0.76%, respectively.

*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 Fund's portfolio holdings are as of the date presented. This sheet is for informational purposes only and may not be identical to the official books and records of the Fund. Please refer to the Fund's most recent Annual Report for an audited schedule of investments. As of September 30, 2020, the holding mentioned in the article, Booking Holdings Inc., represents 4.0% of the FMI Large Cap Fund.

Risks associated with investing in the Funds are as follows:

FMI Large Cap Fund: Stock Market Risk, Medium and Large Capitalization Companies Risks, Non-Diversification Risk (Non-Diversified funds are subject to higher volatility than funds that are invested more broadly), Value Investing Risk, Foreign Securities Risk (fluctuation of currency, different financial standards, and political instability) and Liquidity Risk.

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

FMI International Fund: Stock Market Risk, Non-Diversification Risk (Non-Diversified funds are subject to higher volatility than funds that are invested more broadly), Value Investing Risk, Foreign Securities Risk (fluctuation of currency, different financial standards, and political instability), Geographic Concentration Risk, Currency Hedging Risk, Large Capitalization Companies Risk and Liquidity Risk.

For details regarding these risks, please refer to the Funds' Statutory Prospectus or Summary Prospectuses, each dated January 31, 2020.

The Standard and Poor's 500 Index consists of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The Standard & Poor's Ratings Group designates the stock to be included in the Index on a statistical basis. A particular stock's weighting in the Index is based on its relative total market value (i.e., its market price per share times the number of shares outstanding). Stocks may be added or deleted from the Index from time to time.

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 Russell 2000 Value Index includes equities that exhibit value characteristics and the Russell 2000 Growth Index includes equities that exhibit growth characteristics.

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI EAFE Index consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand,

Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. The MSCI EAFE Index is unmanaged and investors cannot invest directly in the Index. Index results are inclusive of dividends and net of foreign withholding taxes. The reported figures include reinvestment of dividends and capital gains distributions and do not reflect any fees or expenses.

The MSCI EAFE Index is calculated in local currency (LOC) as well as in U.S. Dollars (USD). The concept of a LOC calculation excludes the impact of currency fluctuations. All currencies of listing are considered in the Index calculation in LOC where current prices (t) and previous day prices (t-1) are converted into USD using the same exchange rate (exchange rate t-1) in the numerator and denominator. As a consequence, the FX factor drops out of the equation. The USD calculation includes exchange rates at t and t-1. Therefore, the LOC calculation only represents the price appreciation or depreciation of the securities, whereas the USD calculation also accounts for the performance of the currency (or currencies) relative to the USD.

MSCI EAFE is a service mark of MSCI Barra.

All indices are unmanaged. These indices are used herein for comparative purposes in accordance with the Securities and Exchange Commission regulations. It is not possible to invest directly into an index.

#### **GLOSSARY**

**ROIC - Return on Invested Capital** - a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments. The return on invested capital measure gives a sense of how well a company is using its money to generate returns.

Reference definitions found at Investopedia.com

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