

FMI Large Cap, FMI International & FMI Common Stock Annual Report

December 2017

Fund Information			
Ticker	FMIQX	FMIYX	FMIUX
Asset Class Category	Larger-Cap Blend	International Blend	Smaller-Cap Blend
Share Class	Institutional	Institutional	Institutional
Min. Initial Investment	\$100,000	-	\$100,000
Availability*	A,FN	CLOSED	A,FN
Expense Ratio	0.72%	0.80%	0.94%
Opinion	Recommended	Recommended	Recommended
Firm	Fiduciary Management		
Managers	Team		
Phone	800-811-5311		
Web Address	www.fmifunds.com		

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

Team Update

In September, we visited FMI's Milwaukee offices to get an update on organizational changes at the firm. We reported on the changes last year, which included former chair Ted Kellner retiring effective June 30, 2017, Jonathan Bloom heading international strategies, and Andy Ramer taking lead responsibilities on domestic strategies. The first two changes have taken place, but the latter on the list (regarding Ramer's role) has changed. At the end of this year, Ramer will be giving up his responsibilities as Director of Research (DOR) for U.S. equities and go back to being solely a research analyst. For the foreseeable future, Bloom will share DOR responsibilities for all FMI strategies (U.S. large-cap, U.S. small-cap, and international) with Pat English. The key function of a DOR at FMI is to vet ideas with analysts. The vetting starts soon after a potential purchase candidate is identified and continues until it's bought in the portfolio. An important focus of vetting ideas is to identify potential concerns earlier in the research process, so analysts are efficient with their time.

Ramer's decision to step back from the Director of Research role stemmed from his desire to do purely research, as well as a realization that the manage-

rial aspects of the role weren't a perfect fit for him. Ramer says his passion and skillset lie in research and stock picking. At the same time, English says Bloom was doing a great job as DOR on the international portfolio, so he became the obvious choice to take the baton from Ramer. To free up his capacity for this enhanced role, Bloom will be offloading all his primary stock research responsibilities. While all decisions are made collaboratively by Bloom, English, and analysts, final say on buys and sells and stock weightings reside with English and Bloom. Both typically arrive at a consensus, although if needed English would have the final say. We expect English will be very much involved with the team on a day-to-day basis and will work with Bloom for the foreseeable future.

The Amazon Effect

English tells us that **Amazon.com** is very much at the top of their minds these days and that the company is affecting many areas of the business landscape. He says the impact Amazon is having on different businesses throughout the economy is one of the biggest things he's seen in his career. English adds that online transactions are just 12% of all retail transactions, which to him means

FMI Large Cap Top 10 Holdings (12/31/17)	
Berkshire Hathaway Inc. Cl B	5.20%
UnitedHealth Group Inc.	5.10%
Comcast Corp. Cl A	4.70%
Honeywell International Inc.	4.60%
Dollar General Corp.	4.40%
Accenture PLC	4.30%
The TJX Companies, Inc.	4.30%
Progressive Corp.	4.10%
JPMorgan Chase & Co.	4.00%
Stanley Black & Decker Inc.	3.80%

FMI Large Cap Top Five Sectors (12/31/17)	
Finance	16.4%
Technology Services	12.3%
Consumer Services	11.8%
Retail Trade	8.7%
Producer Manufacturing	7.7%

FMI International Top 10 Holdings (12/31/17)	
Accenture PLC	4.60%
Ferguson PLC	4.20%
Samsung Electronics Co. Ltd. Preferred	4.10%
Whitbread PLC	4.00%
Smiths Group PLC	3.60%
Fairfax Financial Holdings Ltd.	3.60%
Potash Corp. of Saskatchewan Inc.	3.40%
TE Connectivity Ltd.	3.30%
Adecco Group AG	3.00%
Schlumberger Ltd.	3.00%

FMI International Top Five Sectors 12/31/17)	
Commercial Services	10.2%
Electronic Technology	9.8%
Consumer Services	9.7%
Consumer Non-Durables	9.7%
Consumer Durables	7.4%

FMI Common Stock Top 10 Holdings (12/31/17)	
FirstCash Inc.	4.60%
Genpact Ltd.	4.10%
Armstrong World Industries Inc.	4.00%
Robert Half International Inc.	3.50%
Graham Holdings Co.	3.40%
Ryder System Inc.	3.10%
Carlisle Cos. Inc.	3.10%
Allscripts Healthcare Solutions Inc.	3.10%
MEDNAX Inc.	3.10%
Woodward Inc.	3.00%

FMI Common Stock Top Five Sectors (12/31/17)	
Finance	20.4%
Commercial Services	15.0%
Producer Manufacturing	14.6%
Distribution Services	7.4%
Technology Services	7.1%

there's a lot of disruption left in the market. Over a year ago, they made the decision to not purchase companies that were being challenged by Amazon. In our conversation with English, he mentioned pharmaceutical distribution, branded consumer goods, and auto parts as industries they are being cautious about (more on each below).

Given Amazon's rumored entry into the pharmaceutical distribution/wholesale business, FMI is watching **AmerisourceBergen** closely. English says Amazon's distribution model and logistical know-how is already set up to deliver drugs to its customers. One mitigating factor is regulations may prevent Amazon from targeting this space.

Speaking to branded consumer goods, English notes high-quality private-label brands in the past have been successful; for example, **Costco Wholesale's** Kirkland brand. Amazon currently offers many products under their AmazonBasics brand, and English thinks it's possible Amazon could launch a premium brand (similar to Kirkland) following its acquisition of Whole Foods and its "365 Everyday Value" products. As a result, the FMI

team is wary of the negative effect this could have on the margins of many branded goods companies.

Yet another industry where FMI has lingering concerns about Amazon's growing presence is auto parts retail and distribution. English says they've spent a good deal of time analyzing companies like **O'Reilly Automotive** and **AutoZone**. English notes in just six years Amazon has gone from \$0 to \$5 billion in aftermarket auto parts sales. There are two businesses within auto parts: the "do-it-for-me" business and "do-it-yourself" business. English says the former is still unlikely to be affected in the near term as it will take a significant local investment for Amazon to quickly deliver parts to local mechanics. However, Amazon's entry into the "do-it-yourself" parts is worrisome because it brings price transparency. While that transparency hasn't materially impacted the industry's profitability yet, English says this remains a risk factor because customers will be able to see lower prices on Amazon, ultimately forcing auto parts retailers to price match. All this is not to say FMI won't ever own a stock in this industry ... they will if they believe the negative effects of Amazon's competition

have been reflected adequately in the stock prices of affected companies.

Highlighted Positions

In the fourth quarter of last year, **Cerner** was added to FMI Large Cap. Cerner is a health care IT company whose main product is electronic medical record systems. Analyst Matt Sullivan says Cerner is a classic FMI-style company and checks many of the boxes they look for in a company.

Sullivan says government mandates are forcing hospitals and physicians to keep electronic medical records (as opposed to paper records). Additionally, investing in technology is becoming more important in health care as providers look to manage soaring costs and remain competitive. Sullivan says Cerner's products are critical for companies striving to cut costs and become more efficient. In addition to electronic record systems, Cerner also offers products such as revenue-cycle management systems, data hosting, and IT outsourcing.

Aside from being critical to their customers' business, Sullivan says Cerner's revenues are largely recurring in nature (another characteristic FMI looks for). He says their contracts are long term (some go out to 10 years) and are very sticky. Cerner systems are expensive to install, and once employees are trained on them companies are reluctant to replace an entire system given the high up-front costs. So, the high switching costs not only result in a stable customer base but also lead to a highly recurring revenue stream stemming from the ongoing maintenance of Cerner systems.

Sullivan says the electronic health records customer base is largely penetrated at this point, but there is still an opportunity for Cerner to cross-sell other services. A lot of physicians and hospitals have historically kept proprietary systems on premises, but they are now realizing this is not their core competency and are getting out of that business to focus on care. Sullivan says the current trend is to fully integrate entire hospital systems—which is an opportunity for Cerner to sell current customers their revenue-cycle systems, IT outsourcing, data hosting, et cetera.

Historically, Sullivan says that Cerner has traded relatively expensively, in the 25x–30x earnings range. However, due to a series of missed guidance by the company, it traded down closer to 20x earnings last year and offered a buying opportunity in

late 2016. While 20x is higher than what FMI would normally like to pay for a company in absolute terms, in a market where most things are expensive, this stock was attractive, especially when factoring in the quality of Cerner's business model. The missed guidance stemmed from Cerner's purchase of Siemens Health Services (the deal closed in 2015), which ran counter to management's preference to grow organically. Sullivan says the deal muddled Cerner's financials in investors' eyes. While FMI isn't usually enthusiastic about acquisitions, Sullivan says Cerner isn't attempting to integrate the two systems, but is instead sunseting older Siemens products and has essentially bought a customer list. Sullivan and the rest of the FMI team considered these issues to be temporary and the strength of the company's underlying business model gave them confidence to start a position in Cerner. However, soon after their initial purchase, the stock fell even further immediately after President Trump was elected due to nervousness around the Affordable Care Act (ACA) and the potential impact on hospital spending. While short-term orders could be impacted by uncertainty around the ACA, FMI concluded the underlying trends behind health care IT spending would endure and were ultimately more relevant to Cerner's investment thesis. So, FMI continued to build the position after the post-election drop. The stock has risen roughly 50% this year.

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 a return on invested capital (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 can include a high degree of recurring revenue, a well-established customer base, and/or sustainable competitive 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).

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 gained 19.19% in 2017, which compares to a 21.83% 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, but this is not a concern to us. FMI invests in mature and stable businesses with modest growth profiles, and 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 (which we have not seen in a long time).

Over the last 10 years, a period that includes the large drawdown of the financial crisis, the fund has a downside capture of around 85% to the S&P 500 Index. This means the fund has, on average, only captured 85% of the market's downside (a 100% ratio would mean the fund returns the same amount in down markets, and anything over 100% means the fund tends to underperform in down markets). As for up markets over the last 10 years, the fund has captured around 91% of the market's upside. Outperforming on the downside and participating well on the upside has led to overall outperformance for the fund over the last decade—the fund has gained 9.10% while the S&P 500 Index has gained 8.50%. Since the fund's inception, it has outperformed its benchmark in approximately 62% of rolling five-year periods and 100% of rolling 10-year periods.

The performance of FMI International remains solid since its inception at the end of 2010. Through year-end 2017, the fund has gained 10.28% since inception compared to 6.04% for the MSCI EAFE (U.S. Dollar) Index and 8.51% for the MSCI EAFE (Local Currency) Index (the fund hedges its currency exposure so this benchmark is a more relevant

Performance Table (12/31/17)						
	Q4 2017	One Year	Three Years	Five Years	Ten Years	Since Inception
FMIHX	6.02%	19.19%	9.79%	14.17%	9.10%	9.32%
S&P 500 Index	6.64%	21.83%	11.41%	15.79%	8.50%	7.58%
FMIQX	6.01%	19.29%	N/A	N/A	N/A	23.57%
S&P 500 index	6.64%	21.83%	11.41%	15.79%	8.50%	24.25%
FMIJX	2.69%	15.45%	9.44%	11.32%	N/A	10.28%
MSCI EAFE (USD)	4.23%	25.03%	7.80%	7.90%	1.94%	6.04%
MSCI EAFE (LOC)	3.66%	15.23%	8.54%	11.44%	3.30%	8.51%
FMIYX	2.73%	15.59%	N/A	N/A	N/A	15.31%
MSCI EAFE (USD)	4.23%	25.03%	7.80%	7.90%	1.94%	22.51%
MSCI EAFE (LOC)	3.66%	15.23%	8.54%	11.44%	3.30%	18.51%
FMIMX	3.16%	13.77%	8.41%	12.36%	10.38%	12.06%
Russell 2000 Index	3.34%	14.65%	9.96%	14.12%	8.71%	10.57%
FMIUX	3.18%	13.88%	N/A	N/A	N/A	22.16%
Russell 2000 Index	3.34%	14.65%	9.96%	14.12%	8.71%	26.03%

comparison). Over shorter-term periods, the fund is trailing the MSCI EAFE (U.S. Dollar) Index, which can largely be attributed to a weakening U.S. dollar over the last year.

Based on our due diligence and ongoing research, we remain confident that FMI Large Cap and FMI International will outperform their respective bench-

marks 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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9/30/19 Top 10 Holdings					
FMI Large Cap Fund		FMI International Fund		FMI Common Stock Fund	
Berkshire Hathaway Inc. Cl B	5.20%	Ferguson PLC	5.00%	Carlisle Cos. Inc.	5.40%
Dollar General Corp.	5.00%	Smiths Group PLC	3.40%	Avery Dennison Corp.	4.70%
JPMorgan Chase & Co.	4.30%	Chubb Ltd.	3.40%	Graham Holdings Co.	4.40%
Masco Corp.	4.30%	Samsung Electronics Co. Ltd. Preferred	3.30%	Genpact Ltd.	4.30%
Honeywell International Inc.	4.20%	Whitbread PLC	3.10%	White Mountains Insurance	4.00%
Dollar Tree Inc.	4.20%	Henkel AG & Co. KGaA	2.90%	Interpublic Group of Cos. Inc.	3.40%
UnitedHealth Group Inc.	4.10%	Fairfax Financial Holdings Ltd	2.90%	TriMas Corp.	3.20%
Quest Diagnostics, Inc.	4.10%	Merlin Entertainments PLC	2.90%	HD Supply Holdings Inc.	3.00%
Chubb Ltd.	3.70%	Smith & Nephew PLC	2.80%	Woodward Inc.	2.90%
Omnicom Group Inc.	3.40%	Schlumberger Ltd.	2.60%	The Howard Hughes Corp.	2.90%
9/30/19 Top 5 Sectors					
FMI Large Cap Fund		FMI International Fund		FMI Common Stock Fund	
Finance	16.4%	Consumer Services	13.1%	Producer Manufacturing	23.4%
Retail Trade	12.3%	Consumer Non-Durables	10.8%	Finance	22.4%
Producer Manufacturing	11.0%	Commercial Services	10.4%	Commercial Services	12.3%
Consumer Non-Durables	9.8%	Electronic Technology	8.1%	Distribution Services	9.0%
Health Services	8.2%	Consumer Durables	7.3%	Process Industries	6.2%

Performance	Q3 2019	One Year	Three Years	Five Years	Ten Years	Since Inception
FMIHX	0.25%	5.72%	11.97%	9.43%	11.81%	9.08%
S&P 500 Index	1.70%	4.25%	13.39%	10.84%	13.24%	7.67%
FMIQX	0.30%	5.89%	N/A	N/A	N/A	13.40%
S&P 500 Index	1.70%	4.25%	13.39%	10.84%	13.24%	14.53%
Performance	Q3 2019	One Year	Three Years	Five Years	Ten Years	Since Inception
FMIJX	0.03%	1.27%	5.59%	5.85%	N/A	8.25%
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%
FMIYX	0.06%	1.42%	N/A	N/A	N/A	6.27%
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%
Performance	Q3 2019	One Year	Three Years	Five Years	Ten Years	Since Inception
FMIMX	-1.01%	5.28%	10.22%	7.82%	10.77%	11.73%
Russell 2000 Index	-2.40%	-8.89%	8.23%	8.19%	11.19%	10.10%
FMIUX	-0.97%	5.40%	N/A	N/A	N/A	11.71%
Russell 2000 Index	-2.40%	-8.89%	8.23%	8.19%	11.19%	10.31%

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.

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.

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, 2019 and supplemented August 12, 2019 and September 9, 2019.

As of the Funds' Prospectus dated January 31, 2019, and supplemented August 12, 2019 and September 9, 2019, the FMI Large Cap Fund, FMI Common Stock Fund and FMI International Funds' Investor Class annual operating expense ratios are: 0.80%, 0.99% and 0.90%, respectively. The FMI Large Cap Fund, FMI Common Stock Fund and FMI International Funds' Institutional Class annual operating expense ratios are: 0.66%, 0.89%, and 0.76%, respectively.

Please note that the FMI International Fund is open to new investors, effective April 2, 2018.

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. 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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