

Dear Fellow Shareholders:

Stock markets raced higher in the third quarter, with the Russell 2000, S&P 500, MSCI EAFE (Local/USD), and MSCI World Indices gaining 12.39%, 8.12%, 5.38%/4.77%, and 7.27% respectively. The steep advance was fueled by a September rate cut by the Federal Reserve, unwavering enthusiasm around artificial intelligence (AI) and mega cap technology, and a frenzy of speculative buying activity. While it is impossible to know if we are officially in a stock market bubble, it certainly has many of the earmarks.

Fundamental Disconnect

While you would never know it when looking at how many global stock markets are trading at or near record highs, there are plenty of areas of weakness across the global economy. Global GDP growth is expected to fall to 2.9% in 2026 (from 3.2% in 2025), with the U.S., Europe, Japan, and China all slowing, according to the OECD. Labor markets are showing signs of easing, inflation remains elevated, and debt levels are substantial (with sizeable refinancing maturities on the horizon). Trade tensions remain high, with the full effect of tariff increases still yet to be felt.

In the U.S., the world's largest economy, employment has slumped, the housing market is soft, construction spending is declining, ISM manufacturing activity has contracted in 32 out of the last 34 months, and transportation markets are in a "freight recession." The low-income consumer has been under pressure and is cutting back, while the high-income consumer (a direct beneficiary of outsized stock market returns) is partying like it's 1999.

In the past, consumer confidence and stock market confidence have generally moved in harmony. Today, consumer confidence is low (and falling) at a time when stock market confidence is soaring (see graph on the top right). This dichotomy speaks to the growing disconnect between Wall Street and Main Street, which is unlikely to persist over the long run.

Record Valuations

We are currently in one of the most expensive stock markets in U.S. history. The bottom right chart tracks eight traditional valuation metrics over the last 125 years, with the latest reading hitting the highest level on record, and that was before the market advanced again in September.

Looking different than the market is currently a disadvantage, but we can take some comfort knowing that small cap, international, and value stocks all trade at a sizeable

discount to U.S. large cap growth. That said, rising tides have lifted most boats, and absolute valuations have moved higher across asset classes. Fortunately, as owners of quality businesses with strong balance sheets, FMI's portfolios trade at a discount to their primary benchmarks.

Speculative Excess

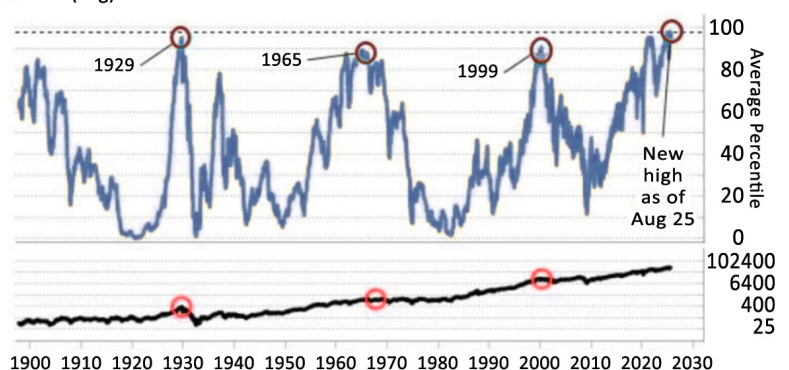
Exuberance is abundant and complacency is high, both of which may continue. Goldman Sachs tracks the top-performing themes

Consumer Psychology Surrounding Current Market Mania Is Nothing Like Y2K's



US Stock Valuations Hit New All-Time High

— Trailing P/E, Forward P/E, CAPE, P/B, P/S, EV/EBITDA. Q Ratio, Mkt Cap to GDP (Average Percentile, Full History)
— S&P (Log)



in the U.S. and Europe (table on the right). Bitcoin sensitive equities and European defense stocks are up over 100% this year, while meme stocks and China ADRs climb the leaderboard. Pockets of lower-quality businesses (commodities, European rate sensitive financials) have also outperformed. Notably, quality compounders and ex-tech compounders have been left behind.

Goldman Sachs also tracks various AI-themed baskets within the U.S., as shown below. The worst performing AI basket has more than doubled the year to date return of the S&P 500, with the best performing basket outpacing the index by nearly 5-fold.

Top Contributors in 2025 (through 9/30)	
Goldman Sachs - Top Performing Themes	
AI Themes	2025 YTD
AI Leaders	71.0%
Data Centers	51.8%
Power Up America	44.9%
AI	38.3%
AI Semis	37.6%
AI Software	32.2%

*Goldman Sachs Macro/Thematic baskets. Stocks are selected by Goldman Sachs specialists. Baskets rebalanced on a quarterly basis.

Historically, leaders change over time. Success invites competition and innovation can lead to disintermediation. Furthermore, despite what may appear to be strong competitive positioning and growth prospects, any company can be a bad investment if you overpay for it. In the 1970s, the “Nifty Fifty” were believed to be the best of the best; no price was too high for these businesses, and everyone piled in. In the 2000 tech bubble, many companies were also thought to be unassailable. Today, it appears these historical lessons have been forgotten.

A New Technology Paradigm (AI)

While AI has tremendous long-term potential and could certainly be a revolutionary technology, we marvel at the remarkable amount of capital expenditure (capex) being deployed. It reminds us of the fiber optic overbuild in the 2000 era, where massive amounts of capital were being spent on network infrastructure to take advantage of the growth of the internet. Simultaneous overbuilding by big competitors led to massive overcapacity that far outstripped demand. Many actors behaved irrationally, with



U.S.		Europe	
Top 10 Contributors in 2025 (through 9/30)		Top 10 Contributors in 2025 (through 9/30)	
Goldman Sachs - Top Performing Themes		Goldman Sachs - Top Performing Themes	
Macro/Thematic	2025 YTD	Macro/Thematic	2025 YTD
Bitcoin Sensitive	102.5%	Defense	125.7%
Quantum Computing	70.7%	Rate Sensitive Financials	58.5%
Nuclear	67.6%	Indirect Defense Spending	42.5%
Memes	64.8%	EU Best In Class	42.1%
Global Copper	49.2%	Israel Recovery	40.8%
US Metals	48.3%	Make Europe Great Again	40.2%
High Beta 12M Winners	43.6%	Mobile Consolidation	35.4%
China ADRs	37.0%	Liquid IPO	34.0%
Defense	34.9%	High Mo (12M Winners)	33.6%
Infrastructure	34.5%	German Domestic Cyclical	33.6%
Quality Compounders	5.3%	Ex-Tech Compounders	-4.9%

*Goldman Sachs Macro/Thematic baskets. Stocks are selected by Goldman Sachs specialists. Baskets are rebalanced on a quarterly basis

Unprecedented Concentration

As displayed below, the market is narrow, with 10 holdings in the S&P 500 that are heavily influenced by AI reaching nearly 35% of the index. Prior stock market bubbles have been characterized by outsized sector performance, a lack of stock market breadth, and an unwavering adoration for a handful of market darlings, all of which are observed today.

As we wrote in our June 2023 shareholder letter, investors ought to consider an important question: are the winners of today going to be the winners of tomorrow? History would suggest no, as can be seen in the graphic below. Only one out of the top ten companies in the S&P 500 in 2005 is still in the top ten 20 years later.



Source: https://substackcdn.com/image/fetch/Ss_1TgEfi_f_auto,q_auto:good,fl_progressive:steep/https%3A%2F%2Fsubstack-post-media.s3.amazonaws.com%2Fpublic%2Fimages%2F31000685-ab6f-4fb2-a0b5-d63b5efe3332_1131x723.jpeg?utm_source=substack&utm_medium=email

debt exacerbating the problem. While it was true that the internet would ultimately change the world, vast amounts of capital were destroyed through malinvestment.

We are not naysayers on the prospects for generative AI. However, we are skeptical that the colossal amount of money being spent will generate attractive returns. As illustrated on the top right, a mega cap tech cohort of only five companies is on pace to spend nearly \$400 billion in capex in the coming year. With each new AI capex announcement, investors get rewarded with an even bigger jump in market cap. McKinsey & Company does not see an end in sight, forecasting *nearly \$7 trillion more will be spent on datacenter capex by 2030*. On the flip side, AI monetization remains an open question, with limited revenue generation thus far and an absence of “killer apps.” AI-native revenues (where AI is fundamental to a company’s product and operations) are believed to be less than \$20 billion in total, paling in comparison to the amount of total investment. Ironically, increasing competition and capital intensity would tend to have an inverse relationship with stock market returns, yet investors are willing to look right through in the current environment. It remains to be seen if this dynamic is sustainable.

FOMO: Fear of Missing Out

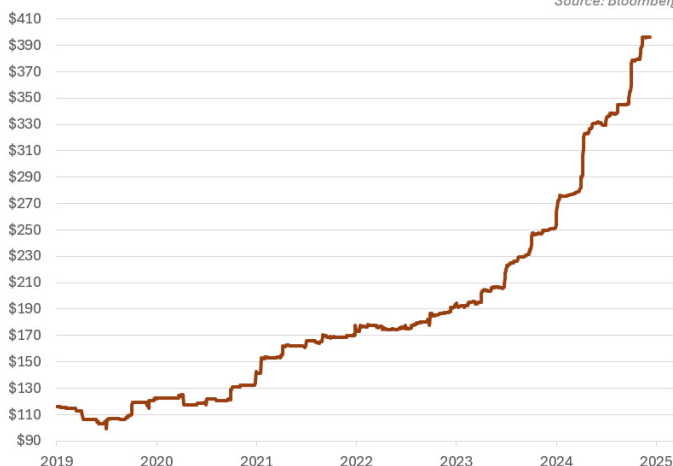
The average investor underperforms the market by a wide margin over the long-term, as the DALBAR “Quantitative Analysis of Investor Behavior” studies have repeatedly shown. This can be attributed to predictable behavioral mistakes, namely piling into stocks after a period of strong performance (i.e. chasing returns), and aggressive selling when markets come under severe pressure; effectively doing the wrong things at the wrong times. Human emotion plays a crucial part in these behaviors, as the role of fear and greed cannot be underestimated.

Given the precarious backdrop we have today, we find it interesting (and predictable) that global equity ETFs added a record \$152 billion of inflows over the past 3 weeks, as reported by EPFR and Bank of America. The technology sector gathered over \$9.3 billion last week alone, the biggest weekly inflow on record. As the bottom right chart depicts, classic herd behavior is alive and well. U.S. households’ exposure to public equities have climbed to a new all-time high, well above prior stock market peaks.

Years from now there will be a more definitive view on 2025 relative to history. In the meantime, we stay the course and observe the following: economic growth is showing cracks, valuations are stretched, excess is abundant, the market is concentrated, AI exuberance is unrelenting, and investors are piling into equities at a record pace. The Funds look very different than their benchmarks. With an eye toward business quality, balance sheet strength, and valuation, our focus is on idiosyncratic dislocations. If volatility increases significantly and we find ourselves in a bear market, we will be poised to take advantage of more opportunistic valuations.

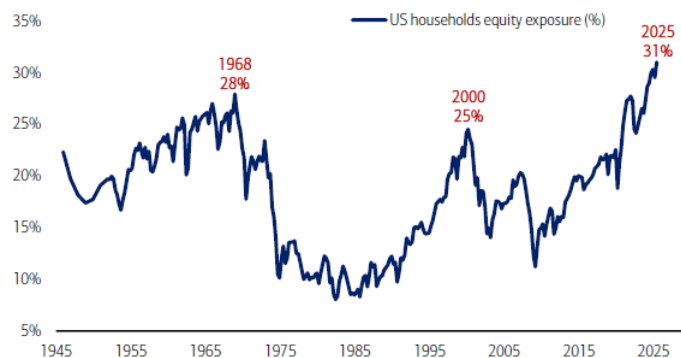
12-Month forward estimated capex for Microsoft, Alphabet, Amazon, Meta, and Oracle

Source: Bloomberg



US households’ exposure to stocks is at all-time high

US households’ equity exposure since 1945 (%)



Source: BofA Global Investment Strategy, Bloomberg

Listed below are a few portfolio holdings that we find compelling over the long-term:

OneMain Holdings Inc. (OMF) – FMI Common Stock Fund

OneMain is a scale leader in nonprime personal lending. Although they have a messy corporate history, our research suggests that in most key areas they are superior to their peers. We believe with a few years of clean results and an improved macro environment, this company could be reframed as a differentiated, high-quality financial. Given organic growth opportunities in personal lending, and newer areas such as credit card and direct auto, we believe they can grow organically in the mid-single digits with operating leverage, while at the same time returning significant capital through a large dividend and episodic buybacks. Although the current macro environment has stressed their core consumer and pressured net charge offs, we believe the income statement alone provides sufficient protection from an adverse outcome in nearly all reasonable scenarios, with further protection on the balance sheet in a tail risk scenario. The macro backdrop has given us the opportunity to own this industry leading business at an attractive valuation.

Becton Dickinson & Co. (BDX) – FMI Large Cap & FMI Global Funds

Becton Dickinson is a medical supply and device company, selling low-cost medical essentials. Products include vascular access devices, pre-fillable syringes, and catheters, to name a few. Becton is the leader in most of its product lines and often competes in oligopoly market structures. Their management team has been executing on a strategy to grow and simplify the business. This has been successful but is obscured by noise in the financials caused by the pandemic, portfolio actions, and other temporary factors, providing us with an opportunity to buy a quality business at an attractive price. We believe execution on the company's growth strategy and pending business separation will unlock value, with management targeting over 5% annual organic revenue growth and continued margin expansion in the coming years. Manufacturing scale is a key competitive advantage, with the company manufacturing billions of devices annually. Driven by healthcare utilization, the business is durable. Post their separation of biosciences and diagnostics solutions business in 2026, ~90% of revenue is recurring in nature (consumables). The valuation is attractive given the company's defensive attributes and growth potential.

Greggs PLC (GRG LN) – FMI International & FMI Global Funds

Greggs is a vertically integrated food-on-the-go operator with over 2,650 shops across the UK. Greggs sells products which are low ticket, consumed immediately, and often replenished during the day. The company's strong brand and differentiated business model have created loyal customers and long-term market share gains. Elevated cost inflation and growth investments have coincided with a demand slowdown, weighing on the near-term outlook and pressuring the stock. While sales growth and margins are likely to take a step back in the interim, given investments being made across the business (supply chain, innovation, employees, channels/partnership), we think the company has a long runway for new store openings. The company is cresting the peak of their supply chain investment cycle this year, management remains disciplined, and they are in an excellent financial position with cash flow set to inflect thereafter. We view the valuation as too low relative to their long-term prospects.

Thank you for your continued support of the FMI Funds.

Disclosure Information

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.

Securities named in the Letters to Shareholders, but not listed in the Schedules of Investments are not held in the Funds as of the date of this disclosure. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. The referenced securities are owned by the Funds on September 30, 2025 as follows:

FMI Common Stock Fund – OneMain Holdings, Inc. – 4.0%
FMI Large Cap and Global Funds – Becton Dickinson & Co. – 4.1% and 3.3% respectively
FMI International Fund and International Fund II – Greggs PLC – 2.7% and 2.6% respectively.

This report is not authorized for use as an offer of sale or a solicitation of an offer to buy shares of the Funds unless accompanied or preceded by the Funds' current prospectus.

Annual operating expenses for FMIMX, FMIUX, FMIHX, FMIQX, FMIJX, FMIYX, FMIFX, and FMIGX as of the Prospectus dated 1/31/25 are as follows: 0.98%, 0.85%, 0.84%, 0.70%, 0.94%, 0.80%, 0.90%* and 0.90%*, respectively.

*Note that the annual operating expenses for FMIFX and FMIGX are 1.12% and 1.09% respectively, before the investment adviser's voluntary reimbursement such that the annual operating expenses do not exceed 0.90% for each, which will continue at least through January 31, 2026.

Risks associated with investing in the Funds are as follows:

FMI Large Cap Fund: Stock Market Risk, Medium and Large Capitalization Companies Risks, Value Investing Risk, Foreign Securities Risk (fluctuation of currency, different financial standards, and political instability), Liquidity Risk, and Tax Law Change 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), Liquidity Risk, and Tax Law Change Risk.

FMI International Fund: Stock Market Risk, 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, Liquidity Risk, and Tax Law Change Risk.

FMI International Fund II – Currency Unhedged: Stock Market Risk, Value Investing Risk, Foreign Securities Risk (fluctuation of currency, different financial standards, and political instability), Geographic Concentration Risk, Large Capitalization Companies Risk, Liquidity Risk, and Tax Law Change Risk.

FMI Global Fund: Stock Market Risk, Value Investing Risk, Foreign Securities Risk (fluctuation of currency, different financial standards, and political instability), Emerging Market Risk, Geographic Concentration Risk, Large Capitalization Companies Risk, Liquidity Risk, New Fund Risk, RIC Qualification Risk and Tax Law Change Risk.

For details regarding these risks, please refer to the Funds' Summary or Statutory Prospectuses dated January 31, 2025.

The Funds does not directly invest in Bitcoin or other cryptocurrencies. Bitcoin and other cryptocurrencies are a relatively new asset class and are subject to unique and substantial risks.

The Standard and Poor's 500 Index (S&P 500) consists of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The S&P's Ratings Group designates the stocks 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. 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. 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 World Index is a free-float adjusted market capitalization index that measures large and mid-cap performance of developed market countries which include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK and the US. With 1,395 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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

CAPE Ratio, also known as the Shiller P/E ratio, assesses the stock market's pricing by adjusting past earnings for inflation over a decade.

Capex – Capital Expenditures are the funds companies allocate to acquire, upgrade, and maintain essential physical assets like property, technology, or equipment, crucial for expanding operational capacity and securing long-term economic benefits.

EV/EBITDA, an enterprise multiple, is a key ratio used to assess a company's value by considering its debt alongside earnings before interest, taxes, depreciation, and amortization (EBITDA).

ETF - Exchange-Traded Fund is an investment fund that holds multiple underlying assets. It can be bought and sold on an exchange, much like an individual stock.

GDP - Gross Domestic Product is the monetary value of all finished goods and services produced within a country's borders in a specific time period.

Operating Leverage

P/B - price-to-book ratio is used to compare a firm's market capitalization to its book value and locate undervalued companies. This ratio is calculated by dividing the company's current stock price per share by its book value per share (BVPS).

P/E ratio - Price-to-earnings ratio is the ratio for valuing a company that measures its current [share](#) price relative to its [per-share earnings](#). The trailing P/E ratio is calculated by dividing the current share price by per-share earnings over the previous 12 months and the forward P/E ratio estimates likely per-share earnings over the next 12 months.

P/S - price-to-sales ratio is a tool for investors aiming to evaluate stock value by measuring the relationship between a company's stock price and its revenue. By calculating the P/S ratio, investors can identify undervalued stocks and make informed investment decisions within the same sector.

Q Ratio, also known as Tobin's Q, measures the relationship between market valuation and intrinsic value. In other words, it estimates whether a business or market is overvalued or undervalued.

Reference definitions found at Investopedia.com

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