FIDUCIARY MANAGEMENT, INC.
Investment Counsel

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

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INVESTMENT STRATEGY OUTLOOK - SMALL CAP EQUITY

The FMI Small Cap strategy declined approximately 10.9% (gross)/11.1% (net) in the second calendar quarter compared to minus 17.20% for the Russell 2000 and negative 15.28% for the Russell 2000 Value. Relative to the Russell 2000, sectors that detracted included Energy Minerals, Utilities, and Consumer Non-Durables. Sectors that aided performance included Producer Manufacturing, Technology Services, and Electronic Technology. Stocks that hurt the quarter's results included Robert Half International Inc., The Howard Hughes Corp., and Dentsply Sirona Inc. Equities that did well included Carlisle Cos. Inc., Genpact Ltd., and Plexus Corp. We do not believe most energy, commodity, and utility companies fit the definition of a good, growing business even though from time to time they can be wonderful trading stocks. Our focus remains on durable franchises that earn a return above their cost of capital, have modest financial leverage, and trade at a discount. It appears that a highly speculative phase of the market is ending, and we are encouraged by what this might mean for the next several years.

Bear markets are horrible on one level, but truly exciting on another. It's awful if losses sustained are likely to be permanent. Some speculative equities have seen drops in the 60-90% range. In the aftermath, what do owners of these securities have? Speculative equities! There is cold comfort in that, particularly if the balance sheets are thin. However, if businesses are sound and the balance sheets are strong, bear markets are an opportunity to buy or add to the stocks you love at a discount. These companies gain market share and grow their advantages in tough times. For years, as markets traded in the clouds, the refrain from us has been "attractive relative valuations," but today, the portfolio is loaded with excellent businesses trading at attractive absolute valuations, many for less than 15 times FY2 (next unreported year) estimated earnings. From top to bottom we believe we have one of the strongest line-ups we've ever fielded. Yes, it is painful that quality and discounted valuations haven't held up a bit better, but it is a long game and we have not been this confident about the future trajectory in years. Good managements of good businesses are able to adjust to the environment. Nearby is a snapshot of our thoughts on a few of these companies in the portfolio.

Bear Markets In The S&P 500

Date of S&P 500 High	Date of S&P 500 Low	Loss (%)	Duration (Mos.)
September 7, 1929	June 1, 1932	-86.0	33
March 6, 1937	March 31, 1938	-54.5	13
November 9, 1938	April 28, 1942	-45.8	42
May 29, 1946	June 13, 1949	-29.6	37
August 2, 1956	October 22, 1957	-21.6	15
December 12, 1961	June 26, 1962	-28.0	7
February 9, 1966	October 7, 1966	-22.2	6
November 29, 1968	May 26, 1970	-36.1	18
January 11, 1973	October 3, 1974	-48.2	21
September 21, 1976	March 6, 1978	-19.4	18
November 28, 1980	August 12, 1982	-27.1	21
August 25, 1987	December 4, 1987	-33.5	4
July 16, 1990	October 11, 1990	-19.9	3
March 24, 2000	October 9, 2002	-49.1	31
October 9, 2007	March 9, 2009	-56.8	17
February 19, 2020	March 23, 2020	-33.9	1
	Average:	**-38.2**	**18**
	Median:	**-33.7**	**17**

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Nobody knows when the bear market will end or how deep it will cut. Historically, down markets have lasted about 18 months and decline nearly 40%, as shown in the accompanying table. But as you can see, the range of outcomes is quite wide. Moreover, markets can rally repeatedly before the bear is finished. Investors must look forward a few years and not let the volatility destroy perspective.

Why are we optimistic when so many things look grim? The last decade has been driven by financial engineering stemming from artificially low interest rates. Most managements spent their days dreaming about the next deal. Wall Street

Outstanding Companies at Good Values

Company	Value
Arrow Electronics Inc.	One of the largest electronics distributors in the world with a good balance sheet and solid ROIC track record. 5.6x earnings.
Beacon Roofing Supply Inc.	Large roofing supplies distributor in what is mostly a U.S. oligopoly. Replacement, not new home driven. 7.9x earnings.
Gates Industrial Corp. PLC	Manufactures power transmission/fluid power solutions. Well-run, quality industrial, with the opporuntiy to re-rate. 7.9x earnings.
Genpact Ltd.	Global leader in BPO and IT solutions, with a steady customer base, and good growth, and ROIC track records. 13.9x earnings.
Henry Schein Inc.	World's largest dental distributor. They have economies of scale, with defensive characteristics (recurring consumables). 14.8x earnings.
Insight Enterprises Inc.	Low-risk tech exposure in a leading IT solutions provider. Scale advantages, and double-digit growth prospects. 9.8x earnings.
LCI Industries Inc.	#1 component manufacturer for RV industry. Despite cyclical concerns, there is strong secular growth (compounder). 7.9x earnings.
nVent Electric PLC	Global provider of electrical connection and protection products, with strong brands and management. 13.0x earnings.
Plexus Corp.	Best run outsourced electronics manufacturing firm with focus on non-commodity components. 14.2x earnings.
Robert Half International Inc.	Leading player with a great track record in professional/technical temporary services and consulting. 11.3x earnings.
Skechers USA Inc. - Cl A	Global #3 footwear brand, with a terrific track record, high ROIC, and fortress balance sheet, but has experieced supply chain challenges. 9.7x earnings.
Triton International Ltd.	World's #1 lessor of intermodal containers. They have high recurring multi-year leases, but are coming off of tough earnings comparisons because of COVID. 5.1x earnings.

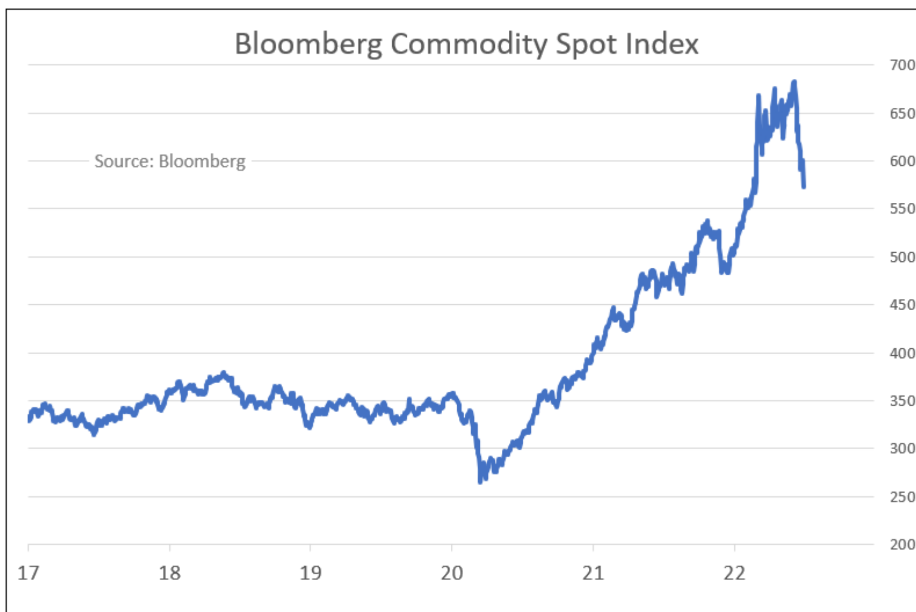
Earnings Valuations are based on FY2 earnings estimates as of 6/30/22.

did not care about return on capital or economic value add. CEOs were concerned only about revenue growth or adjusted EBITDA[1]. Abnormally low rates made mergers and acquisitions the preferred "growth" pathway. Private equity sponsors took deal-making to a new level of valuation and leverage. Every conceivable speculative vehicle was put into play, including blank check companies (SPACs). If interest rates return to a more normal range, and we appear to be about halfway there, it puts much of this activity (certainly the most egregious) in the rearview mirror. Companies can't eke out a spread when the cost of capital encroaches on the return on capital. Already we have seen banks and hedge fund lenders pull back from funding deals. Credit spreads have widened to approximately 600 basis points versus 300 a few months ago.

We believe the next decade will see the renaissance of organic investment. Companies will return to investing in people, plants, and equipment in an effort to earn an attractive return above their cost of capital, which obviously is now on some journey back to rational. In our eyes, organic investment is significantly better for economic growth than financial engineering. Contrary to popular belief, strong economic growth (more goods & services) is not inflationary. Think of it as the supply side of the supply/demand equation. The strongest growth period in our country's history (the 1800s) was accompanied by low inflation. There have been many periods of strong economic growth without inflation. Today's inflation certainly has supply chain and fiscal (stimulus) elements, but we believe the leading driver of inflation has been the quantitative easing (QE) monetary policy. That endeavor is now reversing, as the Fed sells securities (quantitative tightening) and raises rates. While we are likely heading into some sort of reactionary slowdown or recession, we are not overly concerned about a deep or long lasting negative economic impact from the higher rates that exist today. Why? Because of the simple fact that the reciprocal did not drive a boom in the economy, for the reasons stated above. The last decade plus has had the lowest interest rates in recorded history yet some of the slowest growth since World War II. It's mistaken to believe low rates drive economic growth and that higher rates will cause economic collapse. There is likely a wide range, perhaps 3-7% on the ten-year Treasury (approximately 3% today), where normal economic activity is possible and likely.

Employment is considered a lagging economic indicator, but as we have pointed out in recent letters, the demand for labor seems fairly solid. COVID has changed some of the dynamics of work, and government involvement has distorted work incentives and employment. This has yet to normalize, as evidenced by the fact that we have 2.8 million fewer people working today than in February of 2020, according to the U.S. Chamber of Commerce. There were certainly some companies that staffed-up during COVID who are now laying off employees. Lately, some of the speculative ventures are having to resize their businesses. Overall, however, ten million jobs are unfilled and there seems to be significantly more companies looking for workers than laying them off. We harbor no illusions about the ravages of inflation on both businesses and consumers, and what that means for employment. Still, the tea leaves we are reading suggest employment is hanging in there and it is tough to have a poor economy if people are working.

Inflation has been on everyone's lips, including ours, for the last several quarters. The Fed is finally addressing the main culprits: QE and rates. Congress and the executive branch also need to do their part by getting the country's fiscal house in order. Two decades of profligate spending must end. A debt load of $30 trillion and over $2 trillion annually in deficits in the last two years is an abomination. It reduces economic growth and fuels some of the inflation we are seeing. In an earlier letter we mentioned the work Alliance Bernstein did on supply chains' impact on inflation (~1.5%). Our companies are seeing some improvement in several supply chains, but it will take many more quarters to normalize. David Rosenberg, a highly regarded economist, recently published work suggesting the push during COVID to purchase goods (many service businesses could not operate) drove an unusual amount of inflation that is now in the process of reversing. He estimates as much as 2.5% could come out of the CPI as the economy moves back to a normal level of service versus goods activity. Commodity prices have been falling recently, with lumber down over 60%, copper off 26%, and corn off 24%. Nearby is a chart of the Bloomberg Commodity Spot Index. It feels like the fever has broken on the inflation front. That doesn't mean 2% inflation, but within a few quarters we may see significantly lower than recent CPI prints.



The biggest disconnect we are seeing in the market today involves earnings. Many stocks, especially ones that are sensitive to the economy, are getting hammered. Earnings for most of these companies are good, so it would appear the market is anticipating a significant economic downturn. Could this cycle be more of a Wall Street recession than a Main Street one? So far it seems that way. Several of our stocks have been hit even though the earnings have been solid, the outlook seems fine, and there is nothing to suggest the long-term is compromised. Beacon Roofing Supply Inc. and LCI Industries are poster children for this phenomenon. While we expect some earnings

[1]EBITDA is earnings before interest, taxes, depreciation, and amortization.

erosion from a recession or slowdown, Beacon and LCI both trade at 7.9 times FY2 earnings. Typically, these companies trade at multiples that are 50% higher. Our best guess for "the market" is that we will indeed see earnings estimates come down as the next few quarters unfold. The stock moves suggest something darker than we anticipate and regardless of the near-term outlook, we believe the franchise values are significantly higher than the stocks would suggest. It looks like an excellent opportunity for investors with a long-term horizon.

June 30, 2022 Weighted Average	FMI Small Cap	iShares Russell 2000	Discount to Russell 2000
P/E (1 Year Trailing)	17.5x	29.7x	41%
FY2 P/E	13.5x	23.4x	42%
P/S	1.5x	5.0x	70%
EV/EBITDA	11.2x	20.4x	45%
Average Discount			50%

**Estimated valuations are based on a representative account. 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.*

Last quarter we showed you a five-year price to earnings ratio chart for the market, showing the stocks with the highest valuations performing the best. We feel this is starting to change. Valuation matters. Based on our estimates, the portfolio trades at attractive absolute levels and at a wide discount (~50%) to the market (see table above).

Fortunes can change quickly. Recall at the end of 2020, investors and the press were lamenting Berkshire Hathaway Inc.'s performance compared to the S&P 500. Berkshire Hathaway Inc. represented the old, Silicon Valley the new. At year-end 2020, Berkshire Hathaway Inc.'s stock (total return) over the prior ten years had underperformed the S&P 500 by 78%. By March 31st of this year, the company's ten-year performance was 43% ahead of the S&P 500. Patience will be rewarded. We believe the next five-to-ten years will look a lot different than the last five-to-ten years. Good companies at attractive valuations are great places to start.

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		Total Composite Assets End of Period ($ millions)	Total Firm Assets End of Period ($ millions)	Percentage of Firm Assets %
						Composite	*Benchmark			
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.

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