INVESTMENT STRATEGY OUTLOOK - ALL CAP EQUITY

The FMI All Cap Strategy declined approximately 4.5% (gross)/4.6% (net) in the September quarter compared to a 4.32% decline in the iShares Russell 3000 ETF. Relative to the iShares Russell 3000 ETF, sectors that helped included Producer Manufacturing, Finance, and Commercial Services. Underperforming sectors included Electronic Technology, Health Services, and Health Technology. Carlisle Cos. Inc., Charles Schwab Corp., and Genpact Ltd. aided performance while Fresenius Medical Care (Fresenius), Koninklijke Philips N.V. (Philips), and Arrow Electronics Inc. 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 issues that have held back the performance in recent periods. Although the FMI All Cap Strategy has a greater percentage of its holdings’ revenue in the U.S. than the iShares Russell 3000 ETF, about 10% of the strategy, on average, in recent years has been in American Depositary Receipts (ADRs). We felt these franchises were better values than their U.S. counterparts, as depicted in the nearby table.

Unfortunately, the unprecedented strength of the U.S. Dollar (USD) has hurt performance of these shares (which can easily reverse), but significant idiosyncratic factors have been more impactful. Philips, for example, has declined dramatically in response to issues surrounding their respiratory business, including a product recall and FDA letter. While this is less than 10% of Philip’s revenue and earnings, the impact on the market capitalization has been severe. Fear of a large legal settlement and negative news flow has, in our opinion, far exceeded the likely outcome. Fresenius, which provides dialysis care, was hurt by excess mortality during COVID. Post-COVID inflation has taken a much greater-than-expected bite out of earnings (and the stock price). Smith & Nephew PLC has suffered disproportionately from COVID (deferred elective procedures), supply chain problems, and mismanagement in their orthopedic franchise. We probably should have anticipated the inflation issue at Fresenius and we could have better understood the

<table>
<thead>
<tr>
<th>Sponsored ADR’s</th>
<th>EV/EBITDA NTM</th>
<th>U.S. Stock</th>
<th>EV/EBITDA NTM</th>
<th>Discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAP SE</td>
<td>11.1x</td>
<td>Salesforce Inc.</td>
<td>13.6x</td>
<td>-18%</td>
</tr>
<tr>
<td>Unilever PLC</td>
<td>12.4x</td>
<td>Procter &amp; Gamble Co.</td>
<td>15.2x</td>
<td>-18%</td>
</tr>
<tr>
<td>Sony Group Corp.</td>
<td>6.6x</td>
<td>Electronic Arts Inc.</td>
<td>10.8x</td>
<td>-39%</td>
</tr>
<tr>
<td>Smith &amp; Nephew PLC</td>
<td>9.3x</td>
<td>Zimmer Biomet Holdings Inc.</td>
<td>17.4x</td>
<td>-47%</td>
</tr>
<tr>
<td>Koninklijke Philips N.V.</td>
<td>7.0x</td>
<td>Boston Scientific Corp.</td>
<td>16.4x</td>
<td>-57%</td>
</tr>
<tr>
<td>Fresenius Medical Care AG &amp; Co. KGaA</td>
<td>7.0x</td>
<td>DaVita Inc.</td>
<td>8.6x</td>
<td>-19%</td>
</tr>
</tbody>
</table>

Source: FactSet - EV/EBITDA NTM as of 9/30/2022

1Source: Bloomberg - returns do not reflect management fees, transaction costs or expenses. Performance is based on market price returns. Beginning 8/10/20, market price returns are calculated using closing price. Prior to 8/10/20, market price returns were calculated using midpoint bid/ask spread at 4:00 PM ET.
managers issues at Smith & Nephew, but when we re-underwrote these investments, we felt the stock’s long-term upside potential was high. The decline in SAP SE is related to market fears about the success of their efforts to transition the software business from a site license model to a cloud-based recurring revenue construct. Based on our research, we believe the company is on a positive cloud development path and that better stock performance is likely. Finally, the strategy has been hurt by very little exposure to energy and commodity related businesses. We feel these types of companies can periodically be great “trading” stocks, but over long periods of time, they generally underperform due to their low business quality attributes.

The team’s optimism starts with valuations. The portfolio trades at a modest 13.7 times projected 2023 earnings, 1.8 times the latest twelve month’s revenue and 11.9 times the trailing year’s EV/EBITDA. On these metrics that is about a 43% discount to the iShares Russell 3000 ETF, as illustrated by the table on the right.

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 we 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 looking 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 much 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 illustrate what’s happened since our January investment in CarMax Inc., a stock highlighted in the March letter. It illustrates our investment approach. CarMax is currently out-of-favor, yet it has a winning business model, and a leading share of the used car market. With just 4% of a $270 billion market, it has a long runway for growth. Over the past few years, the bears believed that Carvana Co. and other “online” car resellers were going to take the used car market by storm, leaving CarMax in the dust. Carvana’s stock was a rocket and at one

### September 30, 2022

<table>
<thead>
<tr>
<th>Weighted Average</th>
<th>FMI All Cap</th>
<th>iShares Russell 3000</th>
<th>Discount to Russell 3000</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E (1 Year Trailing)</td>
<td>18.9x</td>
<td>29.5x</td>
<td>36%</td>
</tr>
<tr>
<td>FY2 P/E</td>
<td>13.7x</td>
<td>20.5x</td>
<td>33%</td>
</tr>
<tr>
<td>P/S</td>
<td>1.8x</td>
<td>4.7x</td>
<td>62%</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>11.9x</td>
<td>19.7x</td>
<td>40%</td>
</tr>
<tr>
<td>Average Discount</td>
<td>43%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*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.

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2Enterprise Value to Earnings before interest, taxes, depreciation, and amortization.

Fiduciary Management, Inc.
Investment Strategy Outlook - All Cap Equity
point carried a market valuation in excess of $40 billion, despite the company losing money hand over fist. Our research indicated that customers wanted multiple ways to purchase used cars (not just online like Carvana) and that CarMax offered not only the more traditional car lot sale, but also a full online and delivered-to-the-home model. CarMax was (and remains) profitable and has a good balance sheet. Carvana was chewing through cash and relied on capital markets to fund its growth-at-all-cost approach. Carvana’s stock is down roughly 90% year-to-date; they’ve had to raise equity, and some question their viability. CarMax is also down significantly, reflecting recession fears, higher borrowing rates, and tough earnings comparisons, which we discussed in March. So, while the stock has been difficult, we feel CarMax is actually stronger from a competitive standpoint. It looks like we will have to wait out a downturn, but from today’s valuation, we feel the next several years hold a lot of promise for the stock.

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

Avery Dennison Corp. (AVY)
Analyst: Ben Karek

**Description**
Avery Dennison is a vertically integrated manufacturer of pressure sensitive labels and assorted tickets and tags. Pressure sensitive labels are used on products such as beverages, shampoo, shipping packages, pharmaceuticals, etc. Avery reports in three segments: Pressure Sensitive Materials (65% of sales), Retail Branding & Information Solutions (26%), and Industrial & Healthcare Materials (9%).

**Good Business**
- Avery is the global leader in its main product lines and is 2.5 times larger than its next largest competitor in pressure sensitive labels. This confers scale benefits that allow it to earn best-in-class margins while still leading on innovation.
- Avery is minimally cyclical. Fast turning product lines, including consumer goods, retail, and logistics/shipping account for ~80% of sales. Avery has proven adept at cost management in periods of lower demand.
- Avery’s product usage is not impacted by the shift to private label and/or start up brands, a perennial challenge in home and personal care/consumer packaged goods categories.
- Avery’s products are low-cost relative to the total product, yet they convey high value information to the consumer (brand image, product quality, etc.).
- Avery has 50%+ market share in ultra-high frequency radio frequency identification (UHF RFID) tags, which are undergoing secular growth in the +15-20% range.
- Avery’s historical and incremental returns on capital are high. ROIC was 18% in 2021, up from 9% in 2012, driven by both capital discipline and operating profit growth.
- Avery’s balance sheet is appropriately levered.

**Valuation**
- With high-single-digit long term earnings growth expectations and a 20% return on invested capital, 16 times forward earnings and 11.4 times forward EBITDA are reasonable absolute multiples.
- Prior to this period of raw material inflation and a potential macro slow down, Avery traded at 25 times forward earnings and 16 times forward EBITDA. The P/E is below the 5-year average and EV/EBITDA is equal to the 5-year average.
- RFID is 8% of sales and continues to grow well above the company average. We believe that this could structurally increase Avery’s trading multiple in the next 3-5 years.

**Management**
- CEO Mitch Butier was a chief architect of Avery’s Economic Value Added (EVA) strategy. He has previously served as COO and CFO for Avery Dennison. His track record since becoming CEO in 2016 is very strong. Mitch owns 270 thousand shares, worth $50 million at today’s prices.
- Avery’s incentives are aligned with shareholders. Short term incentives are based on organic sales, adjusted earnings per share (EPS), and free cash flow. Long term incentives are driven by total shareholder return and EVA.

**Investment Thesis**
Avery has two key drivers that allow them to grow organic revenue above GDP: high value categories and emerging markets. 60% of sales are now exposed to one or both categories. Of note within high value products, Avery is by far the market leader in UHF RFID tags used in end markets like apparel, aviation, and food. This business is growing 15-20% and has a long runway in both existing and yet to be tapped end markets. These factors allow for long run volume growth in the 4% range. This story is simple to understand and, in more benign times, generates a lot of interest from investors. Combined with a long running cost efficiency program and share buybacks, we expect a reasonably stable high single digit percentage earnings growth profile. This is particularly valuable as Avery is run on EVA and thus consistently balances growth, margins, and returns on capital (i.e. they are not growing for growth’s sake). Avery has run into a few headwinds that are giving us an opportunity to invest. First, Avery’s commodity raw materials are derived from paper and oil, both of which have seen significant spikes driven by supply and demand factors. This has put pressure on Avery’s margins as it takes one to two quarters to catch up to cost inflation. Given the magnitude and duration of the inflation, there is concern around when they will
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Investment Strategy Outlook - All Cap Equity

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# Fiduciary Management Inc.
## All Cap Equity Composite
### 12/31/2011 - 12/31/2021

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Return Gross of Fees %</th>
<th>Total Return Net of Fees %</th>
<th>*Benchmark Return %</th>
<th>Number of Portfolios</th>
<th>Dispersion %</th>
<th>Three Year Ex-Post Standard Deviation</th>
<th>Total Composite Assets End of Period ($ millions)</th>
<th>Total Firm Assets End of Period ($ millions)</th>
<th>Percentage of Firm Assets %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>16.06</td>
<td>15.34</td>
<td>16.42</td>
<td>30</td>
<td>0.27</td>
<td>14.87%</td>
<td>$168.5</td>
<td>$15,253.5</td>
<td>1.10%</td>
</tr>
<tr>
<td>2013</td>
<td>29.61</td>
<td>28.70</td>
<td>33.55</td>
<td>35</td>
<td>0.69</td>
<td>11.72%</td>
<td>$211.6</td>
<td>$19,705.3</td>
<td>1.07%</td>
</tr>
<tr>
<td>2014</td>
<td>12.65</td>
<td>11.91</td>
<td>12.56</td>
<td>41</td>
<td>0.31</td>
<td>8.43%</td>
<td>$268.0</td>
<td>$21,001.1</td>
<td>1.28%</td>
</tr>
<tr>
<td>2015</td>
<td>-0.14</td>
<td>-0.82</td>
<td>0.48</td>
<td>42</td>
<td>0.45</td>
<td>9.70%</td>
<td>$263.7</td>
<td>$21,042.9</td>
<td>1.25%</td>
</tr>
<tr>
<td>2016</td>
<td>16.71</td>
<td>15.90</td>
<td>12.74</td>
<td>39</td>
<td>0.37</td>
<td>10.50%</td>
<td>$275.9</td>
<td>$22,626.7</td>
<td>1.22%</td>
</tr>
<tr>
<td>2017</td>
<td>18.56</td>
<td>17.75</td>
<td>21.13</td>
<td>35</td>
<td>0.35</td>
<td>9.66%</td>
<td>$258.8</td>
<td>$25,322.0</td>
<td>1.02%</td>
</tr>
<tr>
<td>2018</td>
<td>-5.05</td>
<td>-5.70</td>
<td>-5.24</td>
<td>34</td>
<td>0.38</td>
<td>10.08%</td>
<td>$212.8</td>
<td>$19,833.6</td>
<td>1.07%</td>
</tr>
<tr>
<td>2019</td>
<td>27.65</td>
<td>26.87</td>
<td>31.02</td>
<td>20</td>
<td>0.83</td>
<td>10.29%</td>
<td>$208.5</td>
<td>$22,609.9</td>
<td>0.92%</td>
</tr>
<tr>
<td>2020</td>
<td>7.19</td>
<td>6.59</td>
<td>20.89</td>
<td>21</td>
<td>0.49</td>
<td>18.11%</td>
<td>$206.6</td>
<td>$16,284.2</td>
<td>1.27%</td>
</tr>
<tr>
<td>2021</td>
<td>23.72</td>
<td>23.02</td>
<td>25.66</td>
<td>18</td>
<td>0.36</td>
<td>18.19%</td>
<td>$225.9</td>
<td>$17,068.4</td>
<td>1.32%</td>
</tr>
</tbody>
</table>

*Benchmark: Russell 3000 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 All Cap Equity Composite has had a performance examination for the periods 12/31/2007 - 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 All Cap Equity Composite was created and inceptioned on 12/31/2007. These accounts primarily invest in small, medium and large capitalization US equities.

The FMI All Cap Equity Composite reflects time-weighted and asset-weighted returns for all discretionary accounts. From December 31, 2007 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 and custodial fees 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 All Cap Equity Composite portfolios is as follows:

- Up to $25,000,000: 0.65%
- $25,000,001-$50,000,000: 0.55%
- $50,000,001-$100,000,000: 0.50%
- $100,000,001 and above: 0.45%

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 mutual funds are available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

The Russell 3000 Index® measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. The All Cap Equity composite uses the Russell 3000 Index® as its primary index comparison.

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