

Fiduciary Management, Inc.

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Quarterly Review – September 30, 2018

FMI Small Cap Equity

Performance	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
Small Cap (Gross)	3.23%	4.44%	8.18%	14.12%	10.21%	12.01%	14.23%
Russell 2000 Index	3.58%	11.51%	15.24%	17.12%	11.07%	11.11%	11.09%

Inception: January 1, 1980

Performance is preliminary and subject to reconciliation.

Investment Philosophy:

Purchase durable business franchises that are selling at a discount to their intrinsic value.

Investment Process:

We utilize a business owner's approach to investing, thoroughly investigating the economics of the business and the quality of the management team. Some of the characteristics of good businesses include strong recurring revenue and attractive returns-on-invested capital (ROIC). We have a strong orientation to low absolute or relative valuation, which are key to the execution of our investment strategy. A new idea will come from a variety of sources including company visits, screens, conferences, trade periodicals and general reading. All members of the research team are responsible for fundamental research.

Once an investment opportunity is identified it is put through an extensive due diligence process, which typically includes management interviews and site visits. When an acceptable level of conviction is achieved, the appropriate weighting (considering liquidity, valuation, etc.) is discussed and determined. A new company purchased in the portfolio will usually have an initial position size of 1-3%. The portfolio generally consists of 40-50 companies and is well diversified across sectors.

We are long-term investors, a typical holding period for our companies is three to five years, and portfolio turnover averages 20-40% per annum.

Top 10 – Portfolio Holdings:

Genpact, Ltd.	4.3%
Carlisle Companies Incorporated	4.1%
Avery Dennison Corp.	3.9%
Graham Holdings Co.	3.8%
Armstrong World Industries, Inc.	3.7%
FirstCash, Inc.	3.3%
Interpublic Group of Companies, Inc.	3.2%
White Mountains Insurance Group Ltd.	3.1%
Woodward, Inc.	3.0%
Allscripts Healthcare Solutions, Inc.	2.9%

Portfolio Characteristics: (1)

P/E Ratio (trailing one year)	20.8x
FY1 P/E Ratio (forward 4 quarters)	18.4x
P/S Ratio	1.7x
P/B Ratio	2.7x
EV/EBITDA Ratio	10.7x
Number of Holdings	35
Active Share	99%

Recent Purchase:

WABCO Holdings, Inc. Ticker: **WBC** Added: **August 2018**

WABCO manufactures and sells advanced braking, suspension, steering, transmission automation, and air management systems primarily for commercial trucks, trailers and buses. WABCO's revenue consists of 76% from original equipment manufacturers (OEM's) and 24% from aftermarket parts and service. WABCO's products improve safety and/or efficiency of the end products while reducing total cost of ownership. For example, a tractor-trailer equipped with applicable WABCO products can increase fuel economy up to 20% while reducing emissions. Due to under-penetration of its products and growth in emerging markets, WABCO has easy-to-understand secular drivers that allow it to grow at multiples of the trucking end market. WABCO is also actively marketing products for next generation technologies around autonomous driving and electrification. WABCO's share price has come under pressure over the last six months due to fears about peaking commercial truck markets, along with supply chain bottlenecks, which have hurt production levels. On a FY1 P/E basis WABCO trades at one standard deviation below its 5-year average, and below its longer-term averages. This has given us the opportunity to invest in a high-quality business that grows above the market at a discounted valuation. We initiated a 1.0% position in August 2018.

Recent Sale:

MEDNAX, Inc. Ticker: **MD** Sold: **July 2018**

MEDNAX, through its subsidiaries, is a leading national medical group providing physician services including neonatal, anesthesia, maternal-fetal, teleradiology, pediatric cardiology and other pediatric subspecialty care. We had invested in MEDNAX at the end of 2016 as we believed the company was mostly through a steep margin deterioration in their business after several years of higher utilization and growth from the Affordable Care Act. We anticipated an eventual stabilization in their payor mix, a gradual pick-up in growth, followed by a recovery in their margins. While it still looks like MEDNAX could see some margin recovery, we believe the company will ultimately recover less margin and it will take longer. More importantly, we are concerned about MEDNAX's recent (2018) contract disputes with two North Carolina-based anesthesiology groups. We decided to make MEDNAX a source of funds rather than wait and see if these contract disputes reflect a broader trend for the company. We sold our 1.6% position in July 2018.

Portfolio Management Committee (PMC) Research Team

Jonathan T. Bloom, CFA	✓
John S. Brandser	
Patrick J. English, CFA	✓
Matthew J. Goetzinger, CFA	✓
Robert M. Helf, CFA	✓
Benjamin D. Karek	✓
Andy P. Ramer, CFA	✓
Daniel G. Sievers, CFA	✓
Matthew T. Sullivan, CFA	✓
Jordan S. Teschendorf, CFA	✓

Please note disclosure footnote on reverse side.

⁽¹⁾ Estimated valuations are based on a representative account from the FMI Small Cap Equity Composite, and are weighted average calculations, not reweighted to exclude cash, and financial companies are excluded from the EV/EBITDA calculation. Valuations for the portfolio are modified based on criteria identified by FMI. For more detailed information regarding these valuations, please contact FMI.

Fiduciary Management Inc.
Small Cap Equity Composite
12/31/2006 - 12/31/2017

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			
2007	-0.92	-1.72	-1.57	161	0.85	n/a	n/a	\$ 1,520.2	\$ 3,960.4	38.39%
2008	-21.06	-21.69	-33.79	145	1.16	n/a	n/a	\$ 1,212.4	\$ 4,062.5	29.84%
2009	35.72	34.56	27.17	165	0.97	n/a	n/a	\$ 2,004.6	\$ 7,008.9	28.60%
2010	23.45	22.43	26.85	170	0.48	n/a	n/a	\$ 2,477.7	\$ 9,816.0	25.24%
2011	5.64	4.79	-4.18	179	0.34	21.17%	24.99%	\$ 2,523.2	\$ 12,273.6	20.56%
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%

*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. (FMI) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. FMI has been independently verified for the periods 12/31/1993 - 12/31/2017. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Small Cap Equity composite has been examined for the periods 12/31/1993 - 12/31/2017. The verification and performance examination reports are available upon request. Benchmark returns are not covered by the report of independent verifiers.

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 \$25.3 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 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®.

Currently, the advisory fee structure for the FMI Small Cap Equity Composite portfolios is as follows:

Up to \$25,000,000	0.90%
\$25,000,001-\$50,000,000	0.85%
\$50,000,001-\$100,000,000	0.75%
\$100,000,001 and above	0.65%

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 is 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.