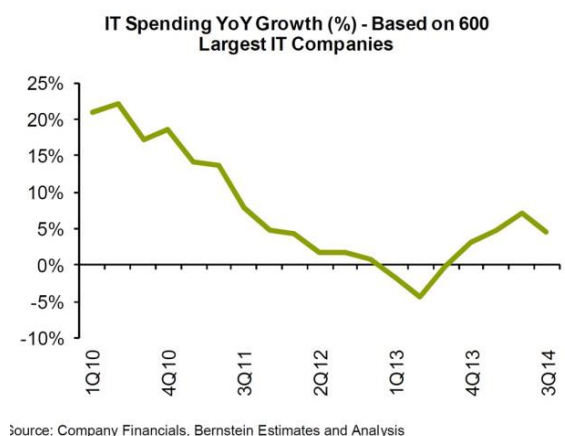
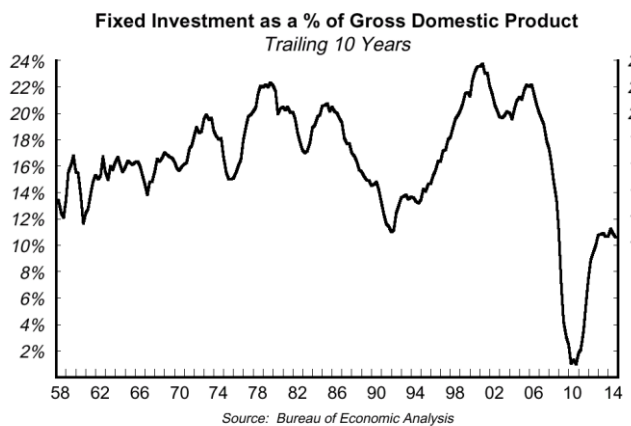


**INVESTMENT STRATEGY OUTLOOK – SMALL CAP EQUITY**

December 31, 2014

The FMI Small Cap portfolios gained about 5.1% in the quarter ended December 31, 2014. For the calendar year, the portfolios were up approximately 8.0%. This compares to the quarter and calendar year return in the Russell 2000 Index of 9.73% and 4.89%, respectively. For the quarter, Energy Minerals, Industrial Services and Commercial Services drove group performance. Being underweight the energy-related sectors helped, along with positive contribution and good relative performance from Unifirst, Graham Holdings and Genpact. On the downside, Finance, Health Technology (primarily due to underweighting in biotechnology) and Producer Manufacturing all detracted from sector performance. Cullen/Frost Bankers, Kennametal and Kirby lagged in the December quarter. Higher-than-typical cash levels also hurt this quarter and the calendar year.

By most measures the economy has improved since the disastrous first quarter. Real Gross Domestic Product (GDP) growth was near 4.6% in the second quarter, 5.0% in the third quarter, and is estimated to be near 3% in the fourth quarter. Employment has continued to rebound from the bottom, although total employment is still below the prior peak of 2007 (see the table on Page 2) and the country has 15 million more people. Recently most measures of unemployment are better and labor has continued to be modestly more productive, as roughly the same number of people today are generating about 20% higher nominal GDP relative to 2007, but only slightly higher on an inflation-adjusted basis. The rate of labor productivity has slowed significantly over the past decade and further good gains in the economy might be hard to come by if fixed investment does not improve. The age of our capital stock is at an all-time high, owing to weak investment. The past decade has been abysmal with respect to fixed investment. We understand that there is more to the investment equation than just capital expenditures. We have also reviewed Research & Development spending and find little evidence to suggest that this is increasing.



We will take the better economy for now, however, and the possible assist from lower oil prices, but we also caution investors against thinking that money printing and deficit spending is the pathway to long-term prosperity. The Eurozone and Japan have had little success with a similar approach, with both regions experiencing negative or little growth; and several other major economies have employed Keynesian policies to stimulate growth with little effect on their GDP, and great damage to their collective balance sheets. Most of the major economies of the world

are in need of structural reform, primarily lower government spending, lower and simpler tax rates, pension and entitlement reform, and elimination of tax deductions.

Date	Outstanding US Government Debt (\$ Billions)	GDP (\$ Billions)	Debt/ GDP	Federal Spending (\$ Billions)	Federal Reserve Balance Sheet (\$ Billions)	Total Employment (Thousands)	U.S. Population (Millions)
9/30/2014	17,824.07	17,555.20	101.5%	3,777.80	4,459.05	119,287	317.00
9/30/2013	16,738.18	16,872.30	99.2%	3,454.23	3,734.02	116,883	316.13
9/30/2012	16,066.24	16,268.90	98.8%	3,538.27	2,806.19	115,229	313.91
9/30/2011	14,790.34	15,587.10	94.9%	3,603.06	2,854.23	112,523	311.59
9/30/2010	13,561.62	15,057.70	90.1%	3,456.21	2,301.87	111,915	308.75
9/30/2009	11,909.83	14,384.10	82.8%	3,517.68	2,144.16	111,513	307.01
9/30/2008	10,024.72	14,843.00	67.5%	2,982.55	1,213.91	119,724	304.06
9/30/2007	9,007.65	14,569.70	61.8%	2,728.70	893.69	121,232	301.62
9/30/2006	8,506.97	13,908.50	61.2%	2,655.06	853.98	120,308	299.40
9/30/2005	7,932.71	13,205.40	60.1%	2,471.97	826.16	117,355	296.51
9/30/2004	7,379.05	12,367.70	59.7%	2,292.85	787.61	114,854	293.64
9/30/2003	6,783.23	11,625.10	58.3%	2,159.91	742.08	113,208	290.80
9/30/2002	6,228.24	11,037.10	56.4%	2,010.91	681.58	113,433	288.13
9/30/2001	5,807.46	10,639.50	54.6%	1,862.91	638.32	113,165	285.23
9/30/2000	5,674.18	10,357.40	54.8%	1,788.96	583.12	113,986	281.42

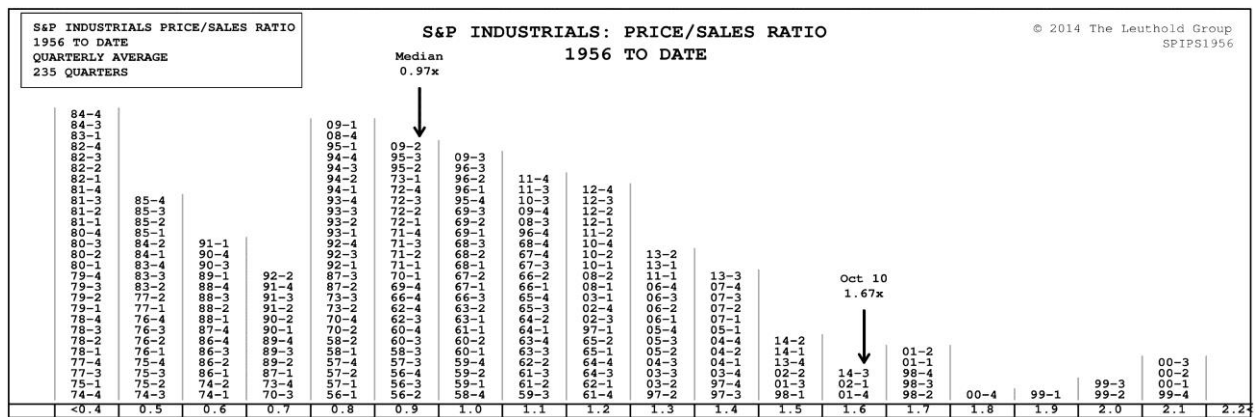
Source: Bloomberg

The significant decline in oil prices this year has some predicting a huge boost to the economy, but the counter argument is that the U.S. oil shale boom has been one of the strongest drivers of our recent relative economic success, including employment growth. Lower energy costs certainly help the consumer and some industries with high energy input costs, but there are substantial give-backs on the producer side.

We recently ticked past the 69<sup>th</sup> month since the stock market bottomed on March 9, 2009. On a total return basis since this date, large cap stocks, as measured by the S&P 500, have gained 244.2%, while small cap stocks, using the Russell 2000 Index as a proxy, have appreciated 279.9%. On a compound annual return basis, the S&P 500 and the Russell 2000 have gained 23.7% and 25.8%, respectively. Valuations have moved up smartly. Based on the average of roughly 48 different statistics, stocks have gone from roughly the median 5<sup>th</sup> decile at the bottom of the 2009 market to the 8<sup>th</sup> decile recently (10/10/14). Putting unfunded liabilities aside, over the past six years federal government debt went from \$10.02 trillion to \$17.82 trillion and the Federal Reserve has expanded its balance sheet to \$4.46 trillion from \$1.21 trillion. We won't know the ultimate ramifications of the increased spending and quantitative easing until many years pass, but at least we've got higher stock prices! A better question might be, "What have we received for the increase in debt, deficit spending and monetary stimulus?" Measured by nominal GDP, the economy has grown at 2.8% annually over the past six years and is 18.2% larger than it was at the end of 2008. Federal debt has grown \$7 trillion over this time frame, so for every incremental dollar of GDP growth, debt has increased nearly \$3.00. Federal spending has increased at a 50% higher rate than GDP growth over this period. Total employment was 119.7 million six years ago and today it is 119.3 million. Employment is up 7.77 million people from the nadir in 2009, but the cost has been \$1 million in additional debt for every worker gained. Moreover, there are 13 million more people today than six years ago, so it makes the return on investment figure even worse. Where did all of this money go? Most went to transfer payments. China also engaged in a massive debt-fueled government spending spree, but unlike the United States, they at least have some impressive infrastructure to show for it: 33 new airports, 11,000 kilometers of new high speed rail lines, 175,000 kilometers of new high voltage transmission lines, 44,000 kilometers of new highways, 6,345 new port berths, 455 gigawatts of

new power generation capacity, 210,000 kilometers of gas transmission pipelines, 1,635 kilometers of new subway systems and nearly five billion square meters of real estate.<sup>1</sup> From our perspective, the return on capital of the increased U.S. government spending and the Fed expansion has been poor, unless you measure it by stock market returns.

The extraordinary returns of the equity market in recent years, and really, over the past three decades, have seemingly dulled investors’ sense of value. We thought it would be instructive to turn back the clock to two different periods in history, the late 1999-to-early 2000 era and the late 2008-to-early 2009 time frame, and use some anecdotal data to see what your money could buy then and compare it to today. The late 1999-to-early 2000 market is widely regarded as the most expensive stock market in modern history. By way of example, the S&P Industrials price-to-sales ratio, the most reliable and consistent valuation metric we know, was 2.1 at this time compared to a median of 0.97 since 1956. Many people consider late 2008 and early 2009 as a period when stocks were cheap. The data suggests we were at about the median of long-term valuation measures, but we will use this period as a proxy for “cheap” in this analysis. The S&P Industrials price-to-sales ratio was 0.8 at the bottom of the 2009 market. The S&P 500 had just come down 50% and fear was certainly in the air.



Sigma-Aldrich, a global chemical supplier, has been a blue chip company with a pristine balance sheet, consistent growth and high margins for over thirty years. In the 2008-2009 “cheap” market, Sigma-Aldrich traded at 2.2 times sales, 14.6 times earnings and had an EV/EBITDA ratio of 8.7 (EV is the Enterprise Value, which is the market value plus the debt minus the cash, and EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization). In the “expensive” 1999-2000 market, Sigma-Aldrich traded at 2.1 times sales, 14.9 times earnings and 8.2 times EBITDA. Merck of Germany recently announced the buyout of Sigma-Aldrich at 5.3 times sales, 31.2 times earnings and 18.3 times EBITDA. This is not a misprint. Even before the deal was announced, Sigma-Aldrich traded at 4.3 times sales, 24 times earnings and 14 times EBITDA. Dentsply International, the leading dental products manufacturer in the world, has also been long considered a blue chip enterprise. In the 2008-2009 “cheap” market, Dentsply traded at 1.9 times sales, 14.5 times earnings and 9.3 times EBITDA. In the “expensive” 1999-2000 market, Dentsply sold at 1.9 times sales, 14.8 times earnings and 9.6 times EBITDA. Today, Dentsply trades at 2.7 times sales, 22.0 times earnings and 15 times EBITDA. These examples are not at all unusual; there are literally hundreds of similar anecdotes; we chose these two because they are the types of companies that we most like to own due to their recurring revenue business models, solid return characteristics and defensiveness. Unfortunately, today’s market puts these businesses and many others beyond reach for a value-oriented, high-quality business franchise seeker. It is hard for us to see how anyone buying these kinds of businesses at today’s prices could earn an adequate rate of return.

<sup>1</sup> Sanford Bernstein, November 2014.

There is an important element to be noted as you ponder the preceding paragraph. It has been discussed in prior letters and bears repeating here. The “expensive” market of 1999-2000 was not wildly different for the non-technology/telecom investor than the “cheap” market of 2008-2009. Recall that the late 1990s tech and telecom boom had an enormous influence on the market capitalization weighted averages (S&P 500, Russell 2000, Nasdaq, etc.). It was pretty much “business as usual” outside of these wildly inflated groups. Compared to today, we had little trouble building a portfolio of solid values, not unlike the names mentioned above. For the steady, strong balance sheet companies, the “cheap” market did not look too much different than the “expensive” market. Financials, housing-related stocks and deeper cyclical companies were clobbered in the 2008-2009 market. Those same groups have, for the most part, been the big winners coming out of the bottom of that market. As this bull market has aged, more speculative stocks joined the party. Social media and biotechnology are the two most visible examples of this, and valuations of these stocks are reminiscent of the late 1990s.

Until high-quality businesses are offered again at truly cheap prices, we have to content ourselves with owning high-quality businesses at somewhat elevated prices. Our stocks trade at a significant discount to the benchmarks so the relative story is still as strong as ever. We will be surprised, however, if absolute returns over the next five years are anywhere close to those of the past five years. The increased volatility that we have seen in the fourth quarter may be a harbinger of things to come, perhaps giving us more opportunities to maneuver in 2015. An investment letter we read recently that was discussing the rapid and steep drop in oil prices, quoted the renowned German economist, Rudiger Dornbusch: “In economics things take longer to happen than you think they will, and then happen much quicker than you thought they could.” History shows this also applies to stock markets.

Thank you for your confidence in Fiduciary Management, Inc.

**Fiduciary Management Inc.**  
**Small Cap Equity Composite**  
**12/31/2003 - 09/30/2014**

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			
2004	20.92	20.02	18.33	181	1.00	n/a	n/a	\$ 1,486.6	\$ 3,085.8	48.18%
2005	11.12	10.26	4.55	186	0.69	n/a	n/a	\$ 1,605.8	\$ 3,174.4	50.59%
2006	18.46	17.56	18.37	147	0.73	n/a	n/a	\$ 1,606.8	\$ 3,589.4	44.77%
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%
Q1 2014	2.21	1.99	1.12	180	0.16	12.85%	16.55%	\$ 2,900.3	\$ 19,764.3	14.67%
Q2 2014	5.35	5.13	2.05	179	0.22	12.84%	16.74%	\$ 3,115.5	\$ 20,679.0	15.07%
Q3 2014	-4.60	-4.81	-7.36	178	0.14	11.41%	15.00%	\$ 2,912.9	\$ 19,890.9	14.64%

\*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 - 09/30/2014. 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 -09/30/2014. 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 \$19.8 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.