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FMI Shareholder Letter
September 30, 2024

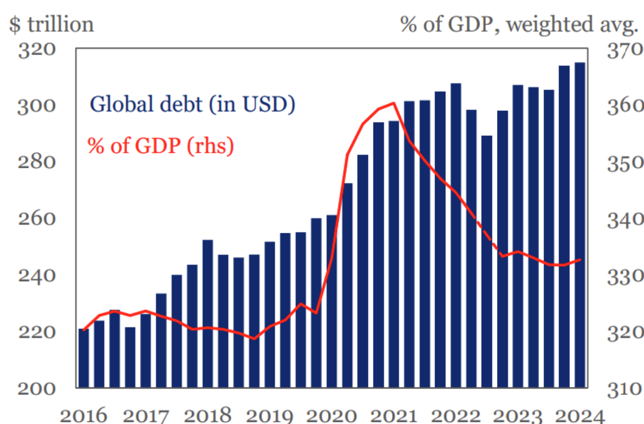
Dear Fellow Shareholders:

Domestic and international equity markets rose in the September quarter, capping off an exceptional run over the past 12 months (fiscal year). With gains of 36.35% in the S&P 500 Index, 26.76% in the Russell 2000 Index, and 24.77% in the MSCI EAFE Index (USD), the indices far outpaced historical average returns. Inflation has moderated and several central banks have started easing, with the Federal Reserve (Fed), European Central Bank (ECB), and Bank of England (BoE) each cutting interest rates. Investors celebrated the accommodations, pushing already stretched valuations to new heights.

As we take a step back, we are struggling to reconcile the stock market euphoria with much of the fundamental backdrop. That said, there are always going to be relative and absolute values in the market, and it is our job to find these regardless of the environment. We welcome volatility in the days, weeks, and months ahead, as it creates compelling long-term opportunities for the portfolios. While there are certainly pockets of strength in the global economy, such as those entities with exposure to mega cap tech (artificial intelligence/AI), obesity drugs, infrastructure, and defense spending (among the top-performing themes in the U.S. and Europe in 2024), there is also evidence building on the negative side of the ledger.

In the U.S., the unemployment rate has risen to 4.2% (from 3.7% in January), and GDP growth is expected to slow to 1.6% in 2025 (from 2.6% in 2024), according to OECD forecasts. Housing, manufacturing, transportation, technology (outside of AI capital expenditures) and discretionary spending have weakened. The low-income consumer is under significant pressure, as several years of steep inflation have taken a toll. Excess savings have been depleted and credit delinquencies, while still low by historical standards, are on the rise. Overseas, the economic backdrop is also softening. The ECB recently cut their growth forecasts for each of the next three years, with subpar household consumption and a slump in manufacturing weighing on demand. In Japan, growth is expected to *shrink* in 2024 before recovering modestly. China launched several stimulus programs to try to reinvigorate growth that has slowed.

Total global debt stock at record $315 trillion



Source: IIF Global Debt Monitor

Meanwhile, geopolitical risks remain high, with an expanding conflict in the Middle East, no end in sight for the Russia/Ukraine war, and aggressive Chinese posturing toward Taiwan. By the end of 2024, it will have been an election year for half of the world's GDP, creating further consternation. In the interim, government deficits are ballooning, and debt levels are hitting new all-time highs. As shown in the chart on the right, global debt reached $315 trillion this year, *up almost $100 trillion since 2016.*

Unfortunately, equity markets do not appear to be accounting for global risks or external shocks.

Valuations are seemingly priced for perfection, as earnings growth has not kept up with stock prices, leaving little margin for error. We have highlighted the S&P 500 characteristics in several prior shareholder letters, which in essence has become a concentrated growth index driven by a handful of anointed companies. Many S&P 500 multiples are in the 10th decile (most expensive) of historical valuation, with several metrics virtually unrecognizable from their long-term norms (see below):

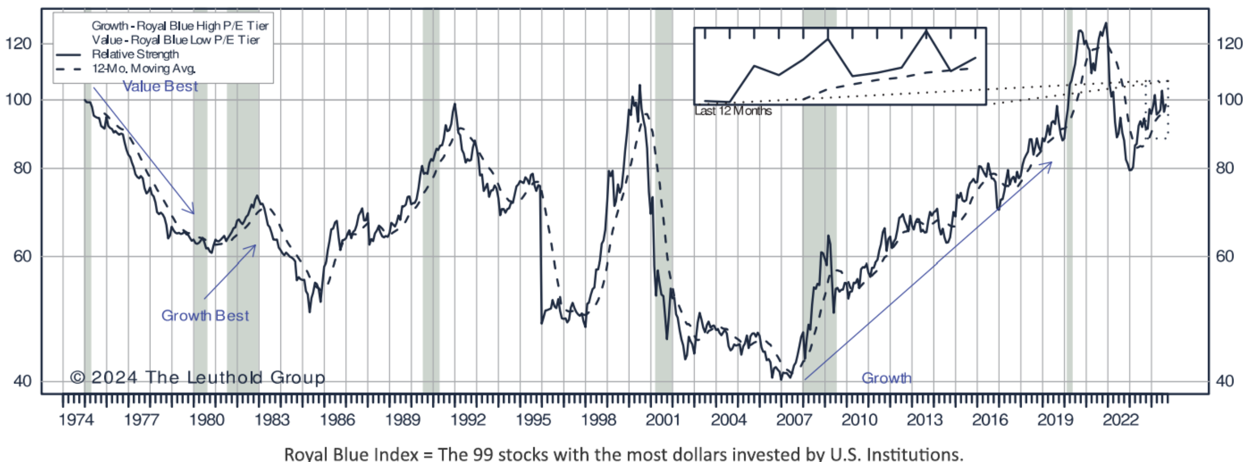
S&P 500 Valuation Metrics in 10th Decile of Historical Valuation	Latest*	Average	Premium vs. Historical Average
S&P 500: P/E Ratios - Trailing 12 Month Operating Earnings, 1926 To Date	26.2x	16.0x	64%
S&P 500: P/E Ratios - Normalized (5 Year Average Earnings), 1926 To Date	31.5x	18.1x	74%
S&P 500: P/E Ratios - Normalized (10 Year Average Earnings), 1935 To Date	39.4x	21.0x	88%
S&P 500: P/E Ratios - Normalized by 5 Year Return on Equity, 1930 To Date	30.3x	16.8x	80%
S&P 500: Book Value Ratio, 1926 To Date	4.7x	2.0x	135%
S&P 500: Cash Flow Ratio 1946, to Date	17.5x	9.7x	80%
S&P 500: Yields 1926 To Date	1.3%	3.6%	177%
S&P 500 Index as a Percentage of GDP, 1957 To Date	19.5%	9.0%	117%
# of Hours of Work Required to Purchase One S&P 500 Unit, 1947 To Date	201.1	51.0	294%
S&P 500 Divided by the Price of Oil, 1945 To Date	67.4	24.0	181%

**Latest readings as of July 12, 2024* — *Source: The Leuthold Group*

Has U.S. economic growth justified this optimism? Will it in the future? U.S. GDP growth has been below average since the Great Financial Crisis, and with high debt burdens and difficult demographics, projected growth would not seem to warrant near all-time high valuations.

Not surprisingly, growth has outperformed value across the board in the current fiscal year, with the gap most acute in U.S. Large Cap, where the Russell 1000 Growth Index gained 42.19% versus 27.76% for the Value. As can be seen in the 50-year chart below, growth has been on a tear since 2007, after lagging by a significant margin from 1974-2007. It's important to remember that markets can move in *very long* cycles, but trees (and growth stocks) do not grow to the sky. We are confident value investing will have a strong resurgence in the fullness of time, as valuation and risk aversion will eventually return to the forefront.

Growth vs. Value Relative Performance



Royal Blue Index = The 99 stocks with the most dollars invested by U.S. Institutions.

Despite nosebleed valuations, investors continue to pile into the U.S. stock market, chasing performance. Greed and a fear of missing out will likely lead to steady buying all the way to the eventual tipping point.

As detailed in the August 2nd *Grant's Interest Rate Observer*, "Inflows into passive growth funds in 2024 [are] on pace to double vs. 2023, which was already the highest year on record." Per J.P. Morgan, stock allocations in U.S. households recently accounted for 42% of their total financial assets, the most on record dating back to 1952. Risk appetites appear to be showing no signs of abating.

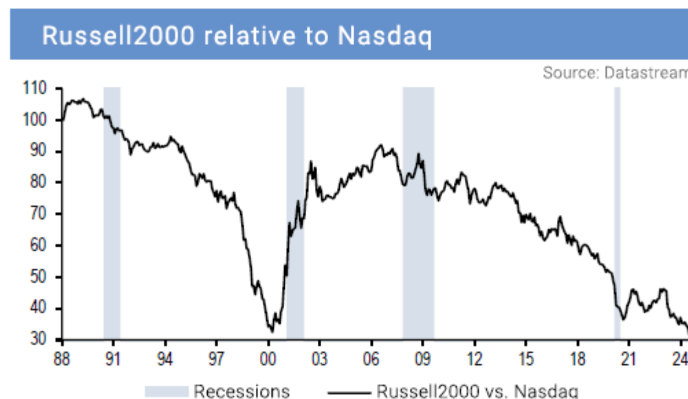
As the market seemingly celebrates new daily record highs, it feeds off a never-ending obsession with the Fed's every move. It's widely accepted that rate cuts are good news for the economy and stock market. We have a different perspective. As we wrote in our September 2022 letter: "Did the move from '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 weak over the ensuing 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." We do not believe you can cut your way to prosperity.

There Are Still Values to be Had

Our long-time readers know that FMI has typically lagged in more speculative-driven bull markets (similar to today's) and outperformed in more challenging environments, a direct result of our valuation framework, focus on business quality, and balance sheet strength. Many investors today have never seen an extended bear market, and repeatedly have been rewarded for buying the dip. At some point this dynamic will change, as will risk tolerance. In the meantime, we will remain cautious, trying to find the best available values amidst the opportunity set.

While valuations are elevated across market caps and geographies, fortunately it's less extreme outside of U.S. mega cap technology. Compared with the Magnificent Seven (Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta Platforms), the other 493 stocks in the S&P 500 trade at ~31% lower valuations, using a basket of metrics. The FMI Large Cap Fund trades at a ~27% and ~48% discount to the 493 and Magnificent Seven, respectively, for what we believe are well-run, above-average businesses[1].

For comparison, profitable small cap companies in the U.S. trade near their widest discount to large caps in over 40 years, aside from the 2000 tech bubble. In recent years, incredible gains and concentration in the technology sector have been a key large cap driver. With the Nasdaq Composite index (a proxy for technology) gaining 44.70% in 2023 and 21.84% in the first nine months of 2024, small cap companies (and nearly everything else) have failed to keep pace. As illustrated in the chart below, make no mistake that this dynamic can flip in a hurry, something tech investors from 2000 would like to – and seem to currently – forget.



The FMI Common Stock Fund has had a very strong run in recent years but gave up some modest ground in the most recent quarter, as money-

losing companies and financials (lower quality and/or highly levered) drove the Russell 2000. We estimate that the FMI Common Stock Fund trades at a ~37% discount to the Russell 2000[1]. We feel great about the fund's relative positioning when compared to the subpar business quality throughout the benchmark.

While still high from a historical perspective, overseas stock valuations are not nearly as egregious as their American counterparts. Many comparable companies in Europe and Asia trade at meaningful discounts to U.S. peers. The table below illustrates this dynamic, with a collection of international companies trading at average and median discounts of 31% and 44%, respectively on an EV/Sales basis.

International Company	Ticker	EV/Sales (LTM)	vs.	Domestic Company	Ticker	EV/Sales (LTM)
Reckitt Benckiser Group plc	RKT-GB	3.2		Procter & Gamble Company	PG	5.1
Essity AB Class B	ESSITY.B-SE	1.6		Kimberly-Clark Corporation	KMB	2.4
Siemens Aktiengesellschaft	SIE-DE	1.9		Emerson Electric Co.	EMR	4.1
Makita Corporation	6586-JP	1.4		Stanley Black & Decker, Inc.	SWK	1.4
Airbus SE	AIR-FR	1.6		Boeing Company	BA	2.5
Air Liquide SA	AI-FR	3.7		Air Products and Chemicals, Inc.	APD	5.8
Nippon Paint Holdings Co., Ltd.	4612-JP	2.2		Sherwin-Williams Company	SHW	4.0
SAP SE	SAP-DE	4.6		Oracle Corporation	ORCL	7.6
Experian PLC	EXPN-GB	6.2		Equifax Inc.	EFX	6.9
Fresenius Medical Care AG	FME-DE	1.2		DaVita Inc.	DVA	1.8
Novartis AG	NOVN-CH	4.6		Merck & Co., Inc.	MRK	5.1
Sodexo SA	SW-FR	0.7		Aramark	ARMK	0.8
Smith & Nephew plc	SN-GB	2.6		Stryker Corporation	SYK	6.1
Kerry Group Plc Class A	KRZ-IE	1.9		International Flavors & Fragrances Inc.	IFF	2.7
Heineken Holding N.V.	HEIO-NL	1.7		Anheuser-Busch InBev SA/NV	BUD	3.6
Danone SA	BN-FR	1.7		General Mills, Inc.	GIS	3.1
WPP Plc	WPP-GB	0.9		Omnicom Group Inc	OMC	1.4
Adecco Group AG	ADEN-CH	0.4		ManpowerGroup Inc.	MAN	0.3
InterContinental Hotels Group PLC	IHG-GB	3.7		Marriott International, Inc. Class A	MAR	3.4
adidas AG	ADS-DE	1.7		NIKE, Inc. Class B	NKE	3.3
Canadian National Railway Company	CNR-CA	7.6		Union Pacific Corporation	UNP	7.6
Deutsche Lufthansa AG	LHA-DE	0.4		Delta Air Lines, Inc.	DAL	0.8
DAIKIN INDUSTRIES, LTD.	6367-JP	1.4		Carrier Global Corp.	CARR	2.4
Schindler Holding Ltd.	SCHN-CH	1.6		Otis Worldwide Corporation	OTIS	3.0
Bridgestone Corporation	5108-JP	1.0		Goodyear Tire & Rubber Company	GT	0.6
	Average	**2.4**			**Average**	**3.4**
	Median	**1.7**		*Source: FactSet as of 9/30/2024*	**Median**	**3.1**

Last quarter, we questioned whether the Japanese market had gotten a bit ahead of itself. On cue, the Nikkei 225 Index came under pressure in the September quarter, and much of the headwind we faced earlier in the year from our significant underweight in Japan has abated. The FMI International Fund continues to trade at a discount to the MSCI EAFE Index.

With heightened risks and demanding valuations, prudence and patience is warranted. Our shareholders can take comfort that FMI has a long history of downside protection in more difficult markets. We expect that our discipline will pay dividends when those who have been less discerning and chasing returns ultimately face the music, which is playing louder with each passing quarter.

Listed below are a few portfolio holdings where we see attractive absolute and relative values:

Arrow Electronics Inc. (ARW) – FMI Common Stock Fund

Arrow is a distributor of electronic components and enterprise computing solutions. As a distributor, the company benefits from global technology growth without being directly exposed to technology inventor's risk. Arrow has a diversified set of vendors, customers, and end-markets, as the company serves over 100,000 customers in 85 countries, including thousands of value-added resellers (VARs). No single customer accounts for more than 2% of sales, and their biggest supplier accounts for 10% of sales. The company has performed well over the long-term, growing sales while earning a return on invested capital (ROIC) that exceeds its cost of capital. Today, Arrow trades near its historical P/E multiple, yet earnings are depressed due to lower technology spending. Additionally, the company trades at a little over book value, which is below its historical average. While there is some cyclicality in Arrow's end markets, we like the counter-cyclical free cash flow profile of the business combined with management's capital allocation priorities. The company has been advantageously repurchasing its stock, helping earnings per share to increase at attractive rates that are much higher than operating profits. Over the past five years, shares outstanding have decreased significantly, with EPS compounding in the teens. The valuation multiples are attractive given the business quality and growth prospects.

Berkshire Hathaway Inc. (BRK/B) – FMI Large Cap Fund

Berkshire Hathaway is a diversified holding company that owns subsidiaries in insurance and reinsurance, freight rail transportation, utilities, energy, manufacturing, services, retail, and finance. Chairman, controlling shareholder, and famed investor Warren Buffett uses the permanent capital base of the large insurance assets – along with disciplined underwriting standards – to drive value-added investments that compound shareholder returns over time. From its inception in 1965 through 2023, Berkshire's market value has increased at an annual growth rate of 19.8% vs. 10.2% for the S&P 500. Berkshire's primary assets are its large insurance businesses, including GEICO, General Re, and National Indemnity, which we estimate at ~35% of the company's value. The enduring competitive advantages of Berkshire's insurance assets have allowed it to increase its float at a higher rate than its peers and provide low-cost funding for a strong collection of operating businesses, including BNSF Railroad, McLane Foodservice, Pilot Travel, Marmon Industries, Dairy Queen, and many others. On conservative estimates, we believe the company is trading at over a 20% discount on a sum-of-the-parts basis, and carries a mid-teens earnings multiple when factoring in a healthy net cash position and look-through EPS from its public equity portfolio. In an expensive market, we find the valuation to be significantly more appealing than the S&P 500. We expect a combination of strong operations and value-added acquisitions to increase the intrinsic value of the company at an above-average rate going forward.

Informa PLC (INF LN) – FMI International Funds

Informa is a leader in corporate events and operates an attractive core business in organizing and operating industry trade shows across the globe. The firm has grown through both organic and inorganic show development, building defensible positions serving attractive industry niches. Informa's competitive advantages stem from the network effects inherent to its flagship offerings, scale advantages in procurement, and venue access that the firm enjoys over smaller rivals. As the events business continues to normalize post-pandemic, we expect a period of above-normal revenue growth and margin expansion to persist over the coming years. On a normalized basis, the firm's financial profile is characterized by mid-single-digit revenue growth and low-double-digit EPS growth. We believe there is plenty of room for Informa to continue to take share in this highly fragmented global market, with management's shifting capital allocation priorities providing a kicker to shareholder returns. A more conservatively managed balance sheet, consistent share buyback activity, and a resumption of its growing dividend have been welcome developments as the firm emerges from the industrywide shock caused by the pandemic. We

were able to purchase shares at a mid-teens earnings multiple, which we believe undervalues the through-cycle growth potential available at this high-quality franchise.

Thank you for your continued support of Fiduciary Management, Inc.

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[1]Estimated valuations are calculated utilizing iShares ETF constituent level data as index level proxies. Calculations are based on the estimated valuations by looking at the average discount to the weighted average valuations as of 9/30/2024 for the trailing 1-year Price-to-Earnings Ratio, Fiscal Year One Price-to-Earnings Ratio, Fiscal Year Two Price-to- Earnings Ratio, Price-to-Sales Ratio, and Price-to-Book Ratio. Valuations are adjusted based on criteria identified by FMI. For more information, please contact FMI.

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.

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.

As of the Funds' Prospectus dated January 31, 2024, the annual operating expense ratios for the Investor Class of FMI Large Cap Fund, FMI Common Stock Fund and FMI International Fund are: 0.84%, 1.00% and 0.94%, respectively. The annual operating expense ratios for the Institutional Class of FMI Large Cap Fund, FMI Common Stock Fund, FMI International Fund and FMI International Fund II – Currency Unhedged are: 0.71%, 0.88%, 0.80% and 0.90%*, respectively.

* Note that the annual operating expenses for the Institutional Class of FMI International Fund II – Currency Unhedged are 1.14% before the investment adviser's voluntary reimbursement such that annual fund operating expenses do not exceed 0.90%, which will continue at least through January 31, 2025.

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.

For details regarding these risks, please refer to the Funds' Summary or Statutory Prospectuses dated January 31, 2024.

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 iShares Russell 1000 Value ETF seeks to track investment results of an index composed of large- and mid-capitalization U.S. equities that exhibit value characteristics. Performance is compared to the iShares Russell 1000 Value ETF for illustrative purposes only. The metrics regarding the comparative ETF have been obtained from Bloomberg and the returns are calculated assuming all dividends are reinvested. The ETF is not subject to the same fees or expenses as the Fund. The Fund is not restricted to investing in those securities which comprise the ETF. The Fund's performance may or may not correlate to the ETF, and it should not be considered a proxy for the ETF.

The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index. The Russell 1000 Value Index includes equities that exhibit value characteristics and the Russell 1000 Growth Index includes equities that exhibit growth characteristics.

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.

MSCI EAFE is a service mark of MSCI Barra.

The Nasdaq Index is a market capitalization-weighted index of more than 2500 domestic and international stocks listed on the Nasdaq Stock exchange that is heavily weighted toward the technology sector.

The Nikkei 225 Index is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange. The Nikkei is equivalent to the Dow Jones Industrial Average (DJIA) Index in the United States.

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

EPS – Earnings Per Share is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability. It is common for a company to report EPS that is adjusted for extraordinary items and potential share dilution. The higher a company's EPS, the more profitable it is considered to be.

FCF - Free Cash Flow represents the cash that a company generates after accounting for cash outflows to support its operations and maintain its capital assets.

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

M&A - Mergers and Acquisitions refers to the consolidation of companies or their major business assets through financial transactions between companies. A company may purchase and absorb another company outright, merge with it to create a new company, acquire some or all of its major assets, make a tender offer for its stock, or stage a hostile takeover. All are M&A activities.

P/B Ratio - Price-to-Book Value Ratio reflects the value that market participants attach to a company's equity relative to the book value of its equity. Many investors use the P/B ratio to find undervalued stocks.
P/C Ratio - price-to-cash flow ratio is a stock valuation indicator or multiple that measures the value of a stock's price relative to its operating cash flow per share. The ratio uses operating cash flow (OCF), which adds back non-cash expenses such as depreciation and amortization to net income.

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.

Yield is the income returned on an investment, such as the interest from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value. An investor can look at yield as gross yield, which does not deduct taxes and expenses, or net yield, which deducts those expenditures.

Reference definitions found at Investopedia.com

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