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INVESTMENT STRATEGY OUTLOOK - ALL CAP EQUITY

Quarter Ended March 31, 2009

March 31, 2009

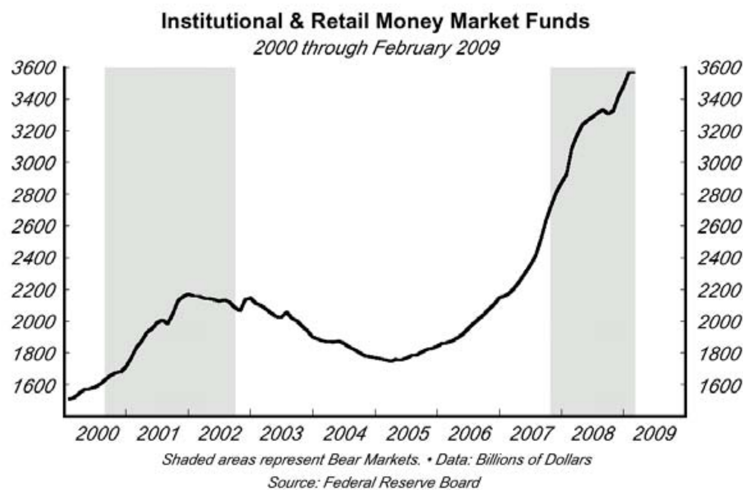
Fiduciary Management, Inc. all cap portfolios declined approximately 9.3% in the March quarter, slightly better than the minus 10.8% of the Russell 3000 Index. Finance, Distribution Services and Retail Trade were the three sectors that drove relative performance. Bank of New York Mellon, Family Dollar Stores, Best Buy and Dresser Rand Group were the standout contributors. On the down side, Health and Electronic Technology, and Technology Services, as well as Consumer Non-Durables underperformed. Protective Life, General Electric, AMN Healthcare Services and Winn-Dixie Stores all stumbled in the quarter. We have "reunderwritten" each of these companies and continue to like the risk to reward equation. We have added to a great many of our investments as prices have fallen and our optimism about their long-term prospects remains unshaken. Energy related stocks were also under severe pressure in the quarter as commodity prices fell and demand declined. This gave us an opportunity to initiate a position in Schlumberger, the leading worldwide oil service enterprise. We'll have more to say about this investment momentarily.

The stock market continued its mercurial way, recently bouncing 20% off the early March lows. This trough followed an approximate 20% gain in the last six weeks of 2008. We've now had four rallies of this magnitude over the past eighteen months, and all of them have buckled to varying degrees so far. There is, of course, no way to know when a bear market will end, but if the amount of damage is any indication, we should be awfully close. According to The Leuthold Group, the S&P 500's ten-year total return ending March 6 was negative 4.4% per year, or a cumulative loss of 36.3%. *It was the worst ten-year stretch in U.S. stock market history, including the Great Depression.*

Ten years ago, in the Securities Industry Association's annual expectations survey, 1,500 investors were asked, "How well do you generally expect your investments to perform?" The average of their responses was plus 30%! It should have come as no surprise that, after a period of unprecedented returns (late 1990s), record high valuations, and unrealistically lofty expectations (as evidenced by this survey), we were on the cusp of a very difficult period. First the tech bubble deflated; then, following a period of easy money and unsustainable credit expansion, the housing bubble popped. Jeremy Grantham, a well-known Wall Street investor, calls the 2003-07 period "the greatest sucker rally in history." As we can see from the accompanying chart, stocks have given back most of the gains from the 1990s bull market.

We've not seen any recent investment surveys but we're quite sure they would reveal very low expected returns. But talk is cheap. Ten years ago cash levels were near record lows; today cash levels are pushing toward record highs (see chart on the following page) and Treasury bill yields are near zero. Fear has metastasized to nearly every sector of the market.

Valuations were extremely high ten years ago versus quite low today. Sentiment was very positive in 1999 and today it is near a record low. History shows time and time again that low returns follow high valuations and



lofty expectations and high returns follow low valuations and pessimistic expectations. The table below depicts the ten-year annual compound returns for stocks following the fifteen worst ten-year periods in U.S. history. Following these poor returns, the lowest ten-year period compounded at 7.2% and the highest earned a 15.58% return. We believe the next ten years will fall into this range.

No two bear markets are exactly alike, however, and there is a tendency for investors to believe that "this one is really different." Today, the inability to corral so-called toxic assets, the deterioration of credit quality, a collapse in corporate earnings, growing protectionism, a political assault on business interests, and breathtaking spending initiatives under the guise of "Keynesian Economics" have investors rattled. We've analyzed a number of financial panics going back to the beginning of the 19th century; with very few exceptions, panics were characterized by periods of excessive borrowing and over-speculation in real estate, precious metals and stocks (canals, railroads, automobiles, technology). The ensuing bear markets precipitated a raft of damaging governmental actions (unintended consequences) that typically slowed or thwarted corrective market responses. Despite this, the fundamentals eventually recovered and importantly, the stock market anticipated this in advance.

Past Ten Years			10 Year ACR	Next Ten Years			Annual Compound Return	Total Return	
Q2 1929	to	Q2 1939	-3.65	Q2 1939	to	Q2 1949	8.62	128.54	
Q1 1929	to	Q1 1939	-2.79	Q1 1939	to	Q1 1949	9.12	139.36	
Q3 1929	to	Q3 1939	-2.74	Q3 1939	to	Q3 1949	7.74	110.79	
Q1 1928	to	Q1 1938	-2.54	Q1 1938	to	Q1 1948	11.76	203.87	
Q1 1930	to	Q1 1940	-1.42	Q1 1940	to	Q1 1950	9.65	151.31	
Q2 1930	to	Q2 1940	-1.42	Q2 1940	to	Q2 1950	12.19	215.88	
Q4 1928	to	Q4 1938	-0.65	Q4 1938	to	Q4 1948	7.21	100.63	← WORST
Q3 1928	to	Q3 1938	-0.10	Q3 1938	to	Q3 1948	8.12	118.31	
Q3 1930	to	Q3 1940	0.18	Q3 1940	to	Q3 1950	12.57	226.85	
Q4 1927	to	Q4 1937	0.20	Q4 1937	to	Q4 1947	9.61	150.39	
Q4 1929	to	Q4 1939	0.23	Q4 1939	to	Q4 1949	9.09	138.67	
Q2 1928	to	Q2 1938	0.44	Q2 1938	to	Q2 1948	9.52	148.39	
Q3 1964	to	Q3 1974	0.49	Q3 1974	to	Q3 1984	15.58	325.30	← BEST
Q1 1931	to	Q1 1941	0.71	Q1 1941	to	Q1 1951	14.47	286.14	
Q4 1964	to	Q4 1974	1.24	Q4 1974	to	Q4 1984	14.76	296.23	
						Average	**10.67**	**182.71**	

The Leuthold Group - March 2009

Of course we don't know exactly how this bear market will transpire. Investing is a bit of a faith-based initiative, to borrow a popular phrase. The faith is born out of a belief that capitalism and freedom will ultimately prevail. A strong work ethic and desire to "improve one's position," as Adam Smith said, will drive success. The age of the imperial CEO and boards of directors that rubber-stamp ridiculous pay packages are on the run – and should be. Unfortunately, when populism runs too hot, people lose sight of the fact that private sector businesses create the wealth, employment and tax revenue, not the government. What the government gives to Peter, it must take from Paul.

Following TARP and TALF, as part of the Financial Stability Plan (and alongside the American Recovery and Reinvestment Act), the Treasury department recently introduced the Public-Private Investment Partnership, or PPIP. *Barron's* recently quipped that PPIP should be renamed PIMP because the government is cheaply renting its balance sheet to private investors! Of course it's easy to take potshots at the confusing myriad of government bailout programs introduced over the past year, but of all of them so far, the PPIP seems to make the most sense. Without getting into the details, we think the program will help the financial system reach price discovery in the troubled assets, an important first step in the recovery process.

For the benefit of new clients, our March and September letters deal with companies, and the June and December pieces discuss macro or market related subjects in more detail. Below we have highlighted two of our investments.

General Electric Co.

Description

General Electric (GE) is one of the largest and most diversified industrial manufacturing and financial corporations. Products include aircraft engines, locomotives, power generation equipment, transmission and distribution equipment, medical diagnostic devices, bioscience assays, engineered materials, lighting and appliances. Services include engineering, installation and maintenance, repair and overhaul (MRO) activities. GE Capital offers a broad array of financial services including consumer and commercial financing, leasing, real estate financing, asset management and mortgages. GE also owns NBC Universal.

Good Business

- The company is number one or number two in nearly all of its businesses.
- GE has unparalleled global breadth and diversification.
- GE has actively increased the recurring revenue (via service contracts) across their business lines.
- Most of GE's products provide tangible economic value for customers and can generally be described as necessities rather than wants.
- The products and services are relatively easy to understand.
- GE currently has an AA rating with a neutral credit outlook.
- GE's return on invested capital (ROIC) on their industrial businesses of approximately 16% still comfortably exceeds their cost of capital.

Valuation

- The current valuation reflects an overly dire outlook. GE has recently cut their dividend and is taking the necessary steps to shore up the balance sheet.
- On a price-to-earnings (P/E) basis, the stock is approximately 10 times highly depressed earnings. The ten-year P/E range is 8.0 - 33.0.
- The book multiple is approximately 1.0, in a ten year range of 0.8 - 7.8.
- The price-to-sales ratio is 0.6 compared to the ten-year range of 0.5 - 3.5x.
- An extremely conservative valuation on GE shares is $16.00 per share. GE Industrial should generate $0.80 of earnings, and using a P/E of 14, is worth approximately $12.00. GE Capital will be approximately $500 billion in assets once downsized. GE Capital has historically generated a 2% return-on-assets (ROA). Given the environment and GE's higher cost of capital, a 1% ROA is reasonable, or roughly $0.50 in earnings. Assigning a P/E of 8 yields $4.00 per share.
- Longer-term, GE's earning power should return to $2.00 or more, which should translate into a $25-30.00 stock.

Management

- Jeffrey Immelt, 52, has been Chairman and CEO since 2001. He has changed the business mix significantly following Jack Welch. Most of the insurance businesses were divested and over $80 billion has been spent on acquisitions.

- Despite a history of heavy mergers and acquisitions, there appears to be more focus on internal growth. The company has globalized research and development and divested some inferior businesses.
- GE has a highly regarded management development program. GE business unit leaders are considered to be among the best by analysts, competitors and executive recruiters.

Investment Thesis

GE's depressed valuation reflects concerns about their financial exposure plus the impact of the current recession on GE's Industrial Business. It appears that the company is projecting reserve and loss provisions of approximately $12 billion for 2009. The recent announcement to cut the dividend helps shore up the balance sheet. The biggest risk going forward is that GE may have to raise additional capital if credit quality doesn't stabilize. We do not believe GE will follow the path of AIG or Citibank (massive bailouts). Some key points on GE Capital that support our viewpoint include:

- GE was never involved in financing or underwriting CDOs and does not have any off-balance sheet financing vehicles.
- GE is not engaged in derivatives (other than for hedging purposes).
- GE's investment portfolio is marked-to-market and is conservatively structured.
- The main areas of concern are in GE's lending portfolio.
- Over 50% of GE's lending activities are related to their Industrial and Infrastructure businesses where they have considerable domain knowledge. The underwriting in this area is conservative and the reserving has been appropriate.
- GE's commercial real estate lending (10% of GE Capital) portfolio is also a concern. Approximately 98% of their real estate lending is in a senior secured position. GE also holds $40 billion in equity interests in commercial real estate holdings. These commercial assets are 100% GE-owned, and diversified by geography and type. We have worked into our assumptions a 10-20% decline in these assets in our capital ratios.
- The size of GE's consumer lending (40% of GE Capital's lending) is the area of most concern. The reserving for future losses increased in 2008 and has accelerated this year in areas such as mortgages, auto loans, credit cards, and other installment debt.

We have gone through GE Capital's balance sheet in exhaustive detail to estimate potential losses in the consumer and real estate areas. We have worked into our assumptions a difficult economy for both 2009 and 2010. While the financial area has proven to be an enormous disappointment thus far in our ownership tenure, it has resulted in a stock that is significantly undervalued. We believe the stock is trading for less than the value of the industrial businesses, suggesting a negative value for GE Capital. Over the next three to five years, we believe the stock will appreciate significantly.

Schlumberger Limited

Description

Schlumberger is the world's leading supplier of oilfield products and services. The company operates in each of the major oilfield markets, providing products and services that cover the entire life cycle of the reservoir. Europe/CIS/Africa accounts for 34% of revenue, followed by North America at 24%, Middle East & Asia 24%, and Latin America 17%.

Good Business

- Schlumberger is the market leader in businesses that represent nearly 60% of its revenue and is number one or number two in segments that make up almost 90% of revenue. Barriers to entry are on the rise due to the increasing complexity of wells and high levels of investment required to compete internationally.
- The company's products and services are necessities in the exploration and production of oil and gas.
- Schlumberger generates an ROIC north of 20% over a cycle.
- This is an easy business to understand.
- The debt-to-capital ratio, net of cash, is 8.6%. Standard & Poor's has accorded the company's bonds a rating of A+/stable outlook.

Valuation

- If sales were to contract by a third from the 2008 level and the market were to ascribe the trough enterprise value-to-sales (EV/sales) multiple of 2.0 reached in 2002/2003 on this level of sales, Schlumberger would be valued at $29.00 per share, or downside of 21%.
- Schlumberger trades for 2.61x book. The stock traded down to 2.75x book in 1998 and 2.26x book during the most recent downturn in 2002. The company would be valued at around $32.00 per share if it were to revisit its 2002 low, or downside of 13%.
- We conservatively estimate that the company can earn $3.00 per share by 2012. Investors have typically accorded the stock a P/E multiple in excess of 20. At this valuation, the stock has approximately 70% upside.
- The reward-to-risk ratio is an attractive 3.5-4.0 to 1.0.

Management

- Andrew Gould, 62, has served as Chairman and CEO since February 2003. He previously served as President and COO of the company, and before that was Executive Vice President of Oilfield Services. Gould started his career at Schlumberger in 1975.
- Simon Ayat, 54, has served as CFO since March 2007. He previously served as Treasurer of the company from February 2005 to March 2007, and before that was Controller, from December 2002 to February 2005. Ayat has been with Schlumberger for 24 years.
- Ashok Belani, 50, has served as Chief Technology Officer since March 2006. He joined Schlumberger as a field engineer in 1980.

Investment Thesis

Schlumberger's stock price has fallen 67% from its 52-week high due to the significant contraction in oil and gas prices following the onset of the recession. However, we believe this represents a cyclical slowdown rather than an end to the secular upturn. The demand for commodities will increase once global growth resumes, from which Schlumberger stands to benefit as a leading supplier of "picks and shovels" to the energy industry. In addition, an investment in Schlumberger would represent a hedge on inflation, which is a possible byproduct of heavy deficit spending by the government.

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Finally, in the aftermath of the Madoff and Stanford Financial Group frauds, among others, some of our clients have asked about the safeguards in their portfolios. Fiduciary Management, Inc. is not a broker-dealer, nor do we custody the assets. Third-party firms such as Bank of New York or U.S. Bank, N.A. hold the securities. Clients receive a bank statement that can easily be reconciled with the statements from Fiduciary Management, Inc. The portfolio does not use leverage. Perhaps most importantly, "we eat our own cooking." The managers and employees of Fiduciary Management, Inc. are invested right alongside our clients. A substantial part of the net worth of the key decision makers are invested in both the mutual fund that mirrors client accounts and the stock of Fiduciary Management, Inc. This does not guarantee investment success, but it does bring an added level of care and due diligence to everything we do. Our investment was significantly increased in recent months.

Thank you for your confidence in Fiduciary Management, Inc.

Fiduciary Management Inc.
All Cap Equity Composite
12/31/2007-3/31/2009

Year	Total Return Gross of Fees %	Total Return Net of Fees %	*Benchmark Return %	Number of Portfolios	Dispersion %	Total Composite Assets End of Period ($ millions)	Total Firm Assets End of Period ($ millions)	Percentage of Firm Assets %
2008	-26.65	-27.18	-37.31	12	0.60	$ 56.9	$ 4,062.5	1.40%
Q1 2009**	-9.31	-9.47	-10.79	13	0.11	$ 52.9	$ 4,113.4	1.29%

*Benchmark: Russell 3000 Index®
** Subject to reconciliation and verification.

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, Incorporated (FMI) has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

FMI has received a firm-wide GIPS verification for the period 12/31/1993 - 12/31/2008. In addition, the FMI All Cap Equity Composite has received a performance examination for the period 12/31/2007 - 12/31/2008.

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 $4.0 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 in December 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 management fees and transaction costs and gross of custodial fees. Dispersion is calculated using the standard deviation of all accounts in the composite for the entire period.

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

Up to $25,000,000	0.75%
$25,000,001-$50,000,000	0.65%
$50,000,001-$100,000,000	0.60%
$100,000,001 and above	0.55%

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.

Additional information regarding policies for calculating and reporting returns is also available upon request.

The Russell 3000 Index® is an unmanaged index generally representative of the U.S. market for stocks. FMI uses the Russell 3000 Index® as its primary index comparison.