



100 East Wisconsin Avenue, Suite 2200
Milwaukee, Wisconsin 53202
414-226-4545
www.fiduciarymgt.com

INVESTMENT STRATEGY OUTLOOK – ALL CAP EQUITY

September 30, 2011

FMI All Cap portfolios declined approximately 15.3% for the quarter, performing roughly in-line with the Russell 3000 Index. Through nine months all cap portfolios lost about 8.6% and the benchmark retreated 9.9%. Economically sensitive groups such as Producer Manufacturing, Energy and Finance dropped significantly as worries about a global recession intensified. From an individual stock perspective, SPX Corporation, Devon, and Bank of New York suffered steep declines, reflecting worries about industrial growth and financial turmoil. We continue to feel strongly about the strength and long-term prospects of these businesses. Consumer Non-Durables, Retail and Commercial Services, while all down in the period, were relatively strong. Kimberly-Clark, Family Dollar, and McGraw Hill led the way in these three sectors.

While there are a multitude of issues causing investor angst, and we will touch briefly on a few of these, valuations have become more attractive. All cap portfolios have recently been adding attractive businesses at very reasonable, if not bargain prices and have added to a number of existing positions as prices have fallen. The portfolio currently sells for a median of 12.8 times earnings and 1.4 times annual revenue. The profitability and financial position of the constituents are excellent. Of course there is no way to predict when the current bear market will end, but we are confident in the quality and durability of the portfolio's investments.

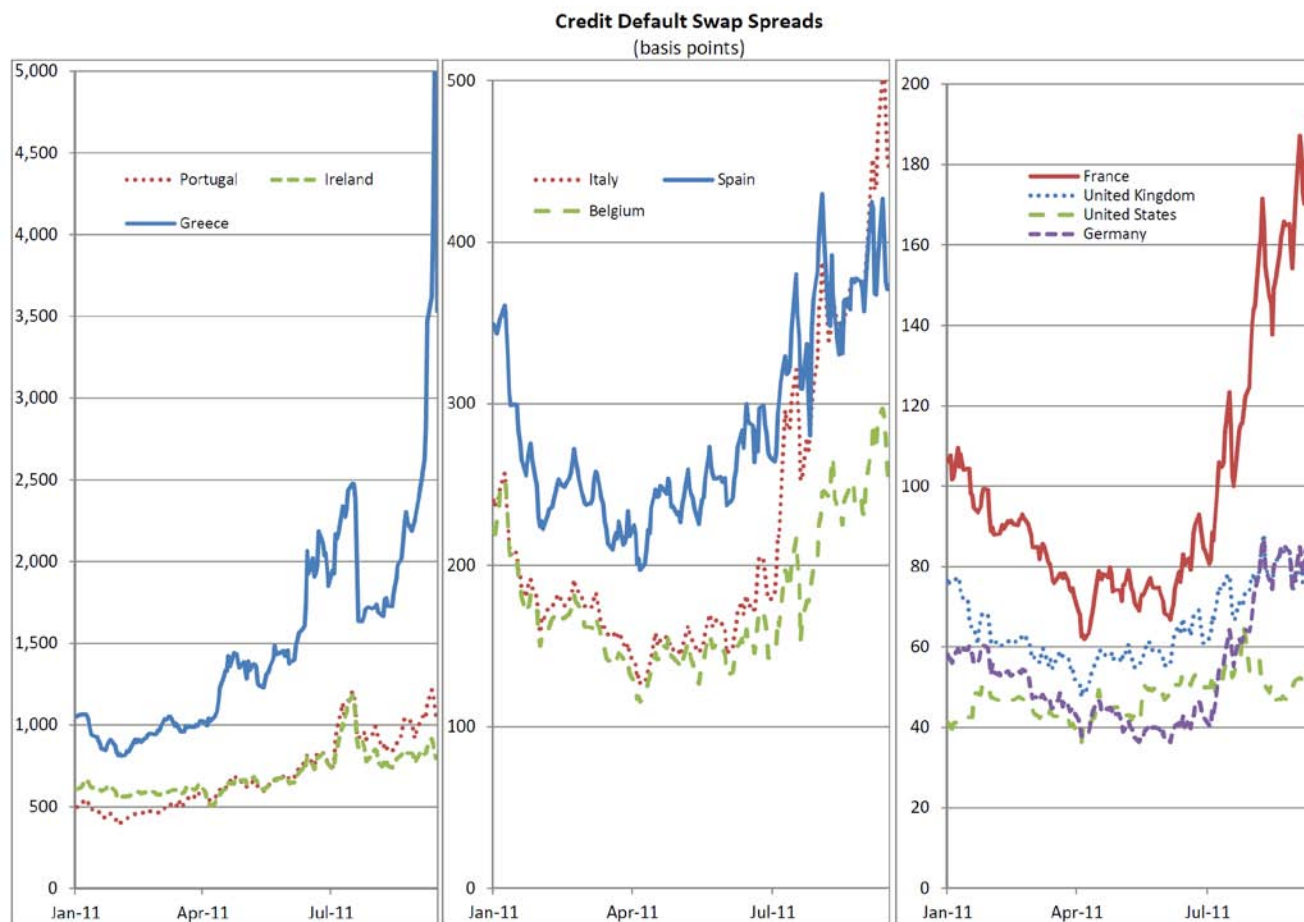
As a reminder, the March 31st and September 30th letters touch briefly on big picture issues before discussing a couple of investments, while the June 30th and December 31st letters delve deeper into various issues that impact the investment landscape. An archive of letters for the all cap portfolios can be found on our website, www.fiduciarymgt.com.

Weakening global economic growth has been added to the worries about excessive sovereign debt in Europe, America and elsewhere. Growth has slowed across Europe, and even in Germany--which heretofore has been the pillar of strength--business activity has downshifted. As we foreshadowed in last quarter's letter, and despite very real inflation, China is showing signs of slowing. Chinese industrial production appears to be contracting, as evidenced by HSBC's flash Purchasing Managers Index (PMI) figure of 49.4. We have felt for some time that China has been on an unsustainable growth path, driven by massive state funded infrastructure expansion. Part of the funding apparatus resides in the regional bank system controlled by party officials. These officials earn compensation and preferred status from the party for sales of state-owned land to developers. Local government income from land sales accounted for 7% of China's gross domestic product (GDP) last year. Credit has been expanding rapidly in recent years at a much higher rate than economic growth and may today be at dangerous levels. A recent International Monetary Fund (IMF) report shows bank credit in China growing over 30% compared to the official GDP growth of approximately 10%.

There is a growing body of evidence that suggests massive overbuilding of not only Chinese public infrastructure, but housing and commercial property, too. Construction spending, as a percentage of GDP, is up over fourfold in the past 12 years. Recently Chinese residential real estate prices and transaction volumes appear to be falling significantly, with reports of 20-30% price declines in Beijing and Shanghai and two-thirds of the country experiencing a negative growth rate. We take all Chinese figures with a grain of salt, but the

slowdown seems also to be reflected in a steep decline in copper prices (down nearly 30% over the past two months), oil and other industrial commodities. Chinese leaders may be able to pull a rabbit out of the hat again by pumping up infrastructure spending but our feeling is that this is an unsustainable policy. Their economy is significantly imbalanced, driven by a surfeit of infrastructure spending and a shortage of domestic consumption spending.

The debt woes of Europe remain intractable. In the September 21st global financial stability report, the IMF had this to say about European sovereign debt: “Nearly half of the €6.5 trillion stock of government debt issued by euro area governments is showing signs of heightened credit risk.” Credit default swap spreads (essentially what investors pay to insure against default) have risen dramatically, not just for so-called PIIGS, but also for the rest of Europe.



Source: Bloomberg, Fiduciary Management, Inc.

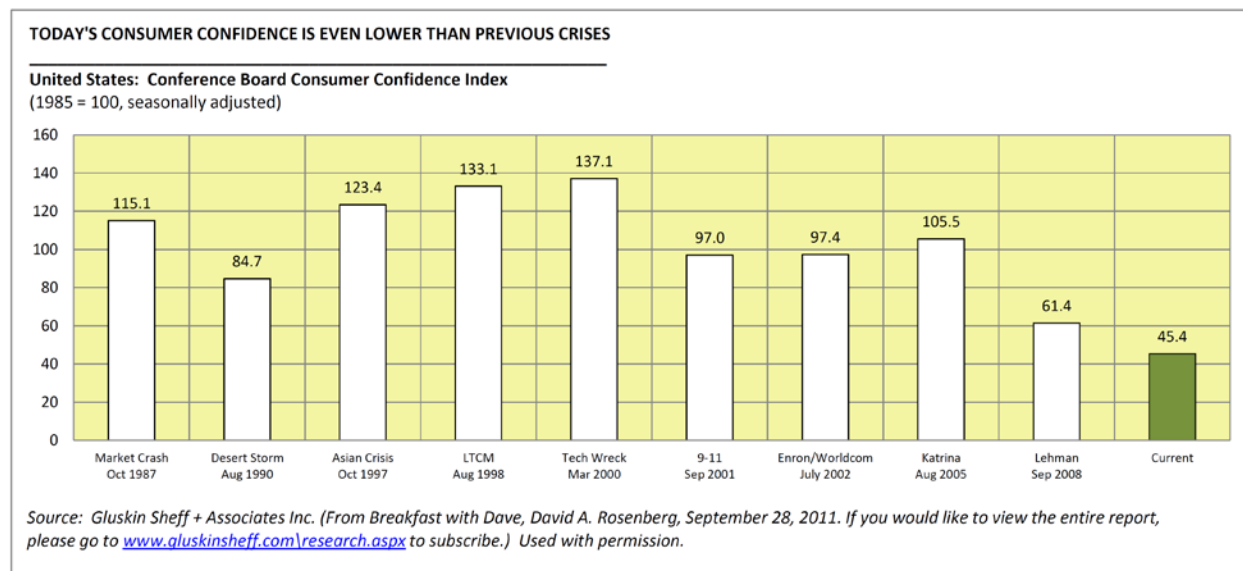
The cognoscenti appear to be pinning their hopes on containment, i.e. a restructuring of Greek debt, an exchange of sovereign debt held by banks for new debt backed by another euro authority, and a bet that this bailout facility is large enough to forestall a domino effect from other countries on the brink. Details are sketchy at this point. It is likely to take further restructuring, additional austerity measures and a resetting of relative wage rates to set a course for sustainable recovery. Realistically, the vast majority of the UK and European banks would be insolvent if the sovereign debt of Greece, Portugal, Ireland and Spain were marked to market (not to mention Italy). While we don't anticipate outright bankruptcies of these financial

institutions, we think many will have to raise capital, diluting existing shareholders and stunting earnings per share for years to come. We are unsure about how European instability will impact the financial stocks in the all cap portfolios, but we continue to monitor and evaluate the situation closely.

Unfortunately, the fiscal and monetary situation in the United States isn't very good either. Policy makers continue to spend more on the same kind of ideas that didn't work in the 1930s and certainly haven't worked in the 2000s, with the latest iterations adding unprecedented amounts of debt to the country's balance sheet. Apparently, none of the policy makers feel comfortable doing nothing, much less reducing government's involvement in the economy. The Federal Reserve's actions are especially noteworthy since there is essentially no congressional oversight and Bernanke can run his experiments with virtual impunity. Imagine a policy that eliminates nearly all of the income of the risk-averse saver (think elderly widow with CDs and T-Bills) yet provides nearly free money to the billionaire hedge fund borrower! Business managers remain fearful of health care mandates and higher taxes and are not adding employees or significant capital to their businesses. Productivity is reasonably high but the economy needs more job creation and capital formation. An improvement in tax policy might go a long way toward improving these metrics. Right now smaller businesses (the engines of employment growth) pay a significantly higher effective tax rate than the large corporations, who employ complicated tax avoidance strategies. Personal tax rates are a crazy mishmash where a factory worker could, as Buffett said, find himself paying a higher rate than a billionaire. Perhaps the budget turmoil will have a collateral benefit of a better tax policy.

The US economy remains mired in a pattern of slow growth followed by retractions. Some of the traditional drivers of renewed growth, such as housing, continue to be highly depressed. Housing inventory remains very high, prices are still trending down on an annual basis, and transaction volume is well below normal.

Twenty-seven months after the recession, consumer confidence remains extremely low (see accompanying chart). It is difficult to envision a good recovery until these conditions change:



The short summary of the macro picture is generally not very positive. Greater recognition of this has impacted stock prices quite significantly in the quarter. We think the valuations of the companies in the all cap portfolios are attractive, and the business franchises, first rate. Long-term investors should consider buying into prevailing concerns and uncertainty when valuations and strong companies are on their side. History shows good equity returns have accrued to those who have the fortitude to invest in difficult times.

In last quarter's letter we mentioned that we had undertaken another review of the pharmaceutical industry. Recall that this sector was discussed in the context of industries that had become so-called value traps. It has been our contention for a long time that the research efforts of the large pharmaceutical firms were not generating positive economic value. Cost, length of the approval process, and probability of success had changed so significantly over the years that the expected drug pipeline value had declined dramatically. This has gradually been changing more recently and through the detailed work of one of our senior analysts, Matthew Goetzinger, we feel the industry is now on much better footing. Below we highlight our investment in GlaxoSmithKline. The other stock featured this quarter is Omnicom. This is a business that is somewhat misunderstood by the investment community. Rob Helf, another of our senior analysts, believes Wall Street is overly focused on expensive, pure-play digital advertising stocks, and is undervaluing the broad-based, diversified advertising services companies like Omnicom.

GlaxoSmithKline

(Analyst: Matthew Goetzinger)

Description:

GlaxoSmithKline (GSK) is one of the largest global pharmaceuticals firms with a leading presence in respiratory, vaccines and other small and large molecule therapeutic areas. Pharmaceutical business unit sales are split between the US market (35%), Europe (31%), emerging markets (16%), Asia Pacific/Japan (14%), and other (4%). The company's Consumer Healthcare business (OTC, Oral Care, and Nutritionals) accounts for 18% of revenues.

Good Business:

- GSK's pharmaceutical business is widely diversified across therapeutic classes, geography and molecular formulation. Importantly, the company's business does not rely on a large outsized contribution from a handful of blockbuster drugs.
- GSK serves markets with fairly inelastic demand, producing a consumable product for the treatment of various diseases.
- The company's incremental returns on capital are improving. Historically, the company has generated above peer returns.
- The balance sheet is A+ rated, and retains low financial leverage (0.8 times net debt-to-earnings before interest, tax, depreciation and amortization [EBITDA]).
- The business generates stable, predictable and growing free cash flow.
- The pharmaceutical industry is highly regulated, creating a significant barrier to entry.

Valuation:

- Current pharmaceutical equity valuations imply that the market is placing no value on pipeline assets, and is valuing the existing drug franchise as a run-off asset with virtually zero percent growth in perpetuity.
- Beyond the expiration of significant patents for GSK and the industry, GSK trades at an attractive 8.6 times earnings, and 6.5 times EBITDA.
- Despite superior business metrics, GSK trades at a 25% discount to the broad stock market.
- On a sum-of-the-parts basis, GSK's fair value is at least 75% higher than the current share price.
- The yield is approximately 5%.

Management:

- Andrew Witty took over as CEO in May 2008. Witty has championed a number of positive endeavors including the company's novel approach to research and development (R&D), tiered emerging market pricing, and R&D accountability. Witty is an economist by training, and has not been part of the "old guard."
- Simon Dingemans is the company's newly appointed CFO, bringing outside banking and strategic experience to GSK.
- GSK has a stable and diverse cadre of R&D personnel, all held to objective oversight.

Investment Thesis:

Current market valuations unduly penalize GSK, placing an ultra-low multiple on trough (post patent expiry) earnings, and thus ignoring the mix of stable, diverse, and competitively positioned growing drug franchises. Moreover, little value is being accorded to the company's drug development pipeline despite early signs of improvements in productivity, with an increasing number of meaningful, novel drugs in phase III development. Serving markets with relatively inelastic demand curves, an investment in GSK should prove defensive, while at the same time adding exposure to an upturn in R&D productivity and emerging market growth. The balance sheet is solid and the stock yields approximately 5%.

Omnicom Group Inc. (OMC)

(Analyst: Rob Helf)

Description

Omnicom Group (OMC) is a strategic holding company of advertising and marketing firms that operate in more than 100 countries with more than 5,000 clients. Its businesses focus on traditional media advertising and more than 30 marketing services, including customer relationship management, public relations, and specialty communications.

Good Business

- Omnicom is one of the world's largest advertising and marketing services companies. Approximately 50% of its revenue comes from the US, and the other half from Europe and the rest of the world. The top ten agencies generate 85%+ of the industry's revenues.
- The company offers a diversified mix of fee-based services. OMC should benefit from the current and anticipated growth in digital advertising expenditures.
- Agencies have taken on a more consultative role in the age of newer media as changes are rapid. The move to digital marketing should help increase profit growth.
- Omnicom's largest client represents less than 4% of overall revenues.
- Agencies generally develop integrated relationships with clients, resulting in high switching costs.
- Omnicom should benefit from increased spending on advertising/marketing in a healthier economy, along with industry consolidation and beneficial fee structures.
- Over the past decade, OMC has generated a return on invested capital (ROIC) greater than its weighted average cost of capital (WACC) every year.
- The balance sheet is in good shape with debt approximately 1.9 times EBITDA.
- Omnicom's annual dividend is \$0.85/year, to yield 2.3%.
- OMC has generally repurchased approximately \$500 million of equity each year.

Valuation

- OMC currently trades at approximately 1.0 times enterprise value (EV)-to-revenues, 6.8 times EBITDA and 12 times forward earnings per share (EPS) estimates. Profit margins are approximately 150 bps below the 10-year average.
- Historically, the company has been valued at 1-2 times sales, 11.5 times EBITDA and 15-27 times EPS.
- A zero-growth discounted cash flow (DCF) analysis equates to a stock price considerably higher than today's. We expect earnings growth of 8-9%.

Management

- Bruce Crawford, 81, is Chairman of Omnicom. He began his career in advertising in 1956 and joined BBDO in 1963. He previously held the President and CEO positions.
- John Wren has been President and CEO since 1997. He has been in advertising since 1984 and joined OMC in 1986.
- Andrew Robertson (CEO of BBDO), Tom Carroll (CEO of TBWA) and Randy Weisenburger (EVP, CFO) are the other key executives.
- Both Messrs. Wren and Robertson appear to be focusing more effort on ROIC and returning excess cash to shareholders. Historically they seemed more focused on their own compensation, so we are watching this situation carefully.

Investment Thesis

Omnicom is currently valued at or below the low-end of historical parameters. When the world economy recovers, OMC should experience revenue acceleration and margin improvement based on higher corporate marketing expenditures. EPS power should be greater than \$4.00 in the next few years as the company returns to 13.0% margins and repurchases shares. The stock has significant upside potential if these events transpire. Conversely, the current valuation seems to adequately discount a tough environment.

Thank you for your support of Fiduciary Management, Inc.

Fiduciary Management Inc.
All Cap Equity Composite
12/31/2007- 06/30/2011

Year	Total Return Gross of Fees %	Total Return Net of Fees %	*Benchmark Return %	Number of Portfolios	Dispersion %	Total Composite Assets 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%
2009	30.19	29.35	28.34	18	0.23	\$ 86.9	\$ 7,008.9	1.24%
2010	18.20	17.41	16.93	18	0.26	\$ 103.3	\$ 9,816.0	1.05%
Q1 2011	6.08	5.92	6.38	22	0.10	\$ 118.0	\$ 11,338.0	1.04%
Q2 2011	1.73	1.53	-0.03	23	0.19	\$ 121.8	\$ 11,819.6	1.03%

*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, Incorporated (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 - 06/30/2011. 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 be calculated and present performance is in compliance with the GIPS standards. The All Cap Equity composite has been examined for the periods 12/31/2007 – 06/30/2011. 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 \$11.8 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 All Cap Equity Composite was created in December 2007. These accounts primarily invest in small, medium and large capitalization U.S. 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. 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. Policies for valuing portfolios, calculating performance, and preparing compliant presentations 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.