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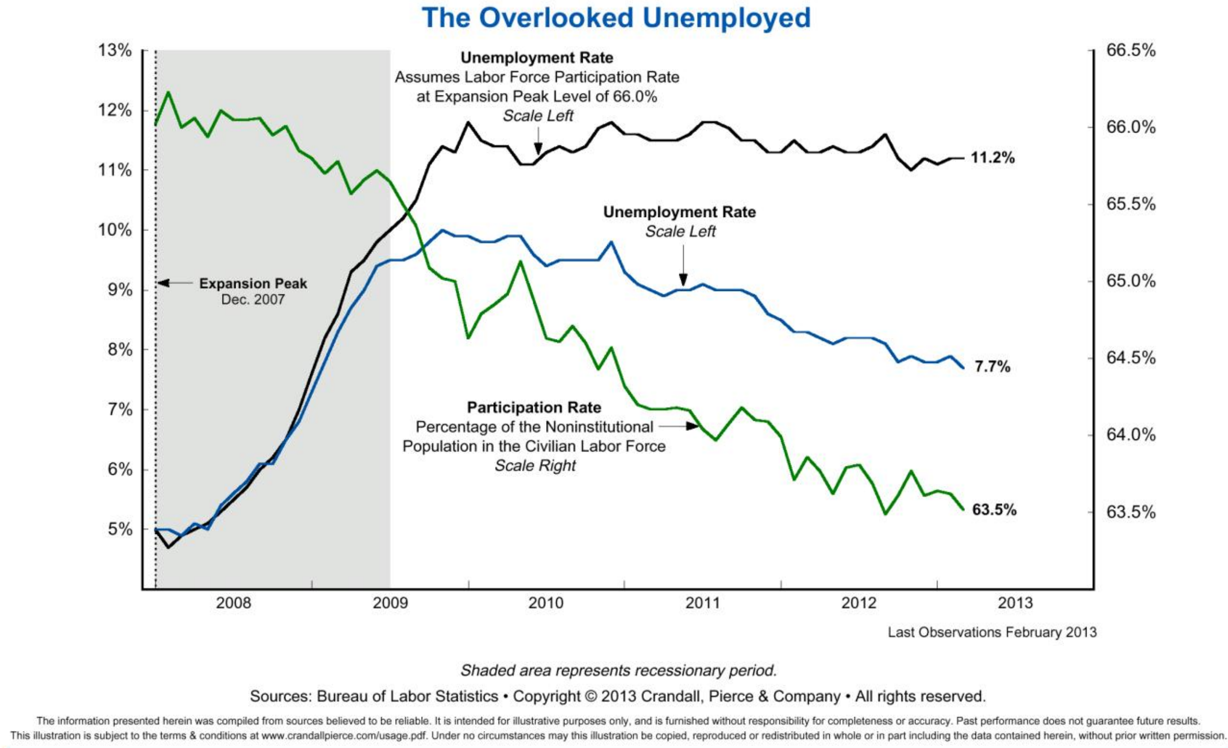
INVESTMENT STRATEGY OUTLOOK – ALL CAP EQUITY

March 31, 2013

FMI all cap portfolios gained approximately 10.7% in the quarter ending March 31, 2013. This compared to the benchmark Russell 3000 Index return of 11.07%. Both the Russell 3000 and the FMI all cap portfolios benefitted from expanding multiples as fundamental sales and earnings growth remained in the low to mid-single-digit range. Sectors that contributed meaningfully to FMI returns included Electronic Technology, Finance, and Commercial Services. Finance was a significant relative detractor for the portfolio last year as many lower quality financial stocks that had collapsed in 2008 and early 2009 continued to rebound (with a big assist from the Fed). We are hopeful that the better recent performance from this sector is a harbinger of what is to come. Comerica and Protective Life performed nicely in the March quarter, as did Berkshire Hathaway, 3M, Avery Dennison, and Arthur Gallagher. On the flip side, Transportation, Health Technology and Retail Trade had negative relative performance. Expeditors International, GlaxoSmithKline and Family Dollar all lagged their respective sectors and the market. Near-term concerns about China and world economic growth are affecting Expeditors; Glaxo is suffering from ongoing negative European pricing trends; and Family Dollar faces near-term pressures of an increased competitive environment and a weaker low-income consumer. We remain optimistic about the long-term prospects for Expeditors and Family Dollar. Glaxo is a more complicated case where the stock is cheap but the growing uncertainties around paying for health care worldwide and the continuing lack of productivity in drug research is causing us to tread cautiously. Overall, we contend the FMI portfolios contain many good businesses. Relative to the benchmark, valuations are attractive but are somewhat above average from an absolute standpoint. As mentioned in the December letter (and the same situation applies today), overall market valuations are elevated from a historical perspective.

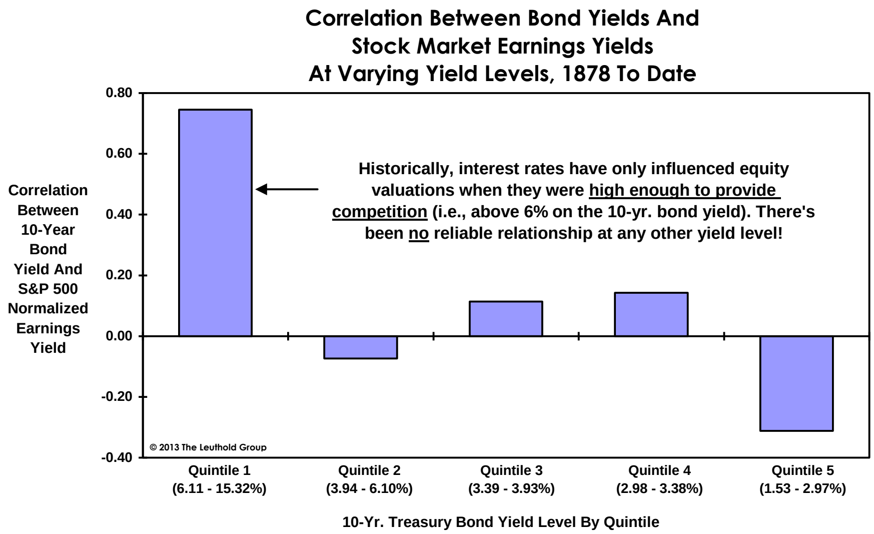
Some have questioned why we are not jumping on the stock market bandwagon. After all, housing is rebounding, employment is steady if not growing ever so slightly, corporate cash and cash flows are high, earnings yields are much greater than bond yields, and the public appears to be coming back to the market. Taking the first two together, housing is indeed continuing to bounce off of a very depressed bottom. Unusually low mortgage rates and FHA insurance (future bailout to follow) are assisting the housing market. Housing-related stocks have been huge winners over the past few years and seem to be discounting an environment that is much stronger than we envision. Over ten million households continue to owe more than their homes are worth. Shadow inventory remains high. A sustained improvement in housing will likely require stronger economic growth and better employment. Three things can drive economic growth: more people working, people working more hours, and more capital deployed. On the first item there has been a little progress, but as the following chart shows, declining labor participation is offsetting this improvement; on the second item, hours worked have been flat to down; and on the third item, fixed business investment orders have been falling, as articulated in our December letter. Gross domestic product (GDP) growth remains anemic in the 0-2% range.

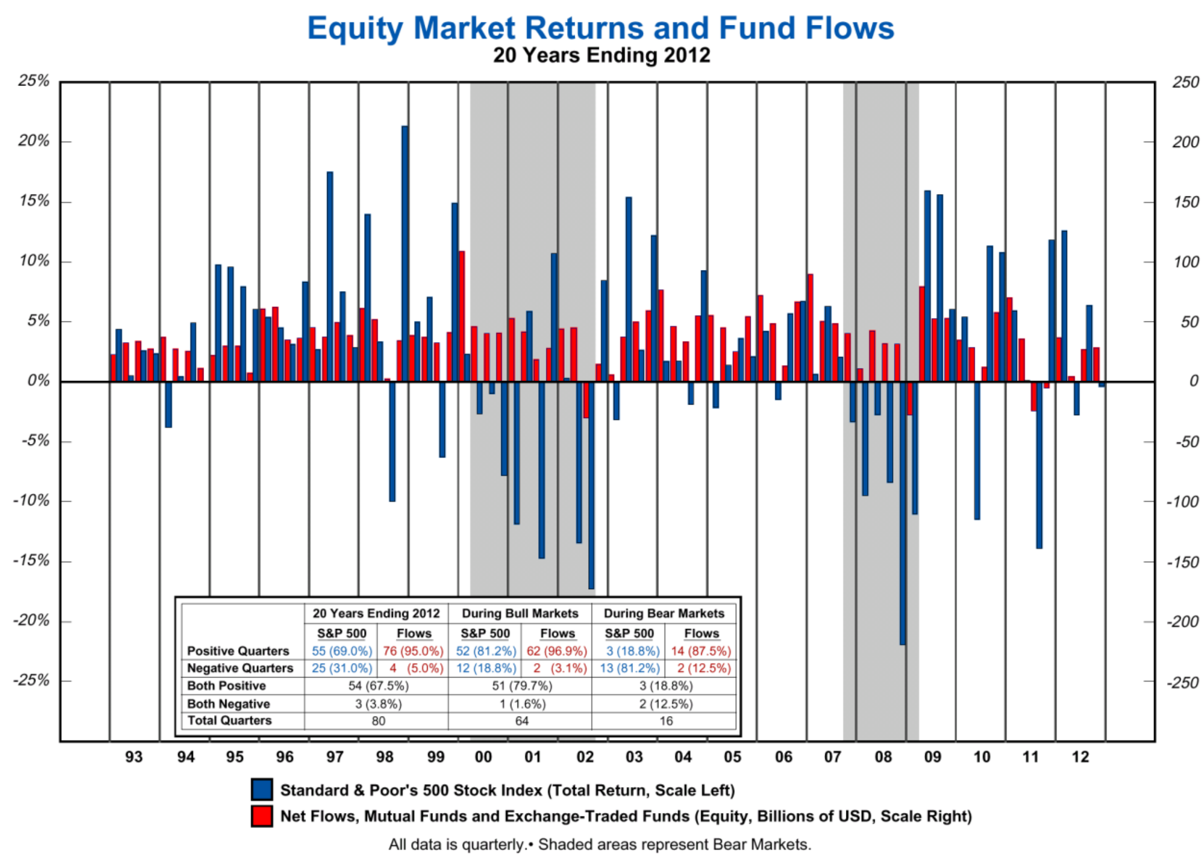


Corporate cash and cash flow has been solid. A large portion of the cash is overseas and will incur a 35% tax upon repatriation. Unless tax laws change, these monies are unlikely to see our shores. Part of the cash flow dynamic reflects caution about spending on capital and people, as well as the desire for managements to continue to squeeze their cost structures as tightly as possible. This has enabled margins and earnings to remain near peak levels but this strategy cannot stay effective over the long run. Without increased capital, research and development (R&D) and people investment, sales and earnings growth degrades. In fact, sales growth and margins for the market (companies within the benchmark) peaked over a year ago. Health care mandates and higher tax rates have induced further caution in the executive and entrepreneurial ranks.

Many stock market prognosticators wax endlessly about the fact that the earnings yield (earnings per share divided by the stock price) is higher than the bond yield (10 Year Treasuries), with the implication that this means stocks are cheap. Comparing a fully priced asset (stocks) to a wildly overvalued asset (bonds) does not make stocks any cheaper. The Leuthold Group recently analyzed this phenomenon and determined that only when 10 Year Treasury yields are higher than 6%, when they pose true competition to stocks, is there even a relationship between these two yields. Eighty percent of the time there is no correlation between these ratios and they don't seem to influence one another at all. Their conclusion: bond yields today are simply too low to matter.

Finally, we are left with the notion that positive equity fund flows will drive stock market performance. The excitement around this phenomenon seems to be related to the fact that equity mutual fund flows recently turned positive after a multi-year period of being negative. What is missing in this analysis is the role of Exchange Traded Funds (ETFs). Below is a chart that measures fund flows broadly (equity mutual funds and equity ETFs together) along with equity returns. There are no clear discernible trends in this data; if anything, fund flows seem more apt to follow rather than lead equity returns. This notion is supported by various studies showing the public's actual long-term equity returns are only 30-40% of mutual fund returns, proving that they are terrible market timers. It is hard for us to get excited about the continuation of a bull market that has already outlasted the duration (48 months versus 43 months) and magnitude (153% vs. 83%) of the median of fifteen bull markets since 1929.





	20 Years Ending 2012		During Bull Markets		During Bear Markets	
	S&P 500	Flows	S&P 500	Flows	S&P 500	Flows
Positive Quarters	55 (69.0%)	76 (95.0%)	52 (81.2%)	62 (96.9%)	3 (18.8%)	14 (87.5%)
Negative Quarters	25 (31.0%)	4 (5.0%)	12 (18.8%)	2 (3.1%)	13 (81.2%)	2 (12.5%)
Both Positive	54 (67.5%)		51 (79.7%)		3 (18.8%)	
Both Negative	3 (3.8%)		1 (1.6%)		2 (12.5%)	
Total Quarters	80		64		16	

*Sources: Standard & Poor's Corporation; Federal Reserve Board; *

Investors always have to weigh the competing forces of fundamentals and valuation. Are there positives in the current environment? Of course; we articulated several of these in the December letter. Do we believe in stocks for the long run? Absolutely! Yet stocks are up over ten percent this quarter without much progress on the fundamentals, and valuations are extended. Economic growth and employment are relatively stagnant. The big problems – deficit spending, entitlements, debt, Eurozone, monetary debasement — are not going away. Investors appear to be putting an undue amount of faith in central bankers. Even if one believed money printing was a legitimate approach to "jump starting" the economy, how many times do you pull the crank before deciding that a new battery is needed? We've been at this for over four years. Perhaps more importantly, how do the Federal Reserve, the European Central Bank and the Bank of Japan undo what they've done? How do the leaders have so much confidence in ivory tower theories — the same ones that did not anticipate the housing or banking debacles — such that they can risk currency wars, misaligned investments, and inflation?

We continue to believe that despite the headwinds, stocks remain the best place to put long-term money. We are gratified that the FMI all cap portfolios are mostly keeping up in this bull market that unfortunately seems to have a lot of air underneath it. We think the stocks we own will hold up better than most when trouble returns, but there are no guarantees. Bonds look vulnerable: ground-hugging yields and no inflation protection. Timber and agricultural land have had spectacular moves and now have low yields. Gold has no yield. Industrial and other precious metals look expensive. Much of the real estate world suffers with low cap rates. Art, particularly the contemporary variety, is very high. So, as always, we put our collective heads down and try to find good businesses at reasonable prices. Here are two stocks from the portfolio that we feel fit that bill.

PACCAR Inc. (PCAR)

(Analyst: Dan Sievers)

Description

PACCAR (PCAR) is a highly efficient manufacturer and distributor of premium quality medium and heavy duty commercial trucks and related aftermarket parts. Its financial services company financed or leased 31% of the 140,400 trucks delivered in 2012. In 2012, the United States accounted for 44% of truck deliveries, and the U.S. and Canada together represented 57% of revenues. Europe contributed 24.5% of revenues; and Mexico, South America, Australia, and other geographies contributed 18.5% of revenues. The company controls three coveted brands in Kenworth (North America, South America, Australia), DAF (Europe, Mexico, South America, Australia), and Peterbilt (U.S. & Canada only), each supported by strong dealer networks. In 2012, PCAR's share of the heavy duty U.S. & Canada market and the Western & Central European market was 28.9% and 16.0% respectively (both record levels).

Good Business

- Trucking is a necessary business and market level replacement demand is estimable.
- PCAR has been a long-term organic share gainer in every one of its markets, aided by a strong R&D culture, rapid new product development, and the most profitable and well-capitalized dealer network. Through recent investments, the company is expanding into Russia, Brazil, and greater South America.
- Increasing truck sophistication raises revenue per truck, naturally lifts the aftermarket, and provides PCAR with opportunities to add proprietary content (producing further aftermarket lift).

- Aftermarket parts sales have compounded at 10% over the past 10 years with low sales and gross margin volatility. Parts contributed 40-108% of truck segment gross profit from 2007-2011 (5-year period).
- In North America, the truck manufacturing business is highly consolidated (4 main players). It requires few plants, little inventory (3- to 5-month lead times), and often generates negative working capital (cash in before delivery). As such, PCAR's truck manufacturing return on invested capital (ROIC) is north of 20%.
- PCAR's self-funding financial services arm has a stellar track record of low-losses and solid returns.

Valuation

- PCAR shares sell for 24% less than their 2007 high, though the S&P 500 has surpassed its high from the same period. The company trades at a reasonable 16 times trailing P/E multiple, though its 2012 truck gross margin remains 36% below the 2004-2007 (4-year period) average, as truck volumes remain at or below replacement demand in its main markets.
- PCAR trades at a discount to its 10-year average price to tangible book and enterprise value (EV) to sales multiples.

Management

- Mark Pigott (age 58), great grandson of founder William Pigott, has been Chairman and CEO since 1997, a PCAR employee for 32 years, and personally owns over $250 million in PCAR stock. The Pigott family holds two board seats and about 30% of the shares (between 36 family members).
- Growth has been organic since the 1996 DAF acquisition in Europe.
- PCAR pays regular and special dividends (50% average payout ratio) and has reduced the share count through opportunistic buybacks.
- Executive compensation is tied to returns on capital.

Investment Thesis

PCAR is a high-quality, high-return manufacturing business that utilizes and develops industry-leading technology. PCAR's management team has an excellent track record and continues to win market share and expand globally in a prudent way. The truck industry is cyclical and is currently producing units somewhat below the replacement level of demand across PCAR's main markets. Given truck volumes and truck gross margins that are far from peak levels, we believe that PCAR is attractively priced below its average 10-year price to tangible book and EV to sales multiples.

McDermott International Inc.

(Analyst: Dan Sievers)

Description

McDermott International (MDR), based in Houston, Texas, has provided global engineering, procurement, construction & fabrication, marine installation (EPCI), and other marine services to the upstream offshore oil & gas industry since the industry's advent in 1947. In this space, MDR continues to be one of five global leaders, generating $3.6 billion in 2012 revenues. When compared to the broader engineering & construction (E&C) industry, the barriers to entering MDR's markets and bidding effectively are substantially higher given the criticality of the marine vessel fleet in providing end-to-end project solutions to offshore oil & gas customers. In any given year, MDR is likely to work on 30 to 40 projects, with 6 to 10 projects accounting for up to 75% of revenue.

Good Business

- MDR is a leader in a necessary industry, which offers good visibility relative to other E&C markets, and a strong multi-year spending cycle appears to be accelerating.
- MDR is well-positioned in geographies where new projects are expected to be plentiful.
- Net balance sheet cash and equivalents account for 23% of market capitalization.
- Over the past eight years, MDR has had success earning low-to-mid-teen returns on its invested capital while managing the challenges inherent in fixed-price contracting (60-70% of revenues). This has been achieved, despite ownership of more physical assets (marine vessels), and higher net cash than a typical E&C company.

Valuation

- Premature exuberance for a strong spending cycle bid MDR shares to $25.00 following solid 2010 execution and backlog growth. Since April 2011, MDR shares have fallen 58% because of lower vessel utilization, three smaller problem contracts, and lumpy award bookings.
- MDR earned an 8.8% operating margin in 2012, but its targeted 10%-12% operating margin range looks achievable going forward (and in line with the 8-year average), leaving the business attractively priced at just 0.6 times enterprise value-to-sales; 4.5x enterprise value-to-earnings before interest, taxes, depreciation and amortization (EV/EBITDA); and 1.3x price-to-book.
- MDR's Atlantic segment and its two young joint ventures showed losses in each of the past three years, although a reasonable spending cycle should correct this.

Management

- CEO Steve Johnson (61) had over 25 years of related industry experience at Fluor and URS before joining MDR in 2009.
- MDR management stresses return on capital, which became a compensation metric in 2011.
- Management has exhibited a solid price discipline early in the spending cycle, focusing on profitable favorably-priced contracts (occasionally working against bookings).

Investment Thesis

Over the past eight years, MDR has achieved nearly the center of its 10%-12% long-term operating margin target on a GAAP basis (including impairment charges), although recent operational hiccups and low vessel utilization yielded 7.3% and 8.8% operating margins in 2011 and 2012 respectively. Over the same period, management has right-sized the vessel fleet and reduced fixed costs while adding to MDR's solid deepwater competencies, but progress has been somewhat masked by trough activity in the Gulf of Mexico (made worse by the 2010 Macondo disaster) and losses at MDR's young joint ventures. Positively, one of MDR's major competitors recently announced that it will begin bidding more conservatively (for margin rather than market share), which may lend greater discipline to the industry. Earnings for 2013 continue to look depressed, but could easily double by 2015. With the backdrop of favorable industry spending, the shares provide an attractive risk/reward.

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

Fiduciary Management Inc.
All Cap Equity Composite
12/31/2007 - 12/31/2012

Year	Total Return Gross of Fees %	Total Return Net of Fees %	*Benchmark Return %	Number of Portfolios	Dispersion %	Three Year Ex-Post Standard Deviation Composite	Three Year Ex-Post Standard Deviation *Benchmark	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	n/a	n/a	$ 56.9	$ 4,062.5	1.40%
2009	30.19	29.35	28.34	18	0.23	n/a	n/a	$ 86.9	$ 7,008.9	1.24%
2010	18.20	17.41	16.93	18	0.26	n/a	n/a	$ 103.3	$ 9,816.0	1.05%
2011	3.85	3.14	1.03	23	0.41	19.57%	19.35%	$ 127.4	$ 12,273.6	1.04%
2012	16.06	15.34	16.42	30	0.27	14.87%	15.73%	$ 168.5	$ 15,253.5	1.10%

*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 - 12/31/2012. 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 All Cap Equity composite has been examined for the periods 12/31/2007 - 12/31/2012. 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 $15.2 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 actual management fees and transaction costs and gross of custodial fees. 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 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.