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INVESTMENT STRATEGY OUTLOOK – ALL CAP EQUITY

March 31, 2014

The FMI all cap portfolios returned approximately 2.2% in the March quarter compared to 1.97% for the Russell 3000 Index. Sectors that aided results in the period included Energy Minerals, Distribution Services, and Process Industries. Devon Energy, Anixter International, and Potash Corp led these groups, respectively. On the downside, Transportation, Commercial Services, and Health Technology all detracted from the results. Expeditors International and Dun and Bradstreet were the underperformers in the first two sectors, and the relative underweighting in Health Technology also played a role. While there were a few days and weeks of consternation, the market continued to show remarkable buoyancy as this bull run reached five years in duration. U.S. stock markets hit their low this cycle on March 9, 2009, with the Russell 3000 closing at 389.6. Five years later it closed at 1131.9. With dividends, the total return was a remarkable 220.9%. The table below shows all of the Dow Jones Industrial Average's bull markets since 1900 (the Russell and S&P 500 did not exist then). This is the 22nd bull market of the modern era; the median price change was 83.5% and the median duration was 33 months. From the March 9, 2009 low through year-end 2013, the Dow Jones Industrials gained 153.2% in price (with dividends, the total return was 188.2%), making this bull market approximately 83% greater in price and 79% longer in duration than the median bull market over the past 114 years.

This bull market reminds us of the old movie, *Groundhog Day,* with Bill Murray. Phil Connors (Murray) repeatedly wakes up to Sonny & Cher on the radio, and has to live the same day over and over no matter what he does. Similarly, this market seems to stay the same …expensive… despite a litany of less-than-appealing fundamentals: corporate revenue growth weakening, spotty job growth (actually falling when adjusted for the drop in average workweek hours), China slowing, emerging markets swooning, Syria and the Middle East aflame, Russia swiping Crimea and acting with hostility elsewhere, biotechnology stocks soaring on sketchy fundamentals, and classic signs of over-exuberance (Whatsapp, Pandora, etc.). Of course, there are some positives, including improved bank lending and consumer sentiment, but so far precious little is being translated into sustainable economic growth. Valuations, as articulated ad nauseam in recent letters, remain extremely high from a historical perspective. Investor bullishness and the raft of low quality IPOs are additional signs of speculative excess. Added to this is the continuing fiscal crisis, a toxic political environment, and a monetary policy that all but ignores the potential ramifications of conjuring up $4 trillion of high-powered money out of thin air.

Bull Market Dates Dow Jones Industrial Average	Price Return Only	# Days	~ # Months
9/24/1900 - 6/17/1901	47.8%	266	8.9
11/9/1903 - 1/19/1906	144.3%	802	26.7
11/18/1907 - 11/19/1909	89.6%	732	24.4
9/25/1911 - 9/30/1912	29.1%	371	12.4
12/24/1914 - 11/21/1916	110.5%	698	23.3
12/19/1917 - 11/3/1919	81.4%	684	22.8
8/24/1921 - 9/3/1929	495.2%	2926	97.5
7/8/1932 - 3/10/1937	371.6%	1706	56.9
3/31/1938 - 11/9/1938	60.1%	223	7.4
4/28/1942 - 5/29/1946	128.7%	1492	49.7
10/22/1957 - 12/13/1961	75.1%	1513	50.4
6/26/1962 - 2/9/1966	85.7%	1324	44.1
10/7/1966 - 12/3/1968	32.4%	788	26.3
5/26/1970 - 1/11/1973	66.6%	961	32.0
12/6/1974 - 9/21/1976	75.7%	655	21.8
2/28/1978 - 4/27/1981	38.0%	1154	38.5
8/12/1982 - 8/25/1987	250.4%	1839	61.3
10/19/1987 - 7/16/1990	72.5%	1001	33.4
10/11/1990 - 7/17/1998	294.8%	2835	94.5
8/31/1998 - 1/14/2000	55.5%	501	16.7
10/9/2002 - 10/9/2007	94.4%	1826	60.9
3/9/2009 - 12/31/2013	153.2%	1758	58.6
Average	**129.7%**	**1184**	**39.5**
Median	**83.5%**	**981**	**32.7**

Source: Fiduciary Management, Inc. / Bloomberg

The developments in China deserve special mention. Chinese leaders have recently begun to admit what many, including us, have been saying for some time: credit extension has gotten out of control. Credit has grown at more than 20% per year for over five years ($14 trillion), much of which has been spent on real estate and infrastructure where there are clear signs of excess. On March 7, China allowed its first corporate bond default, the Chaori Solar

Energy Science and Technology Company. On March 18, Zhejiang Xingrun Real Estate Company defaulted on $567 million of debt. Will the authorities continue to let the air out of the bubble by not propping up zombie companies and state-owned enterprises? Heretofore that has not been their modus operandi but it is possible that a major change is afoot. How much pain will the authorities tolerate? We will monitor the developments closely.

Unlike *Groundhog Day*, we can't stop the clock and make all the bad things turn out great. We own this set of shaky fundamentals, and we own them at high valuations. Most bull markets are impervious to fundamentals in the short run, but not over the long haul. The problem is that investors believe they can spot signs of trouble and "get out with their skin." Unfortunately, this rarely happens. Simply look at the aforementioned list of real and anecdotal signs that might typically be tipping points for a stock market. So far each one proved false but instead of investors counting their lucky stars and derisking, they actually do the opposite, becoming more emboldened and aggressive. It's why when markets turn, they rarely decline to an average or median level, but more commonly overshoot on the downside. The euphoria turns to panic and as the disillusionment deepens, the once overvalued becomes cheap. It's also why most studies show that the average investor has achieved about a 3% return in the stock market while the S&P 500 has done close to 10%.

Human nature rarely changes from cycle to cycle. The crack marketing and client service team (all four of them!) at Fiduciary Management, Inc. tell prospective and existing clients to expect our approach to lag strong markets and outperform in more difficult markets. This has been the general pattern for 30+ years of managing money, but of course there are no guarantees. Our philosophy and strategy is geared toward relative risk aversion and is focused on long-term rather than short-term performance. This has yielded fairly substantial outperformance over full market cycles but occasionally not over shorter periods. Despite the best efforts of our marketing people, we've seen the same phenomenon over the decades: some clients who acknowledge on the front end that our strategy will underperform in a strong up market don't have the constitution to be patient and wait for the inevitable turn. Sometimes they go to the dark side (speculative growth or momentum) and other times they find a new value-oriented or "alternative" manager. There is always going to be another manager with a better near-term track record. The performance game is cutthroat and as Warren Buffett likes to say, "You never know who is swimming naked until the tide goes out." The best approach is to ascertain whether the portfolio owns financially strong companies with good business models, and that have valuations that are reasonable, if not cheap.

On that note, we'd like to highlight a couple of investments.

Valmont Industries, Inc. (VMI)

(Analyst: Matt Sullivan)

Description

Valmont is a diversified global producer of fabricated metal infrastructure and irrigation products. The company has five reportable segments: Utility Support Structures (29% of revenue, 32% of profits), Irrigation (27%, 33%), Engineered Infrastructure Products (EIP) (27%, 16%), Coatings (9%, 14%), and Other (8%, 5%). The Utility segment produces steel and concrete pole structures that support electrical transmission and distribution lines. The Irrigation segment is a global producer of mechanized irrigation systems. The EIP segment produces steel lighting and traffic control poles, wireless communication towers, roadway safety products, and industrial access systems. The Coatings segment provides metal coating services, including galvanizing, painting and anodizing. The company was founded in 1946, and is headquartered in Omaha, Nebraska.

Good Business

- ROIC (return on invested capital) has averaged 14% over the past five years and 13.3% over the past ten years, which comfortably exceeds the company's cost of capital.
- Valmont produces necessary products in industries with solid long-term demand drivers.
- The company holds a leading market share position in each of its four main business segments.
- Product quality and proximity to end customers differentiate industry competitors, giving well regarded, global incumbents with strong brand recognition a competitive advantage.

- Valmont has a solid balance sheet with a debt-to-capital ratio of 24%, and cash equal to debt.
- Management is experienced, well regarded, and known as a conservative team that emphasizes ROIC.

Valuation

- Valmont is currently valued at 14.3 times earnings and 14.1 times forward EPS (earnings per share) estimates, both of which are approximately one standard deviation below the company's respective 10-year averages.
- Valmont's price-to-book multiple is 2.6 times, which is in line with its 5- and 10-year averages. The company has compounded its book value at 19.3% over the past five and ten years.
- The company is currently valued at 1.2 times sales, and 6.9 times EBITDA (earnings before interest, taxes, depreciation, and amortization). These metrics compare favorably to the general small- and mid-cap universe.

Management

- The company's CEO, Mogens Bay, has been with Valmont for 34 years. He has held the position of CEO since 1993, and Chairman of the Board since 1997. Bay owns 331,935, or 1.2%, of the outstanding shares. Valmont has a good track record under Bay's leadership.
- Long-term incentives are tied to return on invested capital and cumulative compound operating income growth. Conversations with Mogens Bay have revealed that he is intensely focused on ROIC and EVA (economic value added), which we believe is a very important managerial quality.

Investment Thesis

Valmont is an above-average business with solid long-term growth prospects. Concerns over near-term demand for some of the company's cyclical products have recently pressured the stock. Over time, these concerns should subside as the company continues to participate in domestic and international infrastructure build-outs. They are also well positioned to supply the increasing need for more sophisticated and efficient irrigation products. The irrigation market in the U.S. is dominated by Valmont and Lindsay Corp., another FMI holding. We feel Valmont is trading at an attractive absolute valuation, and is especially appealing relative to broader market indices. This is especially true when considering the company's above-average historical growth and ROIC characteristics.

UnitedHealth Group, Inc. (UNH)
(Analyst: Dan Sievers)

Description

UnitedHealth Group is the largest and most diversified health benefits and managed care provider in the United States, with dominant competitive positioning in each of the core managed care business segments (commercial, Medicare, and Medicaid) as well as meaningful and improving competencies outside of the core managed care business (pharmacy benefit management, healthcare IT, and healthcare data). In terms of health benefits, the company serves 30 million consumers (individual, employer risk, and employer fee-based arrangements), 10 million Medicare beneficiaries (roughly 1 in 5), 4 million people through state Medicaid programs, 2.9 million veterans (a fee-based Department of Defense plan), and 4.8 million people through the acquired Amil business. Optum is a $37 billion growth business organized around health data.

Good Business

- UnitedHealth controls the number one or number two market share position in each health insurance end-market. The level of local, state, and federal regulations affecting this industry continue to raise complexity and thus barriers to entry.

- Health benefits migration away from fee-for-service models and toward more sophisticated managed care arrangements (performance-based contracts, accountable care, shared savings, and data feedback) favors scale-advantaged technologically-capable players like UnitedHealth.
- The company is expanding internationally (Amil is Brazil's largest commercial insurer).
- Optum is a collection of interesting higher-growth and higher-margin healthcare service, IT, and data businesses that have the potential to improve outcomes and healthcare efficiencies.
- The 5-year average ROE (return on equity) has been 18.3%.

Valuation

- UnitedHealth trades for 14.8 times earnings, in-line with its 10-year trailing average.
- The stock trades at a discount to the median of its long-term enterprise value-to-sales multiple.
- The company has a higher ROIC (return on invested capital) and long-term growth prospects that are greater than the average S&P 500 company, yet sells at a significant discount.

Management

- CEO Steve Hemsley is highly regarded, and all of our research suggests that the company has a deep bench of executive talent. Management has purposefully diversified UnitedHealth in thoughtful ways and has invested in forward thinking (even reform-minded) businesses, especially in the construction of Optum.
- Through dividends and repurchases, the company aims to return 65%-70% of free cash flow to shareholders.
- ROE is a key compensation metric (2010-2012 target was 14.2% vs. 18.8% actual).
- Optum's performance target to advance from 8% ROIC in 2012 to 15% in 2015 looks achievable.

Investment Thesis

By about 2017, UnitedHealth Group's profit contribution should be roughly 1/3 Commercial, 1/3 Government programs, and 1/3 Optum. Following 2013's Medicare Advantage reimbursement reset and 2014's various Affordable Care Act (ACA)-related changes (and challenges), the company will remain a powerful scale-advantaged player poised for substantial EPS (earnings per share) growth. As in any difficult reimbursement environment, the companies with the best scale and associated low operating cost structure gain market share. On the other side of ACA implementation, we believe that industry P/E (price-to-earnings) multiples could expand, at least on a relative basis. Given the company's enviable track record and superior growth profile, we think it should trade at an expanded premium.

Thank you for your interest in Fiduciary Management, Inc.

Fiduciary Management Inc.
All Cap Equity Composite
12/31/2007 - 12/31/2013

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			
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%
2013	29.61	28.70	33.55	35	0.69	11.72%	12.53%	$ 211.6	$ 19,705.3	1.07%

*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 - 12/31/2013. 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 - 12/31/2013. 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 $19.7 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 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 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.