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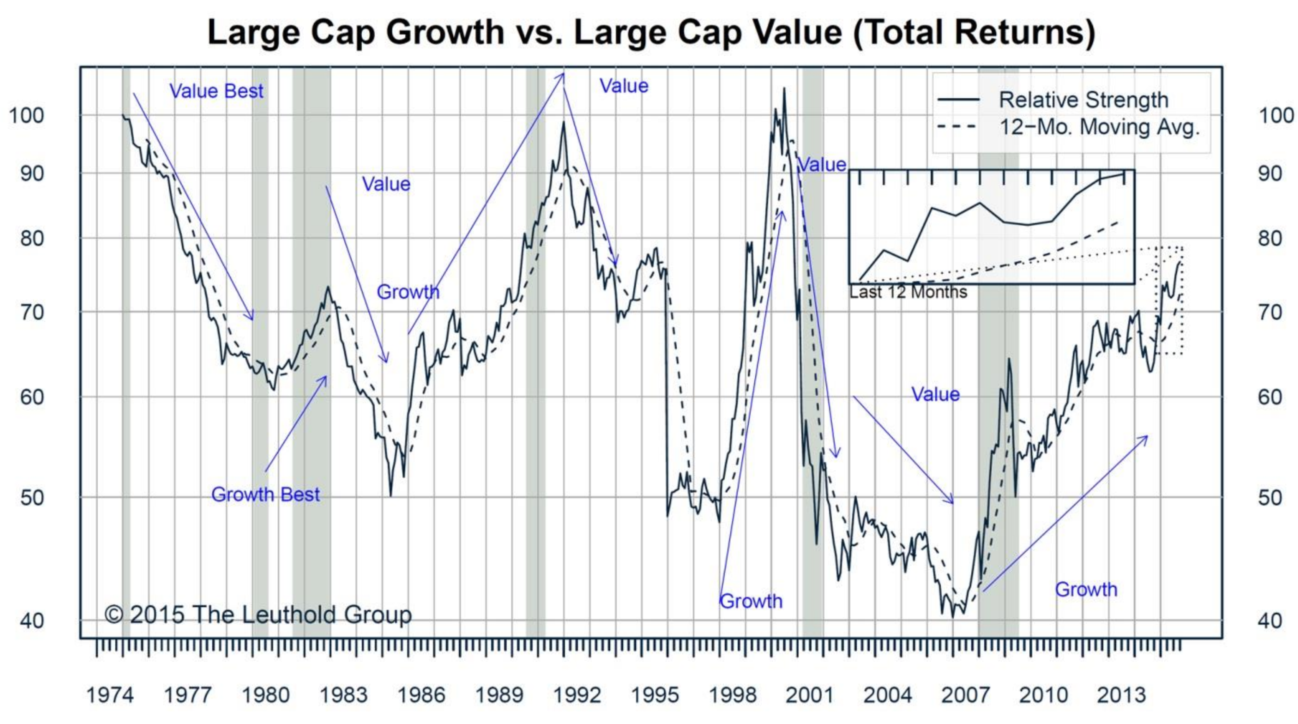
INVESTMENT STRATEGY OUTLOOK – ALL CAP EQUITY

September 30, 2015

The FMI All Cap portfolios declined approximately 6.5% in the September quarter compared to a drop of 7.25% for the Russell 3000 Index. Sectors that outperformed included Finance and Commercial Services, while sectors that underperformed included Process Industries and Energy Minerals. Progressive Corp. and Genpact Ltd. were relatively strong in the September quarter, while Potash Corp. and Devon Energy meaningfully declined.

Worries about global growth, particularly in emerging markets, have dampened demand for most commodities and industrial machinery. Nearly all commodity-oriented stocks have been hit, with energy and agriculture related stocks both suffering significant losses. Many industrial stocks have also buckled as global GDP has slowed. The first market pullback, which began in late May and ended in late August for most stocks, was the third 10% correction the market has seen since March of 2009. It is interesting that some of the most speculative sectors like Health Care and Biotechnology, which have been huge winners over the past several years, declined less than the market during this downturn. A quick recovery of about half the decline seemed to put the market back into the same pattern of the past several years. There is an old stock market bromide that says, “In a real bear market they get them all.” We think Biotechnology is a good bellwether group for this market; unless and until this group gets its comeuppance, we probably haven’t broken the pattern. Biotechnology stocks did come under significant selling pressure when the market had a second rough spell beginning September 17 and continuing until the last day of the quarter. The action in Biotechnology and other highly speculative groups will be closely monitored for signs that the fever has finally broken. The relative cheapness of our stocks has yet to pay significant dividends in this cycle. The market has not been focused on valuations, and continues to favor so-called growth and momentum stocks relative to value-oriented equities. The following chart illustrates this phenomenon.



As we pointed out in a previous letter, over very long periods of time value has historically beaten growth by a significant margin, but it is obviously very cyclical and growth has been relatively strong for quite some time. We anticipate this dynamic to change but cannot predict the timing.

Poor fundamental and anecdotal data coming out of China, Brazil and Japan, including expected negative gross domestic product (GDP) in the latter two countries; an energy-wounded and increasingly belligerent Russia; an escalating Middle East crisis creating approximately four million refugees; and a United States economy that quarterly bobs back and forth between poor and moderate growth, haven't delivered a nasty market in six and a half years despite high valuations (the Leuthold statistics of roughly 50 different valuation measures that we cite frequently was in the ninth decile at the start of the September quarter). The Fed recently lapped the ninth year since rates have been raised and nearly seven years of essentially zero percent Fed Funds rates, continuing what we believe is a dangerous and destructive policy that misallocates investment and engenders low, rather than high growth. As long as the Fed sees the world through a single prism – that low growth, seemingly slack labor conditions and low investment means interest rates need to be suppressed — no one will know what normal policies could achieve.

By permission Bruce Plante / Tulsa World

Since China concerns seemed to be at the root of the recent market correction, it is important to both remind ourselves just how extended China has become, but also that these worries need to be kept in perspective. Yes, as we have discussed for the past several years in these letters, China has undergone a massive credit buildup on the order of $26 trillion over the previous fifteen years, and has overbuilt a number of areas including steel and cement. Yes, China has likely built infrastructure that is far in excess of what is needed. Yes, China has too many apartments and too many malls. Yes, the Chinese banking system is fraught with risk. Yes, it will be very painful as China retrenches. It is important to remember, however, that most of the infrastructure (roads, bridges, rails, airports, marine terminals, etc.) has a long useful life. It is also critical to realize that what we know loosely as the private sector in China (businesses other than the State Owned Enterprises, or SOEs) has grown much more rapidly than the SOEs, and today account for an estimated two-thirds of all economic output, according to *The Economist*. The Chinese, generally speaking, are highly entrepreneurial and the largely private firms that have been allowed to operate have generated hundreds of millions of jobs over the past few decades. Chinese companies are increasingly known for their innovation, and we've seen glimpses of that with companies such as Alibaba, Xiaomi and Huawei. There is little doubt that China's GDP growth rate is less than the official number of 7% and there will likely be very significant digestion problems over the near term, including perhaps negative GDP growth. This will continue to have a deleterious impact on a number of companies across the globe, but longer-term, we remain optimistic about the growth in China and for many other emerging markets.

The producer side of the U.S. economy is clearly slowing, if not retracting. The strong dollar and the weakness in big economies like China, Brazil, Japan and Russia, along with the collateral damage from plunging commodity prices, is clearly affecting U.S. companies. Bellwether companies such as Grainger, Praxair and GE are seeing a broad-based industrial slowdown. However, some of the consumer facing industries such as retail, home and multi-family housing, automobiles and health care, are still growing significantly. Real personal spending on categories like food service, hotels, recreation and communications are all growing at a mid-single-digit rate. Overall real GDP growth in the first two quarters of 2015 was 0.6% and 3.9%, respectively, and recently the Atlanta Federal Reserve Bank lowered their third quarter GDP estimate from 1.8% to 0.9%. Unfortunately, corporate sales and earnings growth, as measured by the S&P 500 and Russell 2000 Indices, respectively, continue to be mired in the minus 1% to plus 1% range.

So, in summary, we see an uneven domestic economy, generally difficult world economies, little corporate sales or earnings growth, and equity valuations that remain quite expensive from a historical perspective. They are particularly expensive in the so-called defensive sectors. Investors have a tough choice: own really expensive stocks in the sectors that are "holding up," or own less expensive stocks in the areas where fundamentals are deteriorating. The good news is that increased volatility is giving long-term investors at least a glimpse of better risk/rewards. Over the past few years as stocks have seemingly levitated at unattractive levels, the research team has been actively researching dozens and dozens of good businesses whose valuations are not quite acceptable. We are excited about the potential opportunities to deploy capital at more attractive levels and reorient the portfolio to even better values as the market is pressured. As is our custom in the September letter, below we have highlighted a few investments:

Dollar General Corporation (DG)

(Analyst: Matt Sullivan)

Description

Dollar General is one of the largest discount retailers in the United States. The company operates over 12,000 small box stores located throughout 43 states, primarily in the southern, southwestern, midwestern and eastern U.S. They offer a broad selection of both branded and private label merchandise, including consumables (75%), seasonal products (13%), home products (6.5%), and apparel (5.5%). The company utilizes an "everyday low prices" strategy, with most merchandise priced at less than $10. Average selling space per store is approximately 7,400 square feet.

Good Business

- Dollar General's 5-year average return on invested capital (ROIC) is somewhere between 10.8% (including capitalized leases) and 25% (excluding capitalized leases). Given the fungible nature of the real estate, the true 5-year average ROIC greatly exceeds the company's cost of capital.
- Dollar General has grown its same store sales for 25 consecutive years, proving that the business model is more successful and less volatile than most other retail concepts.
- The low cost of real estate and concentrated SKUs (stock keeping units) allows Dollar General to sell merchandise at very competitive prices.
- The core customer makes less than $50,000 per year, and the low average ticket price provides the business with some protection from online competition.
- Dollar General has a solid balance sheet with debt-to-capital of 35%, adjusted debt-to-EBITDAR[1] of 3.0 times, and a fixed charge coverage ratio of 3.1 times. Management has stated that they would like to remain investment grade, and keep debt levels close to 3.0 times adjusted debt/EBITDAR.
- The business is easy to understand.

Valuation

- Dollar General trades for 16.4 times the next 12-month earnings per share forecasts, which is a discount to the S&P 500. However, this is a better-than-average company.
- The enterprise value-to-2015 (estimate) sales multiple is 1.15 times, which is below the company's 5-year average enterprise value-to-sales multiple of 1.2 times.

[1] Earnings Before Interest, Taxes, Depreciation, Amortization, and Restructuring or Rent Costs.

Management

- Todd Vasos was recently appointed CEO. Vasos has been with Dollar General since 2008, and was COO from 2013-2015.
- Rick Dreiling joined Dollar General in January 2008 as CEO and Board member. He was appointed Chairman of the Board on December 2, 2008. Dreiling recently retired from the CEO position but is still the company's Chairman of the Board.

Investment Thesis

Dollar General is a defensive business that performs well in most economic environments. For example, the company has grown its same store sales for 25 consecutive years. We expect that over the next few years, same store sales will continue to grow, and the company will also expand its store base. This should drive steady and reliable sales growth over our investment time horizon. When including stock buybacks, earnings per share are expected to grow at a double-digit compound annual rate. The company's stock is reasonably valued, trading at 16.4 times the next twelve month earnings per share estimates in an expensive market.

Stanley Black & Decker (SWK)

(Analyst: Matthew Goetzinger)

Description

Stanley Black & Decker is a leading global manufacturer of power and hand tools, engineered fasteners, and mechanical and electronic security solutions. The Tools & Storage business is the company's largest profit center, accounting for two-thirds of net income. In aggregate, 49% of the company's annual revenues are generated in the United States, with the remainder from Europe (25%), various emerging markets (17%), Canada (5%) and elsewhere.

Good Business

- Stanley Black & Decker is a leading consumer and professional tools franchise complimented by a growing market position in the value-added Engineered Fasteners business. Across each of the company's businesses, it is recognized for its innovation and product quality.
- The company's industry-leading branded tools business operates within a rational oligopoly. The Engineered Fasteners business participates within attractive niche applications that carry good entry barriers and high switching costs. Security Solutions also commands a leading market share within a more fragmented global market.
- Approximately 78% of the company's business can be considered recurring, replacement or platform-based.
- Excluding balance sheet goodwill, the 5-year average ROIC is 17.2% (2014: 20.4%).
- The company maintains a strong Standard & Poor's A-rated balance sheet, with net debt-to-EBITDA[2] of 1.9 times.
- The business is easy to understand. The company controls its own destiny.

Valuation

- On an absolute basis, Stanley Black & Decker trades at reasonable multiples to revenues of 1.6 times, and EBITDA (9 times), given the company's market position, margin structure, incremental return profile, and balance sheet characteristics.
- The stock trades at 16.7 times the calendar 2015 earnings estimate, which is a discount to the weighted average multiple of the S&P 500.
- Over the last decade, the company has returned approximately 50% of normalized free cash flow to its shareowners. Further, the company has raised its shareholder dividend for 47 consecutive years. Equally impressive is the fact that it has reduced the outstanding share count by 8% since 2011.

[2] Earnings Before Interest, Taxes, Depreciation and Amortization.

Management

- John Lundgren has been CEO since 2004 and Chairman since 2013. A reasonable acquisition track record has been hurt by a recent disappointment.
- Across the business, Stanley Black & Decker's management team carries years of industry experience and has performed well in terms of operational excellence.
- Management is incentivized to achieve an appropriate balance between cash flow return on investment, EPS growth and total shareholder return.

Investment Thesis

Management credibility and stock valuation have been hurt by underperformance within the company's small acquired security business. This temporary setback has resulted in the company refocusing on organic growth and repurchasing shares, as opposed to deal making. Over time this should allow the company's strong underlying market positions, brands, and reputation of innovation and product quality to grow intrinsic value and the stock price. Additionally, this company provides desired exposure to construction markets.

Thank you for your support of Fiduciary Management, Inc.

Fiduciary Management Inc.
All Cap Equity Composite
12/31/2007 - 06/30/2015

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%
2014	12.65	11.91	12.56	41	0.31	8.43%	9.29%	$ 268.0	$ 21,001.1	1.28%
Q1 2015	3.04	2.87	1.80	43	0.15	8.65%	9.64%	$ 284.5	$ 21,939.0	1.30%
Q2 2015	-0.66	-0.85	0.14	42	0.08	7.79%	8.59%	$ 275.2	$ 22,136.3	1.24%

*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 - 06/30/2015. 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 - 06/30/2015. The verification and performance examination reports are available upon request. Benchmark returns are not covered by the report of independent verifiers.

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 $22.1 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.