FIDUCIARY
MANAGEMENT, INC.
Investment Counsel

INVESTMENT STRATEGY OUTLOOK
LARGE CAP VALUE
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The first calendar quarter results for the portfolio were slightly ahead of the Standard & Poor's 500 Index. Strong advances by Boeing and Halliburton were offset by a severe drop in WorldCom. Coincidentally, this mirrored the results of the S&P 500, as industrial and cyclical stocks were strong and telecommunication stocks bombed. S&P 500 earnings results remained weak in the first quarter, following a 50% drop last year on a reported basis. So-called operating earnings were down less, approximately 40%, which made 2001 one of the worst earnings years since World War II.

Despite two tough years of performance for the S&P 500 Index, overall valuations remain extraordinarily high. This can be said about P/E ratios, book multiples, P/S ratios and P/CF multiples. The valuation of the portfolio remains significantly lower than the S&P 500 on all of these measures.

Although recent economic news is better, we remain cautious on the prospects for rapid S&P 500 earnings growth and stock appreciation. Excess capacity, pricing pressure, adverse currency and heavy debt loads remain the dominant themes in the U.S. Middle East turmoil is cause for concern. Combining all of this with stretched valuations leaves little room for mistakes. Thus, our portfolio continues to be conservatively postured. Recently we added names to the depressed telecom and pharmaceutical sectors.

We highlight a few of the portfolio holdings below.

Bristol-Myers Squibb Co.

Bristol-Myers is a large pharmaceutical company with approximately $18 billion in revenue and many ethical brands including Pravachol, Plavix, Taxol, Glucophage and others. It also sells medical devices and consumer products such as Ban, Bufferin, Nuprin and Enfamil. The Company has generated excellent financial results over the years and the stock was a big winner until 2000.

The entire pharmaceutical sector has been out of favor recently and Bristol-Myers in particular. There have been a number of high profile clinical failures in the industry including Bristol-Myers' recently announced disappointing clinical results from Vanlev, a hypertension drug. These failures reminded investors not only of the risk inherent in drug development, but the lack of strong drug development pipelines today versus a few years ago. Additionally, the FDA and the politicians have been more contentious to the big pharmaceutical companies. Finally, the stock market has recently been focused on industrials and cyclicals. Bristol added even more to the woe by preannouncing poor earnings due to distributor inventory issues and strong generic competition.

We like the stock because the valuation is depressed and there remains promising drugs in the pipeline. The Company continues to spend heavily on research and development and the management shake-up should have positive implications. Typically, drug stocks sell at a substantial premium to the market and we expect this to be the case over the next several years as the Company gets back on track.

Computer Sciences Corp.

Computer Sciences ("CSC") is a diversified computer services firm with $12 billion in revenues and operations that span the globe. Major business lines include outsourcing, systems integration and management consulting

with an overall customer revenue mix of U.S. commercial (38%), US Federal (25%), Europe (26%), and other international (11%). We like the computer services area as the revenues tend to be more predictable versus traditional technology companies yet we are still exposed to the growth driver of changing technology.

CSC appears to have positively resolved two large outsourcing contracts that were initially losing money for the Company. The outlook for systems integration and management consulting, although not strong, is stronger than it was six months ago. Ultimately, we would expect this business to return to something approaching 10% growth. New contract signings in outsourcing and the U.S. Federal business has been stronger and we would expect this to continue. CSC's current valuation is at a significant discount to its peer group and the long-term outlook is bright.

Comerica Inc.

Comerica is a regional bank that specializes in mid-market lending. Relative to its peer group, this bank is heavily weighted toward commercial lending and considerably underweighted in consumer lending. Given our belief that significant parts of corporate America has already been through tough economic times-whereas consumer America has not-we think the worst of the loan loss provisioning for Comerica is behind them. We also take comfort from the fact that Comerica has historically had relatively low loan losses when compared to its peer group. Finally, we point out that management has largely stuck to its knitting, staying away from "hot" new loan areas like sub-prime lending, 125% loan-to-value mortgage lending, auto leasing and credit cards.

We found the valuation, at roughly 10x this year's earnings, and the 3.3% dividend yield-based on a reasonable 36% payout ratio-attractive on both an absolute and relative basis.

Thank you for your confidence in Fiduciary Management, Inc.