FIDUCIARY MANAGEMENT, INC.
Investment Counsel

INVESTMENT STRATEGY OUTLOOK
LARGE CAP VALUE
July 2002

Review

The portfolio performed slightly better than the Standard & Poor's 500 decline of about 13.7% in the second quarter. While we take some comfort in "outperforming" the benchmark, there is no real solace in seeing a double-digit decline. Put simply, most stocks in the Standard & Poor's 500 declined in the June quarter and our portfolio reflected this phenomenon.

Technology, Telecom and IT service stocks were hard hit in the quarter, continuing a two-year trend. Pharmaceutical stocks were particularly weak in the quarter. Our move into this sector has obviously been premature, but we continue to like the potential for these stocks over the next few years. Current sentiment is poor, but the long-term franchise values appear to be solid and not fully reflected in prevailing valuations. Echostar also performed poorly in the quarter, perhaps due to some misplaced fear toward "EBITDA" stories. Unlike the cable industry and other companies in the entertainment field, Echostar has turned the corner on it's capital spending. They are now solidly profitable with rapidly growing cash flow. As the furor over corporate accounting abates, we expect Echostar to perform well.

Options

We are encouraged by some of the actions to tighten corporate governance and accounting. These efforts will help restore faith in our capital markets. We would like to see more vigilance on the part of institutional shareholders and boards of directors toward option programs, as we believe many of these plans have contributed greatly to some of the excesses and quality of earnings problems that exist today. Since options carry essentially no downside risk for managers, they have encouraged overly risky behavior. Moreover, even though options are clearly a compensation expense, they are not accounted for as such on the income statement. In addition, the size and concentration of many option packages borders on the absurd. With fantastic amounts of dollars at stake, it's created an environment ripe for abuse.

As a portfolio manager, we have wrestled with corporate executives for years about overly generous stock option plans. While options make sense for junior level or lesser-compensated employees, we strongly favor outright share ownership for senior and executive level management. Only through actual share ownership are shareholders and managers truly aligned. We are encouraged that some companies have begun moving in this direction. We are hopeful that the current environment will foster a stronger move in this direction.

Outlook

The magic of the late 1990s has been put into perspective over the past two years. Much of it looks like foolishness in hindsight. We cannot predict when the current bear market may end. We can attempt to identify strong business franchises with good balance sheets. We believe we have a better than average ability to find these businesses and purchase the stocks at opportunistic prices, when viewed with a long-term perspective.

Thank you for your support of Fiduciary Management, Inc.