FIDUCIARY MANAGEMENT, INC.
Investment Counsel

INVESTMENT STRATEGY OUTLOOK
LARGE CAP VALUE
April 2003

The large cap value portfolio performed slightly better in the quarter ended March 31 than the decline of 3.2% for the Standard & Poor's 500 Index. Large cap technology stocks were generally higher in the period, carrying the Nasdaq Composite to a slight 0.4% gain. Like most equity related investments, the portfolio was affected by worries about the war in Iraq, the sluggish economy and higher unemployment levels. Continued concerns about commercial aerospace impacted one of the big decliners in the portfolio this quarter, Boeing. Higher loan losses due to a weak economy and a difficult U.S. manufacturing landscape affected Comerica. In both cases, we believe the long-term franchise value has not been significantly damaged and we continue to like the stocks.

Recent economic news has not been particularly inspiring. The jobless number jumped significantly in February and real household weekly earnings fell, too. The National Association of Purchasing Management-Chicago reported the factory index fell to 48.4 in March from 54.9 in February. Consumer confidence is low and capital spending plans remain subdued. The automotive sector has also weakened and housing, while remarkably resilient, remains on the watch list. While we all yearn for a better economic backdrop, it is important to remember that both economic and investment sentiment are cyclical in nature. In the late 1990's some believed we were in a "Goldilocks" economy. The stock market sold at unprecedented valuations.

Behind this porridge-is-just-right perception was a litany of negatives that only came to be recognized after the fact. Human nature being what it is, the same phenomenon could occur in reverse. The popular press today is quite negative. Yet behind the scenes, inefficiency is being addressed, excess capacity is being reduced and latent demand is building. These things may take longer to become apparent than short-term investors or economists hope, but the probability of their eventual occurrence is quite high. While the investment landscape today is filled with large macroeconomic and geopolitical themes, we constantly remind ourselves that money is typically made with small ideas. In other words, by investing one stock at a time.

Below we highlight three investments in the portfolio.

Echostar Communications Corp.

EchoStar, through its DISH Network, is a leading provider of satellite delivered digital television entertainment services to customers across the United States. The DISH Network provides advanced digital satellite television services, including over 500 video and audio channels. EchoStar started offering subscription television services on the DISH Network in March 1996 and as of year-end 2002 had 8.2 million subscribers. EchoStar continues to take market share from the cable operators due to its reasonably priced television programming services. EchoStar's packages are approximately $10 per month cheaper than comparable cable television programming services. This value proposition has proven to be particularly attractive in a weak economy. Other factors that are expected to help sustain growth going forward include the continued expansion of local channels into additional markets, the deployment of personal video recording technology, and the rollout of high definition television. The company expects it will add at least one million subscribers in 2003 at a time when most of the other multi-channel operators are experiencing subscriber losses.

EchoStar is a durable business franchise with a recurring revenue base and attractive return-on-invested capital (ROIC) prospects. The balance sheet has leverage, but debt should fall in coming years as the free cash flow builds. The stock trades at around $1,900 per subscriber, a 40% discount to the cable group average of $3,200. As an aside, we think cable stocks are fully valued. EchoStar is expected to grow EBITDA (earnings before interest, taxes, depreciation and amortization) at a 20-25% compound annual rate over the next few years, which is twice as fast as the cable group. Nonetheless, the exceptional discount valuation that the stock once had has disappeared (the stock is up over 30% this year). Recently, we have trimmed the stock.

News Corporation Ltd.

News Corp. is a diversified international media and entertainment company that is principally engaged in the production and distribution of motion pictures and television programming; television, satellite, and cable broadcasting; and the publication of newspapers, magazines, and books. A great degree of vertical integration on a global scale allows News Corp. to capture the value from the content it creates.

There are several important contributors to growth going forward. One is the company's cable network programming assets, which include Fox Sports, Fox News, and FX. News Corp. has begun to reap the benefits of the start-up costs incurred to develop these networks years ago, and is now experiencing higher ratings, affiliate fees, and advertising dollars. A second contributor to growth is the FCC's ruling several years back that allows media companies like News Corp. to own two TV stations in the same market. This greatly improves the economics at the station level. Finally, News Corp. will benefit from its syndication backlog, which is a byproduct of the company's investment in programming. These syndicated programs are attractive because they provide the company with an annuity-like cash flow stream that should lessen its dependence on new hits.

In recent years, News Corp. has become increasingly disciplined in terms of its capital allocation policies. An example of this is their unwillingness to overpay for GM's DirecTV satellite business. The media and entertainment industry is currently depressed but should rebound with the economy given the expected increase in advertising spending. The sum-of-the-parts valuation for News Corp. is in the mid-$30s, which is a 30% increase from current levels.

Schlumberger Ltd.

Schlumberger is one of the world's leading oil services companies. The company provides products and solutions that span the entire reservoir life cycle. Schlumberger's proprietary technology and service helps enhance oilfield efficiency, lower finding and production costs, improve productivity, maximize reserve recovery, and increase asset value. The company's significant investment in Research & Development (R&D) has enabled Schlumberger to establish leading positions in the markets that it serves. More than two-thirds of the company's oilfield services revenues are derived from outside of North America.

Schlumberger will be a beneficiary of the next upturn in the oil and gas spending cycle. Customers have been hesitant to increase capital expenditures despite the significant rise in commodity prices due to uncertainty surrounding the armed conflict in the Middle East and the sustainability of commodity prices at current levels. However, oil and gas companies need to increase their spending to improve sluggish volume growth, and this in turn will increase their demand for Schlumberger's products and solutions.

The company strayed from its core competencies in recent years by diversifying into information technology consulting, which ultimately hurt ROIC. However, Schlumberger recently appointed a new Chairman and CEO, who is expected to re-focus the company on value-added oil services. The stock trades at an enterprise value to 2003 EBITDA multiple of 9.8, which is a 15-20% discount to its large- and mid-cap peers. Given Schlumberger's franchise value and the changes that are taking place at the company, the stock has the potential to regain its historical premium to the group in the next strong oil service cycle.

Thank you for your confidence in Fiduciary Management, Inc.