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Investment Strategy Outlook - Large Cap Equity

Quarter Ended March 31, 2006

Fiduciary Management large cap portfolios gained approximately 4% in the March quarter, roughly in line with the return for the Standard & Poor's 500 Index. The finance sector was a laggard for us in the quarter, as we remain underweight in a group that continues to do surprisingly well in spite of higher interest rates and a less favorable consumer credit environment. We significantly increased our weighting in Willis Group, an insurance brokerage firm, while eliminating Loews Corporation. Loews was a very good stock for us but we felt its valuation was no longer compelling compared to Willis. We also believe Willis' business model and return dynamics are superior to Loews' and will thus be a better investment, over the long pull. Aside from the finance sector, there was continued strength in energy stocks and somewhat surprisingly, the industrial group. From an individual stock perspective, Waste Management, Canon, Diageo and Cardinal all performed well in the quarter. Tyco, Time Warner and Kimberly-Clark were all down slightly in the period.

Small cap stocks were extremely strong in the quarter, with the Russell 2000 Index outpacing the Standard & Poor's 500 Index (S&P 500) by over 9.5 percentage points. There seems to be a speculative fervor once again in small cap "growth" stocks. High-multiple technology stocks and deeply cyclical equities were extraordinary in the quarter, particularly for the smaller-cap issues. The spending environment for technology products and services is relatively healthy and we are not surprised to see strength in these stocks. Indeed, our own "downstream" technology investments have generally done well and we remain optimistic about each of their respective prospects. Valuations for larger-cap high technology stocks appear to be a lot more reasonable than they are for small cap issues, but neither hold great appeal for us. Valuations in the deeply cyclical part of the market seem extraordinarily high, particularly when one considers that we are four-and-a-half years into an economic expansion cycle. We do not see the bottom dropping out of the economy or anything near-term to shake technology spending, but we are less sanguine about the heavy industrial and high technology stocks.

Valuations are always near and dear to our heart, of course, and as of March 31, 2006, this is what the large cap portfolios looked like relative to the benchmark S&P 500, on a weighted average basis:

	Price-to-Earnings Year 1	**Price-to-Earnings Year 2**	**Price-to-Sales**	**Price-to-Book**
FMI Large Cap Equity	**15.8**	**14.0**	**1.3**	**3.0**
Standard & Poor's 500	**17.8**	**15.7**	**2.6**	**4.1**

While absolute valuations aren't compelling, relative valuations remain on our side. We continue to find interesting special situations that keep us hopeful for the future.

We have outlined two of our recent purchases below:

Tyco International, Ltd.

Description

Tyco is a $40 billion diversified manufacturing and service company that operates in the following businesses: Electronics, at 31% of revenue and 29% of operating profit before corporate expense in fiscal 2005; Fire & Security, at 29% and 19%, respectively; Healthcare, at 24% and 41%; and Engineered Products & Services, at 16% and 11%. The U.S. accounts for 49% of revenue; Europe, 29%; Asia-Pacific, 16%; and Other Americas, 6%.

Good Business

- Tyco has a diverse portfolio of leading brands that include AMP and Raychem in the Electronics division; ADT in Fire & Security; and U.S. Surgical, Kendall, and Mallinckrodt in Healthcare. Over two-thirds of revenue is derived from products and services where they have a number one position.
- The company appears to be well positioned for the current stage of the economic cycle. Approximately 35% of the overall portfolio is levered to non-residential construction, an additional 30% is levered to a recovery in Electronics, and approximately one-quarter is levered to the relatively defensive Healthcare business.
- While the current return on investment capital (ROIC) of 8.2% is depressed due to one-time expenses and historical mistakes, the return on incremental invested capital is nearly 30%.
- The debt is rated BBB+ by Standard & Poor's. The rating includes the assumption that the company will have to pay $4 billion to put all its legal issues behind it.

Management

- Ed Breen has been Chairman and Chief Executive Officer since July of 2002. Since coming to Tyco from Motorola, Breen has resolved the liquidity crisis, paid down nearly $13 billion in net debt, replaced the entire board of directors and much of senior management, and re-structured operations.
- Chris Coughlin has been Chief Financial Officer since March 2005. He previously served as Chief Operating Officer of Interpublic and Chief Financial Officer of Pharmacia and Nabisco.
- Management is focused on driving organic growth and returning cash to shareholders via the payment of a dividend (1.5% yield) and the buyback of stock.

Valuation

- The stock is off 22% from its 52-week high, as management has lowered its forecasts on several occasions.
- Tyco trades below the S&P 500 on a multiple of earnings per share (EPS); earnings before interest, taxes, depreciation and amortization (EBITDA); sales; and free cash flow.
- Management has announced that it will be breaking the company up into three individual pieces: Electronics; Fire & Security and Engineered Products & Services; and Healthcare. We value Tyco at 25-30% higher than the current stock price on a sum-of-the-parts basis.

Investment Thesis

The pullback in Tyco's stock price provides us with an opportunity to own several well-established (albeit underperforming) franchises at a significant discount to both the market and comparable companies, based on a sum-of-the-parts analysis. After several years of turmoil following the Dennis Kowslowski era, we believe management will execute better at the business unit level. Better performance will remove the taint on this company and should ultimately lead to a higher valuation.

Wal-Mart Stores, Inc.

Description

Wal-Mart is the world's largest retailer with the broadest assortment of consumer goods anywhere. The company operates in a variety of formats around the world. The majority of U.S. stores are SuperCenters (1,986 units), followed by discount stores (1,203 units), SAM'S Clubs (567), and Neighborhood Markets (101). The domestic Wal-Mart Stores segment accounts for 67% of revenues. SAM's Club accounts for 13% with the remaining 20% of revenues earned in the company's international business.

Good Business

- Wal-Mart offers exceptional quality at a low price. This strategy has proven highly durable. The company has significant competitive advantages in sourcing, logistics and marketing.
- Wal-Mart's revenues are derived from the recurring sale of consumable products.
- Since 1997 Wal-Mart has increased its ROIC by nearly 300 basis points to 13.3%. The company continues to invest in expansion, sourcing, supply chain efficiencies and merchandising initiatives, the combination of which should lead to attractive incremental returns on capital.
- Wal-Mart is the ultimate scale operator. It has a sustainable competitive advantage.
- The company maintains an AA rated balance sheet. Net debt-to-total capital is 29% and long-term debt-to-EBITDA is 1.3.

Valuation

- Wal-Mart currently trades at its lowest valuation level in nearly a decade on every common valuation yardstick.
- The current forward price-to-earnings ratio (P/E) of 16 is at the low end of the historical 10-year P/E range of 16 to 54, and 41% below the 27 average.
- On an enterprise value basis, Wal-Mart trades at 70% of annual revenues, a deep discount to the company's 10-year average of 105%. The 10-year range is 60% to 210%.
- The current enterprise-value-to-EBITDA multiple is 36% below the 10-year average of 14.6. The range is 9 to 31.
- Despite Wal-Mart's durable business model and strong financial profile the stock trades at over a 10% discount to the S&P 500 versus a historical average premium of 20%.

Management

- Lee Scott has been President and Chief Executive Officer since January 2000. In his 22 previous years at the company, Scott has held a variety of other leadership positions including Chief Operating Officer, and Chief Executive Officer of the Wal-Mart Stores division.
- The executive management team also includes Eduardo Castro-Wright, Chief Executive Officer of the Wal-Mart Stores division; Michael Duke, Chief Executive Officer of the International segment; John Menzer, head of U.S. operations; and Tom Schoewe, Chief Financial Officer.
- Wal-Mart has a strong heritage of organically developing its management talent. Approximately two-thirds of management started their careers as Wal-Mart associates.
- Management incentives are aligned with shareholders due to significant insider ownership and incentive compensation targets based, in part, upon return on assets.

Investment Thesis

Despite improved returns on invested capital and average annual earnings growth of approximately 15% over the last five years, Wal-Mart's stock is the same price it was in the fall of 1999. Near-term concerns over the global economy, labor relations, and consumer activism have obscured numerous positive changes evolving through the company's reinvigorated focus on improving capital efficiency. The current discounted valuation presents an opportunity to invest in the world's most dominant retailer with a significant margin of safety.

Thank you for your continued confidence in Fiduciary Management, Inc.

Fiduciary Management Inc.
Large Cap Equity Composite
12/31/2000 - 09/30/2011

Year	Total Return Gross of Fees %	Total Return Net of Fees %	*Benchmark Return %	Number of Portfolios	Dispersion %	Total Composite Assets End of Period ($ millions)	Total Firm Assets End of Period ($ millions)	Percentage of Firm Assets %
2001	20.47	19.70	-11.89	1	0.00	$ 3.6	$ 1,458.2	0.25%
2002	-13.33	-14.11	-22.10	8	0.17	$ 14.0	$ 1,731.0	0.81%
2003	34.29	33.15	28.68	4	0.86	$ 20.8	$ 2,927.0	0.71%
2004	19.32	18.46	10.88	10	0.46	$ 48.9	$ 3,085.8	1.58%
2005	10.22	9.57	4.91	28	0.29	$ 192.2	$ 3,174.4	6.05%
2006	17.91	17.15	15.79	49	0.30	$ 491.0	$ 3,589.4	13.68%
2007	5.05	4.34	5.49	86	0.48	$ 1,000.2	$ 3,960.4	25.26%
2008	-26.38	-26.91	-37.00	130	0.63	$ 1,969.3	$ 4,062.5	48.48%
2009	30.92	30.09	26.46	252	1.22	$ 3,820.3	$ 7,008.9	54.51%
2010	12.52	11.81	15.06	394	0.31	$ 5,923.2	$ 9,816.0	60.34%
Q1 2011	5.01	4.85	5.92	436	0.12	$ 6,717.9	$ 11,338.0	59.25%
Q2 2011	2.07	1.91	0.10	459	0.11	$ 7,701.2	$ 11,819.6	65.16%
Q3 2011	-13.91	-14.04	-13.87	485	0.18	$ 6,989.5	$ 10,357.9	67.48%

*Benchmark: S&P 500 Index®

Effective January 2012, 2004 – 2011 gross and net composite returns were restated due to an error.
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, Inc. (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 - 09/30/2011. 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 Large Cap Equity composite has been examined for the periods 12/31/2000 - 09/30/2011. 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 $10.3 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 Large Cap Equity Composite was created in December 2000. These accounts primarily invest in medium to large capitalization US equities.

The FMI Large Cap Equity Composite reflects time-weighted and asset-weighted returns for all discretionary accounts. From December 31, 2000 thru September 30, 2002 all accounts included were managed for at least one quarter, from October 1, 2002 to present 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, gross of custodial fees, gross of withholding taxes 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 standard deviation of all accounts in the composite for the entire period.

Currently, the advisory fee structure for the FMI Large Cap Equity Composite portfolios is as follows:

Up to $25,000,000	0.65%
$25,000,001-$50,000,000	0.55%
$50,000,001-$100,000,000	0.45%
$100,000,001 and above	0.40%

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 S&P 500 Index® is widely regarded as the best single gauge of the U.S. equities market. This index includes 500 leading companies in leading industries of the U.S. economy. Although the S&P 500® focuses on the large cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.
The Large Cap Equity composite uses the S&P 500 Index® as its primary index comparison.