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INVESTMENT STRATEGY OUTLOOK - LARGE CAP EQUITY

Quarter Ended June 30, 2006

The June quarter was volatile but in the end, little changed for stocks. The FMI large cap portfolios were up fractionally in the June period, bringing the calendar year-to-date performance to a gain of approximately 4%-5%. The Standard & Poor's 500 Index declined 1.4% in the quarter and was up 2.7% on the year. Investors' fears about interest rates, inflation and the economy seemed to fuel the turnaround in the market from a relatively robust March quarter. Several of the speculative areas we cited in the March letter, particularly industrial cyclicals and commodities, fell substantially in the quarter. Stocks that helped the FMI portfolios in the June quarter included Aramark, who announced plans to go private, Kroger, and Kimberly Clark. Equities that detracted from the results included Cardinal Health, Comerica and TJX Companies. The Bank of New York and Sprint Nextel were added to the portfolio in the quarter.

The market seemed to have a schizophrenic nature throughout the June quarter. One day, investors would fret the Bernanke Fed and the prospect of higher rates to fight nascent inflation. The next day, ostensibly due to a piece of news such as a weaker-than-expected payroll number, the market would rally. A third theme had the economy lurching toward recession. Volatility picked up significantly after the relative calm of the past two years, as one might imagine. Such increased volatility, combined with what is shaping up to be a record year of merger and acquisition (M&A) activity, historically portends market peaks. Of course, volatility could substantially increase from here and the deal calendar could get even busier, which could lead to a big rally in the market. From 1996-1999, we thought the combination of high volatility, frenetic M&A, and silly valuations would send the market lower. By 2000 we were right, but it is a reminder that these things happen on their own time schedule. Having said this, it is difficult to imagine that investors could go looney again so soon after the last debacle.

Twice each year we make some big picture comments. Below are a few thoughts on the economy and housing, as well as what we believe is an interesting historical review of valuations.

The Economy

Real Gross Domestic Product (GDP) expanded at a surprisingly strong 5.6% in the first quarter. With high gasoline and energy prices, and generally higher prices overall, combined with a slowing of the home equity cash-out-to-spend cycle, one would not have anticipated this sort of number. But in the short run, anything is possible, and it is instructive to remember that the first quarter undoubtedly rebounded off a weak (hurricane aftermath) December quarter. There were certainly plenty of signs pointing to a slower growth rate in the June quarter. Auto and home sales slowed and many consumer-related stocks have signaled weaker results. On June 29, The Federal Reserve Open Market Committee, after raising the Fed Funds Rate to 5.25%, said, "...indicators suggest that economic growth is moderating from its quite strong pace earlier this year." Although the market rallied in the face of this seventeenth consecutive rate hike on the theory that the Fed might be done raising rates, the gray-haired among us shuddered to contemplate rising rates, escalating inflation, and a weakening economy. These circumstances harken back to the stagflation days in the 1970s and early 1980s. While we are a long way from such an environment, the fact that pundits have started talking about it suggests that the so-called Goldilocks economy of the last several years may be a thing of the past. It is certainly ironic that Mr. Bernanke finds himself battling inflation demons when just a few short years ago as a Fed governor, he talked about dropping dollar bills from a helicopter to forestall deflation! We do not see inflation getting out of hand, primarily because of international labor arbitrage keeping wages in check.

We reiterate our opinion from six months ago that we see slower growth ahead, particularly from the standpoint of consumer spending. Inflation in May was 4.2% on a year-over-year basis and even the "core" rate, which excludes food and energy, was 2.4%. Real discretionary income appears to be falling. Payroll growth seems to have stopped improving and wages (+3.8%) are not keeping pace with inflation. Consumer borrowing rates and mortgage interest rates are rising. Merrill Lynch estimates that over 60% of 2005 consumer spending growth was the result of mortgage equity withdrawal. That conduit has obviously diminished in 2006. All of these items can change quickly, but for the time being, the economy looks like it will be weaker in the months ahead.

Energy

In our letter dated December 31, 2005, we said that we thought oil had peaked, and the fundamentals supported a lower price, but that hasn't stopped crude from rising another $10 in the last six months! Crude inventories are now at a 20-year high. Consumption growth has fallen. According to BP's chief economist, worldwide demand growth in 2005 decelerated to 2.7% from 4.4% in 2004. U.S. consumption was down 0.1% in 2005, the first time since 1985 that the U.S. experienced above-average GDP growth and declining energy consumption. Chinese energy consumption grew 9.5% in 2005 compared to 15.5% in 2004 despite economic growth of close to 10% in both years. Price sends a signal to the market and we are seeing conservation and efficiency measures taking hold. Spending for exploration and refining is increasing dramatically. Eventually this should mean lower energy prices. Natural gas inventories are over 30% above levels of a year ago and over 60% higher than the five-year average. With this market being more regional in nature and perhaps not as sensitive as oil is to terrorism concerns, prices have fallen approximately 50% over the past six months.

Housing

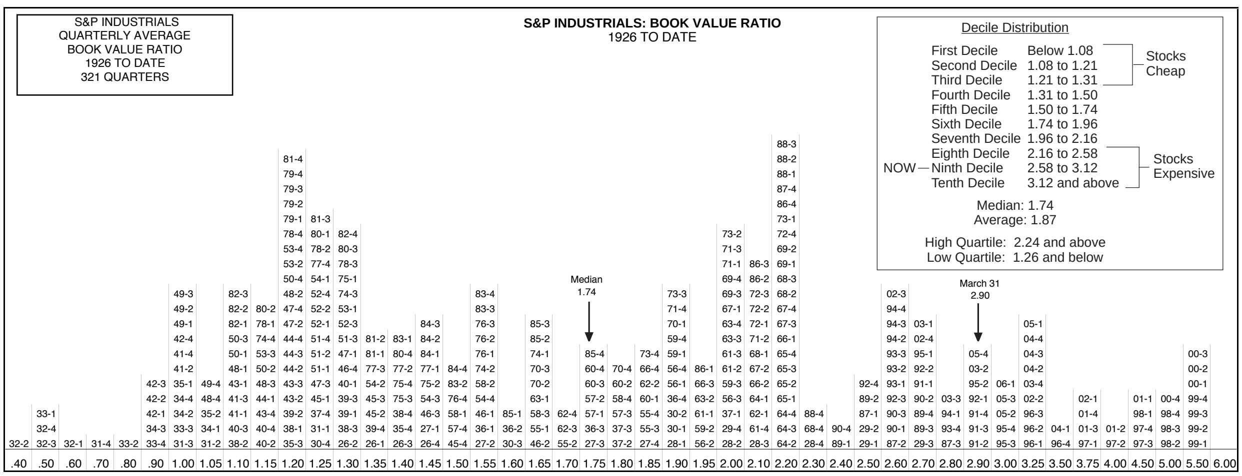
Signs of a housing slowdown are now widely prevalent. Prices in some of the hottest markets have already declined 10-20%. The National Association of Realtors' figures show declines of 10% or more in 25 of the top 150 markets between October 2005 and April 2006. Inventories are up substantially and time to close transactions has stretched significantly. The current inventory levels of new (570,000) and existing (3.38 million) homes for sale is 64% and 66% above their 10-year average of 344,000 and 2.03 million units, respectively. Housing starts began falling late last year and although the month-to-month numbers jump around considerably, they are down by double digits in 2006. Historically, new sales have been a leading indicator of existing home sales, a much larger market. There have been ten down housing cycles in the past fifty years. According to Merrill Lynch, on average, housing starts drop 42% during these down periods, and the duration of the cycles is roughly two years. In seven of these ten cycles, the downturn foreshadowed a recession.

Valuation

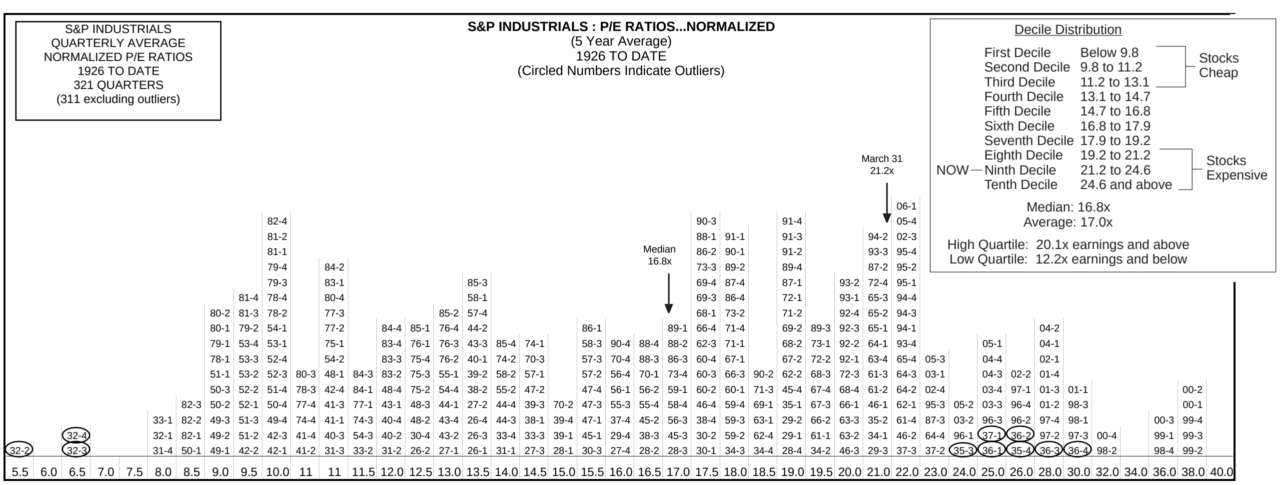
In the December letter, we discussed long-term valuation measurements and the character of the corresponding histograms. We mentioned that these histograms were not smooth bell curves, but rather more randomly distributed. If anything, the valuation distributions were more "barbell" in nature. We'd like to follow up on that commentary by depicting four popular valuation measurements graphically. We would also like to thank The Leuthold Group for permission to use this data. The first three histograms use the Standard & Poor's (S&P) Industrials — formerly the S&P 400 Industrials — which are the nonfinancial companies in the S&P 500. Data on the price-to-book (book value ratio) multiple, price-to-earnings multiple and market value-to-GDP histograms goes back to

1926 and the price-to-sales data goes back to 1956. Although the print is necessarily small to fit in this letter, full size reproductions will soon be made available on our website, at www.fiduciarymgt.com.

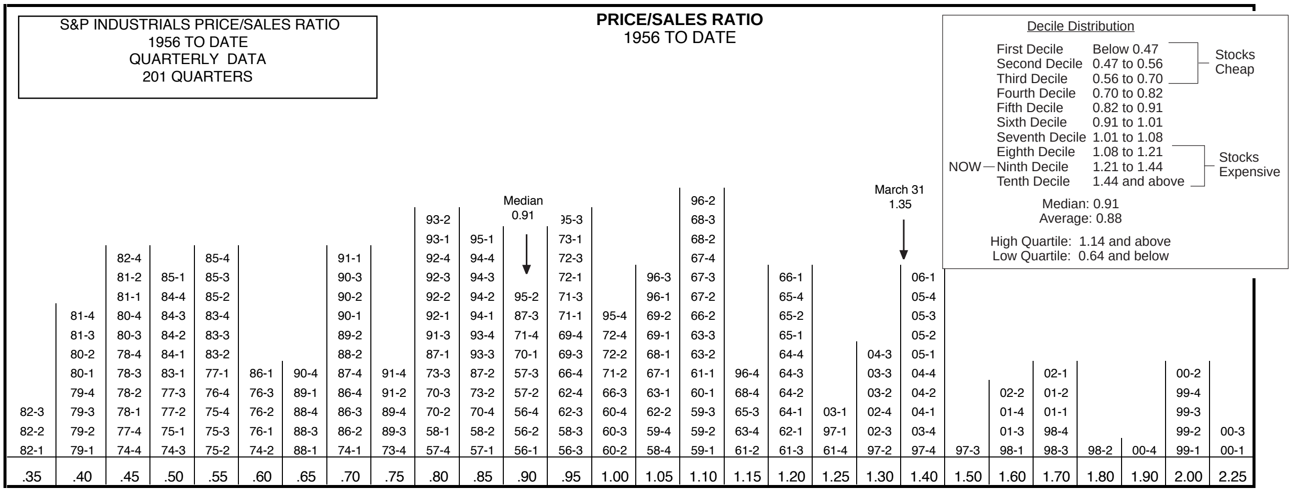
Each quarter constitutes a data point. For example, in the first histogram, price-to-book value, the farthest data point to the left, and thus the cheapest, is 32-2, which is in the .40 column. In other words, in the second quarter of 1932, stocks sold at 40% of their book value. On March 31, 2006 (the latest data point available), stocks sold at 290% of their book value. Each histogram has a corresponding valuation distribution table, divided by deciles. The current book multiple is in the ninth decile. It is interesting to note the shape of all of the histograms. In no case, and in no other valuation measure that we studied, is there a classic normal distribution. If anything, the distributions are more bimodal in nature, which is not surprising when you think about the stock market. The stock market tends to go through periods of excessive optimism and excessive pessimism. There is nothing magical about the median; it is just another plot on the graph. Valuations tend to cluster to the right, "expensive," or the left, "cheap." Thus, looking at the left side of the graph we generally see the 1930s, 1940s and 1970s. On the right side are the 1990s and 2000s.



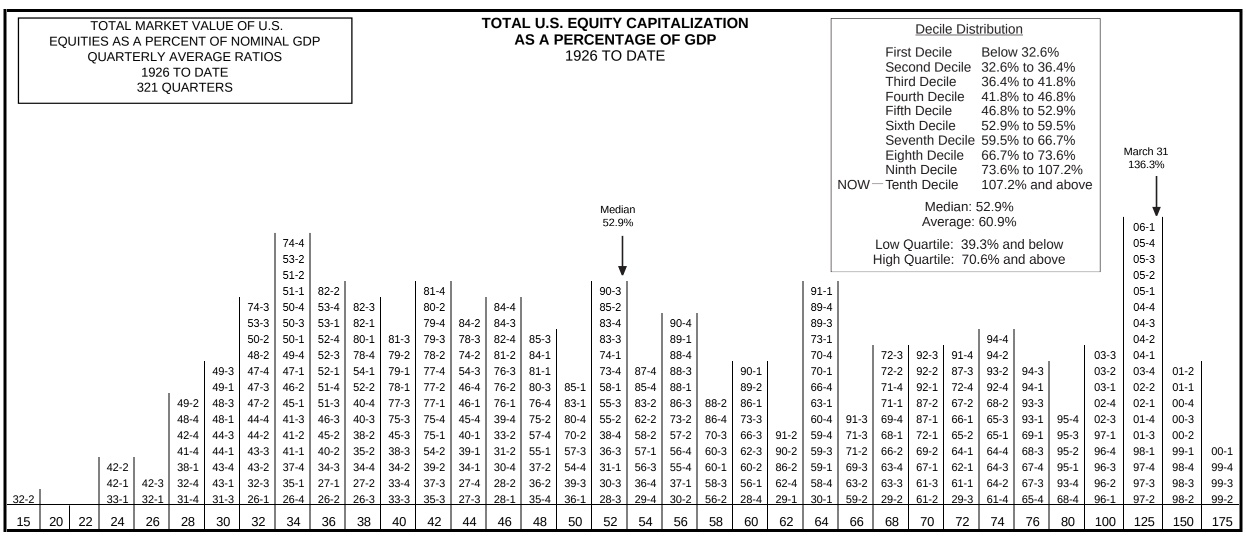
The price-to-earnings histogram is very similar, although you will see many data points from the 1930s on the right side. This is due to the utter collapse of corporate earnings during the depression, thus creating high price-to-earnings ratios. These outliers have been circled. Note the barbell shape and the fact that the March 31 data point is also in the ninth decile. Due to the inherent volatility in earnings, The Leuthold Group uses a five-year normalizing procedure. Again, further information about the methodology will be available on our website.



The price-to-sales (market capitalization divided by annual revenue) histogram only goes back to 1956 but it is probably the truest representation of underlying value, simply because revenues are much more consistent than either earnings or book value. Here we see the 1970s and early 1980s clustered to the left and the 1990s and 2000s to the right. It is no surprise that this measure is also in the ninth decile.



The last histogram is perhaps the broadest measure of value, the total market capitalization of U.S. stocks divided by GDP. Again, we see the barbell shape and the same dates on the left and the right as we did in the other histograms. The 136.3% March 31 reading is in the tenth decile. This histogram is undoubtedly skewed due to the fact that a higher percentage of companies are public today than historically. Still, the conclusion is the same; stocks remain fairly expensive based on long-term historical valuation measures.



What does this mean for clients of Fiduciary Management? While it is true that stocks are not cheap, the histograms also show that stocks can remain "expensive" for decades. For most of the 26-year history of FMI we have operated in expensive markets and have been able to find quality franchises at reasonable, if not cheap prices. That remains the case today, although it is certainly more difficult than it was five years ago. Massive amounts of capital have poured into the financial markets over the past decade. We are well aware of this and have positioned the portfolios accordingly. Currently, the portfolios have approximately 50% more exposure to defensive companies than the benchmark. The research team has a list of potential candidates for the portfolio when the price is right.

Barron's recently cited some numbers showing that three industries — energy, financials, and basic materials — accounted for 44% of the projected earnings for the S&P 500 and 56% of the earnings growth. This is nowhere near as narrow as the late 1990s technology-driven market, but it is considerably more than the 2003-2004 market. Historically, narrow markets have not been a sign of health. We've always viewed uncertain times with an optimistic nature. These periods are particularly fertile for finding new ideas. In short, we are comfortable operating under a yellow flag.

Thank you for your support of 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.