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Investment Strategy Outlook - Large Cap Equity

Quarter Ended September 30, 2006

The quarter ending September 30 was quite good for FMI portfolios as well as the benchmark Standard & Poor's 500, both having advanced around 5.5-6.0%. TJX Companies, Willis Group, and Accenture all contributed nicely to the quarter. TJX has delivered impressive financial performance while operating in a controlled growth mode. Willis' stock appears to be rebounding from a highly depressed state and has achieved solid top line growth and expanding margins. Accenture's stock responded to a good fourth quarter and resolution of their unprofitable National Health Service (NHS) contract. Retail, finance and industrial services were the leading contributors from a group perspective.

On the downside, our newly established position in Sprint Nextel proved premature, as that stock declined in response to a worse-than-expected earnings report. We were disappointed, albeit not surprised, by the near-term results; usually our new investments take place when there are negative conditions prevailing. The company is working through some substantial issues, but has the wherewithal and market position to be successful. We are optimistic about the future of Sprint Nextel and the details of our thesis are articulated below.

W.W. Grainger was also weak in the period, reflecting a slowing economy, and perhaps, investors' fears of an eventual recession. Whether or not this occurs, we feel the valuation and the company-specific initiatives pose a strong one-two combination for investors with a longer-term time horizon. From a group standpoint, distribution services and communication services were the weakest performers.

The portfolio remains in a relatively defensive position. As investors worry more and more about impending economic weakness, these defensive stocks tend to do well, and those stocks that are levered to cyclical economic growth usually get cheaper. We anticipate adding to companies like Grainger as economic weakness unfolds. We have also added a new stock, Cintas, which is somewhat more economically sensitive. These portfolio moves are incremental, not dramatic, but do reflect our very long-term belief that the economy and the stock market will grow significantly.

From a big picture standpoint, a couple of themes we have hammered on for awhile seem to be playing out. First, housing has rolled over; new and existing home sales have declined sharply, and prices have dropped substantially, not only in the more speculative regions, but also in the Midwest, Mid-Atlantic and South. So far, we haven't seen the reverse wealth effect on consumer spending that was expected. Perhaps the windfall from the sudden drop in gasoline prices has masked the impact in the short run. However, we continue to expect a tougher environment for consumer discretionary spending in coming quarters.

Second, energy prices have retreated. Oil peaked around $78 per barrel and now trades for approximately $60. Natural gas prices are down over 50% from late last year. As we indicated in our letter of June 30, the fundamentals seem to support a much lower price. Our relatively light position in energy stocks should help performance over the coming year or so.

We were also not surprised to see the meltdown of Amaranth, the hedge fund that declined 60% speculating on levered energy derivatives. This debacle was precipitated by a sudden move in the energy markets. This world of energy trading is tiny compared to that of credit derivatives and credit default swaps, where we anticipate more meaningful "events" in coming years. The credit default swap market is estimated to exceed $26 trillion, or more than twice the size of the U.S. Gross Domestic Product (GDP). Perhaps we will address this situation in more detail in a future letter, but suffice it to say that the hedge funds and the banks are up to their eyeballs in these products. Everyone operates with the assumption that the counterparties on all of the interlocking trades are going to meet their obligations at the appointed time. History suggests that this may not happen. We think the mad rush to hedge funds over the past several years is going to end badly. While it may be self-serving, we advocate a prudent, even "plain vanilla" approach to investing, particularly with overall valuations elevated and financial risk perhaps greater, due to the untested nature of the credit derivatives market.

As a reminder to newer investors with Fiduciary Management, our first and third calendar quarter commentaries have a brief overview of performance and pertinent macro developments, followed by a description of a few of the portfolio investments. The second and fourth quarter letters usually deal with a particular theme, or a more detailed economic and stock market overview. Our letters are archived on our website, www.fiduciarymgt.com, under the "About Us" tab.

Sprint Nextel Corporation

Description

Sprint and Nextel combined in August of 2005 to create the nation's third largest wireless operator with 51.7 million subscribers. Sprint's strengths are in consumer and data, while Nextel brought push-to-talk, business, and spectrum to the combination.

Good Business

- Sprint Nextel has national brand name recognition. The company has a strong spectrum position, and is a leader in data services.
- Wireless communications has become a necessity rather than a luxury given consumer demands for increased mobility. The services are modestly priced and generate a recurring stream of revenue.
- Subscription growth due to continued market penetration and demand for multimedia services should drive revenue growth, which in turn, should leverage fixed costs and result in margin expansion.
- The company has ample liquidity given its strong cash flow generation and financial flexibility, with a solid investment grade rating.

Valuation

- The stock trades at a substantial discount to the S&P 500 on the basis of price-to-earnings (P/E); price-to-sales; enterprise value to earnings before interest, taxes, depreciation and amortization (EV/EBITDA), and price-to-book.
- Sprint Nextel trades for approximately 5.0x 2007 estimated EBITDA, which is a discount to other stand-alone wireless operators, who are generally in the range of 7.0-8.0x.

- The stock trades in-line with the regional bell operators and at a discount to the rural local exchange carriers, despite having a relatively more attractive growth outlook over the long-term.

Management

- Gary Forsee is President and Chief Executive Officer. He has more than 30 years of experience in the industry. Forsee has assumed former Chief Operating Officer Len Lauer's responsibilities following his recent departure.
- Paul Saleh is Chief Financial Officer, a position he held at the time of the Sprint-Nextel merger in August 2005. Saleh served as CFO of Nextel from 2001 to 2005.
- Management is returning capital to shareholders in the form of a $6 billion share buyback program, which represents nearly 12% of the market cap at the current stock price.

Investment Thesis

While the company is struggling with the integration of the respective Sprint and Nextel networks and marketing efforts over the near-term, the combined platform and large spectrum footprint bode well for the future, given trends in mobile broadband, data, entertainment, and telephony. The world is well along in its move to wireless and we are optimistic that Sprint Nextel will eventually resolve its issues. The extremely depressed valuation reflects unwarranted pessimism.

Cintas Corporation

Description

Cincinnati-based Cintas is the leading participant in the $16 billion uniform rental and related services industry. The company's primary business is to design, manufacture and market company uniforms for rental, and then clean, maintain and repair them on a weekly basis. Ancillary services that fit well with this route-based model include entrance mats and sanitation products for rental or purchase. Other services include uniform sales, clean room rental services, first aid products and document management (shredding and archiving).

Good Business

- Cintas has leading market share in its industry, yet plenty of room to grow. The company's market share is less than 20% and the four largest participants have just 30%.
- The company has an outstanding track record of top- and bottom-line growth.
- Cintas' business model has a high degree of recurring revenue.
- The company generates industry-leading profitability as measured by margins and return on invested capital (ROIC). Recent acquisitions and investments in new businesses have reduced ROIC to 12-13%. This compares to an 8-9% cost of capital.
- Cintas generates over $300 million in free cash. From this cash flow the company pays a $0.35 dividend (1% yield), makes acquisitions and repurchases shares.
- Debt-to-equity is less than 30% and debt-to-EBITDA is approximately 1.0.

Valuation

- At current prices, and based on May 2007 estimates, the shares are valued at 19x estimated earnings per share (EPS) and 9.5x EBITDA. On a price-to-sales basis the shares trade at less than 1.8x.

- Over the past ten years, the shares have traded between 20-43x EPS and 2.0-4.0x revenues. Additionally, the 10-year average EBITDA multiple has been greater than 14x.
- A Discounted Cash Flow analysis yields a fair value over 20% higher than current valuations.

Management

- Richard Farmer founded Cintas in 1968 and is the company's Chairman. He owns over 13% of the outstanding shares.
- Mr. Robert Kohlhepp is Vice Chairman of the Board and owns just less than 2%.
- Scott Farmer, the son of Richard, is President, Chief Executive Officer and a director. He has held various management positions, with an emphasis on sales and marketing, since joining Cintas in 1981.
- William Gale is Senior Vice President and Chief Financial Officer, and has been with the company since 1995.

Investment Thesis

The shares of Cintas have underperformed the overall market this year, creating an attractive entry point for this leading business service company. The underperformance seems to be based on disappointing growth relative to current labor and economic conditions. The shares trade at a huge discount to the company's historic levels and a discount to the market. Cintas should grow at twice the rate of the S&P 500 with better-than-average profitability and cash generation.

Thank you for your 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.