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INVESTMENT STRATEGY OUTLOOK – LARGE CAP EQUITY

Quarter Ended September 30, 2007

October 1, 2007

The September quarter was difficult for the large cap portfolios as they declined approximately 1.3% in the quarter compared to a gain of 2.03% for the benchmark Standard & Poor's 500. Calendar year-to-date, the large cap portfolios were up approximately 6.7%, while the S&P 500 was up 9.13%.

A number of factors impacted the third quarter. In response to turbulent credit conditions and perhaps a weakening economy, the Federal Reserve Board first lowered the discount rate by 50 basis points in August, then another 50 in September, when they also dropped the federal funds rate by 50 basis points. The thought of 1998 and the Long Term Capital Management crisis likely weighed heavily on their decision. The Fed's action was a booster shot for growth stocks nine years ago and it has been recently, too. Most of the growth stock indices were strong in September, continuing a move away from value stocks this year. While this relative movement was a factor in our third quarter results, we also simply had more than our share of poorly performing stocks.

We are confident that the underperforming companies in the portfolio will improve, but there is no way to gauge how long the market will favor growth. It is *déjà vu* to see investors bidding up the stocks of companies that are "hitting their numbers" even though the multiples in many cases are already very high. It is reminiscent of the 1995-1999 period, and it remains to be seen whether there will be significant fund flows from value pools to growth pools. After the mortgage debacle and credit scare in July and August, it is amazing, and somewhat frustrating, to observe that the market seems little concerned about these warning shots across the bow. Perhaps faith in Bernanke (rates) and the government (borrower bailouts) is enough to justify this attitude. Even the derivative difficulties seemed to have passed without a lot of damage. So far.

We still believe in Economics 101. Excesses and imbalances tend to swing the other way over time. We are beginning to see the pendulum swing back in the housing and mortgage markets. Credit quality may also be on the verge of meaningfully deteriorating. The dollar has been extremely weak. Last quarter's letter articulates our position on some of these issues in more detail, but suffice it to say, we remain somewhat cautious about a few of the macro issues, as well as the overall stock market. Valuations also do not appear to incorporate much bad news. The companies in our portfolio, on the other hand, are sound, well-financed all-terrain vehicles that we feel will perform nicely, at least on a relative basis, over a long-term time frame. They are not Ferraris, however, so if we are entering a growth and momentum environment, the portfolio is likely to underperform.

Before delving into a couple of relatively new holdings, a sentence or two about the difficult stocks in the quarter is appropriate. Two stocks that have been pretty strong over the past couple of years, Accenture and Cardinal Health, pulled back in the quarter. Both of these were trimmed in July, but with perfect hindsight, not enough. Today, with more attractive valuations and solid long-term fundamentals, the 3-4 year investment outlook is positive.

Time Warner declined on fears of a slowdown in cable and AOL. While the large regional Bell companies pose a threat with new video offerings, we think this is manageable. Cable remains attractive, particularly in the "triple play" (video, broadband internet and telephony) scenario, where cable's gain in telephony outweighs the losses in video. AOL remains in a very positive transition from a dial-up subscription model to an advertising-supported one. The valuation of Time Warner is quite attractive.

Tyco and its post-spin new brethren, Covidien and Tyco Electronics, underperformed in the period. We underestimated the costs and challenges in this endeavor. We think each company and stock has a promising long-term outlook. Finally, Sprint fell in the quarter as net additions are lagging and costs remain too high. Sprint's efforts to improve and integrate their networks is showing positive results, but the churn and the cost to service customers in this transition period have been too high. We were early with our bet, but we still have confidence they can pull it off, and the stock is very inexpensive.

Our custom is to address macroeconomic and other broader topical issues following the December and June quarters, and discuss individual companies in more detail following the March and September quarters.

Best Buy Company, Inc.

Description

Best Buy (BBY) is the leading retailer of consumer electronics, home office products, entertainment software, appliances and related services. It is a category-dominant retailer, with industry-leading growth and margins. The company operates 822 domestic Best Buy superstores (20% market share), along with 121 stores in Canada, 135 in China, and a handful of specialty stores in the United States.

Good Business

- Despite operating in a competitive industry, Best Buy has established a powerful brand (the familiar yellow tag) and a coveted "destination" shopping experience.
- New technology and "must have" gadgets drive an evergreen demand curve.
- Unadjusted ROIC (return on invested capital) runs approximately 20%. Adjusted for operating leases, it is roughly 14-15%.
- Best Buy is essentially vendor neutral, thereby enabling investors to capture the growth in new technology without taking inventor's risk.
- The business is easy to understand.
- The balance sheet is strong: $3.8 billion in cash, $650 million in debt.

Valuation

- The P/E (price-to-earnings) ratio is near the low end of its 10-year range of 15-35.
- The price-to-sales ratio of 0.60 is attractive compared to the 10-year range of 0.40-0.95.
- The EV/EBITDA (enterprise value-to-earnings before interest, taxes, depreciation, and amortization) ratio is 7.6 compared to the 10-year average of 12.6.

Management

- Brad Anderson, Chief Executive Officer, followed founder Dick Schultz in 2002. Anderson started as a sales associate in 1973 and has held multiple operating positions. He has done an excellent job navigating through a tough competitive market.
- Darren Jackson joined Best Buy in 2000 and became Chief Financial Officer in 2001. Prior to this he was CFO of Nordstrom's and Carson Pirie Scott in Milwaukee, Wisconsin. Jackson will shortly expand his operating roles, with a new CFO to be announced.

Investment Thesis

The stock is off over 25% relative to the S&P 500 this year on fears of margin compression related to the intensely competitive HDTV (high-definition television) market (20% of the company's sales), and slower consumer spending. Circuit City and Wal-Mart's expansion plans have also weighed on the stock, although Circuit City recently announced a retrenchment. We are attracted despite these concerns, as Best Buy appears to have a superior brand and strategy. There is a strong likelihood the company will continue to execute better than its competitors. The long-term outlook for consumer electronics, home office equipment, and entertainment software and services is robust. A recession, lower cash-out refinancings and competitive skirmishes may all impact near-term performance, but these worries seem to be adequately discounted in the valuation.

United Parcel Service

Description

United Parcel Service (UPS) is the world's largest package delivery company and a global leader in supply chain management. The company's primary business (Domestic Package) is time-definite delivery of packages and documents through its integrated ground and air network. This transportation network serves every business and residential address in the United States, and makes up approximately 65% of overall revenues. Other businesses include International Package (20% of revenue), which provides export services and domestic service within countries outside the United States. The company's other businesses include a supply chain solutions division known as SPS and an LTL (less-than-load) trucking business.

Good Business

- UPS is the world's largest transportation and logistics company. It operates in an industry with very high barriers to entry. On an average day, the company delivers packages for 1.8 million shipping customers to 6.1 million consignees in 200 countries.
- The UPS brand and brown logo are among the strongest and most widely recognized in the world.

- The business can be considered recurring and somewhat of a necessity for most customers.
- The company moves parcels and freight through one integrated global ground and air network. It is the only network of its kind, handling express, ground, domestic, international, commercial and residential services.
- The company is a beneficiary of long-term secular trends, including globalization, supply chain management and demand for integrated logistics services that utilize sophisticated technology solutions. UPS benefits from the trend to move items in smaller, lighter and more frequent shipments around the world.
- Because of its integrated assets and network, UPS has among the highest margins and returns in the transportation business. The company generates a mid-teens ROIC and has earned its cost of capital every year since going public.
- UPS is AAA rated by Standard & Poor's, with a debt-to-total cap ratio of less than 20%.

Valuation

- UPS trades at 16 times forward 12-months EPS (earnings per share), less than 9 times EBITDA and 1.5 times sales, near the low end of historical valuation measures.
- Since going public in 1999, the company has traded, on average, at over 20 times EPS, 12 times EBITDA and 2.2 times sales.

Management

- Michael Eskew is Chairman and Chief Executive Officer. He has been with the company since 1972 and succeeded Jim Kelly in these positions.
- Scott Davis is Vice Chairman and Chief Financial Officer. He joined the company in 1986.
- Management appears to be making good long-term focused strategic decisions.

Investment Thesis

UPS has the most efficient and lowest-cost domestic and international transportation model. The barriers to entry are high and the company should benefit from globalization and offshore production. At the current share price, the stock is trading at historic low multiples. Fears of recession appear to be impacting the stock, and while we recognize that this event may have short-term consequences, the 3-5 year outlook is attractive.

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.