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Investment Strategy Outlook - Large Cap Equity

Quarter Ended March 31, 2008

April 1, 2008

Client portfolios declined approximately 5-6% in the March quarter. The benchmark Standard & Poor's 500 Index fell 9.5% in the period. Stocks that aided the good relative performance included Tyco International, Wal-Mart and United Parcel Service. On the flipside, recession worries hurt Best Buy and Cintas. We are optimistic about the investment prospects for these companies. Time Warner's stock also continued to struggle in the quarter as investors' view of cable and AOL remained negative. We still like the risk/reward at Time Warner. We also sold Sprint in the quarter… a real black eye for us. We stayed with the company through several bad quarters because we knew the spectrum and franchise value of the firm was much greater than the stock price. When the fourth quarter was announced, showing a substantial shortfall in the fundamentals along with a $2.5 billion drawdown of their credit lines, we felt there was a nontrivial chance that it could get a lot worse before getting better. With no way to know how long credit might prove tight for Sprint, and it looking like it would be several more quarters to turn the business, we made the difficult decision to sell.

As you know, our custom is to discuss individual investments in the letters following the March and September quarters, with longer, macro comments at mid-year and year-end. We will stick to that format, but given the very significant events in recent months, we want to make some general observations first.

One year ago we quoted a managing director of one of the largest private equity firms in the world, who said, "[Liquidity] has enabled us to do transactions that were previously unimaginable. Frankly, there is so much liquidity in the world financial system that lenders (even our lenders) are making very risky credit decisions." He continued, "…most investors in most asset classes are not being paid for the risk being taken." That firm was Carlyle Group, a primary sponsor of the Carlyle Capital fund, which, in an irony that is all too common on Wall Street, was virtually wiped out in the first quarter of 2008. This $22.7 billion fund stood on just $940 million of equity. Like the Bear Stearns hedge funds last summer, this fund was built on credulity and optimism, rather than prudence and risk sensitivity. The same can be said for many of the investments held by Wall Street brokers, banks and insurance companies. The losses on mortgages and derivatives are now approaching $400 billion and some estimate the eventual total will exceed $600 billion.

The Bear Stearns problems from 2007 spiraled out of control in March and resulted in a highly unusual takeover of the firm by J.P. Morgan. The Federal Reserve and the Treasury assisted the deal, providing $30 billion of guarantees on dicey Bear Stearns' investments along with the opportunity for large brokers to borrow from the Fed, the first time since the Great Depression that the government lent money to securities firms. At the same time, federal regulators loosened the capital requirements of Fannie Mae and Freddie Mac, allowing them to purchase an additional $200 billion of mortgage securities. Although it is April 1 today, this is not an April Fool's joke. Wall Street brokerage firms made billions of dollars of profit speculating on mortgages and mortgage derivatives, while their executives took home hundreds of millions of dollars in compensation, yet the government is there to bail them out when the going gets rough? Fannie and Freddie are in trouble precisely because their capital was weak and they encouraged profligate and

undisciplined lending. Now the government wants to solve that problem by allowing them to buy even more mortgages? This will likely result in yet another taxpayer bailout.

The Fed's complicity in this heist is shocking. On March 18, they lowered the Fed Funds rate 75 basis points to 2.25%, following an unscheduled cut of 50 basis points earlier in the quarter. It is no surprise the dollar continues to reach new lows, while commodities and inflation reach new highs. It will be difficult for the Fed to restore trust in the financial system while turning a blind eye to the dollar. As Reuven Brenner, a professor at McGill University, stated recently in a *Wall Street Journal* editorial, "The liquidity crisis and the stable dollar are related. The vast extension of credit since 2002 could have never happened if the Fed had sustained a stable value for the dollar."

The *coup de grace* is the Paulson Plan, the Bush administration's blueprint to remodel the U.S. financial system. While there are a few laudable aspects to the plan, namely the consolidation of some government agencies and increased disclosure, it dramatically increases the Fed's charter and the role of the Federal government. Five new federal agencies would be created, with comforting names like The Prudential Financial Regulatory Agency and the Conduct of Business Regulatory Agency. This plan, along with the bailouts articulated above, is just another slap to the free market system. Capitalism works precisely because it sometimes delivers fatal blows to participants. These blows force capitalists to pay attention to risk and adjust their behavior.

As much as we despise what the Fed has done over the past many years, and particularly the response to the financial turmoil in 2008, our job as investors is to survey the landscape and deal with the world as it is, not as we would want it to be. The Paulson Plan faces an uphill battle in Congress over the next several years. More worrisome are the actions the Fed and Treasury can take without any congressional oversight. It is particularly ironic, given all the political rhetoric in favor of the little guy, that Congress cheers the Fed's moves. Any student of economics knows that inflation is one of the most regressive "taxes" there is. We will have to weigh the macro more carefully over the next few years than we ever have in the past.

Perhaps not so surprising, the tumultuous environment is providing interesting valuations on a number of companies. Below we have highlighted two new ideas.

Automatic Data Processing Inc. (ADP)

Description

Automatic Data Processing, with over $8 billion in revenues and approximately 585,000 clients, is one of the world's largest providers of business outsourcing solutions. Leveraging more than 55 years of experience, ADP offers a wide range of human resources, payroll, tax and benefits administration solutions from a single source. ADP is also a leading provider of integrated computing solutions to auto, truck, motorcycle, marine and recreational vehicle dealers throughout the world.

Good Business

- The core payroll outsourcing business of ADP has become a necessary business service. ADP pays 33 million workers in over 30 countries, including one out of six in the United States.
- The revenue model is highly recurring.
- After spinning-off the slower growth Brokerage Services business, the company is now focused on its primary business, Employer Services.
- Overall organic growth should be above average over an economic cycle, augmented by smaller acquisitions in the core business.

- The financial model is impressive as the company generates 13-14% margins and a 10% return on invested capital (ROIC). The ROIC is actually much higher when client funds and corporate cash are excluded (over 15%). Operating margins including fees generated by payroll float approximate 20%.
- ADP generates over $1 billion in free cash flow every year.
- The company has over $1.3 billion of cash ($2.50 per share) and very little debt.
- Currently, ADP yields 2.9%.

Valuation

- ADP trades at 18x forward earnings per share (EPS), less than 10x earnings before interest, taxes, depreciation and amortization (EBITDA) and 2.2x sales.
- Over the past ten years, ADP has traded, on average, at over 30x EPS, 15x EBITDA and 4.0x sales. Over the past five years, the company has traded, on average, at over 22x EPS.

Management

- Gary Butler has served as ADP's President and Chief Executive Officer since August 31, 2006. He was President and COO from April 1998 to August 31, 2006. Gary replaced Arthur Weinbach, who was the previous CEO and Chairman of the Board.
- Chris Reidy is ADP's CFO, and has been in this position since October 2006.
- Michael Martone became Chief Operating Officer less than a year ago.

Investment Thesis

The shares of ADP have depreciated approximately 20% in the past six months as recession worries have gathered momentum. ADP's top-management is relatively new and has focused ADP more than ever on its core business, emphasizing profitable growth and returning excess cash to shareholders. ADP repurchased $2 billion worth of stock in 2007 and increased the dividend 24%. This is a great business with moderate to good growth prospects and an attractive valuation for long-term investors.

Robert Half International (RHI)

Description

Robert Half provides specialized staffing and internal audit and risk consulting services. The company derives more than 70% of its revenue from the accounting and finance market. In 2006, temporary placement accounted for 78% of revenue and 70% of operating profit, permanent placement accounted for 8% of revenue and 17% of operating profit, and risk consulting and internal audit services accounted for 14% of revenue and 13% of operating profit.

Good Business

- Robert Half has established significant brand equity following years of excellent service. They are succeeding in extending their brand to other professional services.
- Customers and employment candidates seek to do business with the company on a repeat basis, given its strong reputation.
- Its focus on providing specialty-staffing services to small and medium sized customers has resulted in an operating margin that is approximately double that of other staffing firms. When combined with low capital expenditure requirements and a preference to grow the business organically, this has resulted in an ROIC of nearly 20% over a cycle.
- This is an easy business to understand.
- There is $324.5 million in net cash on the balance sheet.

Valuation

- The stock has declined 43% from its 52-week high, and has underperformed the Standard & Poor's 500 Index by 38% over the last twelve months on recession concerns.
- Robert Half currently trades for 0.8x sales. The five-year average multiple is 1.6, and the ten-year average multiple is 1.7. One standard deviation below the five-year average multiple is 1.3, and one standard deviation below the ten-year average multiple is 1.2.
- We see downside risk of 20% to $19 per share, and upside potential to $48 per share over the next four years, for an attractive reward-to-risk of 5-to-1.

Management

- Robert Half is one of the premier managers in the industry. It is a high quality company that consistently generates profit margins that are well above industry averages.
- Management has been adept at recognizing and capitalizing on industry trends, and believes that internal expansion generally involves less risk compared to acquisitions.
- The company has been generous in returning excess cash to shareholders in the form of stock buybacks and dividends.
- Management has skin in the game, as all directors and executive officers as a group own 11.6% of the stock.
- Harold Messmer has been Chairman since 1988 and CEO since 1987. Keith Waddell has been Vice Chairman since 1999, President since 2004, and CFO since 1988.

Investment Thesis

The stock appears to be discounting a lot of bad news ahead of an actual downturn in the fundamentals of business. This has created an opportunity to purchase a high quality company that should be a beneficiary of several secular trends, including greater attention to internal controls, transparency in financial reporting, and corporate governance due to increased regulation and compliance rules.

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.