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INVESTMENT STRATEGY OUTLOOK – LARGE CAP EQUITY

March 31, 2010

The FMI large cap portfolios gained approximately 6% in the quarter ending March 31. The benchmark Standard & Poor's 500 also advanced about the same, driven by excellent results from the producer manufacturing and financial sectors. We had relatively strong performance in technology and commercial services. Stocks that detracted from performance, including Schlumberger and Diageo, were offset by the strong showing in Grainger and Tyco Electronics. From the bottom of the market just over a year ago, the S&P 500 has gained approximately 78%. Although we've kept pace so far, we would not be surprised to fall behind should the bull market remain strong. This has been a typical pattern for FMI over the years; we usually do better in sideways and down markets and lag the benchmark in strong up markets. Knowing today how hard it is to find high quality, cheap stocks tells us we may be due for either a breather, or else a move into a higher valuation, growth stock-driven market phase. Of course, which outcome will emerge is impossible to predict.

We do know that elongated rallies often result in extended valuations. Even though earnings have recovered dramatically from a year ago, most measures of value, as articulated in our December letter, remain in the upper quartile, when viewed from a long-term perspective. While the market advance has been very broad, junk bonds and highly-levered business enterprises have had spectacular moves. At $31.5 billion, March actually eclipsed November of 2006 for the record in new junk bond issuance. These investments have benefited from the highly accommodative Federal Reserve and U.S. Government. If rates rise and the yield curve flattens, continuing its recent trend, it might not be as hospitable for these types of securities in the future.

As a reminder, our March and September letters are generally shorter and highlight a couple of our investments, while the December and June letters typically deal with topics in more depth. The top-down musings you see each quarter are interesting and useful, because they help keep the macro environment in perspective, but the money is made with good stock picking and that has always been the number one priority of the team. As a further aside, the research team at FMI has been strengthened over the past six months with two additional analysts.

The U.S. economy has continued its gradual recovery from the extremely depressed levels of a year ago. Inventories, which were depleted, are now rebounding in numerous industries. Demand for automobiles, while nowhere near 2007 levels, is improving. Durable goods orders advanced for the third straight month recently, although construction demand remains depressed. Demand for electronics and semiconductor components grew nicely over the past six months and order books are reasonably healthy. Demand for technology consulting also appears to be growing, which foreshadows better hardware and software sales down the road. Surprisingly, retail sales have been higher than expected, despite relatively low consumer sentiment figures. Banks and other financials have been huge beneficiaries of the Fed's zero percent interest rate policy and a steep yield curve. Many of the banks have paid back borrowed TARP funds and we gladly eat our words regarding the bank portion of the TARP bailouts. That said, it remains to be seen how the mortgage interventions and the massive monetary easing policies will play out in the long run.

Housing remains very difficult. New home sales recently touched 308,000, the lowest figure since records have been kept (1962). Currently there are 3.25 million homes for sale and an additional 5-5.5 million that are in late stages of delinquency or early foreclosure, presenting a huge overhang of inventory. Foreclosures have worsened for seven consecutive quarters and foreclosure rates are still near record highs, despite the government's mitigation efforts. Fannie and Freddie, the de facto housing authorities (together with the Federal Housing Administration and Veterans Administration, these government agencies are funding over 90% of new mortgages), remain an absolute disaster from a credit quality standpoint. Nonperforming loans recently totaled over $317 billion within these entities. Moreover, the FHA is essentially broke and will need additional taxpayer assistance. The administration recently unveiled yet another housing bailout plan, despite abysmal results for the plans advanced so far. Sixty percent of the borrowers who took advantage of the first loan modification plan in the fourth quarter of 2008 have redefaulted, according to the Office of the Comptroller of the Currency. Despite a 31% drop in home prices from the peak, according to Case-Shiller, home prices remain 28% ahead of the Consumer Price Index over the past two decades. We continue to believe that housing will take several years to get back into a healthy state. Furthermore, we really don't understand why so many people seem to think that home ownership is a birthright. Promulgating policies that encourage uncreditworthy people to own homes hurts everybody. What's wrong with renting?

Unemployment remains very high with just a dollop of improvement coming from temporary hours and hiring sentiment. Fear of greater mandates (health care), regulatory burdens (environmental) and taxes continue to concern the business community. Corporate executives express frustration with what appears to be an anti-business stance by Congress and the administration. This has to ameliorate before a meaningful employment recovery can begin.

Of course, the elephant in the room is the U.S. debt load and the staggering annual deficit, which is now $1.4 trillion and rising. The recent health care bill will likely add significantly to a deficit that is already running over 40% of the budget. Except for the smallest companies, if an employer is paying $10,000 for an employee's health benefit and is going to be fined $2,000 for not providing coverage, it is pretty easy to see what is going to happen. This is a public option in drag. Trying to fund it with punitive taxes on "high earning" individuals will likely result in the usual outcome when tax rates are raised: less-than-expected tax income generated. High-income workers will take tax mitigating steps such as delaying capital gains, shifting to municipal bonds from corporates, shifting their tax reporting structure, opting for leisure, etc. It's essentially a foregone conclusion that the current $12 trillion debt load, which doesn't even account for unfunded Social Security benefits and other "off-balance sheet" obligations, is going to rise significantly. At some point, it simply becomes too much. We may be at this juncture today. If interest rates stay low (not likely in our opinion), the debt service pain may be manageable. If rates rise significantly, the burden could be severe.

Major foreign economies are mixed, which is not unusual. Japan remains weak and heavily indebted, despite running large trade surpluses. Brazil and some Asian countries, including India, have recovered nicely from the trough. Global trade has bounced back, particularly in the emerging Asian economies. Western European economies, however, are struggling with many of the same fiscal woes as the United States. Deficits have ballooned in the United Kingdom and across most of the Continent, as generous welfare and public employee benefits meet tax revenues that are depressed. The European Union and the common currency regime are being stretched thin by Greece and other countries with particularly high deficits and poor economic performance. Germany is being asked to sacrifice for the sake of the Union and the Euro, but politically that is very unpopular. Angela Merkel, Germany's Chancellor, is trying to drag the International Monetary Fund (IMF) into a bailout of Greece (and likely Portugal). Should this come to pass, the United States would take yet another hit, as we are the biggest contributor to the IMF.

The China economic miracle continues, seemingly uninterrupted by the events of 2008-2009. While the long-term outlook for China remains positive, owing to its strong work ethic, cheap labor and educational achievement, we've become more skeptical of the near-term situation. China's "aggressive mercantilism," as some call it, is obviously constrained if the demand for Chinese goods is weaker. With the U.S. and Western Europe on a lower growth plane, China needs other countries (including itself) to increase consumption of Chinese-made goods. Moreover, huge infrastructure expenditures had a correspondingly large positive economic impact, when China was capital-starved. Productivity expanded dramatically. Today this is not the case, yet China continues to use the old playbook, spending massive government funds on projects with suspect economic value. Real estate prices have escalated dramatically and there are eerie signs of property bubbles in many of the bigger cities, even while reports keep coming back highlighting large numbers of empty high rise apartment buildings and idle plant capacity. The government's apparent orchestrated effort to thwart foreign joint venture partners and tilt the playing field in its favor is worrisome and may be the manifestations of a country that sees their GDP growth trajectory falling. Again, we view this more as a short-term risk than a long-term structural change. If worldwide economic growth recovers more rapidly in the next year or two, there might not be much negative fallout.

Some U.S. economists and government leaders seem to be blaming China for our economic shortcomings and are pushing China to revalue their currency (one Nobel Laureate suggested by 25%). It is hard to know for sure whether such a policy would help the United States (historically, so-called beggar-thy-neighbor policies have not been effective), and as John Mauldin, the thoughtful writer of the *FrontLine Newsletter*, pointed out recently, Japan has been pressured to revalue their currency for much of the past forty years. In 1971, the yen was 350 to the dollar and Japan ran trade surpluses. Today the yen is under 90 (a 75% rise) and Japan is still running trade surpluses with the U.S. Japan is obviously still selling goods (even at much higher prices) that we desire. Given the large advantage

China has in labor and their willingness to run at lower profit margins, it is hard to imagine anything but a dramatic revaluation making a dent in our trade deficit. What may be more likely, if the peg is removed and the yuan floats higher, is China exporting inflation to the United States (assuming Chinese companies raise prices to offset the currency hit). The U.S. may want to heed the Chinese proverb: "Be careful what you wish for. It may be granted."

Globalization has made it necessary for us to spend more of our time analyzing foreign events, economies and industries. Most of our companies compete worldwide and more than a few have greater shares of revenue and earnings coming from abroad than from the U.S. Below we highlight AmerisouceBergen, which recently replaced Cardinal Health, and Time Warner (the new and improved version). The research team has identified a number of other companies that look promising, but we are being patient with respect to valuations.

AmerisourceBergen Corporation

Description

AmerisourceBergen (ABC) is the third-largest U.S. pharmaceutical distributor, the second-largest Canadian pharmaceutical distributor, and the largest specialty drug distributor (22% of revenues, 29% of earnings before interest and tax [EBIT]). It distributes brand-name and generic drugs and over-the-counter medicine to acute care hospitals, healthcare systems, and chain pharmacies.

Good Business

- ABC is the best managed distribution franchise in important and enduring health care markets.
- The company has a highly diversified client base, with no meaningful concentration risk.
- Revenues are highly recurring and should benefit from increased growth in higher margined areas of generics and specialty.
- The company's return on invested capital (ROIC) has averaged 10.5% over the past five years. Presently it is approximately 14%.
- Capital expenditures are modest and the balance sheet is strong (0.35x net debt-to-earnings before interest, taxes, depreciation and amortization [EBITDA]).
- The business is easy to understand.

Valuation

- ABC's price-to-earnings (P/E) ratio is 13, based on calendar 2010 estimates. This compares to the company's 5-year average of 15.7 and range of 9-22.
- The company's relative P/E multiple is at the low end of its 5-year range (0.75-1.5x) and approximately 30% below its average 10% premium multiple.
- On a free cash flow basis the company is attractively valued at a 7% yield.

Management

- David Yost is ABC's longtime and well regarded CEO. His track record and attention to organic growth and profitability is comforting.
- Other key executive managers include Michael DiCandilo (CFO) and Steven Collis (President of AmerisourceBergen Drug), each with over 15 years experience.
- ROIC objectives are an important component of management incentive compensation.

Investment Thesis

AmerisourceBergen is an appealing means to gain diversified exposure to the positive growth dynamics within the broader pharmaceutical market without being subject to developer's risk. Continued efficiency gains resulting from technology initiatives, working capital management and leverage from new account wins should further augment operating income, despite the anticipated lost revenue dollars from large branded drugs facing patent cliffs over the next four years. Shareholder returns will benefit from prudent capital management, including three significant dividend increases since November 2008 and $350 million of anticipated share repurchases in 2010.

Time Warner Inc.

Description

Time Warner is a leading media and entertainment company. Networks, which include TNT, TBS, HBO, CNN, and The WB, account for 46% of sales/70% of EBITDA; Filmed Entertainment, which includes Warner Bros., accounts for 40% of sales/20% of EBITDA; and Publishing, which includes Time, People, and Sports Illustrated, accounts for 14% of sales/9% of EBITDA.

Good Business

- Time Warner has developed leading networks, and has amassed a vast collection of quality movies and shows.
- Modestly-priced content accounts for 40% of sales, and 35% of sales is derived from recurring subscription revenue. Advertising revenue, which is cyclical, accounts for only 20% of sales.
- Historically, the company has failed to earn its cost of capital, which was a function of overpriced acquisitions and significant capital expenditures in cable television systems. However, new management has exhibited discipline in its approach to acquisitions, and now that Time Warner is a pure content company, having divested Time Warner Cable and AOL, capital expenditures are now a modest 2% to 3% of sales. The return on incremental invested capital is approximately 30%.
- The businesses are easy to understand.
- The net debt-to-capital ratio is a modest 23.8%, and the company generates lots of cash.

Valuation

- Time Warner trades at a 15% to 20% discount to the S&P 500 on a P/E basis.
- The stock trades for less than 8x EBITDA, which is attractive considering the minimal capital expenditure and working capital requirements of the business.
- The shares trade for 1.8x sales, which is attractive considering the operating margin is nearly 19%, and the pretax margin is 14.5%.
- The free cash flow yield is north of 7%.

Management

- Jeff Bewkes has been Chairman since January 2009 and CEO since January 2008. Under Bewkes, Time Warner has walked away from several acquisitions, focusing instead on organic growth, and is returning cash to shareholders via dividends, which currently yield 2.7%, and a $3 billion share buyback authorization, which represents 8% of the market capitalization.
- John Martin has been CFO of Time Warner since January 2009. Prior to that, he was CFO of Time Warner Cable.

Investment Thesis

Time Warner is now exclusively a content business following its dispositions of Time Warner Cable and AOL. It has high margin revenue with very low capital requirements, and a strong stable of valuable content. Furthermore, management's actions indicate that they will be better-than-average stewards of capital. Given the strong business characteristics, we believe the stock deserves to trade at a multiple in excess of the market.

Thank you for your confidence in Fiduciary Management, Inc.

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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.