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INVESTMENT STRATEGY OUTLOOK – LARGE CAP EQUITY

September 30, 2010

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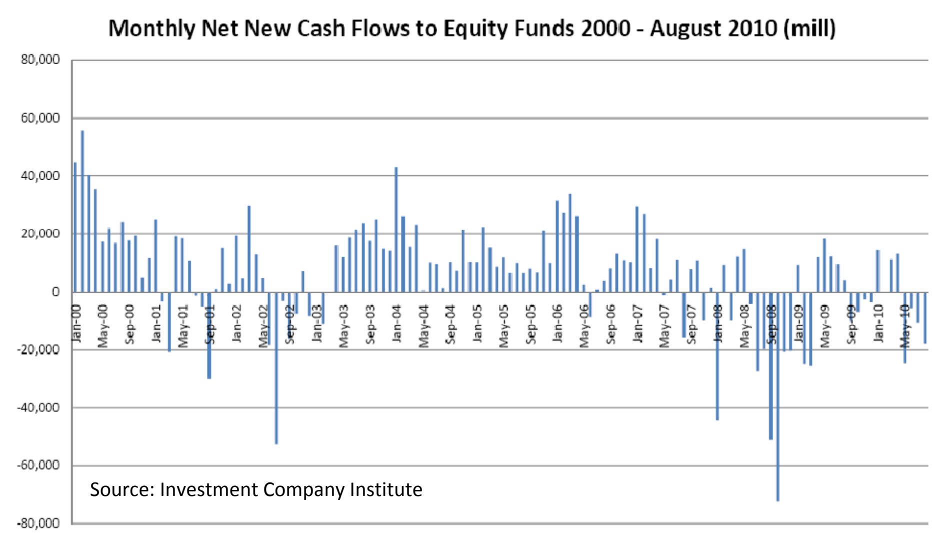
FMI large cap portfolios returned approximately 8.0% in the quarter, compared to 11.3% for the Standard & Poor's 500 Index. While most stocks had positive returns in the quarter, a number of them trailed their benchmark counterparts, particularly in Technology Services, Health Technology and Materials. Laggards included Automatic Data Processing, Covidien and Monsanto. On the plus side, Transportation, Electronic Technology and Financials were the leading groups, and the featured stocks in these areas were UPS, Tyco Electronics and Berkshire Hathaway, respectively. There was very little investment activity in the quarter; we like the way the portfolio is structured.

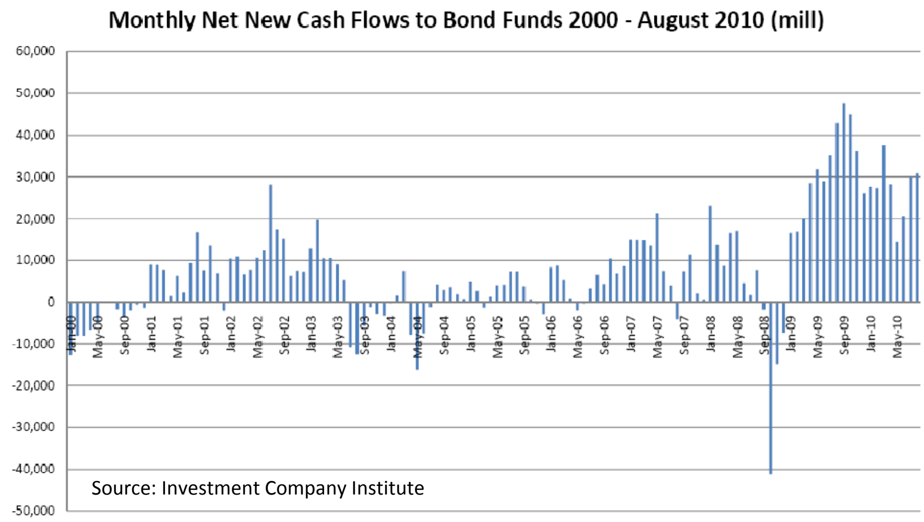
Clients should note that our September 30 and March 31 letters offer a brief commentary followed by an equally brief discussion of a couple of investments. The December 31 and June 30 letters are typically longer and delve into various subjects in more detail. Incidentally, quarterly commentaries since 2002 are available on our website, www.fiduciarymgt.com.

At the recent price of $1141, the S&P 500 is trading at a price it first achieved in April of 1998. Since then, investors in that index have earned only a modest return from the dividend (less than a 2% yield). Many stock investors have lost hope over this very difficult period; indeed, the past 10-year period is one of the worst on record. The mood of the day is captured by Byron Wein (formerly Morgan Stanley's strategist, now with Blackstone) in a piece entitled "Two Gloomy Afternoons." On two successive recent Fridays, Mr. Wein convened (as he has for 25 years) a group of investors to discuss the investment landscape. The group articulated a host of worries, including uncontrolled debt expansion, the onset of another recession, an anti-business bias in Washington, onerous regulations, and a general feeling that the U.S. had lost its way. If that wasn't gloomy enough, Albert Edwards, of Societe Generale, weighed in on the subject, saying equities were locked in a "Vulcan death grip."

These sentiments are reflected by net negative equity fund flows in recent years, particularly over the last few months. According to the Investment Company Institute (ICI), $57 billion has been withdrawn from equity mutual funds just since May. A mirror image of this phenomenon has taken place in the bond market. Performance has been excellent, with the 10 Year Treasury bond achieving an annualized 7.3% return over the past ten years (the Standard & Poor's 500 Index delivered a negative 1.8%). Recently, fund flows into the bond market have hit record levels. From May through August, ICI reported that $81 billion has moved into bond funds, and since 2008, a staggering $590 billion. In August, Bloomberg reported that according to Deutsche Bank, the ten lowest yielding U.S. corporate



new issues in history have been sold in the past 14 months.



Unfortunately, the track record of the typical investor is not very good; if history is any guide, these fund flows will be poorly timed. Each year, Dalbar, a financial services firm, measures how fund investors actually perform, based on flow-of-funds data, compared to the stated index returns. Basically, the firm weights returns by when the flows occur. Over the 20 years ending last December, Dalbar figured investors compounded their money at 3.2%, rather than the stated S&P 500 return of 8.2%. Most investors seem incapable of avoiding the herd mentality. A brief recap of money flows shows lousy timing with respect to popular investment themes in biotechnology, technology/telecom, emerging markets, and real estate/financials. Recently, *Fortune's* very funny Stanley Bing penned a piece called "Come Back, Little Investor!" He suggests ten simple steps Wall Street can take to win back the small investor, including quarterly pancake breakfasts, but we like the last one best: **Stop losing my $%*#@ money!** Not following the crowd is the first step.

Our contrary indicator light is blinking bright yellow. Rather than chasing the final leg of one of the greatest bond markets in history, we think investors should remain engaged or even increase equity exposure. The stock market has more going for it than is popularly believed. After a long period of low or negative growth, revenues have been growing for three straight quarters, according to The Leuthold Group. Through June, the top 300 U.S. companies grew at 9% and the next largest 900 firms, at 9.9%. Corporate profitability and cash flow is also quite good. Credit Suisse reports that free cash flow as a percent of GDP is about twice its long-term average. This money will flow toward buy-backs, dividends and acquisitions. Deals have been heating up recently on Wall Street, with a total value through September 20 of $516 billion, including several high profile ones such as Alcon, purchased by Novartis, Smith International, acquired by Schlumberger, and Millipore, bought by Merck AG. Valuations, which for years were near the high end of their long-term ranges, are now about average on most measures. Deflation, which seems to be on everyone's mind, is still a concept and not a reality. Inflation is low, but above zero. As we said in last quarter's letter, mild deflation has historically been pretty good for stocks. We anticipate an inflation pick-up over the long run, due to profligate fiscal and monetary policies, but we believe stocks are the best way to deal with that outcome anyway. Consumers are repairing their balance sheets, albeit slowly. Unfortunately, the same can't be said for governments, but many politicians appear to be getting the message that we've crossed the line on deficit spending. The elections in November will be a pivotal referendum on spending.

Past Ten Years			10 Year ACR	Next Ten Years			Annual Compound Return	Total Return	
Q2 1929	to	Q2 1939	-3.65	Q2 1939	to	Q2 1949	8.62	128.54	
Q1 1929	to	Q1 1939	-2.79	Q1 1939	to	Q1 1949	9.12	139.36	
Q3 1929	to	Q3 1939	-2.74	Q3 1939	to	Q3 1949	7.74	110.79	
Q1 1928	to	Q1 1938	-2.54	Q1 1938	to	Q1 1948	11.76	203.87	
Q1 1930	to	Q1 1940	-1.42	Q1 1940	to	Q1 1950	9.65	151.31	
Q2 1930	to	Q2 1940	-1.42	Q2 1940	to	Q2 1950	12.19	215.88	
Q4 1928	to	Q4 1938	-0.65	Q4 1938	to	Q4 1948	7.21	100.63	WORST
Q3 1928	to	Q3 1938	-0.10	Q3 1938	to	Q3 1948	8.12	118.31	
Q3 1930	to	Q3 1940	0.18	Q3 1940	to	Q3 1950	12.57	226.85	
Q4 1927	to	Q4 1937	0.20	Q4 1937	to	Q4 1947	9.61	150.39	
Q4 1929	to	Q4 1939	0.23	Q4 1939	to	Q4 1949	9.09	138.67	
Q2 1928	to	Q2 1938	0.44	Q2 1938	to	Q2 1948	9.52	148.39	
Q3 1964	to	Q3 1974	0.49	Q3 1974	to	Q3 1984	15.58	325.30	BEST
Q1 1931	to	Q1 1941	0.71	Q1 1941	to	Q1 1951	14.47	286.14	
Q4 1964	to	Q4 1974	1.24	Q4 1974	to	Q4 1984	14.76	296.23	
Q4 1998	to	Q4 2008	-1.38	Q4 2008	to	Q4 2018	?	?	
Q1 1999	to	Q1 2009	-2.99	Q1 2009	to	Q1 2019	?	?	
Q2 1999	to	Q2 2009	-2.22	Q2 2009	to	Q2 2019	?	?	
Q3 1999	to	Q3 2009	-0.15	Q3 2009	to	Q3 2019	?	?	
Q4 1999	to	Q4 2009	-0.95	Q4 2009	to	Q4 2019	?	?	
Q1 2000	to	Q1 2010	-0.65	Q1 2010	to	Q1 2020	?	?	
Q2 2000	to	Q2 2010	-1.58	Q2 2010	to	Q2 2020	?	?	
						Average	10.67	182.71	

Source: The Leuthold Group

Certainly many negatives that were highlighted and harangued over the last few years in these letters remain. Some issues need to turn around before the economy and the market regain solid footing; specifically, businesses must feel more confident about regulations and taxes in order to hire new employees or invest in capital and research & development. The government and the Federal Reserve also have to back off. History demonstrates, however, that if investors wait for an "all clear" sign, a large part of the upturn will be missed. In the table above, we have updated and reprinted data from our March 2009 letter showing 10-year stock returns following the 15 worst 10-year periods (measured by quarters, so there are nearly 300 data sets). While there are obviously no guarantees in the equity business, we like the odds that the next 10 years' return will fall within the range of the worst, 7.2% and the best, 15.6%.

Below we highlight a couple of recent investment ideas.

Staples Inc.

Business Description

Staples Inc. is the world's leading office products company and sells a variety of office supplies and services, business machines, computers and related products, and office furniture. The company also provides high-speed, color and self-service copying, other printing services, faxing, and pack and ship services. Staples has three primary operating segments, including: North American Retail (38% of sales), North American Delivery (40%), and International (22%). As of January 30, 2010, the company operated 2,243 retail store outlets globally. It also operated 125 distribution and fulfillment centers, which primarily serve the delivery business. In addition to retail outlets, the company offers its products through catalogs, the Internet, and an internal sales force.

Good Business

- In fiscal 2009, approximately 50% of revenue was generated from the sale of office supplies and services. This stream of revenue can be considered recurring in nature, as the underlying products are typically low-ticket items, frequently purchased and have a relatively consistent replacement cycle.
- Given that Staples is the world's largest office products company, it benefits from economies of scale in advertising as well as procurement. This ultimately translates into superior profitability versus peers.
- Staples is currently the second largest U.S. Internet retailer, with approximately 35% of sales online.
- The company generates returns on capital that exceed its cost of capital. Over the trailing 5-year and 10-year periods, Staples' lease-adjusted return on invested capital (ROIC) has averaged 12.3% and 11.8%, respectively.
- Staples' operations are not capital-intensive and create excess free cash flow (FCF) of more than $1 billion.
- The balance sheet is in good shape. Staples' long-term debt outstanding has received an investment grade rating from Fitch (BBB), Moody's (BBB), and S&P (Baa2).

Valuation

- Over the past 18 months, the company's stock price has underperformed the S&P 500 by nearly 3500 basis points.
- On an enterprise value-to-sales (EV/Sales) basis, Staples' stock trades for 0.65. This is greater than one standard deviation below its trailing 5-year average multiple of 0.90.
- The company's fiscal 2009 operating margin was relatively depressed at 6.2% versus the trailing 5-year average of 7.3%. Over the next 3-5 years, management is targeting a 9.0% operating margin versus the previous peak of 8.2% achieved in 2007. If the company is successful in boosting margins, the EV/Sales multiple ought to return to at least its long-term average of .90.
- Staples' price-to-cash flow multiple is approximately 8.5. Since 2001, this multiple has averaged 11.4.
- Over the past five years, Staples' free cash flow has averaged $1.48 per share. The stock trades for 13.3x this number.

Management

- Staples is led by CEO Ron Sargent. Mr. Sargent has held his current position since February 2002 and has been an employee of the company for the past 20 years. He has also served as Chairman since March 2005.
- Executive management beneficially owns approximately 2.0% of Staples' common stock outstanding. This includes a meaningful amount of company stock held outright.
- A significant portion of management's compensation is directly linked to return on net assets (RONA) and economic value added. We believe these metrics are important drivers of long-term shareholder value.

Investment Thesis

Most people think of Staples as a big box retailer. This is only partially true; more than half of the business is now delivery versus retail. The delivery business is steadier and has a better margin. Over time, we think the market will revalue Staples at a higher multiple. We believe the concerns about the company's prospects are largely macroeconomic and temporary in nature. The valuation is attractive for a premier business services and retail franchise.

Devon Energy Corporation

Description

Devon is an independent exploration and production (E&P) company whose operations are focused onshore in the United States and Canada. Its production mix is about two-thirds natural gas and one-third oil and natural gas liquids (NGLs). Proved reserves total approximately 2.6 billion BOE (barrels of oil equivalent), with about 60% being natural gas and 40% liquids. The reserves/production ratio is around 12 years. Proved developed reserves represent approximately 70% of the total.

Good Business

- As an early mover in its plays, Devon has established its superior acreage positions with low entry costs and royalty burdens. The company's strong balance sheet should allow it to withstand difficult periods.
- Oil and natural gas are two of life's necessities.
- ROIC has averaged approximately 10.5% over the last decade. The return on incremental invested capital should improve going forward following the company's sale of its Gulf of Mexico and International assets, which accounted for 7% of proved reserves and 11% of production, but commanded almost 30% of Devon's capital.
- This is an easy business to understand.
- The net debt/cap ratio is approximately 14%. The balance sheet is in a net cash position pro forma the Brazil asset sale, which is slated to close by year-end.

Valuation

- Devon has declined 17% from its 52-week high and 50% from its all-time high in July 2008. The shares have underperformed the S&P 500 by approximately 8% and 23% over the last 12 and 24 months, respectively. This is primarily because the company's asset base is weighted to the out-of-favor, North American natural gas market.
- If the stock traded down to its 5-year/10-year average low of around 1.25x book, the shares would be valued at approximately $48, representing downside of 25%.
- Devon trades essentially in-line with its large cap peer group on a Price/Cash Flow basis but trades at a 20-30% discount to its peers on an E&P EV/Mcfe (enterprise value-to-thousand cubic feet equivalent) and EV/Mcfepd (enterprise value-to-thousand cubic feet equivalent of proved developed reserves) basis, and an even greater 40-50% discount to the mid cap peer group.
- Exxon Mobil announced the acquisition of XTO Energy in mid-December 2009 for $41 billion, which implied a value of $2.95/Mcfe of proved reserves and $13,900/Mcfepd. Excluding the company's midstream business, the market values Devon's E&P assets at $1.50/Mcfe and $6,500/Mcfepd.

Management

- The company is unlikely to engage in large-scale corporate mergers and acquisitions. In fact, Devon currently considers the repurchase of its shares as a superior use of cash. It is on pace to buy back 12% of its stock within 12-18 months.
- Following the close of its pending asset sales, the company will have sold roughly 10% of its proved reserves and production with after-tax proceeds that exceed 20% of its enterprise value.
- Management is non-promotional and has taken a conservative approach to new resource opportunities. Insiders own a significant amount of stock outright.
- John Richels, 59, was named CEO in June 2010. He took the reins from Devon's Co-Founder and Chairman, J. Larry Nichols, who had served as CEO since 1980. Richels was previously the President since January 2004.
- David Hager, 53, was named Executive V.P.-Exploration & Production in March 2009. He previously served on Devon's Board and was the COO of Kerr-McGee prior to its merger with Anadarko in 2006.

Investment Thesis

Devon is in a fairly volatile business, but one that can comfortably earn its cost of capital if managed properly. We think the executive team is outstanding and the stock is very attractively priced due to the depressed environment. The time to buy commodity-related businesses is when supply is adequate and pricing is depressed, which is what we have in the natural gas market at the current time. The company has the added value of being an inflation hedge.

Management Note: Pat English, Chief Investment Officer, has directed the investments of Fiduciary Management for over twenty years and will continue to do so. Through his leadership, we have built an excellent research team that is fully inculcated into the Fiduciary Management investment culture. Pat has functioned as both the Chief Investment Officer and a critical decision maker, along with John Brandser, Chief Operating Officer, across a variety of strategic and tactical matters for many years. Those familiar with Fiduciary Management know that Pat and Ted Kellner have been operating in a state that is akin to co-CEOs for a long time. Ted has been more of an external CEO and Pat more internal. Pat now officially adds the title of CEO and Ted becomes Executive Chairman and remains on the portfolio management committee. John adds the title of President. Additionally, Andy Ramer, who joined FMI in 2002, has been named Director of Research. He and Pat have and will continue to work closely with the team vetting and researching investment ideas, building on the thirty-year track record of the firm. The entire investment group, along with key client service and marketing executives, not only have an ownership stake in FMI but are also invested alongside our clients.

Thank you for your continued 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.