100 East Wisconsin Avenue, Suite 2200
Milwaukee, Wisconsin 53202
414-226-4545
www.fiduciarymgt.com

INVESTMENT STRATEGY OUTLOOK – LARGE CAP EQUITY

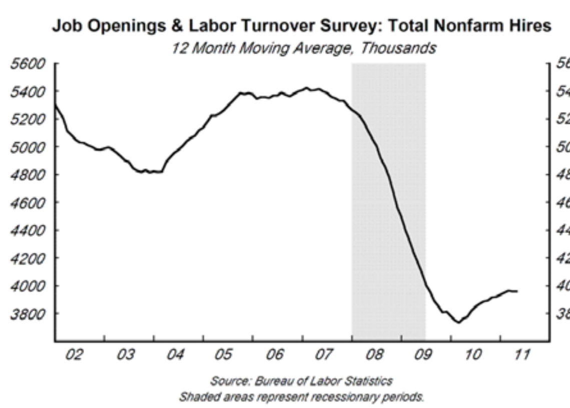
June 30, 2011

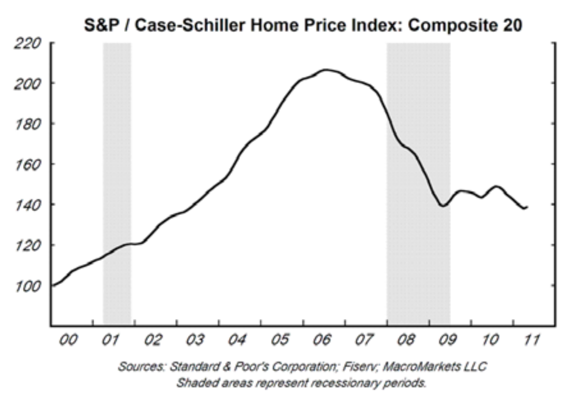
The FMI large capitalization portfolios gained approximately 2.0% in the quarter compared to the 0.1% advance for the Standard & Poor's 500 Index. Technology Services, Producer Manufacturing and Commercial Services were three groups that aided relative performance. Detracting from results this quarter were Retail Trade, Health Technology and Process Industries. We sold ***Schlumberger Ltd.*** in the quarter due to valuation and purchased ***Comerica, Inc.*** based on valuation, capital position and rebound potential in commercial lending.

Over the past several years these letters have delved extensively into areas we see as long-term problems for investors -- particularly U.S., European and Japanese fiscal deficits, debt levels, policy responses, monetary intervention and equity valuations. The normal pattern for our letters is to focus on economics or some other broad subject at December 31 and June 30. The March 31 and September 30 letters typically make brief big picture comments followed by a highlight of a company or two. This letter will deviate somewhat from normal by taking just a brief view of the big picture landscape, as well as a few other macro subjects, in order to spend a little more time discussing the portfolio itself.

Fiscal disasters abound both here and abroad. The austerity measures that are required to make American, European and Japanese economies healthy are painful and have already resulted in social unrest. The debt problem will not disappear regardless of the demonstrations, marches and riots, whether in Athens or Sacramento. Longer term, without fiscal discipline, it is either inflation or restructuring. So far it is clear that the U.S. and European Union have chosen loose monetary policy, which partially manifests itself in currency debasement and eventually could spell high inflation. Over the past five years, the dollar has declined 31.3% relative to the Swiss Franc, reflecting a much sounder fiscal situation in Switzerland. The Euro has declined 22.1% against the Swiss Franc during the same period. The U.S. is borrowing 40% of its annual spending and overall debt is approaching 100% of GDP, truly astounding figures. There appears to be an appalling lack of understanding and urgency at the Federal level in addressing the fiscal problems from a policy perspective, both here and abroad. We are seeing cities and states beginning to balance budgets, however, which gives us some hope.

The U.S. economy is certainly stronger than it was two years ago, but job creation (see chart) is almost nonexistent and GDP growth is anemic. House prices remain depressed (see chart) and home inventories remain high. The rapid earnings growth exhibited from the early 2009 bottom appears to have run its course. Profit margins are at all-time highs and we would not be surprised to see some retrenchment in profitability.





China's rapid growth may continue, but as articulated in recent letters, their economy appears to be heavily dependent upon unsustainable infrastructure and construction investment. Emerging markets like China have been a source of strength for U.S. and global companies and while the long term is still promising, history shows development rarely takes a smooth upward arc.

Surprisingly, one area of controversy appears to be how equity valuations are perceived. Some think stocks are cheap, but we have a hard time making that case. Every quarter The Leuthold Group publishes 39 different valuation series, whose data goes back 50-90 years, with the information divided into decile rankings (1 the cheapest, 10 the most expensive). There are 15 different P/E ratio series, along with multiples of cash flow, book value, revenue, GDP and many others. The average decile ranking of the 39 series is 8.1. Stocks are not cheap. Does this mean stocks will fall? That is a difficult question. Stocks can stay expensive or cheap for a long, long time. Stocks very briefly dipped below the median in late 2008 and early 2009, but for most of the past twenty years, valuations have been well above average. Conversely, for virtually all of the 1970s and into the mid-1980s stocks were cheap. Money can be made in both environments *but it is difficult doing it during the transition from expensive to cheap.* It is a safe bet that at some point this transition will take place.

Readers new to these letters might be alarmed by our tone, but this is not unusual for us. We always try to give an honest assessment of how we see the world and our basic belief is that excellent long-term investment results are best achieved by careful and cautious security selection, avoidance of popular or frothy themes and a deep appreciation for valuation. If stocks truly make a transition from expensive to cheap, we like our chances to outperform more aggressive peers. How this will look from an absolute return standpoint is impossible to predict.

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FMI portfolios are constructed with a desire to remain exposed to most of the major economic sectors in our society. While we are certainly aware of the S&P 500 weightings for each industry, this is far less important than making sure the portfolios are economically diversified. In the late 1990s many "conservative" pools of capital and index funds were invested alongside of the S&P 500. Unfortunately, tech and telecom had grown dramatically so investors that mimicked the S&P 500 were not buying a diversified portfolio and subsequently suffered significant losses. While striving to be diversified, we understand owning too many stocks accomplishes little in the way of diversifying risk while dooming the portfolio to average performance over time. Several studies show that the portfolio diversification benefits drop dramatically after as few as ten stocks (as long as they are in different industries). Our portfolios generally hold 25-30 stocks, relatively concentrated compared to our peers. There is an automatic assumption that this type of portfolio is more volatile, but the 10-year record in FMI large cap and the 31-year FMI record in small cap show just the opposite. We believe this is due to a focus on buying companies that have superior underlying franchises, solid balance sheets and valuations that already reflect relative pessimism. By avoiding the popular stocks and industries, the portfolios have conceded some of the upside but have more than made up for it by side-stepping the brunt of the downside as the ardor faded; overall, the performance has been steadier. Of course there are no guarantees for the future, but rest assured that our approach will remain the same.

FMI portfolios will generally have less exposure than our peer competitors in a number of industry groups, including electronic technology, financials, energy and utilities. We are not attracted to most technology business models because they are characterized by short product cycles, unpredictability, cutthroat competition and excessive use of stock options. Though technology is an important economic growth driver, it has been an exceptionally tough place to execute a successful investment track record. Nevertheless, we want exposure to this sector of GDP and we generally get it "through the side door," with companies such as

TE Connectivity Ltd., which sells connectors, switches and other products that typically have a longer shelf life than those of the technology products in which they are used. Our lack of enthusiasm for many financial enterprises stems from the fact that they are typically characterized by high leverage and low margins. This gets them in trouble when the credit tide turns or there is financial turmoil. ***Bank of New York Mellon Corp.*** is one stock we prefer in this area because only about 20% of the business model is a traditional bank. 80% of the business is based on custodial fees, money management fees and so forth. Many energy companies struggle to earn their cost of capital. As a general comment, most management teams in this sector seem to lack investment discipline. We believe ***Devon Energy Corp.*** is one exception to this rule. Our preferred approach to gaining energy exposure is through the oil service channel, where there are more companies that exhibit the proverbial moat around their business. Unfortunately, ***Schlumberger Ltd.***, our recent investment in this group, simply got too expensive to justify holding. The utility sector is also plagued by low returns. We could accept utility investments that barely earn their cost of capital if the valuations were attractive, but they are not. Utilities are an important economic sector, however, and we have some exposure through ***Berkshire Hathaway's*** ownership of ***MidAmerican Energy Holdings Co.*** and ***PacifiCorp***.

The restaurant and retail sectors are generally highly competitive, tough to manage and mostly not too attractive from an investment standpoint. Still, they are very important from a GDP perspective so we desire involvement in some way. ***Sysco Corp.*** is the country's largest food distributor, catering to restaurants and institutional food service accounts. Unlike most restaurants, ***Sysco's*** business model is characterized by high returns and repeatable growth. Our retail investments include ***Staples, Inc.***, which most people think of as a big box retailer, but which increasingly should be considered a business services company, since about half of its revenues now come through delivery. ***Staples*** is now the second largest online retailer. ***Wal-Mart Stores, Inc.*** generates about half their revenue from the supermarket side of their business and the other half from general merchandise. For the most part, **Wal-Mart** sells necessities and their profit structure is much better than the average retailer or supermarket. Like many of our investments, this stock is under a cloud. We believe the company has a credible merchandising plan and a valuation that is near rock bottom. They will, however, need to figure out a strategy to better compete with Amazon.

The action in the stock market in recent years has been in commodities, precious metals and heavy cyclicals -- sectors that have prospered from high growth in emerging markets. We've sold a couple of stocks that had benefitted from these trends because of valuation. As wealth builds in emerging markets, we like the growth opportunities for companies such as ***Nestlé S.A.*** and ***Kimberly Clark Corp***. These strong global franchises have undemanding valuations and are also likely to hold up better if economic growth slows or we get a financial panic. Even in our more traditional "cyclical" manufacturing sectors we own companies such as ***3M Co.***, which is heavily exposed to both consumer and health care, and ***Tyco International Ltd.***, which is three-quarters security (ADT) and fire protection, both of which are characterized by recurring revenue and should be less volatile than the average industrial stock.

Value investors constantly struggle with buying into stocks or sectors that stay depressed (value traps). The Pharmaceutical sector has been an enormous value trap over the past decade or so. We have written periodically about why we haven't invested significantly in this sector. In essence, the marginal development of new compounds became uneconomic. The productivity of pharmaceutical R&D plummeted (cost, FDA approval time, and hit rates have all gone the wrong way). The stocks were cheap on a retrospective basis, but not on a prospective basis. Currently we are undertaking yet another underwriting of this sector as some of the negative factors may be ameliorating. In the meantime, we are participating in this sector through our holding of ***AmerisourceBergen Corp.***, one of the three dominant drug distributors. This is a business characterized by steady free cash flow and an above-average return on invested capital.

The health care sector in general has been a difficult area to analyze or in which to have a reasonable level of confidence. Knowing that as a society we spend way too much on health care, that Federal and State governments already pay over 50% of health care expenditures, and that new health care mandates are going to take this figure much higher, it is hard not to fathom eventual government cutbacks, rationing, reduced reimbursements, etc. Today the spending just goes up and up, but eventually this has to change. If the majority of the people believe health care is a public good and that it should be provisioned by the government like national defense, then we think the return structure of the industry is going to fall significantly. As with all groups, we constantly revisit the facts and circumstances and make our judgments as to whether conditions have changed. We may have a completely different thesis on health care in three years.

Each investment is vital to the success of the overall portfolio. There are no “throw-away” stocks or “flyers.” Taking small positions is often a defense mechanism for lack of conviction or subpar research. We invest in sizeable stakes after we determine that the idea adds to the diversification of the portfolio and when our in-depth research yields a positive conclusion. When we get the thesis wrong or the valuation becomes unattractive, we sell.

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.