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INVESTMENT STRATEGY OUTLOOK

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The underlying fundamental earnings of your portfolio companies improved in the first quarter of 1999, and are expected to be up approximately 10%. As you may recall from our year-end 1998 letter, the earnings growth of your companies slowed last year from approximately 14% to 8%, with the fourth quarter beginning to rebound. The acceleration in earnings growth in your portfolio companies in the fourth quarter, and into the first quarter of 1999, is due to both internal business improvement as well as the addition of some more rapidly growing firms, which will be discussed below.

Contrast this performance with the March 31, 1999 Commerce Department report showing that overall corporate earnings fell 2.2% in 1998. S&P 500 earnings, according to a recent Merrill Lynch study, were down 1.7% in 1998, and are expected to be up modestly in the first quarter.

The significant declines in most stocks in the first quarter of 1999 has enabled us to add more rapidly growing franchises at truly bargain prices. Following Ted's work on Allegiance Telecom late last year, the stock became our biggest winner in the first quarter, up over 100%. The uneven market also allowed us to increase the size of some existing holdings that have particularly bright futures. For example, early in the quarter, Ted and Pat spent the day with Bill Kelly, CEO, and Mike Potter, CFO of Consolidated Stores at their headquarters in Columbus, Ohio. Impressed with the progress the Company was making, we added to the stock. It was gratifying to see the stock up nearly 90% in the last six weeks of the quarter! Another big rebounder was First Data, up 34% in the quarter and 100% from the bottom; a good example of what should happen when one sticks with excellent businesses through tough times.

Unfortunately, the pattern of outperformance by the megacap and internet stocks continued in the first quarter. While it is painful to watch already overvalued stocks go higher and already undervalued stocks go lower, we are comforted by the historical precedence that these conditions do not last. While your portfolio was down modestly in the first quarter, it was in line, or slightly ahead of, the small- to mid-cap benchmarks. More importantly, it has never been more attractively valued relative to the S&P 500. Most market historians agree that the spread between the largest cap stocks and the rest of the universe has never been wider. Currently, your portfolio, with historical and prospective earnings growth greater than the S&P, sells at approximately a 50% discount. History and common sense tells us that dramatic relative performance is on the horizon.

Below are some new names either held in your portfolio currently, or to be added shortly.

National Data Corporation

National Data (NDC) is a leading provider of information and transactional services to the health care and payment systems markets. Approximately 60% of the sales are in health care, where NDC is the number one processor of pharmacy claims and drug interaction information. NDC also provides transaction processing for dental, medical office, hospital, and HMO customers, adjudicating over one billion transactions annually. In the payment systems area, NDC provides credit card transaction authorization and data capture for a variety of vertical markets, where they have a strong competitive position. We have particularly good insight into this business, due to our involvement with First Data. NDC has a niche focus in this business and has recently been able to grow at twice the rate of the industry. National Data recently reported its 17th straight quarter of operating income growth above 20%. This consistent level of strong growth is due to the leveraging of NDC's value-added network and tactical acquisitions. Recurring revenue and strong margins characterize both the health care and payment systems business. The health care segment should provide a majority of the growth going forward, as

the Company leverages its data network in order to sell higher value-added services to health care providers and payors. A large-cap stock with this kind of consistent growth might sell at 30-40 times earnings in today's environment. NDC, with a not insignificant market cap of $1.3 billion, trades for less than 20 times earnings, and with its significant non-cash expenses, is even more attractive on a cash earnings basis.

NFO Worldwide, Inc.

NFO ranks among the world's top ten market research firms and is the largest custom market research company in America. At the core of NFO's research is the world's largest proprietary pre-recruited household panel, which provides cost-effective data and valuable consumer preference information for such industries as consumer-packaged goods, pharmaceuticals, telecommunications, high-tech and financial services. NFO sells a large amount of relatively small preference information, less than $1 million per project, to many of the Fortune 1000 corporations, which we believe makes the business more predictable and less reliant on large, one-time projects. Large corporations are looking to outsource this more and more as specialized firms can provide cost effective and timely insights to product development. Over the past three years, revenues have grown 33% annually, including acquisitions, and net income has increased 16%. Internal revenue growth has been 10-15%, which is greater than the overall industry, estimated to be 7%. We project similar internal revenue growth going forward, and earnings per share growth of 15-20%. As NFO integrates recent acquisitions and uses its strong free cash flow to pay down debt, pre-tax margins should move to 10% from the current 7%. NFO currently trades at a price/earnings ratio of 12, which is less than half the market multiple, yet clearly has superior growth prospects.

Superior Services, Inc.

Milwaukee-based Superior Services is a $400 million acquisition-oriented, fully integrated solid waste services company providing waste collection, transfer, recycling and disposal services. The Company serves approximately 500,000 residential, commercial and industrial customers in ten states with a geographic concentration in the Midwest, Southeast, and Ohio River Valley. Intriguing aspects to our investment in Superior are compelling valuation, good acquisition strategy, and improving pricing. Over the past five years, Superior has increased revenues 33% and earnings per share 16% compounded. Over the next 2-3 years, we estimate that Superior, with its recent acquisitions and pipeline of potential acquisitions within its existing or contiguous markets, can increase revenues and earnings per share at the 20% level. Private companies and municipalities control over 50% of the $36 billion solid waste industry; thus, there is a large opportunity for both acquisition and internal growth. Superior's strategy of fully integrating its solid waste service results in maximizing efficiency and industry-leading profitability. Pricing within the waste industry is improving due the consolidation of the larger participants (Allied Waste/Browning Ferris and Waste Management/USA Waste Services). At the same time, smaller, private companies are finding it difficult to compete, due to stricter landfill standards and increased capital requirements. In the fourth quarter, Superior experienced 7% internal growth, its best in over two years. Superior trades at a valuation of less than 16 times earnings and just 5.6 times earnings before interest, depreciation, and amortization (EBITDA).

Modis Professional Services

Established in 1992, Modis is one of the nation's largest providers of professional staffing and information technology services, with over $1.2 billion in revenue and operating income of $170 million. Since its inception, Modis has consistently shifted its revenue mix via acquisition, emphasizing information technology (70% of sales) and professional services such as legal, accounting, engineering and scientific (30% of sales). In 1998, Modis also sold Strategix, its general staffing business, at a terrific price. This allowed the Company to eliminate all its debt and repurchase over 15% of their shares outstanding. Modis has a strong track record of growth; internal sales and earnings growth has been 15-25% over the past five years, and over 40% compounded, if acquisitions are included. In the second half of 1998, management pulled away from the acquisition market and began unifying its existing

operations. Concurrently, the market for information technology staffing began to slow and several companies reported disappointing results. The stocks for all the companies in this industry fell sharply, and by December we believed Modis was attractively valued, particularly in view of a positive long-term outlook. Although the stock has continued to fall out of favor, as investors remain concerned about information technology staffing in front of the year 2000 problem, the valuation of the shares is compelling. The stock is trading at approximately 8 times earnings and less than 5 times EBITDA. While we cannot rule out a major slowdown in their business, right now it appears to be growing 13-15% and will likely accelerate as 2000 unfolds.

Romac International, Inc.

Romac is a specialty staffing company focused on information technology, finance and accounting and human resources. It has 80 offices in 44 markets and generates over $680 million in revenues and $60 million in operating income. The core operating companies go back to 1966, and the Company has an outstanding track record and reputation in the industry. Internal growth over the past five years has exceeded 25%, and acquisitions have boosted the growth to over 50%. Currently 65% of the sales come from information technology staffing, and 27% from finance and accounting. Like Modis, Romac has slowed somewhat in the information technology segment, but still reports a 15% trend line growth rate. Again, worries about the year 2000, and a slowdown in software sales, have had a disproportionate effect on the stock. We think that growth will accelerate as the millennium unfolds. Romac trades at 9 times earnings and slightly less than 5 times EBITDA. The Company has $76 million in cash, no debt and recently authorized a $50 million repurchase program (12% of the shares outstanding at current prices). Looking out over a three year period, we expect earnings to advance at least 15% per annum, compared to the market's 5-10%. Yet this stock trades at one-third the market multiple.

If you have any questions about our strategy, the companies in your portfolio, or your current performance, please call us at (414) 226-4545, or toll free, at (800) 264-7684.

Thank you for your continued confidence in Fiduciary Management, Inc.