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INVESTMENT STRATEGY OUTLOOK

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After experiencing one of the strongest quarters of the last ten years during the three months ended June, wherein your portfolio achieved gains in excess of 20%, the market reverted to the ways of 1998 and the first quarter of 1999, when the average stock declined as the indices were driven by a smaller and smaller handful of companies. As the September 20 Wall Street Journal reported, "If you don't own Microsoft, Intel, Dell, Cisco Systems, MCI or internet stocks, you may be excused for wondering whether the huge gains published year-to-date for the Nasdaq and S&P are indeed a misprint." The Journal went on further to report that over 50% of all Nasdaq stocks are down this year, as were 59% of the American Stock Exchange, and 64% of the New York Stock Exchange. Even some of Wall Street's blue chip names have experienced significant price declines in 1999. Companies such as Coca-Cola, Bank One, and Gillette are down -28.1%, -31.8% and -29.8% respectively through the first nine months of 1999. Additionally, for the last seven quarters, the large capitalization companies, which dominate the Standard & Poor's 500 and Dow Jones Industrial Average, have far outdistanced the more broadly-based Russell 2000 Index, as the following table attests:

Index	Calendar 1998	Nine Months Ended September 1999	Cumulative 7-Quarter Gain
Dow Jones Industrial Average	17.3%	13.9%	33.6%
Standard & Poor's 500	28.8%	5.4%	35.7%
Nasdaq Composite	39.2%	25.5%	74.7%
Russell 2000 Index	-2.1%	2.3%	0.0%

Within the Russell 2000 Index, which is for the most part representative of the types of companies in your portfolio, a major divergence has again occurred between the growth and value companies. During the third quarter, the growth component of the Russell 2000 Index declined 4.8%, while the value component declined 7.8%. The top 50 contributors to performance in the Russell 2000 Index actually contributed 3.6 percentage points to the Russell's third quarter performance of -6.6%. The remaining 1,950 companies experienced a negative rate of return of -10.2% for the third quarter. Also of interest, those 50 companies collectively lost $907 million during the past 12 months, and the median price/earnings ratio of those companies which did have earnings is an astounding 69.9. By comparison, over the past 12 months, the companies in your portfolio earned over $3 billion, and sell at a price/earnings ratio of 17.6!

The divergence could be explained, in part, if the companies we own were not performing well financially. In fact, however, as we have discussed in the past, this is not the case, as your companies' earnings growth in 1999 has accelerated! The following chart depicts the last seven quarters of earnings growth for both the S&P and your portfolio.

Period	S&P 500 Operating Earnings	S&P 500 Change From Prior Year	FMI Change From Prior Year
1st Quarter 1998	$10.85	7.4%	11.11%
2nd Quarter 1998	$11.50	2.2%	9.09%
3rd Quarter 1998	$10.67	-2.6%	4.60%
4th Quarter 1998	$11.77	0.7%	8.00%
1st Quarter 1999	$11.41	5.2%	10.40%
2nd Quarter 1999	$12.81	11.3%	14.70%
3rd Quarter 1999 (Est)	$13.02	10.6%	14.50%

For all of 1998, S&P 500 operating earnings declined 1.7%, and while the growth rate of your companies slowed, they still experienced an 8.5% increase. Additionally, as 1999 has unfolded, your companies' growth rates began to rebound well in advance of those of the Standard & Poor's 500. Your portfolio is currently priced at 14.8x median expected 1999 earnings. The S&P, by comparison, sells at 34.2x estimated 1999 earnings. Additionally, based upon preliminary estimates for next year, your portfolio sells at a substantial discount to the broad market, with a multiple of 12.5x, versus 32.6x for the S&P. The main source of frustration for your research team is that our companies have demonstrated superior growth, in fact, accelerating growth — yet, at this writing, are currently *selling at a 56% discount to the S&P companies.*

While times like these seem "unfair," particularly when a few of the glamour stocks with already lofty multiples sprint ahead, it is important to remember that eventually the pendulum swings back. We experienced this in the second quarter with our 20%+ gains, and believe a more sustained move toward true value cannot be far away.

Many of your stocks declined in the third quarter, despite continuing strong underlying fundamentals. What made this quarter unusually difficult is that a few stocks had substantial declines. We have indicated to you on many occasions that we will sell companies if the long term fundamentals deteriorate markedly. Below, we address four companies which hurt our performance in the third quarter, and experienced fundamentals that were modestly altered from our expectations. In our opinion, however, the market has dramatically overreacted to these changes; from these levels, these stocks represent great value.

Republic Services

Republic Services is the third largest waste management company in the United States and is the leading player in the Sunbelt markets. Its revenue model is characterized by a high degree of predictability, and is recession resistant due to the necessity of the service. The Company is consistently highly profitable, typically achieving operating margins north of 20%.

When we initially purchased Republic, we expected the Company to achieve 15% long-term growth, roughly half from internal and half from acquisitions. For this we paid 15x 1999's estimate of $1.25 and 13x 2000's estimate of $1.47. Subsequent to our purchases two things happened. First, the largest player in the industry, Waste Management, announced a series of disappointments. Second, Republic guided the numbers down to $1.18 this year and $1.35 next. The reasons for the shortfall were less-than-anticipated synergies from acquisitions (although all of the acquisitions they made have been accretive to earnings) and the decision by management to exchange floating rate debt for fixed. The combination of these events has devastated the stock yet the long-term outlook for the Company is little changed. Waste Management's problems appear to be self-inflicted and not industry-wide. Republic has made adjustments in their acquisition strategy that may result in slightly slower long-term top line growth. Earnings should continue to advance at approximately a 14-15% clip for the foreseeable future. The stock currently sells at 9.4x and 8.1x 1999 and 2000 estimates, respectively.

Additionally, many of you may remember Superior Services, which we owned earlier this year. This company was subsequently purchased by Vivendi, a French conglomerate. In acquisitions, companies are often valued on a multiple of EBITDA (earnings before interest, tax, depreciation and amortization). When Vivendi bought Superior after a sharp price advance of almost 40% from our purchase price, they paid approximately 8x EBITDA. We believe that Republic has a better geographic mix of properties, as well as better growth dynamics than Superior, and at today's prices sells at only 4.4x 2000's EBITDA. It is a terrific value, in our opinion.

Consolidated Stores

Consolidated Stores is the leading closeout retailer in the country, and operates KayBee Toys, one of the largest toy retailers in the US. We have a fairly long-term history with this company and industry through MacFrugals, another closeout retailer that was a big winner for Fiduciary Management, and which was acquired by Consolidated. The closeout retail business remains an exceptional one if run properly, and despite a few recent stumbles, Consolidated has put together a good long-term record.

After strong first half performance, the stock slid in the third quarter in reaction to a weak fiscal second quarter and a changed view of the Company's toy internet initiatives. Putting aside the internet moves for a moment, the core earnings estimates earlier this year for 1999 and 2000 were $1.45-1.50 and $1.75-1.80, respectively. They are currently $1.30-1.35 and $1.65-1.70 for 1999 and 2000. The reductions are due to a less than optimal ramp-up of a new distribution center, higher than expected freight costs and weakness in the video category in the toy business. The freight issue is diminishing and the other two issues are fixed.

When Consolidated first announced their new Kbkids.com toy initiative, the stock moved up sharply, even though the Company was going to spend $.35 net in 1999 and $.40 in 2000. Since the second quarter earnings miss, and perhaps compounded by a rash of competitive internet toy announcements, the market has turned on the stock. One of the great ironies of this stock market is how a pure play internet company can trade at a fantasy multiple, while a similar venture within a "bricks and mortar" company actually penalizes its multiple. We believe the combination of Kbkids.com with the retail stores is much more powerful than a stand-alone internet operation. Furthermore, Consolidated plans to spin the unit off in 2000 anyway. Either way, we are excited about Consolidated prospects over the next few years and the stock, at less than 12x next year's estimate, is very attractively valued.

Steris Corporation

Steris is the leading player in the infection control business. The Company has a very strong franchise in hospital and surgery suite sterilization equipment and consumables. Steris also addresses scientific, industrial and food markets. The business model follows the razor, razor blade model, with approximately 60% of the revenues coming from consumables and service. The Company is highly profitable, with operating margins consistently in the mid-to-high teens.

Salesforce productivity has dogged Steris for about a year; indeed, it was the issue that gave us the opportunity to make initial purchases of the stock. We began purchasing this company at prices around $18.00 after the stock declined from a high of $35.00, as the sales problems began to surface. Management implemented a reorganization of the sales force in the spring, but we underestimated the task in front of them. A disappointing June quarter was the result. Unfortunately, this is not a quick fix situation as the Company has gone from a product sale approach to a systems-based, account oriented approach. Management has indicated that they feel a resumption of double-digit sales growth can be achieved in the second half of next year and we think this is a realistic target. Meanwhile, the Company remains on track to earn $1.05 per share this year. The original target was $1.30. A reasonable goal for next year is $1.20, although management feels they can do significantly better.

While clearly a disappointment, the long-term thesis remains intact. The stock, at 10x next year's estimate, appears to reflect a great deal of skepticism. Given the strong underlying franchise, a market share in excess of 75%, excellent balance sheet and credible recovery plan, we think the stock has enormous potential.

Covance, Inc.

Covance is one of the world's largest and most comprehensive drug development services companies, with revenues exceeding $800 million. Covance works in partnerships with major pharmaceutical and biotechnology companies doing contract research, clinical trials, central lab services, biomanufacturing,

packaging and regulatory compliance. The Company is solidly profitable, achieving a 15% return on invested capital over the past five years, and has grown at approximately 20%.

Over the past several years, pharmaceutical and biotechnology companies, both large and small, have increasingly sought to "outsource" drug development activities. With the cost and time to develop a new drug running $300-500 million and 10-15 years, respectively, firms such as Covance help save both development dollars and time. Our research indicates no diminution in the appetite of drug companies to outsource. Yet recently there has been a spate of negative events that have conspired against Covance's stock and the others in their industry.

We had previously and successfully owned Covance (experiencing a gain of over 40% on our original investment), but the stock became quite expensive and we moved to the sidelines. As good as the long term may be, there is still volatility in the revenue stream due to the inevitable vagaries in the drug development process, and we felt that the stock did not reflect this risk. Subsequently the stock did come under pressure, as did others in the group, and near the $20 level, we felt the risk/reward was once again attractive. In hindsight this was a mistake, because further fundamental disappointments occurred and though these issues are not serious from a longer-term perspective, they have sliced the stock in half.

Fundamentally, the Company has had a couple of drugs that have failed trials but the two more important issues have to do with new trial wins and a central lab slowdown, both marketing related. Covance's marketing effort has not been focused enough on relationship building, but rather a belief that the pharma world would beat a path to their door because of its broad service offering and quality reputation. Sales growth has thus slowed, affecting earnings estimates to the tune of about 10%.

While these issues cannot be minimized, they in no way justify the move in the stock. Clearly we underestimated the amount of "momentum" money that would pour out of this security, but the result is a long term growth company with a price/earnings ratio of 9.5x 1999 earnings, and 8.4x our $1.03 estimate for next year. We cannot change history, but today the stock represents a chance to capture 15% earnings growth over the long term and a multiple that could double from here.

We believe these are but four of the companies in your portfolio which, while stumbling in the third quarter, have tremendous upside potential for the next 12-24 months, as do all of the companies you currently own.

We would ask you to consider one final exercise we perform constantly here at Fiduciary Management - looking at the potential expected portfolio returns for your portfolio versus that of the S&P 500. Feel free to experiment with the following table, which presents an expected return matrix based upon various assumptions you may have for the growth rate of S&P earnings, as well as the terminal multiple at which you expect the S&P to sell, five years out. Keep in mind a number of things, while the S&P earnings growth rate over the last four years has been in the mid-teens, its long term growth has consistently been in the 6-7% range. Additionally, over the last 100 years, the S&P has had an average multiple of 15.8x. However, you can pick whatever set of assumptions you would like.

Price/ Earnings Ratio	**Standard & Poor's 500 - Earnings Per Share Growth**					
	2.00%	**4.00%**	**6.00%**	**8.00%**	**10.00%**	**12.00%**
9	-22.26%	-20.74%	-19.21%	-17.69%	-16.16%	-14.64%
12	-17.66%	-16.04%	-14.43%	-12.81%	-11.20%	-9.58%
15	-13.90%	-12.21%	-10.52%	-8.83%	-7.15%	-5.46%
18	-10.70%	-8.95%	-7.20%	-5.45%	-3.70%	-1.95%
21	-7.91%	-6.10%	-4.29%	-2.49%	-0.68%	1.12%
30	-1.10%	0.84%	2.78%	4.72%	6.66%	8.60%
35	2.00%	4.00%	6.00%	8.00%	10.00%	12.00%

The horizontal axis has various earnings growth expectations, while the vertical axis has assumptions ranging from 9x to 35x earnings five years hence. For instance, if you expect the growth rate of the S&P earnings to be 12%, double its historic norm of 6-7%, but you feel the multiple might contract somewhat to 30x earnings, you can see that you would achieve an expected rate of return of 8.6%. However, if you feel the growth will return to a more normal 6-8%, for instance, and you believe the multiple might regress toward the long-term historic mean of 15x, the expected returns would actually be a -10.52% at the 6% growth rate, and -8.83% at an 8% rate of growth. You can see that there are many more negative rates of return likely than positive. To get rates of return anywhere near what the S&P has experienced over the last 15 years, you have to make some very Herculean assumptions with regard to both long term earnings growth rates and price/earnings ratios.

We believe your chances for superior rates of return are much greater. As indicated earlier, at the end of September your portfolio sold at 17x earnings. Here again, the long term returns we have achieved have been due more to the underlying strong earnings growth of 13-15% for your companies, versus the multiple expansion than has been experienced by the S&P. The following table is the same type of matrix with slightly higher growth rates, because over the long term, our companies have, in fact, demonstrated significantly high growth. However, the price/earnings ratio on the vertical axis ranges from 9-21x, much less than in the aforementioned S&P table.

Price/ Earnings Ratio	**Your Portfolio - Earnings Per Share Growth**				
	6.00%	**9.00%**	**12.00%**	**14.00%**	**16.00%**
9	-6.66%	-4.02%	-1.38%	0.38%	2.14%
12	-1.13	1.67%	4.46%	6.33%	8.19%
15	3.38%	6.31%	9.23%	11.18%	13.13%
18	7.22%	10.25%	13.29%	15.31%	17.33%
21	10.58%	13.71%	16.83%	18.92%	21.01%

If you perform the same exercise, you can see that the matrix yields many more sets of positive investment return possibilities than that of the S&P 500. We like our chances for achieving positive — and very possibly, double-digit — growth rates over the next five years, much better than that of the S&P 500.

As we said at the outset of this letter, the last seven quarters have not yielded satisfactory rates of return for investors in mid- to small-cap companies such as those we own here at Fiduciary Management. We are, however, very satisfied with our portfolio results on a long term basis, as well as how our companies are currently fundamentally performing. The underlying fundamentals of your companies are strong, and getting stronger. The valuations - on a relative basis — are the cheapest we have ever seen in our 32 years of investing. As we experienced in the second quarter, when the market sentiment changes, it can change in a hurry, and it can change very positively. We believe we are rapidly approaching that time. Patience is a virtue, however, it can be very frustrating. We believe this frustration will be amply rewarded in the months and years ahead, with outstanding rates of return on your portfolio.

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

Thank you for your continuing confidence in the disciplines we are employing here Fiduciary Management, Inc.