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Investment Strategy Outlook - Small Cap Equity

Quarter Ended September 30, 2005

Portfolio advances were slightly ahead of the Russell 2000's increase of approximately 4.7% for the September quarter. For the nine months ended September 30, portfolios generally exceeded the Russell 2000 by about 3.0%, net of fees. Sectors aiding performance included producer manufacturing, commercial services and distribution. The takeover of York International at a 35% premium by Johnson Controls was the marquee event of the quarter. MPS Group also reported another solid quarter and the stock advanced significantly in the September period. Arrow Electronics continued to post good results in a subdued semiconductor market, and that stock also excelled in the quarter. Werner Enterprises, Bisys Group and Paxar detracted from results. Werner declined on fears of an economic slowdown. Bisys announced the divestiture of their information services division at an attractive price, but it resulted in some near-term earnings dilution. Paxar reported a difficult second quarter as the apparel sector slowed. In all three of these situations, we remain optimistic about the long-term prospects.

The stock market performance was remarkable in view of extremely high gasoline and energy costs, inflation, natural disasters, another rate hike and a significant loss of consumer confidence. In fact, the stocks generally considered to be the most aggressive -- that is, those with the highest betas -- outperformed those with the lowest betas. Analyzing the Russell 2000 constituents' betas by quintiles shows the highest betas returning 9.9% (unweighted) in the quarter compared to the lowest quintile's return of 0.3%. On the margin, this data seems to suggest that investors are feeling more confident about the future. Anecdotally, it also appears that so-called growth funds outperformed value funds in the quarter. If the market continues to move toward more aggressive stocks, or those that are popularly perceived as growth stocks, then we are likely to underperform. We find the companies that are growing sales or earnings rapidly to be extraordinarily expensive today.

We remain somewhat cautious on the outlook for returns in the foreseeable future, primarily due to valuations, which remain high by historical standards. Most valuations for the market are in the upper third of their long-term averages. As you can see from the table below, your portfolio trades at a significant discount to the market. All figures are weighted averages as of September 30, 2005.

	P/E Year 1	Price/Sales	EV/EBITDA	Price/Book
FMI Small Cap Equity Portfolio	17.4	1.1	8.4	2.4
Russell 2000 Index	32.8	3.5	15.2	4.3

Below we highlight a couple of new investments in the portfolios, Petco Animal Supplies and ScanSource, and provide an update on Global Imaging.

PETCO Animal Supplies, Inc.

Description

PETCO operates 716 specialty pet supply stores in 47 states. PETCO stores average between 12-15,000 square feet and are typically found in suburban shopping areas. The company competes through a high-low marketing strategy offering a variety of supplies and small animals.

Good Business

- Approximately 50% of PETCO's sales could reasonably be classified as recurring consumables. The company is projecting that higher-margined recurring services such as grooming will grow 20% annually to 10% of total sales. This will serve to increase margins and traffic.
- PETCO's business is highly defendable with 75% of sales attributable to the company's "PALS" (PETCO Animal Lovers Save) loyalty program, ensuring repeat visits and increased competitive barriers.
- Industry leaders PETCO and PETsMART control less than 20% of the industry, resulting in the opportunity to take share from smaller independents. PETCO's business is also highly specialized with 90% of sales coming from products that are not available in the mass merchant channel.
- PETCO's business should be durable given that pet care is one of the most economically insensitive subsections of retail.
- Return on investment capital (ROIC) has averaged 31% over the past four years. On an operating lease adjusted basis this figure is 11%. The company targets new stores to have a five-year ROIC of more than 20%, which has historically been accomplished with profitability by the end of year one.
- Inventory turns have improved in each of the past five years, finishing 2004 at 7.9 times, having improved from 6.2 in 1999. This has occurred despite an ongoing mix shift away from food. The company's net trade cycle has improved 6 days over this time period, falling to 27 days in 2004.
- Since re-emerging as a public company in 2002 PETCO has paid down significant debt, finishing 2004 at 1.2 times debt-to-EBITDA (earnings before interest, taxes, depreciation and amortization).

Valuation

- The 15.7 price-to-earnings (P/E) ratio on fiscal (January) earnings is near the all time low of 14 since PETCO's re-emergence as a public company in February 2002. Over this time the P/E multiple has averaged 22.6 and ranged from a low of 14 to a high of 30.
- On an enterprise value to sales (EV/Sales) basis PETCO currently trades at 0.74, 38% below the company's historical average of 1.2, in a range of 0.8 to 1.6.

Management

- As a group, management and directors own roughly 6% of the shares outstanding. The majority of the share ownership, roughly 5.2%, resides with upper management.
- James M. Myers, 47, became the company's new Chief Executive Officer in March of 2004. Myers has been with PETCO since May of 1990.
- Rodney Carter, 47, is a Senior Vice President and the company's Chief Financial Officer. Carter is the newest member of PETCO's management, having joined the company in March of 2004. From 2000 to 2003, Carter was Executive Vice President and Chief Financial Officer of CEC Entertainment, a very successful company.

Investment Thesis

PETCO has endured a perfect storm over the past several months as its stock has declined by nearly 50%. Problems initially arose when management discovered a distribution center accounting issue, which delayed their SEC filings. Subsequently the company was impacted by a more difficult consumer spending environment, primarily related to higher gasoline and energy prices. Competition has also been more intense, putting pressure on prices. We feel that the company is taking the right approach for the long haul by investing in store remerchandising, remodels, two new distribution centers, and a new advertising campaign. These efforts are pinching short-term earnings. Over time the company will benefit from these investments and the decline in energy costs. The valuation is attractive for investors with a long-term time horizon.

ScanSource, Inc.

Description

ScanSource is a leading value-added distributor of "specialty technology" products in North America, including automatic identification and collection equipment (bar coding, scanning, mobile computing), point of sale terminals and receipt printers, and telephony products (telephones, private branch exchanges, voice mail systems and computer telephony integration). The company sells approximately 29,000 products from 80+ vendors to 15,000 value-added resellers. Key vendors include Symbol Technologies, Zebra Technologies, Intermec, Avaya and IBM.

Good Business

- As a distributor of technology products, ScanSource has a higher degree of predictability and a lower degree of risk than inventors of technology.
- ScanSource has over 15,000 reseller customers and strong relationships with its 80+ vendors. No customer is greater than 6% of overall revenues.
- ScanSource consistently generates a return on capital in the low teens, which is greater than its cost of capital and exceeds most technology enterprises.
- We anticipate that the company will continue to grow at a better than average rate. Over the past five years, sales, earnings per share (EPS) and cash flow have grown over 20% per annum.
- The balance sheet is modestly levered with a debt-to-total capital ratio under 25%.
- The business requires very little capital to maintain and grow.

Valuation

- The share price has depreciated greater than 20% in 2005. This decrease puts the P/E ratio near the low-end of its 10-year average range of 15-28.
- The shares trade at less than 0.5 times revenues, which is near the low-end of its 10-year average range of 0.45-0.90.
- The company trades at a discount to the major indices, despite better growth prospects and a higher return on capital.

Management

- The Chairman is Steven Owings, 51, who founded the company in 1992. He has vast experience in technology distribution, including Gates.
- Michael Baur, 47, is President and Chief Executive Officer. Mr. Baur also held management positions at Gates. Richard Cleys, 53, has been ScanSource's Chief Financial Officer since November 2002.

Investment Thesis

ScanSource is the largest distributor in the markets it serves. From its infancy the company has focused on specialty niches of technology that are too small for large wholesale computer distributors, but which likewise require knowledge and expertise in complex products and systems. The markets that ScanSource serves are growing at better-than-average rates while also benefiting from a move from direct distribution to indirect. ScanSource should continue to be a solid grower, with strong profitability. The modest valuation creates a very attractive reward versus risk scenario.

Global Imaging Systems, Inc.

Description

Global Imaging is a leading provider and system integrator of office technology solutions, including digital and analog copiers, network integration, electronic presentation systems and related products and services. The company is the most profitable operator among public competitors. Its strategy has been to grow in a controlled fashion by concentrating on the profitable middle market customer segment and by making disciplined "bolt-on" acquisitions.

Good Business

- Global Imaging provides an important product and service to a large, diverse group of customers, with an emphasis on the middle market.
- Approximately 40% of total revenues are recurring in nature. This recurring business includes service contracts, aftermarket inks, toners, parts and maintenance agreements.
- Global's selling, general and administrative expense (SG&A) cost structure is at least 400 basis points lower than the competition and the company generates operating margins greater than 10%.
- Return on invested capital exceeds 11%.
- The balance sheet is appropriately levered.

Valuation

- At 14.0 and 12.8 times 2006 and 2007 (March) estimates, respectively, Global Imaging is trading at an attractive valuation, both on an absolute and relative basis.
- The shares trade at a substantial discount to the Russell 2000, despite better-than-average fundamental and financial characteristics.
- Recent transactions in the industry have been at premiums to Global's current valuation. Imigistics was recently acquired for approximately 9.5 times EBITDA and 20 times EPS.

Management

Tom Johnson, President and Chief Executive Officer, founded Global Imaging through a partnership with a buyout firm in 1994. Before Global Imaging, Johnson spent a number of years as Danka Business Systems' Chief Operating Officer (prior to that company going public) and at Alco Standard (now called IKON). He is a graduate of Harvard Business School and owns approximately 2% of the common stock. His tenure in this industry is over 25 years and includes operating, managing and acquiring office equipment dealers.

Investment Thesis

Global Imaging is a well-managed, highly profitable office equipment company that should produce better-than-average growth with a reasonable amount of predictability. The company has a very good track record and should augment internal growth with disciplined acquisitions. The valuation is reasonable and should expand as the market recognizes the strength of this franchise.

Thank you for your confidence in Fiduciary Management, Inc.

Fiduciary Management Inc.
Small 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	20.42	19.57	2.49	125	1.88	$ 587.2	$ 1,458.2	40.27%
2002	-4.78	-5.46	-20.48	154	1.47	$ 649.7	$ 1,731.0	37.53%
2003	27.18	26.22	47.25	167	1.93	$ 1,206.9	$ 2,927.0	41.23%
2004	20.92	20.02	18.33	181	1.00	$ 1,486.6	$ 3,085.8	48.18%
2005	11.12	10.26	4.55	186	0.69	$ 1,605.8	$ 3,174.4	50.59%
2006	18.46	17.56	18.37	147	0.73	$ 1,606.8	$ 3,589.4	44.77%
2007	-0.92	-1.72	-1.57	161	0.85	$ 1,520.2	$ 3,960.4	38.39%
2008	-21.06	-21.69	-33.79	145	1.16	$ 1,212.4	$ 4,062.5	29.84%
2009	35.72	34.56	27.17	165	0.97	$ 2,004.6	$ 7,008.9	28.60%
2010	23.45	22.43	26.85	170	0.48	$ 2,477.7	$ 9,816.0	25.24%
Q1 2011	7.18	6.96	7.94	182	0.19	$ 2,699.2	$ 11,338.0	23.81%
Q2 2011	1.16	0.96	-1.61	179	0.11	$ 2,718.9	$ 11,819.6	23.00%
Q3 2011	-16.12	-16.29	-21.87	178	0.31	$ 2,188.9	$ 10,357.9	21.13%

*Benchmark: Russell 2000 Index®

Effective January 2012, 2004 – 2011 gross and net composite returns and dispersion 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 Small Cap Equity composite has been examined for the periods 12/31/1993 - 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 Small Cap Equity Composite was created in January 1980. These accounts primarily invest in small to medium capitalization US equities.

The FMI Small Cap Equity Composite reflects time-weighted and asset-weighted returns for all discretionary accounts, with a market value greater than $500,000 as of month end. A small percentage of composite assets (typically ranging from 0-5%) historically has been invested in unmanaged fixed income securities at the direction of account holders. From December 31, 1993 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 Small Cap Equity Composite portfolios is as follows:

Up to $25,000,000	0.90%
$25,000,001-$50,000,000	0.85%
$50,000,001-$100,000,000	0.75%
$100,000,001 and above	0.65%

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 Russell 2000 Index® measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 8% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Small Cap Equity composite uses the Russell 2000 Index® as its primary index comparison.