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Investment Strategy Outlook - Small Cap Equity

Quarter Ended March 31, 2006

Fiduciary Management small cap portfolios had solid absolute returns in the March quarter, but lagged the benchmark Russell 2000. Returns were generally in the 8-9% range compared to approximately 14% for the Russell 2000. A little less than half of the difference was due to very strong performance in the benchmark's technology sector, an area that we typically underweight because of its business models and return on investment capital (ROIC) characteristics. A smattering of underperforming stocks in various sectors accounted for the remainder of the negative variance. Both Duratek and Engelhard were targets of takeover offers at nice premiums in the quarter, and two more investments, FTI Consulting and Republic Services, were sold as they reached our valuation targets. The Republic Services team worked diligently to control costs, generate cash, repurchase shares and boost the dividend, which had a predictably positive impact on the stock. This should be the template for maturing companies rather than the typical strategy, which is to waste shareholder money on overpriced deals. We still like the long-term outlook for the waste industry, therefore Waste Connections was added as a replacement for Republic Services. We also purchased ServiceMaster in the quarter, which, along with Waste Connections and Applebee's, will be outlined in more detail below.

Small cap stocks were extremely strong in the quarter, with the Russell 2000 outpacing the Standard & Poor's 500 by over 9.5 percentage points. High-multiple technology stocks and deeply cyclical equities were extraordinary in the quarter. The spending environment for technology products and services is relatively healthy and we were not surprised to see strength in these stocks. Indeed, our own "downstream" technology investments have generally done well and we remain optimistic about each of their respective prospects. We were surprised, once again, by the impact of the so-called momentum players who have pushed many technology stocks to very high levels. Likewise, valuations in the deeply cyclical part of the market seem extraordinarily high, particularly when one considers that we are four-and-a-half years into an economic expansion cycle. We do not see the bottom dropping out of the economy, nor anything near-term to shake technology investing, so if valuation is temporarily no object, we will continue to lag in these two areas.

Valuations are always near and dear to our heart, of course, and as of March 31, 2006, this is what the small cap portfolios looked like relative to the Russell 2000 benchmark, on a weighted average basis:

	Price-to-Earnings Year 1	Price-to-Earnings Year 2	Price-to-Sales	Price-to-Book
FMI Small Cap Equity	16.6	14.6	1.1	2.4
Russell 2000 Index	27.2	22.8	3.8	4.9

Clearly, relative valuations remain on our side and while new ideas are certainly not plentiful, given generally high absolute valuations, we are still finding interesting special situations that keep us hopeful for the future.

We have outlined a few of our recent purchases below:

Waste Connections, Inc.

Description

Waste Connections is an integrated services company that provides solid waste collection, transfer, disposal and recycling services in mostly secondary markets of the western and southern United States. The company owns and operates over 110 collection operations, 32 transfer stations, 33 solid waste landfills and 26 recycling operations. Waste Connections seeks to avoid highly competitive markets, targeting areas where it can provide its services under exclusive arrangements and obtain high market share.

Good Business

- Waste Connections provides a necessary service in an easy-to-understand business.
- Revenues are largely recurring and predictable.
- The company is a market share leader in many of its markets. Greater than 50% of its revenues come from markets where the company has either a franchise or exclusive rights.
- The barriers to entry are fairly high.
- The company generates an industry-leading ROIC.
- Waste Connections has a successful acquisition track record.

Valuation

- Waste Connections trades at approximately 9.4 times 2006 earnings before interest, taxes, depreciation and amortization (EBITDA) and 21 times 2006 earnings per share (EPS). The company has historically traded at 10 times EBITDA and between 16-30 times EPS. Current earnings per share are being negatively impacted by higher fuel costs.
- At the current valuation, the company trades at multiples comparable to those of other waste companies, yet has a higher growth profile and a more profitable mix of assets.
- We believe the valuation will hold relatively steady in a difficult market.

Management

- Ron Mittelstaedt has been Chief Executive Officer and a director since the company's formation in 1997. He was elected Chairman in 1998, and has over 16 years of industry experience.
- Steven Bouck is President after having served as Chief Financial Officer for six years, and Worthing Jackman is the current CFO. Both come from the corporate finance world.
- Darrell Chambliss, a 15-year veteran of the waste industry, is Chief Operating Officer.

Investment Thesis

Waste Connections is an attractive long-term investment, combining both better-than-average growth prospects with a defensive business model. The company's mix of exclusive and franchise markets in a necessary business, along with a solid acquisition pipeline, should allow for superior revenue and EPS growth. This superior growth profile can be had at a slight discount to other participants in the industry. We would expect this stock to grow in line with earnings growth, which should be in the double-digit range over time.

The ServiceMaster Company

Description

ServiceMaster provides outsourcing services to both residential and commercial customers. Its core services capabilities include residential lawn care (TruGreen ChemLawn, with 32% of revenue and 51% of operating profit in 2005); commercial landscape maintenance (TruGreen LandCare, with 14% and 1%, respectively); termite and pest control (Terminix, with 33% and 43%); home warranty (AHS, with 16% and 21%); and cleaning, disaster restoration, and furniture repair (Merry Maids, ServiceMaster Clean and Furniture Medic, with a combined 5% of revenue and -16% of operating profit in 2005).

Good Business

- TruGreen, ChemLawn, and Terminix account for two-thirds of revenue and a greater percentage of profit, and are excellent brand names.
- A significant portion of the revenue is derived from modestly-priced renewable services.
- The return on incremental invested capital is 25-30% given the low capital expenditures (CAPEX) and working capital intensity of the businesses.
- Although there are a lot of moving parts to the story, the businesses are easy to understand.
- ServiceMaster controls its destiny, given the low market penetration and favorable demographics.
- The balance sheet is the strongest it has been in nine years. The company is well within its covenants and is committed to maintaining its investment grade rating.

Management

- Jon Ward has been Chief Executive Officer since 2001. He has taken significant steps to turn ServiceMaster around. From 1997 to 2001, Ward served as President and Chief Operating Officer of R.R. Donnelley.
- Ernie Mrozek has been President and Chief Financial Officer since January 2004, after having served as the company's President and Chief Operating Officer from April 2002 to January 2004.
- Long-term compensation consists of stock appreciation rights (SARs) and restricted stock rather than options. Minimum stock ownership requirements were instituted in 2003.
- ServiceMaster pays a $0.44 annual dividend that yields 3.4%, and is currently targeting the buyback of $80-100 million of stock in 2006. Management is giving serious consideration to boosting the dividend growth rate, which is currently targeted at 2-3% per annum, and/or becoming more aggressive with respect to share buybacks.

- Large acquisitions are not on the radar, as ServiceMaster's empire building days are a thing of the past.
- The company eliminated its poison pill in March of 2005. The board of directors will not oppose a shareholder proposal to elect directors annually.

Valuation

- ServiceMaster has a sustainable cash tax benefit of $0.19 per annum over the next seven years. Therefore, on a cash EPS basis the stock trades for 14.9 times 2006 estimates and 13.5 times 2007 estimates.
- On an enterprise-value-to-EBITDA basis, the stock trades for 11.3 times. While expensive in absolute terms, there are minimal calls on the EBITDA. The company trades at a significant discount to the small cap benchmarks.
- ServiceMaster trades at a 7% free cash flow yield, which is far superior to the market.
- On an enterprise-value-to-sales basis, the stock trades for 1.37 times. This is in-line with its long-term average, but well below prior periods. We feel this multiple will move back into the 1.7 range as profitability is improved at TruGreen LandCare.
- The stock offers a safe, attractive dividend yield of 3.4%.

Investment Thesis

ServiceMaster has several outstanding brands and an incremental return profile that is excellent. The business characteristics, particularly the recurring revenue and low capital intensity, are attractive. Management is in the process of turning around underperforming segments and returning cash to shareholders. The valuation does not reflect the opportunities that are likely over the next few years.

ServiceMaster offers the potential for an attractive annual total return in the 12-15% range.

Applebee's International, Inc.

Description

Applebee's is the largest casual dining restaurant chain in the country, with over 1,700 units. The bar and grill concept, with an average check of under $11.00, has broad appeal across various demographic groups. The lunch and dinner menus include burgers, salads, pasta, chicken, appetizers and desserts. Each restaurant has extensive bar seating. Over 70% of the units are franchised, which provides the company consistent results and industry-leading profitability. Unit expansion in the system should continue to approximate 100 units per year for the next several years.

Good Business

- Applebee's is the largest casual dining chain in the United States. The size of the system allows for economies of scale in purchasing and advertising.
- As the franchisor of the concept, Applebee's enjoys relatively predictable revenue with industry-leading returns. The company's overall ROIC is in the 15-20% range.

- New unit growth per year should approximate 6%.
- The company focuses exclusively on the Applebee's brand. This results in a sharp focus on sales initiatives, operations and franchising.
- Restaurant unit economics are attractive for franchisees.
- The restaurant system is made up of 40+ franchisees, a very manageable amount.
- Applebee's is a strong cash generator with a modest amount of debt. This allows for company-owned unit expansion, share repurchases and a small dividend.

Valuation

- Share value has depreciated approximately 10% since the beginning of 2004, which compares to a 20%+ gain in the Russell 2000 Index.
- Most valuation measures, e.g., price-to-earnings (P/E), price-to-sales (PSR), and EV/EBITDA, are near the bottom of their long-term ranges and are attractive when compared to industry peers.

Management

- Lloyd Hill is Chairman and Chief Executive Officer. Mr. Hill joined Applebee's as Chief Operating Officer in 1994 from Kimberly Quality Care, a home health care company. He had been an independent board member since 1989. He is responsible for improving operations and relationships within the important franchise system.
- Dave Goebel has been President since 2005, and Chief Operating Officer since 2004. Previously, he was a franchise principal of Boston Market.
- Steve Lumpkin is Chief Financial Officer, and before joining Applebee's, worked with Mr. Hill at Kimberly.

Investment Thesis

A combination of slower same-store sales trends, lower EPS projections, and investor worries over consumer spending has resulted in dramatic share underperformance in 2005. Restaurant companies periodically miss their advertising and promotion goals and then must regroup. Applebee's is currently going through such a period but we are confident they will emerge even stronger than before. We find the shares attractive based on long-term prospects for growth and a superior business model. The shares could appreciate 20-30% once worries over recent increases in energy prices dissipate and same-restaurant sales improve.

Thank you for your continued support of 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.