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INVESTMENT STRATEGY OUTOOK - SMALL CAP EQUITY

Quarter Ended March 31, 2009

March 31, 2009

Fiduciary Management, Inc. small cap portfolios declined approximately 9% in the March quarter compared to minus 15% for the Russell 2000 Index. Finance, Distribution Services and Industrial Services drove relative performance. Affiliated Managers, Arrow Electronics, and Dresser-Rand were the standout contributors. On the down side, Technology Services, Electronic Technology and Commercial Services were the worst relative sectors. Protective Life, Winn-Dixie and AMN Healthcare all stumbled significantly in the quarter. We have "reunderwritten" each of these companies and continue to like the risk to reward equation. We have added to a great many of our investments as prices have fallen and our optimism about their long-term prospects remains unshaken. Energy related stocks were also under severe pressure in the quarter as commodity prices fell and demand declined. This gave us an opportunity to increase our position in St. Mary Land & Exploration.

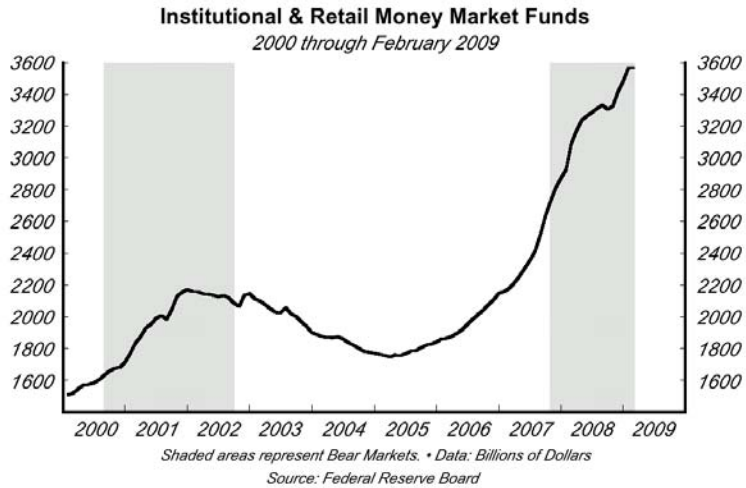
The stock market continued its mercurial way, recently bouncing 20% off the early March lows. This trough followed an approximate 20% gain in the last six weeks of 2008. We've now had four rallies of this magnitude over the past eighteen months, and all of them have buckled to varying degrees so far. There is, of course, no way to know when a bear market will end, but if the amount of damage is any indication, we should be awfully close. According to The Leuthold Group, the S&P 500's ten-year total return ending March 6 was negative 4.4% per year, or a cumulative loss of 36.3%. *It was the worst ten-year stretch in U.S. stock market history, including the Great Depression.*

Source: Standard & Poor's Corporation
Shaded Areas - U.S. Recessions, Dashed Line - Beginning of Latest Recession

Ten years ago, in the Securities Industry Association's annual expectations survey, 1,500 investors were asked, "How well do you generally expect your investments to perform?" The average of their responses was plus 30%! It should have come as no surprise that, after a period of unprecedented returns (late 1990s), record high valuations, and unrealistically lofty expectations (as evidenced by this survey), we were on the cusp of a very difficult period. First the tech bubble deflated; then, following a period of easy money and unsustainable credit expansion, the housing bubble popped. Jeremy Grantham, a well known Wall Street investor, calls the 2003-07 period "the greatest sucker rally in history." As we can see from the accompanying chart, stocks have given back most of the gains from the 1990s bull market.

We've not seen any recent investment surveys but we're quite sure they would reveal very low expected returns. But talk is cheap. Ten years ago cash levels were near record lows; today cash levels are pushing toward record highs (see chart on the following page) and Treasury bill yields are near zero. Fear has metastasized to nearly every sector of the market.

Valuations were extremely high ten years ago versus quite low today. Sentiment was very positive in 1999 and today it is near a record low. History shows time and time again that low returns follow high valuations and



lofty expectations and high returns follow low valuations and pessimistic expectations. The table below depicts the ten-year annual compound returns for stocks following the fifteen worst ten-year periods in U.S. history. Following these poor returns, the lowest ten-year period compounded at 7.21% and the highest earned a 15.58% return. We believe the next ten years will fall into this range.

No two bear markets are exactly alike, however, and there is a tendency for investors to believe that "this one is really different." Today, the inability to corral so-called toxic assets, the deterioration of credit quality, a collapse in corporate earnings, growing protectionism, a political assault on business interests, and breathtaking spending initiatives under the guise of "Keynesian Economics" have investors rattled. We've analyzed a number of financial panics going back to the beginning of the 19th century; with very few exceptions, panics were characterized by periods of excessive borrowing and over-speculation in real estate, precious metals and stocks (canals, railroads, automobiles, technology). The ensuing bear markets precipitated a raft of damaging governmental actions (unintended consequences) that typically slowed or thwarted corrective market responses. Despite this, the fundamentals eventually recovered and importantly, the stock market anticipated this in advance.

Past Ten Years	10 Year ACR	Next Ten Years	Annual Compound Return	Total Return	
Q2 1929 to Q2 1939	-3.65	Q2 1939 to Q2 1949	8.62	128.54	
Q1 1929 to Q1 1939	-2.79	Q1 1939 to Q1 1949	9.12	139.36	
Q3 1929 to Q3 1939	-2.74	Q3 1939 to Q3 1949	7.74	110.79	
Q1 1928 to Q1 1938	-2.54	Q1 1938 to Q1 1948	11.76	203.87	
Q1 1930 to Q1 1940	-1.42	Q1 1940 to Q1 1950	9.65	151.31	
Q2 1930 to Q2 1940	-1.42	Q2 1940 to Q2 1950	12.19	215.88	
Q4 1928 to Q4 1938	-0.65	Q4 1938 to Q4 1948	7.21	100.63	← WORST
Q3 1928 to Q3 1938	-0.10	Q3 1938 to Q3 1948	8.12	118.31	
Q3 1930 to Q3 1940	0.18	Q3 1940 to Q3 1950	12.57	226.85	
Q4 1927 to Q4 1937	0.20	Q4 1937 to Q4 1947	9.61	150.39	
Q4 1929 to Q4 1939	0.23	Q4 1939 to Q4 1949	9.09	138.67	
Q2 1928 to Q2 1938	0.44	Q2 1938 to Q2 1948	9.52	148.39	
Q3 1964 to Q3 1974	0.49	Q3 1974 to Q3 1984	15.58	325.30	← BEST
Q1 1931 to Q1 1941	0.71	Q1 1941 to Q1 1951	14.47	286.14	
Q4 1964 to Q4 1974	1.24	Q4 1974 to Q4 1984	14.76	296.23	
		Average	**10.67**	**182.71**	

The Leuthold Group - March 2009

Of course we don't know exactly how this bear market will transpire. Investing is a bit of a faith-based initiative, to borrow a popular phrase. The faith is born out of a belief that capitalism and freedom will ultimately prevail. A strong work ethic and desire to "improve one's position," as Adam Smith said, will drive success. The age of the imperial CEO and boards of directors that rubber-stamp ridiculous pay packages are and on the run – and should be. Unfortunately, when populism runs too hot, people lose sight of the fact that private sector businesses create the wealth, employment and tax revenue, not the government. What the government gives to Peter, it must take from Paul.

Following TARP and TALF, as part of the Financial Stability Plan (and alongside the American Recovery and Reinvestment Act), the Treasury department recently introduced the Public-Private Investment Partnership, or PPIP. *Barron's* recently quipped that PPIP should be renamed PIMP because the government is cheaply renting its balance sheet to private investors! Of course it's easy to take potshots at the confusing myriad of government bailout programs introduced over the past year, but of all of them so far, the PPIP seems to make the most sense. Without getting into the details, we think the program will help the financial system reach price discovery in the troubled assets, an important first step in the recovery process.

For the benefit of new clients, our March and September letters deal with companies, and the June and December pieces discuss macro or market related subjects in more detail. Below we have highlighted two of our investments.

Rofin-Sinar Technologies, Inc.

Description

Rofin engages in the engineering, manufacture, and marketing of industrial lasers and supplies used for materials processing applications worldwide. The company offers laser products to machine tool and automotive markets, for cutting and welding metals applications, and laser marking products to semiconductor and electronics markets, for marking integrated circuits, electronic components, smart cards, labels, and car components. It also provides laser products for spot welding, fine cutting, and micro-structuring applications used in dentistry, jewelry, medical components, semiconductors, electronics and consumer goods markets.

Good Business

- Rofin provides lasers and laser systems that are highly valued by customers, allowing them to lower costs and increase efficiencies.
- Rofin's current installed base is greater than 31,000 laser units. The company generates recurring revenues from these units through the sale of components, replacement parts, and services, which accounted for 35% of fiscal 2008 revenues.
- The world market for industrial laser materials processing is expected to grow approximately 10% on average over the next decade, as lasers continue to replace traditional machine tools in certain manufacturing applications. Rofin is strongly positioned to benefit from this industry growth with its quality, diverse product portfolio and technological leadership.
- Rofin comfortably earns its cost of capital. The company has averaged a return on invested capital (ROIC) of 13.8% and 11.2% over the trailing five- and ten-year periods, respectively.
- Rofin's business is not very capital intensive and generates excess free cash flow. In November 2007, the board authorized a $120 million share repurchase program. This program was completed by June 2008 and resulted in a 6% reduction in shares.
- It is conservatively financed with net cash of $50 million on its balance sheet.

Valuation

- Over the past twelve months, Rofin's shares have fallen 63.7%, and are down 69.3% from their all-time high of $48.83 reached in December 2007.
- The stock sells for approximately 0.7x enterprise value-to-sales (EV/sales), 3.5x enterprise value-to-earnings before interest, taxes, depreciation and amortization (EV/EBITDA), and 7.1x trailing earnings. Since Rofin became a public company in 1996, the average multiples have been 1.3x EV/Sales, 8.4x EV/EBITDA, and 18.7x earnings.
- A list of thirteen recent industry acquisitions completed since 2003 yields median multiples of 1.7x EV/Sales and 11.9x EV/EBITDA. Rofin's private market value appears to be at least $30.00 per share.

Management

- Rofin's management has extensive industry experience. Chairman Peter Wirth has been with the company for 30 years. CEO Gunther Braun has a 20-year tenure. Current board member Carl Baasel has over 30 years of industry experience.
- Management has received high marks from various industry sources. They have been good stewards of capital.

Investment Thesis

Rofin's long-term business prospects are attractive as the company is well positioned to benefit from secular growth in the laser industry. The steep worldwide economic decline, however, has recently resulted in severe revenue and earnings shortfalls. Capital spending of all varieties is being delayed or cancelled. Rofin is taking aggressive action to size their business so as to remain profitable in this down cycle. They have the balance sheet to get through this extremely difficult period. The valuation is attractive for investors with a three- to five-year time horizon.

Bio-Rad Laboratories, Inc.

Description

Bio-Rad is a leading global provider of a broad array of instruments and recurring consumables to the life sciences, clinical and molecular diagnostic laboratory end-markets. The company operates in two segments, Clinical Diagnostics (63% of revenues, 79% of earnings) and Life Sciences. The Diagnostics business supplies reagents, instruments and software for patient testing, diagnosis and disease monitoring. Life Sciences supplies tools for separation, purification and analysis of biological materials used in disease and drug discovery research. Broadly, company revenues can be attributed to hospital labs (30%), academia (25%), reference labs (17%), biopharma (13%), industrial (8%), and transfusion labs (7%). Bio-Rad generates 65% of its sales outside the United States (43% Europe, 16% Pacific Rim, 6% other).

Good Business

- Bio-Rad generates over 60% of its sales from market-leading products, including autoimmune diagnostics, diabetes monitoring, hospital infection testing and other specialty diagnostic testing markets.
- Over 70% of revenues are recurring. Sales are highly diversified with over 8,000 products. No individual customer accounts for more than 2% of revenues. Instrument placements are sticky, as researchers and clinicians are loath to revalidate their procedures and test results on other vendors' equipment.
- Adjusted ROIC has averaged 10%. Incremental returns on capital are significantly better than 10%.
- Bio-Rad maintains a strong balance sheet.
- The company provides critical necessities and it is an understandable business.

Valuation

- Bio-Rad is trading at the low end of its long-term price-to-earnings (P/E) range (14-25). The stock's average P/E has been approximately 18.
- Bio-Rad's EV/Sales ratio is also on the low end of its long-term range (1.0 to 2.2).
- Its private market value is substantially above the current public market valuation, based on transactions consummated over the past several years.

Management

- Norman Schwartz is the current CEO, having spent the past 30 years alternatively managing the Life Sciences and Diagnostics businesses.
- Brad Crutchfield and John Goetz, both long time employees, lead the Life Sciences and Diagnostic businesses, respectively.
- Christine Tsingos has been the company's CFO since 2002.

Investment Thesis

Bio-Rad is a broadly diversified life sciences and diagnostics company with an attractive business model. The company generates a majority of its revenues from market-leading positions in niche specialized products. Revenues are highly recurring and stand to benefit from broad trends within health care -- including an increased focus on early diagnosis, preventative medicine, bio-markers and general innovation in the pharma and bioscience industries. The valuation is reasonable for a high quality franchise.

Finally, in the aftermath of the Madoff and Stanford Financial Group frauds, among others, some of our clients have asked about the safeguards in their portfolios. Fiduciary Management, Inc. is not a broker-dealer, nor do we custody the assets. Third-party firms such as Bank of New York or U.S. Bank, N.A. hold the securities. Clients receive a bank statement that can easily be reconciled with the statements from Fiduciary Management, Inc. Furthermore, the Fiduciary small cap portfolios largely mimic the FMI Common Stock Fund, a public mutual fund managed by Fiduciary Management, Inc. that is regulated under the Investment Act of 1940. The Fund's net asset value is calculated and published every day and is audited by PricewaterhouseCoopers, LLP. The portfolio does not use leverage. Perhaps most importantly, "we eat our own cooking." The managers and employees of Fiduciary Management, Inc. are invested right alongside our clients. A substantial part of the net worth of the key decision makers are invested in both the mutual fund that mirrors client accounts and the stock of Fiduciary Management, Inc. This does not guarantee investment success, but it does bring an added level of care and due diligence to everything we do. Our investment was significantly increased in recent months.

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.