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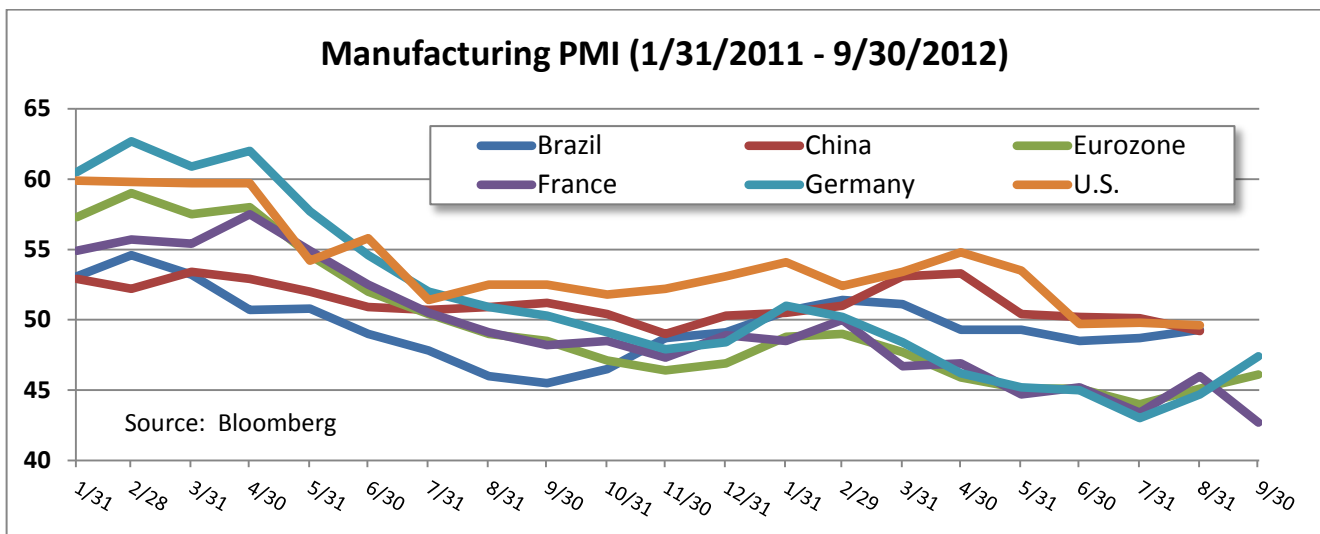
INVESTMENT STRATEGY OUTLOOK – SMALL CAP EQUITY

September 30, 2012

FMI small cap portfolios gained approximately 1.4% in the quarter ended September 30, 2012, compared to the benchmark Russell 2000 Index return of 5.25%. For the calendar nine months, the small cap portfolios advanced around 6.5%, lagging the 14.23% gain in the Russell 2000. From a group standpoint, Process Industries, Finance, and Distribution Services hurt relative performance, while Transportation and Industrial Services helped. There was an inordinate amount of activity late in the second quarter and through most of the third quarter as the rally allowed us to harvest winners such as Lancaster, Valspar, PetSmart, and Eagle Materials. Additionally, after reunderwriting a number of stocks, we also sold Bemis, United Stationers, TeleTech and two other equities that were not yet completed by the end of the quarter. These five stocks face more challenging fundamentals than we originally anticipated. This activity resulted in a relatively high level of cash, which hurt investment performance. Additionally, our technology related distribution stocks, including a new purchase, Anixter, significantly underperformed year-to-date as worries about the economy and technology spending escalated. We like our investments in this space even though Wall Street currently does not. Below we highlight Anixter. Similarly, cyclical concerns clipped Kennametal and Kirby, but both of these companies are strong and can weather bumpy times. In short, we didn't get much right in the quarter or in the year-to-date period and 2012 looks like a mirror image of 2011's strong relative performance. Adding salt to the wounds, our style seems to be somewhat out of favor, with so-called growth stocks significantly outperforming value stocks in recent periods. Valuations, however, are stretched for the stocks that make up the benchmark Russell 2000. Additionally, the strong move in the Russell so far this year seems to be a low quality affair; 510 of the stocks are losing money and those stocks were up nearly 30% on a year-to-date basis. Historically we have generally lagged in strong up markets (while more than making up for it in difficult markets), but of course, there are no guarantees. Finally, the recent rally seems to be more about financial engineering by the Fed than anything fundamental. We're not confident that this "Bernanke trade" will outlast the deteriorating economic picture.

Most of the major regions of the world seem to be slowing or already experiencing recessionary conditions. The eurozone appears to be in a full-blown recession. China and Brazil have slowed significantly. The United States is sputtering. Economists pay attention to the Purchasing Managers Index (PMI) as an indicator of whether economic conditions are improving or deteriorating (numbers less than 50 indicate deterioration). The United States, China, Germany, Japan, the United Kingdom, Italy, Brazil, Australia, Canada and most of the large countries have PMIs less than 50 (see chart on Page 2).

The recent stabilization of the unemployment rate in the U.S. is undermined by a plunge in the labor force (the denominator in the calculation). The labor participation rate of 63.5% is the lowest in over 30 years. 11.2% of the labor force is out of work, if we include the 7 million no longer seeking employment. The key leading indicator of business capital spending slid 3.4% in July and has been down four of the past five months. Housing has certainly bounced off the bottom, but with true unemployment so high and the economy weakening, we have doubts about a continuing recovery in this sector. Business capital expenditures, incidentally, are 7% of GDP whereas housing is only 2% of GDP. Household net worth is down significantly over the past five years and real incomes have fallen. In short, the economic picture, both here and abroad, is not very good.



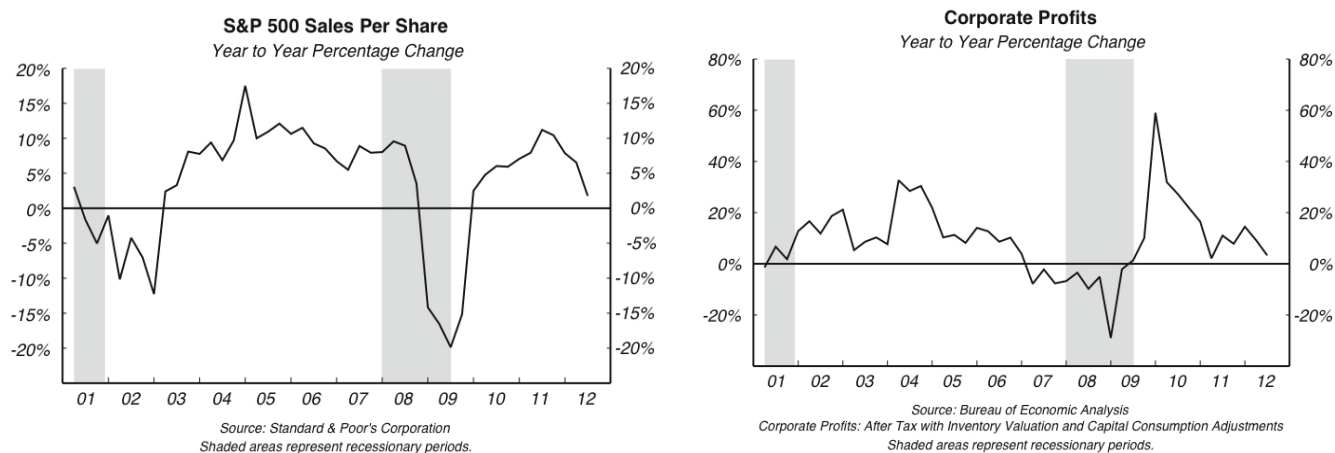
The Fed, European Central Bank (ECB) and other central bankers have taken it upon themselves to fix this problem. That is the way they think. Both the fiscal and monetary authorities look to governments to solve fundamental problems, reflecting a general lack of trust in classic economic policies and free markets. To Mr. Bernanke, the fact that four years of unprecedented stimulus yielded little in the way of results (and has perhaps dangerous long term consequences) is not a reason to stop and reassess. It's an opportunity to say that not enough has been done; it's a call to action. The latest iteration of money printing, QE3, is now underway, with the Fed expanding its balance sheet once again to the tune of an additional \$40 billion per month (\$85 billion per month in total) indefinitely. Mario Draghi, the head of the ECB, is using the same playbook. He's doing "whatever it takes" to solve the eurozone problem, including an "unlimited" bond buying program. Japan recently followed with a \$126 billion "asset purchasing program." Brazil is talking up the same game. Even Switzerland has begun their own version of quantitative easing. In the long run, easy money policies rarely achieve their objectives and often have very serious repercussions. Yet stock markets seem to be cheering it on in the short run.

With the constant calling for governments and central banks to do more, perhaps it would be useful to talk briefly about the potential downside of these policies. Fiscal challenges have been addressed repeatedly in recent letters and will be put aside here, save this one statement: historically, U.S. federal government spending has been about 19-20% of GDP; today it is 24%. From a monetary perspective, we quote the highly respected economist David Malpass: "Whatever the Fed's theory, the reality is that its attempts to prime the pump haven't worked. They distort and weaken the economy and chase capital into such job losers as gold, government bonds, and factories abroad." Today's ground-hugging interest rate policies have decimated the saver and the risk averse. Horizon Kinetics, in their July report, estimates that the U.S. bond market is approximately \$36.9 trillion with about 37% (\$13.65 trillion) maturing over the next 60 months. The average coupon on maturing bonds is about 4.27% and these are being replaced by bonds with an average coupon of 1.55%. The difference in these two coupons means that if interest rates remain roughly where they are today, \$371 billion of income will be lost each and every year for the next five years. That is 2.45% of GDP lost each year (of course, there is an offsetting impact to borrowers). Imagine the fallout if one introduced a tax of this magnitude! Most likely related to quantitative easing, commodity prices have also skyrocketed over the past few years. This has had a very negative impact with respect to food and gasoline prices. It's tantamount to a significant regressive tax. At the same time, the leveraged hedge fund speculators and Wall Street "carry traders" win big from the Bernanke rally. The very people the administration demonizes are the same ones for whom the Fed is throwing a party. It's fascinating, not to mention ironic, to see leaders who denigrated trickle down economic growth theories emanating from lower tax rates now embrace trickle down wealth theories

coming from the Fed. Long term it seems logical to expect what has nearly always happened when governments print money at a far greater rate than the underlying economies are growing: inflation and currency debasement. Interestingly, despite extensive economic weakness, the September eurozone inflation rate is expected to rise to 2.8%, up from 2.6% in August and well above the ECB's target of 2.0%.

Howard Marks, who has managed money for forty years and is one of the great investors of our time, recently made this statement: "The world seems more uncertain today than at any other time in my life." We confess to similar sentiments, but there is always the chance that we are misreading the tea leaves and that the stock market gains anticipate a better economic environment in 2013. Perhaps following the elections Congress will address the so-called fiscal cliff with sensible compromises. Perhaps the leaders will come to acceptable pathways that will reduce deficits and corral the many unfunded liabilities. Perhaps Europe will somehow stem their fiscal and monetary crises and not drag the Federal Reserve into the fray. Every investor has to ask whether these events are likely and whether the 2012 stock market rally already discounts it.

This stock market move, which began in March of 2009, recently hit 43 months, which is the median duration of 15 bull markets since 1929. The 129.6% gain in the current stretch compares to a median of 83.1%. There is nothing magical or predictive from these facts other than to point out that it might take some fundamental improvement in earnings, sales growth or productivity to keep it going. The economic outlook today, both here and abroad, does not look like it will provide much lift in the near term and unfortunately, both sales growth and profit margins appear to be headed the other way, as the following charts depict.



A large number of transportation and industrial stocks are announcing poor earnings outlooks and orders. FedEx, Norfolk Southern, Expeditors, Forward Air, Caterpillar, Navistar, Joy Global, Steel Dynamics, Rockwell and many others have had recent confessions. Stocks that depend on better employment or capital spending have been especially hurt. Business confidence is slipping. It is getting to be an old story but it's impossible to say when it will end. The best we can do in the interim is to let valuation and long term "strength of franchise" be our guide. Higher multiple stocks, lower quality balance sheet stocks, and money losing enterprises have been among the big winners so far in 2012. Valuations remain elevated. We think investors should be wary and stay focused on quality, even if that results in near term underperformance. Somewhat paradoxically, considering the near term economic outlook, the portfolio might begin to tilt more heavily in coming periods toward some of the cyclical companies as their stocks come under increasing pressure. There is always a tug-of-war between valuation and fundamentals and having a long term investment time horizon gives us opportunities to buy superior cyclical franchises when their near term operating environment is weak. We've highlighted one such idea below, Anixter International.

While today is very cloudy, we do expect sunnier economic times to eventually return, along with better underlying business fundamentals. Why? Business people want to grow. They want to invest. They want to build and they are willing to add labor... when they feel the systems and environment will reward such activity. This will be a far sturdier foundation for equity performance than government stimulus or Federal Reserve financial engineering.

Anixter International
(Analyst: Rob Helf)

Description

Anixter is a leading global distributor of communications infrastructure products (55% of sales), which includes cabling and security systems, as well as industrial wire and cable (26%) and fasteners/other components to original equipment manufacturers (OEMs) for use in assembled products. Anixter distributes more than 450,000 products to an estimated \$50- \$60 billion combined addressable market from over 7,000 suppliers through locations in 263 cities in 50 countries. Anixter sells across a wide variety of geographies including North America (71% of sales), Europe (19%) and Asia/Latin America (10%).

Good Business

- Anixter is a leader in the distribution of cabling and wiring around the globe.
- The company has a global infrastructure of 225 strategically located facilities worldwide. Additionally, the company has a common, proprietary IT system connecting its infrastructure.
- The company distributes 450,000 products to 100,000 customers from 7,000 suppliers, and the top five largest suppliers represent 30% of sales. Project exposure averages 15% of revenue.
- The products that Anixter distributes represent a small percentage of customers' total expenditures.
- Organic growth should be better than average as the company benefits from the secular expansion of data/communication and security as well as the company's emerging market initiatives. Over the last 10 years, Anixter has grown sales and earnings per share (EPS) at 8% and 17%, respectively.
- Anixter has generated an average return on invested capital (ROIC) of approximately 10% over the past 12 years. This is above the company's weighted average cost of capital.

The balance sheet is appropriately levered.

Valuation

- Anixter currently trades at approximately 0.47 times enterprise value (EV)-to-revenues, 7.4 times earnings before interest, taxes, depreciation and amortization (EBITDA) and 10 times forward earnings per share (EPS) estimates.
- Historically, the company has traded at 0.5 times revenues, 10 times EBITDA and 15 times EPS.

Management

- Mr. Robert Eck, 52 years old, is President, Chief Executive Officer and a Director of the company. He has been with Anixter since 1989. Prior to his current position, Eck was Executive VP and COO of Enterprise Cabling and Security Solutions. Eck joined the company in 1989 and during his tenure he has held several executive positions including Senior VP-Supply Chain Solutions and Regional VP.
- Mr. Ted Dosch, 51, is Executive VP and CFO. He joined the company in January 2009 from Whirlpool. His experience includes Corporate VP-Global Productivity at Whirlpool; CFO-North America and VP-Maytag Integration at Whirlpool and other executive positions. Since his hiring, Mr. Dosch has been involved in working capital management and financial performance measurement.
- Mr. Sam Zell has been Chairman since 1985. He owns 5 million shares, or 14% of the company.

- Management incentives are based on targeted goals for each executive and generally include a return on capital component. The company has exhibited capital discipline in the past, including special dividends, share repurchases and acquisitions/divestitures.

Investment Thesis

Anixter should be able to grow sales, earnings and cash flow at above-average rates through organic expansion and acquisitions, while generating a return on capital in excess of its cost of capital. Anixter provides a low tech avenue to higher technology spending growth. The company has built a global distribution network which benefits from secular trends and emerging market expansion. Importantly, the experienced management team has demonstrated fiscal discipline, including debt management in periods of expansion and contraction as well as returning capital to shareholders through buybacks and special dividends.

Advance Auto Parts, Inc.

(Analyst: Dan Sievers)

Description

Advance Auto Parts is a leading specialty retailer of automotive aftermarket parts, accessories, batteries and maintenance items with over 3,600 stores and a #1 market position in the Northeast, Mid-Atlantic, and Southeast United States. Advance was constructed as a do-it-yourself (DIY) retail concept, but entered the larger and somewhat faster growing commercial do-it-for-me (DIFM) market in 1996, leveraging an enhanced retail infrastructure to sell to a large and highly fragmented market of small automotive garages. DIFM sales represented 34% of the total in 2011 (up from 25% in 2007), and 38% of the total sales in the first half of 2012. DIFM delivery programs exist at about 90% of its stores.

Good Business

- In geographies representing 78% of sales, Advance commands the leading #1 market position.
- The company's traffic and transactions are often based on need (batteries, starters, alternators, belts & hoses, mufflers, etc.), producing a low correlation between sales and consumer discretionary spending.
- Auto parts retailing is inventory intensive (parts availability is paramount), which limits the economic case for traditional e-commerce models. Additional limiting characteristics include strong customer service intensity, the frequent need for immediate installation, and the "high-weight-to-value" of most parts (which limits a vendor's ability to offer low-cost shipping options).
- We expect continued share gains by each of the top three hybrid-DIY/DIFM players, as each has built an advantaged supply chain and distribution system when compared to many small competitors.
- This is an easy business to understand and favorable industry trends include: (1) record average vehicle age, (2) growing miles driven, (3) and OEM dealership consolidation.
- Including the heavy burden of capitalized operating leases, we estimate that AAP generates an average ROIC of greater than 10%.

Valuation

- At 6.0 times EV/EBITDA, Advance trades at one standard deviation below the 5 and 10 year averages of 7.1 times and 8.4 times, respectively (competitors AutoZone and O'Reilly trade above 9 times).
- The 0.82 times EV/Sales multiple appears out of step with the company's improving profitability (10.8% EBIT margin in 2011), which we believe can reach 12% over the next few years.
- Based on 2011 results, the stock offers an attractive 11% free cash flow yield.

Management

- Darren Jackson (age 47) has served as CEO since January 2008. Mr. Jackson, previously EVP at Best Buy, has brought increased focus on merchandising and supply chain initiatives, while driving the company towards a 50/50 balance between retail DIY and commercial DIFM sales. He has done an admirable job shifting corporate focus away from heavy new store growth and towards improving operating margins, working capital efficiency, and returns on invested capital (ROIC).
- Management's current initiatives aiming at daily store replenishment are significant and should increase the company's competitive position in coming years.
- Advance has opportunistically repurchased and retired 41% of the 2004 share base at an average price of \$43, a shrewd use of capital benefitting long-term shareholders.
- Economic value added (EVA) became the governor of long-term incentive compensation in 2008.

Investment Thesis

Advance Auto Parts is a good-quality provider of automotive aftermarket parts with good balance between the DIY and DIFM channels, which together represent a relatively stable though mature end market. Large players like Advance, AutoZone and O'Reilly enjoy a significant competitive advantage versus smaller local players and hold a combined market share of 33% in the DIY space and just under 11% in the DIFM space, according to the Automotive Aftermarket Industry Association (AAIA). 2012 industry trends have been soft, exacerbated by weather-related inventory issues. Additionally, AAP faces a potential competitive incursion in Florida from O'Reilly. Though we do not expect an immediate rebound in same store sales, we believe that investor focus on the weak near term results has offered the opportunity to invest in a solid and increasingly well-managed franchise at an attractive 11% free cash flow yield.

Thank you for your continued support of Fiduciary Management, Inc.

**Fiduciary Management Inc.
Small Cap Equity Composite
12/31/2001 - 06/30/2012**

Year	Total Return Gross of Fees %	Total Return Net of Fees %	*Benchmark Return %	Number of Portfolios	Dispersion %	Three Year Ex-Post Standard Deviation		Total Composite Assets End of Period (\$ millions)	Total Firm Assets End of Period (\$ millions)	Percentage of Firm Assets %
						Composite	*Benchmark			
2002	-4.78	-5.46	-20.48	154	1.47	n/a	n/a	\$ 649.7	\$ 1,731.0	37.53%
2003	27.18	26.22	47.25	167	1.93	n/a	n/a	\$ 1,206.9	\$ 2,927.0	41.23%
2004	20.92	20.02	18.33	181	1.00	n/a	n/a	\$ 1,486.6	\$ 3,085.8	48.18%
2005	11.12	10.26	4.55	186	0.69	n/a	n/a	\$ 1,605.8	\$ 3,174.4	50.59%
2006	18.46	17.56	18.37	147	0.73	n/a	n/a	\$ 1,606.8	\$ 3,589.4	44.77%
2007	-0.92	-1.72	-1.57	161	0.85	n/a	n/a	\$ 1,520.2	\$ 3,960.4	38.39%
2008	-21.06	-21.69	-33.79	145	1.16	n/a	n/a	\$ 1,212.4	\$ 4,062.5	29.84%
2009	35.72	34.56	27.17	165	0.97	n/a	n/a	\$ 2,004.6	\$ 7,008.9	28.60%
2010	23.45	22.43	26.85	170	0.48	n/a	n/a	\$ 2,477.7	\$ 9,816.0	25.24%
2011	5.64	4.79	-4.18	179	0.34	21.17%	24.99%	\$ 2,523.2	\$ 12,273.6	20.56%
Q1 2012	10.40	10.20	12.44	180	0.18	18.53%	22.27%	\$ 2,779.0	\$ 14,145.3	19.65%
Q2 2012	-4.88	-5.08	-3.47	180	0.11	16.94%	21.57%	\$ 2,583.9	\$ 14,510.6	17.81%

*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 - 06/30/2012. 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 - 06/30/2012. 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 \$14.5 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 equal weighted standard deviation of all accounts in the composite for the entire period. As of 12/31/2011, the trailing three year annualized ex-post standard deviation for the Composite and Benchmark are required to be stated per GIPS®.

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.