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Investment Strategy Outlook - Large Cap Equity

Quarter Ended March 31, 2007

April 2, 2007

Client portfolios appreciated approximately 2% in the quarter, compared to roughly 1% for the benchmark Standard & Poor's 500 Index. Being underweight in the financial group and overweight in the distribution sector both contributed to positive performance. Commercial and consumer services lagged in the period.

Deals, deals, deals! According to the *Wall Street Journal*, first quarter transactions totaled $1.1 trillion worldwide, up 27%, and domestic deals grew 32% to $439 billion. The number and dollar value of transactions have expanded for five years and the growth rate appears to be accelerating. We do not know when this deal rush will end, but frenzies usually spike before they fall. The Nikkei in 1989, and the Nasdaq in 2000 had similar profiles. We move closer to the end of this cycle with each spectacular deal announcement; today it was a $20 billion bid from Kohlberg Kravis Roberts (KKR) for First Data at over 13 times enterprise value-to-earnings before interest, taxes, depreciation and amortization (EV/EBITDA).

Although the mergers and acquisitions market feels like a bubble today, we remember how long it took the technology stock bubble to burst in the late 1990s. Valuations that were extreme became absurd, and the game lasted at least two years longer than we ever thought possible. Having just read that deflation is back in Japan, and noting that the Two-Year Japanese Treasury is priced to yield .835% (decimal to the *left* of the eight), the carry-trade that fuels this mania appears to be going strong.

Debt is dirt cheap in Japan, and nearly everywhere there is enormous liquidity that, in the words of the managing director of one of the largest private equity firms in the world, "…has enabled us to do transactions that were previously unimaginable." In a memorandum to all of this firm's investment professionals, he goes on to say, "Frankly, there is so much liquidity in the world financial system that lenders (even our lenders) are making very risky credit decisions." He adds, "…most investors in most asset classes are not being paid for the risk being taken." While he states that the liquidity period could last another 12-24 months, he concedes, "And I know that the longer it lasts, the worse it will be when it ends."

One can feel his discomfort as he instructs his troops on how to structure deals in this environment. But honestly, what you have here is a titan of the private equity universe more or less admitting that the situation today is tantamount to a game of musical chairs. He knows the game and knows it will end badly, but can't quite bring himself to quit early. At least the parting advice to his people included the phrase, "be careful."

Another topic currently receiving airtime is the sub-prime mortgage debacle. Our letters foreshadowed problems in the housing market for more than a year. There is a certain amount of guttural satisfaction in seeing risky stocks get slammed, however, nobody is immune if the sub-prime problems are the first sequence in a nasty credit cycle or "financial contagion." We have alerted our clients repeatedly about the vast, rapidly-growing and difficult-to-grasp derivative market that could buckle under certain circumstances, but as long as the economy remains reasonably healthy -- especially with respect to employment -- the sub-prime issue is unlikely to spread. The real negative housing story begins with higher unemployment, and that is not visible at this point.

As a reminder, it is our practice with our letters following the March and September quarters to make a few brief comments before highlighting a number of investments, while our letters following the quarters ending June and December discuss the economy and the stock market in greater detail.

General Electric Corporation

Description
General Electric (GE) is one of the largest and most diversified industrial manufacturing and financial corporations in the world. Products include aircraft engines, locomotives, power generation equipment, transmission and distribution equipment, medical diagnostic devices, bioscience assays, engineered materials, lighting and appliances. Services include engineering, installing, rebuilding, maintaining, repairing and financing. GE Capital offers a broad array of financial services including consumer and commercial financing, leasing, real estate financing, asset management and mortgage lending. GE also owns NBC Universal, a leading provider of entertainment services.

Good Business
- The company is number one or number two in nearly all of its businesses.
- GE has unparalleled global breadth and diversification.
- GE has actively increased recurring revenues across their business lines, resulting in a far less cyclical enterprise compared to a decade ago.
- The return on invested capital (ROIC) comfortably exceeds the cost of capital.
- Most of GE's products provide tangible economic value for customers and can generally be described as necessities rather than "wants" or luxuries.
- The products and services are relatively easy to understand.
- The company is rated AAA by Standard & Poor's.

Valuation
- On a price-to-earnings (P/E) basis, the stock is less than 16 times earnings. The 10-year mean P/E range is 16-33.
- The book multiple is 3.2, in a 10-year range of 3.1-7.8.
- The price-to-sales ratio is 2.2 compared to the 10-year range of 2.0-3.5.
- The stock trades in line with comparable companies, weighted for GE's industrial/financial mix of 60/40.
- The dividend yield of 3.2% is near a 15-year high.

Management
- Jeffrey Immelt, 50, has been Chairman and Chief Executive Officer since 2001. He has changed the business mix significantly following Jack Welch. Nearly all of the insurance businesses were divested and several large health care acquisitions were consummated. In addition to heavy mergers and acquisitions (M&A) activity, Immelt has reinvigorated internal growth and made the company less cyclical.
- GE has a highly-regarded management development program. GE business unit leaders are considered to be among the best by analysts, competitors and executive recruiters.

Investment Thesis
GE began the decade with an unsustainably high P/E ratio of 45. Moreover, the mix of business was more capital-intensive and less predictable. The transformation of the business has been painful to stockholders. Today, the stock reflects worries about the relatively high financial

services exposure, abnormally low tax rate, NBC and recession. Although we continue to have some concerns about the financial portfolio, the overall financial strength and diversity of the company is unparalleled. GE is one of only five U.S. companies with a Standard & Poor's AAA rating. GE's core competencies are in areas of great need on a worldwide basis, from electricity production to transportation to health care. This blue chip enterprise now carries a pedestrian multiple.

Below we discuss one of our holdings in a slightly different format. Tyco will be splitting into three companies during the second quarter. We've summarized what to expect and our opinion of each segment.

Tyco International, Ltd.

Tyco is a $40 billion diversified manufacturing and service company that operates in four businesses: Electronics (31% of revenue), Fire & Security (29%), Healthcare (23%), and Engineered Products & Services (17%). Tyco is in the process of splitting itself up via the tax-free spin-off to shareholders of its Electronics and Healthcare businesses.

Management has taken this step so that each of the individual businesses can move faster and more aggressively by pursuing their own growth strategies as independent entities, thereby ultimately creating more value for shareholders. The separation is likely to occur in late May or June. What we decide to do with the individual stocks depends on the valuation that is accorded to each of the respective businesses by the stock market; it is possible that we will retain all three companies.

With net sales of approximately $12.7 billion in fiscal 2006, Tyco Electronics is one of the world's largest suppliers of passive electronic components, such as connectors and circuit protection devices. Leading brands include AMP and Raychem. The business has exposure to myriad end markets including auto, appliances, computers, consumer electronics, and telecommunications. Comparables in the marketplace include Molex and Amphenol. Tom Lynch will lead Tyco Electronics following the spin-off. This is a strong franchise with solid margins and above-average long-term growth prospects.

Tyco Healthcare, which will be renamed Covidien following the spin-off, had net sales of approximately $9.6 billion in fiscal 2006. Covidien is a global leader in developing, manufacturing, and distributing medical devices and supplies, diagnostic imaging agents, and pharmaceuticals for use in clinical and home settings. Well-respected brands include Kendall, Mallinckrodt, and U.S. Surgical. Competitors vary by segment, but include Bard, Johnson & Johnson, Becton Dickinson and 3M. Rich Meelia will lead Covidien following the spin-off. This stock could garner a disproportionate share of attention as a stand-alone entity. Strong recurring revenue and relatively high margins characterize this segment.

What remains of Tyco following the spin-offs is to be known as Tyco International. The company, which had net sales of $18.7 billion in fiscal 2006, is a leading global provider of electronic security, fire and safety services and products, valves and controls, and other industrial products. Leading brands include ADT and SimplexGrinnell. Brinks is a distant second to ADT in security monitoring, and a host of niche players compete in the other areas. Current Tyco Chief Executive Officer Ed Breen will lead Tyco International following the spin-off. Given the lagging results at ADT in recent years, it is conceivable that the market will underappreciate this stock. There is tremendous latent earning power at ADT and a turnaround may already be underway.

Thank you for your confidence in Fiduciary Management, Inc.

Fiduciary Management Inc.
Large 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	20.47	19.70	-11.89	1	0.00	$ 3.6	$ 1,458.2	0.25%
2002	-13.33	-14.11	-22.10	8	0.17	$ 14.0	$ 1,731.0	0.81%
2003	34.29	33.15	28.68	4	0.86	$ 20.8	$ 2,927.0	0.71%
2004	19.32	18.46	10.88	10	0.46	$ 48.9	$ 3,085.8	1.58%
2005	10.22	9.57	4.91	28	0.29	$ 192.2	$ 3,174.4	6.05%
2006	17.91	17.15	15.79	49	0.30	$ 491.0	$ 3,589.4	13.68%
2007	5.05	4.34	5.49	86	0.48	$ 1,000.2	$ 3,960.4	25.26%
2008	-26.38	-26.91	-37.00	130	0.63	$ 1,969.3	$ 4,062.5	48.48%
2009	30.92	30.09	26.46	252	1.22	$ 3,820.3	$ 7,008.9	54.51%
2010	12.52	11.81	15.06	394	0.31	$ 5,923.2	$ 9,816.0	60.34%
Q1 2011	5.01	4.85	5.92	436	0.12	$ 6,717.9	$ 11,338.0	59.25%
Q2 2011	2.07	1.91	0.10	459	0.11	$ 7,701.2	$ 11,819.6	65.16%
Q3 2011	-13.91	-14.04	-13.87	485	0.18	$ 6,989.5	$ 10,357.9	67.48%

*Benchmark: S&P 500 Index®

Effective January 2012, 2004 – 2011 gross and net composite returns 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 Large Cap Equity composite has been examined for the periods 12/31/2000 - 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 Large Cap Equity Composite was created in December 2000. These accounts primarily invest in medium to large capitalization US equities.

The FMI Large Cap Equity Composite reflects time-weighted and asset-weighted returns for all discretionary accounts. From December 31, 2000 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 Large Cap Equity Composite portfolios is as follows:

Up to $25,000,000	0.65%
$25,000,001-$50,000,000	0.55%
$50,000,001-$100,000,000	0.45%
$100,000,001 and above	0.40%

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 S&P 500 Index® is widely regarded as the best single gauge of the U.S. equities market. This index includes 500 leading companies in leading industries of the U.S. economy. Although the S&P 500® focuses on the large cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.
The Large Cap Equity composite uses the S&P 500 Index® as its primary index comparison.