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INVESTMENT STRATEGY OUTLOOK – SMALL CAP EQUITY

Quarter Ended September 30, 2008

October 1, 2008

Fiduciary small cap portfolios were up approximately 4% in the September quarter compared to a decline of 1.1% for the Russell 2000 Index. Stocks that detracted from performance included Bristow Group and Protective Life. Our significant underweight position in energy was a plus in the quarter, but Bristow, a supplier of helicopter services to the oil industry, still hurt. Protective Life's stock declined due to their investment portfolio positions in firms such as Lehman and Washington Mutual. The company remains financially strong and we are still committed to both this stock and Bristow. Beacon Roofing, HNI Corporation and Family Dollar advanced strongly in the quarter after experiencing significant weakness in prior periods. Volatility remains very high in the small cap arena. The past several quarters have been difficult for stocks as investors grapple with a number of uncommon issues. The small cap portfolios have held their value better than the market in this tumultuous period. Volatile prices have also enabled us to take advantage of some good values, two of which we will discuss shortly.

The aftermath of the bursting of the speculative housing bubble turned downright ugly in the September quarter. It's difficult to use the word *chaotic* in an investment letter, but unfortunately, it describes the recent credit and equity markets. The Russell 2000, for example, was down 6.7% and up 3.3% on the last two days of the quarter. As recently as three months ago, it appeared that the credit crunch was more a media phrase than an economic reality, and manageable within the normal boundaries of our financial system. A rapid spreading of fear and diminished liquidity resulted in a bona fide credit crisis, which has culminated, so far, in the $613 billion bankruptcy of Lehman (largest ever), the "rescue" of Fannie Mae, Freddie Mac and AIG, the shotgun marriage of Merrill Lynch to Bank of America, and the Fed engineered takeovers of Washington Mutual and Wachovia. Goldman Sachs and Morgan Stanley recently obtained equity infusions and rushed to obtain a commercial bank charter. (Wal-Mart has been trying for five years to get one; Goldman Sachs and Morgan Stanley got theirs in a day!)

As this letter is written (October 1), the $700 billion "bailout" bill remains hung up in Congress, but it looks like something will be passed shortly. As the program was initially crafted, we had serious reservations. Based on what we know now, it looks somewhat more palatable; however, the government could still end up buying a tremendous amount of paper with dubious value, which of course would result in a heavy burden on taxpayers. The optimists believe a large buyer will stabilize asset prices, which eventually could even lead to a profit for the Treasury. We are not holding our collective breaths. Aside from this program, taxpayers are already taking the brunt of the cost of the $30 billion Bear Stearns takeover, the $85 billion AIG seizure and the $200 billion Fannie Mae and Freddie Mac nationalizations.

Dozens of articles will be written in coming weeks about the financial crisis, the bailouts and who is to blame. The media has already framed this as a failure of the free market system, with the solution, of course, being more regulation. Several new programs and agencies have already been created and more will undoubtedly follow. These programs come with bureaucracy, expense, and the usual government inefficiency and we can't help but fear that the cure may be worse than the disease. While rapid developments in high finance over the past decade have certainly exposed some holes in the regulatory system, the root of this problem appears to be a breakdown of existing oversight and gross negligence on the part of Congress with respect to the government sponsored enterprises (Fannie Mae and Freddie Mac).

Allowing Fannie and Freddie to essentially underwrite, subsidize and invest in mortgages with the implied backing of the Federal government created the mother-of-all moral hazards. These organizations became obsolete years ago, as a large, well-financed and competitive private mortgage industry had developed. Rather than dismantle these institutions, Congress watched them expand, all the while feeding off their political largess. Under the banner of providing "affordable housing" their charters effectively expanded and the risks escalated dramatically. Efforts to rein them in were stymied. Wall Street then did what it does best – exploited an opportunity. With Fannie's and Freddie's imprimatur, the great Wall Street debt machine took flight. Aided by a feckless Fed (1% Fed Funds rate) and greed that resulted in a mad dash for yield and fees, underwriting became an afterthought. Huge leverage and impossible complexity compounded the issue and resulted in an enormous problem that now requires various government bailouts.

While some may accuse us of oversimplifying the issues, much of the crisis flows from the mortgage moral hazard described above. Adjunct developments, such as managing counter party risk in the $60 trillion credit derivative swaps market, ensuring liquidity in money market funds, and bolstering FDIC funding are all serious issues with no easy solutions. We've addressed a couple of these problems in previous letters and more will certainly be said in coming pieces. Our historical letters can be found at www.fiduciarymgt.com.

Regardless of what role the government takes during this crisis, it will likely take years to sort out. A significant deleveraging is under way and this won't be good for growth, although it may be needed to restore balance sheets and get the economy poised for the next up cycle. The Bernanke Fed is adamant about avoiding deflation, which often accompanies deleveraging. The Fed Chairman is acutely aware of the Japanese experience over the past seventeen years and doesn't want it repeated here. Going overboard to avoid deflation, however, could result in the opposite: a dollar crisis and inflation (most likely stagflation), which would be tough on valuations.

Financial crises, while not common, have occurred many times in our history. We've survived all of them and there is little doubt we will get through this one, too. We remain optimistic about the long-term prospects of equity investing. Poor returns usually follow periods of outsized gains and the opposite is also true. Most of the indices have had a difficult run for the better part of a decade. We think the next decade will be better.

As is our custom, we have highlighted a couple of our small cap investments below.

Jack Henry & Associates, Inc. (JKHY)

Business Description

Jack Henry & Associates is a leading provider of integrated computer systems and services. Over the years, the company has developed and acquired a number of strong banking and credit union software systems. Jack Henry's revenues are primarily generated by marketing its systems to financial institutions in the U.S., providing conversion and implementation services, as well as ongoing support/services to customers either on an in-house or outsourced basis.

Good Business

- Jack Henry's revenue stream is approximately 70% recurring in nature and diversified across more than 8,700 financial services organizations of all asset sizes.
- Jack Henry's core solutions are a necessity for its bank/credit union client base.
- Jack Henry's customer service is unparalleled in its industry and client retention is extremely high (99%).
- The company earns solid returns on invested capital (ROIC). Jack Henry's ROIC was 17.1% in fiscal year 2007 and has averaged 15.3% over the past five years.
- The business generates solid free cash flow (FCF) and isn't capital intensive.
- Management has been using free cash to acquire bolt-on products, increase the dividend and execute share repurchases.
- The balance sheet has virtually no leverage.

Valuation

- Jack Henry's shares trade approximately 30% below their all-time high reached in November 2007, and near the bottom of their 52-week range. Jack Henry has underperformed the Russell 2000 by 20% over the past five years.
- The stock trades at 16.0x fiscal year 2009 consensus earnings per share (EPS), and offers a 6.8% FCF yield.
- On an enterprise value-to-earnings before interest, taxes, depreciation and amortization (EV/EBITDA) multiple basis, Jack Henry's shares trade for 7.1x fiscal year 2009 estimated EBITDA. The trailing 5-year average multiple is 12.4x.
- From 1995-2007, the mean and median EV/EBITDA multiples on 16 comparable company transactions were 11.7x and 11.0x, respectively.

Management

- Jack Henry's CEO is Jack Prim. Jack has over 30 years of experience in the financial industry.
- Positively, the CEO, CFO, and President receive incentive compensation based on operating income growth and ROIC. Insiders own 9.1% of diluted shares.
- Overall, company management is highly respected in the industry.

Investment Thesis
The current turmoil in the financial services industry is causing pressure on Jack Henry's shares. Expected banking consolidation poses a threat to Jack Henry, as it may lead to turnover in its existing customer base. However, we believe that due to the company's strong product offerings and customer service, the current market environment actually presents Jack Henry with the opportunity to strengthen its long-term competitive position.

Carlisle Companies Inc. (CSL)

Description
Carlisle is a diversified manufacturer of products used across a broad range of industries including commercial roofing, lawn and garden, foodservice, and aerospace. The company largely serves the North American market, with the U.S. accounting for more than 90% of revenue.

Good Business
- Carlisle has leadership positions in niche markets, deriving approximately two-thirds of its sales from products where it is the number one or two player.
- Roofing, a basic necessity, derives one-half of sales from replacement demand. Tires & wheels, wires & cables, and foodservice products are low-ticket items that similarly have a recurring component to their revenue stream.
- ROIC easily covers the company's cost of capital, and should improve over time as Carlisle focuses on organic growth, margin improvement, and reduces the working capital intensity of the business.
- The new CEO is taking steps to simplify the story.
- The company maintains a strong, flexible balance sheet, and generates significant cash flow.

Valuation
- Carlisle has declined significantly from its high due to concerns regarding the potential for a significant contraction in the non-residential construction market.
- The stock appears to reflect a great deal of weakness. Carlisle trades at more than one standard deviation below its long-term average on an EV/sales and EV/EBITDA basis.
- Carlisle trades at a 35-40% discount to its peer group on a forward price-to-earnings (P/E) basis.
- The stock could double over the next four to five years.

Management
- Dave Roberts, 60, joined Carlisle as CEO in June 2007 following a successful six-year stint as CEO of Graco.
- Roberts has hired executives to fortify what were underperforming businesses, and has reorganized the leadership.
- Under Roberts' leadership, the compensation plan has been changed to focus on quantitative factors such as organic growth, margin improvement, better cash management, and higher returns.

Investment Thesis
This new CEO at the helm is looking to shape Carlisle into a more focused, higher-margin enterprise with improved cash flow-generating ability. Concern regarding the outlook for the non-residential construction market has provided us with an opportunity to establish a position in the stock.

Thank you for your 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.