

# Fiduciary Management, Inc.

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## FMI Small Cap Equity

### Investment Philosophy:

Purchase durable business franchises that are selling at a discount to their intrinsic value.

### Investment Process:

We utilize a business owner's approach to investing, thoroughly investigating the economics of the business and the quality of the management team. Some of the characteristics of good businesses include strong recurring revenue and attractive returns-on-invested capital (ROIC). We have a strong orientation to low absolute or relative valuation, which are key to the execution of our investment strategy. A new idea will come from a variety of sources including company visits, screens, conferences, trade periodicals and general reading. All members of the research team are responsible for fundamental research.

Once an investment opportunity is identified it is put through our iterative process, which typically includes management interviews and site visits. When an acceptable level of conviction is achieved, the appropriate weighting (considering liquidity, valuation, etc.) is discussed and determined. A new company purchased in the portfolio will have an initial position size of 1-3%. The portfolio consists of 40-50 companies and is well diversified across sectors.

We are long-term investors, typical holding period for our companies is one to four years, and portfolio turnover averages 30-40% per annum.

### Portfolio Management Committee (PMC)

### Research Team:

Jonathan T. Bloom	Yes
John S. Brandser	
Patrick J. English, CFA	Yes
Matthew J. Goetzinger, CFA	Yes
Robert M. Helf, CFA	Yes
Ted D. Kellner, CFA	
Karl T. Poehls, CFA	Yes
Andy P. Ramer, CFA	Yes
Daniel G. Sievers	Yes

Performance	1 Yr	3 Yr	5 Yr	10 Yr	Since Incep.
Small Cap (Gross)	8.81%	29.24%	7.64%	10.71%	14.83%
Russell 2000	-0.18%	26.90%	2.13%	6.45%	10.67%

Inception: January 1, 1980

Performance is preliminary and subject to reconciliation.

### Top 10 - Portfolio Holdings:

Arrow Electronics Inc. ....	4.4%
Patterson Cos. Inc. ....	4.2%
Dun & Bradstreet Corp. ....	3.9%
Molex (Class A) ....	3.9%
Cimarex Energy Co. ....	3.4%
W. R. Berkley Corp. ....	3.4%
Family Dollar Stores, Inc. ....	3.3%
AptarGroup, Inc. ....	3.0%
Kennametal Inc. ....	2.9%
Broadridge Financial Solutions ....	2.9%

### Portfolio Characteristics:

P/E Ratio (trailing one year) .....	15.2x
FY1 P/E Ratio (forward 4 quarters) .....	13.4x
P/S Ratio .....	1.2x
P/B Ratio .....	2.2x
EV/EBITA Ratio .....	7.4x
Number of holdings .....	41

### Recent Purchase:

#### **Cimarex Energy Co. (Ticker: XEC): (Added in January 2012)**

Cimarex is an independent E&P company with operations focused in the Mid-Continent - 61% of reserves/51% of production, Permian Basin - 34%/35%, and Gulf Coast - 5%/14%. The company had 1.67 Tcfe of proved reserves as of year-end 2010, of which 62% was natural gas and 87% proved developed. Cimarex is an average business with an above average management team and an opportunistic purchase price. The time to buy commodity-related businesses is when supply is adequate and pricing is depressed, which is what we have in the natural gas market at the current time. The company has the added value of being an inflation hedge.

### Recent Sale:

#### **HSN, Inc. (Ticker: HSN): (Sold in February 2012)**

HSN, Inc. operates the second largest television commerce network in the U.S. In addition to its flagship "HSN" channel and HSN.com website, HSN owns a portfolio of catalogs and related websites, including Frontgate, Grandin Road and Travelsmith, through its Cornerstone Brands subsidiary. HSN, Inc. has carved out a strong niche in a unique channel (television commerce) that is an attractive business. In our 18 month holding period, the company increased revenues and improved margins moving the stock approximately 37% higher from our initial purchase; however, valuation and longer-term concerns on e-commerce competition resulted in our decision to sell our position in February of 2012.

**Fiduciary Management Inc.**  
**Small Cap Equity Composite**  
**12/31/2000 - 12/31/11**

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			
2001	20.42	19.57	2.49	125	1.88	n/a	n/a	\$ 587.2	\$ 1,458.2	40.27%
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%

\*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 - 12/31/2011. 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 - 12/31/2011. 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 \$12.2 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. 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.