VULCAN
VALUE
PARTNERS

Year

End

2008

As you know all too well 2008 was the worst year for common stocks since the 1930's. It was the Dow's worst year since 1931, the S&P 500's worst year since 1937, and the NASDAQ's worst year in its 38 year history. Against this dismal backdrop we are pleased to be able to report that all four of our composites outperformed their respective benchmarks in 2008 – some barely and some by a respectable margin – but all were ahead. We do not take great comfort in this accomplishment, however, because it means we simply lost less money than many of our peers. Vulcan Value Partners' primary return goal is to compound capital at real rates of return significantly in excess of inflation over our five year time horizon. This real return goal translates into a nominal return goal of 15%, which is the same as Berkshire Hathaway. We did not come close in 2008 but we did take advantage of the severe bear market to purchase outstanding businesses at historic discounts to their intrinsic worth. As price to value discounts for these wonderful businesses inevitably narrow we expect to generate substantial returns over our five year time horizon.

Directory

For more information about Vulcan Value Partners, visit www.vulcanvaluepartners.com or call 205.803.1582

Portfolio Review

General

We spend 90% of our time focused on the companies we own and on evaluating other potentially qualifying investments. In other words, we are bottom up analysts. We do so because we believe we can add the most value by thoroughly understanding the competitive positions of the companies in our portfolios, which are the building blocks of our future returns. We do not, however, ignore macroeconomic events. In fact, spending the equivalent of one working day out of ten on the macro environment seems more than adequate to us since neither we nor any economist we are aware of is very good at making forecasts. It is ironic that macro factors, which have an enormous influence over all investments, are of little use in forecasting future returns because they are, in themselves, difficult to forecast.

Our response to the conundrum above is to pay attention to the extremes, to the outliers. When extreme conditions prevail they provide sound indications of future returns. Furthermore, there are many economic and financial statistics that, in the aggregate, provide a great deal of noise and contradictory signals. After many years of observing data and testing various logically appealing indicators we have narrowed our scope to five that have proven to be the most useful in forecasting future long-term returns. Not surprisingly, for us two of these five indicators involve valuation. Right now, four of our five primary macro indicators are signaling bullish long-term returns and the fifth is close. This result does not guarantee anything but is does confirm our bottom up analysis that there are many very attractively priced, wonderful business available to us as long term investors.

While we are quite bullish about our long term prospects both from a bottom up and top down point of view we are also cognizant of the current economic environment, which, arguably is the worst since the 1930's and certainly since the 1970's. We will have to wait for the statisticians to let us know for sure but it is certainly bad. The good news for us is that we own companies that possess sustainable competitive advantages that will emerge from today's poor economy stronger than ever. In the meantime, they are producing free cash flow, and many are actually growing their bottom lines when most companies' profits are shrinking and many are losing money.

We can offer no advice about short term results except to say that we expect volatility to be high. We will use market fluctuations to sell more fully valued securities and purchase even more deeply discounted businesses whose quality is as high or higher than what we are selling. We have done so throughout the bear market thus lowering our weighted average price to value ratio, improving our margin of safety, and laying the foundation for exceptional long-term returns. Said simply, while we are bearish about the current macro environment we are very bullish about our long term prospects.

Vulcan Value Partners Large Cap Review

As shown on the table below, Vulcan Value Partners Large Cap absolute performance in 2008 and since inception at March, 2007 was well below our long term goal of 15%. 2008 performance was meaningfully better than the S&P 500, has also exceeded value benchmarks, and more importantly, other value based peers who we admire and respect.

Investment Strategy	Inception Date	2008	Annualized Since Inception
VVP Large Cap	03/31/2007	-32.8%	-21.8%
S&P 500 Index		-37.0%	-21.1%
Russell 1000 Value Index		-36.8%	-23.7%

We know we are preaching to the choir but to state the obvious: The time period covered by this letter is too short to provide any meaningful information regarding performance. Based upon the discounted prices we have paid and the steady compounding of value at the businesses we own we feel confident that we will meet our long term absolute return goal of 15% and that, if we do so, the relative numbers will take care of themselves.

Direct TV and Choicepoint were two of the top five contributors to performance in 2008. Direct TV's value is compounding at double digit rates and remains significantly undervalued. In a very challenging economic environment Direct TV grew its bottom line at double digit rates in 2008 and used its growing free cash flow to repurchase several billion of stock at discounted prices. We expect another solid year in 2009. Late in 2008 we traded our stake in Direct TV share for share for Liberty Media Entertainment Group. Virtually all of Liberty Entertainment Group's value is in its roughly 50% stake in Direct TV, which it acquired earlier in 2008 from News Corp. We did so because we were able to purchase Direct TV at an even great discount by owning it through Liberty Media Entertainment Group. As Mr. Buffett would say, the "look-through" price was significantly lower for Direct TV by purchasing it through Liberty Media Entertainment Group than by continuing to own it directly. Simply put, we received a double discount.

We sold Choicepoint after they agreed to be acquired by Reed Elsevier at $50/share – a price slightly higher than our value for the company. Choicepoint produces strong free cash flow and is competitively entrenched in its core business of providing financial information to insurance companies. The company has extremely high returns on capital with tangible return on assets exceeding 70%. In addition to being good operators its shareholder oriented management team correctly allocated the company's strong free cash flow into share repurchases at attractive prices. After our initial purchase Choicepoint delivered disappointing results and our value dropped – a very big red flag. After re-evaluating our investment we decided that the poor results were cyclical in nature and that their core franchise was, in fact, getting stronger. Even though our value dropped it was still well in excess of our purchase price and the market price of the company. Recognizing the same discount we did, in February of 2008, Reed Elsevier offered to buy the company, we realized a nice profit, and redeployed the proceeds into more discounted investments.

Vulcan Value Partners Large Cap Review (cont.)

Our experience with Choicepoint is illustrative of all of our investments. We demand a margin of safety by only purchasing businesses at significant discounts to our conservative estimate of intrinsic worth. This margin of safety acts as a shock absorber protecting our investment from external events and from our own analytical shortcomings. We cannot predict or control the timing of when price and value will converge but, based upon nearly two decades of professional experience, we are confident that values will be realized over our time horizon. In Choicepoint's case it happened fairly early. Sooner or later it will happen with our other investments and the rewards will be substantial.

Dell and Google were the two biggest detractors to performance in 2008. Dell's results were negatively impacted in the second half of 2008 by the slowing global economy. We expect a challenging 2009 but we also expect Dell to generate strong free cash flow. The company has net cash on its balance sheet and sells for a mid single digit P/E on depressed results after adjusting for cash and deducting interest earnings on its cash. Similar to Direct TV, Google posted solid double digit bottom line growth and generated substantial free cash flow in a challenging 2008. It is one of the very few advertising driven companies that will grow its profits in 2009. We believe that Google is very attractively priced and that its very strong competitive position and strong balance sheet are under appreciated by market participants.

We are pleased with Vulcan Value Partners Large Cap's investments. Despite a weak economy values are holding up remarkably well overall and, in some cases, are continuing to grow nicely. Cash is at less than 1% and the price to value ratio is in the low 40's - an all time low and a staggering statistic for an entire portfolio. The combination of competitively entrenched businesses with growing long term values and discounted prices bodes well for future compounding.

VULCAN VALUE PARTNERS

Vulcan Value Partners Focus Review

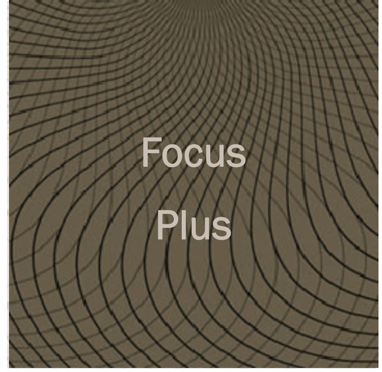
As shown on the table below, Vulcan Value Partners Focus absolute performance in 2008 and since inception in November, 2007 was well below our long term goal of 15%. 2008 performance was respectably better than the S&P 500, has also exceeded value benchmarks, and more importantly, other value based peers who we admire and respect.

Investment Strategy	Inception Date	2008	Annualized Since Inception
VVP Focus	11/05/2007	-35.0%	-33.4%
S&P 500 Index		-37.0%	-35.5%
Russell 1000 Value Index		-36.8%	-35.9%

We know we are preaching to the choir but to state the obvious: The time period covered by this letter is too short to provide any meaningful information regarding performance. Based upon the discounted prices we have paid and the steady compounding of value at the businesses we own we feel confident that we will meet our long term absolute return goal of 15% and that, if we do so, the relative numbers will take care of themselves.

We decided to start Vulcan Value Partners Focus to concentrate capital in truly extraordinary businesses available at greatly discounted prices. Despite the short term pain of the bear market, we are thrilled to be able to own these businesses at these prices. As with Vulcan Value Partners Large Cap, the largest contributors to performance in 2008 were Direct TV and Choicepoint and the worst contributors were Dell and Google (see above). We purchased MasterCard at a substantial discount to our estimate of its intrinsic worth late in 2008. MasterCard has a fantastic business franchise and, unlike American Express or issuing banks such as Citigroup, has no credit exposure. MasterCard owns its brand and is essentially a toll road collecting fees every time someone makes a transaction using one of its cards. It generates tremendous free cash flow, has very high returns on invested capital, and grows faster than the economy as more and more consumers substitute credit and debit cards for cash and checks to make purchases. We estimate that MasterCard's value will compound at solid double digit rates, even in the current recession.

Vulcan Value Partners Focus is fully invested and has been so since it was formed. Values are building at our owned companies and the price to value ratio for the entire portfolio is below 40% – an astounding statistic, especially considering the strong competitive positions of the companies we own, and an encouraging sign for future compounding.



Vulcan Value Partners Focus Plus Review

As shown on the table below, Vulcan Value Partners Focus Plus absolute performance in 2008 and since inception at March, 2007 was well below our long term goal of 15%. 2008 performance was slightly better than the S&P 500 and slightly worse than the Russell 1000 Value Index.

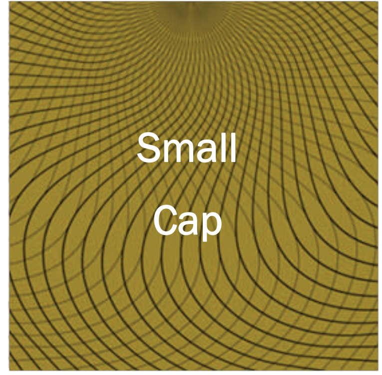
Investment Strategy	Inception Date	2008	Annualized Since Inception
VVP Focus Plus	03/31/2007	-36.9%	-24.6%
S&P 500 Index		-37.0%	-21.1%
Russell 1000 Value Index		-36.8%	-23.7%

We know we are preaching to the choir but to state the obvious: The time period covered by this letter is too short to provide any meaningful information regarding performance. Based upon the discounted prices we have paid and the steady compounding of value at the businesses we own we feel confident that we will meet our long term absolute return goal of 15% and that, if we do so, the relative numbers will take care of themselves.

Due to record volatility at year end we were earning more than 30% annualized returns from option investments which give us the right to purchase companies at prices we would choose to pay anyway. In effect, we are being paid to exercise options at strike prices equal to limit orders we would place to buy the same stocks in our other portfolios. Including the potential exercise of options our cash position was less than 2%. However, our adjusted cash, including the cash we have set aside to meet our purchase obligations if stock prices reach the strike price of put options we have sold, was 23%. This cash earns interest in addition to the yield we receive from the option premium we have sold. In effect, we have a lot of dry powder available to us to purchase companies at advantageous prices and our dry powder earns more than 30% annually while we wait.

Vulcan Value Partners Focus Plus generally mirrors Vulcan Value Partners Focus but uses options instead of limit orders to purchase stocks. When stocks are sufficiently discounted at current market prices and options premiums are not as attractive we will purchase the shares directly. As with Vulcan Value Partners Focus, the largest contributors to performance in 2008 were Direct TV and Choicepoint and the worst contributors were Dell and Google (see above). The extreme volatility that prevailed in the stock market in 2008 was a double edged sword. It created fantastic buying opportunities and resulted in extraordinary yields on our cash/option positions but also caused changes in the stocks we own to overwhelm the positive impact of high yields.

We are pleased with Vulcan Value Partners Focus Plus's investments. We are earning 30% + while we wait to add to or positions in wonderful businesses at extremely attractive prices. The price to value ratio for the entire portfolio is below 40% – approximately the same as Vulcan Value Partners Focus and a very encouraging sign for future compounding.



Vulcan Value Partners Small Cap Review

As shown on the table below, Vulcan Value Partners Small Cap absolute performance in 2008 and since inception at March, 2007 was well below our long term goal of 15%. 2008 performance was meaningfully better than the Russell 2000 Index of small capitalization stocks, has also exceeded value benchmarks, and more importantly, other value based peers who we admire and respect.

Investment Strategy	Inception Date	2008	Annualized Since Inception
VVP Small Cap	03/31/2007	-26.1%	-19.8%
Russell 2000 Index		-33.8%	-22.6%
Russell 2000 Value Index		-28.9%	-23.1%

We know we are preaching to the choir but to state the obvious: The time period covered by this letter is too short to provide any meaningful information regarding performance. Based upon the discounted prices we have paid and the steady compounding of value at the businesses we own we feel confident that we will meet our long term absolute return goal of 15% and that, if we do so, the relative numbers will take care of themselves.

In our first letter to you we wrote:

"Given a sub-par U.S. economy we have been skeptical of Wall Street's overly optimistic earnings forecasts for many small cap companies we have evaluated. While we strive to be productive enough to be fully invested we will not violate our investment discipline and purchase companies that do not qualify for investment."

And

"While Vulcan Value Partners Small Cap is our least attractive portfolio on a price to value basis and it has taken us longer than we would have liked to become more fully invested, prices are approaching levels that warrant investment. We have made tremendous progress in identifying and purchasing qualifying investments recently. We are working hard to find additional qualifying investments and are pleased that the price to value ratio is improving as cash levels are falling."

We are pleased to report that we made significant progress in Vulcan Value Partners Small Cap in the second half of the year as prices finally declined to levels that we found attractive compared to our values for the kind of competitively entrenched businesses that we want to own. We reduced cash levels below 1% from a peak of 43% in May. We also sold less discounted stocks and upgraded the business quality of the Vulcan Value Partners Small Cap by increasing stakes in higher quality, more discounted names and also buying several new positions. The overall price to value ratio improved from the mid-70's throughout the first half of 2008 to the low 50's. These changes are significant and bode well for long term compounding.

Vulcan Value Partners Small Cap Review (cont.)

New purchases during the second half of the year include Heartland Payment Systems, Jack Henry, and Harley-Davidson. We added to a number of positions including Idex, Discovery Communications, and Watson Wyatt. We are thrilled to be able to purchase these competitively entrenched, free cash flow producing businesses at the discounted prices we paid.

The two largest contributors to performance were Choicepoint, discussed above, and Arkansas Best. We sold both positions and used the proceeds to buy higher quality companies at greater price to value discounts. The two largest detractors from performance were Whole Foods and RCN. Whole Foods has made some operational and capital allocation mistakes that have reduced its value. It is too cheap to sell and has a strong underlying franchise but we are disappointed in management's recent decisions. RCN operates a fiber optic network supplying premium cable services and CLEC/enterprise solution phone services to large metro areas in the northeast and Chicago. The company has increased revenues, improved margins, and posted double digit Free Operating Cash Flow gains in 2008. We believe that its stock price has been negatively impacted by the credit crunch. The company's subscription based business has inherently stable cash flows which can support more debt than most businesses. Moreover, its debt is intelligently structured with very little debt coming over the next several years. As a result we are comfortable tolerating more leverage at RCN than we would in less stable businesses.

Vulcan Value Partners Small Cap wins the most improved award during 2008. Our patience and investment discipline paid off and enabled us to purchase outstanding businesses at deep discounts to their intrinsic worth. With cash levels below 1% and a price to value ratio in the low 50's we are very excited about Vulcan Value Partners Small Cap's long term prospects.

Closing

In this last section "we" are switching to "I".

I want to recognize Allen Cox who started working at Vulcan Value Partners over a year ago as an intern even though he was graduating from the University of Alabama's Honors Finance program. Allen has displayed great aptitude as a value investor, has a great work ethic, and a great attitude. His rapid progress has enabled Vulcan Value Partners to hire Allen as a full time analyst. Congratulations Allen and keep up the good work.

I also want to thank the wonderful folks at Diversified Trust and Seagrove Corp. who do such a fine job and enable us to concentrate on the investment process. Their many important contributions make us very productive. We could not function well at all without them.

Your commitment of patient capital has enabled Vulcan Value Partners to take advantage of sellers who are panicking or who are forced to sell to meet capital requirements or fund redemptions. By being able to take a long term view we have taken advantage of short term volatility and created portfolios built around very strong businesses purchased with large margins of safety in terms of value over price. As a result our long term compounding prospects are outstanding. Thank you for taking the time to understand Vulcan Value Partners' investment philosophy and providing the long term capital we seek to implement our investment strategy.

Sincerely,

C.T. Fitzpatrick

VULCAN
VALUE
PARTNERS

Year

End

2008