

All Cap Equity – Fourth Quarter 2010 Performance Update

	Q4	1 Yr.	3 Yr.	5 Yr.
Reinhart All Cap	7.57	9.69	-1.02	5.20
S&P 500	10.76	15.07	-2.85	2.29
Russell 3000	11.60	16.93	-2.01	2.74

MANAGER COMMENTARY

The year 2010 was dominated by surging corporate profits and vastly improved balance sheets. Though U.S. economic growth required unprecedented stimulus and liquidity, the end result was stabilization in demand trends in most industries and a much improved outlook. As we mentioned a few months ago, a key trend for 2011 economic growth is the willingness of management teams to put their excess cash to work in their respective industries. That desire to reinvest or expand comes from confidence and visibility, both of which seem to have gotten better in the last six months. We expect the corporate cash use will drive two major trends in 2011: mergers/acquisitions and business investment for future growth (including modestly higher employment). Most economists would tell you that increased business investment, coupled with higher disposable income, translates into a stronger stock market. We agree, though we would be remiss to gloss over some concerns regarding commodity price inflation in the world. To mention a few year-over-year increases, cotton is up over 100%, corn +42%, lumber +38%, coffee +63%, and copper +22%. Thankfully, energy cost increase to date have been relatively tame compared to metals and food. In summary, we expect the extended and new tax cuts, combined with increased business confidence, should lead to a stable growth year and a good backdrop for the U.S. stock market.

Fresh liquidity, rising profits, and rosier outlooks all led to an excellent year for the U.S. stock market in 2010. Medium and small sized equities showed the most strength with the Russell Mid Cap rising 25.5% and the Russell 2000 (Small Cap) increasing 26.9%. The large cap dominated Standard & Poor's 500 Index rose 15.1% in comparison. The same phenomenon of higher risk assets beating lower risk assets was true overseas as the MSCI Emerging Markets Index jumped 19.0%, well ahead of the Europe-heavy MSCI EAFE Index at 8.4%.

Our all cap portfolio trailed the broader S&P 500 Index return by around 5% during the year, ending the year at +9.7%. Our relative returns were hampered both by weak individual stock selection and our decision to underweight companies in industries tied to a faster economic recovery, namely consumer discretionary and industrials. Despite placing extra portfolio weight in technology, which performed well as a sector in 2010, we struggled with positions in Hewlett Packard, Intel, and Microsoft that showed signs of stress from a slower personal computer cycle. We have since reduced those holdings and replaced them with positions in Oracle and two media content providers, Liberty Starz and Madison Square Garden. We have made several other changes and the portfolio is already showing signs of improvement in January.

This portfolio, though conservative, now reflects our thoughts on the next twelve to twenty four months in the U.S. economy: +2-4% GDP growth (up from our last quarter prediction), +2% inflation (also up), and high unemployment relative to recent history. We continue to see extraordinary opportunities for investment in health care and we believe our anchor positions in Teva, Baxter, and Shire will help this year. At the same time, we added to financials via JP Morgan and PNC, two high quality banks. Following our additional weight in energy in the third quarter, we reduced our holdings to an underweight given valuation and sluggish demand.

Though we are disappointed by our performance relative to market benchmarks in 2010, we have a long history of providing value to clients by protecting client capital in tough times despite trailing benchmarks in great market years. Notably, our three and five year compounded annual returns are -1.0% and +5.2%, respectively, and compare quite favorably to the S&P 500 returns of -2.9% and +2.3% for the same time frames.

INVESTMENT PHILOSOPHY

- **Fundamental Research:** Bottom-up process with a macro overlay.
- **Life Cycle Investing:** Finding companies in the recovery or high profitability phase of the life cycle.
- **Disciplined Process:** Consistent and quantifiable system based on sound investment tenets.

Reinhart Partners, Inc. (Reinhart) is a privately held, independent investment advisor registered with the Securities and Exchange Commission. Reinhart provides investment management services for growth equity, value equity, fixed income and balanced accounts to taxable and tax-exempt clients. Reinhart has prepared and presented this report in compliance with the Global Investment Presentation Standards (GIPS®). All performance is based in US Dollars. No leverage is used in the portfolios represented in any composite. Performance is stated gross of fees and reflect the reinvestment of dividends, capital gains and interest. Trade date accounting is used in the calculation of portfolio returns. Composites are asset weighted. The Reinhart Partners All Cap composite contains 14 portfolios with total assets of \$26 million. This represents approximately 1% of the firm's assets under management. This composite includes all fully discretionary, fee-paying, non-wrap-fee, equity only accounts over \$500,000 in assets under management that are managed for the full calendar quarter using the All Cap strategy. The inception date of this composite is 6/30/03. Reinhart's standard equity fee schedule is as follows: 1.00% on the first \$3 million; 0.75% on the next \$22 million and 0.50% on amounts over \$25 million. Annual composite returns net of management fees: 2003(6/30 – 12/31)=17.14%; 2004=6.29%; 2005=4.56%; 2006=21.35%; 2007=7.88%; 2008=-28.06%; 2009=20.86%; 2010=9.08%. Annual composite gross returns standard deviation: 2004=1.56; 2005=0.96; 2006=1.80; 2007=1.96; 2008=0.45; 2009=0.55; 2010=0.46. Results represent past performance and do not guarantee future results. A complete list and description of the firm's composites is available upon request. For more information on our composites, please visit our website at www.reinhart-partnersinc.com.