

Mid Cap Growth Equity – Second Quarter 2010 Performance Update

	Q2	1 Yr.	3 Yr.	5 Yr.
Reinhart Mid Cap Growth	-8.85	13.65	-7.91	2.69
Russell Mid Cap Growth	-10.20	21.30	-7.53	1.37
Russell Mid Cap	-9.88	25.13	-8.19	1.22
S&P 500	-11.42	14.43	-9.81	-0.79

MANAGER COMMENTARY

In our first quarter commentary, we viewed the market as more mixed due to soaring valuations and unsustainable levels of consumer and government debt. We expected increased volatility and we got it during the second quarter. The market place seemed unfazed by peaking in the leading economic indicators in March, but the onslaught of more downtrodden worldwide economic news finally forced the equity markets lower, particularly in May and June. Among the negative news was slippage in the PMI (purchasing managers' index) in both the U.S. and China, a near collapse of Greek debt which sent the Euro currency in a free fall, and a massive oil spill in the Gulf of Mexico. More importantly, the multiplier effect of the stimulus money spent in this country and others is now in question. Corporate profits are the brightest star remaining as companies have accumulated sizable cash balances while investing little in their future growth in this uncertain environment. Banks, though also with repaired balance sheets, are stuck with lower loan demand and less desire to take on anything less than stellar credits. The short to medium term result looks like a moderate profit cycle, but with low real economic growth. Europe appears set to lag our country and the Chinese policy makers have clearly signaled a period of more normal growth.

As we have mentioned in the past, despite the additional gray hairs that come with volatility, we also get valuation opportunities in solid companies. During the quarter, the daily swings gave us the chance to reduce our cyclical holdings in semiconductors and retail, while reinvesting those proceeds in industries with more stable or rising fundamentals (trucking and education for example). We expect the increased volatility to continue throughout 2010 and we believe our relative returns will improve as a result.

For the year through June, the Reinhart Mid Cap Growth composite return is -3.4%, in line with the Russell Mid Cap Growth Index at -3.3% and slightly behind the Russell Mid Cap Index at -2.1%. For reference, the S&P 500 Index ended the quarter at -6.7%. With the exception of financials, which were dominated by losses in market sensitive companies, the portfolio's sector performance held up with particularly good stock analysis in consumer discretionary and technology companies. We remain under market weight in consumer discretionary, industrials, and technology, thus aligned with our conservative stance on worldwide economic growth. For the first time in several years, we are overweight in energy as the oil spill-related uncertainty drove oil service companies to rock bottom valuations.

INVESTMENT PHILOSOPHY

- **Life Cycle Investing:** Finding companies in the recovery or high profitability phase of the life cycle.
- **Growth with a Valuation Discipline:** Capital appreciation with an eye for capital preservation.
- **Disciplined Process:** Consistent and quantifiable system based on sound investment tenets.

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