

Mid Cap Growth Equity – Fourth Quarter 2010 Performance Update

	Q4	1 Yr.	3 Yr.	5 Yr.
Reinhart Mid Cap Growth	12.00	21.64	0.89	5.91
Russell Mid Cap Growth	14.01	26.38	0.97	4.88
Russell Mid Cap	13.07	25.48	1.05	4.66
S&P 500	10.76	15.07	-2.85	2.29

MANAGER COMMENTARY

The year 2010 was dominated by surging corporate profits and vastly improved balance sheets. Though our 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 and acquisitions and business investment for future growth (including 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%. Energy costs, so far, are relatively tame compared to metals and food, though part of the difference is oil's relationship to the U.S. dollar.

After nearly two decades of work concentrated in domestic mid cap equities, we continue to be impressed with the strength of mid cap companies in the marketplace. The numbers are quite noticeable, particularly in the last ten years where the domestic stock market struggled to post positive results (figure 1 below).

Figure 1:

	5-Year Return	10-Year Return
Russell 1000 (Large Cap)	2.6%	1.3%
Russell Mid Cap	4.7%	6.5%
Russell 2000 (Small Cap)	4.5%	6.3%

Source: Russell.com

Although we were disappointed that we trailed our benchmark last year, we are pleased that we are ahead of it on an annualized basis over the most recent five years. We were positioned well, and in-line with the performance of the Russell Midcap Growth Index through the first half of the year. During the second half of the year the index was up 30.7%. We did not keep up because we were not aggressive enough in predicting the turn in the economy. Although the economy was poor, the consumer discretionary and industrial sectors provided the strongest returns in 2010. Unfortunately, we were underweight each of these. We believed that given the high unemployment rate we would continue to see poor revenues for consumer discretionary companies. Similarly with the poor economy we did not predict a pickup in capital spending. The market pulled up in advance of a turn in these fundamentals.

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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