

### Small Cap Opportunities Equity – Fourth Quarter 2010 Performance Update

	Q4	1 Yr.	3 Yr.	5 Yr
Reinhart Small Cap	13.72	23.32	-3.01	5.29
Russell 2000	16.25	26.85	2.22	4.47

#### MANAGER COMMENTARY

The U.S. equity market enjoyed another strong performance in the fourth quarter of 2010, as corporate earnings improved and the Fed continued its plan of monetary easing. Reinhart's Small Cap Opportunity strategy participated in this rally, gaining +13.7% during the fourth quarter, but did lag the surging Russell 2000 Index's return of +16.3%. The most significant reasons for our underperformance were an underweight within energy and less aggressive positioning in consumer discretionary. Despite a lower-risk profile throughout 2010, we did manage to produce investment returns of +23.3% for the full year.

We are pleased to report that the Reinhart Small Cap Opportunity portfolio now has a five-year track record and has exceeded its benchmark since inception. Although absolute returns have been strong in recent years (exceeding 20% gains in both 2009 & 2010), we are disappointed with our relative performance. Indeed, our Mid Cap Private Market Value portfolio has produced top-decile performance over the past three years, while Small Cap has lagged its benchmark. Yet we manage both strategies with the same personnel and employ the same philosophy.

So we did what all good companies do, and conducted a thorough review of our decisions and results within the Small Cap portfolio to determine where we can improve. The most significant finding from this review process was the difference in quality between our two strategies, with the midcap portfolio scoring consistently higher across all sectors. Although this finding was somewhat to be expected, given the more established nature of midcap companies, this dimension did identify many of the performance issues within the Small Cap portfolio. As a result, we have implemented a new procedure in evaluating the quality of each company, including a 10-factor model that has both subjective and objective ratings to capture the overall quality of the franchise. While this does not change our process or philosophy, we do believe the new tool will serve us well as we tighten our discipline and emphasize investments in the types of companies where we have a proven track record of success, regardless of market capitalization.

Looking forward, we are excited about the opportunities within the smaller, neglected part of the Russell 2000 universe, and continue to believe the risk/reward profile is quite favorable. Indeed, the average discount to private value within the portfolio is still 23%, suggesting this sector of the market remains the most attractive in the U.S. We continue to see a growing trend in merger & acquisition activity, which increased over 25% during 2010, as larger corporations took advantage of these valuations with the excess cash on their balance sheets. The economic challenges of creating organic growth, coupled with low interest rates should continue to drive M&A throughout 2011. As a result, we foresee a tail-wind for small cap equities where buy-outs are most common. This should also enhance our relative returns, as understanding private valuations and the impact on equities has always been a core strength of Reinhart. We believe this competency will serve our clients well in the months and years to come.

#### INVESTMENT PHILOSOPHY

- **Size is Crucial:** Focus on the smaller side of the Russell 2000 universe.
- **Neglected Stocks Outperform:** Investment potential is greatest where research competition is minimal.
- **Forward Research:** Forward-looking research generates superior investment results.

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