

Small Cap Opportunities Equity – Second Quarter 2010 Performance Update

| | Q2 | 1 Yr. | 3 Yr. | Since Incep. (12/31/05) |
|---------------------------|--------------|--------------|--------------|----------------------------|
| Reinhart Small Cap | -9.50 | 14.54 | -9.57 | 1.27 |
| Russell 2000 | -9.92 | 21.48 | -8.60 | -0.86 |

MANAGER COMMENTARY

Reinhart's Small Cap strategy declined -9.5% in the second quarter of 2010, +42bps better than the Russell 2000 Index. Despite the selloff, the portfolio is still up +0.9% year to date and has a +2.8% lead over the index. We are encouraged by this performance in what has quickly become a challenging investment environment. The concerns in the marketplace are global in nature, including European government deficits, a slowing Chinese economy, and falling consumer confidence in the U.S. These factors have reminded investors of the possibility of a double-dip recession and increased market volatility for the first time in over a year. Although we remain cautious on economic trends, we realize such an environment provides many good opportunities to put our private value discipline to work.

An example of this last quarter was Psychiatric Solutions, which was acquired by Universal Health Services. UHS paid \$34 per share for the entire firm, in-line with the 9x EBITDA calculation of \$35/share we estimated Psychiatric was worth. This takeout follows the Zenith National buyout in Q1, and highlights the inherent value of understanding the intrinsic value of our portfolio holdings. Although the payoff is not usually so direct (and we are not trying to predict M&A activity), we believe the private value investment approach creates an attractive risk/reward for our clients.

Looking forward, we remain overweight healthcare where we are finding good value among companies that can navigate the coming regulatory changes. We also like technology and have purchased several names with high free cash flow and differentiated product offerings. Industrials are still somewhat expensive, and most financials have serious issues to work through, so we are underweight both of these sectors. Although we have added to current holdings on weakness, we are monitoring our list of new ideas for the right entry point, and would expect to put additional cash to work in the coming months.

Overall, we believe that recent market volatility allows us to be very selective in choosing stocks for the portfolio, and will continue to emphasize companies that meet the following criteria:

- A strong balance sheet
- High returns-on-capital
- Sustainable competitive advantage
- 30% discount to private value

As always, we are implementing our research process among companies not well-followed by Wall Street, where we believe the odds of finding opportunities are high. As a result, the median market cap of the portfolio is still less than \$500M, only about half the size of the Russell 2000 Index. Simply put, this area of the market has less research competition, and smaller companies can offer attractive growth profiles. If we can purchase these stocks at attractive valuations, future investment returns are likely to be strong.

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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