

Small Cap Opportunities Equity – Third Quarter 2009 Performance Update

	Q3	1 Yr.	2 Yr.	3 Yr.
Reinhart Small Cap	15.46	-19.47	-12.31	-2.59
Russell 2000	19.28	-9.55	-12.05	-4.57

MANAGER COMMENTARY

The third quarter of 2009 saw the continuation of a 7 month market rally, as investors were encouraged by the potential bottoming in the economy and less-than-feared declines in corporate earnings. Reinhart's Small Cap Opportunity strategy participated in these gains, and is now up over 23% year-to-date. Although the portfolio gave up some ground versus the Russell 2000 Index during the third quarter, our small cap strategy remains ahead of the index in 2009. Since inception almost four years ago, we have been able to out-perform by 330bps annualized.

This year the strategy is benefitting from a broadening in the marketplace and improving performance among the smallest U.S. companies. Consistent with our philosophy, many of the holdings (over half of the portfolio) have market capitalizations below \$500M. This is an area of the market where we continue to find neglected, yet growing companies. This tailwind should help performance going forward, especially after three years of 'SMid-cap' dominance.

After out-performing in Q2, the Small Cap strategy lagged in Q3 due to lower cyclical exposure and an emphasis on higher quality companies. This worked against us in an environment where investors embraced risk and looked for any cyclical rebound potential. Although we believe many companies will see an earnings recovery in 2010, our private value analysis has emphasized steady business models and strong free cash flow generation. Given valuations, we have begun to trim our holdings within financials and industrials, and are now underweight both of these sectors. We believe the market excitement for cyclical stocks may have gotten ahead of the fundamentals within some of these industries.

Overall, the portfolio trades at a 26% discount to private value, suggesting the easy money has been made. But this valuation level compares favorably to the mid-cap universe, and our analysis suggests that small cap opportunities still exist. Indeed, we are overweight technology and business services, where we believe fundamentals are improving despite the economic headwinds. Companies like Smith Micro Software, Telecommunication Systems, and EMS Technologies have strong niche products that are benefitting from the explosive growth in wireless delivery of digital content. Yet few Wall Street firms cover these names or understand their strategy. Thus there are still many pockets of valuation upside, as evidenced by IBM's buyout of holding SPSS this quarter for a 43% premium.

We do believe that an improving M&A environment and healthier access to capital should provide more valuation feedback for us in the form of corporate buyouts. We have identified many promising companies and are waiting for the return of market volatility and sector rotation to create new entry points. As always, we want to put our clients' capital to work in stocks where we have a research advantage.

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.

Reinhart Partners, Inc. (Reinhart) is a privately held, independent investment advisor registered with the Securities and Exchange Commission. Reinhart provides investment management services for 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. Account returns are time weighted. As of 6/30/09, the Reinhart Partners Small Cap Opportunities Equity composite contained 10 portfolios with total assets of \$40 million. This represented approximately 2% of total firm assets. This composite includes all fully discretionary, fee-paying, per-transaction transaction cost, equity only accounts over \$500,000 in assets under management that are managed for the full calendar quarter using the Small Cap Opportunities strategy. The inception date of this composite is 12/31/05. Reinhart's standard Small Cap equity fee schedule is as follows: 1.00% flat fee on all amounts. Annual composite returns (net of fees): 2006=24.21%; 2007=11.93%; 2008=-39.55%. Annual composite gross returns standard deviation: 2006=0.00; 2007=0.00; 2008=0.45. Returns from 6/30/09-9/30/09 are preliminary and subject to revision. Results represent past performance and do not guarantee future returns. 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.