



SMALL CAP OPPORTUNITY EQUITY – FOURTH QUARTER 2011 PERFORMANCE UPDATE

	Q4	1 Yr.	3 Yr.	5 Yr.
Reinhart Small Cap	15.88	0.66	14.57	0.77
Russell 2000 Index	15.48	-4.18	15.63	0.15

MANAGER COMMENTARY

The Reinhart Small Cap Opportunity strategy generated a positive return in 2011, gaining +0.7% and outperforming the Russell 2000 Index by 4.8% for the year. 2011 was a volatile period for the financial markets worldwide, as we saw decelerating economic growth around the globe, coupled with an increased focus on the debt burdens in Europe. Our persistent emphasis on high quality and stable business models resulted in strong performance for the companies held within the portfolio, despite the economic and financial market turmoil. Since inception (12/31/05), the Small Cap Opportunities portfolio has an annualized return of 4.5% vs. 3.0% for the Russell 2000 Index, again highlighting the benefit of our consistent approach.

Strong stock selection drove outperformance in 2011, with significant value-add in the Materials, Financials, and Industrials sectors. We were able to find companies in these areas with strong business drivers despite cyclical end-market exposure. Energy was the only sector in which the portfolio experienced negative relative performance, primarily due to one stock, Cal-Dive International, that faced headwinds related to the moratorium on drilling activity in the Gulf of Mexico. Those headwinds are subsiding as we enter 2012 and we believe the company is well positioned.

Our biggest contributor in 2011, Mueller Industries, serves as a good example of our approach. Mueller is a supplier of copper products, largely to residential and non-residential construction end markets. The stock is “undiscovered” (just one Wall Street analyst follows the company) and “neglected” (avoided due to its exposure to housing). However, Mueller is a strong franchise that dominates its niche markets, exhibits strong pricing power, and whose fundamentals are finally improving after several years facing a challenging environment. The stock traded at around 60% of private market value for much of 2010-2011 before attracting the attention of a large strategic investor who eventually purchased 27% of the company, pushing the stock from \$33 at the beginning of the year to \$45, where we exited the position last summer.

Investing in quality franchises has always been a core tenant of our investment philosophy, as we believe defensible business models outperform the general market over time. Our research suggests this will be particularly important in 2012, as companies with significant competitive advantages will shine in an otherwise challenging environment. With corporate profit margins near historic highs, maintaining earnings power will be difficult in the midst of a sluggish economy. We believe businesses with barriers to entry, pricing power, and recurring revenue should be able to navigate such an environment. Indeed, our emphasis on quality has never been higher.

The portfolio is currently overweight the Consumer Discretionary, Materials, and Health Care sectors. Our research process has identified a variety of excellent companies within these areas that can maintain or raise prices, have unique value drivers, and are not overly reliant on general economic growth.

Defensive sectors like Utilities and Staples were a popular place to hide for worried investors throughout 2011, pushing valuations to fully reflect the private value inherent in the underlying companies. As a result, we are currently underweight both sectors.

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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