

Fixed Income – Fourth Quarter 2009 Performance Update

	Q4	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Reinhart Active Intermediate	0.69	10.10	7.32	5.64	6.45
Barclays Capital Int. Gov/Credit	0.30	5.24	5.90	4.65	5.92

MANAGER COMMENTARY

2009 proved to be a wonderful year for fixed income investors. Absolute returns were strong, with major market indexes up approximately 5%. Relative returns for all sectors of the market, except Treasuries, were also positive as spreads tightened throughout the year. 2010 should prove to be challenging. Returns in the fourth quarter were positive, but modest by the standards of the past six months. Rising rates in December muted what was otherwise a strong quarter for bonds. Reinhart Partners' Active Intermediate strategy returned 0.69%, outperforming the benchmark index which returned 0.30%. For the year, Reinhart's Active Intermediate strategy returned over 10% versus 5.24% for the index.

Our strong performance in 2009 was set up by solid research which resulted in some well timed portfolio positioning by our fixed income team. Going into the credit crisis, we had reduced exposure to the credit sectors, moving those weightings primarily into longer Treasuries. This proved beneficial as quality outperformed with long Treasuries outpacing everything. Our clients were in a good risk posture as the fixed income markets imploded. Having weathered the storm, our fixed income team began cautiously increasing our exposure to credit late in 2008 and early in 2009, eventually selling our Treasury exposure in favor of high quality corporate bonds, Agencies and Treasury Inflation Protected Securities (TIPS). Our clients reaped the rewards for these moves throughout 2009 as these sectors rallied substantially. In hind sight, these were obvious trades, but in the depths of the crisis they were tough decisions. The pressure on our credit research team and portfolio managers was immense and they rose to the occasion.

We expect 2010 to play out very differently than 2009. We start the year with a historically steep yield curve. Absolute yields are low across most sectors of the bond markets. Spread tightening was so dramatic in 2009 that, in many sectors, there is little room left for spreads to contract further. Unlike in early 2009, we feel investors are not being compensated for taking excess risk in the fixed income markets. For that reason we have begun the process of positioning our portfolios more conservatively. We have been locking in profits by reducing our corporate exposure. Having added far more value much faster than we could have expected, we reversed our trade into TIPS. The proceeds from these sales are being reinvested primarily into Treasuries. We remain convinced that the U.S. economy has difficulties ahead and that a more conservative posture in 2010 is warranted.

Adherence to our conservative style of fixed income investing has been, and will always be, the hallmark of Reinhart Partners. We will continue in 2010 to deliver both the service and results you have come to expect. As 2009 comes to a close, we would like to thank you for choosing us to manage your fixed income investments and we look forward to a prosperous 2010.

INVESTMENT PHILOSOPHY

- **Quality:** High quality investment grade portfolios of Treasury, Agency, corporate, MBS and ABS bonds.
- **Stability:** Duration similar to the chosen benchmark, avoiding wild performance swings relative to the index.
- **Predictability:** Well structured portfolios with predictable cash flows, leading to results delivered as expected.

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. The Reinhart Partners Active Intermediate composite contains 112 portfolios with assets of \$632 million. This represents 23% of total firm assets. Portfolios under \$1 million are excluded from the composite. Prior to 1/1/03, the minimum account size for composite inclusion was \$250,000. Only fee-paying, non-restricted, fully discretionary accounts, fixed income accounts, managed for the full calendar quarter using the Active Intermediate strategy are included in the composite. Prior to 1/1/04, fixed income segments of balanced accounts were included in the composite and cash was allocated using beginning of the period weights. Performance prior to 1995 represents results of a division of a firm acquired by Reinhart. Reinhart's standard fixed income fee schedule is as follows: 0.50% on the first \$3 million; 0.40% on the next \$22 million; 0.25% on amounts over \$25 million. The inception date of this composite is 1/1/92. Annual composite returns (net of fees): 1993=9.37%; 1994=-1.80%; 1995=16.69%; 1996=4.07%; 1997=7.64%; 1998=8.10%; 1999=0.50%; 2000=9.74%; 2001=9.00%; 2002=9.50%; 2003=3.69%; 2004=2.85%; 2005=1.72%; 2006=4.05%; 2007=6.78%; 2008=4.70%; 2009=9.87%. Annual composite gross returns standard deviation: 1996=0.87; 1997=0.57; 1998=0.15; 1999=0.21; 2000=0.35; 2001=0.38; 2002=2.41; 2003=0.30; 2004=0.30; 2005=0.10; 2006=0.10; 2007=0.31; 2008=0.92; 2009=1.42. 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.