

Mid Cap Growth Equity – Fourth Quarter 2009 Performance Update

	Q4	1 Yr.	3 Yr.	5 Yr.
Reinhart Mid Cap Growth	5.00	36.59	-3.48	3.68
Russell Mid Cap Growth	6.69	46.29	-3.18	2.40
S&P Mid Cap 400	5.56	37.38	-1.83	3.27
S&P 500	6.04	26.46	-5.61	0.42

MANAGER COMMENTARY

2009 marked a year of unprecedented unity among developed nations, not in politics, but by way of economic stimulus. Most notable among the spending packages were China at 12% of their gross domestic product (GDP), Malaysia at 9%, and the United States at 5%. The intention, and happily the end result, of those massive spending initiatives were to spur demand for products and services. With a forward minded investment community, market bottoms were quickly realized in early 2009 and significant rallies ensued for the remainder of the calendar year. Domestic mid caps continued their great history and performed quite well with the Russell Midcap Growth surging 46%, the Russell Midcap at +40%, and the Russell Midcap Value +34%. In comparison, the small cap Russell 2000 rose 27% while the market barometer S&P 500 jumped 26%. The fourth quarter of 2009 was also solid with positive numbers in all market sizes and represented the third straight quarter of good returns.

Reinhart's Mid Cap Growth portfolio had its best absolute return year ever up approximately +37%. While we are always happy to report a big, positive return, we did underperform our benchmarks, the Russell Midcap Growth and Russell Midcap. Our goal, as always, is to show solid long term performance while exhibiting lower volatility than our benchmarks. Stated differently, we expect to outperform our benchmarks in years with negative or low absolute returns and we strive to capture most, but not all, of the upside in a high absolute return year. 2009 is a prime example of the latter point: our portfolio rose dramatically but did not keep up with the more volatile benchmarks.

Breaking down 2009 performance more specifically, it is hard to point to any notable mistakes in such a good market year. Even companies that missed investor expectations repeatedly seemed to catch higher bids as buyers claimed a true profit floor had been met and things could only go higher from there. Even stranger was the enthusiasm for companies with high debt levels after the market trough in March, 2009. In particular, debt laden industries such as lodging, gaming, and media experienced a stock renaissance as investors predicted much higher earnings in future periods. Sticking to our discipline, we avoided many companies with declining earnings potential and industries with high debt balances, and as a result, the lack of aggressiveness in our portfolio hampered our relative returns. We had plenty of stellar performing stocks in 2009 like Coinstar (+77%), Guess? Inc. (+180%), DSW (+72%), Fossil (+76%), Warner Chilcott (+103%), American Superconductor (+65%), and Riverbed (+106%). Yet generally the worst performers of 2008 became the best performers of 2009 and overshadowed our best picks.

The improved economic data and forward outlook has opened up some additional investment areas to our strategy such as transportation (via JB Hunt in intermodal and Heartland Express in trucking). We are still cautious, however, on a sizable return of consumer spending and we are starting to see initial signs of commodity price pressure. Rising input costs and low consumer demand could hamper any significant expansion of our economy. Still, we expect the positive economic momentum in 2010 to prevail and drive a more standard year in domestic equities, but nothing like the year 2009.

INVESTMENT PHILOSOPHY

- **Life Cycle Investing:** Finding companies in the recovery or high profitability phase of the life cycle.
- **Growth with a Valuation Discipline:** Capital appreciation with an eye for capital preservation.
- **Disciplined Process:** Consistent and quantifiable system based on sound investment tenets.

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