



PMV June 2018 Quarterly Review

Reinhart's Mid Cap Private Market Value (PMV) portfolio generated another strong quarter of relative performance in Q2. The PMV strategy added alpha during the quarter and now enjoys a YTD lead over the benchmark. Overall we continue to note increased uncertainty in the equity market which sets the stage for PMV performance given our quality and valuation disciplines. This time-proven strategy helped us exercise conviction with stocks that lagged last year, and our patience has been rewarded in 2018. During Q2 alone, 18 holdings advanced +10% or more while only 5 holdings declined -10%, quite a positive ratio of portfolio breadth in a less than exciting market environment.

As is typically the case with our bottom-up approach, PMV's outperformance in Q2 was driven by individual stock selection over sector allocation. Stock selection was strong across multiple areas of the portfolio including Consumer Discretionary, Health Care, Industrial, Technology and Utilities. The only sector of relative weakness in Q2 came within Consumer Staples, where two PMV holdings sold off on food-related weakness. However, we have added to both of these positions and will remain patient, as we believe each company is well positioned to drive value in their ecosystem through unique product offerings.

Our team's research-driven 'watch list' of quality companies continues to pay off, yielding four new stock purchases in Q2. Although each company may be out of favor today for transitory reasons or short-term issues, we believe buying stocks with strong business models at significant discounts to private market value is a clear and potent (although sometimes emotionally difficult) strategy in the long-run.

Looking forward at the macro picture, we believe corporate earnings will continue to grow at a healthy rate throughout 2018. U.S. companies are enjoying lower corporate tax rates and investing capital to expand their businesses, which is driving strong U.S. employment as well as healthy M&A activity. The PMV portfolio owns stocks that generate a high percentage of profits in the U.S. and should benefit from this trend. However, we are monitoring the recent rise in transportation and material costs which are beginning to hinder profit margins this year. As always, but especially in a rising cost environment, the portfolio is focused on companies with robust economic moats and pricing power.

We also remain convinced that the value style of investing should prove its worth in the years to come after lagging significantly in recent periods. In fact, since the beginning of 2017 the Russell Midcap Growth Index has gained over +32%, dominating the pedestrian +13% return of the Russell Midcap Value (RMV) Index over that same time period. Although this market sentiment has been a headwind for our PMV style of investing, we know these relative returns move in cycles and look forward to the day when the wind is at our back once again. Until then, we will make every effort to continue applying our investment craft with diligence and judgment on behalf of our clients.

To reach a representative for your region, please contact:

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Joel Dykman (608) 609-4141 jdymkman@reinhardt-partnersinc.com

U.S. Southeast Region (AL, DC, FL, GA, KY, MD, MS, NC, PR, SC, TN, VA, WV):

Christopher Rhyne (336) 817-8206 crhyne@reinhardt-partnersinc.com

U.S. Northeast Region (CT, DE, IL, IN, MA, ME, MI, NH, NJ, NY, OH, PA, RI, VT)

Christopher Hodges (443) 326-1875 chodges@reinhardt-partnersinc.com

Director, Institutional Client Services (MI):

Rick Plawecki (248)-330-6363 rplawecki@reinhardt-partnersinc.com

Please feel free to call us at 262-241-7065 with any questions or for additional information. More information about Reinhart Partners can be found on our website at www.reinhart-partnersinc.com.

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