Mid Cap Equity Comments—1st Quarter 2012

The Mid Cap Equity portfolio outperformed the Russell Midcap Index in the first quarter of 2012, and has exceeded benchmark results for six of the last seven quarters. Domestic equity markets continued the upward trend that started in the fourth quarter of 2011, with every sector except utilities rising in the first three months of the year and growth generally outperforming value.

Outperformance in the first quarter was broad-based across sectors, with consumer discretionary shares posting the strongest relative returns. Three of the top contributors in the portfolio came from the discretionary sector: Lululemon Athletica Inc., Fossil Inc. and Foot Locker Inc. These apparel, accessories and footwear companies exceeded earnings estimates in the quarter and have significant international opportunities which should support continued earnings growth in 2012. We continue to hold each stock, although we have trimmed Lululemon on strength. Thirteen other stocks in this sector rose more than 20% in the quarter, and we initiated six new positions in that time while selling five others. Weakness in this sector was primarily confined to Abercrombie & Fitch Co. and Gentex Corp., both of which were sold.

In consumer staples, a combination of being underweight the sector—a relative laggard—and good stock selections in Monster Beverage Corp., Whole Foods Market Inc. and Beam Inc. led to outperformance. Monster continues to experience accelerating growth in energy drink sales and the stock rose nearly 35% in the quarter. Utilities was another area in which the portfolio's underweight aided performance, vaulting the sector into second place among relative contributors. Most of the benefit in this sector came from avoiding utility companies with mediocre earnings growth. The four utility stocks that were held in the portfolio each returned more than the sector overall.

Financial services shares were led by real estate services companies Jones Lang LaSalle Inc. and CBRE Group Inc., which rebounded in the first three months of 2012 after a sharp selloff last summer. Margin expansion at both firms supports our positive growth outlook in 2012. Asset manager Invesco Ltd. was another contributor. Invesco reported a slightly positive quarter and organic asset growth that far surpassed peers. We believe Invesco is well-positioned to capitalize on strong investment performance and a diversified global client base. New financial positions in the quarter included asset manager T. Rowe Price Group Inc. and specialized payment service/vehicle fleet card company FleetCor Technologies Inc.

The technology sector had the highest absolute returns in the quarter, up about 20%. Nearly every stock in the sector posted double-digit gains. Design software company Autodesk Inc. and data integration software company Informatica Corp. were top relative performers, each returning about 40%. Informatica beat earnings estimates in the quarter, and management expressed confidence in the company's sales pipeline, particularly within the financial services channel. Three new technology positions during the quarter increased the portfolio's overweight to the sector. We have found a number of opportunities to buy stocks with favorable growth prospects, including VeriFone Systems Inc. Within producer durables, technology-related companies Trimble Navigation Ltd. (a GPS positioning instrument manufacturer) and Agilent Technologies Inc. (a provider of bio-analytical test and measurement solutions) also outperformed.

Energy shares were relatively neutral in the quarter, as good stock selections were offset by an overweight in this weak sector. Lackluster results in energy were mainly the product of a continuation of the downward trajectory in natural gas prices as well as a drop in coal prices, as small- and mid-cap shares are more sensitive to changes in the prices of these commodities. Holdings in the portfolio are skewed toward exposure to oil rather than natural gas, and we own no coal-related stocks. Weakness in coal and natural gas also caused peripheral damage in service and drilling companies as rates were impacted by the commodity declines. Portfolio gains in Plains Exploration & Production Co. were countered by anemic returns in Carbo Ceramics Inc. and Baker Hughes Inc., both of which were sold. The health care and materials & processing sectors were also modest detractors, with a notable decline in only one health care stock—Shire PLC – which fell late in the quarter on disappointing clinical trial results.

The portfolio remains positioned to take advantage of continued upward movement in the equity markets, but exposure to cyclical areas including industrials and energy has been reduced in favor of the technology and consumer discretionary sectors. We believe that companies in these areas have greater future earnings growth visibility and will benefit from a continuation of the economic recovery in the U.S., even if macroeconomic concerns and volatility persist in worldwide markets this year.

Gross Expense Ratio for Original Shares is 1.30% and for Institutional Shares is 1.05%.

Opinions expressed are subject to change, are not guaranteed and should not be considered investment advice.

For a listing of holdings current to the most recent quarter end, please click here. Fund holdings and sector allocations are subject to change at any time and are not a recommendation to buy or sell any security. **Current and future portfolio holdings are subject to risk.**

The Russell Midcap® Index is an unmanaged index composed of the equities of companies ranging in value from $1.6 billion to $18.3 billion as of 5/31/11. One cannot directly invest in an index.

Free cash flow is a measure of financial performance calculated as operating cash flow minus capital expenditures.

Mutual fund investing involves risk. Principal loss is possible. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods.

Earnings growth is not a measure of the fund's future performance.

The Funds investment objectives, risks, charges and expenses must be considered carefully before investing. The summary and statutory prospectuses contain this and other important information about the investment company, and may be obtained by calling 800.536.4640 or by visiting www.rainierfunds.com. Read carefully before investing.

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