



NorthPointe Capital 1Q13 Small Cap Value Commentary

General Market Commentary for the First Quarter of 2013

Stocks continued the post Presidential election rally and, except for a slight pullback in mid-February likely fueled by fears of Federal spending cuts, the advance was relatively steady throughout the first quarter. Small capitalization stocks outperformed large caps during the first quarter as the Russell 2000[®] Index returned 12.39% as compared to the 10.96% return of the large company Russell 1000[®] Index. Growth stocks outperformed value stocks during the most recent quarter with the 13.21% gain in the Russell 2000[®] Growth Index exceeding the 11.63% gain in the Russell 2000[®] Value Index. The better results for the growth index were primarily due to notably higher returns in the two largest sectors of the Russell 2000[®] Growth Index - Information Technology and Health Care. Combined these two sectors comprise greater than 40% of the index while these same sectors amount to just over 15% of the Russell 2000[®] Value Index.

Stocks markets have reacted positively to the many global stimulus policies that continue to be initiated. However, investors are rightly concerned about the consequences of such actions and what could happen to economies when these stimuli diminish. We hear the bullish and bearish arguments, but are left without a concise answer as to what the future holds (and we are confident we are not the only ones!). We continue to believe fundamentals matter and that time spent focusing on individual companies will lead to successful investment results.

Portfolio Commentary

For the quarter ending March 31, 2013, the portfolio underperformed the benchmark, the Russell 2000[®] Value Index. Detracting from performance was negative stock selection within the Financials, Industrials, and Consumer Staples sectors. Within Financials, changes in European lending guidelines pressured the stock of DFC Global Corp., a provider of consumer lending services. While the stock of DFC Global suffered a mild decline of only approximately 10% during the quarter, it was one of the portfolio's largest positions and when compared to the outperforming Financials sector, this holding was the single largest detractor to the portfolio during the period. Industrial holding Polypore International, Inc. gave back some of the strong performance it experienced at the end of 2012 (up in excess of 40% in the fourth quarter of 2012). This maker of battery filtration products remains closely associated with the adoption of hybrid electric vehicles, where sales of certain car models have not met expectations. The negative performance in the Consumer Staples sector was related to the stock of Star Scientific,

Inc., which remains under pressure as investors continue to be skeptical of the Company's drug development efforts.

Portfolio highlights included the stock of Keryx Biopharmaceuticals, Inc. which more than doubled during the quarter as clinical results for a dialysis drug surpassed consensus expectations. While Keryx has been a volatile stock (the difference between the low and the high over the last 12 months was in excess of 650%), we remain convinced that the Company is still undervalued and have utilized the volatility to add to the holding. After a weak performance in the final quarter of 2012 the stock of ADA-ES, Inc. had a strong start to the year more than recovering lost ground on its way to returning in excess of 60% during the period. ADA-ES provides environmental technology and services and likely saw its stock move higher as investors anticipated higher earnings. Also performing well was the stock of Monotype Imaging, Inc., a provider of text imaging services, which continued to move higher as the Company reported earnings ahead of expectations.

At the end of the first quarter, the portfolio's largest investments were in Sanchez Energy Corp., Gulfport Energy Corp. and Keryx Biopharmaceuticals, Inc. Sanchez and Gulfport, both oil & gas exploration companies, saw their stocks increase during the quarter, but only Gulfport was a relative outperformer within the Energy sector. The investment in Keryx was the largest contributor to performance during the quarter with a gain of nearly 170%.

Research Efforts

We continue to focus our research efforts on identifying companies that have specific near term catalysts whose stocks are currently being undervalued by the market. No matter the macroeconomic environment or current investor sentiment, the universe of small cap stocks is broad such that we are confident our due diligence process will continue to discover attractive investment opportunities.

For current holdings, we remain vigilant in monitoring valuation levels relative to the catalysts that have occurred, or are expected to occur, to ensure that the portfolio contains only the most attractive investments.

Sector or Industry Shifts

Throughout the quarter, the largest overweight exposures relative to the Russell 2000[®] Index remained the Health Care and Energy sectors. At the beginning of the quarter, the portfolio's largest underweight exposure was to the Consumer Discretionary sector; however during the most recent period, new investments were made in several retailers and manufacturers of consumer products. As a result, the exposure to the Consumer Discretionary sector increased throughout the quarter, ending in a modest overweight position by quarter's end. This change in sector exposure was the largest within the

portfolio during the quarter. Another significant change occurred within the Information Technology sector where we exited several investments that had reached/exceeded our estimate of fair value or where we perceived an adverse change in the fundamentals had taken place. As a result of these moves, the portfolio ended the first quarter with Information Technology representing the largest relative underweight position. Additionally, two holdings within the Industrials sector were sold thereby increasing the underweight exposure to this sector. There were no other significant sector shifts.

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The Russell 2000® Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000® companies with higher price-to-value ratios and higher forecasted growth values. The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership