

NorthPointe Capital 1Q14 Small Cap Value Commentary

General Market Commentary for the First Quarter of 2014

Despite mild pullbacks in late January and mid-March, most major indices managed to generate low single digit returns for the first quarter of 2014. Large capitalization stocks outperformed small caps during the first quarter as the Russell 1000[®] Index returned 2.05% as compared to the 1.12% from the smaller company Russell 2000[®] Index. Value stocks outperformed growth stocks on a quarterly basis for the second consecutive quarter as the 1.78% return in the Russell 2000[®] Value Index beat the .48 % gain in the Russell 2000[®] Growth Index. This outperformance was driven by greater exposure and better returns from the Financials sector as well as lower weighting and better returns in the Consumer Discretionary sector.

Investors remain concerned with the consequences of monetary policy changes by the Federal Reserve as well as what impact the harsh winter might have on corporate profitability. Headlines from overseas events can also cause large daily swings in the broader stock indices. After strong market gains in 2013, can investors be blamed for being a bit skittish? While we certainly are not immune to what is happening in the world around us, we continue to spend our efforts researching investments at the company specific level. 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, 2014, the portfolio outperformed the benchmark, the Russell 2000[®] Value Index. Performance was positively impacted by strong stock selection within the Health Care and Industrials sectors. The investment in Keryx Biopharmaceuticals was the highest contributor during the quarter. The stock continued to advance due to approval of the Company's drug in Japan and anticipation of potential FDA approval later in 2014. Also within Health Care, the stock of senior housing operator Emeritus Corporation performed well as the Company entered into an agreement to be acquired by a larger competitor at an attractive premium. In the Industrials sector, the portfolio benefited from a solid performance in the stock of EnPro Industries, Inc. EnPro, a manufacturing of gaskets and sealing products benefited from a favorable court ruling in an asbestos trial. This verdict removed a long-term overhang, highlighted our belief in how undervalued the Company was and investors responded accordingly by driving the stock price higher.

The largest detractor from performance was negative stock selection within the Information Technology sector. The stock of Rally Software Development Corp.

declined as investors were disappointed with the earnings guidance provided by management. Despite strong customer growth, the cost of ramping up new products took many investors, including ourselves, by surprise. The stock of Constant Contact, Inc. also underperformed in the first quarter after a very strong 2013 where the stock price more than doubled. Constant Contact, a provider of web-based marketing services, reported results roughly in line with consensus expectations after generating strong upside surprises in the previous reporting periods. Another notable detractor was the investment in Lumos Networks, a provider of fiber-based communication services, whose stock declined as the Company lost a significant customer.

At the end of the first quarter, the portfolio's largest investments were in the stocks of Renasant Corp., First NBC Bank Holding Company and Keryx Biopharmaceuticals, Inc. The later two holdings were outperformers during the quarter on both an absolute and relative basis, while the stock of Renasant was an underperformer.

Research Efforts

Given the broad market advance in 2013, it would seem reasonable that attractive investment opportunities are harder to identify. Fortunately, however, our research is centered at the company level and there are literally hundreds of potential companies to invest in. We will continue to apply our rigorous investment process to identify those companies where the stock price is well below our estimate of true value. Or said more colloquially, we will continue to turn over more rocks in search of investment gems.

The strong market and portfolio performance has caused us to continue our vigilance in monitoring current holdings, particularly as they approach our valuation targets. We spend a good deal of time collectively debating the risk reward potential of the current holdings and remain committed to ensure that the portfolio consists of only the most attractive investments.

Sector or Industry Shifts

The portfolio's investments in the Health Care sector remained the largest overweight exposure relative to the Russell 2000[®] Value Index. The portfolio also maintained notable overweight positions to the Information Technology and Consumer Discretionary sectors, although the extent of such overweighting was less than the previous quarter. The addition of a building products company and specialty chemical provider resulted in the Materials sector being overweight at quarter's end compared to a slight underweight at the beginning of the period. The sale of an aerospace company moved the weighting in the Industrials sector to an underweight from a slight overweight position. Exposure to the Financials sector remained the largest underweight position followed by an underweight to the Utilities and Consumer Staples sectors, where the portfolio continued to hold no investments in those latter two classifications. There were no significant industry 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