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NorthPointe Capital, LLC
Small Cap Value
1st Quarter 2016

General Market Commentary for the First Quarter of 2016

To say the market had a rough start to 2016 would be an understatement. The broader indices experienced the worst five-day start to a new year ever. The period also marked the worst weekly performance in nearly 5 years. Many attributed the drop to fears of a global economic slowdown, led by China and the impact of their falling currency. Indeed, the price of a barrel of oil sunk below $30 for the first time since 2003. These fears led to a general "risk off" attitude in the stock market as market participants were quicker to sell than buy, which drove indices down in excess of 10%. However, the selling reached a peak in early February and the broader indices moved higher into and during March, leaving most averages close to flat by the end of the quarter.

Large cap stocks outperformed small caps as the Russell 1000® Index registered a quarterly return of 1.17% relative to the 1.52% decrease in the Russell 2000® Index. Value stocks fared better than growth as the 1.7% gain in the Russell 2000® Value Index beat the 4.68% decline in the Russell 2000® Growth Index. The outperformance was the result of greater exposure to the top performing Utilities sector, better stock performance within the Materials sector and lower exposure to the worst performing Health Care sector.

The broad selling experienced early in the quarter impacted many of the stocks in our portfolio, yet there was little change in fundamentals (and in certain cases, fundamentals improved yet stock prices still declined). Sometimes this happens. Sometimes, these "risk off" periods represent outstanding buying opportunities. We constantly reassess our investment theses and seek clarity in the expected catalysts that will drive stocks higher. We believe this approach will generate attractive investment returns over a reasonable horizon.

Portfolio Commentary

For the quarter ending March 31, 2016, the portfolio underperformed the benchmark, the Russell 2000® Value Index. The majority of the underperformance came from negative stock selection within the Financials, Materials and Health Care sectors. The portfolio was also overweight the underperforming Health Care sector and underweight the outperforming Utilities sector. Within Financials, the stock of Heritage Insurance Holdings, Inc., a provider of property and casualty insurance, declined as investors questioned the company's growth opportunities. The stock of Materials holdings, Flotek Industries, Inc. suffered due to continued concerns over the Company's FracMax product to enhance drilling results, as well as the decline in the price of oil.

In Health Care, the stocks of Novax, Inc. and Aerie Pharmaceuticals, Inc. were caught in the general selling of drug companies. Throughout a majority of the quarter, Health Care stocks, with drug developers in particular, were sold off after a multi-year run of outperformance. Indeed, Novax and Aerie had been strong contributors to the portfolio in previous periods. The decline in these two stocks occurred, despite improvement in the progress of each of their respective drug programs. We used the price weakness to increase our investment position. Interestingly, and perhaps indicative of a return to fundamental-based investing, the stock of another holding, Genocea Biosciences, Inc., had declined in excess of 50% during the quarter. However, on the last day of the quarter, positive drug development news caused the stock to nearly double. From the first day of the quarter to the last, Genocea's stock had the highest absolute return in the portfolio.

Other highlights during the quarter included strong performance from Information Technology holdings, Super Micro Computer, Inc. Super Mirco, a manufacturer of servers used in data storage, reported solid operating results and raised guidance due to margin expansion and market share gains. The stock of Supernus Pharmaceuticals, Inc. recovered from an early quarter sell off to generate a strong return in a difficult Health Care sector. The turnaround in the stock performance was sparked by a legal settlement which protected the Company's intellectual property and future earnings.

At the end of the fourth quarter, the portfolio's largest investments were in the stocks of National General Holdings, Supernus Pharmaceuticals, Inc. and Stoneridge, Inc. As previously discussed, Supernus was a top contributor to the portfolio. The investments in National General Holdings and Stoneridge were mild underperformers, as each stock declined approximately 1% over the 90 day period.

Research Efforts

The overall stock market was volatile during the quarter and the same can be said for certain holdings within the portfolio. We strive to maintain a disciplined view of each investment, understanding why we own the stock without being influenced by the day to day change in the stock price. As such, our research efforts remain the same. Our investment process remains the same.

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 Materials and Consumer Discretionary sectors throughout the quarter. We exited two positons within the Information Technology sector which essentially eliminated our overweight position. Exposure to Financials remained the largest underweight position. Additionally, the portfolio continues to be underexposed to Utilities, with only one investment in this sector. There were no other significant industry shifts.

Past performance is no guarantee of future results. The value of investments may go down as well as up and investors may not get back their original investment. Performance is shown gross of fees and charges. The opinions expressed herein are those of NorthPointe Capital, LLC as of the date of this report and are subject to change at any time. Although the third party information has been obtained from and is based on sources the Firm believes to be reliable, the Firm does not guarantee the accuracy of the information, and it may be incomplete or condensed. This report is for informational purposes only, and is not intended as a recommendation with respect to the purchase or sale of any security. A list of all recommendations made within the last 12-months is available upon request. It should not be assumed that any of the securities transactions or holdings discussed will prove to be profitable, or that investment decisions or recommendations made in the future will be profitable or will equal the performance of the securities discussed herein. The securities discussed do not reflect the entire portfolio and in the aggregate may represent only a small percentage of the portfolio's holdings.

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