



NorthPointe Capital, LLC
Small Cap Value
1Q2017

General Market Commentary for the First Quarter of 2017

The broader stock market indices moved higher in the first quarter of 2017. Daily or weekly fluctuations centered mainly around perceptions of the new U.S. Presidential administration's ability to enact meaningful legislation related to health care and taxes. After most major indices reached all-time highs in early March, the market gave up some gains in the final 30 days, but still finished the quarter on a positive note.

Small cap stocks underperformed large caps as the 2.47% gain in the Russell 2000[®] Index fell short of the 6.03% gain in the Russell 1000[®] Index. Several large companies (i.e., Apple, FaceBook and Amazon) had solid double digit gains for the quarter, which helped to drive the large cap index higher. Growth stocks outperformed value stocks with the Russell 2000[®] Growth Index returning 5.35% for the quarter relative to the .13% loss in the Russell 2000[®] Value Index. The growth index had significantly more exposure to the Health Care sector, which was the best performing sector within each index. Additionally, the value index suffered from its higher weighting to the Financials sector, with that sector generating a negative return for the Russell 2000[®] Value Index during the quarter.

Based upon our discussions with company management teams, the business outlook remains optimistic. However, there remain many areas of uncertainty in the investing landscape as events in our country and the world continue to produce headlines that can move the market. We remain steadfast in our belief that by focusing on individual companies, understanding their ability to create value over the near and long term and identifying stocks that have yet to be properly valued in the market, we will be able to provide attractive investment returns.

Portfolio Commentary

For the quarter ending March 31, 2017, the NorthPointe Capital Small Cap Value composite was down -1.06% compared to the Russell 2000[®] Value Index which lost -0.13%. The underperformance was due to unfavorable stock selection from the Industrials and Consumer Discretionary sectors. Within Industrials, the stock of Team, Inc. declined approximately 30%. Team provides repair and maintenance services to the refinery industry and many of Team's customers have delayed spending. As much of this spending is needed to maintain operations, the delays can only last for so long. Investors were disappointed that Company management failed to predict a near term rebound in service revenue after previously indicating that a bottom been reached and they expected spending to recovery shortly. Indeed, the previously optimistic outlook moved the stock 50% higher in the second half of 2016. We continue to maintain our investment in Team as we believe the Company is well positioned to benefit from the eventual recovery in refinery spending. Within the Consumer Discretionary sector, the stock of Horizon Global Corporation



declined nearly 30% as management provided 2017 earnings guidance below consensus expectations. Horizon manufactures towing and trailering equipment and recently completed a large acquisition that expands their market-leading position across Europe. We believe this recent acquisition will be successful and that the stock will move higher during 2017 as the Company executes its integration and growth strategies. Also contributing to the portfolios underperformance was the decline in the stock of Amtrust Financial Services, Inc. Amtrust, a provider of worker's compensation and specialty insurance services, was subjected to scrutiny surrounding its accounting and reserve status. We believe the Company has properly reported its financial condition and remains an attractive investment.

On the positive side, the stock of Flotek Industries, Inc. staged a nice recovery in the first quarter of 2017 after a weak showing in the fourth quarter of 2016. Flotek was the subject of several bearish reports which questioned the viability of the Company's products. Flotek provides specialty chemicals which are used to increase the output yield of oil wells. We continue to believe these products provide value and the Company will accordingly report strong results. The portfolio's investment in Supernus Pharmaceuticals, Inc. also did well during the quarter. Supernus sells drugs to treat epilepsy and is also developing other drugs to treat central nervous system disorders. This stock has been a top holding in the portfolio for several years.

At the end of the quarter, the portfolio's largest investments were in the stocks of Supernus Pharmaceuticals, Inc., Nautilus, Inc. and CenterState Banks, Inc. As noted previously, the investment in Supernus was a strong contributor, while the investment in CenterState also provided both absolute and relative outperformance. The investment in Nautilus, a manufacturer and marketer of health care equipment, was relatively flat during the quarter.

Research Efforts

We continue to search for undervalued investments. Our research efforts might lead us to attractive businesses that are currently being misperceived (or mispriced) by the general market. We are willing to be patient with temporary dislocations between price and value; often these dislocations present compelling buying opportunities.

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 a notable overweight position within the Materials sector throughout the quarter and an underweight position relative to the Financials and Real Estate sectors. The purchase of an auto supplier and a car/truck aftermarket parts manufacturer increased the existing overweight to the Consumer Discretionary sector. Additionally, the portfolio continues to have no investments in the Utilities sector. There were no other significant sector shifts during the quarter.



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.