NorthPointe Capital
2Q10 Small Cap Value Commentary

General Market Commentary for the Second Quarter of 2010

Sovereign debt. Flash Crash. Austerity. Double Dip. Gulf Coast Oil Disaster. As global macro concerns overwhelmed stock specific stories during the second quarter of 2010, our investment thesis that individual stock price performance will widely diverge took what we believe to be a brief respite. The second quarter started off in a positive manner, as April continued the strong momentum from the first quarter. The Deepwater Horizon blast occurred near the end of April, which seemed to coincide with declines in the equity markets. The month of May wound up being the worst May since 1940 for the Dow Jones Industrial Average. The losses in stocks accelerated into quarter end as roughly half of the Russell 2000® Index's quarterly decline occurred over the last three trading sessions.

Small capitalization stocks outperformed large caps as the Russell 2000® Index returned -9.92%, as compared to the -11.44% return of the large company Russell 1000® Index. Value stocks, which had substantially larger exposure to the underperforming Financials sector, underperformed growth stocks as the 10.6% decline in the Russell 2000® Value Index was greater than the 9.22% decline in the Russell 2000® Growth Index.

As we wrote to you last quarter, "*We foresee the balance of 2010 as a skirmish between market bulls and bears. The result of such a battle will, on the surface, appear to be a period of moderate stock returns. Further analysis will reveal the wide divergence of individual stock price performance. There will be winners and there will be losers. Skillful equity managers, who utilize and adhere to an investment process focused on unearthing unique and insightful investment opportunities, will be rewarded. It is our continued expectation that this market backdrop will aid our team in delivering positive client outcomes*." This continues to be our outlook. While the bears are winning the "skirmish" at the moment, a little perspective reveals the markets are down moderately for the year. It seems likely to us that stock selection will be the key to second half success. There can be no denying that risk to our thesis has increased. We monitor our securities with vigilance. We will remain nimble in management of the portfolio. We will continue to be proactive.

Portfolio Commentary

For the quarter ending June 30, 2010, the portfolio underperformed the benchmark, the Russell 2000® Index. The underperformance was primarily due to negative stock selection within the Consumer Discretionary, Industrials and Financials sectors. The largest performance detractor within Consumer Discretionary was the portfolio's investment in Modine Manufacturing Co., a developer of heat-transfer products used in the transportation industry. Despite a potential recovery in the commercial vehicle market, investors sold off the stock when management voiced concern over increased raw material costs and restructuring charges. Performance was also negatively impacted by the stock of restaurant operator Denny's Corp. The stock suffered as activist shareholders failed to gain representation on the Company's Board of Directors, despite a subsequent replacement of the Company's CEO. Within Industrials, the stock of Cenveo, Inc., a provider of envelopes and printing services, declined despite early signs of a recovery in the mailings industry and stock purchases by senior management. It is possible that the Company's high amount of debt caused the stock to decline greater than the descent experienced by the overall market. Additionally, the stock of Agco Corp., a manufacturer of farming equipment suffered as investors became increasingly concerned about the Company's sales exposure to Europe. Financial holding Flagstar Bancorp, Inc. was the largest detractor to the overall portfolio as investor concern non-performing loans and mortgage underwriting persisted. We have maintained our investment in Flagstar as our discussions with senior management lead us to the conclusion that the bank's loan portfolio and operations are in much better shape than reflected in the stock price. However, we are closely monitoring the investment as we recognize that the disconnect between perception and reality could remain for some time.

The portfolio's allocation to the Health Care and Consumer Discretionary generated positive sector allocation scores as we were underweight these underperforming sectors. At the stock level, the largest contributor to performance was our investment in Polypore International, Inc., a developer of specialty filters. The Company continues to benefit from a recovery in its core markets and possesses strong growth potential by supplying products to the hybrid electric vehicle industry.

At the end of the second quarter, the portfolio's three largest investments were in Resource Capital Corp., Polypore International, Inc., and Kodiak Oil & Gas Corp. Resource Capital is a specialty finance company that invests in commercial real estate mortgages. Although the stock was a detractor to performance during the current quarter, we maintain our conviction in the name as the Company's investment portfolio remains sound and the above average yielding dividend appears safe. Polypore produces specialty filtration and separation media and has products that are included on many brands of hybrid electric vehicles. Investor enthusiasm over such growth opportunity, as well as earnings that surpassed consensus expectation, led to strong stock gains, both absolute and relative, during the quarter. Kodiak, an oil and gas explorer, continues to deliver positive drilling results from the Company's acreage at the Bakken Shale. The stock was a relative outperformer during the second quarter.

Research Efforts

Despite the growing concern over the direction of the domestic and global economy, we continue to search for and identify stocks with company-specific opportunities that should serve as a catalyst in unlocking value and lead to relative outperformance. Many of our recent investments have more US-centric business and can be considered higher quality, as defined by greater earnings visibility, strong financial positioning, and long term historical stock price outperformance.

Sector or Industry Shifts

At the beginning of the second quarter, the portfolio maintained an overweight position relative to the Energy sector. However, the proposed ban on deep water drilling in the Gulf of Mexico caused us to reallocate funds away from those companies with large Gulf exposure. As a result, the portfolio went from an overweight to a slightly underweight position relative to the Energy sector at the end of the quarter. Similar to last quarter, the portfolio was overweight the Financials sector, but the largest sector overweight at quarter end was within the Industrial sector. Health Care remained the portfolio's largest relative underweight positioning.

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.