NorthPointe Capital, LLC
Large Cap Value
2nd Quarter 2016

The broader market indices traded in a relatively narrow range during the first two months of the quarter. Toward the end of May, a stock market rally seemed to be gaining steam right up until "Brexit" began dominating the headlines in mid-June. Brexit is the colloquial term used for Britain's decision whether or not to remain a member of the European Union and on June 23, 2016, the vote to exit prevailed. The initial market reaction was negative as global market exchanges fell precipitously. However, the decline was limited to two days as doubts about what Brexit actually means spurred a rally through the remaining days of the second quarter.

Small cap stocks outperformed large caps as the Russell 2000® Index recorded a quarterly gain of 3.79% relative to the 2.54% increase in the Russell 1000® Index. Value stocks fared better than growth as the 4.58% gain in the Russell 1000® Value Index surpassed the 0.61% return in the Russell 1000® Growth Index. The outperformance was the result of greater exposure to the resurgent Energy sector and the decline of large cap growth Technology securities.

What exactly does the Brexit vote imply for the global economy and the broader equity markets? Frankly, we have no idea and view quite skeptically anyone who claims to have a definitive answer. Importantly, we did not panic when the market's initial reaction was negative, as we have a longer term investment focus. By analyzing each individual company and ignoring the "noise" we strive to deliver attractive investment returns for our clients.

For the second quarter of 2016, the NorthPointe Large Cap Value Composite returned 2.73%, which compares to the 4.58% return of the Russell 1000® Value Index. During the second quarter, stock selection was challenged in the Energy, Industrial, and Financial Sectors.

The weakest relative contributing sector was the Energy Sector. The portfolio's Energy shares returned 5.25%, while the benchmark's Energy holdings returned 10.83%. The price of oil rallied significantly during the quarter, gaining 26%. The strong rally in oil hurt the relative performance of the fund's energy holdings due to the positioning within the sector. The portfolio's Energy positioning has favored the Refiners and the Integrated Oil companies for the past several quarters. Also, the portfolio has been underweight the Exploration and Production segment for a significant period of time. While the previous several quarters of positioning have been a net positive for the fund, the second quarter witnessed the sharp underperformance of the Refiners and the dramatic outperformance of Exploration and Production Companies. All said, Energy cost the portfolio seventy basis points of relative performance. We believe a strength of our investment strategy is its adaptability. It has been almost two years since an Exploration and Production company has shown up strongly on our purchase candidate radar. Late in the quarter, Marathon Oil was purchased when it became a buy rated stock. Early in July, Pioneer Natural Resources was purchased as well. We believe our disciplined process allows the returns of this portfolio to be highly resilient. Hopefully, these two E&P purchases will turn out to be the appropriate repositioning to get your returns back on the right track. The sixteen of managing this strategy have taught us time and time again the value of having an adaptive approach to stock selection.

As for factor performance, buying the most recent underperformers was far and away the most effective investment strategy during the quarter. High Return on Equity (ROE) and low Enterprise Value to EBITDA were the factors that struggled the most during the second quarter of 2016.

While we always strive to outperform, however periods of underperformance can and do happen. We don't accept protracted periods of underperformance, and thus we will be extremely focused on righting the ship. As always, we remain focused on finding unique large cap companies that can grow their business and whose stock price trades below its intrinsic value. The current portfolio is currently selling at a multiple of 14.71 times its twelve month forecasted earnings, which compares to the 15.22 multiple for the strategy's benchmark. The fund has a ROE ratio, return on Equity, of 14.3% vs. 9.5% for the benchmark. The portfolio management team believes the portfolio is positioned to perform strongly. The portfolio contains 83 securities at quarter end that have been brought together in a disciplined fashion. The portfolio is designed to deliver value added performance in a consistent manner. Our stock selection will continue to be our instrument for finding value. We truly appreciate and value your business. If you should desire any further information or clarity, please do not hesitate to contact us. We take great pride in being available for our clients.

Sincerely,

Peter Cahill, CFA
CIO, Portfolio Manager

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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 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