



NorthPointe Capital 3Q12 Small Cap Value Commentary

General Market Commentary for the Third Quarter of 2012

The stock market advanced in the third quarter as investor concern over a potential European financial crisis subsided and domestic monetary programs were anticipated. Large cap stocks outperformed small cap stocks during the quarter as the 6.31% return in the larger company Russell 1000[®] Index bested the 5.25% gain of the Russell 2000[®] Index of smaller companies. Value stocks outperformed growth stocks as the Russell 2000[®] Value Index rose 5.67% relative to the 4.84% gain in the Russell 2000[®] Growth Index. In general, value stocks benefited from higher exposure to the outperforming Financials sector as well as better returns within the Materials and Health Care sectors.

For the past three quarters, small caps stocks have underperformed large caps. Conversely, the smallest of the small, or micro caps, have outperformed small caps. From a factor perspective, high share price, high beta and low return on capital produced higher returns in the third quarter. However, on a year to date basis low share price has outperformed. What can we make of this? Fortunately, our investment process does not have to address such inconsistencies. The current environment favors the stock picker. We don't make macro-economic calls. We don't chase the best performing investment characteristic. We find good companies that are undervalued and we have no intention of altering our approach. While domestic & global issues -and the accompanying investment sentiment - will remain in a constant state of change, we believe that adherence to our fundamentals-based investment process will prove to be successful.

Portfolio Commentary

For the quarter ending September 30, 2012, the portfolio outperformed the benchmark, the Russell 2000[®] Index. At a sector level, strong stock selection was realized within Health Care and Financials. The best performing position during the current quarter was in Keryx Biopharmaceuticals, whose stock advanced in excess of 50%. Recall in the previous quarter, the portfolio was negatively impacted by a significant decline in Keryx. Our thorough understanding of this Company enabled us to remain committed to our investment thesis and weather the volatility. Year to date, the Keryx holding has been a positive contributor to the portfolio. Also within Health Care, the stock of Spectranetics Corporation, a manufacturer of minimally invasive cardiovascular products, performed well as the Company continued to exceed consensus earnings expectations and improve its visibility to the broader investment community. Banner Corporation, a Washington based commercial bank, significantly reduced its exposure to bad loans and the stock performed well as the Company delivered a strong earnings report. Similarly, the stock of HomeStreet, Inc., a community bank serving the Pacific Northwest and Hawaii, performed well as poor assets declined while the mortgage banking operation notably improved. Other highlights within the portfolio included investments in Gulfport Energy

Corporation, which reported impressive drilling results from the Utica Shale (a rock formation in the northeastern part of the United States), as well as Cbeyond, Inc., a provider of telecommunication services to small businesses that is in the early stages of providing higher-valued solutions to its customers.

The largest performance detractor to the portfolio during the quarter was the investment in Titan International, Inc., a manufacturer of tires used in agriculture and mining equipment. The severe drought experienced in the United States during the summer caused investors to question the demand for new farm equipment. Additionally, the Company experienced delays in consolidating its mining tire facilities. We are closely monitoring both of these issues. Also impacting performance was the stock of KIT Digital, Inc., which had the largest absolute stock percentage decline during the quarter. We elected to eliminate this position as we have little visibility in management's new plan to realize shareholder value.

At the end of the third quarter, the portfolio's largest investments were in Spectranetics Corp., a developer of medical devices used in cardiovascular procedures, HomeStreet Inc., a community bank, and Kodiak Oil & Gas Corporation, an energy exploration company. As previously noted, the stocks of Spectranetics and HomeStreet performed well during the quarter. Additionally, the investment in Kodiak was also an absolute and relative outperformer.

Research Efforts

The portfolio's holdings are constantly challenged to ensure that we are invested in only the most promising stocks within the universe of stocks that we follow. As the year progresses we reconsider companies where we initially identified attractive opportunities, yet delayed in making an investment until we had better visibility on the realization of value-unlocking catalysts. During the past quarter's stock market advance, such stocks might not have participated in the rise, but that does not imply that changes were not taking place under the surface. We continue to monitor these situations and seek to make investments at the appropriate time. Fortunately, our experience and depth of due diligence affords us an ample supply of such opportunities. As new investment ideas arise, they are evaluated against current holdings to ensure that the portfolio is comprised of only the most attractive investments.

Sector or Industry Shifts

At the end of the most recent quarter, the portfolio's largest overweight exposure relative to the Russell 2000[®] Index was to the Energy sector. During the quarter, we continued to hold the same stocks; however, through opportunistic additions to existing holdings and solid stock performance, the overweight exposure increased. The portfolio continued to maintain a notable overweight position to the Health Care sector. In the previous quarter, the largest overweight exposure was to the Financials sector. While the portfolio is still overweight the Financials, the sale of an insurance company and several banks reduced the extent of this position. During the quarter, several holdings within Industrials reached

our valuation targets and were subsequently sold. These moves resulted in the portfolio shifting from overweight to underweight the Industrials sector at the end of the quarter. Conversely, we initiated several investments in the semiconductor and outsourced services industries within the Information Technology sector which resulted in the portfolio being nearly equal weight to this sector at the end of the quarter – a change from the beginning of the quarter when the portfolio’s greatest underweight exposure was to this sector. The addition of a food byproduct processor and a fruit provider caused the portfolio to move from a notable underweight to the Consumer Staples sector to a slight overweight. At the end of the quarter, the portfolio’s largest underweight relative position was to the Utilities sector, with the portfolio holding no utility stocks. There were no other notable sector 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

