



NorthPointe Capital Small Cap Value 3rd Quarter 2013 Commentary

General Market Commentary for the Third Quarter of 2013

During the third quarter, broad market indices advance higher, with the exception of a mid-summer pause, despite geopolitical concerns and uncertainty in the domestic monetary policy (among other issues). Small capitalization stocks outperformed large caps during the third quarter as the Russell 2000[®] Index returned 10.21% as compared to the 6.02% return of the large company Russell 1000[®] Index. Growth stocks outperformed value stocks during the most recent quarter with the 12.8% gain in the Russell 2000[®] Growth Index exceeding the 7.59% gain in the Russell 2000[®] Value Index. The better results for the growth index were primarily due to much lower exposure to the underperforming Financials and Utilities sectors as well as greater exposure to the outperforming Information Technology and Health Care sectors.

The narrative below appeared in last quarter's letter to you, but it bears repeating as the situation remains the same.

“Investors appear to spend a great deal of time debating the activities of the Federal Reserve, whether the U.S. economy is growing and at what pace, and how economic policies of foreign nations will impact the overall stock market. While these might be useful conversations to some, we prefer not to spend too much our time (if any time at all) focusing on such issues. Rather, we find that time spent tracking new product launches, gauging the success of a new sales strategy or discussing the impact of a new management team to be much more relevant in identifying attractive investment opportunities. We focus on fundamentals - the fundamentals of a particular company and industry - rather than on global macro forces whose direction and impact are best left to others.”

Our focus on individual company stories has benefited our performance this year and we look forward to adhering to our investment process in the quarters and years ahead.

Portfolio Commentary

For the quarter ending September 30, 2013, the portfolio outperformed the benchmark, the Russell 2000[®] Value Index. The current quarter's gain was led by strong stock selection within the Energy and Financials sectors. The best performing stock, and largest contributor to performance, was Goodrich Petroleum Corp., an oil and gas explorer. Goodrich is the largest acreage holder in an area known as the Tuscaloosa Marine Shale, a relatively undeveloped shale field in Louisiana. Strong drilling results from wells drilled on this land caused the stock to nearly double during the quarter. Within the Financials sector, the investment in HCI Group was a notable contributor.

HCI provides property & casualty insurance in Florida and the Company has experienced strong growth and profitability as many of the larger insurance providers have exited the Florida market. Other significant investment gains came from Akorn, Inc. and Keryx Biopharmaceuticals, both within the Health Care sector. Akron, a manufacturer of generic drugs, reported earnings that exceeded consensus expectations and also announced a sizable acquisition that could lead to significant earnings growth. The stock of Keryx continued to perform well as investors look forward to additional clinical data from its nephrology drug. Portfolio performance was also enhanced by strong sector allocation, as the portfolio had significantly less exposure to the underperforming Financials sector and greater exposure to the Health Care sector, which generated the highest sector return in the third quarter among all sectors.

On the negative side, the portfolio was impacted by the decline in BioScrip, Inc., a provider of home infusion and other pharmaceutical services. After a strong first half of the year in which the stock gained in excess of 50%, investors aggressively sold the stock, eliminating previous gains, when management lowered earnings guidance. It appears that anticipated benefits from several large acquisitions are taking longer to materialize. The stock of Body Central Corp. fared poorly during the quarter as reported sales were below consensus expectations and investors questioned the viability of the turnaround being attempted at this retailer of women's clothing and accessories.

At the end of the third quarter, the portfolio's largest investments were in the stocks of Sanchez Energy Corp., Keryx Biopharmaceuticals, Inc. and ExamWorks Group, Inc. Each of these top holdings was an outperformer during the quarter on both an absolute and relative basis.

Research Efforts

We continue to focus our research efforts on identifying companies that have specific near term catalysts whose stocks are currently being undervalued by the market. No matter the macroeconomic environment or current investor sentiment, the universe of small cap stocks is broad such that we are confident our due diligence process will continue to discover attractive investment opportunities.

For current holdings, we remain vigilant in monitoring valuation levels relative to the catalysts that have occurred, or are expected to occur, to ensure that the portfolio contains only the most attractive investments.

Sector or Industry Shifts

Throughout the quarter, the weighting within 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 Energy, Information Technology and Consumer Discretionary sectors. Exposure to the Financials sector remained the largest

underweight position followed by an underweight to the Utilities and Consumer Staples sectors, where the portfolio continued to hold no investments in those latter two classifications. There were no other significant sector 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