



NorthPointe Capital 4Q13 Small Cap Value Commentary

General Market Commentary for the Fourth Quarter of 2013

The fourth quarter of 2013 began with a slight pullback due to the U.S. government shutdown and budget impasse/debt ceiling negotiations. However, as these issues were perceived to be resolved, the broad market indices advanced throughout the remainder of quarter. Large capitalization stocks outperformed small caps during the fourth quarter as the Russell 1000[®] Index returned 10.23% as compared to the 8.72% from the smaller company Russell 2000[®] Index. This was the only quarter in 2013 where small caps did not lead the large caps. Also reversing a trend, Value stocks outperformed growth stocks on a quarterly basis for the first time all year as the 9.3% return in the Russell 2000[®] Value Index bested the 8.17 % gain in the Russell 2000[®] Growth Index. Value stocks performed better due to greater exposure to the outperforming Financials sector as well as higher returns from the Information Technology and Health Care sectors.

The investment world, as in life itself, is full of uncertainties and unanswered questions. Was Congress truly able to resolve all budget and debt ceiling issues? Very unlikely, but the stock market was still able to move higher. When will the Federal Open Market Committee reduce the pace of asset purchases and by what amount? Seems somewhat unreasonable, to us at least, to analyze and debate an answer that will ultimately vary by only a few months and a few billion dollars. And what will it mean when this accommodation finally ends? There are also questions surrounding domestic issues – the attempted launch of the Affordable Care Act comes to mind – and international concerns to consider when formulating an investment opinion. How can anyone possibly be expected to know the answers to all these questions as well as the impact they will have on the financial markets?

We are happily willing to forego such an attempt and choose, instead, to rely on our investment process of identifying good companies whose valuations we believe are discounted in the public market. Analyzing company fundamentals over global macro forces has benefited our performance historically and we strive to adhere to and improve our process going forward.

Portfolio Commentary

For the quarter ending December 31, 2013, the portfolio outperformed the benchmark, the Russell 2000[®] Value Index. The current quarter's gain was led by strong stock selection within the Consumer Discretionary and Health Care sectors. The stock of Media General, Inc., an owner of 31 network-affiliated television stations in the southeastern United States, performed well during the current quarter, rising in excess of 50%. Consolidation within the broadcast industry and an increase in attention and value

of retransmission rights were the primary reasons for the stock's rise. Also within Consumer Discretionary, the investment in The Men's Wearhouse, Inc. rebounded strongly as the Company became an acquisition target of rival Jos A. Bank Clothiers, Inc. A stand out within Health Care was the stock of Atricure, Inc., which rose in excess of 70% and was the top contributor to the portfolio during the quarter. Atricure sells surgical products to treat atrial fibrillation and other cardiac related abnormalities. The move in the stock was the result of increased product penetration and investor realization of the opportunity for the newly hired CEO to accelerate sales growth. The second largest contributor to performance also came from the Health Care sector, as the stock Keryx Biopharmaceuticals advanced due to additional positive drug trial results.

The largest detractor to performance during the fourth quarter was the investment in Goodrich Petroleum Corp. After a strong stock move in the previous quarter, where the stock nearly doubled in price, the share price pulled back as investors questioned the oil exploration opportunity at the Tuscaloosa Marine Shale, a relatively undeveloped shale field in Louisiana. We maintain our investment belief in Goodrich and have used the volatility in the stock to opportunistically increase our position size.

At the end of the third quarter, the portfolio's largest investments were in the stocks of Atricure, Inc., Keryx Biopharmaceuticals, Inc. and First NBC Holding Company. Each of these top holdings was an outperformer during the quarter on both an absolute and relative basis.

Research Efforts

Given the broad market advance in 2013, it would seem reasonable that attractive investment opportunities are harder to identify. Fortunately, however, our research is centered at the company level and there are literally hundreds of potential companies to invest in. We will continue to apply our rigorous investment process to identify those companies where the stock price is well below our estimate of true value. Or said more colloquially, we will continue to turn over more rocks in search of investment gems.

The strong market and portfolio performance has caused us to continue our vigilance in monitoring current holdings, particularly as they approach our valuation targets. We spend a good deal of time collectively debating the risk reward potential of the current holdings and remain committed to ensure that the portfolio consists of only the most attractive investments.

Sector or Industry Shifts

At the sector level, there was very little change during the most recent 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 Information Technology, Consumer Discretionary and

Energy 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 significant industry 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