



NorthPointe Capital 4Q14 Small Cap Value Commentary

General Market Commentary for the Fourth Quarter of 2014

After a brief continuation of the decline in the broader indices that marked the end of the previous quarter, the stock market staged an impressive rally. This rally ran seemingly unabated from mid-October through year end, with the exception of a mild pullback in mid-December that was over and done within two weeks. Small cap stocks outperformed large caps during the fourth quarter as the Russell 2000[®] Index registered a return of 9.73% relative to the 4.98% increase in the Russell 1000[®] Index. Value stocks slightly trailed growth as the gain in the Russell 2000[®] Value Index of 9.39% fell short of the 10.06% advance in the Russell 2000[®] Growth Index. The underperformance was a result of less exposure to Health Care (the best performing sector of the quarter), offset somewhat by more exposure to the outperforming Financials and Utilities sectors.

Portfolio Commentary

For the quarter ending December 31, 2014, the portfolio underperformed its benchmark, the Russell 2000[®] Value Index. The majority of the underperformance came from poor stock selection scores within the Energy sector. The dramatic decline in the price of crude oil – down in excess of 40% in the fourth quarter – was devastating to our small exploration and production companies. Portfolio holdings Emerald Oil, Inc., Gastar Exploration, Inc. and Sanchez Energy Corporation experienced stock price declines in excess of 50%. We have exited the positions in Emerald and Gastar as their levered balance sheets call into question their ability to withstand prolonged lower oil prices.

On the plus side, the portfolio's Health Care stocks continued to perform well. Investors began to take note of the impressive vaccine program at Novavax, Inc. as evidenced by the greater than 40% advance in the stock price during the quarter. Additionally, the portfolio's large positions in AtriCure, Inc., a developer of products to treat heart abnormalities, and ExamWorks Group, Inc., a provider of third party medical evaluations, were strong contributors to performance.

At the end of the fourth quarter, the portfolio's largest investments were in the stocks of AtriCure, Inc., Renasant Corp. and LDR Holding Corporation. As mentioned earlier, the investment in AtriCure was a strong performer and was the second highest contributor to the portfolio behind Novavax. Meanwhile, the stocks of Renasant and LDR generated positive returns during the quarter, yet both fell short of their strong respective sector returns.

Research Efforts

We will continue to apply our rigorous investment process to identify those companies where the stock prices are well below our estimate of true value. The recent strong market performance places greater emphasis on our continued 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

The portfolio's investments in 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 and Materials sectors. Exposure to Financials remained the largest underweight position. The sale of several Energy holdings caused the portfolio to shift from an overweight position to an underweight by the end of the quarter. Additionally, the portfolio sold the stock of business services company resulting in an increase to the existing underweight position relative to the Industrials sector. The portfolio continued to be underexposed to the Utilities and Consumer Staples sectors, with no investments in the latter sector. There were no other significant industry shifts.

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. 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