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NorthPointe Capital, LLC
Large Cap Value
4th Quarter 2018

The broad stock market indices sold off sharply in the month of December, which resulted in virtually all market indices finishing 2018 in the red. Investor's fears were heightened in December over concerns focused on the future of the U.S. and Global economies, interest rate hikes, and trade wars. The sell-off was broad based. In fact, the only Economic Sector to post a positive return for the quarter was the defensive Utilities Sector.

During the fourth quarter of 2018, large cap stocks outperformed small cap stocks with the Russell 1000® Index declining -13.82% relative to the -20.20% decline of the Russell 2000® Index. This outperformance continued from the previous quarter. For the year, the large cap Russell 1000® Index declined -4.78% versus the -11.01% decline of the small cap Russell 2000® Index. During the quarter, Value stocks outperformed Growth stocks as the Russell 1000® Value Index returned -11.72% while the Russell 1000® Growth Index declined -15.89%. Growth still managed to beat Value for the year. The Russell 1000® Growth Index declined -1.51% for the year, while the Russell 1000® Value Index declined -8.27%.

Last quarter I wrote: "*I'll be focused on the style environment in the days ahead and writing about it in future commentaries. While I do not mean to convey that I'm on the near-term value soapbox, I can say that I have been thinking deeply about stepping up to one*." While Value did beat growth for the quarter, clearly it was not enough for Value to trump Growth in 2018. To the chagrin of value investors, Growth has been outperforming Value for nearly a decade, with Growth besting Value by roughly 4% per annum. Many Value investors have been heard saying that this type of Growth leadership is unsustainable. A reasonable question to ask a Value investor is: has an area of Value leadership been ushered in with this market decline? I believe that it is too soon to tell whether the style cycle has turned. While valuation disparities are stretched and growth fundamental expectations are lofty, I have been at this game too long to make short term style calls. My experience tells me it is downright impossible to do so consistently. I do know that the long- term record without question leads one to conclude the value beats growth. Why? I believe that investor behavioral biases are the reason the value effect has existed and will continue to exist in the years ahead. Simply put, investors are too confident that today's success stories will be tomorrow's success stories and are too pessimistic in believing today's struggling companies will be the losers of tomorrow. Trees do not grow to the sky. Competition and capital allocation take care of the chopping the tall trees. Corporate turnarounds happen. What was the state of Apple's business prior to Steve Jobs returning to run it? Back then, the company was almost out of business. Now look at it today. What does this all mean?

I can't predict and will not try to predict the short-term, however I can foresee Value beating Growth over the next decade. It suggests to me that at the very least, asset owners should think hard about their style allocation to growth and value. So enough about style, let's focus on the portfolio.

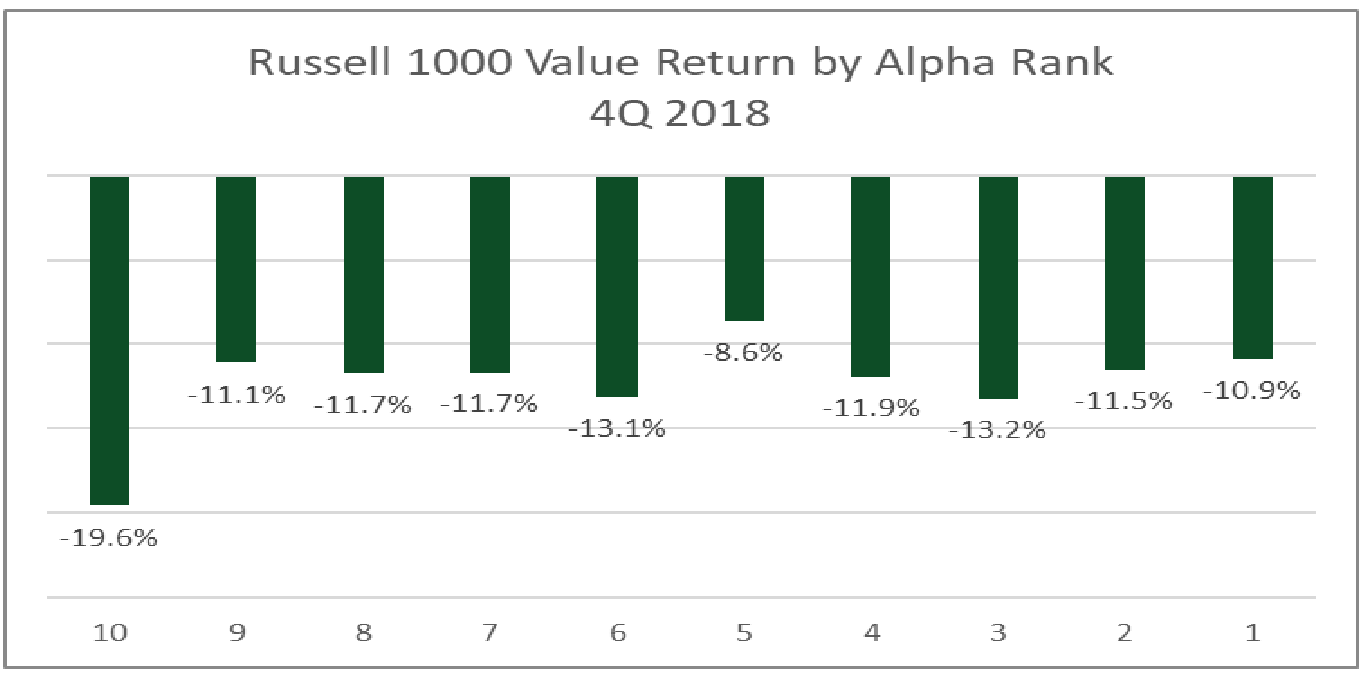
During the fourth quarter, The NorthPointe Large Cap Value Composite produced a gross return of -13.06%, which compares to the -11.72% return of the Russell 1000® Value Index. For the 2018 calendar year, the NorthPointe Large Cap Value Composite had a gross return of -10.73%, which compares to the -8.27% return of the Russell 1000® Value Index.

For the quarter, our stock selection was challenged, particularly for our highest ranked stocks in the Industrials, Financials, and Materials sectors. Selectivity was strongest in the Health Care, Energy, and Utilities sectors. XPO Logistics, a 10 ranked stock, was the biggest detractor to portfolio performance. XPO, a logistical services company, provides various forms of third-party logistics and is a large player in the less-than-truckload (LTL) market. On December 12th, Spruce Point Capital issued a strong sell report on the company that accelerated the rapid decline in the stock price. The stock declined -50% during the quarter with economic activity concerns, market weakness, and the short report being the drivers of the sell-off. The short report has widely debunked with clear inaccuracies in the research. The stock remained in the portfolio and has rebounded significantly. The stock has climbed from a low of $45 to the current price north of $60. We continue to hold the stock due to its attractive valuation and the quality of the balance sheet. Goldman Sachs was another negative decliner that is worth mentioning in this letter. Goldman is no longer held. The expected return declined to our sell range and sticking to our discipline, it was sold. Goldman lost support of our quality and momentum style factors. During the quarter, Goldman received multiple Wall Street downgrades driven by the health of their business and the embroilment in the Malaysia 1MDB scandal. While it is never pleasant to sell a loser, our process demanded that we move to the sideline on the name.

An area of outperformance worth mentioning is the Utilities Sector. The portfolio outperformed in this sector, in part, due to our qualitative overlay. Long standing clients will remember that our judgement and experience play a significant role in adding value. When evaluating our buy candidates, we perform a fundamental qualitative review. This part of our process is a process of elimination, where we add through subtraction. Pacific Gas & Electric (PG&E) was a quantitative candidate for purchase. We choose not to invest in PG&E at the conclusion of our qualitative review. Located in California, the company has significant and unquantifiable risk of liability related to the historic California wildfires. Since we had no way to quantify the risk associated with the stock, we eliminated the name from portfolio consideration. During a quarter where Utilities were the only sector to post a positive return, PG&E actually declined nearly 50%

as the risks associated with the fires became more tangible. It now looks like the company is headed towards bankruptcy, having declined an additional 67% thus far into 2019. While I proudly carry my euphemistic nickname, a quant's quant, I have appreciated for longer than I care to remember that you need to marry both science and human insight to provide the most consistent value-added client experience. We have never been a black box and we will never be one.

The portfolio's fourth quarter results were dampened by the perverse performance of our stock selection model. As you know, our model seeks to exploit the style related factors, or inefficiencies, of value, quality, and momentum. Please recall that we rank our alphas, or expected returns, by decile. 10s, 9s, and 8s are buy candidates and 1s, 2s, and 3s become candidates for sale. Historically, the 10s and 9s have been the biggest contributors to portfolio's outperformance, but not this quarter. Of note, the 10s, were the worst performing decile . To depict this unusual environment, I have included two charts below that summarize our decile performance and highlight our attribution. What is striking to me is the performance turned in by the 10 ranked securities. These securities historically contribute the greatest to portfolio alpha. Yet, the 10s were down -19.61% for the quarter, which compares the to the other deciles average return of -11.54%.



This type of model performance makes outperformance an incredibly difficult challenge for the NorthPointe Large Cap Value strategy. In fact, the performance differential in the ten ranked stocks coupled with our consistent allocation to the 10's, cost the portfolio 151 basis points of value-add, more than 114% of the quarter's underperformance.

28-SEP-2018 to 31-DEC-2018 **Attribution by NorthPointe Model Rank**

	Large Cap Value			Russell 1000 Value			Attribution Analysis		
	Port. Average Weight	Port. Total Return	Port. Contrib. To Return	Bench. Average Weight	Bench. Total Return	Bench. Contrib. To Return	Allocation Effect	Selection Effect	Total Effect
Total	100.00	-13.04	-13.04	100.00	-11.72	-11.72	-1.36	0.04	**-1.32**
10	24.20	-18.94	-4.74	4.83	**-19.61**	-0.97	**-1.51**	0.28	-1.23
9	18.97	-16.65	-2.75	7.33	-11.11	-0.75	0.12	-1.06	-0.94
8	12.64	-11.21	-2.12	8.41	-11.72	-1.31	0.08	-0.19	-0.10
7	14.10	-11.20	-1.46	13.86	-11.70	-1.71	0.02	0.08	0.10
6	9.68	-8.48	-1.40	12.87	-13.13	-2.02	0.04	0.36	0.39
5	11.22	-2.96	-0.14	16.56	-8.63	-1.41	-0.15	0.62	0.46
4	4.83	-19.01	-0.14	12.36	-11.93	-1.05	-0.05	-0.04	-0.09
3	2.50	-5.52	-0.17	10.53	-13.23	-1.03	0.15	-0.04	0.11
2	1.47	-4.78	-0.20	7.53	-11.52	-0.82	-0.01	-0.06	-0.07
1	0.39	8.28	0.08	5.29	-10.92	-0.62	-0.05	0.10	0.05

This unusual performance pattern for our highest ranked stocks gave me pause to dig into our eighteen year plus history of managing this strategy. I sought to gain historical perspective. While this atypical period of underperformance is never a pleasant experience, fortunately, this type of perversion has happened infrequently to the model in the past. Since 2000 or over the past eighteen years, the unusual model performance has only occurred 10 times over 217 rolling quarters. Six of those times occurred around the 9/11 timeframe and aftermath, three occurrences were witnessed during the financial crisis, and the final occurrence was in the summer of 2011 coincident with the downgrading of our sovereign debt by the rating agencies. Part of the goal of this reflection was to understand how the portfolio responded following these unusual periods by focusing on the subsequent performance over the next three years. I was not surprised to learn that in 10 out of 10 times the portfolio outperformed following such dramatic and negative model performance. As some of our longstanding clients may remember, the portfolio went on to outperform for five consecutive years after the summer of 2011. I expected to look back three years from now with a strong level of outperformance in the bank.

Over the past two decades one of the more difficult questions from our investors has been: "in what market environments will you underperform?" Answering that question is difficult for me, because I reject its premise. It has been our goal from the outset to manage money that creates alpha irrespective of market environments. If there exists a challenging market environment, then it is our job to rise to future challenges by improving our process. You can go to our website, NorthPointeCapital.com, or for those reading in the acceptable format, please click on the embedded link https://northpointecapital.com/video-library/ to watch a video that answers this important question, as well as additional videos that explain our investment philosophy and process.

I believe our track record reflects our commitment to attaining our goal of consistent outperformance. Clearly, we have had periods of underperformance. I've been known to say that our signals lose effectiveness during times of market dislocation. To be sure 9/11, the financial crisis, the US debt downgrade, and this summer and fall's fear over a global trade war count as market dislocations. Our models have been researched and developed to be resilient. The market environment will cease to be dislocated or our signals will adapt. We stick to our process. Time and time again we have been rewarded for being true to it.

We appreciate the opportunity to provide you with an update on the NorthPointe Capital Large Cap Value Strategy. While we may have been a little long winded in this letter, we are excited about the portfolio's current positioning and we are confident in our ability to add value going forward. At year end, the portfolio was selling at a multiple of 10.9 times its twelve month forecasted earnings, which compared to the 12.6 multiple for the strategy's benchmark. The fund has a ROE ratio, Return on Equity, of 14.1% vs. 14.0% for the benchmark. I expect to improve the quality of the portfolio as the new quarter progresses. These characteristics suggest to me that the portfolio is strongly positioned for future outperformance. In my view, the portfolio has embedded alpha.

Please rest assured that we shall remain focused on finding unique large cap companies that can grow their business and whose stock price trades below its intrinsic value. We embrace our responsibility to add value to your portfolio and look forward to continuing to attempt to do so for you. If you should desire any further information, please do not hesitate to contact us.

Respectfully,

Peter Cahill, CFA
CIO, Portfolio Manager