NORTHPOINTE CAPITAL®
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NorthPointe Capital, LLC
Large Cap Value
3rd Quarter 2011

Global Equities sold off across the board during the 3rd Quarter of 2011. Continued weak economic data, gridlock in Washington, the United States debt downgrade by S&P, and a major banking crisis in Europe all have served as contributing catalysts to this bear market. For the quarter, small cap issues lead the rout with the Russell 2000® Index declining -21.87%, which compares to the -14.68% decline of the large cap Russell 1000® Index. For the year, large caps are down -9.25%, while small caps are down -17.02% as measured by the Russell 1000® and Russell 2000® Indexes, respectively. The US equity market has now declined for five consecutive months. The level of pessimism is palpable. Fears of a double dip recession or even worse, a global depression, have entered the collective consciousness of the marketplace. While many pundits are drawing parallels with the financial crisis of 2008, we see many key distinctions. Banks are better capitalized, corporate balance sheets are stronger, and the prospects for growth remain visible. The picture we are seeing at the ground level is quite different from the one given in the papers and on television. The interaction we have had with dozens of corporate management teams suggests that business conditions remain far more robust than the headlines would lead us all to believe.

While bear markets are never pleasant experiences to endure, we are not new to them. Indeed, on some days it may feel like we have had more than our fair share of experience with them. Nevertheless, we have always found that exceptional returns await the convicted and steadfast equity manager. Every cloud does have a silver lining. Despite the challenging backdrop, our investment professionals are finding highly uncommon and attractive investment opportunities. Our portfolios contain securities selling at exceptional values with visible prospects for growth and profitability. It is our belief that as European leaders eventually contain their banking crisis and fear subsides, value should again be realized in our portfolios.

For the period your portfolio returned -17.66%, which negatively compares to the -16.20% return of the Russell 1000® Value Index. Please find further detail below on the performance of your portfolio during quarter. We have felt that 2011 will prove to be a high value added year. While the 3rd quarter proved to be a challenge, the portfolio remains in position to return a value added year.

During the 3rd quarter, your holdings were most impacted positively by stock selection within the Telecommunication Sector. Verizon Communications provided benefit to the portfolio as the stock was in essence flat during a dramatically down quarter. Verizon's near 5% dividend yield, improving margins, and wireless strength due in part to the iPhone 4 were the exact type of safe haven attributes investors desired in the quarter.

Your performance was negatively impacted by our stock selection within the Financial and Material Sectors. The underperformance in the Financial Sector was most pronounced within the Diversified Financial Services and Insurance Industries. The challenging investments within the Materials Sector were found within the Chemical and Metals & Mining Industries. In both sectors it seems to us that underperformance was caused by overdone reaction to the macro concerns, rather than company specific issues. It is our belief value creation will once again be realized as macro concerns abate.

The portfolio is positioned to perform in a stock market that rewards investing in undervalued companies—those that are experiencing improving fundamentals. Strategies that focused on high dividend yield, high return on assets, and high dividend payout ratios were among the most successful this past quarter, while metrics based on low PEG ratios and the highest future earnings growth tended to be the underperformers. Please remember that we conduct our research within four separate and distinct macroeconomic sectors. Our signals struggled to add value this past quarter. Model performance was especially challenged within the Interest Rate Sensitive and Cyclical models. By staying close to our foundation and our investment philosophy, the way forward seems clear to us. We will seek to add value through stock selection. We remain optimistic that our adaptive and proactive approach will guide the portfolio to stronger returns. We remain steadfast in our belief that a sound value equity investment philosophy should possess an element of earnings momentum focus.

We have strived to deliver competitive, active large-cap value performance through the consistent use of quantitative stock selection and portfolio construction techniques. Given the high-profile nature of large-cap value stocks, achieving outperformance can be a challenge. We continue to feel that the best route to success is adherence to our investment decision-making process. We truly appreciate and value your business. If you should desire any further information or clarity, please do not hesitate to contact to us. We have always taken great pride in being available for our clients.

Sincerely,

Peter Cahill, CFA
CIO, Portfolio Manager

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® 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 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected 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