



NorthPointe Capital, LLC
Large Cap Value
3rd Quarter 2017

Continuing the trend seen in the previous quarter, most broad stock market indices traded in a tight range during the first two months of the third quarter. Markets then rallied in September to end the quarter at or near all-time highs. Small cap stocks were slightly more volatile, as the Russell 2000® Index experienced a modest correction in the first half of August before advancing nearly 10% to outperform the large cap indices. Investor sentiment remained strong and resilient despite the challenging environment. The hurricanes in Texas and Florida did little to sour investment returns; stocks staged a “hurricane relief” rally when the storms did not inflict as much damage as was earlier feared. Investors drove markets higher on potential tax reform while seemingly paying no attention to missiles launched out of North Korea.

Small cap stocks outperformed large caps as the Russell 2000® Index gained 5.67% compared to the 4.48% gain in the Russell 1000® Index. Growth stocks outperformed value stocks due to the outsized performance of large cap technology stocks.

For the third quarter of 2017, the NorthPointe Large Cap Value Composite returned 5.36%, which compares to the 3.11% return of the Russell 1000® Value Index. Year to date, the NorthPointe Large Cap Value Composite has returned 8.64%, which compares to the 7.92% return of the Russell 1000® Value Index.

Stock selection was strongest in the Industrial, Information Technology, and Consumer Staples Sectors. Selection was weak in the Health Care Sector. The Industrial Sector added 73 basis points of excess return propelled by our stock selection. The standout performer in Industrials was Spirit AeroSystems, a designer and manufacturer of worldwide commercial aero structures. Spirit’s shares lifted more than 34% for the quarter. Spirit reported second quarter financial results that beat expectations on both the top and bottom line. Additionally, the company raised forward guidance. An agreement was reached with Boeing, their largest customer, resolving open commercial issues relating to various programs that will extend into 2022. This removed a significant overhang to the stock price. Spirit held an analyst day on September 27th that seemed to be well received by the investment community. The company remains focused on strengthening their relationship with Boeing, expanding their content relationship with Airbus, and growing both their fabrication and military businesses. Spirit remains a core portfolio holding that is inexpensive, of high quality, and experiencing positive momentum. Micron Technology, a semiconductor company, was the largest contributor within the Information Technology Sector. Its share price gained 31% for the period. Micron’s second quarter financial results topped analyst expectations. Guidance was also raised. The



company foresees visibility in DRAM demand well into 2018 in the cloud, data center, and enterprise segments. With a forward Price to Earnings ratio of under six times and strong business momentum, Micron remains a high conviction holding. Alcoa Corporation, a producer of aluminum, alumina, and bauxite products, gained 42% during the quarter. The three materials that Alcoa produces and sells witnessed material increases in price, which contributed to the rise in the share prices. Consensus 2018 earnings estimates have risen from \$2.59/share in June to \$3.07 currently. The stock remains a core portfolio holding that is trading at 15.6 times 2018 earnings. Hologic, a maker of medical diagnostic machines and surgical products, was a negative contributor to the portfolio this past quarter. The stock was purchased in late July at \$45 and has since traded down to \$37.50. The company announced a shortfall in its breast imaging business, which caused the price decline. Hologic, in our view, remains an undervalued best in class health care company and thus remains in the portfolio. We will diligently monitor the position.

The portfolio's second quarter results were supported by the robust performance of our stock selection model. Our highest ranked securities, our 10 ranks, returned approximately 3.5% per month during the quarter. Our lowest ranked stocks, our 1 ranks, returned just .4% during the period. This 3% per month discrimination between our highest and lowest stocks contributed roughly two thirds of the quarter's excess returns. The remaining one third of the portfolio's excess return can be attributed to our stock selection or selectivity, which is chiefly driven by of our qualitative overlay. Within our underlying sub models, all four of our models(Interest Rate Sensitive, Cyclical, Stable Growth, and Fast Growth) were positive performers and importantly, three of our models produced statistically significant returns. Our cyclical, stable growth, and fast growth models produced the strongest results. Within our cyclical model, the top contributing factors were price momentum, earnings momentum, price to cashflow, and leverage. Our stable growth model witnessed positive contribution from our price to discounted cashflow, price to forward earnings, earnings momentum, and price momentum variables. Finally, price momentum, downward revisions, and earnings trend led the way within our fast growth model.

We appreciate the opportunity to provide you an update on the NorthPointe Capital Large Cap Value Strategy. We are excited about the portfolio's current positioning and we are confident in our ability to add value going forward. The current portfolio is selling at a multiple of 14.50 times its twelve month forecasted earnings, which compares to the 16.00 multiple for the strategy's benchmark. The fund has a ROE ratio, return on Equity, of 12.3% vs. 10.7% for the benchmark. We 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 doing so in the upcoming months. If you should desire any further information, please do not hesitate to contact us.



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 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