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NorthPointe Capital, LLC
Large Cap Value
4th Quarter 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 4.88% increase in the Russell 1000® Index. Value stocks slightly outperformed growth as the gain in the Russell 1000® Value Index of 4.98% outpaced the 4.78% advance in the Russell 1000® Growth Index. For the year, large caps outperformed small caps by a margin not seen since 1998.

For the fourth quarter, the NorthPointe Large Cap Value portfolio returned 4.86%, which compares to the 4.98% return of the Russell 1000® Value Index. For the calendar year 2014, the portfolio returned 15.18%, which compares to the 13.45% return of the Russell 1000® Value Index. During the fourth quarter, stock selection was strongest in the Energy, Consumer Staples, and Information Technology Sectors. Stock selection was below par in the Health Care, Financial, and Materials Sectors.

Stock selection within the Energy, Consumer Staples, and Information Technology had the most positive impact. The strongest contributors to your portfolio over the last quarter included Delta Air Lines, CVS Health, Skyworks Solutions, and Kroger. Delta Air Lines, which has historically been a solid portfolio holding, was a beneficiary of the rapid decline in the price of oil. As one can imagine, fuel is a large expense in the airline industry. CVS Health, a large integrated retail and Pharmacy Benefit Management company, seems to be efficiently executing their business plan. Kroger, a food retailer, beat 3rd quarter estimates for both revenues and earnings, as well as raised forward guidance. Skyworks Solutions, a global semiconductor company, witnessed its share price moving higher. The company beat earnings and revenue estimates and raised forward guidance. The company continued to benefit from a robust 4G smartphone backdrop. The introduction of Apple's new iPhones the 6 and 6+ could lead to increasing expectations for both revenue and earnings at the company. These companies all continue to be held in the portfolio.

Stock selection in the Health Care, Financials, and Materials sectors negatively impacted performance for the quarter. The most negative detractors to the portfolio included Whiting Petroleum, Nabors Industries, Cabot, and Gilead Sciences. Whiting Petroleum and Nabors Industries are two energy related companies whose shares came under significant pressure with the rapid decline in the price of oil during the fourth quarter. Whiting has been eliminated from the portfolio and Nabors is under close review. It is worth noting that while these two companies were the two biggest detractors to performance, the portfolio managed to actually add value in the energy sector during the quarter. Cabot, a specialty chemical company, missed expectations on the top line citing uncertainty in the global economy. Given Cabot's attractive valuation, it remained a portfolio holding. Gilead Sciences, a biopharmaceutical company, experienced a setback when Express Scripts chose a competitor's drug for the treatment of hepatitis C. We believe that Harvoni and Soladi are superior drugs to the competitor's solution, thus Gilead remains a core holding. Since the Express Scripts news, CVS Health has assigned preferred formulary status to Gilead's Harvoni and Sovaldi, which furthers our investment thesis.

We would like to briefly discuss the investment insights of three of the portfolio's newer positions. In early December, Bed Bath & Beyond was purchased in the fund. Bed Bath & Beyond is a specialty retailer focusing on, not surprisingly, the bedroom and bathroom. The company has been viewed as fading retailer by the investment community. Our initial attraction to the stock rose from its valuation potential gained by this viewpoint. Shortly after purchase, the company was highlighted in the financial publication Barron's. The paper described the shares as attractive and felt the company had an opportunity to bolster its e-commerce offerings. A position in Radian Group was initiated back in December. Radian Group is the largest private mortgage insurer (PMI) in the U.S. After years of many moving parts, poor optics and tough regulations, we believe the picture is rapidly improving for Radian. On the surface, profitability metrics have been top-tier among financials with a bottom-tier valuation. Over time, we believe this will correct, especially as the trends are turning decidedly favorable for the company from credit, to pricing, to regulation. Finally, Springleaf holdings was purchased in the month of November. Springleaf is a consumer finance company that specializes in lending to the non-prime space. The 95 year old company has a nationwide branch network and is viewed as being uniquely positioned to take advantage of supply/demand imbalances in their target market. The company focuses on the longer term through customer service and reasonable pricing. We were attracted to the stock through its valuation, technical picture, and its earnings trend. All of these positions are expected to contribute to the portfolio's return in 2015.

Return on Equity, High Dividend Payout, and Positive one month earnings estimate revisions were the strongest performing factors for the 4th quarter. Price to Cash Flow, low Price to Earnings Growth ratios, and price reversal were factors that struggled during the last quarter of 2014.

We remain focused on finding unique large cap companies that can grow their business, that sell at attractive valuation levels and that are not well understood. These types of investments have the potential to perform irrespective of the market environment. We believe that your portfolio contains precisely these types of securities. The current portfolio is currently selling at a multiple of 13.48 times its twelve month forecasted earnings, which favorably compares to the 15.38 multiple for the strategy's benchmark. The fund has a ROE ratio, return on Equity, of 16.2% vs. 12.4% for the benchmark. Given the portfolio trades at a 12% valuation discount and 30% profitability premium, the management team believes the portfolio is positioned to perform strongly again this year. The portfolio contained 78 securities at year end that have been brought together in a disciplined fashion. The portfolio is designed to deliver value added performance in a consistent manner. Our stock selection will continue to be our instrument for finding value. We truly appreciate and value your business. If you should desire any further information or clarity, please do not hesitate to contact 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® 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
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