NorthPointe Capital, LLC
Large Cap Value
1st Quarter 2019

Increased confidence that the U.S. and China will ultimately make a deal on trade, the Federal Reserve shifting interest rate policy to a neutral stance, and the visible strength of the U.S. consumer all contributed to the strongest market rally in nearly a decade and the best first quarter since 1998. The Russell 1000® Index gained 14.0%, while the Russell 2000® Index jumped 14.6%, as the small cap segment surged along with the large cap stocks. Growth beat Value for the quarter with the Russell 1000® Growth Index returning 16.1% versus the 11.9% return for the Russell 1000® Value Index. Technology and Industrials were amongst the leading sectors, while Health Care shares were the laggards.

The NorthPointe Large Cap Value Composite produced a gross return of approximately 11.91%, which compares to the 11.93% return of the Russell 1000® Value Index. The NorthPointe Large Cap Value Composite produced a net return of approximately 11.81%. The portfolio produced value add in the Financial Sector and was slightly offset by weak stock selection in the Industrial Sector. Contribution from the Financial sector came from the portfolio's insurance holdings. Brighthouse Financial and Progressive were the two most significant contributors in the insurance industry. Brighthouse sells multiple forms of annuities and various types of other insurance products. Concerns over their variable annuity business, along with the general market decline, pressured the shares greatly during the fourth quarter. The shares closed out the year at roughly $30/share. Brighthouse had a strong rebound in early Q1 as the market came to understand that the fourth quarter's selling pressure was extremely overdone. The shares rose to $42.72 by mid-February. After this 42% move in six weeks, we removed Brighthouse from the portfolio as our expected return on the name had declined to a level that warranted the sale. Brighthouse's stock proceeded to give back a good deal of the early quarter gain. The story of Brighthouse is a good example of how following our investment process affords us the opportunity to add value through the adherence to our sell discipline. Price matters on both the purchase and the sale! While certainly an obvious point, it is one that ought to be constantly remembered. Progressive is a property and casualty insurance company that specializes in automobile insurance. The stock was crushed during the market decline in the fourth quarter. Our model ranked Progressive a 10, our highest rating, at the start of the year. We decided to purchase the name for the fund, and we purchased the security at a price of approximately $59.58. The stock had a strong rebounded to close in excess of $70. We eventually exited the stock from the portfolio in late March after a more than 20% gain.

The two names that experienced some disappointment were CME Group and Mosaic. CME Group cost the portfolio 20 basis points of value, while Mosaic cost the portfolio 10 basis points. CME Group is an operator of a financial market exchange that specializes in futures and options. Roughly 20% of CME's volumes are instruments related to interest rates. As the Federal Reserve shifted policy, the security came under pressure as the market expressed concerns over potential dampening of contract volatility. Mosaic is a chemical company that produces and distributes crop nutrients. The company's fourth quarter earnings announcement provide insight into the future of phosphate fundamentals. Several analysts perceived the outlook to be negative and reduced their ratings on the stock. As of this moment both names are under review. Albeit for different actions. Mosaic is being considered a candidate for additional capital, while CME Group may have their capital partially trimmed back or we may sell the company outright from the portfolio. In both cases, our work remains on going.

Our stock selection models rebounded during the quarter after a tough stretch during the second half of 2018. The allocation to our model rankings contributed north of 70 basis points of value add. The first quarter's model results were a positive step towards returning to the historical performance record of generating excess returns. On a factor level, momentum factors turned in a positive quarter, while value-oriented factors generally struggled. Giving the performance diverge between Growth and Value this past quarter, these results seems consistent with the market backdrop.

We appreciate the opportunity to provide you with an update on the NorthPointe Capital Large Cap Value Strategy. We remain excited about the portfolio's current positioning and we are confident in our ability to add value going forward. At quarter end, the portfolio was selling at a multiple of 12.57 times its twelve month forecasted earnings, which compared to the 14.13 multiple for the strategy's benchmark. The fund has a ROE ratio, Return on Equity, of 12.3% vs. 12.5% for the benchmark. As of the writing of this letter the ROE has climbed to 13.1% for the portfolio. Thus returning the portfolio to a premium level which is where the portfolio typically resides. 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.

Finally, the NorthPointe family welcomed a new addition during the quarter. John and Tara Pearce celebrated the arrival of Rose Estelle Pearce. Everyone at the Pearce household is healthy and happy. John seems remarkably refreshed each day here at the shop. It seems he and Tara have figured out the correct algorithm for managing the demands of newborn parenting with the necessity of rest. Ever the quant researcher.

Respectfully,

Peter Cahill, CFA
CIO, Portfolio Manager