



HIGH POINTES — 1ST QUARTER 2005

A quarterly update for institutional investment professionals from High Pointe Capital Management.

High Pointe is an independent equity management firm located in suburban Chicago. Since the firm's inception in 1997, our innovative investment process has proven highly successful at identifying undervalued stocks and has delivered exceptional performance.

Our unique approach to investing incorporates a highly disciplined evaluation of companies' intangible assets. High Pointe's proprietary methodology is a significant step forward in achieving a more complete valuation of corporations and their competitive advantages.

High Pointe manages three separate account products and our Select Value and Small Cap strategies are also offered as mutual funds. We currently manage about \$600MM in assets.

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Investment Strategy Update

Our **Select Value** product underperformed its benchmark by 3.5%, net of fees, last quarter. The shortfall was a result of our decision to underweight commodity-oriented sectors, namely, energy, raw materials, and utilities. A reasonable question for our investors to ask is why we continue to be underweighted in energy when momentum over the last 15 months has clearly favored such stocks. We are not against the idea of buying energy stocks *per se*. However, we do have a preference for companies that grow their intrinsic value via factors that are substantially under their control. That has generally not been the case with energy companies whose values fluctuate primarily as a result of oil price changes.

Supported by high oil prices, energy companies are enjoying their day in the sun despite the fact that few have a record of consistently earning returns in excess of their cost of capital. A recent study done by Lehman Brothers recently showed that only 20% of the extraordinary stock returns earned by oil exploration and production companies during 2004 was the result of internal value creation; the rest was attributable to an increase in oil price, a factor outside the companies' control. Over the last nine years, internal value creation by oil exploration and production companies has averaged 5 percent, a meager return for a highly cyclical and volatile industry. Another study, done by Goldman Sachs, shows that even in a banner year like 2005, oil drilling companies will have difficulty earning returns significantly in excess of their cost of capital. We do not intend to chase these commodity-oriented stocks as a group; however, we will continue to scour these sectors for opportunities on a bottom-up, company-by-company basis.

Outside of these three sectors, our investments in the hospital, HMO, and retail pharmacy industries performed well last quarter, while investments in interest rate sensitive mortgage finance industry detracted from performance.

(Continued on page 2)

Investment Performance For Periods Ending March 31, 2005

		<u>1st Qtr</u>	<u>YTD</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>Since Inception¹</u>
Select Value	Gross	-3.2%	-3.2%	3.1%	7.4%	16.6%	16.5%
	Net	-3.4%	-3.4%	2.6%	6.7%	15.6%	15.5%
	Russell 1000 Value	0.1%	0.1%	13.2%	7.2%	5.2%	6.8%
Select Growth	Gross	-5.4%	-5.4%	2.8%	2.9%	-4.6%	11.5%
	Net	-5.7%	-5.7%	1.8%	1.9%	-5.5%	10.5%
	Russell 1000 Growth	-4.1%	-4.1%	1.2%	-0.7%	-11.3%	-5.3%
Small Cap	Gross	-1.2%	-1.2%	12.6%	15.7%	15.9%	14.1%
	Net	-1.4%	-1.4%	11.6%	14.6%	14.9%	13.0%
	Russell 2500	-3.1%	-3.1%	8.2%	9.7%	5.6%	8.5%

¹Inception Dates: Select Value - January 1, 1998; Select Growth - August 1, 1999; Small Cap - January 1, 1998. Please see page two for additional disclosures.

Organizational Update

We are pleased that investors continue to recognize the merit of High Pointe's pioneering methods and long-term perspective. Thanks to these qualities, fifteen new clients chose High Pointe during the past quarter, increasing the firm's assets under management close to \$600 million. We welcome these new clients and look forward to serving their investing needs for many years to come.

As High Pointe embarks on its eighth year of business, we intend to manage the firm's growth in a conservative and prudent manner. Our primary goal has been and will always be to deliver exceptional value to our clients, rather than the rapid accumulation of assets. With these considerations in mind, we will be looking to hire additional investment professionals and administrative staff to appropriately serve our growing roster of clients. High Pointe will also continue to invest in the appropriate technology and systems required to efficiently manage our clients' portfolios. And finally, we will continue to adhere to the highest ethical standards in managing our firm.

–Sean Clark, CFA
Director of Marketing

Investment Strategy Update

Hospitals showed operating improvements in terms of lower bad debt, increased admissions and better pricing. These improvements led to higher earnings guidance and higher stock prices. We continue to maintain our position in this industry based on attractive demographics, continuing consolidation, strong pricing power, and appealing valuations. The HMO industry also benefited from consolidation, rational competition, and better pricing power. We took profits by selling our holdings in this industry and reinvested the proceeds in the beaten up technology sector.

Weak performers this quarter included mortgage finance stocks which faced continued political pressure as well as regulatory examination of their accounting practices. Our opinion is that stocks in this industry are oversold and that we will be rewarded for our patience as uncertainties about these companies diminish in the coming months.

Our **Small Cap** strategy outperformed its benchmark by 1.7%, net of fees, in the quarter. The value added was a result of strong performance of our consumer discretionary holdings. Most of our stocks in this sector are attractively valued, generate strong free cash flow, and return capital to shareholders through share repurchases and dividends. Strong security selection more than offset our overweighting to the underperforming technology sector. Our best performing securities were in the oil drilling, publishing, and electrical component industries. Weak holdings were in the communications equipment industry and auto parts industry.

We took profits in a number of strong-performing companies in the consumer discretionary and technology sectors. With the proceeds, we added positions in health care services and equipment, publishing, furniture, insurance, and gaming industries – companies having superior business characteristics that we believe are underappreciated by the market.

–Gautam Dhingra, Ph.D., CFA
President & Portfolio Manager

Performance data are shown gross and net of management fees and are based on composites of all fee-paying, fully-discretionary accounts. Returns for the periods presented are time-weighted. Results shown include the reinvestment of dividends, capital gains and other earnings. The currency used to express performance is U.S. dollars. High Pointe's fee schedules are disclosed in Part II of the firm's Form ADV. All fully discretionary, fee-paying accounts have are included in at least one composite, and no accounts have been terminated since the inception of each of the composites. No alterations of the composites as presented in this report have occurred because of changes in personnel or for any other reasons at any time. The composite results portrayed during the period are compared to the performance of their respective indices because the securities purchased for each of the composites are most closely aligned with the securities comprising these indices. The performance shown is that of the separate account strategies and is in no way intended to be representative of the mutual funds. Performance results have been examined through 12/31/04 by an independent verification firm. A complete list of firm composites and performance results is available upon request. Returns represent past performance and are not indicative of future results.

The Russell 1000 Value, Russell 1000 Growth and Russell 2500 Indices are unmanaged indices commonly used to measure the performance of U.S. stocks. You cannot invest directly in an index.

The funds' investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 800-984-1099, or visiting www.HPFunds.com. Read it carefully before investing.

Mutual fund investing involves risk and loss of principal is possible.

The High Pointe Funds are distributed by Quasar Distributors, LLC (04/05)

