High Pointe

Newsletter – 4th Quarter 2006

Investment Strategy Update

Our **Large Cap Value** strategy generated a return of 8.7%, net of fees, during the fourth quarter, exceeding the 8.0% return for the Russell 1000 Value Index despite the fact that we were underweighted in energy, materials and utilities sectors, all of which were strong performers. Stock selection was on the mark, adding about 1.6% to the return, thus offsetting the -0.8% impact of underweighting the three sectors mentioned above.

Our holdings in the cable industry continued their trend of outperformance leading us to trim our position towards the end of the quarter. Internet-related consumer stocks also performed well as their strong operating results confirmed their attractiveness from the perspectives of growth potential as well as free cash flow generation. Our medical device stocks overcame fears regarding regulatory and safety issues that have kept a lid on their prices in recent quarters. Lastly, our contrarian view of the mortgage finance industry paid dividends as refinancing activity remained healthy.

Our returns could have been even stronger if it were not for a negative surprise from a drug trial for a pharmaceutical. Also, our retail holdings declined because of weak operating results. We believe the problems underlying our retail holdings are fixable and are maintaining our positions.

As stocks appreciated, a few of our holdings in the trust banking services and internet-consumer industry reached their price targets and were sold. We also sold our position in the U.S. pharmaceutical industry at a profit. We invested the proceeds in beaten-up stocks in the pharmacy services, retail, and telecom equipment industries. (Continued on page 2)

High Pointe is an independent equity management firm located in downtown 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 Large Cap Value and Small Cap strategies are also offered as mutual funds. We currently manage over $950MM in assets.

Investment Performance

For Periods Ending December 31, 2006

	3 MONTHS	1 YEAR	3 YEARS	5 YEARS	7 YEARS	SINCE INCEPTION*
Large Cap Value						
Gross	8.82%	14.41%	11.27%	10.54%	16.38%	15.91%
Net	8.65%	13.73%	10.64%	9.79%	15.51%	14.98%
Russell 1000 Value Index	8.00%	22.25%	15.08%	10.86%	7.80%	8.59%
Large Cap Growth						
Gross	7.86%	10.88%	8.97%	5.47%	3.08%	11.69%
Net	7.66%	10.01%	7.96%	4.46%	2.11%	10.64%
Russell 1000 Growth Index	5.93%	9.07%	6.86%	2.69%	-4.87%	-1.74%
Small Cap Equity						
Gross	10.45%	12.25%	15.41%	17.35%	15.70%	14.19%
Net	10.28%	11.59%	14.57%	16.40%	14.73%	13.20%
Russell 2500 Index	8.70%	16.16%	14.09%	12.18%	9.39%	9.89%

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

Investment Strategy Update

High Pointe's **Large Cap Growth** strategy produced a return of 7.7%, net of fees, during the fourth quarter compared to 5.9% for its benchmark, the Russell 1000 Growth Index.

Positive factors included strong stock selection in a variety of industries including software, technology distribution, medical devices, cable and internet-related consumer stocks. The portfolio also benefited from merger and acquisition activity as a key industrial holding was acquired by a foreign conglomerate. Performance of our portfolio was held back by the weakness in the retail and semiconductor holdings.

During the quarter, we initiated positions in branded shoes and apparel, home improvement retailing and biotech industries. To fund these investments we used proceeds from a retail company that was acquired and a consumer brand name company that had appreciated significantly and reached our target price.

Our **Small Cap** strategy generated a return of 10.3%, net of fees, for the quarter compared to a return of 8.7% for the Russell 2500 Stock Index. During the quarter, an overweighting of the industrials sector and an underweighting of the finance and health care sectors contributed positively to our performance. Security selection within industrials was strong, producing a number of the top performers in diverse industries such as agriculture machinery, aerospace and defense, truck manufacturing, and vehicle auctions. Several of our out-of-favor holdings in the technology sector rebounded during the period as a result of improved execution. We saw continued merger and acquisition activity through year-end as two more of our portfolio companies were purchased at premiums during the quarter. Financial and strategic buyers found these companies appealing given their strong free cash flow generation and reasonable valuations.

The offsetting factors during the quarter included our underweighting of the utilities and telecommunications sectors, as both outperformed the broad market benchmark. Also, some of our consumer positions came under pressure after quarterly results missed expectations. Our investment in the beverage industry was negatively impacted by drawn-out cost cutting initiatives, which we remain convinced will generate longer-term value. Additionally, one of our holdings in retail was impacted by a slowdown in the European economy just as U.S. operations were showing improvement. Lastly, results for one of our insurance holdings were depressed due to the residual negative effects from discontinued businesses.

During the quarter we added several new investment ideas to the portfolio, continuing our focus on companies with solid market positions, strong balance sheets, and substantial cash flows. We sold three of our winners in the industrials sector, a strong performer in the consumer discretionary sector, and a retail holding in which our conviction diminished given its deteriorating fundamentals. With the proceeds we initiated new positions in insurance, industrial machinery, health care devices and services industries.

–Gautam Dhingra, PhD, CFA
CEO & Portfolio Manager

1. Performance data are shown gross and net of management fees and are based on composites of all fee-paying, fully-discretionary accounts.
2. Returns for the periods presented are time-weighted.
3. Results shown include the reinvestment of dividends, capital gains and other earnings.
4. The currency used to express performance is U.S. dollars.
5. High Pointe's fee schedules are disclosed in Part II of the firm's Form ADV.
6. All fully discretionary, fee-paying accounts have are included in at least one composite.
7. 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.
8. 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.
9. Performance results have been examined through 12/31/05 by an independent verification firm.
10. A complete list of firm composites and performance results is available upon request.
11. Returns represent past performance and are not indicative of future results.
12. 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.