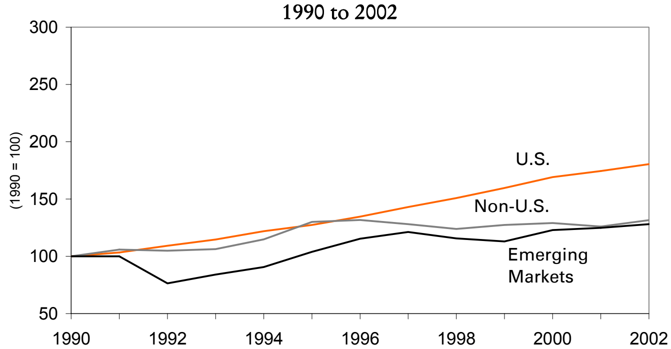
## The Buck Stops (T)Here

**Economic Environment**

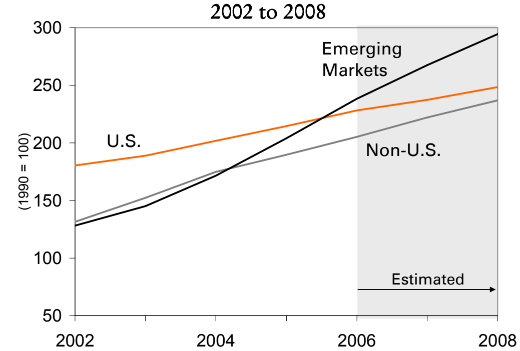
Propelled by better-than-expected earnings growth, the S&P 500 Index produced a return of 6.3% during the second quarter. As with all earnings cycles, the current expansion in corporate profits appears to be reaching a point of maturation for the U.S. market. After growing 30% a year for the last five years, future projections are for a modest growth of 7% to 8% annually.

Unlike the last sixty years, this time the world economy is expected to continue to grow strongly without full participation by the U.S. We have seen some evidence of that over the last four years. As illustrated below, since 2002, economies outside of the U.S. have been growing at a rate almost twice that of the U.S., whereas during the prior decade the U.S. carried the world on its back in terms of the burden of economic growth.

U.S. and Non-U.S. GDP Growth
1990 to 2002




U.S. and Non-U.S. GDP Growth
2002 to 2008




Source: International Monetary Fund

The International Monetary Fund estimates that over the next two years global growth will slow down, but non-U.S. markets will continue to grow at a faster pace than the U.S. (7.4% vs. 4.3%). Most of this growth will come in emerging economies where a growing labor force and an infusion of outside capital are providing the momentum.

Four of the biggest emerging economies leading the charge are that of Brazil, Russia, India and China (together known as "BRIC countries"). In a recent article entitled *The New New World Order*, the respected magazine *Foreign Affairs* noted that the "annual growth in combined national income of BRIC countries will be greater than that from the United States, Japan, Germany, the United Kingdom, and Italy combined; by 2025, it will be twice that of the G-7 (the group of highly industrialized countries)." The article notes further that "by 2025, China and India will have the world's second- and fourth-largest economies, respectively. Such growth is opening the way for a multi-polar era in world politics."

This phenomenon likely will lead to some decline in United States' dominance of world affairs. However, it does not mean that U.S. companies need to suffer. U.S. companies have shown time and again their adaptability to new environments and new challenges. Data show that they are already preparing for and taking advantage of the new global opportunity set.

As shown to the right, U.S. companies, as represented by the S&P 500 Index, generated 29% of their 2006 fiscal revenue from overseas. **During the last four years, overseas operations have accounted for 40% of the growth in total revenues for U.S. companies**.

These data also highlight the fact that information technology and telecommunications services sectors stand out with substantially above-average contributions from non-U.S. operations. This is not completely surprising because these sectors possess strong intangible assets (intellectual property) which can be easily exported. We believe U.S. corporations' greatest assets in their quest to profit from global opportunities are their investment capital and their intangible assets. (Continued on page 2)

**Non-U.S. Revenue for Fiscal 2006**
**S&P 500 Index**

| Sector | Non-U.S. |
|---|---|
| Information Technology | 53% |
| Telecommunications Services | 44% |
| Consumer Staples | 32% |
| Health Care | 31% |
| Materials | 29% |
| Energy | 28% |
| Utilities | 27% |
| Financials | 26% |
| Industrials | 26% |
| Consumer Discretionary | 24% |
| Total | 29% |

Sources: Worldscope; Thomson Financial

## The Buck Stops (T)Here (Continued)

As U.S. economic momentum slows, large cap, global, blue chip growth companies offer investors a better opportunity than cyclical or small cap companies focused primarily within national boundaries. We believe globally-oriented, blue chip U.S. firms will continue to capitalize on non-U.S. economic growth by deploying additional capital overseas. Given the maturity of the U.S. economic expansion, we believe that the geographic diversification of corporate earnings, as well as the ability to leverage strong intangible assets, will become more important indicators of business quality.

In the new multi-polar world, the buck does not stop just in D.C, but in many places around the world. Winners will be those companies, and investment managers, who recognize this new reality.

## Investment Strategy Update

High Pointe's **Large Cap Value** strategy produced a return of 7.0% during the second quarter, outperforming the Russell 1000 Value Index by 210 basis points, net of fees. Stock selection was favorable across financials and information technology sectors, while an underweight to energy stocks detracted from results due to higher oil prices.

Within financials, performance was driven by a rebound in our mortgage and insurance holdings following a tough first quarter. As discussed last quarter, we believed our mortgage holdings were oversold. Year to date, stock selection within the financial sector was positive, with second quarter gains exceeding first quarter shortfall. In addition, an underweight to the sector added value, as the sector return (-2.0%) trailed the benchmark return (+6.2%) year to date.

We experienced a similar turnaround in the information technology sector, with second quarter value added more than offsetting first quarter shortfall. Our gains in the data storage and computer hardware industries were the most notable and resulted from corporate restructurings. An overweight to the sector relative to the benchmark also added value during the second quarter and year to date.

Stock selection within health care had a negative impact, as our pharmaceutical holdings lagged, though this was partially offset by an overweight to the sector (6.1% return), which outperformed the benchmark (4.9% return) during the second quarter.

During the last three months, we harvested some of our winners in the media industry, while adding new positions in the insurance and software/database industries. (Continued on page 3)

### Investment Performance

For Periods Ending June 30, 2007

| | 2nd QUARTER | YTD | 3 YEARS | 5 YEARS | 7 YEARS | SINCE INCEPTION* |
|---|---|---|---|---|---|---|
| **Large Cap Value** | | | | | | |
| Gross | 7.1% | 4.2% | 10.0% | 13.2% | 14.5% | 15.5% |
| Net | 7.0% | 3.9% | 9.4% | 12.5% | 13.7% | 14.6% |
| Russell 1000 Value Index | 4.9% | 6.2% | 15.9% | 13.3% | 9.4% | 8.8% |
| **Large Cap Growth** | | | | | | |
| Gross | 7.9% | 9.2% | 10.2% | 15.0% | 3.4% | 12.2% |
| Net | 7.7% | 8.8% | 9.3% | 13.9% | 2.4% | 11.1% |
| Russell 1000 Growth Index | 6.9% | 8.1% | 8.7% | 9.3% | -4.4% | -0.7% |
| **Small Cap Equity** | | | | | | |
| Gross | 5.4% | 8.4% | 15.2% | 20.5% | 17.8% | 14.4% |
| Net | 5.2% | 8.0% | 14.4% | 19.6% | 16.8% | 13.4% |
| Russell 2000 Index | 4.4% | 6.5% | 13.5% | 13.9% | 8.4% | 8.4% |

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

## Investment Strategy Update (Continued)

Our **Large Cap Growth** product produced a return of 7.7% during the second quarter, leading the Russell 1000 Growth Index by 80 basis points, net of fees.

Stock selection was positive in the information technology sector driven by our data storage, computer hardware, and semiconductor holdings. These holdings benefited from corporate restructurings and an improvement in operating margins. Our information technology holdings returned 13.3%, during the second quarter, compared to 10.5% for the sector as a whole. An overweight to the sector relative to the benchmark also had a positive effect in the portfolio.

An underweight to industrials and weak stock selection in the consumer discretionary sector detracted from results. Within consumer discretionary, our apparel holding was hindered by an earnings miss and our internet retail investment faced concerns of a slowdown in growth.

During the quarter, we sold some of our holdings in the for-profit education, internet, and electronics industries. The proceeds were reinvested in online auction, money transfer, and biotechnology industries.

### Organizational Update

In recent months we have accelerated our research efforts and added to our resources. Some of the areas of recent research include risk management, performance diagnostics, and a review of the factors underlying our quantitative model. We know that one "edge" we have over our competition stems from our differentiated investment process. Through research we hope to maintain this edge in the years to come.

High Pointe's **Small Cap** strategy produced a return of 5.2%, net of fees, during the second quarter, outperforming the Russell 2000 Index by 80 basis points. Sector selection was positive, but stock selection produced mixed results.

An underweight to financials (-2.1% return) and utilities (-5.2% return) and an overweight to industrials (11.2% return) added significant value relative to the benchmark (4.4% return). The portfolio also benefited from two acquisitions which were sold at a premium during the quarter.

Stock selection was favorable in financials and information technology sectors, with our insurance holding benefiting from a share repurchase and operational improvements and our technology consulting investment outperforming due to a strengthening business pipeline.

This was partially offset by weakness in consumer discretionary and materials sector investments. In particular, our apparel and sports equipment holdings underperformed due to earnings shortfalls.

Strong second quarter performance afforded us the ability to take gains in several areas of the portfolio (electronics wholesale, biotechnology, and waste management). We invested the proceeds in electronics manufacturing, publishing, consulting, oil drilling, apparel, and educational lending industries.

Gautam Dhingra, PhD, CFA
CEO & Portfolio Manager

**Performance Notes**

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 2000 Indices are unmanaged indices commonly used to measure the performance of U.S. stocks. You cannot invest directly in an index.