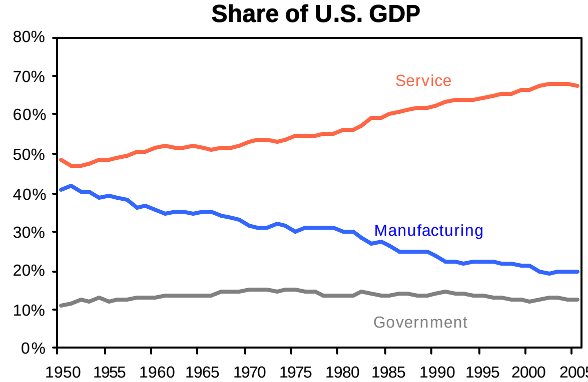
Priced for Perfection

Economic Environment

The S&P 500 produced a return of 2.0% during the third quarter of 2007 due in large part to the strong performance of manufacturing-oriented sectors such as energy, materials, industrials, utilities, and telecommunications.

As shown in the exhibit to the right, for much of the last 60 years the U.S. economy has been in an unabated, secular transition from a manufacturing-based economy to an information-based service economy. This trend is being replicated in other countries, including emerging markets such as China and India. All economies evolve from an agricultural focus to a manufacturing focus and ultimately a service focus as education and technology improve. During the last three years, however, this trend has plateaued, as manufacturing-orientated sectors have experienced a resurgence.

Share of U.S. GDP



Source: Bureau of Economic Analysis

The first cause of this plateau is strong global synchronous growth in recent periods. For the first time in recent history, virtually every economy (both developed and emerging) has grown at a meaningful rate. This has led to a supply/demand imbalance of goods required for growth, resulting in a bull market for commodities and benefiting energy and materials sectors. The industrials and utilities sectors also have profited from increased manufacturing and demand for power.

The second factor is operating leverage. As shown to the right, the aforementioned manufacturing-orientated sectors have high operating leverage due to their high fixed costs. As such, above-average sales increases during the last several years translated into record profits for them. Of course, high operating leverage also can magnify declines in profits when sales weaken or, in this case, when the cycle ends.

Operating Leverage by Sector[1]

Sector	Last 5 Yrs
Materials	**1.72**
Industrials	**1.65**
Energy	**1.61**
Telecommunication	**1.45**
Consumer Discretionary	1.36
Financials	1.35
S&P 500	1.33
Information Technology	1.11
Utilities	**0.91**
Health Care	0.51
Consumer Staples	0.38

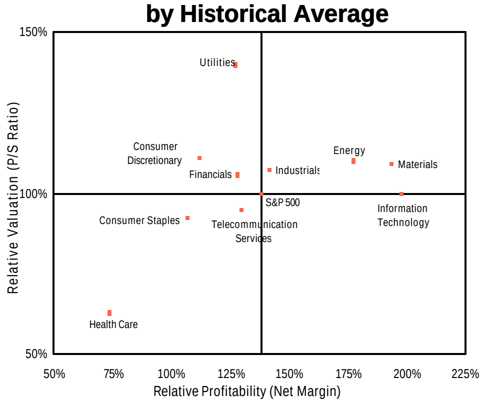
[1] Operating leverage represents the median value of the annual change in operating earnings divided by the annual change in sales on an absolute basis.

Sources: Standard and Poors, HPCM

Global growth is showing signs of moderation, beginning with the U.S. where cooler labor and housing markets as well as tighter lending practices are beginning to crimp spending. The supply side of the commodity equation also should come into balance over time, as suppliers build additional capacity to meet increased demand. (Continued on page 2)

Priced for Perfection (Continued)

Profitability and Valuation – Current Level Divided by Historical Average



Note: Relative valuation represents a ratio of the current price-to-sales ratio relative to the historical average from 1993 to 2006. Relative profitability represents a ratio of the current net margin ratio relative to the historical average from 1993 to 2006. GICS sector definitions were used.

Source: Standard and Poors

Firms operating in energy and materials sectors also are facing increased production costs that will weigh heavily on profit margins when the demand for commodities no longer exceeds the supply. In light of these risks, one would expect investors to pay only low valuation multiples for stocks in these sectors. However, as shown on the left, valuations have reached cyclical highs for the utilities, materials, energy, and industrial sectors. This leaves little room for error, as these sectors are priced for continued perfection. Given the cyclicality of operating margins and the high operating leverage that characterizes manufacturing-orientated businesses, we believe that assigning historically-high valuations to these sectors is a risky proposition at this point in the cycle.

For this reason, we continue to find more attractive investment opportunities in information technology, health care, and consumer sectors

Investment Strategy Update

High Pointe's **Large Cap Value** strategy produced a return of -7.2% during the third quarter, trailing the Russell 1000 Value Index return of -0.2%. Positive momentum in manufacturing sectors (e.g., energy, industrials, and utilities) and negative momentum in service sectors (e.g., consumer discretionary and health care) hindered performance due to our relative underweight to manufacturing and overweight to service as compared to the Index. Also, stock selection was weak in the financial and consumer discretionary sectors.

Weakness in our communication equipment and wireless telecommunication holdings was offset by improved operations in data storage and system software investments. Our mortgage and insurance holdings suffered the most during the last three months due to a lack of liquidity in mortgage and asset-backed security markets. This led to the sale of one mortgage lender that we believed represented a meaningful short-term investment risk. (Continued on page 3)

Investment Performance

For Periods Ending September 30, 2007

	3rd QUARTER	YTD	3 YEARS	5 YEARS	7 YEARS	SINCE INCEPTION*
Large Cap Value						
Gross	-7.0%	-3.1%	8.4%	16.9%	12.2%	14.2%
Net	-7.2%	-3.6%	7.7%	16.2%	11.4%	13.3%
Russell 1000 Value Index	-0.2%	6.0%	15.3%	18.1%	8.2%	8.6%
Large Cap Growth						
Gross	-2.2%	6.8%	12.2%	19.3%	2.6%	11.5%
Net	-2.4%	6.2%	11.2%	18.2%	1.6%	10.4%
Russell 1000 Growth Index	4.2%	12.7%	12.2%	13.8%	-3.0%	-0.1%
Small Cap Equity						
Gross	-13.2%	-5.9%	10.8%	24.4%	15.1%	12.3%
Net	-13.4%	-6.4%	10.1%	23.4%	14.1%	11.4%
Russell 2000 Index	-3.1%	3.2%	13.4%	18.7%	7.8%	7.8%

*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)

We continue to maintain our other financial positions in insurance, consumer finance, and diversified financial services, as their earning power is strong, franchises are intact or improving, and valuations are below-average.

Proceeds from the sale of our mortgage lender investment were reinvested in the biotechnology sector, which for the first time in awhile is offering value-oriented investors an opportunity to purchase stocks at reasonable prices.

High Pointe's **Large Cap Growth** product trailed the Russell 1000 Growth Index during the last three months, returning -2.4% (versus 4.2% for the Index). An underweight to energy, materials, and industrials sectors detracted from performance, while an overweight to information technology was additive.

Stock selection was weak in the apparel retail, computer hardware, consumer finance, and wireless telecommunication industries due to lowered earnings guidance. We have maintained our position in these investments, as we believe their valuations are compelling given their longer-term growth prospects.

Stock selection was strong in internet auction, communication equipment, and computer storage, owing to strength in core business lines.

During the quarter, proceeds from the sale of technology distributors, system software, and internet software & services investments were invested in the cable, air freight, and healthcare equipment industries.

High Pointe's **Small Cap** strategy produced a third quarter return of -13.4%, which lagged the Russell 2000 Index performance of -3.1%. Sector selection detracted value primarily from an overweight to the consumer discretionary sector. In general, weaker housing and tighter credit markets negatively impacted the earnings outlook for consumer discretionary companies.

Tighter credit markets also hindered several portfolio positions which were potential leverage buyout candidates. We maintained all but one of these, as we believe they are selling at meaningful discounts to their intrinsic values.

The lack of liquidity in the mortgage market during July and August adversely impacted one mortgage REIT investment in the portfolio and subsequently led to our divestiture. While the REIT did not have material subprime mortgage exposure, the lack of liquidity in the prime mortgage-backed market was substantial enough to trigger its loan covenants.

Proceeds from the sale of our mortgage REIT, computer hardware, IT consulting, internet software & service, electronic manufacturing services, and office supply investments were invested across several industries in the portfolio, including new positions in the marine, computer storage, and technology distrbutors 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.