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High Pointe

DATE: April 16, 2008
TO: Clients
FROM: Gautam Dhingra
RE: First Quarter 2008 Review

A Silver Lining

Buy when there is blood in the streets.
- Baron Nathan Mayer Rothschild (1777-1836)

Economic Environment

With the S&P 500 Index down 9.5% year to date and off 15.0% since reaching its peak on October 9th of last year, the investment environment has been gloomy. Press headlines are mostly negative with talks of home foreclosures, recession, credit crunch and recession dominating the news. However, for those willing to look beyond the gloom and doom forecasts, a silver lining is shining brightly in the distance.

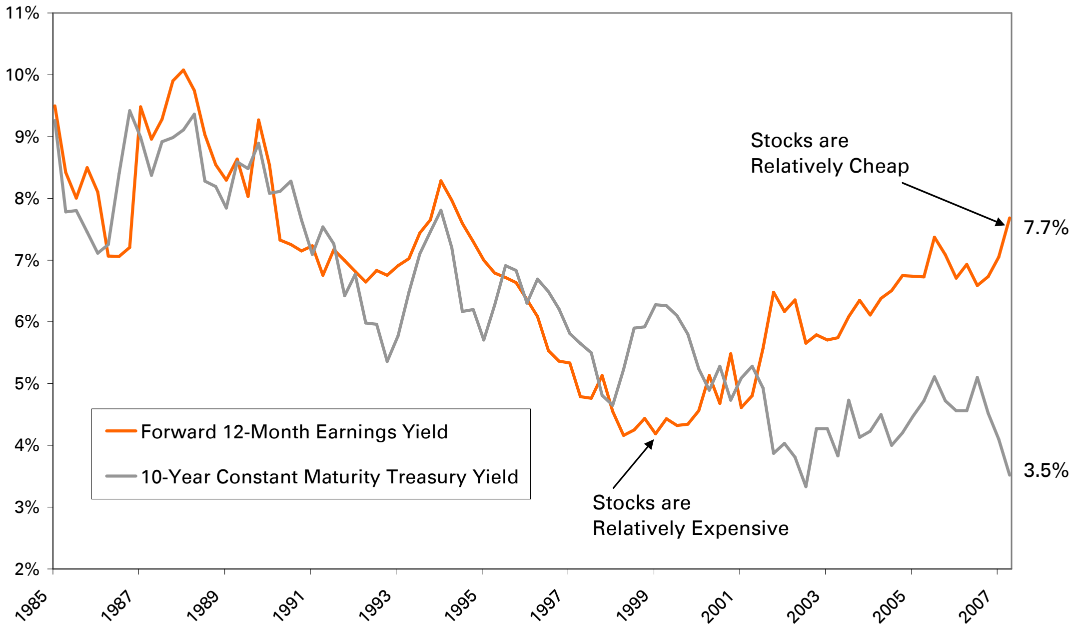
The equity market selloff over the last six months has presented investors with an attractive buying opportunity, in our opinion. The attraction of equities is even stronger when compared to the opportunities in bond markets because the Fed's "easy money" policy has resulted in lower expected returns for bond investors going forward.

One common approach to evaluating the relative attractiveness of stocks versus bonds is to use the so called "Fed Model." This model, used by U.S. central bankers, compares the forward earnings yield for the stock market (i.e., the estimated earnings for stocks during the next 12 months divided by their current price) to the yield on 10-year U.S. Treasury bonds.

When the earnings yield for stocks is greater than the yield on 10-year U.S. Treasury bonds, stocks are considered relatively cheap and when the earnings yield is lower than bond yields, stocks are considered relatively expensive. Historically, these two yields have traded in line, with periods of disconnect occurring more recently during the dot-com bubble and the post-bubble recovery.

As shown in the chart on the next page, the Fed's easy money policy of the last several years has resulted in a wide yield dispersion, with stocks currently appearing cheap (7.7% yield) relative to risk-free bonds (3.5% yield). Stocks also appear cheap in absolute terms, having reached their highest yields since 1995.

Historical Comparison of Equity Market Forward Earnings Yield and
10-Year Treasury Yield



Sources: Thomson; Federal Reserve Bank of St. Louis

Investors who are bearish argue that the current profitability of U.S. companies is unsustainably high, and therefore, the apparent cheapness of stocks is illusory. To address this concern one may create a more conservative estimate of forward earnings yield for stocks by reducing the implied operating margin downward by 25% to a more normal level. This adjustment produces an earnings yield of 5.8%, still meaningfully greater than the yield on 10-year U.S. Treasury bonds.

The forward earnings yield for stocks is a measure of the value likely to be created for shareholders each year through normal operations. Each year a portion of earnings are returned to shareholders in the form of dividends and share buybacks and the rest is reinvested in the company to grow the business.

If we assume that companies pay out all of their earnings each year (5.8%) and that earnings and share prices grow at the rate of inflation (2.5%), we get an expected return of 8.3% for stocks. This implies a return premium of almost 5% versus 10-year U.S. Treasury bonds (8.3% minus 3.5%).

It is possible for stocks to continue to underperform in the short run if economic news turns out to be worse than currently anticipated. However, the known risks have already been priced into the equity market, as stocks usually lead the economy during good and bad times. In our opinion, there is enough of an implied return gap between stocks and bonds for investors to take advantage of this opportunity and at least rebalance their equity allocations back to their target levels.

Investment Returns

The returns of our three main products are summarized below and a discussion of our investment strategy follows in the next section.

High Pointe Capital Management
Investment Performance (Net of Fees)[1]

For Periods Ending March 31, 2008

	1st Quarter	1 Year	3 Years	5 Years	7 Years	Since Inception[2]
Large Cap Value	-12.0%	-22.2%	-2.1%	8.0%	4.9%	10.0%
Russell 1000 Value Index	-8.7%	-10.0%	6.0%	13.7%	6.3%	6.6%
Large Cap Growth	-8.2%	-9.7%	3.2%	10.9%	4.3%	7.9%
Russell 1000 Growth Index	-10.2%	-0.8%	6.3%	10.0%	2.1%	-1.5%
Small Cap	-10.1%	-26.0%	-1.6%	11.7%	10.1%	8.6%
Russell 2000 Index	-9.9%	-13.0%	5.1%	14.9%	7.6%	5.8%

[1]Performance for the latest quarter is preliminary and subject to change
[2]Inception Dates: Large Cap Value - January 1, 1998; Large Cap Growth – August 1, 1999; Small Cap – January 1, 1998.

Performance results are shown net of management fee, 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.

High Pointe Capital Management, LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). A complete list of firm composites and performance results is available upon request. The CFA Institute has not been involved with the preparation or review of this report. Returns represent past performance and are not indicative of future results. Investment may result in the loss of principal.

*The unmanaged **Russell 1000 Value Index** measures the performance of those securities in the Russell 1000 Index having lower price-to-book ratios and lower forecasted growth values. The unmanaged **Russell 1000 Growth Index** measures the performance of those securities in the Russell 1000 Index having higher price-to-book ratios and higher forecasted growth values. The unmanaged Russell 1000 Index is comprised of 1,000 of the largest capitalized companies that are traded in the United States.*

*The unmanaged **Russell 2000 Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index is comprised of the 3,000 largest U.S. companies based on total market capitalization.*

These indices do not reflect fees and expenses associated with the active management of separate account portfolios.

Investment Strategy

Large Cap Value

High Pointe's Large Cap Value strategy produced a return of -12.0% during the first quarter, lagging the Russell 1000 Value Index by 3.3%. Weak stock selection in managed health care and financials, and an overweight to information technology detracted the most value.

Our investment in managed health care declined in sympathy with a competitor which lowered its earning guidance due to higher-than-expected medical cost inflation. Positive stock selection in consumer discretionary holdings was insufficient to offset the negative effect of the shortfall in managed care.

During the quarter, we replaced some of our underperforming positions in diversified financial services and life & health insurance with less mortgage-sensitive investments in real estate and investment management. We also increased our exposure to the industrial sector, while lowering our financial sector weighting.

Large Cap Growth
High Pointe Large Cap Growth product produced a return of -8.2% during the last three months, outperforming the Russell 1000 Growth Index by 2.0%. Positive stock selection in health care and information technology added the most value. An overweight to information technology and an underweight to consumer staples detracted from results.

Within information technology, our investment in computer manufacturing, data storage, and internet advertising were the most profitable. Other favorable investments were in the areas of apparel, medical instruments, retail drug store, and parcel delivery service. Airline and aerospace holdings were weak performers during the last three months due to higher fuel prices and production delays.

During the quarter, we reduced our exposure to the financial sector, investing the proceeds in consumer staples (specifically, retail drug store). We also repositioned our investments within the financial sector, replacing our diversified bank holding with a position in a prominent investment management firm.

Small Cap
High Pointe's Small Cap product lagged the Russell 2000 Index by 0.2% during the last quarter. Positive results from our overweight to energy, materials, and industrials sectors were offset by our overweight to information technology, which underperformed the market. Stock selection was mixed, with favorable investments in health care and information technology sectors being offset by negative stock selection in consumer and financials sectors.

We took some profits in our entertainment software position during the quarter, following a competitor buyout offer. We also sold our mining investment, which appreciated significantly following steep increases in coal prices. A slow-than-expected tax filing season led to a sharp loss in our tax preparation investment. We believe the market overacted to this news, and we used the selloff as a buying opportunity.

During the quarter, we reduced our exposure to the consumer discretionary and consumer staples sectors and invested the proceeds in industrials and financials.