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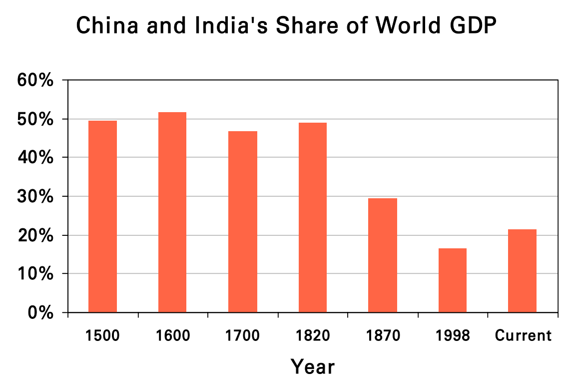
HIGH POINTE

DATE: October 13, 2009
TO: Clients
FROM: Gautam Dhingra
RE: Economic and Portfolio Review

Go West ,Young Man . . .
. . . until You Reach the East!

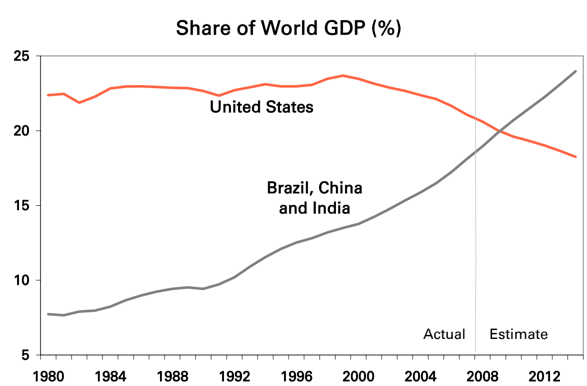
A familiar slogan of American history is "Go West, young man, go West and grow up with the country". Coined in the late 19th century, this slogan has been a metaphor for leaving one's cocoon and seizing new opportunities. In modern times, this slogan is in need of a transformation. Before we discuss the new slogan, let's take a historical detour.

How many people are aware that before the industrial revolution started in earnest in the 19th century, the world's economic landscape was dominated for centuries not by the West but by the East! In fact, China and India accounted for half of the world's total output as shown in the chart on the right. The industrial revolution had a profound effect on countries' fortunes as the West blossomed and the East stagnated.



Source: "The Case for Commodities, Credit and Canucks", Sep 25, 2009, David Rosenberg, Gluskin, Sheff + Associates

A look at the short-term (last 30 years) trend in the chart to the right illustrates the resurgence of three non-Western countries. This chart compares United States' share of the world GDP to that of Brazil, China and India combined. The trend is unmistakable as these emerging countries combined are poised to overtake the United States this year. Moreover, these data imply that about 40% of the world's growth over the next five years will be delivered by Brazil, China and India compared to 12% by the United States.



Source: International Monetary Fund, World Economic Outlook Database, October 2009

Anecdotal evidence of the resurgence of the non-Western countries abounds. Last month at a meeting of the G8 (the group of eight most powerful industrialized nations), world leaders decided to disband the G8 and replace it permanently with the G20, a group whose composition acknowledges the arrival of emerging nations. In a lighter vein, we note that Barack, and even the almighty Oprah, lost the Olympics bid to Lula, the president of Brazil!

The important question for us is "what are the implications of this transition for U.S. companies and U.S. investors". Let us first acknowledge that the U.S. economy is still the largest and quite powerful. More importantly, U.S. companies have shown an ability to adapt and resume growth despite unfavorable odds. The late 1970s and early 1980s provide good evidence of the resilience of the U.S. economy and its constituents.

In the late 1970s and early 1980s, pessimism prevailed in the country as our economy was in shambles. Inflation was high and growth was non-existent. Morale of the populace was low after the Vietnam and Tehran debacles, and the country had seemingly lost its competitive edge in numerous large manufacturing industries like autos and electronics to Japan. In fact, Japan's system of government-supported business management was being touted as a better model for economic governance.

As it turned out, pessimism in and about the United States was misplaced. A technology revolution replaced the industrial revolution and the United States led the revolution. For the next 20 years or so, the U.S. model of free enterprise, individual expression, meritocracy, and entrepreneurship was lauded and adopted worldwide.

Things have changed again. The rest of the world has caught up with the U.S. and the country is at a crossroads again. China's spectacular growth and U.S. financial system's failures have once again sown some seeds of doubt about our management of the economy. China's "government-directed capitalism" (is that an oxymoron?) is being credited for its long-term vision in supporting strategically important industries, e.g., alternative energy, which require tremendous investment and offer little short-term profit.

We do not profess to know if and when the Chinese growth engine will run out of steam. Our job is to think about which companies will survive and thrive in this new world order where growth opportunities are better abroad than at home. There is reason to be optimistic about U.S. companies on that front. They have the experience, knowledge and technology to succeed. They also have the flexibility that some of their Continental European peers lack. As stewards of your assets, we need to distinguish companies that have the vision and resources to succeed in the competitive global world from those that do not.

So, the new slogan for our times is "Go abroad, young man (and woman), and grow up with the world". We intend to follow the advice inherent in this slogan ourselves in implementing our investment strategy.

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 September 30, 2009

	3rd Quarter	Year-to Date	Three Years	Ten Years	Since Inception[2]
Small Cap	**21.6%**	**46.1%**	**-3.6%**	**8.6%**	**8.0%**
Russell 2000 Index	19.3%	22.4%	-4.6%	4.9%	4.1%
Large Cap Value	**15.1%**	**25.0%**	**-8.2%**	**8.1%**	**8.1%**
Russell 1000 Value Index	18.2%	14.9%	-7.9%	2.6%	3.6%
Large Cap Growth	**15.0%**	**38.8%**	**-1.1%**	**6.5%**	**6.5%**
Russell 1000 Growth Index	14.0%	27.1%	-2.5%	-2.6%	-2.6%

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

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 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.*

*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.*

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

Investment Strategy

Small Cap

High Pointe's Small Cap strategy produced a return of 21.6%, putting it ahead of the benchmark, the Russell 2000 Index, by 2.3% for the quarter. Security selection was strong during the quarter, especially in the health care, industrials, and energy sectors, thus overcoming negative stock selection in the consumer discretionary sector.

The strong security selection in health care sector was driven by the acquisition of one of our biotech holdings at a substantial premium. Our industrial sector holdings also performed well because of demand stabilization and improved earnings prospects. In addition, an energy exploration company performed well because of strong earnings propelled by effective cost management.

During the quarter we increased our allocation to the health care and telecommunications sectors and correspondingly reduced our allocation to information technology and industrials sectors. We took profits from our industrial machinery and biotech investments, as they had reached our price targets, and invested the proceeds in opportunities in biotech, medical equipment and wireless communication services industries.

Large Cap Value
High Pointe's Large Cap Value strategy produced a return of 15.1% during the third quarter, underperforming the Russell 1000 Value Index by 3.1%. An underweight in telecommunications and utilities sectors added value but was more than offset by negative stock selection in technology and consumer discretionary sectors.

Our investment in an auto parts retailer suffered during the quarter when a competitor announced poor earnings. This industry has been hurt by the *Cash for Clunkers* program and by fears that the industry's improved operating performance cannot be sustained. Our view is that this industry has favorable secular tailwinds behind it as consumers become more frugal and keep their cars for longer periods.

Turnover in the portfolio was modest this quarter. We realized profits from the sale of a drugstore retailer and invested the proceeds in an insurance broker. We also repositioned our energy portfolio away from natural gas and into oil because the demand-supply equation for natural gas has become unfavorable.

Large Cap Growth
High Pointe's Large Cap Growth strategy produced a return of 15.0%, which was 1.0% ahead of its benchmark, the Russell 1000 Growth Index. The outperformance was largely driven by positive stock selection during the quarter in health care, technology, and energy sectors. However, negative stock selection in the financial sector detracted some value.

Specifically, our investment in biotech added the most value as one of our companies was acquired at a significant premium. An internet retail company also had strong stock performance because of an improvement in its operating performance.

During the quarter we increased our investments in the consumer discretionary sector with proceeds from financials. In particular, we sold a futures exchange company due to declining trading volumes and invested the proceeds in the cable television industry which is growing its already substantial free cash flow. We also repositioned our investments within the health care sector, selling a biotech company that was acquired in favor of a stable, medical equipment company.

* * * * *

We are pleased with strong performance this year both in absolute terms as well as relative to the benchmarks, and look forward to reporting our fourth quarter and full year results to you in January 2010. Thank you for the opportunity to manage your assets!