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High Pointe

DATE: July 21, 2011
TO: Clients
FROM: Gautam Dhingra
RE: Economic and Portfolio Review

America the ~~Beautiful~~ Divided

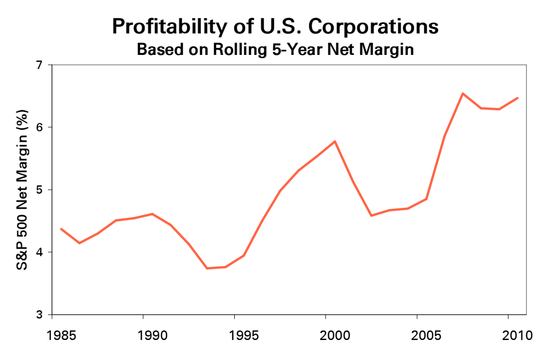
The month was August 1981. MTV launched its service on the first day of the month with the song *"Video killed the Radio Star"* reminiscing about the change from Radio to TV and VCR. Well, a lot more change was on the way that month! Three watershed events occurred that month that gradually transformed our economic landscape. These events continue to be relevant today as we try to understand and profit from the current investment environment.

Here are the newspaper headlines that documented the three events.

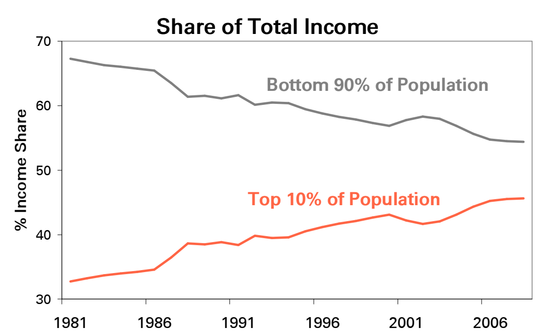
- "U.S. Begins Firing Striking Air Controllers" *The Washington Post, August 6, 1981*
- "President Signs Budget-Cutting, Tax Legislation" and "The Rich Shall Inherit Still More of the Earth", *The Washington Post, August 14, 1981 and August 16, 1981*
- "IBM to Sell Personal Computer in Fall" *The Washington Post, August 13, 1981*

President Reagan's decision to fire air traffic controllers was the beginning of the end of the labor union movement in the United States. According to the Bureau of Labor Statistics, union participation has declined by 40% since the early 1980s. As union influence waned, it benefitted providers of capital (shareholders) relative to providers of labor (employees).

Shareholders and corporations also benefitted from the tax cuts and deregulation in the form of better profitability for corporations and higher net income for shareholders. These gains benefitted the rich more than the poor. The chart below on the left shows the profitability of U.S. corporations from 1981 to 2010. The improvement is unmistakable. The chart on the right shows the increasing share of income for the top 10% of the population vs. the bottom 90%.



Source:Merrill Lynch(Based on S&P 500 excl.Transports, Utilities, Financials)

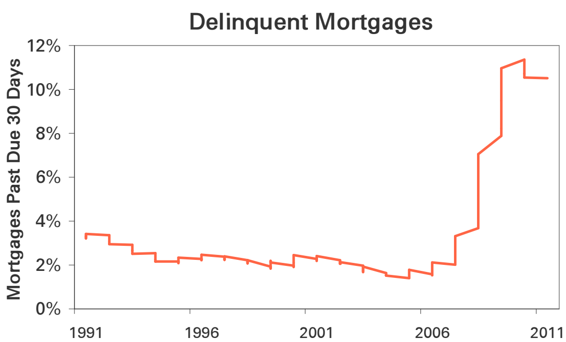


Source: The World Top Incomes Database http://g-mond.parisschoolofeconomics.eu/topincomes/; Piketty, Saez and Atkinson

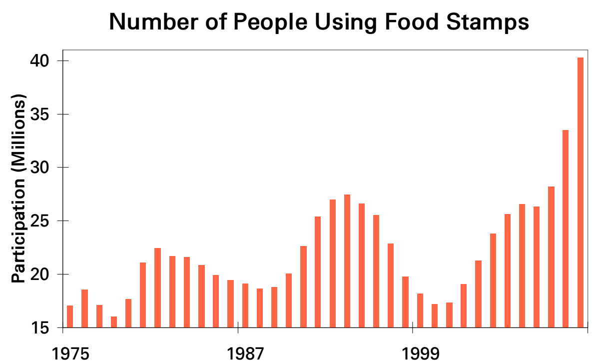
Currently, there is a debate between bulls and bears as to whether the high profitability currently enjoyed by corporations is fleeting or sustainable. Having witnessed U.S. corporations manage their profitability well through the recent recession and financial crisis, we believe the evidence is building that the high level of profitability is sustainable. If true, it would counter the bears' main argument about stocks being overpriced.

The third headline about the introduction of the PC by IBM marked the heralding of a new growth era propelled by a technology revolution. The U.S. has benefitted from its technological prowess and innovation. However, more recently, it is also feeling the negative impact of the growth of technology. Technological progress has shrunk the globe and enabled people residing in far-flung countries to compete with Americans. It has also reduced the competitiveness of a subset of our citizens that is not well-trained or educated for the technology-driven economy.

These developments, combined with debt-induced binge consumption over the last 30 years, are now causing angst and hardship among a large group of low and middle class citizens. The statistics are quite appalling. One in ten Americans is behind on his mortgage and one in seven is on food stamps. These statistics have deteriorated significantly in recent years as shown below.



Source: http://www.russell.com/helping-advisors/ /Markets/EconomicIndicatorsDashboard/MortgageDelinquency.asp



Source: U.S. Supplemental Nutrition Assistance Program

Our problems are clearly national in scope and widespread but they are more severe for the working class whereas the owner class is better positioned. In other words, the outlook is bleak for America and the average American, but it is considerably brighter for the American corporation and its shareholders. *(Sounds like something Ayn Rand would say without any sense of sorrow!)*

At High Pointe, our goal is to serve our clients by selecting stocks that can generate market-beating returns. Currently, we are striving to meet our goal by building portfolios that do not rely on the spending power of the U.S. consumer.

Investment Returns

The returns of our 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 June 30, 2011

	2nd Quarter	Year-to-Date	Three Years	Ten Years	Since Inception[2]
Small Cap	**0.3%**	**8.9%**	**12.6%**	**9.0%**	**9.4%**
Russell 2000 Index	-1.6%	6.2%	7.8%	6.3%	6.2%
Large Cap Value	**-1.1%**	**4.6%**	**5.6%**	**4.4%**	**8.8%**
Russell 1000 Value Index	-0.5%	5.9%	2.3%	4.0%	5.0%
Large Cap Growth	**1.2%**	**7.5%**	**4.6%**	**3.0%**	**7.0%**
Russell 1000 Growth Index	0.8%	6.8%	5.0%	2.2%	0.3%
International Equity	**-0.8%**	**4.0%**	**3.2%**	**N/A**	**1.0%**
MSCI All Country World ex US Index[3]	0.4%	3.8%	-0.1%	N/A	1.1%

[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; International Equity – December 31, 2006.*
[3]*Gross total return index from December 31, 2006 – December 31, 2009; Net total return index from January 1, 2010.*

High Pointe Capital Management, LLC (the "Firm" or "High Pointe") is a registered investment adviser with the Securities and Exchange Commission (SEC) under the Advisers Acts of 1940 and its amendments. High Pointe is an independent investment management firm that is not affiliated with any parent organization.

Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Performance results are shown in U.S. dollars, 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 all accrued dividends and interest, realized and unrealized gains and losses. Gross dividends were used to calculate the performance prior to January 1, 2010. As of January 1, 2010, accrued dividends used are net of non-reclaimable withholding taxes. Leverage has not been used in the composite. High Pointe's fee schedules are disclosed in Part 2A of the firm's Form ADV. All fully discretionary, fee-paying accounts are included in at least one composite. 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.

*The **Small Cap Equity** composite is comprised of portfolios invested primarily in stocks of companies with market capitalization of less than $4 billion. The **Large Cap Value** composite is comprised of portfolios invested primarily in stocks of companies with market capitalization in excess of $2 billion that offer good "value" relative to other companies in a similar business, their growth potential, or their historical valuation levels. The **Large Cap Growth** composite is comprised of portfolios invested primarily in growth stocks of companies with market capitalization in excess of $1.5 billion that exhibit high expected earnings growth to maximize capital appreciation. The **International Equity** composite invests in stocks that are primarily domiciled in a country other than the U.S., including emerging markets, without any constraints regarding capitalization or style. A complete list of firm composites and performance results is available upon request. 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. The **MSCI All Country World ex-U.S. Index** measures the equity market performance of world's developed and emerging markets. Currently the index consisted of 44 countries (23 developed and 21 emerging countries). A net total return index reinvests dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treats. 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 0.3% during the quarter, outperforming the Russell 2000 Index by 1.9%. During the quarter, security selection in the industrial and health care sectors added value.

In the health care sector, our portfolios benefitted when a medical equipment company was acquired at a substantial premium. In addition, two biotechnology industry investments outperformed because of the progress of their drug pipeline. Our investment in the car auction industry also performed well as the company improved its execution.

During the quarter we reduced our holdings in the consumer discretionary and health care sectors and increased our investments in the utilities and materials sectors. We realized profits when a biotechnology company and a refinery reached our price targets and sold a discount retailer that had struggled. The proceeds were reinvested in gas utilities, gold mining, oil and gas services, business financing, investment banking and biotechnology. We also repositioned our investments in the technology sector away from software and into the semiconductor industry.

Large Cap Value

High Pointe's Large Cap Value strategy produced a return of -1.1%, which lagged its benchmark, the Russell 1000 Value Index by 0.6%. Security selection in the utilities and health care sectors added value but was more than offset by weak stock selection in the financial sector.

Our investment in a utility company outperformed when it agreed to be acquired at a significant premium. In addition, our pharmaceutical industry investments benefitted from improved growth prospects. However, our financial sector holdings underperformed because of regulatory concerns. We did not make any changes to the portfolio during the quarter as we believe our current holdings are considerably undervalued.

Large Cap Growth

High Pointe's Large Cap Growth strategy produced a return of 1.2%, outperforming its benchmark, the Russell 1000 Growth Index by 0.4% for the quarter. During the quarter, stock selection in the technology and industrial sectors added value but was partially offset by stock selection in the consumer discretionary sector.

Our investments in the technology sector outperformed for a variety of reasons. A video game developer benefitted from strong digital growth and improved sales. In addition, a credit card processor performed well in light of positive regulatory developments. Also, our computer industry investments continued to improve profitability.

During the quarter we increased our investments in the health care and consumer staples sectors and reduced our allocation to the consumer discretionary and energy sectors.

Overall, we are pleased with our performance in 2011 and look forward to communicating our third quarter results to you in October. Please let us know if you have questions about our investment strategy.