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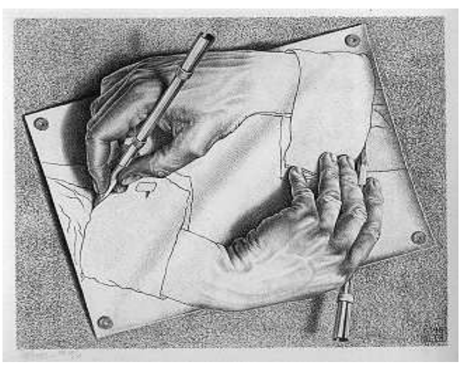
HIGH POINTE

DATE: January 10, 2012
TO: Clients
FROM: Gautam Dhingra
RE: Economic and Portfolio Review

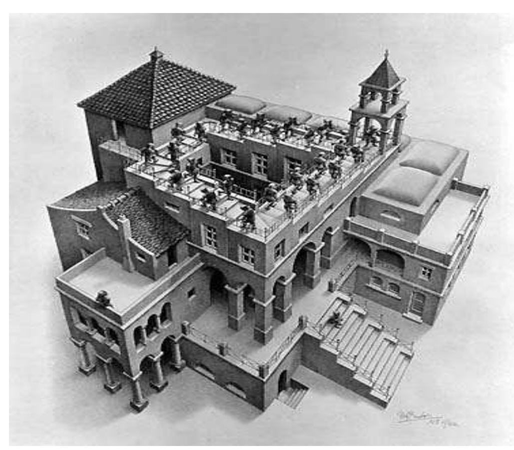
Me vs. Us

M.C. Escher's drawings have fascinated people worldwide for decades. Lately, it appears that these drawings have been an inspiration for European political leaders and bankers as well. For example, take a look below at one of his creations known as *Drawing Hands*.



In this picture, two hands are paradoxically creating each other. In other words, neither can exist without the other. Banks and governments in Europe find themselves in exactly the same situation. Governments are propping up banks and banks in turn are holding sovereign debt. A default on sovereign debt could lead to bank failures and banks' reluctance to hold sovereign debt would make it difficult for governments to fund their operations.

The tango between governments and banks has continued for a couple of years because both sides are afraid of what might happen if the music stops, i.e., an actual default occurs. So the governments keep taking baby steps giving the illusion of making progress but not getting anywhere. Once again, a well known drawing by Escher, called *Ascending and Descending* fits the situation. In this picture, monks keep climbing the stairs but end up in the same place they started.

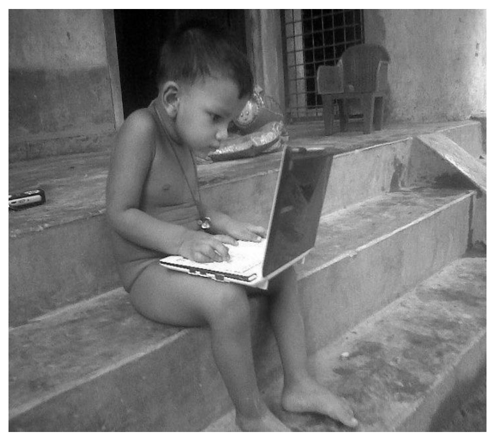


There are two possible ways out of this logjam. One is to let the weak institutions and countries fail, and deal with the consequences. Proponents of this option are fond of quoting Frank Borman, former CEO of Eastern Air Lines, who said "Capitalism without bankruptcy is like Christianity without hell." In other words, it does not work very well. Before accepting the recommendation implied in this quote, let us remember what happened the last time we acted accordingly and let Lehman Brothers fail . . . All hell broke loose!

The second way out is for "the Haves" (the Germans, the Chinese, bondholders, bank shareholders, etc) to realize that it is in their self-interest to cooperate with "the Have Nots" and bear some of the cost of cleaning up the debt mess.

Self-interest and cooperation often point in opposite directions. A famous story that illustrates the difficulty of eliciting cooperation in the face of self interest is *The Prisoner's Dilemma*. In this story, the two prisoners do not cooperate even though they would be better off if they did. Unlike prisoners in that story, debtors and creditors today have the ability to communicate. However, the communication is complicated by the fact that there are too many parties involved and their interests do not perfectly overlap.

The European (and U.S.) debt problem is overhanging what would otherwise be a global economy with high growth potential. Billions of people around the world are benefitting from the spread of technology and are ready to contribute to worldwide growth. One such future contributor is shown on the right, his potential shining through despite his austere surroundings.



Concerns about debt problems have depressed stock prices worldwide and created interesting investing opportunities. Smart investing involves spotting long-term opportunities while managing risk in the short term. It is our view that long-term investment opportunities are beginning to develop in economically sensitive stocks in technology and industrial sectors because of economic slowdown stemming from European debt. We have selectively purchased some stocks in these sectors. If and when our leaders show clear signs that they are willing to take the view that it is about "Us" rather than "Me", we would increase our exposure to such stocks. Until then, our exposure to high quality, stable stocks in health care and consumer staples stocks will act as a defensive hedge against further downturn.

Investment Returns

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

Investment Performance (Net of Fees)[1]

For Periods Ending December 31, 2011

	One Quarter	One Year	Three Years	Ten Years	Since Inception[2]
Small Cap	12.7%	-0.7%	21.6%	7.9%	8.3%
Russell 2000 Index	15.5%	-4.2%	15.6%	5.6%	5.2%
Value Added	**-2.8%**	**+3.5%**	**+6.0%**	**+2.3%**	**3.1%**
Large Cap Value	11.6%	-3.0%	13.2%	2.8%	7.9%
Russell 1000 Value Index	13.1%	0.4%	11.6%	3.9%	4.4%
Value Added	**-1.5%**	**-3.4%**	**+1.6%**	**-1.1%**	**+3.5%**
Large Cap Growth	13.3%	6.0%	17.2%	2.6%	6.6%
Russell 1000 Growth Index	10.6%	2.6%	18.0%	2.6%	-0.1%
Value Added	**+2.7%**	**+3.4%**	**-0.8%**	**+0.0%**	**+6.7%**
International Equity	6.0%	-10.9%	12.2%	N/A	-2.2%
MSCI AC World ex US Index[3]	3.7%	-13.7%	10.9%	N/A	-2.6%
Value Added	**+2.3%**	**+2.8%**	**+1.3%**	**N/A**	**0.4%**

[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 12.7% during the fourth quarter, lagging its benchmark, the Russell 2000 Index by 2.8%, but it outperformed the benchmark by 3.5% for the full year. Security selection added value during the year, especially in the consumer discretionary and energy sectors thus overcoming negative stock selection in the financial sector.

Over the year, the portfolio benefited from the acquisition of two of our medical equipment holdings for substantial premiums. In addition, our biotechnology industry investments outperformed as a result of drug pipeline progression. Our investment in the refinery industry also performed well after restructuring and recovery from a depressed valuation. In the consumer discretionary sector, our consumer goods rental investment benefited from strong revenue growth.

During the fourth quarter we repositioned our health care sector investments by purchasing genetic screening, managed care, and pet care companies. We diversified our technology investments by adding stocks in the communication equipment and semiconductor industries. Lastly, we increased our investments in real estate services and electrical equipment industries. These purchases were funded by taking profit in our biotech and consulting industry stocks, and selling industrial and casino stocks that failed to meet our expectations.

Large Cap Value

High Pointe's Large Cap Value strategy produced a return of 11.6% during the fourth quarter, underperforming the Russell 1000 Value Index by 1.5% for the quarter, and by 3.4% for the year. During the year, security selection in the technology sector added value but was more than offset by weak stock selection in the financial and industrial sectors.

The portfolio benefited this year as a credit card processor adapted well to regulatory changes and improved its profitability. In addition, our utility company investment increased in value when it agreed to be acquired at a significant premium. However, our investments in investment banking and the securities brokerage industry underperformed because of industry wide concerns related to events in Europe. We also exited our position in the for-profit education industry after relative underperformance in the face of adverse regulatory environment. Lastly, a leading technology company underperformed in the midst of a disruptive CEO transition but we are maintaining this investment in light of its severe undervaluation.

During the quarter we increased our investments in the industrial and health care sectors and correspondingly reduced our allocation to the financial and utility sectors. We sold investments in the insurance, for-profit education and publishing industries and invested the proceeds in leading, high quality companies in the construction and industrial machinery, air freight and pharmaceutical industries. These companies offer a blend of growth and stability.

Large Cap Growth

High Pointe's Large Cap Growth strategy produced a return of 13.3%, outperforming the Russell 1000 Growth Index by 2.7% for the quarter, and finished the year ahead of the index by 3.4%. The outperformance during the year was largely driven by stock selection in the consumer discretionary and technology sectors.

The portfolio benefited from its exposure to the credit card processing industry which outperformed as regulatory concerns eased and credit card spending improved. In addition, our tobacco industry investment performed well because of price increases and emerging market growth. We have since curtailed our investment in this industry as valuations have become expensive. In the consumer discretionary sector, a leading fast food company profited from strong execution and market share gains. In addition, our investment in consumer electronics outperformed on the strength of new products.

We made only three changes to the portfolio during the quarter as we are quite comfortable with the growth potential of our existing holdings. Specifically, we increased our investments in the cable programming industry and reduced our allocation to the software and biotech industries.

International Equity
High Pointe's International Equity strategy produced a return of 6.0% during the fourth quarter, outperforming the MSCI All Country World ex-US Index by 2.3% for the quarter, and by 2.8% for the year.

Over the year the portfolio benefited from outperformance in our health care sector holdings. Our investment in the medical device industry performed well because of strong execution and revenue growth. Similarly, our European pharmaceutical industry holdings outperformed versus peers on improved growth prospects and recovery from depressed valuation levels. Our liquor industry investment outperformed because of strong execution and demand. Lastly, our telecommunication company holding continued to gain market share. The relative outperformance from these investments was tempered to an extent by a technology company selling to schools which faced increased budgetary pressures. Our financial holdings also declined in line with the industry.

During the quarter we increased our holdings in the consumer discretionary and materials sectors and reduced our investments in the consumer staples and health care sectors. We purchased cable providers, energy producers, and building material, automobile and fertilizer manufacturers. We also repositioned our technology sector investments into communications equipment, video games and electrical connectors. These purchases were funded by selling our holdings in insurance, pharmaceutical, home entertainment and electronic equipment industries.

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Overall, we are pleased with our performance relative to market benchmarks in 2011 and look forward to reporting our progress to you in April 2012. Thank you for the opportunity to manage your assets!