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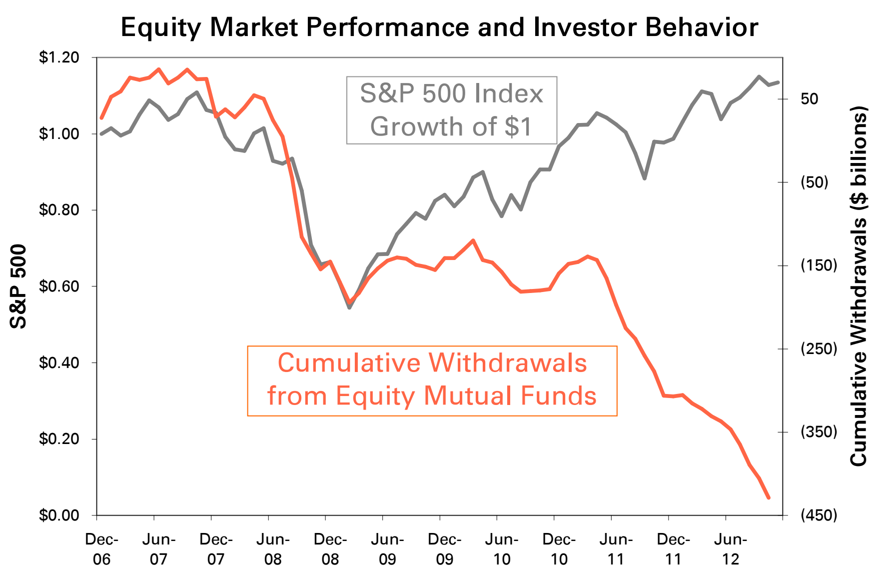
HIGH POINTE

DATE: January 18, 2013
TO: Clients
FROM: Gautam Dhingra
RE: Economic and Portfolio Review

Five Years and Waiting

Equity markets have been waiting for individual investors to come back for five years but there is no sign of them yet. The financial crisis that started in 2007 spooked investors. They started a gradual process of withdrawing from equities and the process continues unabated.

The chart below shows market performance and investor behavior over the last six years. The grey line (corresponds to left axis) shows the performance of the equity market. The format used is growth of one dollar invested at the beginning of 2007. It is clear that the market has recovered its losses and one dollar invested in the stock market at the beginning of 2007 is now worth $1.13. The orange line (corresponds to right axis) shows cumulative net withdrawals by investors from equity mutual funds over the last six years. One can see that the withdrawal process that started in response to the declining stock market in 2007 has accelerated despite the turnaround in the equity market.



Source: Investment Company Institute

In continuing to withdraw money from the equity market, investors have missed an opportunity to recoup their losses. Their actions probably indicate a lack of commitment and discipline to designing a long-term asset allocation policy and sticking to it through the ups and downs of the stock market.

There is always something to worry about in the stock market. If you let the worries force you into cash or into inaction, it will be hard to benefit from the ownership of stocks. The right strategy, in our opinion, is to focus less on the macro environment and more on identifying companies that are well positioned in their industries and selling at reasonable valuations. The combination of these two characteristics should work well for investors over most intermediate to long term periods.

The list of companies that possess these characteristics is not static. Many times good companies become overvalued because investors become enamored with some of their good traits. For example, over the last few years investors have chased high dividend yield stocks in the telecom, utilities, and REITs. This has caused such stocks to become overvalued, in our opinion. At High Pointe, we are underweight in each of these sectors. Also, investors' tendency to take less risk over the last few years has led them to invest more in stable stocks such as those found in the consumer staples sector. Once again, investors' actions have caused consumer staples stocks to become fully valued and, therefore, we are underweight in them as well.

Central banks have helped to an extent in keeping stock prices higher. One could argue that central banks actions' cannot go on forever and that when they stop it might have a detrimental effect on stock prices. However, it is difficult to predict the timing and magnitude of this risk. Keep in mind that one could have made the same argument in the middle of 2009 and missed the market's rebound completely. Once again, given the difficulty of predicting macro economic environment, we would advise focusing on individual companies instead.

Right now, one has good opportunities to invest in high quality pharmaceuticals for stability and high dividend yield. Technology companies offer good exposure to economic growth along with their strong balance sheets. Even some commodities business like chemicals are well positioned to generate high income because one of their key cost components (price of natural gas) is likely to stay low for a long time, thanks to the success of shale fracking.

Individual investors were able to earn reasonable returns in the fixed income markets between 2007 and 2012. Using Barclays Aggregate Bond Index as the barometer, bonds generated a 6.1% return per year over the last six years. That level of return is not repeatable because the yield on the Bond Index is now down to 1.7%. Investors had better get used to working harder to identify good investment opportunities in the equity market.

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, 2012

	One Quarter	Year-to-Date	Five Years	Ten Years	Since Inception[2]
Small Cap Equity	2.8%	18.0%	6.9%	10.3%	8.9%
Russell 2000 Index	1.9%	16.4%	3.6%	9.7%	5.9%
Large Cap Value	1.8%	16.9%	2.4%	6.5%	8.5%
Russell 1000 Value Index	1.5%	17.5%	0.6%	7.4%	5.3%
Large Cap Growth	-3.0%	13.2%	3.5%	8.3%	7.1%
Russell 1000 Growth Index	-1.3%	15.3%	3.1%	7.5%	1.0%
International Equity	7.0%	21.4%	0.1%	N/A	1.4%
MSCI AC World ex US Index[3]	5.9%	16.8%	-2.7%	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 Equity

High Pointe's Small Cap Equity strategy produced a return of 2.8% during the quarter, exceeding its benchmark, the Russell 2000 Index by 0.9% for the quarter, and by 1.6% for the year. The outperformance during the year was largely driven by stock selection in the healthcare and consumer staples sectors.

Over the year in the healthcare sector, our portfolio benefitted when biotechnology and managed care industry investments agreed to be acquired at significant premiums. In addition, our investments in the life sciences industry outperformed as clinical research trial activity increased. In the consumer staples sector, our investment in the heart healthy food industry benefitted as it diversified by expanding into the gluten-free market.

During the quarter we increased our investments in the industrial and consumer discretionary sectors and reduced our exposure to the technology and energy sectors. We sold an oil drilling contractor that met our price target because of strong execution and reduced our semiconductor and software industry investments. The proceeds were reinvested in the automotive retail, industrial tool and salvage auction industries. We also repositioned our healthcare sector investments out of biotechnology and equipment and into cost recovery and blood collection.

Large Cap Value

High Pointe's Large Cap Value strategy produced a return of 1.8% during the fourth quarter, outperforming the Russell 1000 Value Index by 0.3% for the quarter, but finished the year trailing it by 0.6%. During the year, security selection in the financial and healthcare sectors added value but an overweighting of the technology sector detracted value.

During the year, our banking industry investments performed well as the economic environment improved, specifically housing and capital markets. In addition, our biotechnology industry investments benefitted from strong sales and drug pipeline progression. However, our computer industry investment struggled as the PC industry declined at a faster rate than anticipated.

During the quarter we sold a telecommunication company that had performed well in favor of an auto part supplier. In addition, we increased our investments in the banking and managed care industries.

Large Cap Growth

High Pointe's Large Cap Growth strategy produced a return of -3.0%, lagging the Russell 1000 Growth Index by 1.7% for the quarter, and by 2.1% for the year. During the year, security selection in the healthcare sector added value but was more than offset by weak stock selection in the technology and energy sectors.

During the year, our healthcare holdings outperformed as our biotechnology industry investments made progress with drugs in development and were acquired. However, our personal computer industry investments suffered from weak demand and lower market share. In the energy sector, our oil and gas exploration and service investments struggled with higher costs and natural gas market weakness. In addition, our investment in healthcare services underperformed as the employment market weakness hampered future prospects. We believe other positive factors such as synergies and increasing generics will benefit the company long-term.

We did not make any changes to the portfolio during the quarter as we are quite comfortable with our current holdings' opportunities.

International Equity
High Pointe's International Equity strategy produced a return of 7.0% during the fourth quarter, outperforming the MSCI All Country World ex-US Index by 1.1% for the quarter, and by 4.6% for the year.

During the year our investment in the European construction materials industry performed well as emerging market demand returned and pricing improved. In addition, our investment in an industrial conglomerate benefitted from restructuring efforts. In the financial sector, our investments in the United Kingdom banking and Japanese security industries outperformed because of cost control. Moreover, our European insurance industry investments profited from stronger balance sheets.

During the quarter we increased our holdings in the financial and materials sectors and reduced our investments in the energy and healthcare sectors. We repositioned our materials sector holdings out of paints and into mining and fertilizers and reallocated our telecommunication sector investments further into emerging markets. The portfolio also invested in the automobile, banking and consulting industries.

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2012 was a productive year for us and our clients. We thank you for trusting your assets to our stewardship and look forward to reporting our progress to you at the end of the first quarter.