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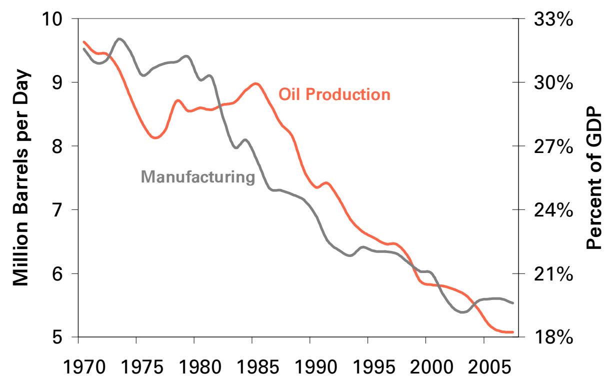
DATE: January 17, 2014
TO: Clients
FROM: Gautam Dhingra
RE: Economic and Portfolio Review

Renaissance in Middle America

Oil production peaked in the United States in 1970 at about 10 million barrels per day. For the next 37 years there was a fairly constant decline in oil production as oil wells depleted and little new oil was discovered.

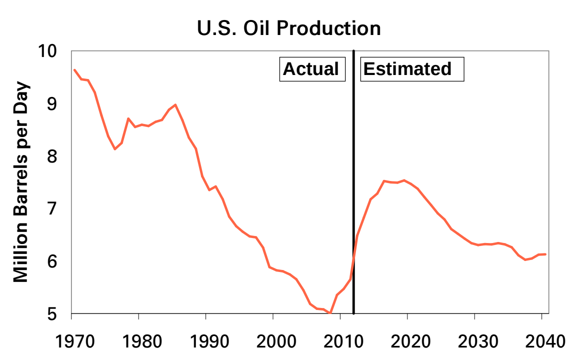
As energy prices rose along with labor costs, it led to an outsourcing of manufacturing activities to other countries where production costs were lower. As a result, the share of manufacturing in the United States declined. The chart on the right shows the decline in U.S. oil production (orange line – left axis) as well as a decline in manufacturing share of the GDP (gray line – right axis).



Source: U.S. Energy Information Administration and Bureau of Economic Analysis

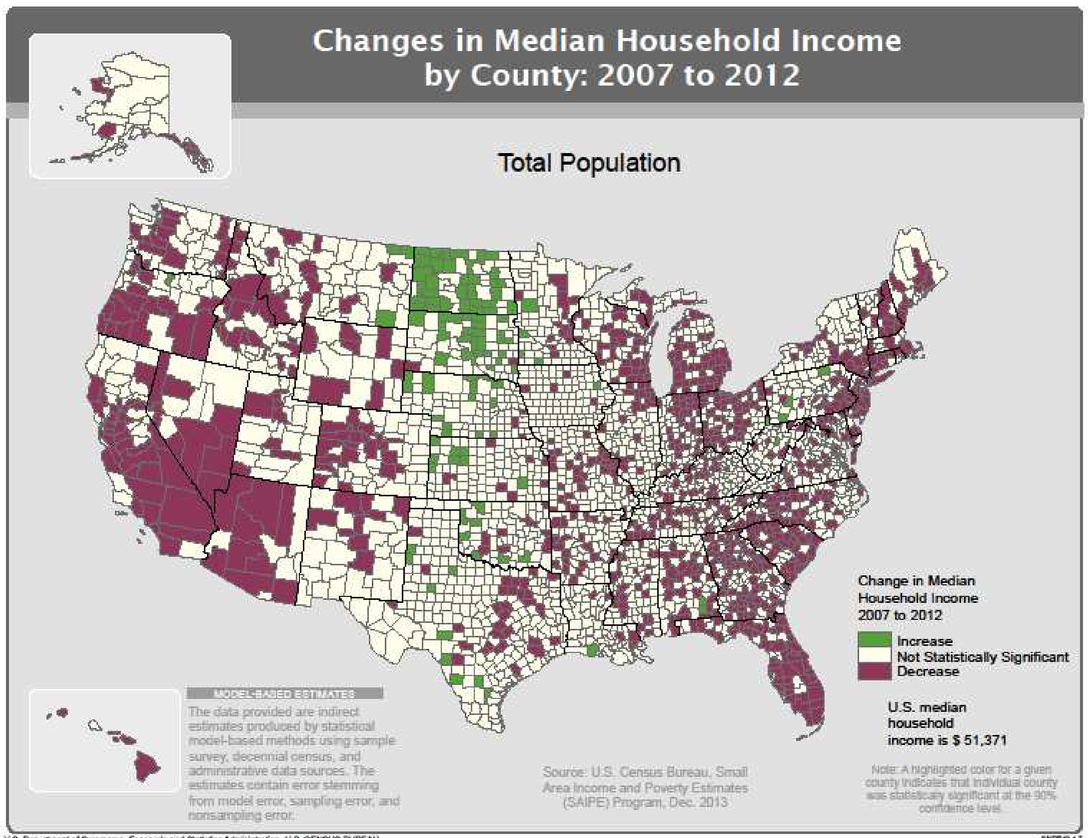
The decline in manufacturing hit Middle American states particularly hard because manufacturing was concentrated in these states. Around 2007, significant technological advances in drilling technology combined with the backdrop of higher oil prices made it economically feasible to produce oil out of oil shale (i.e., rock formations containing oil).

Shale oil is changing long-held beliefs. One change that is now widely agreed upon is that U.S. oil production will increase significantly. The chart to the right expands the data shown earlier by including projected oil output through the year 2040. This significant reversal in U.S. oil production taking place now was unthinkable ten years ago.



Source: U.S. Energy Information Administration

Most of the energy development is taking place in Middle American states where oil shale is concentrated. As a result, over the last five years, household incomes have held up better in the middle states than in the east or the west as shown in the chart below. (Green areas show increase in income, white show no change, and magenta shows decline in income).



There are significant investment implications of these changes. Rising oil production keeps a lid on oil and electricity prices and that supports higher economic growth. The beneficiaries are likely to be industries such as chemicals and fertilizers that use a lot of energy. Energy companies themselves may or may not benefit. Their rising production may be offset by lower prices thus making it difficult to increase profits. It is also likely that we will see a bit of a manufacturing resurgence in Middle American states. American labor has not seen the type of wage increase witnessed by Asian markets. That makes our labor more competitive when viewed in the context of its higher productivity and now combined with the benefit of lower energy prices compared to Europe or Asia. High Pointe's portfolios reflect these trends in terms of our increased weighting in industrial stocks in recent periods.

This energy-led boom is not likely to be long lasting. As the projected oil output chart shows, increase in oil production is likely to plateau within the next five years. Beyond that, once again the world will be searching for the next big commercially viable source of energy. In the meantime, Middle America will see resurgence. But, don't mistake this resurgence for a long-term trend and hold off on the urge to invest in a ranch in booming Montana. Shale oil wells deplete very fast and on the other side of this boom Montana will only have natural beauty, not secular economic growth.

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Investment Returns

Three of High Pointe's four products outperformed their respective benchmarks, net of fees, in 2013. The only exception was Small Cap Equity. The returns 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, 2013

	One Quarter	One Year	Five Years	Since Inception[2]
Small Cap Equity	6.8%	33.9%	23.2%	10.3%
Russell 2000 Index	8.7%	38.8%	20.1%	7.7%
Large Cap Growth	12.4%	34.3%	19.6%	8.7%
Russell 1000 Growth Index	10.4%	33.5%	20.4%	3.0%
Large Cap Value	9.9%	33.9%	17.8%	9.9%
Russell 1000 Value Index	10.0%	32.5%	16.7%	6.8%
International Equity	7.4%	18.3%	15.2%	3.6%
MSCI AC World ex US Index[3]	4.8%	15.3%	12.9%	2.4%

[1]*Performance for the latest quarter is preliminary and subject to change.*
[2]*Inception Dates: Small Cap – January 1, 1998; Large Cap Growth – August 1, 1999; Large Cap Value - January 1, 1998; 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 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 **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 **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 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 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 Index is comprised of 1,000 of the largest capitalized companies that are traded in the United States. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group. 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 6.8% during the fourth quarter and 33.9% for the whole year. Yet, these high absolute returns trailed the benchmark, the Russell 2000 Index by 1.9% and by 4.9% for the two time periods. During the year, security selection in the financial sector added value but was more than offset by weak stock selection in the materials and healthcare sectors.

Over the year our investment in the auto industry benefitted from adoption of comfort features in mid-priced cars. In the material sector, our investments in the precious metals industry were impacted by falling gold and silver prices while our investment in the fertilizer industry faced declining pricing power when a cartel of suppliers broke up. In the technology sector, our investment in the online salvage auction industry did not live up to its growth expectations.

During the quarter we increased our investments in the energy and consumer staples sectors and reduced our exposure to the technology and financial sectors. A number of changes were prompted by the appreciation of various holdings into midcap territory. In the technology sector, we sold an electronic equipment company that benefitted from strong growth in new products and a proxy voting company that performed well. The proceeds were reinvested in the semiconductor, electronic component and retail industries. We repositioned our energy sector investments into oil and gas equipment, exploration and renewable oil. In addition, in the industrial sector we reduced our investments in aerospace and machinery and reinvested the proceeds in business support services.

Large Cap Growth

High Pointe's Large Cap Growth strategy produced a return of 12.4% and 34.3% for the whole year, exceeding the Russell 1000 Growth Index by 2.0% for the quarter and by 0.8% for the year. During the year, security selection in the technology and healthcare sectors added value but was partially offset by stock selection in the energy sector.

During the year, our technology holdings executed well with our internet industry investment's strong international growth and our software industry holding's improved execution. In the healthcare sector, our investments in the pharmaceutical industry benefitted from pipeline progression and strategic acquisitions. In addition, our investment in the asset management industry experienced strong performance. However, our investment in the communications equipment industry suffered from weak demand and we sold it in favor of better opportunities.

During the quarter we increased our investments in the healthcare sector and correspondingly decreased our holdings in the technology and consumer staples sectors. Specifically, we sold a software company that had benefitted from higher recurring revenue as a result of its shift to subscription based pricing. We also repositioned our technology sector holdings out of semiconductors and communication services and into data integration software. In addition, we invested the proceeds in the airline and pharmaceutical industries.

Large Cap Value

High Pointe's Large Cap Value strategy produced a return of 9.9% during the fourth quarter and 33.9% for the whole year. The fourth quarter return lagged the benchmark by 0.1% but the full year return beat the benchmark Russell 1000 Value Index by 1.4%. During the year, security selection in the financial and consumer discretionary sectors added value but was partially offset by stock selection in the technology sector.

During the year, our banking industry investments performed well as long-term interest rates and profitability expectations increased. In addition, our brokerage industry investments benefitted from strong execution and increased investment and our insurance holding continued to improve its capital position. In addition, our pharmaceutical industry investment performed well as new management emphasized a focus on improving shareholder value. On the other hand, our oil and gas exploration and production industry investments were not able to improve execution to the level expected.

We did not make any changes to the portfolio during the quarter.

International Equity

High Pointe's International Equity strategy produced a return of 7.4% during the fourth quarter and 18.3% for the whole year, outperforming the MSCI AC World ex-US Index by 2.6% for the quarter, and by 3.0% for the year.

During the year, our investment in the Japanese brokerage industry performed well as market conditions improved. In addition, our investment in Japanese consumer electronics benefitted from restructuring efforts and a lower yen. In the financial sector, our investments in the UK banking and European life insurance industries outperformed as their capital positions improved. However, our investment in a Netherland construction company suffered because of revenue recognition issues at its Polish subsidiary.

During the quarter we increased our holdings in the financial and consumer discretionary sectors and reduced our investments in the industrial and telecommunication sectors. We also repositioned our holdings out of North America and into Europe. We reduced our investments in industrial conglomerates, construction, wireless telecommunications, packaged foods and outsourced services. The proceeds were invested in the automobile, banking, brewers, railroad and internet service industries.

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2013 was a wonderful year for equity investors, especially in the US equity market. Although valuations are not as attractive as they were a year ago, we do believe the discipline of staying invested while repositioning into higher quality stocks will serve us and our investors well in the coming year. Thank you for the opportunity to manage your assets!