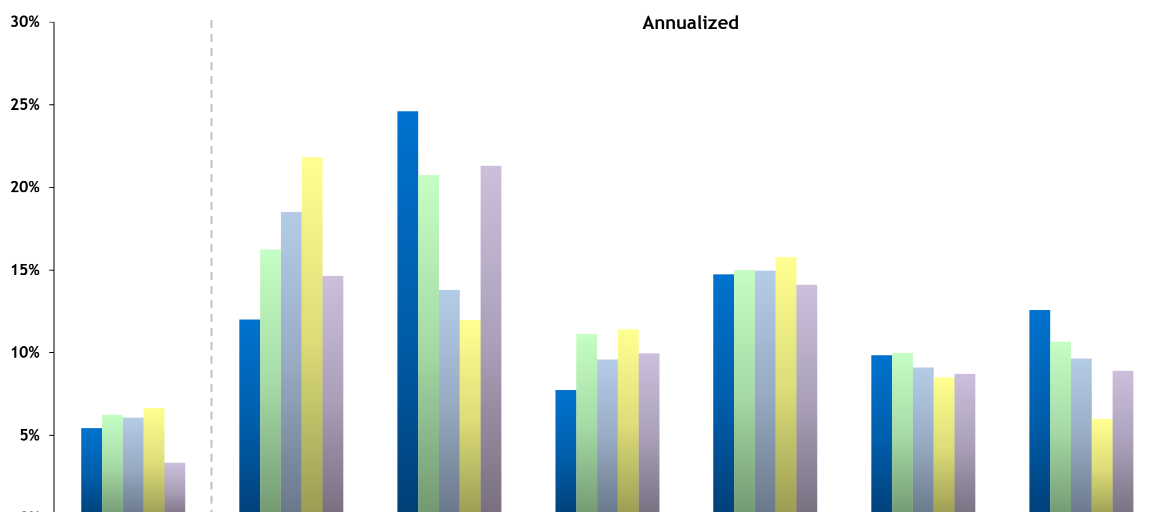
FAIRPOINTE CAPITAL

FAIRPOINTE MID-CAP CORE STRATEGY

4TH QUARTER COMMENTARY 2017

The Fairpointe Mid-Cap Composite returned 5.43% in the fourth quarter. In comparison, the S&P 400 MidCap Index was up 6.25%, the Russell MidCap Index increased 6.07%, and the S&P 500 Index was up 6.64%. For the year, the Fairpointe Mid-Cap Composite returned 12.01%, versus 16.24% for the S&P 400 MidCap Index, 18.52% for the Russell MidCap Index, and 21.83% for the S&P 500 Index. This represents a reversal from 2016 when the portfolio outperformed the benchmarks for the full year, returning 24.59% compared to 20.74% for the S&P 400 MidCap Index, 13.80% for the Russell MidCap Index, and 11.96% for the S&P 500 Index.



	4th Qtr 2017	2017	2016	3 Years	5 Years	10 Years	Since Inception**
Fairpointe Mid-Cap Composite *	5.43%	12.01%	24.59%	7.73%	14.73%	9.83%	12.56%
S&P 400 MidCap Index	6.25%	16.24%	20.74%	11.14%	15.01%	9.97%	10.68%
Russell MidCap Index	6.07%	18.52%	13.80%	9.58%	14.96%	9.11%	9.64%
S&P 500 Index	6.64%	21.83%	11.96%	11.41%	15.79%	8.50%	5.98%
Russell 2000 Small Cap Index	3.34%	14.65%	21.31%	9.96%	14.12%	8.71%	8.91%

* Net of Fees ** Performance represented from April 1, 1999

For all of 2017, growth outperformed value by a significant margin as the market extended the rally for a ninth year. In mid-caps, for example, the Russell MidCap Growth Index returned 25.27% versus 13.34% for the Russell MidCap Value Index. This represented a headwind for our portfolio, which in the current high valuation environment, is positioned toward value. Our portfolio's current value bias is primarily a relative phenomenon, reflecting the fact that the broader market is reaching ever higher levels, continuing to reward growth stocks, which – at their current lofty multiples – do not meet our long-standing valuation criteria. We take the long view and believe our valuation approach will generate strong long-term performance – which we have accomplished over an 18-year history, as shown in the above chart. Since November, our portfolio has outperformed the S&P 500 and the mid-cap category as the value of individual companies has been recognized by investors.

Portfolio Review

Of our forty-five holdings, eleven stocks increased more than 10%, including three stocks that rose more than 30% during the fourth quarter. Two stocks declined more than 10%. For the year, we had a significant number of stocks in the portfolio with positive returns, with 22 stocks up more than 10%, including 8 stocks up more than 40%. Ten stocks were down more than 10% for the year.

The top five contributors to performance in the fourth quarter were: Time Inc. (TIME), Akamai Technologies, Inc. (AKAM), Cree, Inc. (CREE), Teradata Corporation (TDC) and Domtar Corporation (UFS). We trimmed positions in these holdings.

Time, the leading U.S. consumer magazine company, announced an agreement to be acquired by Meredith Corporation (MDP) through a cash tender at $18.50 per share. We would have preferred a cash plus stock offer, to benefit from the investment Time made in the digital side of its business. We view Meredith as a good fit for the Time properties.

Akamai Technologies has a network of Internet servers located worldwide to provide content delivery and cloud infrastructure services to its customers. After an activist acquired the stock, the company hired an investment banker to review strategic options.

Cree is a leading supplier of light-emitting diodes (LEDs) for lighting-related and semi-conductor products. The stock is up on expectations that the new CEO can return the company to growth. New management is reviewing strategy, addressing execution issues, and cutting costs. The company is also benefiting from growing demand for their silicon carbide components, used in electric vehicles (EVs). These products aid in extending the range of EVs, allowing faster charging times, higher operating temperatures and reduced power loss.

Detractors from fourth quarter performance include: Office Depot, Inc. (ODP), The New York Times Company (NYT), Stericycle, Inc. (SRCL), Itron, Inc. (ITRI) and McDermott International, Inc. (MDR). We selectively added to some of these positions during the quarter.

Office Depot operates an office products and services company. A new CEO has been executing the long-term strategy of closing unprofitable stores and enhancing their strength in the fragmented business-to-business market. A shortfall in quarterly revenue caused doubt as to the company's ability to meet the stated guidance. In early October, the company announced the acquisition of CompuCom, a computer services company. Management plans to add the availability of computer services through the retail system to serve small and mid-sized businesses. Becoming a more service-oriented company enhances the longer-term growth outlook.

The New York Times Company, a global media organization, lagged in the quarter but was a top contributor for the full year, up over 40%. The company saw growth in the quarter in revenue up 6%, adjusted operating profit up, and net new digital-only subscriptions up by 154,000, bringing total paid digital-only subscriptions close to 2.5 million, while print advertising continued to decline. Total subscriptions (digital news, crossword, and print home delivery) were 3.5 million at the end of the quarter.

Stericycle, Inc. provides disposal services for medical and hazardous waste and sensitive document destruction. The company saw pricing pressure from increased competition in certain segments of its business during 2017. During the third quarter, the company initiated a comprehensive multi-year business transformation plan to improve long-term operational and financial performance. Throughout 2018, we expect increased cost cutting, planning related to implementation of an ERP platform and some restructuring at the company. This company's business is unique and the longer-term outlook for Stericycle remains positive.

Portfolio Changes

We eliminated our position in **Transocean** (RIG), an offshore contract drilling services company. While the company made significant strides in reducing its fleet and associated costs during the energy downturn, the outlook for the offshore deep-water environment remains weak. However, we added to our energy-related positions in Chicago Bridge & Iron and McDermott after both stocks declined in late December following the take-over announcement of Chicago Bridge & Iron by McDermott. We believe the merger represents a combination of two excellent product portfolios under a strong management team. Since the beginning of 2018, both stocks have moved up significantly.

Perspective and Outlook

The equity market has been supported by a strong economic backdrop and positive earnings growth even in the face of higher valuations. Domestic unemployment has continued to register new lows and the global economy is gaining strength. A favorable outlook for companies with more than 50% of their revenues coming from outside the U.S. is expected to continue due to stronger global growth and a weaker dollar. Tax reform passed into law in the U.S. reducing the tax rate for domestic businesses and marginally for individuals. The reduction in the corporate tax rate from 35% to 21% should favor smaller cap stocks whose earnings are more domestically based. Expectations for inflation and less accommodative monetary policies and a move toward protectionism may play a larger role in 2018 as the economic recovery matures. These factors could weigh on economic growth prospects and growth stocks in particular.

A stronger global economy and earnings growth are currently supporting valuations for the overall market, but pockets of overvaluation and undervaluation exist and will correct over time. We plan to take advantage of opportunities that might arise as expectations are tested during the current earnings season. In the meantime, we remain focused on keeping the portfolio attractively valued. The portfolio's 2018 P/E multiple is 16.4x and remains below the S&P 400 Index at 17.9X, the Russell MidCap Index at 17.6x and the S&P 500 Index at 17.8x. The portfolio's current price-to-revenue is near its all-time low at 0.9x, versus the S&P 400 Index at 1.4x, the Russell MidCap Index at 1.7x and the S&P 500 Index at 2.2x. This favorable valuation has resulted in merger and acquisition activity for our portfolio holdings. As mentioned above, in the fourth quarter Time agreed to be acquired by Meredith Corp. and McDermott and Chicago Bridge & Iron announced a merger. We also see Bunge as a potential acquisition target based on the discussions they had with Glencore International and more recently Archer Daniels Midland (ADM) expressed interest, setting up a possible bidding war with Glencore, according to the Wall Street Journal. The portfolio is attractively valued with good fundamentals.

Thank you for your continued interest and support.

Thyra E. Zerhusen, Chief Investment Officer
Marie L. Lorden, Portfolio Manager
Mary L. Pierson, Portfolio Manager
Brian M. Washkowiak, CFA, Portfolio Manager

January 2018

DISCLOSURE

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Composite Number of Accounts	Annual Performance Results Composite Gross	Annual Performance Results Composite Net	S&P MidCap	Russell MidCap	Composite Dispersion
2017	5,415	5,091	Seven	12.87%	12.01%	16.24%	18.52%	0.27%
2016	5,178	4,844	Eight	25.56%	24.59%	20.74%	13.80%	0.41%
2015	5,607	5,308	Eight	(9.74%)	(10.42%)	(2.18%)	(2.44%)	0.81%
2014	7,733	7,389	Seven	10.79%	9.97%	9.77%	13.22%	0.38%
2013	6,999	6,692	Seven	45.67%	44.58%	33.50%	34.76%	1.00%
2012	3,853	3,633	Six	17.76%	16.83%	17.88%	17.28%	N.A.
2011	3,398	3,210	Five or Fewer	(5.36%)	(6.10%)	(1.73%)	(1.55%)	N.A.
2010*	-	2,871	Five or Fewer	24.49%	23.50%	26.64%	25.48%	N.A.
2009*	-	1,493	Five or Fewer	66.28%	65.03%	37.38%	40.48%	N.A.
2008*	-	722	Five or Fewer	(42.05%)	(42.53%)	(36.23%)	(41.46%)	N.A.

* Information presented prior to May 1, 2011 pertains to portfolios managed by the Portfolio Managers while affiliated with prior firms. The presentation conforms to GIPS® guidelines regarding the portability of investment results.
N.A. – Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Mid-Cap Composite contains fully discretionary equity accounts that follow the mid-cap style. Mid-Cap Composite represents portfolios that seek long-term total return through capital appreciation by investing primarily in mid-cap stocks. For comparison purposes the composite is measured against the S&P MidCap 400 and Russell MidCap indices. The S&P MidCap 400 is a market value weighted total return index that represents the performance of the medium-capitalization sector of the U.S. Securities market. The Russell MidCap is a market value weighted total return index that represents the midcap segment which measures the performance of the 800 smallest companies in the Russell 1000 index. Both indices are representative of the types of equity assets invested by Fairpointe Capital. Market indices are unmanaged and do not reflect the deduction of fees. You cannot invest in an Index and the performance of the Index does not represent the performance of any specific investment. The minimum account size for this composite is $2.5 million. Prior to May 1, 2011 the account minimum was $5 million. Effective March 31, 2013, the account minimum has gone back to $5 million.

Fairpointe Capital LLC (Fairpointe) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Fairpointe has been independently verified for the periods May 1, 2011 through September 30, 2017.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Mid-Cap composite has been examined for the periods May 1, 2011 through September 30,2017. The verification and performance examination reports are available upon request.

Fairpointe Capital is an independent registered investment adviser. The firm maintains a complete list of composite descriptions which are available upon request. Please send inquiries to mkatauskas@fairpointecapital.com or call 312-477-3300.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. Market, economic, company, and industry specific conditions are considered during the investment selection process. This was a period of generally rising security prices.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all dividends, capital gains, and other earnings. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net of fee performance is calculated using actual fees. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The investment management fee schedule for the composite was 1.0% on the first $10 million and 0.65% on the remainder. Effective March 31, 2013, the fee schedule is 0.85% on the first $10 million and 0.65% on the remainder. Actual investment advisory fees incurred by clients may vary.

The three-year annualized ex-post standard deviation - December 31, 2017 - composite is 15.71% and 10.91% S&P MidCap and 10.36% Russell MidCap; December 31, 2016 - composite is 15.87% and 12.23% S&P MidCap and 11.55% Russell MidCap; December 31, 2015 - composite is 14.30% and 11.70% S&P MidCap and 10.85% Russell MidCap; December 31, 2014- composite is 13.4% and 11.1% S&P MidCap and 10.1% Russell MidCap; December 31, 2013 - composite is 18.4% and 15.0% S&P MidCap and 14.0% Russell MidCap; December 31, 2012 - composite is 20.6% and 17.9% S&P MidCap and 17.2% Russell MidCap; December 31, 2011 - composite is 25.0% and 21.9% S&P MidCap and 21.6% Russell MidCap, respectively.

The Mid-Cap Composite was created May 1, 2011. Performance presented prior to May 1, 2011 occurred while the Portfolio Managers were affiliated with prior firms and the Portfolio Managers were the only individuals responsible for selecting the securities to buy and sell.