FAIRPOINTE CAPITAL

FAIRPOINTE ESG EQUITY STRATEGY

1ST QUARTER COMMENTARY 2018

The ESG Equity Strategy was down 4.32% for the quarter. In comparison, the Russell 1000 Index was down 0.69% and the S&P 500 Index was down 0.76%. While our stock selection impacted our underperformance, value also continued to underperform growth again this quarter. For example, the Russell Midcap Value Index declined 2.50% while the Russell Midcap Growth Index returned a positive 2.17%. We think this trend has begun to turn, as we have seen positive performance in the second quarter.

First Quarter Review

Of our thirty-eight holdings, five stocks were up more than 10%, including one stock that rose more than 20%. Fourteen stocks declined more than 10%. Extreme volatility in the broader market contributed to the significant moves within the portfolio. The top five contributors to performance were: Westinghouse Air Brake Technologies Corporation (WAB), Bunge Limited (BG), Hewlett Packard Enterprise Company (HPE), Varian Medical Systems, Inc. (VAR), and Akamai Technologies, Inc. (AKAM).

Westinghouse Air Brake Technologies or Wabtec is a market leader of technology equipment for freight rail and passenger transit industries with a large customer base. We initiated our position during the first quarter, after the company pre-released a slight guide down in results. The stock first reacted negatively, which provided us with an attractive entry point. The stock then bounced back quickly, again reflecting the volatile environment, and we have already seen a nice gain in our position. As a new position, we will discuss the company in more detail below.

Bunge processes and provides logistics for agricultural commodities from farmers to customers. The positive performance this quarter has been driven primarily by take-over speculation (ADM and Glencore), although recent earnings continue to be weak. The announcement of their intention to sell their sugar holdings was also received positively. As a processor and logistics company, Bunge's environmental impact is modest. Their biggest risk and focus is on insuring that their suppliers are managing their labor and land use properly. Bunge has implemented strong supplier auditing procedures. We believe that Bunge has desirable assets as a leading provider in edible oils and a variety of agricultural commodities that will ultimately prove more valuable when agricultural prices improve.

Hewlett Packard Enterprise reported a strong first quarter under their new CEO, Antonio Neri. An increased dividend and a large buyback will be implemented with their strong free cash flow. As we are seeing disruption in the storage industry with the Dell/EMC integration, we think it's likely that HPE can gain market share. We have trimmed this position as it is approaching fair value. The company has high environmental ratings for its disposal of electronic waste and sourcing of conflict minerals. Sustainability and corporate citizenship have been core values at HPE and they receive a very good, overall ESG rating.

Detractors from our first quarter performance include: Patterson Companies, Inc. (PDCO), General Electric Company (GE), Dean Foods Company (DF), Lions Gate Entertainment (LGF.B), and Qualcomm (QCOM). We selectively added to all these positions during the quarter.

Patterson is the second largest dental products distributor and the largest animal health distributor in the U.S. The most recent quarter results were below expectations due to weaker than expected dental sales while animal revenues improved. Excessive cuts made to the dental sales force under the previous CEO impacted revenue generation. The new CEO, Mark Walchirk, has been adding sales personnel but it will take time before they are productive. We are scheduled to meet Mr. Walchirk later this month and believe he has a good grasp of the issues and has a plan to improve the dental results. Regarding ESG factors, Patterson is a leader in product quality and safety management among its peers and has a strong anti-corruption policy. Coupled with strong ESG rankings and the stock's current valuation, this is a very attractive holding and we have added to our position.

General Electric, a multi-faceted conglomerate, is focusing on a few of their core business units. Headline news has been negative as the financial statements required restatement, although the changes were not significant. We believe management will ultimately create a highly focused technology and healthcare company that is properly capitalized. At the current valuation the company is significantly undervalued and should provide positive returns. GE gets overall good marks for ESG with their corporate governance improving under new leadership.

Dean Foods continues to suffer from negative publicity around lower milk consumption and private label market share growth. Dean has invested in several small branded food and beverage companies that will provide future growth as they become more impactful to the bottom line. As the company restructures and focuses on improved productivity, near term expenses are higher but should benefit next year's earnings. The stock price trades at a 60% discount to the food group and below its historical valuation range. While it's hard to be patient, we believe it will pay off in the years to come. Meanwhile, an activist has taken a large stake in the company and may accelerate the timeline. Dean gets good marks for its social and governance practices and has a strong commitment to sustainability in working with local dairy farms and insuring humane animal treatment.

Portfolio Changes

We have slightly elevated turnover this quarter, as we position the portfolio with the best combination of highly ranked ESG names with attractive valuations. Six new holdings were added to the portfolio in the first quarter: Juniper Networks (JNPR), Meredith Corp (MDP), Molson Coors Brewing (TAP), Tegna (TGNA), Varex Imaging Corp (VREX), and Wabtec Corp (WAB). Our investment process includes a thorough review of the environmental, social and governance factors to assess management's approach to managing risk exposures. Also, we fundamentally evaluate the business, balance sheet and the valuation before a stock is added to the portfolio.

Our new position in Wabtec came from our watch list. They are one of the world's largest providers of technology components for the global rail industry. Its products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles as well as in more than 100 countries worldwide. The company's products enhance safety, improve productivity, and reduce maintenance costs. Many of their products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. With the acquisition of Faiveley Transport, they are well positioned to benefit from growth in the global transit rail markets and this should also provide significant opportunities for synergies. Their products enhance the transportation systems in both developed and emerging countries and offer environmental benefits. Wabtec has good corporate governance; the board and management have significant equity ownership and their compensation is tied to performance.

We eliminated four holdings: DXC Technology Company (DXC), Micro Focus International (MFGP), PepsiCo (PEP), and Walmart (WMT) in favor of more attractive investments. Our sell discipline is based on our ESG rating of a company and its valuation. These names did not meet our criteria.

Perspective and Outlook

The fundamental backdrop continues to be positive with the global economy remaining strong and domestic earnings continuing to grow at historically high rates. Volatility, at times extreme, returned to the market in the first quarter driven by trade policy uncertainty. The most recent conciliatory comments from China are indicative of the pattern of confrontation followed by negotiation that has characterized the current U.S. presidency and fosters uncertainty and volatility. In the past year, stock market performance has been driven by a small number of securities and value stocks have lagged. Lately we have seen a re-pricing of some of these high-priced growth stocks, and with the increased volatility in the market, it is becoming a better environment for stock pickers, where we have traditionally performed well. We continue to take advantage of market fluctuations to position the portfolio for long-term performance.

We expect our holdings to continue to generate earnings growth given a constructive economic backdrop. In addition, many of Fairpointe's holdings will benefit from corporate tax reform. We want to stress that our strategy remains one of investing in good companies that appear undervalued in the short term but have assets and management that can create value and long-term appreciation. Some business transformations have taken longer than anticipated. However, the recent rise of several of our holdings that had lagged in prior periods is indicative of value. We have also seen an increase in merger and acquisition activity. In addition to McDermott International (MDR) and Chicago Bridge & Iron (CBI) merger, there has been speculation about possible activity amongst several other portfolio companies, including Bunge (BG), Mattel (MAT), and Lions Gate Entertainment (LGF.B). Our emphasis on owning companies with strong fundamental businesses often makes these holdings good acquisition targets.

We remain focused on keeping the portfolio attractively valued. The portfolio's current P/E multiple of 2018 earnings is 14.7x and remains below the Russell 1000 Index at 16.2x. The portfolio's current price-to-revenue is near its all-time low at 0.8, versus the Russell 1000 Index at 2.1 and may lead to more merger and acquisition activity.

As there is more interest in ESG investing, we thought it might be helpful to reiterate our approach and how it's differentiated from other managers. The strategy incorporates a comprehensive evaluation of two key components: 1) ESG analysis and 2) fundamental valuation-based analysis. While we utilize external databases as an input to our research, we perform our own internal analysis of each company's ESG practices in addition to seeking out attractively valued companies. While this is incredibly labor intensive as ESG information is not yet standardized by any accounting regulations, it allows us to apply our own lens to a company and assess the management team and board, and the risk to the company's long-term value.

Ultimately, we believe we can provide long-term value for our clients through the integration of all environmental, social and governance factors and our fundamental, bottom-up approach. We thank you for your continued support and look forward to the coming years.

Thyra E. Zerhusen, Chief Investment Officer
Mary Pierson, Portfolio Manager
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DISCLOSURE

The ESG Equity Composite includes all fully discretionary equity accounts that invest in all cap equities with no fixed income exposure. The ESG Composite represents portfolios that seek to invest in companies that adhere to good environmental, social and governance practices. For comparison purposes the composite is measured against the Russell 1000 index. The Russell 1000 is a market capitalization-weighted index made up of 1,000 large cap stocks that account for upwards of 90% of the market capitalization of companies traded in the U.S. The index is 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.

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 December 31, 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 verification 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 any accounts that would no longer be 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 is 0.85% on the first $10 million and 0.65% on thereafter. Actual investment advisory fees incurred by clients may vary.

The three-year annualized ex-post standard deviation of the composite and the benchmarks are not presented because the composite did not exist prior to 2014.

The ESG Equity Composite was created January 1, 2018.