FAIRPOINTE CAPITAL

FAIRPOINTE MID-CAP CORE STRATEGY

3RD QUARTER COMMENTARY 2018

Market volatility continued in the third quarter, as concerns about trade wars and the global economic outlook persisted. Overall, however, U.S. equities had a strong quarter, driven by robust earnings reports, tax cuts, and share buybacks. We are pleased to report that our portfolio generated positive returns for the quarter, up 1.54%, but disappointed that we trailed the S&P MidCap 400 Index benchmark, which returned 3.86% over the same period.

Market Conditions Lining Up to Favor Value

Investor sentiment and market trends have favored growth and momentum-oriented equities relative to value stocks for the past few years. The fund flows into passive investments, index funds, and ETFs have amplified the performance divergence between growth and value stocks.

Several macro-economic factors, however, have recently indicated a possible shift from growth to value. A more restrictive monetary policy, rising inflation, and continued threats of a global trade war could produce a broader slowdown, which would likely create difficulty for growth equities and in turn favor companies with stronger long-term fundamentals, like those in our portfolio.

In addition, investors have begun to recognize the long-term earnings potential of many of our holdings. Our top performer for the past quarter, Unisys, is one example. Up 58.1%, Unisys has enjoyed strong returns because of management's sustained focus on long-term strategic goals. The recent increase was the result of improved services revenue and earnings in the second quarter. Unisys reported a backlog of $4.6 billion, up 27%. In early September, the stock was added to the S&P SmallCap 600 Index, which boosted the stock's returns even further.

Arconic, the second largest contributor during the past quarter, was up 29.8%. Despite its strong quarterly returns, Arconic still appears to have untapped value. While equity markets may not have fully recognized the value in Arconic, private equity investors have expressed interest in the company, which we view as a positive sign.

Another strong performer was Office Depot, which returned 26.8% during the third quarter and was our third best contributor. Its returns are largely due to some insider buying and the company's shift toward a more services-oriented model, including its purchase of IT specialist CompuCom in late 2017. Services now comprise approximately 16% of Office Depot's total sales, and we expect this business to contribute even more to the company's profits going forward.

In our second quarter commentary, we discussed the uncertainty created by the U.S. administration's tariffs. Fears of a global trade war continued into the third quarter and seem likely to persist for the foreseeable future, creating further uncertainty in the markets and increasing the possibility of inflation. Many companies have indicated that they intend to increase prices in order to pass on the higher costs from tariffs, raw materials, and labor to their customers.

Some companies had been protected from—and were even helped by—the initial round of tariffs, but even they are now having to grapple with the longer-term effects. This was a significant factor in Whirlpool's quarter, our portfolio's largest detractor, down 18.1%. Whirlpool's share of U.S. sales was protected by the first round of tariffs in 2017, which blocked the importing of cheap appliances that had flooded the market. As the tariffs have expanded, however, Whirlpool has had to pay more for steel and aluminum to make its products. We have confidence that the company's strong brand will enable it to pass these costs through, albeit with a two-quarter lag.

Our second largest detractor for the quarter was Panamanian airline Copa Holdings, down 14.7%. The company cited several economic factors for its decline—most notable among them was higher fuel costs. Other factors included currency issues in Brazil and Argentina—two of the airline's most important markets. A disruption of service in Venezuela has resolved, and the stock has subsequently rebounded. The company has an attractive valuation and favorable long-term prospects because it is the dominant Latin American airline.

Stericycle, down 10.1%, was the third largest detractor. The company is a leading provider of medical waste disposal and secure document destruction. While the company's business transformation and ERP implementation are in the early stages, management is acting with a sense of urgency that we believe will lead to long-term appreciation in the stock.

Nuance Communications and TEGNA also contributed to performance in the quarter, while New York Times Company and McDermott International detracted.

Portfolio Changes

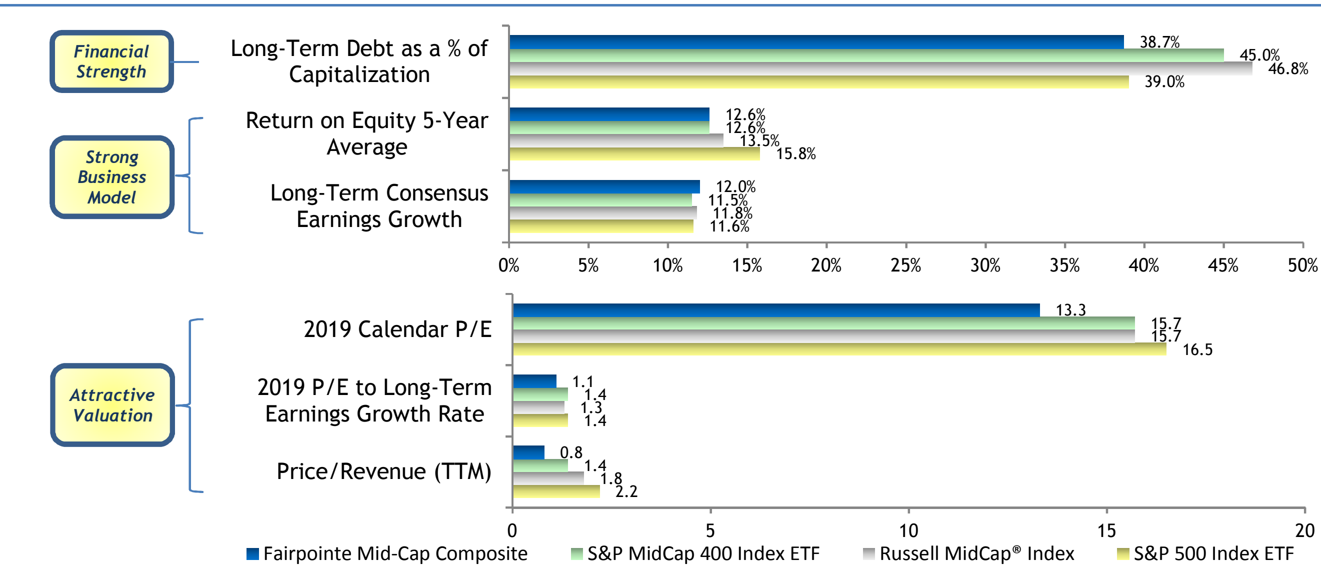
This quarter, we added Owens Corning and ManpowerGroup. In our assessment, Owens Corning is well positioned to raise its prices to offset higher operating costs. We acquired Owens Corning stock after the market over-reacted to what we consider short-term operational issues. This is our second opportunity to own the company, and we know it and the management team well. Even if housing starts slow due to higher interest rates, Owens Corning should remain relatively protected because only 12% of its revenues come from new home construction. We took advantage of a sharp decline in Manpower's stock price. The stock is suffering from uncertainty surrounding changes to the French labor subsidies that will be implemented in 2019. Based on our past ownership of Manpower, we expect the company will be able to offset declines in subsidies. In addition, the strong labor environment in the U.S. will help the company's revenues and margin profile.

Portfolio Positioning and Outlook

The below chart demonstrates the value within the portfolio. The consensus long-term earnings growth rate for our portfolio has improved to 12.0%, according to Zacks, which compares favorably to both the 11.5% rate for the S&P MidCap 400 Index and the 11.8% for the Russell MidCap® Index. This stronger earnings outlook is not yet reflected in the valuation of the portfolio, which continues to have a significant discount to that of the market – with a P/E of 13.3x 2019 projected earnings compared to 15.7x for both the S&P MidCap 400 Index and the Russell MidCap® Index.

PORTFOLIO FUNDAMENTALS

SEPTEMBER 30, 2018



The above information is based on a representative account. The information is provided for illustrative purposes only and is not indicative of the composition of any particular client's investment portfolio or its performance. Each client's portfolio will vary as to the investments held and their performance depending upon the client's particular needs and objectives. The above information is supplemental to a full presentation of the Mid-Cap composite. Further disclosures are found on the last page.

Source: Zacks

We have not changed our philosophy or process. Our stock purchases and sales remain guided by a fundamental bottom-up approach with a careful eye on valuation and long-term perspective. We continue to believe that attractive valuations, low debt levels, geographic diversification, and sustained earnings will be recognized by the market.

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

DISCLOSURE

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Composite Number of Accounts	Annual Performance Results Composite		S&P MidCap	Russell MidCap	Composite Dispersion
				Gross	Net			
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 June 30, 2018.

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 June 30, 2018. 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.