FAIRPOINTE ESG EQUITY STRATEGY

4RD QUARTER COMMENTARY 2018

As we mentioned in our previous letters, volatility was once again an impediment to positive returns during the fourth quarter of 2018. The Fairpointe ESG Equity Strategy was down 15.62%, while the Russell 1000 Index was down 13.82% and the Russell 2500 Index 18.49%. For the year, the strategy was down 15.72% compared to the Russell 1000, down 4.78% and the Russell 2500, down 10.00%. While 2018 was disappointing, we are encouraged by our positive performance through the first half of January. The ESG Equity Strategy is up 6.83%, while the Russell 1000 is up 4.40% and the Russell 2500 up 6.73% (through 1/15/2019). We realize this performance is short-term, nonetheless it is encouraging.

According to MSCI (latest report as of 11/30/2018), our fund scores in the top 5 percentile of its peer group with particularly high marks for our environmental positioning. The portfolio's weighted average carbon intensity is 68% below our peer group average and we have no exposure to fossil fuels. Our social score is also higher than the peer group and our governance score is in line. Also, all of our portfolio companies have a least one female director and 48% have three or more.

2018 was a year of significant news regarding ESG issues. First, the bad news: the government shutdown will impact food safety, drug approvals, EPA staffing and therefore oversight, and certainly federal employee morale. We saw progress stall on board emissions increased 3.4% after three years of declines as the effects of a strong economy outstripped the decline in coal power, due to increased trucking and jet use, and colder weather resulted in increased emissions from heating. Probably the biggest impact from climate change we saw was the recent filing of bankruptcy by PG&E in 2019. While they disclosed climate change as a risk, many investors ignored it. We believe more companies will be affected by climate change as we experience more storms, floods, fires and increased temperatures. We also saw an increase in dual-class shares IPO listings especially in the technology sector.

The good news: awareness has increased about the environment, climate, and diversity. Awareness is the first step in making change. Another bit of good news was the Task Force on Climate-related Financial Disclosures (TCFD) is gaining significant ground with over 460 companies and entities supporting it. We believe that these standards can help investors assess climate risks and encourage companies to manage them. Plastic bags and straws are being eliminated by using bans, fees or taxes (Kroger will eliminate all plastic bags {6 billion bags a year}, starting in Seattle). Electric cars continue to grow (even electric cars powered by coal grids are still cleaner than gas guzzlers). The historic wins for women in Congress in the mid-term elections demonstrated a win for diversity. And for football fans, this January, the first female officiated an NFL Post-season game (New England Patriots vs. The LA Chargers).

It's great to see women well versed in alternative energy technologies. Sometimes the old ways are still the best. In striving for convenience, we sometimes lose sight of the long-term consequences.

A recently published book "Drawdown-*The Most Comprehensive Plan Ever Proposed to Reverse Global Warming"* describes the 100 most substantive solutions to global warming. It's an interesting and enlightening list of ideas and reasoning. Number #6 is "Educating Girls" – On that note, Fairpointe is working with "Rock the Street, Wallstreet", which is a financial literacy program designed to spark the interest of high school girls into careers in finance. It is a great non-profit organization that is creating the next generation of Female Financiers. We are committed to helping the organization by providing financial education to Chicago girls.

The Portfolio

For the year, the best performers were Hormel Foods, VMware, Cree, Tractor Supply and Cisco Systems.

Hormel Foods shares rose on higher earnings and solid execution in 2018. We have significantly trimmed this position as the valuation is approaching fair value, and while it's MSCI ESG rating is good, our internal ratings are lower due to their carbon footprint and environmental impact associated with their product mix.

VMware reported stronger than expected results in their licensing segment as well as raised their guidance for the fourth fiscal quarter. They also announced a special dividend will be paid due to their strong free cash flow. VMware has made progress on many fronts, except governance. While their board is independent, the company is effectively controlled by Dell Technologies and we've actively voted our proxy to seek better corporate governance.

Cree shares were driven higher by strong semi-conductor demand. The company is expanding capacity based on long-term electric vehicle production forecasts and the ramp of 5G networks. Cree demonstrates awareness of ESG issues including transparency in its reporting. Their largest segment is focused on light emitting diode (LED) products which are significantly more energy efficient and contribute positively to furthering clean technologies. Their Wolfspeed segment which makes semiconductor products, has worked to improve the supply chain related to conflict minerals, from sourcing to tracking.

Detractors for the year were General Electric, McDermott International, Dean Foods, Lions Gate Entertainment and Patterson.

General Electric continues to move through its turnaround with its newly named CEO Larry Culp. The stock has been under pressure with concerns about liquidity after continued shortfalls in its Power division, as well as GE Capital's liabilities. The recent announcement of the acceleration of the Health Care IPO and other asset sales (Aviation Services and Digital) should reduce risk by lowering debt obligations significantly. Most likely restructuring has been disruptive to the morale of the workforce, so this continues to pose some risk as the process continues. Corporate governance has been significantly enhanced by recent board changes. The overall carbon footprint should improve with asset sales.

McDermott International announced additional charges to three legacy Chicago Bridge & Iron contracts that were already losing money. The projects are now over 80% complete and will be completed in 2019 and 2020. While the company has substantial revenue and cost synergies from the Chicago Bridge & Iron merger, we decided to eliminate the position to invest in a more favorably rated ESG company.

Dean Foods, the leading U.S. dairy supplier, reported disappointing results as they accelerated their focus on improving plant utilization, resulting in additional near term costs. The market for milk continues to be a battle over pricing between the branded and private label suppliers. Our thesis that the dairy market was stabalizing and Dean was expanding and diversifying their product line has not yet proven out . The company scores highly on social and governance metrics, and has set goals to improve their carbon footprint, sustainable packaging, and has zero waste targets.

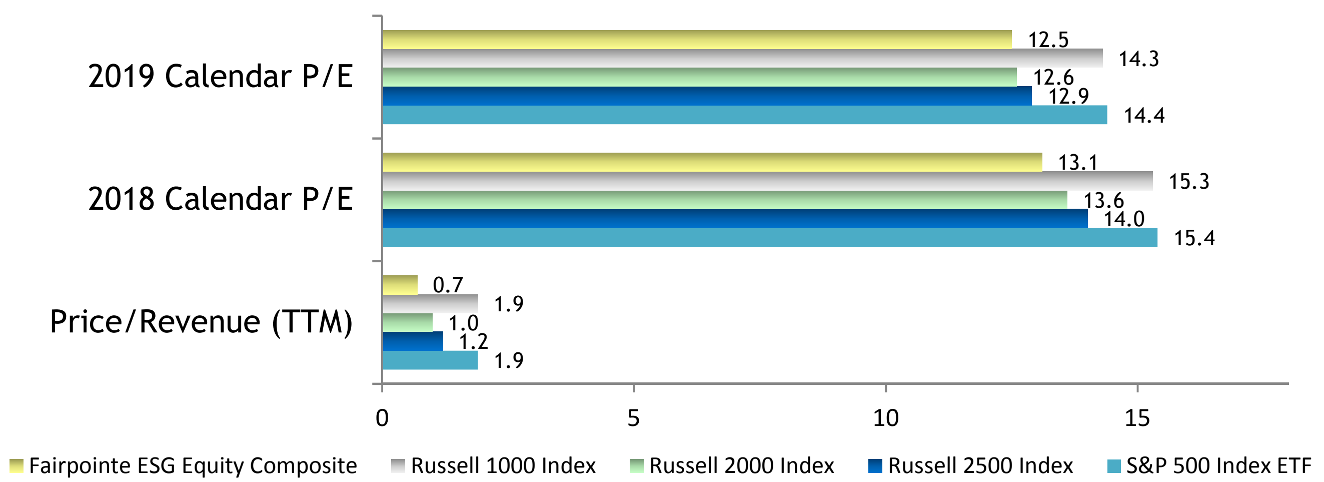
We initiated a new position in **Agilent Technologies** during the quarter. The company provides specialty instruments and reagents, as well as software and analytical services that are used in laboratories by both healthcare and industrial companies. Agilent's businesses generate high margins and strong predictable cash flow. The stock price pulled back on concerns over the slowing economy in China where Agilent has significant exposure. This pullback provided us with an attractive entry point into the position. We believe this risk was previously priced into the stock and the company should be insulated due to their product positioning. We ranked the company highly on all three ESG tenets. The executive team has been a good steward of capital: investing smartly in research and development, making accretive acquisitions, initiating share buybacks and paying dividends to shareholders. We are impressed with their effort to reduce energy and water usage, and their effort to divert waste from landfills. The company scores well on training and development as well as employee benefits and community service. The board is independent and diverse in gender, race and age. Lastly, Agilent was recently recognized by Forbes Magazine as one of America's Best Employers for Diversity 2019, ranking Agilent 53rd out of 500 companies[1].

We eliminated four positions: Kennametal, Legg Mason, McDermott International and WPP PLC. Our sell discipline is based on our ESG rating of a company and its valuation. These names did not meet our criteria.

Attractive Fundamentals

Currently, the portfolio's P/E for the 2019 calendar year is 12.5x. In comparison, the P/E for the Russell 1000 is 14.3x, the Russell 2000's P/E is 12.6x, the Russell 2500's P/E is 12.9x and the S&P 500's P/E is 14.4x. Further, our portfolio's P/E on the current calendar year is 13.1x, whereas the Russell 1000's P/E is 15.3x, the Russell 2000's P/E is 13.6x, the Russell 2500's P/E is 14.0x and the S&P 500's P/E is 15.4x. Using another measure, our portfolio's price-to-sales ratio is at 0.7x, compared to the benchmark's price-to-sales ratio of 1.9x, the Russell 2000's price-to-sales ratio of 1.0x, the Russell 2500's price-to-sales ratio of 1.2x and the S&P 500's price-to-sales ratio of 1.9x. The portfolio's low price-to-sales ratio may indicate that some of our holdings may benefit from merger and acquisition (M&A) activity, since they trade at such compelling valuations. Even if the market does not rebound, our portfolio can still be boosted on the attractive valuation and company fundamentals.

PORTFOLIO FUNDAMENTALS — DECEMBER 31, 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

Outlook

Looking ahead, we expect that volatility and economic uncertainty will continue to affect the stock markets. The next important statement will be fourth quarter earnings announcements, which should establish expectations for 2019. We will be paying close attention to those announcements, and we look forward to the touch of reality they will bring. We expect to continue our focus on company's response to climate change and its risks. We are also working through active engagement to enhance the diversity on the board and the executive suite.

Our concentrated portfolio with an emphasis on mid-cap stocks is a rather unique ESG strategy. A number of ESG offerings are focused on large-cap companies. We believe that our ESG focus in the mid-cap space integrated with our fundamental, bottom-up approach will reward conscientious investors over the long-term.

We appreciate your interest and look forward to a successful 2019.

Thyra E. Zerhusen, Chief Investment Officer
Mary L. Pierson, Portfolio Manager
Frances E. Tuite, CFA, Portfolio Manager

1.Forbes Magazine, *The Best Employers For Diversity 2019* (January 15, 2019).

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 September 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 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.