FAIRPOINTE CAPITAL

FAIRPOINTE MID-CAP CORE STRATEGY

4TH QUARTER COMMENTARY 2018

The past year was marked by a return of market volatility, as well as increased concerns about the global economy. Though we acknowledge the concerns over a broader downturn, we believe that falling stock prices have offered new buying opportunities—the likes of which have not been available in the U.S. markets for several years. Additionally, investors appear to favor fundamental, value-oriented stocks, which should benefit stock-picking approaches such as ours. For the fourth quarter, the Fairpointe Mid-Cap Composite was down 16.40% compared to the S&P 400 MidCap Index down 17.28%, the Russell MidCap Index down 15.37%, the S&P 500 Index down 13.52% and the Russell 2000 Index down 20.20%. We are off to a strong start in 2019, albeit a short period, the portfolio is up over 7% as of January 9th.

Uncertainty Continues, But Fundamental Value Based Investing Is Gaining Favor

Since we started this strategy in 1999, we have endured several periods of underperformance. The most recent period, however, has lasted longer than we expected. This has been partly due to the broad shift toward passive investing, which started a number of years ago and may have peaked in 2017. In this environment, stocks that performed well ended up performing exceptionally well, as more and more money moved into passive funds, which buy regardless of fundamentals. As a result, highly valued stocks enjoyed even higher prices—a trend that greatly favored growth and momentum stocks.

Recently, this trend has started to revert. Several months ago, value began outperforming growth. Investors are seeking fundamentally sound companies that offer attractive valuations. These might be traditional growth companies that are attractively priced versus their peers, or stocks that are attractive relative to their own pricing history.

Although we are encouraged by the turn toward fundamentals-based investing, the overall outlook is muted. This is partly due to recent economic news, especially inflation risk and Fed tightening activity, but most of the concern in our view is due to tariffs and unresolved trade policy.

As the U.S. struggles with economic and political concerns, Europe does not seem to offer a viable investment alternative. Germany has been the economic growth engine of Europe for the past several years, and its economic figures appear to be flagging. The country exports a significant amount of goods to China, including production and automation equipment for factories, all of which have slowed. This is because the growth outlook for China has become more subdued and has in turn affected the world economy. Italy’s economy is still struggling, Brexit is creating considerable uncertainty, and a combination of austerity measures and political turmoil are weighing on continental Europe. Although the U.S. market may show signs of softening, it could be in a better position than Europe.

In times like these, when volatility and uncertainty are the only constants, a return to fundamental, value-based investing becomes more relevant. Stock picking becomes more important. We have a long history of engaging with company managements, including frequent and in-depth conversations. Recent talks revealed considerable worries about tariffs on steel and aluminum driving up raw material prices. Many companies thought they would be able to pass on higher raw material costs to their customers, but that appears less viable. The slowing economy may mean that companies will need to absorb more of these costs than previously expected.

No one can predict if we have reached the bottom of the market downturn. We are currently doing the same thing we have always done. Though this is a difficult period, we have been through difficult periods before. Ten years ago, we experienced a most difficult period. It was 2008 and the global financial crisis was in full swing, and markets suffered tremendously. But from December 2008 through the end of 2018 — the portfolio has generated average annual returns of 13.8%.

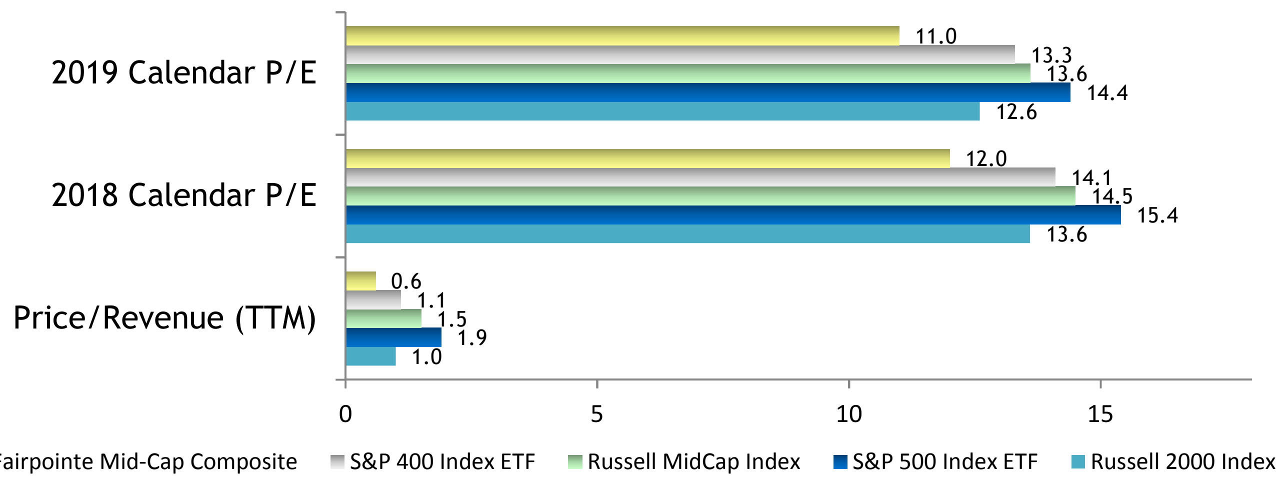
It is important to remember that what we did during the last market downturn paid off. We added selectively to existing holdings. Those purchases ultimately turned into significant gains for our investors, and we are taking advantage of similar opportunities right now. We believe that the current market volatility is a good environment for our investment approach.

Attractive Fundamentals

Currently, the portfolio's P/E for calendar year 2019 is 11x. In comparison, the P/E for the S&P MidCap 400 is 13.3x, the Russell MidCap's P/E is 13.6x, the S&P 500's P/E is 14.4x and the Russell 2000's P/E is 12.6x. Further, our portfolio's P/E for the calendar year 2018 is 12x, whereas major midcap benchmarks are at about 14x, the S&P 500's P/E is 15.4x and the Russell 2000's on current calendar year is 13.6x. Using another measure, our portfolio's price-to-sales ratio is at 0.6x, compared to the S&P MidCap 400's price-to-sales ratio of 1.1x, the Russell Midcap's price-to-sales ratio of 1.5x and the S&P 500's price-to-sales ratio of 1.9x. This is the lowest the portfolio's price-to-sales ratio has been since mid-2009 and 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 as a whole does not turn around, our portfolio can still be boosted in the interim based 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

For the year, the best performers were Hormel Foods Corporation, Cree, New York Times Company, Unisys Corporation and Adtalem Global Education. We eliminated Adtalem and reduced the other positions based on valuation.

Hormel Foods' shares rose on higher earnings and solid execution in 2018. Cree shares were driven higher by strong semiconductor demand. The company is expanding capacity based on long-term electric vehicle production forecasts. New York Times was driven by growth in digital subscribers. The company's content remains in high demand due in part to the news cycle in Washington DC.

Detractors for the year were McDermott International, Lions Gate Entertainment, Stericycle, LKQ Corporation and Mattel.

McDermott International announced additional charges to three legacy Chicago Bridge & Iron contracts that are losing money. The projects are over 80% complete and will be completed in 2019 and 2020. The company has substantial revenue and cost synergies from the Chicago Bridge & Iron merger. Insider buying was pervasive. Lions Gate's 2018 movie lineup was weaker than expected, and investors overreacted to that, in our view. The specter of "cord cutting" has also scared investors, and Lionsgate has been punished along with other content providers. Despite these short-term concerns, we believe that Lionsgate is significantly undervalued. That is why executives are adding to their personal holdings of the stock. Stericycle had a disappointing 2018 as earnings were impacted by price cuts in its medical waste business. While the valuation is compelling, we are analyzing the company for signs of an inflection in pricing trends.

Portfolio Positioning and Outlook

Looking ahead, we are encouraged by the strong fundamentals of the portfolio and we are well positioned for upside potential. 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.

Environmental, social and governance (ESG) investing topics have received a lot of press coverage recently. These are not new topics for Fairpointe. We have considered many ESG issues in our investment analysis and actively engaged in governance discussions for many years. Due to this focus, the portfolio has strong ESG characteristics.

Active investing requires patience and a long-term view. According to a study published by Morningstar[1], it is routine for a good manager to trail a benchmark for multiple years. We fully expect that we will underperform our benchmarks and peers from time to time. But we also expect that over the longer term, we will outperform as we have in the past. Our confidence comes from looking back to the last market downturn 10 years ago. We are approaching the market and company valuations as we always do, by identifying solid companies with strong balance sheets that are trading at discounted valuations. For these reasons, we believe it is a good time to add money to the U.S. equities and our portfolio.

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

1.Morningstar Manager Research, *How Long Can a Good Fund Underperform Its Benchmark? (*March 20, 2018).

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			
2018	2,935	2,770	Nine	(17.62%)	(18.25%)	(11.08%)	(9.06%)	0.24%
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.

* 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, 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 September 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, 2018 - composite is 16.63% and 13.32% S&P MidCap and 11.98% Russell MidCap; 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.