FAIRPOINTE CAPITAL

FAIRPOINTE ESG EQUITY STRATEGY

1ST QUARTER COMMENTARY 2019

The market rebounded strongly in the first quarter, leaving behind worries about trade, global growth and interest rates. The Fairpointe ESG Equity Strategy was up 13.2%, while the Russell 1000 Index was up 14.0%, and the iShares MSCI USA ESG Select ETF up 15.1%.

Over the past few months, the federal government has focused on ESG investing, insinuating that this approach is more about furthering a particular political agenda than it is executing a disciplined investment practice. In his latest executive order, President Trump ordered the Department of Labor to review how ESG metrics are used by institutional investors, especially in terms of proxy voting. In addition to this executive order, the Senate Banking Committee recently heard testimony on ESG investing, proxy voting, and investment management. Politicians assert that institutional investors use these metrics as an excuse to advance a particular ideology.

We strongly disagree with this assertion, and are supported by institutional investing giant BlackRock, who warned that every investor should consider "climate-related risks" as they evaluate investment opportunities. We believe that long-term financial performance will be affected by a company's ESG behavior. Or, as Rahki Kumar of State Street Global Advisors put it, "We're not playing politics with investments. We're in the business of considering material information."[1]

Climate change can impact a company's physical assets through extreme weather events, its price of raw materials and commodities, as well as the overall demand for its products. These are just a few of the factors that we attempt to assess when reviewing a company for inclusion in our ESG strategy. The recent flooding of farms in the Midwest is a recent example of damage to farmland, crops, animal welfare that all have a very high cost. Recently there was proposed legislation in NYC that will significantly impact real estate costs by requiring a reduction in energy usage. Buildings are a big source of greenhouse gas emissions for heating, cooling and lighting. As companies get serious about reducing their impact to the environment, there will be short term and long- term costs and benefits that will need to be assessed.

First Quarter Review

For the first quarter, the best performers were TEGNA Inc., Mattel, Inc., General Electric Company, International Business Machines Corporation and The New York Times Company.

TEGNA reported better than expected results due to subscriber gains and continued revenue from political advertising (the company operates 47 television stations and 2 radio stations in 39 markets). We believe the stock has even further potential due to TEGNA's strong broadcasting business and expected growth from local programming initiatives. Political advertising is expected to pick up significantly with the upcoming 2020 election, which should further boost the company's revenue and earnings. In addition, the company receives "A" ratings on all ESG factors based on our internal research and is especially notable for its gender diversity and good corporate governance measures. TEGNA's stock remains undervalued due to investors negative perception around "cord cutting," a concern that clouds the outlook for many cable and broadcasting companies.

Mattel shares rose on better than expected earnings reports during the quarter and additional anticipated profit improvements in 2019. We believe the company is well positioned to generate even higher profit margins as the management team continues its turnaround plan. In addition, Mattel kicked off its Dream Gap Project which is an ongoing global initiative that includes funding research, highlighting positive role models and producing inspiring content and products. We believe that such efforts will help Mattel remain relevant to consumers as trends and attitudes change.

Last quarter, **General Electric** was one of our worst performers, and this quarter, we are pleased to report that it is one of the best. The stock price rose due to encouraging results in 4Q18. The company posted better-than-expected overall revenue and strong results from its aviation business. These results offset some of the challenges faced by the conglomerate's power and financial businesses. The company has committed to improving planning and execution within its power business and has announced plans to sell off its profitable health care and Baker Hughes businesses. Overall, investors have reacted positively to the company's attempts to tighten its balance sheet and improve its performance. In terms of their ESG profile, the recent sale of the company's transportation business and their biopharma business has reduced GE's overall carbon footprint while also improving their balance sheet. A major transformation is still underway, but the company has made significant progress.

Detractors for the quarter were Bristol-Myers Squibb Company, Dean Foods Company, HP Inc., Juniper Networks, Inc. and Scholastic Corporation.

Bristol-Myers Squibb announced the acquisition of Celgene, which created some controversy as several shareholders wanted to block the deal, probably in the hopes that BMY would be the target of a takeover instead. We viewed the acquisition favorably because Celgene had an attractive valuation and brought a strong product portfolio. In terms of its ESG profile, Bristol-Myers has been setting sustainability goals since the 1990s, beginning with targeted environmental objectives. Today their 2020 goals include a long and diverse list of targets that includes patient access, increased diversity in the work force, reduced water consumption, lowered GHG emissions, and many more initiatives.

Dean Foods continues to struggle as consumers move away from branded milk in favor of private labels and milk alternatives, such as oat or almond milk. In addition, the company's cost-cutting efforts have not kept pace with its declining revenues, and with the decline in the stock price, rumors of a takeover have surfaced since the end of the quarter. Despite these challenges, we believe there is significant value in the company's plant and distribution assets, as well as in its dairy brands, which include Dairy Pure, TruMoo, and Friendly's ice cream, to name a few. Dean initiated sustainability goals in 2008, and since then the company has made significant strides by increasing its recycling efforts, improving its packaging, and reducing waste. The company has also improved the gender diversity of its workforce and increased the percentage of women in senior management positions.

Hewlett Packard's stock price declined following disappointing quarterly results from the company's high margin printer supply business. However, HP continues to make good strides in its sustainability efforts. The company is ramping up is collection and reuse of plastics and other components in its manufacturing of printers, ink cartridges, and personal computers. HP's innovative closed-loop recycling program is a key component of this effort. To date, HP has used more than 784 million HP cartridges, 4 billion recycled plastic bottles, and more than 86 million plastic hangers to manufacture new HP ink and toner cartridges. Today, over 80 percent of HP ink cartridges and 100 percent of HP LaserJet toner cartridges contain recycled plastics. In 2017, HP expanded this closed-loop recycling approach to manufacturing printers and will soon produce computers with this same technology. In addition, HP is strongly committed to educating consumers about the benefits of using recycled products in manufacturing.

We initiated a new position in Donaldson Inc. and ResMed Inc. during the quarter.

Donaldson was bought in March when the stock overreacted on disappointing results for the second fiscal quarter. The company's primary business is manufacturing filters that clean the air and liquids from particles that cause harm to the environment. ESG factors are all a part of Donaldson's corporate actions. Their greenhouse gas intensity declined 10% in 2018 by utilizing solar panels and reducing their gas consumption. In addition, they have initiated an effort to improve diversity within the company. In 2018, 18% of employees were minorities, 32% of the workforce was female, as was 25% of corporate employees. We believe the company's leading position in filtration and recurring revenue is undervalued based on its prospects and outlook. Overall, Donaldson offers us an attractive opportunity to marry performance with good corporate behavior.

ResMed was purchased when its stock price dipped at the end of the quarter. The company's mission is to improve the quality of life for people affected by sleep-disordered breathing and COPD, to prevent the progression of these diseases, and to reduce the healthcare costs associated with these diseases by keeping patients out of the hospital and safe and healthy at home. ResMed sells equipment, supplies and services to treat and monitor pulmonary levels. The company has a strong growth outlook as there is a large market opportunity. We find transparency of ESG metrics high and have seen improvements in greenhouse gas emission intensity as well as good corporate governance.

We eliminated three positions: Hologic, Hormel Foods and VMware. Our sell discipline is based on our ESG rating of a company and its valuation. These names did not meet our criteria.

Outlook

Even as markets performed well in the first quarter of 2019, the broader economic outlook shifted somewhat. The Fed expressed concerns about slowing U.S. economic growth during its March meeting and announced that it expects no additional interest rate increases in 2019. This is a change from its previous outlook, which anticipated at least two to three more increases over the next year. Most Fed officials now expect a single rate increase in 2020 and zero increases in 2021.

Global economic growth is still a concern. Multiple trade negotiations remain ongoing and unpredictable, and Brexit is clearly a concern for investors. The concern is not so much focused on the UK separating from the EU, but rather the tremendous amount of uncertainty that the entire situation has caused. And, as any seasoned investor knows, markets hate uncertainty.

Rather than become distracted by these uncertainties, we remain focused on the strength of the companies within the portfolio and our position relative to the benchmarks. MidCap growth continued to outpace value. In our view, this out-performance is mostly the byproduct of the massive shift toward passive index funds, which hold stocks based on algorithmic rules, rather than specific stock information. To put it another way, the rising tide of passive funds has lifted the boat of many stocks that are not well positioned for growth. Our portfolio remains relatively undervalued, and we believe this is an exciting time for active management styles that focus on identifying individual companies that are attractively valued and poised to generate long-term growth. We expect to continue our focus on companys' response to climate change and its risks. We also continue to engage management teams and boards to encourage diversity on the board and the executive suite.

Whereas many ESG strategies focus on large cap stocks, our concentrated portfolio, which a strong focus on mid-cap companies, is relatively unique. We believe that this emphasis, combined with a fundamental, bottom-up investment process, positions our portfolio to generate strong, long-term results for our investors.

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

Thyra E. Zerhusen, Chief Investment Officer
Frances E. Tuite, CFA, Portfolio Manager
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1.BARRON'S, *Trump Is Pushing for a Review of How Pensions Use ESG Metrics* (April 12, 2019).

DISCLOSURE

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Composite Number of Accounts	Annual Performance Results Composite		Russell 1000	Composite Dispersion
				Gross	Net		
2018	2,935	9.9	Five or Fewer	(15.01%)	(15.72%)	(4.78%)	N.A

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, 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 2015.

The ESG Equity Composite was created January 1, 2018.