FAIRPOINTE CAPITAL

FAIRPOINTE ESG EQUITY STRATEGY

2ND QUARTER COMMENTARY 2019

In the second quarter, the ESG Equity Strategy returned 1.1%, while the Russell 1000 Index increased 4.2%, and the iShares MSCI USA ESG Select ETF 3.4%. Stock selection in the consumer discretionary sector contributed to most of the portfolio's underperformance. Despite the underperformance, we have strong conviction that our portfolio is undervalued on both an absolute and relative basis when measured by earnings and revenue multiples compared to our benchmarks.

Second Quarter Review

For the second quarter, the best performers were QUALCOMM Incorporated, Owens Corning, ManpowerGroup Inc., Quest Diagnostics Incorporated and TEGNA Inc.

QUALCOMM's political and legal issues have resulted in volatility in the stock price this year. The recent settlement with Apple removed the overhang of uncertainty and resulted in a large gain in the stock. We believe that the market continues to misprice these risks and opportunities for the company with their leading 5G product portfolio and we continue to hold the position.

Owens Corning shares rose after reports that an activist investor is pressuring the company to explore strategic alternatives. The news highlights the value that we recognized in the stock. It trades at a discount to the value of its leading market share positions in its three business segments (roofing, insulation and composites) and long-term earnings potential. We continue to see significant value in this position. Post quarter end, they reported better than expected results in their roofing segment.

ManpowerGroup, an international staffing company, reported a quarter that gave the market confidence that the revenue trends were stabilizing after tough results in Europe. We continue to expect operating margin improvement from prior investments in systems and technology infrastructure.

Detractors for the quarter were Dean Foods Company, Lions Gate Entertainment Corp, Scholastic Corporation, Teradata Corporation and Mattel, Inc.

Dean Foods has made progress on its restructuring initiatives and believes it will be free cash flow positive in the second quarter and for the year. Additionally, in February they increased their flexibility by additional availability under their revolving credit facility. Their debt, while sizeable, does not mature until March 2023 and is unsecured. The company has rejected at least six unsolicited bids for their plants and ice cream unit, highlighting the significant value in the company's plant and distribution assets, as well as the dairy brands. There is a Swiss activist holder with a 10.4% stake in the company which supports our opinion that there is value in the business. Since the end of the quarter the stock has rebounded significantly.

Lions Gate's situation is misunderstood due to the market's short-term focus, which tends to overlook the company's astute strategic planning. Currently, the company's Starz network has 25 million domestic subscribers through cable providers and streaming services, and the company is planning to build on its domestic success and expand its international subscriber base. In fiscal 2020, Lions Gate intends to spend $125 to $150 million to attract international Starz subscribers, targeting an increase from 3 million to 20 million over the next five years. This investment represents a substantial opportunity to increase the company's value. In addition, the company's unique content makes it an attractive strategic takeover target. Because of these factors, we added to our position in the quarter.

Scholastic, the world's largest publisher and distributor of children's books and educational products, reported a disappointing quarter and lowered their 2019 outlook. Two of the three factors were one-time events that we are not concerned with, the third is a competitive issue in their book club business that while disappointing, is not material to the overall value of the franchise.

We initiated new positions in Adtalem Global Education (ATGE), Commercial Metals Company (CMC) and Pentair plc (PNR), during the quarter.

Adtalem Global Education is a Chicago company focused on nursing, medical and veterinarian training, professional training, plus Brazilian business schools. The CEO, Lisa Wardell, has dramatically reshaped the company and reduced their risk exposure with the sale of DeVry and Carrington (which had accreditation and funding issues that was under great scrutiny). The demand for doctors, vets and nurses continues to grow and Adtalem is positioned well. Softness in their fiscal third quarter allowed us to initiate a position in this strong free cash flow generating business. We believe the issues in their Brazil segment will be resolved over the next year by either a sale of this segment or more clarity on government funding. Their mission of focusing on education is a benefit to society at large.

Commercial Metals, a steel and metal manufacturing company, has a female CEO and CFO and 30% of its board of directors are women. These statistics are especially notable given Commercial Metals' 100 year history and being in a traditionally male oriented industry. Of course, we are not just interested in the company because of its governance structure. It utilizes 96% recycled metals in its process of manufacturing components for infrastructure projects and bridges, keeping significant tonnage out of landfills. Their greenhouse gas emissions are less than a half of the industry average due to their processes and use of electric furnaces. The recent acquisition of the Gerdau steel assets will bring significant synergies that we believe are unappreciated by the market.

Pentair, a filtration company, provides water solutions that improve the efficiency of use (reducing, reusing, or recovering water) and improves water quality through purifying processes. The company had a shortfall in its first quarter due to weather and an inventory buildup that we believe is a short-term issue and created a buying opportunity. Corporate governance has improved by separating the CEO/Chairman role as well as bringing on new board members.

We eliminated our positions in **Tractor Supply Company**. In general, our sell discipline is based on our ESG rating of a company, its fundamentals, and its valuation. This name was performing well on all metrics but was no longer undervalued.

Governance Highlight

Fairpointe Capital is part of the Thirty Percent Coalition, an advocacy organization, composed of asset managers and institutional consultants, that brings attention to the low number of women on corporate boards of directors. Its name is derived from its goal: it encourages companies to have 30% of their board positions filled by women. Membership in the 30% Coalition is important for us, as we can unite with other investors and obtain greater leverage on governance structure.

We recently attended a meeting of the Coalition in Philadelphia that brought together members from different parts of the investing industry, with the focus on results from the latest rounds of proxy voting. The organization also coordinates a letter writing campaign, targeting companies who have one woman, or none on their boards. The intent is not to create quotas or mandates, but instead to point to the growing body of evidence that indicates that companies run better with more women on their boards. This is not coming from an ideological perspective, but instead from the point of view of long-term investors who want the companies in their portfolios to be well positioned for the future.

We enact these principles in our investment process at Fairpointe. All of the portfolio companies held in our ESG strategy have at least one female director on their board and our portfolio average is at 28% female directors.

We also pay close attention to diversity at the c-suite level. This is important for several reasons. First, it is difficult for women to get appointed to a board of directors if that company does not prepare women for leadership positions through training and promotions. Further, research indicates that business units deliver better results when they consist of individuals from diverse backgrounds. "Group think" can easily develop when executives share the same background and experiences. This means companies can miss both exciting new opportunities as well as have exposure to significant risks. Companies are not required to disclose their c-suite diversity, but based on our own internal work, our companies on average have 24% female and 76% male.

Perspective and Outlook

Our strategy is to invest in a concentrated portfolio of undervalued stocks that have strong or improving ESG characteristics as determined by our internal research effort. We believe that good ESG practices will lead to better performance over the long term while minimizing downside risk. Based on research by PRI (Principles for Responsible Investment), 62.6% of the studies they examined, show that there is a positive correlation between ESG factors and financial performance. We spend a considerable amount of time researching the fundamentals of each company in our portfolio, as well as researching their environmental, social and governance practices, to create a unique group of companies that offers financial performance and good ESG factors.

Because we are long-term investors and are not deterred by short-term price volatility, our portfolio is often inexpensive relative to the benchmark, but due to the market's strong preference for growth and momentum stocks over the past several years, this disparity is about as wide as it's ever been. We do not know precisely when the market will appreciate value stocks over growth, but we are confident that our time will come.

More specific to today's uncertain global backdrop, our commitment to frequent and in-depth conversations with company management teams has become even more critical. We believe it is imperative to understand and assess how economic trends as well as tariffs will impact our holdings. If the tariffs persist, we expect companies to adjust supply chains and production locations over time and that prices for goods and services will increase. Companies may decide to reduce capital investment due to the ongoing uncertainty which can contribute to an economic slowdown. Under this scenario, we will continue to manage the portfolio as we always have—by investing in stocks where short-term concerns offer the highest long-term value appreciation potential.

Thank you for your continued interest and support.

Thyra E. Zerhusen, Chief Investment Officer
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Brian M. Washkowiak, CFA, Porfolio Manager

ESG EQUITY COMPOSITE

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Composite Number of Accounts	Annual Performance Results Composite Gross	Annual Performance Results Composite Net	Russell 1000	Composite Dispersion
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.