FAIRPOINTE MID-CAP STRATEGY

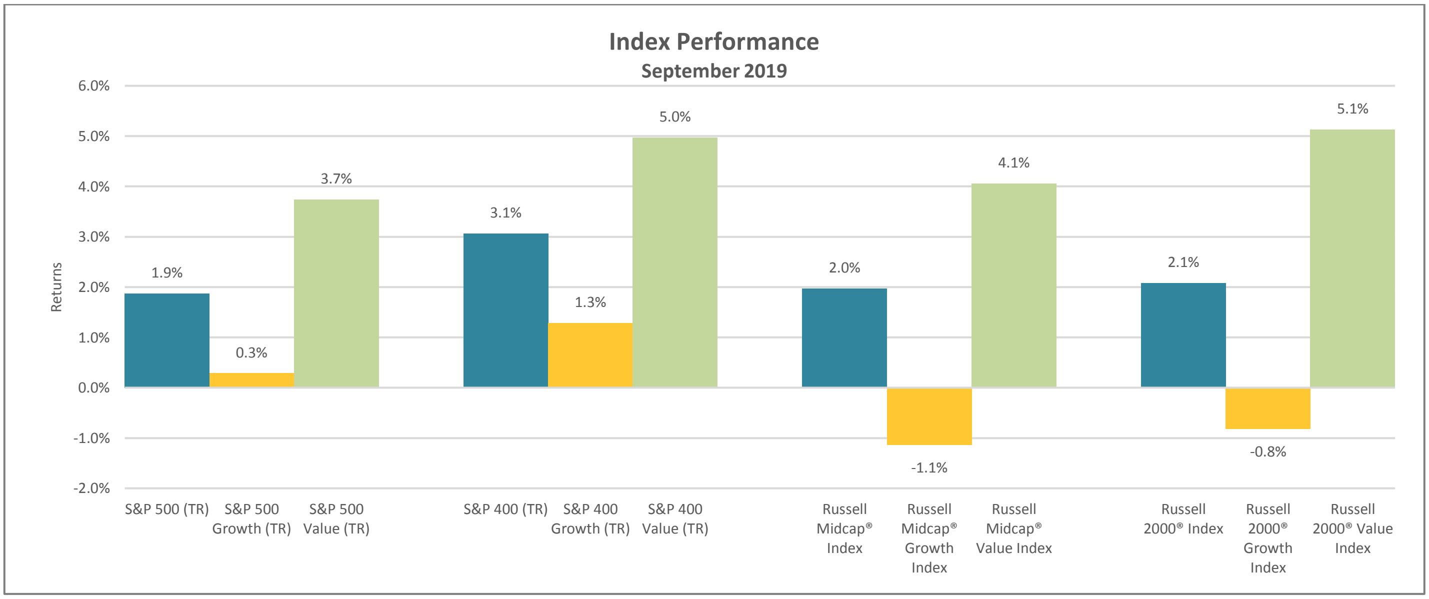
3RD QUARTER COMMENTARY 2019

IS THIS THE BEGINNING OF THE LONG-AWAITED ROTATION?

Market Environment & Our Performance

In September, value investing significantly outperformed growth. During the month, the S&P 400 Value Index increased an impressive 5.0%, while the S&P 400 Growth Index was up 1.3% and the S&P 400 Index was up 3.1%. Growth stocks have dominated the market for four out of the last five years. In fact, the disparity between growth and value in August was at levels not seen in the market since 2000 – 2001. We expect this gap to close. When this happens, active managers who have remained focused on fundamental value-based investing will be rewarded.

The strategy in September had a total return (net of fees) of 5.5%, compared to the S&P 400 Index return of 3.1%. Particularly during the second week of September, we saw our portfolio do well. The chart below illustrates the September shift towards value.



Source: S&P / Russell Indices Websites

Our strong September performance did not make up for a difficult August. For the quarter, the strategy was down 5.5% (net of fees) compared to the S&P 400 index, which was down 0.1%. The underperformance was largely due to three stocks that lost substantial value based on problems specific to each of these companies, discussed in greater detail on the following pages.

At Fairpointe, we are stock pickers. We manage high-conviction, concentrated portfolios. Our mid-cap strategy typically includes no more than 50 stocks, and the top ten holdings of that strategy often comprise approximately 30% of the total portfolio. We build the portfolio stock by stock, and each holding is weighted according to our conviction. Our clients hire us because they are seeking an active manager that uses proprietary research to make meaningful investments. This approach distinguishes our strategy from larger, less concentrated, and more passive approaches. But it also means that—even when just a few of our holdings disappoint, as they did this quarter—our overall performance can be substantively affected. We will not always be right in our selections. Sometimes, companies or management teams don't perform as expected. Other times, a holding may take too long to reach full value, and we decide our assets could be better deployed elsewhere.

It is an integral part of our investment process to continually assess our holdings and estimates of each company's fair value. When a stock significantly underperforms, we diligently review our valuations and projections. At times, this review will cause us to exit a position, and at other times, it might reveal that we have the opportunity to invest further in a solid business that is selling at a discount. A vital part of our process is recognizing when we are wrong and refocusing our assets accordingly.

The power of active, concentrated strategies is that they can deliver significant outperformance, especially when market trends shift. For instance, in 2015, the market favored momentum and growth stocks over value stocks, raising them to ever higher valuations. The precipitous drop in oil prices and slowing growth in China had a dramatic impact on companies in the materials, industrials and energy sectors. As a result, our portfolio underperformed. Many of our portfolio companies used a tough 2015 environment to gain market share, cut costs and strengthen their balance sheets. In 2016, the portfolio benefitted from these actions, especially as the macro environment stabilized, and we saw an end to the energy-led recession. We also benefitted from strong stock selection. For the year, 2016, the strategy's performance (net of fees) was up 24.6% versus the S&P 400 and Russell MidCap Indices, up 20.7% and 13.8%, respectively. When broader markets are in an upswing, passive investing can perform well for investors, but as valuations become excessive and markets are more volatile, passive approaches become far riskier. Our portfolio is poised to benefit from changes that will occur when the market recognizes that passive exuberance is overdone.

Third Quarter Review – Winners, Losers, New Additions and Gone but not Forgotten

Winners

The top five contributors to performance in the quarter were LKQ Corporation (LKQ), Werner Enterprises, Inc. (WERN), Whirlpool Corporation (WHR), Molson Coors Brewing Company (TAP), and Jabil, Inc. (JBL). We trimmed our positions in each of these stocks to secure long-term gains.

LKQ provides aftermarket, recycled and refurbished parts to repair and accessorize automobiles and other vehicles. The company expanded geographically from North America to Europe through acquisitions. Its current challenge is to integrate the operations and improve profitability. The company made a recent presentation to investors detailing its strategic plans for Europe, which was well received. We view these developments positively, and the stock has appreciated. We still like the longer-term trend of using recycled parts driven by LKQ's cost advantage.

Werner Enterprises is one of the nation's five largest truckload carriers and logistics providers. We believe Werner has a strong management team in place that has demonstrated solid operating results. Although second-quarter numbers were slightly below expectations, Werner management expects improved industry conditions in the second half of the year. The stock price increased and is approaching fair value.

Whirlpool is the world's leading manufacturer of home appliances: laundry, kitchen and other small domestic appliances. Its major brands include Whirlpool, KitchenAid, Maytag, Jenn-Air and Amana. The company's operating margins have improved and overall results have exceeded expectations in each of the last four quarters. In July, the company increased guidance for earnings for the full year. The company's debt is being reduced from the sale of its compressor business. The stock price has increased due to these favorable events.

Losers

The five largest detractors from performance during the third quarter were Cars.com, Inc. (CARS), McDermott International, Inc. (MDR), Meredith Corporation (MDP), Lions Gate Entertainment Corp. (LGF.A and LGF.B), and Patterson Companies, Inc. (PDCO).

Cars.com provides an online digital platform that connects consumers with local automobile dealers across the country. Its revenues are derived from automobile advertising. The company's board of directors conducted a strategic review, including the potential sale of the company, for almost a year. In August, this strategic review was completed, and although 29 interested parties came to the table, there was no sale of the company. In addition, the company announced disappointing results for the second quarter. This was not the outcome we anticipated.

We still think the company has substantial value. Digital automotive advertising is a large and growing market, and Cars.com is a leading player. The company is poised for improved cash flow generation. With the major distraction of putting the company up for sale out of the way, management is now focused on gaining market share. We added to our position during the quarter, as did senior management and board members at the company.

McDermott is a large integrated provider of engineering, construction and technology solutions to the energy industry. This stock was our top contributor to performance in the second quarter. The company signed several large contracts in 2019 and execution at two very large existing projects improved. However, debt associated with the 2018 Chicago Bridge & Iron (CBI) acquisition was an overhang. The company completed a strategic review and announced plans to divest the tank storage business and the U.S. pipe fabrication business. The proceeds would reduce leverage and improve working capital.

The sales of the tank storage business and the bulk of the U.S. pipe fabrication business have taken longer than expected and are likely to result in less proceeds than management initially anticipated. As a result, the company faced a cash flow short fall. It now appears that the company may be forced to sell one of their best assets, Lummus Technology, a very profitable and stable part of the business.

We eliminated our remaining position in the stock during the quarter due to our concerns about the company's financial health.

Meredith produces print magazines and digital media, and it operates 17 television stations located throughout the U.S. The company completed the acquisition of Time, Inc. in January 2018. We like the assets, particularly the local television stations, which we think are attractive due to the burgeoning interest in political news, much of which is accessed through local TV stations.

The company announced results in early September and reduced earnings guidance. We continue to think the long-term outlook for Meredith is positive due to its improving profitability, deleveraging and the unrecognized value of the television stations. However, the timeline has been pushed out. We added to our position in the stock.

New Additions

We added **Adtalem Global Education Inc.** (ATGE) to the portfolio. We owned this stock in the portfolio previously (from 2012-2018), but while the company has changed significantly, we believe the new focus is under appreciated by the market. Led by a high energy CEO, Lisa Wardell, Adtalem sold DeVry University and is now focused on professional education for healthcare, financial services, business and law. The company also supplies secondary education in Brazil, and, if sold could be a catalyst for the stock. Although results for the fourth quarter and fiscal year were in line with expectations, there was some concern about margin pressure in the first half of fiscal 2020 due to increased marketing expenditures. These concerns caused the stock to decline, which provided us with an attractive entry price.

We also added **Corning Inc.** (GLW), a leading supplier of glass products for optical communications, consumer electronics displays, and automotive applications, to the portfolio. We see the company as a leader in glass technology, particularly the "Gorilla Glass" used for smart phones. We also like the positioning the company is doing for the arrival of 5G. Management reduced near-term expectations for two of its business segments twice during the quarter. Investors were disappointed with these revisions, and the stock declined. However, the longer-term outlook for Corning is positive, and we took advantage of this lower stock price to initiate a position.

Gone but not Forgotten

We eliminated **McDermott**, as mentioned above. We also sold our holdings of **AGCO Corporation** (AGCO), a manufacturer of agricultural equipment, based on valuation.

Perspective and Outlook

Even though the U.S. economy continues to grow, we remain concerned about geopolitical risks, the trade war, slowing economic growth in Europe and China, and the overall impact of these conditions on the U.S. economy. The Federal Reserve has lowered the fed funds interest rate by one-quarter point twice in the past three months. Many U.S. companies are reluctant to invest in their businesses given the uncertainty. The volatility has allowed us to take advantage of adding several high-quality companies to the portfolio.

Throughout the year, we have made several deliberate changes to the portfolio. It is now more focused with 44 holdings compared to 47 at the beginning of the year. We have improved our balance sheet profile with the average debt to capitalization ratio at 36% (39% as of 12/31/2018), while our weighted average market cap increased to $8.1 billion from $5.9 billion. We believe we are well positioned for the future. All of us at Fairpointe are invested in the strategy and aligned with you, our clients.

Thank you for your continued interest and support.

Fairpointe Investment Team

DISCLOSURE

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Composite Number of Accounts	Annual Performance Results Composite Gross	Net	S&P MidCap	Russell MidCap	Composite Dispersion
2018	2,935	2,755	Eight	(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 and Russell MidCap indices. The S&P MidCap 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 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 Mid-Cap composite has been examined for the periods May 1, 2011 through December 31, 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.