FAIRPOINTE CAPITAL

FAIRPOINTE MID-CAP STRATEGY

4TH QUARTER COMMENTARY 2019

Performance and Positioning

In the fourth quarter, the strategy returned 5.7% (net of fees), rebounding from the previous quarter, which included a particularly trying August. For the year, the strategy increased 16.2% (net of fees). A mid-teens annual return would typically be a good year. However, the portfolio underperformed on a relative basis for the year as the result of an extended period in which investors have strongly favored growth and momentum stocks with less regard for valuation. As active managers with a concentrated portfolio, periods of both outperformance and underperformance are to be expected, but this current phase has continued for an unusually long time. We have used active management to our advantage, though, and made changes to the portfolio that, along with the recently improved performance of fundamental value stocks, leave us confident about the future. We have thoroughly reviewed our assumptions and risk and reward of each of our holdings and have improved the portfolio, which we highlight in more detail below.

In 2019, we generated seven new ideas and eliminated thirteen positions. These changes improved the fundamentals of the portfolio. The average long-term debt-to-capitalization ratio is now 35.5%, compared to 38.6%, as of 12/31/2018. We believe a strong balance sheet can help a company weather downturns and provide more flexibility. In addition to investing in companies with stronger balance sheets, the portfolio's average net profit margin has increased 100 basis points while the average return on equity has improved 50 basis points. The expected growth of the portfolio has also increased. Our process has always favored growing companies, but we do not want to pay too much for growth. In the past twelve months, we have opportunistically added new names to the portfolio and eliminated several laggards. All of these improvements to the portfolio should position it well for future outperformance.

In order to take advantage of attractive investment opportunities, we have also increased our market capitalization and tightened our parameters around quality. In 2017 we updated the market capitalization range of the strategy to be more aligned with the Russell Midcap range of $2 to $35 billion (from $1 to $15 billion previously). This change expanded our investable universe and gave us more opportunities in the midcap space. As a result, the weighted average market cap of the portfolio has increased from $5.9 billion at the end of 2018 to $8.8 billion today. We expect that for the foreseeable future the weighted average market cap will remain between the S&P 400's $6.1 billion and the Russell Midcap's $17.5 billion. This increase in market capitalization, combined with the improved fundamentals, could decrease the portfolio's volatility.

An advantage of investing in midcap stocks has been that the portfolio had 35 takeovers in its 20-year history. While this averages out to 1.8 takeovers per year, the frequency has not been linear. Some years had no takeovers, and some years had four or more. While five of our holdings had takeover news during the last two years, none were consummated. To some extent, this is likely a reflection of the uncertainty related to trade and tariff policies. It's hard to imagine another year like 2019.

Fourth Quarter Review

In the fourth quarter, the top five contributors to performance were Mattel, Inc., Cars.com, Inc., Northern Trust Corporation, LKQ Corporation, and Varian Medical Systems, Inc.

Mattel exceeded consensus expectations for its most recent quarter as its financial turnaround continued to progress positively. Management raised the low end of its 2019 EBITDA* guidance by $50 million to $400 million. We believe the company can double EBITDA* in the next few years as revenue growth from core brands accelerates and cost savings take hold. We expect the company to make progress in reducing debt in 2020. These factors should lead to significant upside in the stock price.

Cars.com reiterated 2019 guidance in the most recent quarter and announced partnerships with GM, Hyundai, and Mitsubishi to potentially develop websites for more than 5,300 dealers across the US. For perspective, the company currently has a total customer base of 18,635 dealers. There are tailwinds to earnings in 2020 as spending on affiliate conversions was completed last year. We expect the company will increase free cash flow in 2020 and reduce its debt. The stock is attractively valued relative to its peers, as well as to our assessment of its private market value.

Northern Trust is a strong fee-based bank that continues to benefit from increasing levels of assets under custody and administration. We first acquired this position in 2011, and it has provided considerable gains throughout the years. We have reduced our position based on valuation.

The five largest detractors to performance were Teradata Corporation, Meredith Corporation, Molson Coors Beverage Company, TechnipFMC plc, and Adtalem Global Education Inc.

Teradata took one step forward and two steps back in the quarter. Our patience has been tested as the company goes through a transition to a software subscription model. In the long term, the software model should be more predictable, profitable, and valuable than the company's prior business model based on one-time license fees. Recurring revenue now accounts for 75% of total revenue, and this revenue grew 10% year-over-year in the quarter. The other 25% of Teradata's revenue is generated from hardware and consulting sales, and this revenue has declined due to the company's change in strategy. In hindsight, we initiated our investment too early in the company's transition, but we expect Teradata's total revenue will grow and its profitability will improve.

Meredith did not meet its promised cost synergy targets in 2019. The company continues to digest the Time acquisition, selling non-core assets and reducing debt. In the most recent quarter, the company reiterated fiscal 2020 guidance. The potential upside, using a sum of the parts valuation, is approximately $43 per share up 34% from the year-end price of $32.47. We also view Meredith's local television business as an underappreciated asset in a consolidating industry.

Molson recently appointed a new, well-respected CEO and changed the company's name to Molson Coors Beverage Company (from Molson Coors Brewing Co.) to better reflect its strategy. Fiscal 2020 will be a transition year as the company invests in marketing and new products. During the coming year, the company will introduce new premium light beers, hard coffee, and fruit-flavored malt beverages, which we expect will improve its top-line performance. Shares trade at an attractive absolute and relative valuation and pay a 4.3% dividend yield.

Three new positions, National Instruments Corporation, Pentair plc, and QIAGEN NV, were initiated in the fourth quarter. **National Instruments** is a leading provider of automated test equipment and virtual instrumentation software. We are attracted to the company's long-term growth opportunities, which are driven by the increasing complexity of autos, airplanes, and electronic consumer products. The company generates 20% plus EBITDA margins and has a debt-free balance sheet. The stock under-performed in 2019 due to global uncertainty driven by trade wars. We believe the long-term outlook is currently under-appreciated. **Pentair** designs and manufactures solutions that improve access to clean and safe water and also help reduce water consumption. We were happy to gain relatively inexpensive entry to the exciting water quality and conservation market after investors overreacted to short-term weather-related events, which drove down demand for Pentair's products. **QIAGEN** offers end-to-end advanced molecular testing solutions to navigate the research process faster, better, and more efficiently. We view Qiagen as a high-quality company that offers unique, high-margin products and has stable consumables sales. Investors soured on the stock when management concluded a strategic review without taking action, but the company's strong underlying fundamentals remain intact.

EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization

Six positions were eliminated: Gentex Corporation, Itron, Nuance Communications, Cerence, Office Depot, and Stericycle. Gentex goes back on our internal watch list as we still like its market-leading position in interior and exterior auto mirrors, in addition to its product innovation, robust profit margins, strong balance sheet and effective management team. On the opposite end of the spectrum, while Office Depot offered significant value due to its free cash flow generation, its growth was limited, so we eliminated the position.

Portfolio Outlook

The portfolio is well positioned for the new year. Our portfolio consists of companies that have strong business models and sound fundamentals, which we acquired at attractive valuations relative to their long-term earnings potential.

As we look back on the past year, we are struck by the unusually high amount of uncertainty in terms of regulatory, trade, economic, and political issues. There are encouraging signs that in 2020 there will be a return to fundamental investing. On the macro front, the US and China have recently reduced trade dispute rhetoric; the Fed seems willing to keep the U.S. in cash; unemployment is low; wages are growing; and the housing sector is looking healthy. We are hopeful this will lead to more confidence and drive companies to invest in both organic and inorganic growth. Many mid-cap companies find themselves "land-locked" in the current environment and are facing challenges expanding beyond their home markets. We expect more companies will look for mergers of equal opportunities and seek to use their stock as acquisition currency in order to create an enhanced credit profile for the combined company. Put another way, as uncertainty decreases and companies gain strength and liquidity, they will return to more aggressive M&A. On the whole, we expect the calming of trade disputes, a strong economy, and a pickup in mid-cap company M&A to benefit our portfolio in 2020.

As a result, we believe that 2020 will be a smoother and better year for stable returns than 2019 was; however, we recognize that with the upcoming US presidential election, we cannot be too certain about how the year will unfold. Rather than overreact to static and noise, we will, as always, actively monitor our watch list for attractive opportunities that can arise from short-term earnings and macro disruptions.

Thank you for your interest and support. We wish you a prosperous 2020.

Fairpointe Investment Team

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			
2019	1,347	1,198	Five or Fewer	17.00%	16.20%	26.20%	30.54%	0.72%
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.

* 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, 2019 - composite is 17.84% and 14.46% S&P MidCap and 12.89% Russell MidCap; 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.