FAIRPOINTE ESG EQUITY STRATEGY

1ST QUARTER COMMENTARY 2020

Like the rest of the world, we too have been saddened by the global pandemic and its significant impact on lives, and people's livelihoods. As a result of this unprecedented set of events, markets around the world have dropped rapidly and precipitously. During the first quarter of 2020, the Fairpointe ESG Equity Strategy was down 27.06% (net of fees).

Even with the increased popularity in ESG investing, it is still often perceived as supplemental—an "extra" layer that certain investors use to support their values but not a reliable source of competitive returns. In times of crisis, ESG investing may seem expendable as investors clamor for returns and worry about preserving their capital. However, Goldman Sachs reported that ESG products enjoyed robust inflows in February—after the COVID-19 outbreak had become more widespread—continuing the strong trends for ESG investing seen throughout the latter portion of 2019. This suggests that attitudes toward ESG investing may be changing and investors seem to be embracing the notion that ESG principles can be a valuable approach during downturns as well.

We have a series of news stories that we want to highlight that we believe underscore the critical place that ESG factors should have in investment portfolios:

Environmental: There has been a great deal of coverage on how the pandemic has reduced carbon emissions, especially in China, as well as a surge of reports of animals thriving in urban spaces around the world again. Indeed, such stories are moving, but there is evidence that they will be short lived. For example, China has ramped up industrial production above normal levels as it has eased restrictions, and we expect that other countries will experience a similar uptick in emissions as their economies reopen. In addition, the rapid drop in oil prices has certainly hurt fossil fuel stocks, but lower oil prices may serve to entice companies to stick with fossil fuels, rather than pursue innovative renewable energy options. The changes outside of industrial sectors may be more positive, however. The shift to telecommuting required by COVID-19 might prompt many companies to embrace more wide-ranging work-from-home programs, a shift that environmental activists have long called for. Additionally, the low interest rate environment, buoyed by central banks, could help support long-term infrastructure financing for clean power systems and enable certain industrial sectors to decarbonize as they seek to optimize supply chains that have been disrupted by COVID-19.

Social: Of all the components of ESG investing, social issues have received more attention during the COVID crisis than perhaps any other. Worker safety has been closely followed, as news stories proliferate about essential workers and those on the "front lines" grappling with a shortage of protective equipment and other safety measures. In addition, some companies' bungling of workplace safety issues has received wide condemnation. Most notably, Smithfield Foods was forced to shutter a South Dakota pork packing facility after hundreds of its workers (over 800 as of this writing) tested positive for the virus in April. Workers at the facility reported worrisome conditions, including a lack of hand sanitizer and masks, as well as a disregard for physical distancing guidelines. Closing the plant generated harsh criticism, as this one site produces approximately 5% of the nation's pork, and its closing could significantly affect meat supply. It is clear that any company that believes that short-changing worker safety in order to generate bottom-line "savings" is playing a dangerous game. At this critical juncture, workplace safety is not just about preventing accidents on the job; it requires protecting workers from a potentially lethal virus. Workplace outbreaks, even if not on the level of Smithfield's, could significantly damage a company's reputation, as well as its stock price.

Governance: Corporate governance decisions have also come under increased scrutiny in the wake of COVID-19, especially as several large companies have requested government bailouts. Over the past several years, many boards of directors have allocated capital for aggressive stock buyback programs and now find their companies significantly overleveraged during an economic crisis. Had these companies practiced better governance and deployed their capital more judiciously they would not need to beg for cash now. There is probably no better example of this behavior than Boeing. Over the past seven years, the company has spent over $40 billion in stock buybacks. In addition to these financial decisions, management rushed the Max 737 to market. Even before COVID-19 struck, the company was in trouble, but now the travel industry has been decimated. Passenger travel has fallen more than 90%, and Boeing's customers are rapidly cancelling their orders. In turn, the company asked the US government for a $60 billion bailout for the aerospace industry. Yet Boeing's woes have clearly not been caused by the pandemic alone, but are rather the culmination of a decade's worth of poor decisions to prioritize short-term gains. There is perhaps no clearer picture of the importance of corporate governance today than Boeing—a former titan of American industry and ingenuity, now saddled with debt and a tarnished reputation.

Although every component of ESG investing has been highlighted in the wake of the global pandemic, it is important to note that our investment approach cannot be broken down into three distinct, isolated categories. All three components overlap and affect one another. ESG investing provides more than a set of quantitative measures of three factors; rather it offers a holistic view of company culture and strategy. We evaluate our companies quantitatively and qualitatively, speaking frequently to company management teams, clients, and other investment professionals, in order to ascertain which companies, have the best structures and plans in place to remain viable amid changing global conditions. As the COVID-19 crisis demonstrates, companies that value sustainability and long-term growth are well-positioned to weather tremendous difficulties.

Portfolio Changes

In terms of specific actions during the quarter, we added nine new names to the portfolio (Check Point Software Technologies Ltd, Federal Signal Corp, Gilead Sciences, Hexcel Corp, LKQ Corp, Middleby Corp, Charles Schwab Corporation, SeaWorld Entertainment, Tractor Supply) and eight positions were eliminated (Cisco Systems, General Electric, Hewlett Packard Enterprise Co, IBM, QIAGEN NV, SeaWorld Entertainment, Teradata Corp, Unilever PLC). We will highlight one name this quarter in greater detail.

Gilead Sciences is a large biopharmaceutical company that focuses on antiviral drugs**.** They are committed to socially and environmentally responsible production of medicines that improve and save lives worldwide and have developed drugs that has helped reduce the epidemic of AIDS and hepatitis. They currently have an older drug in testing to determine if it might treat COVID-19; although that was not our original thesis for purchase, it has buoyed the stock recently. They are on the forefront of thinking about their impact on the climate, and the world's population. Gilead serves emerging markets with an equitable pricing mechanism based on affordability in these countries. They have also has identified ten Sustainable Development Goals that are the at the core of their mission and values, including aggressive efforts to lessen their climate impact, and impressive goals and results with diversity and inclusion. Their balance sheet has net cash and the valuation is quite attractive relative to its market opportunities and strong intellectual property portfolio.

The portfolio benefited from an increase in merger and acquisition activity. During the past quarter, one of our holdings had a takeover offer, and another holding is in a bidding process. We purchased QIAGEN NV at the end of December, and at the beginning of March, it was announced that the company would be acquired by Thermo Fisher Scientific. With the announcement, QIAGEN 's stock price increased over 20%. One of our longer-term holdings, Tegna, a broadcasting station company, has recently received several takeover offers at approximately $20 per share. In our view, the company can be successful without a deal, as the experienced management is executing their business plan well. The stock price should see $20 per share without being acquired. Regardless, the increase in merger and acquisition activity within the portfolio is an encouraging sign as other investors recognize the value of our portfolio companies.

Our year-to-date improvement in relative performance gives us some reassurance that we can continue to make sound decisions during this difficult period. And in fact, our portfolio managers have increased their own personal investments in the portfolio.

First Quarter Review

In the first quarter, the top five contributors to performance were QIAGEN NV (QGEN), Charles Schwab Corporation (SCHW), Check Point Software Technology (CHKP), Gilead Sciences, Inc. (GILD) and Akamai Technologies, Inc. (AKAM).

QIAGEN offers end-to-end advanced molecular testing solutions to navigate the research process faster, better, and more efficiently. In the first quarter, the company received a takeover offer from Thermo Fisher Scientific at a 20% premium. We viewed the valuation as fair and we exited the position as we did not want to take the regulatory approval risk of the deal not closing.

With a focus on customer service and technology, **Charles Schwab** has grown to over $3 trillion in assets on its platform. We believe the company will continue to gain market share and grow its assets and customer base. Good trading volumes has helped the stock performance.

Check Point Software, a recent addition to the portfolio, performed well in an environment where most employees are now working from home and concern about security continues to increase. With a solid financial position and great cash flow, this company should continue to thrive in the current uncertain environment.

The five largest detractors to performance were Cars.com, Inc. (CARS), Meredith Corporation (MDP), Hexcel Corporation (HXL), Mattel, Inc. (MAT) and Westinghouse Air Brake Technologies Corporation (WAB).

CARS' revenue is generated from auto dealer subscription services and national advertising. We expect demand to be adversely impacted in the near-term until the crisis abates. Although, we believe that data provided to dealers about buyers will come increasingly valuable as auto dealer inventories build during this crisis.

Meredith, a media company, has struggled to integrate its acquisition of TIME Inc. Meredith's stock has a large percentage of passive ownership in ETF dividend strategies. These ETF's have various rules, like market cap minimums, and payout ratios, that can create forced selling. With both the market cap reduction and dividend suspension, there has been enormous selling pressure on the stock. While overall advertising has weakened, Meredith's focus on consumer product companies and pharmaceuticals advertisers, a solid subscription base with its magazines, and good cash flow from its local new stations, should allow them to weather this storm.

Hexcel's stock price declined due to the extraordinary air travel freeze from the social distancing measures taken to slow the spread of the virus. The company's market position in lightweight composites is strong and content growth will resume when air travel demand recovers. Hexcel also makes products utilized in wind turbines and other industrial markets, unrelated to aerospace. While COVID-19 has had an extraordinarily negative impact on travel, ultimately, the benefit of Hexcel's products will be appreciated for their fuel saving, strength, and weight advantages. We believe the current market price does not reflect the long-term value of their product portfolio.

Portfolio Outlook

These are difficult times for everyone. Our firm's investment team has managed through crises before and come out stronger; we believe this time will be no different. We continue to analyze holdings for financial strength and liquidity. We are closely monitoring our watch-list and expect to have further opportunities to add new stock ideas in the coming months. We will continue to upgrade the portfolio with a focus on companies with strong market positions, balance sheets and long-term growth prospects. We believe the portfolio is well positioned to perform as life returns to normal. Please stay safe and we will all get through this together.

Thank you for your interest and support.

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ESG EQUITY COMPOSITE

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		
2019	1,347	13.0	Five or Fewer	20.12%	19.13%	31.43%	N.A
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, 2019.

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.