

## ESG EQUITY STRATEGY

### INVESTMENT PHILOSOPHY

The Fairpointe ESG Equity Strategy integrates structured ESG analysis with our bottom-up, fundamental valuation-based approach to investing.

We seek companies that adhere to principled corporate governance practices, are environmentally accountable and socially responsible. In our fundamental valuation-based analysis, we look for a compelling business model, effective management, financial strength, and attractive valuation. We prefer businesses with products or services that make their customers more efficient or profitable and are critical to their success.

Our goal is to select companies with favorable ESG characteristics that are inefficiently priced relative to their earnings growth outlook over the next three to five years.

### INVESTMENT PROCESS

The ESG equity strategy incorporates a comprehensive evaluation of two key components: (1) ESG analysis, and (2) fundamental valuation-based analysis.

Ideas are generated from a variety of sources including: the investment team's broad knowledge base, quantitative screens, discreet events such as short-term disruptions or spin-offs, conferences, and industry research and publications. The portfolio managers utilize the range of the Russell 1000 Index to define their universe, currently market capitalizations greater than \$2 billion.

Our ESG analysis begins with an assessment of a company's corporate governance practices. We believe that when good governance leads, responsible social and environmental actions follow.

We also look for companies with keen awareness of environmental issues, such as climate change, scarcity of natural resources, waste disposition, utilization of clean technology, and that are committed to minimizing negative impacts on our natural environment.

For the social pillar, we seek companies that value their employees and treat them with respect by paying fair wages and providing appropriate benefits and training. We evaluate policies and records for employee health and safety as well as product safety.

### Engagement

As long-term investors with a focus on mid-cap stocks, Fairpointe tends to get greater access to management. Our investment professionals engage with company management teams regarding all aspects of their business and actively vote proxies. In 2019:



- Over 35 in-person meetings with company management teams
- Over 85 follow-up calls with companies regarding earnings
- Over 50 meetings/calls with prospective portfolio holdings



- Over 40% of the portfolio's holdings have Boards that meet the 30% threshold (30% or greater female Directors) compared to 20% for the S&P 400 Index.

### The Fairpointe ESG Portfolio vs. the Russell 1000 Index



- The portfolio's holdings have **57%** less carbon intensity than the Russell 1000 Index and **58%** less than the S&P 500 Index.



- The portfolio's holdings have **zero** exposure to tobacco.



- The portfolio's holdings have **zero** exposure to controversial weapons.



- The portfolio's holdings have **zero** exposure to gambling.



- The portfolio's holdings have **zero** exposure to nuclear power.

Fairpointe Capital is 100% employee-owned, majority women-owned, and a certified WBENC business\*. Fairpointe Capital is also a member of The Thirty Percent Coalition\*\*, US SIF, the Task Force on Climate-related Financial Disclosures (TCFD) and became a UN-PRI signatory in 2018.

### PORTFOLIO MANAGERS

Frances E. Tuite, CFA

Portfolio Manager  
Miami University, MBA  
University of Cincinnati, BBA  
37 years industry experience

Brian M. Washkowiak, CFA

Portfolio Manager  
Illinois State University, BA  
25 years industry experience

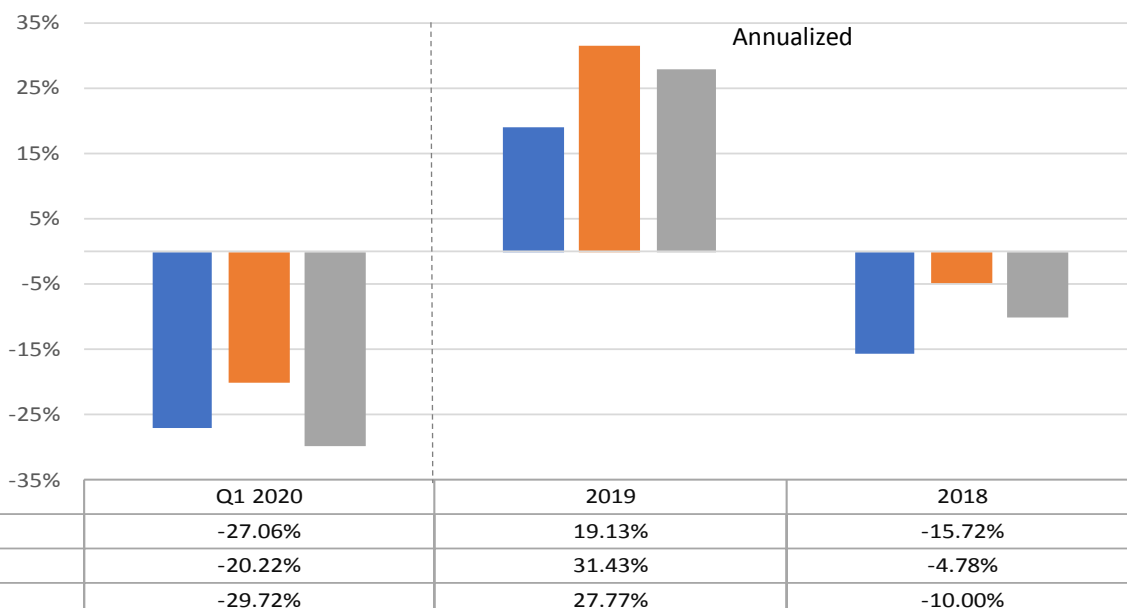


\* Certified by The Women's Business Enterprise National Council which is the largest third-party certifier of businesses owned, controlled and operated by women in the United States.



\*\* The Thirty Percent Coalition, founded 2011, is a pioneer in advocating for diversity in the corporate boardroom

## For the Period Ending March 31, 2020



\* Net of Fees. Fund was inception January 1, 2018,

Source: Axys

### TOP TEN HOLDINGS

1. Bristol Myers Squibb
2. Commercial Metals
3. Waters Corporation
4. Mattel
5. Agilent Technologies
6. National Instruments
7. Molson Coors Beverage
8. Qualcomm
9. Adtalem Global Education
10. Pentair PLC

### PORTFOLIO CHARACTERISTICS

2020 Calendar P/E	11.5
P/Revenue (forward 1-year)	1.0
Long Term Debt/Capitalization	41.6%
Return on Equity - 5-year Average	13.5%
Long-Term Earnings Growth Rate (3-5 year)	8.9%
P/E to Long-Term Earnings Growth Rate	1.4%
Average Mkt Cap (\$mil)	\$31,035
Dividend Yield	2.1%

The above information is based on a representative account.

### HOLDINGS BY SECTOR

Sectors	% of Portfolio	% of Russell 1000 (ETF)	Over/Under
Producer Durables	20.4	8.5	11.9
Consumer Discretionary	24.0	14.8	9.2
Health Care	22.6	14.6	8.0
Materials & Processing	9.4	2.9	6.6
Consumer Staples	4.2	6.5	-2.3
Energy	0.0	2.5	-2.5
Utilities	0.0	5.6	-5.6
Technology	14.2	25.8	-11.6
Financial Services	5.1	18.9	-13.8

The above information is based on a representative account.

#### DISCLOSURE

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 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](mailto: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 ESG Equity Composite was created January 1, 2018.