FAIRPOINTE ESG EQUITY STRATEGY

2ND QUARTER COMMENTARY 2020

During the second quarter of 2020, the Fairpointe ESG Equity Strategy was up 18.4% (net of fees), the Russell MidCap Index was up 24.6%, the S&P 400 MidCap Index was up 24.1% and the MSCI USA Mid Cap ESG Leaders Index was up 22.9%. For the first six months of the year, the strategy was down 13.6% % (net of fees), the Russell MidCap Index was down 9.1%, the S&P 400 MidCap Index was down 12.8% and the MSCI USA Mid Cap ESG Leaders Index was down 13.6%. We have seen a pickup in our relative performance in the last month as there seems to be some shift in the market from growth to value. For the rolling one month period as of July 22, 2020, the strategy was up 6.2% (net of fees), the Russell MidCap Index was up 4.7%, the S&P 400 MidCap Index was up 4.1% and the MSCI USA Mid Cap ESG Leaders Index was up 4.9%. The broader S&P 500 Index was up 5.2%.

The interest in ESG investing only seems to grow with record inflows this year. While climate change and its impact has been a significant focus, racial strife and income inequality issues have received the recent attention of many, from millennials, to CEO's. In our opinion, silence is no longer an option for companies, however, empty promises will be scrutinized. Companies and boardrooms should question prior practices since so many lack diversity in their ranks, as well as prejudices in marketing, pricing, and compensation. While the strife has been disruptive and deadly, it has resulted in a growing awareness of inequalities. We seek companies that embrace the issues, and consider all their stakeholders (investors, employees, customers), including the planet and communities in which they live. We invest with an eye for attractive returns over the long term.

At Fairpointe, we are a majority women-owned firm and believe that diversity at the top, on the board, and in the c-suite is important. We actively vote our proxies and engage with companies who are below the thirty percent threshold of diverse board members, which we consider the minimum level. We highlight three of our portfolio companies who are run by women, and whose stocks have outperformed the midcap benchmarks since they took the helm. Commercial Metals, led by Barbara Smith, is the newest female CEO to be included in the S&P 500 this year (there are 37/500 or 7.4%). She joined in September 2017 and executed a highly accretive acquisition of Gerdau's (her former employer) rebar assets at an attractive price. The company makes rebar steel (used for highways and bridges) out of 99% recycled materials using a highly efficient electric arc furnace instead of a coal blast furnace. Jennifer Sherman, CEO at Federal Signal, has led an impressive turnaround of a sleepy industrial company (she joined January 2016) and continues to make progress in growing margins from single digits to double digits and now targeting 20%. They are an undiscovered ESG company with a commitment to keeping our sewers clean, and our streets safe. They will issue their first Corporate Social Responsibility report this summer. Jennifer has created a diverse team with a wide range of experience and has worked to hire talented women who had left the workforce and did not have an obvious path to rejoining the corporate world. And third, Lisa Wardell, Chairman and CEO of Adtalem (who joined May 2016), is one of the few black female Chairmen and CEO's in the U.S. and the only one in the S&P 400. A mother of six, Lisa has dramatically changed the company, including its name (formerly DeVry) to a focused, high margin and growing company. While MSCI still rates it poorly, due to its legacy business that was sold, we believe its risks to government funding are no longer significant, and its progress on diversity is impressive. The board has 69% diversity between women and minorities, the leadership team is at 79%, and the employee and student numbers also surpass the averages. Investing with great leaders is an important key to investment success.

Second Quarter Review

In the second quarter, the top five contributors to performance were Quest Diagnostics Incorporated (DGX), QUALCOMM Incorporated (QCOM), Commercial Metals Company (CMC), New York Times Company (NYT) and Pentair plc (PNR).

Quest Diagnostics, the largest national lab company, continues to benefit from the positive outlook for testing, including COVID tests and hospital outsourcing.

QUALCOMM, a leader in cellular technologies (3G/4G/5G), performed well due to anticipation of improving 5G spending.

Commercial Metals Company, a manufacturer of steel from recycled scrap, reported strong backlogs and margins, leading to increased estimates.

The five largest detractors to performance were Varex Imaging Corp. (VREX), Molson Coors Beverage Company (TAP), Bunge Limited (BG), Nokia (NOK) and Motorola Solutions, Inc. (MSI).

Varex Imaging, a leading independent supplier of X-ray tubes and flat-panel detectors, reported a disappointing quarter primarily due to delays related to COVID impacting deferrals of elective procedures. A convertible offering to help buoy the capital structure during this period, was also viewed negatively.

Molson Coors Beverage, a leader in the mainstream beer market, is seeing pressure in its on-premise revenues, leading to negative operating leverage. Its foray into additional beverage categories has been slow but is starting to gain traction. A pause in the dividend further pressured the stock.

Bunge, an ag commodity company under new leadership, continues to make progress in its transformation. However, the unpredictability of the agricultural markets, dependence on South American farmers and dislocation in the supply and demand for grain, led us to exit this position after a shortfall in the quarter.

Portfolio Changes

In terms of specific actions during the quarter, we added five new names to the portfolio (CONMED Corporation, Walt Disney Company, Motorola Solutions, Nokia, Republic Services) and five positions were eliminated (Bunge, Cars.com, ManpowerGroup, Patterson Companies, Quanta Services). The portfolio eliminations were based on a combination of valuation, declining outlooks and ESG characteristics.

CONMED Corporation, is a medical technology company focused on orthopedic and general surgical products. They are the global leader in managing smoke emanating from surgical incisions, which is a hazard to healthcare workers. They have significant growth potential due to growing awareness and mandated regulations. The deferral of elective surgeries created an opportunity to initiate a position in this mid-cap company.

Walt Disney Company, a household name, had its earnings hit by closures in their theme parks division and the lack of sports broadcasting revenues. However, its Disney+ channel is performing well above expectations. Long term, we expect earnings to normalize and grow as COVID disruptions are overcome. Disney has set aggressive environmental goals and has made progress on a number of fronts related to its carbon footprint. The board has been refreshed and shows diversity, although CEO compensation has been considered excessive.

Motorola Solutions, Inc. is a leader in cellular radio networks for government agencies and commercial customers (including Walt Disney). Concern over municipal budgets and exposure to commercial customers gave us an attractive entry point this quarter to a company with highly predictable cash flows generated through long term contracts. Their commitment to cybersecurity and data privacy, as well as impressive carbon footprint targets, makes it a well-rated ESG addition to our portfolio.

Portfolio Outlook

The COVID-19 pandemic has inflicted serious harm to the economy due to shelter-in-place and quarantine orders that were implemented in most states. While economic activity has improved from the late March and April low points, the challenge remains on how to safely open the economy so that virus cases do not resurge. For the foreseeable future, we expect fits and starts to the recovery as states may have to implement restrictions to curb the spread of the virus until a vaccine is developed. Analysts' project second quarter S&P 500 earnings to decline 44% due to the unprecedented impact of the crises. Yet the S&P 500 Index is currently trading at the highest multiple of earnings since the dot-com era.

Given this backdrop, it is more important than ever to invest in companies that have the financial strength to withstand the crisis. S&P recently reported that 119 companies have defaulted on debt so far this year, surpassing the total for all of 2019. At the end of June, the portfolio's total debt to capital was 44.2% compared to 55.8% for the Russell MidCap and 50.2% for the S&P 400 MidCap. We expect continued volatility in the second half of the year which we will use to opportunistically position the portfolio for long-term performance.

With Robinhood traders and sports bettors impacting the markets, volatility remains high, but ultimately, we believe that this will pass, and investors will instead focus on well-positioned companies with a broader vision of stakeholders they serve. Active investment managers can do well in such an environment because they specialize in identifying strong companies. Our analysis of balance sheets and cash flow, as well as corporate behavior, and a long-term perspective continues to be our approach. We are encouraged by recent market moves and our one-month outperformance.

Thank you for your interest and support.

Frances E. Tuite, CFA, Portfolio Manager
Brian M. Washkowiak, CFA, Portfolio Manager
Thyra E. Zerhusen, Chief Investment Officer

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
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.