FAIRPOINTE MID-CAP STRATEGY

2ND QUARTER COMMENTARY 2020

Performance and Positioning

Equity markets rallied in the second quarter as states began to loosen quarantine restrictions and economic activity improved from the low points reached in March and April. For the quarter, the Fairpointe Mid-Cap Strategy was up 18.1% (net of fees), the S&P 400 MidCap Index was up 24.1%, the Russell MidCap Index was up 24.6% and the S&P 500 Index was up 20.5%. For the first six months of the year, the performance of growth and value benchmarks are in different worlds, with the S&P 400 MidCap Growth Index down 5.2%, the S&P 400 MidCap Value Index down 21.0%, the S&P 400 MidCap Index down 12.8%, while the Strategy was down 17.6%. This huge disparity between value and growth performance is worth addressing once again.

Traditionally our portfolio has been classified as core, being a mix of value and growth stocks, but in the past few years the portfolio, as a whole, has been classified as value. Fairpointe's process identifies market leading companies with financially sound balance sheets that are trading at a discount to long-term growth prospects. While we seek companies that have revenue and cash flow growth, we are strict on our valuation metrics and are reluctant to stretch what we are willing to pay for companies. During this bull market the growth stocks that we owned met and exceeded our valuation expectations and were sold. We increased our holdings of stocks that were selling at attractive valuations relative to long-term growth prospects. Unlike previous markets where investors recognized the valuation disparities, in this market we have seen the gap between growth and value stocks continue to increase. As we have highlighted in recent commentaries, we continue to take advantage of market volatility to improve the portfolio's overall growth potential and quality. For example, the correction in the quarter allowed us to buy additional shares of newer holdings like Checkpoint Software which added to our performance in the quarter. We continue to see significant upside potential in our portfolio. Below we highlight two holdings. TEGNA, currently classified as a value stock, which has not worked recently and Akamai, a growth stock and long-term holding that benefited from the current lock down period with outstanding performance.

Second Quarter Review

The portfolio's top ten positions represent 32% of the portfolio. **TEGNA**, the third largest holding, is a media company that owns 62 local television stations in 51 markets. The company's revenue mix of high margin subscriptions and political advertising has increased from 26% of total revenue in 2015 to over 50% today due to rate increases. We expect the subscription business to continue to realize higher prices as contracts with cable companies renew. We also see potential for significant upside over the next year as advertising budgets rebound and political spending continues. The stock is down 40% from its peak in January 2020**,** when the company had two takeover offers for over $20 (and was in a proxy battle with an activist group). The company has capable management and we think the stock price can return to its peak level without a take-over offer.

Akamai was an unrecognized growth stock and is well positioned to benefit from COVID-19 lockdowns. Globally, over 1,500 carriers use Akamai's technology. The company's technology makes the Internet faster, more reliable, and more secure. With people spending more time at home, global internet traffic has increased over 30% in recent months driven by online education, employees working from home as well as media streaming and ecommerce. Some areas of the country have witnessed a years-worth of traffic growth in a few weeks, and we expect demand for the company's services to remain strong for the foreseeable future with governments, businesses and telecom networks investing to increase coverage and add capacity.

The top five contributors to performance were Cooper Tire & Rubber Company, Cree, Inc., Juniper Networks, Inc., Magna International, Inc. and Cars.com, Inc.

Juniper is a leading provider of networking products for enterprise and telecom customers. We expect the company to benefit from the work-from-home trend as well as 5G infrastructure deployments.

Magna is a supplier of parts and technology for the automotive industry. We believe the company's diversified manufacturing scale and strong balance sheet will enable it to gain market share in the current environment and beyond.

The bottom five detractors to performance were Varex Imaging Corporation, Molson Coors Beverage Company, Cincinnati Financial Corporation, Unisys Corporation and Bunge Limited.

Varex Imaging is the largest global manufacturer of X-ray and imaging components. The stock was the largest detractor to performance in the quarter due to near-term weakness in high-margin dental, oncology, and industrial end markets. We believe the company has long-term growth opportunities driven by digital detectors and cargo screening. The pending move from a high-cost manufacturing facility in Santa Clara to Salt Lake City is expected to yield significant savings next year. We added to the position during the quarter.

Molson Coors Beverage shares declined due to pandemic related restaurant closures. The company is investing in and launching new beverage products that we expect to drive sales as bars and restaurants reopen in the coming months. We consider the shares undervalued relative to its brand lineup and the potential for new products.

Portfolio Changes

The portfolio initiated a new position in Nokia in the second quarter and eliminated Manpower Group, Owens Corning, and Jabil. **Nokia** is a leading global provider of communication network products. We expect demand to increase driven by 5G deployments as people continue to work from home, and for the company to gain market share from Huawei, its Chinese competitor. The company was recently awarded a $450 million 5G contract with Taiwan Mobile, which we view as a strong endorsement of its technology.

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 crisis. 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 36.4% compared to 50.2% for the S&P 400 MidCap, 55.8% for the Russell MidCap and 44.9% for the S&P 500. We expect continued volatility in the second half of the year which we will use to opportunistically position the portfolio for long-term performance.

The decline in stock prices in the first half of 2020 has given us the ability to buy new high quality businesses at low prices and because some of our holdings are included in large, passive ETFs, their prices fell alongside the rest of the market which allowed us to also add to existing positions at attractive valuations.

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 specific, well-positioned companies. Active investment managers can do well in such an environment because they specialize in identifying strong companies; with an analysis of balance sheets and cash flow, and their long-term perspective allows them to patiently await a rebound.

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
2019	1,347	1,198	Five or Fewer	17.15%	16.36%	26.20%	30.54%	N.A.
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, 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 Mid-Cap composite has been examined for the periods May 1, 2011 through December 31, 2019. 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 17.85% 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.