

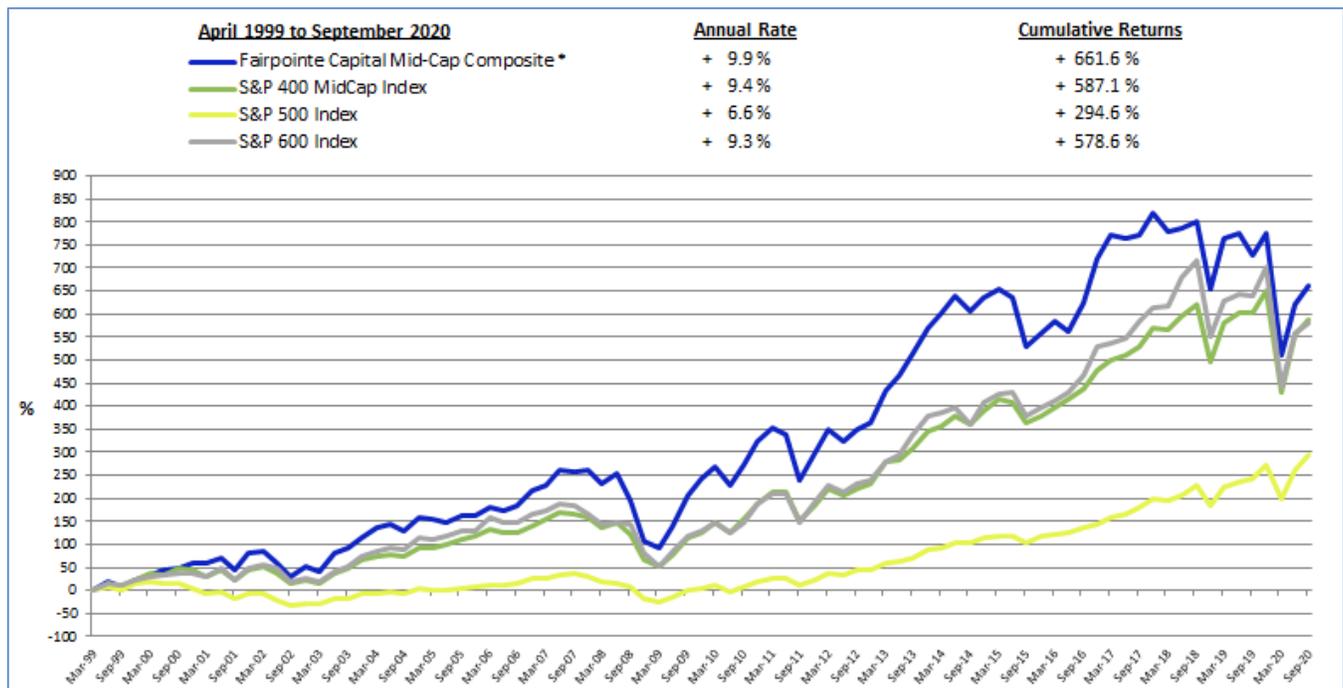
WHY INVEST IN MID-CAP STOCKS

“There is something very satisfactory about being in the middle of something” – Marilyn Hacker

At Fairpointe Capital, we believe mid-cap companies offer greater potential for long-term, sustainable performance than small- and large-capitalization companies. Since Fairpointe began, mid-cap stocks have been our focus. Our founder and chief investment officer, Thyra Zerhusen, has been investing in mid-caps for over 27 years. The firm’s flagship strategy, Mid-Cap Equity, was started in 1999 and now has track record of more than 20 years. Fairpointe’s investment team continues this commitment to mid-cap investing and seeks out high quality companies that are inefficiently priced relative to their long-term earnings growth outlook.

The attractiveness of mid-cap equities is supported by their strong performance across long time periods. Since April 1999, the S&P 400 Index has returned 9.4%, compared to 6.6% for the S&P 500 and 9.3% for the S&P 600 Index.

Mid-Cap Equities Have a History of Impressive Returns



Mid-cap indices outperformed both small- and large-cap benchmarks, and Fairpointe’s strategy outperformed all benchmarks.

While most investors believe prudent asset allocation involves investing in both small- and large-cap stocks, they typically ignore the mid-cap segment. Yet, mid-caps represent approximately 25% of all U.S. equities, so a large group of investors miss out on the outsized returns that mid-caps offer.

In addition to their strong historical returns, mid-caps also provide other attractive investing characteristics. Mid-caps tend to be less risky and less volatile than small-cap companies. That's because mid-cap companies have better access to capital markets, so they can grow their businesses through reinvestment or acquisitions. They also tend to be more established and better known, so they can attract more experienced executives than smaller companies can. Finally, they provide better trading liquidity, compared to small cap stocks.

We have also found in our over 20 years of experience that mid-sized company management teams are more likely to engage with their shareholders than other companies. Large-cap company executives tend to only pay attention to their biggest shareholders, and they communicate with most investors exclusively via scripted conference calls. At smaller companies, executives are usually hyper-focused on running the business and cannot make time for regular meetings with shareholders. Yet we have found that these dialogues provide critical insights into a company's health and long-term strategy. Therefore, we routinely meet with executives and ask tough questions about the company's future, and we actively vote our proxies. In 2019, Fairpointe held 35 in-person meetings with company management teams and 85 follow-up calls post-earnings. In addition, our team held over 50 meetings and calls with prospective investment companies.

Finally, mid-caps are also more likely than other types of companies to be acquired. Since our fund's inception, our portfolio has averaged 1.8 takeovers per year due to our focus on market-leading companies that have strong fundamentals ([click here](#)). In the first nine months of 2020, the portfolio has experienced two takeovers. The most recent was Varian Medical Systems, the number one provider of radiation therapy hardware and software services in the world, which received a takeout offer in August 2020. Varian has the largest installed base of linear accelerators, which are used to treat tumors. Market growth is driven by the increasing incidences of cancer cases, aging populations, and an increased preference for non-invasive treatments. Varian was acquired for a 24% premium by Siemens Healthineers. We believe additional portfolio holdings are well situated for acquisitions in the near term.

In short, mid-cap equities offer a unique—and often overlooked—opportunity to generate superior returns over the long term. However, because these companies typically aren't as popular or well known, investing successfully in this segment requires a thorough, in-depth knowledge of the investible universe. At Fairpointe, we focus on mid-cap equities specifically. We have more than two decades of experience combining quantitative analysis with qualitative assessments, engaging with managers and determining companies' untapped, long-term value.

DISCLOSURE

The Mid-Cap Composite contains fully discretionary equity accounts that follow the mid-cap style. The 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 400 and Russell MidCap indices. The S&P MidCap 400 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 mid-cap 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. The Mid-Cap composite was created January 1, 2005. Performance presented prior to May 1, 2011 occurred while the Portfolio Management Team was affiliated with prior firms and the Team was solely responsible for selecting the securities to buy and sell.

Fairpointe Capital is an independent registered investment adviser.

The firm maintains compliant presentations and a complete list of composite descriptions which are both 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 net of management fees and include the reinvestment of all dividends, capital gains, and other earnings. Net of fee performance is calculated using actual fees.

Policies for valuing portfolios, calculating performance, preparing compliant presentations and a list of all holdings since inception of Fairpointe are available upon request.