FAIRPOINTE ESG EQUITY STRATEGY

3RD QUARTER COMMENTARY 2020

During the third quarter of 2020, the Fairpointe ESG Equity Strategy was up 3.5% (net of fees), the S&P 400 MidCap Index up 4.8% and the S&P 500 Index up 8.9%. Year-to-date, the strategy was down 10.6% (net of fees), the S&P 400 MidCap Index down 8.6% and the S&P 500 Index up 5.6%.

ESG investing is becoming mainstream with record asset flows into ESG passive and active funds. We see significant overlap in the holdings of most ESG strategies, with their emphasis on large cap and technology names. With this high overlap of names in ESG strategies, it seems that fundamental analysis may not be the first priority. At Fairpointe, we perform our own assessment of each company, rather than rely on 3rd party rankings as some funds do. We always strive to buy the best companies at a reasonable price, not at any price. Our goal is to seek companies, that may not be rated or are misunderstood, and are good corporate citizens, and provide investors with the potential for attractive long-term returns.

Federal Signal is a unique example of a company, not widely held, nor certainly known for its ESG behaviors, yet offers products that keep the environment clean and safe. The company recently published their first sustainability report and through several in depth conversations we found a management team that thinks like owners, and cares for multiple constituents (shareholders, employees, the environment, and community). Wall Street analysts do not forecast continued rising operating margins as we do. CEO Jennifer Sherman has demonstrated impressive results during her tenure, and we feel there is even more to come through accretion from bolt-on acquisitions, new product introductions, and a strong eye on costs

Third Quarter Review

In the third quarter, the top five contributors to performance were QUALCOMM Incorporated (QCOM), Corning Incorporated (GLW), Mattel, Inc. (MAT), Pentair plc (PNR) and Varian Medical Systems, Inc. (VAR).

QUALCOMM, a leader in cellular technologies (3G/4G/5G), performed well due to anticipation of improving 5G spending and the opportunity to benefit from the trade issues with Huawei. As the world's leading supplier of mobile chipsets, plus the licensing of their technology should result in top line growth and continued strong margins and cash flow. While there continue to be some legal overhangs, Qualcomm's efforts to invest in their staff, with a renewed focus on diversity, as well as investment in STEM education initiatives, leads to an overall high ESG ranking.

Corning is a world leader in material science making glass-based products for communication networks, electronics, healthcare and automotive markets. Demand for their Gorilla Glass has exceeded expectations as well as their products for emission reductions. We like the long-term growth prospects which are driven by increasing internet traffic, larger screen sizes, and pollution control regulations. The company scores highly on most ESG fronts, although we have encouraged greater diversity on their board.

Mattel is a global children's entertainment company that is probably best known for Barbie, Hot Wheels and Fisher Price. Their turnaround effort continues to gain traction with evidence of cost saving measures paying off, new product efforts, and monetizing their content through film and video creation. Their efforts to reducing packaging and using more sustainable inputs is noteworthy. We have been quite vocal on the lack of diversity in the c-suite; however, board diversity has significantly improved.

The five largest detractors to performance were Hexcel Corporation (HXL), Scholastic Corporation (SCHL), Adtalem Global Education Inc. (ATGE), Gilead Sciences, Inc. (GILD) and ResMed Inc. (RMD).

Hexcel engages in the development, manufacture, and market of advanced composite materials for the commercial aerospace, space and defense, and industrial markets. Their ties to Boeing as well as the drop off in airline traffic has weighed heavily on the stock price. They continue to tightly manage expenses and generate free cash flow, and although the near-term outlook is grim, longer term we have confidence their business will flourish. Their products are unique and highly beneficial to saving energy costs for airlines due to their light weight and durable characteristics. We maintain our position and our conviction in this company for the long term.

Scholastic engages in the publication and distribution of children's books, magazines, and teaching materials. While COVID-19 has put a halt to book fairs and in-person education in many states, their products are actually in greater demand as virtual learning creates needs for additional educational resources. The company's mission around education is well intentioned and executed, and corporate governance and board refreshment has improved.

Adtalem Global Education engages in the provision of workforce solutions through educational and testing offerings. Under Lisa Wardell's leadership, the company has significantly restructured its focus to online education, and business training and certification. Her efforts have also led to a diverse management team and board. While the stock has languished possibly due to the headlines of free education, in our opinion this comes from a misunderstanding of their offerings which focus on doctors and nurses as well as company compliance certifications. We think Adtalem has been unfairly brushed with the education stock sector. We see this local Chicago company as a leader in diversity and inclusion.

Portfolio Changes

We added one new name to the portfolio (Methode Electronics) and seven positions were eliminated (Cree, Juniper Networks, Lions Gate Entertainment, Meredith Corp, Middleby Corp, Tractor Supply, Varian Medical Systems). The portfolio eliminations were based on a combination of valuation, declining outlooks and ESG characteristics.

Methode Electronics, Inc. manufactures electronic components for automotive, industrial, and medical applications. This misunderstood, high-quality Chicago company has been around since 1946 and has transformed itself over the years under the leadership of longstanding CEO Donald Duda. We believe the market has overlooked Methode due to its small size, and multiple industry exposures making it hard for Wall Street to categorize. Their content offerings on electric vehicles should provide a significant and attractive opportunity for them. Additionally, they have a technology for the medical treatment of pressure injuries that was a result of their industrial research. The company has taken a low risk approach to exploring this with the Cleveland Clinic, and it could have a very attractive payoff if the studies prove efficacy. Methode scores well on all ESG categories and we are excited to have initiated a position in the company.

Portfolio Outlook and Observations

Bank of America recently reported that the last ten years have been even worse for value than the dot com bubble. The combination of low inflation and slow GDP growth has caused investors to favor growth and increasingly crowd into large cap technology stocks. No one can say when the current technology dominance will end, but we see warning signs in the initial public offering (IPO) market. According to Dealogic, this year is shaping up to be the busiest year for IPOs since the tech bubble. In September, data warehousing company Snowflake issued shares at $120 per share. It now trades at $240 per share, is valued at 76x revenue, and is unprofitable. This continues a trend. Only 24% of IPOs were by profitable companies in 2019 according to Goldman Sachs.

Looking ahead to the fourth quarter, the only certainty for investors is uncertainty. The US election is fast approaching, and it is not clear the winner will be known on election night due to high demand for mail-in ballots. COVID continues to spread as we head into the flu season. At the same time, there are indications a COVID vaccine could be approved as early as late 2020. The potential for short-term volatility remains high and offers opportunity for long-term investors. We continue to increase our exposure to companies with higher growth prospects and returns on equity (ROE), strong ESG characteristics, while retaining a sharp eye on valuation.

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 Gross	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.