FAIRPOINTE
CAPITAL

FAIRPOINTE ESG EQUITY STRATEGY

4TH QUARTER COMMENTARY 2020

During the fourth quarter of 2020, the Fairpointe ESG Equity Strategy was up 20.3% (net of fees), the S&P 400 MidCap Index up 24.4% and the S&P 500 Index up 12.2%. For the year, the strategy was up 7.5% (net of fees), the S&P 400 MidCap Index up 13.7% and the S&P 500 Index up 18.4%. Our value bias strategy has been out of favor for some time, however during the fourth quarter and the new year, we have seen a rotation to value from growth. While ESG continues to attract assets, we attempt to differentiate our strategy with a bottom-up stock selection approach in mid cap companies that also have an attractive long term return profile. This disciplined value approach and unique portfolio should prove rewarding over the long term.

Fourth Quarter Review

In the fourth quarter, the top five contributors to performance were Mattel (MAT), Magna International (MGA), Hexcel Corporation (HXL), Molson Coors Beverage Company (TAP) and Adtalem Global Education (ATGE).

Mattel, a leading toy company with world-class brands that include Barbie, Hot Wheels, Fisher Price, and American Girl demonstrated continued and significant progress on its turn-around effort, exceeding expectations during its most recently reported quarter. The pandemic drove additional toy sales as parents sought out ways to engage their children. We still anticipate new product introductions and content that will continue beyond this period. We anticipate additional improvement in profit margins and debt paydown that should drive further upside in the shares as excess cash is used to create equity value. Diversity and inclusion are also an important focus for management. In recent years, the company has achieved gender and ethnicity pay equity and has significantly improved the diversity of their team.

Magna is a global producer of parts and technology for the new car market with a history of outpacing industry growth. During the quarter, Magna announced a joint venture with LG Electronics to manufacture electric motors and on-board chargers to support the growing shift toward vehicle electrification. The market for electric motors and electric drive systems is expected to record significant growth between now and 2030. The joint venture will target this fast-growing global market with a world-class portfolio. With the Biden administration's focus on climate change, demand for stocks with exposure to electric vehicles has been strong. We think that Magna's inexpensive valuation offers investors an attractive way to invest in this trend.

Hexcel engages in the development, manufacturing, and marketing of advanced composite materials for the commercial aerospace, space and defense, and industrial markets. The company's ties to Boeing as well as the drop off in airline traffic has weighed heavily on the stock price. Hexcel continues to tightly manage expenses and generate free cash flow. The outlook is challenging over the next several years, and while we have confidence the business will flourish long-term, we took the opportunity to eliminate the position for now with the recent rise in the stock price. Their products are unique and highly beneficial to saving energy costs for airlines due to their light weight and durable characteristics. As the aerospace industry faces travel bans amidst pandemic worries, this industry is also targeted for its climate impact so Hexcel's products should benefit from this pressure in the future.

The five largest detractors to performance were Gilead Sciences (GILD), Akamai Technologies (AKAM), Quidel Corporation (QDEL), Republic Services (RSG) and Nokia Oyj (NOK).

Gilead Sciences is a biotech company with a broad pipeline of drugs. The market had a short-term focus on Remdesivir and its use for COVID-19, which hurt Gilead. Opinions in the fourth quarter remained negative as to its benefit in treatment, although we have seen a significant recovery in the new year as the drug continues to be utilized as well as positive anticipation of upcoming cancer drugs. We believed the focus on Remdesivir was short sighted in that they have numerous other opportunities in addition to several recent acquisitions to grow their business long term. The company has a history of donating drugs or deeply discounting prices for use in emerging markets and has been aggressively focused on reducing their environmental footprint.

Akamai Technologies is an essential component of the fabric of the Internet with a position of leadership in content delivery, security, web, and mobile performance. They are also a tech leader in sustainability, as the company began reducing its energy usage years ago. Not only have they reduced their emissions dramatically over the last five years, Akamai also utilizes 50% renewable energy and recycles 100% of their e-waste. The company has a very attractive valuation, and we maintain it as a core position.

Quidel, is a new position in the quarter. Its expertise is in rapid diagnostic testing including Covid-19 testing. The drop in the stock price was due to the excitement over the vaccine roll-out and the expectation that testing volumes would decline in the future. We added to our position and we have seen the stock price rebound significantly in January when the company released a statement about new low-cost tests for consumers that can be used in their homes. This announcement generated considerable excitement. The management team is very experienced and focused on affordable diagnostic tools to improve outcomes and at the same time making the tests more affordable. We believe this is an enormous opportunity, and while the company will face competition, there is plenty of room for multiple winners in this market.

Portfolio Changes

We added four new names to the portfolio (NuVasive, Qiagen NV, Quidel, Western Digital) and one position was eliminated (Ecolab). Ecolab was eliminated based on valuation. The company is a great ESG company. However, we strive to provide excess returns to our investors and we no longer felt the upside was significant.

NuVasive is a medical device company focused on spinal surgeries. The company was disrupted by the lack of surgeries during the pandemic as well as concerns about its market position. We see the former, as a temporary phenomenon that will pick up once hospitals no longer have COVID patients taking priority. New products appear promising and we believe the discounted valuation has created an intriguing opportunity. **Qiagen** was a previous holding, that we sold upon a take-out offer, that ultimately did not come to fruition. They have a valuable line up of molecular and genomic analysis tests. We were able to take advantage, similarly to **Quidel**, of the vaccine euphoria that led investors to discount their future diagnostic test opportunities. Our thesis for purchasing Quidel was discussed above.

Western Digital produces hard disk drives and flash memory storage for mobile devices, computers, as well as gaming devices and servers. Unit volume continues to grow, albeit with some concerns around pricing due to competition and capacity. A new CEO, seasoned in the industry from Cisco, is focused on improving the profitability and, paying down debt from two 2019 acquisitions. We saw WDC as an overlooked technology play, with an attractive upside due to a refocused leadership team. This management has also embraced their diversity and inclusion efforts as well as reducing their environmental footprint, two of our key areas of focus.

Outlook and Observations

We are excited with the attention to ESG investing, and more importantly to efforts to improve diversity and inclusion, and fight against climate change at both a company and a national level. The push for improved disclosure around gender/ethnic diversity and climate exposures is also a benefit for investors to distinguish between those companies greenwashing and those making real progress. However, we have seen a number of stocks being bought indiscriminately, particularly related to alternative energy. We have also witnessed a big increase in retail speculation in stocks based on chatrooms, as well as utilizing option strategies, which has created enormous volatility in the markets, creating opportunities for those able to separate hype from facts. We see our mission to find unique sustainably focused companies that are undiscovered by the broader market so that they can provide excess returns to you, our investors. In addition, we must evaluate the business strategy, the management quality, and importantly the opportunity to achieve returns over a long investment horizon. We continue to find interesting opportunities to deploy capital and remain focused on our stock selection.

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		S&P MidCap	Composite Dispersion
				Gross	Net		
2020	549	11.4	Five or Fewer	8.12%	7.50%	13.66%	N.A.
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 S&P MidCap Index. 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 index is representative of the type of equity assets invested by Fairpointe Capital. The market index is 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. In 2020, the Russell MidCap benchmark was removed from all of Fairpointe's published strategies. The minimum account size for this composite is $100,000. Prior to April 1, 2020 the account minimum was $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. Verification does not ensure the accuracy of any specific composite presentation.

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 cbolender@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.