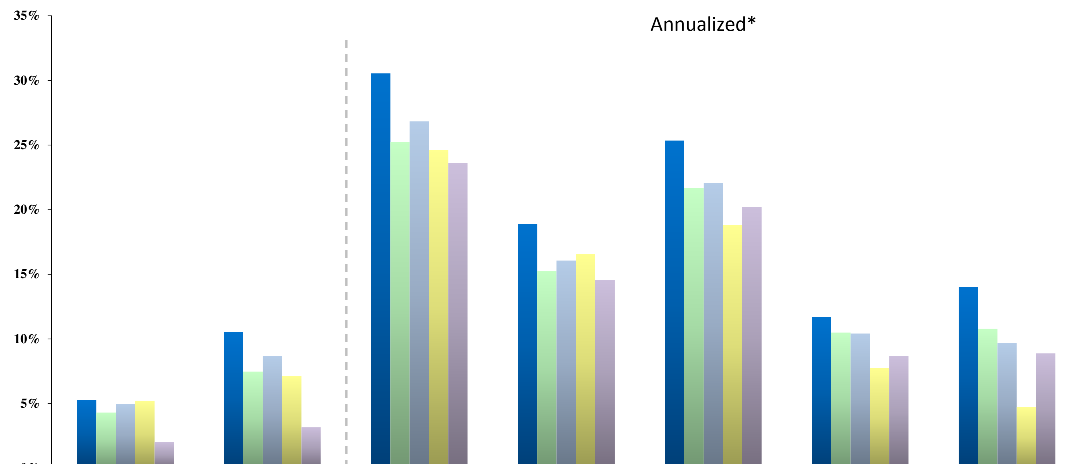
FAIRPOINTE MID-CAP EQUITY

2nd QUARTER COMMENTARY, 2014

Following a strong first quarter, the U.S. stock market continued its upward trend in the second quarter of 2014, with most of the performance coming in June. The Fairpointe Mid-Cap Composite was up 5.31%, outperforming the mid-cap benchmark indices, S&P 400 and Russell MidCap, up 4.33% and 4.97%, respectively. The large cap S&P 500 was up 5.23% and the small cap Russell 2000 increased 2.05%. Year-to-date the S&P 400 is up 7.50%, the Russell MidCap is up 8.67%, the S&P 500 is up 7.14% and the Russell 2000 is up 3.19%. The Fairpointe Mid-Cap Composite is up 10.54%, more than any of these indices.



	2nd Qtr 2014	YTD 2014	1 Year	3 Years	5 Years	10 Years	Since Inception **
Fairpointe Mid-Cap *	5.31%	10.54%	30.55%	18.92%	25.37%	11.71%	14.02%
S&P 400 MidCap Index	4.33%	7.50%	25.24%	15.26%	21.67%	10.50%	10.80%
Russell MidCap Index	4.97%	8.67%	26.85%	16.09%	22.07%	10.43%	9.69%
S&P 500 Index	5.23%	7.14%	24.61%	16.58%	18.83%	7.78%	4.74%
Russell 2000 Small Cap Index	2.05%	3.19%	23.64%	14.57%	20.21%	8.70%	8.90%

* Net of Fees ** Performance represented from April 1, 1999

Second Quarter 2014 Review

The performance contribution[1] continues to be broad-based with 15 stocks up more than 10% and only four stocks down more than 10%. The top contributor was Polypore (PPO), returning 39.5% during the quarter after reporting strong first quarter financial results. The company manufactures specialized microporous membranes which are used in various separation and filtration processes. Polypore's largest market is lead-acid batteries used in automobiles. The company's membranes are also a key component in lithium batteries used in electric-powered vehicles, a potentially large and growing market. We view the new electric vehicles from Mercedes Benz, BMW and others, as positive signs of increasing demand for electric drive vehicles.

Cooper Tire (CTB), another top contributor, rose 23.9% after beating earnings estimates. The company recently held its first investor day in five years with a goal of sending the message that Cooper managed through the economic downturn and that it is a different company today – more focused and with the ability to grow. Resolution of the Chinese joint venture ownership issue could be a positive catalyst during the third quarter.

[1]Performance contribution represents stock weighting, transactions, dividend and price movement.

Rounding out the top five contributors were: FMC Technologies (FTI) up 16.8%, benefiting from strong quarterly results, increased guidance and record backlog in their subsea segment; Edwards Lifesciences (EW) up 15.7%, following FDA approval of a new heart valve; and Con-way (CNW) up 23.0%, benefiting from a stronger freight market and improved margins.

Detractors to second quarter performance included: Unisys (UIS), down 18.8%; New York Times (NYT), down 10.9%; Raymond James Financial (RJF), down 9.0%; Cree, Inc (CREE), down 11.7%; and Juniper Networks (JNPR), down 4.74%. Unisys, our worst performer, reported a sequentially weaker than expected first quarter. We expect business to improve over the balance of the year and are positive on new cloud-based and cyber security products. We added to the position during the quarter based on attractive valuation.

While advertising and circulation revenues increased in the first quarter and the New York Times added more digital subscribers than in any quarter in 2013 (now at 799,000 paid digital-only subscribers), the company guided for weaker second quarter advertising revenues, which put pressure on the stock. We had reduced our position prior to the earnings call.

Raymond James stock declined as investors became concerned about lower commission revenues. We believe these concerns are overdone as commissions account for only a portion of the firm's business mix and the overall revenue stream is much more stable than investors recognize. We added to the position during the quarter.

Cree, a significant participant in the LED (light-emitting diode) lighting market, will benefit as adoption of LED technology accelerates. Declining gross margins have been an overhang on the stock, but we expect improvements as the company implements cost cutting measures. We added to the position during the quarter.

Juniper, a provider of routers and switches for telecom infrastructure, pulled back after strong first quarter performance. The company is well-positioned to benefit from renewed demand in telecom infrastructure spending. We added to the position during the quarter.

Portfolio Changes

During the quarter, three stocks were added to the portfolio: Owens Corning (OC), Teradata (TDC) and Time Inc. (TIME).

Owens Corning is a world leader in composite and building materials using glass fiber technology. We expect the company to benefit from an uptick in U.S. residential and commercial construction as the economy continues to improve. The company is currently trading at a 2015 P/E of 13.3x, which is at the low end of its five-year range.

Teradata provides databases and tools to analyze massive amounts of data, often referred to as “big data”. The stock is attractively valued at a P/E of 12.8x the 2015 estimated earnings (5-year P/E range 8x – 33x) and price to sales of 2.3 (5-year range 2.2 to 5.5).

Time (spun out of Time Warner in June) is the leading U.S. magazine publisher in advertising revenue share. The company publishes more than 90 magazines globally including brands such as People, Sports Illustrated, and Time. Prior to the spin out, the company brought in a very talented and well-respected management team that we believe will execute a balanced approach to cost cutting and growth initiatives. The valuation is attractive relative to similar companies.

Five positions were eliminated during the quarter: CGG (CGG), Boston Scientific (BSX), Southwest Airlines (LUV), Sigma-Aldrich (SIAL) and Zebra Technologies (ZBRA). CGG was sold based on changing fundamentals in the seismic mapping industry. The other four stocks met our valuation targets. Medical device company Boston Scientific was up 125% over the last two years as restructuring efforts took hold. Low-cost passenger airline Southwest moved up 190% over the last two years as industry capacity levels increased due to a better economy. Life science company Sigma-Aldrich saw significant results with improved operating efficiencies and increased revenues by refocusing the business over the past few years. Zebra Technologies stock, a long-term holding, was sold based on valuation and integration concerns after the company announced an agreement to acquire Motorola Solutions' enterprise business. The stock was up over 140% during the past two years.

Perspective and Outlook

The trends we have recently commented on are continuing: housing and auto related industries are recovering, employment is increasing and consumer spending is picking up. Manufacturing is expanding in North America as companies take advantage of a competitive cost environment. The European Central Bank and the Fed are both continuing low interest rate policies. While the economic outlook is positive, we would not be surprised to see a correction based on escalating geopolitical tensions. For example, the situation in Syria and Iraq may cause oil prices to rise, acting as a brake on economic growth.

While the strength in the economy has led to many stocks selling at relatively high valuations, we have been successful in finding undervalued stocks. We focus on identifying companies with leading market positions and strong balance sheets that are inefficiently priced. By actively rebalancing our holdings and replacing overvalued stocks, we have managed to keep our portfolio attractively valued relative to the mid-cap benchmarks.

We thank you for your continued interest and support.

Thyra E. Zerhusen, Chief Investment Officer
Marie L. Lorden, Portfolio Manager
Mary L. Pierson, Portfolio Manager

Disclosure

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	S&P MidCap	Russell MidCap	Composite Dispersion
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.
2009*	-	1,493	Five or Fewer	66.28%	65.03%	37.38%	40.48%	N.A.
2008*	-	722	Five or Fewer	(42.05%)	(42.53%)	(36.23%)	(41.46%)	N.A.
2007*	-	1,176	Five or Fewer	13.81%	13.02%	7.98%	5.60%	N.A.
2006*	-	848	Five or Fewer	22.21%	21.27%	10.32%	15.26%	N.A.
2005*	-	695	Five or Fewer	2.67%	1.83%	12.56%	12.65%	N.A.
2004*	-	496	Five or Fewer	20.69%	19.74%	16.48%	20.22%	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 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 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 March 31, 2014.

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 March 31, 2014. 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.

At December 31, 2013, the three-year annualized ex-post standard deviation of the composite is 18.4% and the benchmarks are 15.0% S&P MidCap and 14.0% Russell MidCap, respectively. At December 31, 2012, the three-year annualized ex-post standard deviation of the composite is 20.6% and the benchmarks are 17.9% S&P MidCap and 17.2% Russell MidCap, respectively. At December 31, 2011, the three-year annualized ex-post standard deviation of the composite is 25.0% and the benchmarks are 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.