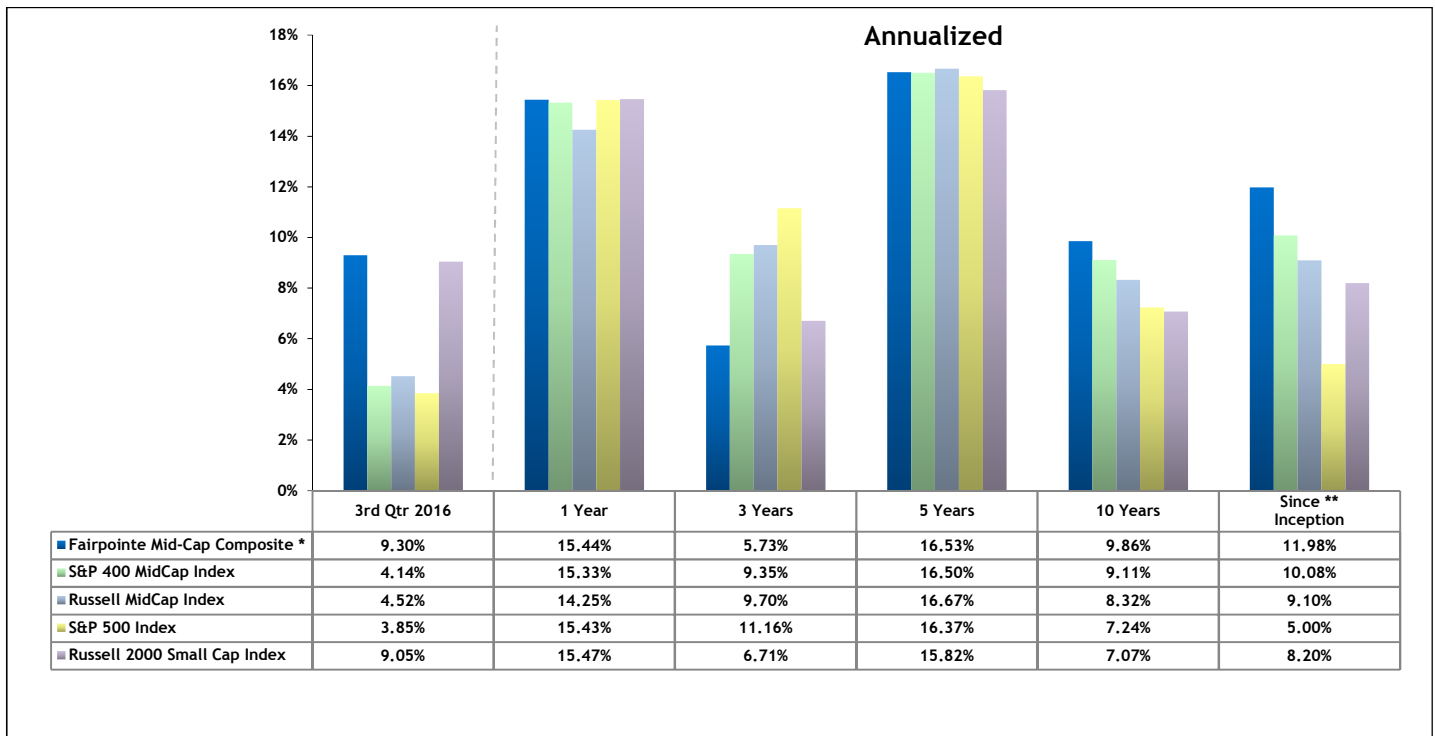


FAIRPOINTE MID-CAP CORE STRATEGY
3RD QUARTER COMMENTARY 2016

Brexit Rebound and Earnings Strength

The Fairpointe Mid-Cap Composite outperformed major market indices this quarter, rising 9.3% compared to the mid-cap S&P 400 Index (+4.1%), the Russell MidCap Index (+4.5%) and the S&P 500 Index (+3.8%). The portfolio established an early lead in the quarter with a substantial rebound in the aftermath of the Brexit market sell-off. We took advantage of the Brexit disruption to add to undervalued positions. Earnings season also contributed to performance, as stock specific factors refocused investors' attention. Second quarter earnings for the portfolio rose year-over-year, beating consensus expectations and positively impacting returns. In contrast, the S&P 500 reported a fifth quarter of declining earnings.



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

Third Quarter Review

Strong performance was widespread as the portfolio outperformed the mid-cap benchmarks in all sectors except energy. Of our forty-three holdings, seventeen stocks rose more than 10%, including seven stocks that rose more than 25%. Four stocks declined more than 10%. The top five contributors to performance were: Copa Holdings (CPA), DeVry Education Group (DV), Teradata (TDC), Gerdau (GGB) and Varian Medical Systems (VAR). Both Copa and Gerdau are also among our top three contributors year-to-date (along with U.S. Steel). We trimmed positions in these holdings.

Copa Holdings, an airline based in Panama and serving destinations in South, Central and North America, is our top contributor for the quarter and year-to-date. Copa's financial performance improved due to an aggressive capacity management strategy that significantly improved passenger load factor. The company is upgrading its fleet and has redeployed capacity from weaker markets such as Brazil to stronger markets in North America. We expect Copa to further improve profit margins in the next two years as revenue from its frequent flier program grows and fuel hedge losses decline. **Teradata**, a data warehousing and analytics provider, reported a 38% improvement in earnings beating analysts' expectations. The company divested a non-core business to focus on its warehousing and analytics strengths. **DeVry**, a for-profit education provider of medical, business and technical degrees has new leadership and is aggressively reallocating resources toward profitable segments. These actions and the future resolution of Department of Education scrutiny should lead to further upside. Trading below book value, the stock remains undervalued.

Detractors from third quarter performance included: Stericycle, Inc. (SRCL), Time, Inc. (TIME), Chicago Bridge & Iron (CBI), Transocean (RIG), and Nuance Communications (NUAN). We selectively added to the positions during the quarter.

Stericycle, which provides secure medical and hazardous waste disposal as well as sensitive document destruction, declined on pricing pressure and continued end market weakness due to recent consolidation in the healthcare industry. We initiated our position in the second quarter when the stock was trading at the low end of its historic valuation range and we continued to build the position as the stock declined further. We anticipate a return to growth as the company achieves synergies from its acquisition of Shred-It and pricing pressures abate. **Time**, a media company with leading brands including Time, People, Sports Illustrated, Fortune and Food & Wine spun out of Time Warner two years ago. The company reported disappointing advertising revenues and reduced their revenue growth outlook. Time has assembled an impressive management team and is focused on maximizing digital advertising opportunities. While the transition is taking longer than anticipated, the stock is significantly undervalued. **Chicago Bridge & Iron** and **Transocean**, two oil service companies, were hurt by a renewed slump in oil prices during the quarter. Chicago Bridge & Iron, which engineers and builds infrastructure for the energy and chemical industries, is also facing potential liability due to its recently divested nuclear business. Transocean, a leading provider of offshore drilling rigs, has continued to reduce costs and rationalize its fleet to protect a strong cash position during this protracted oil price slump.

Portfolio Changes

We eliminated our position in **Eaton Vance** (EV), a long-term holding with periods of disappointing results. The stock recently rebounded and we exited the position with a positive long-term return. We trimmed our positions in long-term holdings **Itron** (ITRI) and **NVidia** (NVDA). Our patience was rewarded as these stocks broke out of historical trading ranges to become top contributors to performance this year.

Perspective and Outlook

The IMF has warned recently that the U.S. election and Brexit are the main threats to global growth, citing Mr. Trump's trade rhetoric and a potential hard landing for the U.K. as it exits the EU. In the meantime, the U.S. continues to offer an attractive destination for investments as economic growth accelerated in the third quarter after upward revisions for the second quarter. Unemployment has remained at or below 5% - near full employment - and a more stable energy sector will be less of a drag on industrial production going forward. U.S. interest rate increases are on standby waiting for further signs of growth. In any case, small incremental raises with an extended timeline are already expected by the market and would signal a strengthening economy.

The recent OPEC oil policy shift toward limiting production signaled a potential stabilization of oil prices at a critical level, close to \$50. This level is emerging as a key threshold for various supply sources, including shale producers in the U.S. and oil majors globally. Cost-cutting in the face of the “lower for even longer” oil price reality has brought down the break-even level at which oil companies are willing to expand production.

The upcoming earnings season will present another opportunity for company-specific news to reset expectations. Consensus expectations call for a sixth quarter of negative earnings for the S&P 500. It remains to be seen if our portfolio can beat expectations once again.

The overall portfolio remains attractively valued relative to the indices. The current price-to-revenue is near its historical low at 0.7x versus the S&P 400 Index at 1.2x and S&P 500 Index at 1.8x. The P/E multiple is 14.3x compared to the S&P 400 Index at 17.2x and 16.3x for the S&P 500 Index.

As always, we thank you for your continued support.

Thyra E. Zerhusen, Chief Investment Officer

Marie L. Lorden, Portfolio Manager

Mary L. Pierson, Portfolio Manager

Brian M. Washkowiak, Portfolio Manager

DISCLOSURE

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Composite Number of Accounts	Annual Performance Results Composite		S&P MidCap	Russell MidCap	Composite Dispersion
				Gross	Net			
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.
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.

*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 June 30, 2016.

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 June 30, 2016. 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, 2015, the three-year annualized ex-post standard deviation of the composite is 14.30% and the benchmarks are 11.70% S&P MidCap and 10.85% Russell MidCap, respectively. At December 31, 2014, the three-year annualized ex-post standard deviation of the composite is 13.4% and the benchmarks are 11.1% S&P MidCap and 10.1% Russell MidCap, respectively. 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.