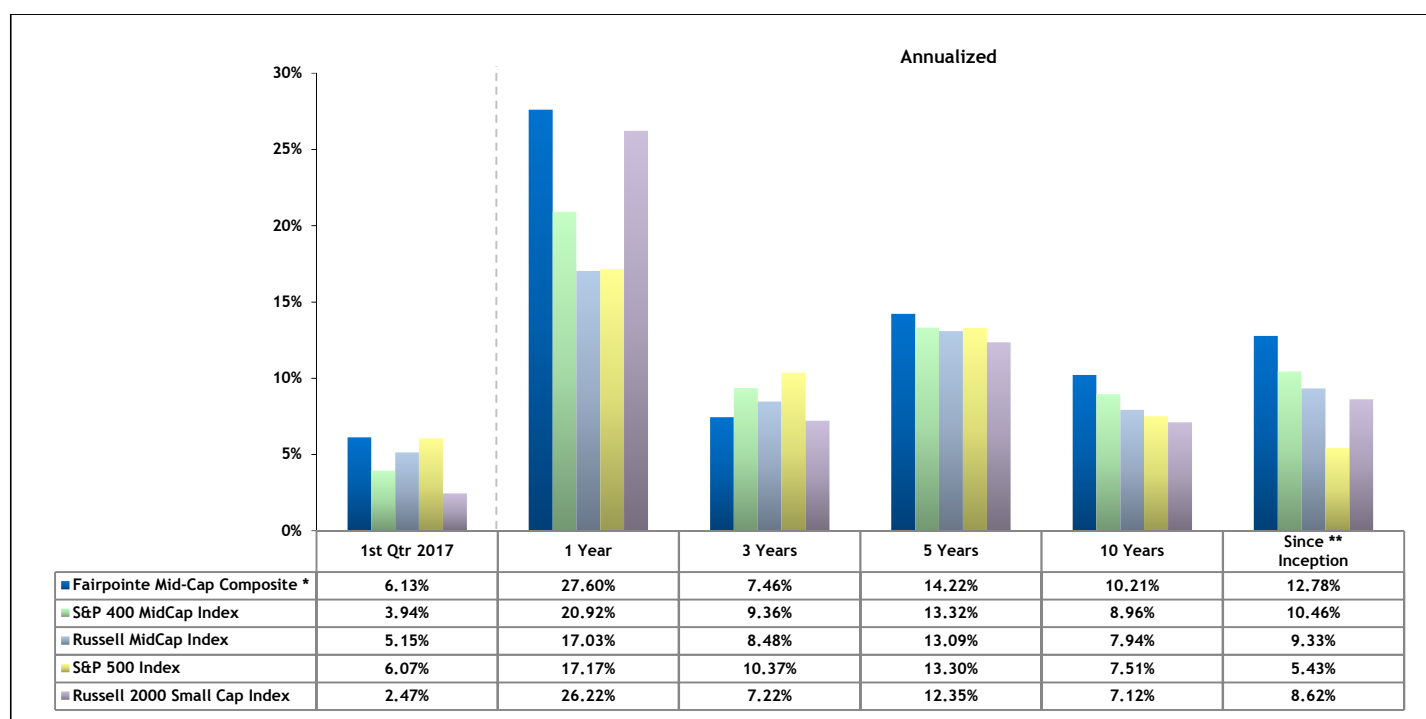


**FAIRPOINTE MID-CAP CORE STRATEGY**  
1<sup>ST</sup> QUARTER COMMENTARY 2017

The Fairpointe Mid-Cap Composite outperformed the major market indices in the quarter, rising 6.13% compared to the S&P 400 MidCap Index (+3.94%), the Russell MidCap Index (+5.15%) and the S&P 500 Index (+6.07%). For the one year period, the Fairpointe Mid-Cap Composite not only outperformed the above-mentioned indices, but also the unusually strong small cap index. Stock specific factors combined to keep our mid-cap portfolio ahead of both small and large cap stocks during the past year.



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

### **First Quarter Review**

Strong performance continued to be broad-based. Of our forty-six holdings, fifteen stocks increased more than 10%, including seven stocks that rose more than 20%. Three stocks declined more than 10%. The top five contributors to performance were: Arconic (ARNC), Copa Holdings SA (CPA), Tegna (TGNA), FMC Corporation (FMC) and Jabil Circuit (JBL). We trimmed positions in these holdings.

**Arconic**, previously the value-added businesses of Alcoa, is a manufacturer of high tech aluminum, titanium and nickel based products used in automotive and aerospace applications. In its first full quarter as an independent company, the value of Arconic stock increased as investors recognized the growth potential of the new company. The stock of **Copa Holdings SA**, a leading Latin American airline, continued to perform well as profits improved due to increased passenger loads, more stable pricing and lower fuel costs. **Tegna**, owner of television broadcasting stations and digital properties, is selling its interest in CareerBuilder and spinning Cars.com into a separate company. The stock increased on the prospect of unlocking the value in these properties.

Detractors from first quarter performance included: Akamai Technologies (AKAM), TechnipFMC (FTI), Transocean (RIG), McDermott International (MDR) and Scholastic (SCHL). We added to our positions in Akamai and Transocean.

**Akamai Technologies**, a leading provider of accelerated content delivery and security for customer networks, announced increased investments to benefit longer-term growth. The stock declined, reflecting this revised near-term outlook. We consider the investments to be positive for the long term and added to existing positions. Energy holdings, **TechnipFMC** and **Transocean**, declined in response to softening oil prices. Energy-related industries need higher prices to reinvigorate investments in exploration and development. We expect this will occur, but timing remains uncertain.

### Portfolio Changes

We re-initiated a position in **LKQ Corporation** (LKQ), a leading provider of alternative after-market auto parts. The company's recycled parts provide significant cost savings to consumers and the insurance industry. We expect alternative parts to continue to take market share from higher priced original equipment manufacturer (OEM) parts. The stock is trading near a five-year low on a multiple of earnings. We eliminated our position in **Alcoa** (AA) post-split and kept Arconic. The company's value-added business provides superior long-term growth prospects relative to the commodity-focused Alcoa. **U.S. Steel** (X) continued its rise in the first quarter and was eliminated. **Varex Imaging Corporation** (VREX) was spun out from current portfolio holding Varian Medical Systems (VAR). Varex is a leading supplier of X-ray imaging components and solutions sold into the healthcare, industrial and security markets.

### Perspective and Outlook

We remain positive on the U.S. economy and expect continued employment growth, positive consumer spending and steady industrial output. Increased infrastructure spending - when it materializes - will provide an additional boost to the economy. Indications are that trade policy may not be as protectionist as campaign rhetoric suggested.

First quarter consensus earnings for the S&P 500 Index are expected to increase 9.5%. It was only two quarters ago, for the first time in six quarters, that S&P 500 year-over-year earnings were even marginally positive. An important factor in this outlook is that energy sector earnings are expected to be positive compared to trough earnings a year ago. Relatively high expectations for the S&P 500 could lead to disappointment and result in short-term volatility. Consensus earnings expectations for our portfolio are more measured, probably a positive in this period of uncertainty.

We remain focused on keeping the portfolio attractively valued. The portfolio's current P/E multiple for 2017 earnings is 17.3x and remains below the S&P 400 Index (19.5x), the Russell MidCap Index (19.2x) and the S&P 500 Index (18.0x). The portfolio's current price-to-revenue is near its all-time low at 0.9x versus the S&P 400 Index at 1.4x, the Russell MidCap Index at 1.6x and S&P 500 Index at 1.9x. This may turn out to be positive for increased merger and acquisition activity.

April 1, 2017, marks the beginning of our 18<sup>th</sup> year as mid-cap investors. 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			
2016	5,178	4,844	Eight	25.56%	24.59%	20.74%	13.80%	0.41%
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.

\* 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 December 31, 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 December 31, 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](mailto: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, 2016, the three-year annualized ex-post standard deviation of the composite is 15.87% and the benchmarks are 12.23% S&P MidCap and 11.55% Russell MidCap, respectively. 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.