

# Fairpointe Capital LLC

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## ADV Part 2A

Fairpointe Capital LLC  
One North Franklin Street, Suite 3300  
Chicago, IL 60606  
(312) 477-3300  
March 2012  
[www.fairpointecapital.com](http://www.fairpointecapital.com)

This Brochure provides information about the qualifications and business practices of Fairpointe Capital LLC ("Fairpointe"). If you have any questions about the contents of this Brochure, please contact Michelle Katauskas at (312) 477-3300 or [info@fairpointecapital.com](mailto:info@fairpointecapital.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Fairpointe Capital LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

Additional information about Fairpointe Capital LLC is available on the SEC's website at [www.adviserinfo@sec.gov](http://www.adviserinfo@sec.gov).

### Item 2 – Material Changes

Only material changes that have occurred since the last annual update of this brochure will be discussed. The last update occurred May 2011. Fairpointe has approximately \$3.4 billion in client assets as of December 31, 2011. Fairpointe internally manages a private fund where only qualified employees of Fairpointe are invested. Fairpointe added disclosures regarding: Fairpointe does not provide legal, tax or accounting advice or services; Fairpointe's brokerage relationships with Schwab and Pershing; Disclosure of primary asset types we invest in and the risk associated with investing in general; Wrap arrangement disclosures; Revision of directed brokerage language; Revision of custody language.

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## Item 4 – Advisory Business

Fairpointe Capital LLC was organized in December of 2010 to provide investment advisory services to investment companies, individuals, institutions and unaffiliated (separately) managed account programs. Fairpointe Capital LLC was founded by Thyra Zerhusen, Robert Burnstine, Mary Pierson and Marie Lorden. Fairpointe is 100% employee owned and majority female owned. Thyra Zerhusen owns a majority interest in the firm, while co-founders Marie Lorden and Mary Pierson each have an equity stake in the firm.

Thyra Zerhusen is the original architect of the firm's flagship strategy, Mid-Cap Core, which she began managing in 1999. Thyra along with Portfolio Managers Marie Lorden and Mary Pierson managed the strategy at a prior investment advisory firm before creating Fairpointe Capital LLC. The team, which has been together for 8 years, successfully transferred the strategy and track record (12+ years) to Fairpointe without interruption.

Fairpointe offers investment advisory services as a sub-advisor to the Aston/Fairpointe Mid Cap Fund and the Parvest US Mid Cap Fund. The Aston fund is a fully managed, diversified mutual fund registered with the Securities and Exchange Commission. The Parvest fund is a fully managed, diversified mutual fund only offered to non-US investors. Fairpointe's services to the funds include management of the investment and re-investment of all assets of the funds. Fairpointe may recommend its clients invest directly in the fund, which may pose a conflict of interest given Fairpointe receives a management fee from the funds. Fairpointe will not collect a fee directly from the client for any portion of the client's portfolio invested in the one of the funds.

Fairpointe offers investment advisory services to individuals and institutions in the form of separate accounts where Fairpointe is managing the designated assets of each account. Fairpointe will maintain these assets in a separate account and monitor all purchases and sales to ensure they comply with the requirements of the client. Clients can describe any restrictions and/or guidelines on investing in certain securities or types of securities in Exhibit A of the investment advisory contract. Specific needs of each client will be discussed and documented through the use of our client new account form.

Fairpointe provides a model investment portfolio to an Investment Advisor for the use in a managed account program. In this capacity, Fairpointe will design, monitor on a continuous basis, and update the model portfolio. Also, Fairpointe will make proxy voting recommendations in accordance with our proxy voting policies and procedures.

Fairpointe provides sub-manager services to asset management firm who assists financial planning firms and other investment advisors in the selection, retention, and monitoring of investment managers who will be hired to manage client portfolios. In this capacity, Fairpointe will provide supervisory investment management services and invest and reinvest securities in the underlying client's portfolio in a manner consistent with the client's investment objectives. Fairpointe will be responsible for voting proxies for any securities held in the client's account and will vote in accordance with our proxy voting policies and procedures. Under this type of arrangement, the client's assets would be managed by Fairpointe in the same manner as assets managed in a similar strategy of other Fairpointe clients.

Clients of Fairpointe may have entered into "wrap fee" arrangements with unaffiliated firms which sponsor such arrangements: Under a wrap fee arrangement, a brokerage or other firm

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may recommend retention of Fairpointe to manage all or a portion of a client's assets; pay Fairpointe a fee for our services; monitor and evaluate Fairpointe's services in managing the client's assets; execute securities transactions which Fairpointe implements on the client's behalf; and provide the client with custodial services for its assets, or the firm may provide any combination of these services, for a set fee to be paid by the client to the firm. Under this type of arrangement, the client's assets would be managed by Fairpointe in the same manner as assets managed for other clients not in a wrap fee arrangement. This type of relationship would still be subject to the client's particular investment needs and objectives; however, Fairpointe may have limited or minimal contact with the client since the brokerage or other firm will usually maintain the direct and primary contact with the client. The client should understand that, depending upon the amount of the wrap fee the brokerage or other firm charges, the number of securities transactions in the client's account, and the value of custodial or other services received under the arrangement, the amount of the wrap fee may be more or less than the total cost for such services if the client were to obtain them separately. Therefore, such arrangements may not be suitable for all clients based on the client's individual financial circumstances and investment goals. Fairpointe may also have a financial incentive to recommend wrap arrangements to a client over other programs and services. More specific information on each wrap fee arrangement should be available in the Wrap Fee Program Brochure which should be made available to the client from the wrap fee arrangement sponsor. Fairpointe does not act as a sponsor of any wrap fee arrangements.

Fairpointe internally manages a private fund currently limited to certain qualified employees of Fairpointe.

Fairpointe has \$3.4 billion in client assets under management as of December 31, 2011.

Fairpointe does not provide legal, tax or accounting advice or services and a client should not assume that Fairpointe is providing such services at any time. Also, generally speaking, securities or other investments on which Fairpointe provides advice are not deposits or obligations of any bank, are not endorsed or guaranteed by any bank and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency and that neither Fairpointe is not a trust or banking institution.

### Item 5 – Fees and Compensation

Fairpointe has established investment advisory fees for its Mid Cap and Focused Equity accounts in accordance with the fee schedule below:

Investment Strategy	Annual Investment Management Fee	
Mid-Cap Equity	First \$10 Million	1.00% of assets
	Thereafter	0.65% of assets
	\$2.5 million account(s) minimum	
Focused Equity	First \$10 Million	1.00% of assets
	Thereafter	0.50% of assets
	\$2.5 million account(s) minimum	

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All fees are subject to negotiation.

The specific manner in which fees are charged by Fairpointe Capital LLC is established in a client's written agreement with Fairpointe. Management fees will generally be invoiced in advance and payable to Fairpointe at the beginning of each calendar quarter. Accounts initiated or terminated during a calendar quarter will be charged a pro-rated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable. Fairpointe deducts fees directly from the client's custodial account or they can choose to pay the management fee directly.

As discussed previously, Fairpointe has entered into a sub-manager arrangement with an asset management firm. The client pays the asset management firm an agreed upon fee and Fairpointe will receive a portion of that fee for our supervisory investment management services. That fee can range from 40-50 bps.

Fairpointe may enter into "wrap fee" arrangements with certain brokerage firms or other companies where the client pays the brokerage firm or other company an agreed upon fee for investment management by us or others, and for brokerage commissions, custodial services and possibly consulting services. Under such arrangements, Fairpointe will receive a portion of the "wrap fee" paid to the brokerage firm for our asset management services.

Fairpointe's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses, which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Fairpointe's fee. Please refer to the section on Brokerage Practices below for more information on how Fairpointe selects or recommends brokerage firms for the client's securities transactions.

## Item 6 – Performance-Based Fees and Side-By-Side Management

Fairpointe Capital LLC does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## Item 7 – Types of Clients

Fairpointe Capital LLC may provide portfolio management services to individuals, high net worth individuals, family offices, investment companies, pension or profit sharing plans, charitable institutions, foundations, endowments, corporations, governmental entities, registered mutual funds and trust programs. Generally, our minimum account size is \$2.5 million.

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## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

Fairpointe Capital LLC manages equity and balanced portfolios for clients. Fairpointe employs a fundamental bottom-up, valuation-based process to select companies that are believed to be inefficiently priced relative to their earnings growth outlook over the next three to five years. Fairpointe has a preference for companies with products and services that make their customers more efficient or profitable, and are critical to their customer's success. Fairpointe looks for companies with compelling business models, financial strength, and that are under-valued by the market. Fairpointe utilizes regulatory filings, company press releases, meetings with company management, analyst reports, financial journals, industry conferences, and in-depth knowledge and contacts acquired over decades of investing to generate new ideas. Security selection is based on identifying companies with a catalyst for change, strong or improving financial metrics and prior management success.

Fairpointe primarily invests in domestic equities and ADRs. If any fixed income exposure is required by the client, Fairpointe will typically invest in corporate bonds, bond funds, and treasuries.

Investing in securities such as the types of securities used by Fairpointe in managing the client's assets or providing investment advice involves the potential risk of loss in the value of the securities both in the amount invested as well as any profits which have not been realized by selling the securities. The client should be prepared to bear the risk of such losses. The degree of risk depends upon the type of security or strategy involved.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding certain legal or disciplinary events that would be material to the evaluation of Fairpointe or the integrity of Fairpointe's management. Fairpointe has no information applicable to this Item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

Fairpointe Capital LLC or related persons are not affiliated with other financial firms and do not have any relationship that would impact clients of Fairpointe.

## **Item 11 – Code of Ethics**

Fairpointe Capital LLC has adopted a Code of Ethics for all supervised persons of the firm describing its standards for business conduct premised on fundamental principles of openness,

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integrity, honesty and trust, as well as our fiduciary duty to our clients. Fairpointe's employees and related persons of Fairpointe are required to follow the Code of Ethics and annually certify they acknowledge the terms. The Code of Ethics includes provisions relating to the confidentiality of client information, comply with applicable federal and state securities laws, a prohibition on insider trading, and personal securities trading procedures, among other things.

The Code of Ethics is designed so that the personal securities transactions, activities and interests of the employees of Fairpointe will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions. Under the Code, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Fairpointe's clients. The Code requires pre-clearance of certain transactions. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Fairpointe and its clients.

Fairpointe does act as a sub advisor to the Aston/Fairpointe Mid Cap Fund. Fairpointe may recommend to clients, directly or indirectly, this security or others where Fairpointe and related persons of Fairpointe can have a position of financial interest. Fairpointe does not charge nor collect a direct fee from the client on their holding of the Aston/Fairpointe Mid Cap Fund.

Fairpointe also internally manages a private fund currently limited to certain qualified employees of Fairpointe. These employees will hold the same securities as clients. If the private fund participates in the aggregated order it will receive the same average price as any other client therefore eliminating the possibility of obtaining a more advantageous price. If it does not participate we will make every effort so that the execution of an order is not in competition with an identical client order or receiving favorable treatment in its execution.

Fairpointe's clients or prospective clients may request a copy of the Code of Ethics by contacting Fairpointe at [info@fairpointecapital.com](mailto:info@fairpointecapital.com).

## Item 12 – Brokerage Practices

Fairpointe Capital LLC considers the following factors in selecting or recommending brokerage firms for client transactions and in determining the reasonableness of the compensation or other remuneration paid to the brokerage firms:

- Quality of Support Services and Technology
- Trade Implementation Costs
- Value of Research and Related Information and Products Provided
- Market Liquidity Provided
- Confidentiality of Trading Intentions
- Investment Styles (compatibility between us and the brokerage firm)
- Financial Stability
- Trade Error Resolution Process

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- Financial Stability
- Ability to Execute Difficult Trades
- Other Factors Which May Be Identified By Us From Time To Time

We have established an Execution Review Committee which periodically reviews our brokerage practices and the reasonableness of compensation or other remuneration paid to brokerage firms and monitors our efforts to seek best execution of client transactions.

**Research and Other Soft Dollars Benefits:** Where more than one brokerage firm satisfy our criteria, preference may be given to brokerage firms which provide us with certain brokerage and research services and products as allowed by law under Section 28(e) of the Securities Exchange Act of 1934 which we may use to execute client transactions even though the commissions or similar costs for particular transactions may be higher than the commissions or costs incurred by using another brokerage firms which does not provide us with these brokerage and research services or products. Payments to brokerage firms for these services through commission revenue rather than direct cash payments are referred to as “soft dollars”. Under these circumstances, we will make a good faith determination that the amount of commission is reasonable in relation to the value of the brokerage and research services or products provided by the brokerage firm(s) which we consider to be a significant benefit to our clients. We use these brokerage and research services and products to benefit all of our clients’ accounts, not just those whose transactions paid for the services.

The brokerage and research services or products received by us under the arrangement described above include (i) fundamental and attribution analysis on stocks, (ii) economic research reports, (iii) live stock quotes and associated exchange fees, (iv) benchmark information, (v) proxy research (vi) trade execution system, (vii) global research reports, (viii) research consolidator service.

Our use of client brokerage commissions or similar costs for transactions to obtain brokerage or research services and products presents a conflict of interest to us because we do not have to internally produce the service or product or purchase it directly elsewhere. This also means that we will have a financial incentive to select or recommend brokerage firms which provide us such brokerage and research services or products rather than based on a consideration of the lowest commission cost to our clients. To address these conflicts, we use a commission comparison report to review the reasonableness of commission amounts and rates used to obtain brokerage and research services and products described above. This review is conducted during meetings of our Execution Review Committee.

**Charles Schwab & Co., Inc and Pershing Advisor Solutions:** We may recommend that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. (Schwab) or Pershing Advisor Solutions a BNY Mellon Company (Pershing), both a FINRA



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registered broker-dealer and member of SIPC, to maintain custody of their assets and to effect trades for their accounts. Although we may recommend that clients establish accounts at Schwab or Pershing, it is the client's decision to custody assets with either. We are independently owned and operated and not affiliated with Schwab or Pershing.

Schwab and Pershing provide us with access to its institutional trading and custody services, which are typically not available to their retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as the advisor's clients' assets are maintained in accounts at those institutions and are otherwise contingent upon our committing to specific amount of business such assets in custody or trading commissions. These services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For our client accounts maintained in its custody, Schwab and Pershing generally do not charge separately for custody services but is compensated by account holders such as our clients through commissions and other transaction-related or asset-based fees for securities trades that are executed through these institutions or that settle into Schwab or Pershing accounts maintained by our clients.

Schwab and Pershing also make available to us other products and services that benefit us but may not directly benefit our clients' accounts. Many of these products and services may be used to service all or some substantial number of our accounts, including accounts not maintained at Schwab or Pershing.

Schwab's and Pershing's products and services that assist us in managing and administering clients' accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of our fees from its clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Schwab and Pershing also offer other services intended to help us manage and further develop our business enterprise. These services may include: (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. They may make available, arrange and/or pay third-party vendors for the types of services rendered to us. They may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to us. They may also provide other benefits to our employees such as educational events or occasional business entertainment. In evaluating whether to recommend or require that our clients custody their assets at Schwab or Pershing, we may take into account the availability of

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some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab or Pershing, which may create a conflict of interest since our recommendation that our clients maintain accounts at Schwab or Pershing may be based in part on the availability to us of all or some of the products or services described above.

**Brokerage for Client Referrals:** We do not receive brokerage firm referrals for potential clients to us.

**Directed Brokerage:** We will execute transactions through a particular brokerage firm as a result of your decision to direct us to execute transactions through a particular brokerage firm or as a result of your decision to participate in a “wrap fee” arrangement in which case trades are generally executed through the brokerage firm with which you have entered into the “wrap fee” arrangement. In this situation, you will be responsible for negotiating the commission rates you pay, not us. You should be aware that our inability to negotiate commissions, obtain volume discounts and that best execution may not be achieved for transactions in your account(s). As a result, transactions in accounts directed by you to a particular brokerage firm may result in higher commissions, greater spreads or less favorable net prices than would be the case if we were authorized to choose the brokerage firm through which to execute transactions for your account(s). You should also be aware that disparities in commission charges for similar transactions in accounts in different clients of ours may exist and that there is a conflict of interest arising from such directed brokerage practices. You should be aware that transactions for accounts which we have been instructed by you, or by the brokerage firm in the event of a wrap fee arrangement, to direct to a specified brokerage firm may be placed subsequent to transactions we enter for client accounts where we determine the brokerage firm through which to execute transactions for clients. This may result in less favorable execution for those accounts where we have been instructed by you to direct trades to a specified brokerage firm for execution.

You should be aware that you have brokerage options which you should consider other than instructing us to direct to your transactions to a particular brokerage firm including the use by us of other brokerage firms we determine to use for execution of client transactions possibly at a lower commission cost and that this option may be available through us.

**Trade Aggregation:** Fairpointe generally aggregates orders for client accounts with trades of other client accounts to seek a lower commission or more advantageous net price. All accounts will participate in a block trade, except if an account’s risk tolerance, restrictions, tax situation, cash availability or needs would preclude participation, if Fairpointe determines in good faith that participation in the block trade would not be in the client’s best interest. If Fairpointe is not able to include an order for an account into an aggregated trade, Fairpointe might still transact for the account in the same security that day through a different broker-dealer, which may cause that account to have a different price and execution cost on that same security. Fairpointe may reallocate securities from a block trade to an account not participating in a block trade that would otherwise be eligible to participate in the trade due to unexpected circumstances.

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Shares purchased and sold in aggregated orders for participating accounts are allocated pro-rata among the participating accounts based on the order size and cash availability of each participating client. All participating accounts receive the average price for all transactions executed for that order during the day, and all such accounts share commissions and other transaction costs on a pro-rata basis. For unfilled orders, participating clients are allocated securities on a pro-rata basis before the end of that day.

Employees invested in the private fund managed by Fairpointe may be aggregated with client orders in order to receive the same average price as any other client therefore eliminating the possibility of obtaining a more advantageous price. If it does not participate we will make every effort so that the execution of an order is not in competition with an identical client order or receiving favorable treatment in its execution.

Trade Errors: Errors in executing client transactions may occur from time to time. Fairpointe strives to correct errors on a timely basis, so the client will not incur a loss or other costs as a result of any such errors. In general, any loss or costs incurred as a result of the correction of such errors shall be borne by Fairpointe or by the client's broker/custodian and any error resulting in a gain will be retained by the client's broker/custodian or by the client.

It is Fairpointe's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. Fairpointe will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction.

### **Item 13 – Review of Accounts**

All portfolios are monitored by their Portfolio Manager on a regular basis for performance, outlook and suitability based on client objectives. The Mid Cap team reviews all of their accounts daily using a comparison report. The report identifies each holding and the weighting compared to the model. Action may be taken if a holding is out of alignment, market conditions change, or individual stock conditions change. The Mid Cap model portfolio is reviewed and revised as appropriate by the Chief Investment Officer and Mid Cap Portfolio Managers.

Account reviews with clients may be quarterly, annually or ad hoc, as requested by the client. No less than quarterly, most clients will receive a current list of investment holdings, realized and unrealized gains and losses, investment income and investment performance.

If the client is involved in a program as described earlier, the client may receive reports including those assets for which Fairpointe is providing services, directly from the brokerage firm or their custodian and not from Fairpointe.

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## **Item 14 – Client Referrals and Other Compensation**

Fairpointe Capital LLC may use the services of unaffiliated solicitors. Under those circumstances, Fairpointe may pay compensation to the solicitor; however, those arrangements will be effected in accordance with Rule 206(4)-3 under the Advisors Act and the client will not pay a higher fee as a result of any solicitation or referral.

## **Item 15 – Custody**

Fairpointe Capital LLC does not have custody of client funds or securities with the exception of debiting client fees directly from their account. Please note that you should receive periodic account statements directly from your custodian no less than on a quarterly basis. We urge you to compare the account statements you receive from your custodian with those statements and reports you receive from Fairpointe. Also, in the event you do not receive account statements directly from your custodian on at least a quarterly basis, you should promptly notify us as well as notifying your custodian directly.

## **Item 16 – Investment Discretion**

Fairpointe Capital LLC usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. By signing Fairpointe's investment advisory contract the client has authorized discretion on their accounts. In all cases, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Fairpointe observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, Fairpointe's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Specific client investment guidelines and restrictions must be provided to Fairpointe in writing.

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## Item 17 – Voting Client Securities

Fairpointe Capital LLC has adopted a proxy voting policy whereby Fairpointe will use its best efforts to vote proxies. Fairpointe votes the proxies for all securities in ERISA accounts, securities in subadvisory accounts, and other client accounts if so directed by the client. Fairpointe utilizes Risk Metric's ISS as a tool to aid in researching the proxy proposals. The proxies are voted on either the Broadridge ProxyEdge system or Risk Metric's ISS system.

Should a conflict of interest arise, Fairpointe will resolve the conflict with the view of the best interest of the investors and look to recommendations made by ISS, and independent third party. Clients may obtain a copy of Fairpointe's complete proxy voting policies and procedures upon request to [info@fairpointecapital.com](mailto:info@fairpointecapital.com). Clients may also obtain information from Fairpointe about how Fairpointe voted any proxies on behalf of the client account by contacting their Portfolio Manager or emailing [info@fairpointecapital.com](mailto:info@fairpointecapital.com). Clients can directly vote proxies by electing so at their custodian therefore all proxy information will be sent to the client and not to Fairpointe.

## Item 18 – Financial Information

Registered investment advisers are required in this Item to provide clients with certain financial information or disclosures about Fairpointe Capital LLC's financial condition. Fairpointe has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.