

# Fairpointe Capital LLC

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## ADV Part 2A

Fairpointe Capital LLC  
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Chicago, IL 60606  
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March 2016  
[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 [mkatauskas@fairpointecapital.com](mailto:mkatauskas@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 March 2015. Fairpointe has approximately \$5.6 billion in client assets as of December 31, 2015.

# Fairpointe Capital LLC

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## Item 3 -Table of Contents

<b>Item 1</b>	Cover Page	1
<b>Item 2</b>	Material Changes	1
<b>Item 3</b>	Table of Contents	2
<b>Item 4</b>	Advisory Business	3-4
<b>Item 5</b>	Fees and Compensation	4-5
<b>Item 6</b>	Performance Based Fees and Side-by-Side Management	5
<b>Item 7</b>	Types of Clients	5
<b>Item 8</b>	Methods of Analysis, Investment Strategies and Risk of Loss	6
<b>Item 9</b>	Disciplinary Information	6
<b>Item 10</b>	Other Financial Industry Activities and Affiliations	6
<b>Item 11</b>	Code of Ethics	7
<b>Item 12</b>	Brokerage Practices	8-11
<b>Item 13</b>	Review of Accounts	12
<b>Item 14</b>	Client Referrals and Other Compensation	12
<b>Item 15</b>	Custody	12
<b>Item 16</b>	Investment Discretion	13
<b>Item 17</b>	Voting Client Securities	13
<b>Item 18</b>	Financial Information	14

# Fairpointe Capital LLC

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## Item 4 – Advisory Business

Fairpointe Capital LLC received its registration from the Securities and Exchange Commission in March 2011. Fairpointe provides investment advisory services to investment companies, individuals, institutions and unaffiliated (separately) managed account programs. Fairpointe Capital LLC was founded by Thyra Zerhusen, Marie Lorden, Mary Pierson, and Robert Burnstine. Fairpointe is 100% employee owned and majority female owned. Thyra Zerhusen owns a majority interest in the firm, while co-founders Marie Lorden, Mary Pierson, Robert Burnstine each have an equity stake in the firm and Michelle Katauskas was made a member in 2013.

Thyra Zerhusen is the original architect of the firm's flagship strategy, Mid-Cap Core, which she began managing in 1999. The Mid-Cap Core strategy utilizes a fundamental bottom-up, valuation-based process to select mid-cap companies (\$1-15MM market cap) that are inefficiently priced relative to their long-term earnings growth potential. Thyra along with Portfolio Managers Marie Lorden and Mary Pierson have worked as a team since 2004, Brian Washkowiak joined the team in January 2015. The team has successfully transferred the strategy and mid-cap track record (17+ years) to Fairpointe without interruption.

Fairpointe also manages the Focused Equity strategy. Focused Equity, launched in 2011, is led by Robert Burnstine and co-managed by Thyra Zerhusen. Focused Equity is market cap agnostic and encompasses a fundamental, valuation-based process to select stocks, which is a similar strategy Mr. Burnstine executed for approximately ten years prior to co-founding Fairpointe.

Fairpointe offers investment advisory services as a sub-advisor to the Aston/Fairpointe Mid Cap Fund and Aston/Fairpointe Focused Equity Fund ("Aston Funds"), the Parvest Equity USA Mid Cap Fund ("Parvest Fund"), and the Cornerstone Advisors Global Public Equity Fund ("Global Fund"). The Aston Funds are 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. The Global Fund is a privately offered mutual fund and is registered with the Securities and Exchange Commission. Fairpointe's services to the four funds include management of the investment and re-investment of all assets of the four funds. Please refer to the prospectus for each of the funds for more information concerning the management, strategies, and other important information for each fund. Fairpointe may recommend its clients invest directly in any of the four funds, which may pose a conflict of interest given Fairpointe receives a management fee from the funds. Any client which elects to invest all or a portion of its assets in any of the four funds will not be assessed a management fee by Fairpointe on those funds in addition to that received by Fairpointe for its management of the funds.

Fairpointe offers several investment strategies 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 for compliance with the requirements of the client. Clients can impose any restrictions and/or guidelines on particular types of investments in Exhibit A of the investment advisory contract. Fairpointe collects individual client information as to their investment objectives and risk tolerances through the use of our confidential client questionnaire/new account form.

Non-managed assets can be accommodated on a limited basis.

# Fairpointe Capital LLC

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Fairpointe provides two model investment portfolios to unaffiliated investment advisors for the use in their managed account program. In this capacity, Fairpointe will design, monitor on a continuous basis, and update the model investment portfolios and will take action on behalf of the model portfolio accounts for all matters regarding shareholder votes as stated in each contract. If action is required it will be in accordance with our proxy voting policies and procedures.

Fairpointe provides sub-advisory services to an unaffiliated investment adviser consultant by providing 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 using a strategy similar to that used for other Fairpointe clients. When given authority, 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.

Fairpointe has \$5.6 billion in client assets under management as of December 31, 2015. Of that \$41.7 million is non-discretionary.

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 an investment advisory fee schedule for individuals and institutions for its Mid-Cap and Focused Equity accounts:

Investment Strategy	Annual Investment Management Fee	
Mid-Cap Equity	First \$10 Million	0.85% of assets
	Thereafter	0.65% of assets
	\$5 million account(s) minimum	
Focused Equity	First \$10 Million	1.00% of assets
	Thereafter	0.50% of assets

The specific manner in which fees are charged by Fairpointe Capital LLC is established in a client's written agreement with Fairpointe. Fairpointe's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses, which shall be incurred by the client. 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

# Fairpointe Capital LLC

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deducts fees directly from the client's custodial account or clients can choose to pay the management fee directly.

Fairpointe receives an agreed upon fee for the sub-advisory arrangements with the four mutual funds. That fee can range from 80 - 37 bps. Please refer to the prospectus for each mutual fund for more information as to each funds fees and expenses.

Fairpointe receives an agreed upon fee for the sub-advisory arrangement with an unaffiliated investment adviser consultant, which pays Fairpointe a portion of the client fee for our supervisory investment management services. That fee can range from 45-50 bps.

In regards to the model investment portfolios provided by Fairpointe to unaffiliated investment advisors, Fairpointe receives 50% of the management fee received by one of the investment advisors and 35 bps of the managed assets in the other managed account program for its services in connection with the use of the model investment portfolios.

Clients may incur certain charges imposed by custodians, brokers, 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, including those for which Fairpointe provides services as described above, 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 possible fees Fairpointe may charge, except as otherwise discussed in this section. 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.

All fees are subject to negotiation. Possible factors that can lead to negotiation are account size and/or asset type. Fees can vary from the stated schedule as a result. Employees may be charged a reduced fee or no fee at all for Fairpointe's portfolio management services.

## **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 provides portfolio management services to high net worth individuals, investment companies, pension or profit sharing plans, charitable institutions, foundations and endowments, corporations, governmental entities, pooled investment vehicles, other registered investment advisors and consultants.

# Fairpointe Capital LLC

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

Fairpointe Capital LLC manages equity portfolios for clients. Fairpointe looks for companies with compelling business models, financial strength, experienced management, and attractive valuation. The Mid-Cap strategy 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 and has a preference for companies with products or services that make their customers more efficient or profitable, and are critical to their customer's success. The Focused Equity strategy employs a disciplined, fundamental, bottom-up valuation-based approach to investing while seeking to select companies that are inefficiently priced relative to their fundamental value, earnings growth outlook and cash flow generation over the next three to five years. 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 (American Depositary Receipts). If any fixed income exposure is required by the client, Fairpointe will typically invest in bond funds, corporate bonds, 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 certain 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 employees of the firm. It describes the standards for business conduct premised on fundamental principles of openness, integrity, honesty and trust, as well as our fiduciary duty to our clients. All Fairpointe's employees 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, compliance with applicable federal and state securities laws, 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 conflict with the investment decision making process for our clients and its implementation. Our Code of Ethics includes restrictions on our employees' personal trading including but not limited to; prohibited from purchasing equity securities; pre-clearance in certain circumstances; certain classes of securities have been designated as exempt transactions based upon determination that these transactions would not materially conflict with the best interest of our clients. Employee trading is continually monitored for adherence to our Code of Ethics.

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

# Fairpointe Capital LLC

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## Item 12 – Brokerage Practices

Fairpointe Capital LLC considers the following factors in selecting or recommending brokerage firms for client transactions:

- 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)
- Trade Error Resolution Process
- Ability to Execute Difficult Trades
- Other Factors Which May Be Identified By Us From Time To Time

We have established an Execution Review Committee (ERC) which annually creates a broker budget and 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 satisfies our criteria, preference may be given to brokerage firms which provide us with certain brokerage and research services or products as allowed by law under Section 28(e) of the Securities Exchange Act of 1934, even though the commissions or similar costs for particular client transactions may be higher than the commissions or costs incurred by using another brokerage firm 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, the ERC 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 or 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 and settlement systems, (vii) global research reports, (viii) research consolidator service.



## Fairpointe Capital LLC

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Our use of client brokerage commissions or similar costs for transactions to obtain brokerage and research services or 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 review the reasonableness of commission amounts and rates used to obtain brokerage and research services or products described above. This review is conducted during meetings by 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 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 or elsewhere. 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 a 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 are 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

## Fairpointe Capital LLC

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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 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.

**Directed Brokerage:** Fairpointe will execute transactions through a particular brokerage firm as a result of the client's decision to direct us to execute transactions through a particular brokerage firm, or as a result of the sub-advisory or model arrangements that requires execution through the brokerage firm with which assets are held. In this situation, the client or advisor will be responsible for negotiating the commission rates they pay, not Fairpointe. Clients should be aware that Fairpointe's inability to negotiate commissions and obtain volume discounts could result in best execution may not be achieved for transactions in their account(s). As a result, transactions in accounts directed by the client to a particular brokerage firm may result in higher commissions, greater spreads or less favorable net prices than would be the case if Fairpointe was authorized to choose the brokerage firm through which to execute transactions for client account(s). Clients 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. Clients should be aware that transactions for accounts which we have been instructed by them, or by the advisor in the event of a sub-advisory or model 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 to direct trades to a specified brokerage firm for execution.

Clients should be aware that they have brokerage options other than instructing Fairpointe to direct transactions to a particular brokerage firm. This includes the use of other brokerage firms Fairpointe determines to use for execution of client transactions, possibly at a lower commission cost. This option may be available through us.

## Fairpointe Capital LLC

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**Trade Aggregation:** Fairpointe generally aggregates orders for client accounts with trades of other client accounts to seek a more advantageous net price. All accounts will participate in a block trade, except if an account's risk tolerance, restrictions, tax situation, cash availability needs, or 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. When initiating a new position in either the Mid-Cap or Focused Equity strategy, Fairpointe will generally establish a position in the representative Mid-Cap or Focused Equity account first and once that is satisfied all other eligible client accounts within their respective strategy may begin to establish their position; or a block trade can be used to initiate a new position among the Mid-Cap representative account and eligible client accounts or the Focused Equity representative account and eligible client accounts.

Shares purchased and sold in aggregated orders for participating accounts are allocated shares to achieve desired percent weighting among the participating accounts. All participating accounts receive the same average price for all transactions executed for that order during the day. All such accounts may either share commissions and other transaction costs on a pro-rata basis or the client's custodian rates will apply.

If an employee's separate account(s) are managed by Fairpointe their orders 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 employee's account(s) do 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. The Chief Compliance Officer reviews all employee transactions in order to monitor compliance with policies and procedures.

**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 broker/custodian, depending on the owner of the error and such policies. Any error resulting in a gain will be retained by the client's broker/custodian or by the client per such policies.

**Cross Trades:** 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**

Portfolio Managers are responsible for reviewing client accounts. They are responsible for conducting periodic reviews of client portfolios to monitor adherence to investment mandates and transaction activity. Mid-Cap Portfolio Managers review their accounts using an internal comparison report that identifies each holding and the weighting compared to the representative portfolio. The Focused Equity Manager periodically reviews holdings reports of clients after all intraday activity has been posted to accounts. Action may be taken if a holding is out of alignment, market conditions change, or individual stock conditions change.

Account reviews with clients may be quarterly, annually or ad hoc, as requested by the client. No less than quarterly, most clients receive various reports which can include a current list of investment holdings, realized and unrealized gains and losses, investment income and investment performance from Fairpointe. However, where Fairpointe provides sub advisory services or model investment portfolio services as described previously, it will not provide written reports directly to those end clients.

## **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. No such arrangements are active at this time.

## **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 notify us as well as notifying your custodian directly as soon as possible.

# Fairpointe Capital LLC

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## Item 16 – Investment Discretion

Fairpointe Capital LLC generally 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.

## 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 has retained Institutional Shareholder Services ("ISS") and ProxyEdge services to assist in the proxy voting process and research. ISS provides notifications of and recommendations for upcoming proxy votes as well as providing a portal to cast votes. ProxyEdge and proxyvote.com do not provide research and are used to cast actual votes for clients.

If Fairpointe determines there is a material conflict of interest in connection with a proxy vote, the respective member(s) of that investment strategy will consider voting with the recommendations made by ISS, an independent third party. However, the decision is ultimately based on what is in the best interest of the client. Clients may obtain a copy of Fairpointe's complete proxy voting policies and procedures upon request to [mkatauskas@fairpointecapital.com](mailto:mkatauskas@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 [mkatauskas@fairpointecapital.com](mailto:mkatauskas@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.

## Fairpointe Capital LLC

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### 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.