

Firm Brochure (Part 2A of Form ADV)



# GREENROCK RESEARCH

223 West Jackson, Suite 850  
Chicago, IL 60606  
Phone: 312.463.1301  
Fax: 866.523.7205

E-mail: [operations@greenrockresearch.com](mailto:operations@greenrockresearch.com)  
On the Web: [www.greenrockresearch.com](http://www.greenrockresearch.com)

**Michael Kevin Malone, President**  
**312.463.1301**

*This brochure provides information about the qualifications and business practices of Greenrock Research, Inc. If you have any questions about the contents of this brochure, please contact us at (312) 463-1301 or by e-mail at [operations@greenrockresearch.com](mailto:operations@greenrockresearch.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.*

*Addition information about Greenrock Research also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

**NOTE:** *While Greenrock Research may refer to itself as a "registered investment adviser" or "RIA", clients should be aware that registration itself does not imply any level or skill or training.*

The Date of this Brochure is March 31, 2011

## **MATERIAL CHANGES FROM PREVIOUS VERSION**

On July 28, 2010, the United States Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document we provide to clients as required by SEC Rules. This Brochure dated March 31, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require. In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our Brochure.

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## ADVISORY BUSINESS

Greenrock Research is a Chicago-based consulting firm that provides innovative portfolio solutions for registered investment advisers and their clients. Kevin Malone is the president and owner of Greenrock, which he founded in 2004.

Greenrock's clients are financial planning and other investment management firms registered with SEC or with one or more appropriate state securities authorities. (Each such firm is referred to in this brochure as a client "Advisory Firm.")

As of January 1, 2011, Greenrock had approximately \$154,900,000 in assets under management on a discretionary basis. These assets represent accounts for which Greenrock provides active investment portfolio management services. As of the same date, Greenrock had approximately another \$314,000,000 in assets under management on a *non*-discretionary basis (meaning assets held in accounts in which Greenrock does not have the authority to decide which securities to buy or sell).

Greenrock offers four basic categories of services to its Adviser Clients:

- Selection and monitoring of investments and managers
  - portfolio managers for specific asset classes
  - registered mutual funds
  - private equity funds
  - other private equity investments
- Active investment portfolio management
  - acting as "sub-adviser" to manage account portfolios of specific asset classes

*NOTE: Greenrock relies on the Adviser Client (i) for making suitability decisions, and (ii) for providing "ongoing investment supervisory services," based on the needs and circumstances of individual account owners.*

- Producing research and reports
  - mutual fund performance
  - business organization and performance analysis of investment management firms
- Individual consultations for investment advice on:
  - individual securities
  - mutual funds
  - investment managers

As described in more detail below, Greenrock tailors its advisory services to the individual needs of financial planning and investment manager firms ("Advisory Firms") who are Greenrock's clients.

## Selection, Recommendation and Monitoring of Investments and Managers

### *Selecting, Recommending and Monitoring Portfolio Managers*

Greenrock will research, analyze and recommend particular investment management firms to act as sub-advisers for specific classes of investment assets designated by the Advisory Firm. Greenrock will construct a list of different account managers to meet the specific needs of each Advisory Firm. Greenrock will recommend one or more sub-advisers (“Portfolio Managers”) for managing investment portfolios composed of one or more of the following asset classes:

- ❖ tax exempt bonds
- ❖ taxable bonds
- ❖ domestic common stocks classified by the company’s market capitalization (large-cap, small-cap, mid-cap), and by its relative emphasis on growth and value
- ❖ convertible securities
- ❖ high-yield bonds
- ❖ international stocks of companies in developed countries
- ❖ international stocks of companies in emerging markets
- ❖ securities of real estate investment trusts

Greenrock will monitor the performance of Portfolio Managers that are investing assets on behalf of an Advisory Firm. Greenrock will prepare comprehensive reports on each Portfolio Manager, including monthly performance, holdings and portfolio analysis. These reports will typically analyze investment philosophy, as well as the business, financial and corporate information which Greenrock considers pertinent to an evaluation of a Portfolio Manager’s services.

### *Selecting, Recommending and Monitoring Mutual Funds*

Greenrock will also research, analyze and recommend selected mutual funds for different generic portfolio asset classes designated by the Advisory Firm. Greenrock will monitor the performance of the recommended mutual funds. And from time-to-time Greenrock will prepare reports concerning the performance of recommended mutual funds.

### *Selecting, Recommending and Monitoring Private Equity Investments*

Greenrock will recommend to its Adviser Clients “Private Investments,” which may be either:

- (a) interests in private equity investment funds (“hedge funds” or “private funds”), or
- (b) interests in the equity securities of specific private companies.

Each Private Investment must meet specific investment objectives. Greenrock will first determine that a particular Private Investment is suitable for certain *categories of investors* before presenting the particular Private Investment opportunity to a particular Advisory Firm. Ultimately, it is the Advisory Firm’s decision to present a particular Private Investment opportunity to any of its clients. Greenrock believes there are a very limited number of attractive Private Investment opportunities for any Advisory Firm. It is each Advisory Firm’s responsibility to allocate these limited Private Investment opportunities among its clients.

The entity managing the assets of a private equity investment fund (or “hedge fund”) frequently will be exempt from registration as an investment adviser. Greenrock will not be involved in selecting or monitoring the underlying individual securities of private funds and, instead, will rely solely on the expertise of the entity designated to manage the assets (which entity may or may not be a registered investment adviser). However, Greenrock will monitor the organization, investment philosophy, and performance of the fund manager or issuer with respect to each Private Investment. Greenrock will also advise Advisory Firm on risk minimization techniques that may be appropriate when assets are distributed from a Private Investment.

### Active Portfolio Management Services

Greenrock also offers portfolio management services for clients who are financial planning or investment management firms (“Advisory Firms”). In this capacity, Greenrock will act as a sub-adviser to manage portfolios composed of a specific class of investment assets. (The various classes of investment classes are listed on page 3 under “*Selecting, Recommending and Monitoring Portfolio Managers.*”)

Greenrock enters into advisory agreements with Advisory Firms requesting portfolio management services. Under these agreements, Greenrock has the discretion to invest and rebalance the client accounts of an Advisory Firm with respect to one or more designated asset classes designated by the account owner. However, in each case the Advisory Firm (and *not* Greenrock) has the sole authority and responsibility (and Greenrock relies exclusively on the Advisory Firm) (i) to make suitability decisions, and (ii) to provide “ongoing investment supervisory services” based on the needs and circumstances of individual account owners. As such, the Advisory Firm (and *not* Greenrock) is deemed the “principal sponsor” of the advisory program which includes similarly managed accounts.

### Research Reports

Greenrock will also prepare and offer for sale research reports on specific investment management firms and mutual funds. These reports are based on a combination of third-party research and Greenrock's own research. Greenrock will typically analyze the performance and prospects of particular mutual funds, and the business organization and performance of particular investment management firms.

### Other Investment Services

Greenrock also offers a range investment advice in individual consultations, including with respect to the following:

- ❖ individual securities, investment managers, or mutual funds
- ❖ real estate or oil and gas partnerships
- ❖ investing in private equity investment funds or other specific private equity investments, which may be organized as limited partnerships

### Products and Services Other Than Investment Advice

Greenrock also offers a suite of administrative services to its client Advisory Firms. These administrative services include opening new accounts, preparing bills, and generating reports for the Advisory Firm's clients.

### **FEES AND COMPENSATION**

All Greenrock fees are negotiable. All fees for the following services are based on a percentage of assets under management:

- ❖ selecting, recommending and monitoring investments and portfolio managers
- ❖ mutual fund and Private Investment services
- ❖ active portfolio management

The basic fee for Greenrock's sub-adviser, mutual fund, and Private Investment advisory services (see pages 3-5 above), including the full range of administrative services offered, is:

- 10 basis points (1/10 of 1 %) of the securities (individual equity or debt securities), plus cash equivalent securities, in the accounts of end clients which a financial planning or other investment management firm ("Advisory Firm") has placed under management by a Greenrock-recommended portfolio manager.
- 10 basis points (1/10 of 1 %) of all mutual fund shares and Private Investment assets held in accounts for which a client Advisory Firm provides investment supervisory services.

The basic fee for Greenrock's active portfolio management services including the full range of administrative services offered, is:

- 20 basis points (2/10 of 1 %) of the securities (individual equity or debt securities), plus cash equivalent securities, in client accounts of Advisory Firms that have hired Greenrock to manage portfolio assets.
- 20 basis points (2/10 of 1 %) of all mutual fund shares and Private Investment assets held in accounts over which Greenrock provides supervisory services (which financial planning or other investment management firms have placed under management by Greenrock)

**Disclosure Regarding Layered Fees.** Mutual Funds pay fees to their investment advisers, reducing the net asset value of the fund shares. Similarly, Private Funds pays management fees to an entity or entities designated in the private fund agreement, reducing the value of any end client's participation in the Private Fund. Finally, exchange traded funds ("ETFs") also pay management fees. Therefore, when clients of financial planning and investment management firms pay advisory fees to those firms (out of which Greenrock, as a sub-adviser, is paid its fee), those end clients are, in effect, paying three different fees for the management of each Mutual Fund, Private Fund and ETF asset in their portfolio.

Generally, Greenrock fees are payable quarterly in advance upon debit instructions pursuant to written authorization of end clients delivered to the custodian of their securities account. Accounts opened mid-quarter are charged a prorated Greenrock fee based on the number of days remaining in the current quarter. All Greenrock fees are calculated based on the value of account assets as of the last day of the previous quarter.

However, for certain asset classes (private equity investment funds or other specific private equity investments, for example), asset valuations from third parties may not be received within 30 days of quarter-end. Such third parties may make and deliver asset valuations less frequently than quarterly. Fees for those accounts will be billed on a cost basis plus or minus any additional investments or redemptions until an asset valuation for the account is made available. From then on, the client will be billed on the account valuation, plus or minus any additional investments or redemptions, until the next third party valuation is received.

In addition to the fees charged by Greenrock and the Advisory Firm, end clients will incur brokerage and other transactions costs, including custodian fees, all of which should be disclosed to the end client by the Advisory Firm. (Greenrock's brokerage practices are discussed at page 12 below.

Any end client may terminate the investment management/advisory services client relationship by providing written notice to the Advisory Firm. In turn, the Advisory Firm or Greenrock (or another authorized agent of the Advisory Firm) will promptly provide written notice to all affected sub-advisers, including portfolio managers. Where a sub-adviser is involved, the end client's relationship with the Advisory Firm shall be deemed terminated effective on the date the last affected sub-adviser receives notice of the termination. The unearned portion of all prepaid fees will be calculated as of the effective date of termination, based on the number of days remaining in the current quarter. The unearned portion (including, without limitation, Greenrock's fees) will be refunded to the end client.

Greenrock also has quarterly fixed fee arrangements with certain Advisory Firms. Though this fee will vary depending upon the particular services requested by the Advisory Firm, Greenrock's fees for such engagements start at \$37,500 per quarter.

For general investment advice in individual consultations, Greenrock's fees will be based on either an hourly rate or a flat rate negotiated on a project-by-project basis. The hourly rate for such consultations is \$1,500, and the daily rate is \$10,000.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Greenrock does not accept "performance-based fees" based on either a share of an account's capital gains, or on the capital appreciation of the assets in an account. Therefore Greenrock does not manage any accounts which are charged a performance-based fee "side-by-side" with accounts which are charged any other type of fee (*e.g.*, an hourly fee, a flat fee, or a fee based on a percentage of assets under management).



## **TYPES OF CLIENTS**

The vast majority of Greenrock's clients are financial planning and investment management firms who are investment advisers registered with either the SEC, or with one or more state securities authorities ("Advisory Firms"). These Advisory Firms typically have contracted with their clients to broadly diversify their assets, and to establish and implement investment policy for their portfolios. They use Greenrock (i) to advise them concerning investments and investments managers; (ii) to manage portfolios of select asset classes; and/or (ii) for individual or limited advisory consultations. For ongoing engagements, Greenrock does not have a minimum size for the Advisory Firms it works with. However, most of the Advisory Firms which engage Greenrock manage aggregate client portfolio assets of at least \$100,000,000.

Greenrock therefore manages portfolio assets for the clients of these Advisory Firms. These "end clients" may be individuals, banks, investment companies, pension and profit sharing plans, trusts, estates, charitable organizations, and for-profit corporations and other business entities.

The clients for Greenrock's research reports are primarily investment management firms and investment banking with assets in excess of \$5 billion. These firms typically use Greenrock's research to assist them in buying or selling an investment management firm.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Greenrock's primary investment strategy is to make recommendations to the registered investment advisers (Advisory Firms) that are its clients with respect to (a) the selection, retention and termination of managers for a specific class of investment assets, (b) the advisability of initial or continued investments in particular mutual funds, and (c) the selection of private equity investment funds or other specific private equity investments. In evaluating both investment managers and funds, Greenrock will analyze performance, investment management skill and the organizational structure of the firm.

For its active portfolio management services, Greenrock employs four principal strategies. Each strategy is based on particular investment premises that also define the material risks of that investment strategy. The four strategies are:

- ❖ a global core equity dividend strategy
- ❖ a fixed income investment strategy
- ❖ an alternative investment strategy
- ❖ a specialty equity investment strategy

Greenrock's equity dividend strategy is to purchase selected high-dividend equities. This strategy is based on the assumption or investment premise that over reasonable periods of time, dividend stocks will have an overall higher rate of return than non-dividend paying stocks.

Greenrock's fixed-income strategy is based on the premise that the immediate future will be an inflationary (not deflationary) period for the U.S. economy.

Greenrock's strategy with alternative investments is to counter expected high volatility in the stock market by finding investments other than stocks or bonds (exchange traded funds or "ETFs" for example) which produce different return patterns than stocks and bonds.

Finally, Greenrock's specialty equity investment strategy focuses on investing in the success of Greenrock's strategy of investing in temporarily undervalued assets is based not only on identifying appropriate undervalued assets but on buying and selling at the optimum time.

The principal material risk of each of these investment strategies is the risk that some combination of economic, political, or global developments will prove the particular investment premise to be faulty.

NOTE: Investing in securities involves risk of loss that all clients should be prepared to bear.

### **DISCIPLINARY INFORMATION**

There is no disciplinary information to disclose with respect to Greenrock, or any of its directors, officers, or other related persons that determine the investment advice given to clients.

### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Michael Kevin Malone is the chairman of the Industry Advisory Board, a member of the Financial Advisory Board, and a shareholder of Marketocracy Inc. Marketocracy is a registered investment company (mutual fund). For serving in those capacities, Mr. Malone receives equity-based compensation from Marketocracy.

Because of Mr. Malone's positions with Greenrock and Marketocracy, these companies may be considered related persons with potential conflicts of interest. However, this relationship does not in fact create any material conflicts of interest because Greenrock does not recommend Marketocracy to clients.

Kevin Malone from time to time serves as a trustee or a director (or in a similar fiduciary capacity or position) for private funds or registered investment companies (i.e., mutual funds). Greenrock may include such funds on its list of recommended funds, and provide clients with monitoring, reporting or other advisory services with respect to such funds.

There is an inherent conflict of interest when Greenrock recommends a fund (or provides advisory services with respect to a fund) which Kevin Malone or any Greenrock employee serves in a fiduciary capacity. However, in each such case Greenrock will first determine if the employee's relationship to the fund is material to a decision to recommend or invest in the fund on behalf of one or more of its clients (financial planning or investment management firms). If the relationship is material, then before making any recommendation or investment in that fund, Greenrock will disclose its relationship with the fund, and explain the conflict.

Greenrock recommends to its client Advisory Firms other investment advisers to act as sub-advisers for particular classes of investment assets. For that service, Greenrock receives fees based on a percentage of assets under management. However, those relationships do not in fact

create any material conflicts of interest because Greenrock does not recommend any Advisory Firm to act as a sub-adviser for other Advisory Firms.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Code of Ethics. Greenrock has adopted a code of ethics to establish standards and internal compliance procedures for detection of conflicts of interest, and violations of federal and state securities laws. The code of ethics was designed to outline our duty to clients as well as to foster a high level of ethical behavior among our employees. Greenrock provides a copy of its code of ethics to each employee and to any client or prospective client who requests a copy.

The code of ethics includes:

- ❖ **General Principles**, including placing client interests first, confidentiality, avoiding conflicts of interest, independent decision-making, honesty and integrity
- ❖ **Standards of Business Conduct**, including compliance with regulations and standards relating to conduct in purchasing or selling a client's securities
- ❖ **Conflicts of Interest Policies**, including full disclosure of all facts material to any client conflict of interest, internal reporting of conflicts, and disclosure of known conflicts
- ❖ **Policies to Protect Confidential Information and Prevent Insider Trading**, including prohibition of insider trading and tipping, treatment of confidential information and policy violations, and internal reporting of material nonpublic information.
- ❖ **Reporting Procedures for Personal Trading**, including internal reviews and approvals needed before certain employees may invest in IPOs or limited private offerings, and reporting requirements for securities holdings and transactions by certain employees

The code of ethics requires that supervised persons:

- avoid any actual or potential conflict of interest
- report violations of the code of ethics to the Chief Compliance Office; and
- acknowledge in writing that they received the code of ethics.

Participation or Interest in Client Transactions; Personal Trading. Greenrock employees may buy or sell publicly-traded securities that Greenrock buys or sells for clients of financial planning and investment manager firms. Such employee transactions may occur about the same time that Greenrock buys or sells the same securities for clients. However, in order to avoid a conflict of interest with clients, Greenrock employees are not permitted (i) to buy or sell simultaneously with clients, or (ii) trade contra client positions in the same securities. In order to monitor compliance with this policy, the code of ethics requires employees to submit a quarterly securities transaction reports to the Chief Compliance Officer.

Greenrock may also recommend private equity investment funds or other specific private equity investments ("Private Investments"). The sponsor of the Private Investment may also make additional investment positions in such Private Investment available for the principals and other designated employees of Greenrock. However, in order to avoid a conflict of interest with its

clients, Greenrock will not allocate any portion of the limited Private Investment opportunity to the principals or employees of Greenrock if the sponsor of the Private Investment has made the opportunity available without any restriction as to allocation between Greenrock and its clients.

## **BROKERAGE PRACTICES**

Greenrock does not have the authority to determine the broker to be used for executing end client transactions. Nor does Greenrock generally recommend brokers to either Advisory Firms or end clients. However, in order to enhance the liquidity of positions in certain exchange traded funds (“ETFs”), Greenrock may recommend the use of specialty ETF brokers (“step out” brokers).

## **REVIEW OF ACCOUNTS**

For its active portfolio management clients (typically, the end clients of Advisory Firms), Greenrock will review accounts at least once a year. Greenrock will then re-balance the portfolio assets as necessary to match the end client’s initial or updated investment guidelines and instructions. During these periodic reviews, Greenrock will also update the portfolio to reflect any changes in investment strategies or client needs – based on information received from the Advisory Firm.

Reviews will also be triggered by material changes in the cash balances of an account (whether due to end client withdrawals, deposits or otherwise). Account reviews are conducted by either the president or a managing director of Greenrock.

At the end of each calendar quarter, end clients will receive a written report or quarterly statement from the broker-dealer, bank or other financial institution serving as custodian of the client’s portfolio assets being managed by Greenrock. The custodian’s quarterly statement will include all of the following:

- .....an asset summary section
- .....itemization of all activity in the account, including all securities transactions, fees charged, and all contributions and withdrawals made by the client
- .....a statement of the market value of the account at the beginning and end of the reporting period
- .....for each of the portfolio assets: the cost, market value and estimated annual income of the asset

## **CLIENT REFERRALS AND OTHER COMPENSATION**

Greenrock does not compensate any person for client referrals. No one other than client

Advisory Firms (through their end clients) provide any economic benefit to Greenrock for providing investment advice or other advisory services to Greenrock clients.

## **CUSTODY**

Greenrock does not have custody of any client securities.

## **INVESTMENT DISCRETION**

When Greenrock provides portfolio management services, it necessarily accepts discretionary authority to manage securities accounts for Advisory Firm's clients. Such end clients *can* place specific restrictions and limitations on this authority but, customarily they do not. Before Greenrock will accept discretionary authority, an end client must provide a signed trading authorization, generally on a form provided by the end client's custodian.

## **VOTING CLIENT SECURITIES**

Greenrock does not have, and will not accept, authority to vote client securities. Clients will generally receive their proxies, other solicitations, and related materials from their custodian. Greenrock does not advise clients with respect to such matters; therefore, clients should not contact Greenrock with questions about a particular solicitation.

## **FINANCIAL INFORMATION**

Greenrock's fees are generally payable *quarterly* in advance. Therefore, Greenrock is not required to include a balance sheet in this *brochure*.

## **REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Greenrock is an investment adviser registered with the SEC. It is not registered with, nor required to be registered with, any state securities authority.