



# E L E S S A R

Investment Management

Elessar Investment Management, LLC  
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FORM ADV Part 2A  
Disclosure Brochure  
March 31, 2011

[www.elessarinvest.com](http://www.elessarinvest.com)

This Brochure provides information about the qualifications and business practices of Elessar Investment Management, LLC ["Elessar"]. If you have any questions about the contents of this Brochure, please contact Mitch Krahe at 216-357-7412 or [mkrahe@elessarinvest.com](mailto:mkrahe@elessarinvest.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.

Elessar is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser should provide you with information to assist you in hiring or retaining an Adviser.

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

## **Item 2 – Material Changes**

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that 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.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Mitch Krahe – Chief Compliance Officer at 216-357-7412 or via e-mail at [mkrahe@elessarinvest.com](mailto:mkrahe@elessarinvest.com). A copy will be sent to you free of charge.

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#### **Item 4 – Advisory Business**

Elessar provides investment advisory services to individual and institutional clients. These accounts are invested in domestic small cap value equities with a market capitalization range of approximately \$150 million to \$2.5 billion at the time of investment. Our main objectives are to produce above-average returns on a risk-adjusted basis for our clients, and to preserve and to enhance our clients' principal.

Our philosophy is to purchase the highest quality companies for the least expensive price in tandem with the pursuit of finding the most opportunistic intersection between quality and price. This search is accomplished through rigorous and disciplined bottom-up fundamental research analysis.

As of March 31, 2011 Elessar had approximately \$42,000,000 in assets under management. This calculation includes all accounts for which Elessar provided daily oversight in addition to accounts managed by third parties according to a portfolio of securities submitted by Elessar.

#### **Item 5 – Fees and Compensation**

All fees are subject to negotiation.

The specific manner in which fees are charged by Elessar is established in a client's written agreement. Elessar will generally bill its fees on a quarterly basis. Clients may elect to be billed in advance or arrears each calendar quarter. Clients may also elect to be billed directly for fees or to authorize Elessar to directly debit fees from client accounts. Management fees shall be prorated for each capital contribution and withdrawal made during the applicable calendar quarter (with the exception of de minimis contributions and withdrawals). Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of an account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

The following table lists the amount of the fee to be charged according to assets under management:

<b><u>Assets Under Management</u></b>	<b><u>Annualized Fee</u></b>
<b>\$0-\$10 million</b>	<b>100 basis points</b>
<b>\$10 million-\$50 million</b>	<b>90 basis points</b>
<b>\$50 million and up</b>	<b>85 basis points.</b>

All investment advisory contracts will contain language allowing clients to terminate said contracts upon 30 days written notice.

Elessar'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, odd-lot differentials, 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 Elessar's fee, and Elessar shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that Elessar considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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

Elessar 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**

Elessar provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, registered investment companies and other U.S. institutions. The minimum account size is \$250,000; however, Elessar may agree to manage accounts below our stated minimum account size.

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

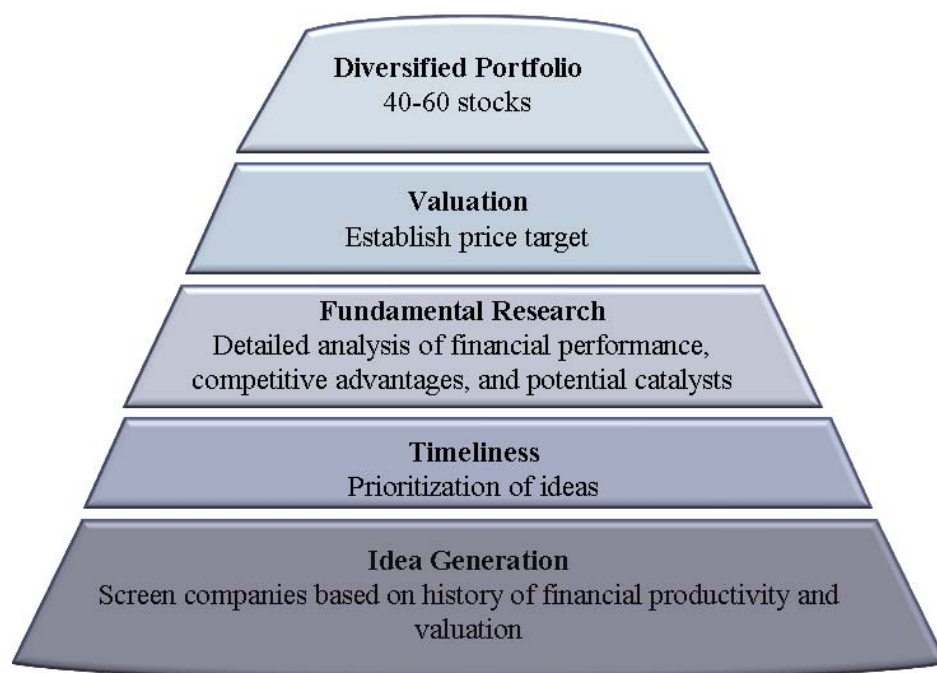
Investing in securities involves risk of loss that clients should be prepared to bear.

Elessar's small cap value investment process relies on fundamental research, not technical analysis or insight trading. The firm's equity investment selection and portfolio construction processes focus on companies that possess the best quality at the lowest possible price. Quality is measured by the company's historical return on capital while price paid is measured by a company's current stock price-to-book valuation. Elessar's proprietary combination of these quality and valuation factors is a quantifiable metric that has been incorporated into a model called the Quality at an Acceptable Price Model (QAPM).

The portfolio construction process begins with a small cap universe of approximately 3,700 domestic equity securities with a market cap range of \$150 million to \$2.5 billion. Companies that lack appropriate liquidity are eliminated from consideration. Elessar uses the following criteria: minimum average daily trading volume of \$500,000 during the past 12 months. Approximately 2,100 stocks make it through this initial screen. The proprietary stock screen, QAPM, is used to rank the 2,100 securities by quintiles. The firm focuses on the top quintile, or approximately 420 companies generated by QAPM.

However, some companies receive a favorable QAPM rating due to a one time cash infusion from the sale of assets or other discrete and non-recurring events that do not contribute to the ongoing revenue and cash flow generating capabilities of the entity. These outliers are removed from consideration. Additionally, timeliness (i.e., sentiment and momentum), price and quality factors are applied against the top quintile.

Approximately 200 companies move on to the next step and undergo a thorough bottom-up fundamental analysis by the investment staff. The Investment Management Team looks at a number of factors including: validation of the company's accounting policies, investigation of the competitive environment, its competitive strengths/weaknesses, and confirmation of how management's successful execution of the company's business model in the past is likely to sustain strong financial returns in the future. As Elessar performs the bottom-up fundamental analysis, a top-down context is applied to identify cyclical and secular changes, both positive and negative, within a particular industry/sector. The bulk of the investigation into a company and the majority of the Investment Team's time are exhausted during this step.



The final portfolio will consist of 40-60 holdings. Elessar will generally buy a partial position up to 1.5% of the total market value of the portfolio when that security is 10-15% from the price target. The firm will buy a full position up to 2.5% of the total market value of the portfolio when the security is 15%+ from our price target.

A disciplined set of risk controls is implemented at each step of the investment management process. Because our top priorities as investment managers is to preserve our clients' invested principal and to produce above-benchmark returns on a risk-adjusted basis, our research

discipline attempts to assess and analyze the risk embedded in each potential holding. We believe that the higher the quality of the stock, the lower the risk of investment. Our stock screening tool, QAPM, is inherently and quantitatively biased against lower quality and, therefore, higher risk investments.

Unlike speculators who, in our opinion, spend very little time, if any, assessing and analyzing risk, we use tools such as the discounted cash flow model in the bottom-up fundamental research process that allow us to calibrate the risk and reward parameters relative to the current stock price, the company's business model, the competitive landscape, and the ability of the management team to execute its corporate strategies.

We also measure risk by monitoring a portfolio's tracking error. We do not manage to a specific tracking error per se; however, we expect the portfolio's tracking error to be in the range of 5 – 8%. The risk-adjusted performance of our small cap value product can be measured by the Information Ratio which was 0.76 (gross) for the time period 4/1/06 – 12/31/10.

We use the following parameters to limit the amount of risk taken in our small cap value investment portfolios: no holding shall be greater than 4.50% of the investment portfolio's total market value; and, sector weightings in the investment portfolio shall be no greater than +/- 750 basis points of the sector weightings within our benchmark, the R2V. Cash is not used as a risk control, but is typically no greater than 5% of the total portfolio. These portfolio construction parameters prevent excessive dispersion of performance results, or tracking error, between our client portfolios and our benchmark, the Russell 2000 Value Index ("R2V").

Our sell discipline is designed to limit investment losses and to eliminate emotional decision making.

We monitor the risk of portfolio style drift on a quarterly basis and via Lipper's Equity Classification Product available from FactSet.

The material risks associated with Elessar's small cap value strategy are:

**Equity Market Risk** – Overall stock market risks may affect the value of investments in equity strategies. Factors such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws and national and international political circumstances may affect the value of investments in equity strategies. These factors may also affect the level and volatility of securities prices and their liquidity.

**Market Capitalization of Securities** – Elessar believes small cap securities provide significant potential for appreciation. The securities of these companies may trade less frequently and in smaller volumes than securities of larger companies. In addition, small cap companies may be more vulnerable to economic, market and industry changes. Because smaller companies may have limited product lines, markets or financial resources, they may be more susceptible to particular economic events or competitive factors than larger capitalization companies.

Trading Frequency – The buying and selling of securities within a client’s portfolio will generate transaction costs. These costs are the responsibility of the client.

### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Elessar or the integrity of our management.

Elessar has no legal or disciplinary events of any kind to report.

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

Elessar is a wholly owned subsidiary of Elennar Management Holdings, LLC (“Elennar”). In December 2007, Elennar completed a transaction with Northern Lights Ventures, LLC (“Northern Lights”) whereby Northern Lights acquired a minority interest in Elennar. Northern Lights is a private equity firm that provides leadership, strategic insight, and capital to investment management and related companies. Elessar is deemed to be related to other investment advisors in which Northern Lights has invested merely because we share a common owner. These advisers however do not share with us accounts, managers, advice or systems. We do not share any business dealings of any kind with these advisers and they pose no potential conflict of interest. A complete list of Northern Lights’ related SEC-registered investment advisers is available upon request.

Cedar Partners, Ltd. (Cedar) has entered into a written agreement with Elessar whereby Cedar shall provide client relationship and marketing services to Elessar, including the introduction of prospective advisory clients. In return for these services Cedar shall receive an annual retainer equal to \$75,000 and an account fee equal to 10-20% of the investment management fees paid to Elessar by clients introduced by Cedar. The retainer is paid during the term of the agreement between Cedar and Elessar. The account fee is paid for as long as the account is managed by Elessar. There is no affiliation between Elessar and Cedar. Cedar is an independent contractor, not an agent, representative, or employee of Elessar. Under certain circumstances, rules or policies of governmental entities may prohibit Elessar from paying the account fee in connection with certain client accounts. Consequently the retainer may be increased in the future to compensate Cedar for marketing services that it has provided in connection with marketing Elessar to the client. The increase in retainer will not be based on, contingent upon or linked to transactions or payments by those clients. Elessar has a standard fee schedule and does not charge any additional fees or expenses as a result of Cedar’s referral activities.

### **Item 11 – Code of Ethics**

Elessar has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics (the “Code”) includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and

the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Elessar must acknowledge the terms of the Code upon employment and annually thereafter.

Elessar does not transact in securities for its own account. However, under certain circumstances, officers or employees of Elessar may purchase, sell or hold positions in securities recommended to clients in their personal accounts. To avoid any actual or perceived conflicts of interest, Elessar's Code requires that all employees conduct their personal financial matters in an appropriate manner and shall not take inappropriate advantage of their positions of trust and responsibility. Subject to satisfying this policy and applicable laws, officers, directors and employees of Elessar may trade for their own accounts in securities which are recommended to and/or purchased for clients. The Code is designed to assure that the personal securities transactions, activities and interests of the employees of Elessar will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. 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 Elessar's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code, and to reasonably prevent conflicts of interest between Elessar and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Elessar's obligation of best execution. Elessar will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any de minimis exceptions are explained in the firm's policy manual.

Elessar's clients or prospective clients may request a copy of the firm's Code by contacting Mitch Krahe at 216-357-7412 or via e-mail at [mkrahe@elessarinvest.com](mailto:mkrahe@elessarinvest.com).

## **Item 12 – Brokerage Practices**

Elessar provides discretionary investment advisory services to all clients. As such, the firm has the ability to exercise general discretionary authority in the management of client accounts, including securities, the amount of securities to be purchased or sold and the broker/dealer to be used.

Clients may occasionally direct Elessar to trade their account through a specific broker/dealer. In such circumstances, the client will receive trade confirmations directly from the designated broker (or its clearing broker) and pay brokerage commissions in accordance with such broker's

own schedule of rates or whatever arrangement the client has negotiated with such broker. Elessar does not negotiate on behalf of or advise its clients with regard to such commission arrangements. The brokerage commissions charged by such brokers may be higher or lower than those negotiated by Elessar.

When not so directed, Elessar will seek to obtain the best execution available for its clients. In selecting brokers, Elessar will consider the full range and quality of a broker's services, including execution capability, commission rates and volume discounts, financial responsibility, and responsiveness. In light of all relevant factors, Elessar will select the market mechanism which offers the best qualitative execution for client transactions.

Broker dealers may furnish investment research services in exchange for the brokerage execution services. Commission payments in exchange for research services are commonly referred to as "soft dollars". These relationships can create a conflict of interest because the adviser may have an incentive to select a broker based on its desire to receive research rather than a desire to obtain the most favorable execution. Elessar has established a Commission Sharing Arrangement (CSA) with a small number of trading brokers to mitigate this conflict. Brokers providing research to Elessar present an invoice for the research to one of Elessar's trading brokers. The trading broker then pays the invoice on behalf of Elessar. Funds generated through our CSA are exclusively used for research and are of the type allowed under the Securities Exchange Act of 1934, which provides a "safe harbor" to investment managers that use investor commission dollars to obtain investment research. Elessar may cause client accounts to pay trading brokers a commission in excess of the amount of commission another broker adequately qualified to effect such transactions would have charged for effecting the same transactions absent the CSA. Elessar will do so only where it makes a determination in good faith that such commission is reasonable in relation to the brokerage and research service received. Research obtained in this manner will be used to service all accounts.

#### *Aggregation of Trades*

In directing orders for the purchase or sale of securities to a broker-dealer for execution, Elessar may aggregate or "block" those orders on behalf of two or more of its accounts, so long as the blocking is done for purposes of achieving best execution, and no client is systematically advantaged or disadvantaged by the blocking. To ensure that trades are allocated in a manner that all clients are treated fairly and equitably, the following rules shall apply:

All holders of a given security are initially included in block sale allocations prior to the orders being placed. Price averaging is used for trades executed in a series of transactions on the same day in the same investment style. Aggregated orders are allocated on a pro rata basis. In the event of a partial fill of an aggregated order, accounts will receive a pro rata allocation if there are enough shares executed for each account.

### *Trade Errors*

In the unlikely event that an error occurs in a client account due to Elessar's actions, any resulting gain in favor of the client will remain in the client's account. Trade errors that result in a loss in a client's account will be replaced as soon as possible.

### **Item 13 – Review of Accounts**

Portfolios are reviewed at least monthly by one of Elessar's portfolio managers. The review includes the number of stocks in the model as well as their relative performance. Significant market events or client instruction may trigger more frequent reviews.

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

Cedar Partners, Ltd. (Cedar) has entered into a written agreement with Elessar whereby Cedar shall provide client relationship and marketing services to Elessar, including the introduction of prospective advisory clients. In return for these services Cedar shall receive an annual retainer equal to \$75,000 and an account fee equal to 10-20% of the investment management fees paid to Elessar by clients introduced by Cedar. The retainer is paid during the term of the agreement between Cedar and Elessar. The account fee is paid for as long as the account is managed by Elessar. There is no affiliation between Elessar and Cedar. Cedar is an independent contractor, not an agent, representative, or employee of Elessar. Under certain circumstances, rules or policies of governmental entities may prohibit Elessar from paying the account fee in connection with certain client accounts. Consequently the retainer may be increased in the future to compensate Cedar for marketing services that it has provided in connection with marketing Elessar to the client. The increase in retainer will not be based on, contingent upon or linked to transactions or payments by those clients. Elessar has a standard fee schedule and does not charge any additional fees or expenses as a result of Cedar's referral activities.

### **Item 15 – Custody**

Elessar does not accept physical custody of client assets. Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Elessar urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **Item 16 – Investment Discretion**

Elessar typically 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. In all cases, however, 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, Elessar observes the investment policies, limitations and restrictions of the clients for which it advises. Investment guidelines and restrictions must be provided to Elessar in writing.



**E L E S S A R**  
Investment Management

### **Item 17 – Voting Client Securities**

Elessar has adopted and implemented proxy voting policies and procedures to ensure that proxies are voted in the best interest of clients.

Elessar's portfolio managers carefully consider the reputation, experience and competence of a company's management when evaluating the merits of investing in a particular company. Investments are only made in companies in which management goals and shareholder goals are aligned. Therefore, on most issues, votes are cast in agreement with management recommendations. Should, in our judgment, management's position on a particular issue not be in the best interests of our investors, Elessar will vote contrary to management's recommendation.

The guidelines are reasonably designed to provide portfolio managers with guidance as to various proxy issues. At no time will they serve as a strict voting requirement. Portfolio managers have the right to vote as necessary on any given ballot to enhance the long term economic interest of our clients.

A copy of the policy and how votes were cast is available upon written request.

### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition. Elessar 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.



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**FORM ADV Part 2B**  
**Brochure Supplement**  
**March 31, 2011**

[www.elessarinvest.com](http://www.elessarinvest.com)

## **Richard A. Giesen, Jr.**

This Brochure Supplement provides information about Richard A. Giesen, Jr. that supplements the Elessar Investment Management, LLC (“Elessar”) Brochure. You should have received a copy of that Brochure. Please contact Mitch Krahe at 216-357-7412 if you did not receive Elessar’s Brochure or if you have any questions about the contents of this supplement.

Additional information about Richard A. Giesen, Jr. is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2- Educational Background and Business Experience**

Richard A. Giesen, Jr. –Founder, Chief Investment Officer and Small Cap Team Leader

In his role as Chief Investment Officer, Mr. Giesen oversees all aspects of the investment process and manages the firm's research efforts. Mr. Giesen began his career as a portfolio manager and equity analyst at Lazard Freres Asset Management in 1986 as a member of its original small cap value team. Subsequently, Mr. Giesen served as portfolio manager at Munder Capital 2000 - 2003 and National City's Investment Management Company 2003 - 2005. Mr. Giesen holds a BA degree in Biology from Grinnell College and an MBA from Northwestern University in Finance and Accounting. Mr. Giesen was born in 1957.

## **Item 3- Disciplinary Information**

Mr. Giesen has not been involved in any legal or disciplinary events that would be material to a client's evaluation of Mr. Giesen or of Elessar.

## **Item 4- Other Business Activities**

Mr. Giesen is not engaged in any other investment related business.

## **Item 5- Additional Compensation**

Mr. Giesen does not receive compensation in connection with any business activity outside of Elessar.

## **Item 6 - Supervision**

The Investment Team is responsible for making all investment decisions. The team consists of Portfolio Managers Rick Giesen and Ori Elan, and Chris Staneluis, Research Analyst. The team meets regularly to discuss recommendations and review current holdings. Throughout the stock selection and portfolio construction processes all sector coverage and investment decisions are made by Rick Giesen, Ori Elan and Chris Staneluis in a collaborative manner. Mr. Elan can be reached at 216-357-7413. Mr. Staneluis can be reached at 216-357-7414. The firm's Chief Compliance Officer, Mitch Krahe, can be reached at 216-357-7412.