

# Fairpointe Capital LLC

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## ADV Part 2A

Fairpointe Capital LLC  
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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 us at (312) 477-3300 or [info@fairpointecapital.com](mailto:info@fairpointecapital.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

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

### Item 2 – Material Changes

The initial registration filing for Fairpointe Capital LLC in February of 2011 was completed prior to the firm gathering client assets and employing staff to manage client assets and the firm. Since the initial filing, the firm has opened an office in Chicago, hired investment professionals and operations staff and gathered approximately \$4.0 billion in client assets.

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## Item 4 – Advisory Business

Fairpointe Capital LLC was organized in December of 2010 to provide investment advisory services to investment companies, individuals, institutions and unaffiliated (separately) managed account programs. The majority owner of the firm is Thyra Zerhusen. Ms. Zerhusen and her portfolio management team previously managed these client assets at Optimum Investment Advisors, LLC. Co-founding Fairpointe Capital with Ms. Zerhusen, are senior investment professionals – Robert Burnstine, Mary Pierson and Marie Lorden, who each hold an equity stake in the company.

Fairpointe offers investment advisory services as a sub-advisor to one or more mutual funds. The fund is a fully managed, diversified mutual fund registered with the Securities and Exchange Commission. Fairpointe's services to the fund include management of the investment and re-investment of all assets of the fund, subject to supervision of the Board of the fund. Fairpointe may recommend its clients invest directly in the fund, which may pose a conflict of interest given Fairpointe receives a management fee from the fund.

Fairpointe offers investment advisory services to individuals and institutions in the form of separate accounts where Fairpointe is managing the assets of each account. Fairpointe will maintain these assets in a separate account and monitor all purchases and sales to ensure they comply with the requirements of the client.

Fairpointe participates in one or more wrap programs. The firms sponsoring the wrap programs are unaffiliated with Fairpointe. In a wrap program, a brokerage firm or other company may recommend the retention of Fairpointe to manage some or all of the client's assets. These firms pay Fairpointe a fee for these management services. Under a wrap fee arrangement, client assets are managed like the assets of other Fairpointe clients with similar investment objectives. In most cases, the broker or firm sponsoring the wrap fee program will be the point of contact. More information about the wrap fee program should be available from the wrap program sponsor.

Fairpointe provides a model Mid-Cap investment portfolio for use in the sub-management of a mutual fund. In this capacity, Fairpointe monitors and, as needed, updates the portfolio and will make proxy voting recommendations in accordance with other funds and accounts managed in the Mid-Cap strategy.

Fairpointe currently has \$4.0 billion in client assets under management.

## Item 5 – Fees and Compensation

Fairpointe has established investment advisory fees for its institutional client separate account and private clients in accordance with the fee schedule below:

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Investment Strategy	Annual Investment Management Fee	
Mid-Cap Equity	First \$10 Million	1.00% of assets
	Thereafter	0.65% of assets
	Minimum investment management fee of \$50,000 annually	
Private Client All Cap Equity	First \$10 Million	1.00% of assets
	Thereafter	0.50% of assets
	Minimum investment management fee of \$25,000 annually	

All fees are subject to negotiation.

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

Fairpointe'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 Fairpointe's fee.

As discussed above, Fairpointe has entered into "wrap fee" arrangements with certain brokerage firms or other companies where the client pays the brokerage firm or other company an agreed upon fee for investment management by us or others, and for brokerage commissions, custodial services and possibly consulting services. Fairpointe receives a portion of the "wrap fee" paid to the brokerage firm for our 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 may provide portfolio management services to individuals, high net worth individuals, family offices, investment companies, pension or profit sharing plans, charitable

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institutions, foundations, endowments, corporations, governmental entities, registered mutual funds and trust programs.

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

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

Investing in securities involves risk of loss that clients should be prepared to bear. To minimize portfolio risk, Fairpointe seeks long-term investments, generally caps the holding limit at 6% (8% in Private Wealth accounts), generally limits sector concentrations to 2.5x the benchmark and has low turnover. To minimize investment risk, Fairpointe holds a regular dialogue with senior management(s) and re-evaluates the investment thesis on an ongoing basis.

## **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 the evaluation of Fairpointe or the integrity of Fairpointe's management. Fairpointe has no information applicable to this Item.

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

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

## **Item 11 – Code of Ethics**

Fairpointe Capital LLC has adopted a Code of Ethics for all supervised persons of the firm describing its high standards of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, and personal securities trading procedures, among other things. All supervised persons at Fairpointe must acknowledge the terms of the Code of Ethics annually, or as amended.

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Fairpointe does not anticipate recommending to clients, directly or indirectly, securities where a related person has a position of interest. In the event this situation arises, Fairpointe's employees and persons associated with Fairpointe are required to follow the Code of Ethics. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Fairpointe will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions. Under the Code, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Fairpointe's clients. The Code requires pre-clearance of private transactions. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Fairpointe and its clients.

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

## **Item 12 – Brokerage Practices**

Fairpointe Capital LLC will be authorized to buy and sell securities, to place portfolio transactions with securities brokers-dealers, and to negotiate the terms of such transactions, including brokerage commissions on brokerage transactions.

The primary responsibility regarding portfolio transactions is to seek the best combination of price and execution. When executing transactions, Fairpointe considers all factors it deems relevant, including breadth in the market in the security, the price of the security, the financial condition and execution capability of the broker or dealer and reasonableness of the commission. Transactions in the over-the-counter market are executed with primary market makers acting as principal except where it is believed better prices or execution may be obtained elsewhere. In an effort to obtain best execution, Fairpointe utilizes brokers and ECNs.

In selecting brokers or dealers to execute particular transactions and in evaluating the best net price and execution available, Fairpointe is authorized to consider "brokerage and research services" (as those terms are described in section 28(e) of the Securities and Exchange Act of 1934) and other information provided. Where more than one broker is believed to be capable of providing the best combination of price and execution, Fairpointe may select a broker that provides it with research reports provided by the broker or a third party, market forecasts, news services, subscriptions to financial publications, compilations of security prices, earnings, dividends and similar data and analytical software used in the investment evaluation and decision process.

Fairpointe will be authorized to pay a broker or dealer who provides such brokerage and research services a commission for executing a portfolio transaction, which is in excess of the amount of commission another broker or dealer would have charged ("soft dollars"). Fairpointe must determine in good faith that such commission was reasonable in relation to the value of the brokerage and research services provided, viewed in terms of that particular transaction or overall discretionary accounts.

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When using client brokerage commissions to obtain research or other products or services, Fairpointe receives a benefit as it does not have to produce or pay for the research, products or services with cash. Soft dollar benefits are not limited to those clients who may have generated a particular benefit although certain soft dollar allocations are connected to particular clients or groups of clients.

Fairpointe did not acquire products or services with soft dollars in the last fiscal year.

**DIRECTED BROKERAGE:** A client may direct Fairpointe (subject to certain conditions that may be imposed from time to time by Fairpointe) to effect portfolio transactions through a particular broker or dealer. A direction to utilize a particular broker or dealer may be conditioned by the client on the broker or dealer being competitive or at a specified level of commissions or commission discounts, which are less favorable than might otherwise be attained by Fairpointe. In the case of such a “restricted” designation, Fairpointe will generally execute transactions through the designated broker. Sometimes clients wish to restrict brokerage to a particular broker or dealer in recognition of custodial services or other services (including, in some cases, referral of the client to Fairpointe for investment advisory services) provided to the client by the broker or dealer.

If a client participates in a “wrap fee” arrangement, trades are generally executed through the brokerage firm with which the client has entered into the “wrap fee” arrangement. In this situation, the client will be responsible for negotiating the commission rates paid.

A client who chooses to designate use of a particular broker or dealer on a “restricted” basis, including a client who designates use of a broker or dealer as custodian of the client’s assets, should consider whether such use may result in certain costs or disadvantages to the client, either because the client may pay higher commissions on some transactions that might otherwise be attainable by Fairpointe, or may receive less favorable execution on some transactions or both. A client who “restricts” brokerage may be subjected to the disadvantages discussed below in Trade Aggregation. In determining whether to instruct Fairpointe to utilize a specific broker or dealer in recognition of such services, the client may wish to compare the possible costs or disadvantages of such an arrangement with the value of the custodial or other services provided.

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

Shares purchased and sold in aggregated orders for participating accounts are allocated pro-rata among the participating accounts based on the order size and cash availability of each participating client. All participating accounts receive the average price for all transactions

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executed for that order during the day, and all such accounts share commissions and other transaction costs on a pro-rata basis. For unfilled orders, participating clients are allocated securities on a pro-rata basis before the end of that day.

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

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

## **Item 13 – Review of Accounts**

All portfolios are monitored by the Chief Investment Officer on a regular basis for performance, outlook and suitability based on client objectives. Model portfolios are reviewed and revised as appropriate by the Mid Cap portfolio management team. Account reviews with clients may be quarterly, annually or ad hoc, as requested by the client. No less than quarterly, clients will receive a written review of their current investment holdings, realized and unrealized gains and losses, investment income and investment performance.

If the client is involved in a wrap fee arrangement as described above, the client may receive reports including those assets for which Fairpointe is providing services directly from the brokerage firm, which created the wrap fee arrangement.

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

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

## **Item 15 – Custody**

Fairpointe Capital LLC does not have custody of client funds or securities.

## **Item 16 – Investment Discretion**



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Fairpointe Capital LLC usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. 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 utilizes Risk Metric's ISS as a tool to aid in researching the proxy proposals. The proxies are voted on either the Broadridge ProxyEdge system or Risk Metric's ISS system.

Should a conflict of interest arise, Fairpointe will resolve the conflict with the view of the best interest of the investors. Clients may obtain a copy of Fairpointe's complete proxy voting policies and procedures upon request. Clients may also obtain information from Fairpointe about how Fairpointe voted any proxies on behalf of the client account.

### **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.