

# Fairpointe Capital LLC

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## ADV Part 2A

Fairpointe Capital LLC  
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March 2020

[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 2019. Fairpointe has approximately \$1.3 billion in client assets as of December 31, 2019. Mary Pierson, Co-CEO and Portfolio Manager, retired effective April 30, 2019. She was an equity owner and her shares were retired. Elizabeth Kirscher, President, joined the firm effective May 1, 2019. Five additional employees of Fairpointe were granted equity ownership in 2019.

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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 is 100% employee owned and majority female owned. Thyra Zerhusen owns a majority interest in the firm, while six other employees each have an equity stake in the firm.

Thyra Zerhusen is the original architect of the firm's flagship equity strategy, Mid-Cap, which she began managing in 1999. The Mid-Cap equity strategy utilizes a fundamental bottom-up, valuation-based process to select mid-cap companies \*(\$2.4-35.5B market cap) that are inefficiently priced relative to their long-term earnings growth potential. Ms. Zerhusen along with the mid-cap team had successfully transferred the strategy and mid-cap track record (20+ years) to Fairpointe without interruption.

Fairpointe also manages the ESG Equity strategy, which was launched in 2018. The objective of the ESG Equity strategy is to create long-term value for investors by constructing a portfolio of stocks with strong ESG characteristics that also meet our fundamental valuation-based criteria.

Fairpointe offers investment advisory services as a sub-advisor to the AMG Managers Fairpointe Mid Cap Fund ("AMG Fund"). The AMG 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. Please refer to the prospectus for the fund for more information concerning the management, strategies, and other important information for 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. Any client which elects to invest all or a portion of its assets in the fund will not be assessed a management fee by Fairpointe on the fund in addition to that received by Fairpointe for its management of the fund.

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 provides a model investment portfolio to an unaffiliated investment advisor 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.

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Fairpointe provides sub-advisory services to an unaffiliated investment adviser 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 like 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 also provides investment management services to 1837 Partners L.P., a Delaware limited investment partnership ("1837 Fund"). Fairpointe's employee, Frances Tuite, is the manager of 1837 Fund's general partner. Prior to investing in the 1837 Fund, investors receive a confidential private placement offering memorandum which contains detailed information about the investments, risks, fees, service providers and conflicts, among other information. The 1837 Fund will be managed to meet the investment goals of the partnership, rather than the individual needs of any investor in the partnership.

Fairpointe and its employees devoting time to the 1837 Fund could be viewed as a conflict of interest due to the time and effort our employees allocate between providing services to the 1837 Fund and our other clients. Refer to the Performance Based Fees and Side-by-Side Management section for more information on potential conflicts from this arrangement.

Fairpointe has \$1.3 billion in client assets under management as of December 31, 2019.

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 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 Fairpointe is not a trust or banking institution.

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## Item 5 – Fees and Compensation

Fairpointe has established an investment advisory fee schedule for individuals and institutions for its Mid-Cap Equity and ESG 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	
ESG Equity	First \$10 Million	0.85% of assets
	Thereafter	0.65% of assets
	\$100,000 account(s) minimum	

The specific way fees are charged by Fairpointe 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 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 mutual fund. That fee can range from 37-20 bps. Please refer to the prospectus for the mutual fund for more information as to the fund's fees and expenses.

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

Fairpointe receives 50% of the management fee received by the unaffiliated investment advisor for its services in connection with the use of the model investment portfolio.

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. Refer to the Brokerage Practices section for more information on how Fairpointe selects or recommends brokerage firms for 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.

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

Fairpointe receives a portion of any annual performance-based allocation from the 1837 Fund if received by the general partner of the 1837 Fund. This allocation to the general partner, provided certain investment goals are met, would be calculated based on a share of capital gains on or capital appreciation of the assets of the investment partnership. Fairpointe's employee, Frances Tuite, is the manager of the general partner. Ms. Tuite also serves as the portfolio manager for the 1837 Fund in her capacity as an employee of Fairpointe. Therefore, any performance-based allocation, if earned, would be received by Fairpointe and the general partner with which Fairpointe and Frances Tuite are affiliated. Fairpointe serves as the investment manager of the 1837 Fund and receives fees for its investment manager services separate from the performance-based allocation described above, all of which are more fully described in the confidential private placement offering memorandum and related documents. Investments in the 1837 Fund are only suitable for certain qualified clients.

Side-by-Side Management refers to multiple client relationships where an investment adviser such as Fairpointe manages advisory client relationships and portfolios for individuals, businesses, institutions and, on a simultaneous basis, for pooled investment vehicles such as the 1837 Fund. In such circumstances, potential conflicts of interest may arise by and between Fairpointe, its clients and the pooled investment vehicles due to the performance-based allocation arrangements described above which Fairpointe or its employees may receive but not from its services to other clients.

Clients, including investors in the 1837 Fund should understand that a performance-based allocation creates an incentive for Fairpointe or Ms. Tuite to recommend investments which may be riskier or more speculative than those which would be recommended under a different arrangement. Also, because the performance allocation is calculated on a basis which includes unrealized as well as realized appreciation of assets, it may be greater than if such compensation was based solely on realized gains. Also, because of the performance-based allocation arrangement, Fairpointe has an incentive to favor performance-based accounts over non-performance-based accounts.

## Item 7 – Types of Clients

Fairpointe 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.

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

Fairpointe Capital LLC manages equity portfolios for clients. The Mid-Cap Equity strategy utilizes a disciplined, 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. We have a preference for companies with products or services that make their customers more efficient or profitable, and are critical to their success. We look for a compelling business model, experienced management, financial strength and attractive valuation.

The ESG Equity strategy integrates structured ESG analysis with our bottom-up, fundamental valuation-based approach to investing. We seek companies that adhere to principled corporate governance practices, are environmentally accountable and socially responsible. In our fundamental valuation-based analysis, we look for a compelling business model, effective management, financial strength, and attractive valuation. We prefer businesses with products or services that make their customers more efficient or profitable and are critical to their success. Our goal is to select companies with favorable ESG characteristics that are inefficiently priced relative to their earnings growth outlook 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 the client requires any fixed income exposure, Fairpointe will typically invest in bond funds.

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

Please refer to the section on Performance Based Fees and Side-by-Side Management for information regarding industry affiliations and the potential conflicts of interest resulting from them.

## 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).



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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). The ERC shall meet quarterly to evaluate our brokerage practices and the reasonableness of compensation or other remuneration paid to brokerage firms. During the review the ERC may consider the following factors to be indicative of execution quality:

- execution price of the security;
- size and difficulty of the order;
- execution quality including timeliness of the execution;
- liquidity provided;
- execution policies and commitment to seeking best execution including its reliability, efficiency, accuracy, integrity of general execution and operational capabilities;
- size of the firm's order flow;
- ability to execute difficult trades;
- other factors identified by the ERC as appropriate

**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

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services or products to benefit all 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.

Our use of client brokerage commissions or similar costs for transactions to obtain brokerage and research services or products present 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.

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

**Directed Brokerage:** Fairpointe will execute transactions through a 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.

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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 Fairpointe will generally establish a position in the representative account of each strategy. 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 representative account and eligible client accounts. Subsequent trading is completed on a first come first serve basis.

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.

**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 because of any such errors. If a loss is incurred due to a trading error, Fairpointe will reimburse the brokerage house error account in accordance with their guidelines or the client directly, if applicable. 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. Portfolio Managers review their accounts using an internal report such as the comparison report that identifies each holding and the weighting compared to the representative portfolio as well as portfolio appraisals. 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.

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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 affected 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 and as a result of its affiliation with the 1837 Fund, as described in section Performance Based Fees and Side by Side Management.

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.

## **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.

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## Item 17 – Voting Client Securities

Fairpointe has adopted a proxy voting policy whereby Fairpointe has responsibility for voting proxies for portfolio securities consistent with the best economic interests of the clients. Fairpointe votes proxies for all clients where applicable and as directed by the client.

Fairpointe has retained Institutional Shareholder Services (“ISS”) services to assist in the proxy voting process and research. Designated Portfolio Managers review each recommendation from ISS and either approves or overrides the recommendations according to Fairpointe’s established guidelines. The proxies are cast electronically using ISS. Complete records of proxy votes are maintained electronically through ISS and/or Fairpointe.

If Fairpointe determines there is a material conflict of interest relating to a proxy vote, the investment team will consider voting with the recommendations made by ISS, an independent third party. However, the investment team’s decision is ultimately based on what is in the best interest of the client.

Clients may obtain a copy of Fairpointe’s proxy voting policies and procedures and information about how Fairpointe voted any proxy 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.

## 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.