



## **CAMBRIDGE ASSOCIATES LLC BROCHURE**

**April 1, 2013**

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This Brochure provides information about the qualifications and business practices of Cambridge Associates, LLC. If you have any questions about the contents of this Brochure, please contact:

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The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

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

Registration with the SEC does not mean that the SEC or any other agency of the United States government has reviewed or approved of the registered investment adviser's abilities or qualifications nor does it imply a certain level of skill or training.

## **Item 2 – Material Changes**

We are amending our Brochure for our annual update and are discussing only those material changes since the last amendment of our Brochure dated December 17, 2012.

In Item 4, we have added language describing our new business unit, C|A Capital Management, a fully discretionary outsourced investment office for institutional clients.

In Item 13, we have amended the description of our review of accounts.

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## Item 4 – Advisory Business

### Summary

Cambridge Associates, LLC is a privately held investment advisory firm (the “Firm”) founded by James N. Bailey and Hunter Lewis. Together these original founders still own or control approximately 73 percent of the Firm.

***Mission Statement.*** *We strive to help global institutional investors and private clients meet or exceed their investment objectives by providing proactive, unbiased advice grounded in intensive and independent research.*

The Firm has four global affiliates providing investment consulting, research, performance measurement, and in some cases, investment management services. The Firm also has a non-depository trust company affiliate.

Name	Location	Legal Structure
Cambridge Associates Limited	London, England	Limited Company in England and Wales (Authorized and Regulated by the Financial Services Authority)
Cambridge Associates Asia Pte Ltd.	Singapore	Singapore Corporation
Cambridge Associates Limited, LLC	Boston and Sydney, Australia	Massachusetts Limited Liability Company (Registered with the SEC and subject to oversight by the Australian Securities and Investment Commission)
Cambridge Associates Investment Consultancy (Beijing) LTD	Beijing, China	PRC Limited Liability Company
Cambridge Associates Fiduciary Trust, LLC	Boston	New Hampshire Limited Liability Company (regulated by the New Hampshire Banking Department)

The Firm also has affiliates that serve as general partners and/or managing members for the Firm’s investment vehicles. These affiliates include Brook Street Limited; Cambridge Associates Resources, LLC; and Church Green Limited. The Firm and its affiliates are under common ownership and control. We have no affiliations with broker/dealers, other investment managers, solicitors or placement agents.

The Firm provides its clients with primarily non-discretionary, but also discretionary, investment advisory services ranging from comprehensive portfolio oversight to a defined set of services encompassing: investment consulting; financial planning, performance measurement reporting; limited administrative services; original research covering a wide range of asset classes; and access to our extensive proprietary databases containing capital markets exhibits, comparative peer group data and information covering over 9,000

investment managers. We also host an annual global workshop; organize periodic roundtable discussions targeted towards our clients' staff members and trustees; and conduct timely webcasts to promote an interactive dialogue between our clients and representatives from the Firm's capital markets' research group and senior management.

The Firm is not an investment manager in the traditional sense, rather we generally assist our clients in selecting and investing in institutional quality, external investment managers for their portfolios. Our advice is customized, and we do not offer any prepackaged funds-of-funds or other off-the-shelf investment products.

The Firm has dedicated substantial resources towards developing and expanding our knowledge of alternative asset classes, including hedge funds, private investments (private equity/venture capital), real estate, timber, and other natural resources. We publish private equity and venture capital indices quarterly.

In 2008, the Firm formed an internal Mission-Related Investing Group to expand our knowledge of managers in the mission-related investing universe and assist our clients in defining best practices for socially responsible investment programs.

In 2012, we formalized our services as a fully discretionary outsourced investment office for our institutional clients and established a new business unit called C|A Capital Management. C|A Capital Management offers a turn-key investment management solution that is executed with the people, processes, and resources of a dedicated in-house investment office. A chief investment officer (CIO) leads a full investment team including operational staff that supports our clients. These teams seek to manage portfolios that optimize performance within guidelines set by the client.

## **Investment Advisory Services**

The Firm's investment advisory services include those described below. We recognize that each client's needs, constraints, preferences, and goals are unique. To accommodate this diversity, we strive to tailor our services and advice for each client on an individual basis, primarily grounded in the results of our proprietary research.

### ***Investment Consulting***

Our investment consulting services may include:

- Establishing investment objectives and policies in close collaboration with each client, taking into consideration any investment restrictions our client may impose such as limitations on investments in certain asset classes, certain securities or jurisdictions and socially responsible investments.
- Asset allocation advice.
- Developing an appropriate investment manager structure.
- Evaluating existing managers, conducting manager research and due diligence on specific managers and recommending investments in selected funds/partnerships

- Operational due diligence on hedge fund managers (e.g., background and reference checks, analysis of the manager's organizational structure and operating procedures, assessment of third party vendors such as the auditors, legal counsel, and prime brokers.)
- Reviewing business terms in manager documents.
- Communicating with managers on broad issues affecting the interests of their investors.
- Coordinating with client's legal, accounting, tax and other advisors. (We do not, however, conduct a legal terms review, nor do we provide tax or fund accounting advice.)
- Facilitating manager introductions.
- Advising on governance procedures.
- Advising on managing concentrated holdings such as stock and real estate.
- Evaluating custody, cash management, brokerage and securities lending arrangements.
- Advising on spending policies and shortfall analysis.
- Risk exposure analysis.

### ***Outsourced Discretionary Services***

- Through CA Capital Management, we seek to provide institutional clients with a turn-key investment management solution that generally includes all of the services listed above to run their outsourced investment office. Led by a dedicated CIO and investment office team, we seek to create and manage portfolios that optimize performance within guidelines set by the client.

### ***Research Materials and Products***

- Access to the Firm's extensive databases on investment managers and capital markets. Our clients can explore the databases directly via our website or rely on their consulting team to extract the data. Access to the Research Navigator platform (a web-based service that provides clients with extensive due diligence reports and analytical tools) requires a separate license agreement and additional fees may apply.
- The Firm publishes proprietary periodic and topical research reports annually including surveys of investment and financial data provided by our clients. These reports are available in hardcopy and online.
- The Firm publishes its US Private Equity and Venture Capital Indices each quarter. These indices are broadly available. Additional indices covering US buyout, mezzanine and healthcare funds, natural resources, real estate, distressed securities, global funds and fund of funds, etc., are generally only available to our clients.
- Clients can use the Firm's software program, *Private Equity Benchmark Calculator*, to create customized benchmarks specifying multiple filter criteria, such as asset sector, vintage year, and industry focus, region and stage.

- Clients who subscribe to the Firm's performance measurement reports on their non-marketable alternative investment assets can use the CPP System® software program to update their cash flows and market values on a real-time basis.

### ***Performance Measurement Reports***

- Quarterly performance and asset allocation reports for marketable securities include calculation of managers' and clients' investment performance, analyses of managers' and clients' portfolios, a comparison of managers' and clients' performance to other clients, other managers, and standard indices, qualitative commentary and strategy position exposures. Monthly summary asset allocation and performance reports based on preliminary data are also available.
- Quarterly performance reports for private investments include calculation of returns realized by investment partnerships, managers, and clients with a comparison of managers' and clients' performance to other managers, clients, and internally developed benchmarks.

### ***Administrative Services***

- We will collect and complete subscription forms and related documentation for funding new investments and liquidating existing investments; forward documents for signature, track document flow and monitor custodian's receipt and disbursement of cash.
- We also provide audit support materials to our nonprofit advisory clients relating to their alternative investment assets. These materials describe the Firm's initial and ongoing due diligence process in detail and our valuation tracking process for hedge funds.

### ***Financial Planning***

- Developing comprehensive financial and strategic plans
- Reviewing and recommending appropriate levels of debt financing
- Assistance in establishing capital plans and objectives
- Advice on planned giving.

### ***Single Investor Funds***

Since 2002, the Firm has established "Single Investor Funds" or "SIFs" for clients who seek these structures in order to develop a robust portfolio of alternative investment assets without having to hire additional internal staff. These SIFs are similar to a fund-of-funds, but our client is the sole investor and we customize each portfolio of underlying funds to meet the specific needs of that client. We establish a separate SIF for each client desiring to invest through a SIF. We may act as the investment advisor/manager to each SIF in either a non-discretionary or discretionary capacity. We outsource legal review, investment accounting and administration, tax preparation, annual audits and custody/banking to

qualified third party service providers. We take responsibility for the management of these external relationships, effectively relieving our client of the administrative burdens associated with an alternative investment program.

In addition, we have established several funds to pool assets from multiple clients for investment in alternative asset funds whose high minimums would have otherwise prevented these clients from investing. We also established a number of funds for closely affiliated investors to facilitate their ability to invest in multiple alternative asset funds.

***Regulatory Assets under Management***

	Number of Accounts	Assets as of December 31, 2012
Discretionary	38	\$7,824,600,000
Non-Discretionary	246	\$75,439,500,000
Total	284	\$83,264,100,000

These figures (rounded to the nearest \$100,000) are based on the net asset values of our client's securities (including hedge funds and private investments) as reported to us by the investment managers. The value of private investments may be reported with a one-quarter lag. Where we advise or manage assets that are also invested in one of the Firm's investment vehicles, we count those assets only once for the purposes of regulatory assets under management.

In addition to those regulatory assets under management, many of our clients may have an advisory relationship where we take proactive and ongoing leadership of the client's investment program on a non-discretionary basis, but which are not considered regulatory assets under management.

**Item 5 - Fees and Compensation**

The fees shown below are based on our current fee schedules. Certain legacy clients pay different fees.



The table below is illustrative. Our fees for nonprofit organizations may be lower than those for corporations and private clients.

Contract Type	Description of Services	Fee Ranges
Advisory Services	We provide proactive advice and monitoring of the investment portfolio. This may also include discretionary services.	Subject to a Minimum fee, 6.5 to 60 basis points on the NAV of the investment assets (or on commitments to private investments). The fee depends on the type of client and the type of asset classes under advisement. Fees may be higher or lower depending on asset level breakpoints.
Base Services	Our base services consist of access to our research reports, our manager databases (excluding Research Navigator) and a limited amount of consulting time to respond to ad hoc inquiries. All client contracts include base services.	The minimum Base fee depends on the type of client and the size of their investment portfolio.
Consulting Services	Our clients select the services they wish to receive on an à la carte basis. The selection may vary from year to year.	An annual fixed fee, including the Base Fee, is determined in advance based on the scope of services requested. Standard fee schedules for manager searches and performance reporting are available.

In addition to our standard service offerings, we will consider special projects upon request. We also provide the following services on a stand-alone basis:

- Performance Measurement Reporting Services
- Access to our *Private Equity Benchmark Calculator*
- Internet Access to our research and investment manager databases
- Internet Access to the Research Navigator Platform

We generally customize our services based on each individual client's needs; therefore, our fees are dependent on, among other factors, the client's total asset size, particular service level requirements, allocation of assets between traditional marketable securities and alternative investment assets, whether or not the relationship is discretionary, the client's domicile, longevity of their relationship with us, type (e.g., a nonprofit organization, a corporation, a public pension plan, a private client, etc.) and whether or not similar services

are provided á la carte or included in a standard package of services. Legacy clients may pay lower fees.

### ***Payment Schedules***

Depending on the scope of services provided, we generally invoice our clients for the full fee in advance, semi-annually or quarterly depending on whether they pay a fixed fee or a fee based on the net asset value of their portfolio under advisement. One half of the fee for project work is typically billed in advance with the balance payable upon completion. For large, long-term project-only relationships, a client may negotiate a payment schedule based on delivery milestones.

When applicable, out-of-pocket reimbursable expenses such as our expenses (at cost) for travel, printing, postage and delivery of documents are billed monthly.

For fee calculation purposes, when the fee is based on the value of the assets under advisement, we use the net asset value of client's investments as reported to us by the investment managers. These values are typically net of the investment managers' fees.

With respect to the Single Investor Funds managed by Cambridge, our general practice is to deduct our management fee from the assets of each fund quarterly in advance. Organizational and operational expenses of the SIFs are generally the responsibility of the investor. These expenses are typically paid out of the SIF's assets, although investors can pay these expenses directly. The specific terms of each of the SIFs are governed by the limited partnership agreement or its equivalent.

### ***Termination Provisions***

Almost all of our contracts have an initial one-year term, with automatic renewal for subsequent years assuming no change in services and/or fees. Our clients may terminate their relationship immediately or typically within 30 to 90 days with advance notice depending on the notice period specified in their contract. Upon termination, we will adjust any fees payable to us or paid in advance by the Client on a pro rata basis from the effective date of the contract, including contracts for project work, through the date of termination.

## **Item 6 - Performance-Based Fees and Side-by-Side Management**

- We do not charge performance-based fees, although we do recommend managers to our clients that charge performance-based fees.
- We do not receive any commissions in connection with our advisory services to our clients.

## **Item 7 - Types of Clients**

All of our clients are Accredited Investors and nearly all are also Qualified Purchasers. Because our advice is grounded on recommending the most appropriate asset allocation and investment manager structure to our clients, they need to be able to meet the minimums imposed by most managers.

Our clients include colleges and universities, foundations, and other non-profit institutions, including, but not limited to, museums and libraries, independent schools, medical institutions, religious institutions, professional and research institutions, service organizations, and performing arts institutions. We also act as an investment adviser to private clients, corporations, insurance groups, ERISA pools, and public and government-related groups.

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

We typically work with our clients to identify or refine their investment objectives, risk parameters, and spending needs in order to determine an appropriate asset allocation and manager structure designed to achieve each client's particular financial goals. We seek to match the clients' objectives with the strategies and managers that we recommend to or select for our clients.

Our investment manager due diligence is based on qualitative and quantitative analyses briefly described below. We meet with nearly all of the managers we recommend and in many cases have visited their offices.

For traditional marketable managers, we typically obtain their current holdings data and run a series of historical analyses. We generally examine the product, team, organization, performance and fees.

For hedge fund managers, we emphasize a qualitative analysis in order to evaluate how their portfolios are likely to perform in different market environments. We favor strategies where managers look for inefficiency at the security level and exhibit a degree of transparency that enables us to understand the depth of the manager's fundamental analysis and approach to risk control. We focus on the manager's research process, historical security selection skill, and portfolio structuring capabilities.

For private investment managers, our quantitative review generally includes the manager's track record and financial performance (assessed on an absolute basis and on a relative basis versus our own proprietary vintage year benchmarks). We also conduct performance attribution analysis at the company level in order to ascertain which investments and sectors are driving performance.

The qualitative factors we generally consider during our initial due diligence and future monitoring include:

- History of the organization and management team additions or departures

- Experience, quality and capacity of current investment team
- Organizational strength and cohesiveness
- Attractiveness of track record and relevance to stated strategy
- Attractiveness and consistency of investment strategy and philosophy
- Deal origination and structuring capability
- Investment due diligence skills
- Ability to add value to deals
- Partnership terms, from a business perspective
- Investment environment
- Competitive landscape

Our investment consultants primarily rely on the manager due diligence conducted by the Firm's research staff to identify managers that are aligned with an individual client's needs and objectives, but may also rely on their own research in making recommendations to their clients. In some cases, the recommended managers and funds may not have undergone the full due diligence process and be the subject of ongoing monitoring. This may include, but is not limited to, index funds, ETFs money market funds, spin-offs from existing managers, and niche managers.

We generally do not recommend direct investments in individual securities due to our focus on investment managers and their funds or products. These have generally not gone through the manager due diligence process described above.

In discussions with investment managers regarding terms contained in partnership documents and investment management agreements, we generally take positions that we believe to be in the common interest of all our clients. In certain circumstances, however, a member of our advisory staff (consultant) may take a position on behalf of a particular client that is intended to serve the interests of that client, without regard to the interests of other clients. For example, a consultant may advise a client to take a certain position on an amendment to a partnership document that advantages that client and may communicate that position to the investment manager. It is possible that other consultants that serve other clients with differing interests may not take a position on the amendment, or may recommend that a client take the opposite position on the amendment.

Our consultants may provide different investment advice regarding the same investment manager or product to different clients. This difference arises primarily from the unique nature of each client's situation and the judgment of the consultant assigned to that client. For example, one consultant may advise a client to redeem an investment, while another consultant may advise a client to invest in the same fund. This difference may also arise in our discretionary portfolios.

### ***Risk of Loss***

Investing in securities involves a risk of loss. Clients should be prepared to accept losses as part of their investment program.

The following risk factors are not intended to be a full or complete listing of all the risks involved in investing, and clients should engage in their own evaluation of such risks. Past performances of any recommended managers or funds or the success of a manager in any similar venture is no assurance of future success. There can be no assurance that clients will not incur losses.

Investing in alternative assets, e.g., hedge funds and private investments, is associated with greater risk than investing in traditional marketable securities, including but not limited to illiquidity risk, manager-specific risk, and valuation risk. Clients should consider the following factors in determining whether investing in alternative assets is appropriate.

***Private Investment Assets, i.e., U.S. and International Private Equity, Venture Capital Funds, Real Estate, Energy, Timber and Natural Resources***

Investments in Private Investment funds are highly illiquid and the underlying company investments of these funds are also generally illiquid. Interests in these funds are not registered under the Securities Act or any state securities laws, and no readily available market exists for interests in these funds. The Client should expect to hold its investment for the entire life of these funds.

Historically, returns have varied greatly over time, depending on the conditions at the time investments were made and when investments were exited by the funds. In addition, access to high-quality private investment opportunities may be limited and there is no assurance that such opportunities will be available during the desired investment period.

***Hedge Funds, i.e., Absolute Return, Long/Short Equity, Risk Arbitrage, Global Macro and Distressed Funds***

The risks inherent in investing in hedge funds include limited regulatory oversight, illiquidity, use of possibly speculative trading techniques, use of leverage or derivatives, short selling and hedging techniques. Substantial risks are involved in investing in funds trading in equity securities, options and other derivatives. Despite the hedging tactics used by hedge fund managers to mitigate risk, investments held in hedge funds are susceptible to market movements that can be volatile and difficult to predict. The activities of governments can have a profound effect on interest rates which, in turn, substantially affect securities, options and derivatives prices as well as the liquidity of such markets. Politics, recession, inflation, employment levels, trade policies, international events, war and other unforeseen events can also have a significant impact upon the prices of securities.

Additionally, hedge funds are subject to limited withdrawal rights. A fund may be unable to liquidate certain investments to fund withdrawals in a timely manner. Realization of value from the interests in a hedge fund may be difficult in the short-term, or may have to be made at a substantial discount compared to other freely tradable investments. Interests in these funds are not registered under the Securities Act or any federal or state securities law. In the event of the early termination of a hedge fund as the result of certain events, the fund may distribute to the limited partners their interest in the assets of the fund. Certain assets held

or distributed by the fund may be highly illiquid and may have little or no ascertainable market value.

### **Item 9 - Disciplinary Information**

Not Applicable.

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

The Firm is registered as a commodity trading advisor (CTA) with the Commodity Futures Trading Commission and is an exempt commodity pool operator. Management persons in the Firm are associated persons. The Firm also has affiliates as described in Item 4, but we do not believe that those affiliations create a material conflict of interest with clients. The Firm does not have other financial industry activities or affiliations where compensation is derived from investing or recommending investment of client assets. The Firm may invest or recommend investment of client's assets with other investment advisers, however, the Firm will not accept compensation from those investment managers for the recommendation or investment.

### **Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

#### ***Code of Ethics***

We have a Code of Ethics that all our employees must agree to honor in writing annually as a condition of their employment. We will provide a copy of the Code of Ethics to clients and prospective clients upon request. Key elements of the Code include:

- Expected standards of conduct
- Disclosure of material outside business activities and personal relationships with investment managers and custodial banks that the Firm may evaluate or recommend to its clients
- The Firm's gift policy
- Confidential treatment of client data
- Restrictions on personal investments
- Restrictions on political contributions

Employees may not engage in any act, practice or course of conduct that is fraudulent, deceptive, manipulative, or potentially misleading.

Employees may not favor certain clients over others such as:

- Giving time sensitive information to one or more clients ahead of others (e.g., providing advance notification that a manager intends to launch a new fund); or

- Directing or influencing the allocation of securities of a limited supply and higher potential return to particular clients solely because they may generate larger fees to the Firm.

Due to the nature of the services we provide, we do not generally have direct responsibility for the allocation of investment opportunities among our clients. We provide investment managers with lists of those clients who may be interested in a potential investment and we may facilitate an introductory meeting. All decisions to accept an investor into a particular fund in those situations are the responsibility of the fund manager. However, in some instances, the Firm may source investments specifically to meet the needs of individual clients, and such opportunities may not be offered broadly to the Firm's clients as a whole.

Our employees may not accept any gift worth \$100 or more from any person or entity that does business with the Firm or from any investment manager without the prior permission of the Chief Compliance Officer.

Our employees may not purchase securities from or sell securities to any client without the written approval of our Board of Managers. If approval is granted, the Firm must receive a communication signed by the Client acknowledging and approving the transaction.

#### *Personal Trading*

All employees must contact the Compliance Department to pre-clear the purchase of any securities that are not publicly traded, as well as investments in initial public offerings. Permission will generally be granted provided that the investment would not impede the ability of our clients to invest in the security to the extent that they desire to do so.

All employees must provide the Firm with an initial holdings report within their first ten days of employment and provide data on their personal securities transactions within thirty days after the end of each calendar quarter. Reports of personal securities transactions are reviewed by the Chief Compliance Officer, and others as necessary, to identify trading that potentially violates securities laws and/or the Firm's written policies.

All employees must certify annually that they have read and understood the Firm's Code of Ethics and that they have complied with the personal securities reporting and Outside Activities reports required by the Firm. A copy of our Code of Ethics will be provided to any client or prospective client upon request (email: [squintero@cambridgeassociates.com](mailto:squintero@cambridgeassociates.com)).

#### *Participation or Interest in Client Transactions*

Our employees may purchase publicly-traded securities that are owned by our clients unless that security is on the Firm's Restricted List or the purchase would otherwise violate our trading policies or any applicable laws.

Our employees may also purchase securities that are not publicly traded provided that their investment would not impede the ability of our clients to invest in that security to the extent

that they desire to do so. All such investments must be pre-cleared. Employees may receive relaxed investment terms, such as the waiver of investment minimums, in connection with their investments in private placements. Employees must notify the clients they advise in advance if they recommend a private placement they are considering for themselves or that they already own. Our employees must also notify their clients in advance if they decide to withdraw from a private investment that they have recommended that is also held by their clients.

The Firm does not buy or sell securities for its own account. We do make a minimal investment in several of the SIFs to satisfy legal requirements.

#### *Political Contributions*

All members of the Board of Managers, executive officers, and any other employees (and their supervisors) whose activities could encompass the solicitation of government clients on behalf of the Firm are required to pre-clear all political contributions to local, state or federal candidates, state and local political parties, or political action committees. This requirement also extends to their spouses and dependent children.

### **Item 12 - Brokerage Practices**

We have no broker/dealer affiliations. We are an independent investment advisory firm. We do not receive any commissions, research or other products or services in connection with our clients' brokerage transactions. For those clients where we select brokerage firms, we review the reasonableness of their compensation and the reputation of the broker as part of the selection process.

We can provide clients with contact lists of well-known established brokers that have commission recapture programs and provide other services such as transition management services. We do not perform due diligence on these brokerage firms.

Clients may use commission credits from directed brokerage towards payment of our fees. Please note that standard brokerage fees can be considerably less than the fees associated with commission recapture programs, and it may not be advantageous to utilize these commission credits to pay all or part of any expenses including the payment of our fees, the fees of investment managers, custodians, etc. Clients should make their own decisions regarding the use of these programs.

### **Item 13 - Review of Accounts**

Client relationships are assigned to a varying number of investment professionals depending on the service level. These investment professionals are responsible for reviewing client accounts on an ongoing, monthly, quarterly, semi-annual, or annual basis depending on the level of client services. The reviews can be more or less detailed depending on the scope of



the services provided and may include a review of performance, asset allocation and the investment funds held in client portfolios.

Clients who subscribe to our performance measurement reporting services typically receive written reports containing detailed quarterly and cumulative information on portfolio holdings and performance. Subscribers who also receive consulting services are typically informed annually when full due diligence or its equivalent has or has not been completed for a fund/manager in their portfolio. If we become aware of a materially adverse issue with an investment manager represented in our clients' portfolios, a computer generated notification is sent to the members of the relevant consulting team and to each client invested with that manager recommending a review of that holding.

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

Not applicable. Our only source of compensation comes from the fees paid by our clients. We do not compensate any person for client referrals.

#### **Item 15 - Custody**

Depending on the type of agreement a client has with us, we may have custody of client's investment assets. In certain instances, we may open separate bank accounts or money market accounts to hold any cash balances. For clients invested in a Single Investor Fund, we generally provide quarterly investment performance reports, monthly account statements based on the reports we receive from the third party fund administrator, and an annual audited financial statement.

In those instances where we have custody outside of the Single Investor Fund context, clients receive quarterly account statements from us and their independent custodian, and surprise examinations are conducted in accordance with Rule 206(4)-2 of the Investment Advisers Act of 1940.

#### **Item 16 - Investment Discretion**

We will enter into discretionary investment management relationships with our clients. The extent of our discretionary authority is generally limited to the selection or termination of investment managers and the authority to instruct our client's custodian to transfer funds to effect that investment. The authority to select managers and instruct the client's custodian is imbedded in the discretionary Investment Management Agreement between Cambridge and our client or in the limited partnership agreement or its equivalent for our SIFs. All investments are subject to the Client's investment guidelines and restrictions agreed upon in advance. Compliance procedures are in place to help ensure that investments made for discretionary client accounts are consistent with the Client's investment guidelines and with the firm's policies regarding criteria for inclusion in discretionary accounts.

## **Item 17 - Voting Client Securities**

The Firm typically does not have authority to vote proxies except for the SIFs and our discretionary relationships. Because our clients generally invest through funds, rather than in individual securities, they are rarely solicited to vote proxies. The managers of those funds, to the extent they invest in equity securities, generally will have proxy voting authority and will vote portfolio securities in accordance with their own proxy voting policies.

In cases where we have voting authority, we will seek to vote our client's securities in the economic best interests of that client. If we identify a potential material conflict between our interests and those of a client with respect to a proxy solicitation, we will vote only in accordance with our client instructions.

When the Firm does not have voting authority, clients may receive proxy solicitations directly from the issuer, from their custodian, from a transfer agent or, in some cases, from us. Upon request, we will provide our advisory clients guidance regarding these proxy solicitations. Questions about particular solicitations should be directed to a client's consulting team.

Upon request, we will provide clients with copies of our proxy voting policies and will inform those clients for whom we have proxy voting authority, how we voted on their behalf.

## **Item 18 - Financial Information**

The Cambridge Associates, LLC and Subsidiary Consolidated Balance Sheet is attached.

**CAMBRIDGE ASSOCIATES, LLC AND SUBSIDIARIES**

Consolidated Balance Sheet

December 31, 2012

(With Independent Auditor's Report Thereon)



## **Independent Auditor's Report**

To the Members of Cambridge Associates, LLC:

We have audited the accompanying consolidated balance sheet of Cambridge Associates, LLC and its subsidiaries (the "Company") as of December 31, 2012.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated balance sheet in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated balance sheet that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the consolidated balance sheet based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated balance sheet is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated balance sheet. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated balance sheet, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated balance sheet in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated balance sheet. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated balance sheet presents fairly, in all material respects, the financial position of Cambridge Associates, LLC and its subsidiaries at December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use by management of the Company and the United States Securities and Exchange Commission. It is not intended to be and should not be used by anyone other than these specified parties.

*PricewaterhouseCoopers LLP*

March 29, 2013

# CAMBRIDGE ASSOCIATES, LLC AND SUBSIDIARIES

## Consolidated Balance Sheet

as of December 31, 2012

### Assets

Current assets:	
Cash and cash equivalents	\$ 32,459,664
Receivables, net of reserves of \$596,461	
Trade	10,024,318
Unbilled fees and expenses	4,517,835
Other	512,694
Prepaid expenses and other assets	4,513,944
Receivables due from related parties, net	1,733,417
Total current assets	53,761,872
Property and equipment, net	30,117,300
Deposits	722,175
Investments in affiliated funds	15,229
Total assets	<u>\$ 84,616,576</u>

### Liabilities and Members' Equity

Current liabilities:	
Unearned revenue	\$ 17,031,435
Accrued salaries, vacation, and related expenses	15,003,284
Accounts payable and accrued expenses	6,389,882
Current portion of deferred rent	531,756
Current portion of capital lease	351,881
Total current liabilities	39,308,238
Long-term portion of deferred rent	6,436,847
Long-term portion of capital lease	1,433,704
Other long-term liabilities	196,920
Total liabilities	47,375,709
Commitments and contingencies	-
Members' equity	37,240,866
Total liabilities and members' equity	<u>\$ 84,616,575</u>

See accompanying notes to consolidated balance sheet.

## CAMBRIDGE ASSOCIATES, LLC AND SUBSIDIARIES

### Notes to Consolidated Balance Sheet

as of December 31, 2012

#### (1) **Organization**

Cambridge Associates, LLC ("CA LLC") is Massachusetts limited liability company, formed on May 10, 2000 and registered with the United States Securities and Exchange Commission and United States Commodity Futures Trading Commission as an investment adviser and as a commodity trading adviser, respectively. CA LLC is a successor company to Cambridge Associates, Inc., which was formed on June 2, 1975 as a Massachusetts corporation.

Wholly owned subsidiaries of CA LLC include Cambridge Associates Asia, Pte. Ltd. ("CA Asia"), Cambridge Associates Investment Consultancy (Beijing) Limited ("CA Beijing") and Cambridge Associates Fiduciary Trust Company ("CA Trust"). CA Asia was formed on February 17, 2001 as a corporation under the laws of the Republic of Singapore. CA Beijing was formed on June 10, 2011 as a limited liability company incorporated in the People's Republic of China. CA Trust was formed on July 26, 2011 as a trust company under the laws of the State of New Hampshire. CA Asia and CA Beijing were formed with the intent to meet legal and regulatory purposes in support of CA LLC's investment advisory business. CA Trust was formed to act as a trustee for individual and family trusts.

#### (2) **Summary of Significant Accounting Policies**

The following are significant accounting policies:

##### *(a) Basis of Presentation*

The consolidated balance sheet is presented in United States Dollars and was prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), which require the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheet. Management believes that the accounting estimates are appropriate and the resulting balances are reasonable; however, due to the inherent uncertainties in making estimates, actual amounts may differ from these estimates. Any reference to particular accounting topics in US GAAP in the notes to the consolidated balance sheet are referencing to the corresponding accounting topics in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

CA LLC and its wholly owned subsidiaries, CA Asia, CA Beijing, and CA Trust (collectively, the "Company"), are consolidated for financial statement purposes. All intercompany balances and transactions have been eliminated. The policies described below are followed consistently by the Company in the preparation of its financial statements.

##### *(b) Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand, non-interest bearing and interest bearing deposits with financial institutions and money market mutual funds. Certain cash balances, principally held in banks, exceed insurance limits in the jurisdictions where the cash is held. Investments in money market mutual funds are not guaranteed. Cash and cash equivalents are recorded at fair value.



## CAMBRIDGE ASSOCIATES, LLC AND SUBSIDIARIES

### Notes to Consolidated Balance Sheet (continued)

as of December 31, 2012

#### (2) Summary of Significant Accounting Policies (continued)

##### (c) *Fair Value*

Fair value is determined based on the price that would be received if the asset is sold in an orderly transaction between market participants at the measurement date. The hierarchy level assigned to each investment classified as a cash equivalent is based on the Company's assessment of the transparency and reliability of the inputs used in the valuation of each instrument at the measurement date. The highest priority is given to unadjusted quoted prices in active markets for identical assets ("Level 1 investments") and the lowest priority to significant unobservable inputs ("Level 3 investments").

The fair value of money market mutual funds held at the measurement date is based on unadjusted quoted market prices in an active market. The portion of cash and cash equivalents invested in money market mutual funds represented \$25,462,047 at December 31, 2012 and is classified as Level 1 investments.

##### (d) *Receivables*

Receivables are recorded at the invoiced amount and do not bear interest. Unbilled fees and expenses represent estimated fees for work in progress. The allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the accounts receivable balance. Management determines the allowance based on known troubled accounts, including those accounts past due greater than 120 days, historical experience, and other currently available evidence.

##### (e) *Property and Equipment*

Property and equipment are recorded at cost less accumulated depreciation. Depreciation and amortization are computed primarily using the straight-line method based on estimated useful life. Furniture and equipment are depreciated over a period of five to ten years. Computer equipment and software is depreciated over a period of three years. Capital leases and leasehold improvements are amortized over the shorter of the useful life or the lease term. Internal and external costs incurred in connection with developing or obtaining software for internal use are capitalized and amortized over the estimated useful of three years beginning when the software project is complete and the application is put into production. Artwork has an indeterminable useful life and is measured for impairment loss. Disposals are recorded when fixed assets are retired, disposed or impaired.

## CAMBRIDGE ASSOCIATES, LLC AND SUBSIDIARIES

Notes to Consolidated Balance Sheet (continued)

as of December 31, 2012

### (2) Summary of Significant Accounting Policies (continued)

#### *(f) Income Taxes*

The Company is organized as a limited liability company and treated as a partnership for U.S. tax purposes; therefore, it is not directly subject to federal income taxes in the United States. CA LLC and CA Trust are subject to certain state and local taxes where they conduct business. CA Asia is subject to corporate income tax in Singapore. CA Beijing is subject to corporate income tax and business and other certain local taxes in the People's Republic of China. Deferred income taxes represent the future tax effects of temporary differences between taxable income for financial statement purposes and income tax return purposes. A valuation allowance is established if the Company's management believes it is more likely than not that a portion or an entire deferred asset balance will not be realized.

#### *(g) Unearned Revenue*

The Company bills certain clients in advance, recording the amount as unearned revenue in the consolidated balance sheet. Revenue is recognized as it is earned over the contract period.

#### *(h) Foreign Currency*

Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment, where that local currency is the functional currency, are translated at current exchange rates as of the end of the accounting period. Translation adjustments are recorded as a component of member's equity.

#### *(i) Insurance Reserves*

Reserves for self-insured medical benefits are based on the history of prior claims and any known individual cases. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in operations currently.

#### *(j) Variable Interest Entities*

CA LLC, through subsidiaries, is the general partner or managing member of various pooled and non-pooled investment vehicles, and also provides third party investment management services for these vehicles. In accordance with ASC 810 - Consolidation of Variable Interest Entities ("ASC 810"), the Company determines whether these investment vehicles, qualify, as variable interest entities ("VIEs"). For each VIE identified, the Company determines whether it is the primary beneficiary and therefore required to consolidate such VIEs under ASC 810. The Company reconsiders its determination if certain events occur that are likely to cause a change in the original determinations.



## CAMBRIDGE ASSOCIATES, LLC AND SUBSIDIARIES

Notes to Consolidated Balance Sheet (continued)

as of December 31, 2012

### (2) Summary of Significant Accounting Policies (continued)

#### (j) Variable Interest Entities (continued)

The Company has determined that it has variable interests in eleven pooled investment vehicles which qualify as VIEs under ASC 810 as the limited partners of these entities, as a group, do not have substantive kick-out rights under the investment management contracts. The Company has determined it is not, however, the primary beneficiary of the investment vehicles as it does not absorb the majority of the expected losses or receive the majority of residual returns, or both, through its variable interests. The investment management fees are generally based on the product of a contractual rate and assets under management of the investment vehicle. As such, the Company's exposure to loss or rights to residual return of the pooled investment vehicles will be impacted by changes in assets under management and is generally limited to the Company's capital interest.

The Company has evaluated the ASC 810 criteria and has determined that eleven non-pooled investments vehicles are not VIEs, as the single member investors have substantive kick-out rights and equity in the investment vehicles.

All investments were immaterial in 2012. Interests in these entities are recorded under the equity method of accounting if the Company has a direct investment and are presented as investments in affiliated funds in the consolidated balance sheet.

#### (k) Credit Risk

The Company maintains cash and cash equivalents in accounts at various financial institutions that may have credit risk. The Company attempts to minimize this risk by contracting with financial institutions with high credit standings.

### (3) Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2012</u>
Computers and software	\$ 29,251,468
Furniture and equipment	18,388,130
Leasehold improvements	14,758,416
Equipment leased under capital leases	2,001,704
Artwork	54,952
	<u>64,454,670</u>
Less accumulated depreciation	<u>(34,337,370)</u>
	<u><u>\$ 30,117,300</u></u>

## CAMBRIDGE ASSOCIATES, LLC AND SUBSIDIARIES

Notes to Consolidated Balance Sheet (continued)

as of December 31, 2012

### (4) Leases

The Company leases office space and equipment under long-term lease agreements. The leases expire at various dates through December 2022. Leases relating to office space and equipment are classified as operating and capital leases, respectively. Pursuant to four of the leases, the Company has delivered to the respective lessor security deposits in the form of letters of credit totaling \$4,648,464.

The following is a schedule of future minimum lease payments:

	<u>Operating lease</u>	<u>Capital lease</u>
Year ending December 31:		
2013	\$ 12,038,007	\$ 543,704
2014	16,183,147	538,214
2015	16,804,790	495,311
2016	14,069,728	443,962
2017	13,265,701	333,600
After 2016	<u>46,600,270</u>	<u>-</u>
Future minimum lease payments	<u>\$ 118,961,643</u>	2,354,791
Less amount representing interest		<u>(569,206)</u>
Present value of net minimum lease payments under a capital lease		1,785,585
Less current portion		<u>(351,881)</u>
Long-term portion		<u>\$ 1,433,704</u>

### (5) Related-Party Transactions

The Company has service agreements (the "Agreements") with Cambridge Associates Limited LLC ("CA LTD LLC") and its subsidiaries (collectively, "Cambridge Affiliates") for the purpose of utilizing resources on a global basis. Under the terms of the Agreements, Cambridge Affiliates are reimbursed and pay for direct personnel costs, administrative services and access to research. These agreements automatically renew for successive 12-month periods.

In addition, the Company, Cambridge Affiliates and other affiliates may be reimbursed for payment of costs incurred on an affiliate's behalf, including compensation costs related to unit options, travel costs and vendors that are used under a global contract.

## CAMBRIDGE ASSOCIATES, LLC AND SUBSIDIARIES

Notes to Consolidated Balance Sheet (continued)

as of December 31, 2012

### (5) Related-Party Transactions (continued)

Amounts due from / (to) affiliates as of December 31 are as follows:

	<u>2012</u>
Due from CA LTD LLC and subsidiaries	\$ 2,115,449
Due from other affiliates	13,500
Due to CA LTD LLC and subsidiaries	<u>(395,532)</u>
Total receivables from related parties, net	<u>\$ 1,733,417</u>

The Company was owed \$175 from the affiliated funds at December 31, 2012, which was included in other receivables.

### (6) Unit Option Compensation

In 1995, the Company created a unit option plan (the "Plan") that was amended in 2000, which provides for nonstatutory unit options to be granted under the Plan. Nonstatutory, designated options granted to participants, including options that had been granted under separate agreements, give the holders the right to purchase units of the Company at a price determined by the members on the grant date. Certain other nonstatutory, nondesignated options have been granted with an exercise price equal to the fair market value of the Company as determined by the members at the time of issuance. The Plan provides for vesting to take place for: 1) a schedule of up to seven years 2) upon retirement at age 59 or older and/or 3) the event of merger consolidation, unit sales or liquidation of the company, as defined in the Plan, and may be forfeitable for reasons specified in the Plan.

### (7) Deferred Compensation

During 2005, the Company amended certain of its unit option plans as a result of certain tax law changes that were enacted as part of the American Jobs Creation Act (the "Act"). Certain aspects of the Act resulted in material changes to the tax treatment of nonqualified deferred compensation plans and arrangements, including the Company's unit options granted with fair value on the date of grant exceeding the exercise price ("Incentive Unit Options"). As a result of the tax law change, the Company amended all affected option agreements by increasing the options' exercise prices to the fair value of the options at grant date.

Concurrent with the option amendment, the Company entered into deferred compensation agreements with all of the affected option holders whereby they will be paid the differential between the original and the amended exercise prices in the form of deferred compensation over a period of 10 years, in equal, annual installments. If option holders leave during the ten-year period of payment, they would have the right to receive all deferred compensation relating to the amended Incentive Unit Options that were fully vested upon their departure. Accordingly, the Company has accrued the deferred compensation over the vesting period of the Incentive Unit Options. The deferred compensation as of December 31, 2012 was \$905,860, and is included within accrued salaries, vacation and related expenses in the consolidated balance sheet.



## CAMBRIDGE ASSOCIATES, LLC AND SUBSIDIARIES

Notes to Consolidated Balance Sheet (continued)

as of December 31, 2012

### (8) Self-Insured Medical Benefits

CA LLC maintains a contributory, self-insured medical care plan which provides health and dental benefits to eligible employees (and their dependents) of CA LLC. The cost of such benefits is provided through contributions by participating employees and CA LLC. At December 31, 2012, CA LLC has accrued estimated reserves of \$977,163, which is included in accounts payable and accrued expenses on the accompanying consolidated balance sheet.

### (9) Income Taxes

The significant components of the Company's deferred income tax assets at December 31 are as follows:

	<u>2012</u>
Deferred tax assets:	
Net operating loss carryforward and other deferred tax assets	\$ 2,466,849
Valuation allowance	<u>(2,466,849)</u>
Net deferred income tax asset	<u>\$ -</u>

The Company assesses Uncertain Tax Positions ("UTP"), which required management to determine whether a tax position of the Company is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is reduced by the largest benefit that has greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authorities.

The Company recognizes interest and penalties related to uncertain tax positions in the provision for income taxes. At December 31, 2012, the total amount of accrued taxes, interest and penalties recorded in the balance sheet was \$1,040,956 as accounts payable and accrued expenses.

The Company files income tax returns with federal, state, local and foreign jurisdictions. CA LLC's state and federal tax returns are open from 2009 through 2012. For all foreign jurisdictions, 2006 through 2012 are subject to future examinations.

### (10) Commitments and Contingencies

From time to time, the Company may be subject to legal or regulatory proceedings, arising out of the ordinary course of business. Management believes that any losses resulting from the resolution of such proceedings would not have a material adverse effect on the Company's financial statements.

## **CAMBRIDGE ASSOCIATES, LLC AND SUBSIDIARIES**

Notes to Consolidated Balance Sheet (continued)

as of December 31, 2012

### **(11) Regulatory Requirements**

CA Trust, as a nondepository trust, is subject to certain regulatory requirements, including maintaining a minimum capital balance of \$1,000,000 and to pledging securities or a surety bond in the amount of \$1,000,000. Total capital balance remains in compliance with the regulatory requirement and was \$1,048,104 as of December 31, 2012. To satisfy the minimum pledge amount, CA Trust has pledged a \$1,000,000 surety bond to the New Hampshire Banking Department.

### **(12) Subsequent Events**

The Company evaluated subsequent events and transactions occurring after December 31, 2012 through March 29, 2013, the date this consolidated balance sheet was available for issuance. The Company is not aware of any additional subsequent events which would require recognition or disclosure in the financial statements.

## **Cambridge Associates, LLC**

### **Privacy Policy**

Cambridge Associates, its affiliates and its employees place a high priority on protecting our clients' sensitive personal and financial information. We believe that our long-standing policy regarding confidentiality has been a contributing factor in developing and maintaining the trust and confidence of our clients.

We do not disclose your confidential information, or that of former clients, except as permitted by you or required by law in the ordinary course of providing you with investment advisory services.

We may collect nonpublic personal information about you from your discussions with us, from legal documents, from information you supply about your investments or portfolio, from your incoming wire transfers or invoice payments, and from applications and other forms completed by you or provided to us by your authorized representatives and other fiduciaries. This information may include contact details, biographical data, income, transaction history, assets, risk tolerance, wire transfer instructions, and tax, identification, social security, and account numbers, as well as information on your investment assets.

With your prior knowledge, we may disclose the information described above to custodians, investment managers, venture capital and private equity fund managers, and other nonaffiliated companies or individuals, such as legal and tax advisors, in the manner permitted by you or required by law, or for our everyday business purposes in providing consulting services on your behalf. We may also disclose the information described above to other nonaffiliated financial service providers, such as providers of reporting data access and fund monitoring services, solely for our everyday business purposes in supporting our provision of consulting services on your behalf. Our affiliates may also use nonpublic personal information about you to determine eligibility for services and to make marketing solicitations. This information is only provided with the understanding that it will be maintained in confidence. To opt out of affiliate use of your personal information for eligibility or marketing solicitation, please send such request to the Privacy Officer (details below).

To protect the confidential information of natural persons, we use an internal code name upon request; limit access to those employees who need the information to perform their duties on your behalf; and require our employees to maintain this information in confidence.

All clients who access performance data and other investment information from our web site receive unique login and password identifiers. The firm maintains physical, electronic, and procedural safeguards that comply with US and European standards, including the use of encryption technologies, to protect your confidential information.

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