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This brochure provides information about the qualifications and business practices of Ballentine Partners, LLC. If you have any questions about the contents of this brochure, please contact us at (603) 569-1717 or at 55 Mill Street, Wolfeboro, NH 03894, or at [www.ballentinepartners.com](http://www.ballentinepartners.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. Additional information about Ballentine Partners, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## 1. Material changes in our business since our last ADV Form filing

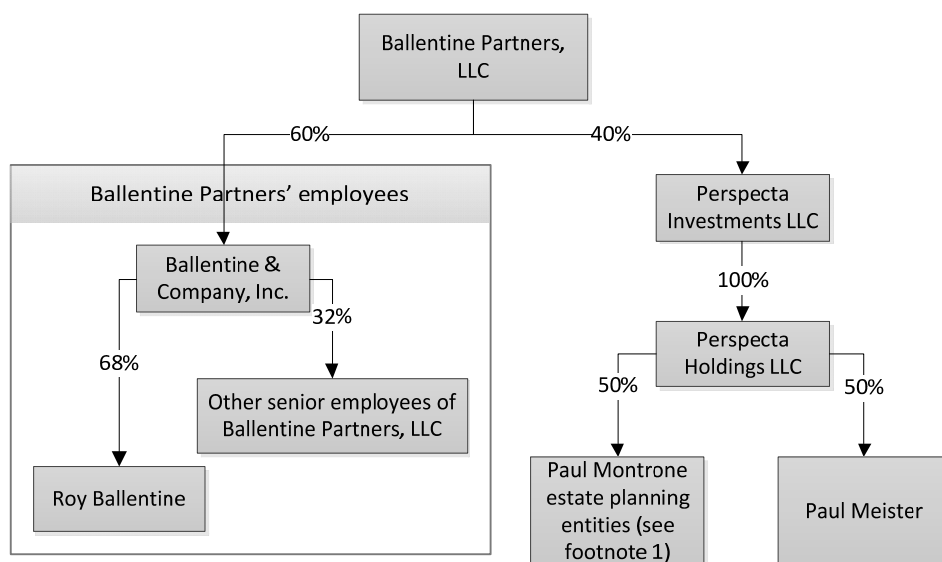
As of October 2011, Ballentine Partners named Drew McMorrow as President and Coventry Edwards-Pitt as Chief Wealth Advisory Officer. Mr. McMorrow, CFP®, succeeds Roy Ballentine. Mr. Ballentine will continue as Chairman and CEO, and he remains very active advising families and providing the management team with strategic and operational guidance.

## 2. Our advisory business: history, ownership & services

### A. History of our firm; ownership of our firm

Ballentine Partners, LLC (“Ballentine Partners”) traces its roots to 1984 when Ballentine & Company, Inc., a predecessor firm that was under the same management as Ballentine Partners, began operations as an investment advisory firm. In 1997, the firm became Ballentine, Finn & Company, Inc. On January 25, 2010, the shareholders of Ballentine, Finn established Ballentine Partners, LLC and transferred the entire business to that new entity.

Figure 1: Ballentine Partners, LLC Ownership<sup>1</sup>



<sup>1</sup> The Montrone entities are: Bayberry BP LLC, and Bayberry 2006 Trust.

The owners of Ballentine Partners, LLC are Ballentine & Company, Inc. (60%) and Perspecta Investments LLC (40%). Ownership details are shown in the accompanying chart. Paul Montrone and Paul Meister are long-time business partners and well-known private investors.

## **B. Types of services we offer**

### **1. Overview**

Ballentine Partners mission is to help you:

- To protect, preserve, and grow your wealth;
- To feel in control of your wealth, rather than to experience wealth as a burden; and
- To prepare the next generation to be financially self-sufficient and to be good stewards of the family's resources.

We have two service groups within our firm:

- The Wealth Management Group serves families with assets of \$20 million or more who wish to take advantage of the full range of our advisory capabilities.
- Mill Street Investment Management ("Mill Street") serves families with between \$3 million and \$20 million of investment assets.

We have structured our firm to minimize conflicts of interest between ourselves and you.

We do not sell any insurance or investment products. We have no proprietary investment funds.

We have only one source of income -- fees paid to us by our clients. Each client fee agreement is simple, and the costs are fully disclosed to each client.

Mill Street and the Wealth Management Group share the same investment philosophy and investment research. Mill Street clients usually invest only in liquid investments, and avoid illiquid private placements such as hedge funds, private equity funds, and real estate funds. Mill Street provides wealth planning advice to its clients as part of its overall comprehensive

relationship.

Both Mill Street and the Wealth Management Group provide investment advice to charitable foundations and other tax-exempt organizations.

Our Wealth Management Group provides families with an alternative to the cost and complexity of setting up a family office. Families who prefer to maintain a family office rely upon us to provide advice and implementation services beyond what their own staff is able to deliver. We provide advice about:

- Investment strategy and implementation
- Traditional investments – both actively managed investments and index investments
- Alternative asset classes (real estate, private equity, venture capital, etc.)
- Alternative investment styles (hedge funds, commodity trading advisors, etc.)
- Cash flow planning and forecasting
- Bill payment and cash management systems
- Closely held business interests – tax planning for owners, succession planning, preparing the next generation of family owners, preparing for sale, estate planning, financial risk management
- Balance sheet management
- Income tax planning and forecasting
- Charitable giving, administration, and management of family charitable foundations
- Lifetime gifts to family members
- Estate planning
- Property, casualty, and liability insurance
- Life, disability, medical, and long-term care insurance
- Asset protection planning

- Trust accounting and administration
- Family partnerships, LLCs and other family business entities
- Family office administration
- Lifestyle management (aircraft, yachts, vacation homes, household staff, etc.)

A distinguishing feature of our firm is that we put an experienced wealth manager (not a sales person) in charge of every client relationship. These experienced veterans are the primary link with our clients. This means that every time you want advice about a significant issue, you will be working with an advisor who has deep technical skills and detailed knowledge about your situation to help you to seize opportunities and to identify potential problems.

When it comes time to implement a recommendation, we are prepared to take charge of whatever needs to be done. Our goal is to make wealth management as simple as possible for you.

Most of our family relationships are multi-generational. We work with younger members of the family to help them to become good stewards of wealth and to help them to acquire necessary financial skills. We also provide direction and coordination for our clients' other advisors, so that our clients are relieved of day-to-day concerns about the management of their financial affairs.

We have experience with family office planning and administration. We have helped families to establish family offices, or to reorganize family offices that were already in existence when we began working with them. We have experience managing family office relationships that involve multiple foreign jurisdictions.

## 2. Investment supervisory services

We serve as your family's Chief Investment Officer. We can help you to design and implement investment strategies for all of the investment assets on your family's balance sheet,

no matter how those assets are held (directly owned, held in trusts, held in privately owned companies, or held in private foundations), and *regardless* of which investment firm is making the day-to-day investment decisions. The strategies we use are described in Section 6, which begins on page 11.

Most of our clients are individual investors who are required to pay taxes. Our investment advice is customized for you and is guided by four key tenets that are reflected in the following questions:

- What is the optimal strategy or choice for your family? We try to put ourselves in your shoes, applying all of the information we have collected about your situation, and applying all of the technical skills at your command.
- What strategy is consistent with your risk management goals? Risk analysis requires that we gather detailed information about your risk exposures, tolerance for various types of risk, and what you have already done to mitigate risks.
- What is the expected net return, after all trading costs, management fees, market impact<sup>2</sup> and taxes? For investors who must pay taxes, the net return is the only return that matters.
- What other factors need to be taken into account? Most investment recommendations have implications for your cash flow, tax situation, estate plan, and charitable gift planning.

We provide advice about a wide range of investment possibilities, including advice about many investment products offered by other firms, and (upon your request) advice about direct investments in private companies and real estate. We seek to provide you with access to the best investment products and managers that the marketplace has to offer. A substantial portion of the assets that we oversee is managed by other firms whom we have recommended.

We search the marketplace for the most attractive investment products. We have no

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<sup>2</sup> Market impact – this term refers to the risk that a transaction to purchase or sell a security may actually cause the price of the security to change in a way that is disadvantageous for the investor. For example, if an investor owns some bonds that are seldom traded, the investor's attempted sale of some of her holdings may depress the market price of the bond, thereby adversely affecting the value of the bonds that the investor continues to hold.

proprietary products. This is a benefit to you because it eliminates a key area of conflicts of interest between ourselves and our clients.

A substantial portion of our investment research effort is focused on alternative investment vehicles: real estate funds, hedge funds, private equity funds, venture capital funds, and natural resource funds. We concentrate our research in those areas because that is where active management is most likely to add value in excess of its costs.

Many of our Wealth Management clients make investments in closely held companies. Upon request, we will assist you in analyzing a private investment opportunity.

### **C. Customized services**

We customize our services to fit your needs. We customize both our wealth planning services and our investment services. Our wealth planning services are highly customized because every client has a very unique situation that requires a different combination of the services outlined above. Investment portfolios are always tailored to fit each client's circumstances. For instance, some clients have large real estate holdings while others have concentrated equity positions in either public or private companies. Some clients have excluded almost all US dollar denominated securities from their portfolios. This kind of customization is routine in our practice.

### **D. Our relationships with other investment managers**

We maintain relationships with many investment managers who offer specialized products and investment strategies that are of interest to our clients. Our recommendations are governed solely by our assessment of the quality of the manager's offering and how well that offering fits the needs of our clients.

We decline all offers by outside managers who participate in fee-splitting arrangements



and other forms of compensation. We do not participate in any wrap fee programs.<sup>3</sup> We use the collective purchasing power of our clients to negotiate favorable fee arrangements. All fee discounts are passed through to our clients. This is a direct benefit to you, and it eliminates another key area of conflicts of interest between ourselves and you.

#### **E. Client assets under our advice**

Table 1 shows the approximate amount of client assets under our advice.

Table 1: Assets under our advice as of December 31, 2011

<b>Description</b>	<b>Amount</b>
Client assets managed on a discretionary basis <sup>4</sup> by Ballentine Partners	2,094,644,266
Client assets overseen by us <sup>5</sup> but managed by other investment firms	1,526,239,777
Other client assets under our advice <sup>6</sup>	2,924,075,891
Total client assets under our advice	6,544,959,934

### **3. Fees and other compensation**

Our only source of compensation is from fees paid to us by our clients in exchange for advice and other services we provide. Our income from our relationship with you is fully disclosed in our service agreement with you. This makes it very easy for you to determine your

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<sup>3</sup> A wrap fee program is an investment arrangement under which a client opens an investment account with advisor “A”, who then parcels out the money to be managed by a number of separate investment management firms, “B”, “C” and “D”. The client is charged a single fee by advisor A, who then shares that fee with managers B, C and D. In our opinion, these types of programs are not well-suited for the families we serve, and they represent a serious conflict of interest between advisor and client.

<sup>4</sup> Discretionary means that we make investment decisions without consulting the client. We are required to make our decisions within the guidelines of the Investment Policy Statement that is approved by each client.

<sup>5</sup> We provide strategic investment advice and wealth planning advice related to these assets, but we are not responsible for the day-to-day investment decisions.

<sup>6</sup> This is the approximate value of other client assets that are under our strategic wealth planning advice.

costs with us. In addition, our fee is clearly disclosed each quarter on an invoice that we send to you. We do not receive any compensation from the sale of investment or insurance products, or from other investment managers whom we may recommend.

We customize the fee arrangement for you, based on the amount of staffing and other resources that your engagement will require. The fee agreement covers all of the services that we contract to deliver to you. There are no add-ons or extra charges. Our fees are generally based on one of the following systems:

- A percentage of assets under our advice, or
- A flat dollar amount that is periodically renegotiated.

Approximately one-third of our clients have flat fee arrangements. A flat fee is usually better suited for families with large, complex situations but only a relatively small amount of liquid investment assets. Some of our largest client relationships have relatively small investment accounts. (The bulk of their assets are in closely-held businesses.)

Fees are payable at the beginning of each quarter. For partial quarters, the fee is pro-rated based on a seven day week. You may either pay the fee by check or wire transfer, or have the fee deducted from one of your family's investment accounts. A service agreement can be terminated by either party with no more than a 30 day notice. If you were to terminate a service agreement part way through the quarter, we would promptly refund the unearned portion of the quarterly fee.

Many investment vehicles contain fees that are separate and apart from our fee. Clients sometimes invest in a diversified portfolio of index funds or Exchange Traded Funds (ETFs), and others invest a portion of their assets with one or more private account managers (not affiliated with us), actively managed mutual funds, or private placements. Index mutual funds, ETFs, actively managed mutual funds, privately managed accounts, and private placements all

charge separate fees and trading costs which are paid directly by the investor. Our clients pay these costs directly to the outside managers, and they pay trading costs directly to a broker. We assist our clients in negotiating favorable fee agreements. We do not receive any portion of the fees paid by our clients to other investment firms or to product providers. Our objective is to help our clients to avoid paying unnecessary costs. For more information about trading costs, please refer to Section 10 on page 27. For more information about custodial fees, please refer to Section 13 on page 29.

#### **4. Performance-based fees and side-by-side management**

A “performance-based fee” is a fee that is based on the investment gains in an account. In effect, the investment manager receives a portion of any profit that the manager is able to generate. We have no performance-based fee arrangements. Performance-based fees are not a good fit for our clients and the type of advice we provide. As mentioned in the previous paragraph, there are additional management fees that our outside managers charge our clients; sometimes these have a performance-based component.

“Side-by-side management” refers to the possibility that we may be favoring one group of clients over another because of differences in the way fees are calculated. We have two areas in which “side by side management” issues might arise:

- Mill Street Group v. Wealth Management Group, and
- Flat fee clients v. clients whose fee is based on a percentage of assets.

We believe that neither presents a conflict of interest. Clients of Mill Street and clients of our Wealth Management Group have access to the same investment opportunities, on the same terms. However, Mill Street clients usually invest in liquid investments; they avoid private placements such as hedge funds, private equity funds, and real estate funds because those

investments are not suitable for them.

There are no material conflicts in our relationships with flat fee clients v. clients whose fee is based on a percentage of assets. We have no preference between these two arrangements, and the choice is left up to our clients.

## **5. Types of clients**

We provide investment advice to the following types of clients:

- Individuals
- Trusts and estates
- Charitable foundations, charitable trusts, and other non-profit organizations
- Pension and profit sharing plans

There are two service groups within our company:

- Mill Street Investment Management, and the
- Wealth Management Group.

Mill Street serves families with at least \$3 million of investment assets that primarily need investment management services. These families also receive wealth planning advice, as needed. We also provide investment advice to small non-profit entities through Mill Street Investment Management.

Our Wealth Management Group serves families that have large, complex financial situations, who want objective advice, and who are seeking to optimize the use of their financial resources. Wealth Management clients receive our full range of services, including investment advisory services. While there is no minimum size criteria for a Wealth Management relationship, the practical size limitation is a minimum of about \$20 million of assets.

## **6. Investment strategies, methods of analysis, types of securities, and risk of loss**

### **A. Overview**

We serve as your family's Chief Investment Officer. We provide you with advice about asset allocation<sup>7</sup>, asset location<sup>8</sup>, and risk management<sup>9</sup> for many asset classes and investment strategies. We recommend investment strategies and assist you with the implementation of those that you decide are right for you. We apply our rigorous investment process to your situation, and we help you to use that process to make the decisions that are right for you. We implement some investment strategies ourselves, and some strategies are implemented through managers we recommend.

### **B. How we analyze your situation**

Our goal is to help you construct the right investment portfolio for your situation. We rigorously analyze your situation and make investment recommendations that are customized for you. Most of our clients hold portfolios that are very broadly diversified. But, some of our clients hold portfolios that are not diversified, because that is the optimal choice for them.

Here are some examples of factors we will analyze when making investment recommendations for you:

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<sup>7</sup> "Asset allocation" refers to the decision that each investor makes about which asset classes to own, and how much capital to invest in each of those asset classes. There is no universally agreed upon definition of what constitutes an asset class.

<sup>8</sup> "Asset location" is often just as important as asset allocation. Asset location refers to the decision an investor makes about the manner in which an asset is owned. Wealthy families often have retirement accounts, trusts, corporations, LLCs, and personal accounts. Each of those potential owners has different tax and other characteristics that need to be taken into account. For example, if an investment produces income that is taxed at a high rate, an investor may decide to put that asset in a tax-deferred retirement plan.

<sup>9</sup> "Risk management" refers to all types of risk, not just the risk of losses due to poor investment performance. For example, assets may be lost due to tort claims, or due to the failure of a lender to be able to keep its commitments.

- Your investment objectives – What are you trying to achieve and why? What will happen if you fail to achieve your investment objectives?
- Your balance sheet – How large is your pool of investment assets? How much debt do you carry? What is your ratio of liquid to illiquid assets? What is your ratio of personal use assets to investment assets? Do you have concentrations of risk on your balance sheet?
- Your investment assets – What investments do you already own? How are they performing? What is your asset allocation? How are your investments owned? What types of investment risk are you most exposed to, and why?
- Single security – Do you own a large amount of a single security? If so, why? How long will you continue to hold it? What risk factors are associated with it? How do you feel about it?
- Your cash flow – What is your cash flow situation? How dependent are you upon the income generated by your investments? What is the ratio of your cash withdrawal v. the size of your investment assets? How is your cash flow situation projected to change over time?
- Your time horizon – If you are accumulating assets for a specific purpose, how much do you need and by what date? If you are drawing upon your assets, for how long do you need to be able to sustain the withdrawals?
- Currencies – Which currencies are you most dependent upon? How will your financial situation be affected by currency exchange rate fluctuations?
- Your experience – What investment experience have you had? Which types of investments are familiar? Which are new to you? How well do you feel you understand the investments you are about to make?
- Your tolerance for illiquidity – How do you feel about committing to long-term investments that are likely to be very difficult to convert back into cash prior to their maturity? (And, the date of maturity is also uncertain.)
- Your tolerance for complexity – How do you feel about investments that have a high degree of legal, structural and / or tax complexity?
- Your estate goals and lifetime wealth transfer goals – How do your investments relate to your goals for lifetime wealth transfer, charitable giving, and estate planning?
- Your tolerance for risk – What is your tolerance for various types of risk? This cannot be done through the use of simple questionnaires. Our assessment of your risk tolerance is based upon our analysis of the factors described above, and any other relevant factors that we discover in our work with you.

- Your target return objective – What is your return objective? We help you to set a personal return objective. Many of our clients employ several return objectives simultaneously to measure how they are doing.

## C. Investment strategies and investment risks

### 1. Types of investment risk

You cannot completely avoid risk; you can only try to manage the types of risk to which your capital is most exposed. Following is a description of the various types of investment risk.

The risks are listed alphabetically.

Risk	Description
Business risk	The risk of doing business in a particular industry or environment is called business risk. Think about the Gulf oil spill of 2010 and its impact on the drilling industry.
Counter-party risk	The possibility that some or all of your capital will be lost because a bank or other financial intermediary will not be able to fulfill its contractual obligations to you. Many investments involve counter-party risk.
Creditor failure risk	The risk that a lender upon whom your investment depends for a mortgage or other loan will experience financial pressures that cause it to call your loan. This happened during the banking crises of the late 1980s and 2008 – 2009.
Credit risk	The possibility that the financial condition of an organization will deteriorate after a security has been issued. Because investors perceive that the borrower is less credit-worthy than before, the prices of all securities issued by the borrowed will decline in value.
Default risk	The possibility that a borrower will default on an obligation. This risk applies to bonds and other debt instruments. For example, a bond issuer may fail to make interest payments when due, and may fail to repay your principal when the bond matures.
Exchange rate risk (currency risk)	The risk of loss due to a decline in the relative value of the currency upon which your investment depends. For example, if you purchase stocks of companies in the Euro zone, and the Euro declines in value relative to the US dollar, your investment performance will reflect that loss when your performance is measured in US dollars.
Forced sale risk	The risk that an investment is liquidated involuntarily due to a company takeover, fund closure, or redemption by the issuer. This risk applies to

<b>Risk</b>	<b>Description</b>
	bonds that have call features, hedge funds, and many other investments.
Inflation risk	The chance the money you have invested will decline in real value due to inflation.
Insurance failure risk	The possibility that an insurance arrangement that is supposed to protect an investment will fail to perform as expected, or will completely fail. For example, many municipal bonds are insured with respect to their interest and principal payments. Municipal bankruptcies on a large scale might stress the insurance arrangements to the point of failure.
Interest rate risk	Bonds and other securities that are dependent upon interest payments lose value when market interest rates increase. Long term bonds are most exposed to this risk.
Liquidity risk	The possibility you won't be able to sell or convert a security into cash when you need the money or simply want to remove the security from your portfolio.
Market failure risk	The risk that a market will simply cease to function. The US securities markets closed for a period following the 2001 attack on the World Trade Center. The market for Auction Rate Securities functioned very well for 20 years until its sudden failure in 2008. When a market fails, securities that have traded in that market usually become very illiquid, and they lose at least a portion of their value.
Market risk	The likelihood that a broad investment market, such as the bond or stock market, will decline in value, taking the value of your investments with it.
Political risk (country risk)	The chance of loss due to political instability and the resultant damage to a country's economy. Political risk can also apply to states within the United States.
Principal risk	The chance that your original investment will decline in value or be lost entirely due to a problem that was specific to a security you purchased. (As opposed to a loss due to a general market decline.)
Regulatory risk	The risk of a regulatory change that could adversely affect an investment. This includes unfavorable changes in tax laws, and laws that restrict international capital movements, and new rules that restrict activity in certain industries.
Reinvestment risk	The risk that cash distributions will not be reinvested, or cannot be reinvested at the same rate as before, so that the return you were expecting is not actually achieved. Many types of investments are exposed to this



<b>Risk</b>	<b>Description</b>
	risk. Bonds, for example, are exposed to reinvestment risk.
Sovereign default risk	<p>The possibility that a sovereign country may default on its own debt. For example, in 2012 Greece defaulted on its sovereign debt. When a sovereign default occurs the damage may result in contagion that affects financial markets and instruments far beyond the site of the default. The world financial markets are very complex, and there are many connections between the various markets.</p> <p>As illustrated by Greece's default in 2012, investors may be forced to accept a negotiated solution that they do not want, and that they have had no role in crafting. Also, there is no assurance that credit default agreements or other forms of insurance will performance as expected.</p> <p>Sovereign default risk is extremely dangerous because it can trigger many other risks, such as collapse of the value of currency, hyperinflation, bank failures, bond and equity market failures, political risk, etc. etc.</p>
Tax risk	The possibility that tax rates will change in a manner that will cause an investment to lose value because investors perceive that its after-tax return is not as attractive as before. For example, the interest rates for municipal (i.e. tax-exempt) bonds tend to change in relation to the interest rates for taxable bonds. The relationship between the interest rates changes as the tax rate changes. (But, the tax rate is just one of several factors affecting this relationship.)
Timing risk	The risk of buying or selling an investment at an inappropriate time. Think about the investors who sold their stocks at the market bottom in March of 2009 because they could no longer endure the pain of losses. March 2009 turned out to be the turnaround point.
Tracking error risk	The risk that an investment designed to track a specific market index deviates from that index. Tracking error risk applies to many types of investments, including Exchange Traded Funds ("ETFs"), stock index mutual funds, bond index mutual funds, and actively managed portfolios that are intended to track an index.
Valuation risk	The risk that an investment is overvalued and is about to experience a sudden, sharp decline in value. Also, the risk that a valuation study may over- or under-estimate the true value of investment, even if the study is performed by an expert.

## 2. Our investment strategies and their primary risks

After analyzing your situation, we design a customized investment portfolio using some

or all of the components listed in Table 2. Our goal is to create a portfolio that produces the highest possible return net of all taxes and fees, while still allowing you to sleep soundly by limiting your risk exposures to levels you are comfortable with.

Table 2: Asset Class Components of Ballentine Partners' Investment Portfolios

Liquid Investments (all are traded in the public markets)	Illiquid Investments (none of these are traded in the public markets)
Cash	Hedge funds
Bonds	Private equity funds
Stocks	Venture capital funds
Real estate funds <sup>10</sup>	Managed futures funds <sup>11</sup>
Commodity funds	Real estate funds
	Timber funds

If you have investment capital of \$20 million or less, you may prefer a portfolio that is composed of assets that are liquid (that is, can be quickly and easily converted back into cash). If you have a larger amount of investment capital, you may prefer to invest some portion of your capital in the investments that are described as “illiquid” in the chart above. “Illiquid” means that the asset cannot be quickly and easily converted into cash, and that you may lose a substantial portion of your value if you attempt to convert the investment into cash before it matures.

We do not engage in market timing.<sup>12</sup> “Market timing” means making sizeable short-

<sup>10</sup> Real estate mutual funds and real estate investment trusts (“REITs”) are traded in the public markets. We also use private real estate funds that are not traded in the public markets.

<sup>11</sup> A managed futures fund is a private investment fund (not traded on the public markets), but the investments made by the fund are in publicly traded options and futures contracts. So, this investment could be classified as liquid. We classify it as illiquid because the investment vehicle is a private investment.

term purchase or sale decisions of financial assets (often stocks) based on a prediction about future market price movements. However, we do make tactical purchase and sale decisions based on the relative value of one asset versus another. We make about a dozen decisions in a typical year to increase or decrease the allocation to an asset class, or to add or remove an asset class. The extent to which a particular decision is actually implemented in your accounts will depend upon a large number of factors including the size of each account, your tax situation, and which family member or entity owns a specific account. Here are some of the criteria we weigh when we make tactical decisions:

- Is any asset class significantly over- or under-valued?
- What are the possible explanations for its over- or under-valuation?
- Are those explanations consistent with our economic outlook?
- Is the over- or under-valuation likely to persist for at least 12 months?
- Are the costs (tax costs and transaction costs) associated with making the adjustment low enough to make the adjustment worthwhile?

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<sup>12</sup> Some of the outside managers we recommend may be engaged in market timing. For example, some hedge fund managers may engage in market timing. However, market timing is not one of our core strategies.

Table 3 contains descriptions of the asset classes we use, the strategies we most often use to invest in each of them, and the primary risks associated with each strategy. You can find more information about the risks associated with a particular investment in the prospectus or other risk disclosure documents provided by the sponsor of a specific investment.

Table 3: Ballentine Partners Asset Class Descriptions, Strategies and Risks

Name of Asset Class	Strategies	Primary Securities Used	Primary risks <sup>13</sup>
Cash	Ready money and investments that can be converted into cash quickly and easily under normal market conditions	Bank cash deposits, money market accounts and certificates of deposit (“CDs”)	<ul style="list-style-type: none"> <li>• Inflation risk</li> <li>• Exchange rate risk (non-US dollar deposits)</li> </ul>
Bonds	Debt instruments issued by US and foreign governments and corporations	<ul style="list-style-type: none"> <li>• Separately managed bond accounts</li> <li>• Bond mutual funds</li> <li>• Bond Exchange Traded Funds</li> </ul>	<ul style="list-style-type: none"> <li>• Credit risk</li> <li>• Default risk</li> <li>• Insurance failure risk</li> <li>• Interest rate risk</li> <li>• Exchange rate risk (foreign bonds)</li> <li>• Inflation risk</li> <li>• Market risk</li> <li>• Reinvestment risk</li> <li>• Sovereign default risk</li> <li>• Liquidity risk</li> <li>• Principal risk</li> <li>• Tax risk</li> </ul>
Stocks	Ownership interests in US and foreign companies, including: <ul style="list-style-type: none"> <li>• Small and large public companies</li> <li>• Growth stocks</li> <li>• Value stocks</li> <li>• Emerging market stocks</li> </ul>	<ul style="list-style-type: none"> <li>• Exchange Traded Funds (“ETFs”)</li> <li>• Index mutual funds</li> <li>• Actively managed mutual funds</li> <li>• Actively managed separate accounts holding individual stocks</li> </ul>	<ul style="list-style-type: none"> <li>• Counter-party risk</li> <li>• Market risk</li> <li>• Timing risk</li> <li>• Business risk</li> <li>• Exchange rate risk (foreign stocks)</li> <li>• Tracking error risk (ETFs, index funds)</li> <li>• Valuation risk</li> <li>• Principal risk</li> </ul>

<sup>13</sup> We have attempted to list the *primary* risks that apply to each strategy. But, the investment world is a very complex system with many interactions. A risk that appears to be very low today may suddenly become more prominent due to change in some other part of the financial system. Please review the table that begins on page 13 for a summary of investment risks.

<b>Name of Asset Class</b>	<b>Strategies</b>	<b>Primary Securities Used</b>	<b>Primary risks<sup>13</sup></b>
			<ul style="list-style-type: none"> <li>• Tax risk</li> </ul>
Managed futures	Participation in a private fund that invests in options and futures contracts that represent bets on the future direction of stock prices, interest rates, commodity prices, etc. in a wide variety of markets	<ul style="list-style-type: none"> <li>• Funds of managed future funds (private investment, but completely liquid under normal market conditions)</li> </ul>	<ul style="list-style-type: none"> <li>• Creditor failure risk</li> <li>• Counter-party risk</li> <li>• Market risk</li> <li>• Timing risk</li> <li>• Valuation risk</li> <li>• Exchange rate risk</li> <li>• Tax risk</li> </ul>
Real estate	Participation in US and foreign investment companies and private partnerships that own commercial, industrial and/or residential real estate	<ul style="list-style-type: none"> <li>• US and foreign Real Estate Investment Trusts (“REITs”)</li> <li>• Real estate mutual funds</li> <li>• US and foreign private real estate funds</li> </ul>	<ul style="list-style-type: none"> <li>• Creditor failure risk</li> <li>• Market risk</li> <li>• Timing risk</li> <li>• Business risk</li> <li>• Exchange rate risk (foreign real estate)</li> <li>• Liquidity risk (private funds)</li> <li>• Principal risk</li> <li>• Sovereign default risk</li> <li>• Tax risk</li> <li>• Valuation risk</li> </ul>
Commodities	Participation in a fund that invests in a broadly diversified basket of commodities through the commodities options markets	<ul style="list-style-type: none"> <li>• Commodity mutual funds</li> <li>• Commodity index funds</li> <li>• Exchange Traded Notes (“ETNs”)</li> </ul>	<ul style="list-style-type: none"> <li>• Creditor failure risk</li> <li>• Market risk</li> <li>• Exchange rate risk</li> <li>• Tracking error risk</li> <li>• Valuation risk</li> <li>• Tax risk</li> <li>• Timing risk</li> <li>• Principal risk</li> <li>• Counter-party risk</li> </ul>

Private equity (including venture capital)	Participation in US and foreign private funds that invest in debt and equity of private companies ranging from start-ups to well established firms	<ul style="list-style-type: none"> <li>Funds of private equity and venture capital funds (private investments)</li> <li>Individual private equity and venture capital funds (private investments)</li> </ul>	<ul style="list-style-type: none"> <li>Creditor failure risk</li> <li>Market risk</li> <li>Timing risk</li> <li>Valuation risk</li> <li>Business risk</li> <li>Liquidity risk</li> <li>Principal risk</li> <li>Tax risk</li> </ul>
Timber	Participation in a private fund that purchases tracts of timber and conducts logging operations	<ul style="list-style-type: none"> <li>Private timber funds</li> </ul>	<ul style="list-style-type: none"> <li>Business risk</li> <li>Creditor failure risk</li> <li>Liquidity risk</li> <li>Valuation risk</li> <li>Tax risk</li> <li>Timing risk</li> </ul>
Hedge funds	Participation in: <ul style="list-style-type: none"> <li>Equity long-short funds</li> <li>Event-driven funds</li> <li>Global macro funds</li> <li>Relative value funds</li> <li>Distressed debt funds</li> </ul>	<ul style="list-style-type: none"> <li>Funds of hedge funds (private investments)</li> <li>Individual hedge funds (private investments)</li> </ul>	<ul style="list-style-type: none"> <li>Business risk</li> <li>Credit risk</li> <li>Creditor failure risk</li> <li>Liquidity risk</li> <li>Market risk</li> <li>Principal risk</li> <li>Regulatory risk</li> <li>Tax risk</li> <li>Timing risk</li> <li>Valuation risk</li> <li>Exchange rate risk</li> </ul>

### 3. Risks associated with portfolio construction

The major risks associated with portfolio construction are:

- a. Under certain economic and market conditions, several of the major components of your portfolio may lose a substantial portion of their value simultaneously. In a well-constructed portfolio, this is theoretically

unlikely to happen. However, it does happen. The most recent occurrence was in 2008 – 2009 when the mortgage crisis in the US rippled through the world financial markets. With the increasing integration of the world's financial markets, events like the one in 2008 – 2009 may occur more frequently.

- b. Errors in estimating the future behavior of asset classes. To construct a portfolio, we must forecast the expected return and several other statistical parameters for each asset class.<sup>14</sup> The larger the number of asset classes under consideration, the more complex this process becomes.<sup>15</sup> It is impossible for anyone to develop a perfect forecast of the parameters for even a single asset class, never mind a half-dozen or more asset classes. It is inevitable that the forecast will have errors in it. Errors in the forecast mean that the portfolio we recommend for you may not perform as well as we had hoped.
- c. Errors in our decisions about tactical movements between asset classes. When we make a decision to reduce your exposure in one area and increase it in another, we may be wrong about the direction of the move, or the timing, or both. However, these are usually modest-sized adjustments, and we make the changes only when we are expecting a trend to persist for a year or more.

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<sup>14</sup> For each asset class, we must forecast its expected average return, the standard deviation of returns, and the correlation of its returns with every other asset class that is proposed for inclusion in the portfolio.

<sup>15</sup> Portfolio construction with 5 asset classes requires forecasting 20 parameters. Portfolio construction with 7 asset classes requires forecasting 35 parameters.



- d. An asset class may become very overvalued or very undervalued, and may remain that way for a long time. In recent years this has happened to residential real estate in most developed countries (especially the US in the decade leading up to 2008) and to internet stocks from 1995 – 2000.
- e. We may misunderstand your financial situation, including your tolerance for various types of investment risk. Or, you may misunderstand your own tolerance for losing capital. For most people, the right portfolio is one that allows you to sleep soundly, even when it is declining in value.
- f. An extreme event, such as a terrorist attack on the US or some other major economy, the outbreak of war, or a natural disaster may cause the values in many asset classes to decline at the same time.
- g. Some investments, such as hedge funds and private equity funds, require active management. There is a risk that we may select a manager who substantially underperforms similar investments that we could have selected.
- h. All investments that are designed to track a broad market index have some degree of tracking error. There is a risk that we will select an index investment whose tracking error proves to be higher than we estimated it would be, and the investment therefore under-performs its benchmark by a material amount.

**D. Frequency of trading; impact of brokerage and transaction costs**

Frequent trading in any portion of your portfolio results in costs that create a drag on portfolio performance. The costs include: potential tax inefficiencies, trading costs, and potential

market impact<sup>16</sup>. When we research an asset class and managers within an asset class and develop our recommendations, we consider all of those costs and the frequency of our own trading activity in your accounts is usually very low. For example, when we purchase an index fund or an Exchange Traded Fund, we expect to hold that investment for years. However, for tax planning purposes we may, under certain market conditions, sell the entire position and replace that security with a similar one. Those trading costs are very low and the transactions generate tax savings. We seldom change outside managers. So, at the portfolio level, the volume of transactions and associated trading costs is usually very low.

Table 4: Investment Strategies and Frequency of Trading

Investment Strategy	Frequency of trading
Cash	Very low
Bonds	Low
Stocks	Low
Real estate funds	Low
Commodity funds	Moderate
Hedge funds	Moderate to high
Private equity funds	Very low
Venture capital funds	Very low
Managed futures	High
Timber	Very low

Some of the strategies we use require active trading by managers we recommend. Table

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<sup>16</sup> “Market impact” refers to the possibility that a purchase or sale transaction in a thinly traded security may move the price of the security in a way that is disadvantageous to you.

4 shows the relative frequency of trading by the managers within each major strategy.

## **7. Disciplinary information**

There is no disciplinary information to report.

## **8. Other financial industry activities and affiliations**

We have no affiliation with any product sales organization. Although we make specific product recommendations, we are not involved with the sale of insurance or investment products. We do not accept commissions. We do not participate in fee-sharing arrangements with money managers we recommend. Our only source of income is from fees paid to us to by our clients in a fully disclosed manner.

Ballentine Partners, LLC and Perspecta Trust LLC are related parties because the owners of Perspecta are investors in Ballentine Partners. Perspecta is chartered as a State of New Hampshire non-depository trust company that specializes in serving families of substantial means who want highly customized trust and wealth advisory services.

The owners of Perspecta have also organized several LLCs to make private investments. These LLC's are special purpose investment funds or entities that are exempt from SEC registration. No clients of Ballentine Partners were solicited to make an investment in the LLC's. The names of the entities involved are:

- Perspecta Capitol RA LLC
- Perspecta Capitol RA Companion LLC
- Perspecta RA Vials LLC
- Latona Associates Fund I, LLC

## **9. Code of ethics, participation or interest in client transactions, and personal trading**

### **A. Code of ethics**

Our Code of Ethics is based on the principle that your interests come first. We instruct our employees to avoid activities that run contrary to that principal. Our Code of Ethics is as follows:

- Integrity – Adhere to the highest ethical standards in all aspects of your work.
- Objectivity – Put our clients' interests first.
- Reliability – Keep your promises.
- Competence – Become an expert, but also know your limitations.
- Confidentiality – Respect the confidentiality of our client relationships.
- Respect – Treat other professionals both inside and outside our company with respect.
- Loyalty – Be loyal to Ballentine Partners while employed by the company.
- Compliance – Strive to comply with all other applicable securities laws and regulations.
- Reporting – You are obligated to report any behavior that does not comply with this Code.

In addition, most of our senior employees have earned professional credentials (CFA, CFP) whose organizations maintain very strict ethics rules to which the members must adhere.

### **B. Securities in which we have a material financial interest**

Neither Ballentine Partners, LLC nor its employees have any material interest in the securities or the investment companies we recommend.

### **C. Participation or interest in client transactions**

Our employees may, from time to time, buy or sell shares in publicly traded securities

which have been recommended to you. Transactions by our employees are done on the same terms as your transactions. The securities our employees buy and sell are generally highly liquid and broadly traded. Our employees' transactions are unlikely to affect the price at which the securities trade.

## **10. Brokerage practices**

### **A. Factors we consider in selecting brokers**

We select brokers based on their ability to skillfully execute trades at a very competitive cost. On a regular basis, our investment team conducts a study of the performance and costs associated with the brokers we have used. We use the results of those studies to improve our selection of brokers, and to negotiate with brokers on your behalf.

We receive no compensation from the brokers we recommend. We do not participate in “soft dollar” programs. A “soft dollar” program is an arrangement under which a broker provides an investment manager with computers, research or other compensation in exchange for the manager directing business to that broker. In our opinion, soft dollar arrangements are detrimental to your interests as an investor.

### **B. Aggregation of purchase and sale orders**

Whenever possible, we aggregate purchase and sale orders for client accounts. Aggregation helps to minimize costs and to assure best execution of trades.

### **C. Directed brokerage**

If you require us to direct your brokerage business to a particular broker, we will comply to the extent that it is possible for us to do so. However, we will be unable to achieve the most favorable execution of your brokerage transactions. We will not be able to aggregate your trades

with those of our other clients. You are likely to receive less favorable pricing of trades than our other clients.

## **11. Account reviews and reporting**

### **A. Reviews**

Your situation is reviewed at least once a quarter, and more often if necessary. In addition to our regular cycle of reviews, a review may be triggered by a change in market conditions, a question from you, a change in your situation, change in tax laws, new information about a particular investment, etc. The objective of each review is to determine whether or not we need to recommend a change in any of your financial strategies. Reviews are performed by the Investment Analyst and Financial Planner assigned to you, under the supervision of the Senior Client Advisor assigned to you. Our team members are instructed to consider your investment policy, risk tolerance, income tax situation, and cash flow – among other factors. Our team members are also encouraged to consult with your other advisors (CPA, attorney, insurance agents and outside investment advisors) when necessary.

### **B. Reporting**

Wealth Management clients receive quarterly financial statements and investment reports. The quarterly financial statements typically include balance sheets, cash flow forecasts, tax forecasts, and asset allocation charts for family members, trusts, partnerships and other entities that play a role in wealth transfer planning. The quarterly financial statements also typically provide a summary of insurance arrangements, estate plan arrangements, and a variety of other supporting financial schedules that are customized for the needs of each family. Our Wealth Management clients invest in a very wide variety of investment vehicles, and may use multiple custody platforms. Our reporting systems are designed to accommodate complex

investment structures and multiple custody platforms. When feasible, we measure investment results net of fees and net of taxes. After-tax performance calculations are generally done once a year because the after-tax results cannot be determined until the year has ended.

Clients of Mill Street Investment Management receive quarterly investment reports which include performance measurements net of fees.

## **12. Client referrals and other compensation**

Client fees are our only source of compensation. We do not pay third parties for referrals.

## **13. Custody**

Most of our clients elect to have their investment accounts held by a custody agent (usually a trust company or brokerage firm) that is independent of Ballentine Partners. If you elect to do that, you will receive a statement directly from the custody agent at least quarterly. Most custody agents also have web sites that allow you to check your accounts on demand. You should carefully review your custody statements and compare them to the statements we provide.

Some of our clients elect to have Perspecta Trust LLC (“Perspecta”) serve as trustee and to hold custody of investment accounts. Perspecta and Ballentine Partners are related companies because the owners of Perspecta are investors in Ballentine Partners. Perspecta and Ballentine Partners have separate operational staffs, and no employees of Ballentine Partners have any authority to transfer funds out of custody accounts at Perspecta.

Private investments such as hedge funds, private equity funds, and real estate funds will take custody of your investment capital themselves, or through their designated custody agent. The risk of unauthorized transactions, including theft of your capital, is higher in these investments. It is particularly important that you carefully review their statements, and their

auditor's report.

#### **14. Investment discretion**

We manage assets on both a discretionary and non-discretionary basis. Most of our clients have both discretionary and non-discretionary accounts with us. "Discretionary" means that you authorize us to buy and sell securities in your account. However, we always exercise our discretion within the limits of your written investment guidelines. (Please refer to the discussion about "Investment Policy Statement" just below.) "Non-discretionary" means that we must obtain your approval before making any changes to an investment account.

To open a discretionary account, you sign a Limited Power of Attorney that gives us trading privileges in your account, and we assist you in writing an Investment Policy Statement for the account. The Investment Policy Statement contains detailed instructions about how the account is to be managed. We require our portfolio managers to adhere to the instructions in your Investment Policy Statement.

#### **15. Voting client securities**

You will retain the opportunity to vote when a shareholder vote is required. Voting is optional; you are not required to vote. We do not vote securities held in the portfolios we manage. If you request our assistance in deciding how to vote, we will disclose any material conflicts of interest we may have with respect to the question being voted upon.

#### **16. Financial information**

We have no financial conditions that are likely to prevent us from meeting our contractual commitments to our clients.