

# **Highbury Pacific Capital Corp.**

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## **Form ADV, Part 2A Brochure**

February 6, 2012

This brochure provides information about the qualifications and business practices of Highbury Pacific Capital Corp. If you have any questions about the contents of this brochure, please contact us at (206) 340-2800. 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.

Any reference to or use of the terms “registered investment adviser” or “registered,” does not imply that Highbury Pacific Capital Corp. or any person associated with Highbury Pacific Capital Corp. has achieved a certain level of skill or training.

Additional information about Highbury Pacific Capital Corp. is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **ITEM 2 - MATERIAL CHANGES**

**Revised February 6, 2012**

The purpose of this page is to inform you of any material changes since the previous version of this brochure.

Highbury Pacific Capital Corp. is a newly registering investment adviser. This brochure is Highbury Pacific Capital Corp.'s first brochure and therefore we have not made any material changes. We review and update this brochure at least annually to make sure that it remains current. In the future, this item will discuss only specific material changes that we made to the brochure and provide you with a summary of such changes. Future summaries will also reference the date of the last annual update of this brochure.

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## ITEM 4 - ADVISORY BUSINESS

### Description of Advisory Firm

Highbury Pacific Capital Corp. (“Highbury Pacific,” “we,” “our,” or “us”) is a privately owned corporation headquartered in Seattle, Washington. Gary Lee, President and principal owner, founded Highbury Pacific in December 2003.

Highbury Pacific has been exempt from federal registration as we have been relying on the “private adviser exemption” under Section 203(b) (3) of the Investment Advisers Act of 1940. However, the Dodd-Frank Act eliminated this exemption so we have sought registration with the U.S. Securities and Exchange Commission.

### Advisory Services Offered

Highbury Pacific provides continuous and regular investment supervisory services to a client. Gary Lee works with the client and has the ongoing responsibility to make recommendations based upon the objectives of the client.

Highbury Pacific is principally engaged in the following activities:

- Objective portfolio construction and management
- Portfolio construction – asset allocation, transition management, investment manager searches, implementation, and oversight
- Recommending certain unaffiliated third-party investment managers (“External Managers”) to manage a portion or all of the assets designated by the client in accordance with the terms and conditions of the Investment Policy Statement ; to include alternative investment strategies, private equity investments, and concentrated stock portfolio management strategies
- Ongoing monitoring and reviewing of each External Manager
- Portfolio management - ongoing supervision, monitoring, rebalancing
- Performance measurement and reporting

### Tailored Services and Client Imposed Restrictions

Highbury Pacific manages client accounts based on the client’s investment strategy, as discussed below under ***Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss***. Highbury Pacific applies the investment strategy for our client, based on the client’s individual circumstances and financial situation and any restrictions the client places on the portfolio, as documented in the client’s Investment Policy Statement. We make investment decisions for clients based on information the client supplies about their financial situation, goals, and risk tolerance. Our recommendations may not be suitable if the client does not provide us with accurate and complete information. It is the client’s responsibility to keep Highbury Pacific informed of any changes to their investment objectives or restrictions.

## **Assets Under Management**

As of 12/31/2011, Highbury Pacific's non-discretionary assets under management were \$174,050,018. Highbury Pacific has limited discretion in the management of assets. We discuss our discretionary authority below under ***Item 16 - Investment Discretion***.

## **ITEM 5 - FEES AND COMPENSATION**

### **Fee Schedule & Billing Method**

#### *Investment Management Services*

Highbury Pacific charges advisory fees for investment management services. Currently, Highbury Pacific's only client is a qualified purchaser. Highbury Pacific's advisory fees are outlined in the client's investment management agreement. Generally, the management fees are a combination of a fixed fee and based on a percentage of the assets under management. For the fixed portion of our fee we send an invoice at the beginning of each quarter which is payable in advance. For the portion of our fee that is based on a percentage of assets under management we send an invoice at each month end which is payable monthly in arrears.

Highbury Pacific may also receive additional compensation in the form of a bonus which is given at the discretion of our client. In addition, we charge our client a minimum fee.

### **Other Fees and Expenses**

Highbury Pacific's fees do not include custodian fees or the fees charged by External Managers. Clients pay all brokerage commissions, stock transfer fees, and/or other similar charges incurred in connection with transactions in accounts, from the assets in the account. Foreign securities transactions may result in additional charges such as foreign settlement costs, account movement charges, and foreign exchange fees. These charges are in addition to the fees the client pays to Highbury Pacific.

Our client may also be responsible for reimbursement of reasonable third party out-of-pocket expenses that we incur in performing our obligations. The specific details related to reimbursement of expenses are outlined in the client's investment management agreement.

### **Termination**

#### *Investment Management Services*

Either party may terminate the agreement upon thirty (30) days written notice to the other party. Clients may terminate the agreement by writing to Highbury Pacific at our office. Upon termination of the agreement, any earned, unpaid advisory fees and unreimbursed expenses will be due and payable. Any prepaid advisory fees that are paid in advance will be refunded to the client. Clients will receive an invoice showing the advisory fees due for services rendered and not yet paid.

## Other Compensation

Highbury Pacific does not accept compensation for the sale of securities or other investment products.

## ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Highbury Pacific does not charge performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

## ITEM 7 - TYPES OF CLIENTS

Highbury Pacific currently provides investment advisory services to a single investment holding company.

## ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### Methods of Analysis and Investment Strategies

Highbury Pacific's objective is to have an Investment Policy Statement for each client that outlines the policies and procedures to follow on behalf of the client. We will allocate investment portfolio(s) among a number of asset classes which may include domestic equity, domestic fixed income, international equity, core fixed income, alternative investments, and cash. Highbury Pacific generally recommends third-party External Managers for the management of the client's portfolio.

#### Methods of Analysis for Selecting External Managers

Highbury Pacific recommends External Managers based on the client's investment objectives and financial situation, and the External Manager's management style. Highbury Pacific has a due diligence process that includes onsite due diligence meetings with many of the External Managers that we recommend. Part of our ongoing due diligence process may rely on the due diligence conducted by third-party consulting firms.

#### Investment Strategies for Managing Portfolios

Highbury Pacific uses Modern Portfolio Theory ("MPT") in the construction and management of client portfolios. Modern Portfolio Theory has a basic concept of using diversification in an effort to optimize the potential return of a portfolio for a given level of risk. MPT is a quantitatively based method that seeks to combine those asset classes with historical returns that are not perfectly positively correlated. When an individual asset is added to a portfolio of assets, the risk of an individual asset cannot be measured on a stand-alone basis because part of its risk may be diversified away by other assets in the portfolio. The risk it adds to the portfolio through its interaction with other portfolio assets becomes the primary measure of the individual asset's risk.

The External Managers Highbury Pacific recommends utilize their own investment process and methods of analysis. The manager's investment strategies and the securities they invest in may have different or

additional risks than those described in this brochure. Clients can find more information about the strategies and related risks of the External Managers in **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss** in each manager’s Form ADV disclosure brochure.

## **Investing Involves Risk**

### *General Risks of Owning Securities*

Investing in securities involves risk of loss, and clients should be prepared to bear that risk. The prices of securities held in client accounts and the income they generate may decline in response to certain events taking place around the world. These include events directly involving the issuers of the securities held in a client’s account, conditions affecting the general economy, and overall market changes. Other contributing factors include local, regional, or global political, social, or economic instability and governmental or governmental agency responses to economic conditions. Finally, currency, interest rate, and commodity price fluctuations may also affect security prices and income.

### *External Manager Strategies and Risks*

The External Managers that Highbury Pacific recommends utilize their own investment process and methods of analysis. The strategies and securities these managers invest in may have different or additional risks than those described in this brochure. Clients can find more information about the strategies and related risks of the External Managers in **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss** in each manager’s Form ADV disclosure brochure.

## **ITEM 9 - DISCIPLINARY INFORMATION**

Highbury Pacific and our personnel seek to maintain the highest level of business professionalism, integrity, and ethics. Highbury Pacific does not have any disciplinary information to disclose.

## **ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Highbury Pacific does not offer any other services or have any affiliates in the financial industry.

## **ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

Highbury Pacific believes that we owe clients the highest level of trust and fair dealing. As part of our fiduciary duty, we place the interests of our clients ahead of the interests of the firm and our personnel. Highbury Pacific’s personnel are required to conduct themselves with integrity at all times and follow the principles and policies detailed in our Code of Ethics.

Highbury Pacific’s Code of Ethics attempts to address specific conflicts of interest that either we have identified or that could likely arise. Highbury Pacific’s personnel are required to follow clear guidelines from the Code of Ethics in areas such as gifts and entertainment, other business activities, prohibitions



of insider trading, and adherence to applicable federal securities laws. Additionally, individuals who formulate investment advice for clients, or who have access to nonpublic information regarding any clients' purchase or sale of securities may be subject to personal trading policies governed by the Code of Ethics (see below).

Highbury Pacific will provide a complete copy of the Code of Ethics to any client or prospective client upon request.

### *Personal Trading Practices*

Highbury Pacific's portfolio management services involve recommending third-party managers External Manager for the management of client portfolios. Highbury Pacific does not recommend or transact in individual securities for clients. Generally, we do not have prior knowledge of the individual securities transactions that External Managers make in client portfolios. Highbury Pacific or our personnel may utilize the same External Managers in the management of personal or proprietary portfolios and may transact in the same securities that are conducted in client accounts. This presents a potential conflict of interest as we will have prior knowledge of the retention, termination, and rebalancing of client portfolios among External Managers. While we believe that we could not use this knowledge to benefit our personal or proprietary accounts, we have adopted policies to address this potential conflict that include the following:

1. Highbury Pacific prohibits trading in a manner that takes personal advantage of investment recommendations we make for clients.
2. Highbury Pacific maintains records of quarterly personal securities transactions and annual securities holdings for investment personnel.

## **ITEM 12 - BROKERAGE PRACTICES**

Highbury Pacific does not effect transactions for clients and does not determine or recommend broker-dealers to clients. Clients should review **Item 12 – Brokerage Practices** of the Form ADV disclosure brochures of External Managers on their practices for selection and recommendation of brokers for client transactions.

## **ITEM 13 - REVIEW OF ACCOUNTS**

Gary Lee, President, reviews client portfolios generally at least monthly. He reviews the information from the third-party custodian and External Managers. During his reviews, he considers, among other things, portfolio holdings, and transactions for the period. He may also consider market and economic conditions as well as the fundamentals of a particular asset class or security.

In addition, he may conduct a special review of an account based on one or more of the following:

1. A change in the client's investment objectives, guidelines and/or financial situation;

2. Changes in diversification;
3. Tax considerations;
4. Material cash deposits or withdrawals; or
5. Changes affecting the External Managers.

The custodian provides our client with online access to written statements that include an accounting of all holdings and transactions in the account for the reporting period. In addition, we provide written reports detailing performance in client accounts on a quarterly basis.

## **ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

Highbury Pacific does not receive compensation from a non-client for providing investment advice or advisory services to clients. Highbury Pacific does not pay any compensation for client referrals.

## **ITEM 15 - CUSTODY**

Highbury Pacific does not take custody of client funds or securities in any way.

## **ITEM 16 - INVESTMENT DISCRETION**

Highbury Pacific has limited discretionary authority over client accounts. We recommend External Managers for the management of client portfolios and it is up to the client to approve our recommendations. We have limited discretion over the asset allocation of client portfolios and may rebalance portfolios among External Managers within client-approved guidelines. The client grants us this limited authority in the investment management agreement. Highbury Pacific is responsible for portfolio monitoring and rebalancing of the client's portfolios.

## **ITEM 17 - VOTING CLIENT SECURITIES**

### *Proxy Voting*

We typically do not vote proxies on behalf of our client, but rather the client will give that authority to the External Managers that we recommend to manage the various asset classes of a client's portfolio. Clients can contact either Highbury Pacific or the External Managers if they have questions about a particular solicitation. Highbury Pacific will not be deemed to have proxy voting authority solely as a result of providing advice or information about a particular proxy vote to a client.

### *Class Actions*

Highbury Pacific generally does not instruct or give advice to clients on whether or not to participate as a member of class action lawsuits and will not automatically file claims on the client's behalf. Investment Managers may instruct or give advice to clients on whether or not to participate as a member of class action lawsuits. Typically, clients can request the Investment Managers to assist with gathering any transaction information pertaining to the client's account needed for the client to file a proof of claim in a class action.

## ITEM 18 - FINANCIAL INFORMATION

Registered investment advisers are required in this item to provide clients with certain financial information or disclosures about the firm's financial condition. Highbury Pacific does not require the prepayment of more than \$1,200 in fees per client, six months or more in advance, and does not foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.