



N O R T H G A T E

## Form ADV Part 2A: Firm Brochure

### NC III, L.L.C.

March 20, 2014

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**This brochure (the “Brochure”) provides information about the qualifications and business practices of NC III, L.L.C. If you have any questions about the contents of this Brochure, please contact our chief compliance officer (CCO), Carol Christensen, at (925) 820-9970 or email [cc@northgate.com](mailto:cc@northgate.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 the firm is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Reference to our being a “registered investment adviser” or as being “registered” does not imply a certain level of skill or training.

Unless otherwise indicated, the term “Northgate” or “the firm” is broadly used within this Brochure to refer to the entire enterprise and not to a specific legal entity.

## Item 2: Material Changes

The Material Changes section of this Brochure will be updated annually when material changes occur since our last annual update.

The date of our last annual update was March 19, 2013.

### Material Changes since Last Annual Update

There were no material changes since the last update.

A copy of this Brochure may be obtained, without charge, by contacting Carol Christensen, Chief Compliance Officer, at (925) 820-9970 or [cc@northgate.com](mailto:cc@northgate.com).

Additional information about Northgate is available through the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 4: Advisory Business

The collective Northgate enterprise currently manages over \$4.1 billion in client commitments. Northgate invests in global venture capital and private equity investments through fund-of-fund and direct private equity limited partnerships (each a “**Fund**,” together the “**Funds**”). Northgate’s principal office is in Danville, California, with additional offices in London, Hong Kong, Mexico, India, and representative offices in Australia and Israel. Northgate does not engage in other lines of business besides its fund-of-fund and direct private equity fund businesses. Senior management dedicates significantly all of its business time to Northgate activities.

NC III, L.L.C. (“NC”) is the general partner for a specific group of Northgate Funds. NC, more broadly, oversees the other general partners (the “GP Entities”) that were formed by Northgate prior to 2011 to ensure that they are adhering to registered investment adviser standards. Northgate Capital, L.L.C. and its affiliate, Northgate Capital, L.P. (collectively “**Northgate Capital**” or the “**Management Company**”), provide investment management and administrative services to all of the GP Entities of the Funds. The GP Entity of each Fund is responsible for the Fund’s investment decision making.

The Funds primarily invest in underlying venture capital and private equity partnerships or limited liability companies (“**Portfolio Funds**”). The Funds may also invest a portion of commitments directly in portfolio companies of the Portfolio Funds. Certain Funds have as their sole investment mandate, the participation in direct private equity investments. The Funds generally do not invest in publicly traded securities.

Mark E. Harris, Brent M. Jones, Hosein Khajeh-Hosseiny, Jared W. Stone and Thomas A. Vardell (the “**Managing Directors**”) are the Executive Partners of Northgate Capital and the members of the GP Entities primarily responsible for the Funds’ investment activities. The Managing Directors own a significant minority equity interest in Northgate Capital and a substantial equity stake in all of the GP Entities. The Managing Directors maintain discretion over the investment decisions of the Funds and manage the day-to-day operations of Northgate. Religare Global Asset Management, Inc., a SEC-registered investment adviser, owns a majority stake in Northgate Capital (“**RGAM**”). RGAM also owns an equity stake in the GP Entities formed after 2011.

Each Fund is a private investment vehicle and is not publicly offered. No part of this Brochure is a general solicitation of potential investors in any Fund. This Brochure is intended solely to describe Northgate’s business.

The GP Entities are responsible for managing the capital committed to various Funds and seek long-term capital appreciation by investing in Portfolio Funds that include a diversified group of venture capital, private equity and emerging markets funds. In addition, the Funds may invest in secondary fund investments or directly in private equity company financings. Some GP Entities manage Funds which seek long-term capital appreciation by investing solely in direct private equity investments. These direct private equity investments are made alongside independent and generally well-established venture capital firms that take a lead role in the investment activity.

Northgate Capital also provides investment management services to private investment funds that are offered and sold mainly to principals of Northgate, their friends and family members, and certain other strategic limited partners (the “**Partners Funds**”). The Partners Funds are generally prohibited from investing in underlying partnerships or private companies that meet the investment criteria for actively investing Funds. Certain

exceptions can be made to this procedure when they are judged not to be a material conflict of interest with an existing Fund.

In general, the Funds will invest according to the terms specified in Limited Partnership Agreements or Limited Liability Company Agreements (collectively referred to as “LPAs”) for each of the Funds. The LPAs generally provide detail of all the terms and conditions for each of the Funds, including, the term of the Fund, capitalization, capital contributions, profits and losses, management fees, expenses, distributions, transfers, withdrawals, dissolution, liquidation, liability, and indemnification. The LPAs provide that the GP Entities will be authorized to use discretion to cause the Funds to invest all of the capital commitments of the Funds, subject to the investment policies and investment restrictions provided in the LPAs.

## **Item 5: Fees and Compensation**

### *Management Fees*

Northgate Capital provides investment management and administrative services to the Funds and is compensated through management fees. The LPAs provide that the Funds pay the GP Entities annual management fees, which are then generally assigned to Northgate Capital in return for the services Northgate Capital provides. The overall result is that, generally, each Fund pays its GP Entity an average management fee of between .8 and one percent per annum of the committed capital to each Fund, and the GP Entities may then designate some or all of the management fees be paid to Northgate Capital or other service providers.

### *Incentive Fees*

In addition to the management fee, the GP Entities may receive an incentive allocation of a portion of a Fund’s profits. The incentive allocation is based on the performance of the investments made by the Fund above the capital returned to the investors.

See Item 6 for further discussion of incentive performance fees.

The Funds generally pay management fees quarterly in advance, with appropriate reimbursements for any partial periods. Incentive allocations are paid to the GP Entities as proceeds are realized from Fund investments.

The amount and duration of the management fee and incentive allocation are set prior to the commencement of a Fund’s term and are not cancelable except for cause and by a vote of the limited partners. The management fee paid to the GP Entity by the Fund typically parallels the amount paid by the GP Entity to Northgate Capital in terms of amount and timing. However, the incentive allocation is paid directly to the GP Entity from the Fund, and the GP Entity, in turn, distributes the incentive allocation to the owners of the GP Entities. Infrequently, certain Fund investors may negotiate a lower or special management fee or incentive allocation.

### *Redemption Fees*

Investors will generally only be permitted to withdraw from the Funds with the GP Entities’ consent. Under certain circumstances, including the failure to pay timely capital calls, investors in the Funds may have their interests

liquidated, resulting in the forfeiture of a portion of their contributions, as disclosed in the respective Fund's offering documents.

#### *Other Fees and Expenses*

An investor in a Fund will also be subject to a pro-rata allocation of organization, syndication, due diligence and other operating expenses of the Fund, including audit and tax preparation fees, other professional fees, interest expense, and brokerage commissions on securities distributed from the Portfolio Funds. Typically, there are specified limits for the amount of organization and syndication costs that may be charged.

It is important to note that when a Fund has made an investment in a Portfolio Fund, the Portfolio Fund generally pays management fees and performance fees to its investment manager. Therefore, an investor in a Fund may effectively pay two levels of advisory fees in connection with its investment in a Fund. The investor will be charged a management fee (and bear an incentive allocation, if applicable) and will bear its pro rata portion of any fees and expenses associated with the Fund's investment in an underlying Portfolio Fund.

## **Item 6: Performance-Based Fees and Side-By-Side Management**

For certain Funds, the GP Entities receive an incentive allocation, or carried interest, which is generally a percentage of the profits generated after exceeding a relevant comparable public equity index, often referred to as the hurdle return. For Funds investing in direct private equity investments, the carried interest structure is generally a percentage of the profits generated. Northgate Funds may charge both a management fee and include an incentive allocation feature.

Performance-based fee arrangements may create an incentive for Northgate to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangement may also create an incentive to favor higher fee paying Funds over other Funds in the allocation of investment opportunities. Northgate has procedures designed to treat Funds fairly and equitably to prevent the inappropriate allocation of investment opportunities among the Funds.

In order to aggregate the investment interests of a specific group of limited partners, certain Northgate partnerships invest in other Northgate-managed Funds. Northgate Capital does not receive any additional fees or incentive allocations than what they would have received if the underlying limited partners had invested directly in the underlying Northgate partnerships.

Northgate has investment discretion over multiple Funds, many of which are similarly structured vehicles. This may create a conflict where Northgate could favor a Fund with a carried interest over another Fund. Northgate structures its LPAs to provide protections for Limited Partners in the event that a conflict of interest does arise. For example, Northgate generally prohibits investments by new Funds in securities that meet the investment criteria of existing funds. Managing Directors and employees are also generally prohibited from investing in underlying partnerships or private companies that meet the investment criteria for actively investing Funds, except for their ownership in the Fund as a member of the GP Entity. Certain exceptions can be made to this procedure when they are judged not to be a material conflict of interest with an existing Fund.

## Item 7: Types of Clients

As noted in Item 4, Northgate Capital provides investment management and administrative services to limited liability companies that are the GP Entities to private equity Funds. Northgate Capital, in its role as an advisor to the Funds and NC, as a GP Entity, consider the Funds themselves to be their clients; the investors in the Funds are not deemed to be their clients, except to the extent the federal securities laws require that it treats the investors in the Funds as their clients. Investors in the Funds are generally institutional clients such as public and private pension plans, foundations, endowments, trusts, family offices, corporations and certain high net worth individuals.

The LPAs generally impose a minimum capital contribution for investors who commit capital to the Fund. These minimums are generally \$1 million, although they may be waived in whole or in part by the relevant GP Entity.

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

### Methods of Analysis and Investment Strategies

Northgate's underlying investment philosophy rests on the fundamental belief that the most compelling reason to invest in venture capital or private equity is to seek meaningful outperformance relative to public equity alternatives. The GP Entities structure their sourcing, due diligence, execution, and portfolio monitoring process with the purpose of maximizing performance while minimizing the risk of capital loss.

With the primary goal of generating returns that represent significant outperformance relative to the public equity alternatives the GP Entities will, in general, seek to invest in top performing Portfolio Funds managed by seasoned professionals that, in many cases, are difficult for new investors to access. The GP Entities may also invest in secondary investments in funds on an opportunistic basis or may co-invest in a limited number of private equity company financings.

For venture capital, Northgate's investment selection process is based on the thesis that, where available, the majority of the portfolio should be allocated to Portfolio Funds based on historical performance. Globally recognized, top-tier Portfolio Funds should have deployed repeatable strategies that have delivered top quartile performance across several investment cycles by developing access to a wide network of technological experts and industry leaders who can provide value to their Portfolio Fund's companies; identified and capitalized on emerging, next-generation technologies; and, demonstrated an ability to access broader capital markets to assist companies that are ready for exit. A minority portion of a Fund may be allocated to upcoming Portfolio Funds that exhibit the same potential for repeatable outperformance.

For private equity, Portfolio Fund selection criteria includes analysis of wealth creation opportunities and strategies of fund managers, especially as it applies to their ability to implement corporate transformations; identification of risks and challenges facing fund managers resulting from their geographic location, industry focus, or management team; and the thorough evaluation of underlying portfolio companies. Successful private equity firms can be catalysts and leaders of corporate transformations by providing their portfolio companies with powerful strategies, implementation processes, relationships with potential customers and suppliers, and executive mentoring.

Direct private equity investments are made through a systematic approach where Northgate is able to utilize information and/or the diligence of the underlying Portfolio Funds to identify investment opportunities into companies where there is a compelling potential for achieving outsized risk-adjusted return.

Operational due diligence and on-going portfolio monitoring is conducted through interviews, onsite visits and data analysis. The operational due diligence and monitoring process leverages the resources of the Northgate investment professionals, accounting staff, external auditors and counsel as well as other strategic limited partners. Information captured during the process often includes: an overview of the firm's fund valuation methodologies, compliance and legal policies, descriptions of risk management controls, business continuity plans, cash management procedures, review of quarterly reports, and any other transaction and operational-related documentation.

#### Risk of Loss

Northgate defines risk as the potential for capital loss and underperformance. **An investment in a Northgate Fund involves a high degree of risk and is suitable only for investors of substantial means who have no immediate need for liquidity of the amount invested, and who can afford a risk of loss of all or a substantial part of such investment.** There is no assurance that the Funds' investments will be profitable and there is a substantial risk that the partnership's losses and expenses will exceed its income and gains.

There is no assurance that any of the portfolio company investments made by the Portfolio Funds or the investments made through direct private equity investments will be successful. Identifying and participating in attractive investment opportunities and assisting in the building of successful enterprises is difficult. It is possible that there will be little or no publicly available information pertaining to the status and prospects of the private portfolio companies. Many investment decisions by the GP entities or a Portfolio Fund will be dependent upon the ability of its members and agents to obtain relevant information from non-public sources, and the GP Entity or the Portfolio Fund may be required to make decisions without complete information or in reliance upon information provided by third parties that is impossible or impracticable to verify. The marketability and value of each investment will depend upon many factors beyond the GP Entity's control.

While globalization continues to create attractive new emerging market investment opportunities; emerging market investing has its own unique systemic risks. These risks emanate from the countries' fragile institutional fabrics, histories of inconsistent and inefficient economic policies, agency failures, and vulnerability of production and financial activities to external shocks, including foreign currency exchange fluctuations.

Northgate believes that risk and performance management of the Funds should start before a commitment is made and continue through maturity and exit. A Fund's risk and performance is identified, measured, and managed as a combination of market, investment, and operational risks. Despite Northgate's efforts in this regard, no assurance can be given that such risks will be handled effectively by the GP Entity of the Fund.



## Item 9: Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of the investment adviser or the integrity of its management.

Northgate has no disciplinary matters required to be disclosed under this Item.

## Item 10: Other Financial Industry Activities and Affiliations

A registered investment adviser is required to disclose whether it or any of its management persons are registered, or have an application pending to register, as a (a) broker-dealer or a registered representative of a broker-dealer, or (b) futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities. Neither Northgate Capital nor any of its management persons are registered as such or have any application for such registration pending.

As disclosed in Item 4 above, RGAM, a U.S. registered investment adviser, owns a majority stake in Northgate Capital. RGAM also owns an equity stake in the GP Entities formed after 2011.

Northgate Capital, L.L.C. and Northgate Capital, L.P., the Management Companies, provide investment management and administrative services to the GP entities and are also registered investment advisers.

Northgate Capital, L.T.D. is an affiliated investment adviser located in the United Kingdom and is registered with the Financial Services Authority. Northgate Capital Asia Limited, a wholly-owned subsidiary of Northgate Capital, LLC, was incorporated in Hong Kong in November 2010. Northgate does not generally compete with, cause the Funds to engage or pay, or otherwise have conflicts of interest with these affiliates, which may provide resources or marketing opportunities for the Funds.

The Managing Directors invest in vehicles referred to as the "Partners Funds," which are investment vehicles for the principals of Northgate, friends, family members, and other strategic limited partners. The Partners Funds are generally prohibited from investing in private securities or the securities of private equity funds which could be allocated to Funds pursuant to the Fund's investment criteria. Certain exceptions can be made to this procedure when they are judged not to be a material conflict of interest with an existing Fund. In one Fund, which has broad investment parameters, an allocation protocol is followed before the Partners Funds are allowed to invest in securities that meet its investment criteria. In most Funds, the prohibition may be waived by a supermajority vote of the Fund's advisory committee, which is comprised of limited partners who have been appointed by the general partner of the Funds.

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

Northgate adheres to the principle of maintaining the highest ethical standards in its business practices and investing process. The firm adopted a *Code of Ethics and Policy on Personal Securities Transactions and Insider*

*Information* (the “**Code**”). Northgate also maintains a compliance policy and procedures manual and periodically performs steps to ensure that all employees are in compliance with the Code and policies and procedures.

Generally, the Code applies to all partners, directors, officers, and employees of the firm. The Code further defines additional requirements which apply just to individuals who provide investment advice and to other individuals who have access to client activity or are involved in making investment recommendations to clients.

In general, the purpose of the Code is to (i) define the standards of business conduct, (ii) put in place certain reporting requirements and (iii) ensure safeguarding of proprietary and non-public information. The Code reflects the firm’s view on dishonesty, self-dealing, conflicts of interest and trading on material, non-public information. In addition, the Code and compliance manual address the firm’s policy on gifts, entertainment and political contributions and other conflicts of interest.

Northgate personnel who are involved in the process of providing investment advice are prohibited under the Code from taking any action including, but not limited to, the purchase or sale of securities, commodities or futures related account that could cause even the appearance of unfair or improper action. The Code requires that such personnel provide statements of all trades qualifying for disclosure on a quarterly basis and prohibits investing in initial public offerings or private placements (limited offerings) without first obtaining approval from the Chief Compliance Officer. The firm maintains a restricted list (the “**Restricted List**”) of securities that identifies all securities actively being traded by a Fund and the period that the restriction is in place. The Restricted List will also contain any securities for which Northgate is in possession of material, non-public information, or any tradable, unrestricted securities that the Funds are currently holding or which the GP Entities are currently analyzing or recommending to the Funds.

Employees who violate the Code are subject to disciplinary action including, but not limited to, written warnings and termination of employment.

Investors or prospective investors in a Fund may request a copy of the Code by contacting the Chief Compliance Officer.

## **Item 12: Brokerage Practices**

As a private equity investor, while the Funds generally do not buy publicly traded securities, they may receive distributions of registered securities.

Northgate selects brokerage firms to liquidate or distribute securities that become tradable in public markets. These transactions may be done in large block transactions or in smaller trades over a period of time. The Funds’ GP Entities will choose brokers and dealers and negotiate commission rates on behalf of the Funds. Selection of brokers is based upon a number of factors, including trading execution capabilities, commissions charged, experience handling private equity transactions, customer services capabilities, and back-office support.

Northgate has not entered into any “soft-dollar” arrangements with brokers or dealers. A “soft dollar” arrangement is an arrangement whereby an investment adviser directs client brokerage, or pays higher commissions, to a particular broker-dealer in return for research or other services from such broker-dealer.

Most commonly the Funds' GP Entities will use brokers primarily to sell the securities distributed to the Funds from Portfolio Funds or direct private equity investments that have become exchange-listed. Northgate monitors the commission rates received from distributing brokers to determine that they are reasonable. Sometimes these commissions are higher than obtainable elsewhere as the broker is providing additional administrative support. If Northgate determines that the commission rates received from the distributing broker are inappropriate, it will attempt to negotiate the rates or will seek execution from other brokers.

Northgate does not enter into "directed brokerage" arrangements, whereby a client of an investment adviser instructs the adviser to direct a portion of its brokerage transactions to a particular broker-dealer.

## **Item 13: Review of Accounts**

### *Account Reviews*

The members of the GP Entities (generally, the Managing Directors) are responsible for continually reviewing and monitoring activity within the Funds, Portfolio Funds, and direct private equity investments. Portfolio Funds generally provide a written report and financial statements on a quarterly basis for the firm's review. All investments are reviewed not less than on a quarterly basis. An amendment to a Portfolio Fund limited partnership agreement will also trigger a review of the Fund, as will a significant public transaction.

Generally, Northgate will review quarterly the Funds for cash or securities that are available for distribution. Similarly, on a quarterly basis, Northgate reviews the Funds to assess the need to call capital from limited partners and the GP Entity.

### *Investor Reports*

Written portfolio reports are prepared for all Funds. Northgate issues reports to limited partners of the Funds on a quarterly basis, as provided in the Funds' LPAs. These reports include statements of capital balance, financial statements for the Funds, and, where applicable, investor analysis reports.

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

From time-to-time, Northgate Capital may enter into arrangements with placement agents ("Placement Agents") whereby they are compensated for referring investors to the Funds. Fees for such placement services are paid exclusively by Northgate Capital or the GP Entities and not by investors in the Funds. Generally, placement fees are calculated based on a percentage of the assets invested by an investor that was referred by the Placement Agent.

Referred investors to the Funds should be aware of inherent conflicts of interest between Northgate Capital and them with respect to the Placement Agent arrangement described above. Placement Agents may refer potential investors to the Funds because they will be paid a fee and not because the Funds provide appropriate investment strategies or are suitable for the investor. In turn, Northgate Capital earns management and incentive fees from

these investors which may be higher than what they might pay another investment manager or collective investment vehicle.

Northgate does not expect to generate any fees for services including: commitment, break-up, directors, officers, advisory and management fees paid by a portfolio company that would not, if earned directly by the Partnership, cause the Partnership to cease to qualify as an "investment partnership" within the meaning of Section 731(c)(3)(C) of the United States Internal Revenue Code. However, in the event that a GP Entity (or any GP Related Person) was to receive any commitment, break-up, directors, officers, advisory and management fees, then such fees would be subject to 100% offset against future management fees payable to the Fund.

## **Item 15: Custody**

Northgate is deemed to have custody of the Funds' assets which are primarily limited partnership interests in Portfolio Funds, direct private equity companies, or member interests in private limited liability companies. Such interests do not lend themselves to custody by qualified custodians and are typically not transferrable without the consent of the Portfolio Fund's GP Entity. Thus the formal records of the Funds' ownership typically reside with those Portfolio Funds. Northgate maintains records of the Funds' interests on its portfolio accounting system.

All client assets in the form of cash or liquid securities are held by banks or regulated brokerage firms, which provide monthly statements to the Funds. Northgate compares the bank or brokerage statements with internal records and reconciles any discrepancies.

Most Funds are audited annually by an independent auditor registered with and subject to regular inspection by the Public Company Accounting Oversight Board. Copies of the Funds' audited financial statements, prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") are distributed as required to the Funds' respective investors, unless doing so would violate non-disclosure agreements with the Portfolio Funds.

Upon the final liquidation of a Fund, the firm will obtain a final audit and will distribute audited financial statements prepared in accordance with GAAP to all Fund investors promptly after completion of the audit.

## **Item 16: Investment Discretion**

The GP Entities have discretion to make investment decisions for their Funds, subject to investment criteria or other restrictions and limitations set forth in the LPAs or other organizational documents of the Funds.

## **Item 17: Voting Client Securities**

As Northgate primarily invests in private funds and securities, there generally will be few instances where proxies are required to be voted. In these instances, Northgate has the authority to vote on matters relating to, or give approval/consent to matters proposed by a proxy vote. Northgate's policy is to vote proxies in the best interest of the Funds with a view to maximize value.

Northgate will provide, at no cost, a copy of its proxy voting policies and will provide investors in the Funds with information regarding how proxies were voted by contacting the Chief Compliance Officer.

## **Item 18: Financial Information**

Registered investment advisers are required in this Item 18 to provide certain financial information or disclosures about their financial condition.

Northgate is not required to provide a balance sheet as it (i) does not solicit fees more than six months in advance, (ii) does not have a financial condition that is likely to impair its ability to meet contractual commitments to clients, and (iii) has not been subject to any bankruptcy proceeding during the past 10 years.