

**CAMBRIDGE FINANCIAL SERVICES GROUP, INC.**  
**ADV FORM PART 2**  
**BROCHURE**

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This Brochure provides information about the qualification and business practices of Cambridge Financial Services Group, Inc. If you have any questions about the contents of this Brochure, please contact (203) 869-0033 and/or [info@cambridgegroup.net](mailto:info@cambridgegroup.net). 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 Cambridge Financial Services Group, Inc. also is available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **MATERIAL CHANGES**

There are no material changes to report since our last annual update on March 2010.

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## **ADVISORY BUSINESS**

### **A. Firm Description**

Cambridge Financial Services Group, Inc. ("CFSG") was originally formed in 1985 as part of the Cambridge Financial Services Group of companies which was originally established in 1983. CFSG is owned by Elk Enterprises Limited Partnership, a family partnership related to Ernest A. Liebre, CFSG's Managing Director.

### **B. Description of Services**

Cambridge provides investment advisory services to institutional clients and to high net worth individuals. Institutional clients predominately consist of qualified retirement plans but extend to foundations and endowments, insurance captives and cash corporate management programs. Cambridge strives to provide each of its clients with ethical and independent Investment Advisory support programs which best satisfy their needs. Drawing upon executives who have attained successful, in-depth line management and legal experience with a variety of major corporations, our clients always have access to reliable and well-considered solutions. Our professional expertise encompasses the areas of investment advisory services for ERISA retirement programs, foundations, endowments, insurance captives, and cash management programs. As a fiduciary, our role is to assist the clients to discharge their fiduciary responsibilities and provide evidence that their responsibilities are being held to the highest fiduciary standards.

### **C. Tailored Services**

Cambridge conforms to prudent investment practices and tailors its services according to a client's investment policy statement. Cambridge can also assist a client to develop an investment policy statement according to the client's investment goals and risk tolerance, incorporating, where appropriate restrictions on the types of securities in which the client's funds may be invested.

### **D. Wrap Fees**

Cambridge provides its services on a fee only basis and does not offer a wrap fee arrangement.

### **E. Non-Discretionary Adviser**

As of December 31, 2010, Cambridge was responsible for \$2,110,513,654.00 in assets. All are managed on a non-discretionary basis. With respect to \$94,575,310.00 Cambridge performs asset allocation services on behalf of a 401(k) plan client, whereby, using investment funds selected by the client, Cambridge constructs portfolios offered to plan participants to meet different risk and return objectives. In some cases, Cambridge will accept clients on a discretionary basis. For example, Cambridge will accept authority to implement transactions on behalf of a client for the limited purpose of rebalancing a portfolio to an asset allocation approved by the client. Such authority is limited to

implementing transactions within an account but does not extend to removing cash or securities.

## **FEES AND COMPENSATION**

### **A. Compensation Description**

Cambridge is compensated in a variety of ways depending on the nature of the client, the nature of the engagement, the assets involved and the time required to complete the engagement. The fee arrangement is negotiated in all cases after completing data gathering and due diligence and will take the form of one of the following arrangements:

#### **a. fixed fees**

Cambridge's fees for institutional clients are generally based on the size of the portfolio(s) with respect to which Cambridge will provide services. Fees to individuals with significant net worth may also be charged on this basis. However, fees are established on a negotiated basis following discussion with prospective clients.

Once established, fees increase automatically each year by reference to increases in the Consumer Price Index (CPI) but do not vary based on changes in the value of assets under advisement.

#### **b. Hourly Fees**

Cambridge charges hourly fees ranging from \$100 to \$750 per hour depending on the nature of the engagement. Fees based on hourly rates are charged to individual clients by agreement and in lieu of fees based on assets under advisement. Fees are charged to institutional clients on hourly basis for ad hoc projects.

#### **c. Contribution based fees**

Fees to retirement plan clients, if not based on fixed fees, will be based on annual contributions

#### **d. Asset Based Fees**

In certain cases, Cambridge will charge fees as a percentage of assets under advisement. This type of arrangement will be offered to clients reasonably believed to have a net worth in excess of \$1 million.

#### **e. Commissions**

Certain Cambridge executives are licensed to sell securities through Cadaret, Grant & Co., Inc., a broker/dealer ("Cadaret"). This enables Cambridge to accept as compensation a share of commissions generated from the sale and purchase of securities or the sales charges for other investment products where the transactions are conducted through Cadaret. However, Cambridge retains commissions only from transactions conducted on behalf of clients who have agreed to compensate Cambridge through commissions. All clients are free to select any broker through whom to transact securities business and if such other clients choose Cadaret for such purpose, Cambridge offsets its other fees payable such other clients by its share of commissions earned from Cadaret.

**f. Conflicts of Interest**

Arrangement under which Cambridge earns and retains commissions from securities transactions on behalf of a client may create an incentive for Cambridge to recommend investment products based on the compensation received rather than the client's needs. Cambridge manages this conflict of interest by fully disclosing the conflict of interest and the alternative products available to meet the client's needs and the sales charges and fees associated with such other products. Where no-load products are involved, a client is informed that there will be two levels of fees, that is, an advisory fee to Cambridge and a fee to the fund manager.

## **PERFORMANCE-BASED FEES**

Cambridge does not charge performance-based fees, that is, fees based on a share of capital gains on or capital appreciation of the assets of a client.

## **TYPES OF CLIENTS**

As described elsewhere, Cambridge provides advisory services to institutional clients and to high net worth individuals. Institutional clients predominately consist of qualified retirement plans (pension plans) but extend to foundations and endowments, insurance captives and cash corporate management programs.



## **METHODS OF ANALYSIS INVESTMENT STRATEGIES RISK OF LOSS**

### **A. Methods of Analysis**

Cambridge employs Modern Portfolio Management Techniques which are concerned with investment analysis, portfolio design, and performance evaluation. These methods express quantitatively our views regarding risk and its relationship to investment return. They focus attention on the overall composition of the portfolio rather than the traditional method of analyzing and evaluating the individual components. As an Investment Adviser, we are therefore able to examine and design portfolios predicated on explicit risk-reward parameters and on the identification and quantification of portfolio objectives.

Most investment professionals focus their attention on the evaluation and selection of specific issues rather than on the portfolio as a whole. It is a common belief that skilled professionals, with their financial resources and information gathering abilities, should be able to consistently "beat the markets". It is assumed that this can be done with sophisticated securities analysis and selection, and by adroitly timing moves in the markets. This assumption is further predicated on the concept that markets are inherently inefficient, thereby allowing investors with superior skills in selecting issues and timing markets to outperform benchmarks of market performance.

To some degree the markets are inefficient. For example, equities with low price-to-earnings ratios tend to outperform equities with high price-to-earnings ratios over time. This may result from an absence of sufficient information regarding those securities, an indifference towards the specific issues, or an absence of a large analytical following. In most cases the information is readily available, however, only a relative few investors are willing to take the time to evaluate it. Therefore, in a few cases, perseverance and superior analytical skills may provide above average returns.

Most academic and industry research supports the concept that markets, at least in the broadest sense, are efficient. Asset classes, (i.e. equities, fixed income, and real estate) are generically efficient. The nature of efficient markets is such that all participants have the same information regarding the markets in general, and specific issues in particular, at the same time, although they may come to opposite conclusions as to an appropriate price for individual securities. In an auction market such as the New York Stock Exchange, buyers and sellers meet to find mutually acceptable values for securities. The buyer believes that the security is worth more than the money, while the seller believes that the money is worth more than the security. In most cases the buyer and the seller are equally well informed and have virtually instantaneous access to all publicly available information

concerning the value of the security. In such a market it is generally believed that transaction costs associated with active management will result in below-average performance. It is, perhaps, ironic that the sophistication of money managers and their virtually instantaneous access to information creates greater efficiency in the marketplace, thereby making above-average returns extremely difficult to achieve.

With the foregoing in view, Cambridge provides an asset allocation that best fits a client's return objectives and risk tolerances. Many of our clients are risk adverse and seek a professionally constructed allocation with traditional investments. For example, our dynamic long-term strategic asset allocation for pension plans utilizes historical data (mean rates of return, standard deviations and covariance) in an attempt to understand how the asset has performed and is likely to perform over long periods of time. The goal is not to "beat" the market, but to establish a long-term investment strategy using a core mix of assets. This is embodied in the quantitative aspect of asset allocation. We then look at the realities of today's economic and investment environment to strategize the approach and timing of this optimal allocation. Cambridge believes that this is an integral process and the art of asset allocation.

## **DISCIPLINARY INFORMATION**

Neither Cambridge nor any management person has been the subject of any disciplinary action resulting from criminal, civil or administrative proceedings or proceedings before any self-regulatory organization. A Cambridge affiliate and Cambridge's Managing Director were named as co-defendants in a civil law suit filed in 2007 by a former client against an asset manager recommended by the Cambridge affiliate. The claims against the Cambridge affiliate and Cambridge's Managing Director were settled in July 2009 without any admission or finding of wrongdoing and the claims were subsequently dismissed with prejudice.

## **OTHER FINANCIAL ACTIVITIES AND AFFILIATIONS**

### **A. Broker/Dealer Affiliation**

Ernest A. Liebre, Maria E. Barbieri and Francia Alvarez are registered representatives of Cadaret, Grant & Co., Inc., a broker/dealer with its principal office at One Lincoln Center, Syracuse, NY 13202.

### **B. Commodities**

Neither Cambridge nor any management person is registered or has an application pending to register as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

### **C. Material Other Relationships**

Other than the relationship with Cadaret Grant & Co., Inc. mentioned above, and the relationships disclosed below, neither Cambridge nor any management person has any relationship with any other broker/dealer, investment company or pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund”, and offshore fund), futures commission merchant, commodity pool operator, or commodity trading advisor, banking or thrift institution, accountant or accounting firm, insurance company or agency, pension consultant, real estate broker or dealer, sponsor or syndicator of limited partnerships.

Cambridge is under common control with the following entities:

- i. Cambridge Benefit Planners, Inc. – an insurance consulting and brokerage firm with respect to group health insurance and individual life insurance programs.
- ii. Cambridge Financial Services, Inc. – a SEC Registered Investment Adviser
- iii. Cambridge Fiduciary Services, LLC – a fiduciary assessment firm to plan sponsors, asset managers and investment consultants.
- iv. Cambridge Corporate Services, Inc. – a consulting firm providing general business consulting services not otherwise provided by the other Cambridge companies listed.

### **D. Recommending Other Investment Advisors**

Cambridge does not recommend or select other investment advisors for which it receives compensation, directly or indirectly.

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

### **A. Code of Ethics**

As required by Rule 204A -1 of the Investment Advisors Act of 1940, Cambridge has adopted a code of ethics which is applicable to officers and directors of the firm, investment advisor representatives and all other employees. The Code of Ethics reflects that Cambridge owes a fiduciary duty to its clients to act in the utmost good faith to act solely in the best interests of its clients and to make full and fair disclosure of all material facts, where Cambridge's interests may conflict those of a client. This fiduciary duty is the core principal underlying the Code of Ethics.

The Code of Ethics includes provisions that require Cambridge and its employees to:

- Comply with applicable state and federal securities laws prohibiting fraudulent activity and making untrue statements of material facts;
- Protect material non-public information coming into their possession;
- Refrain from involvement in securities transactions undertaken with knowledge of material non-public information and from securities transactions that would conflict with a client's best interests and that to report their securities transactions and holdings to be maintained on file;
- Refrain from unethical trading practices:
- To report to management violations of the code.

A copy of the Code of Ethics is available upon request from any client or prospective client.

### **B. Material Financial Interest in Securities**

If Cambridge or a person associated with it should have a material financial interest in any securities, Cambridge will disclose that fact to any clients prior to recommending, purchasing or selling such securities to or on a behalf of a client.

### **C. Participation in Client Transactions**

Cambridge or individuals associated with Cambridge may buy or sell securities identical to those recommended to or bought and sold by clients. It is the express policy of Cambridge that no person employed by Cambridge may purchase or sell any security prior to a transaction being implemented for the account of a client, and therefore, preventing such employees from benefitting from transactions placed on behalf of clients.

## **BROKERAGE PRACTICES**

### **A. Recommending Broker/Dealers**

As indicated earlier, Cambridge has a relationship with Cadaret, Grant & Co., Inc. by virtue of certain persons associated with Cambridge being registered representatives of that firm. However, clients of Cambridge are generally free to implement recommendations made by Cambridge through any broker they choose which may include Cadaret Grant & Co., Inc. Cambridge, however, makes no recommendation with respect to such choice except where the client chooses to compensate Cambridge through the payment of commission, in which case all securities transactions on behalf of such client will be effected through Cadaret Grant & Co., Inc. Typically, Cambridge does not recommend individual securities but will recommend bond and mutual fund investments. Bonds are traded subject to fully disclosed commissions and transaction costs. Mutual fund shares are traded in accordance with the issuer's prospectus.

### **Research and Soft Dollar Benefits**

Cambridge receives no research or other products or services other than execution from any broker/dealer or third party in connection with client securities transactions ("soft dollar benefits").

### **Brokerage for Client referrals**

Cambridge receives no client referrals from a broker/dealer or third party.

### **Directed Brokerage**

Cambridge does not recommend, request or require that a client direct Cambridge to execute transactions through a specified broker/dealer unless such client chooses to select Cadaret Grant & Co., Inc. By using Cadaret Grant & Co., Inc. Cambridge may be unable to achieve best execution and this may cost clients money through higher brokerage commissions or the client may receive less favorable prices.

### **B. Aggregating transactions**

Where Cambridge has the opportunity, it will aggregate orders on behalf of clients if aggregation will reduce brokerage commissions or result in pricing more favorable to the client.

## **REVIEW OF ACCOUNTS**

### **A. Periodic and Other Reviews**

Cambridge recommends that all clients submit to a complete review of their account every 12 months or sooner, if their personal circumstances have been materially altered. The review will be performed by a senior executive.

Typically, Cambridge reviews the accounts of institutional clients on a quarterly basis.

### **B. Reporting**

Clients receive a quarterly report which is customized according to their investment policy statement but which generally includes their portfolio allocation, performance analysis using benchmark and peer comparison, watch list analysis according to Cambridge's proprietary Manager Monitor Analysis™, and Cambridge's recommendations and report of activity since the prior report.



## **CUSTODY**

Cambridge does not take custody of client funds or securities or have authority to remove cash or securities from the possession of a custodian who holds assets on behalf of a client which are managed at Cambridge's direction.

## **INVESTMENT DISCRETION**

In rare circumstances, Cambridge will manage assets on a discretionary basis on behalf of a client. Such discretion will be limited to exercising management discretion over assets in a segregated account maintained with a custodian selected by the client and without Cambridge having any authority to remove funds or securities held in such account. Discretion will be exercised according to an investment policy approved by the client and the terms agreed in an investment advisory services agreement.

## **VOTING CLIENT SECURITIES**

Cambridge does not accept authority to vote client securities. Clients should expect to receive proxies and other solicitations directly from their custodian or transfer agent. Clients may contact Cambridge by telephone or email if they have questions about a particular solicitation.

## **FINANCIAL INFORMATION**

Cambridge bills in arrears for its services and does not require or solicit prepayment in advance.