

## **Appendix C. Hedge Funds**

### Background

During 2005, the Foundation Board approved a 15% allocation to hedge funds. This allocation was managed by two consultants, Cambridge Associates and Morgan Stanley. Each portfolio held approximately 20-25 funds. The majority of the funds were invested in foreign blocker funds, funds held overseas, to protect the Foundation from UBTI. A couple of the funds were invested in domestic partnerships, Man-AHL and Farallon, and a Schedule K-1 was received. These two funds were held in the Morgan Stanley hedge fund portfolio. During 2012, the Foundation Board terminated Morgan Stanley and reduced the hedge fund allocation to 10%. Redemption requests were submitted during the second quarter of 2012. The majority of the funds were redeemed by year end. As of December 31, 2012, the Cambridge portfolio held approximately 20 funds.

The following discussion provides a summary of tax reporting received from hedge funds, as well as a summary of the preparation of additional tax forms related to the Foundation's hedge fund investments.

As indicated earlier, only two of the Foundation's hedge fund investments provide annual tax information on a K-1. Other hedge fund investments provide no annual tax reporting. K-1 information is entered into the hedge fund tab of the K-1 summary spreadsheet, then included in one adjustment to income reported on the Foundation's Form 990-PF. Appendix A includes a more complete description of the K-1 process.

During preparation of the tax return each year, the Accountant reviews the year's Transaction Detail report for the Foundation's hedge fund account(s). Among other transactions, this report details any additional hedge fund subscriptions during the year as well as redemptions and distributions from the Foundation's hedge fund investments. This report is used in a number of ways. First, the Accountant notes the subscriptions, listed as purchases on the report. The purchase information includes new hedge fund subscriptions as well as additional subscriptions made during the year. The Accountant prepares a Form 926 or Form 8865 for each hedge fund for which there was a purchase transaction during the year. Which form is filed depends on the structure of the hedge fund investment; partnerships require the filing of Form 8865, while corporations require the filing of Form 926.

For completion of Form 926, standard responses for Parts I and IV are included in the attached form. Information for Part II is collected from the subscription documents. Note that the response to Part II, Question 8 is No, and the wording "See Statement 1" is included. Statement 1 is attached to all hedge fund Forms 926, and a copy is included in Appendix B. The purchases transaction information in the Transaction Detail report is used to complete Part III of Form 926.

Form 8865 has not been required for any of the Foundation's hedge fund investments to date. However, the form would be completed using the subscription documents for the hedge fund, as well as the purchase information included in the Transaction Detail report. Form 8865, Schedule O would need to be filed to detail the purchase transaction.

Whether or not a hedge fund provides annual tax reporting information, it may provide information indicating that additional forms need to be filed related to the investment. For example, the Foundation filed one Form 8621 for the 2011 tax year related to its investment in Gruss Global Investors (Enhanced), Ltd. Appendix B contains more detailed information regarding the additional forms that the Foundation files.

The Transaction Detail report is also used to identify the distributions and redemptions that occurred during the year. These are reviewed to determine the tax impact, if any, of the redemption or the distribution. In the case of distributions, Foundation staff may need to follow up with the contact at the hedge fund to determine tax treatment. In the cases of a partial or full redemption, the Foundation staff need to determine whether there is any gain or loss to be recognized on the tax return. Depending on the cost basis of the investment and the amount received upon redemption of the hedge fund investment, the Foundation may realize a gain or a loss upon disposition.

Information regarding the cost basis tracking of the Foundation's hedge fund investments is available at the discussion titled Cost Basis Tracking.

# Return by a U.S. Transferor of Property to a Foreign Corporation

OMB No. 1545-0026

Attachment  
Sequence No. **128**

▶ Attach to your income tax return for the year of the transfer or distribution.

## Part I U.S. Transferor Information (see instructions)

Name of transferor <b>The Lynde and Harry Bradley Foundation, Inc.</b>	Identifying number (see instructions) <b>39-6037928</b>
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**1** If the transferor was a corporation, complete questions 1a through 1d.

- a** If the transfer was a section 361(a) or (b) transfer, was the transferor controlled (under section 368(c)) by 5 or fewer domestic corporations? ☐ Yes ☒ No
- b** Did the transferor remain in existence after the transfer? ☒ Yes ☐ No  
If not, list the controlling shareholder(s) and their identifying number(s):

Controlling shareholder	Identifying number

- c** If the transferor was a member of an affiliated group filing a consolidated return, was it the parent corporation? ☐ Yes ☒ No  
If not, list the name and employer identification number (EIN) of the parent corporation:

Name of parent corporation	EIN of parent corporation

- d** Have basis adjustments under section 367(a)(5) been made? ☐ Yes ☒ No

**2** If the transferor was a partner in a partnership that was the actual transferor (but is not treated as such under section 367), complete questions 2a through 2d.

- a** List the name and EIN of the transferor's partnership:

Name of partnership	EIN of partnership

- b** Did the partner pick up its pro rata share of gain on the transfer of partnership assets? ☐ Yes ☒ No
- c** Is the partner disposing of its **entire** interest in the partnership? ☐ Yes ☒ No
- d** Is the partner disposing of an interest in a limited partnership that is regularly traded on an established securities market? ☐ Yes ☒ No

## Part II Transferee Foreign Corporation Information (see instructions)

<b>3</b> Name of transferee (foreign corporation)	<b>4</b> Identifying number, if any
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**5** Address (including country)

**6** Country code of country of incorporation or organization (see instructions)

**7** Foreign law characterization (see instructions)

**8** Is the transferee foreign corporation a controlled foreign corporation? ☐ Yes ☒ No See Statement 1

**Part III** Information Regarding Transfer of Property (see instructions)

Type of property	(a) Date of transfer	(b) Description of property	(c) Fair market value on date of transfer	(d) Cost or other basis	(e) Gain recognized on transfer
Cash	X/XX/XXXX		\$\$\$,\$\$\$\$		
Stock and securities					
Installment obligations, account receivables or similar property					
Foreign currency or other property denominated in foreign currency					
Inventory					
Assets subject to depreciation recapture (see Temp. Regs. sec. 1.367(a)-4T(b))					
Tangible property used in trade or business not listed under another category					
Intangible property					
Property to be leased (as described in final and temp. Regs. sec. 1.367(a)-4(c))					
Property to be sold (as described in Temp. Regs. sec. 1.367(a)-4T(d))					
Transfers of oil and gas working interests (as described in Temp. Regs. sec. 1.367(a)-4T(e))					
Other property					

**Supplemental Information Required To Be Reported** (see instructions):

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**Part IV Additional Information Regarding Transfer of Property** (see instructions)**9** Enter the transferor's interest in the foreign transferee corporation before and after the transfer:(a) Before <2.00% (b) After <2.00%**10** Type of nonrecognition transaction (see instructions) ► N/A - Investment in offshore hedge fund**11** Indicate whether any transfer reported in Part III is subject to any of the following:

<b>a</b> Gain recognition under section 904(f)(3) . . . . .	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
<b>b</b> Gain recognition under section 904(f)(5)(F) . . . . .	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
<b>c</b> Recapture under section 1503(d) . . . . .	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
<b>d</b> Exchange gain under section 987 . . . . .	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**12** Did this transfer result from a change in the classification of the transferee to that of a foreign corporation? ☐ Yes ☒ No**13** Indicate whether the transferor was required to recognize income under final and temporary Regulations sections 1.367(a)-4 through 1.367(a)-6 for any of the following:

<b>a</b> Tainted property . . . . .	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
<b>b</b> Depreciation recapture . . . . .	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
<b>c</b> Branch loss recapture . . . . .	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
<b>d</b> Any other income recognition provision contained in the above-referenced regulations . . . . .	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**14** Did the transferor transfer assets which qualify for the trade or business exception under section 367(a)(3)? ☐ Yes ☒ No**15a** Did the transferor transfer foreign goodwill or going concern value as defined in Temporary Regulations section 1.367(a)-1T(d)(5)(iii)? ☐ Yes ☒ No**b** If the answer to line 15a is "Yes," enter the amount of foreign goodwill or going concern value transferred ► \$ \_\_\_\_\_**16** Was cash the only property transferred? ☒ Yes ☐ No**17a** Was intangible property (within the meaning of section 936(h)(3)(B)) transferred as a result of the transaction? ☐ Yes ☒ No**b** If "Yes," describe the nature of the rights to the intangible property that was transferred as a result of the transaction:

THE LYNDE AND HARRY BRADLEY FOUNDATION, INC.  
1241 NORTH FRANKLIN PLACE  
MILWAUKEE, WI 53202

39-6037928  
STATEMENT 1

The transferee corporation is an offshore hedge fund. We do not have sufficient information to determine if the foreign corporation is a controlled foreign corporation. However, we believe it is very unlikely the transferee is a controlled foreign corporation.