



**LICR FUND, INC.**

Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)



KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102

## Independent Auditors' Report

The Board of Directors  
LICR Fund, Inc.:

We have audited the accompanying financial statements of LICR Fund, Inc. (the Fund), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LICR Fund, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

May 18, 2017

**LICR FUND, INC.**

Balance Sheets

December 31, 2016 and 2015

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 440,135	363,778
Interest and dividends receivable	490,847	479,675
Other receivables	55,841	62,873
Investments (notes 3, 4, and 5)	<u>1,296,447,382</u>	<u>1,291,355,650</u>
Total assets	<u>\$ 1,297,434,205</u>	<u>1,292,261,976</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 950,355	956,883
Administrative service fees payable to affiliate (note 6)	<u>615,392</u>	<u>491,003</u>
Total liabilities	1,565,747	1,447,886
Net assets – unrestricted	<u>1,295,868,458</u>	<u>1,290,814,090</u>
Total liabilities and net assets	<u>\$ 1,297,434,205</u>	<u>1,292,261,976</u>

See accompanying notes to financial statements.

**LICR FUND, INC.**

Statements of Activities

Years ended December 31, 2016 and 2015

	<b>2016</b>	<b>2015</b>
Revenue:		
Investment income:		
Interest	\$ 1,837,172	1,695,009
Dividends	1,692,124	1,824,841
Other income	560,293	6,947
Investment income	4,089,589	3,526,797
Investment gains:		
Net realized gains on investments	57,221,057	87,797,476
Net unrealized appreciation (depreciation) of investments	5,147,157	(42,594,924)
Net investment gains	62,368,214	45,202,552
Investment expenses:		
Investment management fees	(2,198,282)	(1,982,709)
Custodian fees	(332,758)	(365,298)
Investment expenses	(2,531,040)	(2,348,007)
Net investment return	63,926,763	46,381,342
Contributions	48,367	48,272
Total revenue	63,975,130	46,429,614
Expenses and transfers:		
Administrative service fees (note 6)	(2,577,303)	(2,568,936)
Other administrative expenses	(1,014,456)	(1,239,259)
Transfers to Ludwig Institute for Cancer Research Ltd (note 1)	(55,329,003)	(57,698,414)
Total expenses and transfers	(58,920,762)	(61,506,609)
Increase (decrease) in net assets	5,054,368	(15,076,995)
Net assets – unrestricted at beginning of year	1,290,814,090	1,305,891,085
Net assets – unrestricted at end of year	\$ 1,295,868,458	1,290,814,090

See accompanying notes to financial statements.

**LICR FUND, INC.**

Statements of Cash Flows

Years ended December 31, 2016 and 2015

	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 5,054,368	(15,076,995)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Net realized gains on investments	(57,221,057)	(87,797,476)
Net unrealized (appreciation) depreciation of investments	(5,147,157)	42,594,924
Increase in interest and dividends receivable	(11,172)	(31,402)
Decrease in other receivables	7,032	9,545
Decrease in accounts payable and accrued expenses	(6,527)	(1,648,740)
Increase (decrease) in administrative service fees payable	124,389	(133,167)
Net cash used in operating activities	(57,200,124)	(62,083,311)
Cash flows from investing activities:		
Proceeds from sales of investments	438,393,978	616,657,041
Purchases of investments	(381,117,497)	(554,624,830)
Net cash provided by investing activities	57,276,481	62,032,211
Net increase (decrease) in cash and cash equivalents	76,357	(51,100)
Cash and cash equivalents at beginning of year	363,778	414,878
Cash and cash equivalents at end of year	\$ 440,135	363,778

See accompanying notes to financial statements.

## LICR FUND, INC.

Notes to Financial Statements

December 31, 2016 and 2015

### (1) Organization

LICR Fund, Inc. (the Fund) is a nonprofit corporation incorporated in the state of Delaware. The Fund was established solely to further the charitable and scientific purposes of the Ludwig Institute for Cancer Research Ltd (the Institute) by receiving, holding, and investing funds on behalf of the Institute. Funds are transferred to the Institute on a quarterly basis. The Institute is a Swiss nonprofit stock company. The Fund is a membership corporation with no authority to issue capital stock. The members of the board of directors of the Institute are the members of the Fund and constitute the board of directors of the Fund. The Fund commenced operations upon the receipt of an unrestricted gift of \$500 million on July 31, 1990, with additional unrestricted gifts of \$24 million and \$48 million received in 1991 and 1992, respectively.

### (2) Summary of Significant Accounting Policies

The significant accounting policies followed by the Fund are described below:

#### (a) *Basis of Presentation*

The financial statements of the Fund are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Fund utilizes the U.S. dollar as both the functional and reporting currency.

#### (b) *Use of Estimates*

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. The significant estimates made in the preparation of these financial statements include the fair value of alternative investments. Actual results could differ from those estimates.

#### (c) *Fair Value*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date or published net asset value for certain investments with characteristics similar to mutual funds.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement.

## LICR FUND, INC.

Notes to Financial Statements

December 31, 2016 and 2015

### **(d) Investments**

Investments with readily determinable fair values in debt and equity securities are reported at fair value based upon the last quoted market price or published net asset value for certain investment funds with characteristics similar to a mutual fund. Such investments are valued at the published net asset value.

Publicly traded investments are valued at the last reported sales price on the date of valuation, as quoted on major securities exchanges. Securities that are not traded on major securities exchanges are valued based on quotations received from leading vendors. Forward foreign currency contracts are valued based on the average of closing bid and asked quotations from banks and brokers. Pooled investments are funds that are not held at the Fund's custodian bank. These funds are part of multiple investors' commingled funds, which are invested in one or more asset classes by a fund manager. These investments are valued at their closing net asset value per share on the valuation date, which is their redeemable value.

The Fund invests in limited partnerships formed for the purpose of earning returns from alternative investment strategies. Investments in limited partnerships held by the Fund are reported at net asset value as a practical expedient for fair value, which generally represent the Fund's proportionate share of the net assets of the investee partnerships as reported by them and reviewed by management for reasonableness.

The underlying partnerships in which the Fund invests may hold nonmarketable securities, the fair value of which has been determined by the general partners of the respective partnerships. The Fund's proportionate share of net asset values may differ significantly from the fair values that would have been used had a ready market existed. The Fund's proportionate share of the change in values of the investee partnerships is recorded as an increase or a decrease in unrealized appreciation (depreciation) of investments in its statements of activities.

Investments in mutual funds are valued at their closing net asset value per share on the valuation date, which is their redeemable value.

### **(e) Foreign Currency Transactions**

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the closing middle rate of exchange at December 31.

Interest income is translated at the average rate of exchange for the month in which such income was earned. Dividend income is translated at the prevailing foreign exchange rate on the ex-dividend date.

Purchases and sales of investment securities are translated at the rate of exchange prevailing on the respective dates of such transactions.

Realized and unrealized foreign exchange gains and losses include gains and losses on foreign currency transactions and changes in the value of other assets and liabilities arising as a result of changes in exchange rates.

Transfers to the Institute are made in various currencies as requested by the Institute and are translated with average monthly conversion rates as published by the Swiss VAT administration.

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Notes to Financial Statements

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**(f) Securities Transactions and Investment Income**

Securities transactions are recorded on the trade date. Realized gains and losses from securities transactions are calculated on an average-cost basis. Dividend income is recorded on the ex-dividend date, and interest income is recorded on the accrual basis.

**(g) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and money market instruments, except for those instruments held by investment managers.

**(h) Forward Foreign Currency Contracts**

The Fund enters into forward foreign currency contracts in order to hedge its exposure to changes in foreign currency exchange rates on its assets and liabilities denominated in foreign currency. A forward contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include the movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The fair value of the contract will fluctuate with changes in currency exchange rates. The gain or loss arising from the difference between the settlement value of the foreign currency purchased or sold under the contract and the fair value of such currency is included in investment gains (losses).

**(i) Taxes**

The Fund qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income taxes on its activities that contribute substantially to its tax-exempt purposes, and is a supporting organization under Section 509(a)(3) of the Internal Revenue Code.

The Fund recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Income generated from activities unrelated to the Fund's exempt purpose is subject to tax under Internal Revenue Code Section 511. The Fund did not recognize any unrelated business income tax liability for the years ended December 31, 2016 and 2015.

Withholding taxes on foreign dividends and interest have been provided for in accordance with the applicable country's tax rates. Dividend and interest income is presented net of any applicable withholding taxes.

**(j) Risks and Uncertainties**

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and could materially affect the amounts reported in the balance sheets.



**LICR FUND, INC.**

Notes to Financial Statements

December 31, 2016 and 2015

**(3) Investments**

Investments, at fair value, held at December 31, 2016 and 2015 were as follows:

	<b>2016</b>	<b>2015</b>
Cash and cash equivalents:		
U.S. dollars	\$ 30,366,675	25,548,405
Foreign currencies	781,479	2,257,958
Equity investments:		
Domestic	44,580,759	41,007,774
Foreign	41,837,758	48,542,591
Fixed-income investments:		
Government	26,357,523	21,142,758
Corporate	11,901,251	16,519,010
Investments at published NAV	159,111,438	188,457,562
Due from brokers, net	24,982,460	1,271,119
Net unrealized losses on foreign currency contracts	(224,475)	(171,790)
	<u>339,694,868</u>	<u>344,575,387</u>
Investments at NAV		
Pooled equity investments	331,805,456	310,140,912
Pooled fixed-income investments	84,804,974	84,065,801
Alternative investments – principally, limited partnerships	540,142,084	552,573,550
	<u>956,752,514</u>	<u>946,780,263</u>
Total investments	<u>\$ 1,296,447,382</u>	<u>1,291,355,650</u>

Invested cash and cash equivalents include cash, money market funds, and commercial paper held by the Fund's investment managers.

Equity investments include multiple diversified strategies that comprise large-cap, mid-cap, and small-cap holdings.

Pooled equity investments are \$447,290,248 and \$456,394,204, including investments at published NAV of \$115,484,792 and \$146,253,292, at December 31, 2016 and 2015, respectively. The underlying securities of these investments are primarily publicly traded. Pooled fixed-income investments are \$125,874,472 and \$126,270,071, including investments at published NAV of \$41,069,498 and \$42,204,270, at December 31, 2016 and 2015, respectively. The pooled investments at December 31, 2016 included above have a redemption period of three months or less, with the exception of \$6,258,331, which is subject to redemption lockup set to expire in 2018.

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### Notes to Financial Statements

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Alternative investments are \$542,699,232, including investments at published NAV of \$2,557,148, as of December 31, 2016 and \$552,573,550 as of December 31, 2015. The Fund's alternative investments are diversified across four basic investment strategies, as follows:

**Market neutral hedge funds** (2016: \$66,526,423; 2015: \$82,274,518) – represent investments in a broad range of investment strategies that seek to exploit opportunities as they occur in the markets due to temporary dislocations or structural inefficiencies and include event-driven strategies, distressed debt, long/short credit, merger and other arbitrage, and value investing.

**Long/short equity** (2016: \$299,894,177; 2015: \$303,049,904) – primarily, investments in funds that, in turn, invest in liquid, marketable securities, attempting to realize gains through the identification of mispriced securities, involving buying long equities that are expected to increase in value and selling short equities that are expected to decrease in value.

**Private equity** (2016: \$165,200,040; 2015: \$150,895,098) – consists of buyout and venture capital limited partnership and limited liability company investments. Private equity buyout typically involves the purchase of significant equity stakes in established companies with the goal of increasing value through financial, operational, and strategic changes. Venture capital typically involves providing capital and professional expertise to early stage businesses in exchange for equity ownership with the potential for significant growth and value creation.

**Real estate** (2016: \$11,078,592; 2015: \$16,354,030) – comprises limited partnership and limited liability company interests that focus on the purchase and development, improvement, and management of residential, commercial, and industrial real estate with value attempted to be realized through both rental income and gains from eventual property sales.

Included in net realized gains on investments are \$(925,923) and \$(3,277,558) of realized foreign exchange currency losses in 2016 and 2015, respectively. In addition, included in net unrealized appreciation (depreciation) of investments are \$296,882 and \$(1,891,661) of unrealized foreign exchange currency gains (losses) in 2016 and 2015, respectively.

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The following tables present the Fund's fair value hierarchy for those assets and liabilities measured at fair value as of December 31, 2016, and 2015, respectively.

	<b>2016</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Financial assets:				
Investments:				
Cash and cash equivalents	\$ 31,148,154	31,148,154	—	—
Equity investments	86,418,517	86,418,517	—	—
Fixed-income investments	38,258,774	38,258,774	—	—
Investments at published NAV	159,111,438	159,111,438		
Due from brokers, net	24,982,460	24,982,460	—	—
Net unrealized losses on foreign currency contracts (note 4)	(224,475)	(224,475)	—	—
Total	<u>339,694,868</u>	<u>\$ 339,694,868</u>	<u>—</u>	<u>—</u>
Investments at NAV:				
Total	<u>956,752,514</u>			
Total investments, at fair value	<u>\$ 1,296,447,382</u>			

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Notes to Financial Statements

December 31, 2016 and 2015

	<b>2015</b>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Investments:				
Cash and cash equivalents	\$ 27,806,363	27,806,363	—	—
Equity investments	89,550,365	89,550,365	—	—
Fixed-income investments	37,661,768	37,661,768	—	—
Investments at published NAV	188,457,562	188,457,562		
Due from brokers, net	1,271,119	1,271,119	—	—
Net unrealized losses on foreign currency contracts (note 4)	(171,790)	(171,790)	—	—
Total	<u>344,575,387</u>	<u>\$ 344,575,387</u>	<u>—</u>	<u>—</u>
Investments at NAV:				
Total	<u>946,780,263</u>			
Total investments, at fair value	<u>\$ 1,291,355,650</u>			

In 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-10 Technical Corrections and Improvements, which clarified the definition of an equity security to include an investment in a structure similar to a mutual fund. The fair value of an equity security is considered to be readily determinable if the net asset value per share is determined and published, and is the basis for current transactions. Certain investments that meet this definition were previously reported at net asset value and excluded from the fair value hierarchy table. The 2015 disclosure has been corrected to reflect \$188,457,562 of such investments in level 1 of the fair value hierarchy table.

Market neutral hedge funds, long/short equity investments, pooled fixed income, and pooled equity investments contain various monthly, quarterly, semiannual, and annual redemption restrictions with required written notice ranging from 14 to 120 days. In addition, certain of these investments are restricted

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by initial lockup periods. As of December 31, 2016, the following table summarizes the composition of \$939,585,320 at fair value of such investments by the various redemption provisions and lockup periods:

<u>Redemption period</u>	<u>Amount</u>
Daily	\$ 159,111,438
Monthly	282,264,537
Quarterly	389,073,500
Semiannual	11,999,000
Annual	14,500,175
Lockup (a)	82,636,670
Total	<u>\$ 939,585,320</u>

(a) The amounts subject to redemption lockup are set to expire in 2017 \$(32,625,238), 2018 \$(21,555,916), 2019 \$(6,161,400), and 2020 \$(19,985,306), with \$2,308,810 pending final liquidation.

The Fund's private equity and real estate limited partnership and limited liability company interests including extensions of \$176,278,632 are generally for seven- to ten-year terms. These investments also contain minimum subscription or capital commitments. Unfunded capital commitments approximated \$83,372,600 at December 31, 2016. The Fund maintains sufficient liquidity in its investment portfolio to cover such capital commitments.

**(4) Forward Foreign Currency Contracts**

The notional values of the forward foreign currency contracts held by the Fund, translated at the year-end exchange rates, were as follows:

	<b>2016</b>			
	<u>Sales</u>		<u>Purchases</u>	
	<u>Local</u>	<u>U.S. dollar</u>	<u>Local</u>	<u>U.S. dollar</u>
Australian dollar	1,040,000	\$ 752,201	—	\$ —
Chilean peso	1,380,000,000	2,051,418	—	—
Indian rupee	132,000,000	1,928,915	—	—
New Zealand dollar	—	—	1,560,000	1,087,243
Norwegian krone	17,700,000	2,056,807	—	—
Pound sterling	2,990,000	3,700,667	—	—
Swedish krona	24,100,000	2,659,479	—	—
U.S. dollar	1,122,085	1,122,085	13,408,803	13,408,803

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	<b>2015</b>			
	<b>Sales</b>		<b>Purchases</b>	
	<b>Local</b>	<b>U.S. dollar</b>	<b>Local</b>	<b>U.S. dollar</b>
Chilean peso	1,987,200,000	\$ 2,790,741	72,000,000	\$ 101,488
Euro	60,000	65,236	1,863,687	2,025,962
Hong Kong dollar	86,023	11,100	9,482	1,223
Indian rupee	133,000,000	1,988,677	4,000,000	59,810
Japanese yen	249,000,000	2,072,407	9,000,000	74,906
Norwegian krone	10,400,000	1,174,790	380,000	42,925
Swedish krona	18,420,000	2,185,600	670,000	79,479
U.S. dollar	2,370,624	2,370,624	10,445,171	10,445,171

These forward foreign currency contracts mature on varying dates through March 24, 2017. The net unrealized losses on forward foreign currency contracts of \$(224,475) and \$(171,790) at December 31, 2016 and 2015, respectively, are included in investments and represent the changes in the aggregate fair value of these instruments from the time of the Fund's investment. The ultimate gain or loss on the disposition or the execution of these contracts may differ from the amount recorded in the balance sheets at December 31, 2016 and 2015 due to subsequent changes in exchange rates or due to counterparty nonperformance. The gross unrealized gain on forward foreign currency contracts of \$59,949 and \$67,103 and gross unrealized loss of \$284,424 and \$238,893 represent the Fund's aggregate risk of counterparty nonperformance at December 31, 2016 and 2015, respectively.

**(5) Foreign Currencies and Geographic Composition of Investments**

Investments in foreign securities may involve considerations different from investments in domestic securities due to various factors, which may include, without limitation: limited publicly available information; nonuniform accounting standards; lower trading volumes and lower liquidity; the possible imposition of withholding, confiscatory, and other taxes; the possible adoption of foreign governmental restrictions affecting the payment of principal and interest; changes in currency exchange rates and currency exchange control regulations; expropriation; or other adverse political or economic developments.

In addition, it may be more difficult to obtain and enforce a judgment against a foreign issuer or a foreign branch of a domestic bank. Further, to the extent investments in foreign securities are denominated in currencies of foreign countries, the Fund may be affected favorably or unfavorably by changes in currency exchange rates and in exchange control regulations and may incur costs in connection with conversion between currencies.

The geographic composition of the investments held, as measured by percentage of market value of country of risk, is presented in the tables below. Alternative investment strategies that are denominated in

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U.S. dollars have been categorized as United States, except where currency and geographic composition can be determined:

	<b>2016</b>		
	<b>Equity managers/ alternatives</b>	<b>Fixed-income managers</b>	<b>Combined</b>
United States	83.69 %	75.63 %	82.67 %
Hong Kong	8.72	—	7.61
Cayman Islands	2.71	—	2.36
Japan	1.91	—	1.67
Brazil	1.37	1.27	1.36
United Kingdom	0.86	3.79	1.24
Mexico	0.01	2.93	0.38
Australia	—	2.70	0.34
Sweden	—	2.16	0.28
Other	0.73	11.52	2.09
	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

  

	<b>2015</b>		
	<b>Equity managers/ alternatives</b>	<b>Fixed-income managers</b>	<b>Combined</b>
United States	84.75 %	78.36 %	83.92 %
Hong Kong	8.41	—	7.32
Japan	2.74	1.20	2.54
Cayman Islands	1.75	—	1.52
Brazil	0.93	0.96	0.94
United Kingdom	0.83	0.25	0.76
Mexico	0.01	3.18	0.42
Australia	0.01	2.21	0.30
Other	0.57	13.84	2.28
	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

**(6) Administrative Service Fees**

The Fund has no employees. An affiliated entity, The Ludwig Group, Inc., provides management and administrative services to the Fund under an administrative services agreement.

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**(7) Line of Credit**

The Fund obtained a revolving line of credit of \$25,000,000 through a financial institution on May 20, 2008. The applicable interest rate of any amount drawn upon is LIBOR plus 0.75%. There is no expiration date and the agreement may be terminated by either party with written notice. There were no amounts outstanding under this agreement at December 31, 2016 and 2015. The line of credit is collateralized by qualifying assets with a fair value of approximately \$85,000,000 at December 31, 2016.

**(8) Subsequent Events**

In connection with the preparation of the financial statements, the Fund evaluated subsequent events after the balance sheet date of December 31, 2016 through May 18, 2017, which was the date the financial statements were available to be issued, and determined that there were no matters that are required to be disclosed.