

INVESTMENT MANAGEMENT ROUNDTABLE

An Informative Q&A with OC's Top Investment
Management Professionals



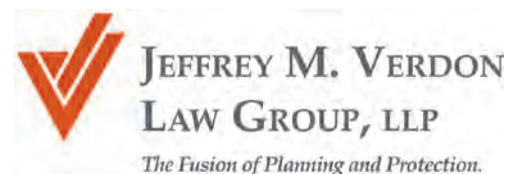
Syndia Attardo
Senior Wealth Manager
*Bank of New York
Mellon Wealth Management*



Shaun M. Skeris, CFA
Senior Vice President
Senior Private Client Advisor
City National Bank



Jeffrey M. Verdon, Esq.
Managing Partner
Jeffrey M. Verdon Law Group LLP



As markets continue to regroup in the wake of the financial crisis, there are still significant unanswered questions and concerns. The Orange County Business Journal has asked some of the community's leading experts in the field to share their insights and knowledge on the most important issues confronting the investment management industry today.

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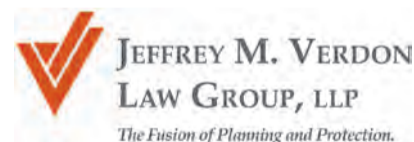
Bank of New York Mellon Wealth Management

BNY Mellon Wealth Management is a leading wealth manager, and was named in 2015 by Family Wealth Report as the top National Private Asset Manager and top Private Bank serving Family Offices. Barron's ranked it the 7th largest U.S. wealth manager in 2014. The firm has more than two centuries of experience in providing services to clients who today include financially successful individuals and families, their family offices and business enterprises, planned giving programs, and endowments and foundations. It has nearly \$193 billion in private client assets, as of June 30, 2015, and an extensive network of offices in the U.S. and internationally. BNY Mellon Wealth Management, which provides investment management, custody, wealth and estate planning and private banking services, conducts business through various operating subsidiaries of The Bank of New York Mellon Corporation. For more information go to bnymellonwealthmanagement.com or follow us on Twitter @BNYMellonWealth.



City National Bank

Based in Los Angeles, City National Bank offers a full complement of banking, trust and investment services through 75 offices in Southern California, the San Francisco Bay Area, Nevada, New York City, Nashville and Atlanta. Its 3,600 colleagues deliver highly personal service and complete financial solutions to entrepreneurs, professionals, their businesses and their families to help them on the "way up." City National is proud to be celebrating their 40th Anniversary in Orange County in 2015.



Jeffrey M. Verdon Law Group LLP

At the Jeffrey M. Verdon Law Group LLP, we believe in helping our clients make sense out of the complex tax code and wealth transfer opportunities available to the well informed. Our boutique Trust & Estates law firm located in Newport Beach, Calif., serves affluent families and business owners with estates of \$10M to \$500M. Through our Comprehensive Estate Planning platform, we optimize income and estate tax deferral opportunities found in the Tax Code and approved by the IRS in its private and public rulings, while placing effective "firewalls" around the assets to protect against future unforeseen lawsuits.

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When formalizing objectives, current and future income and expenses need to be fully considered. Only then can an effective and durable wealth management strategy be implemented and maintained.

—*Syndia Attardo*
Senior Wealth Manager
Bank of New York
Mellon Wealth Management



► **How important is developing a comprehensive estate tax and asset protection plan in achieving your clients' objectives?**

Jeffrey M. Verdon, Esq., Jeffrey M. Verdon Law Group LLP: Most clients hire an estate planner, have a meeting, and then the estate planner drafts documents. We believe there is a more prudent approach. Comprehensive estate tax planning with asset protection involves many options to achieve one's goals. Therefore, "best practices" involves the professional presenting recommendations and suggestions in the form of a planning memorandum or "road map" (and a PowerPoint presentation for those who are more visual) that lays out the recommendations in plain English and explains the benefits vs. the costs of each choice. In this manner, the client more clearly understands what is being proposed and may request changes before the planner begins drafting. More importantly, in the future, the client will have a written reference so he or she may review what was proposed and why it was recommended. As my grandmother said, "Measure twice, cut once."

► **How do investors manage the complexities of the current investment markets?**

Syndia Attardo, Bank of New York Mellon Wealth Management: Investors have been faced with extraordinary challenges this year. And, as with any year, the time to make sure you are best positioned for opportunities and challenges is well in advance of that market activity. The first step for investors is to know their objectives – both short- and long-term. When formalizing objectives, current and future income and expenses need to be fully considered. Only then can an effective and durable wealth management strategy be implemented and maintained.

If needed, that plan should be able to support immediate lifestyle expenses as well as longer-term legacy or philanthropic goals. That might mean there is one portfolio dedicated to the more immediate concerns and a second to the longer-term. Those portfolios will be structured differently but should work in unison to meet an investor's complete range of objectives. Also, any plan needs to be nimble and flexible to manage through short-term market volatility while keeping an eye firmly on the longer-term.

► **Many investment structures put in place by taxpayers today require sophisticated fiduciary accounting systems that track basis, income, accumulated income, and principal derived from reinvested income. What quality control measures does your firm have in place to ensure that it is only accepting portfolios that it has the necessary accounting systems to manage?**

Shaun Skeris, City National: City National employs a sophisticated, intelligent personalization approach to fiduciary portfolio management. The initial steps of this approach include an iterative process of gathering specific information from the client to determine their current circumstances, as well as their conditional needs, expectations and preferences for the future. Effective listening allows us the ability to learn about the client, and helps clarify investment objectives. An important part of this approach also involves a proprietary analytical process conducted by City National to accurately

determine the nature of the client's current portfolio, and our ability to adequately manage the assets in the portfolio in accordance with their stated goals and objectives. As this proprietary process occurs whenever a new relationship is established, City National is well suited to ensure proper acceptance, management and quality control of all client portfolios at the outset of each client engagement. The management of each portfolio, along with the accompanying Investment Policy Statement, is reviewed periodically with the client to ensure consistent adherence to policy guidelines.

► **What is your market outlook for the remainder of 2015? What are the biggest potential headwinds for investors for the remainder of the year and how can they be avoided?**

Syndia Attardo, Bank of New York Mellon Wealth Management: At BNY Mellon Wealth Management, we think that investors will continue to face lower interest rates but also increased volatility for the remainder of 2015. That's based, a lot, on what already has taken place in 2015. The media, and as a result, investors have been focusing on macro-scale events such as the Greek debt crisis and growth concerns in China when making investment decisions. By focusing on macro events alone, investors usually overlook market fundamentals that indicate the health of the market.

In this late-stage bull market, pullbacks and even corrections are to be expected. For the remainder of 2015 and even into 2016, we'll continue to focus on the fundamentals – separating noise from reality. We expect U.S. equities will post modest gains when compared to the last few years and that international developed equities will offer higher potential returns given the infancy of their recovery cycle.

► **Complex charitable tax planning structures, such as Grantor Charitable Lead Unitrusts, impose phantom income-tax burdens on the client. How do your portfolio managers balance the need to generate the largest remainder possible while being sensitive to the cash-flow constraints of the client?**

Shaun Skeris, City National: For many clients, charitable planning is an integral part of their overall planning objectives, involving a balance between the assets denoted for charity, and the benefits derived from remainder assets by interested parties. Portfolio managers at City National are focused on managing charitable assets in accordance with the needs and objectives of each client, as memorialized within an Investment Policy Statement. Working in close partnership with each client's team of trusted advisors, our knowledgeable investment professionals develop an insightful "personal benchmark" that is unique to each client. This benchmark is the client's blueprint for performance and portfolio strategy, supported by comprehensive asset allocation and economic analysis. When managing assets within a charitable structure, each portfolio manager balances the need for capital preservation and growth of the principal, along with cash flow requirements imposed by the structure and the client. In each instance, the portfolio manager is focused on maximizing the benefits, through intelligently personalized investment

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management, for the client and beneficiaries of the designated assets.

► **To take advantage of the increased gift tax exclusion enacted into law in 2011, many high net-worth taxpayers have made gifts of appreciating assets to dynasty trusts for their children and grandchildren. Looking back on these transfers, what mistakes might have been made in making these larger gifts?**

Jeffrey M. Verdon, Esq., Jeffrey M. Verdon Law Group LLP: In 2010, many high net-worth families made gifts of low basis, highly appreciating assets to trusts set up for their descendants in order to beat the deadline for the sunset of the large gift tax exclusion, which Congress eventually extended permanently. This resulted in the loss of the very valuable “basis step-up” at death. The basis step-up can not only eliminate the capital gains tax on the subsequent sale of the asset, but for depreciable assets, the new basis creates a new depreciation tax basis to offset taxable income. Thus, many taxpayers sacrificed the income tax benefits (possibly as high as 56.7%) to save the estate tax (40% federally). If the dynasty trust to which the gifts were made were properly drafted, the anomaly can be corrected and both the estate tax deferral and the income tax benefits associated with the basis step-up can be attained.

► **Life insurance is a common financial and estate planning tool used to solve for income short-falls, supplemental retirement needs, estate-tax liquidity, business succession, and other purposes. An increasingly popular version, Private Placement Variable Life Insurance, permits the client to appoint their own manager to manage the cash-value of the policy. Does your firm have a group dedicated to managing such assets?**

Shaun Skeris, City National: City National specializes in managing intelligently personalized portfolios for individuals, families and foundations. In addition, City National has dedicated professionals positioned to manage client assets held within a Private Placement Variable Life Insurance Policy. With regard to this type of structure, and the assets placed in this type of policy, it is very important to understand the rules and regulations that govern the management of these specific assets. City National portfolio management professionals have extensive knowledge of these structures and the compliance aspects that must be followed. For clients who have chosen to implement these structures, City National currently manages assets inside Private Placement Variable Insurance Policies, whereby we have been designated as the investment manager.

► **Most affluent families don't mind owning life insurance – they just hate to use their capital to pay for it. What disruptive technologies have been created to allow affluent families to own all of the life insurance they need or want using intelligent leverage?**

Jeffrey M. Verdon, Esq., Jeffrey M. Verdon Law Group LLP: Historically, there was only one way to pay for life insurance – cash. A person could pay annually, quarterly or monthly, but they had to use their own assets. Then financed life insurance was created and completely transformed the way large life insurance policies

were sold. There are specialty lenders who will make loans to insurance buyers taking the policies as collateral. The insurance buyer pays the lender “interest only,” or even accrues the interest payments. When the insured dies, the lender is repaid directly by the insurance company. Lending rates range from 1.3% for adjustable rate loans to 3.35% for 10-year fixed rate loans. Leaving premiums in one's portfolio or business where a much higher investment return is earned allows the buyer to gain the arbitrage, and the outlay for the life insurance is discounted by as much as 66% or more.

► **What should clients be asking their advisors?**

Syndia Attardo, Bank of New York Mellon Wealth Management: Simply put, as much as they need to feel knowledgeable about their wealth management plan. A key lesson from the 2008 recession and stock market disruption is that investors need to be engaged partners when working with advisors. A good litmus test is making sure you understand exactly why a certain investment is held in your portfolio. For example, hedge funds and private equity can be great diversifiers for larger portfolios with longer time horizon, but most are highly illiquid so they are not right for every investor.

Another valid question is fiduciary oversight – is the advisor a qualified, objective fiduciary who can address tax, estate and business planning issues? A broker focuses on trading securities – which is fine as long as that role is understood. An experienced fiduciary, such as BNY Mellon Wealth Management, performs a much broader role and is continually focused on meeting the short- and longer-range objectives.

Also, while it might sound obvious an investor needs to understand how much he or she is paying for money management services. A capable advisor should be able to articulate very specifically why and what you are paying.

► **Most investors hold title to their investment portfolios in either their individual names or in their revocable living trust. Is there a preferred manner of holding title?**

Jeffrey M. Verdon, Esq., Jeffrey M. Verdon Law Group LLP: Lawsuits and other third-party claims are a significant risk to investors. There are many popular and effective ways to hold title to one's portfolio to achieve greater protection against unforeseen lawsuits. Family Limited Partnerships (FLPs) and Family Limited Liability Companies (FLLCs) are two of the more effective structures in which such portfolios are held. FLPs and FLLCs have special asset protection features under the law preventing a future creditor from reaching inside the entity and taking the portfolio to satisfy a judgment. Other options include establishing a domestic or foreign asset protection trust in a venue which has laws that do not allow creditors of the trust settlors or trust beneficiaries to take the assets inside the trust. Consult an experienced asset protection lawyer for advice on these and other strategies that will insulate your investment accounts.

► **No one marries intending to get a divorce. However, given the current divorce rate, are there wealth planning steps that couples can take to ensure they are well positioned should a divorce take place? When should those be put into place?**

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—Jeffrey M. Verdon, Esq.
Managing Partner
Jeffrey M. Verdon Law Group LLP

Syndia Attardo, Bank of New York Mellon Wealth Management: The most basic element of divorce is dividing up of assets so, at any time, having a comprehensive understanding of all of the assets involved is essential – for both spouses. Also important is how assets are held, whether in sole name, joint tenancy, tenants in common or community property (to name a few), or whether those assets are inherited or gifted. All of these considerations have an impact on distribution as part of the divorce proceedings.

The more transparent and documented all holdings are should help to ensure more orderly, less contested, proceedings once the divorce takes place. Pre-nuptials can be valuable, but they are not the only tools in making sure that there is an equitable distribution of assets.

Once proceedings have begun, and particularly should they become acrimonious, trusts can be established as a way to quickly segregate assets and ensure they are monitored by a trustee.

An experienced wealth advisor with an emphasis on family law will know the right tools to employ in advance or during divorce proceedings.

► **Forming a Captive Insurance company is an increasingly common tool of risk management for many high cash-flow entities. Properly managing the premiums paid to such entities offers challenges, especially relating to liquidity needs for current potential claims. What expertise does your firm have to manage the assets of such entities?**

Shaun Skeris, City National: When considering the proper management of risk, it is important to remember that risk is unique to each client. As part of the analytical process each client conducts to address and implement adequate risk management measures, they may also decide to form or use a captive insurance company for risk sharing purposes. Once a client has decided to utilize a captive insurance company, the necessary steps to manage premiums, claims and proper liquidity must be put in place. City National works in concert with clients to manage assets inside captive insurance companies, and helps to balance the need for maintaining liquid reserves for potential claims along with the investment and growth potential of the assets. Our ability to balance investment objectives in coordination with proper liquidity and risk management provides tremendous value to City National clients utilizing these structures.

► **When we think divorce, we typically think first and foremost of the divorce attorney as the key advisor. However, a wealth management expert can have a significant role in the outcome for divorcing spouses. What advice do you have on how to work with a wealth management expert during this challenging time?**

Syndia Attardo, Bank of New York Mellon Wealth Management: When significant assets are concerned, it's critical for each spouse to have the input from multiple areas. A wealth management advisor can play an essential role in ensuring that assets are divided most effectively and to the greatest benefit of the divorcing spouses. The desire to move beyond the unpleasant aspects of a divorce can encourage wrong decisions. For example, the oft-accepted "lump sum" approach to settlements is seldom equitable or efficient. Assets need to be looked at both from a current and future value perspective. Annual living expenses, standard of living maintenance and supporting

financial analytics can serve as the core of highly defensible divorce settlement requests. Similarly, cost basis, retirement assets, securities restrictions and other tax considerations all need to be looked at closely.

The division of real estate holdings, particularly the family home, is often a highly contested aspect of divorce and, as such, can benefit from a detailed financial analysis. In these ways and more, an experience wealth management expert can help ensure the desired outcomes.

► **Sophisticated gifting programs are being implemented by many high net-worth taxpayers. Structures such as Short-Term Loans to Intentionally Defective Trusts are becoming commonplace. What process do your portfolio managers engage in to ensure their investment policy statements balance the loan repayment schedule with the short-term growth-goal of the portfolio?**

Shaun Skeris, City National: Each City National client has a unique set of circumstances, needs and objectives. Initial client engagement involves an extensive understanding of those circumstances in order to most effectively provide the appropriate services and solutions. As needs and objectives are determined, the ability and willingness to take investment risk are also defined. Once these parameters are known, asset class determination and portfolio strategy are discussed and agreed upon. At this stage, the preservation and growth goals for the investment portfolio, along with cash flow and repayment restrictions (e.g. short-term loans) are memorialized in an Investment Policy Statement (IPS) signed by the client. For clients employing gifting programs involving short-term loans, City National portfolios managers ensure the repayment constraints and investment goals are captured in the IPS, and implemented in the portfolio through intelligently personalized security selection and portfolio management. Throughout this process, City National professionals work in close collaboration with the client's advisors and constituents to ensure the proper coordination of gifting, tax and loan repayments schedules are in balance with respect to the client's intelligently personalized portfolio.

► **There are certain estate tax planning strategies that the IRS has announced they are working to eliminate this year. What are some of these strategies and is there still time to take advantage of them?**

Jeffrey M. Verdon, Esq., Jeffrey M. Verdon Law Group LLP: FLPs and LLCs are popular vehicles for taxpayers to hold their portfolio and other appreciating assets because they offer asset protection and the potential for discounts in the 25% to 50% range. Ownership of an LP or LLC interest generally are subject to certain restrictions on transferability and represent less than 100% ownership, thereby resulting in a willing buyer offering a willing seller a price that is discounted to reflect these restrictions. Moreover, an LLC formed in Nevada allows the members to restrict the liquidation of the LLC by a term of years, thereby creating an even larger discount. The IRS has announced it is likely to change these rules and preclude non-active trade or businesses, *i.e.*, passive or investment LLCs or LPs, from qualifying to take these valuable discounts. Contact your tax planner now before the law becomes effective, or risk losing these valuable planning opportunities forever.



Once a client has decided to utilize a captive insurance company, the necessary steps to manage premiums, claims and proper liquidity must be put in place. City National works in concert with clients to manage assets inside captive insurance companies, and helps to balance the need for maintaining liquid reserves for potential claims along with the investment and growth potential of the assets.

—Shaun M. Skeris, CFA
Senior Vice President
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