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Protecting today's wealth for tomorrow

PAM
PRIVATE ASSET MANAGEMENT

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FROM THE EDITOR

Investing in alternatives, namely hedge funds, is the topic on everyone's mind as we head into the Spring season. At a recent Wealth Management Insights conference held in Coral Gables, Florida, both family offices and hedge fund managers were paired up to discuss trends in investing in alternatives, how best to complete due diligence and risk management and how to accurately evaluate a family office's own risk tolerance before diving into the alternatives pool.

Dynasty Financial Partners also tackles a similar topic this issue in a question and answer section with Mike Moriarty, director of Investment Platforms. He tackles the notion that alternatives are much more widely used in institutional portfolios than in high-net-worth portfolios as well as the so-called explosion of growth recently in "liquid" hedge funds. "I think overall—given simply what is currently available—a retail investor can capture 60-75% of the alternative universe, and that number will only increase as more managers launch robust liquid alternative products," believes Moriarty.

Not to be forgotten is the Skybridge Capital's upcoming SALT conference in May hosted at the Bellagio in Las Vegas. Investing in alternatives is the key theme, causing many global and national family offices to hear global heavyweights such as John Paulson, Karl Rove and Nicolas Sarkozy sound off on the industry and the economy at large.

Also in this issue, Hub International pens a comment piece on safety surrounding social media. Marcy Hall, vice president, private client advisor, family office, says that while many of us use social media sites like Facebook to share our travel experiences and photos while on the road, by doing so, it opens us up to a whole plethora of security issues.

Hub outlines what exactly the risks are and how to mitigate them to avoid disaster. One particular tidbit—for all of us to make note of—is to not share your home address and birth date through social media applications. It's better to be safe than sorry!

KRISTEN OLIVERI, MANAGING EDITOR
k.oliveri@pammagazine.com

PAM PRIVATE ASSET MANAGEMENT

Published by Pageant Media

New York
240 W 37th St.
Suite 302, NY 10018
T +1 212 268 4919
F +1 212 268 4999

London
Thavies Inn House
London EC1N 2HA
T +44 (0) 20 7832 6500
F +44 (0) 20 7832 6501

EDITORIAL
Kristen Oliveri
Managing editor
+1 212 268 4939
k.oliveri@pammagazine.com

Gwyn Roberts
Group head of content
+44 (0) 20 7832 6623
g.roberts@pammagazine.com

Indira Peters-DiDio
Data manager
+1 212 268 4919
i.peters@pammagazine.com

Amber Morgan
Editorial assistant
+1 212 268 4936
a.morgan@pammagazine.com

PRODUCTION
Claudia Honerjager
Head of production
c.honerjager@pammagazine.com

Rachel Kurzfield
Sub-editor
r.kurzfield@pammagazine.com

Eleanor Stanley
Sub-editor
e.stanley@pammagazine.com

Luke Tuchscherer
Sub-editor
l.tuchscherer@pammagazine.com

COMMERCIAL
Lucy Guest
Group commercial manager
+44 (0) 20 7832 6615
l.guest@pammagazine.com

Lucie Gillespie
Publishing account manager
+44 (0) 20 7832 6613
l.gillespie@pammagazine.com

CONTENT SALES
Tracey Carey
Content sales manager
+44 (0) 20 7832 6581
t.carey@pammagazine.com

EVENTS
Beth Hall
Head of events
+44 (0) 020 7832 6576
b.gill@pammagazine.com

DISTRIBUTION
Fay Muddle
Office manager
+44 (0) 20 7832 6524
f.muddle@pammagazine.com

PAGEANT MEDIA
Charlie Kerr
Chief executive

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INDUSTRY SPOTLIGHT

Travel Spotlight: Roar Africa

PAM *sits down with Deborah Calmeyer CEO and founder of Roar Africa to discuss high-end individually crafted travel experiences for ultra-high-net-worth individuals and families and how the idea of travel can create lasting bonds between multi-generational families.*

"When you come from Africa, you never stop wanting to share it," began Calmeyer. "I wanted other people to share in some of the life-changing experiences I was lucky enough to have while I was growing up."

Roar Africa, launched in 2005, is the world's only African travel brand with four centuries of lineage. It was born out of Calmeyer's personal skill and style.

It matches clients' personal preferences to the travel experience, given her insider knowledge and contacts in the area. "There are trips and then there are adventures of the spirit that can change the way one views the world," noted Calmeyer.

These customized trips to Africa can also serve as a tool to bring multi-generational families together through travel. In one particular case, 30 people from around the world went on a trip for a birthday celebration where they shared various separate, smaller group experiences in South and East Africa before the main birthday celebration in Grumenti, Tanzania. "From wedding anniversaries to family reunions, a safari is one place where everyone, no matter what, is happy to be there," Calmeyer explained.

In terms of Roar Africa's ideal client, Calmeyer believes it's a person who does not want the typical touristy experience, but rather someone who is looking for a journey that defines them and allows them to remember who they are. "Our clients truly value the unique access we can afford them and the well-established network that allows for them to not have to think from the moment they touch down," she said. ■

PEOPLE MOVES

Harris myCFO taps Montgomery

Michael Montgomery, a former managing director and family office investment advisor for Harris myCFO, has rejoined the firm from his most recent post as managing director of Northern Trust's Wealth Advisory Services unit in Dallas, Texas.

He joins as head of national sales for a variety of ultra-high-net-worth brands under Harris myCFO: BMO Private Bank, Harris myCFO, CTC Consulting and Cedar Street Advisors. He brings more than 20 years of experience to his new role and is charged with leading the national client development efforts to provide comprehensive advice and counsel to families of significant wealth.


Michael Montgomery

He is based in Harris myCFO's Kierland office in Scottsdale, Arizona.

CONFERENCE

Dodd and Frank to speak at MarketCounsel Summit

Former senate banking committee chairman Christopher Dodd and former house financial services committee chairman Barnett "Barney" Frank will lead discussions at the 6th annual MarketCounsel Summit on December 10th, making it the first joint appearance ever arranged for the two at a conference.

"We've been really good at bringing in compelling speakers in the past to spark interest and intrigue attendees," Brian Hamburger, founder and managing director of MarketCounsel told *PAM*. "Our strategy is to 'wow' our attendees and give them much more than what they thought they were coming for."

Delivering the key note speech and taking questions from the attendees, Dodd and Frank will discuss their co-authored 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act and its intended and actual impact on the business and the economy. Additionally, they will address the effect on investment advisors, diving into the topic of proposals to improve investment advisor examinations that may result in requiring them to join a self-regulatory organization or be subject to user fees, as well as the "harmonization" of broker-dealer and investment advisor regulations.

Hosted at the Four Seasons Hotel in Las Vegas, Hamburger noted that Dodd and Frank will attend the welcome reception dinner and mingle with the guests, present their speech the following morning and interact off stage as well. "We want this to be a place where everyone can be a part of the conversation with meaningful dialogue and debate."

The summit brings together thought leaders, prominent independent investment advisors and service providers in a manner that provides context and solutions for recognizing the entrepreneurial opportunity in a changing and highly-regulated environment. It also includes general sessions, breakout sessions, interactive workshops and extracurricular events for networking.

Hamburger explained that they strive to advance the interests of independent investment advisors as a whole, pointing out that because of their independence it can be difficult for them to get together in a completely neutral territory, sit down and discuss what is happening and what to do about it. “People come for the agenda and the speakers, but they later let us know how much they value the discussions outside the conference sessions; the interaction feeds them and keeps them coming back for more.”

PEOPLE MOVES

Lazard’s Shelly joins Tiedemann in Palm Beach

Former CEO and managing director of Lazard Wealth Management, Thad Shelly, has joined Tiedemann Wealth Management as managing director and senior advisor in its Palm Beach, Florida office. The firm is excited to have someone with Shelly’s background and expertise to help deepen its client relationships, Jim Bertles, principal, told *PAM*.


Thad Shelly

Prior to joining Lazard in 2009, Shelly was a senior managing director at Bessemer Trust where he oversaw all client acquisition and account management for its mid-Atlantic, south and south-east regions, as well as its Delaware Trust Company. He also founded the private client services division at Legg Mason and served as director from 1992-1998. He began his career in Goldman Sachs’ private wealth management business.

Shelly will report to Bertles. Tiedemann Wealth Management works with approximately 130 clients and has $7.5bn in assets under advisement.

PEOPLE MOVES

Titan Advisors’ Cavanna to join Soros

Kieran Cavanna, a partner at Titan Advisors, will join the Soros Fund next month, according to *HFMWeek*, *PAM*’s sister publication.

According to a source familiar with the plans, Cavanna will join as a senior analyst in manager selection.

Additional details were not available. A Soros spokesperson declined to comment. A Titan spokesperson had not responded to press enquiries at the time of publication.

Cavanna leaves Titan after 11 years having joined in April 2002, a year after receiving his MBA from Vanderbilt University.

During his tenure at Titan, he performed due diligence on long/short and event-driven strategies. Previously, he was a consultant in KPMG’s business consulting group.

The $827.4m Titan Masters International Fund generated a return of 7.22% during 2012, according to data from BarclayHedge.

PEOPLE MOVES

NEPC hires Miner for private wealth initiative

Following a long-term goal to tap into the ultra-high-net-worth business, NEPC, LLC has named Dennis Miner as managing director to help cultivate relationships and drive leads for the firm’s new focus.

“We are excited to have Dennis leading our private wealth efforts. Dennis has more than 20 years of experience serving the investment needs of wealthy individuals and family groups,” Mike Manning, NEPC’s managing partner, told *PAM*.

Miner previously served as co-founder of multi-family office Delegate Advisors, and co-founder and managing director at Morgan Creek Capital Management. As an original partner, he played an integral role in leading the firm’s growth from $500m assets under advisement (AUA) to more than $9bn AUA. Before Morgan Creek, he boasted more than 17 years of experience, serving at Credit Suisse First Boston and Donaldson, Lufkin & Jenrette.

“I am proud to be part of the NEPC team and to represent the firm in the private wealth market. NEPC’s independent and objective, research-driven consulting approach has led to superior client ratings and impressive client performance,” Miner said.

Reporting to Manning, Miner will relocate to the Boston area within the year.

FOCUS

RIA industry spotlight: Lenox Wealth Advisors

Founded as an RIA at the beginning of 2012, New York City-based Lenox Wealth Advisors shares with *PAM* how its approach to managing multi-asset class investment portfolios and facilitating financial planning services benefits its local and west coast clients.

The portfolios are, for the most part, invested across equity, fixed income and alternative investment strategies and instead of proprietary funds, the firm prefers to use external mutual funds, ETFs, separate accounts and limited partnerships.

“Clients are expressing more concern about interest rates pushing higher, which is one reason we have been keeping duration reasonably short and increased allocation to floating rate loans," David Carter, CIO, Lenox told *PAM*.

He continued that because rates are so low, they have been increasing allocation to arbitrage and long/short strategies that are designed to generate reasonably steady bond-like returns in the single digits. "While many of these strategies have historically been offered in a limited partnership structure, we have seen many of them recently offered as mutual funds."

JOINT VENTURE

Concise Capital and Canepa form strategic alliance

Concise Capital Management, a Miami-based hedge fund manager that specializes in short-duration high-yield bonds, has formed a joint venture with Canepa Concise Holdings, an affiliate of registered investment advisor Canepa US, also headquartered in Miami, according to a letter sent to investors this month.

In this partnership, Concise will maintain both the day-to-day management and operational control of its portfolios, while Canepa Concise Holdings will assist Concise with its marketing efforts.

Additional details were not available. Concise Capital and Canepa spokespeople declined to comment.

Concise Capital's portfolio managers are Glenn Koach and Thomas Krasner, who co-founded the firm in July 2004. Previously, Koach co-founded Riverside Capital Advisers in 1984, a boutique institutional investment management firm which specialized in short-term, high-yield securities. He sold his interest in Riverside in 1997.

Riverside sold the high-yield business in 1999. Meanwhile, from 1999 to 2003, Krasner was executive vice president at Harch Capital Management where he was responsible for working out and restructuring distressed securities, high-yield bonds, and bank loans for a $600m hedge fund. Between 1996 and 1999, he was a principal and portfolio manager at Riverside Capital Advisers, where he co-managed the short-term high-yield portfolio with Koach.

Concise has monthly redemptions with 30 days' notice, a 3% redemption fee in the first three months, a 1.25% management fee for investments below $5m and a 0.75% management fee at $5m or above. The incentive fee is 10% risk-adjusted.

Concise Capital, which manages

SURVEY

SEI: Ultra-wealthy have strong ties to philanthropy

High-net-worth individuals place a large amount of responsibility on themselves to make a difference with their wealth, believing it is a necessity, according to an SEI survey conducted by Scorpio Partnership.

Of the wealthy families polled, 82% believe having more money equates to a greater obligation to be philanthropic, according to survey results, and 22% lie awake at night wondering if they're doing enough to make a difference.

When choosing a charity to make a difference, they focus a great deal of energy on looking for evidence the organization is creating impact and how the organization will use the donation, while over half of those polled said factors such as tax benefits were the least important factor when deciding to give to a charity.

While they ideally would like to annually allocate about 19.1% of their wealth to a charity, they are currently allocating about 12.2%. Some families simply feel they want to find a cause they are more passionate about, while others (39%) state they would substantially increase their giving if the market conditions improve their financial situation. Almost half of the families polled would give more if they had more confidence that the level of their wealth would continue to support their lifestyle and their families.

Managing director of SEI Private Wealth Management, Michael Farrell, believes many wealthy individuals are looking for a systematic way to manage charitable giving, as well as a means to quantify the impact of their donations. He says now is more important than ever for these families to work with a partner to develop tangible philanthropy goals.

"While wealthy individuals often see their philanthropic decisions as very personal, wealth managers can provide valuable advice while allowing clients to ultimately make decisions on their own," Jeff Ladouceur, director of SEI Private Wealth Management, told *PAM*. "Advisors can help develop a giving strategy that guides the selection of charitable organizations, facilitates the transfer of assets, and measures the impact of the gifts versus the client's expectations. An objective voice and framework can be invaluable in what can be an extremely emotional process." ■

$25m, returned 0.38% in March, generating a YTD return of 1.42%.

JOINT VENTURE

GBI partners with Envestnet

RIAs can view precious metals allocations alongside an overall investment portfolio, thanks to the recent marriage of Gold Bullion International's (GBI's) platform and Envestnet's Advisor Suite, marking the first time physical precious metals holdings will be reported through advisory software.

A provider of web-based wealth management technology and services to investment advisors, Envestnet's technology coupled with GBI's transparent pricing and reduced risks in the alternative investing allows RIAs to automatically stream performance data from a client's holdings into their Envestnet reports when buying, selling and storing physical precious metals.

"As investing in hard assets has become more popular, we believe that RIAs have had to develop expertise in this area," James Patrick, managing director, Advisor Managed Program of Envestnet told *PAM*.

"That includes the ins and outs of precious metals, as well as determining an appropriate role for them in clients' portfolios," he added. "Envestnet helps by empowering advisors to report on the daily value of these assets and monitor those values as part the overall allocation of the portfolio – so they can provide more holistic information and guidance to their clients."

CEO of GBI Steven Feldman said the partnership with Envestnet is a natural evolution for GBI in an effort to offer further transparency for RIAs and their clients. "The integration enhances an advisor's ability to access a better product and reflect the holding as an allocation within their client's diversified portfolio."

HEALTHCARE

Black Bag provides top notch concierge medicine

High-net-worth families are often no strangers to travel. A patriarch or matriarch may travel often for their operating business. Families regularly get together for family vacations or retreats, and in many cases children of a multi-generational family are about to embark on a semester abroad. Whatever the reason may be for traveling, the fact of the matter is wealthy families are doing so quite frequently and often outside of the US.

Enter Black Bag, a private emergency medical consultancy that provides individuals and families with immediate care guidance, regardless of their location in the world. Black Bag was launched by Chris Sidford, a board-certified physician in emergency medicine with over 20 years' experience at leading medical institutions. Before founding Black Bag, he was an attending physician with the world-renowned Lahey Clinic.

"It really is a high-end personalized medical collection bag for clients – from basic to individualized prescriptions for the patient and the area they are going to," said Sidford. He explained that in international settings, clients are able to speak to someone at any time while on a trip. The firm is targeting professionals in the philanthropic world, hedge fund managers and those whose jobs bring them to foreign countries frequently.

In one particular situation, Sidford was able to help a senior vice president at a large family office in Philadelphia to help their child while on a trip in South Africa. Sidford liaised directly with the doctor on-site and spoke with him regarding the child's condition, which the client believes helped the doctor spend more time with and pay additional attention to her son. ■

ASK THE EXPERTS

In this feature, subscribers and readers of PAM can write in about questions or problems plaguing their wealth management practices. In return, they will receive practical advice from top experts. To submit a question, email managing editor Kristen Oliveri at k.oliveri@pageantmedia.com.

Q An elderly client has indicated that since she has no children she wants to leave her entire estate at death to an organization with which she has been involved. Her assets, at death, will be around $85m. The organization's current annual budget is approximately $10.5m. How should I advise her?

A Susan Winer, senior vice president, business affairs, Strategic Philanthropy

First, her generosity is to be commended. Clearly she has great respect for the organization and its work, but I wonder how much she knows about how the organization operates and its needs. When an organization's annual budget is so substantially below the amount of the gift there is the danger of the organization being unable to absorb the additional funds or, worse, using them incorrectly, diluting the very reasons the organization may have attracted your client in the first place. Your problem also raises some questions.

Does she have a vehicle through which the gift will be made? If so, what is the term of the gift? A multi-year gift may be more appropriate for an organization of this size with clearly defined, and communicated, accountability parameters for receipt of funds. If there is no vehicle, should creating one be considered, and having a Charitable Distribution Advisor named, along with the other trustees, to oversee the gift distribution?

In terms of the organization to which she is considering giving her assets, before making this kind of commitment, you and/or your client should think in terms of what is in the best interests of the organization. Clearly, she wants them to be successful and continue their mission, but there are practical considerations. To that end:

- Have a conversation with the leadership of the organization and find out about their financial situation to evaluate stability and sustainability. Do they have a strategic plan? Is there a succession plan in place that ensures continuity of leadership? It is certainly appropriate to disclose that a significant gift is being considered and there are questions that need to be asked to ascertain the amount of the gift and if it will be made, and that it would be made at death.
- Ask about their financial needs. Are there new initiatives or a capital or endowment campaign underway or anticipated wherein an injection of significant capital would be beneficial and properly applied?

Another option is to discuss exploring other organizations that serve the same populations or demographics as the organization with which she is most familiar. With no heirs she has the freedom to be as generous as she would like, and "spreading the wealth" may not be something she has considered. You should offer to help her, or introduce her to professionals to help her identify and evaluate those organizations.

The objective of her gift to this organization, or to any organization, should be to benefit the organization's mission and vision. It will be in the best interest of the organization if there is a clear understanding of what kind of terms or parameters should be created to protect the integrity of the gift and the organization. ■

Susan Winer *is co-founder and senior vice president of Strategic Philanthropy, Ltd., a global philanthropic advisory practice based in Chicago serving clients worldwide. The firm works with individuals, families, closely-held and family-owned businesses helping them plan and manage their charitable giving.*

WEALTH MANAGEMENT CALENDAR

MAY 7-10
SALT Conference
Bellagio, Las Vegas, NV
Visit http://www.saltconference.com/index

MAY 9-10
AVPN Annual Conference: Creating Social Impact
Singapore
Visit http://www.wealthx.com/events/

MAY 13-14
Family Office Design and Best Practices Workshop
Gleacher Center, Chicago, Illinois
Visit https://www.familyoffice.com/

MAY 15- 16
Building The Better Family Office Summit
The New York Athletic Club, New York, NY
Visit http://www.frallc.com/conference

MAY 23
Women Enjoying Wealth and Power
Grace Belgravia, London
Visit http://www.thesevenpearls.com/events

MAY 23-26
Art Basel Hong Kong
Hong Kong Convention and Exhibition Centre, Hong Kong
https://www.artbasel.com/en/Hong-Kong

JUNE 2-4
Private Wealth Management Summit
The Ritz-Carlton, Buckhead, Atlanta
Visit http://www.me-uk.com/summit/

JUNE 4
Family Office Real Estate Forum
Chicago, IL
Visit http://www.active.com/education-conference/

JUNE 6
Asset Management Conference
Melbourne Cricket Ground, Melbourne, Australia
Visit http://www.amcouncil.com.au/conference/

JUNE 13-14
11th Annual Private Placement Life Insurance and Variables Annuities Forum
Gaylord National Resort & Convention Center, National Harbor, MD
Visit http://www.iirusa.com/

JUNE 13-14
Direct and Alternative Investing Forum for Family Offices
The Gaylord National Resort and Convention Center, National Harbor MD
Visit http://www.iirusa.com/

JUNE 20
Family Office and Wealth Management Conference
David Intercontinental, Israel, Tel Aviv
Visit http://expopromoter.com/

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ON THE MOVE

• **Monica Vida** brings more than 10 years of experience in private wealth management to her new role of managing consultant of the financial services group at **Futurestep** in New York City. Previously serving as vice president of Wealth and Asset Management at Sheffield Haworth, she is now focusing on mid-to-high level leadership roles within various sectors, securing executive and specialized talent.

• **Krupin Partners** has added to its team **Brian Batson**, **Milt Belfer** and **Will Browning.** Belfer and Browning are charged to work in the firm's life and disability insurance area. Batson, COO at Krupin, previously served at The Delp Company as Western regional director of client operations. While there, he helped develop and implement the firm's first multi-family office offering and launched Registered Investment Advisory affiliates. Beginning his career at Fortune 500 technology companies in business management, sales and operational finance positions, Batson later became a founder and broker of a boutique brokerage general agency.

• **Janney Montgomery Scott LLC** has expanded its team with the addition of **Jonathan Fairbanks** as first vice president of its wealth management division, overseeing more than $100m in client assets. Prior to Janney, he spent eight years at Morgan Stanley, served for 12 years at A.G. Edwards & Sons and with Kidder, Peabody & Co. for 10 years. He will be based in the firm's West Hartford, Connecticut office.

• **Glenmede** has named **John Carson** as business development manager in its Philadelphia office. Reporting to executive director of relationship management Chip Wilson, Carson will focus on initiating and broadening relationships with high-net-worth individuals and families, family offices, endowments, foundations and institutional entities on a national scale. He has over 20 years of experience in financial services and was most recently managing director of the middle market institutional sales group at Oppenheimer & Co.

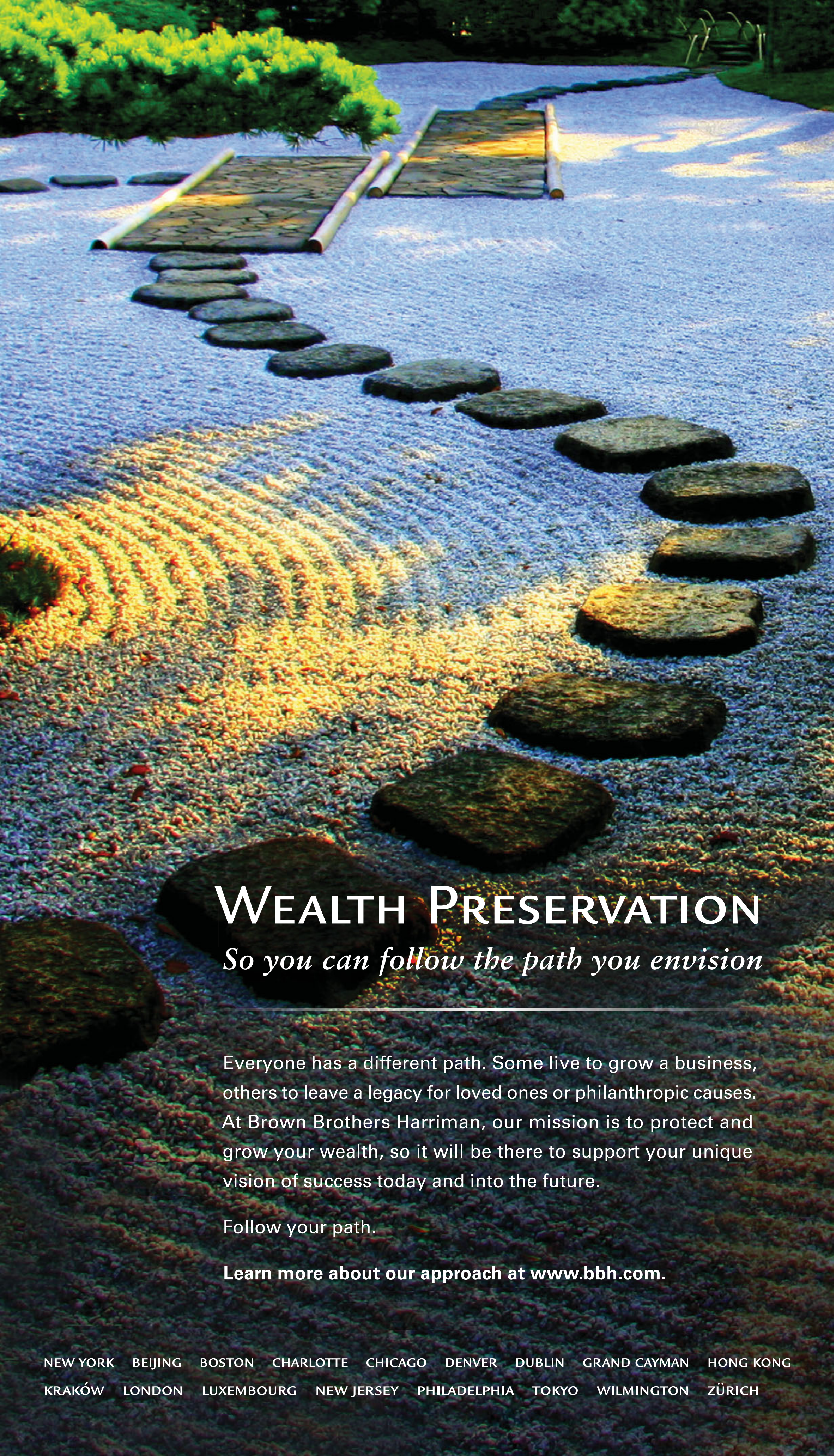
• **Peter Carey** has been appointed at **Archview Investment Group** as principal, responsible for the company's business strategy and capital formation. Carey has previously served as managing director at SkyBridge Capital, led the restructuring of the New York State Common Retirement Fund, worked in the institutional fixed income department at Bear Stearns and as an Infantry officer in the US Army.

• **Anthony Habis** joins **Citi Private Bank** as senior banker and team head for family office coverage in the Middle East, stemming from his role at Citi Institutional Client Group's platform as senior coverage officer for corporate and private banking. In his new post he will work closely with key clients and build momentum in the regions. Habis previously was an executive partner and chief executive officer of Al-Khabeer International, where he focused on UHNWIs, multi-family offices and large cap corporates in Saudi Arabia.

• **Rothstein Kass** has named industry veteran **Todd Kesterson** as director of Family Office Services, bringing nearly 25 years of experience in public accounting, family business consulting, estate and business planning, investment analysis internal controls and risk aversion, and budgeting and cash management to the position. Based in the firm's Dallas office, he will provide accounting, tax and business consulting services to high-net-worth individuals and family offices.

• **Jeff Brand** has taken the position as managing director and head of bank M&A at Silver Lane to help expand the firm's business geographically and lead efforts in the depository space. He brings with him about 15 years of experience in investment banking, focusing on mergers and acquisitions, capital markets and valuation activities for financial institutions, most recently working as managing director at Keefe, Bruyette and Woods. While there, he was involved with merger and acquisition and capital markets transactions totaling more than $7bn.

• **Andrew Maddaloni** has been appointed at **Janney Capital Markets** as director of equity research within its equity markets business. He joined the firm in fall of 2012 where he began as managing director and head of product management. With more than 15 years of experience in institutional equity research and asset management, he most recently worked at Friess Associates as portfolio manager and analyst, and prior to that held equity research sales positions at Banc of America Securities, William Blair, Credit Suisse and Donaldson Lufkin and Jenrette.



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Q&A

Unique opportunities in a changing market

David Bailin, global head of managed investments, **Citi Private Bank**, speaks to *PAM* about the changes that are taking place as global economic conditions improve, and how investors can make the most of these opportunities

Q As wealthy investors continue to seek yield, what are some ways they can ensure the sustainability and risk-adjusted nature of their sources of income?

A At Citi Private Bank our focus is on producing positive inflation-adjusted returns over a market cycle. Using various forms of credit, dividend-oriented stocks, emerging market debt and interest rate hedging strategies, CPB looks to build resilient, diversified and less yield curve sensitive portfolios for sophisticated clients. This is particularly important given the current economic environment, where exceptionally loose monetary policy across developed markets has led to historically low interest rates. As global economic conditions improve, clients must anticipate higher rates.

Q To ensure capital preservation amid uncertainty, how can wealthy investors build dynamic portfolios? How should they be thinking about asset allocation?

A Capital preservation requires a dynamic investment strategy based upon a sophisticated asset allocation process. Citi Private Bank's unique Adaptive Valuation Strategy (AVS) looks closely at absolute and relative valuations of asset classes, using real time series data, as research shows that valuations have historically been the primary driver of long-term returns. Evidence suggests that assets behave cyclically and valuations tend to revert to long-term averages over time. By making buy and sell decisions in this context, portfolio risk is managed more effectively by having less exposure to riskier (more expensive) asset classes generally. In times of market stress or periods of severe overvaluation, the AVS process would materially underweight such risky assets.

Q Citi Private Bank recommends certain tactical opportunities that generate singular, uncorrelated returns. What are some examples of these types of opportunities?

A The benefit of adding individual real estate, private equity, hedge fund or liquid alternatives to portfolios is to truly diversify them. While an individual investment may be riskier than a portfolio, our work is to build a high value added portfolio that collectively manages risk. For example, we recommend that clients selectively add assets that offer asymmetric return profiles. Hedge funds, such as Macro/CTA and Event-Driven managers, with low sensitivities to traditional asset classes can play an important role in asset allocation as a volatility dampener. Single real estate development opportunities and co-investments in private equity transactions can add alpha.

Q What types of unique, once-in-a-lifecycle opportunities can investors expect from global, structural shifts in financial markets and world demographics this year?

A There are some big themes to watch globally. For example, the changes in bank regulatory capital requirements and the on-going economic crisis in Europe have changed how companies, transactions and industries are funded. Maturation of once emerging economies offer a different return profile. Furthermore, global demographics are also changing the way we view opportunities in real estate, where urbanization is driving new office, residential, retail and warehouse development. Finally, Citi has also introduced the concept of the United States gaining energy independence, in effect becoming the new Middle East. In each of these cases, clients can make intelligent changes to their portfolios to earn profits from once in a lifetime market opportunities.

Q How else can wealthy investors harness unprecedented global change and transform uncertainty into investment opportunities?

A Our experts believe investors can access alternative investments including real estate, private equity and other asset classes that give intelligent exposure to major global trends. At the moment, for suitable clients, we see opportunity in filling the credit hole left behind by deleveraging. Alternative financing options, typically through private equity, can create a higher return profile for investors. The development of internal consumerism has corresponding implications on equities that are primarily driven by consumer growth. In addition, demographic trends, namely urbanization, can add important uncorrelated sources of return to a portfolio. With regard to the US as the new Middle East theme, access to companies that facilitate the extraction and transport of energy provide a strong investor opportunity. Each of these opportunities needs thorough due diligence, sophisticated portfolio analysis and analytics, and a primary portfolio construction methodology to reduce risk. ■

RIA focus

Dynasty Financial Partners' Michael Moriarty, director of Investment Platforms, talks to *PAM* about trends in the alternative assets market and how an increase of education on the matter could be all it takes to result in a greater amount of advisors including the investments in the portfolios of their high-net-worth clients

PAM: THERE IS ALWAYS A LOT OF DEBATE ABOUT THE ROLE OF ALTERNATIVE ASSETS (HEDGE FUNDS) IN CLIENT PORTFOLIOS. WHAT IS YOUR VIEW OF HOW THEY FIT INTO A PORTFOLIO?

MICHAEL MORIARTY (MM): Alternative assets primarily serve as diversifying return streams to traditional allocations to equities and fixed income. The goal, however, should not simply be to invest in "alternatives" for alternatives sake but to invest in managers which, when combined with your traditional allocations, produces a better risk/return profile. This allows the investor to weather the inevitable market downturns better, to be able to opportunistically purchase traditional assets when values arise, and ultimately to enjoy a higher withdrawal rate whether the investor is a foundation, pension fund or individual in retirement.

> I THINK WE ARE IN THE FIRST INNING OF WHAT WILL BE ONE OF THE MOST SIGNIFICANT ASSET MANAGEMENT SHIFTS OVER THE NEXT 10-15 YEARS

PAM: IT SEEMS THAT ALTERNATIVES ARE MUCH MORE WIDELY USED IN INSTITUTIONAL PORTFOLIOS THAN IN HNW PORTFOLIOS. WHY IS THAT?

MM: I can point to a whole host of reasons why retail investors are under allocated to alternatives versus institutions, including lack of education on the part of both advisors and investors, inertia, lack of quality offerings accessible to retails, and what I refer to as "regulatory paternalism". I think we are in the first inning of what will be one of the most significant asset management shifts over the next 10-15 years as asset managers begin to come out with very good, thoughtful "liquid alternatives" and as investors and advisors begin to get comfortable with their value proposition in a diversified portfolio.

PAM: CONVENTIONAL WISDOM IS THAT HEDGE FUNDS ARE "RISKIER" THAN TRADITIONAL INVESTMENTS. IS THAT TRUE?

MM: It really is manager specific. I can point to hedge fund managers that are undoubtedly "riskier" than a typical equity/fixed income portfolio but I can also point to a whole swathe of alternative managers who are some of the world's best stewards of capital, who pursue differentiated strategies providing real alpha versus the traditional portfolios, who thoughtfully de-risk during times of market turmoil, and who are timely with transparency and commentary. The best news is that many of these managers have begun to think about and even launch "liquid" versions of their strategies available in mutual fund form for retail investors.

PAM: THERE SEEMS TO BE AN EXPLOSION OF GROWTH RECENTLY IN "LIQUID" HEDGE FUNDS – HEDGE FUNDS IN MUTUAL FUND FORM RATHER THAN LP FORM. WHY IS THAT? WHAT ARE THE PROS AND CONS OF LIQUID HEDGE FUNDS VS. LP HEDGE FUNDS?

MM: The growth of liquid alternative offerings is undeniable and exciting. It will revolutionize asset allocation choices for the retail investor and advisor. That said, there always will be some managers and strategies that are not available in liquid form. The regulatory framework simply does not allow the levels of leverage and illiquidity required of some strategies. For some strategies, you can get 100% of the core of the risk/return profile in liquid form and in others you can't. I think overall – given simply what is currently available – a retail investor can capture 60-75% of the alternative universe, and that number will only increase as more managers launch robust liquid alternative products.

PAM: TELL US ABOUT THE LAUNCH OF DYNASTY'S ALTERNATIVES DIRECT STRATEGIES (ADS) PLATFORM.

MM: ADS is Dynasty's proprietary alternative platform and is unique in the marketplace providing third-party, institutionally researched alternative managers in both liquid alternative and traditional LP/feeder fund form. On the liquid side, we offer three multi-manager products each corresponding to a different hedge fund strategy: equity long/short, global macro and event driven/relative value. These are available individually or as a global liquid alternative solution. The feeder funds invest in traditional hedge fund managers but importantly do so through a "managed account", in which our third party research provider is seeing all positions daily, reconciling versus what the funds say they are worth, and is able to take over the account should they see deviations from the stated investment parameters. This effectively goes a very long way to eliminating the fraud or "Madoff" risk many investors worry about when investing in hedge fund limited partnerships. ■

Social media risks on the road

Marcy Hall, vice president, private client advisor, family office, **HUB International Personal Insurance**, explains how to stay safe and social when traveling abroad

Many of us use social media sites like Facebook to share our travel experiences and photos while on the road. Foursquare or other location-based services enable others to track your journey or stay updated on your movements across town.

A few keystrokes is all it takes to share the excitement of your journey with all the people you know – and people who may wish to do you harm. Remember that not only your friends can see your information online.

WHAT ARE THE RISKS OF USING SOCIAL MEDIA WHEN TRAVELING?

- **Home security**: Announcing when you are out at restaurants or entertainment venues signals to criminals that you are not at home. It's easy for anyone to get your home address via the internet.
- **Child safety**: Even innocent comments like "My mom and dad are going out of town this weekend" can become a security issue.
- **Identity theft**: Be careful about how much personal information you share online. Restoring your identity can be a costly and time-consuming effort.
- **Kidnapping**: The prospect of kidnapping is not as far-fetched as it may have been years ago. Today it is a serious threat in many parts of the world. Kidnappers usually profile their targets ahead of time, so posting your itinerary makes you vulnerable.

WHAT CAN YOU DO TO MINIMIZE THESE RISKS?

- Make sure your online privacy settings are at a high level on any social media site where you participate.
- Don't share your home address and birth date through social media applications.
- Parents need to pay special attention to what their children are doing online and how they are using their mobile devices.
- Reach out to friends and colleagues directly instead of posting your itinerary online.
- Share your information, but do so in a less than timely manner. Your friends and family will be just as interested in your thoughts and photos when you return from your trip and by then it will be too late for anyone to use this information against you.
- Be sure to discuss identity theft coverage with your insurance broker.

For more tips on how to protect yourself and your family when using social media, visit *www.hubinternational.com* and search "social media". ■

Marcy Hall is a private client advisor for HUB International Personal Insurance based out of Palm Beach, Florida. Marcy specializes in designing and implementing personal risk management programs for high-net-worth individuals and families. Recognizing that affluent clients have broader insurance needs, Marcy works to assess unique exposures and develop strategies to mitigate risk using insurance products and risk reduction techniques. Marcy has worked in the personal insurance industry for more than 20 years and has extensive experience with single and multi-family offices facilitating insurance placements for both personal and business insurance needs.

Inaugural Wealth Management Insights Summit

FOs and hedge funds discuss how best to get along

By Kristen Oliveri

The Inaugural Wealth Management Insights conference was held on April 15-17 at the Biltmore Hotel in Coral Gables, Florida, bringing together roughly 90 family offices and hedge fund managers in an attempt to share thought leadership and create an intimate venue for private discussions.

Keynote speaker Harry Markopolos, the Madoff whistleblower and the author of *No One Would Listen: A True Financial Thriller*, set the stage for the overall event. Speaking candidly from his over eight-year ordeal of tracking down Bernie Madoff and uncovering the depth of the ponzi scheme that had many wealthy families fooled, he demonstrated the inherent point of doing due diligence on all of one's investments, as well as pointing out the simple notion that if it sounds to good to be true, it probably is.

Madoff, Markopolos explained, used a perverse dating psychology when luring his investors. He told potential investors out on the golf course or at the country club that he didn't want their money or the hassle of managing it. When he decided to take their money, as a favor to them, investors felt like they were special. Markopolos explained that managers often brag about their due diligence process but the only way to actually evaluate how seriously they take it is to ask the manager how much of their gross revenues are dedicated to their due diligence efforts.

The next day, families and managers sat in on a panel about the questions investors should be asking. Chris Greer of Citi Prime Finance and Suzanne Currie of Baker Currie Global, spoke about how even though hedge fund losses have changed forever, the appetite for alternatives is increasing.

Currie spoke at length about why any particular fund may get vetoed by a family office. The reasons included lack of independent oversight, insufficient checks and balances, unsatisfactory service provider engagement, unsatisfactory or ineffective remuneration policies or insufficient personal wealth invested in the fund on the part of the manager.

Greer echoed the sentiment as a hedge fund marketer that family offices want to see the manager is committed to the fund, that their own personal wealth is in it and that there is the ability to short, as well as have transparency of fees.

"As a hedge fund manager, ask yourself, who is your market, then build the fund around the market," said Greer.

He also noted that family offices should be asking the managers direct questions pertaining to why they got into the business and to find out how the manager will react to risk in the markets.

Bruce Frumerman of Frumerman & Nemeth, who served as the moderator for the panel, also stressed the importance of fund managers taking the time to meet with all potential clients and existing clients to speak to them about their fund, the strategy and future performance.

The event continued to take a deeper look into risk management with another session led by Sam Won of Global Risk Management Advisors. He spoke about the essential risk management considerations for investing with hedge funds and how to obtain true alpha from a family's alternative investments.

"Everyone and their mother is claiming they do risk management," began Won. "But if that's true how did we get into the mess that we're in?" He added that there is a sea change that is happening now where funds are becoming more transparent, but unfortunately, the family offices are lacking the capability to evaluate the data given to them.

He explained that the majority of family offices don't write down what their exact risk parameters are which hinders them from linking up with the hedge funds that are most likely to be the best fit for them in the long run. ■

Cap attack: Municipal bonds under fire again

By **Michelle Knight**, chief economist and managing director, **Silver Bridge**

In spite of lobbying efforts from municipal issuers and investors, President Obama continues to include the cap on the value of tax exempt interest among the list of proposed deductions and exemptions in his fiscal year 2014 budget. The fact that this proposal remains front and center in the President's efforts to increase revenues is a mysterious, but undeniable reality, despite the risks and costs of such a measure. While proponents argue that cutting the municipal tax exemption to 28% will raise a meaningful \$584bn over 10 years, the impacts on the \$3.7trn municipal marketplace are sure to be much more far-reaching.

For one, the scope of prospective losses on existing bonds is huge, as it is likely the proposal to reduce the municipal tax exemption will have no grandfathering aspect. If it did, most pundits agree that the measure would not produce enough worthwhile revenue for the government to pursue it. The fallout is estimated to result in a negative adjustment of \$250bn to the outstanding bonds in the municipal market. Some argue that this destruction of value is acceptable as it will only affect top bracket taxpayers.

However, according to the IRS, over 60% of the returns that report receiving municipal interest are in the \$100,000 to \$200,000 range or well below what qualifies for the top bracket. It would therefore be a sharp blow for middle- and upper-income savers whose participation in the municipal debt markets have enabled the current level of municipal financing to flourish, building schools and highways, funding redevelopment zones, and maintaining infrastructure.

Adding insult to injury, taxpayers of all incomes would lose because tax and rate increases would most certainly ensue at the state and local level as higher interest costs are absorbed by the affected governments. The National League of Cities in cooperation with The United States Conference of Mayors and the National Association of Counties tried to quantify the effects on municipalities in a report entitled *Protecting Bonds to Save Infrastructure and Jobs 2013*. They argue that issuers would be greatly affected by having to pay an average 70 basis points more in rate (equating to \$173bn in additional interest expense over 10 years), and as a result, would become less competitive for investor dollars compared with other asset classes.

In an apparent attempt to ease this particular impact, the President's latest budget proposal includes the America Fast Forward Bond program, a permanent federally subsidized taxable bond program similar to the Build America Bond (BAB) taxable municipal program, but with a 28% subsidy rate. America Fast Forward would expand on the BAB program by allowing bonds to be issued for current refunding and give authority to eligible 501(c) (3) and qualified private activity bond issuers to access the market. The program would also provide a subsidy rate of 50% for new issues in 2014 and 2015 sold for K-12 and higher education school construction.

However, it's no guarantee that the scheme, like the Build America Bond program, would be successful in expanding the municipal bond buyer base, especially as buyers of BAB issues have more recently had to grapple with the impact of sequestration spending cuts on bond subsidies. Indeed, under sequestration, state and local officials are warning that the Treasury or Congress may reduce or take away their 35% subsidy payments at their discretion, harming their marketability if not their credit support.

While opposition has coalesced to challenge the cap on the municipal tax exemption and the President's budget in general, pressure is building for a relief of fiscal pressures, especially from a revenue source that was once blessed by the independent Simpson-Bowles Commission. It is a short-sighted measure though, likely to add to the burden of struggling localities and conservative savers, not to mention the impact it will have on the capital markets as the government again rewrites the rules of the game. ■

Michelle Knight is chief economist and managing director of Fixed Income at Silver Bridge (www.silverbridgeadvisors.com). Economic commentary contained in this article is for informational and educational purposes only. All investment advisory services are provided by Silver Bridge Capital Management, LLC, a registered investment adviser affiliated with Silver Bridge Advisors, LLC and Silver Bridge Family Office Partners, LLC.

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www.astonpearl.com

CONTACT Natasha Pearl, CEO / advisor@astonpearl.com / +1 (212) 289 6700
Deborah Mariani, Manager / dmariani@astonpearl.com / +1(212) 289 6700
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CONTACT Jacqueline Valouch, VP, Charitable Planning Consultant / New York / +1 (212) 335 6432 / jacqueline.valouch@fmr.com / **Stephen Brooks** VP, Charitable Planning Consultant / San Francisco / +1 (925) 407 6737 / stephen.brooks@fmr.com
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CONTACT mdefalco@lowenstein.com / +1 (646) 414 6945 / 1251 Avenue of the Americas New York, New York 10020 / mgooen@lowenstein.com /+1 (973) 597 2366/65 / Livingston Avenue, Roseland, New Jersey 07068
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CONTACT Diane Giles, 1166 Avenue of the Americas, New York, NY 10036
+1 (212) 345 3618 / diane.m.giles@marsh.com
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