CASE STUDY: PUTTING IT ALL TOGETHER –

A MULTI-DISCIPLINED & MULTI-GENERATIONAL STRATEGY

FACTS:

- Colony Family Offices, LLC was introduced to an entrepreneurial couple in their late forties who owned and operated a successful manufacturing business. They had also accumulated investable assets and had not yet implemented any gift or estate planning.
- One spouse had been leading the business and was looking to enter early retirement over the next year and hire a new CEO. The couple was also contemplating selling the business over the next several years. The company's revenues were highly variable and are dependent on changing customer preferences and certain product lifecycles.
    - *Personal Investable Assets:* *$20.0M*
    - *Business Value:* *$30.0M*
    - *Total Net Worth:* *$50.0M*
    - *Lifetime/GST Exemption Used* *$0.00M*

ISSUES:

Investment Management

- Throughout the history of the company, the couple had taken sizeable dividends from the company and purchased positions in index mutual funds and a handful of stocks. These positions had appreciated substantially.
- The couple was now concerned that they may be taking too much risk in their portfolio.

Wealth Planning

- Given the variability of the business and the transition in management, the couple was concerned about their cash flow needs should the business experience a soft patch.
- They also wondered how much they should plan to earmark for retirement to sustain their lifetime cash flow requirements versus utilizing various estate planning strategies involving trusts designed to utilize their lifetime estate, gift and generation-skipping transfer tax exemptions.

SOLUTIONS:

Investment Management

- Colony worked closely with the couple to help them re-evaluate the purpose of their investment portfolio. We then determined an appropriate asset allocation with the mandate shifted from aggressive growth to one that balanced both long-term growth with the potential for cash flow requirements.
- The portfolio required broader diversification as well as a meaningful reduction of risk, while managing around low basis positions.
    - *We initiated a "collar" option strategy on two single stock positions to reduce the concentration risk in the portfolio.*
    - *We developed a plan to gradually shift the lifestyle portfolio and the multi-generational portfolio to their new allocation targets by straddling two tax years to spread out the tax liability.*
    - *Early in the transition, market volatility also offered an opportunity to tax loss harvest certain positions, which helped to defray the overall tax liability while maintaining the same exposure.*
    - *Lastly, we selectively added certain active managers to complement the existing index (passive) exposure.*
- The shift in sentiment around the business and willingness to take additional risk in the multi-generational portfolio has also allowed for additional changes to portfolio positioning going forward.
    - *Given the relatively high target allocation to public equities (~65%) and the multi-generational portfolio's long-term time horizon, Colony was able to develop a private equity program for the investment portfolio to enhance risk-adjusted returns even more.*
    - *In our view, a successful program will be diversified by geography, strategy type and vintage year. In this case, the investment portfolio is now targeting a 15% allocation to private equity, which will take several years to achieve. Capital calls will be sourced from gradual divestiture of public equities.*

Wealth Planning

- First, Colony analyzed various scenarios to determine how much of their portfolio should be earmarked as "lifestyle capital" and whether any portion of the existing portfolio could be invested separately and earmarked as "multi-generational legacy capital." Through an iterative process involving multiple long-term simulations factoring in different degrees of market volatility and their desired lifetime spending, we helped the couple decide to allocate $15.0M of their portfolio to an asset allocation strategy designed to serve as their "lifestyle capital" and keep up with inflation. The excess $5.0 million was then earmarked as "legacy capital" with a separate asset allocation strategy designed for a longer period.
- To address the potential estate tax issue, we worked with the couple's other trusted advisors (e.g., their accountant and estate planning attorney) to shift the $5 million multi-generational legacy portfolio assets and a portion of their company stock to Spousal Lifetime Access Trusts (SLAT). The couple became comfortable assigning assets into irrevocable trusts in a manner that would

allow them to take advantage of a portion of their lifetime exemptions since each spouse was designated as the primary beneficiary of the other spouse's SLAT.

- The couple has since successfully transitioned leadership and the business is performing well. This has opened the door to a potential sale and has allowed for some additional pre-sale planning opportunities as well as additional lifetime gifts to the SLATs.

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