

DO YOU HAVE A GOOD PLAN?

Situation:

We are fortunate to count many sophisticated investors among our clients. One example is “Sarah”, who built a highly successful hedge fund, finishing her career with more than \$500 million in personal wealth. When we met Sarah, much of that wealth was still tied up in the fund, but she was thoughtfully looking ahead to the future needs of her family. Sarah was looking for a partner to help her develop a strategic plan.


Sarah’s other main asset is a 65-acre property. A principal goal was to keep the property intact— as a home for her family and for potential philanthropic and community uses. Another priority was peace of mind. While Sarah is a financial professional, her children are not. And she wanted to establish a relationship with a firm that would be by her family’s side for the long term.

Sarah selected Brown Advisory as her partner.

Solution:

Before we took our very first step, we constructed the right team. In many of our private client relationships, portfolio construction and management is the immediate priority. In this case, the initial goals required a focus on estate planning, risk management and day-to-day client service. The team of five we assembled consisted of a Strategic Advisor, Family Office Director, Family Office Client Service professional, Client Advisor and a Portfolio Manager. The Portfolio Manager’s immediate goals were to get to know the family, provide thought partnership around certain asset allocation decisions and be primed to take over management of the portfolio as more liquidity became available and as Sarah began to think about retirement.

Our work began in earnest with an assessment of the current situation. After a great deal of listening and discovery, we presented Sarah with an outline of her family balance sheet and the estate planning outcomes as currently structured. Working closely with her trusts and estates attorney, we designed a beneficial asset protection trust, and a family limited partnership, that would reduce her estate tax burden and empower her heirs to manage the assets in a collaborative and organized way. The



new estate plan is currently projected to save an incremental \$100 million in wealth transfer taxes.

Concurrent with this important strategic work, we began assessing more tactical improvements we could make to the family's experience. We evaluated their portfolio of residential properties to determine the viability of renting the homes to generate income. We delved into their insurance coverage and were able to identify \$40,000 of annual savings on premiums, while confirming that coverage was appropriate for their complex exposures.

We helped to hire a new assistant for Sarah – screening for appropriate skills and then implementing payroll and taking care of the appropriate confidentiality agreement. We also evaluated a range of private travel options for pricing and convenience. All of this work will be ongoing in the relationship. But these initial actions brought immediate and tangible value to the family.

Finally, we looked toward the future. The family is highly philanthropic and we have scheduled meetings with each family member to discuss individual values and priorities. These inputs will underpin the unified philanthropic strategy we are crafting for the family foundation. This discovery work will also help us understand the overall goals of the next generation, which in turn will guide our investing, wealth management and estate planning strategies going forward.

Outcome:

We are long-term investors in the securities and asset classes that make up our clients' portfolios. We are equally long-term investors in our relationships with families. We look forward to many years of partnership with Sarah and her family and we are grateful for the trust they have placed in our team.^{[B](#)}

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THE UNOPENED STATEMENTS

Situation:

We first met “Brian” in his spacious home office. His desk was conspicuously clean for such a busy and successful person – adorned with only a notepad with his company’s logo, a pen and a recent quarterly report. He had founded the company a decade earlier and taken it public just a year or so before we met him. The growth trajectory had been exceptional and the performance of the share price had reflected as much.

Brian welcomed us in and motioned to take a seat in the chairs in front of his desk. As we did, he opened up a large drawer, pulling out a stack of paperwork. Dropping it on the desk with a thud we could instantly see it was a large pile of brokerage statements – still sealed in their mailing envelopes and presumably going back numerous quarters.

With a self-aware smile, Brian said “guess we should probably open these, huh?”


Surprising, maybe. But it’s not altogether unusual. The time and focus that it takes to build a great business is extraordinary. And the demands on a public company CEO are equally as relentless. We’ve found it is not uncommon for executives to neglect their personal financial lives almost entirely – secure in the knowledge that the pie is large and growing. So they’re unmotivated to make it a priority as they devote their time and attention to their fiduciary duties to shareholders and employees.

Solution:

That’s where we come in.

Despite his very large balance sheet Brian’s financial world was not yet particularly complex, yet. His children were young and he had yet to do much by way of estate planning. Meaning, he did not yet have numerous accounts for various trusts and entities making our first task of analyzing his holdings move quickly. The picture that emerged showed that he was (unsurprisingly) very heavily concentrated in the stock of his company. And, there were some immediate opportunities for long-term tax planning that could have a dramatic positive effect for his family.

Our immediate focus was on the “single stock position” – Brian’s ownership stake in his company. We presented a gradual diversification strategy using a preset 10b5-1 sales plan to remove regulatory risk, and emotion, from the equation.



We also saw an opportunity to remove some of the stock from Brian's taxable estate through a Grantor Retained Annuity Trust or "GRAT." As luck would have it (unrelated to the company's fundamentals) a major market event caused the stock to drop significantly in price, giving us an opportunity to transfer shares to his children through the GRAT at a low basis. We have all enjoyed watching the substantial appreciation outside of his estate in the years since. In fact, the tax impact of this one action delivered more value to the family than they have realized through investment gains to date.

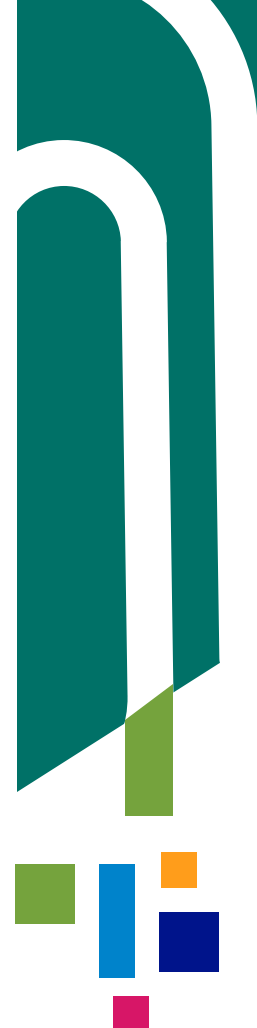
In addition to these investment and estate planning strategies we also put better organization in place around Brian's entire financial life. We discovered he was still paying a property management company for a home he had sold a year earlier – unbeknownst to both parties – and we also located a small private equity investment made years earlier that had been mailing statements to that address. We reviewed the UTMA accounts that he and his wife had set-up for their children in the early days of their success and found that the son's account had appreciated much more than the daughter's, due to a somewhat random stock selection decision. Brian chose to *true up* the daughter's account. And we also took the opportunity to create trusts for the children allowing for much greater parental control over what would now be a much larger denominator.

Outcome:

At one stage, Brian briefly considered establishing a single-family office to manage his financial affairs. But his cost/benefit analysis led him to conclude that outsourcing the work to our firm made more sense for him. His decision was largely informed by the fact that we have the capacity to add and subtract services like accounting, private foundation administration, or serving as a trustee as needed. All without the headache involved in recruiting, retaining or dismissing staff on payroll. And with the institutional compliance infrastructure to give him peace of mind. **B**

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THE FORGOTTEN ACCOUNT

Situation:

“Derek” and his wife “Monique” are very humble people. After meeting at Stanford they built their own company in the software space. Partners in business, as in life. After selling the company for a very significant sum they continued to raise their three young children in the same modest home they had bought while paying off student loans, albeit now mortgage-free, and they still drove a minivan and a sedan. There was no visible sign of what had amounted to a significant fortune. They did not want to appear conspicuous in their spending or change the dynamics with their neighbors and friends.

This same modesty kept them from engaging a sophisticated financial advisor. Monique had an old friend from high school who had been their broker for years – a pleasant and capable professional who put more and more of their money to work in his large national firm’s cookie-cutter strategies. Monique and Derek privately worried they were missing out on best practices but they didn’t want to rock the boat with their friend and didn’t want to be perceived to be “needy” by asking for more options.

While their core values remained unchanged their life began to get more complex. Derek launched a new venture with a friend in a nearby city. After a year of grueling commuting he purchased a city apartment to use three days a week. Around the same time his parents – first-generation immigrants who built a wonderful life for their family – wanted to retire to Santa Barbara. Derek and Monique decided to buy them a true dream home, with the porch, pool and palm trees, to serve as the perfect setting for their golden years. Derek and Monique decided to retain ownership of the property allowing the parents to

live rent-free as long as they liked. And, they began investing directly into companies and funds run by friends and acquaintances as a way to diversify away from the lackluster performance they received from big bank mutual funds. They did the work themselves and took advantage of their excellent professional network.

It all worked pretty well for a while... that is, until the IRS audit.


This is always a stressful experience but Derek and Monique found it doubly so because it highlighted how disorganized their financial lives had become. The straw that broke the camel’s back was when their accountant called to ask about income from a specific investment in a private equity fund and Derek realized that he had completely forgotten about this fund – he never entered it on his Excel spreadsheet and had literally forgotten the account existed. Reflecting on the fact that the value of this misplaced investment was about half of what they had originally paid for their home he realized something had to give.

Solution:

Fortunately, a mutual friend introduced the family to our firm. Moving quickly and decisively, Monique moved the bulk of their liquid assets to our care and in the course of onboarding these assets we also conducted a thorough analysis of their scattered private equity holdings – organizing everything into a clear and digestible report.

We learned they had a Will but it was a decade out of date. It was not at all reflecting their current situation. So we began an estate planning process and made





some very specific recommendations to Derek around planning for the future exit from his new endeavor.

We reworked their portfolio according to our firm's best thinking – tailoring a highly customized and differentiated portfolio to help meet their long-term goals. Most importantly, we gave them full visibility into all of their assets providing the comfort of knowing everything was accounted for and being managed appropriately.

Derek's second business was nearly as successful as the first. By the time that liquidity event occurred we had sophisticated planning in place. It included a Charitable Remainder Trust, which reduced the tax impact of the sale and provided a vehicle for the family's growing interest in philanthropy. Around this time the family asked us to help with a number of other things like, paying some of the bills associated with the Santa Barbara property and pricing private aviation options to make it easier for them to visit his parents during Covid-19.

Outcome:

In one meeting with our team, marveling at the level of organization of his financial life, Derek said “oh boy, I never thought I would basically have a family office.”

One of our colleagues reassuringly replied: “Derek, you do family. We'll do office.” [B](#)

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OFF TO THE RACES

Situation:

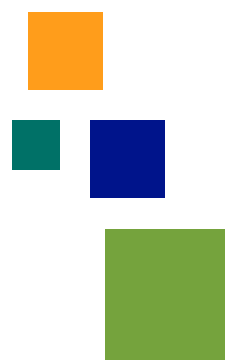
“Indra” was not especially into horse racing. She’d been to a racetrack once, on an outing with business school friends, and enjoyed the atmosphere. But it wasn’t something she had grown up with or spent much time thinking about. But, sitting with her investment bankers in a New York City conference room the night before her IPO, she couldn’t shake the feeling that maybe this is how the jockey feels when loading up at the starting gate...shivering with pent-up nervous excitement, readying for the moment when the bell rings and the gate flies open, and it’s time to explode into a blur of flying feet kicking up shrapnel-bursts of mud.

Taking a sip of water, Indra forced herself to focus on what the bankers were telling her about any last-minute share allocations she might want to make to colleagues, friends and family.

To herself, Indra was a bit weary of being introduced as the founder of a startup that was an “overnight success.” That is, if you consider 12+ years overnight! From the inception of the idea, to the traction that led to a potential public offering, were many long years of often-frenetic days and late nights, plenty of failures and frustrations and, absolutely no guarantee of eventual success.

Going to bed late that night before, the final details of the offering signed and sealed, Indra felt like “overnight success” was finally at hand. It would be triumphant ringing of the NASDAQ opening bell and not the harsh trill of the racetrack bell that would herald that moment the following morning.

Indra planned to continue on as CEO after the IPO. Her institutional investors very much wanted her at the helm. But, she had also decided to take a significant sum of money *off the table* – retaining a large position in the company and setting herself up for life in terms of cash she could count on. Her parents had both been college professors and her upbringing had been comfortable. But Indra had the first-generation wealth creator’s awe for the safety, and sheer opportunity, presented by the balance sheet she had built through hard work, ingenuity and teamwork.





One of her mentors – a former public company CEO now sitting on her board – advised her to think about starting a family office. Indra was unsure. On one hand, she knew she would be far too busy to give the needed attention to her financial life. And, she was already formulating ideas about philanthropy and thinking about how to engage on the policy issues that she cared about, particularly climate change. She could certainly use a helping hand.

On the other hand, she was hesitant about the idea of building what's essentially, another business to manage her affairs. Thinking about her seven direct reports at the company, she mentally rolled her eyes at the idea of doing one more performance review, thinking about hiring, locating office space, determining compensation, technology, HR, processes, and risk management – all to look after the life of a single, very busy, 34-year-old entrepreneur.

Indra decided to do what most of her peers do when faced with a new problem – she Googled it – and learned that many people in her position choose to outsource some, or all, of the functions of a family office. Going deeper through internet results, Indra discovered Brown Advisory and our website. Reading through, she learned we were founded to serve families and we have robust in-house family office capabilities. In our *Beyond the Family Office* section, Indra was very attracted by our focus on sustainability and impact – and our work with wealth owners identifying as women.

Solution:

Today, we are fortunate Indra considers us her thought partner. We manage a highly-customized portfolio for her, balancing growth and safety, and attentive to the outsized role her single-stock position still plays in her life.

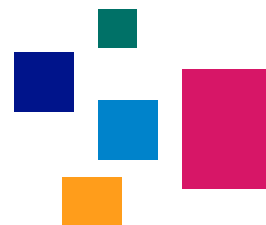
We serve as corporate trustee on the trusts she established for her nieces and nephews, a process we took entirely off her hands. We helped her establish, and fund, a private foundation and then took her through a discovery process to determine how she wanted to focus her philanthropy. As part of this process, we gathered wonderful input from her parents, both of whom serve on the new foundation's board, and who bring great expertise from their respective fields. We manage all the administration of the foundation, including follow-up with grant recipients and monthly reports to the family on their impact.

In addition to these more traditional family office services, we also established a quarterly rhythm of phone calls for Indra with our sustainable investing team. Indra's portfolio has meaningful allocations to sustainability, including some of our internal strategies. But she is also thinking longer-term – when she eventually moves on from her day job – about playing a national role in climate policy. She enjoys hearing our investment team's latest thinking who are immersed in this discipline. In turn, our team benefits from Indra's thoughts derived from her wide-ranging reading on the subject.

Outcome:

While Indra is thrilled to have so much complexity taken off her plate, and to be able to reach into our firm for expertise and thought leadership, perhaps her greatest joy was meeting a young female entrepreneur at one of our client events. The two developed a unique relationship that led her to become the younger woman's mentor. Indra is excited to coach her through the next decade of her own journey to becoming an "overnight success."

We can think of no one better-qualified to lead someone off to the races. [L](#)





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COMPLEXITY COMES IN MANY FORMS

Situation:

For some of our family office clients, complexity is operational: numerous trusts, entities, LLCs and charitable vehicles need timely and consistent financial management—not just when investment or tax decisions are being made, but throughout each busy and active year in the life of the family.

For other clients, complexity is all financial. Enerco is a family-owned company outside the United States with diverse operating company investments across commodities, financial services and consumer products. When we first met the family office a decade ago, it had just a handful of employees who entrusted our New York City-based team with a \$25 million mandate to invest in alternative asset classes outside of the family office's home country, with a focus on generating performance with low volatility and low correlation to broader markets—a diversifying allocation to complement its core family holdings. At the time, the family worked with two large international banks for the majority of its portfolio.

Five years later, the family office terminated its relationships with the big banks, and now, a decade on, we advise it on more than \$2 billion of capital across public and private markets, private credit, hedge funds and other asset classes. The family office has 100 in-house employees, some making proprietary investments; some asset allocating to passive, quantitative or “smart beta” investments; and others taking care of the management and administrative needs of the family. Since our role is to advise exclusively on its investments with performance-oriented external managers, to help maximize its alpha, we think it is a perfect example of the family office resource that we call **Performance Advisory**. We have a clear performance mandate and act as an extension of the family office investment team, diving deep on each investment and sharing of our research and insights.

Solution:

We think the Enerco family office has two meaningful strategic advantages when it comes to achieving meaningful outperformance: size and speed. For example, in the dramatic market dislocation of March and April 2020, we helped the team deploy \$150 million in less than four weeks. Our proprietary research and manager relationships, combined with Enerco's agility and scale, helped provide a



meaningful advantage in navigating the sudden market dip and rapid recovery. Our close working relationship with the Enerco team, founded on trust and experience, helps reduce decision-making time and increase collective conviction, even in less volatile times.

A meaningful byproduct of this flexibility is that best-in-class managers want Enerco as a client. They know that they can count on timely decisions and significant investments, which in turn helps provide them with operational flexibility (and us with greater manager access for all of our clients).

Our quarterly reporting package for Enerco routinely runs 100 pages or more. For most clients, this would be overwhelming to the point of being unhelpful, but its highly quantitative, full-time investment team requires a close analysis of every holding, including metrics such as ex-ante beta and tracking error, a detailed look-through analysis on risk attribution and performance, and thoughtful commentary on investment outcomes. Enerco has very specific expectations of not only the amount of alpha it wants to earn in return for its tolerance of illiquidity but also the non-correlation it seeks among sources of alpha. We report on this in painstaking detail, which gives Enerco the visibility that it needs and expects.

Outcome:

By no means does every Performance Advisory client require this level of complexity in investing or reporting. But in every case, we strive to add significant value to the family office team as we execute on our investment mandate. In most cases, Performance Advisory clients have an allocation to alternatives that exceeds 30% of their portfolio. Our team specializes in meeting this mandate in a highly customized, organized and thoughtful way, providing clients with access to the exposures and managers that we believe make the most sense for their specific investment goals. [B](#)

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THE NATURAL INVESTOR

Situation:

In Wes' mind, he had a balance sheet of \$50 million. By most standards, more than a lifetime's worth of money. But as the CEO and steward of a global, family-owned, private infrastructure investment business, Wes felt an obligation to maintain a bulletproof personal balance sheet so he could make thoughtful and informed decisions for the benefit of his fellow shareholders and, most importantly, the company's many employees.

He was young when we met him—in his early 40s—and he never wanted to find himself at the mercy of a market cycle, unable to make a key strategic investment, or limited in terms of future growth by needing to make short-term decisions about distributions or liquidation opportunities.

When Wes first became a **Performance Advisory** client, the asset allocation for his personal portfolio was divided 50/50 between stocks and bonds, with \$20 million in municipal bonds. This was understandable, given his mindset. But in his effort to be cautious, Wes was failing to take into account some important facts. First, he held a meaningful ownership position in the company and its underlying funds. While these holdings were illiquid, the company was well-established and diversified, and even at book value, the holdings made his balance sheet considerably larger than it was in his mind. Second, he had been receiving reliable annual distributions of income and carry from the company's underlying funds and could safely expect to do so for the foreseeable future.

Solution:

Our team helped Wes to see the \$50 million not as a static balance sheet but as a dynamic and growing investible portfolio—assets he would not need in the near future and that should be compounding at a much more substantial rate than they were at the time. He was comfortably able to live on his distributions (and add annually to his portfolio from them) as well as to fund his family office, which was largely made up of accounting professionals who helped to manage the cash flows into and out of the business.

Wes was a natural investor. Outside of his core areas of expertise, he had a keen intellectual interest in biotechnology and financial technology. Given his day job, he had an especially deep understanding of financial technology that intersected with his industry, and with the riskier half of his portfolio, he had made some thoughtful one-off investments here and there. But what was missing was a programmatic, long-term approach to investing.

We designed a multiyear investment program, initially committing \$5 million to \$6 million a year to alternative investments and building up to \$7 million a year over time as he added cash to the portfolio from his distributions. In the public markets, based on Wes' worldview, we diversified the portfolio globally with a slight overweight to China. We continue to maintain a modest allocation to high-quality bonds as part of the liquidity bucket. But a far greater proportion of the portfolio is now meaningfully deployed for long-term appreciation with no negative impact to Wes' personal lifestyle or business safety net.



Another reason why Wes could have relaxed some about his personal wealth is that the company had a discipline of keeping \$75 million to \$100 million of cash on hand to deploy opportunistically. The funds were held in short-term bonds and, given the very low-rate environment, they were earning almost no return as they sat on the sidelines.

Our team assessed the liquidity needs for these funds. It became clear that in the company's history, it had never been deployed with less than 90 days' notice—a fact that significantly widened the opportunity set in terms of investments. Our team designed a highly customized portfolio of fixed income and alternatives. Paying careful attention to liquidity provisions, we were able to turn a 1% annualized return into a 5–7% annualized return while ensuring that the pool of capital remained available for opportunistic deployment according to the company's business plan. This materially added to the company's performance without compromising its core mission, giving Wes even greater comfort in his personal investing plan.

Outcome:

Investment acumen, manager relationships and a thoughtful, strategic approach were key components of this success story. But it really began with Wes choosing to engage a trusted advisor to help him evaluate his situation and opportunities. With our outside perspective and experience working with numerous highly successful clients and family offices, we were able to help Wes reshape his thinking, resulting in a materially better investment journey for Wes, his family and his company. [B](#)

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