

FIVE
GREYCOURT
FAMILIES

CHARLOTTE, NC

PITTSBURGH, PA

PORTLAND, ME

PORTLAND, OR

Five Greycourt Families

The following narratives were compiled from the real stories of Greycourt clients. Understandably, the facts have been disguised to protect the confidentiality of our clients. The problems presented are real and representative of those other wealthy families might face. The solutions are real as well.

To avoid repetition, we've omitted some of the constant features of the process Greycourt follows with every family:

Learning. There are no pre-determined solutions. Every assignment begins with Greycourt learning about the family.

Education. Greycourt allows for a family to learn as much as they want at every stage of the investment process, year-in and year-out.

Asset Allocation. We present a range of investment options across the risk return spectrum. Each choice is designed to provide a return appropriate to the corresponding level of risk. We prepare wealth projections to illustrate a range of possible outcomes from each choice. We work with the family until they have made a choice they understand and are comfortable with.

Asset Location. We work with the family's tax and legal advisors to put the right investments in the right trust, partnership, foundation, retirement plan or individual portfolio. This can mean important tax savings.

Manager Selection. The process is objective, educational, well documented, and entirely independent. As such Greycourt will not take anything of value, directly or indirectly, from the managers it recommends.

Implementation. We work with clients on selecting the right custodian, moving money to the new managers, as well as many other practical details.

Portfolio Monitoring. Greycourt prepares quarterly analyses of manager performance, monitors the asset allocation, and recommends changes as appropriate. We stay abreast of developments with managers throughout the quarter. Some of our best advice is that a manager not be changed because of a temporary downturn.

Change Management. Families change and so do their portfolios. Greycourt recommends changes in strategy when circumstances dictate. We often find that as clients learn more about the investment process, we are adding asset classes and managers to the mix.

The Ashton Family

In 1999 Mr. Ashton retired as a senior executive of one of the country's largest asset managers. His investment portfolio consisted of his former employer's stock (50%), a red-hot large-cap growth portfolio (20%) and minimally diversified fund products of his former employer (30%).

Greycourt consulted extensively with Mr. and Mrs. Ashton. We learned that Mr. Ashton, who had retired at a relatively young age, wished to continue to work, perhaps developing a new business. The family also wanted to provide long-term support for one child. During this process, the family determined that they would seek more capable estate planning counsel and tax advisors.

Key Issues

The family had one manager who was not only good, but on a hot streak. Unfortunately they also had a very risky asset allocation and a group of mediocre managers.

Solutions

Asset Allocation. Greycourt and the family agreed that an entirely new allocation would be established, reflecting a longer-term view. The concentrated position in the employer's stock was sold over two tax years, and the proceeds invested under the new asset allocation. The highly successful large cap growth manager was retained, but the position was reduced. The family's allocation of taxable and tax-exempt bonds was increased. Assets were allocated to these classes: large cap value and blend; small cap growth and value; international growth and value; hedge fund of funds; and private equity fund of funds and a secondary fund.

Asset Location. Greycourt and the family's tax and legal advisors recommended a family limited partnership. The FLP permitted tax savings on wealth transferred to the children. The pooling of assets in the FLP allowed access to managers requiring higher minimums, sometimes at lower fees when compared to having several separate smaller accounts with the same manager. The large cap growth manager had been held in the family's IRA. Because the manager was relatively tax efficient, this position was shifted out of the IRA, and replaced by hedge funds and taxable bond holdings.

Manager Selection. Mr. Ashton became president of a bank in another city, and was immersed in that challenge. Greycourt conducted searches for new managers and presented written analyses and recommendations on two or three manager choices in each asset class. Some of the selected managers accepted investments below their usual minimums because of their relationships with Greycourt and its other clients. This gave the smaller family more sophisticated choices.

All of this was accomplished before the crash of the equity markets of 2000 and 2001. Despite the rather heavy orientation to equities the portfolio showed great resiliency.

The Brooke Family

The Brooke family sold a majority interest in their steel fabricating business five years ago, netting approximately \$30 million. They retained a large minority interest in the privately held company. Mr. Brooke had managed the family's money for many years, often selecting managers recommended by friends.

The Brooke family consists of Mr. Brooke's senior generation (2 members), a middle generation (5 members, counting spouses) and a third generation (11 members).

Preparation

Greycourt met with the senior generation to learn about the family's investment portfolio and major objectives and concerns. We also developed an understanding of the fabricating business and its business cycle. We then recommended that Mr. Brooke convene a family meeting. At the meeting, Greycourt advisors explained the investment process to all three generations; discussed the nature of family philanthropy; explained the family's complex estate planning strategy; and met separately with each family group.

Key Issues

The family had no asset allocation plan at all, and the quality of their managers varied widely. In addition, its minority interest in the fabricating business represented a valuable asset but a very large concentrated risk.

Solutions

Asset Allocation. Greycourt prepared asset allocation recommendations for the family as a whole, helping the senior generation select a coherent overall strategy that struck a comfortable balance between risk and return. The new plan had fewer managers but more asset classes and was designed specifically to counter-balance the concentrated risk of the fabricating business. We also prepared specific portfolio strategies for each family group, as the three generations had different current needs and time horizons.

Manager Selection. Greycourt proposed a customized, tax-enhanced index portfolio of large U.S. stocks, using a specialized manager who designed the portfolio to (i) counter-balance the concentrated risk of the fabricating business, (ii) track a specified index (e.g., the S&P 500) and (iii) minimize taxes.

In evaluating the family's existing managers, there was no presumption that incumbent managers would be kept or replaced, and every recommendation for change considered the tax and trading costs of making that change. Greycourt created a detailed plan to map the flow of assets from old to new managers, and followed the process to completion.

The next step with the Brooke family is to focus on the family foundation, introducing the middle and younger generations to the satisfactions and challenges of philanthropy.

The Coro Family

The Coro family built a very substantial specialty chemical company. Shortly after the father died, Mrs. Coro sold the business to a multi-national chemical company for several hundred million dollars in stock. While she was considering her next move, the stock began a long, strong run. Her stock holding quadrupled, to over a billion dollars. Her tax basis in the chemical stock was, essentially, zero. She had two daughters, married with children.

Key Issues

Mrs. Coro was very reluctant to sell any of her chemical stock, which had just made her a billionaire. She was also reluctant to pay the taxes a sale would generate, and thought it might be better hold the stock and let her estate take advantage of the step-up in basis at her death.

Solutions

Concentrated Position. Greycourt prepared an analysis of the range of outcomes the family could expect from holding the concentrated stock position versus selling, paying taxes and reinvesting the proceeds in a diversified portfolio. We also reviewed various strategies designed to minimize and/or postpone payment of the taxes. Greycourt then met with the family's tax and legal advisors and family office professionals to discuss these analyses.

Asset Allocation. Greycourt recommended that Mrs. Coro sell at least a portion of her chemical stock and invest the proceeds in a diversified portfolio. She accepted the recommendation and disposed of about 33% of the chemical stock through outright sale, selective use of exchange funds and a strategy that combined a family limited partnership, a charitable remainder trust and prepaid variable forward sales. The new asset allocation sought to counter-balance the huge concentration of risk in the remaining chemical stock.

Manager Selection. Greycourt worked with the family office professionals and used the manager selection process to deepen the family's understanding of their own strategy as well as those of their managers. Greycourt believes that the better a family understands their strategy, the less likely they are to abandon it at precisely the worst moment. Such education can reduce pressure on the family office staff and raise their knowledge level, as well.

Things could have worked out either way, but the chemical stock did experience a very significant decline. Even if it had not, Greycourt believes that selling a portion of the chemical stock to gain a more diversified portfolio would still be the correct choice.

The Dalton Family

Mr. Dalton had been the chief executive officer of a large regional bank in the Midwest. When the bank was acquired, he became a senior officer of the acquirer. He immersed himself in his new duties, but began to look at his own financial affairs more seriously. Most of his wealth was in restricted stock of the bank and nine blocks of stock options. His bank's trust department managed the balance of his assets in their own investment products.

Mr. Dalton had a good relationship with his trust officer, but wanted to be sure that, as he generated cash from exercising options and selling stock, he would be reinvesting with top-tier managers. He discussed these goals with his trust officer, and she introduced him to Greycourt.

Key Issues

Mr. Dalton needed to shift wealth from his stock options and restricted stock into a diversified portfolio. He liked his bank's stock, but understood the risk that the concentrated position posed for his family. Taxes were a big factor. He also needed an unbiased evaluation of his existing investment funds and access to quality managers.

Solutions

Greycourt developed a detailed analysis of the option and restricted stock positions and a proposed plan of sale. We then reviewed the plan with Mr. Dalton and his tax advisors.

FLP. Greycourt suggested that the family form a separate family limited partnership for each asset class where they chose to use a separately managed account. This allowed the family members and the foundation to aggregate assets to access good managers at lower costs, while permitting each family unit to customize its own asset allocation. The FLPs helped minimize gift taxes, as well.

Asset Allocation. Mr. Dalton was familiar with the asset allocation process, but he realized that his wife and children were not. He used Greycourt's asset allocation and manager selection processes to educate his family. He became more comfortable that Mrs. Dalton and their children understood his strategy and would be able to carry it on in the event of his death.

Manager Selection. Because Mr. Dalton continued to serve on the bank's board, it was imperative that the manager selection process be objective, grounded in good data and well documented. When Greycourt presented its report on each asset class, Mr. Dalton was comfortable retaining the bank in two classes and selecting outside managers in the others.

Mr. Dalton is continuing with the planned harvest of his bank stock and reinvestment in the diversified portfolio. He maintains a dialogue with Greycourt on his asset allocation and occasionally adds an asset class to the mix.

The Earle Family

Mr. Earle successively built and sold two mass media properties. After the second sale, he found himself in uncharted territory, responsible for the management of nearly two billion dollars in liquid, after-tax proceeds. He had three principal goals: to create a “safe harbor” of wealth for his wife and children, to make direct investments in the entertainment business (as an investor, not as an active executive) and to pursue deeply held philanthropic interests.

Mr. Earle and his business manager screened every conceivable investment management alternative, including Greycourt. He decided that he wanted a relationship with a large Wall Street firm to manage his money to gain access to the deal flow for direct investments, credit facilities to leverage his investments, and industry research. On the other hand, he was confronted with an array of unfamiliar tasks, from creating a family office to selecting the right big Wall Street firm. He selected Greycourt to guide him through the entire process.

Key Issues

Mr. Earle was an experienced executive but an inexperienced investor. He needed to create a family office capable of managing his marketable investments and of making and monitoring direct private equity investments in media companies. He needed to create an investment policy and select managers for his marketable portfolio. He needed to invest his cash until all of this was up and running.

Solutions

Mr. Earle asked Greycourt to find the best Wall Street firm for his needs and to supervise that firm’s activities. In addition, he asked for Greycourt’s advice on all the issues he faced:

- ◆ The immediate investment of nearly \$2 billion of cash, a project undertaken during the most volatile period for short-term securities in this century.
- ◆ The design of his family office, including selection of key senior staff members.
- ◆ Overall allocation of the family’s capital.
- ◆ Identification of “core” managers, particularly tax-aware index-like managers.
- ◆ Articulation of the family’s philanthropic interests, including preparation of a mission statement for the foundations and preliminary guidelines for proposals.
- ◆ Creation of an offshore asset protection trust.
- ◆ A complete redesign of the family’s estate planning strategies.
- ◆ A complete risk and insurance audit for the family.

Going forward, Greycourt will continue to serve on the family’s outside advisory board and will conduct periodic studies and special projects as requested by the family.