

2011

YOU, YOUR WEALTH AND YOUR MOST IMPORTANT PARTNER

Making the Right Choice for Wealth Management

Preserving wealth for your family and future generations has become more challenging than ever, which further increases the importance of hiring the right wealth manager to steward your family's capital.

In searching for a wealth manager, you may wonder what qualities are important in a reputable firm and its relationship managers and what questions to ask during the interview process. In this white paper, Atlantic Trust draws on more than 75 years of experience in building lasting client relationships to create a resource, written as objectively as possible, for your reference and consideration during your search.

Why are you interested in wealth management?

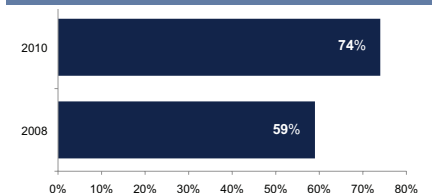
A wide range of situations may lead an individual or family to seek a wealth manager, with the most common scenarios described below:

- **Experiencing a liquidity event.** Substantial wealth may be created when a family sells their privately held company. When this occurs, the family, who historically focused their efforts on building a successful business, may require the assistance of a wealth management firm that can protect, diversify and manage the assets the family has worked so hard to create.
- **Inheriting wealth.** Often, the next generation inherits considerable wealth without having had any communication with the firm or advisor with whom their parents worked. In such a situation, the inheriting generation may want to develop a relationship with a firm they can trust.
- **Evolving family office dynamics.** Single-family offices are facing challenges in maintaining their current structure due to increasing costs, changing regulatory requirements and higher demand for additional services. As a result, 40% of family offices are considering a merger with another firm and 80% plan to outsource investments and tax services, according to a 2011 survey in *Private Wealth* magazine.
- **Seeking help with portfolio management.** Today, investment management is about more than stocks and bonds. Emerging markets and real estate are just two examples of asset classes that can help mitigate portfolio risk, but they are typically quite difficult for investors to evaluate on their own. As a result, more people are looking to hire a wealth manager to help manage their portfolio.

ATLANTIC TRUST

PRIVATE WEALTH MANAGEMENT

A. Ultra High Net Worth (UHNW) usage of a financial advisor*



B. Satisfaction with financial advisors

35% of UHNW individuals have more confidence in their primary advisor today than several years ago

C. Variables in choosing a new financial advisor

Honest and trustworthy	98%
Transparency and informative	92%
Track record	90%
Depth of products and services	80%
Fees	79%
Strong references	74%

D. Reasons for firing a financial advisor

Not returning phone calls in a timely manner	59%
Not providing good advice or ideas	46%
Not being proactive in contacting me	45%
Not returning emails in a timely manner	41%
Long-term losses in the portfolio	31%

E. How important are the following in choosing investments?

Level of risk associated with investments	94%
Diversity of investments	89%
Tax implications of investments	87%
Reputation of co. where investments made	83%
Past track record of investments	75%

*UHNW includes investors with \$5 million+ net worth, excluding private residences.

Source: Spectrem Group, 12/31/2010

- **Dissatisfaction with a current advisor.** As investment and commercial banking institutions face economic pressures, they increasingly lose sight of whose interests are most important and often focus on their own interests rather than on those of the client. In that situation, a family may consider other alternatives.
- **Retirement of a current advisor.** Many recognize the importance of a long-standing relationship between a family and a financial advisor—their trusted partner for many years. When the advisor retires, the family is faced with the decision to hire the advisor’s replacement.

Depending on your circumstances, recent research on why and how wealthy families choose advisors—and what factors determine families’ satisfaction—offers some insight that can be useful in your own search (see sidebar to the left).

Criteria to Consider When Hiring a Wealth Manager

Using objective criteria to vet and hire a wealth manager can lead to a higher level of satisfaction with the manager you select. Here you will find a description of characteristics that we believe are most important to consider, yet we recognize that the “instinctual” feeling you have about the advisor with whom you and your family will build a relationship also is critical to the process. Whatever your path to a decision regarding wealth management for your family, Atlantic Trust would be honored to have the opportunity to discuss your needs and goals, to answer your questions and to become your trusted advisor.

I. Alignment of Interests

Focus. *What is the firm’s primary business? Is it focused exclusively on providing wealth management services?*

Often, a firm’s other services in addition to wealth management may present a conflict of interests or a distraction of purpose. For example, many organizations offer brokerage, investment banking or commercial lending services that may adversely affect how the firm works with you. Identifying both the focus and business interests of the firm will be valuable for you in your search. The firm you select should act in a *fiduciary* capacity, putting your interests ahead of its own. This objective is paramount, and it should be clear that the firm’s leadership upholds this standard.

Ownership structure. *What is the firm’s ownership structure—is it publicly or privately held?*

One of the benefits of a publicly held firm is the level of transparency available. A publicly held firm may also have a higher level of accountability because it is expected to deliver respectable results to its public shareholders. As a result, many publicly held organizations have a level of financial stability that families find attractive. On the other hand, a privately held company may not have the pressures to produce profitability on a consistent basis. Both options have their respective strengths and weaknesses to consider in your evaluation process.

Fees. *Will the fees you pay be based on a percentage of assets the firm manages on your behalf, and are there other fees, such as a retainer, that you will be charged?*

It is best to confirm at the start of the relationship what fees you will pay—which could include investment management, custody, asset allocation, trusteeship, bill paying and ancillary family office services. If the fees are based on a percentage of assets, you

The history of the firm should demonstrate its stability and experience in working with comparable families.

may be able to aggregate your family's assets for fee purposes, in which case you may qualify for reduced fees based on the larger pool of assets the firm will manage. Since different asset classes have varying fees, you may want to ask what those respective asset class fees are and whether there is a profit-sharing component—typical in the alternative asset class. Additionally, you may want to know whether the wealth manager is receiving fees from outside partners, such as external investment managers, and whether the firm engages in activities such as brokerage, earning commissions based on trade activity and bid/ask spreads.

Importantly, fees should be readily transparent, so that you may know exactly what you will pay and what services you will receive in return.

Compensation. *How are the investment professionals and relationship managers compensated?*

The firm's incentive structure should align the relationship and investment managers' interests with clients' interests by basing their compensation upon the retention, preservation and growth of the client assets entrusted to their care. Professionals who are responsible for client relationships should be compensated based on the revenues generated from this asset-based fee, not on transactions or manager selection (often known as "kickbacks").

In addition, investment professionals who manage proprietary investment strategies should receive incentive compensation based on the overall investment performance versus the size of the portfolios they manage. If the latter is the case, portfolio managers may lobby for asset allocation decisions that lead to client assets being moved into their portfolios to serve their personal interests rather than the best interests of the clients.

Confidentiality. *Does the manager have a written statement of privacy or confidentiality? If so, what does it say?*

A wealth manager should handle information about your family's financial matters with the utmost care to protect your family's identity and respect your confidentiality.

II. Competence

History. *How long has the firm been in the business of offering wealth management and working with families like yours?*

The history of the firm should demonstrate its stability and experience in working with comparable families. In order to understand the wealth levels the firm manages for clients, you may want to ask the firm to share what percentage of their client relationships could be categorized in the following asset ranges: under \$1 million, \$5-\$50 million or \$100 million or more? This information will help you assess whether the firm's offerings and capabilities will meet your needs.

Assets under management. *What are the firm's assets under management for private clients (distinguishing these assets from institutional or retail assets)?*

The firm's size provides additional perspective on its capabilities in the wealth management market. Small firms—managing less than \$5 billion in assets, for instance—may not have the resources to effectively manage your family's wealth. Conversely, large firms—managing more than \$100 billion in assets, for example—may not offer the personalized service and nimble decision-making that often characterizes small to medium

size firms. The ideal firm should be large enough to have financial stability and resources to continually develop new solutions, yet it should be small enough to provide tailored, attentive client service.

Financial strength. *What is the firm's level of capital and debt; also, has it needed additional capital in recent years to ensure continued operations?*

For a lasting relationship that extends through your lifetime and those of future generations, it is important to identify a firm that exhibits prudent management of its business. Such firms should provide continuity of service delivery without disruption or severe cutbacks over the course of many years.

Asset growth and firm vision. *How quickly has the firm grown its assets, and what is its vision for future growth?*

Measured growth over time is positive, as it reflects a high level of client retention, consolidation of clients' assets at this firm and new client additions. However, if a firm grows too dramatically, the impact can negatively affect its ability to attentively service the influx of new relationships. Conversely, a firm that has not grown may indicate that its offerings or business model are not attractive to the wealth market. Thus, it can be quite revealing to review the firm's financial performance, growth and the leadership team's vision for the business.

Experience. *How long has your relationship manager been in his or her role at the firm, and what is the manager's overall experience in the wealth management business?*

Wealth management requires understanding of complex information, and your advisor should be capable of giving you the best possible guidance in wealth strategies and investment management. You may be interested in knowing what advanced degrees or credentials your advisor holds—MBA, CFA, CFP and JD. Continuity is equally significant. Knowing how long your advisor has been with the firm can help you decide if he or she will be a stable presence with you and your family for many years to come.

Litigation. *Does the firm have any litigation pending against it?*

You should be aware of any legal, regulatory or ethical issues that the firm or your relationship manager have faced in the past or are dealing with currently, which could be red flags.

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III. Wealth Management Offering and Services

Investment approach. *What is the firm's investment philosophy and platform?*

A wealth manager's core service will almost always focus on a firm's investment approach and capabilities. One question in this regard is whether the firm offers "open architecture," proprietary investment solutions or a combination of both. Firms that have no internal investment capabilities, and thus no daily experience with managing money, may be at a disadvantage in the due diligence process of selecting external money managers. Firms with only proprietary offerings may not be able to offer you the best risk-adjusted performance in every asset class. Firms offering a hybrid approach blend both proprietary and external offerings and should be judged on how the

relationship managers are compensated to ensure that they are not incented to choose one investment over another. In all cases, your wealth manager's interests should align with your own.

Asset classes. *What asset classes does the firm manage?*

The breadth of the firm's offerings will influence its ability to both protect and grow your assets. Typically, it is attractive when a firm has capabilities in large-, mid- and small-cap equities and a broad range of fixed-income offerings such as municipal, high-income, mortgage-backed, emerging markets and convertible bonds. Understanding the depth of the firm's alternative investment capabilities also is important, as these asset classes—including hedge funds, private equity, real estate and master limited partnerships—can make a difference in the long-term performance of your portfolio.

Asset allocation. *What is the firm's asset allocation expertise? What is the process for identifying and understanding your objectives and risk tolerance to customize your asset allocation?*

Asset allocation represents about 92% of a portfolio's performance, so a firm's commitment to customizing your asset allocation will substantially impact your portfolio. In setting your asset allocation ranges, your relationship manager should consider your investment time horizon and balance objectives for preservation of capital, income and growth with tolerance for risk and cash flow requirements.¹

Also, the firm's process for establishing asset allocation recommendations is very important. The firm should have a group or committee of investment experts who study the markets and consider the macroeconomic environment. They should produce a track record of their recommendations on an annual basis. If you see shifts in the percentage of assets in various asset classes from year to year, you can be assured they are actively and tactically making changes for their clients based on the changing capital markets and economic climate.

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Investment policy. *In the firm's view, how important is the investment policy statement (IPS)?*

Related to asset allocation is the creation of an investment policy. An advisor should take great time to create a customized investment policy statement for you and your family members that reflects your current needs and long-term goals. It will serve as the blueprint for managing your assets and should be reviewed with you on a regular basis.

Performance and volatility. *How does the firm evaluate portfolio performance and volatility?*

It is important for firms to define what constitutes above-average performance and whether the performance numbers are before or after fees are calculated. And when performance is discussed, you should know if it reflects all similarly managed firm accounts or their standard recommended allocation for a particular type of account, such as growth or balanced. Performance should also be evaluated over various time periods—1-, 3-, 5- and 10-year—and compared to both a neutral benchmark—such as the S&P 500 Index—and peer groups—such as a Lipper Index. In particular, knowing how an investment manager performed when the market declined, as well as when it advanced, will give insight into the manager's style. Protecting your assets in a down market should be a top priority.

Firms that limit the number of client relationships per advisor and use a team approach show a strong commitment to providing excellent client service.

In addition to reviewing the investment returns, you should study portfolio volatility—the dispersion of investment results over a period of years. Volatility can lead to an emotional roller coaster, yet more importantly, if a family is taking a distribution from a volatile portfolio, it can have negative implications on the size of the portfolio over time. Again, comparing the volatility of a firm’s representative portfolio to that of a comparable benchmark will give you an indication of how wide the investment swings could be in the future.

Tax efficiency. *How tax efficient is the manager when managing your assets?*

If any investment manager sells and buys stocks and the “turnover” of the portfolio is 100%—the total portfolio has been traded—during the year, that actively traded portfolio will incur taxes you may not want. Tax efficiency alone should not dictate how you assess managers, but the efficiency with which they manage your assets often can be used as a tiebreaker if all other factors seem equal.

Firm services. *What non-investment, wealth planning services does the firm provide? Are they integrated into your overall wealth plan and are they sufficient for what your family needs and requires?*

Some firms offer estate, tax, legacy and philanthropic planning, as well as fiduciary (trustee) services. Ancillary “family office” and concierge services may also be available for ultra-affluent families. It is best for these services to be integrated with investment management so that you receive the maximum benefit from the planning process.

IV. Execution

Portfolio analysis. *Will the wealth manager be willing to look at your portfolio and make some preliminary recommendations, for no fee and with no obligation on your part, before you hire the firm?*

A way for you to gain some valuable insights into the wealth management firm’s competence and thought process is to share your current investment portfolio, confidentially, and have the firm produce an analysis and an assessment of its initial recommendations.

Number of client relationships. *How many clients does your relationship manager currently have, and how many does he or she expect to manage at a maximum?*

Your relationship manager should be proactive and attentive to your various needs. In many organizations, relationship managers commonly have a large number of client relationships. As a result, the manager may be stretched too thin to provide you with the attention you need and expect. Firms that limit the number of client relationships per advisor and use a team approach show a strong commitment to providing excellent client service.

Communication. *How often will you and your family meet with your relationship manager, how much access will you have to other personnel and senior management, and how customized are the firm’s performance reports?*

The level of communication should certainly be the highest in the early stages of your relationship, when both parties are establishing a framework for how best to inform and stay informed. In the first couple of years, you may want to meet with your advisor quarterly. You also may want to make sure that your advisor meets with other family

members as needed. In addition, it is valuable for you to have access to other senior professionals at the firm—portfolio managers, wealth strategists, investment strategists and senior management. These professionals can share with you and your family worthwhile insights on various topics. Understanding their availability to your family will help you manage future expectations.

Finally, part of the firm’s communication involves reporting on your account holdings, transactions and portfolio performance. Factors to consider include frequency, the format—consolidated and/or customized—and the delivery of information—online, via email or mail, or in a personal meeting. Overall, you want to feel comfortable your advisor is providing you with transparent, thorough updates as frequently as you prefer.

Transition. *How long and what is the process for you to open a relationship with the new firm?*

A new relationship should transition in an orderly and efficient manner with a prescribed timetable of what will be expected from both parties as the relationship evolves. These responsibilities should be clearly articulated so everyone understands his or her respective duties before the relationship is finalized.

References. *What do the firm’s clients say about their experience with the firm? What do your other advisors, such as your attorney or CPA, know about the firm you are considering, and have they worked with the firm in other client matters?*

Relationship managers should be able to provide you with two or three clients who are willing to serve as references. Thus, you may hear firsthand and candidly from people who use the manager and can articulate their opinions about the manager’s strengths and weaknesses. Also, it is useful to solicit the knowledge of advisors you respect and to understand the experience either they or their clients have had in working with the wealth manager. These advisors can offer an additional perspective.

Chemistry and cultural fit

Even after you’ve done all of your due diligence, part of your decision will come down to how you feel about the cultural fit between your family and the wealth management firm. Chemistry is difficult to define, but we know it when we see it. At the end of the day, you and your family should feel comfortable with your decision and look forward to a lasting relationship with the firm of your choice. ■

Atlantic Trust would like to thank Jeff Jacobs, Managing Director in our Chicago office, for his contributions to this white paper. He drew upon 23 years of experience working with client families to help develop this material.

¹Gary P. Brinson, Brian D. Singer and Gilbert L. Beebower, “Determinants of Portfolio Performance II: An Update,” The Financial Analysts Journal, 47 (1991).

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