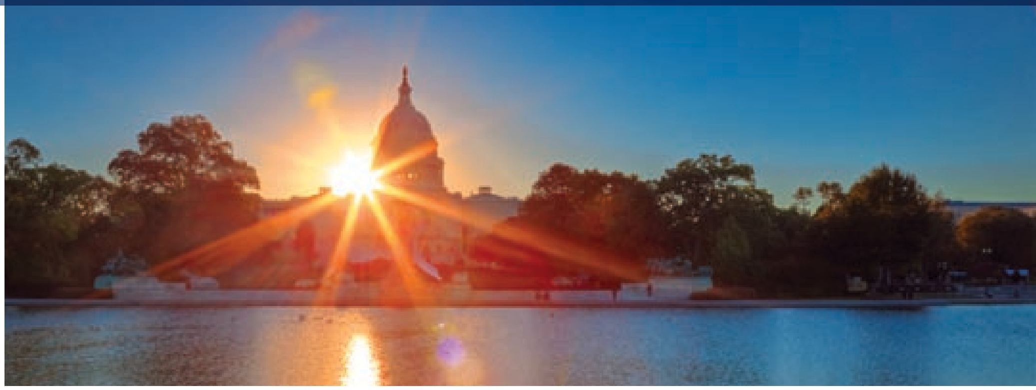
FOURTH QUARTER 2010

Insights for Integrated Wealth Planning

THE ATLANTIC TRUST ADVISOR



A "change" election and a slate of completed reform may give rise to a new look in Washington—and the markets.

Politics, Policy and Your Portfolio

IN THIS ISSUE:

Look for ❗ throughout this issue for specific planning and investing strategies or tactics. As always, please discuss your specific situation with your relationship manager.

"What will Congress do?" is the question of the day. More important, though, is "What can you do?" Because the current political and policy environment is so important and wide-ranging, we're devoting this entire issue to it, with Atlantic Trust experts from across the wealth management spectrum providing perspective on what lies ahead—and how to prepare.

A YEAR FOR REFORM—BUT NOT NECESSARILY FOR TAXES

What a difference a year makes. In the fall of 2009, policy experts felt fairly certain that the estate tax would never, ever go to zero. They were also confident that more than a year was ample time for Congress to address the tax cuts put in place in 2001, set to expire at the end of 2010. Instead, Congress has failed to act on the estate tax and the expiring tax cuts, spending most of the year creating, debating and approving the massive health care reform and financial regulation reform bills. Layered on top of politics and policy are the fall 2010 mid-term elections. The result, says Dan Clifton, partner and head of policy research at Strategas Research Partners, is an environment with potential outcomes that are very difficult to handicap.

"With so little time remaining for everything on Congress' plate, it seems unlikely that we'll get resolution on all of the tax issues," says Clifton. "From policymakers' perspectives, it does appear that addressing the middle-class tax cuts is most pressing. There's the economic argument: Extending lower tax rates could help the economy rebound. There's also the philosophical argument: It's politically unpalatable to hurt the middle class when so many are already hurting. Investors are looking at

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ATLANTIC TRUST
PRIVATE WEALTH MANAGEMENT

the economy, seeing the potential for a 'double dip' recession and thinking Congress would be unwise to raise taxes in such a fragile economic environment. However, we're afraid Congress still hasn't really focused on the sticker shock of tax changes—the middle-class tax cuts alone will run $175 billion in 2011."

In mid-September, President Obama called for preserving the 2001 tax cuts for all but those making more than $250,000 a year. House Minority Leader John Boehner (R-Ohio) proposed to extend them for all taxpayers for two years, while Sen. Mitch McConnell (R-Ky) proposed to continue all of the tax cuts indefinitely. Extending the current tax breaks at the highest income levels is estimated to cost the government $700 billion in lost revenue over 10 years.

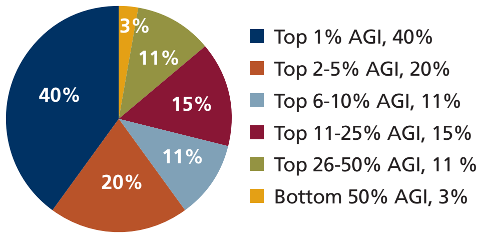
Changes to Note

Of particular importance to Atlantic Trust clients is the current 15% rate on capital gains and dividends: Left to expire, the capital gains tax rate will rise to 20% and the qualified dividends rate to 39.6%—the top rate on ordinary income—in 2011. Preserving the 15% dividend tax rate will cost about $20 to $25 billion in 2011. Because the 2011 budget assumes the dividend tax rate is 39.6%, any change lower requires a dollar-for-dollar offset with a tax increase or spending cut on another constituency. "We can envision a scenario where the Democrats offer a 20/20 capital gains and dividend tax rate paid for with tax increases on carried interest, the Bank Tax and tax increases on oil and gas companies," says Clifton.

Also, there's the estate tax, what Clifton refers to as a "heavy lift" for Congress. President Obama has called for a 45% estate tax rate with a $3.5 million exemption, a position favored by the majority of Democrats in the Senate.

Who Pays the Tax?

Percentage of Federal Personal Income Tax Paid Per Adjusted Gross Income



AGI Threshold on Percentiles	Percentiles Ranked by AGI
Top 1%	$410,096
Top 2-5%	$160, 041
Top 6-10%	$113, 018
Top 11-25%	$66,532
Top 26-50%	$32,879
Bottom 50%	<$32,879

Note: AGI is Adjusted Gross Income
Source: Internal Revenue Service, 2007

As for the Senate as a *whole,* the consensus seems to be for a much deeper cut in the tax rate: 35%, with a $5 million exemption. Driving this scenario into more vocal debate is money or, more specifically, the federal budget. The Congressional Budget Office has used a baseline assumption of an estate tax rate of 55% with a $1 million exemption for the next 10 budget years. Any of the various proposals to reduce the estate tax rate and raise the exemption will cost at least $200 billion over 10 years.

Unlike "fixes" to capital gains and dividends rates, Congress needs to make a more permanent change in the estate tax. "The estate tax is not something that can or should be tinkered with every couple of years, and realistically, we are simply running out of time this year for Congress to address the estate tax with permanency," says Clifton. "The legislative agenda is crowded and the election is a major distraction. It's possible that a lame-duck Congress could address the estate tax between mid-November and the second week of December, but it is more likely a Republican-heavy Congress will address it in early 2011."

What Now?

With so much uncertainty, Atlantic Trust clients are evaluating both short-term actions and longer-term wealth planning strategies to prepare for 2011 and beyond. "If the tax cuts are left to expire, a smart tactic is to accelerate income into 2010 and defer deductions until 2011, when they will be more valuable," says Daryl Allen, managing director. "Privately held businesses can also accelerate dividend payments into 2010 in advance of a possible tax increase." A gifting strategy also is beneficial, with the 2010 rate on taxable gifts at 35%, sharply below the 55% rate that could kick in next year.

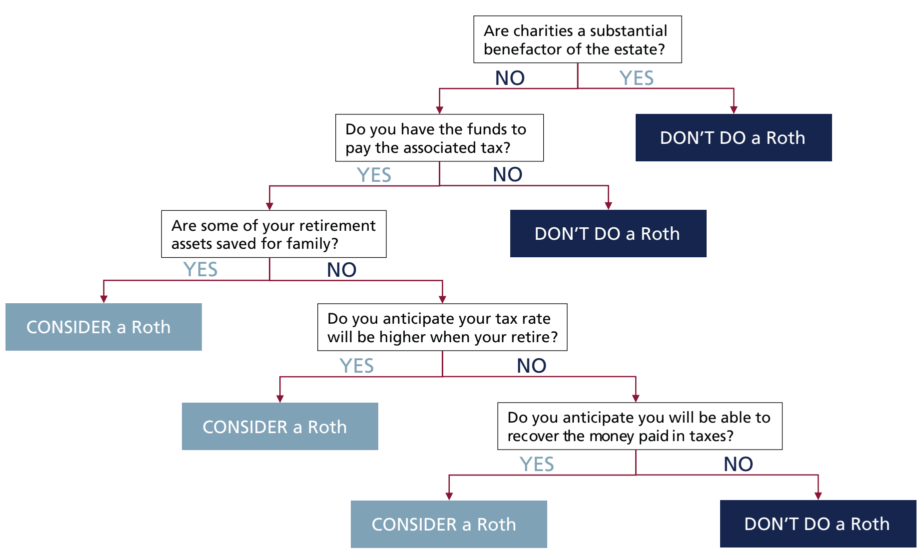
Along with the estate tax, the generation-skipping tax disappeared on January 1, 2010. Therefore, making distributions to adult grandchildren from trusts that would ordinarily trigger generation-skipping tax can be made free of the generation-skipping transfer tax this year. In addition, converting a traditional IRA to a Roth IRA may be beneficial, especially given the fact that beginning in 2010 there is no income limitation for conversion eligibility. Although the law allows for spreading any tax due over the 2011-2012 tax years, paying all of the tax in 2010 on a conversion may make better sense. The Small Business Jobs and Credit Act, signed on September 27, 2010, also allows a 401(k) to be converted to a Roth 401(k). *(For more details on a Roth IRA conversion, please see "Analysis of Roth IRA Conversions," in the News & Resources section of atlantictrust.com.)*

A Grantor Retained Annuity Trust (GRAT) is another valuable and timely strategy in this environment. "While a GRAT is effective in passing the trust's remaining value to beneficiaries free of transfer taxes, the benefits of GRATs could be reduced drastically," notes Judith Saxe, managing director. "Clients considering GRATS in their planning may wish to act soon to take advantage of low asset values, low interest rates and the current favorable law governing the structure of these vehicles." Currently, a GRAT can be structured with a term as short as two to three years. It is important to note that the President's 2011 budget proposal and the original Senate version of the Small Business Jobs and Credit Act required a 10-year term with a remainder interest valued greater than zero. However, the version signed into law did not include such a provision. We will continue to monitor this issue.

Beyond Gridlock—Room for Optimism

Regardless of the uncertain estate tax environment, clients need to ensure that their assets pass in accordance with their wishes. "Asset protection planning remains vital, as does the need to plan for incapacity or disability," says Linda Beerman, chief fiduciary and risk officer. Clients still need to create business succession plans and charitable giving strategies. Those who own homes or other property in more than one state still need to factor this complexity into the planning process. "As we look forward to permanence and stability in the estate tax, we're still helping clients *right now* plan for orderly, effective transfer of family wealth," says Beerman. "That is a timeless strategy."

Roth IRA Decision Tree: Weighing the Options



Source: Atlantic Trust

While political gridlock appears to be on the 2010 year-end horizon, there is also reason for optimism going into 2011. Pro-business provisions in the Small Business Jobs and Credit Act create a large new tax break for capital investments and extend tax credits for R&D. But *clarity,* says Clifton, is the big relief valve. As uncertainty fades, cash from both individual investors and businesses may come out of reserve and be put to work. When businesses free up the cash they've been hanging on to, significant job growth could be right around the corner.

Voters seem to be in "repudiating" mode—"People are asking, 'We just spent a trillion dollars in stimulus, and we still have a 9.5% unemployment rate, so where did the money go?" notes Clifton. But a new slate in Congress holds the potential for huge change. "Republicans want to prove they are the mature adults in government, and President Obama does not want this economy where it currently is as he heads into his re-election," he notes. "The best performing year for the stock market is historically year three of a presidency. A lot of factors create the potential for many positive possibilities."

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THE NEW (POTENTIAL) LOOK OF CONGRESS

While Atlantic Trust is not partisan or politically engaged, we do believe it is important to offer you the perspective and analysis of Washington insiders, particularly during a "change" election. Accordingly, there are three key indicators to watch leading up to a mid-term election, particularly those in the first term of a new president's tenure.

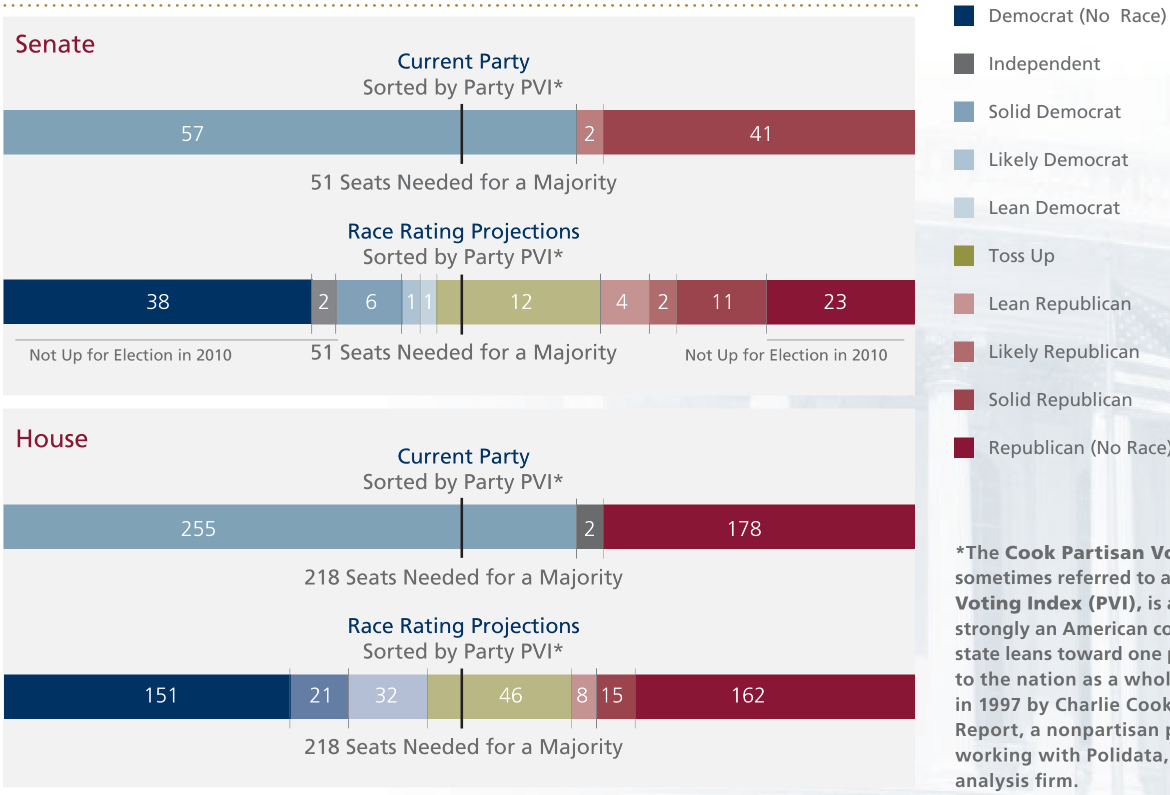
First, the president's approval rating generally has a high correlation with the number of congressional seats gained or lost from his own party. Since the mid-1940s, there have been two mid-term elections in which the sitting president had an approval rating greater than 50% and saw his party gain seats. However, when a president has a 45% approval rating, his party tends to lose a significant number of seats—Presidents Johnson in 1966, Clinton in 1994 and Bush in 2006. If history repeats, the 2010 mid-term elections could result in the Democrats losing 50 seats in the House of Representatives and the Republicans gaining control—the third largest change in the number of seats since World War II.

The second, and very robust indicator, according to Clifton, is voter polling on which party they want to lead Congress. Late August/early September Gallup polls showed Democrats being favored by voters at 41%—a number consistent with a loss of 85 to 90 Democratic seats in the House. The number has bounced back from that low, but is currently consistent with Democrats losing roughly 55 to 60 seats. According to political insiders, there are quite a few Senate seats in play, as well. The odds still favor Democrats holding their majority, but that is not a given in what is not a "normal" year. (See Dashboard of Congressional Seats chart below.)

The final key indicator is the approval rating of Congress. As September closed, it was at an abysmal 18%—the lowest approval rating in recorded history according to Strategas Research Partners. Taken together, the key indicators signal a switch in control of the House and some wild-card Republican wins in the Senate.

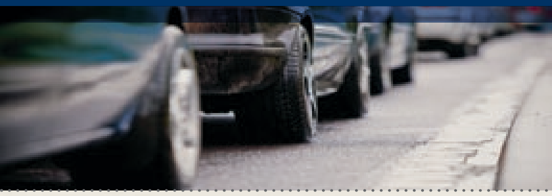
Sources: Strategas; "The Senate's in Play," The Cook Political Report, www.cookpolitical.com, September 4, 2010; Presidential Approval Ratings, www.gallup.com, as of September 28, 2010.

Dashboard of Congressional Seats



*The **Cook Partisan Voting Index (CPVI)**, sometimes referred to as simply the **Partisan Voting Index (PVI)**, is a measurement of how strongly an American congressional district or state leans toward one political party compared to the nation as a whole. It was developed in 1997 by Charlie Cook of the Cook Political Report, a nonpartisan political newsletter, working with Polidata, a political statistics analysis firm.

Source: The Cook Political Report, September 2010



The Economy, the Markets and the "Other" View on Gridlock

Stalled recovery or recession, round two?

Wall Street and Main Street have very different definitions of both, says Dave Donabedian, chief investment officer. According to Wall Street and government statistics, we've been in a recovery since the third quarter of 2009. According to Main Street, we're still in a recession or, at best, a very "feel bad recovery." Yet, this tedious inching forward is typical of how an economy exits a highly over-leveraged period.

"What's weighing on many investors' minds is meager economic growth and whether *that* is even sustainable," says Donabedian. "Investors are also concerned about the election and the major tax changes we could see. Uncertainty has certainly affected investors' and businesses' decision-making." While there's the argument that letting the tax cuts expire further burdens the middle class and raises the cost of capital on more wealthy Americans—many of them business owners who create jobs—the counter-argument claims that what's really plaguing the economy is the huge deficit. "The sentiment about reducing the deficit shows up in opinion polls," says Donabedian. Interjected into the debate will be the report of the President's Deficit Commission, due in December 2010. According to Donabedian, one thing is for certain: Wall Street generally thinks political gridlock, at least in the short-term, is good. "It's been an exhausting year," says Donabedian. "Both the pace and the direction of policy change have been very significant."

History and the Prospects for a Relief Rally

If history is a guide, the stock market could see a significant election-led rally. The year 1994 is a recent example with characteristics similar to 2010. Although bonds were getting clobbered in 1994, unlike now, equities were in bad shape—the S&P 500 was down almost 4% going into the fall of 1994, with mid-term elections during President Clinton's first term looming. Clinton's approval rating was low, 42% in September 1994, and political gridlock ruled. Due to the Republicans' "Contract with America" strategy and unhappiness with the Clinton administration, the House switched control. Sensing the change, the market began to rally prior to the election. "It was quite powerful and lasted through the end of the year, with the S&P 500 gaining more than 14%," says Donabedian. "Some of the same elements are in play this year. While we're watching the election closely, we certainly aren't adjusting our asset allocation strategy based on election predictions. A sound and carefully developed strategy is designed to respond to all macro influences, including a 'change' election."

Two Paths for Fixed Income

Gary Pzegeo, CFA, head of fixed income, says the effects of potentially higher tax rates on cash and fixed income securities could follow two paths. With the increase in the Medicare surtax in 2013 and the reversion toward a 39.6% top marginal rate, the ultimate top marginal rate could be 40.5%, which raises the relative attractiveness of sheltered income from municipal securities.

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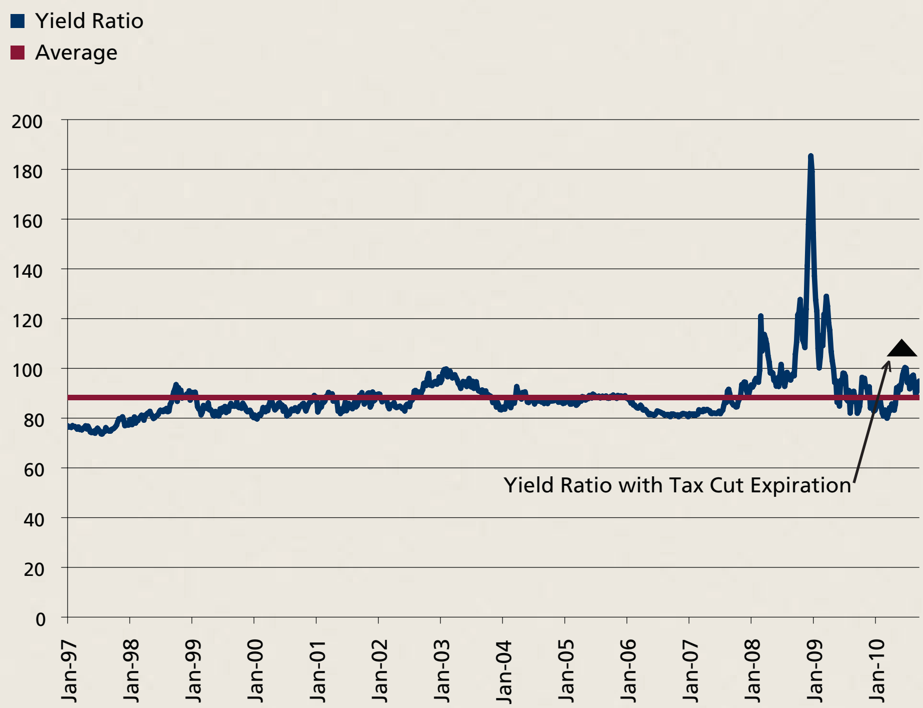
Yield Ratio - AA Muni vs. 10 Year Treasury



Source: Municipal Market Data, Bloomberg, August 2010

"A 5% increase in the effective tax rate would increase the taxable equivalent yield of a 10-year high-quality municipal bond by roughly 33 basis points, to 4.25%," says Pzegeo. Currently, a 10-year municipal bond yields as much as a 10-year Treasury, despite the current federal exemption on municipal income. "When investors realize a tax rate increase and are looking for an asset that generates tax-free income," says Pzegeo, "they will find that municipal bonds are relatively inexpensive compared to the Treasury market." He also notes that municipal financing trends in most states have stabilized and improved in 2010—personal income, sales and property taxes have leveled out after big dives during 2007 to 2009.

The second path is less clear. Lower potential economic growth, which often is a by-product of higher tax rates as individuals have less disposable and investable income, creates a tougher environment for risky assets and thus raises the profile of fixed income strategies within asset allocations. However, there is much unknown about the economic outcome, which depends on factors such as government deficits and personal savings trends. "It's difficult to look at fixed income without some informed projections on how monetary policy may change and how individual investors may respond," says Pzegeo, "but in general, higher taxes should be a 'net positive' for quality fixed income investments."

Equities: A Year for Quality

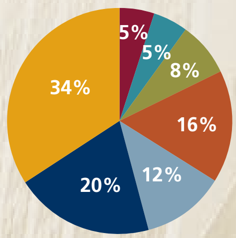
The current scenario is a tug-of-war between negative macro events and positive micro ones. Digging through the micro factors reveals that many companies' stocks are inexpensive, earnings are growing and sales trends are better. "If you put blinders on and look at company fundamentals, you can be much more bullish than if you just read the newspaper and focus on the macro," says Donabedian.

As of September 30, the S&P 500 is in the black for 2010, weathering numerous crosscurrents the first 9 months of the year. As Donabedian puts it, "Stocks aren't getting much help from the economy. At this point, they're close to the point of 'discounting' a recession. That actually makes us feel a little more comfortable about stocks' valuations." This year has been one to continue upgrading quality, as in the long-term, quality will be rewarded over and over. Companies that have a lot of cash on the balance sheet and can fund their own growth are better franchises—and the market rewards them accordingly. When the market doesn't reward them, they're often acquired by a company that uses the acquisition to enhance its own future prospects. Rather than a reward over time, shareholders get the immediate reward of a takeover premium.

Atlantic Trust allocation models continue to emphasize the cash-rich, multi-national attributes found in U.S. large caps and the strong organic growth of emerging market equities. In numerous company instances, the global franchise is the biggest strength. "Think toothpaste, pharmaceuticals, software and soft drinks, and then think about consumer demand around the world," says Jay Pearlstein, CFA, managing director and co-manager of Atlantic Trust's Mid-Cap Growth strategy.

It's clear that the best growth is occurring in emerging markets such as China, India, Brazil and other Latin American and Asian nations. These are countries where decades of social and political chaos, corruption, hyper-inflation and fiscal mismanagement were overcome and replaced with stability, responsible governance and a young and more educated population desiring a higher standard of living. At the close of the third quarter, Atlantic Trust's developed international equity allocation accounted for 15% of its traditional equity investments; when combined with the emerging market equity and debt allocation, 35% of this model portfolio is made up of international investments.

Atlantic Trust All-Equity Portfolio Recommendations



- Bonds & Cash 5%
- Commodities 5%
- Enhanced Yield 8%
- Emerging Markets 16%
- Diversified International 12%
- U.S. Mid- & Small-Cap Equity 20%
- U.S. Large-Cap Equity 34%

Source: Atlantic Trust, September 2010

Although each client portfolio is customized, Pearlstein says that many clients are comfortable with a more aggressive position in international investments than in the past. "Given what we've experienced in the U.S., clients are re-evaluating risk around the world," says Pearlstein. "Our mantra this year has been 'go where the growth is and where the debt isn't.' You only have to pick up your newspaper to read about China's increasing economic dominance or the rising standard of living in India."

Of course, with the potential for rising tax rates in 2011, tax-efficient investing is critical. "There's no contradiction between active management and tax-efficient management," says Pearlstein. "Unlike institutional managers, who are often more concerned with being measured against a pre-tax benchmark, we're thinking of and managing for *individuals and families,* who have sizeable taxable accounts. We use numerous strategies—including regularly harvesting short-term losses—to maximize tax efficiency, regardless of whether tax rates are certain."

Diversification Still the Story for Alternatives

The diversification that hedge funds can add to a portfolio is still a big investor benefit, despite a year in which hedge funds have been mostly flat. "They are also in political 'wait and see' mode," says Jigar Patel, CFA, senior investment analyst for hedge fund strategy.

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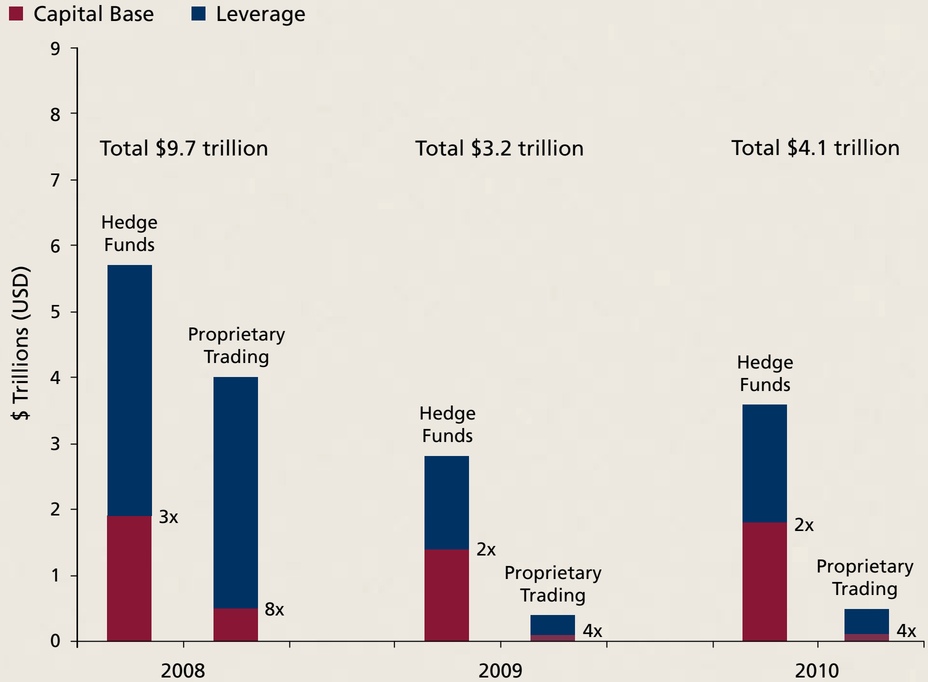
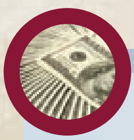
Estimated Capital Invested by Hedge Funds and Proprietary Trading Desks (2008-2010)



Source: Hedge Fund Research, Inc., Credit Suisse, BlackRock
Proprietary Trading Desk Capital Base and Leverage, BlackRock Alternative Advisors estimates



WHAT DODD-FRANK MEANS FOR INVESTMENTS

First there was the 2,319-page Dodd-Frank Wall Street Reform and Consumer Protection Act reforming financial regulation, passed in mid-July—245 pages longer than even the health care reform bill. The historic legislation, consisting of 16 distinct titles on a wide variety of topics, is designed to implement changes in banking and financial markets regulation that would prevent another systemic near-meltdown such as happened in 2008. Specific goals include heightened investor protection, stimulating lending to underserved communities, curbing speculative trading and increased transparency. Now comes the inevitable devil's-in-the-details phase. Some experts have estimated that for every page of legislation, there not only are dozens of subsequent rules to be written, there are three unintended consequences.

The act immediately excludes from the determination of an accredited investor's net worth the value of a primary residence. It also requires the SEC to make periodic adjustments to the net worth standard for accredited investors. In addition, hedge funds with more than $150 million under management will now be required to register with the SEC, resulting in presumably better oversight. (Costs will inevitably rise, too, as funds add additional layers of compliance, recordkeeping and reporting.) Of particular importance in the act is the so-called "Volcker Rule," which severely limits investments by banks in private funds of all types—no more than 3% of a bank's assets can be allocated to hedge funds or private equity. Although the act allows four years to come into compliance, many major banks are already aggressively closing proprietary trading operations and liquidating those assets. Unfortunately, and predictably, the act is ambiguous on its definitions of institutions "too big to fail." While "TBTF" is a throwback to the near-collapse of AIG in fall 2008, the largest hedge fund has about $50 billion in assets—and could be subject to the act's provisions designed to prevent a financial disaster. Overall, hedge funds were surprisingly unscathed from the Dodd-Frank bill.

It's important to note that all of the hedge funds of funds on the Atlantic Trust platform have been registered for years, says Patel, and about 95% of the single-strategy funds are. "Transparency always enhances our position as a fiduciary," he says.

The Economy… *(continued from page 7)*

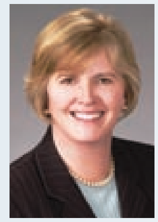
"There is some concern on how the new financial reform regulation will affect them, but one strong bonus from the legislation is the flight of talent as a result of banks' compliance with the Volcker Rule, which limits the size of banks' hedge fund and private equity holdings." Since 2008, significantly less capital and less competition are pursuing market dislocations. This makes inefficiencies more pronounced and prevalent as the biggest competitors—proprietary desks of investment banks—are no longer in business (see Capital Invested by Hedge Funds graph). "As a result, quite a few excellent managers with very good track records are leaving banks and setting up their own funds. This is talent we would not have had access to in the past," notes Patel.

Another opportunity is investment in the robust private equity secondary market, a situation due in part to the recently enacted financial reform bill, along with the volatile stock market. "Individual investors and institutions that have cash flow needs and can't wait out the long-term holding period are selling at distressed prices," says Bas Solleveld, investment analyst in the Multi-Manager Investment Program. "This is probably one of the best times to put money to work in private equity."

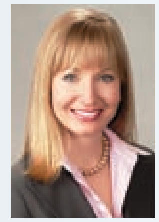
AN ONGOING FOCUS ON OUR CLIENT EXPERIENCE

As a boutique advisory firm, Atlantic Trust focuses on the client experience, providing intimate client relationships, customized wealth plans and high-quality client service. This past quarter, as part of our ongoing effort to enhance this experience, we hired and promoted several senior professionals.

Logan W. Allin, Managing Director



Julia M. Beisel, Senior Vice President



Carolyn C. Donnelly, Senior Vice President

Julia Beisel, a client service manager in Atlanta with more than 20 years of experience in trust and account administration, has been promoted to director of client service administration. In this new role, she will collaborate with relationship managers and client service team members to implement best practices across the firm. **Carolyn Donnelly,** who has excelled in improving Atlantic Trust's visibility and communications, now serves in an expanded role as director of marketing and strategic priorities. She continues to creatively lead our marketing efforts and works closely with senior executives to drive firm initiatives.

With more than a decade of wealth and asset management consulting and industry experience, **Logan Allin** joined Atlantic Trust as head of strategy and client experience. "Due to advances in technology, clients want real-time access to portfolio information—at home and on the go. Logan will help us stay ahead of the curve," says Jack Markwalter, chairman and CEO. "He will create a vision for what our total client experience will look like over the next three to five years, and he'll equip our advisors with effective analytical tools. He also will help us capitalize on opportunities in the family office, foundation and endowment channels."

"The creation of these new roles underscores our commitment to accelerate the strides we are making to provide the highest quality experience for our clients," concludes Markwalter. *See biographies on atlantictrust.com*

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