



TRUST Connection

A Monthly Report on Trust News and Information

Investments in Alternative Asset Funds: How to Advise the Client's Estate Planner

By: S. Brian Farmer and Lisa J. Hedrick*

Last month, Part I of this Article discussed the difficulties for a deceased client's estate created by an investment in a hedge fund or other alternative asset fund. Fortunately, with careful planning, many problems associated with holding investments in this asset class can be avoided. As an estate planning professional or CPA, you can provide guidance to a client's estate planning professionals during the client's lifetime in the hopes of avoiding later complications. Possible estate planning mechanisms for fund investors include the following:

▲ **Avoid Individually-Owned Investments.** Investing in an alternative asset fund through a revocable or irrevocable trust, a family limited liability company (FLLC) or jointly with his or her spouse will prevent the investment from becoming subject to probate upon the client's death.

▲ **Lifetime Transfers.** A client during his or her lifetime can gift all or a portion of a fund investment to family members or a trust for their benefit. Within certain limits, the transfer can be completed free of income and gift taxes. It may also be possible to sell the investment to family members at a low purchase price while retaining the annual gift tax exclusion and unified credit for other gifts.

▲ **FLLC Structures.** Investing in an alternative asset fund through an FLLC permits a client to transfer the alternative asset fund investment (or other investments) to family members in a tax-efficient way over time, possibly using properly documented valuation discounts while allowing the client to retain decision-making authority over the portfolio and sales/purchases of specific investments.

▲ **Grantor Retained Annuity Trusts (GRATs).** An alternative asset fund investment can be placed with other assets into a GRAT. So long as the overall portfolio provides a predictable minimum stream of payments, the GRAT can be an effective tool for transferring investment assets to children or other beneficiaries while providing current payments to the client and minimizing gift taxes.

▲ **Variable Life Insurance Policy.** A final, albeit fee-intensive, approach is the purchase of a single-premium variable life insurance policy that specifically invests in hedge funds. The policy holder decides in which hedge funds to invest without having the restrictions of being an actual investor in the funds. The investment income generated by the policy will grow income tax free.

Investment advisors are valuable resources in assisting clients in thinking through the long-term impact of an alternative asset fund investment. Investment advisors will likely be called upon to provide assistance in valuing fund investments and FLLC interests, as well as in advising on the proper asset mix that will increase the likelihood of a GRAT's success. Of course, estate planning for an alternative asset fund investment is not done in a vacuum; all of a client's assets and liabilities should be considered when creating an estate plan. Ideally, an investment advisor will work with the client and other professionals in a coordinated way to develop a comprehensive estate plan to optimize the client's investments while avoiding gift and estate tax pitfalls.

* Mr. Farmer is a partner and Ms. Hedrick is an associate at Hirschler Fleischer, Richmond, Virginia. They regularly counsel registered investment advisors, including those managing proprietary client funds investing in alternative assets.

Raskob Kambourian Financial Advisors

TRO Contact

Pat Kambourian,
MBA, EA, CFP
Raskob Kambourian
Financial Advisors
4100 N. 1st Avenue
Tucson, Arizona 85719
520-690-1999

About Us

Raskob Kambourian Financial Advisors, Ltd. provides comprehensive services for all your financial concerns. Under our fee-only system, we look at your financial picture as a whole and include such matters as tax planning, investment advice, asset management, estate planning, retirement planning and trust advisory services.

Upcoming Events:

TBD

1:00 - 5:00 p.m. Trust Seminar; Skyline Country Club.

Meet senior staff of National Advisors Trust. Presentations at 1:30 p.m. and 3:30 p.m.

RSVP to Lauri Campbell at
520-690-1999 or via email
Lauric@rkfin.com

An Integrated Trust Solution

Raskob Kambourian Financial Advisors works with Estate Planning Professionals on a local level to provide the consistent trusted services needed by our common clients. By working together, Raskob Kambourian Financial Advisors, National Advisors Trust and the Estate Planning Professional are able to build a strong foundation for the client by providing a solid trustee and investment management solution while helping clients protect their wealth and remain confident about the future of their estates.

Why Use a Corporate Trustee?

In one word, objectivity. As a corporate fiduciary, National Advisors Trust is bound by the terms of the document and will administer the trust as it is written. Sometimes individual trustees have a tendency to favor one class of beneficiaries over another or to be subject to pressure from one class. While a corporate fiduciary may be subject to pressure, there is no personal benefit from favoring one over the other. Here's a case study outlining this benefit.

Sibling Rivalries Settled by a Matter of Trust

When your goal is building wealth for clients and their future generations, success means you'll be dealing with the next generation some day. That's the objective at Brouwer & Janachowski in Marin County, California, and as many of his longtime clients move into their latter years, Steve Janachowski is seeing what success can bring.

"Some clients I've been dealing with for 25 years are now unable to make decisions for themselves," he says. "More and more, we find ourselves facilitating that transition of oversight for the parents' affairs to the children. If there is more than one child, the transition can be tricky due to potential emotional turmoil, jealousy, mistrust and other issues."

In this month's case, Janachowski tells how a well-structured trust helped three siblings put aside their issues and ensured the father's terms are being followed:

"My client is a retired doctor, now in his late 90s. He handled all the family finances and always played things very close to the vest. I knew he had three children but I'd never met them, until the son called me one day saying his dad was starting to slip. He told me, 'I don't have permission to get involved, but as his son I feel I need to and I'm not sure what to do.'

I checked the trust agreement and noted that his two sisters were first and second contingent successor trustees. The son was third. I suggested a family meeting, which we had with all five members.

For one, we had some pain and sadness from all parties at the realization that the parents had reached this point in life. There was uncertainty among the children about who would look after the parents when they're no longer competent, and general unfamiliarity with the family finances. On top of that, there was suspicion and jealousy over who was going to be trustee. They didn't come right out and say it, but each child was concerned how another sibling as trustee might diminish their own inheritance."

I suggested we alleviate all concerns by splitting the roles of trustee between one child and an objective corporate co-trustee. In this case, National Advisors Trust is responsible for the custody and record keeping of the assets and, ultimately, ensuring the terms of the trust are followed. We also agreed that the eldest daughter was best equipped for the co-trustee role in making important healthcare and financial decisions for the parents – but only with the other siblings' input.

Find out more about working with Raskob Kambourian Financial Advisors today and get started recommending a better trust solution to your clients tomorrow. Please call us at 520-690-1999 or visit us online at www.RKfin.com.

About National Advisors Trust

National Advisors Trust is chartered by the Office of Thrift Supervision (OTS), is authorized to administer trusts in all 50 states, and is a member of the Federal Deposit Insurance Corporation (FDIC). By law, client assets are segregated from the capital assets of National Advisors Trust and are not subject to potential creditor claims against the Trust Company.

As an independent trust company, created by the client's trust advisor, the Trust Company's primary responsibility is to ensure the safekeeping of investment assets.