ORGANIZATION/PLANNING/INVESTMENTS

Business Builders Case Study

Brown ADVISORY
Thoughtful Investing.



CLIENT CHARACTERSTICS

- ***Assets:*** *$4.5 million in investible assets and restricted stock with a grant value of $3.5 million*
- ***Interests:*** *Evaluate impact of changing employment and starting a new venture, fully fund undergraduate college for their two young children, purchase primary residence and continue to invest in private companies.*

David and Cathy are in their late 30s and working parents of two young children. David and Cathy both have professional experience in the residential real estate market. David served as the chief product officer at a private real estate technology firm that was acquired by a public company in 2020—he has remained with the acquiring firm in a management role—and Cathy works for a national mortgage company.

David and Cathy became familiar with Brown Advisory through David's involvement with NextGen Venture Partners. Soon after the acquisition announcement, they had a need for a thought partner to consider various scenarios around Cathy taking a step back from work, buying a primary residence together and David starting a new venture. This financial planning exercise and conversation were instrumental in determining the right cash reserve and long-term asset allocation for the family. Additionally, the Brown Advisory team assisted David and Cathy with 401(k) elections and funding plans for their children's 529 college savings plans.

Now with a plan in place, David and Cathy feel more informed and confident about pursuing their interests and spending time with their kids.

SOLUTIONS

Financial Planning | A bespoke financial plan was the first deliverable for David and Cathy. We conducted an initial call to fine-tune assumptions, goals and risk tolerance, and came back with a full analysis within 10 days. This analysis reviewed three distinct scenarios using Monte Carlo simulation, with the goal of helping David and Cathy feel confident about their next step.

Holistic Portfolio Construction | David and Cathy's balance sheet quickly changed as a result of the acquisition, and an investment plan was needed for the new cash that accounted for concentrated positions in Cathy's employee stock ownership plan and David's restricted stock units. We incrementally invested the cash over a period of three months, holding back cash in a no-fee account for an anticipated home purchase. David had been investing in private deals for a number of years, so we integrated the reporting of those investments and committed to new investment opportunities in cryptocurrency and diversified private equity.*

Relationships with Outside Advisors | After our first meeting with David and Cathy, it was clear finding a new certified public account (CPA) was a top priority. We came back with two suggestions that David and Cathy could evaluate. After formalizing a relationship with one of those suggested CPAs, we brought that new team member up to speed with summary tax information for David and Cathy's accounts to best estimate quarterly tax payments.

Some names and identifying details have been changed to protect the privacy of the families we partner with. The experiences of individual clients may vary. Monte Carlo simulation is a mathematical process used to implement complex statistical methods that chart the probability of certain financial outcomes at certain times in the future. This charting is accomplished by generating hundreds of possible economic scenarios that could affect the performance of your investments. *Alternative Investments may be available for Qualified Purchasers or Accredited Investors only. Please see last page for important disclosures.

IPO/DIVERSIFICATION/TAX STRATEGY TEAMWORK

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CLIENT CHARACTERSTICS

- ***Assets:*** *$6 million in cash, marketable securities and vested options. Unvested options and restricted stock represent an additional $4 million.*
- ***Interests:*** *Immediate goal to reduce risk of concentrated position, limit California state income tax as much as possible and reinvest into high-growth assets.*

Nick, a 30-year-old software engineer, lives in the Bay Area, and his company recently underwent a successful initial public offering (IPO). Nick's personal balance sheet grew substantially with this liquidity event and catalyzed the need for a strategy around this volatile, concentrated position.

With the help of a family member, we were first introduced to Nick after the IPO as he was determining a funding plan for a newly created NING (Nevada Incomplete Gift Non-Grantor) Trust, whereby exercised stock could be transferred to avoid California's 13.3% state income tax upon sale. We met with Nick and his estate attorney to understand the scope of the trust and come up with actionable next steps. Nick wanted to retain his individual qualified purchaser status to participate in private equity opportunities*, so we provided Nick with options to fund the trust over a period of three years, shared perspective on the company from our internal research analyst and shared certified public account (CPA) recommendations.

Nick benefited from a partnership that engaged with him from multiple perspectives and offered a bespoke approach to help accomplish his goals.

SOLUTIONS

Relationship Quarterback | We worked with Nick to build a holistic view of his investments in balance sheet form with a summary schedule of his various equity compensation. Engaging with his outside advisor was paramount as an early first step, and we provided suggestions for a new team member in a CPA.

Concentrated Position Management | Nick's volatile, concentrated position was the vast majority of his net worth. Even though Nick works at the company, he appreciated our analyst's unbiased opinion on the stock's valuation and growth trajectory. These thoughts helped shape price targets for future option exercise and timing for funding the NING Trust. For nonqualified options Nick exercised and subsequently sold, we proposed a portfolio that took the concentrated position into account from a diversification perspective. If Nick ever felt the need to hedge his position, we could explore using options to protect his position from downside risk.

Access to Differentiated Investments | Nick saw firsthand the value creation that can occur in private markets. Given his long-term investment time horizon, lack of liquidity needs and ability to accept risk, we recommended Nick participate in a venture capital opportunity that offered direct exposure to leading managers like Andreessen Horowitz and Accel. This drawdown vehicle was accessible to Nick at a $100,000 commitment level and achieved the goal of reinvesting option exercise proceeds into high-growth opportunities.*

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ZERO TO ONE MOMENT

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CLIENT CHARACTERSTICS

- ***Assets:*** *$6 million in cash, $12 million equity in private business, $300,000 in combined retirement accounts, own primary residence*
- ***Interests:*** *Create structure and peace of mind through estate and insurance planning, upsize from their current home, and implement investment strategy.*

Sam and Dana understandably had their hands full after becoming new parents and Sam's successful sale of a private business he co-founded. In their early 30s and without an estate plan or life insurance, Sam and Dana were in need of a strategy and structure to help protect and grow their wealth. The business had been acquired by a reputable venture firm before we were introduced to the family, and Sam decided to remain in a leadership role in the acquiring firm.

In this moment of rapid change, we assumed the role of quarterback, educator and advisor for the family by facilitating introductions to outside advisors, guiding life insurance discussions and implementing a long-term investment plan. With a holistic view and touchpoint for every aspect of Sam and Dana's financial lives, we provided clarity and comfort around their specific challenges, allowing them to spend more time thinking about what they would like to achieve next.

SOLUTIONS

Estate and Insurance Planning | We started with the basics of estate planning education by reviewing what we believe is most important for a young family. We helped map out the beginnings of an estate plan with the understanding that complexity may be added down the road as Sam and Dana's situation evolves. We explored creating an irrevocable life insurance trust to own the new term policies.

Investment Strategy | We created and began to implement an investment plan for the overall portfolio that included Sam's 401(k). To reduce the amount of accounts to track, we consolidated former 401(k)s into rollover IRAs and integrated the investment approach with the taxable portfolio. In anticipation of a future home purchase, we created the beginnings of a budget to help consider the affordability of a desired new home.

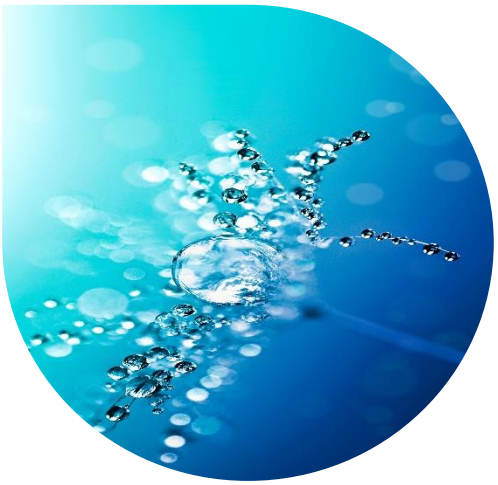
Relationships with Outside Advisors | We introduced the family to a local and compatible trust and estate attorney, an insurance agent, and an accounting firm, all to put into effect the overall strategy we devised for the family. We serve as a sounding board for the family and position ourselves squarely at the intersection of all outside advisors.

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THE UNOPENED STATEMENTS

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CLIENT CHARACTERSTICS

- ***Client Assets:*** *Concentrated public equity position*
- ***Interests:*** *Estate planning, next-generation planning and personal finance management*

Brian, a public company CEO and a father of two, had founded a 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 was (unsurprisingly) very heavily concentrated in the stock of his company. Although his company was succeeding, Brian's personal wealth management was lacking the attention it needed.

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. It's not uncommon for executives to neglect their personal financial lives almost entirely. They can become unmotivated to make it a priority as they devote their time and attention to shareholders and employees.

SOLUTIONS

Tax Planning | Because Brian's children were young, he did not yet have numerous accounts for various trusts and entities, making our first task of analyzing his holdings relatively straightforward. From our findings, there were some immediate opportunities for long-term tax planning that resulted in positive outcomes for his family.

Stock Management | Our initial focus was on Brian's ownership stake in his company. We presented a gradual diversification strategy to reduce regulatory risk. We also saw an opportunity to remove some of the stock from Brian's taxable estate through a grantor retained annuity trust (GRAT). Soon after, 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 lower basis.

Enhanced Financial Organization | 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.

Next Generation Planning | We reviewed the Uniform Transfers to Minors Act (UTMA) accounts that Brian and his wife had set up for their children in the early days of their success and found that their son's account had appreciated much more than their daughter's. In turn, Brian chose to true up the daughter's account. We also created trusts for the children, allowing for much greater parental control over what would now be a much larger denominator.

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