



ROUNDTABLE DISCUSSION WEALTH MANAGEMENT

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Strategies to guide you on building, transitioning your investment portfolio

You've saved and worked hard to grow your wealth position. So how do you take advantage of the opportunities to generate cash flow, realize tax savings, preserve and pass on your legacy, and do good in the process? There are a variety of financial, philanthropic and tax-beneficial options that can help you achieve your goals. *Crain Content Studio — Cleveland* turns to three wealth management experts who offer their perspective on how to make the most of your wealth today and in the future.

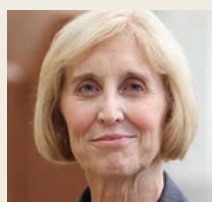
THE EXPERTS



JOHN MICKLITSCH
Chief Investment Officer
Ancora

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John Micklitsch, CFA, CAIA, has spent the last 11 years with Ancora and currently serves as the firm's chief investment officer. John manages global, multi-asset class separate accounts for the firm's high-net worth and institutional clients. He began his money management career in 1996 at Robert E. Torray & Co. Inc., where he was an analyst and head trader on the firm's \$5 billion large-cap value strategy. In 2003, he joined Fifth Third Asset Management, where he researched and managed small- and micro-cap investments for the firm's mutual funds and individual accounts. John also has been lead portfolio manager for the small-cap value strategy at Allegiant Asset Management, the institutional money management division of National City Corp. (which is now PNC). During his tenure, he was responsible for more than \$1 billion in assets, including the strategy's publicly traded mutual fund and separate accounts. He holds the chartered financial analyst (CFA) and chartered alternative investment analyst (CAIA) designations. He also serves on the board of Biltmore Trust and Biltmore Insurance Co., sits on the Investment Committee of the United Way of Greater Cleveland, and is a member of Bluecoats Inc. John earned a bachelor of arts degree from Duke University and an MBA from Johns Hopkins University's Carey School of Business.



PATRICIA A. PACENTA
Partner
Buckingham, Doolittle
& Burroughs, LLC


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As a trusts and estates lawyer, Patricia assists individuals, families, business owners and charitable organizations with their estate planning, charitable gift planning and estate administration needs. She develops plans that are customized for her clients' particular objectives and are flexible enough to accommodate the unexpected. She has extensive experience developing sophisticated plans for high-net worth clients with specific federal or estate tax issues, although she is skilled in working with clients who have different socioeconomic backgrounds. She helps women, both married and single, with their planning needs. Patricia works with closely held business owners to solve the challenges of integrating the needs of their business with their overall estate planning goals. She also represents charitable organizations in developing planned giving programs. Patricia's civic and professional associations include serving as a fellow of the American College of Trust & Estate Counsel, member and past president of Akron Tax and Estate Planning Council and member of Estate Planning Professional Council, Center for Gift and Estate Planning at University of Akron Foundation. Patricia has been listed in *Best Lawyers in America* between 1989-2018 and was recognized in 2016 by *Best Lawyers* "Women in Law" Business Edition for Trusts & Estates Law. She received her bachelor's degree from Marquette University, her J.D. from Marquette Law School and her master's degree from Ohio State University.



KAYE RIDOLFI
Senior Vice President of Advancement
Cleveland Foundation


CLEVELAND
Foundation

As senior vice president of advancement, Kaye Ridolfi is responsible for the foundation's fundraising activities and leads the 16-member Advancement staff. This team works in charitable gift planning, donor relations and donor communications to bring new donors into the foundation, and then stewards donors on an ongoing basis to achieve their philanthropic goals. Kaye is a member of the Cleveland Foundation's Executive Committee and oversees the Advancement Committee of the foundation's board of directors. Prior to joining the Cleveland Foundation in 2011, Kaye spent two decades in the field. Her previous positions include five years at Case Western Reserve University, where she served as associate vice president of institutional development and director of its \$1 billion capital campaign. She joined CWRU after six years at The Ohio State University, where she served as director of the campaign to renovate the main library and then as assistant vice president for major gifts. Previous positions were with Ohio Wesleyan University, initially as director of its annual fund and ultimately as director of alumni development, and the American Lung Association of Ohio, as the organization's first director of planned giving and later as vice president. Kaye has served on the boards of several area organizations, including the City Club of Cleveland, the Cleveland Chapter of Phi Beta Kappa and on the Union Club of Cleveland's Membership Committee and Engaging Women Committee. She is a graduate of the FBI's Citizens Academy and is a member of the Citizens Academy Foundation. Currently, Kaye is a member of the Leadership Cleveland Class of 2018. She is a frequent speaker on capital campaigns, board development and nonprofit leadership. Kaye graduated from Ohio Wesleyan University, where she was a member of Phi Beta Kappa, and earned a master's degree in public policy and management from Ohio State University's John Glenn School of Public Policy.

Q&A

What does wealth management involve? What concerns are addressed when one implements a wealth management plan?

PATRICIA A. PACENTA: Wealth management refers to the process of building, managing and transitioning one's wealth. In this context, "wealth" means the property, in whichever form, one has acquired over time that is not being spent on immediate needs.

As one's wealth grows, so does the number and complexity of the decisions required to preserve that wealth, as well as the time and knowledge required to attend to them. There comes a point when dealing with one's financial matters requires coordination and skill that can best be provided by skilled professionals. The concerns addressed in a wealth management plan will always vary from person to person. Most wealth management engagements include the following areas of attention:

- Planning to ensure cash flow for current and future spending needs and goals;
- Developing, implementing and monitoring an investment policy suited to one's spending and saving goals;
- Ensuring that asset protection steps are taken to cover all identifiable risks;
- Estate planning; and
- Philanthropy.

JOHN MICKLITSCH: Historically, wealth management primarily referred to personal investment management services. Today, it really refers to a more holistic approach that still includes investment management, but increasingly covers everything else that goes along with managing household wealth, including retirement and education planning, tax and estate coordination, workplace benefits review, insurance assessments and other general lifetime planning needs.

What is the importance of having an overall wealth plan to go along with your investments?

JOHN MICKLITSCH: A good analogy is if you have ever tried to put together a gas grill without a set of good instructions. The outcome is usually sub-optimal and more than a little frustrating. In the case of wealth management, an overall wealth plan is a comprehensive, buttoned-up blueprint for your financial life, which is a lot more important than putting together a gas grill. In addition, an overall wealth plan looks at

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— JOHN MICKLITSCH, Chief Investment Officer, Ancora

your risk and return requirements and makes sure that they are properly aligned with your investment asset allocation decisions.

PATRICIA A. PACENTA: An overall wealth plan is critical to a successful investment program. The overall wealth plan sets the risk tolerance standards, the appropriate asset class allocation, and the desired cash flow draw on the investment assets and earnings. These factors, in turn, drive individual investment decisions.

What role can philanthropy play in a comprehensive wealth management plan?

KAYE RIDOLFI: As individuals consider their long-term wealth management goals, philanthropy can play an important role in defining a family's legacy and deepening community connections. Charitable giving can also carry with it income tax and estate tax or gift tax benefits.

Since 1914, the Cleveland Foundation has supported individuals and families with their philanthropy in conjunction with thoughtful wealth management strategies. Our advancement team, composed of attorneys, accountants, development professionals and community experts, is experienced at advising everyone from individuals to multigenerational families.

We often hear our donors talk about how they began their fund with one amount, then gave away sizable grants, yet still have as much or more in their fund than when they started it. So, how does that happen? Here is one example: Assuming an investment return of 7% and a payout rate of 5% over 50 years, a \$100,000 bequest could grow to \$450,000 while distributing \$600,000 to charities along the way.

Although results cannot be guaranteed, gifts are invested as part of a large pool of assets, with the potential to generate even more money for an individual to give away. It is the gifts made today that will help make our community stronger in perpetuity.

JOHN MICKLITSCH: For those in the position, philanthropy can be an important piece of the planning discussion, especially in terms of tax and estate issues. Furthermore, philanthropy done correctly can

bring great personal satisfaction during one's lifetime. The decision to pursue charitable strategies in one's lifetime is a highly personal decision but is without a doubt part of the planning process.

PATRICIA A. PACENTA: High-net worth individuals who have already provided comfortably for their family members want to make some lasting impact on a community that has played a part in the growth of their wealth. Many high-net worth individuals also wish to foster a spirit of philanthropy in their progeny.

There are a variety of vehicles that can be used in charitable giving that also entitle the donor to a charitable tax deduction. Some vehicles, such as charitable remainder or lead trusts, even permit the donor or the donor's family members to retain income or other enjoyment of the donated assets.

Because charitable gifts can give rise to significant tax deductions, the tax rules that govern charitable donations are as complex as any in the tax code, and there are many traps for the unwary.

An experienced professional can assist in illustrating the plan and assessing the merits of the plan's results. They can propose charitable donation strategies the client may not have considered that are consistent with the client's philanthropic goals and client's tax situation.

What are some popular charitable vehicles, and how do they work?

KAYE RIDOLFI: Donor advised funds are one of our most popular instruments because they help a donor organize all of his or her charitable-giving activities through one expertly

managed, cost-effective vehicle. There's an immediate tax deduction with all contributions, and donors can take their time to decide which organizations and causes they would like to support.

Conversely, some donors prefer to establish a designated or named fund and carry out their wishes in perpetuity through fixed payments to one or more charitable organizations or a broader field of interest.

As an alternative to a private foundation, a supporting organization is a separate nonprofit entity operating in conjunction with the Cleveland Foundation. It has its own board and determines its own investment strategy and grant priorities. This structure provides an opportunity to involve multiple generations of family and friends in charitable giving.


Finally, a broad array of charitable giving options exists for individuals who prefer to make an impact posthumously. Bequests can be one of the most straightforward ways to provide for the community in the future. From a wealth management perspective, tools such as charitable annuities and trusts can also carry tax advantages — especially when

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Sonia Mintun, CFA
Ancora Managing Director
& Portfolio Manager

Sonia joined Ancora in 2008 and manages individual and institutional accounts including the firm's High Dividend Strategy.



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they are established before the sale of a business or the transition of an estate. Charitable annuities and trusts are also designed to generate income during your lifetime or a fixed period.

PATRICIA A. PACENTA: The most popular charitable giving vehicle today is available to donors 70½ years old to transfer directly to a public charity up to \$100,000 annually from an IRA. The transfer counts for the donor's minimum distribution but does not increase the donor's gross income. It is also excluded from the donor's Ohio income tax base. Charities have publicized this technique widely, and eligible donors are using it.

Am I able to include socially responsible investing in my charitable plan, and if so, how?

KAYE RIDOLFI: Yes. Upon conveying a gift, Cleveland Foundation donors can choose among more than 20 competitive investment options geared for a variety of time horizons and return targets. Our Socially Responsible Investment Pool is a diversified, socially responsible investment portfolio positioned for

capital appreciation.

The pool mixes active and passive management and invests in funds that hold both stocks and bonds across industry sectors that have been screened for socially responsible criteria such as corporate commitment to environmental sustainability, social justice and diversity. Our SRI pool is currently delivering a 16% five-year rate of return, which means donors can earn more to give more.

To that extent, what does the stock market outlook look like?

JOHN MICKLITSCH: That is always a tricky question. Tell us the time horizon you are talking about, and we can provide a better answer. The short-term is usually anybody's guess, but over the intermediate and longer-term, markets tend to rise due to the overall growth

in the economy and the increased corporate earnings that go along with it. Currently, we are in the unique situation where interest rates are very low, which has pushed more people into equities to replace income and generate required levels of returns. This has pushed equity valuations higher as many are aware. Economic activity in the U.S. has



been steadily improving. There are signs of the recovery expanding to other economies around the world, both of which are encouraging. The real question is the pace of interest rate normalization and the impact that has on both the economy and equity prices.

Our opinion is that while the Federal Reserve has initiated the normalization process on rates, it will take longer than many think, which results in a continued favorable backdrop for equities, particularly if the economy continues its current trajectory. But again, anything is possible in the short term. The important thing is to match your equity exposure to your personal time horizon. That is key.

Why have international stocks started to outperform, and what does that mean for investors?

JOHN MICKLITSCH: International stocks have started to outperform for a couple of reasons in our opinion. First, after underperforming significantly since the financial crisis, international stocks have lower valuations generally speaking. Second, the economic recovery that has been well established in the U.S. is just starting to pick up steam overseas, which creates a catalyst. Third, the U.S. dollar has fallen in 2017, which provides a currency translation tailwind for U.S.-based investors participating in foreign markets.

The world's equity market cap is split roughly 50% in the U.S. and 50% outside the U.S., so there is a big motivation from an opportunity standpoint for investors to think globally in terms of their asset allocation these days.

When should business owners begin thinking

about an exit strategy, and what are some of the key considerations in terms of executing a well-developed exit plan?

PATRICIA A. PACENTA: The process of transferring ownership to younger generation family members or a management team should start years before the planned exit date. Key employees may need to be incentivized to remain with the business until the ownership succession occurs. Wealth management professionals can help design an effective exit strategy.

Few closely held businesses survive through a second generation, and even fewer through a third. If more than one family member will be a successor owner, plans need to be made in advance through buy-sell agreements, multiple classes of stock or through other arrangements. This allows the successor owners to separate if they cannot work productively together.

If the business is to pass to one or more but not to all the children, the owner must consider how best to treat all of them fairly in an overall family plan.

The owner should review his or her cash flow needs for retirement and make sure his business can support that cash flow while also compensating new owners or managers. A deferred compensation plan or a stock buyout plan may address this issue.

JOHN MICKLITSCH: It's never too early to plan or at least discuss your potential exit strategy from a business interest with your financial adviser. A comprehensive wealth plan will help you understand your long-term needs and potentially make the exit decision and negotiation easier because you are armed with what your figure needs to be.

What charitable opportunities exist as part of a liquidity event such as a business sale, IPO or acquisition?

JOHN MICKLITSCH: A charitable remainder unit trust comes in many variations and is an interesting



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Peace of mind is knowing that what you've worked so hard for is protected. It's the assurance that you are not the only one looking out for your family, your business and all that matters to you. It matters to us too.

“A gift or inheritance for a young family member made in trust is an excellent way to provide wealth management.”

— PATRICIA A. PACENTA,

Partner, Buckingham, Doolittle & Burroughs, LLC



can work with professional advisers before the sale transaction to identify tax-saving strategies that will also create a pot of dollars individuals can use for philanthropy. One such strategy might be donating unique assets, such as closely held business units or publicly traded stock.

Donor advised funds have become popular because they provide donors an immediate and full income tax deduction at the outset. When business owners are busy with the many details of organizing a sale, setting up a donor advised fund can be the simplest part of the transaction. Later on, they can make ongoing charitable grant recommendations benefiting their favorite nonprofit organizations.

Charitable giving is much more than just a tax strategy. Many former business owners jump into philanthropy like they did when running a company: full go. Philanthropy becomes their “encore career” as they work on a social mission and involve others as advisers. Many of our donors say that participating in philanthropy has been one of their greatest joys in life.

planning tool for appreciated securities before a liquidity event. The use of a CRUT should be closely coordinated with one’s tax and legal advisers, as there are many rules that need to be followed. Conceptually, however, the CRUT allows the donor to receive some current tax benefit and a lifetime income stream from the assets while leaving the remainder for a designated charity(s) following death.

This can be a “have your cake and eat it too” solution in certain circumstances, in which tax savings, lifetime income and charitable support all come together while the donor is alive to see it.

KAYE RIDOLFI: An IPO assessment or business exit strategy can pay dividends if individuals decide to add a charitable component to the plan. When working with an accountant, attorney or wealth management professional, individuals may want to consider adding a philanthropic specialist. The Cleveland Foundation

What tax considerations play into wealth management?

JOHN MICKLITSCH: Municipal bonds verses taxable bonds, qualified retirement options, tax-efficient investment management and charitable giving are all tax-related considerations that play into wealth management. A wealth manager, such as Ancora, will coordinate many of the decisions around these important issues with each client’s existing tax and estate professionals. It’s really about having a coordinated plan with all of your advisers working together to get the job done.

PATRICIA A. PACENTA: The tax code may be reformed, but it will not disappear. Planning to minimize annual income taxes is a key component of wealth management. It requires input from the client’s tax preparer, investment manager and other members of

the wealth management team. Client communication is critical. Impending transactions — as for example, the sale of an appreciated capital asset, an upcoming income recognition event, or the realization of investment gains or losses — can have significant tax impacts.

Even if estate tax planning is no longer relevant for many well-to-do individuals because of large increases in the federal estate, gift and generation-skipping tax exemptions, planning to minimize income taxes at death remains important. Death gives rise to a cost basis step up in the value of the deceased owner’s appreciated capital assets. Planning to achieve that step up and avoid a step down at death to the cost basis of depreciated assets has become an increasingly important tax consideration in the estate planning process.

What advice do you have for involving family in charitable planning, and what steps can be taken to ensure that the next generation will take care to manage wisely the wealth that they earn or inherit?

PATRICIA A. PACENTA: A gift or inheritance for a young family

member made in trust is an excellent way to provide wealth management. A trust can last until the beneficiary reaches an age specified in the trust, or it can last the beneficiary’s lifetime. It can keep the trust assets away from the beneficiary’s creditors. It can provide a vehicle for the beneficiary to learn wealth management skills with the guidance of the trustee.

A trust for a young person can be the beneficiary of an IRA. The beneficiary can receive the minimum distributions from a conduit trust while the rest of the IRA remains invested.

An Ohio Legacy Trust is an asset protection trust that can protect one’s own wealth. The transferor can enjoy wealth transferred to this trust while being protected from future creditors. Young adults who have acquired wealth may be willing to transfer it to a legacy trust for investment management and asset protection until they mature and their lives are settled.

KAYE RIDOLFI: If donors are interested in involving children or grandchildren in giving, then the donor advised fund and supporting organization are extremely effective tools. These vehicles can be established with various liquid and non-liquid assets — including appreciated securities and even

closely held stock. As desired, family trustees and other advisers can join in making decisions, and donors may also appoint successor advisers. This is an opportunity to demonstrate the importance of charitable giving and another way to pass down family values. Foundation staff will assist generations of trustees and advisers in carrying out grantmaking that matches the donor’s original intent.

Every family that partners with the Cleveland Foundation also receives a designated donor relations adviser who can facilitate conversations and strategic planning sessions for families around their charitable mission, vision, values and goals. Determining a philanthropic mission statement is an important activity for donor families of all configurations.

An optimal family mission statement is designed to evolve as time passes, community needs shift and successor advisers become involved in giving. A family mission statement takes into account the philanthropic passions of each member and converts them into purposeful impact.

Based on personal experiences and life’s journey, it’s usually easy to determine the charitable causes that mean the most. The foundation’s staff can assist families with vetting funding proposals, arranging nonprofit site visits and bringing new ideas to life.



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