

4 T H A N N U A L

Innovative **ALTERNATIVE** **INVESTMENT STRATEGIES**

Achieving Tax Efficiency with Alternatives

MODERATOR

Michael Zmistowski

President

Financial Planning Association of Florida

PANELISTS

David Garff, CIMA

President

Accuvest Global Advisors

Kevin Sullivan

Senior VP and Director

Jefferson National

Kelly Rodrigues

President and CEO

PENSCO Trust Company



What is an Alternative Investment?

- Any asset whose return pattern is not wholly dependent on traditional beta exposures

4 Ways to Tax (in)Efficiency

1. Type of Underlying Asset
2. Nature of Investment Strategy
3. Wrapper
4. Asset Location



1) Type of Underlying Asset

- Publicly Traded Securities
- Derivatives
- Futures
- Direct Investments

2) Nature of Investment Strategy

- High Turnover
- Longer-Term Holdings
- Level of Current Cash Flow / Income

3) Wrapper

- LP/LLC Structure
- Direct Investment
- Separate Account
- Onshore/Offshore Mutual Funds
- Exchange Traded Fund

4) Asset Location

- Direct
- Trust
- Corporate Structure
- Qualified Vehicle
- IRA

Tax Efficient Or Not: Part 1

1. Type of Underlying Asset
 - Publicly Traded Securities
2. Nature of Investment Strategy
 - High Turnover
3. Wrapper
 - Mutual Fund
4. Asset Location
 - Individual Name



Tax Efficient Or Not: Part 2

1. Type of Underlying Asset
 - Publicly Traded Securities
2. Nature of Investment Strategy
 - High Turnover
3. Wrapper
 - Mutual Fund
4. Asset Location
 - IRA

Tax Efficient Or Not: Part 3

1. Type of Underlying Asset
 - Publicly Traded Securities
2. Nature of Investment Strategy
 - High Turnover
3. Wrapper
 - Exchange Traded Fund (ETF)
4. Asset Location
 - Individual Name

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Market Dynamics

New Market

- Correlations / Diversification
- Volatility
- Expected Returns
- Taxes – ST & Long Term Cap Gains, 3.8%, Income brackets

Demand

- Study by Cogent Research – 70 % of RIAs surveyed say ongoing volatility is a top concern for clients
- Jefferson National Study
 - 68% of advisors are feeling pressure to revise their asset management strategy
 - 63% more likely to use tactical strategies

Solutions

- Managers adding liquid alternative and tactical options
 - 7 Alternative Morningstar categories mutual fund launches –
2010 – 54 2011 – 79 2012 - 70 *
- Morningstar states that Alternative Mutual Funds saw \$19.7 Billion of inflows in 2012 *

* Morningstar Alternative Investment Survey of U.S. Institutions and Financial Advisors



Tax Implications

Alternative and Tactical Strategies often have tax implications

Management

- Many Alternative managers used to managing for returns not taxes
- Reason why many managers are good is flexibility

Individual strategies and underlying investments

- Many hedge fund strategies have high turnover - as much as 720%
- REITs – distribute 90% of taxable income to shareholders with most taxed at income tax rate rather than qualified dividend rate + Capital gain possibilities
- Managed Futures – managers may use a CFC or C-Corp and all fund returns are taxed at ordinary income

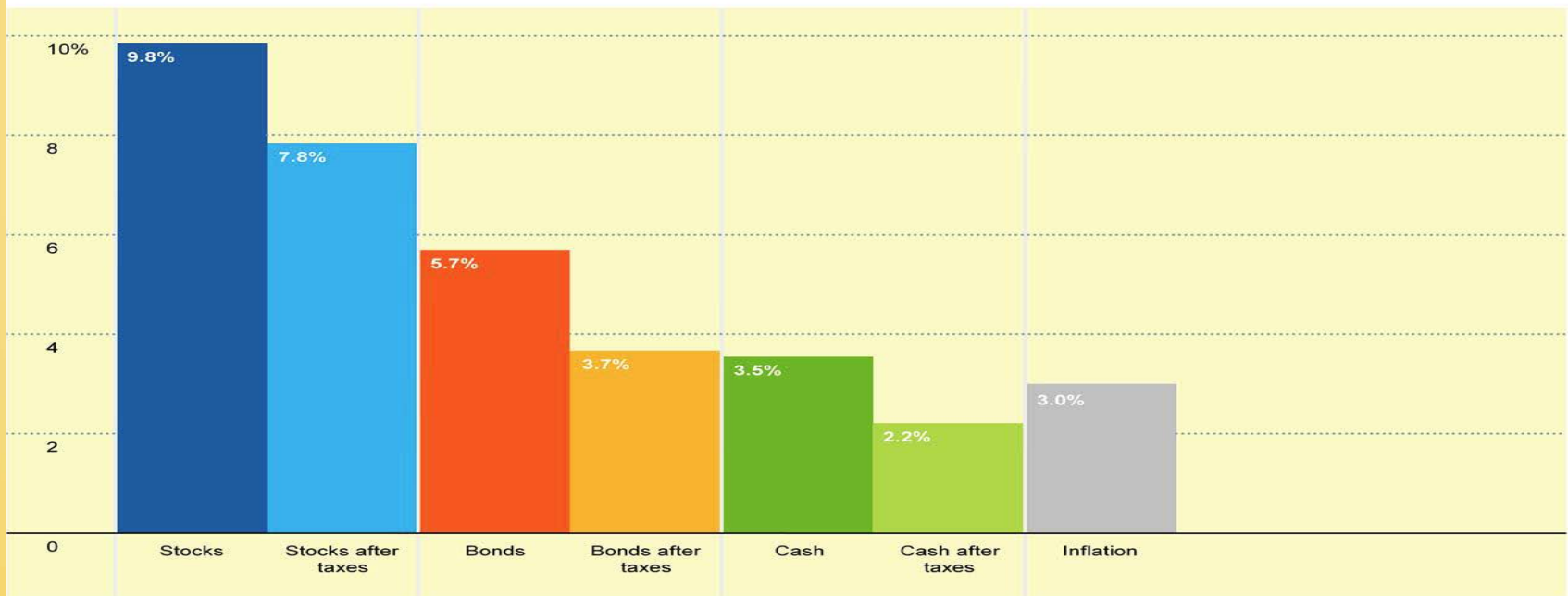


Asset Location

Morningstar Research

- Study over an 85 year period ending 2012
- Investors who do not manage investments in a tax sensitive manner could give up between 1%-2% of their annual returns to taxes

Taxes Significantly Reduce Returns
1926–2012



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2013 Morningstar. All Rights Reserved. 3/1/2013

Morningstar

FINANCIAL ADVISOR

Private
Wealth

Asset Location Wrappers

401(k)s

- Access
- Good but still limited contribution amounts
- Lack of Investment selection

IRAs

- Great investment selection
- Limited ability to contribute

Variable Annuities

- Ability to contribute large amounts
- Smaller but increasing selection
- Cost



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Innovative **ALTERNATIVE** **INVESTMENT STRATEGIES**

The Leading Alternative Asset Custodian Specializing in Retirement Accounts

Kelly Rodriques

President and CEO

PENSCO Trust Company



Three macro factors favor growth in the “non traded alts retirement space”

1

Growth in defined contribution plans as the retirement savings vehicle of choice (default)

- And subsequent increase in the size of rollover IRA's – IRA inclusive of rollover has twice the level of assets than non rollover IRA ¹ – \$5.4 Trillion in IRA's

2

Increasing level of taxes on the affluent driving greater focus on finding ways to maximize after tax returns

3

Growing focus on alternative assets

- As portfolios “barbell” (low cost beta assets at one end and higher potential risk / return assets at the other)
- As investors look for non-correlated assets



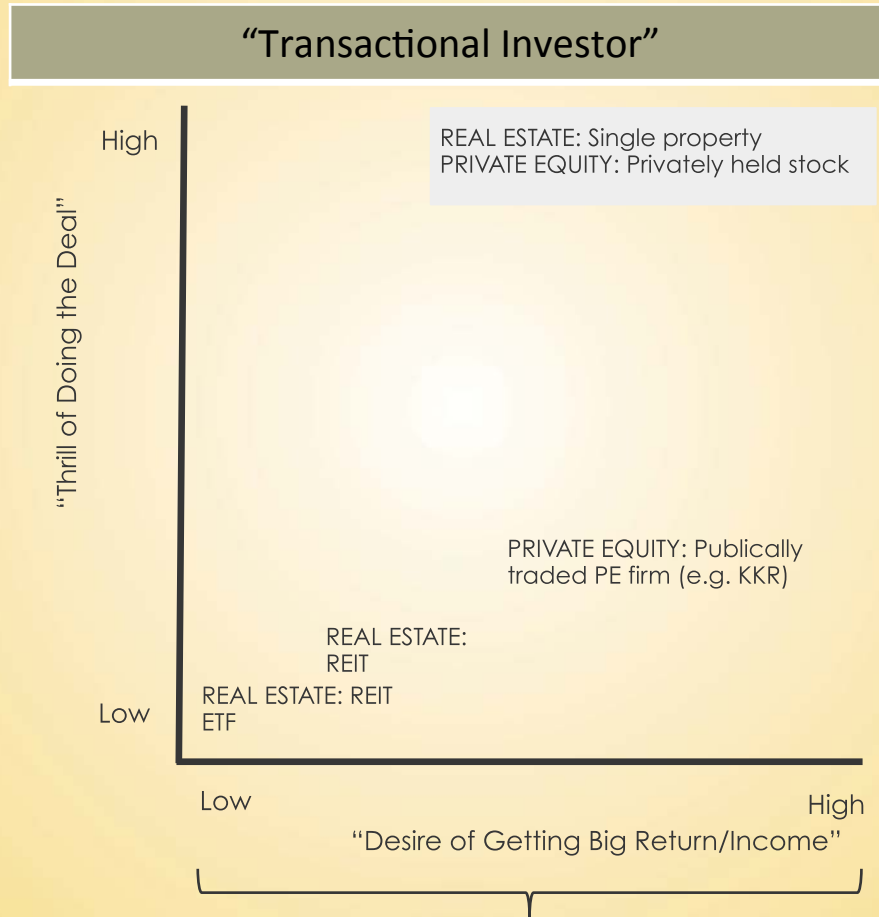
PENSCO is...

- An alternative asset custodian specializing in holding non-traded assets (private equity, notes, real estate) in retirement accounts
- A service provider to approximately 49,000 clients holding in excess of \$10 billion at the firm
- Focus on 7mm households with greater than \$150k HHI and hold an IRA
- A specialized non depository trust bank regulated by the New Hampshire Banking Department



Of 7.0mm households:

PENSCO's target is the "independent minded investor" ...



PENSCO's clients "see opportunity where others don't"



Independent minded Investors look to work with Financial Advisors

- Determine appropriate risk / return in asset classes that are non-liquid
- Tax advantaged and qualified
- Investing alongside taxable non-qualified money
- Sophistication of your clients / knowledge of asset class

