

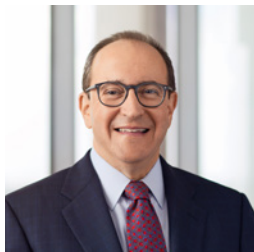


**Sentinel Trust**  
*Together, families prosper<sup>SM</sup>*

# OnWatch



## *Business Interests in Trust*



**ROSS W. NAGER, CPA**  
*Of Counsel*

Odds are that someday all or part of your family business will be held in trust. Whether you do lifetime wealth transfer planning, or just plain vanilla estate planning, trusts likely are in your future. Did you know that your choice of trustee has more far reaching implications than who you put in charge of a trust with just an investment portfolio?

Many business owners' knee-jerk reaction is to anoint one or more family members (preferably the ones who are involved in the business) as trustee. Or maybe the oldest or most responsible kid gets the nod—either way, let's call her "Sally." If Sally is too young or inexperienced, a trusted friend can be found to act as a placeholder until the "kid is ready." The intent is to keep Sally in charge of everything and prevent the uninvolved or irresponsible family member (let's call him "Harry") from interfering with the business.

Get the lawyers involved and the plan becomes 1) lodge the controlling business interest with Sally and 2) put a nonvoting, noncontrolling interest in trust for Harry with Sally as trustee. As an added benefit, you don't have to pay Sally (or the family friend) anything to perform the trustee role. After all, she does nothing as

### *In This Issue:*

#### **Business Interests in Trust**

*By Ross W. Nager, CPA*

---

**An Interview with  
Sentinel Trust's New  
Chief Investment Officer:  
Todd A. Burchett, CFA,  
FRM, CAIA**

---

#### **Airport Security Doesn't Have to Be Painful**

*By Katherine M. Rose,  
MBA, CFA*

#### **About Sentinel Trust Company**

*Sentinel Trust Company, LBA is an independent wealth management firm and multi-family office that provides comprehensive wealth and succession planning, fiduciary, investment management, philanthropic, and family office services to a select group of affluent families and their closely held entities and foundations. Founded in 1997 as the successor to two 40-plus-year old single-family offices, Sentinel Trust currently serves more than 30 multi-generational families nationwide and is responsible for approximately \$4.3 billion in assets as of June 30, 2019.*



**Learn more at**  
[www.sentineltrust.com](http://www.sentineltrust.com)

trustee because the lawyers make that role (e.g., nonvoting, noncontrolling, etc.) totally passive. Nirvana! You've completely insulated the business from Harry's interference. Or have you?

What you are not told is that there are potentially huge nonfinancial issues if you go down this path. Those issues may destroy family relationships and blossom into huge financial costs one day.

---

### *Disenfranchisement vs. Representation*

**Question:** What does Harry do when he has unanswered questions or is not happy about what is going on in the business? Presumably, he's talked with Sally already. Of course, his stock is held in trust (with Sally as trustee), so he has no options. Harry has been completely disenfranchised.

This a recipe for increasing tensions and frustration on both "sides." You can see the arguments developing very quickly. For example, Sally draws a nice salary and benefits from the business. Harry likely gets nothing. There are no dividends since Sally determines that all profits must be reinvested in the business. Harry, who is not an accountant, does not understand why he can't get his share of the profits. He just sees Sally living high on the hog. Sally thinks Harry should be happy because his stock value is rising due to her efforts, which clearly justify her salary.

One day, Harry runs into a friend who happens to be a lawyer. Harry explains to her the current set-up with Sally. As the holder of a controlling interest in the business, Sally has the ability to act in the best interests of the business, including how to distribute or reinvest the business' profits. As trustee, Sally has an "absolute" duty to act in the *beneficiary's* best interests. Those are not the same. The lawyer

recognizes that Sally has a conflict of interest, which also may be a violation of her trustee duties. We're talking years of harassment and potential litigation, not to mention complete destruction of family relationships.

---

### *A Better Way*

Compare that scenario to what could happen with an independent, professional trustee ("Trustee X"). Trustee X would develop a professional relationship with Harry that, over time, results in Harry believing that Trustee X has Harry's best interests at heart. Harry comes to believe that his interests are professionally and objectively represented by Trustee X.

Trustee X recognizes his (or its) obligation to monitor and protect the trust assets for Harry's benefit. Therefore, Trustee X establishes a professional relationship with Sally and other key management personnel. He has the ability to understand company operations and financial statements. He develops an understanding of the complex issues within the business. Trustee X can develop independent and objective views on business issues and concerns that an owner might legitimately have.

Trustee X can help both Sally and Harry understand both sides of any issues or disagreements. Conversations between and among Trustee X, Sally, and Harry are likely to be more constructive than Sally and Harry might have alone. Reason, common sense, judgment, and clear communication can lead to agreements and understandings.

---

### *The Trustee's Job*

Subject to varying state laws, a trustee has a duty to be a good steward of the assets and invest or distribute them for the beneficiaries. Courts have held trustees liable when they sat idly by and watch business interests slowly disintegrate. Certainly, the governing instrument can be carefully crafted to give the trustee a lot of legal "cover." However, the objective is not to provide "cover" for the trustee; rather, it's to get the trustee to do his job!

There are important "administrative" things that a trustee should do as part of his job like reviewing financial statements, periodically meeting with management, independently analyzing the situation, and communicating with beneficiaries. These are the



“

...a trustee has a duty to be a good steward of the assets and invest or distribute them for the beneficiaries.

”

very things that can ease tensions and improve relationships. Nonprofessional trustees are unlikely to do these things. Beneficiaries are unlikely to believe trustees who have conflicts of interest even if they do.

### *Who Can (and Will) Do It?*

The dirty little secret is that most professional trustees have a strong aversion to holding closely held business interests in trust. They prefer for client accounts to be managed by young, inexperienced (low paid) trust officers. They know that these youngsters can't do the work or command the respect required to handle business situations. They determine that the risk of ultimately being held liable for their youngsters' actions/inactions outweighs the trustee fee they can charge.

Some institutions will tell you that they are comfortable serving as trustee holding illiquid, closely-held assets—but check with some of their customers. We hear tales from customers of major, specialized trust companies and banks being pressured after 5-10 years to sell the closely-held interest so that the trustee can attain its ultimate goal: simple, efficient, scalable, and passive money management.

Some professional trustees who treasure long-term, multi-generational client relationships do very effectively manage business-owning trusts and the complexities of the families they benefit—so consider your trustee selection carefully. You can take the cheap and easy way out now but do so recognizing the potential long-term costs. Alternatively, you can thoughtfully select a trustee that may contribute to long-term family harmony and business success. The choice, of course, is yours—at least now you see how your decision could impact generations. ■



**TODD A. BURCHETT, CFA, FRM, CAIA**  
Managing Director, Chief Investment Officer



## *An Interview with Sentinel Trust's New Chief Investment Officer*

Sentinel Trust is excited to welcome Todd Burchett, CFA, FRM, CAIA, as the firm's new Chief Investment Officer. We asked Todd to answer a few questions about himself, his career, and his new position at Sentinel Trust.

**Q:** Can you tell me a little about your prior professional roles?

**A:** I have followed a somewhat untraditional path in the world of finance. Growing up, my father was a mortgage banker and I always dreamed of being a mortgage banker or stock broker myself. I worked for him during my summers in high school and college around the time of the Savings & Loan crisis, which is where I first learned about the whole mortgage loan supply chain. More importantly, my parents instilled in me a sense of service and giving back through the examples they set. After graduating from Stanford with a degree in Economics, I spent the next six years working in hunger relief as an AmeriCorps VISTA and as a public school teacher and coach in high-poverty districts in both Mississippi and Vermont. While I sometimes think about what my life would be like if I had gone directly into finance, I am extremely grateful for those experiences as I met my wife as an AmeriCorps member and learned how to communicate with people from all walks of life.

Although I thoroughly enjoyed teaching and working with middle schoolers, the mortgage banking and mathematical itch was still there and I decided to pursue both a traditional finance

MBA and an MS in Development Economics from The Ohio State University on scholarship. After graduating, I joined a boutique mutual fund company and the mortgage skills I had learned early in life allowed me to work my way up from a bond analyst to a mutual fund Portfolio Manager. Although I enjoyed modeling companies, analyzing financial spreadsheets, and expanding my work into equity portfolio management, I was keen to work more closely with clients and focus on very long-term returns and additional asset classes. In the past eight years I have served as the Portfolio Manager for a single-family office on the West Coast, an Investment Committee member for an East Coast multi-family office, and the outsourced CIO for multiple families and foundations.

I am now very excited to put this experience and skill set to work for Sentinel Trust and the families and institutions it serves.

---

**Q: What kind of work did you do at the single- and multi-family offices?**

**A:** When I joined a single-family office eight years ago during the European PIIGS (Portugal, Italy, Ireland, Greece, and Spain) debt crisis, I was very interested in a handful of trades that I thought had great downside protection and significant upside. The non-guaranteed mortgage-backed securities that plummeted during the Great Financial Crisis looked like an exceptional value as did Berkshire Hathaway trading just shy of its book value. While these trades did work well, I learned much more about building total portfolios, forming partnerships with external managers, and all of the key non-financial aspects necessary to serve such a family.

On the multi-family office side, I started off not only overseeing similar portfolios and relationships for multiple families but also managing internal teams across various functions. Over the past six years, I have served on the Investment Committee for a \$6B multi-family office which oversaw long-term strategic asset allocation, shorter-term tactical trades, instrument selection, and risk monitoring. I also chaired the Investment Steering Committee which allocated the resources of our investment team and formed crucial processes to improve efficiency. Finally, I oversaw all aspects of my client relationships including the processes and people responsible for performance reporting, estate, tax, and insurance planning.

**Q: So, you were very successful in these prior roles. What attracted you to Sentinel Trust?**

**A:** The people and culture at Sentinel Trust made a deep and immediate impression on me. Sentinel Trust is a recognized national leader in the boutique multi-family office space, which immediately made it an attractive opportunity for me. The firm's philosophy of focusing solely on the distinct needs and challenges of ultra-high net worth families and its commitment to creating solutions customized to each family's unique circumstances sets it apart from other similarly-situated firms. Sentinel Trust's focus on and commitment to personalized services offers me a once-in-a-lifetime opportunity to apply my skills and experience to truly help our clients accomplish their objectives and to experience the pleasure that I get from helping others.

---

**Q: Is it true that you're a media star? I understand you've been a featured guest on TV!**

**A:** No. I do actually have a few cousins who act in Hollywood. I have appeared in The New York Times, SmartMoney, and Institutional Investor. I have also been a guest on CNBC's Closing Bell and Squawk Box over the years. I would much prefer to meet with a client any day of the week than go on Squawk Box.

---

**Q: What are you most excited about for your new role at Sentinel Trust?**

**A:** I have been extremely impressed with the people and culture at Sentinel Trust and am grateful and excited to get started. The culture of service is impressive and I look forward to adding to the success the firm has seen over the years in serving our client families. I look forward to meeting with the whole Sentinel Trust team and our families and getting to know them on a personal level to discover how we can learn from each other and best serve their needs. My wife Lianne, our daughters (ages 8 and 4) and I are excited about our move from Wellesley, Massachusetts and are already enjoying the warm welcome into the Houston community. ■

# Airport Security DOESN'T HAVE TO BE PAINFUL



**KATHERINE M. ROSE, MBA, CFA**  
Vice President

We've all been there: your flight departs in 45 minutes and you're thinking, "I can still make it; I just need to get through security." You turn the corner and see a security line that wraps four or five times around. You realize it's over—there is no way you will make your flight. But what if there was another way?

Short of owning, leasing, or chartering a private plane, there are three expedited security screening service options for commercial travelers. These services allow travelers to bypass regular airport security lines and significantly reduce the overall time it takes to go through security. There are three primary service options: PreCheck, Global Entry, and Clear. All three allow you to skip the general security lines. You do not need to completely empty your pockets; strip off your belt, shoes, and jacket; or take your plastic bag of liquids and laptop out of your carryon bag. You skip the humiliation of standing with your arms raised in the full body scanner, getting "nailed" for a pat-down because your underwear was bunched up, and worrying about your wallet or purse being stolen as it sits on the x-ray belt waiting for you. Instead, you simply remove metals (including cell phones and keys) and your heavy overcoat and walk through the x-ray machine.

---

## *TSA PreCheck*

According to the Transportation Security Administration (TSA), 93% of TSA PreCheck passengers wait less than five minutes. PreCheck is the best option for those who travel only within the United States. It costs \$85 for five years and you can apply online. Once approved, all you have to do is schedule a ten-minute interview, undergo a background check, and submit an unexpired government-issued photo ID and proof of citizenship.

## *Global Entry*

Global Entry is the best option for those who fly domestically and internationally. It costs \$100 for five years and includes TSA PreCheck membership. Similar to the PreCheck process, you can apply online and, once approved, simply schedule an interview, undergo a background check, and submit a valid passport and one other form of identification such as a driver's license or ID Card. In addition to all of PreCheck's domestic benefits, Global Entry provides a separate, faster passport process upon return to the United States. Instead of the manually completed entry form and officer interview, you use a self-serve kiosk to complete paperwork, then hand the printout to an officer.

---

## *CLEAR*

CLEAR is the best option for those who want a true VIP experience. However, it is only available at a few select airports and is the most expensive at \$179 per year. You can apply online but must be physically present at a CLEAR location to complete enrollment. You will also need a traveler's ID, a fingerprint scan, an eye scan, and a photo of your face. All of this information will be used to create your profile. You will also be asked a few questions to verify your identity. Once enrolled, you will use the CLEAR kiosk for biometric scanning and then skip to the front of the PreCheck security line.

While there are benefits to each of the services, Global Entry generally is the best choice. It includes PreCheck, which is available at 200+ airports, it costs only \$15 more than TSA PreCheck, and it can reduce your travel time considerably if you fly internationally. ■

Sentinel Trust Company is a family-owned, multi-family office focusing on the unique needs of affluent families and their closely held companies and foundations. Sentinel Trust provides advice on investment, tax, and estate strategies, serves as corporate trustee, and provides lifestyle services with a personal touch.

## *Together, families prosper*<sup>SM</sup>

Founded in 1997 as the successor to two established, investment-focused single family offices, Sentinel Trust offers the stability of an institutional firm, the entrepreneurial spirit of a young firm, the personal feel of a family office, and the in-house technical skills of independent planning and investment management firms.

Sentinel Trust does not provide tax advice. Any discussion of tax matters contained herein (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of avoiding any tax-related penalties. This communication is for informational purposes only and nothing herein should be construed as a solicitation, recommendation, or an offer to buy or sell any securities or products.



2001 Kirby Drive, Suite 1200 | Houston, Texas 77019-6081  
[sentineltrust.com](http://sentineltrust.com)