Trust Services Overview

Independent Wealth

Management Advisors

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Pacific Portfolio
Private, Independent

Pacific Portfolio is a wealth management, trust and investment advisory firm located in Seattle, Washington. Our firm is owned by key employees and a group of well known and respected local investors who intend to keep the company private and in business for multiple generations. Our companies, Pacific Portfolio Consulting, LLC and **Pacific Portfolio Trust Company,** are held in one holding company Pacific Wealth Advisors. See page 8 for a list of Directors and Shareholders.

Pacific Portfolio
Pacific Portfolio Consulting, LLC was founded in 1992 as a private, locally owned company that has become one of the largest independent providers in the region. Our firm currently advises clients with assets in excess of $2 Billion dollars. We value close relationships with our clients and their beneficiaries, and because we have a low ratio of professional staff to clients, we have sufficient time to develop a comprehensive understanding of issues that are most important to our clients.

Our firm has always operated as an independent fee only advisor; providing wealth management and investment advisory services to high net worth families and individuals. We also provide the same conflict free investment advisory and consulting services to institutional fiduciaries through our Institutional Services Group.

We are committed to providing the highest level of advice and service in a structure that is free from conflict. We believe forgoing affiliations with broker dealers, financial entities or development of internal product as paramount to serving our clients with complete objectivity.

Pacific Portfolio Trust Company
We formed Pacific Portfolio Trust Company to serve the personal and charitable trust needs of our clients who desire a corporate fiduciary. As a professional trustee, we add expertise, experience and objectivity, while taking responsibility for all aspects of managing trusts, adding expertise, while relieving clients from attending to the multitude of details that are required to manage them properly.

We provide planning, investment advisory and trust services for clients who entrust us with assets of at least $2,000,000. We also offer discretionary investment management for clients with portfolios of $500,000 for a minimum fee of $5,000 annually.

Integrated Trust and Investment Services

A comprehensive array of services

We offer an integrated array of services to private clients who entrust us with at least $2 million in assets to manage on a discretionary basis. We will co-ordinate the work of your other advisors, and have access to any specialists that you might need. Our services include:

Planning

What am I trying to achieve? Can I expect success?

We have learned that the most effective planning goes beyond simple financial forecasting, and includes a detailed consideration of your legacy goals. How will your plan affect your retirement lifestyle? How will your financial matters be handled in the event of incapacity? Will your plan care for your loved ones?

Our staff has the knowledge and the insight to assist you with financial/estate/investment planning. If you have never carefully considered your future goals, or would like help calculating the likelihood of achieving a financial target, or want to establish a plan that will reinforce the goals you have in mind for your family, this process will prove invaluable. We will then work with your attorney or CPA to help structure your plan.

Trust Appointments

A long term, trusted fiduciary

Our trust staff has experience managing all types of trust accounts, and welcome appointments to serve in this capacity. We typically need to review the circumstances of each trust before accepting an appointment, to ensure that we understand the Trustor's intent. We are available to meet with you, your family, and your advisors.

Among other things, a Trustee is responsible for:

- Understanding the Trustor's intent
- Meeting with the Trustor, and/or beneficiaries, to develop an understanding of their needs
- Interpreting and following the directions of the Trustor, as set out in the trust document, to include making discretionary distributions
- Taking custody of all trust assets
- Investing all trust assets
- Accounting for Principal and Income
- Overseeing the preparation of tax returns
- Reporting to beneficiaries
- Treating all beneficiaries fairly
- Honoring a duty of loyalty to the beneficiaries

Discretionary Investment Management

Retain control and gain peace of mind

You don't need to establish a trust to benefit from our expertise. Acting as a fiduciary, and duty bound to work only in your best interest, we have the expertise to act as your discretionary investment manager, custodian, and record keeper.

You are then free to travel, golf, or pursue your other interests, and leave the details to us. Our team will guide you through the process of establishing an investment policy statement, and implement it by deciding which investments to buy, sell and hold on your behalf. In addition, we will place and settle all trades, account for all transactions, and invest idle cash. Our systems will automatically collect dividend and interest payments when due. When you travel, we can make arrangements to pay your estimated taxes, or wire money to you, if needed. Our reports provide the information your CPA needs to do your tax return, and will assist you with proactive tax planning.

Similar to the CEO who hires a CFO to manage the financial health of a corporation, you retain control of your portfolio by delegating responsibility and authority, but monitoring results. As the owner of the assets, you can direct distributions at any time, and your directives instruct our work. Our extensive performance reporting will give you the tools you need to measure success. Free from the details of daily investment decisions, it is likely that you will have a better perspective on how your portfolio fits together, and whether or not it is performing well relative to the market, and your individual plan.

Future Appointments

If you should decide to establish testamentary trusts that are created as part of your estate plan, please feel free to name us in your documents to serve as Trustee when the trusts are funded. We would be happy to meet with you to discuss your plans, and review the services we would provide if we were to serve as your fiduciary.

Why Name a Corporate Trustee?

Shouldn't I name a family member who already knows what I want? Can't I save money by appointing a family Trustee?

The short answer is often no to both questions. Naming someone already known to your beneficiaries, and whom you trust, doesn't mean they are the appropriate party to name as your fiduciary. Do they have the expertise and time to manage your trust? Can they remain impartial if they too are named beneficiaries? It is worth noting that our total fee for providing trust and investment services is often less than an individual is currently paying their broker, advisor or mutual fund company(ies). More importantly, the "opportunity cost" of naming a family member typically far exceeds the nominal cost of appointing a professional fiduciary.

Arguably, the most important decision you will make in putting together your estate plan is who to appoint as your Trustee.

- *Have you disclosed all of your financial, investment and estate plans to your Trustee?*
- *Have you disclosed to your Trustee your private thoughts on your legacy plan?*
- *Is your Trustee familiar with the Uniform Prudent Investor standards, and the processes that are required to avoid successful litigation by beneficiaries?*
- *Is your Trustee an expert in investing, trust law, taxes, principal and income accounting, and custodial reporting?*
- *Is your Trustee equipped to remain impartial when making distributions to your beneficiaries?*
- *Does your Trustee have the financial resources to compensate your trust for mistakes made?*

- *Will your family Trustee be able to make the trust a priority, given their own work, family, and social obligations?*

At Pacific Portfolio Trust Co., we have specialists in all of the fields necessary to properly manage trusts, and the desire to serve your interests over multiple generations. We are locally owned and managed, so we can develop close relationships with you and your beneficiaries. Our fees are inclusive, meaning they cover the costs of investment advice, custody, accounting and fiduciary services, which is more efficient and cost effective than contracting for each separately. Aside from costs, we believe that our investment expertise would be hard for any private Trustee to match. The “opportunity cost” of an inefficient trust investment portfolio could have a huge impact on whether or not your trust lives up to your expectations. We can structure a portfolio which balances risk and return, and matches the objectives set out for your trust. Properly managed, your portfolio should cover all of your expenses, while maximizing long term results.

Essential Planning Steps

Planning for incapacity or wealth transfer

Estate planning is often thought of as tax planning. While taxes can be important, your estate plan should reflect what is most important to you: your care; family legacy; and your community or social legacy. If you have no plan, the State in which you live will devise a plan for you, at great expense in both time and money. For example, should you became incapacitated without planning, your family would have to convince a court to appoint them as your guardian so that they could make medical decisions on your behalf, and pay your bills. If you are seriously ill, this could leave you with no legal advocate for your rights for an extended period of time. Should you die without a will, the State will decide who inherits your legacy, without regard to your wishes or tax planning.

At a minimum, you should have:

- **A durable power of attorney,** which grants the power, to someone you trust, to make financial decisions on your behalf during any period of incapacity. You should also carefully consider, and include in your durable power, language specifying who should be given access to your private medical information, which is now controlled by the Health Insurance Portability and Accountability Act (HIPAA).

- **A health care directive,** which provides written directives to your health care providers about the level of care you chose for yourself, absent any ability to speak directly for yourself.

- **A will**, which clearly indicates who shall receive your assets upon your demise. Such wills, for individuals with taxable estates, typically create a Credit Shelter or By-Pass Trust (mentioned below) to save estate taxes while providing support for family. For estates with significant assets, additional types of trusts may be created to achieve wealth transfer objectives.

An estate planning attorney can prepare these documents for you, after you express your wishes. An important consideration in putting these plans in place is the structure of your investment portfolio, and how it will support your goals. Pacific Portfolio Trust Co. can help you work through that analysis, and then implement a portfolio strategy on your behalf.

Trusts
Flexible Tools

Your attorney and CPA will necessarily be involved in the structure and drafting of any trust plan you may decide to implement, since complex rules often govern how they must be established and managed. Trusts are valuable tools, however, which allow you to exercise control over your family legacy which would not otherwise be possible. Instead of leaving all of your assets outright to one individual, for example, placing those assets in a trust will allow you to provide benefits to multiple beneficiaries. There are a myriad of uses of trusts. Your relationship officer at the Trust Company can explore their many uses to prepare you for a planning session with your other advisors.

Some of the types of trusts in common use today include:

- **Living Trust**. As implied, these trusts are established during your lifetime. You “fund” them by transferring ownership of your assets to the trust, although you retain control and can change or dissolve the trust if your needs change. Some establish living trusts to simplify their lives by putting all of their investments in one place, and having their Trustee account for all investment activity. Rather than relying on a durable power of attorney to manage your affairs should you become incapacitated, which some brokerage firms and banks will not honor, your Trustee is empowered to step in and handle your investments and finances without court intervention. This can be particularly helpful if you do not have a spouse, or your spouse is not familiar with your financial affairs and investment program. If all of your assets are in a living trust, your estate will avoid probate, which provides some additional privacy for your family. And, with the rise in litigation over will contests, it is worth noting that it is much harder to challenge a long standing trust than it is to challenge a will.

- **Credit Shelter, or By Pass Trust**. This type of trust is usually created by language in your will, a so called “testamentary trust,” that comes into being upon the death of the first spouse to die. It allows the transfer of assets in the amount of the allowable federal exemption to be transferred to heirs without any estate tax. The trust is generally structured to pay income to the surviving spouse during his or her lifetime, and can also make special distributions for health, support and maintenance. When the second spouse dies, all of the assets in the trust are paid to your beneficiaries without estate taxes.

- **IRA Rollover**. Our trust company is qualified to act as the Trustee of your IRA rollover, and will work with your attorney to structure customized distribution options which can be very valuable as you structure your estate plan, to maximize the benefit of both your IRA and your plan.

- **GRAT, Grantor Retained Annuity Trust.** This is a vehicle providing an effective means for transferring appreciating property to children at reduced “gift tax” costs. It is similar in concept to a QPRT (mentioned below); however it can be funded with other appreciating assets such as marketable securities. The assets are transferred into trust and the grantor retains an income annuity stream for the trust term. The value of the gift is discounted for the annuity payments retained by the grantor, which means the exemption credit used to make the gift is reduced. At the end of the trust term, the children receive the appreciated property remaining in the trust at the end of the term free of estate and gift taxes. The transfer amount is maximized when the trust is funded with rapidly appreciating assets.

- **Charitable Trusts**. These trusts, which can be structured in a variety of ways can help save taxes, support your favorite charity, and provide income to your family members. In a **Charitable Lead Trust**, a charity of your choosing gets a distribution of income from the trust each year for a set number of years, after which you or your beneficiary receives the remaining assets in the trust. When structured for your beneficiaries to receive trust assets, this can be a very powerful wealth transfer tool, especially in a low interest rate environment. In a **Charitable Remainder Trust,** you or your beneficiary receive an income for life or a set number of years, and then the remainder distributes to a charity. By funding these irrevocable trusts with your low tax basis investment, you can avoid paying capital gains tax on the property transferred, and get a charitable deduction for a portion of the assets contributed to the trust. The income distributions for either trust can be based on a set amount, like an annuity, or upon a percentage of the total value of the assets held in trust at the end of each year. The IRS dictates how your "gift" is calculated for estate tax deduction purposes. These charitable trusts can provide income and estate tax savings, particularly in a high interest rate environment.

- **Qualified Personal Residence Trust.** A QPRT is a method that allows the Trustor to transfer a gift of his/her residence to a beneficiary at a favorable valuation, and generate substantial estate and gift tax savings. The value of the home is discounted because the delayed possession of the home by the beneficiary, and future increases in the value of the home are "frozen." Typically the trust will be established for a set number of years. If the Trustor dies before the end of the term, the QPRT provisions do not activate and the gift is not made. If the Trustor outlives the term of the trust, the home is transferred to the beneficiary. The value of the "gift" is determined based on the Trustor's age, the number of years established for the trust term, and the applicable federal discount rate. At the end of the term, the Trustor can remain in the home but must pay a market value rent.

- **Qualifying Terminal Interest Property, or QTIP**. Asset Transfers from the first spouse to die to the surviving spouse are estate tax free, but are then taxable in the estate of the second spouse to die. This same deferral of estate taxes can be achieved by establishing a QTIP, sometimes known as a marital trust. The first spouse to die has the ability to name the residual beneficiaries of this trust, and the spouse enjoys the use of trust assets during his or her lifetime. This type of trust is commonly used to support a spouse while protecting assets to transfer to children from a prior marriage.

- **Special Needs Trusts**. Trusts can be established to help care for the needs of children or adults who are unable to care for themselves because of a medical or mental disability. In these cases the Trustee will work to ensure that any trust distributions do not disqualify the beneficiary from governmental benefit programs.

- **Spendthrift Trusts**. Trusts can be established to provide benefits to beneficiaries that you may be uncomfortable making an outright gift to, because of their inability to manage their finances properly. They can be established to pay out a certain amount of income on a routine basis, or distribute certain sums upon the attainment of different ages, or may grant to the Trustee the authority to make distributions for defined purposes.

None of the above examples should be construed as legal advice. The types of trusts mentioned above, and the numerous trusts not mentioned, each require adherence to specific rules, and must be drafted by your attorney. We can administer these types of trusts as your designated fiduciary.

Executive Leadership

Mr. Lawrence L. Hood
    President and CEO, Pacific Wealth Advisors, LLC
    President and CEO, Pacific Portfolio Consulting, LLC
    President and CEO, Pacific Portfolio Trust

Directors and Investors, Pacific Wealth Advisors

Mr. J. James Gallagher
    Chairman, Pacific Wealth Advisors, LLC
    Chairman & CEO, Elliott Cove Capital Management, LLC
Mr. John F. Cockburn
    Retired EVP, Rainier Bank
Mr. Timothy Engle
    Managing Director, Skookumchuck, LLC
Mr. Lawrence L. Hood
    President & CEO, Pacific Wealth Advisors, LLC
Mr. R. Marc Langland
    Chairman & CEO, Northrim Bank
Mr. John Merlo
    Retired
Mr. Raymond Styles
    Retired
Mr. James M. Will
    President, Titus Will

Pacific Portfolio Investment Committee Members

- **Lawrence L. Hood, President / CEO**
  - Chartered Financial Consultant
  - B.A. Finance & Economics, University of Puget Sound
  - 30+ years of investment experience
- **James Ayres, Chief Investment Officer**
  - MBA in International Banking and Finance, George Washington University
  - 20+ years of investment experience
- **M. Carla Devlin, Investment Analyst**
  - Chartered Financial Analyst
  - MBA Industrial Administration
  - 25+ years of investment experience
- **Bryan Knutson, Wealth Management Advisor**
  - Certified Financial Planner
  - B.A. History, Dartmouth College
  - 15+ years of investment experience