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TIBURON RELEASES LATEST RESEARCH REPORT ON THE RAPIDLY GROWING MARKET FOR TRUST SERVICES IN THE INDEPENDENT ADVISOR CHANNEL

-- Report includes detailed analysis of the trust business, trust products, and the growing number of offers in the independent advisor channel, as well as feedback from independent reps --

TIBURON, CA, December 19, 2001 – Tiburon Strategic Advisors releases its latest research report today on the rapidly growing market for trust services across advisor channels. The report is approximately 100 pages in length and addresses:

- The Trust Business: Highlights of a Key Trend in Wealth Management
- Trust Products: An Overly Complicated Industry for a Practical Set of Needs
- Independent Rep Feedback
- The Competitive Playing Field (The Bundled Bank Model, the Wirehouse Model, and the IBD & Custodian Models for Independent Advisors)
- Detailed Profiles of the Leading Independent Trust Companies (Santa Fe Trust, Capital Trust Company, Wilmington Trust, US Trust, National Advisors Trust, and National Independent Trust Company)

Summary Analysis

With a rapidly growing market of emerging affluent households, the independent advisor industry has been moving towards a wealth management orientation over the past few years. One of the key services involved in wealth management is the transfer of wealth from one generation to the next. Trusts are the preferred vehicle for this transfer.

Numerous new trust offers have been introduced in the independent advisor market. While a few of the independent broker/dealers have internal models (most notably Raymond James and ING), most independent broker/dealers are leveraging the growing number of independent trust companies. A few of the “offers” appear to be simply traditional bundled offers in disguise whereby the independent advisor is muscled out of his or her client relationship and the client is charged bundled fees. Trust companies looking to cater to the independent advisor market must approach it with the right framework. Santa Fe Trust, Capital Trust Company, Wilmington Trust, US Trust, National Advisors Trust, and National Independent Trust Company seem to be best positioned for success.

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The Trust Business: Highlights of a Key Trend in Wealth Management

Trusts have been called the most flexible and powerful vehicle in the planning process; they have at least six key purposes:

- Plan for possible incapacity
- Avoid probate
- Reduce or eliminate income, capital gains, gift, and estate taxes
- Make controlled gifts to family/children
- Make tax-efficient gifts to charities
- Provide asset protection from creditors

More than anything, many trusts are utilized to avoid gift and estate taxes on estate amounts above $1.35 million for a married couple. Given the large exemptions, very few estates (about 2%) pay any estate tax; almost all estate taxes are paid by households with $1 million+ estates and half are paid by $5 million+ estates. Furthermore, the estate tax has been “repealed” through the Economic Growth and Tax Relief Reconciliation Act of 2001 (the Tax Relief Act). Under the Tax Relief Act, the top estate, gift, & GST tax rates will be reduced. The Tax Relief Act also increases the applicable exemption amount to $3.5 million by 2009. However, the new law replaces the estate tax with an income tax on the capital gains of beneficiaries as they dispose of assets received from decedents. As a result, estate planning is still crucial.

In aggregate, there are about three million trusts in the US with $2.5 trillion in assets. Trusts are widely used by affluent households; 72% of households with more than $1 million in investable assets have a trust. Trust use is also growing amongst younger households; of 56% of households between the ages of 35 and 44 with greater than $250,000 in investable assets have a trust.

Of the three million trusts in the US, about 2/3 (or two million) are revocable living trusts and these have about 2/3 of the assets or $1.6 trillion. Revocable living trusts have been growing strongly for the past decade. On the other hand, there is some debate about the growth of assets in irrevocable trusts. Evidence seems to suggest that assets in irrevocable trusts have been slowly growing over the last decade to a little more than $1 trillion now. However, when taking market appreciation out, irrevocable trust assets may have declined in the 1990s at a rate of 5% per annum. The number of irrevocable trust accounts has been stagnant at about 900,000.

That said, Tiburon expects the number of trusts to continue to grow; we project that there will be five million trusts by 2005. Baby boomers are approaching their retirement years when issues of wealth transfer will come into clearer view and financial services firms want to capture trust business because trust accounts are much stickier.
**Independent Rep Feedback**

Amongst independent reps, demand was greatest for living trusts. Common comments sounded like this from an LPL rep: “we get about a dozen requests a year to set up a living trust, but we only get about three requests for a corporate trustee.” Other findings from our round of rep interviews were:

- Most who see demand for corporate trustee services see just one or two cases per year. A few report having a need for a corporate trustee three or more times per year.
- Independent reps rely on one of three solutions when they do need a corporate trustee: sending clients to a bank, using the IBD’s in-house solution, or using an independent trust company. One FSC rep said, “We sent our client to a local bank; I don’t think FSC has a solution.” One Raymond James rep said, “Raymond James owns two trust companies; one in Florida for Florida residents, and one in Seattle, WA for all clients from other states.” One fee-only advisor said, “We’ve worked with Capital Trust in Delaware; they are pretty good and have reasonable prices.”
- Demand for non-traditional products amongst independent reps was moderate to high, especially with life insurance trusts. One Royal Alliance rep said, “I think that there is an increased demand for putting life insurance products and annuities into trusts.”
- The average size of accounts using a corporate trustee was $1-$2 million. One HD Vest rep said, “We’ve referred out clients needing corporate trustee services with as little as $800,000 and as much as $3.5 million.”
- Pricing was believed to be 40-60bps. One NPC rep said, “On the case that we sent to a local bank, our client was charged maybe 60 or 70 bps for administration.”

**The Competitive Playing Field**

There are a wide variety of competitors. Banks have long dominated the trust business but both full-service brokers and independent advisors are gaining share.

**The Bundled Bank Model**

Some banks have amassed significant personal trust assets of $100 billion+ but there is a long list of criticisms of traditional bank trust departments, including high fees, limited investment choice, poor investment performance, poor service, communication problems, personnel turnover, lack of face-to-face service, and difficult to understand statements. Tiburon’s experience would confirm the poor service; neither of the two well-known banks in our town of Tiburon, CA was able produce a trust brochure upon our request (and one of them even shuffled us off to call their call center on the telephone). At the same time, we found that even $15 million does not seem enough to
work with JP Morgan; they said no thanks to our mythical $15 million trust account.

Most of the bundled bank models are quite similar in both pricing and services. By way of example, we will refer to Bank of America, Wells Fargo, and Northern Trust:

- These firms have tens of thousands of trust accounts. Both Bank of America and Wells Fargo have near 80,000 and Northern Trust has 12,000.
- These firms manage huge amounts of trust assets; Bank of America reports $129 billion while Northern Trust is at $97 billion and Wells Fargo at $85 billion.
- These firms have huge staffs; Wells Fargo reports more than 850 trust officers and portfolio managers; Northern Trust reports 350.
- Pricing seems to be consistent across the bundled models; Bank of America might be the least costly but all are generally 130-85bps. Most have minimum annual fees ranging from $3,000 (Bank of America) to $12,000 (Wells Fargo). And all have many incremental fees for unfunded accounts, specialty assets, difficult to administer trusts, etc.

The Wirehouse Model

Full-service brokers and independent advisors have been winning share in the overall trust marketplace, taking share from banks and trust companies. Full-service brokers have made particular strides in the revocable living trust market, raising their market share from just 3% in 1993 to 29%. Brokers have utilized their recent success in underwriting many start-up companies in capturing the resulting trust accounts of entrepreneurs.

Merrill Lynch serves as a good example here. As a firm, Merrill has client assets of $1.7 trillion. They have been in the trust business since forming an in-house trust company in 1987 and the firm has been successful; assets held in Merrill trusts have increased from $7 billion in late 1998 to $17 billion earlier this year. Other interesting components of Merrill’s offer include:

- Merrill offers personal trust services through a team approach. A personal trust administrator handles the day-to-day requirements of the trust.
- Merrill recently expanded its capabilities to reach clients in all fifty states.
- As part of its trust model, Merrill has a center for philanthropy and non-profit management.
- Merrill also recently expanded its capabilities to serve client with less than $1 million through its Preferred Access Group.
- Merrill offers at least three different money management options. Accounts managed by Merrill in individual securities can be charged from 175 to 60 bps. Accounts using third-party managers cost 300 to 84 bps. And accounts utilizing Merrill’s in-house mutual funds cost just 75 to 20 bps.
**IBD & Custodian Models for Independent Advisors**

The historical model for independent advisors was that the client would name him/herself a trustee and the accounts would be lost after the death of the second spouse. However, more recently a variety of independent trust companies have emerged to address independent reps’ concerns. The independent broker/dealers generally rely on independent trust companies; as examples:

- LPL “receives a fair amount of demand for corporate trustee services.” LPL offers referrals to four independent trust companies (Santa Fe Trust, Capital Trust, Wilmington Trust, and Generations Trust) and allows reps to utilize their mutual fund and separate account wrap programs. The firm is considering the possibility of bringing its trust business in-house.

- Raymond James offers an in-house solution already. As noted earlier, the firm owns two trust companies. Collectively, they have $700 million in personal trust assets and have seen growth of 25-30% per annum over recent years. Raymond James offers a directed trustee model for their reps but retains discretion over the account; its fee schedule is one of the least expensive.

- Broker/dealers in the SunAmerica Financial Network family currently work with various independent trust companies but the firm is working on building an internal model with AIG and developing corporate level relationships with the independent trust companies to get more favorable pricing.

- ING Financial Network uses its in-house trust company as well as Santa Fe Trust. The ING trust company predominately offers its services to the ING broker/dealers but also has a few other clients.

- In the fee-only advisor market, Schwab uses US Trust. US Trust acts as the administrative trustee with language in the trust document clearly identifying the advisor as the party providing the investment advice. As an aside, Fidelity is still working on its model and TD Waterhouse and First Trust/Datalynx utilize independent trust companies.

**Independent Trust Companies**

The independent trust companies each have different strengths and weaknesses. US Trust and Wilmington Trust offer the most in terms of size and stability. Both were founded 100 years before their competitors, have thousands of accounts, and tens of billions in assets.

Santa Fe and Capital Trust Company have the best offers for the independent advisor market. Both allow custody away, have arrangement with various IBDs and custodians, and offer trust schools for independent advisors:

- Founded in 1997 and based in Santa Fe, NM, Santa Fe and its CEO John Sandager was one of the pioneers of the directed trust business. The firm is a completely

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**Pricing at Santa Fe Trust Ranges From 65-35 BPs**

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<th>Account Size</th>
<th>BPs</th>
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<td>$5-$5 Million</td>
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independent private company; it only provides wholesale trust services to financial advisors; it does not offer a retail product or any money management solutions. The firm has the ability to take a trust from anywhere in the US and more than 85% of clients are outside New Mexico. The firm has $180 million in client assets from clients such as Legacy Marketing Group and First Trust/Datalynx.

- Founded in 1999 and based in Wilmington, DE, Capital Trust was also an early entrant into this business. Capital Trust is able to provide all of the benefits of Delaware trust law. The firm has $230 million in client assets and is trustee of the successful US Charitable Gift Trust (introduced with Eaton Vance). It does offer an in-house money management program and clients include TD Waterhouse and First Trust/Datalynx.

As the market for trust services amongst independent advisors is growing quickly, many new entrants continue to come into the market. Other independent trust companies that are in this market include American Guaranty & Trust, Generations Trust, the National Advisors Trust Company (NATCO) (set up by a group of fee-only advisors), and the National Independent Trust Company (NITC) (also started by advisors).

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**Tiburon Strategic Advisors**

Tiburon Strategic Advisors, based in Tiburon, CA, was formed in 1998 to offer strategic consulting, market research, and market seminars to financial institutions and money managers. The firm has served over 150 corporate clients and completed over 325 research and strategic planning projects in that period. The firm’s knowledge base ranges from online financial services to mutual fund distribution, wrap programs, the fee-only financial advisor market, bank/broker mergers, and alternative investments.

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