EVERYBODY HATES TAXES

CHEYNE PACE'S YALE CAPITAL IS THIS YEAR'S FASTEST-GROWING REGISTERED INVESTMENT ADVISER, THANKS TO BETS ON MASTER LIMITED PARTNERSHIPS AND OTHER MONEY-CONSERVING STRATEGIES.

BY MARGARET COLLINS

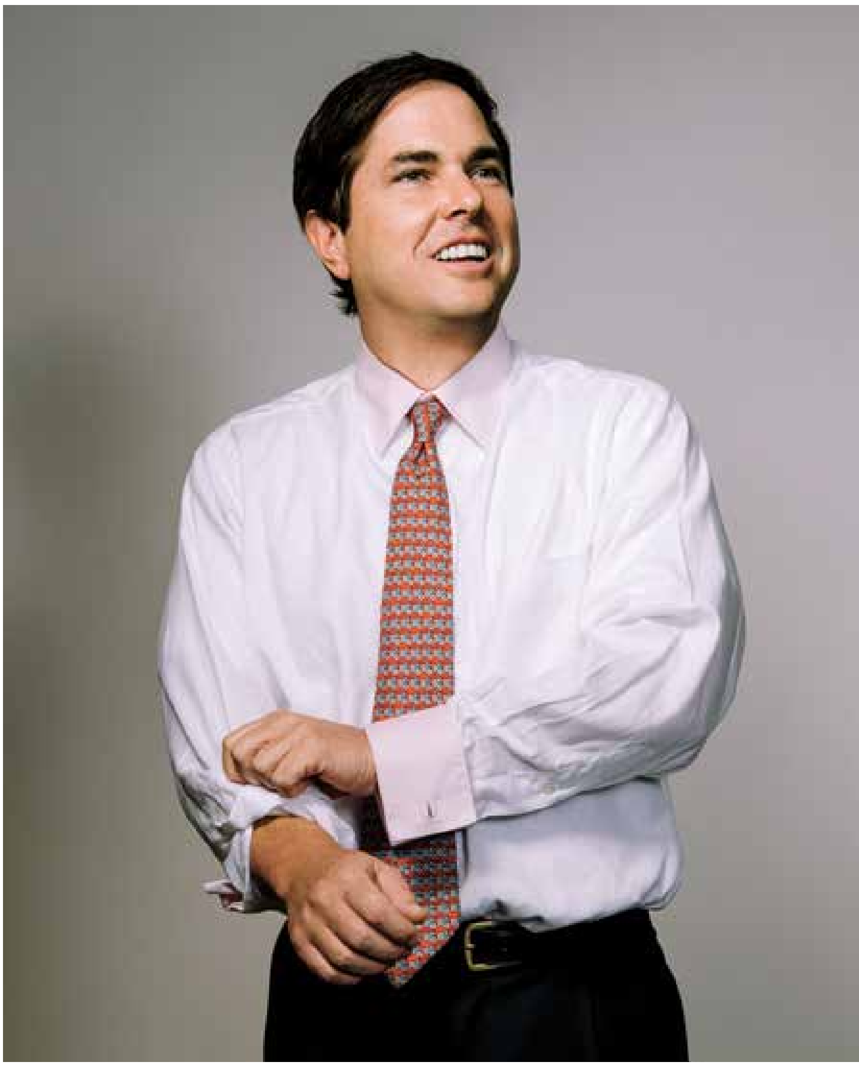
Investment adviser Cheyne Pace is preoccupied with tax efficiency—a focus that's helped him attract $1.7 billion in client money since he founded Yale Capital in 2004. Last year, when he thought about relocating, tax advantages were among the things he considered before moving himself and Yale's headquarters to Dorado, Puerto Rico.

U.S. investors are bemoaning the tax drain on their savings and seeking help to reduce the bite. Millionaires worry more about taxes than terrorism, ranking the issue third behind the political environment and government gridlock among their national concerns, a 2015 survey by research firm Spectrem Group found.

Wealth managers say they're working more on tax issues since the federal government boosted the levies on wages and investment gains of big earners in 2013 for the first time in a decade. Today, the marginal income tax rate, on earnings above about $400,000, is 39.6 percent, up from 35 percent in 2012. On top of that, some states target their richest residents. California raised its top marginal rate to 13.3 percent in 2012 from 10.3 percent on income above $1 million.

"After-tax returns matter, especially in a lower-interest-rate environment," says Elizabeth Nesvold, managing partner at Silver Lane Advisors, which specializes in mergers among wealth management firms. "As more baby boomers age, every penny will count."

Pace, 47, wants to see those pennies add up. He chooses investments from oil pipelines to shares of bank stocks that pay tax-preferred dividends to help clients build savings and lose less to levies. "I need to make sure their net return is as high as possible,"



PHOTOGRAPH BY BOB CROSLIN

he says. "One of those components is fees, and the other is taxes."

Yale boosted its assets under management 70 percent last year, making it the fastest-growing firm in *Bloomberg Markets*' second annual ranking of registered investment advisers. Wetherby Asset Management tops RIAs by size for a second year. The San Francisco–based firm managed $3.6 billion as of December 2014, up 3.5 percent from the previous ranking. A dozen companies are new to the list this year.

Pace works with 35 family groups who have at least $10 million apiece to invest. They're mainly entrepreneurs and executives from oil, gas, pharmaceutical, and technology companies. Many have a lot of their wealth in the stock of a company they took public or that they got in an acquisition. He's helped them protect against losses by transferring some of that stock into so-called exchange funds, which also hold shares from executives at other corporations. The strategy lets clients both diversify and defer taxes on gains because it doesn't trigger a sale, Pace says.

One of the firm's most successful investments is master limited partnerships. MLPs hold pipelines and other assets that transport natural resources, rather than the commodities themselves. When profitable, the securities provide distributions, similar to stock dividends, and offer tax deferrals on most of the income an investor receives.

Pace bet clients' money on a natural gas–transporting MLP called Energy Transfer Equity. The Dallas-based partnership gained more than 468 percent, with dividends reinvested, from 2007 through 2014. He's still a fan despite a 26 percent drop this year through mid-October in MLPs in general and a plunge in overall energy prices. Six of the firm's 10 biggest U.S. equity positions were in MLPs as of June 30.

Pace got his MBA at Yale University, where he focused on asset allocation. He kicked off his wealth management career at Goldman Sachs in 1994, a year when MLPs were first catching on. He moved to Merrill Lynch in St. Petersburg, Florida, in 1999. To win business, he cold-called Silicon Valley entrepreneurs whose companies were going

TOP 50 REGISTERED INVESTMENT ADVISERS

	Firm	*Main Office*	AUM, in Millions*	YOY % Change	YOY Rank
1	Wetherby Asset Management	*San Francisco*	$3,626	3.5	
2	Homrich Berg	*Atlanta*	3,518	15.8	6 (TIE)
3	Evanson Asset Management	*Carmel, California*	3,480	9.8	
4	Bartlett	*Cincinnati*	3,351	4.4	
5	Klingenstein, Fields	*New York*	3,200	2.2	
6	RegentAtlantic	*Morristown, New Jersey*	3,094	7.5	
7	R.M. Davis	*Portland, Maine*	3,072	8.8	
8	Dowling & Yahnke	*San Diego*	2,970	7.7	
9	Atherton Lane Advisers	*Menlo Park, California*	2,703	16.6	4
10	Ropes Wealth Advisors	*Boston*	2,384	**	
11	Halbert Hargrove Global Advisors	*Long Beach, California*	2,226	5.3	
12	Budros, Ruhlin & Roe	*Columbus, Ohio*	1,956	5.3	
13	Heritage Investors Management	*Bethesda, Maryland*	1,931	12.0	
14	Wescott Financial Advisory Group	*Philadelphia*	1,926	14.8	9
15	Retirement Advisors of America	*Addison, Texas*	1,912	-0.4	
16	EP Wealth Advisors	*Torrance, California*	1,850	23.5	3
17	Wharton Business Group	*Malvern, Pennsylvania*	1,829	15.3	8
18	JMG Financial Group	*Oak Brook, Illinois*	1,733	6.3	
19	Yale Capital	*Dorado, Puerto Rico*	1,700	69.6	1
20	Badgley Phelps Investment Managers	*Seattle*	1,684	6.8	
21	TCI Wealth Advisors	*Tucson, Arizona*	1,661	8.7	
22	Destination Wealth Management	*Walnut Creek, California*	1,490	5.4	
23	Sand Hill Global Advisors	*Palo Alto, California*	1,420	12.8	
24	Barrett Asset Management	*New York*	1,418	7.8	
25	Accredited Investors	*Edina, Minnesota*	1,406	4.9	
26	Sage Financial Group	*West Conshohocken, Pennsylvania*	1,384	14.3	10
27	Retirement Income Solutions	*Ann Arbor, Michigan*	1,334	11.3	
28	Chesley, Taft & Associates	*Chicago*	1,327	7.3	
29	Northeast Investment Management	*Boston*	1,324	7.0	
30	Resource Consulting Group	*Orlando, Florida*	1,320	4.5	

Fastest growth this year

KEY
Firms with greatest year-over-year growth
Rank according to YOY growth

**AUM includes discretionary assets that an adviser can use to buy and sell securities and make other investments.*
***No full year of AUM because filing was Aug. 15, 2014.*
Source: Bloomberg

public. When he broke out on his own to form Yale about five years later, clients with about $180 million in assets joined him. Today, he owns more than half of the business.

RIAs have increased their share of the wealth management market every year since 2007, more than doubling the assets they manage to $2.7 trillion as of 2014, research firm Aite Group reports. These independents have a duty under the Investment Advisers Act of 1940 to put customers' interests first. They usually earn a fee based on assets under management. Brokers, who often call themselves advisers, only have to recommend suitable investments and can make commissions from their firm's products.

While some financial professionals register as advisers and brokers, Pace is only an RIA. (Bloomberg ranked RIAs registered with the SEC that reported more than 75 percent of their clients have $2 million in net worth or $1 million with the adviser. We excluded those that take commissions or are affiliated with a bank, insurer, or other financial firm.)

Yale is the only firm in our ranking of the top 50 RIAs that has relocated to Puerto Rico. Its clients currently get no tax relief from the move. But owners of investment firms who become residents pay no capital gains taxes when they receive a percentage of the investment profits, says Gabriel Hernández, who heads the tax division of accounting firm BDO Puerto Rico. If the Puerto Rican company passes distributions or dividends to owners from the fees it collects, those are tax-free, too, Hernández says.

There's a catch: You must live in Puerto Rico at least 183 days in a year, show close social ties, and employ at least three Puerto Rican residents at the firm. Pace says he's trying to become a resident himself, but any tax advantages for him are still unclear.

One challenge all RIAs face is succession. The average age of founders in our ranking is 61. Pace says he's delegating more, but it's hard because he wants to be involved in every portfolio. When it comes to eventually passing the reins, he says he'll look for someone with an academic background who'll maintain his tax-efficient focus—be it in Puerto Rico or beyond. BM

TOP 50 REGISTERED INVESTMENT ADVISERS

KEY

Firms with greatest year-over-year growth

Rank according to YOY growth

	Firm	Main Office	AUM, in Millions*	YOY % Change	YOY Rank
31	Salem Investment Counselors	*Winston-Salem, North Carolina*	1,312	10.1	
32	Green Square Capital	*Memphis, Tennessee*	1,303	2.9	
33	Bridgewater Advisors	*New York*	1,262	6.7	
34	Montag	*Atlanta*	1,249	10.3	
35	Brightworth	*Atlanta*	1,206	11.9	
36	Capstone Financial Advisors	*Downers Grove, Illinois*	1,197	7.8	
37	McQueen, Ball & Associates	*Bethlehem, Pennsylvania*	1,186	4.5	
38	Parsons Capital Management	*Providence, Rhode Island*	1,093	7.6	
39	Guyasuta Investment Advisors	*Pittsburgh*	1,081	9.9	
40	Balentine	*Atlanta*	1,043	4.8	
41	HHG	*Darien, Connecticut*	1,027	0.3	
42	Emery Howard	*Burlingame, California*	1,026	1.7	
43	TrueWealth	*Atlanta*	1,001	16.3	5
44	Heritage Financial Services	*Westwood, Massachusetts*	956	14.2	
45	Sapere Wealth Management	*Matthews, North Carolina*	945	-5.8	
46	Reynders, McVeigh Capital Management	*Boston*	926	26.5	2
47	New England Private Wealth Advisors	*Wellesley, Massachusetts*	900	13.3	
48	Durbin Bennett Private Wealth Management	*Austin, Texas*	898	6.5	
49	ParenteBeard Wealth Management	*Lancaster, Pennsylvania*	882	15.8	6 (TIE)
50	Maryland Capital Management	*Baltimore*	881	14.1	

**AUM includes discretionary assets that an adviser can use to buy and sell securities and make other investments. Source: Bloomberg*

HOW WE CRUNCHED THE NUMBERS

Bloomberg Markets ranked active U.S. registered investment advisers that provide financial planning services based on the data they reported to the Securities and Exchange Commission as of June 1, 2015. We used filings as of June 2, 2014, for year-over-year comparisons.

The ranking excludes firms that operate as or are affiliated with broker-dealers, banks, or thrifts; trust or insurance companies; or firms with employees who are registered representatives of broker-dealers. We also excluded firms that take commissions, sell financial products, or operate as real estate agents, lawyers, insurance brokers, or accountants. We did not consider multifamily offices.

Our RIAs obtained more than 75 percent of their assets under management from high-net-worth individuals. Up to 25 percent of their AUM was from any of the following sources: investment and business development companies; pooled investment vehicles; pension and profit-sharing plans; charitable organizations, corporations, or other businesses; state or municipal government entities; other investment advisers; and/or investors that the RIAs described in the filings as "other."

Bloomberg Rankings
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