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THE Hollywood REPORTER

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and the
Mueller Mess

BY KIM MASTERS

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Nation at the
Ballot Box

BY KAREEM
ABDUL-JABBAR

AND...
Netflix Execs
Make How Much?!



WEALTH MANAGEMENT | RICHARD C. MORAIS

Stars, Execs and Moguls: How to Invest Your Money Now

THR goes straight to the source — top private banks — to reveal savvy strategies for three levels of Hollywood one-percenter portfolios, complete with handy tables to tear out and take to your own money manager (no commission required)

The economy might be chugging along, but Americans are in the end stages of the longest bull market in U.S. history, with interest rates on the rise, and almost daily external shocks being delivered by the White House. In this environment, where should smart Hollywood executives and talent be investing their money?

To find out, I created for *THR* three profiles: a 40-year-old male midlevel studio executive with a \$3 million portfolio, a 50-year-old female studio boss with \$25 million to invest

RICHARD C. MORAIS is the former editor of *Barron's Penta*, a magazine that served families with \$5 million or more in assets.

and a 35-year-old male franchise star with \$50 million in investable assets — and asked Hollywood's most experienced wealth managers to create an investment strategy suitable for each client. The tables outlining their portfolio calls are on the following pages, along with a handy average for the group.

To use this intelligence wisely, it should be noted that, in reality, investment advisers always tailor their client's portfolio to his or her specific needs and risk tolerance, adding factors like debt levels, overhead and life goals into investment decisions. For example, before William Broder, president at the management firm Freedman Broder & Co., dispenses investment advice, he first determines whether the

client is married or single and/or supporting ex-spouses; if they have children heading to private schools and/or college; whether they own their home and other properties and, if so, the due date of their interest-rate term on their mortgage or mortgages. Even items like family medical issues and vacation plans can be factored in.

In other words, the following tables are not to be taken as gospel but are "model" moderate-level risk asset allocation recommendations that should solely be used as the basis for further discussion with a wealth manager about specific needs and goals.

Each profile has a backstory that mirrors real industry lifestyles. The 40-year-old male midlevel studio executive may have, for example, steady cash flow in the form of an annual salary and many years of productivity still ahead of him, but he probably also has young children in private school and is at that stage in life where he is trading up to a more substantial home.

Similar scenarios may apply to the 50-year-old female head of a studio, though college tuitions may be more what's in play. A veteran studio chief is also likely to be at the stage of thinking about devoting more time and energy to philanthropy — and having investment returns and stability to meet charitable goals and commitments would then guide her adviser's allocations.

In contrast, the 35-year-old franchise star

The Midlevel Studio Executive

Diversification — spreading investment risk among a range of asset classes that rise and fall independently of each other — is the holy grail of all portfolios. In this \$3 million case, J.P. Morgan Private Bank invested an aggressive 79 percent of the studio executive's assets in equities, essentially reasoning, alongside Warren Buffett, that stocks still are the best means to increase wealth over time. J.P. Morgan then countered that volatility risk with a 16 percent holding in top-quality bonds and municipals. David Regan, team leader of West Coast investing at J.P. Morgan Private Bank, says his aim is to create a "dual mandate of stability and reliable cash flow" for the studio executive.

It's also a classic diversification strategy at work: When the studio exec's equities start tanking in the next bear market, his investments

in "safe haven" U.S. treasuries, top-rated corporate bonds and quality municipals will rise in value, helping to offset stock market losses. Furthermore, remember that the 40-year-old exec has his salary to cover his basic costs and so should be able to weather any temporary downturn in equities. Having a cash cushion is key to all income levels. Northern Trust generally parks a year's worth of a client's expenses in cash or cash-equivalents so the client can avoid distress sales during the hard times.

Other firms took a very different tack to J.P. Morgan and its ilk. Singer Burke invested only 35.7 percent of the clients' assets in equities but conversely took a hefty 33.7 percent position in alternatives, a catch-all for more arcane investments like real estate, commodities and private equity.

Richard Singer and Stephanie Connor Arkof, the partners making investment decisions at SB Capital, say they prefer avoiding the herd and

looking for "idiosyncratic risk and returns." Says Singer, "We believe that smaller management firms in less efficient asset classes can make outsized returns." Example: They currently favor niche real estate investments in storage, senior and student housing, and manufacturing units.

But aren't alternative investments too high-cost for a relatively modest \$3 million portfolio? Not according to some wealth advisers: Anouchka Balog, sports and entertainment director at Morgan Stanley Wealth Management, parked 18 percent of the studio exec's assets in hedge funds and Master Limited Partnerships, which, she says, have big payouts, tax advantages and attractive valuations. However, such alternative positions are obtained via mutual funds mimicking hedge fund strategies, and through low-cost ETFs investing in MLPs. "We can take care of the alternative portion very cheaply using liquid alternative managers," says Balog.

\$3M Portfolio

THE INVESTORS

- Abbot Downing
- BNY Mellon Wealth Management
- Citi Private Bank*
- City National Bank
- Freedman Broder & Co.
- J.P. Morgan Private Bank
- Morgan Stanley Wealth Management
- Northern Trust
- SB Capital Management
- AVERAGE**

Illustration by Mario Wagner



might be sitting on a rich \$50 million investment portfolio, but he doesn't necessarily know when his next series of projects with accompanying payday is coming, plus his wealth is built entirely on fleeting fame. The three clients have, in short, very different cash-flow issues — and anxieties.

Furthermore, an observant reader might notice that while Singer Burke (parent of SB Capital Management on our table) and Freedman Broder are well-known Hollywood management firms, the vast majority of wealth managers are heavyweight private banks, ranging from Hollywood's City National Bank to Wall Street's J.P. Morgan Chase. That's because most business managers in Hollywood use experienced third-party asset managers to invest their clients' money, and we have gone directly to the primary sources for our investment advice. Our tables roughly reflect the ratio between third-party outsourcing and in-house wealth management that exists in the real world of Tinseltown managers.

Lastly, while banks like City National find the vast majority of their Hollywood clients through managers, Citi Private Bank works mostly with clients directly. The bank's biggest entertainment clients, says Kush Malhotra, Citi Private Bank's market manager for the Western Region South, are mostly foreign talent who came across the bank while overseas, before they moved to Hollywood. **FTIR**

| | Stocks | | | | Fixed income | Fixed income U.S. | | | | | Fixed income international | | Alternatives | | | | | |
|--|--------------|-------|-----------|----------|--------------|-------------------|------------|------------|------------|------------|----------------------------|--------------|--------------|-------------|-------------|-------------|----------------|-------------|
| | Total | U.S. | Developed | Emerging | | Total | U.S. total | High grade | High yield | Municipals | Developed | Emerging | Total | Real estate | Commodities | Hedge funds | Private equity | Other |
| | 48% | 25% | 19% | 4% | 35% | 31% | 0% | 4% | 27% | 2% | 2% | 16% | 5% | 2% | 9% | 0% | 0% | 1% |
| | 61.8% | 43.2% | 12.4% | 6.2% | 16.8% | 16.8% | 1% | 4% | 11.8% | 0% | 0% | 21.3% | 1.5% | 1.4% | 18.4% | 0% | 0% | 0% |
| | N/A | — | — | — | N/A | — | — | — | — | — | — | N/A | — | — | — | — | — | N/A |
| | 68% | 59% | 3% | 6% | 26% | 20% | 7% | 3% | 10% | 3% | 3% | 5% | 5% | 0% | 0% | 0% | 0% | 1% |
| | 70% | 50% | 15% | 5% | 15% | 15% | 5% | 0% | 10% | 0% | 0% | 10% | 10% | 0% | 0% | 0% | 0% | 5% |
| | 79% | 45% | 29% | 5% | 16% | 16% | 6% | 0% | 10% | 0% | 0% | 5% | 0% | 0% | 5% | 0% | 0% | 0% |
| | 68% | 30% | 29% | 9% | 11% | 11% | 5% | 0% | 6% | 0% | 0% | 18% | 0% | 0% | 4% | 0% | 14% | 3% |
| | 53.6% | 26.4% | 17.6% | 9.6% | 24% | 24% | 5% | 4% | 15% | 0% | 0% | 22.4% | 2.4% | 6.4% | 4.8% | 8.8% | 0% | 0% |
| | 35.7% | 21.4% | 10.7% | 3.6% | 26.4% | 26.4% | 4% | 2.6% | 19.8% | 0% | 0% | 33.7% | 10% | 0% | 5% | 15.3% | 3.4% | 4.3% |
| | 60.5% | 37.5% | 17% | 6.1% | 21.3% | 20% | 4.1% | 2.2% | 13.7% | 0.6% | 0.6% | 16.4% | 4.2% | 1.2% | 5.8% | 3% | 2.2% | 1.8% |

*Citi Private Bank declined to provide allocations for a S3M portfolio

The Veteran Studio Chief

The female studio boss with the \$25 million portfolio has, in many ways, the most comfortable financial position. Her children are nearly out of the house, she has a high-paying and reliable salary, and she still has productive years of work ahead. Still, as a woman, she has greater longevity and so needs her assets to carry her for longer than her male counterparts. Her portfolio also will have to deal with the gathering financial upheaval that will affect all investors: rising interest rates.

City National's new chief investment officer, Matthew Peron, sunk 40 percent of the executive's portfolio into fixed income. Of that, 18 percent is invested in municipals, generating after-tax income in high-tax California; 16 percent artfully diversified between high-grade and high-yield U.S. bonds; and 4 percent invested in emerging Asia

to further boost returns over the long term.

But how does Peron hedge against rate-rise risk? "We manage the technicalities of the various fixed income markets and go wherever we can maximize returns," he says. He's partial now to senior-secured floating-rate bank loans, which adjust at short-term intervals and quickly ratchet up their payouts as rates rise. Generally, watch for assets in your bond portfolio to be swapped out more aggressively in the coming year as rates start shooting up.

Conversely, Bob Bernstein, senior director and team leader of BNY Mellon Wealth Management, says his firm thinks that bond returns are going to remain low for the next decade, which is why he sunk a hearty 14.5 percent of the studio boss' assets into hedge funds, a strategy that is both meant to act as a classic hedge to the fixed income and equities positions and generate above-market returns uncorrelated to the other asset classes.

Harlin Singh, senior investment counselor at Citi Private Bank, says that her Hollywood clients at the studio boss wealth level have a high proportion (in this case 29.3 percent) of their assets in municipal bonds because on "an after-tax yield basis, they are very attractive" and a smart way for an executive in the highest-tax bracket to meet their fixed income allocation.

Because the studio boss is usually in a strong and stable financial position, she can engage in some clever financial engineering. Kennon Klein, senior vp at City National's entertainment division, recounts the real-life story of a senior studio executive who was hell-bent on building a \$1 million pool house on his property, a move that would require liquidating assets and generating considerable capital-gains and taxes. City National instead extended him a bridge loan, which he paid back with his year-end bonus, an approach that allowed him to build his luxurious pool house without a costly portfolio sell-off.

\$25M Portfolio

THE INVESTORS

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|----------------------------------|
| Abbot Downing |
| BNY Mellon Wealth Management |
| Citi Private Bank |
| City National Bank |
| Freedman Broder & Co. |
| J.P. Morgan Private Bank |
| Morgan Stanley Wealth Management |
| Northern Trust |
| SB Capital Management |
| AVERAGE |

The Major Franchise Star

The franchise actor might be in the enviable position of having a \$50 million portfolio, but he's 35 with a career that could tank overnight. Peter Heilbron, the Pasadena-based senior investment adviser at Northern Trust's Private Client Advisor Group, says: "The devil is in the details. They can have very large earnings years, and then go a couple of years with no earnings. We have to provide a portfolio that provides some stability when they need to draw upon it and when markets move against them. They also have to support a large network — an agent, lawyer, manager, publicist, stylist. That cash and fixed-income position really matters to them."

Charles Rodgers, the L.A.-based regional chief investment officer of Abbot Downing, the elite unit of Wells Fargo that serves only clients with \$50 million or more in investable

assets, notes that because such clients can "accumulate vast wealth in a short time, to waiting for that next deal, it can impact their decision on how they treat wealth. To newer wealth, the stock market can be intimidating in that it appears more volatile."

But, Rodgers says, our franchise star's wealth and time horizon also give him the unique ability to cash in on the "illiquidity premium." Meaning, the star has a competitive advantage in that he can afford to invest money for long periods, when most money in the market is invested for the short or medium term. That patience can provide outsized returns in alternatives like private equity, say, which have "lock up" periods that prevent investors from withdrawing funds for several years. And in the portion devoted to "other" alternatives, Rodgers has invested 2 percent of the star's assets in timberland. That's really long-term investing but potentially very lucrative. Trees are planted, the

client waits 30 years for the trees to compound their annual "biological returns," before the mature forest is harvested when lumber prices are high. It's also an investment totally uncorrelated to the vagaries of the equities or fixed income markets.

Whatever one does, don't invest in a buddy's franchise restaurant. Convincing clients not to invest in those "locker-room" deals takes up a lot of the wealth adviser's time, they say. Such illiquid investments are the surest route to wealth destruction.

And here's a caution particular to female stars in their prime. "Historically, female stars have a shorter life span than male stars," warns Morgan Stanley's Balog. That, of course, is not fair, and it means Hollywood's female stars have to be even more astute and judicious when making investment decisions, safeguarding their wealth for later years. Hollywood is risky, but making sure one's portfolio is an effective hedge against that risk is the smart move for everyone.

\$50M Portfolio

THE INVESTORS

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|----------------------------------|
| Abbot Downing |
| BNY Mellon Wealth Management |
| Citi Private Bank |
| City National Bank |
| Freedman Broder & Co. |
| J.P. Morgan Private Bank |
| Morgan Stanley Wealth Management |
| Northern Trust |
| SB Capital Management |
| AVERAGE |

| | Stocks | | | | Fixed income | Fixed income U.S. | | | | Fixed income international | | Alternatives | | | | | | Cash total |
|--|--------------|------------|-----------|----------|--------------|-------------------|------------|------------|------------|----------------------------|-----------|--------------|------------|-------------|-------------|-------------|----------------|-------------|
| | Total | U.S. | Developed | Emerging | | Total | U.S. total | High grade | High yield | Municipals | Developed | Emerging | Total | Real estate | Commodities | Hedge funds | Private equity | |
| | | 35% | 18% | 14% | 3% | 28% | 25% | 0% | 4% | 21% | 2% | 1% | 36% | 11% | 1% | 12% | 12% | |
| | 40.3% | 26.5% | 8.9% | 4.9% | 37.7% | 37.7% | 3.3% | 4% | 30.4% | 0% | 0% | 22% | 1.5% | 1% | 14.5% | 5% | 0% | 0% |
| | 40.9% | 25.9% | 10.7% | 4.3% | 35.6% | 31.6% | 0% | 2.3% | 29.3% | 0% | 4% | 21.5% | 5% | 0% | 11.5% | 5% | 0% | 2% |
| | 51% | 44% | 3% | 4% | 40% | 34% | 10% | 6% | 18% | 3% | 3% | 8% | 3% | 0% | 0% | 0% | 5% | 1% |
| | 60% | 45% | 10% | 5% | 10% | 10% | 0% | 0% | 10% | 0% | 0% | 25% | 15% | 0% | 0% | 10% | 0% | 5% |
| | 60.7% | 35.6% | 22.9% | 2.2% | 18.5% | 18% | 7% | 1.3% | 9.7% | 0% | 0.5% | 20.8% | 4% | 0% | 8.8% | 8% | 0% | 0% |
| | 60% | 28% | 25% | 7% | 12% | 12% | 2% | 0% | 10% | 0% | 0% | 23% | 4% | 0% | 4% | 6% | 9% | 5% |
| | 49.7% | 24.5% | 16.3% | 8.9% | 28.3% | 28.3% | 5.1% | 3.7% | 19.5% | 0% | 0% | 20.8% | 2.2% | 5.9% | 4.5% | 8.2% | 0% | 1.3% |
| | 30% | 18% | 9% | 3% | 22.5% | 22.5% | 3.4% | 2.3% | 16.9% | 0% | 0% | 43.8% | 15% | 0% | 10% | 7.5% | 11.3% | 3.8% |
| | 47.5% | 29.5% | 13.3% | 4.7% | 25.8% | 24.3% | 6.4% | 2.5% | 15.4% | 0.6% | 0.9% | 24.5% | 6.7% | 0.9% | 7.2% | 6.9% | 2.8% | 2.1% |

| | Stocks | | | | Fixed income | Fixed income U.S. | | | | Fixed income international | | Alternatives | | | | | | Cash total |
|--|--------------|------------|-----------|----------|--------------|-------------------|------------|------------|------------|----------------------------|-----------|--------------|------------|-------------|-------------|-------------|----------------|-------------|
| | Total | U.S. | Developed | Emerging | | Total | U.S. total | High grade | High yield | Municipals | Developed | Emerging | Total | Real estate | Commodities | Hedge funds | Private equity | |
| | | 33% | 17% | 13% | 3% | 28% | 25% | 0% | 4% | 21% | 2% | 1% | 38% | 11% | 1% | 12% | 12% | |
| | 46.1% | 30.1% | 10.5% | 5.5% | 26.3% | 26.3% | 2.2% | 4% | 20.1% | 0% | 0% | 27.6% | 1.5% | 1.2% | 14.9% | 10% | 0% | 0% |
| | 58.3% | 36.5% | 15.1% | 6.6% | 17.8% | 15% | 0% | 0.2% | 14.8% | 0.3% | 2.5% | 24% | 5% | 0% | 14% | 5% | 0% | 0% |
| | 15% | 15% | 0% | 0% | 66% | 60% | 18% | 8% | 34% | 3% | 3% | 18% | 3% | 0% | 0% | 0% | 15% | 1% |
| | 55% | 40% | 10% | 5% | 20% | 20% | 10% | 0% | 10% | 0% | 0% | 15% | 10% | 0% | 0% | 5% | 0% | 10% |
| | 51.9% | 31.7% | 20.2% | 0% | 27.2% | 26.3% | 7.9% | 2.6% | 15.8% | 0% | 0.9% | 20.8% | 4% | 0% | 8.8% | 8% | 0% | 0% |
| | 60% | 27% | 26% | 7% | 13% | 13% | 3% | 0% | 10% | 0% | 0% | 23% | 4% | 0% | 4% | 5% | 10% | 4% |
| | 48.2% | 23.8% | 15.8% | 8.6% | 30.2% | 30.2% | 5.6% | 3.6% | 21% | 0% | 0% | 20.2% | 2.2% | 5.8% | 4.3% | 7.9% | 0% | 1.4% |
| | 30% | 18% | 9% | 3% | 18.8% | 18.8% | 2.8% | 3.8% | 12.2% | 0% | 0% | 47.5% | 10% | 0% | 15% | 7.5% | 15% | 3.7% |
| | 44.2% | 26.6% | 13.3% | 4.3% | 27.5% | 26.1% | 5.5% | 2.9% | 17.7% | 0.6% | 0.8% | 26% | 5.6% | 0.9% | 8.1% | 6.7% | 5.3% | 2.3% |