Our Core
Investment Philosophy

FIFTH AVENUE
FAMILY OFFICE®

At Fifth Avenue Family Office, we build core portfolios that are:

- Low fee
- Tax efficient
- Guided by an Investment Policy Statement
- Closely correlated to an Institutional Benchmark

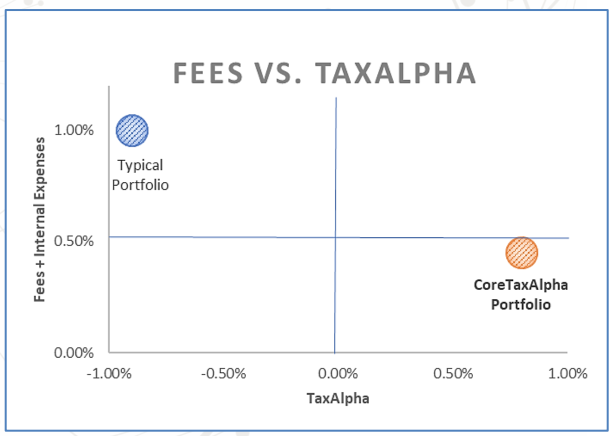
The wealth management industry has overpromised and underdelivered on providing and servicing portfolios with all four of these attributes. They continue to present a dizzying array of products and strategies that are often confusing and expensive. Your investment performance should deliver the most it can to you, not to your money manager or Uncle Sam. Market timing and allocation weighting is a hard game to win, even though many strategies, and the statistics are there to prove it.

Question 1: If gross performance is equal, would you prefer to pay less to a money manager and pay less for the internal expenses of a portfolio?

If you do not know how much your money manager charges or the internal costs of your portfolio, you are not alone. Under the new tax law, money manager fees are no longer tax deductible. Our core portfolios use low cost diversified index products and a very slim management fee to build and implement.

Question 2: If gross performance is equal, would you prefer to pay a tax cost or receive a tax benefit from a portfolio?

The equities portion of our core portfolios are managed by PARAMETRIC. They build globally diversified portfolios with stock positions that have close correlation to the Institutional Benchmark, but with one important benefit: **they continually harvest small tax losses** from stocks that have moved lower, replacing with very similar stocks to maintain exposure and weighting. This results in a targeted annualized tax alpha between 1.0% and 2.0% for the equity portion of the portfolio. **Taxes can actually lift performance rather than be a drag!**



Question 3: Do you have an Investment Policy Statement that describes the Institutional Benchmark and your Risk Budget?

We do! Your Investment Policy Statement 'IPS' is the guiding document that gives you peace of mind that your portfolio is managed according to a plan with allocation limits and a Risk Budget. We always use the MSCI ACWI All Country World Index as our equity benchmark and the Barclays Capital Muni Bond Index for our taxable fixed income index and the Barclays Capital Aggregate Bond Index for our tax-exempt fixed income index. These indices are used by pensions, endowments, and long-term investors to provide the broadest diversification and largest opportunity set to derive investment returns. **One simple benchmark that is hard to beat but easy to understand!**

Question 4: Is your current portfolio close to or even beating the Institutional Benchmark, net of fees and taxes?

SPIVA® research tells us that relatively few active managers can outperform passive management over any given time period, either short-term or long-term. Over 10 years, only 12% of domestic fund managers beat their benchmark. But the true measure of successful active management is whether a manager or strategy can deliver above-average returns consistently over multiple periods. Less than 1% of all domestic funds maintained their top-quartile status over 5 years. Beating the benchmark consistently with active management is very hard to do! We employ a core passive approach with a tax-loss harvesting technique. **We call it CoreTaxAlpha**. It closely correlates to the Institutional Benchmark and continuously harvests tax losses, providing a positive tax *benefit that reduces or even negates portfolio tax cost.*

What is a CoreTaxAlpha portfolio?

Our core strategy is made up of two accounts:

1. The first account holds a low-cost Vanguard mutual municipal bond fund for the fixed income allocation. **Easy-Peasy, Pure and Simple.**
2. The second is a Parametric separately managed account 'SMA' with a tax-managed equity portfolio benchmarked to the ACWI All Country World Index. Not so Easy-Peasy, so here is a description: Initially the portfolio is invested in about 600 securities selected to mimic the index in terms of sector and industry weights, with low tracking error. Care is also taken to ensure that the portfolio resembles the index in terms of risk factors such as yield, beta, and market capitalization. After the initial portfolio is invested, it is monitored for risk and tax-loss harvesting opportunities. With a portfolio of 600 securities, some equity prices will rise and some will fall. Securities with prices that have fallen below their cost basis present loss-harvesting opportunities. When such opportunities arise, the portfolio is loss harvested. The tax lots exhibiting a loss are sold, and a replacement set of securities is bought. Care is taken not to violate wash-sale rules. The intended result is an equity portfolio designed to **closely track the index on a pre-tax basis while also producing excess realized losses targeted to create +1.0-2.0% annualized after-tax performance.**