



INDEPENDENT THINKING

THE NEW STANDARD IN WEALTH MANAGEMENT

EVERCORE
Spring 2019

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Prospering in a
Low-Growth World

Demographics
and Development

Q&A – Infinity Q
Capital Management

Planning and Investing
for a Longer – and
Happier – Life

Protecting
Cryptocurrencies in Trusts

Culture and Capitalism
with Ralph Schlosstein

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THE NEW STANDARD IN WEALTH MANAGEMENT

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A Message from the CEO



Welcome to the spring edition of *Independent Thinking*. In this season of renewal and growth, we focus on just the opposite; the decline of population – and labor force – growth in industrialized countries. Longer lifespans and fewer births are now the norm in developed economies. What does this mean for investors? How can we prosper in a low-growth world?

John Apruzzese, our Chief Investment Officer, considers the economic implications of changing demographics in our cover article, noting that the United States is still in relatively good shape, but only because we still attract and welcome immigrants. Brian Pollak, a Portfolio Manager, takes the long view, evaluating on page 5 the historic link between population growth and disinflation. And on page 10, Wealth & Fiduciary Advisor Ashley Ferriello weighs the very different approaches of three couples to planning and investing. (Hint: Overspending isn't helpful.)

Other articles in this issue are more in keeping with the season. We recently celebrated the official opening of our office in Palm Beach with a reception at the newly renovated Norton Museum of Art. Evercore CEO Ralph Schlosstein spoke to our theme of "Culture and Capitalism," drawing on his experiences as the child of immigrants to the United States and as the father of two adult children who grew up in a very different environment. A recap of my interview with Ralph and my own related article on the current state of the American Dream for our clients start on page 20.

Our clients in other cities enjoyed a number of recent events, notably our

Wise Women afternoon in New York on April 3. The 100 or so women who joined us for this year's event, *Charting Self-Reliance*, focused on the cultural, financial and emotional building blocks of independence. The women represented a wide range of backgrounds and financial acumen, but they all recognized that the choices made at key junctures – in careers, relationships, and communities – shape futures and families.

Please take a look at our upcoming events on page 24 and contact your advisors if you have any questions or would like to bring a friend or colleague. We always welcome your referrals.

In the spring spirit of renewal and growth, I would like to highlight the recent appointment of Chris Zander, our Chief Wealth & Fiduciary Advisor, as the President of Evercore Wealth Management and Evercore Trust Company, N.A. Chris' appointment (which we announced in February) is a testimony to his hard work and commitment to our clients since the day I recruited him as one of our founding partners. Although he likes to remind me that he was born in the year that I started working, I know that Chris' 10 years of increasing responsibility at Evercore and his earlier 15 years at U.S. Trust, including as head of the firm's multi-

family office, have prepared him well for his new role.

Chris' appointment also reflects the close alliance of our wealth management and trust companies. An increasing proportion of our clients rely on us to establish, manage and administer their trusts, as well as for planning and investment expertise. Both Chris and I are grounded in a strategic wealth planning and fiduciary background, as are half of our professionals. All of us at Evercore Wealth Management and Evercore Trust Company know that clients are served best by an integrated approach to planning and investing.

As always, please don't hesitate to contact any of us at Evercore Wealth Management and Evercore Trust Company with any questions or suggestions you may have. Your perspective is important to us. In the interim, I hope that you and your family are enjoying a happy spring and are looking forward to the summer.

A handwritten signature in black ink that reads "Jeff".

Jeff Maurer
Chief Executive Officer

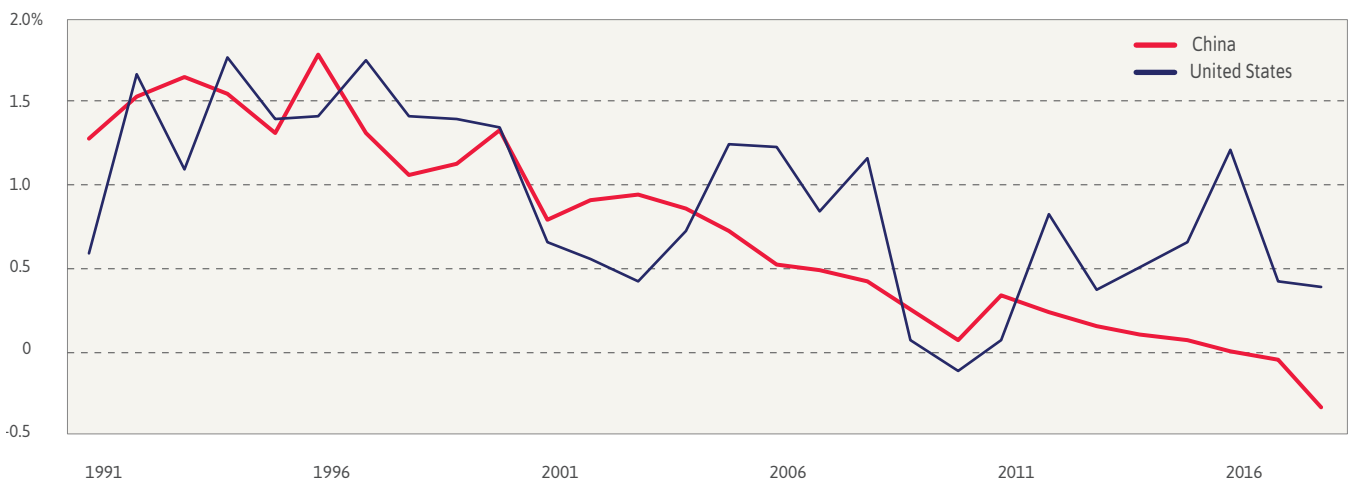
Prospering in a Low-Growth World

By John Apruzzese

A growing labor force is one of only two drivers of real economic growth (the other is productivity) and it can be forecast into the future with a much higher degree of certainty than most economic variables. After fairly consistent growth since the beginning of the Industrial Age, the labor force is now shrinking in most developed countries. While the United States is in relatively good demographic shape, we should expect slowing global growth and continued low inflation.

Labor Force Growth

The United States is in better demographic shape than China.



Source: The World Bank



China has been the engine of global economic growth for over 30 years – but its growth rate is slowing and looks likely to continue doing so. This is partially due to the country’s official one-child policy, which was abandoned in 2016 after 35

years and the prevention of 400 million births, by the government’s reckoning. China’s labor force peaked in 2015 and is now declining (as illustrated by the chart on page 2), while its population continues to age, in what economist Ed Yardeni

describes as the “world’s largest nursing home.” Its gender gap of approximately 118 boys for every 100 girls, another consequence of that policy, does not bode well for future growth.

79 YEARS

The average lifespan now in the United States.

Declining labor force growth drives down consumer demand. Flat to declining labor force growth is now happening in the European Union, as well as in China and Japan, which has for years been the major economy with the oldest population. Slowing consumer demand is a powerful deflationary force, and it goes a long way in explaining why inflation around the world has stayed stubbornly low in the face of extraordinarily expansive monetary policy across all the major central banks in response to the financial crisis of 2008-2009.

In the United States, the growth of the labor force is also slowing due to declining fertility rates, although the pace is more moderate. As Ashley Ferriello discusses on page 10, the average lifespan in the United States is currently 79. This has increased over the prior 80 years from a life expectancy of just 60. Additionally, the fertility rate is 1.9 per woman, or slightly below replacement level. As in other industrialized countries, more people are continuing to work past the conventional labor force range of ages 15 to 65, and more women are entering the workforce. However, an increase in women of childbearing age entering

2050

The United States is one of the fastest growing countries to year 2050

the workforce can cause the fertility rate to drop further, compounding the problem down the road.

The real demographic differentiator and an enormous boon to the U.S. economy is a net annual legal immigration rate of about one million people, as shown below. Immigration mitigates the economic impact of aging populations and lower birthrates, maintaining the labor force and supporting consumer demand. Of the nine countries that the United Nations predicts will account for half the world's population growth to 2050, only one – the United States – is a fully

developed economy. If this continues, our labor force growth should remain positive, albeit slow, for the foreseeable future.

The solution to the problem of a shrinking labor force generally is productivity growth. Unfortunately, measured productivity growth in the United States and elsewhere is also slowing, as the latest cycle of technology invention, adoption and saturation wraps up. But the imminent rollout of 5G technology, with its ultra-fast transmission rates, coupled with advances in robotics and artificial intelligence, may herald the next turn in the technology growth cycle and, perhaps, an even greater surge in productivity.

The United States has a considerable advantage in being the only major economy that will not experience negative population growth for the foreseeable future. Indeed, if we are

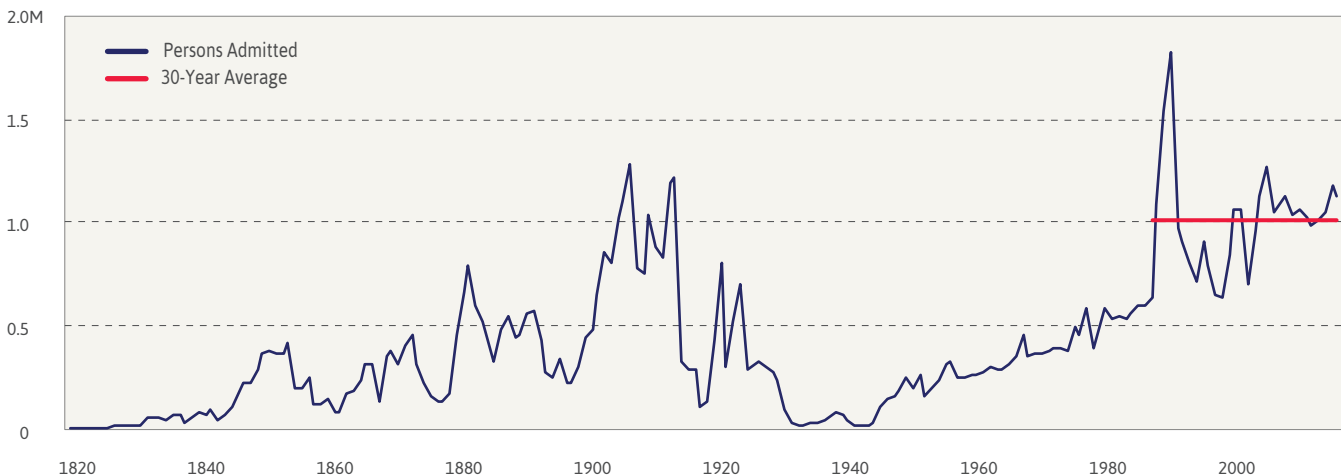
really fortunate, the much-discussed risks of machine learning may actually be just what an economy that lacks labor force growth needs.

In the interim, and against this backdrop of continued low inflation and relative demographic strength, U.S. assets appear to us reasonably valued and we remain overweight the United States. We recommend exposure to diversified risks, including uncorrelated return streams to make portfolios more robust. We continue to believe that illiquid investments will earn a premium over liquid public markets in a low-growth environment.

John Apruzzese is the Chief Investment Officer at Evercore Wealth Management. He can be contacted at apruzzese@evercore.com.

They're Coming to America

Annual number of U.S. legal permanent residents admitted by year.



Note: This data represents persons admitted for lawful permanent residence during the 12-month fiscal year ending September 30 of the year designated. Source: Migration Policy Institute

Demographics and Development

By Brian Pollak

Thomas Robert Malthus predicted in his 1798 *An Essay on the Principle of Population* that human population, about one billion at the time, would soon begin to double every 25 years, eventually causing global food shortages. The population has since grown sevenfold, so he was right about massive growth, albeit at nothing like the rate he expected. However, he was wrong to doubt our ability to rise to the challenge, through advancements in agriculture, health, energy, trade and transport.

Global population growth is simply a function of the rates of births and deaths. Both were relatively high until the 18th century, nearly canceling each other out. Families needed to be big, to sustain the ravages of famine, disease and war. In the early 1800s, more than seven children, on average, were born in the United States to each woman. During Malthus's lifetime – he died in 1834 – population growth started to accelerate as death rates plunged. As illustrated by the chart on page 7, the pace of growth continued to increase for another century-and-a-half.

In the first half of the 20th century however, birth rates in many countries started to taper off. As industrialized economies replaced agrarian ones, big families went from being a boon (more bodies to farm and work) to being a burden (more mouths to feed and minds to educate). Today, fertility rates in all industrialized countries are below the replacement level of 2.1 births per woman. (The average in the G7 [Group of Seven large economies] is currently 1.7 – see chart on page 7). The rise of service-based economies since

the end of the last century has reinforced the trend to smaller families. More educated societies, most notably those with educated women, are waiting longer to have children and having fewer of them.

More educated societies are waiting longer to have children.

Many people still do worry about the impact of existing and continuing human overpopulation, especially regarding the very real risk that climate change will soon forever change the way we live. Globally, the population continues to rise and the United Nations projects 9 billion people by the end of this century, up from around 7.6 billion today. Emerging markets, particularly in sub-Saharan Africa, southeast Asia, and India are certainly still struggling with rapidly growing populations, as birth rates remain high and death rates decline.

However, this is a situation not at all dissimilar to that experienced a couple of generations ago in now

Many emerging economies are near or below replacement levels

developed countries. And as information and technology spread faster, there is reason to believe that the emerging economies and their demographics will

more quickly evolve. Indeed, many emerging economies are already near or below replacement fertility levels (Thailand [1.5], China [1.6], Russia [1.7], Brazil [1.8], Malaysia [2.1], Mexico [2.3]). Populations in these countries may soon begin to decline. In the Philippines, to take another example, the fertility rate of 3 children per woman is down from 7 in 1965. Over that same time period, India has gone from a rate of 6 to 2.4. At

current projections, both the Philippines and India's populations will be below replacement levels in just ten years.

That's why some academics speculate that these global population growth rates will drop faster than the United Nations expects. In *Empty Planet: The Shock of Global Population Decline*, authors Darrell Bricker and John Ibbitson argue that the global



population will soon begin to decline, dramatically reshaping the social, political, and economic landscape. The benefits are considerable, notably to the environment and to the living conditions of women in the developing world. But as John Apruzzese writes in this issue of *Independent Thinking*, aging populations and worker shortages may restrict economic growth, with long-term repercussions for investors. How

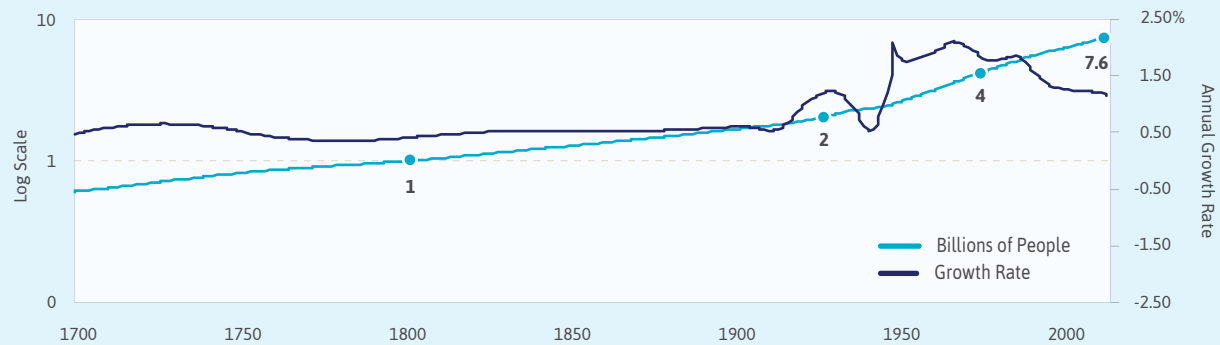
economies manage this disinflationary transition will be a crucial part of their economic success or failure.

If Malthus were alive today, he might appreciate the power and potential of human ingenuity in confronting the demographic challenge he identified. But the shift toward a shrinking population may be the more relevant conversation now.

Brian Pollak is a Partner and Portfolio Manager at Evercore Wealth Management. He can be contacted at brian.pollak@evercore.com.

World Population Growth

World Population - Billions of People, 1700–2015



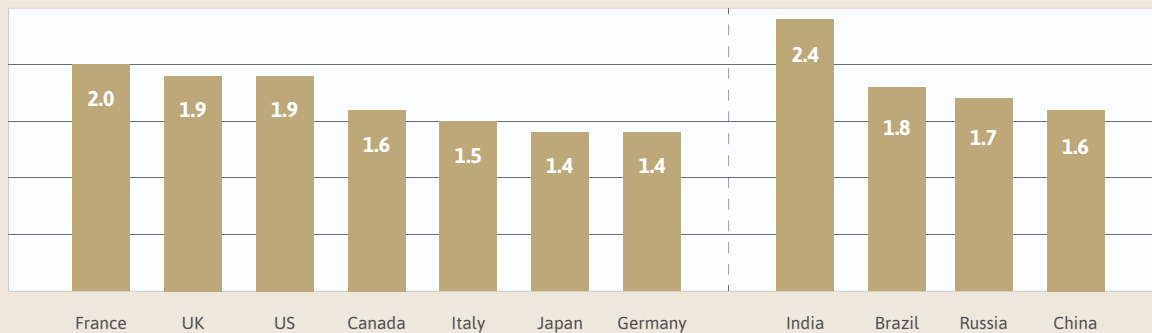
Source: United Nations, Haver Analytics®, Credit Suisse

Fertility Rate

G7 (Group of Seven) Large Economies Average: 1.7

BRIC (Brazil, Russia, India, China)

Average: 1.9



Source: United Nations, Haver Analytics®, Credit Suisse

Q&A

with Infinity Q
Capital Management



James Velissaris

Editor's note: Evercore Wealth Management supplements its core investment capabilities with carefully selected outside funds across the range of the firm's asset classes. Here we interview **James Velissaris**, the founder and Chief Investment Officer of Infinity Q Capital Management. Infinity Q creates volatility strategies to help protect investment portfolios.

Q: Infinity Q Capital Management was started in 2014 as part of a large family office. What solution was this strategy designed to provide?

A: The founding partners of TPG Capital had significant equity beta (general market risk), as the majority of their portfolio was invested in private and public equities. Our strategy was designed to serve as complementary exposure to the portfolio's equity bucket. The strategy was constructed to have low beta and correlation to the S&P 500, to outperform during stressful market environments, and to remain highly liquid. Since inception, we have achieved these goals with an S&P 500 beta of 0.08 and an average performance of 1.06% during months when the S&P 500 declines.

Q: Your team looks globally across a broad variety of securities and asset classes for mispriced opportunities. How do you combine fundamental and quantitative approaches to identify arbitrage opportunities?

A: Our team analyzes nearly 50 million data points across global asset classes using robust quantitative models and screens. We conduct extensive due diligence to research discretionary and systematic investment ideas that originate from this analysis and from the buy side, the sell side, and academia. As a final step, we utilize our expertise in derivatives to optimize trade structuring for both systematic and discretionary strategies. Our "Quantamental" process combines the breadth of quantitative analysis with the depth of private equity investing. We believe that every year there are 10-15 extremely asymmetric opportunities across asset classes. We utilize our breadth to uncover these opportunities, and our depth to research and execute them.

Q: Your multi-strategy approach focuses on four global asset classes – volatility, equity long/short, global macro, and managed futures. Can you describe each of the asset classes?

A: Our volatility strategy buys volatility that we think is cheap and sells volatility that appears to be expensive across asset classes. We have tight constraints on net long and short volatility positioning.

Our equity long/short strategy has a core focus on fundamental, behavioral, and microstructure equity factors. We limit directional equity exposure by entering short positions on single names and indices. The global macro strategy identifies event-driven and fundamental dislocations across FX (foreign exchange) and sovereign CDS (credit default swap) markets. The strategy optimizes trade structuring to build asymmetric risk/return profiles. The managed futures strategy exploits structural inefficiencies in commodity futures. The strategy identifies short-term dislocations and enters market neutral spreads with no directional exposure.

Q: What are the risks and opportunities that you see in each now?

A: After a harrowing end to 2018, the investment environment has completely shifted in 2019. The dovish pivot by the FOMC (the Federal Reserve's Federal Open Market Committee) in January and the ECB (European Central Bank) in March has shifted us back into a market environment where bad news is good news and good news is bad news. These environments have been emblematic of the prolonged period of support by global central banks. These periods

typically have low volatility with herding pushing investors into similar exposures and creating a feedback loop that further compresses volatility.

The fundamental risks from 2018 were slowing global growth, concerns about U.S. corporate credit, and high U.S. equity valuations. The monetary and fiscal policy risks have been temporarily alleviated, but these fundamental risks remain. The current market creates opportunities for us to buy volatility near multi-year lows on assets where there are fundamental risks and sell volatility on assets where volatility is heightened due to policy and headline risks.

Q: Investors have heard a lot in the news about strategies that take either a “long volatility” or “short volatility” position, both of which have struggled in recent markets. Can you describe your volatility strategy?

A: Our strategy identifies interesting opportunities to buy cheap volatility and sell expensive volatility across asset classes. We have historically observed large dislocations in volatility instruments because implied volatility and implied correlation prices are typically byproducts of an investor’s directional equity and/or FX exposure. These investors are not seeking to actually value volatility, but instead either use it as an instrument to buy protection (long-volatility investors) or collect carry/premium (short-volatility investors). This leads the majority of volatility investors to always be long volatility or always be short volatility. We have experienced strong results from our catalyst approach to buying and selling volatility.

Q: Why does a relative value approach to volatility make sense at this time in the market cycle?

A: The last ten years have been the golden era of global central banks. We have seen experimental monetary policies across the world create positive outcomes, such as periods of strong growth and real economic activity, as well as very strong equity market performance. Yet these positive outcomes have masked a huge buildup in risk that will eventually become problematic. U.S. corporate leverage is at an all-time high, and is three times higher than in 2007. Due to financial regulations, banks and private market-makers no longer provide liquidity during stressful market environments. The recent years of accommodative monetary policy and volatility compression have created a global buildup of explicit and implicit short equity volatility exposure that is estimated to be nearly \$1.3 trillion. All of these forces create a highly fragile market environment, where assets jump from states of complete calm to stress overnight. As a result, we think having a dynamic approach to buying and selling volatility will be paramount during the next stage of the economic cycle.

For further information about Infinity Q Capital Management and other funds on the Evercore Wealth Management investment platform, please contact **Stephanie Hackett** at stephanie.hackett@evercore.com.

A Note on Diversified Market Strategies

By Stephanie Hackett

Our investment team groups investments based on their risk profile, their return potential and their liquidity characteristics. We also consider how each asset class will correlate, or move in concert with each other, which allows us to better understand and manage the risks inherent in client portfolios.

The Diversified Market Strategies allocation is designed to provide

both a low correlation with equities and bonds and a positive return over a full market cycle (typically five to seven years). In theory, adding to the portfolio differentiated, non-correlated return streams such as Infinity Q, the investment advisor interviewed here, can provide stability in periods in which stocks or bonds – or both – are struggling, thereby smoothing out overall return streams.

We currently recommend that between 5%-10% of a client’s balanced portfolio be allocated to the Diversified Market Strategies allocation.

Stephanie Hackett is a Managing Director and Portfolio Manager at Evercore Wealth Management. She can be contacted at stephanie.hackett@evercore.com.

Planning and Investing for a Longer – and Happier – Life

By Ashley Ferriello

Longevity may be the greatest dividend of wealth. At the same time, sustaining a longer life requires greater wealth. Confronting this paradox requires thoughtful planning and investing. Outliving assets is the top financial concern of high net worth and even ultra high net worth families, and for good reason.

The top 1% of Americans by income now live, on average, 10 years longer than the general population.^{1,2} Women in this segment live to age 89 and their male counterparts live to 87. The gap between the richest 1% of men and the poorest 1% in the United States is currently a remarkable 15 years. The corresponding gap for women is 10 years.³

These developments raise broad questions, as discussed on page 20 by Ralph Schlosstein, CEO of Evercore, and Jeff Maurer, CEO of Evercore Wealth Management and Evercore Trust Company, N.A. From a purely planning and investing point of view, however, the most pressing question is how to fund these extended lifespans.

Here are three scenarios to consider, each drawn on actual experiences. The ages, circumstances and goals of the people involved vary, but they have one thing in common with all of us:

None of them know how long they – or their spouses – will live.

TAKING ON RISK TO MEET LONG-TERM GOALS

The Joneses, two retired professionals, both age 60, have \$50 million in investible assets and are anticipating a long and enjoyable retirement. They plan to help their grown children buy homes and start businesses, set aside sufficient funds for their grandchildren's education, and dedicate much of their time and money to their favorite charities. They would like to see these gifts make an impact during their life – while reducing their taxable estate – but also want to ensure that they leave a thoughtful amount to their heirs.

This couple is quite risk-averse with their investments, arguably too much so in the context of their considerable

The top 1% of Americans live on average 10 years longer

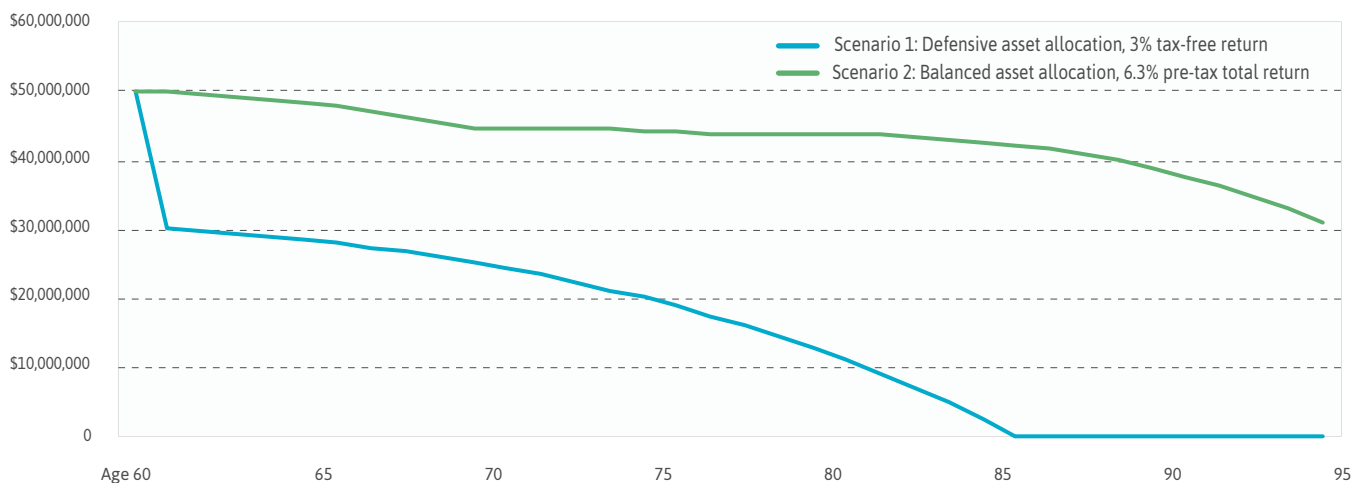
assets and financial objectives. While a conservative annual return of 3% from their largely defensive investment portfolio would sustain the Joneses' lifestyle and their plans until age 85, it is likely that either or both will live considerably longer. If they transfer assets over time and broaden their allocation to include more diversified exposures, notably equities and private illiquid assets with higher projected rates of return, their comfort in retirement and the success of their longer-term goals would be more likely. In this scenario, if they both died at age 95, the Joneses would leave a substantial amount of assets – \$31 million as illustrated on



Outliving assets is the top financial concern of high net worth families.

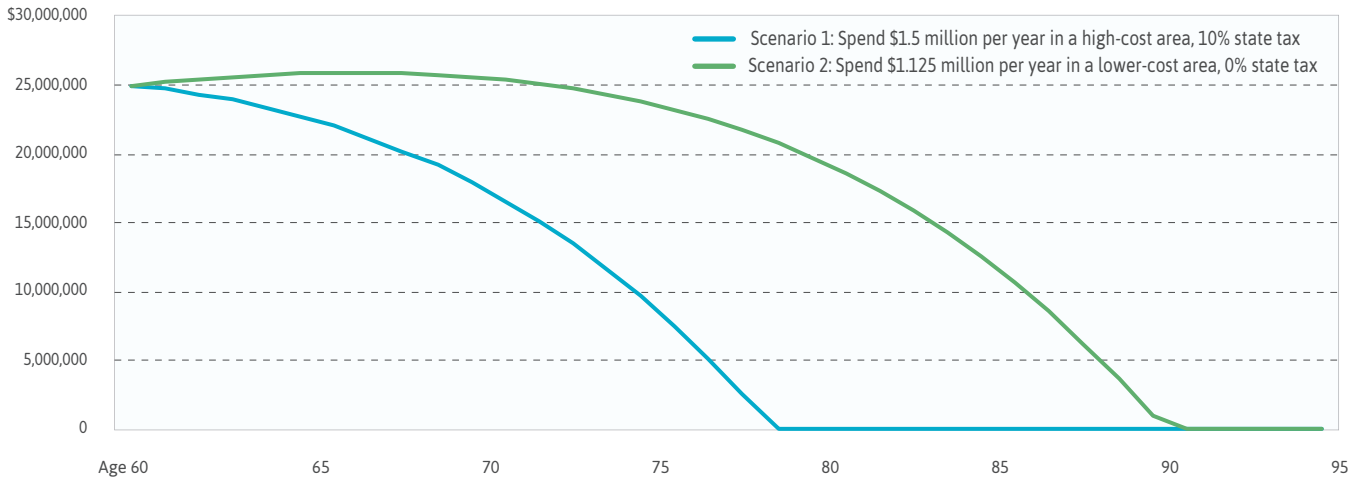
Taking on risk to meet long-term goals

Chart assumptions: \$50 million of investible assets. In Scenario 1, gifts of \$10 million to family and \$10 million to charity occur immediately (due to limitation on charitable gift tax deductions – and particular the tax-exempt income as detailed later – the majority of that gift is non-deductible). Investment total return is 3% based on an assumed asset allocation of 100% in-state municipal bonds. Scenario 2 assumes gifts of \$1 million to family per year for 10 years. To take advantage of the charitable gift tax deduction, we assume the Joneses gift an average of 30% of their Adjusted Gross Income over the next 17 years which reaches close to \$10 million over that time period. Investment pre-tax total return is 6.3%, of which 2.5% is yield (72% taxable) and 3.8% is appreciation, based on a balanced asset allocation.* Both scenarios assume a \$1.2 million annual spend rate growing with inflation at 3%, as well as the highest federal tax bracket and a 5% state tax bracket.



Keeping on, not up

Chart assumptions: \$25 million of investible assets and a 3% annual spending rate increase. In both scenarios, the total return is 6.3%, of which 2.5% is yield (72% taxable) and 3.8% is appreciation based on a balanced asset allocation.* We have assumed the highest federal tax bracket in both cases. Scenario 1 assumes a 10% state tax bracket. Scenario 2 assumes a 0% state tax bracket.



page 11 – which may or may not be an appropriate amount for their heirs. During their life, as their financial circumstances remain strong, they may choose to make more gifts, or split the ultimate beneficiaries of their estate between children and charity.

KEEPING ON, NOT UP

The Smiths, also age 60 and retired, spend even more than the Joneses do, but without adequate resources to fund them much longer. While their \$25 million would be sufficient for many, the Smiths live in a high-cost area and are overspending every year, which means they are drawing down proportionally more and more of their assets. They have no heirs to leave assets to, but even if they both

live to just 79, the current average for the general population⁴ and well short of their economic peers, their intervening years could be compromised, as illustrated above. By about age 74, only 14 years from now, their investment portfolio is likely to be about half of what it is today.

A strategic plan should be reviewed regularly, especially during times of change

If, however, the Smiths moved to a low-tax state and reduced their spending by 25%, their outlook brightens considerably and their

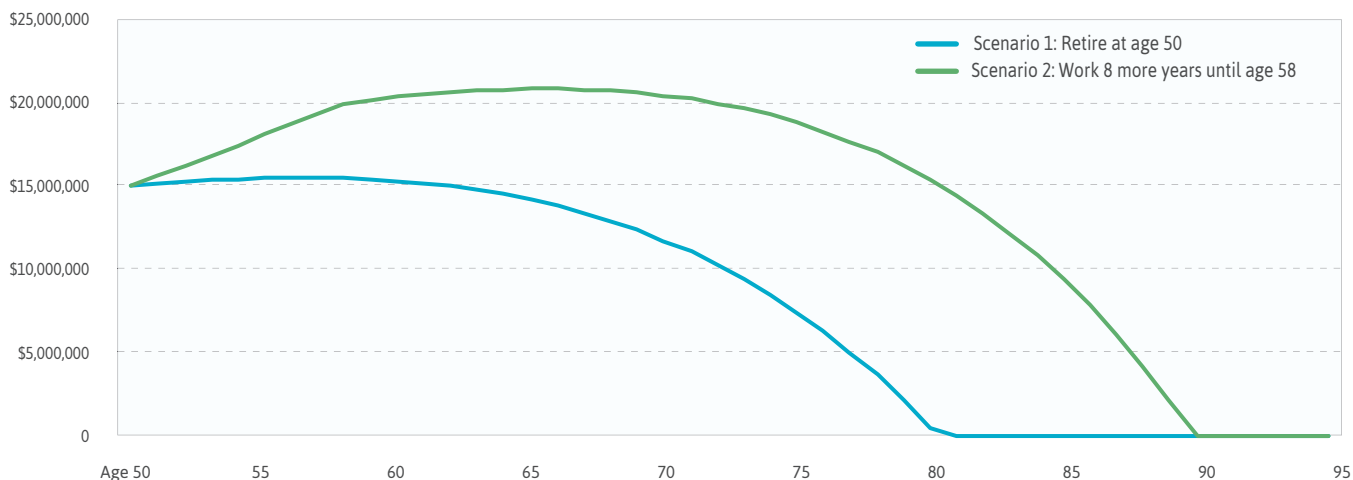
financed assets maintain them through their early 90s. Moving away from their neighbors would be an adjustment, but the tradeoff would allow the Smiths to preserve their savings and maintain assets to weather their later years. It's important to note that their spending remains high even with these compromises. If the Smiths live into their 90s, well within the realm of possibility, they would be left in a financial predicament. Regularly reviewing their financial plan would help the Smiths address their financial situation and goals.

INVESTING FOR LONGER LIVES

The Garcias, age 50, are at peak earnings in their respective careers. Together they have saved \$15 million,

Investing for longer lives

Chart assumptions: \$15 million of investible assets. \$650,000 annual spend rate, growing with inflation at 3%. In Scenario 2, annual pre-tax income is \$800,000 per year for eight more years. Both scenarios assume a total return of 6.3%, of which 2.5% is yield (72% taxable) and 3.8% is appreciation based on a balanced asset allocation.* We have assumed the highest federal tax bracket and a 5% state tax bracket in both cases.



which they believe is more than enough to cover their lifetime expenses. They want to retire now so they can spend more time with their children and care for their aging parents. However, the Garcias are likely to live even longer lifespans than their parents, possibly for another 40 years.⁵ Retiring too young could leave them financially exposed. Working for eight more years could provide the family with greater security, allowing their financial assets to last almost 10 more years. If the

Garcias want financial protection for their 90s, or if they feel strongly about leaving assets to heirs, they should work even longer or consider a reduction in spending.

This is not “set it and forget it.” A strategic wealth plan should be reviewed regularly, especially during times of change, and against a wide range of goals and market assumptions. Thoughtful, flexible planning and investing – as well as making appropriate spending and

giving tradeoffs – can ensure that even the longest lives can be financially comfortable.

Ashley Ferriello is a Managing Director and Wealth & Fiduciary Advisor at Evercore Wealth Management and Evercore Trust Company, N.A. She can be contacted at ferriello@evercore.com.

^{1,4} <https://www.cdc.gov/nchs/fastats/life-expectancy.htm>

^{2,3,5} https://scholar.harvard.edu/files/cutler/files/jsc160006_01.pdf

* Analyzing expected investment returns across asset classes, as well as potential market drawdowns, helps to determine an appropriate asset allocation. Understanding goals, circumstances and appetite for risk is equally important. The intersection of the two is where thoughtful planning and investing meet. Evercore Wealth Management’s 10-year, pre-tax expected return assumptions are as follows – Defensive Assets: 2.7%, Credit Strategies: 5.2%, Diversified Market Strategies: 4.8%, Growth Assets: 8.0%, Illiquid Assets: 12.3%. Every Evercore Wealth Management portfolio is customized and constructed to meet specific goals. A balanced asset allocation assumes 1% Cash, 22.5% Defensive Assets: 7.5% Credit Strategies, 9% Diversified Market Strategies, 50% Growth Assets and 10% Illiquid Assets.

Protecting Cryptocurrency in Trusts

By Tom Olchon

The risks in investing in intangible and often relatively illiquid cryptocurrencies are well known. Less well known are the risks in managing and transferring these exciting but volatile assets.

Bitcoin, Ethereum and the like have no central or regulating authority. Instead issuance and transactions are managed by a decentralized system that relies on cryptography to prevent fraud. If that sounds like a circular – or cryptic – explanation, it may be helpful to think of cryptography as a modern form of secret writing. Instead of invisible ink, information is encoded and decoded by computers.

This security can work all too well. Matthew Mellon was a proponent and early investor in Ripple, a technology that acts as both a cryptocurrency and a digital payment network for financial transactions. At the time of his unexpected death in 2018 at age 54, his holding was reportedly worth about \$500 million. But it isn't worth a dime to his heirs, as no one seems to have the necessary passwords for his executor to access the assets. The passwords are held in a so-called cold wallet, a hardware device that is

not connected to the internet. Without the passwords, the wallet can't be opened.

The mysterious death of Gerald Cotton, also in 2018, caused more widespread trouble. As the co-founder of Quadriga CX, Canada's major cryptocurrency exchange, he appears to have had sole access to the exchange's wallets and related keys. Quadriga CX has since been declared bankrupt and its assets remain inaccessible.

Most exposures are smaller, of course, but the custodial risks are broadly the same. Cryptocurrency can also be stored online, in what are known as hot wallets. But once someone else has access to the key, that person can access the asset without the owner's knowledge or permission. That risk has to be balanced against the risks of incapacity and the certainties of death in determining who has access to the assets, along with when and how. Anyone considering taking on fiduciary responsibility for these assets will need to be very careful, as discussed on page 16.



In addition to security, storage and accessibility, investors in cryptocurrencies need to consider taxation, price volatility, valuation and illiquidity.

The IRS views cryptocurrencies as property, not currency. This is an important distinction, as it means the basis needs to be accurately tracked. The U.S. dollar-denominated basis is established when the asset is acquired, and the gain or loss may be realized at the disposal of the asset. This could be on conversion back to U.S. dollars, conversion to another cryptocurrency, or when the cryptocurrency is used to

purchase a good or service. As with other property, cryptocurrency assets receive a step-up in basis at the death of the owner.

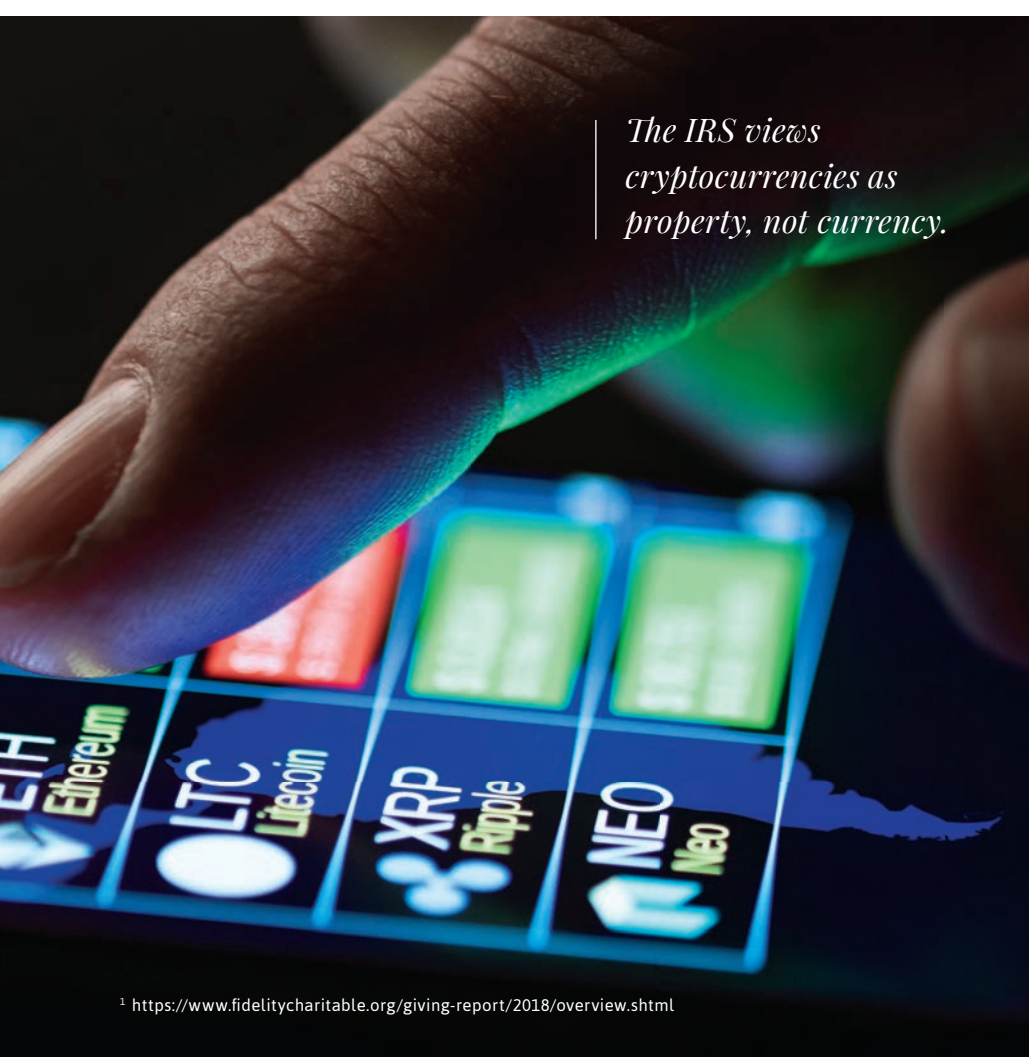
Many early investors in cryptocurrencies have substantial capital gains embedded in their holdings. This makes for an interesting planning opportunity for those who are philanthropically inclined. Funding a Charitable Remainder Trust with cryptocurrency can be a very efficient way to diversify the position, minimize capital gains, and reduce income taxes. Not surprisingly, there has been a notable increase in charitable contributions made

through Bitcoin over the past few years. Donors must be very careful to adhere to the IRS' substantiation rules, appraisal requirements, and filing obligations (for both the donor and the charity).

When funding a Charitable Remainder Trust structure with cryptocurrency, it is important to consider the potential volatility and illiquidity inherent in the underlying assets. It often makes sense to consider funding a more flexible NIMCRUT (Net Income with Makeup Charitable Remainder Unitrust) or NICRUT (Net Income with Charitable Remainder Unitrust), rather than more traditional structures. They allow more flexibility for the trustee/s, an important consideration with such volatile assets. Traditional Charitable Remainder Annuity Trusts, or CRATs, and Charitable Remainder Unitrusts, or CRUTs, are less attractive structures in this context. The potential fluctuations in asset valuations and/or the possibility of an illiquid market could inhibit distributions.

These are obviously complicated strategies that should only be considered in the context of broader wealth goals and in close consultation with experienced advisors. We expect this area of planning to develop rapidly as the market for these assets continues to evolve.

Cryptocurrencies, in some form or another, are here to stay. But it appears that we can still lose our keys and wallets. Ensuring that these assets are properly managed and transferred will be an important focus for investors and their advisors.



*The IRS views
cryptocurrencies as
property, not currency.*

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¹ <https://www.fidelitycharitable.org/giving-report/2018/overview.shtml>

An Important Message for Fiduciaries

By Darlene Marchesani

Individuals considering accepting fiduciary responsibility as a co-trustee for a trust holding cryptocurrency should first consider the potentially significant pitfalls.

Illiquidity and volatility issues of cryptocurrency held in trust can cause problems for the trustee in satisfying its investment responsibilities. In addition, a lack of available funds could delay distributions, which may cause underpayment to the present beneficiary or underpayment to the charity or remainder beneficiary at the end of the term. Either or both events could result in litigation and negative tax consequences.

Delaware presents a unique opportunity for trusts looking to expand their investments into cryptocurrency. A trustee is authorized to acquire every kind of property, with the investments to be considered as part of an overall investment strategy. Performance of an advisor is measured with a view toward the entire portfolio, rather than on an asset-by-asset basis.

In addition, the use of a Delaware directed trust can provide great flexibility. If a trust instrument requires a trustee to follow the direction of an advisor, and the trustee follows such directions (say, acquiring a legal/authorized investment such as Bitcoin as part of a portfolio), the trustee will not be liable for any loss resulting directly or indirectly from the investment.

An administrative trustee directed to hold cryptocurrency in a trust account will, of course, require detailed current and regularly updated information regarding the assets, to protect all the parties involved. It is the trustee's responsibility to ensure the safety and soundness – and the security, as discussed on page 14 – of trust assets.

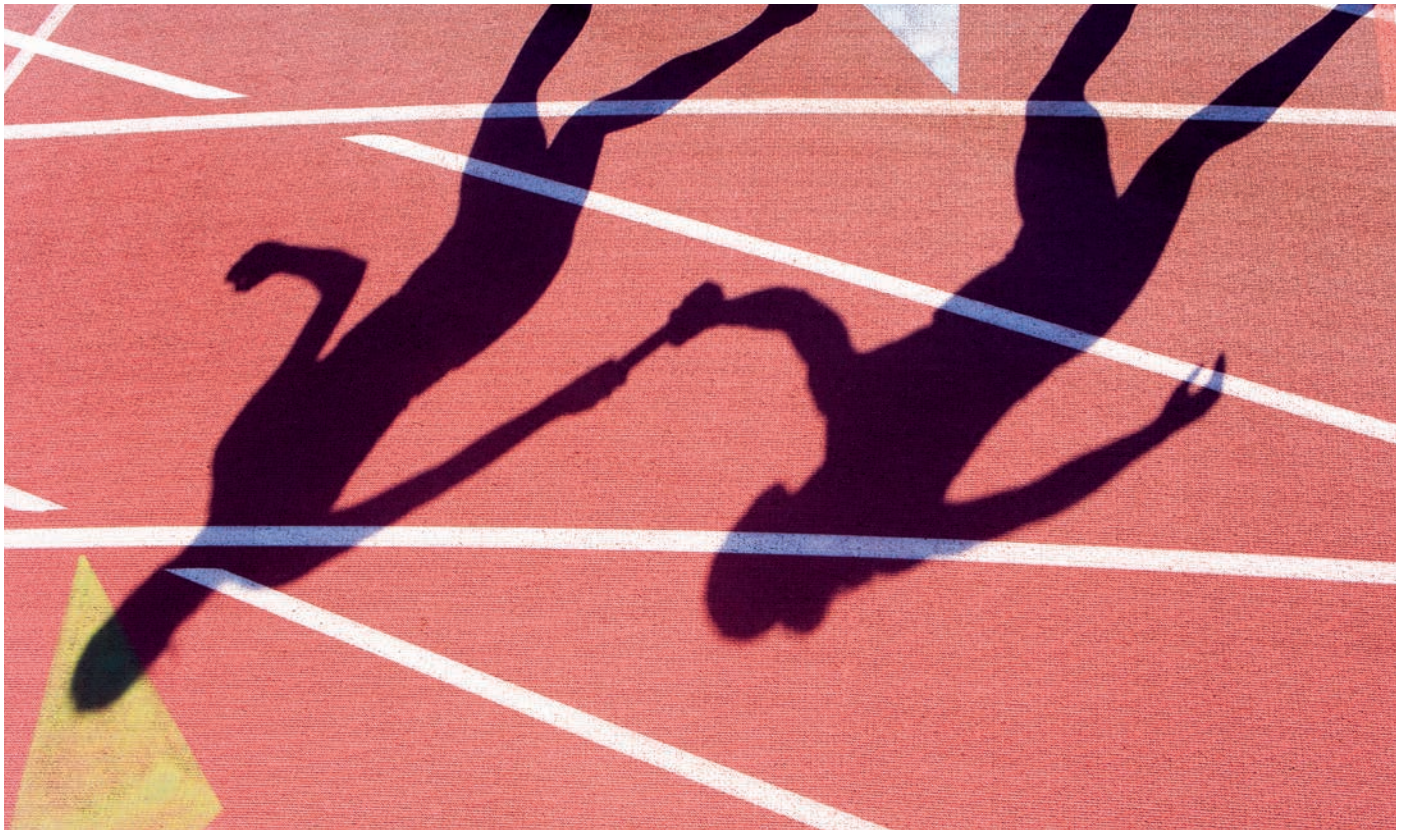
Evercore Trust Company, N.A. can act as executor, personal representative, directed trustee, sole trustee, co-trustee, successor trustee and agent for trustee.

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Encouraging Next-Generation Success

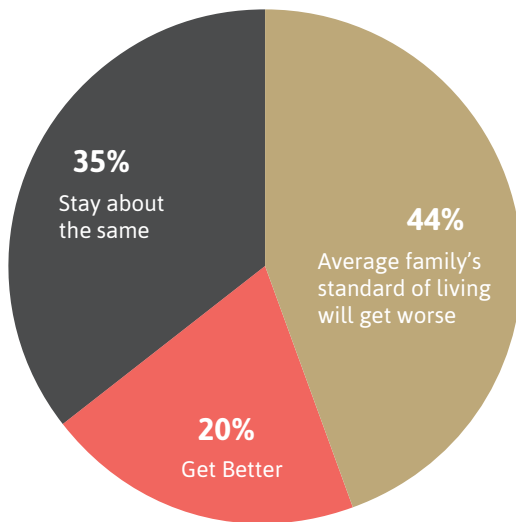
By Jeff Maurer

The charm of anticipated success. That's how Alexis de Tocqueville described the American spirit, 200 years after John Winthrop laid out his vision to fellow colonists and about 100 years before a historian coined the phrase "The American Dream." The belief that everyone in this country deserves a chance to climb resonates around the world.



You Think You Had It Tough?

Americans expect income gaps to widen by 2050 – and many say living standards will worsen



Note: Share of respondents who didn't offer an answer not shown.
Source: The Pew Research Center.

Our clients are testaments to that potential. Ralph Schlosstein recounted at our recent Palm Beach event (summarized on page 20) his journey as the child of refugee parents through childhood jobs and a public school education to co-founding BlackRock and becoming the CEO of Evercore. Other stories are less dramatic, of course, but they often illustrate a similar spirit.

Many of us now worry that younger generations will not enjoy similar trajectories, in monetary terms, and perhaps in other ways as well. Economic growth just about everywhere is slowing, as John

Apruzzese observes in these pages, and there is plenty of evidence that upward social mobility is too. Not only is it harder now to achieve more than your parents, the chances of falling short seem greater.

Children may perceive more scope to fall than to rise.

The Pew Research Center reports that Americans now have a more pessimistic view of future success for their children.¹ Indeed, the

79%

79% of Americans anticipate about the same or lower standards of living

largest proportion of respondents (44%) believe that the average family's standard of living will decline over the next 30 years. Only half that number believe it will improve. For high net worth and ultra high net worth families, our clients among them, this concern is compounded by the relatively high starting point: The children of the affluent may reasonably perceive more scope to fall than to rise.

How can we help? As a wealth advisor, and as a parent and grandparent, I know enough to know that I don't know the full answer to that question. Every family, and every relationship within that family, is unique; what was right for my children, or for Ralph's children, may not be right for others. Broad guidelines and shared experiences may help, however, so here are a few suggestions.

Reframe success. Americans generally tend to describe success in monetary terms. And it's true that career success often comes hand in hand with financial success – but not always. Few doctors, for example, can count themselves among the top 1% of American earners; the average doctor's salary is now about three-quarters of that threshold.² But how many of us would discourage our children from becoming doctors? Teachers and charity workers are rarely paid much at all, but the really successful ones change the world.

Share the values that drove you. Hard work, optimism, goal-setting: These are the underlying qualities that we want to instill in our children, to support them in whatever they choose to pursue.

Share perspective: Children should understand that they are fortunate to live in an affluent environment. They should have a good idea as they get older of what things cost and how their experience to date is different from those less fortunate, as well as from those with more. If charity is important to you, make sure your family understands why and what you hope to accomplish with your time and resources.

Provide a great education. Just how you go about that and how long you are willing to underwrite an education is a personal choice. But just about all of our clients seem to believe that education is essential for future success, especially in an economy that increasingly favors the very well educated.

Prepare your children for independence, for their own sake and yours. It is important for children to know that the affluence their family now enjoys may not be available to them when they are on their own, through our choice, our necessity, or a mixture of both. As Ashley Ferriello writes on page 10,

Families risk running down their assets in their lifetime.

longer lifespans mean that even ultra high net worth families risk running down their assets in their lifetimes.

With thoughtful guidance and a broader application, the “charm of anticipated success” can still drive a life well lived.

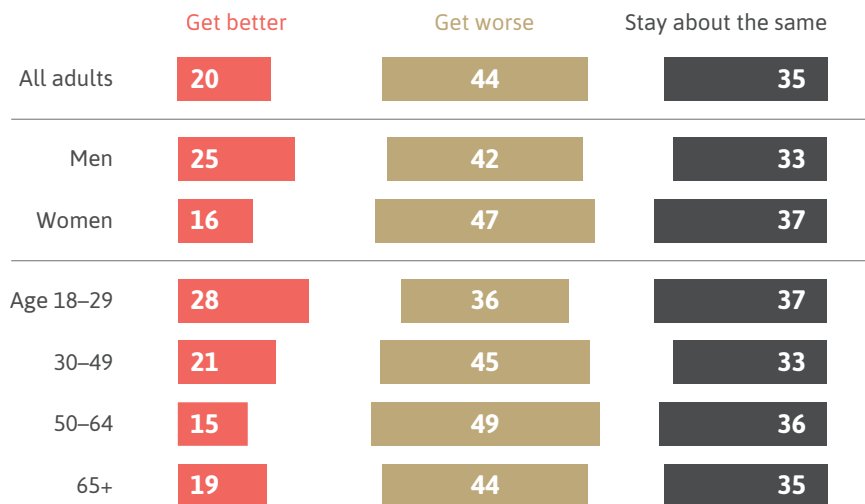
Jeff Maurer is the CEO of Evercore Wealth Management and Evercore Trust Company, N.A. He can be contacted at maurer@evercore.com.

¹ Pew Research.

² Medscape: The average salary of a doctor in the United States is \$298,000. <https://www.medscape.com/slideshow/2018-compensation-overview-6009667#1>

Many are pessimistic about the future standard of living for American families

Percent saying that, over the next 30 years, the average American family will see its standard of living...

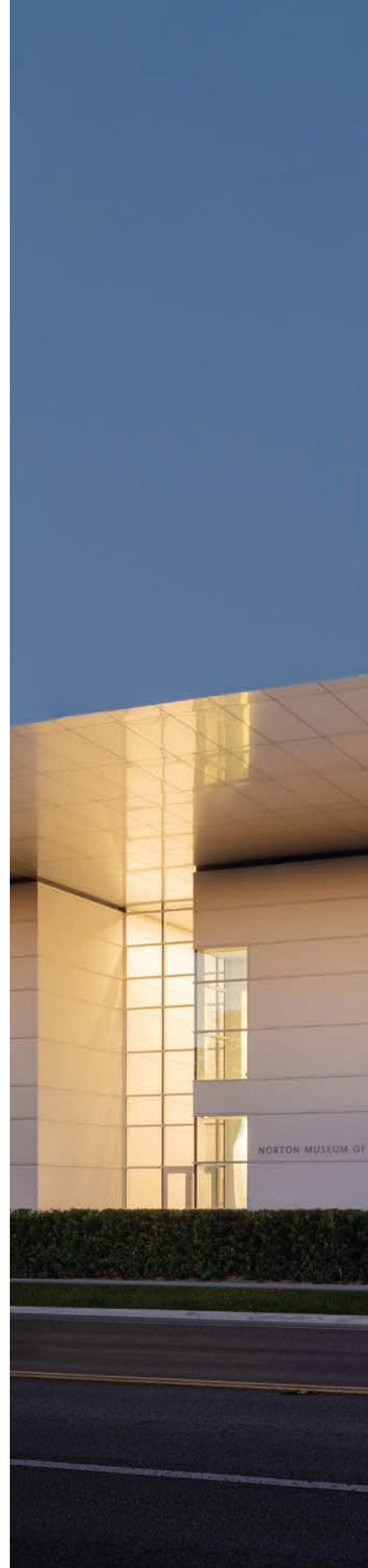


Note: Share of respondents who didn't offer an answer not shown.
Source: The Pew Research Center.

Ralph Schlosstein on Culture and Capitalism



Evercore Wealth Management clients in Palm Beach joined Evercore President and CEO Ralph Schlosstein for an evening at the newly renovated Norton Museum on March 4. Ralph was interviewed by Jeff Maurer, CEO of Evercore Wealth Management and Evercore Trust Company, N.A., on the intersection of culture and capitalism in the United States.





Editor's note: Ralph Schlosstein joined Evercore in 2009 to help grow the firm into the leading global independent investment bank. He previously co-founded BlackRock, the world's largest asset manager, and served as the firm's president for almost 20 years. He earlier worked for the federal government, advising President Carter on urban policy, economic development and housing issues, and as an economist for the Congressional Joint Economic Committee. Ralph is a trustee of New Visions for Public Education, a trustee of the Lincoln Center for the Performing Arts, and a member of The Council on Foreign Relations.

Jeff: *Ralph, you have lived the American Dream, as the son of immigrants, working since you were nine years old and through college, on to co-founding BlackRock and becoming the CEO of Evercore. Do you think your journey would be more difficult today?*

Ralph: In many ways, I had the absolute best possible upbringing. My parents left Nazi Germany; they came from reasonably well-off families there, but here my father was a bartender and my mother was a nursery school teacher. Education was paramount. We went to museums and the symphony, and I was able to attend the best magnet schools in the city. The only thing that we didn't have was money.

For me, for any individual, it is still possible to do exactly what I did. I am incredibly grateful to this country for the opportunities it provides. We all should be.

I do think the rewards for labor versus capital have changed, particularly the rewards for less than highly skilled labor. When many of us were growing up, it was possible then to start out at the bottom and become solidly middle class or upper middle class by getting a job in manufacturing. The number of jobs available now for those without a lot of education has shrunk dramatically.

Jeff: *Is capitalism in its current form driving increasing inequality?*

Ralph: The return on capital and the return on labor has widened dramatically. Now, all of us in this room are beneficiaries of that. But my own view is that societies don't long thrive – or perhaps even survive – when the benefits of the system are very narrowly enjoyed.

To me, and I consider myself a political centrist, this is one of the most fundamental questions that we as a society face. I worry about a society where so much of the benefits have gone to a limited number of people. Unfortunately, our government's policies have, to a certain extent, reinforced these divisions. Years ago, dividends and capital gains were taxed at the same rates as ordinary income. Today, my assistant is paying a higher tax rate on her marginal dollars than I am on my dividends and capital gains. That doesn't make sense to me.

At the same time, we have underinvested in education, which in the world we live in today is really the only means of social mobility. As for our fiscal policy, we have a trillion-dollar deficit with full employment, which means that we are leaving a lot of debt to our children and grandchildren. So, I think we need to fix some of these things.

Jeff: *Let's talk about education. I know it is of great interest to you and it certainly is important to our culture.*

Ralph: I think it's the single most important issue. I spend a lot of time working with the public schools of New York, where there are over one million kids, about half of whom graduate on time. I went to public schools until college, and I got a great education. And there are still some great public schools. But many are not serving those in most need of their education. It is, in my view, a major challenge.

We have a country – and ours is not the only one – that is heavily focused now on globalization and immigration as negatives for our economy, and particularly for less skilled workers. However, in my view, the single thing that separates the growth that we've had in the United States from the low growth in Europe and Japan is our immigration. Our GDP is a function of two things: how many workers we have and their productivity. So cutting off people who want to come to this country and work really hard is really shooting all of us in the foot. If it were up to me, every non-U.S. citizen who gets an education at a U.S. college would get a green card with their diploma because we want them to stay here.

"I worry about a society where so much of the benefits have gone to a limited number of people."

What is causing this phenomenon more than anything else is that technology has made the location of work much more fungible. Technology has allowed remote work. Manufacturing does tend to move to where the cheapest labor can be found. My hope is that we invest in education and we become a magnet for talent. I think this country is the greatest place in the world to live and work, so we should welcome those with skills from all over the world.

Jeff: Do you think technology, including artificial intelligence and robotics, will significantly impact our workforce? How can a capitalist society protect affected workers?

Ralph: I don't think we have a choice; it's going to happen. So the question is: How do we adapt? We will need a much more skilled workforce and a much more active investment in training. Many people in their 60s, 50s and even 40s have been displaced by machines and technology, and are now working in jobs that are lower skilled and lower paid – and these are people who have a great work ethic and who have worked their entire lives. We as a society probably have to provide them with some combination of reeducation and support. It is a very hard thing from a public policy point of view to balance the incentive to work – which I feel very passionately about – and to make sure that we are sharing in some way the wealth that technological advances are creating.

Jeff: What are your thoughts on China? Many of us in the West had always thought that economic advancement would be tied to liberal democracy, but the rise of other systems has to make us wonder.

Ralph: China is incredibly important to the future of the global economy. Its economy is still somewhat smaller than ours. But if you look at its contribution to the global growth rate, it's really powerful. The government has a five-year plan, a 10-year plan, a 15-year plan. And they course-correct. They assiduously plan how to get to where they want to be in 10 years, instead of just 10 days. If one business is investing for the long term and the other is just trying to achieve the next quarter's earnings, I can tell you which business in all probability is going to win.

Jeff: Is your glass half empty or half full?

Ralph: I'm an inveterate optimist, although I know I don't sound like it. The talent and ingenuity of the people in this country and our economic system – I am firmly convinced that it's the best combination. I do think that we as a society are not doing well enough by our children and grandchildren in three areas: fiscal policy, which we talked about earlier; climate, which is going to become much harder to address every year; and the breakdown of our global institutions.

The divergence of our politics is a threat to achieving all that we wish to achieve. By the time we get to 2020, we will have gone through 28 years when the president of the United States was adored by half the country and despised by the other half. Each ran on the idea of working across the aisle and being the president of all the people. We desperately need a president to do that, and we need representatives to do that.

“We as a society are not doing well enough by our children and grandchildren”

Jeff: You had a very different upbringing than your children. As a parent, what do you think about raising children in a climate of affluence, knowing that they will never experience – or potentially benefit from – the kind of struggle you faced?

Ralph: I think the most important thing is to raise kids with great values who feel a responsibility and accountability for their own lives and who treat people really respectfully. My wife and I have worked pretty hard. [Editor's note: Jane Hartley is the former U.S. Ambassador to France.] Our children are going to have enough money so that they pursue whatever they are really passionate about. If that is going to mean making more money, great. If they wish to serve others in any capacity, they will be able to do that. I will be happy with either approach, as long as they work hard and are passionate about what they do.



The transcript of the evening's discussion was edited for space. For further information on Evercore Wealth Management and Evercore Trust Company, N.A. in Palm Beach, please contact **Michael Cozene** at michael.cozene@evercore.com.

Events

Over a hundred women from a wide range of backgrounds came together to contribute to the *Wise Women* afternoon on April 3 in New York. The event was organized around four discussion panels focusing on the cultural, financial and emotional building blocks of independence, including:

How the Media Shapes a Women's Self-Image: Pat Mitchell and Holly Gordon discussed their career experiences, particularly how women's images can be shaped by the media, often to their detriment. Holly and Pat work together with Participant Media, a company that produces feature and documentary films with social themes, including *Spotlight*, *Contagion*, *Lincoln* and *An Inconvenient Truth*, and those with a specific focus on women, notably, *RGB*, *The Help*, *He Named Me Malala*, *Roma*, and *A Fantastic Woman*.

Finding a Compass for Leadership and Self-Reliance: Lynda Applegate, Harvard Business School professor and international consultant, and Maureen Chiquet, former Global CEO of Chanel, were interviewed on leadership strategies and tactics by Linda Lorimer, former VP for Global and Strategic Initiatives at Yale University.

Making Money Last a Longer Lifetime: This wide-ranging conversation among three Evercore Wealth Management partners, Martha Pomerantz, Jewelle Bickford and Stacie Price, included suggestions on creating a financial plan, coordinating the plan with an investment portfolio, and identifying the right investment advisor.

Mastering a Mindset Toward Success and Happiness: Behaviors that can lead to success and happiness, and the dangers social media poses on the happiness of future generations, were addressed by Dr. Catherine Sanderson, Family Professor of Life Sciences at Amherst College, in conversation with Evercore Wealth Management Financial Advisor Jill Faherty Lloyd.

Independent Thinking Panel Series:

- A Comprehensive China Policy: Improving Sino-American Relations in 2020 and Beyond
Speakers: Elizabeth Economy, Senior Fellow and Director for Asia Studies at the Council on Foreign Relations, and Kevin Rudd, President of Asia Society Policy Institute and former Prime Minister of Australia
- Collecting in Context: A Panel Discussion with Leading Art Advisors and Evercore Wealth Management
Speakers: Wendy Cromwell, Independent Art Advisor; Amy Cappellazzo, Executive Vice President and Chairman of the Fine Art division of Sotheby's; and Lisa Roumell, Managing Partner at Contemporary Art Partners

Please contact your Wealth & Fiduciary Advisor or **Jewelle Bickford** at jewelle.bickford@evercore.com for further details on upcoming Evercore Wealth Management events in your region.

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