



INDEPENDENT
THINKING

THE NEW STANDARD IN WEALTH MANAGEMENT

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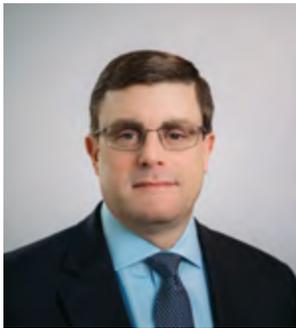
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A Message from the CEO



Even the expected can astonish when it comes to pass. Our children grow up in the blink of an eye; their children apparently grow even faster; we grow older – and we wonder, how did this happen so fast? Pan out, and the story is the same: In the three and a half years since I took the helm at this firm, we’ve witnessed a global pandemic, a war in Europe, a surge in inflation, the rise of Artificial Intelligence, and now what looks to be the hottest summer on record.

I believe our firm has continued to thrive through all of this change because we recognize that no one knows exactly what will happen next. We can make educated guesses – about family dynamics, the economic and regulatory environment, and the markets – but we also prepare for a range of outcomes and revisit those assumptions, again and again. And we encourage our clients to do the same, with our support and that of their other trusted advisors, in planning around their families, businesses, and philanthropic interests.

In that vein, preparing for possible scenarios so our clients can better enjoy the present – we lead this edition of *Independent Thinking* on what Justin Miller, our National Director of Wealth Planning, calls the secrets of successful families in transferring values as well as money. (Spoiler: Communication is huge.) Justin recently presented on this topic at a very successful client dinner discussion at our New York headquarters; if you would like to learn more or to explore these issues in the context of your own family, please don’t hesitate to contact your Evercore Wealth Management advisor.

Several articles in this edition consider demographics, a potentially big economic

issue that many people thought would play out very differently. Brian Pollak considers the challenges presented by aging societies and low birth rates around the world; John Apruzzese focuses on the United States; and Judy Moses considers women’s participation in the U.S. workforce. Other articles deal with changes that we can manage, if not control: Mike Cozene and Julio Castro make the case for stress testing family estate plans, and Chairman Jeff Maurer argues that the inflation rate experienced by high net worth (HNW) consumers may be considerably more than the published consumer price index – and that financial plans may need to be revisited accordingly.

I hope you enjoy this edition of *Independent Thinking*. Please look for invitations to our events: We are developing a robust autumn calendar of both in-person and virtual gatherings, across a wide range of topics. Please let us know your thoughts and suggestions; as always, we welcome your engagement.

Finally, and on a personal note, I would like to congratulate our Partner Jay Springer and his wife, Lauren, on their well-deserved recognition as this year’s

honorees of the Caron Treatment Center, one of the leading substance abuse residential centers in the country. Jay and Lauren have managed more than their fair share of the unexpected and have drawn on those experiences to support other families affected by substance abuse. If you missed our webinar on special needs trusts, including Jay, you can access it through our website and share with friends and family as you see fit.

A handwritten signature in black ink that reads "Chris". The signature is fluid and cursive.

Chris Zander
President & Chief Executive Officer

Successful Families: Transferring Assets *and Values*

By Justin Miller

You may have heard the proverb “shirtsleeves to shirtsleeves in three generations,” but did you know that Italians say that families go “from stalls to stars to stalls”; Chinese caution that “wealth never survives three generations”; Mexicans warn of “first-generation traders, second-generation gentlemen and third-generation beggars”; and Swedes sum it up with the stark “acquire, inherit, ruin?” Regardless of the country, culture or even tax laws, there appears to be a sense that when families attempt to transfer wealth to future generations, something vital is often lost.

It doesn't have to be this way, of course. Families that successfully transfer wealth think long and hard about what they are trying to preserve – and why they are trying to preserve it. They focus on preserving nonfinancial capital in addition to financial capital. This can include individual capital, or each family member's personal strengths and talents; collective capital, such as family members supporting each other; community capital, which includes the family's contributions to the local community; and spiritual capital, which can take many forms but drives the family's ethos. In short, they transfer values along with money.

Communication is a crucial element in maintaining success. Much has been written about the significant differences among generations – from Baby Boomers and Generation X, on to Generation Y (the Millennials), Generation Z, and the most recent Generation Alpha. Successful families acknowledge that the life experiences of grandchildren and future generations are going to be very different from those of their grandparents. As an example, according to a 2021 Pew Research Center survey, more than two-thirds (68%) of U.S. respondents said they think today's children will be financially worse off as adults than their parents.¹ For wealthy families, this is an even

bigger challenge, given the relatively higher starting point. A recent Stanford study found that approximately 90% of those born in the 1940s earned more than their parents as adults, compared to only about half of those born in the 1980s.²

Demographics, addressed from an investment point of view in this issue of *Independent Thinking*, shouldn't need to shape a family's destiny – not if differing perspectives are raised and addressed. To encourage healthy communication, regular family council meetings can be surprisingly effective. Family council meetings can provide every member of the family an opportunity to proactively



Families that successfully transfer wealth think long and hard about what they are trying to preserve – and why they are trying to preserve it.

Sample Discussion Points

Raising the Right Questions

- Who do we want to be as a family?
- What are we trying to accomplish?
- When should we start?
- Why do we care?
- Where did we come from?
- How did we get here?
- How are we going to move forward?

Opening Communication and Discussion at Family Council Meetings

- Should we sell or keep the family business?
- What do we do with the vacation home?
- What is an appropriate lifestyle, and when should it start?
- Which organizations do we want to support – or not support?
- When does a person become a member of the family?
- Do we require prenuptial agreements?

Writing It Down, in Your Own Words

- Family mission statement
- Family constitution or charter
- Ethical wills
- Letter or statement of wishes to provide guidance for future trustees

68%

The percentage of adults surveyed by Pew who believe today's children will be worse off as adults than their parents

contribute to the family's long-term success while preserving the role of the matriarch and/or patriarch. Please take a look at the chart on page 3 for some sample discussion points.

Another key factor for successful families is that they tend to be philanthropic. Indeed, studies have shown that philanthropy actively fosters happiness – as well as the potential for significant tax savings.³ In preparing the next generation to be happy and productive members of society, family philanthropy – or giving to charity collaboratively as a family – could be one of the most impactful activities to consider.⁴ James E. Hughes, Jr., the author of *Family Wealth*, put it best when he observed that: “Paradoxically, families often learn more about long-term wealth preservation through the process of learning to give away than by the process of learning to accumulate and spend.”

While healthy family governance is a vital part of multigenerational

success, families can't ignore the importance of comprehensive tax and investment planning. Since no one advisor can or should do it all, successful families rely on a collaborative team of advisors to provide a cohesive strategy for growing and preserving wealth across multiple generations. That should also include all the left-brain wealth management responsibilities, such as legal documents, asset protection, privacy, confidentiality, taxes, investments, and so on. And it should also include all the right-brain family-oriented issues: an understanding of the family's mission, vision, and values; educating family members; and supporting future family leadership. After all, successful families don't just care about transferring the maximum amount of assets in the most tax-efficient manner to future generations, they also focus on preserving family harmony so that their family legacy will continue for future generations.

Successful families focus on preserving family harmony.

It's worth recalling Warren Buffett's well-known line on giving his children “enough money so that they could feel they could do anything, but not so much that they could do nothing.”⁵ The challenge for families is that there is no magic dollar figure when

it comes to transferring wealth to future generations in a manner that helps – rather than hinders – their future happiness and success. Anyone struggling to identify how much money that might be should instead follow the secrets of successful families and consider the more important question: “What have you prepared them for?”

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¹ Pew Research Center, “Economic Attitudes Improve in Many Nations Even as Pandemic Endures,” *Global Attitudes Survey* (2021).

² Chetty R, et al., “The fading American dream: Trends in absolute income mobility since 1940,” *Science*, Vol. 356, Issue 6336, pp. 398-406 (2017).

³ Dunn EW, Aknin LB, Norton MI, “Spending money on others promotes happiness,” *Science*, Vol. 319, Issue 5870, pp. 1687-1688 (2008); Harbaugh W, Mayr U, Burghart D, “Neural Responses to Taxation and Voluntary Giving Reveal Motives for Charitable Donations,” *Science*, Vol. 316, Issue 5831, pp. 1622-1625 (2007).

⁴ For more information on family philanthropy, see Miller, J, “Preparing the Next Generation for Success,” *Independent Thinking*, Vol. 44 (2022). <https://www.evercorewealthandtrust.com/preparing-next-generation-success/>

⁵ Kirkland R, “Should You Leave It All to the Children?” *Fortune* (Sep. 29, 1986).

Is Demography Destiny?

By Brian Pollak

The 19th-century philosopher Auguste Comte is often credited with coining the aphorism “demography is destiny.” If so, he had a point. Certainly, shifts in populations – caused by births, deaths, and immigration – can herald transformative societal and economic change. But the interconnectivity among population, innovation, and productivity can make the ramifications of that change difficult to forecast. For years, many believed overpopulation was a looming crisis – that competition for resources would drive us toward a Malthusian dystopia of war, famine, and disease.

Now we worry that declining birth rates and rising longevity in developed and the more advanced emerging market economies may signal the end to almost 80 years of nearly continuous economic growth.

The trends that brought about low birth rates in the developed world – the increasing cost of raising children, improved access to education for girls and women, and female participation in the workforce – are unlikely to be reversed. Instead, they are taking root in many emerging economies too, and at a faster clip. If anything, we have learned that our ability as a global society to affect these developments is limited. And today, with nearly all developed world populations and many of the large emerging market populations already shrinking or set to shrink, countries may hope, in a zero-sum world, to win a relative demographic game – see chart to the right.

John Apruzzese describes the U.S. demographic outlook on page 8; here’s

a brief look at a few countries already confronting the challenges associated with dramatically aging populations.

CHINA

In China, until recently the engine of global growth, the unintended consequences of

China’s one-child policy (1980-2016) are now playing out. The fertility rate, measuring the number of children per woman, is just 1.2, among the lowest in the world and far below the 2.1 replacement rate. In addition, China is left with a rapidly aging society, described by some observers as the world’s largest

Global Demographic Statistics

Country/Region	Median Age	Fertility Rate	% Urban Population
World	30.0	2.32	56.48
United States	37.7	1.66	82.87
Europe (UN)	41.7	1.48	75.20
China	37.9	1.16	62.51
India	27.6	2.03	35.39
Japan	48.4	1.30	91.87
Italy	46.8	1.28	71.35

Source: United Nations World Populations Prospects database through 2021. World Bank.



nursing home. The average age is about the same as in the United States, at almost 38 (see the chart on page 5) but is set to rise at a much faster rate, partially due to the shortage of young women. Immigration, the other driver of demographics, is unlikely to be enough to correct the imbalance in such a large and historically insular country.

The Chinese government is addressing these challenges by focusing attention on supporting the technology sectors that

will help enhance national productivity, including clean energy, robotics, and biological medicine, as demonstrated by the huge rise in patent activity in the last decade. The government also appears intent on boosting China's ties with the large and growing populations of Africa and the Middle East, outsourcing manufacturing know-how and technology to enhance their manufacturing capabilities and grow their markets. Policy efforts to encourage further urbanization could also help continue

to grow per capita GDP, cushioning some of the negative demographic impact. On balance, however, it seems likely that China's contribution to global growth will continue to deteriorate along with its population.

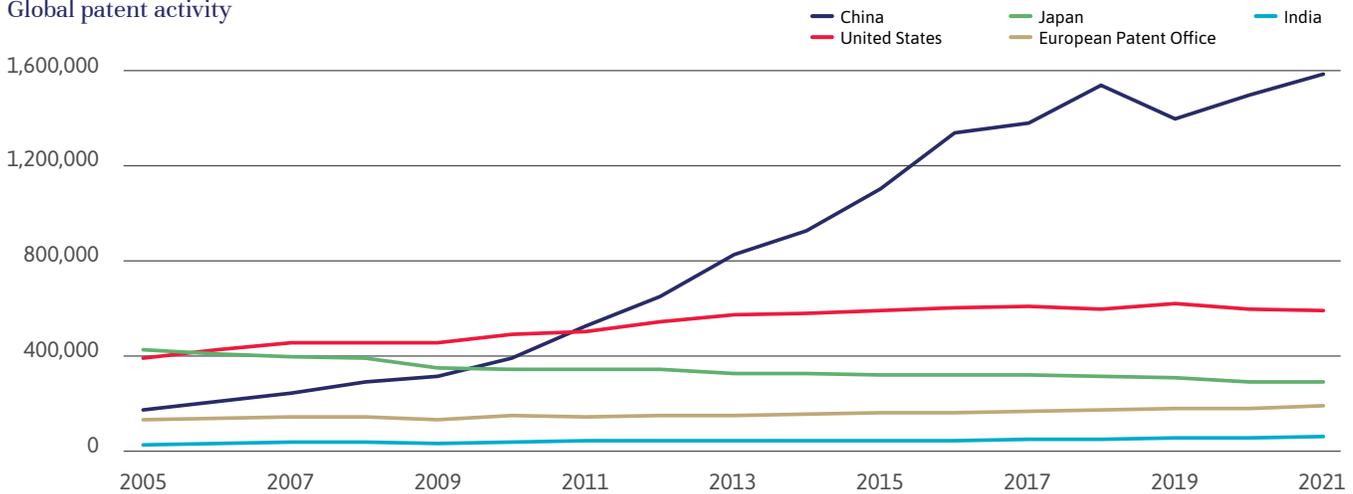
If you missed our recent webinar on China with Evercore ISI analyst Neo Wang and would like to view it, please contact your Evercore Wealth Management advisor.

JAPAN

Japan has a long experience of demographic decline and has learned to live with a shrinking labor force and population. The country has the oldest population in the developed world, but its standard of living has continued to rise, partially due to its reliance on emerging market workforces. This reliance has enabled the government to retain its domestic focus on creating higher-value jobs and services. Japan is also stemming its labor force shrinkage at present by recalibrating its hitherto unwelcoming policy on immigration and female participation in the workforce. Unfortunately, the latter has coincided with a further decline in the fertility rate, making it clear that there is no easy solution to demographic decline.

Innovation Can Help Offset Demographic Decline

Global patent activity



Source: World Intellectual Property Organization database, through 2021.

In the face of the inevitable acceleration of population decline, many prefectures and cities in Japan are starting to think about how to sustainably shrink infrastructure, including housing stock, retail footprint, rail lines, and healthcare systems. There is little doubt that in Japan, already a technologically forward nation, innovation will be a big part of any solution to demographic challenges. If managed thoughtfully, a shrinking citizenry may not be all bad for this densely populated country.

As more and more of the world faces the same demographic challenges, high-quality labor forces from lower income countries will become harder to source, making it unlikely that the Japan model will be scalable.

ITALY

This past May, Pope Francis pleaded with the Italian government to enact more pro-growth population initiatives to stem one of the steepest population declines in the world. In the latest count, there are just seven births for 12 deaths; Italy's fertility rate is the lowest in Europe, and its population among the oldest. Similar to Japan, Italy has been attracting migrants for the past few years, even as its *jus sanguinis* ("right of blood") traditions have been hard to shed. As in all developed countries, the high cost of childcare is an impediment, discouraging young couples from having children. Prime Minister Meloni's administration has proposed lower taxes for households with children, help for married couples purchasing their first homes, and initiatives for free childcare at the community level to allow parents to return to work, but the jury is still out as to their effectiveness.

The European Union has badly lagged Asia and North America in terms of patents and tech start-ups, boding ill for the region's relative long-term economic growth.

China, Japan and Italy are previews of a global trend. Populations are rapidly aging just about everywhere in the developed world. This will likely result in a shrinking

global labor force and declining economic growth. Policies encouraging net migration, female labor force participation (as described by Judy Moses on page 11), and economic incentives for having children are in aggregate unlikely to turn the tide in any specific country, much less around the world. The most successful societies likely will be those that harness new technology to limit the potential inflationary (or deflationary) swings associated with shifts in the relationship between supply and demand in the labor force.

The United States should be among these successes. Although our median age is quite high and our fertility rate is low, the United States has historically – if not recently – excelled (despite recent policy challenges) in accepting and integrating immigrants, and in innovation. Today's great global technology companies are nearly all founded and domiciled in the United States; many of their founders, not incidentally, are immigrants or the children of immigrants. That technological proficiency could deliver efficiency and productivity gains that will allow easier adaptation to a rapidly changing world.

As long-term investors, we are continually thinking about how demographics will impact the economic landscape. This means focusing on U.S. investments that benefit from the building of much-needed new housing stock (to support Millennial household formation), discretionary consumer spending (aging Baby Boomers), and healthcare (also aging Boomers). Demographic trends inform in part our underweight exposures to Japan, Europe, and China.

Healthcare and the developing technologies that are underpinning most innovations are undoubtedly the big medium-term opportunities. Through individual securities, a dedicated healthcare innovation mutual fund, and venture capital investments, we believe we

have found attractive opportunities to invest in healthcare and technology, in both public and private markets.

There's another way for us all to think about this shift from overpopulation to potentially declining population. If current trends continue, humans will eventually need to find ways to sustainably transition the global economy away from dependence on increasing population. Hopefully, this will be possible through the thoughtful and responsible use of productivity-enhancing technology. If we get it right, we could achieve a better balance between humans and our environment, as well as continued economic growth.

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

Independent Thinking Panel Series: First Half of 2023 Recap



Confrontation or Negotiation? Sino-American Relations and the Implications for U.S. Investors

Growing geopolitical tensions spook the markets and individual investors. Evercore Wealth Management Partner and Portfolio Manager Brian Pollak interviewed Neo Wang, China macroeconomic specialist at Evercore ISI, *Institutional Investor's* top-ranked independent research franchise¹, on the investment repercussions of our relationship with China and how it may impact U.S. investors.

Contact your advisor for replay details.

¹ Evercore ISI was ranked No. 1 among all firms for analysts on a weighted basis in *Institutional Investor's* All-America Equity Research survey (10/25/22).

Where Are the Kids? Demographics in the United States

By John Apruzzese

Here's an American story. My mother and my wife's mother, both children of immigrants, had seven Baby Boomer children between them. Five of the seven Boomers were women who produced nine Millennials, five of whom are women now ranging in age from 33 to 35. They, in turn, have so far produced just one child, my grandson, born last month. If you think about that in the terms used to measure fertility rates, that's 3.5 for our mothers, 1.8 for the Boomers, and 0.2 to date for the Millennials, well short of the 2.1 replacement rate. We, like many aging families across the country, will need more comfortable chairs at the Thanksgiving table and, if this trend continues, fewer high chairs.

This U.S. demographic trend of falling fertility rates has significant economic and societal consequences. Look at the chart on the next page, showing the changes in expected proportions of the population over 65, 75, and 85. We would need one million additional births per year to reach the replacement rate – and even that wouldn't make much of an impact on the median age of the population, now 37.7 at the United Nation's latest estimate, a decade older than the median age in 1960. As populations age and fertility falls here and in other developed and developing countries (see the article by Brian Pollak on page 5), the labor force tightens.

Traditionally, consumption also tapers off with age, relieving some pressure on labor. But the Baby Boomers have turned that equation (and all the related economic models) on its head, by working longer in anticipation of longer life spans and by accumulating assets – to the tune of \$78.3 trillion gross, or 60% of the total household net worth in the United States.¹ While many people are struggling, Social Security, Medicare, and lifetime savings

Baby Boomers Hold Half of the Nation's \$140 Trillion in Wealth

Boomers aren't moving over anytime soon



Notes: As of the fourth quarter of 2022. The total amount accounts for liabilities, but the individual asset categories do not account for liabilities and do not add up to the \$140 trillion total. The total assets when not accounting for liabilities is \$158 trillion. Pensions include the present value of future benefits as well as the value of annuities sold by life insurance companies.
Source: Federal Reserve

means most seniors are far better off than previous generations. Their spending power is fueled by the markets, rather than earned income, and they are spending in record numbers on restaurants, travel and leisure, as well as healthcare – all areas in which the labor force is particularly tight and getting tighter, with large numbers of unfilled jobs. (Please see Jeff Maurer’s article on page 20.) All told, the number of job openings outnumbers unemployed Americans by almost two to one.²

\$3 TRILLION

plus a year, the current capital spending rate in the United States

A well-designed immigration policy would go a long way toward alleviating the persistent labor shortage, but unfortunately the politics around immigration make that unlikely. Instead, the best hope for a solution comes from increased capital investment and the resulting productivity – and the good news is these prospects are enticing. We are witnessing a capital spending boom exceeding \$3 trillion per year, accelerated by advances in Artificial Intelligence – as billions of dollars are being spent on upgrading data centers with the latest high-speed chips and software development³ – and recent legislation that provides large tax incentives to bring supply chains closer to home and to support investments in green energy.

The record household net worth relative to GDP can provide the capital at reasonable cost through our highly developed capital

markets, including the public stock and bond markets, private equity and venture capital funds, as well as rapidly growing private credit funds that are a new source of capital as an alternative to bank loans.

Recently released large language models such as ChatGPT are creating a lot of excitement around AI, but there are many other models that will be tuned to perform many mundane and more advanced tasks that hold the promise of broadly increasing productivity. (See recap of our recent webinar on AI on page 22 and visit our website to learn more about our planned event on technological developments for seniors.) These advances in AI will reduce and eliminate many tasks and jobs, but they will also create many new jobs. The catch is that the new jobs will require higher levels of education and training. And this is where it gets especially interesting – it just might be the case that education will be a leading beneficiary of an AI productivity boom. Education productivity has lagged far behind most sectors of the economy, which has caused costs to spiral out of control. AI holds the promise of reinventing how we educate and train the next generation.

The demographic trends in the United States are already weighing on economic growth

Our portfolios should continue to benefit from owning both healthcare leaders and the mega tech companies that are at the forefront of creating AI. We control position sizes to avoid the risk of

Independent Thinking Panel Series: First Half of 2023 Recap



A New Perspective on the Markets: Our Investment Outlook

While the likelihood of a recession may have retreated, economic conditions have certainly not ruled out the possibility. John Apruzzese, Evercore Wealth Management Chief Investment Officer, and Partners and Portfolio Managers Tim Evnin and Charlie Ryan discussed our market outlook, including a special focus on equities.

Contact your advisor for replay details.

these stocks becoming overvalued as excitement and adaption around these prospects grows. The real work going forward will be finding and investing in the best-managed companies that will lead industry sectors that embrace AI early and achieve a competitive advantage before the technology becomes pervasive. As always, investing in the winners and avoiding the losers will greatly enhance investment returns.

The demographic trends in the United States are already weighing on economic growth. While we may wish for more high chairs at the table, we are optimistic that capital investment trained on productivity-enhancing technology will provide a counterbalancing growth accelerant.

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

¹ Yardeni – Distribution of Household Wealth in the US, June, 2023 Data as of Q1 2023

² U.S. Bureau of Labor Statistics – Job Openings and Labor Turnover Survey, May 2023 Data as of 5/31/23

³ Yardeni – US Economic Indicators: Capital Spending Indicators, July, 2023 Data as of 5/31/23

“Womonomics” in the United States

By Judy Moses

It’s been almost 25 years since a Japanese economist, Kathy Matsui, put forward the concept of “womonomics” as an antidote to sluggish economic growth. The concept, rooted in a belief in gender equality, was that full female participation in the workforce would generate fresh perspectives, enhance innovation, and boost overall productivity. Few – or at least considerably fewer – people would argue with that hypothesis today. But in that time, female participation in the U.S. workforce hasn’t really budged.

The gains between 1950 and the late 1990s were remarkable with a 260% rise in women joining the U.S. workforce, according to the U.S. Department of Labor. And the economic gains of that period – a fivefold increase in U.S. real GDP – paved the way for Matsui’s theory. But around 1999, when she published her argument (and the Japanese workforce still looked a lot like the U.S. one in the 1950s), U.S. progress in women’s labor force participation stalled. Today, 57.3% of working-age women participate in the U.S. labor force, compared with 68.1% of men.¹ The World Bank today ranks the United States about halfway down its list of high-income countries in terms of female labor force participation – still above Japan but well behind that of many other large economies.

¹ U.S. Bureau of Labor Statistics

Changing demographics, as described in the articles on pages 5 and 8, could be seen as bolstering the case for womonomics. If labor, especially young labor, is in short supply in developed economies, encouraging more women to join the workforce would make sense. However, as Brian Pollak observes on page 5, an unintended consequence of female empowerment in the workforce has been a decline in fertility rates; families around the world struggle with work-life balance and traditional social mores.

Near term, embracing womonomics in the United States could be instrumental to enhancing economic growth. The broad range of remote work or hybrid options available today may encourage women to seek and retain employment.

57.3%

of working-age women participate in the U.S. labor force vs 68.1% of men

And higher wages, especially for the lowest paid workers, are making it more economically beneficial to stay in the workforce.

Judy Moses is a Partner and Portfolio Manager at Evercore Wealth Management. She can be contacted at moses@evercore.com.

The Case for Active Investing

By Michael Kirkbride and Joe McManus

Eighty-four percent of portfolio managers underperform their benchmarks after five years, according to Standard & Poor's. It seems like a damning statistic – and it can call into question the role of active managers in the first place. After all, the goal of active management is generally to beat the market, although we consider additional factors. So, what does it take? And why do so many managers fall short?



Let's start with the concept of active share. That's the percentage of holdings in a portfolio that differ from a stated benchmark. A portfolio with holdings and position sizes that match a benchmark, such as the S&P 500 or the MSCI ACWI ex-U.S. index, will have an active share of zero. Passive index funds, which represent the biggest and, for years, fastest-growing segment of the mutual fund market, have zero active share. They won't underperform their benchmark, but they will never outperform it either.

At the other extreme is a portfolio that holds none of the same securities, resulting in an active share of one. In 2009, two Yale professors established that an active portfolio share of up to 20% really should be considered a passive fund; between 20% and 60% is what they described as "closet indexing." More than 60% makes for a genuinely active fund¹

A manager with a higher active share clearly has more opportunities for potential outperformance

One of those professors, J. Martijn Cremers, went on to define the three pillars of successful active management: skill, patience, and differentiation, each of which are related to active share.² Skill is the first, in determining which investments can perform better than the benchmarks. While active share is not directly related to a manager's stock-picking talent, a manager with a lower active share is limited in the ability to potentially discover undervalued investments. For a manager with demonstrated stock-picking ability, higher active share can play a significant role in outperformance, net of fees.

Among high active share funds, only those with long holding durations, the second pillar, outperform. Within the quintile of managers with the highest active share, Cremers found that from 1990 to 2015, managers with the longest holding period duration – in other words, the lowest portfolio turnover – outperformed the bottom 60% of managers ranked by duration by about 80% on a net cumulative basis. Managers in the second highest quintile of duration outperformed the same bottom 60% by about 25% on a net cumulative basis.³

The final pillar of active management relates to differentiation, or the opportunity a portfolio manager has to deviate from the benchmark.

A manager who is unconstrained from benchmark holdings or other limiting determinants of portfolio construction has the most flexibility and a more likely chance to outperform.⁴

So where do we fit in? In domestic equities, the largest of our range of asset classes, our concentrated core equity strategy has a relatively high active share: 71% versus its benchmark, the S&P 500 Index, as of the end of the first quarter of 2023. It's also worth noting that our core equity strategy has a low turnover rate of 12%, as of July 12, 2023; equity mutual funds with turnover between 20%-30% are considered low turnover by Morningstar.⁵ We take the same approach to fixed income and look for similar characteristics in our external international, credit, and illiquid managers.

We are proud of our performance. But for us, that's only part of the story. As managers investing on behalf of families, foundations, and endowments, we measure our performance by our success in meeting their financial goals, as well as against our benchmarks. That means focusing on risk-, fee-, and tax-adjusted results – or what we call “real results,” across all our asset classes. That's what really matters.

For further information on our investment approach and performance data, please contact your Evercore Wealth Management team.

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Independent Thinking Panel Series: First Half of 2023 Recap



Bank Shake-Up: What Does It Mean for Private Capital Investors?

The global banking crisis put depositors, investors, and regulators on alert, in a period of already heightened market/economic uncertainty. Evercore Wealth Management Partner and Portfolio Manager Stephanie Hackett led a discussion on this changing credit landscape with Frank Rotman, QED Investors Co-Founder, Partner and CIO, and David Golub, President of Golub Capital.

Contact your advisor for replay details.

¹ J. Martijn Cremers and Antti Petajisto 2009, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=891719

² Cremers 2016, University of Notre Dame

³ Ibid. Findings based on ~1,000 funds in the main sample set.

⁴ Ibid. Findings based on ~1,000 funds in the main sample set. Outperformance was observed for managers with highest quintile active share and lowest levels of turnover. ~ 15% on a cumulative basis from 1990-2015.

⁵ Morningstar 2022

EWM manages its client portfolios according to each client's specific investment needs and circumstances. Performance returns within actual client accounts may differ from the EWM Core Equity Strategy due to portfolio management customization, timing of transactions, tax considerations, and other factors. The S&P 500 is the core equity strategy's benchmark. You cannot invest directly in the S&P 500 index. The S&P 500 is a market-capitalization weighted index that includes the 500 most widely held companies chosen with respect to market size, liquidity, and industry. The EWM Core Equity Strategy holdings will differ from the securities that comprise the index. Unlike the S&P 500 Index, EWM may invest in both U.S. and non-U.S. equities and ETFs. Past performance is no guarantee of future results. All investments involve risk, including loss of principal.

Q&A

with Jon-Paul Momsen
of Harbert Management



Jon-Paul Momsen

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. Among those are the Harbert Management real estate funds, which invest in diverse mid-size multifamily, office, industrial and retail real estate. Here we speak with Jon-Paul Momsen, co-chair of the Harbert real estate platform. Please note that the views of the external managers interviewed in *Independent Thinking* are their own and not necessarily those of Evercore Wealth Management.

Q: Let's start with office space, the poster pandemic fallout investment. What is your outlook for the sector?

A: The office sector in general has been the most negatively impacted by the double impact of rising cap rates [an assessment of the annual yield of a property; the net operating income is divided by its asset value] and declining space market fundamentals. With the prospect of declining net operating income and materially higher interest rates, both lenders and buyers have moved away from the sector, resulting in a dearth of available capital not seen in over 10 years and further reinforcing – and exacerbating – the increase in cap rates as a reflection of increased risk. This “one-two punch” has led to significant valuation declines and distress among office landlords.

It remains unclear if work-from-home will evolve and how it will impact overall demand for office space. However, it seems clear that as more companies announce delayed reoccupancy plans, significant layoffs, especially in the tech sector, and employee resistance to returning to the office will continue to put pressure on office fundamentals. These vicissitudes combined with ongoing challenges in the capital markets and an inflationary environment, lead our investment team to the belief that office investment performance and liquidity will continue to be challenging. We expect to see growing distress among existing office owners in the face of debt maturities.

Q: You've recently been more focused on multifamily and industrial real estate investments. What do you find attractive in those asset classes?

A: The investment team believes that an opportunity exists in the multifamily sector to generate above-market rent growth by exploiting the wide rent gap between the top of the market and three-star properties. Well-located three-star assets can be enhanced and increased rent realized through targeted renovations and operational improvements. The widespread housing shortage in the United States has been a key driver of apartment performance for the past decade, as a deep and growing renter pool drives demand for new and existing units. This overall shortage, coupled with a growing housing affordability issue, has resulted in the vast majority of renters seeking the value of an

affordable rent at a well-maintained workforce housing property with quality, focused management.

The industrial sector produced the highest total returns of all U.S. property types over the past decade, driven by strong cyclical demand that further accelerated during the pandemic. While supply levels are ramping up, we believe strong demand fundamentals support continued industrial outperformance compared to most other major property types. The accelerated adoption of e-commerce and continued population growth are driving significant demand for industrial products and creating investment and development opportunities for industrial space. Importantly, most of our industrial investments are urban-infill, multitenant properties, which were generally purchased on significantly higher initial cap rates than would have prevailed for very large distribution center industrial properties. Given the very tight supply/demand fundamentals for urban-infill industrial properties, we have retained pricing power and been able to drive strong leasing activity and rental revenue increases across the portfolio, resulting in material net operating income growth.

Q: Are there particular geographies that you are targeting?

A: We intend to target metropolitan areas with at least one million people and attributes consistent with outsized economic and demographic growth trends. These markets may possess some or all of the qualities of low costs, high in-migration levels, high educational attainment, and above-average income levels. The fund further intends to focus on metropolitan areas with an outsized concentration of STEM (science, technology, engineering, and math) and TAMI (technology, advertising, media, and information) employment. These conditions are expected to be especially prevalent in the Sunbelt markets targeted by the fund, which have generated outsized economic and demographic growth over the past several cycles.

Q: The combination of higher interest rates and high inflation are creating headwinds for a lot of investors. Where do you see risks for real estate in an economic slowdown?

A: We like to look at real estate from a capital markets and space markets (supply/demand) perspective. From a capital markets perspective, across all property

types, the sudden and severe interest rate increases are putting pressure on some borrowers who need to refinance their loan or who borrowed floating rate debt and need to put more equity into a deal to meet interest coverage covenants. In the multifamily market, we expect short-term situational distress for some owners with strong medium- to long-term performance. In the industrial sector, the new-built, big-box logistics market is facing growing headwinds as an unprecedented supply wave meets softening demand; however, in the urban-infill multitenant sector, there is not a supply issue and demand remains robust. Finally, in the retail sector, the combination of COVID stimulus funds, strong job market performance and inflation have driven strong retail sales. We see risk of a consumer slowdown in the face of the depletion of savings account balances and nascent weakness in the job market, which will only get worse in a recessionary environment.

Q: Alternatively, will these macro headwinds provide market inefficiencies or buying opportunities?

A: Historically, market dislocation created by macroeconomic headwinds have tended to create opportunities for experienced, disciplined, and well-capitalized buyers to take advantage of market inefficiencies and to find compelling risk-adjusted acquisition opportunities that provide for long-term value growth.

For further information, please contact Evercore Wealth Management Partner and Portfolio Manager **Stephanie Hackett** at stephanie.hackett@evercore.com

Gauging Your Estate Plan's Success

By Michael Cozene

Stress tests can actually take the stress out of our biggest, most complex tests. That's how regulators evaluate financial reserves, community organizations prepare for disasters, and doctors and trainers measure how healthy we are. It's also how families can prepare for inevitable, potentially sudden change. Stress testing an estate plan can help ensure that – when it really matters – your plans can stick.

What could a gathering of the people named in your estate plan and your advisors reveal? Are there any existing or potential, practical or interpersonal conflicts that can be addressed sooner rather than later, or before it's too late? Is there sufficient liquidity to pay taxes and meet other pressing needs? Which assets go into which entities? Who will cover any unexpected costs, any outstanding debts? Who will make those and other, often very difficult, decisions? Estate plan stress tests can strengthen family and advisory relationships, clarify roles and responsibilities, and reassure those involved. Everyone will know what to expect, what to do, and who to turn to when the time comes.

Here are brief highlights of some possible findings and solutions.

THERE ARE CONFLICTS AMONG FAMILY MEMBERS.

Family conflict is a significant and increasing challenge in estate planning. There are more blended or otherwise complicated families and, as a result, more potential for differing expectations and disputes over inheritance. This exercise will allow you to think through who would inherit specific assets and, if you own a business, who would manage the business assets. Detailing the plan with the appropriate legal documents and clearly communicating your intentions and wishes can go a long way in avoiding conflict. It's a good idea to review and update your documents at least every five years or so, or when there is a major life event such as birth, death, marriage, divorce, or the sale of a business.

I'M UNCERTAIN WHAT, WHEN AND HOW MUCH TO LEAVE MY CHILDREN.

Many families struggle with how much their kids should inherit and how they will receive it. Certainly, a level of maturity is needed to manage assets and make spending decisions. But even adult children may not have the financial sophistication to handle a large or complex inheritance. A trust can protect assets against any existing and future creditor claims and against failed marriages, provide for family members with special needs, and distribute assets at predetermined ages or other milestones. You can leave assets in a trust for a child's lifetime and a skilled fiduciary (or co-fiduciary) can help distribute the funds properly and prudently. The principal can also be left in a dynasty trust and benefit multiple generations, subject to the state's perpetuity rules. See

Justin Miller's article, "Gifting and Letting Go: Emotional and Practical Perspectives," *Independent Thinking*, Vol. 45, June 2022.

MY HEIRS WILL NEED LIQUIDITY TO COVER TAXES.

At present, the annual federal estate tax exclusion is \$12.92 million (double that for married couples). The remaining estate will be taxed at the top federal statutory estate tax rate of 40%. More concerning for many high net worth

families is that the exemption amount is scheduled to be cut roughly in half after 2025 to an estimated \$7 million per person. Federal estate taxes are due nine months from the date of the decedent's death and must be paid before remaining assets can be distributed. So, it's important to make sure you have sufficient liquid assets to pay taxes. It is also worth thinking now about annual giving and more significant wealth transfer strategies to minimize that potential tax bill.

THE TERMS OF MY TRUST MIGHT CAUSE PROBLEMS FOR MY HEIRS.

Some areas that are often overlooked in trust documents include trustee's breadth of authority (trustee powers), the beneficiary/beneficiaries of the trust receipts and disbursements (principal and income), and the responsibility for paying the estate tax (estate tax apportionment). This usually becomes relevant when an estate owns private businesses that make uneven distributions to a trust. Make your



Stress testing an estate plan can help ensure that your plans can stick

intention clear; ask the right questions to kick the trust's tires; and ensure that the trust language is flexible.

THE VACATION HOME SHOULD BE A PLEASURE, NOT A BURDEN OR CAUSE FOR STRIFE.

A family vacation home can present unique emotional and planning challenges. To minimize family strife, speak individually with each child about their hopes for owning and using the property and how they see family dynamics playing out. Then communicate your decision clearly, whether the property is to be kept in the family or it's to be sold or gifted to charity.

MY TRUSTEE AND I NEED TO TALK, BEFORE IT'S TOO LATE.

It's critical for all family members to understand what will happen next. What are the roles and responsibilities of each member, and who will make specific important decisions? The trustee is charged with the responsibility for managing or administering the trust, and if the trust document is unclear as to the grantor or settlor's intent, the trustee is left to speculate, which can lead to misinterpretation and potential unintended consequences.

THE WRONG FIDUCIARIES ARE NAMED IN MY DOCUMENTS.

Are the fiduciaries and successor fiduciaries named in your documents still suitable? A fiduciary is an individual or corporation that is essential in implementing your plan and carrying out your wishes, and can include an executor for your will, trustee of your trusts, and agents you name for healthcare and property. Individuals age or quarrel; corporations can merge into others or be acquired. Often the best solution is to appoint a willing and able family member as one fiduciary, and a professional co-fiduciary (such as a trust company) as the other, to manage

the assets and handle the administration, recordkeeping, and tax responsibilities.

Stress testing your estate plan can inevitably raise issues that need to be resolved. And there's no time like the present. The reward should be peace of mind, in the knowledge that you and your family are prepared – and that your hopes for them can be realized.

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Independent Thinking Panel Series:
First Half of 2023 Recap



*Mind the (Protection) Gap:
A P&C Insurance Primer*

Soaring property values and shrinking insurance capacity has left many homeowners dangerously exposed. Adequate limits for umbrella liability insurance can also be difficult to identify. Jeff Maurer, Chairman of Evercore Wealth Management and Evercore Trust Company, led a discussion on the current state of the insurance market and the implications for high net worth families.

Contact your advisor for replay details.

This is Only a Test

By Julio Castro

Wealth and Fiduciary Advisors help stress test family estate plans, working directly with your family and your other trusted advisors. While every family situation is unique, the process should include several key steps.

- Collect information about each financial entity and prepare a diagram detailing the ownership and governance of each, along with a list of their respective assets. For illiquid and business entities, it's helpful to understand if the business is dependent on the patriarch or matriarch, if there are any other family attachments to it (practical or sentimental), and any debt and/or liquidity provisions.
- Prepare a detailed balance sheet of all assets, with each categorized by ownership (i.e., individual, joint, trust, retirement, etc.) and, in the case of contractual assets such as life insurance, retirement accounts and annuities, the designated beneficiary.
- Prepare a detailed estate flow chart based on the terms of the existing documents, assets and entity ownership. This chart should model asset flow based on conservative assumptions and current market values and relevant assumptions, including federal and state estate taxes. This will show you what each of your beneficiaries are expected to inherit, enabling you to determine if that is consistent with your wishes.
- Prepare a liquidity summary to illustrate the availability of funds to meet tax liabilities and other costs.
- Prepare a summary of ancillary documents to ensure that healthcare and property agents are consistent with your wishes.
- Gather key members named in your estate plan along with your professionals – your trustee/s, trust protector, estate planning attorney and accountant – to evaluate your entity analysis, balance sheet, estate flow chart and liquidity summary.

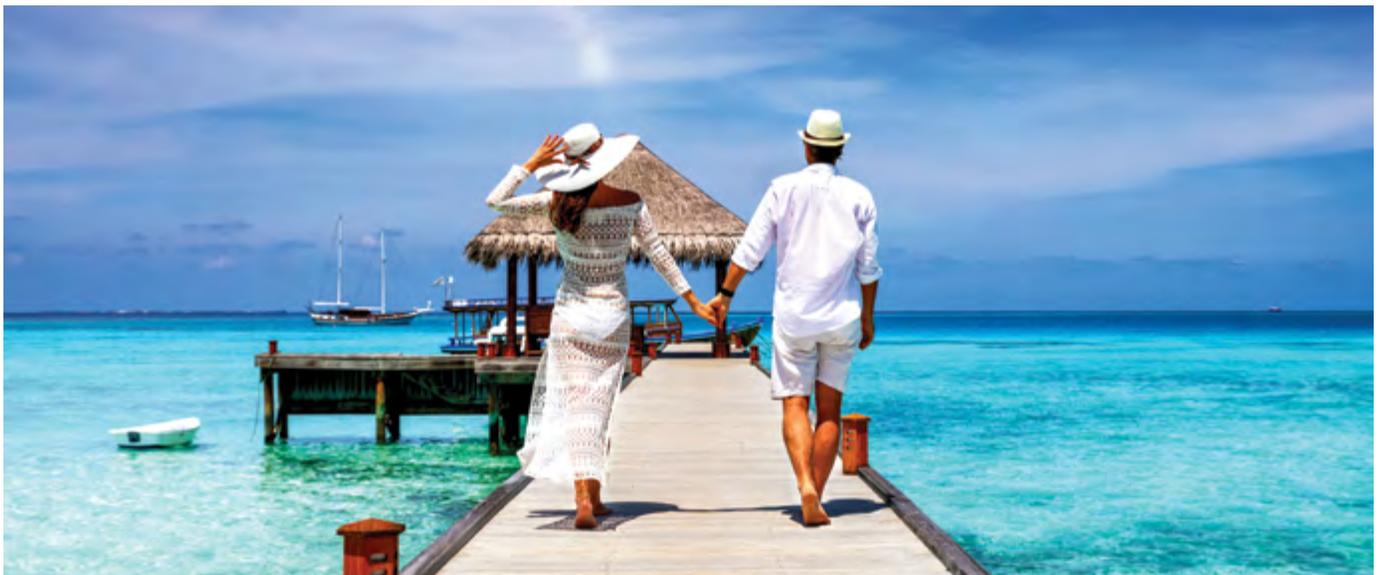
This forum allows the key participants in your plan to enhance their understanding of your unique situation and clarify roles, and it simulates how your plan can play out. From there, your wealth and fiduciary advisor can create a plan of action to help ensure that your goals can be fulfilled.

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Affluent Baby Boomers and Inflation: The Good, the Bad, and Some Options

By Jeff Maurer

Baby Boomers have it pretty good. By and large, we've enjoyed high and full employment, exciting technological advances and extraordinary asset growth. And the best may still be to come, as affluent Americans live longer and healthier lives. Many of my generation are still working; others have embarked on retirements rich with possibilities. And a growing number of us are shaping lives that blend work and myriad other interests. Really, what do we have to complain about?



Well, maybe we can complain about inflation. While it's ebbed considerably in recent weeks – and is nowhere near the double-digit rates we in the vanguard of our generation experienced in the 1970s when we started working – prices still seem high, notably for the goods and services that appeal to high net worth consumers. Our generation has partly brought this on ourselves, as we seem to be busy spending at least some of the \$78.3 trillion gross that U.S. Baby Boomers have accumulated (see the article by John Apruzzese on page 8). Our unprecedented numbers and wealth are driving prices higher for the things and experiences that we tend to value.

Take travel, for instance. Prices haven't been this high in years, not because business travelers have returned (they haven't), but because well-off leisure travelers have taken their place, willing to pay through the nose to avoid the

worst of the airport crush and get some rest or experience adventure. Planes are packed, as are upmarket hotels, resorts, restaurants, and theaters and concert halls. I didn't pay tens of thousands of dollars to see Taylor Swift, although I understand that a surprising number of Baby Boomers did, but I did pay about twice what I expected on a recent trip to Paris and Berlin.

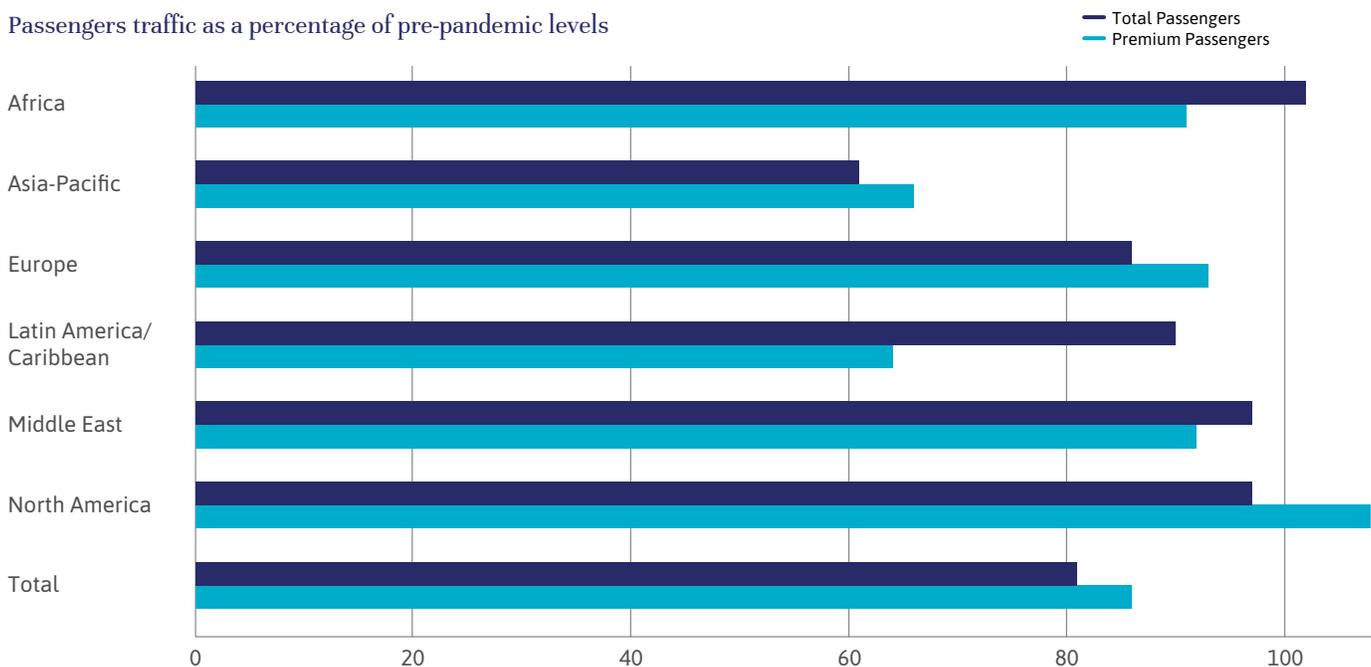
Indeed, just about everything that high net worth Baby Boomers could want seems more expensive now. Golf club memberships, luxury clothing, accessories and cars, tutoring and summer camps; name it and it probably costs far more now. Property casualty insurance is another striking cost for high net worth homeowners, with premiums for upscale homes rising more than 10% a year in coastal communities and those vulnerable to wildfires. (We hosted a webinar on just this subject

on June 22; see the event recap on page 18.) It's difficult to ascertain just how much the high net worth rate of inflation is, of course, since people make very different choices, but for argument's sake, let's say it's twice the rate of inflation generally. Personally, I think that's conservative.

So, what does that mean for portfolios? Please see the piece on page 23 by Jake Stoiber with a couple of examples of a balanced \$20 million portfolio – one based on a typical spending rate of 4% and another on a more frugal 3% of the portfolio. (These are all for New York state-based clients for tax purposes; figures will change depending on domicile and other factors.) Clearly, spending has an enormous impact on our assets, far more so than our attitudes toward risks. And spending on more inflated items has that much

Premium Class Air Travel Recovers Ahead of Overall Traffic

Passengers traffic as a percentage of pre-pandemic levels



Data compares February 2023 with February 2019. The data does not differentiate between corporate and personal bookings. Source: Lata

greater of an impact. Interestingly, when we ran these same numbers for a more aggressive accumulation portfolio, the differences were less significant.

This period of still relatively high inflation won't last forever. Other periods of extended inflation have lasted on average for four years, and the overall inflation rate of the past 75 years is 2.5%. For those still earning, chances are you'll be able to ride this period out, if you plan accordingly. But for the many Boomers in or approaching retirement, it's important to consider the overall impact on portfolios of rising spending – notably on the luxury goods and services – in the context of long-term lifestyle and wealth transfer plans.

Inflation can undermine our plans for ourselves and for the people and causes we care for. It is important to budget realistically and to take into account that your spending may be rising faster than the rate of inflation. If you are spending more than our projected capital market returns, we encourage you to plan

carefully. The real impact on portfolios can be managed, through close planning with a trusted wealth management team. It may be that you choose to curtail your spending, or take on more portfolio risk, or decide on a combination of both. Alternatively, you may want to revisit your goals, drawing down more of your assets if necessary to maintain your lifestyle and adjusting bequests to heirs and charity. The decision will be very personal, so it's important to know what to expect – and exactly what your options are.

Most of our clients like to eat well *and* sleep well. And with proper planning, we believe they will be able to continue to do just that. Successful members of my generation – who have had it so good for so long and still have so much to look forward to – will want to keep it that way.

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Independent Thinking Panel Series: **First Half of 2023 Recap**



AI Is Going to (Really) Change Your Life

The growing popularity of AI has made it difficult to decipher fact from fiction. Errol Arkilic, Chief Innovation Officer at the University of California, Irvine, and Philip Chow, the CEO of Humanitas Technologies (Humanitas.AI) discussed the real impact of Artificial Intelligence, specifically on healthcare, technology, education, and security. Evercore Wealth Management Partner Iain Silverthorne moderated.

Contact your advisor for replay details.



Inflation: Measuring the Potential Impact

By Jake Stoiber

What does inflation do to a portfolio? Using our updated capital market return assumptions and our baseline sample balanced portfolio as a starting point, we put some numbers behind the impact on a hypothetical \$20 million portfolio, given various inflation, spending and risk assumptions. It is important to remember that return expectations can change, and as Jeff Maurer writes in his article on page 20, risk appetites and spending habits can always be tailored. At current inflation rates, a portfolio can outlast moderate spending; it may be more significantly eroded – or even exhausted – by spending more typical of high net worth Baby Boomers, especially the younger members of the generation, still in their late 50s and 60s.

Taxable \$20 Million Sample Portfolio	Sample Balanced Portfolio		
Neutral Policy Returns & Drawdowns	Baseline Inflation	High Net Worth Inflation	HNW Inflation, Cut Spending
Pre-Tax Return	6.7%	6.7%	6.7%
After-Tax Return	5.2%	5.2%	5.2%
Inflation Rate	2.4%	4.8%	4.8%
After-Tax Real Return	2.8%	0.4%	0.4%
Yearly Spending Assumption	4.0%	4.0%	3.0%
After-Tax Real Return After Spending	-1.2%	-3.6%	-2.6%
Estimated Years Until Portfolio Runs Out	44 Years	27 Years	56 Years

Further, shifting into a more aggressive portfolio doesn't buy investors much more time – just two years – and exposes investors to greater drawdowns, which can also influence a portfolio's drawdown path. At that point, \$20 million may not feel like as much as it should. However, decreasing spending by just 1% can buy an extra decade or more. Periods of high inflation may be good opportunities to reduce spending, particularly on luxury goods and services, and/or to revisit long-term financial goals.

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