



INDEPENDENT
THINKING

THE NEW STANDARD IN WEALTH MANAGEMENT

EVERCORE
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A Message from the CEO



How can the markets remain so resilient when the news is so grim?

That's a question we hear often from clients. And while we don't know what's going to happen next, in Ukraine, in the Middle East, or in the run-up to the U.S. election, we do have some thoughts as to why the markets are remaining calm.

One is that the U.S. economy is in pretty good shape, despite persistent inflation and rising debt levels. As John Apruzzese writes in this issue of *Independent Thinking*, the United States continues to benefit enormously from homegrown technology – and stands to gain even more from the adoption of Artificial Intelligence.

Another reason, posited by Brian Pollak, is that the markets almost always take geopolitical events in stride, once the initial shock wears off. There are exceptions, but the current conflicts seem unlikely to be among them, as distressing as they are to witness.

Our job is to encourage clients to focus on the things in their control, never losing sight of long-term goals. On that note, you'll see articles in this issue by Alex Lyden-Horn, on considerations in wealth planning for international families, by Judy Moses and Neza Gallitano on planning and investing around divorce, and by our Chairman Jeff Maurer, on balancing spending, gifting, and legacy. (Spoiler: It's not easy, but it is doable.)

We also try to encourage clients – and remind ourselves – to look for and appreciate the good, to “smell the flowers.” There's good reason just now, with spring rushing in. The days are longer, brighter, and warmer – and baseball has resumed (forget the first robin; the first pitch is my seasonal sighting). As always, this season feels like a time of renewal and growth.

That's true inside our offices too. We continue to welcome new faces, including Sean Brady in New York, whose debut contribution to this publication is on evaluating life insurance in the context of a strategic wealth plan. And we are celebrating several recent promotions, notably the elevation of Partners Brian Pollak and Stacie Price to the leadership body of our firm. As the beneficiary of a long, carefully planned transition myself, it is deeply satisfying to observe us developing talent and welcoming new thinking while retaining our culture.

I hope you enjoy these articles. This is our 50th edition of *Independent Thinking* and, as always, we welcome your engagement. If there are topics that you would like to see addressed, in print, on video, or in events, please let us know. Our best ideas always come from discussions with our clients.

I hope you and your family are healthy and well.

A handwritten signature in dark ink, appearing to read "Chris".

Chris Zander
President & Chief Executive Officer

The Duality of Artificial Intelligence: An Investment Perspective

By John Apruzzese

Is Artificial Intelligence making life better? It's certainly not making it any calmer, with AI-generated disinformation stoking two horrific hot wars and threats to democracy around the world. And only 10% of Americans recently surveyed by Pew said that they were more excited about AI than concerned. But investors have a different take.

Mounting evidence that the United States is in the early stages of a productivity boom that may rival the great booms of the past is, in our view, driving the stock market to new highs. And the latest software advances in AI, coupled with an exponential increase in computer power thanks to a new computer architecture designed by Nvidia, are just starting to be implemented.

The dissemination of these new capabilities is happening at a dizzyingly rapid pace as the mega cap tech companies – Amazon, Google, Meta, and Microsoft – are racing to invest billions of dollars in AI computer power and software development, much of it presumably on semiconductor chips made by Nvidia, the biggest winner to date in AI adoption.

The productivity potential of AI is coming at an opportune time. Changing

U.S. demographics have created a structural labor shortage and, in turn, a significant need for increased productivity. The benefits at present are largely accruing to the software companies themselves. In just the last quarter, Meta revenues increased by 25% year over year, while pivoting away from its metaverse mistake and reducing staff by roughly the same proportion.

More broadly, software companies are generally forecasting significant productivity gains among software engineers and coders exploiting AI. Nvidia, which enjoys a near-monopoly in the most advanced AI computer systems, has credited the development of H100, its latest systems design, to the aid of AI. Microsoft, Google, Amazon, and Adobe are also early winners in the AI rollout, as they can

charge their cloud customers for the AI software that they are embedding in their services. (We own these four companies and Nvidia in our core equity portfolio.)

Longer term, we expect widespread AI adoption to transform U.S. and other countries' industries, including helping companies fortify their supply chains and wean themselves off imports from China.

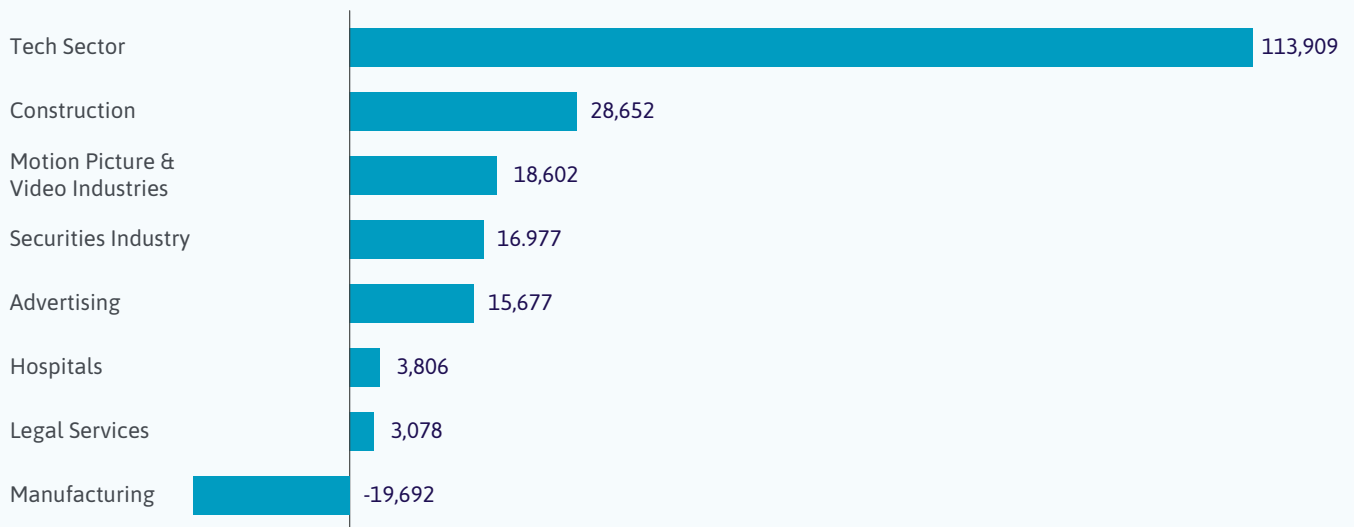
Change of this magnitude is never easy, but the timing is fortunate in this regard too. Unemployment remains low in the United States, at 3.8% as of March 2024, mitigating the usual concerns that a powerful new technology will destroy more jobs than it creates. That has been the case, as illustrated in the chart on page 3, but only over the short term.

3.8%

The U.S. unemployment remains low at 3.8% as of March 2024.

The Tech Sector Leads in Creating Good Jobs

2010–2021



Source: Center for an Urban Future analysis of Quarterly Census of Employment and Wages data for 2010 through December 2021. Created with Datawrapper

3%

A productivity boom could add 3% or more to GDP.

Longer term, technological advances create new, higher paying jobs.

It is difficult to measure productivity trends over short periods of time because of the volatile nature of the two determinants: total economic output and hours worked. Five-year rolling averages, as illustrated by the chart below, are a better indicator of productivity trends.

Real wage growth is an excellent, albeit indirect, way to measure more current productivity trends, as it's the major positive coincident result of growth in productivity. And, as we can see in the same chart, real wages are improving as the burst of inflation recedes.

It's still early days for long-term investors in AI.

In short, we believe there is a better than 50% chance that we are at the beginning of a major productivity boom. This boom could generate 3% or higher annual productivity growth across the economy. If – and this is a big if – the U.S. educational system improves to meet the changing

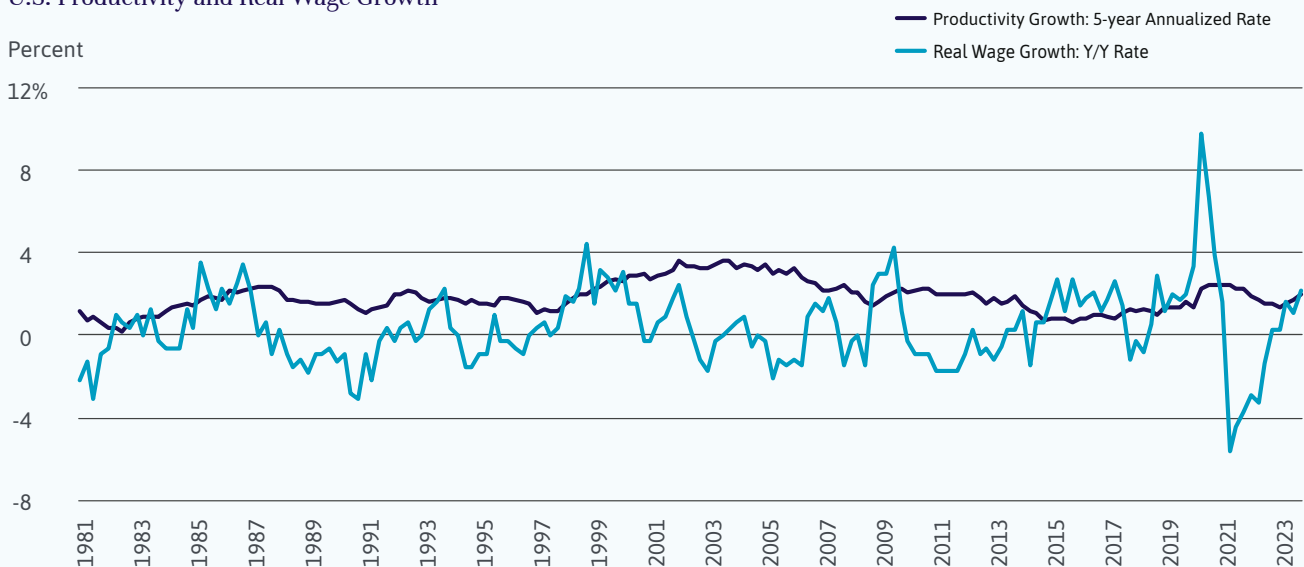
demands of the workplace, the net result in the United States will be an even more robust economy, with even greater economic self-sufficiency and a higher standard of living.

So, life may be getting better. However, it is still early days for long-term investors in AI. We remain mindful that the market can get ahead of itself. (Indeed, many of the companies that were the eventual big winners in the growth of the internet were overvalued during the 90s tech boom.) We intend to have exposure to this exciting area but also to keep our enthusiasm for AI in check and our equity portfolios well diversified.

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

Real wages and productivity are improving

U.S. Productivity and Real Wage Growth



Source: Federal Reserve Economic Data (FRED). As of October 1, 2023.

Shaking it Off: The Markets and Geopolitical Crises

By Brian Pollak

When all the world seems to be going to hell, what should a prudent investor do? Hold tight or buy seems to be the answer, in most situations. For those with a long-term horizon, equity investments made right before times of geopolitical stress generate returns roughly in line with long-term averages. And those made shortly after the time of the initial shock often realize outsized returns.

That's not an argument for trying to time the market. That rarely works, as most investors struggle to time both the sale and the repurchase of stocks – and even perfect market timing barely outperforms buying and holding. But it is an argument for staying calm and focusing on long-term goals.

Look at the data. U.S. equity returns since World War I (as measured by the Dow Jones until 1957 and the S&P 500 thereafter) rode out revolutions, terrorist attacks and global pandemics. But not immediately: The initial drawdown averaged 17.5% and nearly 120 days, as illustrated on page 6. But average returns across these events over the subsequent six months, and one, three

and five years were all positive (see the chart on pages 6-7). Clearly, longer-term market returns during periods of geopolitical upset are most related to the underlying economic conditions and valuations at the time.

The 1950s and 1960s were generally robust economic times in the United States. Consequently, the markets rose steadily, even after the outset of a hot war in Korea and through the rising Cold War tensions that culminated in the Cuban Missile Crisis, a threat that felt existential to many. The markets were recovering from a decade of high inflation when the Shah of Iran was overthrown in 1979 – and they continued to do so.

Conversely, the markets were still reeling from the dot.com crash ahead of the 2001 attacks on the United States. Consequently, the sharp selloff when U.S. markets reopened on September 17 after a seven-day suspension was only a small part of the story, as the tech-led bear market was at that point only part way toward its bottom – eventually hitting its nadir in October 2002. And during the global COVID-19 pandemic, which generated many geopolitical consequences, investors quickly turned their attention to the tech and productivity boom. The S&P 500 plunged 34% when the outbreak reached the United States, then it rose 65% over the remainder of 2020.

So, what are the exceptions to this market sangfroid? Or rather, what are the conditions that make for exceptions? And are the hot wars waging in Europe and the Middle East, the coming U.S. election, or something else in the works potential candidates for long-term disruption? Events that have changed or can change the trajectory of global

economic growth and/or inflation, and therefore corporate earnings, are the ones that can cause long-term damage in the markets. They are few and far between, but the damage is generally considerable. In these cases, investors' time horizons would have to be long, as the drawdowns lasted a year or more, and market

returns for even three and five years were well under expectations. But again, long-term investors were generally better off staying in the market.

The two world wars, to take the most obvious examples, changed the course of trade, production, and the labor force for a large portion of the globe. The

U.S. stock market returns post-geopolitical events

Event	Start date of geopolitical event	Length of drawdown in days	Maximum drawdown from start of event to market bottom	3-month total return
WWI (assassination of Archduke Ferdinand)*	6/28/1914	548	-34.99%	-10.73%
WWII (Germany invades Poland, France declares war)*	9/1/1939	284	-28.27%	8.35%
WWII (bombing of Pearl Harbor)*	12/7/1941	143	-18.65%	-9.07%
Korean War (North Korean army crosses 38th parallel)*	6/25/1950	19	-8.01%	5.66%
Cuban Missile Crisis	10/16/1962	6	-6.30%	14.41%
Vietnam War (U.S. involvement – Gulf of Tonkin incident)	8/2/1964	25	-9.60%	3.33%
Yom Kippur War	10/6/1973	363	-41.77%	-9.43%
Iranian Revolution (Khomeini overthrows Shah)	1/16/1979	43	-10.13%	3.02%
Tiananmen Square Massacre	6/4/1989	1	1.06%	9.56%
Gulf War (U.S. invades Iraq)	1/17/1991	1	-5.46%	20.00%
9/11	9/11/2001	35	-31.49%	9.78%
Iraq War (U.S. invades Iraq)	3/20/2003	12	-5.29%	14.18%
COVID virus (WHO declares public health emergency)	1/30/2020	54	-33.79%	-10.86%
Russia invades Ukraine	2/24/2022	231	-22.08%	-7.74%
Israel/Hamas War	10/7/2023	21	-5.90%	8.75%
		119.1	-17.52%	3.28%
S&P 500 Index total return (March 4, 1957 to Dec 31, 2023)				2.52%
Dow Jones Industrial Average total return (June 28, 1914 to Dec 31, 2023)				1.88%

* Index returns based on Dow Jones Industrial Average
Source: Evercore Wealth Management

U.S. stock market, then best measured by the Dow Jones Industrial Average, took 18 months to recover from the start of the “War to End All Wars”. Twenty-four years later, in 1939, the Dow Jones actually rose 15% over the seven trading days after Germany’s invasion of Poland, as investors bet that U.S. corporations would benefit from selling

arms and other goods to the European combatants. Reality had set in by 1940, when Germany overran Belgium and France, signaling that the war would be long, and would include the United States. Interestingly, the market began its rebound just a few months before the Battle of Midway, in June 1942, a sign perhaps that

the investors in aggregate this time around were able to intuit the eventual outcome, well before many of the pundits of the day.

Another example of a geopolitical conflict that caused significant economic and market disruption was the 1973 Arab-Israeli War, also known as the Yom Kippur War. The related oil embargo imposed by the Arab Organization of Petroleum Exporting Countries, or OPEC, hit the United States economy where it hurt, and the S&P 500 lost over 40% in the following 12 months. It is important to note that this is unlikely to happen today, at least not in the United States, which is now energy independent and a net exporter of petroleum products.

At present, we have no reason to count either the war in Ukraine or the Middle East, as horrific as they are, among the few events in which the appropriate response would be to sell or to take on the expense of hedging equity portfolios. That’s true too for the coming and remarkably unpopular U.S. election. One potential long-term disrupter that does come to mind is a Chinese invasion of Taiwan, home to most of the world’s high-value semiconductor manufacturing. To us, this seems a possible but not probable event, and one that can best be protected against through appropriate portfolio diversification.

For long-term investors, there have been very few political shocks to which the appropriate response would have been to sell equities. Let’s hope it stays that way.

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

6-month total return	1-year total return	3-year annualized total return	5-year annualized total return
-31.81%	-11.57%	6.00%	5.90%
8.12%	-4.31%	-7.76%	1.66%
-7.11%	2.20%	8.77%	8.00%
8.23%	14.68%	6.22%	14.87%
23.27%	32.09%	20.71%	14.59%
7.15%	6.12%	8.23%	5.65%
-14.08%	-41.07%	2.39%	3.32%
6.14%	17.92%	11.08%	16.87%
9.77%	16.77%	11.90%	10.55%
18.13%	31.83%	16.41%	16.35%
13.23%	-11.15%	2.66%	5.35%
19.34%	28.94%	16.26%	10.72%
-0.16%	15.17%	8.68%	
-2.68%	-5.88%		
4.11%	6.55%	8.58%	9.49%
5.10%	10.47%	10.47%	10.47%
3.79%	7.72%	7.72%	7.72%

Q&A

with Nigel Dawn on
Secondary Market
Continuation Funds



Nigel Dawn

Editor's note: Nigel Dawn is the global head of the Private Capital Advisory Group at Evercore, leading a global team in originating and executing secondary market transactions for owners and managers of private financial assets (private equity, private infrastructure, and others). Clients include both General Partners, or GPs, and Limited Partners, or LPs, such as financial institutions, university endowments, publicly quoted investment vehicles, and public pensions. Here are some highlights from a recent conversation with *Independent Thinking*.

We saw that continuation funds could enable [GPs] to retain their best companies.

Q: Let's first address your market from the perspective of high net worth investors and related nonprofits, notably foundations and endowments. Why should private investors be interested in the secondary markets?

A: I think the attractiveness of this market is in the potential returns. Effectively, you get to buy private equity at "spot" prices. [Editor's note: Spot prices are the current liquid market prices of securities.] That's much better than the primary private equity market where, no matter how good the manager, it's still 100 cents on the dollar when you are raising a new fund. Also, this is a market where you can deploy your capital relatively quickly and get it back quickly, given you are buying mature assets.

Q: It's also a market that many investors don't fully understand, perhaps because it's changed so much. How do you see the evolution of continuation funds, the strategy that you are known for developing?

A: The secondaries market has pivoted from propping up low-quality GPs with challenged assets to enabling the very best GPs retain their best assets. [Editor's note: A General Partner is the manager responsible for running a fund.] The appetite to repurpose the continuation fund structure was around for some time, but the pandemic was a catalyst that accelerated widespread adoption.

GPs needed to find a way to 'buy time', while providing money back to their investors and while raising new money to support their best companies. We saw that continuation funds could enable them to retain their best companies in all market conditions and offer their investors the choice of selling and receiving cash or continuing to invest in those companies alongside the GP.

It was a huge switch, and then it became a natural evolution, with a strong industrial logic. In the continuation funds transactions, the GPs are well aligned with their investors; they usually start with around a 2% ownership share in their primary fund, but that can potentially rise to between 8% to 10% after the continuation fund has been

executed – this is the result of the GP rolling their own gains back into the company.

Q: This shift must be causing some ripples in the marketplace.

A: Good GPs no longer have to sell to another GP and watch them make money in the next phase of growth. It's a very appealing strategy for them and their investors. Of course, private equity managers who buy a material proportion of their new companies from other private equity managers may see continuation funds as a threat. Continuation funds can potentially generate better risk-adjusted returns for LPs, because the GP is picking the best assets – that's positive selection bias – and they are putting their own money behind them. There are unlikely to be skeletons in the closet when you "re-buy" a company you already own – which is not something you may know when you buy into a brand-new deal.

I don't think continuation funds are a long-term threat to the IPO market. It simply means that smaller managers can retain their winning companies until they are big, like a recent client that has a one-billion-dollar fund and a continuation fund with another one billion dollars. They are currently so successful that they don't see why they should sell.

So, some ripples. But we are seeing positive changes with recent deal flow and institutional LP guidelines, which can act as a template for future continuation funds.

Q: Will we see further layers – continuation funds of continuation funds?

A: We are already seeing some managers wishing to extend the time of their continuation funds. The only constraint on the growth of the GP-driven market is capital. Capital is scarce for GP secondaries in general, and for single-company funds in particular. But we are starting to see a lot of capital formation now. I expect this market to grow significantly over the next three or four years, perhaps fivefold to a 500-billion-dollar global market. The more capital, the better.

I expect this market to grow significantly over the next three or four years.

Q: So, Nigel, what are you looking for in your clients?

A: Generally, great managers and great assets. They should have already generated good returns, and it should be clear to us that there is additional return to be generated. Usually, it's an established manager who has held the company for at least two years.

The secondaries market is about diversification, by geography and sector. ICG, for example, has a pet cemetery business, a car wash business, and an SAS business. [Editor's note: See the interview with ICG on page 10.] But mostly, it's about the people. Is there a great GP, a great management team? Do they believe in their asset – are they putting real money behind it? Do they have a credible growth story?

Q: There are plenty of Englishmen in New York investment banking circles, but relatively few from the northern industrial city of Sheffield. Clearly, Evercore is a great fit for you; how did you come to be here?

A: After graduating from Newcastle University, I started working at Standard Chartered Bank, in Hong Kong and mainland China, where I met an American woman. That led to a family in New York, an MBA at Columbia, 16 years at UBS, and finally, the move in 2013 to Evercore, where I've been fortunate to lead the global growth of this still new and very exciting specialist business. No complaints.

For further information on investing in illiquid alternative assets at Evercore Wealth Management, please contact Partner and Portfolio Manager **Stephanie Hackett** at stephanie.hackett@evercore.com.

Q&A

with Ricardo Lombardi
at ICG Strategic Equity



Ricardo Lombardi

Editor's note: Investors interested in exposure to General Partner-led ("GP-led") secondaries, as described by Nigel Dawn, the global head of the Private Capital Advisory Group at Evercore, on page 8, may be interested in single asset continuation vehicles. Ricardo Lombardi, Global Head of Strategic Equity at ICG, provided these comments to *Independent Thinking*. Please note that the views of the external managers interviewed in *Independent Thinking* are their own and not necessarily those of Evercore Wealth Management.

3.8%

the proportion of private equity exits
represented by single asset continuation vehicles

Q: Let's start with the basics: What is a single asset continuation investment vehicle?

A: These structures focus on situations in which the GP [the private equity General Partner] wants to keep a specific asset beyond the original investment timeline. As investors, we want to be confident that there is additional upside in the value of the business that can be generated with our capital.

Q: What makes for an attractive candidate?

A: Ideally, the underlying company asset is a market leader in an attractive, noncyclical and consolidating – but still fragmented – industry and is generating organic growth. We look for quality businesses with healthy profit margins and recurring revenues.

Q: Why should investors consider single asset continuation vehicles, as opposed to multi-asset vehicles?

A: In a multi-asset transaction, investors are likely buying assets that range in quality. While that does provide an element of diversification – and most established secondary buyers prefer them for that reason – the quality of single asset deals can be superior, given the right circumstances. After all, the transaction is driven by the sponsor's interest in retaining a truly outstanding asset. If the buyer has a very disciplined approach to pricing and selection, single assets should have the potential to generate superior risk-adjusted returns.

Q: Any other considerations?

A: The single asset market has significant long-term growth potential because it's still very small. However, the potential market is underpenetrated and growing – single asset continuation vehicles still represented only 3.8%

of total private equity exits in 2023.¹ We expect this market to continue growing, as private equity sponsors increasingly appreciate the attraction of the GP-led transactions from the perspective of both liquidity management and portfolio construction.

Q: Please describe your diligence and underwriting process.

A: Our team of direct buyout professionals has the skills to meet with management, visit sites, develop operational models, hire third-party consultants, and evaluate pricing and partnership structures. And we partner with well-regarded and established GPs who are known to us and have already achieved positive results with their asset.

Q: How do you think these GPs see ICG Strategic Equity? What are they looking for in a lead buyer?

A: The GP's primary interest should be around fairness to its LPs, notably in process and price. Key considerations for the GP should include certainty and speed of execution, as well as stability for themselves and the asset's management team. We provide a one-stop solution in that we typically commit all of the required capital for the deal, which enables the GP to engage with just one buyer, instead of a syndicate of buyers. That makes the process much simpler and resource-effective.

Q: How are market conditions now? What are you focused on at present?

A: So far in 2024, we are seeing one of the strongest pipelines of deal activity we have ever had, both across North America and western Europe. We continue to see increased adoption by GPs that have never pursued GP-led transactions before, so the addressable market

We expect this market
[for GP-led transactions]
to continue growing.

is growing. At the same time, at ICG Strategic Equity we continue to be focused on growing the quantum of capital that can be transacted with a sole buyer, and pursuing continuation vehicle sizes up to \$1.5 billion.

With the macro backdrop continuing to drive more GPs to want to create liquidity for flagship funds, plus LPs continuing to want liquidity and increased capital flowing into the market to execute on these deals, we are bullish about the outlook for both the volume and scale of transactions going forward.

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

¹ Source: Evercore Private Capital Advisory: "FY 2023 Secondary Market Highlights" (January 2024), Preqin data as of January 2024.

Divorce: Planning and Investing for a Positive Outcome

By Judy Moses and Neza Gallitano

Every divorce is unique, but no one needs to feel alone in the experience. Building a team of advisors, including an attorney, an accountant, and a wealth management advisor, is the first step in working to a positive outcome – and a fresh start.

No one needs
to feel alone
through divorce.



PRE- AND POST-NUPTIAL AGREEMENTS

Like most preventative measures, pre- and post-nuptial agreements can feel difficult in the present, but they can save a lot of grief in the longer term. Please see the article on page 14 for a brief overview.

MEDIATION, COLLABORATION OR LITIGATION?

There are typically four types of divorce proceedings: self-settled divorce (no attorneys, no mediators), mediated divorce (no attorneys, but a qualified mediator representing both spouses), collaborative divorce (each spouse hires their own attorney but divorce proceeds outside of court), and litigated divorce (both spouses

hire attorneys, and the case is presided over by a judge in court). In any case, it is wise to meet with an accountant and wealth advisor in conjunction with legal counsel.

GEOGRAPHY

Each state has different rules and case law governing divorces and asset settlements. Within the nine community property states, for example, assets are deemed community or separate property of one spouse, and all community property will typically be divided equally.¹ Conversely, equitable distribution states split all assets, earnings, debts, and property in a division in a manner meant to be fair but not necessarily equal.

TAKING IT TO THE NEXT LEVEL

Custody of minor children or any suspicion of nefarious activity and hidden assets should be discussed with an attorney.

KNOWLEDGE IS POWER

The most important starting point in a divorce negotiation is to build a firm understanding of the current balance sheet and income statement. A wealth advisor and a tax specialist can help identify and value assets and liabilities, as well as income and expenses. The chart below can serve as a primer of the types of assets you may identify, but this will vary from individual to individual.

¹ Community property states include Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin. In these states, any assets acquired by spouses throughout the marriage are labeled as marital assets.

Know Your Worth

Below is an overview of elements to consider when reviewing assets and income.

Balance Sheet	Income Statement
<ul style="list-style-type: none"> • Bank Accounts (checking and savings) • Brokerage Accounts (taxable investment accounts, Roth IRAs, Rollover IRAs, SEP IRAs, etc.) • Qualified Retirement Accounts (401ks, profit sharing plans) • Corporate Stock Compensation (restricted stock units, stock options, incentive stock options, performance-based stock units) • Deferred Compensation (traditional non-qualified deferred compensation, profits, interests) • Business Ownership and Entities (partnerships, LLCs, SPs) • Private Placement Investments (private equity, direct investments, hedge funds) • Real Estate (residential and investment) • Tangible Personal Property (vehicles, artwork, jewelry, furniture, collectibles) • Liabilities (mortgages, lines of credit, credit cards, portfolio-based loans, pending tax liabilities) • Life Insurance (whole life, variable term) 	<p>Income</p> <ul style="list-style-type: none"> • Current income (base and bonus) • Deferred Compensation (incentive fees, carry, pension) • Self-Employment Income • Distributions from family members (including trusts) <p>Expenses</p> <ul style="list-style-type: none"> • Mortgage/Rent • Utilities • Landscaping/Maintenance • Car Payments • Childcare/School • Health Insurance

Source: Evercore Wealth Management

EQUAL MAY NOT MEAN EQUITABLE

Some assets, like homes or artwork, cannot be split, and so adjustments are made to the division of other assets to adjust for those values. This is a potential pitfall for many divorcing spouses, as personal preferences may drive decisions that undermine future lifestyle spending.

A thorough understanding of attributes of various types of assets is required before deciding what makes sense for each individual. For example, the family home may prove expensive, with carrying costs including local property taxes, insurance,

maintenance, and repairs. Selling it later may incur substantial transaction and tax costs not accounted for in the divorce settlement. Further, once a divorce is finalized, the spouse that retains the primary residence loses their former spouse's potential capital gains exemption (currently \$250,000). Assets should be evaluated on a net basis and in the context of an individual's income, liquidity, and risk profile.

Here's another example: The inherent value of an IRA, which is not accessible without penalties until age 59½ and

is taxed as ordinary income when distributed, is not equal in value to a brokerage account invested in fully liquid securities taxed at capital gains rates. Similarly, a brokerage account invested in equity securities with a large, embedded capital gain and low income yield does not have the same tax implications, income generation or risk profile as a portfolio comprised of municipal bond securities generating tax-exempt income.

It is also important to identify and review assets that may hold little value now but could be worth more in the future.

Prenups: Better Safe Than Sorry

A prenuptial agreement is a legally enforceable written agreement made by a couple before marriage. It discloses a full and fair list of all property and debts of each partner and spells out the treatment in the event of the dissolution of the marriage or death. It can also discuss the treatment of future earnings and spousal support. The agreement will define what is separate and what is marital property; these assets should stay that way during the duration of the marriage.

Families often use trusts to try to protect family assets. However, distributions from a trust, if comingled with marital assets, could become marital property. In some states, a beneficiary of a trust may have trust assets treated as marital property. Irrevocable trusts cannot be changed except under certain circumstances. Prenuptial agreements can further help solidify protection of these assets.

A prenuptial agreement protects both spouses. For the spouse entering the marriage with assets, it can protect an inheritance, closely held business or other family legacy asset from leaving the family line. It also protects an individual entering a second or subsequent marriage. Importantly, it can protect an individual from taking responsibility for the debts of the other spouse. On the other hand, it can also protect the less affluent spouse, especially when that individual relies on the other spouse for income.

A prenuptial agreement requires both parties to have adequate legal representation and to fully disclose all significant assets. Generally, the agreement should be signed in writing before a notary at some period before the wedding. As with any contract, a prenuptial agreement can be renegotiated at any time.

Your Evercore Wealth Management Wealth and Fiduciary Advisor can help you and your attorney design a prenuptial agreement by reviewing your financial statements and advising on whether your future lifestyle needs will be met under the agreement.

– NG

Some are more easily valued, such as restricted stock units vesting over time, while others may not be so, such as interests in a private company that could be headed toward a liquidity event. Even if the current value is negligible, analysis should be given to potential future value of the assets before they are dismissed as part of the asset split.

Balance sheet items outside an individual's taxable estate are also important to incorporate in divorce planning. If either spouse is a beneficiary of an irrevocable trust with distributions that benefited the marriage, this may be considered as part of the negotiation around alimony and maintenance payments. Parents should consider whether any accounts have been set up for their children's education or future benefit, such as 529 plans, Uniform Transfers to Minors Act accounts, or UTMA's, and irrevocable trusts.

PLANNING FOR FUTURE EXPENSES

In negotiating alimony payments and asset splits, it is important to identify current lifestyle costs, on a pre- and post-tax basis. Some expenses may decrease post-divorce while others, such as healthcare insurance or housing/mortgage servicing, may go up. Anyone counting on alimony should also consider securing agreement or insurance that the payments will continue in the event of the payor's disability or death. A lifestyle analysis, a long-term financial

planning tool, can also be incorporated as the divorce is being worked through to help identify what various settlement plans might mean for an individual's future financial picture.

POST-DIVORCE PLANNING

The divorce is finalized and your assets equitably split. Now what? A balance sheet is once again the starting point of the financial planning discussion – this time focused on defining the future.

Creating a lifestyle analysis incorporates current income, such as wages, investment income, and alimony, as well as current and future expenses. It provides a basis for the discussion around how to build a portfolio to achieve future goals. As with any major change, it may take a while to figure out what the new normal is.

Divorce is a complete overhaul to each spouse's financial picture that needs to be reevaluated. Part of that is redefining an investor's risk tolerance post-divorce. Simply put, risk tolerance refers to an investor's willingness and ability to endure fluctuations in the value of their investments in pursuit of potentially higher returns. One might find that with a changed financial situation, and no longer making decisions in conjunction with a spouse, one's risk tolerance is different than it was. It is also important to consider an individual's new tax profile when deciding on underlying

investment vehicles and creating an annual capital gains budget. Understanding – and regularly revisiting – risk tolerance and asset allocation is essential in constructing a portfolio that aligns with financial goals, time horizon, and emotional comfort level.

It's also worth noting that divorce often comes with a heavy administrative burden. While some to-do's may be top of mind, such as name changes and home titles, others, including estate documents, retirement beneficiary designations, and asset and debt titling, are just as crucial.

COUNT ON THE TEAM

A wealth advisor can assist throughout the divorce process and beyond, helping with both financial and nonfinancial needs. Developing a thorough understanding of the current balance sheet, lifestyle needs, goals, and appetite for risk can go a long way in making informed decisions and easing a significant transition.

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A Shared Beauty: A Discussion on Museum Quality Art in Public Spaces

Evercore Wealth Management Partners Ashley Ferriello and Nancy Gabel welcomed clients on April 3 to a lively discussion of American public art with Joyce Pomeroy Schwartz, the author of *The Private Eye in Public Spaces*.



Decoding Life Insurance

By Sean Brady

Life insurance is often unnecessary for ultra-high net worth families. But in the right circumstances it can be a powerful planning tool, helping to provide estate liquidity, fund buy/sell agreements, or shelter taxes. Here are a few brief highlights:

Income replacement. High earners, as opposed to those with considerable assets, should consider life insurance (and possibly disability insurance) if the loss of income would materially affect their family's quality of life. Term insurance is usually sufficient to mitigate this risk. Cash-flow projections will be important in determining the size and duration of the policy, but it's fair to say that most young families could benefit from some form of coverage.

Estate liquidity. Families with a taxable estate of primarily illiquid assets, such as real estate or a family business, can arrange for life insurance to pay state and federal estate taxes, avoiding a forced sale at the owner's death. Section 303 of the Internal Revenue Code allows an estate to sell shares back to a closely held business to cover estate taxes without being taxed as a dividend distribution in certain cases. Section 6166 allows beneficiaries to extend payments for all or part of the estate taxes attributable to the business for

up to 14 years if certain conditions are met. Executing these arrangements can be a complicated and costly process, however, and should be considered very carefully.

If estate liquidity is an issue for a married couple, a simple solution may be a second-to-die universal life insurance policy. Usually, a well-planned estate pays taxes only at the passing of the surviving spouse. A second-to-die policy will only pay out on the death of both spouses, which drives down the cost of insurance. It provides long-term coverage at a relatively low cost.

Estate equalization. Parents who want to transfer a family-owned business to children active in the business without shortchanging other children can also consider a second-to-die universal life policy if there are not enough assets to equalize inheritances. Again, comprehensive estate and trust planning is necessary in navigating the related tax, control, and distribution issues.

Funding buy/sell agreements. Business partners can arrange for insurance to help cover the purchase of shares at the death of one or more of the partners. These policies work best as part of a robust buy/sell agreement and business succession plan that details business continuity in the event of retirement, disability, or death. Term or universal insurance may be appropriate, depending on the broader plan and participants.

Tax sheltering. Private placement life insurance, or PPLI, is a form of variable universal life insurance that can be a powerful tax sheltering tool for high earners with large balance sheets and significant liquidity. These policies allocate investments to liquid and to illiquid investments, such as hedge funds or private equity partnership interests, and shelter the income tax liability generated from distributions. Policyholders should have a decades-long investment time horizon, but the result can be a significant savings on

income and, eventually, estate taxes, especially when combined with an irrevocable life insurance trust.

It should be noted that PPLI has come under recent scrutiny, with the Senate Finance Committee suggesting that regulators take a closer look at these policies.

When deciding where to get advice on your policy, remember that an insurance provider's sales incentives should not drive your decisions in buying, keeping, or terminating an insurance policy. Please contact your advisor at Evercore Wealth Management and Evercore Trust Company, N.A. for an objective discussion of your family's insurance needs and how

insurance fits in with other aspects of your comprehensive wealth plan.

Sean Brady is a Managing Director and Wealth and Fiduciary Advisor at Evercore Wealth Management and Evercore Trust Company. He can be contacted at sean.brady@evercore.com.

Defining the terms

Here are the major types of life insurance and considerations for high net worth and ultra-high net worth families:

- **Term insurance** provides an income tax-free payout to one or more beneficiaries at the insured's death. Premiums are usually quoted as "level," meaning the premium stays flat throughout the term of the policy. But be aware that policies can be annually renewable, meaning premiums start out smaller but increase every year, eventually becoming prohibitively expensive. The frequency of premium payments also matters. Payments made more frequently than once a year may be slightly more expensive. It's important to note that if the term policy matures and the insured's medical condition changes, it may be very expensive, or even impossible, to acquire a new policy to continue coverage.

- **Whole Life** is a form of permanent insurance, meaning the death benefit is not limited to a term. There's a savings component in these policies called cash value that can be withdrawn (with costs) or borrowed against. Whole Life is significantly more expensive than other forms of life insurance because of the cash value component and the flexibility it provides.

Whole Life tries to solve for multiple objectives with one product, and as a result does not solve any efficiently. If a family needs a death benefit,

Whole Life is the most expensive form of insurance. If they are interested in the savings component, there are other strategies with greater expected returns on an after-tax basis. If a family needs the liability protection offered by Whole Life, trusts can accomplish this with greater flexibility.

- **Universal Life** is another form of permanent insurance with a cash value component. Policyholders can opt for guaranteed, variable, or indexed policies to determine how the cash value grows. Guaranteed policies provide a minimum return on cash value, while variable policies allow the owner to invest cash value in stocks, bonds, or alternatives. The cash value of an indexed policy can match the performance of an index such as the S&P 500 but usually with ceilings and floors on returns.

Universal Life uses premiums and cash value to pay for the cost of insurance over time. This is important because policies can lapse if any of the underlying assumptions negatively affect the performance of the cash value. Families may find themselves forced to choose between letting the policy lapse (losing some or all their investment) or paying materially larger premiums to cover the cash value shortfall.

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Near & Far: Wealth Planning for International Families

By Alex Lyden-Horn

The wonderful thing about growing up in one country and living in another is that you get to come “home” twice on a single visit. But managing family assets across borders can feel like more than twice the work.

Families with international connections often need to comply with the laws of both the United States and their home country, which may have significant differences in tax, legal, and accountancy principles. The result can be a complex web of legal, tax, and investment challenges. Add in a third or fourth jurisdiction, and the risk of costly mistakes multiplies exponentially. Consider the fact that while every U.S. state other than Louisiana uses a “common law” system (based on traditional English law), most European and Latin American countries apply a “civil law” system. Civil law countries are more likely to have forced heirship rules, limit flexibility of disposition, and give little legal effect to trust structures. Furthermore, even ostensibly common law jurisdictions like the United Kingdom and Canada differ

significantly from the United States in how they treat traditional estate planning structures.

Americans living abroad may face even more complex challenges. Unlike citizens of just about every other country (except Hungary and Eritrea, at present), American citizens continue to be subject to U.S. income, estate, and gift tax rules, regardless of where they live or where their property is located. The United States has treaties in place with many countries, which may help to offset the effects of competing jurisdictions, but navigating the complex interplay of different systems can be treacherous.

Even relatively small distances can loom large if there’s a border in between. For example, if one

Americans living abroad may face complex challenges.

spouse is a U.S. citizen and the other Canadian, chances are that, regardless of which country they live in, they hold investable assets in both, and are therefore subject to multiple (often conflicting) tax, legal, and reporting requirements. It may be difficult to find a single wealth management professional able to cover all sides of that equation.

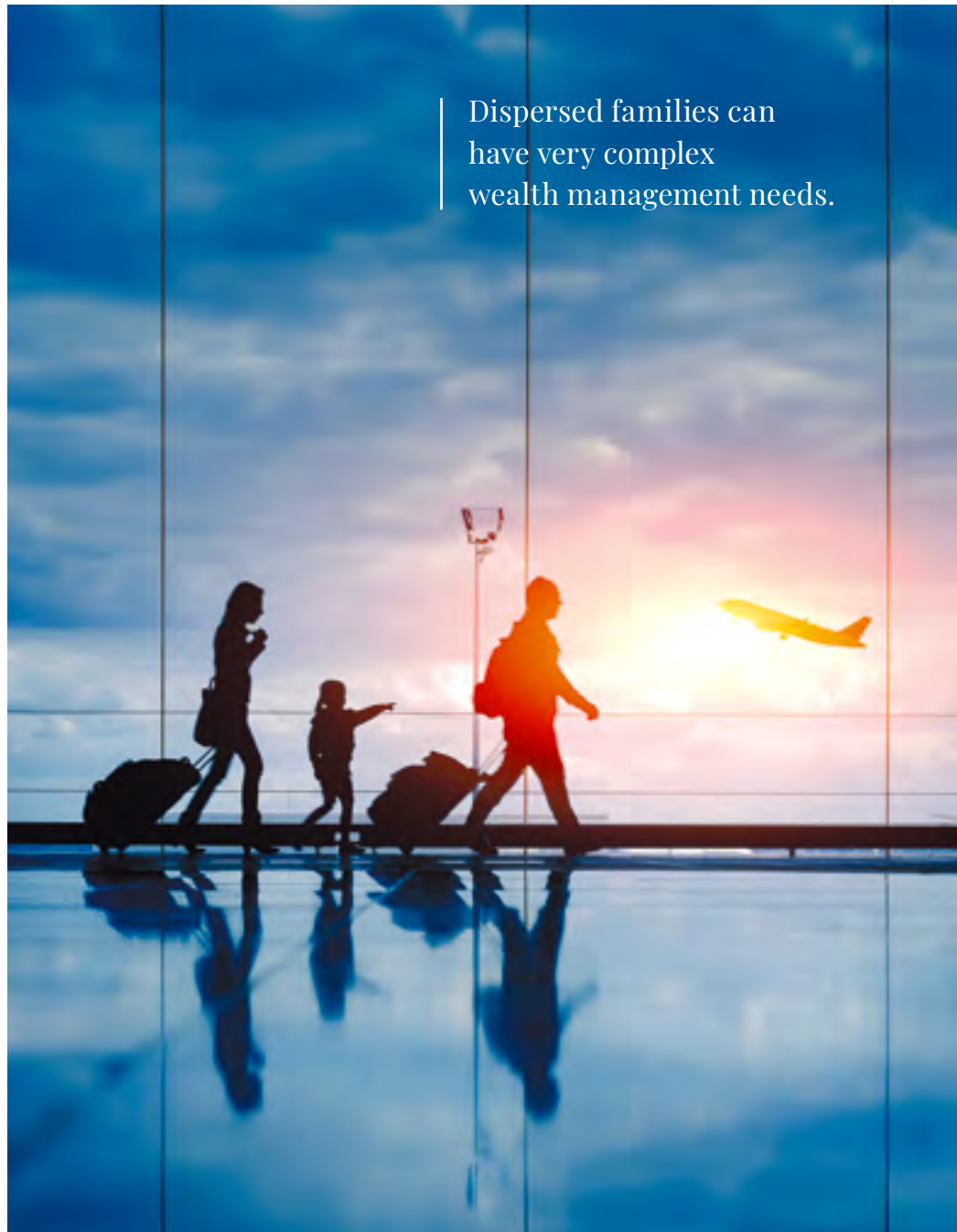
Accordingly, any dual (or more) nationality families are best served by a team of advisors with the knowledge and confidence to review both the U.S. and international aspects of their estate plan and investment portfolio.

In addition to the requisite legal, technical, and financial expertise, this team of advisors also needs the structural support necessary to satisfy all tax, compliance, and reporting requirements, including the ability to track cost basis in accordance with the tax and accounting rules of both jurisdictions.

Similarly, dual or multinational families need advisors who can continually review their charitable giving, retirement planning, and saving for their children's education to maximize the tax benefits in each country. Remember that mainstream U.S. tax-deferral vehicles like IRAs and 529 plans may not be given the same special treatment in other countries.

Noncitizen spouses do not benefit from an unlimited marital deduction.

Perhaps the most pressing issue for many families with a non-U.S. citizen member (particularly, a spouse) is the looming sunset of the current estate and gift tax exemptions at the end of 2025 (currently \$13.61 million for 2024 and estimated to drop to around \$7.5 million at the end of 2025). Under U.S. law, noncitizen spouses do not benefit from an unlimited marital deduction for gift and estate tax purposes. Similarly, the "portability" rules allowing a surviving spouse to carry over any unused exemption are not available. Therefore, it is even more important for a U.S. resident or citizen with a non-U.S. spouse to consider using the increased exemptions to make lifetime gifts to that spouse before the sunset.



Dispersed families can have very complex wealth management needs.

Multinational families are common now, as members move to a new country but maintain their ties with the old. It's not the simple life, that's for sure. But with the appropriate planning, it can be a wonderful way to live, rich in perspective and opportunity, as well as challenges.

Alex Lyden-Horn is the Chief Fiduciary Officer at Evercore Trust Company, based in Wilmington, Delaware. He can be reached at alexander.lydenhorn@evercore.com.

Managing Wealth in Retirement: Finding Balance

By Jeff Maurer

As a late-in-life Pilates enthusiast, I've learned the importance of alignment; all it takes is one body part to fall out of whack, and all the other bones, joints and muscles soon feel the strain. Adjust that part while there's still time, and the whole can come together again.



The same is true for managing wealth – especially in, or ahead of, retirement. We need to make the right corrections, aligning our short-term spending (on ourselves and others) with our long-term lifestyle needs and our legacy goals. The choices are very personal and entirely up to us, but we do need to understand the interconnectivity.

Want to buy a boat? Join a new club? Spend a year traveling the globe in style? Terrific – that sounds like a lot of fun. Family temptations may loom large too, as helping to fund homes or start-up businesses for children, and educations and other enriching experiences for grandchildren, can feel very satisfying. And more time to engage with nonprofits is likely to inspire more generous gifts.

These are all wonderful ways to spend, of course. But they will be more enjoyable for those comfortable with the tradeoffs. And there are usually tradeoffs, no matter how large the portfolio. Take a look at the chart on page 22. Here's what seemingly small differences in spending rates can do to the same \$20 million portfolio.

Our Current Market Assumptions

Asset Returns

Current 10-year Expected Returns	Assumptions (5 years prior)	Current Pre-tax	After-tax	After-tax Real
Cash	2.8%	3.8%	2.2%	-0.1%
Defensive Assets	2.7%	3.5%	3.5%	1.1%
Credit Strategies	5.2%	5.3%	3.2%	0.8%
Diversified Market Strategies	4.8%	5.8%	3.7%	1.3%
Growth Assets	8.0%	7.0%	5.4%	3.0%
Illiquid Alternatives	12.3%	11.2%	8.0%	5.7%

Asset Allocation Summary

Neutral Policy Allocation for a \$20 million portfolio	Capital Preservation	Balanced	Capital Appreciation	Cap App 20% Illiquids
Cash	10.5%	9.0%	5.5%	5.5%
Defensive Assets	41.0%	26.0%	13.0%	10.0%
Credit Strategies	6.0%	5.0%	4.0%	7.0%
Diversified Market Strategies	0.0%	0.0%	0.0%	0.0%
Growth Assets	32.5%	50.0%	67.5%	57.5%
Illiquid Alternatives	10.0%	10.0%	10.0%	20.0%

Neutral Policy Returns & Drawdowns	Capital Preservation	Balanced	Capital Appreciation	Cap App 20% Illiquids
Pre-tax Return	5.6%	6.2%	6.7%	7.2%
After-tax Return	4.4%	4.8%	5.1%	5.4%
After-tax Real Return	2.0%	2.4%	2.7%	3.0%
EWM Estimated Maximum Drawdown Estimate	-17.0%	-25.0%	-32.0%	-31.0%

Estimates reflect 10-year forward-looking projection data. If none are available, we use historical data. The returns above are expected only and hypothetical, any actual returns will be reduced by advisory fees. Estimates for each asset class are based on proprietary Evercore Wealth Management research and use both historical return data and various forward looking forecasts from government agencies and private forecasters. After-Tax assumptions: Cash and Credit Strategies taxed at ordinary income rate of 40.8%. Defensive Assets are exempt from taxes. Growth Assets taxed at long-term capital gains rate. Diversified Market Strategies is taxed at a weighted average rate of 25% capital gains and 75% ordinary income. Illiquid Assets is taxed at a weighted average rate of 25% ordinary income and 75% capital gains. After-tax real returns are shown, adjusting nominal returns for inflation. The maximum drawdown metric refers to the worst-case scenarios for a trading period, usually between a peak and trough for the market, including the following events: +200bps parallel shift in U.S. Treasury curve, +300bps parallel shift in credit spreads (OAS), 40% decline in global equity markets and +300% increase in the VIX Index. Returns are based on performance of certain well-known and widely recognized indices. There is no representation that such index is an appropriate benchmark for such comparison. In addition, Evercore Wealth Management's recommendations may differ significantly from the securities that comprise the indices. Please refer to disclosures on back for additional information including asset class definitions.

Most advisors plan based on a proportion of pre-retirement income, typically 70%, or current reported spending, assuming that it will drop off in retirement. And just about all base their estimates on average life expectancy and inflation rates.

But I am certain that for many of our clients, spending does not drop off in retirement. Sure, we save a few bucks on commuting, and we don't need any more suits (who does, nowadays?). But that's a drop in the proverbial bucket for the high net worth and ultra-high net worth families. In my experience, most of us tend to underestimate our spending, both before and into retirement. The exceptions become the rule; the once-in-a-lifetime experience is quickly followed by another (or shared with family). In short, there is always going to be another one-off expenditure.

Not only are we having more fun than our own parents or grandparents did, but we are also living significantly longer. Indeed, the top 1% of Americans by wealth at age

65 can now reasonably expect to live well for another 20 or so years, thanks to the miracles of modern medicine. And there will still come a time when our lifestyle spending shifts to medical and care-related expenses.

As for inflation, it's easy to underestimate that as well, particularly as prices for goods and services valued by the high net worth consumers appear to be rising relatively fast. (Please see my related article in *Independent Thinking*, issue 48 <https://bit.ly/4aCpxr1>).

So, how do we find financial balance in our so-called golden years? The starting point is a thorough lifestyle analysis, to evaluate current and future spending needs, mindful of the need to fund potentially very long lives. These calculations should take into consideration capital market return assumptions, as well as estimated inflation and tax rates, and individual tolerance for market and liquidity risk. (For our current capital market return assumptions, see page 21.)

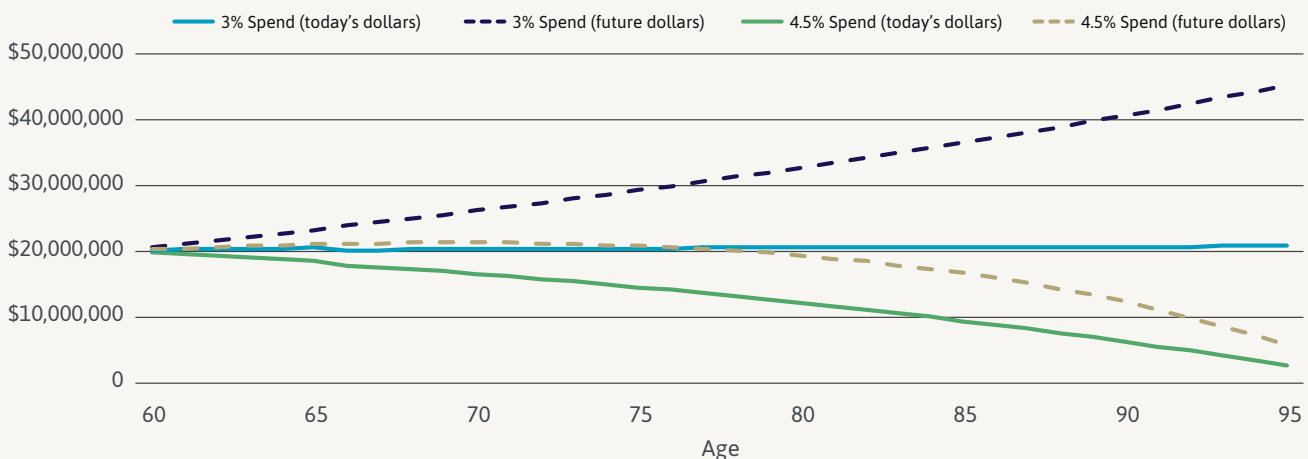
We can then evaluate the likelihood of reaching other goals, including wealth transfers (a pressing topic for clients who have yet to take advantage of at least part of the \$27.2 gift tax exemption before it sunsets next year). And if the numbers aren't aligned to those goals – or if the goals themselves have changed – we can recalibrate the wealth plan. Trim (or occasionally, increase) spending, take on more investment risk, revisit legacy goals – one or a combination of these and other tactics can support a long and happy retirement.

As I've discovered in Pilates, it is best to address weaknesses earlier. But it's never too late to make improvements.

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Spending for Life and Legacy

Spending and savings in current and real (inflation-adjusted) dollars, based on a projected 2.13% annual inflation rate.



Source: eMoney

The Corporate Transparency Act: New Reporting Requirements for Closely Held Businesses

By Ruth Calaman

Limited liability companies, limited partnerships, and other closely held entities, including certain business trusts, must now identify and report all beneficial owners to the Financial Crimes Enforcement Network, a bureau of the U.S. Treasury. A beneficial owner is any individual who directly or indirectly exercises substantial control over the entity or who owns or controls at least 25% of the ownership interests in the entity.

The Corporate Transparency Act, or CTA, came into effect on January 1, 2024. It is designed to combat money laundering, terrorist financing, corruption, tax fraud, and other illicit activity. CTA reports are not accessible to the public. The information will be accessible only by specific individuals within the government for law enforcement or supervisory purposes, and to financial institutions to facilitate compliance with customer due diligence requirements. Some states have followed suit and enacted similar laws, including New York State.

Entities formed prior to January 1, 2024, must file by January 1, 2025; entities formed in 2024 generally have to file within 90 days of formation; however, those formed in 2025 and beyond will have to file within 30 days. Subsequent changes to any reported information must also be submitted within

30 days. There are two methods of filing available. The first is to complete the PDF version of the Beneficial Ownership Information Report and upload it on the FinCEN website. The second is to complete and submit the form entirely online. The PDF version requires an extra step, but the benefit is that the PDF can be saved and reused if changes are submitted later. The filing system and additional information can be found here: [BOIE-FILING](https://boiefiling.fincen.gov/) (<https://boiefiling.fincen.gov/>).

It is important to note that on March 1, 2024, in a case brought by the National Small Business Association, the U.S. District Court for the District of Alabama held that the CTA was unconstitutional because it exceeded the limitations placed on Congress' legislative authority under the Constitution. On March 11, 2024, as expected, FinCEN filed

a Notice of Appeal to the Decision. However, on March 15, 2024, a separate lawsuit challenging the CTA was also filed in the Federal District Court in Maine. It is possible that the fate of the CTA ultimately ends up being decided by the U.S. Supreme Court.

In the interim, penalties for not filing are steep, so please contact your advisors with any questions or concerns. Given the complexities of the CTA and the potential for civil and criminal penalties, it is important to consult with a legal and/or tax advisor to determine the impact of this new law.

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