



INDEPENDENT
THINKING

THE NEW STANDARD IN WEALTH MANAGEMENT

EVERCORE
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A Primer for Adult Children



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THE NEW STANDARD IN WEALTH MANAGEMENT

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A Message from the CEO



Welcome to the 40th edition of *Independent Thinking*.

As I review these pages and look back at earlier issues, I am struck by how often we reference “working with our clients.” It’s never been more in evidence than now, as geography comes to matter less and human interaction, for all the strains of virtual connectivity, matters even more.

Our clients make us better. They commit time and effort to talk with us – to help define their goals and challenges, to articulate their attitudes to risk, to alert us to changing business and personal circumstances, and to connect us with the family members and other advisors who mean so much to them.

That effort enables us to build and manage truly customized portfolios, as described here by John Apruzzese and Brian Pollak in their articles on diversifying away from the traditional 60/40 portfolio while maintaining an allocation to municipal bonds. And it helps us plan, as Julio Castro writes on page 12, to ensure that clients don’t rush big decisions or have any cause for regret, but are instead positioned to take advantage of opportunities if and when it suits them.

Often, as families grow and the wealth becomes larger and more complex, the greater the challenges that our clients (and their families and other advisors) face in achieving their desired objectives. As Kate Mulvany describes on page 16, planning and governance for multigenerational families starts with deep, occasionally difficult, conversations that will inform all the decisions to come. There’s a lot at stake, and preserving family harmony as well as wealth takes a great deal of effort.

Conversations around health and aging can be harder still. But we can’t avoid the subjects, so we all might as well assess and act to make the process as smooth as possible, and enjoy the time we have with our families and friends. Please see the articles by our Chairman Jeff Maurer on page 18 about preparing for both ourselves and for our aging parents.

Our colleagues make us better too. As you probably know, most of the partners and professionals at Evercore Wealth Management and Evercore Trust Company have worked together for years, here and at the companies we left to create or join this firm. Tight collegial collaboration is second nature for us, although it takes work to balance a single-firm culture with an entrepreneurial spirit and the unique skills of our experienced colleagues.

Still, the scale and intensity of this collaboration feels new. Even as our six offices have effectively morphed into almost 90 offices across the country (aka our homes), we’ve somehow become an even more tightly knit group. We are working more collaboratively across disciplines and geographies – and simply checking in on each other, as well on our clients – in a way that is rare in this business.

I’m writing this from our headquarters in New York City, in the early days of our gradual return to the office, and the experience is making me appreciate our clients and our colleagues – and their good work – all the more. Every face, here and on the screen, seems to me extraordinary. I know the strangeness will wear off, just as it did when we started working remotely in March. But I am sure I speak for all of us in hoping that this new, deeper sense of connection remains.

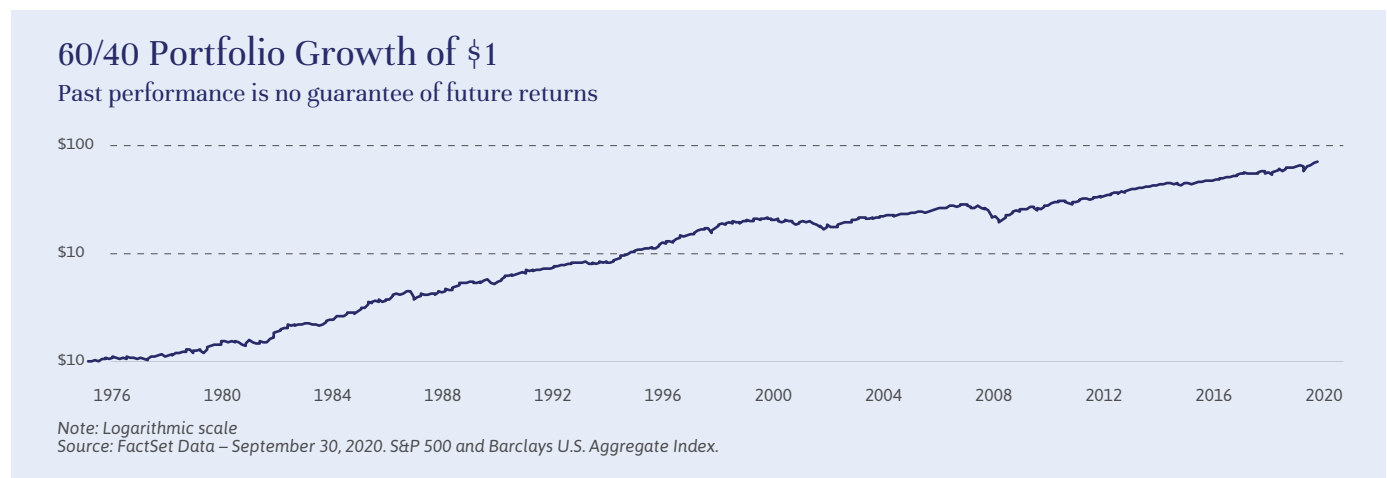
I hope you and your family are well and that you enjoy this issue of *Independent Thinking*. Please don’t hesitate to contact me or any of my colleagues at Evercore Wealth Management and Evercore Trust Company with any questions or comments you may have; we know that we all will be the better for it.

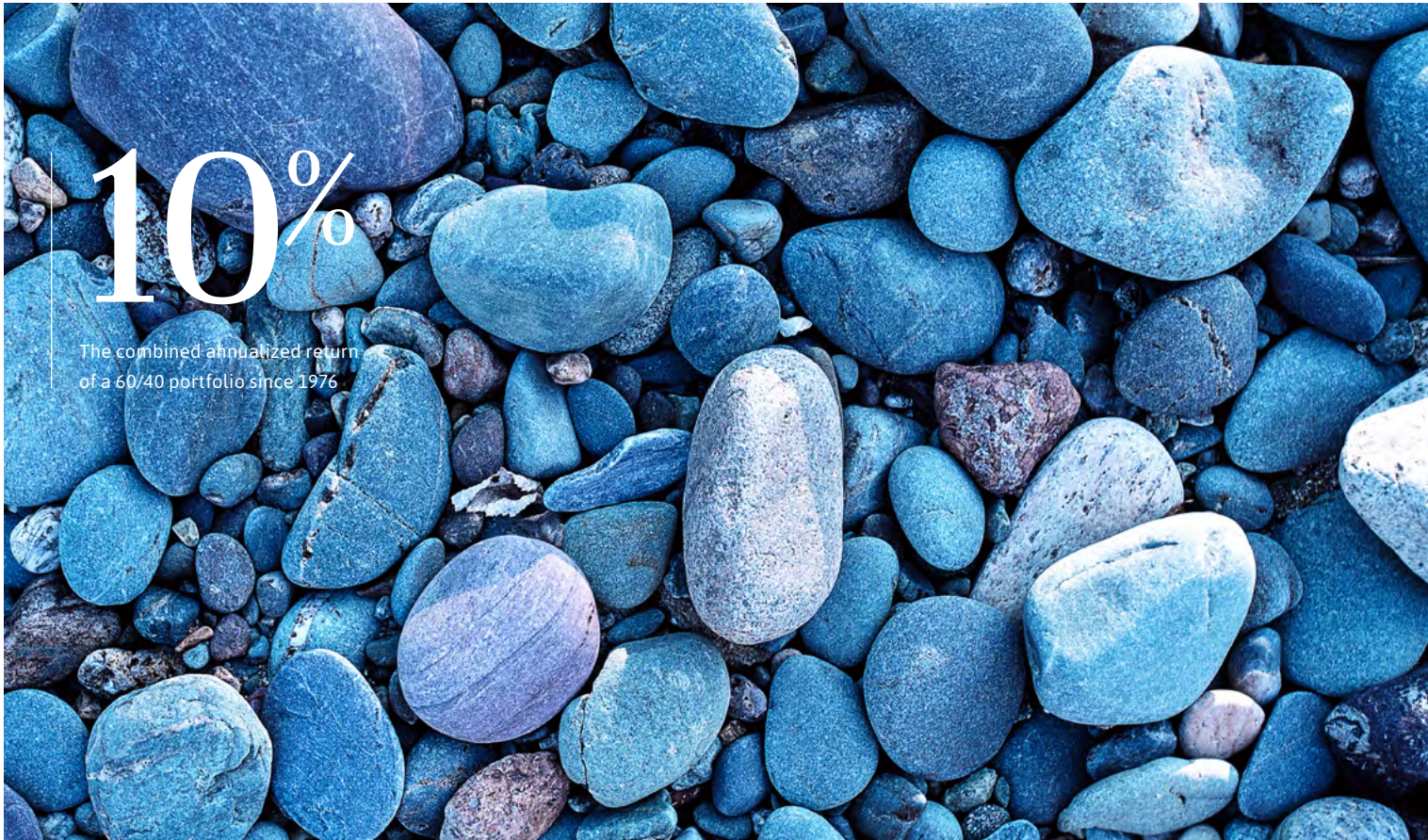
Chris Zander
President & Chief Executive Officer

A Time to Diversify: Reassessing the 60/40 Portfolio

By John Apruzzese and Brian Pollak

For as long as most investors can remember, portfolio construction has started with a 60% allocation to equities and a 40% allocation to bonds, with adjustments then made for those looking for more capital appreciation or preservation. This classic balanced portfolio worked well, with each asset class partially offsetting the periodic downturns of the other to generate a combined annualized return of 10.0% (see chart) since the Barclays U.S. Aggregate benchmark index was established in 1976.





10%

The combined annualized return
of a 60/40 portfolio since 1976

The case for equities remains reasonable

That was then. Now, investors need to reconsider the 60/40 portfolio. Apart from the extremes of the stock market, with some companies trading at heights difficult to justify and others at very justifiable lows (see page 8), the case for equities as the largest allocation in a balanced portfolio remains reasonable. But short-term bonds are not providing investors with adequate yield (or total return opportunities), and long-term investment-grade bonds can no longer provide much of a hedge against equity price volatility while their yields

are pinned down to historically low levels by the Federal Reserve.

It seems to us that investors have to come to terms with the fact that bonds and other defensive assets (including cash) are likely to generate a negative real return (or a return that is less than the rate of inflation) over the next two to three years. This leaves us with three options. First, we can accept that hedging risk assets with an allocation to risk-free or defensive bonds now has a cost in real terms, not just an opportunity cost. Second, we can increase the allocation to growth assets and, with it, the overall portfolio risk. Or, third, we can increase the allocation to other asset classes, notably credit strategies, diversified

market strategies and illiquid assets, while retaining some allocation to bonds.

For most investors, this third option is likely to prove the best bet. We believe there are still good reasons to invest in bonds (see page 5), albeit around the 20% or 25% level, for a balanced portfolio that we have been recommending for some time (now at the lower end of that range). But we believe that diversification beyond traditional stocks is as important as it ever was. To achieve it, we are focusing on three areas:

Growth diversifiers: This area of the portfolio is meant to complement the equity allocation by providing attractive, equity-like returns along with equity-like risks, albeit illiquid. Examples of

these investments include private equity, venture capital and real estate, providing exposures difficult to attain in the public capital markets.

Pure diversifiers: Here we attempt to identify asset classes in which the return stream itself is uncorrelated to traditional markets and typically returns 3%-5% above the risk-free rate of return. Either passive or active investment vehicles, in either mutual fund or limited partnership/hedge fund structure, may be appropriate. Examples include the uncorrelated, such as catastrophic reinsurance risk; solar infrastructure development; dollar hedges, such as cryptocurrency investments or precious metals; and alpha-focused investments, such as market-neutral long/short hedge funds or option arbitrage strategies.

Income diversifiers: The main goal here is to find investments that provide higher yields than traditional high-quality bonds, but do not take on imprudent levels of risk. Liquid credit markets, such as corporate high-yield bonds and secured loans, high-yield municipal

Private market investments with high levels of consistent income also present opportunity.

credit and securitized consumer and real estate credit, are candidates. In addition, private market investments with high levels of consistent income also present opportunity. These investments, such as triple net lease real estate and corporate or real estate direct lending, fit somewhere between traditional equities and bonds in terms of both risk and return, but provide important diversification if chosen prudently.

This larger allocation away from defensive assets does increase the overall portfolio risk and is generally less tax and fee efficient, but that difference in risk should be marginal if the individual investments are selected carefully and are well diversified, and if the total return is high enough to overcome the higher tax rate. The 60/40 portfolio has worked well for

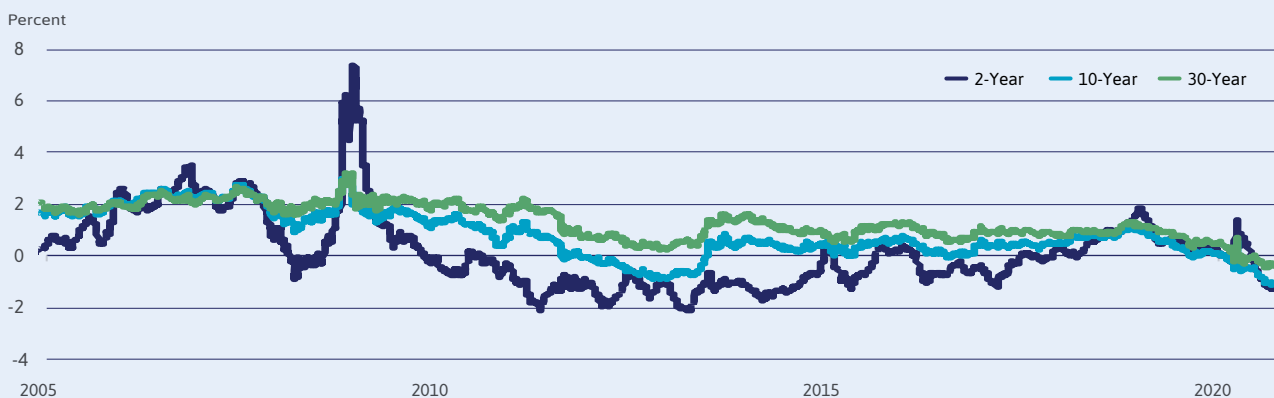
decades and could continue to do so in decades to come. But with the current yields on bonds below the rate of inflation, we believe that rethinking the allocation to high-quality fixed income in favor of other assets, for at least a portion of the portfolio, makes sense now.

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

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

Real Treasury Yields

2-, 10- and 30-year Treasury yields are all now below 0%, adjusted for inflation



Source: Bloomberg - October 15, 2020

The Case for a Continued Allocation to Bonds

By Brian Pollak

How do we justify owning bonds as a core (approximately 20%) holding in our balanced portfolio in this environment?

In uncertain times, allocating a portion of the portfolio to securities that have certain cash flows – between semiannual coupon payments and known maturities – and a yield above that of cash supports overall portfolio construction. Active management is essential in this environment, to control for interest rate and inflation risk in portfolios by keeping duration risk relatively short, investing in high-coupon or callable bonds to speed up return income and shorten duration, and reinvesting principal and semiannual income from maturing bonds at higher rates.

While the hedge that bonds provide has diminished, longer duration bonds can still provide a hedge if interest rates turn negative – and this could happen if Fed policy moves interest rates negative on the short end or if market expectations of longer-term deflation push market rates to negative territory. While these scenarios at present don't strike us as likely, they are possibilities.

The additional yield available to investors over and above the yield on Treasuries, while still below the rate of inflation, is attractive on a relative basis. Due to COVID-19 related credit concerns, municipal bonds currently yield 128% of the Treasury yield. This yield has averaged around 94% over the last 20 years. When additionally adjusting for top federal and state income tax rates, the yield that can be achieved in a high-quality municipal bond portfolio is more than double the yield available in Treasury securities in the intermediate to longer part of the curve. If income tax rates were to rise, the value of the tax exemption provided by municipal bonds would increase. This could compress the ratio between high-quality municipals and Treasuries, and is another reason municipals offer relative value today. For more on how a portfolio of municipal bonds fits into the overall asset allocations in this environment, see the article on page 6.

Finally, the high liquidity and low volatility inherent in bonds provides investors with the framework to ride out drawdowns in the equity market with the knowledge that a portion of the portfolio is safe and liquid – and the confidence to stay invested in, or even add to, equities when prices are falling.



The State of the States: The Municipal Bond Outlook

By Jim Holihan and Howard Cure

All states have been affected by the shutdown of the U.S. economy in the spring and the subsequent slow – and erratic – reopening. And all rely on Washington, D.C. for adequate financial support, as they, not the federal government, are on the front lines in managing the pandemic. But the differences in fiscal health at the state level are extreme now, even more so than during the 2008-2009 fiscal crisis.

Editor's note: The following is extracted from an Evercore Wealth Management paper, *Got Munis? The Case for Bonds as States Adjust Budgets* and a recent client webinar, *Rumors vs Realities in the Municipal Debt Market: How Bad is It?*



Why own bonds now, when rates are so low and states face significant fiscal challenges in managing the impact of COVID-19? While it's difficult to argue that yields are attractive, we argue in *Got Munis? The Case for Bonds as States Adjust Budgets* for retaining a core allocation to municipal bonds, as well as other defensive assets.

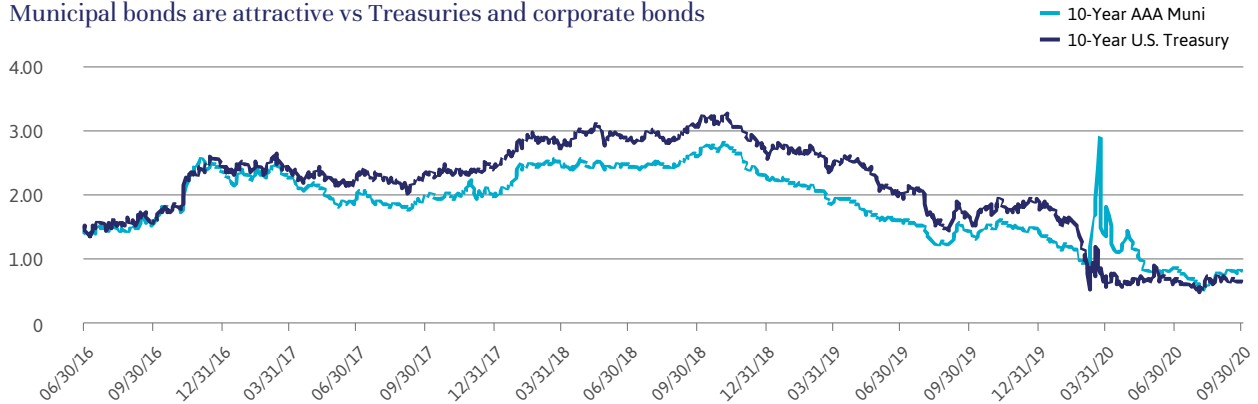
To read the paper, *Got Munis? The Case for Bonds As States Adjust Budgets*, please visit www.evercorewealthandtrust.com or contact us for a hard copy.

The ultimate effects on states of COVID-19 will vary based on their economic and revenue structures and poverty rates. States with low economic volatility and those willing and able to adjust tax rates are likely to suffer less severe impacts than those with less diversified economies or a high dependence on the most volatile taxes, such as very progressive personal income and capital gains taxes.

Other hurdles to recovery include the growing wealth gap, which places more pressure on states with large

AAA Muni vs U.S. Treasury Yield

Municipal bonds are attractive vs Treasuries and corporate bonds



Source: TM3/MMD & Bloomberg LP.

underserved populations, the long-term impact of remote working on municipal tax bases, the decline in oil prices on energy-dependent state economies, market volatility that will have an impact on instead of upon pension fund investments, and overall uncertainty about the duration of the economic crisis.

As a result, state and local governments are likely to operate with structural imbalances. For some, it could take years to recover and return to the revenue baseline. However, municipalities are resilient, meaning that they have many more levers to pull to ride out the rough patches than similarly rated corporations do. And with a historical default rate of just .008% of all investment grade municipalities, they have historically been considerably safer as well.

For these and other reasons, municipal bonds remain an integral part of many private investors' diversified portfolios. They serve as a ballast to equity market volatility, as high-quality bonds most often move inversely to stocks. Most important, they can also provide a consistent and dependable tax-free

income stream. While it's hard to argue that yields are attractive from a historical perspective, municipal bonds are attractive when compared to Treasuries and corporate bonds on an after-tax basis, as illustrated in the chart above, and they remain the best risk-adjusted, fixed income vehicle for clients in the highest tax brackets.

It is important to consider the defensive asset nature of municipal bonds, even during the pandemic and the related – and unusual – stress felt by individual states. Even at these low rates, municipal bonds also offer total return potential beyond the current yield to maturity in the event that Federal Reserve policy moves interest rates negative on the short end or market expectations of longer-term deflation push market rates into negative territory. These are possibilities, albeit unlikely ones, and they would probably coincide with equity price volatility, furthering the case for bonds as a hedge for equities.

We are confident that we have the experience to navigate our clients

through this challenging credit environment, and we expect all of our client holdings to pay timely interest and principal.

Jim Holihan is a Partner and Portfolio Manager at Evercore Wealth Management. He can be contacted at holihan@evercore.com.

Howard Cure is the firm's Director of Municipal Bond Research. He can be contacted at cure@evercore.com.

At a Crossroads: Another Way to See the Equity Markets

By Michael Kirkbride

In the previous edition of *Independent Thinking*, we focused on the role of the large-cap growth stocks in supporting the remarkable market gains since the lows of March. Here's another way to think about stocks now – in directional quadrants, two of which remain, in our view, best avoided in domestic equity portfolios.

The **aspirational sector** gets the most investor attention, and its member companies could be said to be having a good pandemic, benefiting from the rapidly accelerating shift to virtual communications and many investors' assumptions that the long-term growth promise of these companies will eventually be matched with profits and earnings. (These same assumptions are also driving a surge in IPOs; 2020 is on target to be the biggest IPO year since 2000.) There are opportunities in this area but, in our opinion, the best are accessed at early stages through our carefully selected outside venture capital funds. In general, these companies are currently

growing the top line with little to no visibility to bottom-line profitability. Indeed, the momentum-driven valuations on many of these stocks is well beyond the comfort level of most fundamental investors. While short-term gains have certainly been realized in many cases, there is little margin for error should growth rates slow or sentiment shift.

Though not quite as dramatic as those of many aspirational sector stocks, many **fundamental growth** leaders have also recorded big share price gains in 2020. This sector is home to Apple, Alphabet (the parent of Google), Amazon, Facebook and Microsoft, which together represent

25% of the S&P 500, and to a dozen or so smaller domestic growth stocks, including Adobe and Mastercard, also benefiting from accelerating trends. (Evercore Wealth Management includes the stocks named here except Facebook in our core priority list; every client portfolio is customized.) These are alpha, we-can-do anything-you-can-do companies, dominant in their end markets, in their cash flow generation, and in the strength of their balance sheets. And their top-line growth rates are matched by equally impressive bottom lines and consistently strong free cash flows. While valuations have certainly moved up across this quadrant, investors are hard-pressed to find this combination of growth and fundamentals elsewhere.

As our name for the third quadrant suggests, investors may want to avoid most **permanently impaired** companies. These include Main Street companies, focused on bricks & mortar retail and other deeply impacted sectors, which were already at a disadvantage and have only deteriorated since the arrival of

COVID-19. With brick-and-mortar retail leading the way, 2020 may rival the Great Financial Crisis in terms of overall level of bankruptcies. As the uneven economic recovery continues, more companies will probably join them, including those that may currently appear attractive on a pure valuation metric. Investors should not be lured by tempting short-term valuations into adding long-term problems into portfolios. As with companies in the aspirational quadrant, we believe the best way to access opportunistic investments in this sector is through specialized managers, in this case distressed credit funds.

The final quadrant is one where investment opportunity appears most attractive. There are many **long-term leaders** that have yet to recover from the economic retrenchment of 2020.

These companies vary widely, many facing near-term challenges, from high inventory levels after breweries closed due to pandemic restrictions in the case of Constellation Brands, to eventual park and movie theater reopenings in the case of Disney, to necessary technology upgrades by companies like CDW as the workforce returns to offices. As we hold shares of these companies in our discretionary portfolios, our view is that they have the capital structures, cash flows and management confidence to be able to survive this pandemic. In the interim, their stocks have yet to fully recover, providing what we believe to be some combination of prospective fundamental upside and margin of safety in the valuation.

At Evercore Wealth Management, we are focused at present on the long-term leaders quadrant when adding to existing

positions and/or introducing new investments to core equity portfolios – and we remain confidently invested in the growth leaders quadrant as well. With very few exceptions, we are avoiding the other two quadrants, although again these categorizations are meant to be directional; there are no bright lines in our approach. Our goal is to build a portfolio of fundamentally strong companies at reasonable valuations. This balance has provided our investors with stability and strong performance through a very volatile period, giving us faith in our approach for the longer term.

Michael Kirkbride is a Managing Director and Portfolio Manager at Evercore Wealth Management. He can be contacted at michael.kirkbride@evercore.com.

Four Quadrants of the 2020 Market

We are balanced in our approach to equities and avoiding the market extremes.

AVOIDING

Aspirational Growth: Expensive, Speculative

Companies that have been highly rewarded by the market but have yet to show profit.

Permanently Impaired: Long-Term Challenged

Companies that have been victims of the accelerated trends during the response to COVID-19.

OUR FOCUS

Fundamental Growth: Expensive, Proven

Companies such as Microsoft, Amazon and Google that have been well-rewarded by the market but have strong fundamentals and dominate their markets.

Long-Term Leaders: Challenged but Recovering

Companies such as Constellation Brands, Disney and CBRE, that have been under pressure and whose shares remain down year-to-date, but are fundamentally sound.

Q&A

with Three Leading
Real Estate Managers



An Evercore Real Estate Roundtable, Hosted by Stephanie Hackett

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, including illiquid assets such as private equity and real estate that have the potential for higher returns than the public markets. The following is extracted from the September 24 client webinar, *Reappraising Real Estate: An Evercore Investment Roundtable*, hosted by Evercore Wealth Management Partner and Portfolio Manager Stephanie Hackett.

The three guests, **Garett Bjorkman** (GB) of the CIM Group, **Jon-Paul Momsen** (JPM) of Harbert Management Company, and **David Silvers** (DS) of U.S. Realty Advisors, each run an external fund represented in many Evercore Wealth Management portfolios. CIM Group is well known as a lender, operator and developer of commercial real estate assets in urban areas, in particular areas undergoing revitalizations, including Qualified Opportunity Zones. Harbert's U.S. real estate team focuses on value-add or opportunistic real estate investments across offices, apartments, mixed-use, and industrial properties in high growth cities. U.S. Realty Advisors is a triple net lease investor (meaning that the tenant commits to paying all the expenses of the property, including real estate taxes, building insurance and maintenance) and focuses on single tenant leases for office buildings and distribution facilities.

To view the full replay, please [click here](#).

SH: We believe real estate has the potential to generate excess returns through both cash flow and capital appreciation, and also tends to be uncorrelated with equity markets. Each of your firms is actively investing in commercial office spaces, so let's start there. We've all seen the pictures of empty office spaces and heard stories of people who are planning to work from home forever. But let's separate out the hype from the headlines. What are the risks you are seeing?

JPM: Office today is one of the most intriguing spaces to be investing in because there is a lot of headline risk, and that risk comes with a kernel of truth. But that risk is being priced into the market, and there are opportunities to find great value with assets that are somewhat mitigated from the risk. The combination of a pull-back of equity, a pull-back of debt capital and very conservative underwriting makes for a material effect on value. If we can underwrite assuming all the downside risks, but buy assets according location and size – and find an insulated underlying tenant base conservatively, use less leverage, and underwrite them to higher return – the opportunity for outperformance is very strong.

GB: One of the interesting dynamics in urban areas that really differentiates this cycle from previous ones is that the underlying health of our tenants remains strong, in terms of collections. We've seen new leases in New York, San Francisco, Chicago and the other major metros basically dry up, and contracts that were signed pre-COVID in New York have been re-traded with discounts of about 15%. But everyone else is hanging on; there is a real desire to wait. For people who are forced to sell into a market of uncertainty over the next 18 months, those valuations should be low. That presents a lot of opportunity for buyers.

DS: In this kind of environment, single tenant net lease real estate (which is one tenant paying for a long term – never less than 10 years – at an agreed rent with all of the operating expenses) looks attractive on a risk-adjusted basis because the flows are predictable. Net leases tend to focus on mission-critical assets, such as a headquarters building and research and development facilities, which makes it difficult for companies to walk away. The advantage we have with net leases is that we have very long remaining terms. Oftentimes, in the panic of a six-month historical perspective as we have with the pandemic now, people tend to project infinitely into the future that the same results will occur. We know there will be more telecommuting and the need for fewer people in the office, but companies will also require greater social distancing in their facilities. We just have to be very careful in our underwriting.

SH: Let's cast the net a little broader, across the real estate market. How does 2020 compare with other investment periods?

GB: The market shutdown across all sectors has really differentiated this period. The question now is how long can people hold on, as the carry costs in real estate are extremely high. How long can people continue to carry full-service hotels or luxury condos? Although I really believe in the long-term value, the short-term liquidity crisis has yet to play itself out. On the positive side, the nature of this pandemic means that the end, with a vaccine, will also allow us to rebound much more quickly than in any other downturn.

DS: There are always opportunities out there. The [key] is to be able to evaluate the particular asset in question. Now there are locational developments, such as central business areas, that are perceived as less desirable. But views do change. It's a function of underwriting the credit and the real estate asset, stress-testing the deal, and asking how we are being compensated for the downside.

JPM: It is a good time to be very patient. There was an early sense that we all needed to work together to get through this exogenous shock, and everyone played nice. I think we are at an inflection point, as this is morphing from a short-term crisis to a real recession. Lenders are no longer playing nice; landlords are no longer playing nice; and the federal government from a fiscal stimulus point is no longer playing nice because they can't play nice with each other. The only agency still playing nice is the Fed – but they can't do it all. There will be more pressure placed on owners of real estate, and if you are not well positioned to work through that distress, you are going to be a forced seller. And then there will be opportunities. But most of that hasn't worked its way through the real estate sector yet. It's happened in hospitality, but not yet in offices and in multifamily where collections have been very strong. But that will come.

GB: I don't think people have the patience any more. The banks aren't going to be willing to provide additional relief. This is the beginning of what will be real distress throughout the marketplace, which presents a lot of opportunity – but it's time to be very low levered, to have dry powder, and to be patient.

SH: The Fed has committed to keeping interest rates low, but the environment is very uncertain. What are you thinking about that?

JPM: We view this as a time to use less debt because of the uncertainty out there. But because of the distress, we can still find our returns using less leverage. I think that's the right approach to take over the next 18 to 24 months while we work through this uncertainty.

DS: If something goes wrong, if your tenant blows up, would you rather have more equity invested in that deal or less? Higher leverage means less equity invested. We continue to follow this constraint: no more than 75% leverage, even with a very long-term lease. In fact, the leverage that we get from lenders is typically about two-thirds, and we think that is prudent.

GB: In this environment, we would rather take on incremental risks at the asset level to achieve greater return than take on assets with which you are relying on near-term performance to serve as debt cash flow on your leverage to meet your return objectives.

SH: Let's hit another major asset class within real estate. Are distributions facilities and warehouses still attractive or are they getting overpriced?

DS: There is a great tendency of people wanting to own Amazon warehouses, just as there was demand for Walmart stores 30 years ago, and 40 years ago everybody wanted to buy Kmart stores. But the pricing for some of those properties out there, from our perspective, makes them unattractive investments, even when you can get terrific leverage. Have patience and wait it out.

SH: Is this a buyers' market or a sellers' market?

GB: We are, for the most part, waiting, but there are more buying opportunities that we foresee than selling opportunities. Lending in this market, given the dearth of capital, has been a very attractive place to play, and there will be a lot of opportunities to be buyers and to create solutions for people with liquidity issues.

JPM: We are always buying and selling. When we have a stabilized asset, we are sellers of that asset. Right now we are net sellers of multifamily, which we think is mispriced, and office, because long-term predictable cash flows are very financeable. By the same token, anything that is not long-term stabilized income today is on sale at a discount. But we are going to be patient buyers and conservative in how we underwrite.

DS: We are more transactional and opportunistic than most. Every week we look at our portfolio and ask if we want to sell or own each asset. There are certain places where there is crazy money out there and we are happy to sell, to let them have it. There are other opportunities where we want to buy and that's where we want to be.

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

Sticking with the Plan: Wealth Strategies Ahead of Tax Increases

By Julio Castro



Trying to time tax policy changes can be as risky as trying to time the market. While taxes may soon rise, proposals are nothing more than proposals and no one knows what form they will eventually take. In the interim, there are opportunities – tax and interest rates are low and gift and estate and generational-skipping tax exemptions are at all-time highs – but they only make sense in the context of thoughtful long-term planning.

With that in mind, let's consider some potentially attractive strategies in this environment, including some that can mitigate the risks of rushing in.

ESTATE, GIFT AND WEALTH TRANSFER

At present, the federal gift tax, estate tax and generation-skipping tax exemptions are the largest on record, as illustrated by the chart on page 14, at \$11.58 million per person or \$23.16 million for a married couple. In the absence of further tax legislation, this window to shift significant assets out of an estate will sunset on December 31, 2025 and revert to \$5 million per person, adjusted for inflation. As dramatic as that is, other factors should be evaluated to avoid donor's remorse. Does the gift truly advance the family's long-term wealth transfer objectives? Are the assets no longer required by the donor to meet lifestyle goals? These and other considerations should come first.

If the answer to either question is a resounding yes, it may be worth considering a spousal lifetime access

trust, or SLAT. A SLAT allows one spouse to irrevocably transfer assets to a trust for the benefit of the other, for his or her lifetime, as well as to heirs. The obvious benefit is the availability of assets during the donee spouse's lifetime if needed; otherwise the assets are growing for the next generations. If set up properly, a SLAT is an effective tool for utilizing the exemption while minimizing the risks of giving away assets. It is important to remember that these assets are held in an irrevocable trust and not held outright. Divorce, death and, who knows, possible future legislation may limit or terminate access for the spouse. Depending on the circumstances, the SLAT can be funded utilizing just one spouse's exemption.

Prospective donors without a spouse can consider a self-settled trust, often referred to as a domestic asset protection trust, or DAPT. Many states including Delaware allow self-settled trusts whereby a donor can irrevocably transfer assets to a trust and fully utilize their exemption. Again, if structured correctly, the donor can have

assets available to meet unexpected needs during their lifetime. There are limitations and risks to DAPTs that should be reviewed with counsel to determine their appropriateness.

Other wealth transfer strategies worth considering now benefit from current low interest rates. One strategy is to make or refinance intrafamily loans, at below-market rates published monthly by the IRS, also illustrated below. Assets can be reinvested and appreciate in excess of the loan rate, free of gift tax. Another use of the loan may be to assist a family member who was in the process of purchasing a home and requires additional funds for a down payment. This may also be an opportune time to consider refinancing existing loans to family members or to lend monies to existing trusts and family partnerships at a low fixed rate to make high-potential investments on behalf of the next or future generations.

Another attractive wealth transfer mechanism in this environment is to

Historical 7520 Rate Chart

Current low interest rates and possible discount on assets provide opportunities for wealth transfer today.

Applicable Federal Rate (AFR) — Code Section 1274 (D)

Term	November 2020 Annual Rate
Short Term (3 Years or Less)	0.13%
Mid Term (3–9 Years)	0.39%
Long Term (More Than 9 Years)	1.17%

7520 Rate (120% Of The Mid Term Term AFR)

November 2020:	0.40%
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Source: IRS Tables

Section 7520 Rate (%) Through November 2020



transfer assets to one or multiple grantor retained annuity trusts, or GRATs. Funding, for example, a two-year GRAT with assets highly likely to appreciate in that period should generate an annuity over that period equal to the entire value of the funding amount plus the IRC Section 7520 rate, which is 0.4% as of November 2020. Assuming the grantor survives the term of the trust, any appreciation beyond the annuity amount passes to heirs with no gift tax or reduction in the lifetime exemption. This strategy is particularly attractive now, given the market volatility experienced this year; if the asset rebounds strongly from here, it will easily exceed the 0.4% hurdle rate. GRATs typically offer the donor the power to substitute assets, such as appreciated stock holdings, which can be an effective planning tool to lock in the appreciation as market conditions evolve and increase the tax basis for future heirs.

To benefit a charity, as well as family, a third option to consider is to create a charitable lead annuity trust, or CLAT. This is a split-interest trust that benefit

a charity during their term, and at the termination of the trust, any remaining assets pass to the remainder beneficiary, the family or other designated heirs. As with a GRAT, the amount of the remainder will depend on whether or not the trust's investments outperformed the IRC Section 7520 rate.

In this historically low interest rate environment, as with after a market dislocation, CLATs can be an effective means of wealth transfer to the immediate next generation. The interim beneficiary of the charitable lead interest can be a donor-advised fund, a private foundation or a public charity. If structured as a grantor trust, the grantor may have an immediate tax deduction as well. Decisions between grantor and non-grantor CLATs are based on personal circumstances and should be made with professional consultation.

There are other strategies to consider that can be used in combination with the strategies mentioned here. If you have not already done so, discussions with your wealth advisor and other professional advisors should take place

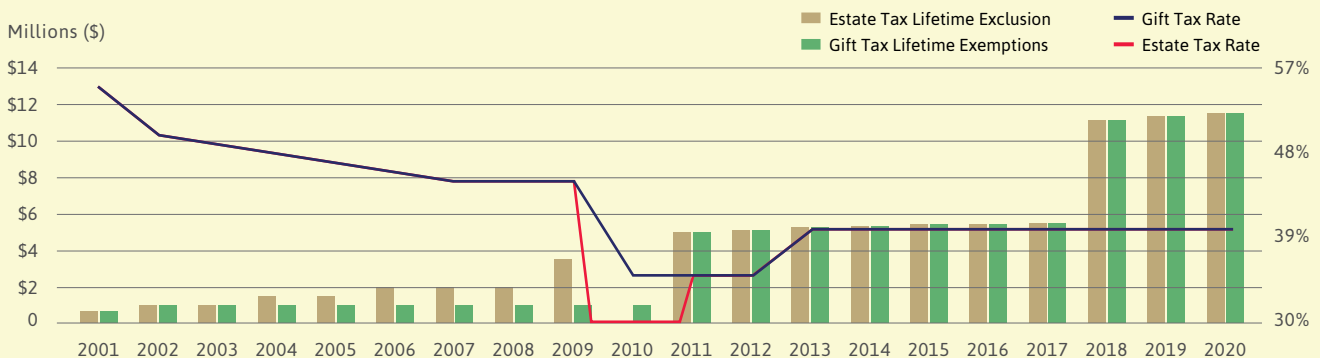
now to determine the appropriateness of these strategies.

INCOME & CAPITAL GAIN/ LOSS TAX PLANNING

In 2020, the top income tax rate of 37% applies for those with taxable income over \$518,400 for single taxpayers and \$622,050 for married couples filing jointly. Capital gains and losses realized during the tax year should be netted against one another to minimize capital gains taxes. Net capital loss amounts in excess of \$3,000 may be carried forward indefinitely but do expire at death. It's important to review capital gains and losses across all investment portfolios, including business assets and LLC or partnership interests, as well as gains on the sale of any real estate. Those with sizable realized short- or long-term capital gains may consider investing in a Qualified Opportunity Zone, or QOZ, which pairs a very valuable tax-deferral strategy (even with the specter of higher future tax rates) along with the selection of high-quality real estate investments. Please note that the evaluation of both the tax plan and the investment selection is critical to achieving future success.

Historical Gift & Estate Tax Exemption Amounts

Absent further legislation, current tax exemptions will sunset in 2025



Source: Wikipedia

Alternatively, those who do not want to defer the capital gains in a QOZ investment and believe capital gains rates will increase in 2021 may want to consider selling a portion of the highly appreciated securities in 2020 if they intend to sell in the near term. For expected longer-term holdings, it may well be worth holding the security and deferring any tax on its appreciation while retaining the ability to offset against future losses or give the securities to charity, and then avoiding incurring those gains altogether (while potentially achieving a more valuable income tax deduction when tax rates are higher).

Generally, accelerating other forms of income into 2020 (from 2021) makes sense for those who believe income tax rates will rise. On that basis, deferring charitable contributions to 2021 to achieve a higher income tax deduction benefit should also be considered unless new tax legislation includes more limitations on deductibility. When given to a donor-advised fund or family foundation, the income tax deduction can be taken upfront (and over five additional years for those in excess of the annual adjusted gross income [AGI] limitations), but the charities themselves can be selected later. The right approach will consider the impact of gains and deductions.

If the decision is to move forward with the charitable gift, low basis stock (held for greater than one year) should be used to make charitable gifts, as the current fair market value of the securities contributed (subject to AGI limitations) can be deducted while avoiding the capital gains tax due on the appreciation if the asset had been sold. If the goal is to diversify the stock position immediately, create a tax-efficient income stream for lifestyle purposes, receive a partial upfront tax deduction and ultimately benefit a charity in the future, consider

establishing a charitable remainder trust (CRT) as part of your wealth plan.

These are just a few of the planning considerations ahead of potential tax policy changes. But it's important to stress that every family situation is unique, and these decisions should only be made in close consultation with wealth advisors, accountants and attorneys. The evaluation process needs to be holistic and completed well in advance of execution.

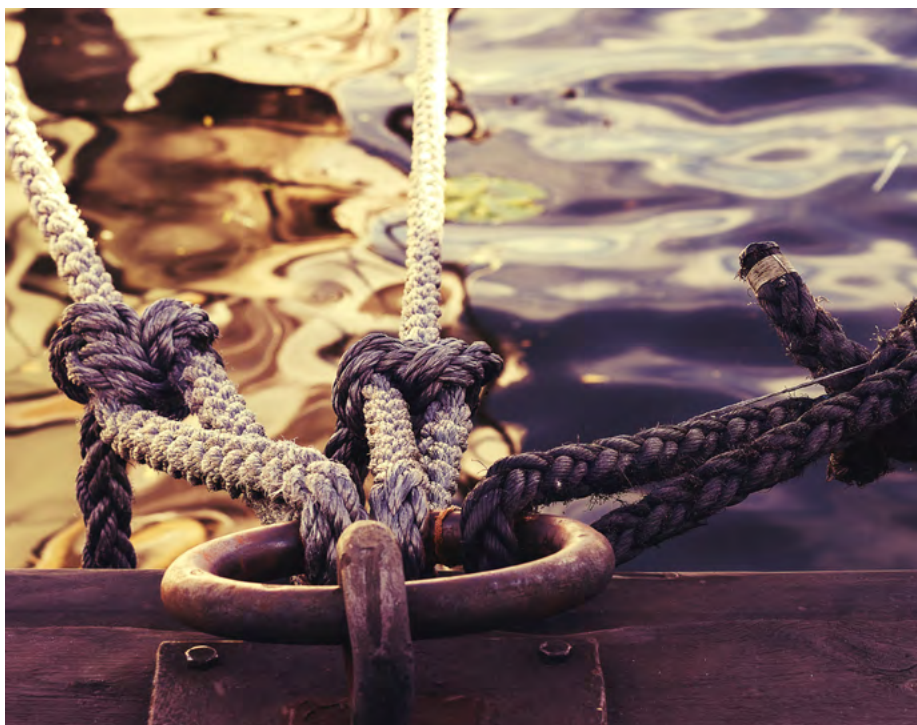
Julio Castro is a Partner at Evercore Wealth Management and a Wealth & Fiduciary Advisor at Evercore Wealth Management and Evercore Trust Company, N.A. He can be contacted at julio.castro@evercore.com.



Beyond the Balance Sheet: Planning for Generations

By Kate Mulvany

From shirtsleeves to shirtsleeves in three generations is a line that everyone knows – and for good reason. Empirical studies of economic mobility suggest that inherited wealth generally erodes with each generation.



But it doesn't have to be that way. Families can buck the trend with comprehensive planning. There's a lot more at stake, far beyond the family's current balance sheet. What are the goals of each generation? How are they evolving? And how do they affect other family members and the family as a whole? Individuals may agree on a family ethos but harbor very different ideas on priorities and timing.

The best multigenerational wealth plans start with conversations, from informal one-on-one meetings to structured family gatherings with trusted advisors, to frame objectives and allay anxieties. The holidays may be a good time to initiate these discussions, whether in person or virtual. (It's also a good time to initiate early discussions around the

transfer of family leadership, a subject we will explore in depth in the next edition of *Independent Thinking*.)

Once everyone is more or less on the same page, it's time to plan. The role of the wealth and fiduciary advisor is to analyze the data, provide a blueprint for the family's wealth structures and a protocol for financial decision-making, and help establish solutions, such as multigenerational trusts that enable each generation to engage with their trustees. Advisors should also educate and support individual family members as appropriate, while always maintaining the objectivity of experienced fiduciaries.

For the first generation, the planning focus is likely to be based on detailed estate and gifting analyses and related wealth transfer strategies, a subject on many families' minds as we approach the election and a possible change in the gift and estate tax exemption (see the article by Julio Castro on page 12). Adding to existing trusts (or consolidating older trusts into new ones more reflective of current circumstances) is also top of mind for

many families at present, especially as many trusts were set up in 2012 at the point of another major gift and estate tax inflection. An experienced trustee should be able to recognize when existing or evolving circumstances warrant potential change.

For the next generation, those in middle age, the focus tends to be on retirement and domicile. What's the right time to take Social Security, purchase or add to life insurance policies, perhaps with long-term care insurance riders? Is now the right time to upsize to work more effectively from home, downsize, buy a vacation home and/or move to a more tax-friendly state? Distributions from dynasty trusts help support this generation's goals, but trustees must be mindful of tax and the potential effect on the assets available for future generations. As this is the generation with the most hands-on responsibility for others, there's often also plenty to discuss around the care of aging parents, especially during this pandemic, as well as around efficiently funding tuitions in a dramatically changing higher

education landscape and helping buy first homes and establish businesses.

Their children – generation three – may be preoccupied with establishing careers, homes and families. The entrepreneurs among them may be seeking access to capital, with their parents and grandparents as potential sources through intrafamily loans or loans from existing trusts – an option that requires thorough analysis for everyone's benefit. Those employed by established companies might need some help in reviewing benefit packages and investment plans.

And for the very youngest members of a four-generation family, it may soon be time to start learning the value of a dollar – and adding to their financial education every year. That's likely to be something everyone in the family will agree on, and may wish to support or explore for themselves as they face the life transitions illustrated below. We all have something to learn, after all.

Multigenerational family wealth is often complex, bringing responsibilities as well as advantages to its members. At Evercore Wealth Management and Evercore Trust Company, we work with families to help preserve harmony while securing lasting legacies.

Kate Mulvany is a Partner at Evercore Wealth Management and a Wealth & Fiduciary Advisor at Evercore Wealth Management and Evercore Trust Company. She can be contacted at mulvany@evercore.com.

Managing life's big transitions

Evercore Wealth Management provides customized private wealth education to help families confront the financial issues associated with aging and other life transitions, and to support individual trustees, beneficiaries and family members. To learn more about these and other topics, please contact your Wealth & Fiduciary Advisor.

Young Wealth

Marriage

Education

Living Alone

Selling a Business

Family Leadership

Retirement

Managing Illness

Transferring Wealth

We've Got This: Aging with Grace and Joy

By Jeff Maurer

The vanguard of the Baby Boomers came of age at a challenging time in America; I turned 21 in 1968, a year in which none of us knew what would happen next. Now we're coming into our old age during a pandemic in which we are among the most vulnerable and, again, none of us know what will happen next. But we can do this, with a good attitude and the right team in place.



70%

of people 65 and up will need some form of long-term care.

First, we need to get through this pandemic. This winter will bring a return to indoor life for many and a sense of isolation, as outdoor restaurants, gyms and yoga studios shutter. Even those of us in sunny climes may be dreading the prospect of renewed lockdowns and holidays without friends and family present. It won't be easy, but with intelligent social distancing, a lot of Zoom time and a dose of good luck, it will be manageable. I really like this line by Vivian Greene, the widow of Graham Greene and a fine author in her own right: "Life isn't about waiting for the storm to pass.... It's about learning how to dance in the rain."

So let's look the storm in the eye and plan. If current statistics serve as a guide, 70% of the 10,000 Americans turning 65 each day will need some form of long-term care and 20% will fall prey to some kind of financial abuse. By the age of 80, 70% will experience some form of cognitive decline. Clearly, this is not a process we want to embark on without support. But again, with that support in place, aging can be a joy. It's interesting to note that survey after survey suggests a U-shaped life experience of happiness, with older people for a good while as happy as those in their 20s.

I started assembling my personal aging support teams in my 50s,

first for my parents (see article on page 20 on adult children planning for aging parents), but around the same time for me and my wife. I had seen too much over my career to leave any manageable aspect of aging to chance, whether for my family or, when we founded Evercore Wealth Management in 2008, for our clients. We need to be ready, whether for the proverbial bus or for a long, slow decline.

The team and documents we leave behind will be a proxy for our voice.

A good wealth management firm will be prepared to take the lead in coordinating a plan and, when the call comes, in its execution. The dedicated advisors will know the members of the team, and will know the location of the essential documents (including healthcare proxies), the location of all assets and insurance policies. We recommend the use of a revocable trust as the primary tool, which allows a successor trustee to step in for the grantor at the time of the grantor's cognitive decline, and ensures that the wishes of the grantor are carried out and the family's interests are protected.

In addition to the wealth advisor, the right team will include a physician, an estate attorney, an accountant, and one or more family members or a trusted friend. The team should also include a care manager, who can help families navigate healthcare and residential options, from aging in place at home, to memory loss and skilled nursing facilities. Each member of the team should have a

clear role, and be fully briefed on the relevant individual and family goals.

It is important to keep the team informed as to changes in circumstances and goals. It's a good idea to revisit the membership of the team on a periodic basis to check on each member's level of engagement. For example, I know I will have to replace the physician on my team over the next few years as he retires from his practice. I also recommend that trusts include a provision to remove corporate or individual trustees to allow the family flexibility with unanticipated circumstances. The team and documents we leave behind will oftentimes be the proxy for our voice and will help shape how we are remembered by our children and grandchildren.

A long life is a great blessing, if it can be lived well. That may feel especially challenging this winter, but hang in there. With the right planning and the right team in place, chances are that we'll keep dancing in the rain.

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

Caring for Aging Parents: A Primer for Adult Children

Nothing brings a Thanksgiving dinner conversation (in person or by video) to a stop like asking a parent about their aging plan. But it's an entirely appropriate – and important – topic to raise, albeit maybe after the meal. It's never too early for adult children to talk to parents about future medical care, housing, finances and personal needs.

Of course, each family is different and the comfort levels will vary. Most parents will be happy to share the names and contact details of their doctors and trusted advisors, their living will and their healthcare proxy. Some may be comfortable sharing more; others won't,

but should be encouraged to at least point their children in the right direction if and when the need arises.

At some point, and again, sooner rather than later, parents will have to designate who among their family (or

others) can access personal information and medical records, user names and passwords for digital assets and online accounts, financial information (ideally a balance sheet that outlines all assets and liabilities and cash flow information) and key estate-planning documents,

We've Got This: Successful Aging Takes a Team



Successful aging doesn't require a village, but it certainly requires a dedicated team. On October 15, 2020, Evercore Wealth Management Chairman Jeff Maurer and Joanna Gordon Martin, Founder and CEO of care management company Theia Senior Solutions, described the roles and responsibilities of each team member, key documentation, housing options and trends, and the associated costs, which can be eye-watering if not planned for well in advance. To hear the replay of our client webinar: *We've Got This: Successful Aging Takes a Team*, [click here](#). If you have any questions or would like to discuss these topics in the context of your own (or your family's) circumstances, please contact **Jeff Maurer** at maurer@evercore.com or your Wealth & Fiduciary Advisor.

including a will, a power of attorney and a revocable living trust.

Every adult child should understand his or her role. If there's an emergency, what is the plan and how will it be carried out? Anyone named as the healthcare agent or successor trustee or given power of attorney should be prepared to make decisions based on their parents' wishes. For example, is a respirator OK in certain circumstances? That's an unfortunately timely topic in this pandemic, and one that should be addressed well in advance of any need.

For many families, one of the most difficult aspects of the aging process to broach is

the cost. Long-term care services add up quickly and can be expensive, and are generally not covered by health insurance. The national median cost for an assisted living facility is \$48,612 per year, while the median cost for a 24-hour/7-days-a-week home healthcare aide is over \$200,000 a year. And that's just the average. In New York City, a high-end assisted living facility can cost over \$250,000 per year. It's daunting but it's not insoluble, with the right planning in place. The important thing is to address the challenges, as early as possible.

At Evercore Wealth Management, we help our clients and their families plan

Address the challenges as early as possible.

and invest to meet the challenges of life's big transitions. We know that the earlier these conversations start, the sooner families can find peace of mind and get back to enjoying each other here and now.

Document Definitions

- **Healthcare Proxy or Agent:** Designates another person, or agent, to make medical decisions for the appointing individual when he or she is unable to do so. Adult children should ensure that their parents' healthcare proxy includes a Health Insurance Portability and Accountability Act, or HIPAA, provision, which allows the agent to access medical information.
- **Living Will:** Describes desired and undesired medical treatments in the event of a terminal condition, which will govern when an individual is no longer able to make his or her own decisions.
- **Digital Assets:** Images, photos, video and password-protected data, including social media and cryptocurrencies that are stored digitally.
- **Will:** Outlines how a person's real and personal property, or estate, will be managed and distributed after death. Also appoints guardians of minor children, and executors who will carry out the person's wishes, often under court supervision and oversight.
- **Power of Attorney:** Appoints an adult child, other family member or friend, or a trusted advisor as an individual's agent to make authorized financial and legal decisions for the appointing individual during his or her lifetime. The terms can be limited in scope to take effect only upon the appointing individual's incapacity, as the document terminates at his or her death.
- **Revocable Living Trust:** A revocable living trust is a trust created by an individual, also known as the grantor, who reserves the right to change, revoke, or cancel the trust during his or her lifetime. Revocable living trusts are commonly set up with the grantor as the initial trustee, with a named successor trustee (either one or more individuals, or a trust company, or both) who can step in and serve in the event of the grantor's death or incapacity. Revocable living trusts are a common tool substitute for a will are used to dispose of assets at death, serving as a will substitute to avoid the court supervision, or probate process, that a will is often subject to. Most assets can be transferred to a revocable living trust during the grantor's lifetime, and the trust will govern how they are to be distributed upon the grantor's death.
- **Long-Term Care:** Services not covered by medical insurance that help meet both medical and non-medical needs, including daily personal tasks, of people with a chronic illness or disability who cannot care for themselves.
- **Successor Trustee:** A person or trust company who takes the place of a prior trustee when the prior trustee is unable to continue with his or her responsibilities due to removal, resignation, death, or for any other reason.

NEW YORK
55 East 52nd Street
New York, NY 10055
212.822.7620

Jay Springer
Partner
212.822.7621
springer@evercore.com

MINNEAPOLIS
150 S. Fifth Street, Suite 1330
Minneapolis, MN 55402
612.656.2820

Martha Pomerantz
Partner
612.656.2821
martha.pomerantz@evercore.com

PALM BEACH
515 North Flagler Drive, Suite 702
West Palm Beach, FL 33401
561.812.1010

Michael Cozene
Partner
561.812.1010
michael.cozene@evercore.com

SAN FRANCISCO
425 California Street
Suite 1500
San Francisco, CA 94104
415.288.3000

Keith McWilliams
Partner
415.288.3010
keith.mcwilliams@evercore.com

TAMPA
4030 Boy Scout Boulevard, Suite 475
Tampa, FL 33607
813.313.1190

Julio Castro
Partner
813.313.1192
julio.castro@evercore.com

WILMINGTON
Evercore Trust Company, N.A.
300 Delaware Avenue, Suite 1225
Wilmington, DE 19801
302.304.7362

Darlene Marchesani
Managing Director and Trust Counsel
302.304.7361
darlene.marchesani@evercore.com

EDITORIAL AND MEDIA
Aline Sullivan
Editor
203.918.3389
aline.sullivan@evercore.com

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