INDEPENDENT THINKING

THE NEW STANDARD IN WEALTH MANAGEMENT

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A Message from the CEO

How do we know we are human? Because we can identify buses, bicycles and sidewalks.

That made me laugh when I first heard it. Logging into websites has become a chore for all of us, albeit for good security reasons. But it also made me think about how quickly our world is changing, as we begin to realize – and hopefully harness – the potential of Artificial Intelligence. That's a subject we are addressing in detail, in these pages and in several client events. Our focus to date has been on the investment side, although we are exploring ways in which AI can support and enhance – but never replace – our very human work with client families.

In addition to our cover article on AI by Brian Pollak and Michael Kirkbride, and another by Brian on previous mega-capital investment cycles, you'll see two articles on investing in Asia. The first, on China, by Evercore ISI analyst Neo Wang, takes the long view on the country's challenges; the second, an interview with one of our carefully selected external managers, considers the outlook for Japan.

On the planning side, we revisit a subject much on our minds at present, the imminent sunset of the current estate and gift tax break. This, as our National Head of Wealth Planning, Justin Miller, likes to say, is a "use-it-or-lose-it" opportunity for families who plan to make significant gifts. You'll also see an article by Ashley Ferriello for families interested in engaging the next generation in managing wealth. With what looks to be a record wealth transfer already underway, there's a lot at stake, and families need to think long and hard about estate planning and governance issues. And, as always, our Chairman Jeff Maurer shares his inimitable take on the Baby Boomer generation, this time on steps his generation and the rest of us can take to protect ourselves, financially and more broadly.

On a separate note, you don't need me to remind you that an important election is approaching in the United States. But I do think it is worth restating our conviction that politics, no matter how contentious, and even most geopolitical upheavals, rarely weigh long on the markets. There are other issues at stake, of course, both here and abroad, and we are hosting an event with a leading political strategist to consider some of those. But as wealth managers focused on meeting clients' long-term financial goals, this is our lens. Please keep in mind in the interim that the best path through potentially turbulent times is usually the straight one.

Finally, I'm delighted to report that Evercore Wealth Management has again been named by *Barron's* as a leading U.S. Registered Investment Advisor, based on qualitative as well as quantitative factors.[1] This reflects your continued trust in our firm, for which we are very grateful.

I hope you enjoy this issue of *Independent Thinking*. As always, please contact us with any questions you may have, about the topics addressed here or anything else on your mind. We welcome your engagement.

Chris

Chris Zander
President & Chief Executive Officer

1 We were named among the Top 100 Independent U.S. Registered Investment Advisors by *Barron's* for 2024 (09/13/24). We were named a leading registered investment advisor for 2024 by *Financial Advisor* (07/12/24).

CapEx: Too Much of a Good Thing?

By Brian Pollak and Michael Kirkbride

Public and private capital expenditure, or CapEx, is at record highs in the United States. From semiconductor manufacturing to cloud infrastructure expansion, to boosting the energy grid, incorporating Artificial Intelligence, or AI, into our lives isn't cheap. At the same time, companies are also re/onshoring manufacturing, to control more aspects of critical supply chains and convert to greener energy. As the costs total up, thoughtful investors need to reconcile the benefits and the risks.

$150 billion

Estimated 2024 CapEx spending by Alphabet, Amazon and Microsoft.[1]

The scale of the investment is enormous. The largest cloud service providers – Amazon, Microsoft and Google parent Alphabet – are committed to over $150 billion combined in estimated CapEx spending this year.[1] The lion's share is earmarked for AI adoption, including infrastructure, services and research – to drive ever greater computation at ever greater speeds and scale. As illustrated by the chart below, that's up almost 50% from collective CapEx spending by these three companies last year, and up over 85% from their five-year average.

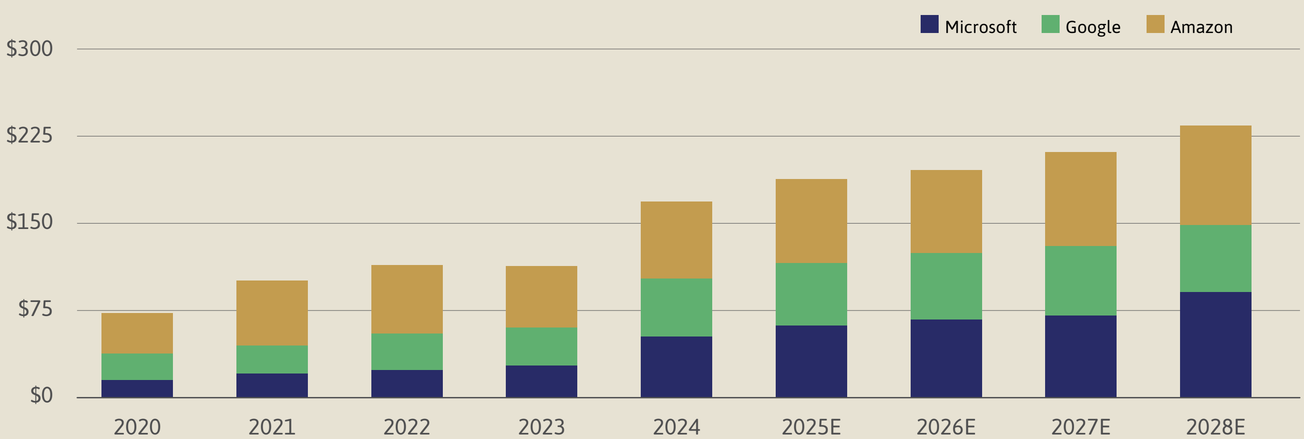
In addition to these hyperscalers, next-tier cloud providers such as Oracle and IBM are ramping up their own CapEx to support internal AI programs. Indeed, Oracle is projected to double its CapEx in the year ahead. And Meta and Tesla have similarly massive spending requirements for their own networks, projecting $50 billion and $10 billion in CapEx over the next 12 months, respectively. Next up should be spending by corporations in the broader economy, including in the energy, healthcare, consumer products and financial services sectors, which will require the software, data centers and services that the hyperscalers are building out. In addition, plenty of money will be spent on the delivery of AI to people – the so-called Edge AI, which brings the tools to people's phones and computers – and the energy necessary to enable all of this.

At the base of this investment is a reliance on access to the semiconductors that power all the data processing and analysis underlying AI. U.S. vulnerabilities here were cast into stark relief by the pandemic and cooling ties with China: The CHIPS and Science Act of 2022 has so far sparked announcements from Micron ($25 billion in Idaho), Taiwan Semiconductor ($65 billion in Arizona), Intel ($96 billion between Arizona, Ohio and Oregon), and Samsung ($45 billion in Texas), among others. All told, 80 or so projects are in the works. It is worth noting that these investments should create significant construction jobs and eventually tens of thousands of high-paying technology jobs, as well as make the United States more self-reliant.

More broadly, onshore manufacturing has fiscal support from the Infrastructure Investment and Jobs Act of 2021 and the Inflation Reduction Act of 2022. But bringing manufacturing back to our shores, which had been moved to China or Mexico over the proceeding decades, will not be a simple or immediate task. Still, 70% of U.S.-based companies with a global footprint have expressed an intent to reshore at least a portion of their manufacturing (per Cornerstone Macro) – and many have indeed begun to do so. This trend is being led by companies involved in manufacturing electrical equipment, appliances and components; computer and electronic products; chemicals; transportation equipment; and medical equipment and supplies.[2] CapEx spending here outside technology remains low, but that could change soon.

As for the energy grid, the United States has a deservedly terrible reputation. The demand for capital investment is only more pressing now, as the data centers that power AI are using tremendous amounts of energy. The incremental electricity consumption projected from

Estimated 2024 CapEx Spending



Source: FactSet.

> Will the payback on spending be high enough for big investors to earn an appropriate return?

2024 to 2030 will be the equivalent of three times that of New York City.[3] And re/onshoring manufacturing, as well as increasing electric vehicle usage, will only add to domestic energy consumption. Much of this cost will be borne by government-led initiatives, of course. But the private sector is contributing as well, in the power grid, in transmission and distribution, in pipelines, and on alternative energy sources, including natural gas, nuclear and renewables. Utilities across the country are looking to seize the opportunity to address an uptick in energy demand by targeting high-return investments in expanded capacity. At the same time, supporting the grid is an area of some bipartisan support, with proposed legislation released this past July.[4]

So, what is the risk of overspending and overbuilding? Will the payback on spending be high enough for the hyperscalers and the other big investors to earn an appropriate return on their considerable capital? In the interim, will the profits generated from AI among the end-users – the smaller companies actually deploying AI in their business practices – meet stock market analysts' currently high expectations? At this rate, we'll need to see a major shift in productivity and growth over the next decade or so to justify this spend. And to top it off, high PE multiples and the significant concentration in the S&P 500 index to the hyperscalers leading this investment gives us cause for concern.[5]

Profits are already showing up at the cloud service providers: Microsoft and IBM have both detailed a direct line to revenues from their massive capital spending, as they have been able to convince many of their customers to spend more on AI-enhanced products. Longer term, this cycle has one big advantage over past debt-fueled CapEx booms. The biggest spenders are the biggest and best capitalized companies in the world, with massive research and customer bases. They are primarily using operating cash flow, not debt, to fund AI-driven spending. They should have time to make sure that their investments pay off.

> Autonomous vehicles, AI-enhanced robotics, and more could have a massive impact on productivity.

It is unclear yet whether AI-related productivity enhancements will be worth the cost for the average small- or medium-size company. Call centers, pricing algorithms, supply chain and inventory management, and improved customer interactions are among the many use cases posited, but all need time to be implemented before rates of return on investment become clear. Bigger picture, the prospect of autonomous vehicles, AI-enhanced robotics, new and faster research and development in healthcare, energy, space travel and more could have a massive impact on productivity.

As for dependencies, it's difficult to argue that a more efficient power grid, a shift to greener energy and, eventually, shorter supply lines aren't in our broader long-term economic interest anyway. This infrastructure needs to be built, regardless of the AI cycle, and a strong CapEx cycle generally bodes well for the economy. To date within energy infrastructure, we do not see signs of overbuilding or bubble economics. Indeed, the question here is whether the developments in these areas will proceed fast enough to support advances in technology. This is an important consideration as the AI investment cycle unfolds unpredictably in parallel.

> We believe that overall portfolio diversification is the best risk mitigator.

We continue to believe that overall portfolio diversification, with exposure to cash, defensive and credit-sensitive fixed income, stocks and illiquid alternative investments, if appropriate, is the best risk mitigator. We are always mindful of having too much exposure to any single trend or investment thesis, regardless of the surrounding hype.

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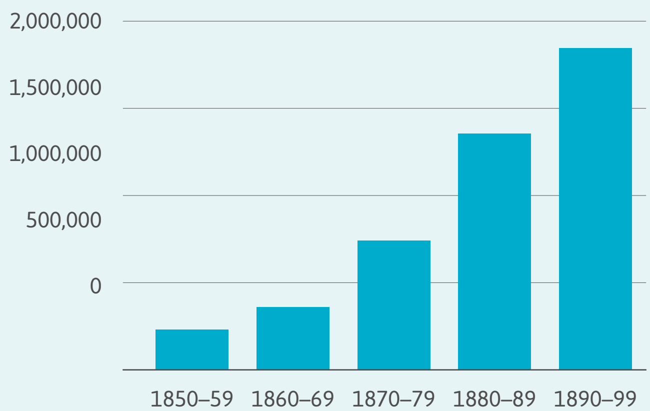
[1] Per FactSet estimates for 2024 CapEx: AMZN $66bn, MSFT $52.3bn, GOOG $49.8bn (Total $168.1bn)
[2] https://sloanreview.mit.edu/article/a-reshoring-renaissance-is-underway/
[3] The Electric Butterfly Effect, 6/30/2024, Bernstein Societe Generale Group
[4] Energy Permitting Reform Act of 2024 (Manchin, Barrasso)
[5] Top 6 = 29.6% of S&P 500 Apple (6.8%), NVDA (6.2%), MSFT (6.8%), GOOG (3.8%) AMZN (3.6%), META (2.4%). As of September 26,2024

Booms and Busts: A Brief History of Capital Spending Cycles

By Brian Pollak

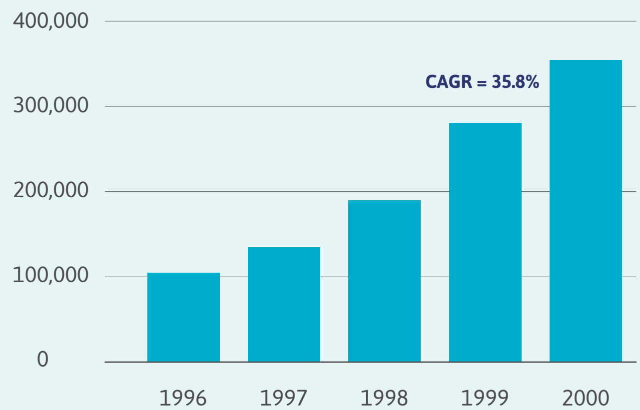
Bill Gates has a good line on change: “People,” he says, “often overestimate what will happen in the next two years and underestimate what will happen in 10.” We see evidence of that now, in the rush to exploit Artificial Intelligence (as described on page 2) and the related stock market volatility. If the past is any guide, the capital being spent today will eventually pay off – but the going may not be smooth.

Cumulative Railroad Miles in U.S. by Decade (1850-1899)



Source: Federal Reserve for Economic Data

Cumulative Fiber Optic Cable Route Miles



Source: Wesleyan University

CapEx mega-cycles are generally characterized by the invention of a new, disruptive technology that requires the buildout of massive infrastructure. They tend to revolve around major productivity-enhancing innovations, such as new forms of communication, new energy sources or generation methods, or transportation. Cheap and easy credit can pump investment – so can government backing through direct funding or regulatory support. While government support and debt funding can help a new industry get started, too much of both can often create a glut of capital, which leads to malinvestment.

The early automakers, the advent of electrical generation, and more recently, the smartphone, had prolonged growth trajectories. The industries that grew up around those new technologies all experienced consolidation (meaning many of the early companies failed), as well as continued innovation and capital spending. In the end, however, these advances in technology massively enhanced productivity without any significant economic hangover when their growth eventually slowed.

Other technological innovations were punctuated by overzealous capital spending booms followed by devastating financial crashes. Post-crash, industry growth and investment continued, albeit at a more reasonable pace. Steam locomotion was an early, transformative example. Invented in 1797 in England, the first rail lines in the United States were built in 1827 by the Baltimore and Ohio Railroad. The ability to transport goods and people quickly and safely over long distances changed the nature and trajectory of westward expansion in the country and supercharged national economic growth. In 1862, the Pacific Railway Act authorized the construction of the first transcontinental railroad, which ultimately linked California with the rest of the nation. This and the end of the Civil War in 1865 sparked even more growth, fueled by the combination of government support and debts. That ended in 1873 when Jay Cooke & Co., the bank that financed many railroad firms using high levels of debt, went bankrupt in September of that year. A market panic ensued, ending with bankruptcy of around one-quarter of the 364 railroad companies, and by 1876, 14% of the labor force out of work.

Still, railroads continued to expand after the crisis passed to peak in 1916 at over 254,000 miles. The growth of the railroads and continued improvements in track and locomotive technology spurred ever better connectivity and transportation, speeding the overall development and expansion of the country. The best investments were in the companies that benefited from this development, such as Sears, Roebuck & Company and Standard Oil, both of which leveraged railroads to build their companies to national scale.

Fast-forward to the telecom and internet boom of the 1990s and a similar story plays out at a much faster pace. The telecom CapEx cycle really took off in the middle of the decade as a massive new source of demand (the internet) combined with new advances in fiber-optic technology and the passage of the Telecommunications Act of 1996 (which allowed for more competition and new entrants).

This set off a wave of investment. Technology-focused capital spending between 1996 and 2000 increased by 75.6% cumulatively.[1] Many of these big spenders were new entrants into telecommunications infrastructure, spurred by deregulation and further encouraged by a massive growth opportunity. While the internet usage and use cases continued to grow for decades, by 2001 it was clear too much capital had been deployed too quickly. Problems were exacerbated by fraud and too much debt: Global Crossing, WorldCom and Enron all went bankrupt due either to fraud or too much debt, or in some cases, both. The subsequent stock market crash resulted in massive declines, over 70% for both the tech-heavy Nasdaq and the S&P 500 Communications Services Sector Index.[2] As with the railways, many of the companies that invested in the fiber build-out of the 1990s were not around to see it come to fruition. While AT&T, Verizon and Cisco are all still around, Amazon and Google, which used the internet and telecommunications network to build massive global businesses, turned out to be better investments.

AI is at least as likely to generate new industries and avenues for growth. But how long before today's investments pay off? Is AI the next smartphone or will the cycle look more like the telecommunications industry? At current spending rates, Herculean growth assumptions must be achieved over relatively short periods. The biggest players know that, however, and they – Amazon, Google, Microsoft and others – have massive balance sheets and are taking on very little debt.

As investors, we are reasonably confident that these companies, among a few others, will be able at present to focus on AI's potential over the next 10-plus years, and not just the next two, which mitigates the worst-case volatility for this cycle. But we are also cognizant that in past cycles, the best investments were often the beneficiaries of the innovation, not the innovators themselves. Sears was a better investment than Union Pacific in the first decades of the 1900s, just as Amazon was a better investment than Cisco in the first decades of the 2000s. We are focused on finding companies in healthcare, financial services and manufacturing that will be the primary beneficiaries of this CapEx cycle.

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[1] Bureau of Economic Analysis.
[2] Peak to trough 03/09/2000 to 10/09/2002.

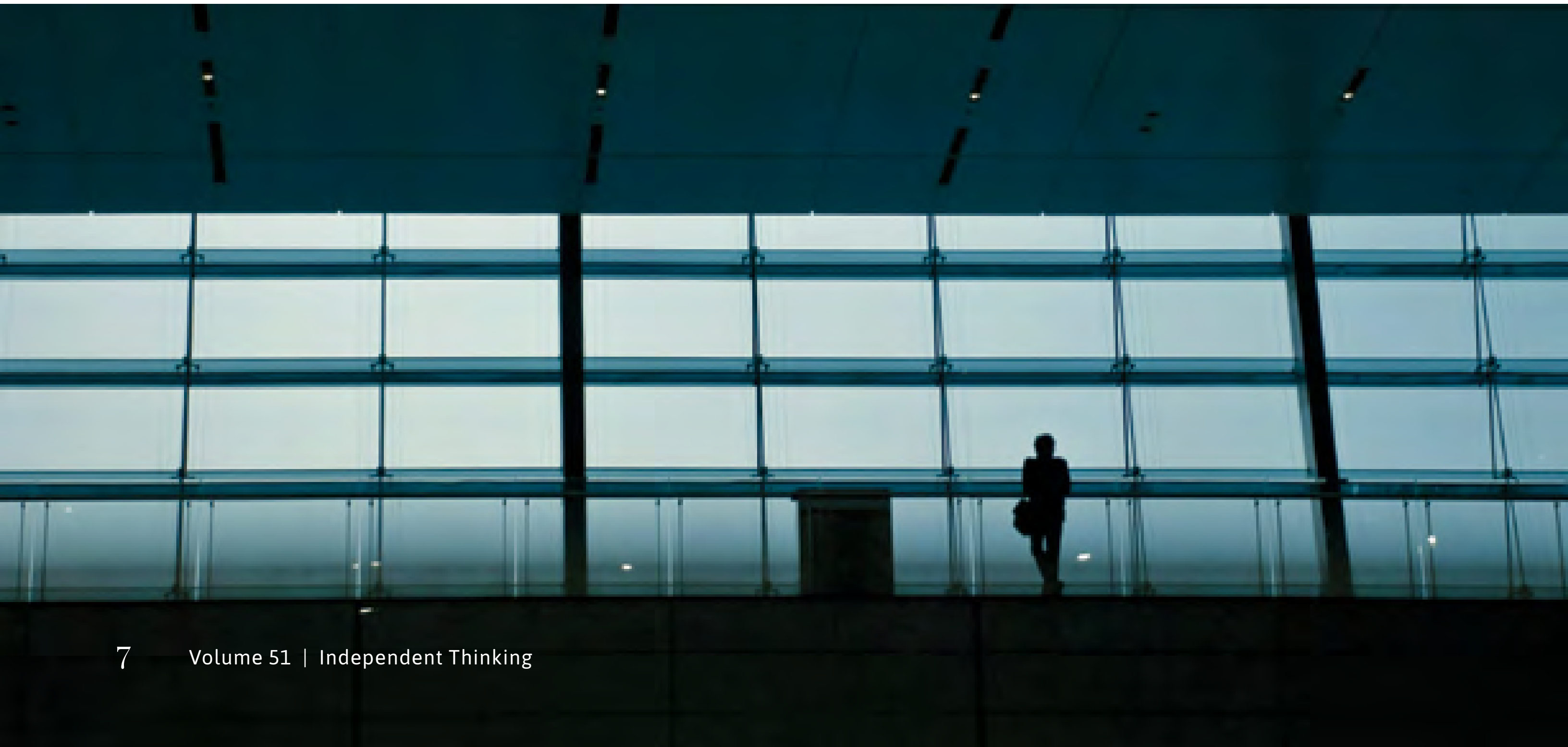
Through the Looking Glass: Investing in China

By Neo Wang

Beijing is focused on building China into a leading modern socialist country, measured by both composite national strength and international influence, by the 100th anniversary of the People's Republic of China, or PRC. The founding of the PRC in 1949 ended the century of humiliation, as Beijing puts it. So, what will it take to get there – and what will that mean for investors in the interim?

Editor's note: Neo Wang is the lead China economist/strategist at Evercore ISI, the leading U.S. research firm according to *Institutional Investor's* annual survey.[1] Evercore Wealth Management has limited investments in China, all of which are made through broader emerging market mutual funds.

[1] *Institutional Investor* All-America Research survey, 2023, weighted by commissions and top-ranked positions.



COMPOSITE NATIONAL STRENGTH HINGES ON PRODUCTIVITY.

Economics 101 taught us that output equals labor force times productivity. On one side, China, the major country that is aging the fastest, is experiencing a decades-long secular decline in its labor force. The phaseout of the one-child policy completed in 2015 has hardly helped to revive the birth rate and, in any case, it still takes at least 16 years to raise labor. The idea of raising retirement ages, a seemingly instant solution, has met with strong resistance. Many retired people in China remain productive, helping to care for grandchildren. Any drastic change could send ripples across the economy, risking undesirable consequences.

> The best option for China is to rely more on domestic efforts.

On the other hand, productivity growth is subject to the law of diminishing marginal return and, in China, the technology "containment and suppression" led by Washington.

The best option left for China to sustain economic growth is to rely more on domestic efforts while striving to maintain business ties with the United States and its allies to realize net technology gains. The Party's latest catchphrase, "new quality productive forces," goes far beyond new energy vehicles, lithium batteries and solar panels to include semiconductors, Artificial Intelligence, advanced manufacturing, biomedicine and quantum technology. In essence, it is a supply-side upgrade, to climb the value chain and better serve both domestic and external markets.

Economic restructuring will get a push in this process, which we expect to be reflected in the evolving roles of four growth engines:

First, the supply glut of residential properties means that this sector is unlikely to generate capital gains over the foreseeable future. Any growth in the housing market will likely be solely through urbanization, and at a much slower pace.

Second, infrastructure investment will likely be favored by Beijing over real estate, as it generates a longer-tail economic and/or social benefit. It also helps to ensure a smooth downsizing of capital formation as a share of GDP.

Third, consumption should benefit from both the supply-side upgrade and rising spending power, thanks to the end of enthusiasm for homebuying.

Finally, exports should prove resilient due to China's increasing supply of goods with higher value-added and at competitive prices to the vast emerging market as its manufacturing sector climbs the value chain.

Separately, so-called Japanification has been a recent rising concern of China watchers. They worry that deteriorating demographics, high debt, and the real estate troubles, all also issues in Japan in the 1990s, may similarly affect investors' confidence. We think too much attention has been paid to the similar symptoms, while the vast differences have been largely ignored. *Editor's note: We interview WisdomTree Global Chief Investment Officer Jeremy Schwartz on Japanese equities on page 10.*

INTERNATIONAL INFLUENCE IS HARDER TO COME BY.

Beijing has been striving to become a reliable supplier and financer serving other developing countries, just as China was served by developed countries over the past four-plus decades. Getting the most out of the growth potential of the entire emerging market should be an indispensable part of Beijing's efforts to sustain economic growth in the long run. The Belt and Road Initiative was just the start and helped to set the stage.

> We believe that Beijing has no interest in a war across the Taiwan Strait or in the South China Sea.

Soft power is more difficult to achieve. The PRC is an ideology minority and widely regarded by western democracies as an authoritarian regime. The Global South is more likely to embrace Beijing's leadership and vision, but only to a limited extent given the competing forces, notably from India.

Against this background, we believe that Beijing has no interest in a war across the Taiwan Strait or in the South China Sea. The impressive military buildup is for deterrence so that it doesn't easily get provoked and cornered into military response. Certainly, observers should question views driven by business or industrial interests, such as arms sales to Taiwan and diversification of chip capacity.

The United States is probably the last country interested in seeing China's rising international influence. The two countries are engaged in a Cold War and de-risking, aka technology decoupling, will remain the dominant theme of the relationship. But deep economic integration and nuclear weapons greatly reduce the chance of falling into the Thucydides Trap, when a rising power threatens to displace a ruling power and a deadly pattern of structural stress sets in. We expect the two countries to remain adversaries, more contentious than competitors but not quite enemies. Compartmentalization should be the approach to manage the relationship.

As for the European Union, we expect Beijing to stay flexible and pragmatic, with the need to manage U.S.-China relations as a main consideration in its approach to Brussels.

One way China can increase international influence is by taking the lead in global efforts to cut carbon emission. China could potentially benefit greatly from this process, in areas such as industrial upgrades and reducing import dependence. Another way may be by playing a bigger peacemaking role. However, we expect Beijing to remain primarily inward focused and don't see any reason it would want to help bring to an end any distraction in Washington.

ECONOMIC PROSPERITY IS INSEPARABLE FROM POLITICAL STABILITY.

Paramount leader Xi Jinping has been maintaining a tight grip over power and is expected to serve at least a fourth five-year term until 2032 when he will be 79 years old. After that, he will likely maintain his influence by retaining control over the People's Liberation Army. With the fate of China largely hinging on Xi, two risks exist. One risk is in his health, rumored at times to be poor. We hope there is a succession plan, but there is no heir-apparent. The other risk is in the chance of a major policy error. Xi is a true Communist, like Mao, but there are important differences in their education, experiences and access to external views, which seem to us to mitigate this second risk.

> There is no imminent risk of social unrest, either from young people or high earners.

At the moment, we don't see much finger-pointing at Xi, even with the current economic headwinds. Most Chinese attribute these difficulties to lingering effects of the pandemic, rising geopolitical tensions, and the prolonged housing downturn. There is no imminent risk of social unrest, either from young people struggling to find jobs or high earners facing moderate pay cuts. China will remain a surveillance state, but the public is largely accustomed to it and perceives more benefits than drawbacks, a mindset encouraged by the government-controlled media.

CHINA BEING INVESTABLE OR NOT IS THE RIGHT STARTING POINT.

From an equity portfolio investment perspective, we expect China to become increasingly less of a country story and more of a sector or stock play. Xi is playing the long game, attaching significant importance to sectors of strategical benefit to the country. Most of them feature hard technologies, in contrast to consumer-facing internet technologies. Foreign investors' return seems not even close to the top of his priority list. To keep making money from China, investors may have to align their investments with Xi's priorities.

However, some of Xi's favored sectors are not at all suitable for western investors, because of Beijing's recent focus on national security. We think the two most suitable sectors are healthcare and clean energy, which are supported by the surging elderly population and Beijing's ambition for a green transition. Chinese companies are mostly safe if foreign investors avoid controlling stakes. And foreign companies had better avoid collecting genetic information on the Chinese people or supplying critical energy infrastructure.

> Some of Xi's favored sectors are not suitable for western investors.

As China climbs the value chain, the local market should become more competitive, due to stronger competition from Chinese peers and the changing mindset of Chinese customers. Foreign companies' performance in China will be increasingly unrepresentative of how China's economy is doing overall.

Concerns over the repatriation of investment or profits seem to us unwarranted. We do not believe Beijing will punish any U.S. company for no other reason than the general tension with Washington.

For further information on Evercore Wealth Management and Evercore ISI research, please contact **Brian Pollak** at brian.pollak@evercore.com.

Q&A
with Jeremy Schwartz of WisdomTree Funds

Jeremy Schwartz

Editor's note: The Japanese equity market has been one of the best performers so far this year outside the United States, despite a recent short and sharp period of volatility.[1] Here we speak with Jeremy Schwartz, the Global Chief Investment Officer of WisdomTree Funds, about the WisdomTree Japan Hedged Equity Fund, one of the carefully selected outside funds that supplements the core capabilities of Evercore Wealth Management. Please note that the views of the external managers interviewed in *Independent Thinking* are their own and not necessarily those of Evercore Wealth Management.

Q: Let's start with international markets generally. U.S. equities have outperformed ex-U.S. for some time. How do you think about relative valuations now?

A: U.S. equities (as measured by the S&P 500 Index) have been on an extended hot streak versus ex-U.S. (as measured by the MSCI ACWI ex-U.S. Index), outperforming for nine of the last 11 calendar years. At the start of this stretch in 2013, international equities traded at around a 15% discount to U.S. equities on a forward price-to-earnings. Today – international equities trade at almost a 40% discount, the greatest discount on record back to 2000.

While there are sound reasons for the U.S. premium valuations, most notably the country's outsized exposure to mega-cap tech companies with high profits that have delivered better earnings growth for a decade – and the valuation gap can always widen further. We think these relative valuations are one motivating factor for investors to consider international exposures.

Q: Japan has been a bright spot, apart from the brutal but brief sell-off in early August. The market staged a remarkable recovery after decades of low growth and despite relatively muted international investor interest. Why do you think that is?

A: Japan has a number of positive tailwinds. The first of these is the relative valuation story. Strong returns over the last few years coincided with strong earnings growth. As a result, Japanese valuations have not become stretched the same way they have in U.S. equities. The MSCI Japan Index is trading at about 15x forward P/E, a far cry from the S&P 500 valuation at 22x. Though Japan has had relatively weak economic growth in recent years, Japan is an export-heavy market that has benefited from strong growth in the United States, and a weaker yen has directly benefited the earnings of Japanese multinational companies.

[1] The Nikkei 225 index rose 78.80% in the four years ended 8/21/2024, inclusive of a 19.55% decline between 7/31/2024 and 8/5/2024.

Second, the data on foreign investment has perked up in recent years. In the last four years, there has been a cumulative $112 billion foreign investment inflow into Japan. That compares to a cumulative $100 billion foreign investment outflow from Japan in the preceding four years. One catalyst for these inflows was the much-publicized investments of Warren Buffett into five Japanese trading houses, which he has added to several times. Since his investments became public in August 2020, the share prices of his investments have nearly quadrupled, far outpacing the S&P 500 over the same period.

The last major tailwind would be the corporate governance reforms pushed for by the Tokyo Stock Exchange, or TSE. In 2022, the TSE instituted its biggest overhaul in 60 years to reinvigorate enthusiasm for Japanese equities by announcing that companies with a price-to-book below one (about half of listed companies) needed to disclose their policies and specific initiatives for improving valuations.

One approach Japanese companies have focused on for increasing price-to-book ratios is implementing shareholder-friendly payout policies. Companies have looked to reduce the high degree of cash on balance sheets with increases in dividends and share buybacks. Japanese corporations still have relatively high cash piles on their balance sheets, so we expect continued distribution growth over the coming years.

Q: We've all heard about demographic challenges facing Japan. How is the country managing around this issue?

A: Japan has been the poster child for demographic challenges, and has certainly faced the issue most acutely, but it is a challenge facing the entire developed world. Japan's working-age population peaked at 87 million in 1995 and is projected to fall to 55 million by 2050.

The country enticed more women into the workforce with Shinzo Abe's program referred to as "Womenomics," as the female labor force participation rate increased steadily. Despite being historically hostile to immigration, the number of foreign workers has been steadily increasing in Japan, and this spring the government expanded the list of fields eligible for skilled-worker visas. On the reproduction front, the government has made inroads at increasing access to childcare and creating tax incentives for having children.

Much more needs to be done on each of these efforts to counteract the declining population, but a multipronged solution is underway. This story on demographics is often made by the bears on Japan's economy. But investing in Japanese corporations in our view is an investment in the global nature of their businesses more so than Japan's local economy.

Q: What is your view of the sell-off in early August and the subsequent recovery? Is there further potential upside in the Japanese market now?

A: The Japanese market experienced a very large sell-off following the Bank of Japan rate hike that we believe was more of a position de-leveraging than a fundamentally driven move in the prospects for Japanese stocks. We viewed the pullback and volatility as an opportunity to add to positions, and we did so in a number of our WisdomTree model portfolios.

A 15x forward P/E for MSCI Japan valuations is reasonable relative to history and relative to the U.S. market. But valuations are just one thing; the other is the positive trend in earnings. On the WisdomTree website, we have a tool called the Earnings Path that aggregates index level earnings growth by blending realized company earnings results with median analyst estimates for all constituents of respective indexes. For 2023, we saw operating earnings growth of over 15% for Japanese equities (as measured by the MSCI Japan Index) versus just 1% for U.S. equities (as measured by the S&P 500). For 2024, we see the premium earnings growth continuing with growth of 17% for Japan and 12% for the U.S.

Q: Let's talk about the potential risks. Other than the recent run-up in valuations and volatility, and the ongoing demographic challenges, what should investors be aware of?

A: Japan is an export-heavy market, so risks to free trade are always an important consideration. Regardless of political party and across developed countries, the shift over the last five to 10 years has been toward rolling back the free-trade consensus that characterized the two decades following the end of the Cold War. One deal that characterizes the shift in policy is the U.S. holdup of Nippon Steel's acquisition of U.S. Steel under the guise of national security.

Geopolitical risks are notoriously difficult to price, but it's something investors should be aware of when investing in a market like Japan. We also think Japan is benefiting from a strategic reallocation away from China and toward U.S. allies in Asia, notably India and Japan, and we believe this trend will be with us for an extended period, regardless of the U.S. election outcome in November.

Q: How should investors think about currency risk? What does your firm think about the effects of hedging that risk?

A: Investing in Japanese equities without a currency hedge means being fully exposed to the weakening yen versus U.S. dollar, potentially wiping out strong gains in the returns of the companies themselves.

To illustrate this point, the WisdomTree Japan Hedged Equity Index was up over 28% for the first half of 2024, but the unhedged MSCI Japan Index was up just 6.3%. This outperformance reflects a number of factors – the currency move, the interest rate differentials one earns when hedging the yen, and the relative performance of the WisdomTree index that tilts to higher dividend-yielding stocks.

For U.S. investors that want to gain access to Japanese equities without the headache of potential currency headwinds or tailwinds, currency hedging can take the currency risk off the table.

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

Regaining Perspective on Aging

By Jeff Maurer

David Attenborough continues to explore at 98; Warren Buffett continues to invest at 94; and Mick Jagger still "can't get no satisfaction" at 81. We've been hearing so much about what scientists describe as "super agers," those with the mental and/or physical capacity of people decades younger, that we are almost losing perspective on the normal aging process. The election has served as a reminder, with one of the two oldest major-party presidential candidates in U.S. history dropping out.

Aging is a fact of life. In my 77th year, I hiked the wilds of Alaska and took the photo on page 13, received apparently effective treatment for prostate cancer, underwent a shoulder replacement, and photographed Yellowstone with my siblings. My 70s are almost as eventful and volatile as my 20s! I am enjoying the good times, while searching for grace amid the challenges. In short, I accept that stuff will happen. I know some physical frailty is on the way, and I am watchful for other signs of weakness.

Most of us would like to retain control over our lives, but there is no doubt that we become more vulnerable. Stuff is happening now to the so-called Silent Generation and the vanguard of my giant Baby Boomer generation. In my communities in Florida and New York, and in discussions with our older clients (and their adult children) across the country, I am hearing the same questions, the same concerns:

How can I protect myself as I age? How can I protect my spouse? What can I do for my children and grandchildren? What can I do for my community, for the causes I care about? What is going to happen in this election? In the world?

I, along with my colleagues at Evercore Wealth Management and Evercore Trust Company, can help address most of these questions (see the article by Ross Saia on page 15 and a few additional suggestions on aging well by me, below). Thoughtful planning, appropriate risk-adjusted investing, and truly personal fiduciary care will go a long way for our clients and their families in preparing for the future, whatever it holds.

As for those last two questions about the state of our world, I can't be sure about those, although I wish I could. We will be discussing the election in webinars and client events in the coming

Good Luck and Good Practices

I like to think I chose my parents wisely, but of course I've been lucky: My parents, grandparents and some great-grandparents lived into their 90s in relatively good shape for all but the last few years. In a similar vein, the affluent are generally lucky too, with the top 1% of American women and men now living to an average 88.9 years and 87.3 years, respectively.

Habits count too, though. So here are a few suggestions:

Ace the basics.

- Maintain a healthy diet, no smoking, consistent sleep, light use of alcohol. And keep moving. Mick Jagger's three-hour daily regimen might not be for everyone, but you'll want to keep some spring in your step for as long as you can.
- Stay active and engaged, whether through work, volunteering and/or hobbies. I am fortunate in continuing to enjoy all three.
- Stay social; prioritize meaningful relationships with friends and families. As Warren Buffett put it, the more love you give away, the more you get back.
- Stay cheerful. Why not?

Recruit your team and give them the tools to succeed.

- Choose doctors, lawyers, wealth and fiduciary advisors, and eventually perhaps a care manager who should outlive you (or are part of a firm with clear succession planning).
- Check in regularly with each, including annual physical exams and annual rigorous financial analysis.
- Assign appropriate powers of attorney and healthcare proxies.

Keep an eye on the long term.

- Plan and invest for a 100-year life – and then for legacy.
- Secure medical and long-term care insurance.
- Ensure that your revocable trust has a provision to replace yourself as trustee in the event of incapacity.

Successful aging is hard work. But it is famously better than the alternative.

— JM

months. In the interim, please take a look at Brian Pollak's article *https://evercorewealthandtrust.com/shaking-it-off-the-markets-and-geopolitical-crises/* in the previous edition of *Independent Thinking*, on the surprisingly low impact elections and geopolitical events generally have on the markets. There are other issues at stake, of course, but this may be one consolation.

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

Partnership in Planning

By Ross Saia

"How do I educate my spouse about our wealth?" "How much do our children need to know?" Estate planning discussions tend to focus on the distribution of assets. But it's the answer to these two questions that will often determine how effective the plan proves to be.

While every family, every situation is different, a collaborative approach is usually best, both between spouses and between parents and adult children.

Even when spouses have shared goals regarding the disposition of their assets, engaging the less financially knowledgeable spouse at their level of understanding and interests and educating them about the potential financial trade-offs can improve the outcome. A trained advisor should be able to make sense of the SLATs, GRATs, CLATs and DINGs of estate planning while helping to foster a sense of unity and preparedness, which is vital in managing assets and addressing future uncertainties.[1]

The more informed children are about their likely inheritance, the better choices they can make about their own finances, including saving, borrowing and spending on their own children. Involving adult children in the planning process can also provide them with a sense of inclusion and responsibility and help them become familiar with the financial and legal aspects of estate planning. Effective family governance and legacy goals can be much more attainable if family members feel informed and engaged.

Even in blended families, where sources of wealth vary and where profound differences can exist between levels of wealth, informed planning can promote a sense of unity and preparedness.

Perhaps equally important is the need for transparency. Honest conversations about estate planning can help manage expectations and reduce potential tensions, misunderstandings, conflicts and even legal disputes. Explaining the rationale behind decisions, whether it's the distribution of assets, the establishment of trusts or assignment of fiduciary responsibilities (i.e., trustee, executor or personal representative appointments), can be very helpful. Heirs need to know the "why," not just the "what" and "how much" while there's still time to have those conversations.

Admittedly, there are situations where sharing sensitive information is not advisable or appropriate. In such cases, a letter of wishes can be placed among estate planning documents explaining the rationale behind decisions and outlining expectations. In any event, families with significant wealth should consider appointing a corporate trustee or co-trustee to educate and support an individual trustee.

Ultimately, estate planning is about more than just the distribution of assets; it's about ensuring that the family is prepared for the future and that your wishes are respected. Taking the time to educate a spouse and involve adult children in the process can make a world of difference.

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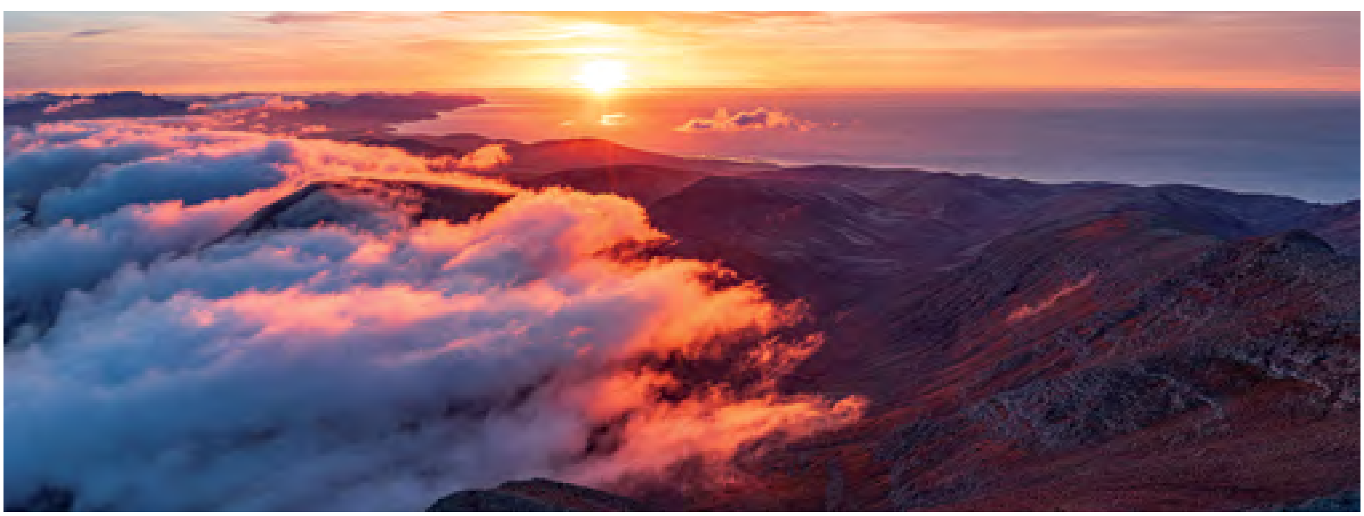
[1] Spousal Lifetime Access Trusts, Grantor Retained Annuity Trusts, Charitable Lead Annuity Trusts, Delaware Incomplete Non-Grantor Trusts

Before Sunset: Time Is Running Out on the Estate Tax Exemption

By Justin Miller, Neza Gallitano and Alex Pavelock

Sunset is when the sun appears to sink below the horizon. However, when it comes to estate planning, sunset is when the current gift, estate and generation-skipping transfer, or GST, tax exemption under the Tax Cuts and Jobs Act of 2017 gets cut approximately in half. After 2025, individuals will be limited to giving an estimated $7.18 million tax-free to their heirs, down from the current $13.61 million "use-it-or-lose-it" exemption amount. A historic window of opportunity to maximize intergenerational wealth transfer is set to close soon.



Depending on elections in November 2024, it is possible that Congress – with the future president's approval – could extend the historically high exemption amount by passing legislation similar to the Tax Cuts and Jobs Act of 2017. However, such an extension seems unlikely at this point, given the extent to which it would increase deficits. The Congressional Budget Office recently estimated that the cost of extending just the exemption levels through 2033 would be approximately $167 billion.

If 2026 still seems a way off, consider that some trust and estate attorneys are already turning away clients as the deadline looms. Anyone able to take advantage of the full exemption who fails to use more than $7.18 million will likely lose the remainder as of 2026, as illustrated in the chart below. Also lost after 2025 will be all the potential estate-tax-free appreciation of those assets, perhaps for generations to come. If that $13.61 million generated, say, a net 7% return over 30 years, that's more than $40 million of savings at the current 40% gift and estate tax rate. For an ultra-high net worth couple able to gift twice that amount, the savings would be more than $80 million.

In short, this is the time to address three key questions: Can you afford to gift? If so, how much? And what should you give?

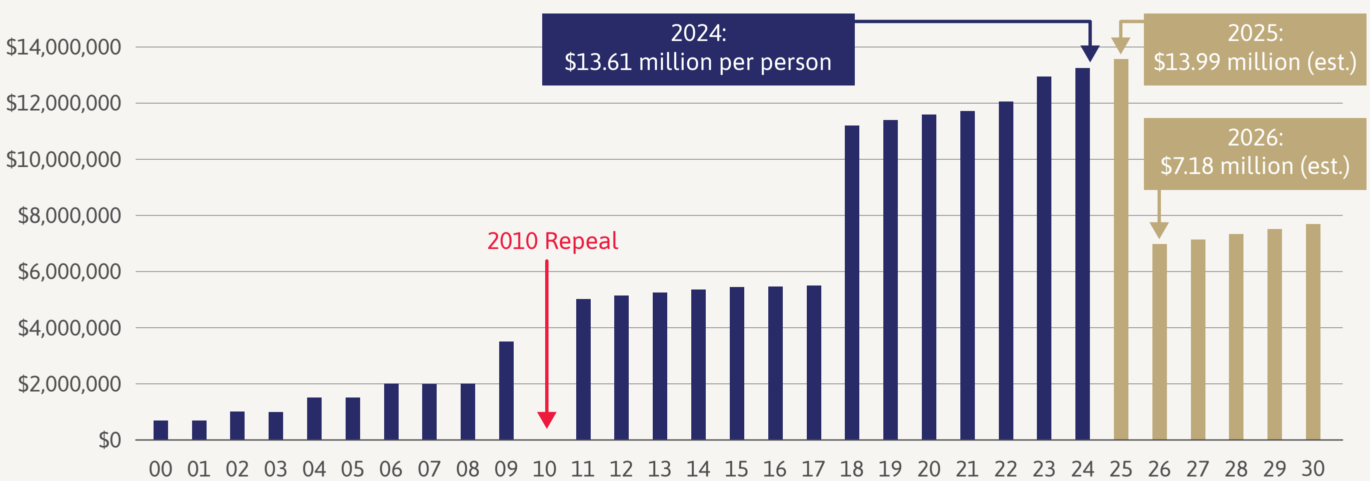
Preserving peace of mind is the starting point. Individuals and couples need to know that they will retain sufficient assets to sustain their lifestyle and meet other goals – a decision that should be made only after a thorough financial analysis. And even if parents or grandparents are ready to give, family members might not be ready to receive. Next-generation readiness and, often, complex family dynamics must be considered too. For those whose financial analysis shows that they should not gift more than the $7.18 million threshold ahead of the sunset, it is still prudent to begin estate planning sooner rather than later to maximize potential future growth outside of the estate and reduce the potential future estate tax exposure.

$13.61 MILLION

Current estate tax exemption, due to sunset at the end of 2025

Trusts can play a key role here, helping to ease this transition and in planning for the unknown, including future generations. Spousal lifetime access trusts, or SLATs, Dynasty Trusts, and Intentionally Defective Grantor Trusts, or IDGTs, can preserve and protect wealth (see page 18 for a brief guide to these three trust structures). Structuring any trust as a grantor trust amplifies the power of estate planning, as the grantor continues to pay the income taxes on the trust. This allows trust assets to compound over time unencumbered by taxes while the grantor

Historically High Exemption Amounts (2000s)



The chained CPI tends to increase more slowly than the regular CPI. The exclusion amount is $13,610,000 per person in 2024. Rev. Proc. 2023-34, 2022-38, 2021-45, 2020-45, 2019-44, 2018-57, 2018-18, and 2017-58. Projected future exemption amounts based on average annual 2.5% inflation adjustments.

TRUSTS TO CONSIDER BEFORE THE SUNSET

Editor's note: This guide is extracted from an article published in *Independent Thinking* in 2021; the amounts have been adjusted to reflect subsequent inflation.

DYNASTY TRUST

One of the most popular wealth transfer strategies is to create a Dynasty Trust in Delaware or in other states with strong asset protection laws, for children, grandchildren and future generations.

A Dynasty Trust could not only prevent future gift, estate and GST tax, but it could also help protect assets for family members from future creditors in the wake of any number of potential events, such as a car accident or divorce. For instance, a married couple could transfer $27.22 million tax-free into a Dynasty Trust. Those assets and all the future growth would be permanently set aside for family members without being subject to gift, estate or GST tax. Moreover, many asset protection trust states like Delaware have eliminated the common-law rule against perpetuities, which means the Dynasty Trust can support multiple generations of a family for hundreds of years.

Dynasty Trusts are often set up as grantor trusts, allowing the grantor to pay all the income tax for the trust without any gift tax consequences. In other words, the Dynasty Trust's assets grow free of income tax, and the payment of income tax by the grantor further reduces the grantor's taxable estate. On the other hand, wealthy families in high income-tax states may want to consider creating a non-grantor trust, where the trust pays its own tax, in a jurisdiction where the Dynasty Trust would not be subject to any state income tax. As a non-grantor trust in a state without a state income tax, the Dynasty Trust could continue to grow free of estate, gift and GST tax, as well as state income tax for generations – subject to potential state sourcing rules and throwback tax, for example, in California and New York.

SPOUSAL LIFETIME ACCESS TRUST

Not all wealthy parents are comfortable permanently setting aside millions of dollars for children and future generations, especially if they might need or want the assets back in the future. In that case, a spousal lifetime access trust, or SLAT, could be the optimal solution to maximize the gift, estate and GST tax savings while still protecting assets for the spouses for the rest of their lifetimes. With a SLAT, one spouse would create a $13.61 million irrevocable trust with their separate property to benefit the second spouse. After the second spouse dies, the SLAT protects future generations, free of gift, estate and GST tax. It is important to remember that SLATs are irrevocable trusts, which could be a big issue if spouses get divorced in the future.

It may also be possible for the second spouse to create a similar $13.61 million SLAT for the first spouse. However, the two SLATs would need to be independent and different enough to avoid what is known as the "reciprocal trust doctrine" and "step transaction doctrine." Accordingly, the first spouse is taking a real risk that the second spouse might not necessarily fund a second SLAT for the first spouse. Suppose there is concern about the reciprocal trust or step transaction doctrine. In that case, instead of the second spouse creating a similar SLAT for the first spouse, another option could be for the second spouse to utilize their individual $13.61 million exemption by creating an entirely different type of trust, such as a Dynasty Trust, for future generations.

Typically, SLATs are grantor trusts, similar to Dynasty Trusts. As an alternative, careful drafting may make it possible to create a spousal lifetime access non-grantor trust, or SLANT. As a non-grantor trust, the SLANT would grow free of state income tax in a jurisdiction such as Delaware, subject to potential state sourcing rules and throwback tax, for example, in California and New York.

INTENTIONALLY DEFECTIVE GRANTOR TRUST

Families looking to maximize the amount they can leave to future generations free of gift, estate and GST tax can consider several strategies that maximize use of the current high exemption amounts. A sale to an intentionally defective grantor trust, or IDGT, which could be a Dynasty Trust or SLAT, is one of the most powerful strategies to set aside substantial amounts of assets for future generations. Typically, the first step is to fund the IDGT with an amount equal to 10% of the assets that the IDGT will be acquiring. The initial gift is often referred to as seeding the trust, although some practitioners are comfortable eliminating this step if there are adequate beneficiary guarantees.

For example, a married couple who are parents could gift $20 million to an IDGT without fully utilizing their entire combined exemption amount, and the IDGT could then buy $200 million worth of assets from the parents for a promissory note. The IRS publishes applicable federal rates monthly; the minimum interest-only payment that the parents would need to charge on a promissory note for 30 years would be 4.1% (for a loan made in October 2024). To make the sale to IDGT strategy even more effective, wealthy families often sell assets, such as closely held business interests, to the IDGT at a discount due to their lack of marketability and control. Families could create a family limited partnership, or FLP, or a family LLC to manage the family's investments. It is essential that the entity has a legitimate business purpose and that the family respects both the form and substance of the structure. For instance, an FLP interest could have a $300 million undiscounted value but could be purchased by the IDGT for a $200 million promissory note if a valuation provided a 33.33% discount for lack of marketability and control. If such an asset had a 7% net growth rate over a 30-year period, approximately $1.5 billion could be transferred to future generations completely free of gift, estate and GST tax.

Every family has unique characteristics and dynamics, and again, any plan should reflect the collaborative counsel of advisors, including a Wealth & Fiduciary Advisor, attorney and accountant. A professional appraiser also should be included to value assets other than cash or publicly traded securities. And don't forget to file Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return, to report any gifts that take advantage of the exemption amount.

reduces the amount of their estate that could be subject to future estate taxes without using up any additional exemption amount.

Keep in mind that the choice of an individual and/or corporate trustee is critical. Both an individual trustee and corporate trustee should know the family well and be confident that they can carry out their duties for a long time. Moreover, an individual and corporate trustee can be named together as co-trustees where the corporate trustee can educate and otherwise support the individual trustee by lessening the administrative burden, as well as assisting with future trust management and governance issues. (For more information, please visit https://evercorewealthandtrust.com/choosing-the-right-trustees/).

The next consideration is generally which assets to give and how to structure those gifts. Cash, real estate, public securities and private investments each have associated implications that need to be considered, as illustrated below. Each situation is different, so it's important to run different test scenarios taking into account factors such as basis, capital appreciation and liquidity – to evaluate the pros and cons of gifting each type of asset.

Cash is straightforward, as there are no concerns around valuation or embedded gains. However, most people have a limited amount of cash on hand, and what they do have is reserved for lifestyle needs. The next option would be publicly traded securities, which, while also relatively easy to gift, require the consideration of additional planning issues, such as embedded capital gains. It's important to know that assets gifted during lifetime will retain their tax basis and will not receive a step-up in tax basis at death. In other words, many assets – other than certain exceptions like retirement accounts – will have all the capital gains disappear if still owned at death, which does not apply to assets given away during life.

Private investments, such as private equity funds, can also be a great option for gifting; although gifting such assets can often involve greater complexity. These assets typically have significantly lower valuations early on but can later grow substantially for the benefit of heirs. (See the article by Sean Brady on page 20 on planning strategies for private fund principals.) Similar to private equity investments, closely held business interests and real property can also be powerful estate planning tools, especially taking into account potential lack of marketability and lack of control discounts for gift purposes.

There is no one optimal strategy for gifting that works for everyone. It's vital to customize any gifting plan and weigh the trade-offs in gifting different types of assets by working with a collaborative team of advisors, including your wealth manager, attorney, accountant, and potentially other specialists. Gifting these amounts is a big decision, one that should only be made in the context of a comprehensive estate plan. But if gifting is a goal, there may be limited time to do it in the most tax-efficient manner.

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To view Justin, Neza and Alex discussing this topic in a recent webinar or to learn more, please visit https://evercorewealthandtrust.com/independent-thinking-panel-gifting-before-the-estate-tax-exemption-sunset-the-whys-why-nots-and-when/ or contact your Evercore Wealth Management and Evercore Trust Company Advisor.

What kind of assets can you gift?

CASH +
- No valuation necessary
- Recipients receive no built-in gains

LIQUID SECURITIES +
- Preserve cash
- Recipients will receive carryover basis if asset has a gain

PRIVATE INVESTMENTS +
- Don't need separate valuation, but costs associated with transfer
- Low growth early on, high growth potential over time

BUSINESS INTEREST +
- Qualified valuation required
- Illiquidity or minority discounts, high growth potential

REAL PROPERTY +
- Preserve cash and liquid securities
- Taxes and expenses associated with the real property can reduce the total return. The beneficiary must have cash to pay related expenses. Qualified appraisal required.

Before Sunrise: Strategies for Private Fund Managers

By Sean Brady

Private fund principals have access to unique planning strategies that leverage both carried and capital interests to shelter assets from transfer taxes, and reduce and defer income taxes. Now is the time to take advantage of these strategies.

As described on page 16, the lifetime individual federal gift, estate and GST tax exemptions are currently projected to drop to an estimated $7.16 million as of January 1, 2026, from the current $13.61 million per individual. Until then, a married couple that gifts $27.22 million to a trust for the benefit of children and grandchildren before the sunset could potentially avoid over $5 million of estate tax at the current 40% rate, and also possibly save heirs future gift, estate and GST tax on any growth of those assets with proper planning. Even if the exemptions are not reduced, gifting assets lowers estate taxes by 40 cents for every dollar of growth in the initial gift and could avoid additional state estate tax and GST tax.

So, what should private equity, private credit, and venture capital fund principals do? The following planning strategies could be considered:

THE VERTICAL SLICE

The ideal asset to gift is one with a low value at the time of transfer with large upside potential. If you give $10 million into a trust that grows to $50 million at the time of your death, you have effectively moved $40 million of growth out of your taxable estate, saving heirs roughly $16 million in transfer taxes. Carried interest in a newly formed fund is the ideal asset to gift, as it arguably has a relatively smaller value at the initial closing but may have significant value in the coming years. Therefore, the carry can be gifted at a very low “cost” with potentially very high long-term value.

The problem with gifting carried interest is that the IRS, under Code Section 2701, does not allow a transfer of one interest in an asset while retaining another interest in the same asset. Fund managers often hold General Partner, Limited Partner and carried interests in their funds. If a manager tried to gift just the carry, the IRS would deem carried and all capital interests in the fund as a gift, which would be problematic and/or administratively impossible. Fortunately, there are two potential solutions to this problem.

The first is an exception to Section 2701 called a vertical slice. A fund manager can take a proportionate share of all their capital and carried interests in a fund and gift that “slice” to a grantor trust for the benefit of children and future generations. The vertical slice strategy is not as powerful as gifting only the carry, but it can transfer meaningful capital at its lowest valuation and potentially shelter future growth from estate taxation. However, there are certain considerations that must be kept in mind. The interests that are transferred will be subject to a proportionate share of capital contribution obligations. The trust that receives the interest should have enough liquidity to cover these capital calls. The manager's advisors will need to be aware of any vesting requirements of the carried interest – unvested interests cannot be gifted. They will also need to know about any management fee offsets or other compensation arrangements.

CARRY DERIVATIVE CONTRACT SALE

The other strategy that fund principals can use is a sale of a derivative contract tied to the performance of a carried interest. A contract can be sold to an irrevocable trust that gives the trust some or all of the economic benefit of the carried interest above a hurdle over a period of time. This contract can be reasonably valued by a professional appraiser. Since the manager is not actually giving away the interest, only the economic benefit, a forced gift of the capital interest under Section 2701 is avoided. A derivative strategy could offer several advantages: It is administratively less burdensome; there are no capital call or vesting issues; and the most impactful asset from a tax savings perspective is gifted at a lower exemption cost than a vertical slice. However, given the complexity involved, this strategy may carry more audit risk. Principals also will need to beware of potential losses if the carry does not grow beyond the hurdle rate, death occurs before the contract expires (the contract will need to settle at that date), or a potential liquidity crunch if the contract term ends with a high carry value without any distributions.

Note that fund principals also may want to consider a Family Limited Partnership or Family LLC to pool other assets under one umbrella together with either one of the foregoing strategies. This can allow for easier administration and potentially further discounts to the valuation of the assets held in the partnership.

CHARITABLE REMAINDER TRUST OR CHARITABLE LEAD TRUST

Successful mature funds generally have high valuations with relatively predictable cash flows. Fund managers who regularly donate to charity could consider transferring a portion of their mature funds to a Charitable Remainder Trust, or CRT, to reduce and defer income taxes. A CRT pays the fund manager a fixed annuity payment or percentage of the fund's value every year. At the end of the trust's term, any remaining value is transferred to a charitable beneficiary, which could include a donor-advised fund or private foundation. A CRT is a tax-exempt entity; therefore, when assets are transferred into the trust, the transferor receives an income tax deduction based on the estimated present value of the remainder, and the trust does not pay tax on any income generated by the fund. Instead, the fund manager will only pay a portion of the income taxes due upon receipt of the annual payments, making this an income tax deferral strategy.

Depending on the fund manager's goals, a Charitable Lead Trust, or CLT, also could be an option. A CLT is similar to a CRT, except that the charity receives the annual payment, and the remainder can be transferred to heirs. A CLT can be set up as a grantor trust or a non-grantor trust. With a grantor trust, the fund manager receives an upfront charitable deduction but is subject to tax on the trust's income each year. With a non-grantor trust, there is no upfront charitable deduction, but the trust receives a charitable deduction each year and the fund manager is not subject to tax on the trust's income. Unlike a CRT, which is commonly used as an income tax planning strategy that also benefits charity after death, a CLT typically is utilized as more of an estate tax planning strategy that also benefits charity during life.

GRATS AND SALES TO IDGTS

Fund managers who have already used their exemptions or who want to transfer only growth in their funds can use "freeze" strategies. The two most common are grantor retained annuity trusts, or GRATs, and sales to intentionally defective grantor trusts, or IDGTs. To summarize simply, GRATs transfer growth above the Section 7520 rate (4.4% as of October 2024) out of the estate while using almost no federal gift and estate tax exemption. One of the downsides of a GRAT, however, is that the GST exemption amount cannot be used effectively, making it less efficient for multigenerational asset transfers. Another option with potential for GST tax savings for transfers to trusts earmarked for grandchildren and beyond is a sale to an IDGT. (See a recent related article: https://evercorewealthandtrust.com/estate-tax-planning-act-now-late/.) In this case, cash is gifted into a trust – typically 10% of the asset purchase amount – and the fund manager sells assets to the trust in exchange for a promissory note. Because the IDGT is a grantor trust, the sale to the trust is not treated as a taxable event for income tax purposes, but the asset can be removed from the grantor's estate for gift, estate and GST tax purposes. The IDGT uses the cash and income received from the asset to pay annual interest on the note – often at the lowest applicable federal rate as published by the IRS. At the end of the promissory note's term, the IDGT eventually repays the note while retaining all the growth in the asset minus the interest and principal paid back to the fund manager.

When deciding what strategies to use, private fund principals will need a team of advisors to help navigate the options in the context of long-term goals and giving viability. Proper execution and ongoing administration also are essential. Since this type of planning is highly technical, it should only be implemented with a team of advisors that includes attorneys, accountants, appraisers, and wealth managers who specialize in this area.

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

Engaging the Next Generation in Managing Wealth

By Ashley Ferriello

Every family struggles at times to connect. There's so much at stake: relationships between parents and grown children, relationships between siblings, relationships between partners and other family members, and the happiness of the family as a whole. Wealth, for all its blessings, can add complexity and raise the stakes.

It can get better, though. Some tried-and-true practices in engaging the next generation (and other family members) can help create, grow and preserve wealth through generations. More important still, they can help keep the peace, allowing families to pass on values and appreciate their opportunities, and enjoy each other's company.

Thoughtful, consistent communication is the starting point. Of course, families are constantly interacting, and parents and grandparents will always make the biggest impression on younger generations through example. But regular family meetings can provide a healthy environment to discuss family members' common values and goals.

A formal process, which wealth advisors often help facilitate, can help clarify and articulate what the family expects of the next generation and what the next generation can expect from the senior generation. Parents and grandparents have the opportunity to inspire and empower young adults, while ensuring that they have the space and freedom to shape their own lives. Since financial markets and life circumstances are constantly changing, a scheduled check-in builds knowledge and confidence.

Some families create a family mission statement; many involve the next generation in charitable and family investment discussions as a starting point. A good wealth advisor can generally manage this process, helping client families address difficult decisions. If necessary, an independent specialist also can be engaged as part of the advisory team to oversee conflict resolution and manage special circumstances, such as mental health challenges or substance abuse problems.

> Regular family meetings can help concentrate minds.

It's important that each generation develops its own relationship with the family's Wealth & Fiduciary Advisors. We can all work together to advance the

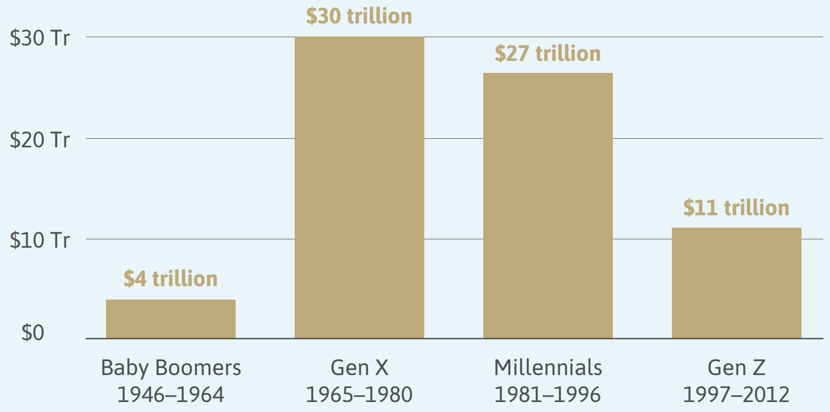
extended family's agenda and leverage the broader family plan, but a direct relationship between younger family members and their advisors can help address their individual needs, goals and objectives. Cash flow analysis, portfolio composition and performance, deferred compensation, purchasing homes, borrowing, philanthropy, retirement planning, reviewing the terms of existing trusts, and creating their own trust and estate plan – these are just some of the conversations that the rising generation of family members can engage in.

Good advisors will therefore take the time to get to know each family member, through one-on-one discussions, as appropriate. Done right, the engagement should encourage them to ask more questions and bring more ideas to the table for the benefit of the whole family. And it often makes sense to enlist the family's broader advisory team, ensuring that the next generation knows the accountants, attorneys, property managers and other advisors – and the next generation of advisors at their firms who will one day be taking over their practices.

Conversations with and within multigenerational families almost always leads to much deeper planning for life's big milestones, such as launching or selling a business, getting married, having children, and – eventually – creating a wealth transfer plan for the "next next" generation. All of us at Evercore Wealth Management and Evercore Trust Company truly enjoy engaging families in this type of comprehensive wealth planning. Our work is very personal, and it's rewarding to be a part of a family's advisory team across multiple generations of growth.

By The Numbers: The Great Wealth Transfer

Estimated wealth to be inherited through 2045, by generation:



Source: Cerulli Associates, "The Cerulli Report: U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2021."

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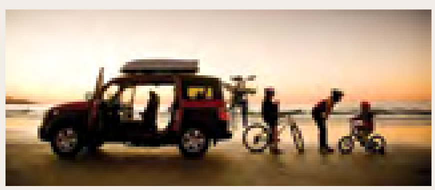
EVENTS

AN EVENING WITH EVERCORE: THE FUTURE OF EXPLORATION IN SCIENCE, TECHNOLOGY AND HUMAN POTENTIAL

Evercore Wealth Management Chairman Jeff Maurer welcomed clients on May 1 to a discussion of the changing spirits, ethical considerations and realities of modern exploration with Terry Garcia, Founder and CEO of Exploration Ventures, and Boyd Matson, former anchor of *National Geographic Explorer*.



***INDEPENDENT THINKING* PANEL: GIFTING BEFORE THE ESTATE TAX EXEMPTION SUNSET: THE WHYS, WHY NOTS AND WHEN**

Justin Miller, our National Director of Wealth Planning, and Wealth & Fiduciary Advisors Neza Gallitano and Alex Pavelock hosted our May 22 webinar, *Gifting Before the Estate Tax Exemption Sunset: The Whys, Why Nots and When*. They discussed the practical and financial considerations of gifting and reviewed some of the merits and drawbacks of a range of gifting strategies to help clients make an informed – and timely – decision. To view the webinar, https://evercorewealthandtrust.com/independent-thinking-panel-gifting-before-the-estate-tax-exemption-sunset-the-whys-why-nots-and-when/

PLANNING OPPORTUNITIES AND POTENTIAL PITFALLS WITH QUALIFIED SMALL BUSINESS STOCK

Evercore Wealth Management welcomed attorneys and accountants in New York on June 26 for our presentation, *Planning Opportunities and Potential Pitfalls with Qualified Small Business Stock*. Justin Miller, our National Director of Wealth Planning, led a lively presentation on QSBS, following remarks from our CEO Chris Zander and Partner and Portfolio Manager Brian Pollak. To learn more about professional education at Evercore Wealth Management and Evercore Trust Company, please contact jill.aguado@evercore.com.

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THE NEW STANDARD IN WEALTH MANAGEMENT

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