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# A Message from the CEO

2025 is well underway and, so far, the markets have remained robust, recovering quickly from a brief technology sell-off in late January. It's remarkable, really, and certainly welcome. But it's not going to last.

Change is inevitable. New global and niche players, new policies, new technologies and new opportunities and challenges of all kinds; they're all coming down the pike. Families change too, constantly and sometimes dramatically.

So, on that note, welcome to the latest edition of *Independent Thinking*. You'll see several articles here on preparing for that change, notably in the public equity markets, which have for so long been dominated by the big U.S. technology companies, and within families as the next generation takes the reins.

I would like to highlight one topic, given my own professional background as a strategic wealth advisor to ultra-high net worth families. As you'll see on page 15 in the article by Alex Lyden, the Chief Fiduciary Officer of Evercore Trust Company, a corporate fiduciary can be extremely helpful in working alongside the family and their other trusted advisors to navigate the successful transfer of assets and values of one generation to the next.

So many new clients come to us with negative associations around the corporate trustee role, thinking of the often rigid or slow-moving bureaucracy of traditional trust companies. But it doesn't have to be that way. Indeed, we've built and run Evercore Trust Company very differently – to personally serve both grantors and their beneficiaries as family and market conditions evolve.

The way I (and, eventually, many of our clients), see it is: Why *wouldn't* you want to appoint a corporate co-trustee? Your individual co-trustee, likely a relative, friend or long-term business associate with deep knowledge of the family, is likely to welcome the help and objectivity in what is a demanding role for even the most experienced fiduciary. The corporate co-trustee appointment doesn't need to be permanent, indeed, we always recommend that the trust documents include language to allow for change. But the appointment should allow you to sleep better, knowing that there's a team behind you and your family – one that likely spans generations too.

Speaking of succession plans, all of us at Evercore Wealth Management and Evercore Trust Company are delighted to welcome Jon Kropf as the new head of our San Francisco office. Jon is an energetic wealth management leader, who joined us from IEQ Capital to help grow our business along the West Coast, building upon the many successes of our partner, Keith McWilliams and our San Francisco team. Keith remains a senior Wealth and Fiduciary Advisor, working closely with his client families, foundations and endowments.

Finally, if you didn't get a chance to see, I was recently interviewed in Barron's. I was delighted to have the opportunity to talk about our firm – and the terrific clients and colleagues to whom we owe our success.

**Chris Zander**
President & Chief Executive Officer

# Adaptable, Dominant, Expensive: The Magnificent Seven

By John Apruzzese

The S&P 500 has become so highly concentrated that it is taking on the higher risk and higher expected return characteristics of an insufficiently diversified portfolio. The largest market cap stocks in the S&P 500, appropriately dubbed the Magnificent Seven, now comprise almost 32% of the index and are growing faster than the remainder.

Prior periods of concentration involved large companies from very different industries, mostly blue-chip companies with strong balance sheets that had grown rapidly in the past but had evolved into risk-averse, conservatively managed companies. Take a look at the chart below, comparing this market with that of 25 years ago. The dominance of the leading companies is greater and less diverse.

The Magnificent Seven companies – Alphabet (Google), Apple, Amazon, Meta (Facebook), Microsoft, NVIDIA and Tesla – are among the most profitable, value-creating business entities ever devised. But they are all digital technology companies that are in large part betting their futures on the emerging AI technology.[2] These companies not only have to capitalize on AI to meet current investor expectations, but they must do so soon.

## Year-End Largest S&P 500 Weights

| 2024 | Company | Sector[1] | % of S&P 500 | |
|---|---|---|---|---|
| | Apple Inc. | Information Technology | 7.6% | |
| | NVIDIA Corp. | Information Technology | 6.6% | |
| | Microsoft Corp. | Information Technology | 6.3% | |
| | Amazon.com Inc. | Consumer Discretionary | 4.1% | |
| | Alphabet Inc. | Communication Services | 4.0% | |
| | Meta Platforms Inc. | Communication Services | 2.6% | |
| | Tesla Inc. | Consumer Discretionary | 2.3% | |
| | Broadcom Inc. | Information Technology | 2.2% | |
| | Berkshire Hathaway Inc. | Financials | 1.7% | |
| | J.P. Morgan Chase & Co. | Financials | 1.4% | |
| | | | 38.8% | Top 10 |

| 1999 | Company | Sector[1] | % of S&P 500 | |
|---|---|---|---|---|
| | Microsoft Corp. | Information Technology | 4.9% | |
| | General Electric | Industrials | 4.1% | |
| | Cisco Systems | Information Technology | 3.0% | |
| | Wal-Mart Stores | Consumer Staples | 2.5% | |
| | Exxon Mobil | Energy | 2.3% | |
| | Intel Corp. | Information Technology | 2.2% | |
| | Lucent Technologies | Communication Services | 1.9% | |
| | IBM | Information Technology | 1.6% | |
| | Citigroup | Financials | 1.5% | |
| | America Online | Communication Services | 1.4% | |
| | | | 25.4% | Top 10 |

[1] Based off today's GICS classifications. Data as of 12/31/2024, 12/31/1999.

Digital technology often creates a winner-takes-all dynamic

It may take longer than investors currently expect, however. The promise of the internet back in 2000 was eventually realized, but it took years longer than companies and investors expected. Some companies never recovered. Others, like Microsoft, took over a decade to return to their old highs. Digital technology often creates a winner-takes-all dynamic; a global network effect and economies of scale whereby more users drive exponentially more usefulness and value. The main risk to an incumbent is a completely new technological innovation that changes the basic rules of the game. The recent launch of DeepSeek out of China is potentially just such an example.

It is unclear what proportion of these companies' investment in AI is being spent on beating the other guy, rather than as the result of sober assessments of the potential returns. The Magnificent Seven are also running into the real-world constraint of electrical power capacity. The hyper-scaled data centers that Microsoft, Amazon, Alphabet and Meta are building with NVIDIA computer systems require more power than the current power grid can support, as we will discuss in the next issue of *Independent Thinking*.

Regulation is another pressing concern. These companies now dominate their respective spaces to the point that they could be considered near monopolies. Meta's 77% share of social media, Google's 80+% share of online advertising, and NVIDIA's control of the latest AI chips are particularly striking.[3] They can fend off competitors and earn unusually high margins – for now, that is. On page 5, Brian Pollak reviews government efforts to regulate or break up past monopolies and the risks now facing companies that could be considered the same.

It should also be noted that near monopolies are evident in other industries as well. Visa and Mastercard have a near duopoly in payment processing; Walmart, Costco and Home Depot continue to take market share from smaller competitors; and JP Morgan continues to pull away from its smaller rivals.

At the same time, there are at least two important emerging trends that could help smaller companies to grow faster. High interest rates, and day-to-day regulation fall far more heavily on smaller businesses. The Federal Reserve is in the process of lowering interest rates, and the new presidential administration should reduce regulation, even as it takes a closer look at Big Tech. It seems to us that a broadening out of stock market performance would be a healthy development, encouraging emerging innovation and competition.

In the interim, we believe we have positioned our portfolios to continue to benefit from the extraordinary performance of mega-cap stocks and better performance from the rest of the market. We are looking at new technologies earlier and considering the potential implementors. By retaining exposure to most of the Magnificent Seven but underweighting the group, we hope to mitigate concentration risks and to preserve and grow wealth.

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[2] Total projected CapEx and R&D spending by Alphabet, Apple, Amazon, Meta, Microsoft, NVIDIA and Tesla in 2025. FactSet, Company Data.
[3] *Source: Statista*

## Our Investment Outlook

On February 11, Partners John Apruzzese, Brian Pollak and Stephanie Hackett will address our current thinking on policy, the economy, the markets and our asset allocation for long-term investors.

If you would like to register for the webinar, please reach out to your advisor or email wealthmanagement@evercore.com.

# Adapting to Change: The Evolution of the Technology Market

By Brian Pollak

If the history of antitrust law teaches us anything, it's that innovation is the natural state, at least in the United States. By the time regulators focus on an issue, the market is often already working toward solving the problem.

### Three Antitrust Cases

| Company | Industry | Year Opened | Year Concluded | Outcome |
|---|---|---|---|---|
| **Standard Oil** | Oil & Gas | 1906 | 1911 | Breakup and divestment into 34 separate companies, mostly regionally focused. |
| **AT&T** | Telecommunications | 1974 | 1982 | Breakup and divestment of regional telephone business, creating seven new regional providers. |
| **Microsoft** | Software | 1998 | 2001 | Original ruling to break up the company was appealed. Eventually agreed to settlement allowing for other companies to write software on MSFT platform. |

When the U.S. government first filed its lawsuit in 1906, Standard Oil controlled over 90% of the domestic oil refining market. It also had a major position in pipeline distribution and was building scale in exploration and production. The company's founder, John D. Rockefeller, was known for using aggressive corporate tactics, including securing exclusive agreements with railroads, driving competitors out of business through underpricing, and acquiring rival firms.

Yet, new competitors and new major oil finds were already on the horizon. The 1901 discovery of the Spindletop reserve in Texas – the first in the state – resulted in the formation of Gulf Oil and Texaco. The merger of Royal Dutch and Shell Transport and Trading Company was completed in 1907, creating the first scaled competitor to Standard. At the same time, the Anglo-Persian Oil Company was growing rapidly in the Middle East, changing the global playing field. It took until 1911 for the final judgment in the lawsuit to break up Standard Oil into 34 smaller companies.

Economically, the breakup created a windfall for Standard Oil shareholders but provided little relief for consumers. Rockefeller, who had stakes in all the new companies, saw his net worth treble between 1911 and 1913 to $900 million, or the equivalent of 3% of U.S. GDP, making him by this measure the richest man in the world[1] – a record that has yet to be bested (Elon Musk is currently worth about 1.5% of U.S. 2023 GDP).[2] Market dynamics and technology continued to change in ways that would have been unrecognizable to the Standard founder or the government regulators of his time, with new drilling technology, new modes of energy transportation and distribution, and expanding uses for energy all upending the status quo. Today, most of the legacy Standard companies are part of either Chevron or ExxonMobil; pieces of it are now owned by far-flung companies including ConocoPhillips, BP, and Shell.

AT&T, the successor company to Alexander Graham Bell's Bell Telephone Co., was founded in 1885, and for over a century it maintained a dominant monopoly in both local and long-distance telephone service, and in telecom equipment manufacturing. The AT&T subsidiary Bell Labs was among the most innovative and influential research facilities in the world. The government's antitrust case took eight years to conclude and another two to result in the breakup and sale of the local telephone business into seven new regionally focused entities, known at the time as the Baby Bells. The long-distance business remained with the legacy company.

A reasonable argument can be made that the breakup allowed for more competition in the short term, which begat more robust innovation, benefiting both consumers as well as investors. But we now know that the technology the government saw fit to break up was soon to be made irrelevant, as fiber optics, cellular telephones and the internet all displaced AT&T's legacy technology. Consumer prices fell dramatically in the 1990s, particularly for long distance. By 2006, the phone companies stopped charging for long distance altogether, mostly due to robust competition from new entrants, like MCI and Sprint. But the price cuts came at the expense of significant added complexity, as consumers had to enter into separate bill pay and service agreements.

The Baby Bells have since reconstituted in the form of a more modern AT&T and Verizon. However, these companies derive most of their revenue from mobile and fiber optics businesses, both nonexistent businesses in 1982.

The Microsoft 1998 antitrust case did not result in a breakup. Although the initial judgment in 2000 ordered the company to devolve into two segments, it was overturned on appeal. Instead, the company agreed in 2001 to a settlement stipulating that Microsoft had to share its application programming interfaces, or APIs, with third-party companies.

Like Standard Oil and AT&T, Microsoft's dominance in consumer technology was waning. One could argue that this was in part because of the settlement, which provided an easier competitive environment for companies like Alphabet (Google's parent company), Meta and Amazon to build significant consumer-facing software businesses. And it is worth noting that allowing third-party API development is the model for today's major consumer and enterprise platforms, including Google and Apple, which have been extremely powerful in spurring innovation in app development (Uber being perhaps the most obvious example). But competition in consumer technology is persistent, and the businesses Microsoft once dominated are a relatively small part of technology profits today.

Microsoft remains among the most valuable companies in the world. For investors in the company, the first decade post settlement, Microsoft's shares underperformed the S&P 500 Index, as it took both time and effort to recalibrate the company's focus to new areas. But investors who held on saw their total cumulative return rise 2,184% over the 23 years since the close of the case, close to triple the S&P 500 Index over that time.[3] Today, Microsoft is a dominant cloud computing and enterprise solutions company, with consumer-facing businesses representing only a fraction of total revenue.

During the antitrust case against Microsoft, Bill Gates said, "People who feared IBM were wrong. Technology is ever-changing." He was referring to the failed IBM antitrust case, which was the fourth largest (after the three discussed here) U.S. government antitrust case since 1900, and arguably the most redundant. But Gates' point is important as we consider the potential antitrust cases against the Magnificent Seven.

While the incumbents might seem unassailable in 2024, it's worth recalling that as recently as the end of 2012 (which was the first year all of the Magnificent Seven were public companies), Meta, then called Facebook, had a $63 billion market cap, was down 30% from its IPO earlier in the year, and was struggling to convert its revenue model to a mobile environment. Amazon had a $113 billion market cap, but almost no net income or free cash flow, and had yet to break out their cloud services unit, AWS, now its most important and profitable business, into its own reporting segment. And few had heard of NVIDIA, a $9 billion market cap company that was best known for making semiconductors for high-end gamers. No one has thought of IBM as a technology titan in a very long time.

To quote Bob Dylan, there's nothing so stable as change. We remain vigilant both in questioning the depth and sustainability of the moats and management quality maintained by the largest technology companies. We are also attentive to opportunities to invest in smaller companies with innovative cultures that could be the subject of the next generation's antitrust suit.

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[1] *Titan: The Life of John D. Rockefeller, Sr.* by Ron Chernow
[2] Elon Musk has a net worth of $416 billion according to Forbes 2024 Billionaire List.
[3] October 31, 2001 to November 30, 2024.

# Q&A with Caroline Cai of Pzena Investment

Caroline Cai

Editor's note: Emerging markets can afford U.S.-domiciled investors a range of diversification opportunities at relatively low valuations. Here we interview Caroline Cai, CEO and Portfolio Manager at Pzena Investment Management, one of the carefully selected outside fund managers that supplement 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: Global equity market performance this year has been driven by a relatively few mega-cap U.S. growth companies. This has led to a significant difference in performance between growth and value stocks, particularly in the United States. Has the disparity between growth and value stocks also occurred in emerging markets?

A: The growth cohort is outpacing value in emerging markets as well, albeit by about six percentage points versus over 19 percentage points in the United States. The bulk of growth's alpha stems from a single company, TSMC, which is NVIDIA's AI chip supplier. This Taiwanese foundry giant had an approximately 17% average weighting in the MSCI Emerging Markets Growth index in 2024, returning roughly 70%. TSMC is not included in the MSCI Emerging Markets Value Index, but it is included in our portfolios, as we believe the stock remains cheap relative to its intrinsic value.

Q: For U.S.-domiciled investors, what is compelling about investing in emerging markets now?

A: Emerging markets are particularly cheap, in our view, trading at a 48% price-to-forward earnings discount to the top-heavy U.S. equity market. This offers investors diversification at the largest discount in more than two decades.

That said, we believe it's important for investors to be selective when it comes to emerging markets. They are inherently disparate, with each country possessing its own unique risks and opportunities. Today, we are observing the type of valuation dispersion that is typical of such a diverse asset class, with India and Taiwan, two countries that we've reduced exposure to amid surging equity markets, trading at the upper end of the valuation spectrum, while China, Korea, Brazil, and others (all of which we've added to) now boast single-digit forward earnings multiples.

Q: If investors want to invest in emerging market countries due to the higher growth rates of these economies, how can a value approach lead to superior returns?

A: Perhaps because developing nations often post higher GDP growth rates than their developed peers, many market practitioners view emerging markets investing as a growth story. However, the value approach has proven far superior over time, with cheap emerging markets stocks (those with low price-to-book ratios) outpacing expensive names by 430 basis points per annum since 1989.[1]

Higher-beta emerging markets understandably endure more frequent bouts of volatility but can offer amplified return potential for value investors. We believe this is due to four key factors:

**Psychology.** Investors tend to exaggerate the significance of near-term problems, effectively discounting the potential for business, industry, management, currency or macroeconomic improvements over time. Active value managers can exploit these overly emotional responses, which are more prominent in emerging markets.

[1] Kenneth R. French data.

**Earnings power.** Despite the lack of empirical evidence, investors often inextricably link stock markets to economies, associating GDP growth with higher equity returns. When investors pay up for expectations of future growth, their reactions to disappointment can present a fertile hunting ground for disciplined value investors.

**Range of outcomes.** Different political and legal structures, currencies, and governance practices all add to the complexity of emerging markets investing, offering robust opportunities across a large pool of stocks.

**Under-exploitation.** Most investment managers tend to favor macroeconomic or quantitative approaches to emerging markets investing, prompting crowded trades and wider market swings that result in exploitable price dislocations.

These factors present opportunities to buy good businesses with low expectations, at attractive valuations. We believe valuation is the single best determinant of long-term returns in any geography.

Q: The fund is now slightly overweight in China. What do you find compelling about China now that you did not before?

A: China has become the largest hunting ground for emerging markets value in recent years. A macroeconomic slowdown and heightened geopolitical tensions have prompted selloffs in many outstanding Chinese franchises, despite these companies displaying solid financial performance. This has resulted in a large subset of Chinese companies offering financial metrics comparable to emerging markets peers at far less demanding valuations.

Despite a host of stimulus measures announced by the Chinese government in recent months, equities remain broadly cheap. Importantly, our investment thesis for the individual Chinese stocks that we own are not predicated on significant monetary or fiscal support from the government. These businesses are, in our view, trading at exceptionally low valuations that already discount persistent and severe economic pain. As Chinese valuations collapsed, we have selectively raised our exposure to stocks that we believe unjustifiably sold off due to temporary geopolitical and macroeconomic headwinds.

Q: How could the election of Donald Trump, who threatens to impose tariffs on Chinese imports, affect the Chinese companies that you own?

A: Tariffs and trade wars are always a threat, and we assess these risks on a company-by-company basis to determine whether – and to what extent – they might impact our estimate of a business' normal earnings power. Generally speaking, the businesses we invest in have resilient operating models that we think are able to adjust to changing circumstances, including U.S. import tariffs.

Q: Can you please describe the Pzena process in analyzing emerging market companies?

A: Outside of our initial quantitative screen, our investment process exclusively entails deep, fundamental, company-specific research, whereby we seek to invest in good businesses trading at cheap valuations because of temporary pain that the market is interpreting as permanent/structural.

Our preferred valuation metric is price-to-normalized earnings, or P/N, which is a stock's market value relative to our estimate of what a business should earn, on average, over the course of a full business cycle under normal circumstances. We only invest in companies in the cheapest P/N quintile of their investment universe. The discount rates we use to generate our normal earnings estimates and compare valuations across emerging market countries vary, depending on the country risk premiums. We use the market's collective judgment, as proxied by a country's long-term sovereign rate over the U.S. treasury yield, to measure a country's risk premium. For example, a Chinese-domiciled company would utilize a materially higher discount rate in our valuation model than a South Korean company, and a South Korean company would have a modestly higher discount rate compared to a U.S. company.

Beyond the impact a higher discount rate has on the valuation of an emerging markets stock, which effectively raises the investment threshold, our research process is standardized across our strategies. Our analysts must understand and consider any factor that affects a company's business, including the industry/country in which it operates and governance or regulatory issues that can widen the range of outcomes for a company.

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For further information, please contact Evercore Wealth Management Partner and Portfolio Manager **Judy Moses** at moses@evercore.com.

# Evercore ISI on CapEx Spending

By Oscar Sloterbeck

Company capital expenditure, or CapEx, on technology is rising again, albeit at a moderate pace, according to our 2025 CapEx & Hiring Plans Survey, conducted after the U.S. presidential election.[1] This outlook is consistent with solid U.S. economic growth.

Following the pandemic-driven decline in 2020, nominal CapEx growth was strong in 2022 and 2023, before moderating in 2024. Structural investment in data centers, industrial, tech, infrastructure, and pharmaceutical facilities has been strong, as has the upgrade of existing plant and equipment, as companies focus on boosting domestic production and increasing productivity. Spending remains high in these areas, but growth is moderating. We continue to see most U.S. multinationals increasing the U.S. share of their global CapEx budget as companies work to derisk their supply chains.

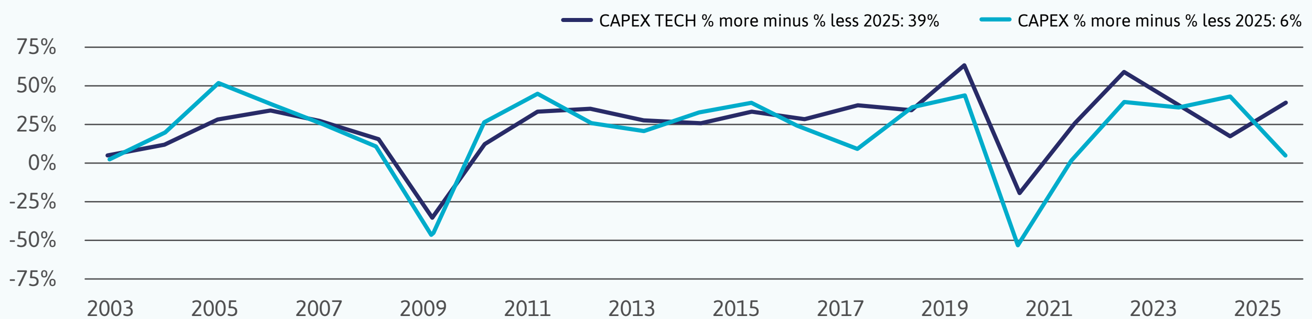
One variable that could change 2025 CapEx plans is a cut to the U.S. corporate tax rate. Companies are telling us that reinvestment will be the top use of funds if a U.S. corporate tax rate reduction occurs in 2025.

While overall CapEx is expected to slow, companies plan to increase tech spending in 2025. The focus of spending includes cybersecurity and AI, as well as CRM

Editor's note: Oscar Sloterbeck is Head of Company Surveys at Evercore ISI, one of the sources of research considered by Evercore Wealth Management. The surveys are used by ISI macro and fundamental research teams to measure the evolving strengths and weaknesses of the U.S. economy. Executives, typically CFOs and Treasurers, at 325 companies across 29 industries provide an index rating based on their evaluation of the strength or weakness of recent sales adjusted for the time of year.

[1] The survey was published December 18, 2024, and data was collected between November 11 and December 4.

## Evercore ISI Company Survey of U.S. CapEx Plans




Source: Evercore ISI.

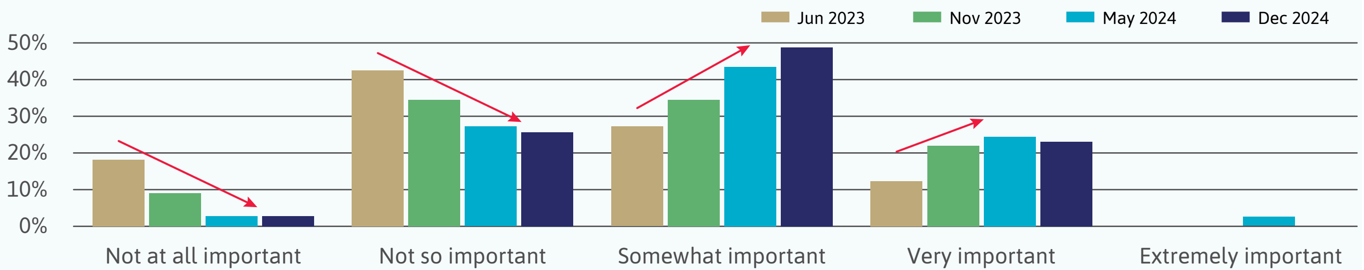
and ERP systems. *(Editor's note: Artificial Intelligence, Customer Relationship Management and Enterprise Resource Planning systems, respectively.)*

In our 2025 survey, 71% of respondents categorized their AI investment as important, up from 56% in November 2023. Large companies view their AI investment as particularly important relative to companies with less than $1 billion in annual revenues. Firms expect to see the greatest value in their AI investment from internal efficiencies, with additional value deriving from customer service and sales and marketing. Many are focused on the potential impact on labor markets from the increased use of AI. Currently, roughly one-third of companies report that AI is already augmenting their human labor; the majority see any replacement of labor from AI as more than a year away. Recent productivity data has been good, enabling the U.S. economy to sustain solid growth while inflation has moderated. Our survey shows the funds for investing in AI are coming from other areas of spend, and for this year, it appears the funds allocated to AI are coming from traditional areas of CapEx, as opposed to the tech budget.

Companies do have concerns that are limiting the use of AI and are restraining investment. The most common gating factors include accuracy and reliability, followed by cleaning and preparing internal data, as well as cybersecurity and legal concerns.

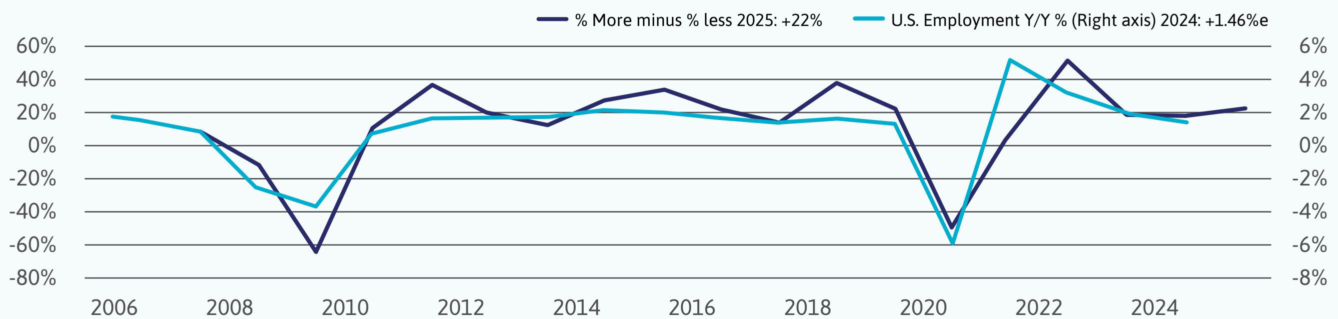
Turning to labor markets, companies told us that hiring plans for 2025 are ticking up modestly, after decelerating from their all-time high in 2022 when job growth surged out of the pandemic. This improvement is broad across industries from consumer to industrials. Real estate companies are the one area showing softness, as the housing market remains mixed. Labor availability in the United States is improving, but labor is still viewed as somewhat "hard to get," while availability remains pretty good in Asia and Europe where economic growth has generally lagged. The latest data shows signs of stabilizing nominal growth, and our 2025 CapEx & Hiring Plans Survey suggests the new year will see an increase in tech CapEx and stabilization in employment.

## To What Degree is AI an Important Area of Investment for Your Company?




Source: Evercore ISI.

## Evercore ISI Company Survey of U.S. Employment Plans




Source: Evercore ISI.

# The Great Wealth Transfer: Best Practices for a Lasting Legacy

By Jeff Maurer

Over $100 trillion in assets will be transferred within 25 years in the United States.[1] At 77 years old, I have to consider that my legacy will be included in the total (although more on that later). In any case, it should be the largest intergenerational transfer of assets on record. Will it be successful? Will it support happy, successful families that contribute to our society?

[1] The Cerulli Report—U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2024.

I sure hope so. And I know that our clients do too. In my 50-plus years in the wealth management business, I've seen a lot, enough to develop some ideas on best practices for successful wealth transfer. Here are a few, in chronological order: (A note to my peers: If you've missed a few steps with your own children, there's still time to try to apply what you've learned, as appropriate, to grandchildren.)

### START EARLY

Many families wait until it's too late to discuss finances; very few start too early. Spouses need to develop shared goals for raising successful children, financially and otherwise, before the tooth fairy's first dollar is spent, and to keep communicating as the family evolves. This becomes more challenging in the event of divorce or within blended families, but it's still doable. Advisors can help.

Educating young children about money and helping them develop a healthy perspective on their privilege is a gift, one that can be more valuable than the assets themselves. Paid work in addition to chores, modest allowances, small contributions to charities that interest them; these can all serve as teaching aids. So too can a robust "no," even when finances allow otherwise. The ability to distinguish between needs and wants is invaluable.

As children grow, they will ask uncomfortable questions. And for affluent families, one of the questions is likely to be: "Are we rich?" They are already getting a sense of their circumstances, measuring their experiences and resources against those of their peers. They need context for that, something that could be provided by describing wealth as a tool for security and opportunity, not just luxury.

### CONSIDER DIFFERENCES

Every parent with more than one child, every grandparent with multiple grandchildren (and every sibling, for that matter), knows how different individuals within the same family can be. Sometimes it seems that the closer in age they are, the more unlike each other the children become. It makes sense to tailor decisions about education, work and other activities to each child's unique circumstances. For example, part-time work can help build character, but for an athlete, theater kid, or someone with special needs, there may be other priorities.

There will be differences within communities too. But there's arguably no better way to immunize a child to what has been described as "affluenza" than reminding them they don't have to follow the crowd. That was hard enough when my own children were young; it's going to be more difficult – and more important – as this wave of wealth flows in within an environment of social media.

### INVEST IN THE NEXT GENERATION

As children grow, particularly during adolescence, it's a good idea to gradually increase transparency around family wealth. Most of our clients aim to provide children with a debt-free college education. This is a wonderful opportunity for grandparents to help, especially as direct payment of tuition is free of any gift tax.

Other tax effective ways to share wealth include taking advantage of the annual gift tax exclusion (currently $19,000 per person in 2025) by making direct gifts to older children and gifts in trust for younger children and grandchildren. Families with significant wealth can use the lifetime estate and gift tax exemption (currently $13.99 million per person). Larger gifts are typically placed in trusts to provide structured management and tax benefits. (See page 18 for some options.)

Adult children can benefit from carefully considered support as well. Graduate educations, investments in startups and deposits on first homes are the most obvious examples that many, but by no means all, high net worth families consider funding. It is a very personal choice and one that should be made in close consultation with advisors who know the family dynamics.

Finally, for people my age, it makes sense to share transfer plans with middle-aged children, to aid in their own long-term planning.

### KEEP BOTH EYES OPEN

Change is inevitable. While we are already seeing evidence of this great wealth transfer, we are mindful that life expectancy is rising and that the additional years can be among the most expensive – which brings me back to my own expectations. With parents who lived into their late 90s and each generation living longer than the last, my wife and I need to consider our own future as well as that of our children and grandchildren.

No one should transfer more than they are comfortable giving or give more than (or before) their heirs will benefit from receiving. Again, trusts can play a critical role in successful wealth transfer, as can choosing the right personal and corporate

trustee. Families have other options as well. It is interesting to note that in addition to the massive intergenerational wealth transfer, another $18 trillion is expected to go to charities over the next quarter-century.[2] Proper planning, education and communication are essential in making (and revisiting) related decisions.

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

[2] The Cerulli Report—U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2024.

# Trusts: Best practices for a lasting legacy

Trusts are commonly used by high net worth and ultra high net worth families to preserve assets for a spouse or future generations in a tax-efficient manner, shelter trust assets from future creditors or divorce, and provide for a family member with special needs. Here are some of my thoughts on best practices when using trusts:

- **Create a trust that can last for multiple generations without the imposition of estate or generation-skipping tax.** If you utilize your full lifetime exemption, the trust can be funded with up to $13.99 million for individuals or $27.98 million for married couples. If you have more than one child, consider creating multiple trusts. For instance, if you have two children, create two trusts, each utilizing half of the exemption.

  Start with a smaller trust if you are unsure about giving the full exemption amount. Establish the trust with a lesser amount and add to it later or create additional trusts as you feel comfortable gifting more.

  For substantial wealth, create separate trusts for amounts exceeding $27.98 million. This ensures that the exemption trust can grow tax-free, while non-exempt trust assets are utilized first by trustees.

- **Use income tax-efficient trust structures.** Employ techniques that report trust income to you, even though the trust is not taxable in your estate.

  This maximizes growth by avoiding income tax within the trust. Additionally, these provisions can be reversed, allowing income to be reported by the trust and its beneficiaries instead.

- **Design trusts to be flexible and dynamic.** Provide trustees with full discretion over the distribution of income and principal. If this feels too broad, include specific instructions or leave a nonbinding letter outlining your objectives for the trust.

  Consider granting your beneficiaries a limited power of appointment over trust assets, if that is appropriate in the context of your wishes. This allows them to modify trusts terms if their circumstances change.

- **Allow trustees to lend money to beneficiaries.** Loans that beneficiaries can repay maximize the use of the tax exemption. If repayment is not possible, the loan can be converted into a distribution.

- **Appoint a combination of individual and corporate trustees.** Choose a family member or friend who knows your family well to serve alongside a trust company. The trust company will have expertise in administering and investing the trust, safeguarding assets, and providing continuity for generations. (See the article by Alex Lyden on page 15.)

- **Empower beneficiaries to replace and appoint trustees.** Include provisions that allow beneficiaries to make changes to trustees, ensuring that at least one trustee is always a trust company.

By following these best practices, you can create a trust structure that aligns with your objectives, protects your assets, and supports future generations effectively.

— JM

# Choosing a Corporate Trustee

By Alex Lyden

Trusts are a central part of an overall estate plan for many families. One of the most important decisions is identifying someone to carry out this plan – to stand in your shoes when you are no longer able. Just as an estate plan is designed to take care of the family, so should be the choice of both a personal and a corporate fiduciary. It is not a decision that should be entered into lightly, but only after careful consideration of all the options.

Appointing a close friend, business associate or family member as a trustee is a natural inclination. After all, that person knows the family. But age and potential conflicts need to be considered. For how long will the friend be able to serve in the role? Will the appointment of a long-term attorney or accountant be worth having to replace them in their existing role? And who among the next generation is ready to take on the responsibility? It is rarely a good idea to appoint one child to serve as trustee for one or more siblings. That could cause lasting damage to their relationship and to the family, including subsequent generations. (There are cases, such as with special needs, in which a sibling trustee can make sense.)

In any case, it's a big ask. A friend, associate or family member may be the best choice. But without the right support, it still may not work out as either the grantor or the individual trustee hopes.

Here are three reasons to additionally name a corporate fiduciary, to work alongside the personal individual trustee.

**SUPPORTING THE PERSONAL TRUSTEE:** The personal trustee has agreed to take on a significant responsibility, and you'll want to do what you can to ease that burden, including ensuring that it doesn't extend beyond the individual trustee's own professional or personal capacity. The personal trustee can count on the corporate trustee for expert guidance and important objectivity in meeting the family's financial goals, and ensuring that all tax, administrative, and other reporting requirements are met and that the assets are prudently protected. A corporate trustee is held to a higher fiduciary standard than an individual in discharging these responsibilities.

A corporate trustee is held to a higher fiduciary standard than an individual.

**SUPPORTING THE FAMILY:**
A corporate trustee can help manage illiquid or unusual assets, like a family-owned business, shared real estate, or valuable collections. A corporate trustee can also act as an impartial mediator when there are conflicting goals among family members, making sure that the trust works for the benefit of all beneficiaries. Independence also allows a corporate trustee to have more flexibility and authority without adverse tax consequences.

This flexibility is especially important when a trust is expected to last multiple generations – it is impossible to plan for every eventuality in the trust instrument, so flexibility is key. On a related note, beneficiaries should have the ability to remove and replace the corporate trustee to meet their evolving needs.

> Naming a corporate co-trustee provides an additional layer of protection.

**SUPPORTING THE INDIVIDUAL:**
Naming a corporate co-trustee as successor trustee provides an additional layer of protection in the event that you become incapacitated or otherwise unable to manage your own affairs. A corporate trustee of a revocable trust can immediately step in to manage assets and make distributions for you or your family's benefit. This can be particularly seamless if they are already serving as custodian or investment advisor. Having a successor trustee named and ready to act can also provide peace of mind that the plan will be carried out as intended. Corporate trustees are bound by fiduciary duty and subject to oversight by state and federal regulators. They are held to the highest fiduciary standard and have a duty to act in the sole interest of the beneficiaries while carrying out the intent of the benefactor.

In short, a flexible and empathetic corporate trustee can support the efforts of the personal trustee, working alongside family members and other advisors, providing both independent advice and collaborative decision-making. A well-drafted estate plan can ensure that nothing is set in stone by incorporating flexibility for the future, allowing beneficiaries or another power holder to remove and replace a corporate trustee at any time to meet the needs of the beneficiaries.

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# Choosing a Charitable Vehicle

By Sean Brady

Nonprofit organizations in the United States hold over $13.7 trillion in total assets.[1] To put that number in perspective, that's enough to buy Apple, NVIDIA, Microsoft, Meta, and all the Bitcoin in the world, with a few billion to spare. Private foundations hold over $1.5 trillion in assets, a number that seems likely to grow as baby boomers begin to transfer wealth.[2] (See the article by Jeff Maurer on page 12.) Total household wealth is also at an all-time high, and many families are giving to the causes that matter to them.

The U.S. tax code significantly incentivizes charitable giving. Families can shelter up to 60% of their income from tax by giving directly to IRS-qualified organizations under section code 501(c)(3) or to qualified charitable vehicles. If the donation exceeds the income threshold in any given year, any unused deduction can be rolled over to offset future income over five years. The tax code also provides for an unlimited charitable deduction at death for estate tax purposes.

The tax benefits of gifting can also be "stacked." For example, the IRS allows certain public and private assets with low cost basis to be transferred into charitable vehicles, which can generate a triple tax benefit: (1) no realization of capital gains tax on the sale of the appreciated asset, (2) an income tax deduction for the full fair market value of the gift, and (3) a reduction in the donor's taxable estate.

While there are many options for charitable giving (contact your advisor for our thoughts on qualified charitable distributions, charitable lead trusts and charitable remainder trusts) most high net worth families that choose to give utilize either a donor-advised fund, or DAF, or a private foundation (or a combination of the two). Donor-advised funds are a convenient vehicle, as the administrative burden is minimal, the cost is low, and families can recommend gifts to nearly any qualified 501(c)(3) organization.

In general, private foundations only make sense for families who plan to allocate significant wealth to charity or for those with very specific or complex giving goals involving multiple generations.

The choice between a DAF and a private foundation is personal, as well as practical. Families with moderate or emerging philanthropic goals often start with a DAF, while those seeking to establish a legacy or engage in sophisticated giving gravitate toward private foundations. All families should carefully consider in close consultation with their advisors what assets to gift, how to give, and when to give.

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[1] https://www.federalreserve.gov/releases/z1/dataviz/z1/balance_sheet/table/
[2] Source: Board of Governors of the Federal Reserve System (U.S.)

## Which Charitable Giving Vehicle is Right for Your Family?

### DONOR-ADVISED FUNDS

A DAF is an account that is part of a larger charitable giving vehicle maintained by a nonprofit organization such as a community foundation or sponsored by a financial institution. Donors make irrevocable contributions, receive immediate tax benefits, and recommend grants to charities over time. The accounts are usually externally managed and invested in specific investment pool options. Donors receive a tax deduction of 60% of adjusted gross income, or AGI, for gifts of cash and 30% of AGI for gifts of appreciated securities.

*PROS*

- Full tax deduction available upon funding the account
- Gifting can be anonymous
- Lower annual fees and streamlined management
- No required distributions

*CONS*

- Gifts are usually restricted to IRS-qualified charities
- Less flexibility and control from a giving and investment perspective compared to a private foundation
- Potential changes in tax law – proposals have been made to require minimum distributions or to subject distributions to an excise tax.

*WHEN TO USE*

A DAF is often a more flexible and cost-effective option than a private foundation. These vehicles are ideal for families that have a simple strategy of giving directly to 501(c)(3) organizations over time, regardless of the funding amount. A DAF is also appropriate when long-term control over investments or bespoke giving strategies are not critical.

### PRIVATE FOUNDATIONS

A private foundation is a separate legal entity established and controlled by an individual, family or corporation. It allows for direct involvement in grant making, investment decisions, and broader philanthropic activities. A private foundation is a long-term vehicle for a family to donate through a shared vision, memorialized in a governing document and designed for building a legacy through intergenerational giving. Decision-making authority for grants can be broad and support a wide range of charitable interests. Donors can receive a tax deduction of up to 30% of AGI for gifts of cash and 20% of AGI for gifts of appreciated securities, which is lower than the maximum charitable deduction of 60%. A private foundation is typically best for substantial gifting needs.

*PROS*

- Family maintains control of the assets in the foundation
- Immediate income tax deduction
- Few restrictions on spending
- Assets are legally separate from the founder

*CONS*

- Higher set-up and maintenance costs with annual filing requirements
- Gifts are public record
- Required to distribute at least 5% annually
- Subject to strict and complex IRS compliance rules
- Subject to an excise tax on net investment income

*WHEN TO USE*

A private foundation may be the better choice for families who want greater control over their charitable giving and investment decisions. A private foundation is also suitable for those looking to involve family members in the decision-making process by hiring them as a director or staff (subject to strict IRS rules) or to establish a legacy of philanthropy with long-term impact. The benefits must be balanced with the increased administrative and cost burden.

### WHEN TO USE BOTH

For some families, the best approach is a combination of a DAF and a private foundation.

- Specialized grant-making: Establish a foundation for complex, large-scale projects while leveraging a DAF for one-off contributions or contributions that don't fit into the foundation's gifting strategy.
- Efficient tax planning: Donors may be able to stack contributions to maximize charitable deductions. For example, donors can gift appreciated securities to the private foundation up to 20% of AGI, contribute 10% of AGI to the private foundation in cash to reach the 30% threshold, then contribute another 30% of AGI in cash to a DAF to reach the 60% maximum deduction.
- Managing payout requirements: Newly formed foundations without clear grant-making criteria or that are unable to make a grant in time can contribute to a DAF to meet the minimum distribution, and then make the grant from the DAF when ready.

$1.5 TRILLION
Total assets held by private foundations in the United States

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