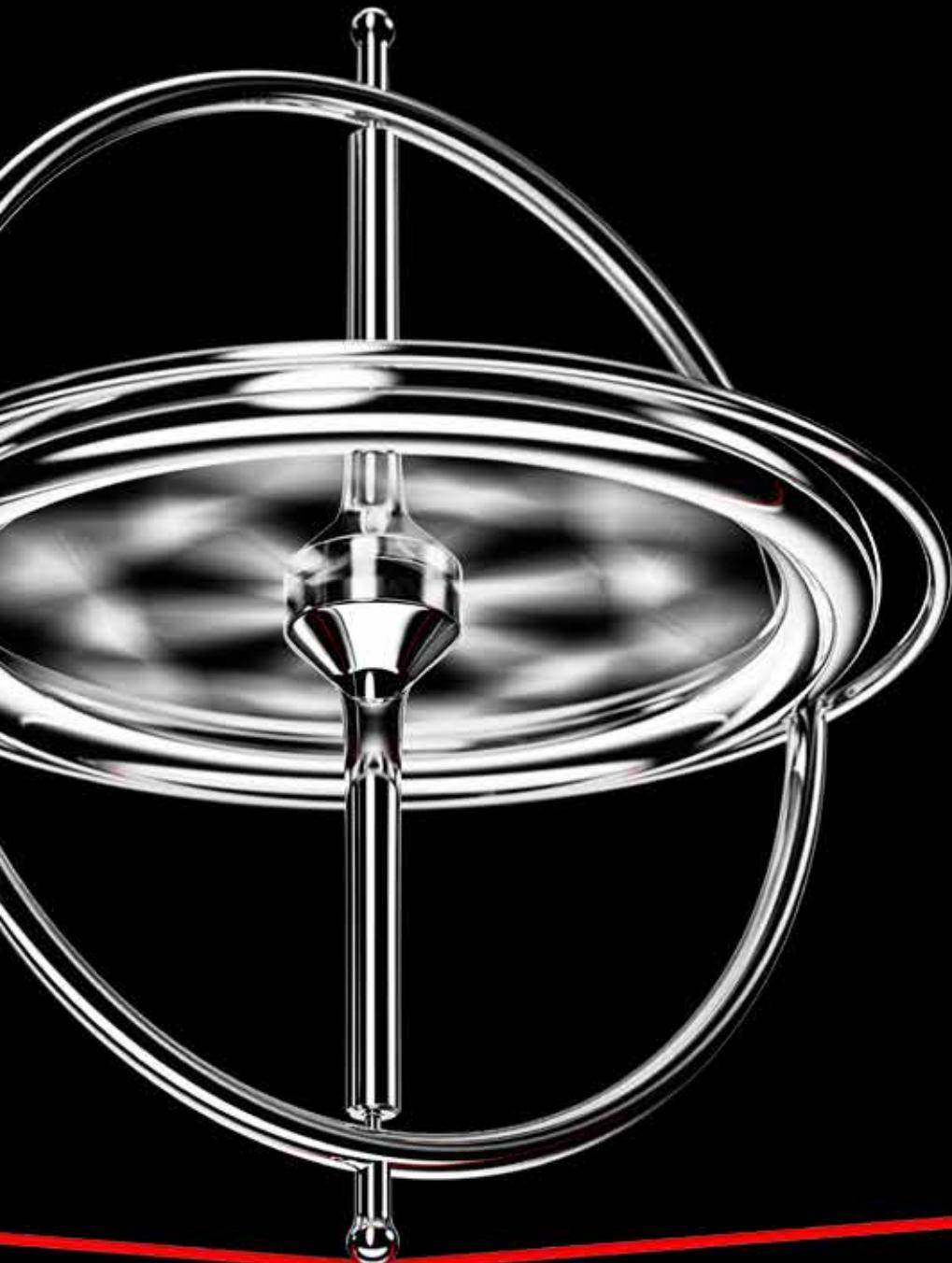


# INDEPENDENT THINKING

THE NEW STANDARD IN WEALTH MANAGEMENT



EVERCORE  
Spring 2018

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A Fine Balance:  
Managing Portfolios in  
Buoyant Markets

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Tri-State Trouble: Investing  
in the New York City Area

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Rationality and Rhetoric  
in U.S.-China Trade

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Evercore ISI on  
U.S. Corporate Sentiment

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GQG Partners on  
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I Am a Trust Beneficiary –  
Now What?

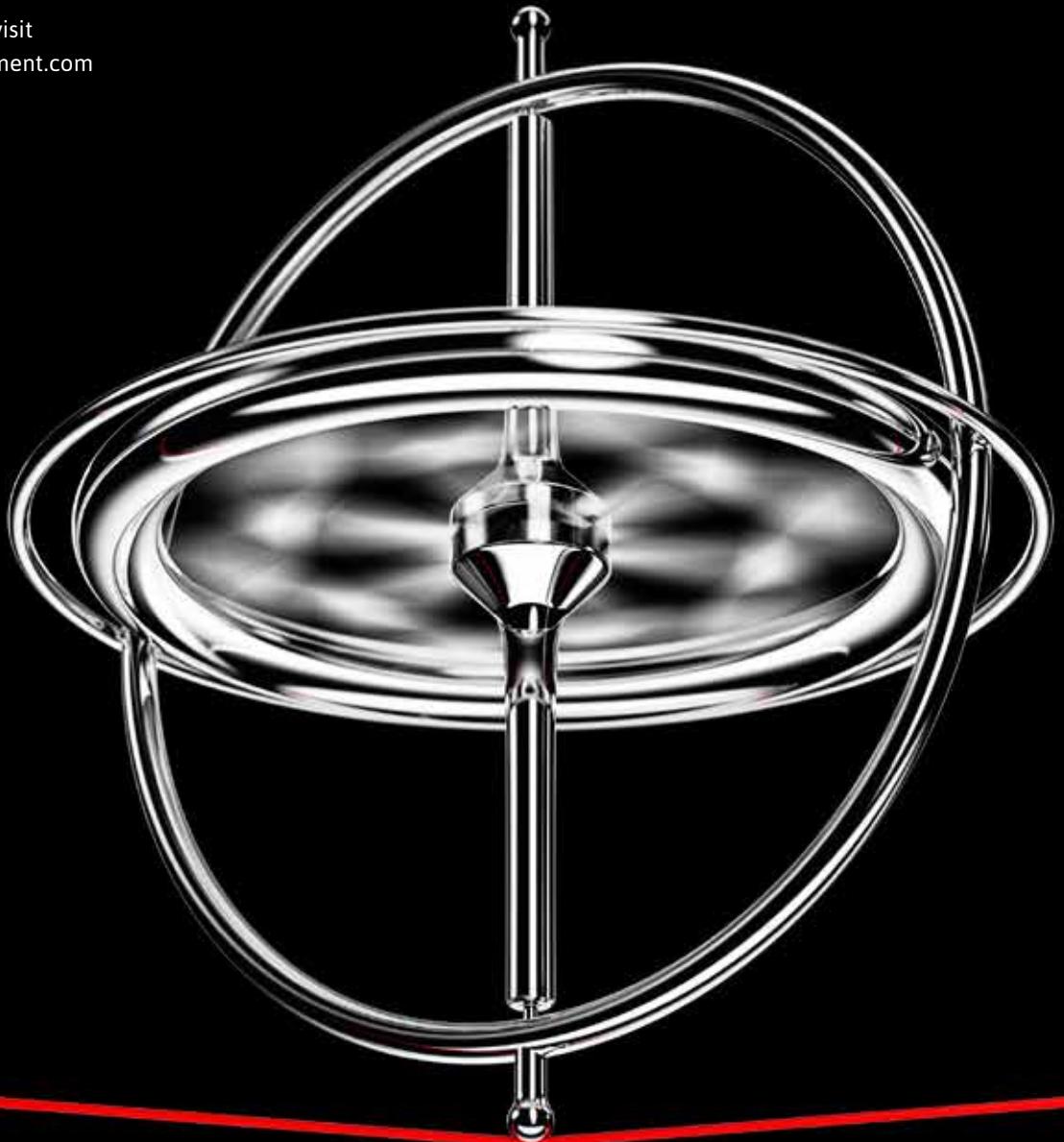
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Jeff Maurer on  
Making the Most of our  
Financial Journey

Committed to meeting our clients' financial goals,  
and to earning and sustaining their trust

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[www.evercorewealthmanagement.com](http://www.evercorewealthmanagement.com)



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# A Message from the CEO



Intelligence is the ability to adapt to change, said Stephen Hawking. He confronted more changes than most in his 76 years, but we all face upheavals, in our financial, professional and personal lives. As wealth managers, it is our job to help our clients and their families successfully navigate change and meet their financial goals.

The markets are certainly changing, becoming more volatile after several years of extraordinary calm and still low inflation, as described by John Apruzzese, our Chief Investment Officer and the author of our cover article, in a recent interview with Barron's. As investors with a slight contrarian bent, we have to ask ourselves whether continued consensus expectations of high confidence, among consumers and corporations alike, signal a peak. While we don't see any signs of imminent recession in the United States – and know that markets can remain elevated for some time – we continue to diversify our clients' portfolios to attempt to balance growth and risk controls.

On the political front, change seems to be accelerating. Brian Pollak, who recently spoke on wealth management at the Yale China-U.S. Forum, writes a very thoughtful article in this issue about trade relations with a focus on China. On a related note, many New York-based clients were able to join us for an interesting evening event with Isobel Coleman, Senior Fellow for U.S. Foreign Policy at the Council of Foreign Relations, and U.S. foreign policy

advisor Celina Realuyo, on growing geopolitical and cyber security risks. Portfolio Manager Tim Evnin, who moderated the event, noted that very few headline-grabbing events have a lasting impact on the markets but those that do, such as the 1973 oil crisis, often center around trade.

Changes in our personal lives often relate to our age and few periods are as eventful as our 20s and 30s. Wealth & Fiduciary Advisor Ashley Ferriello, who joined our firm in 2009, draws on her own current experience as a newlywed in assembling a financial planning checklist for new couples. Consider sharing the articles – and, if appropriate, our guidance for trust beneficiaries on page 14 - with your family and friends this wedding season; it might not be quite the present June brides and grooms are expecting, but it may prove to be the most lasting.

My own 20s and 30s are long in the rearview mirror, but as you'll see in my regular column for aging Baby Boomers, I still relish both the challenges and the opportunities afforded by change.

Clearly, I'm not alone. Over 100 women joined us in New York on April 19 for our exciting Wise Women event with Evercore Executive Chairman John Weinberg, former DuPont CEO Ellen Kullman, Gloria Steinem and others on leveraging personal, professional, and financial capital to create lasting change. Food for thought, for both women and men.

As always, please contact any of us at Evercore Wealth Management to share your views on the topics addressed in this issue of *Independent Thinking* and with any questions you may have. As we approach our 10th anniversary, all of us at Evercore Wealth Management are grateful for your confidence in our firm and proud to serve you and your family.

A handwritten signature in cursive script that reads "Jeff".

**Jeff Maurer**  
Chief Executive Officer

\* To view the Barron's Q&A, Who Says this Market is Overpriced?, [click here](#).

# A Fine Balance: Managing Portfolios in Buoyant Markets

By John Apruzzese

Is this market as good as it gets? Many important indicators are at or near their most bullish readings ever and would be difficult to improve upon.

The most notable and extravagant signs of economic health can be found in sentiment surveys – how people are feeling, not necessarily what they are doing. The economic outlooks and capital spending plans of corporate chief executives are at record highs, and measures of small business and consumer sentiment are at similar

extremes. In short, animal spirits have been fully unleashed.

Expected corporate earnings and revenue growth rates, in the United States and abroad, have accelerated to levels rarely seen so long into an economic expansion. Earnings for the companies that make up the Standard & Poor's 500 index are

forecast to grow by almost 20% this year, propelled by corporate tax cuts on top of strong economic growth.

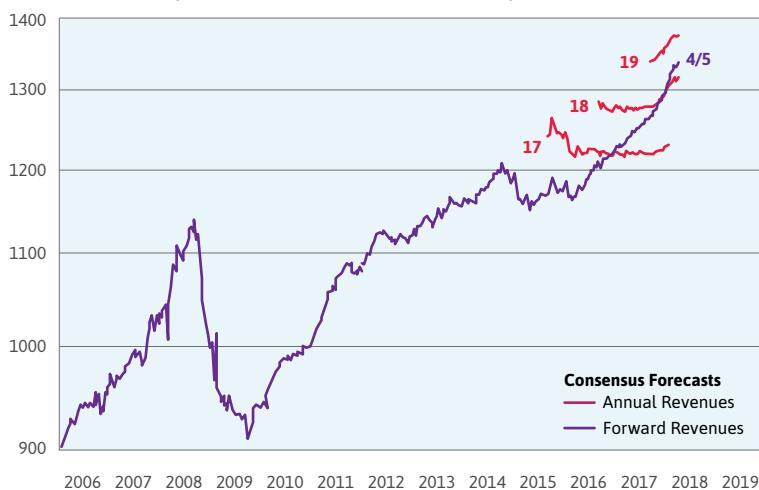
At the same time, inflation, a key variable in determining valuations, as described in our recent white paper, *A Reality Check for Stock Valuations*, remains low. (Indeed, it may be that corporate tax cuts ultimately prove deflationary, if companies compete by cutting prices.)

This is all fundamentally good news and could drive the market higher in the short term. Beyond that, there is a risk that a run of less sizzling growth could disappoint investors. A greater concern is that growth instead will accelerate to the point that the economy overheats, threatening higher inflation and compelling central banks to raise interest rates more aggressively. That almost certainly would increase the likelihood of a recession and cause the stock market to fall.

These are not the only risks that investors must factor into their thinking. The aggressive efforts by the Trump administration to rebalance trade could hamper the global flow of goods and services. This flow has served as an engine of prosperity during the last two or three decades, and indeed whenever it has been allowed to proceed unfettered. At their worst, the protectionist policies could incite a trade war. Many advocates

## S&P 500 Revenues Per Share

Consensus analysts estimates in dollars, weekly, ratio scale



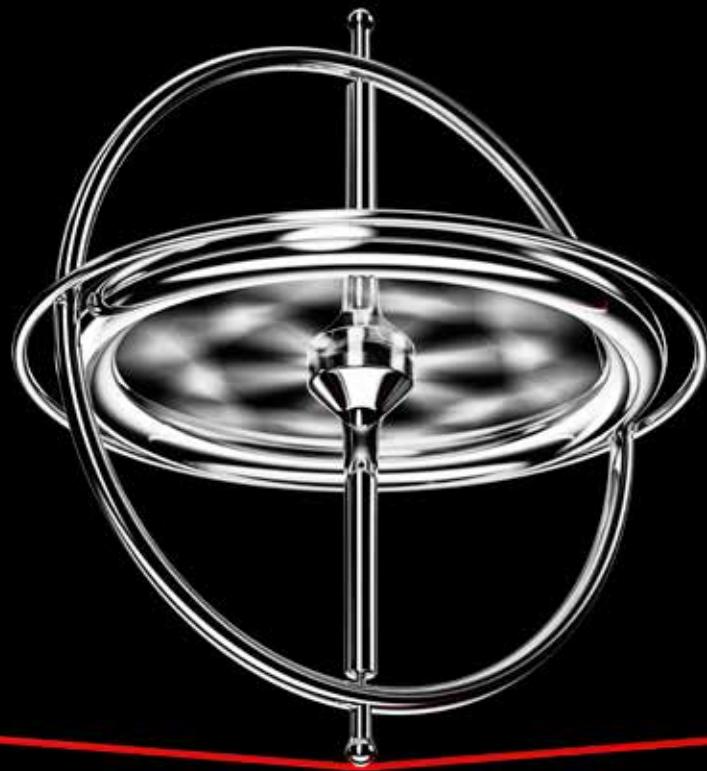
\* Time-weighted average of consensus revenue estimates for current and next year.  
Source: Yardeni

of free trade accept that the United States would benefit over the long run from reducing its trade deficits with China and other large economies, but they warn that doing so probably would create pain over the short to intermediate term.

When gauging the potential impact of the simmering trade dispute, it is important to remember that the conflict with China

is much larger than the dollars-and-cents trade balance figures would suggest. As Brian Pollak highlights on page 6, China is our main rival for global influence. Advanced technology will be as important to the competition between the two nations as are military and economic might. It appears that China has not just been buying American technology but acquiring it through coercion and

sometimes theft. It has secured significant technology in automobile manufacturing, for example, by requiring U.S. and other Western companies building manufacturing facilities in the country to enter into joint ventures with Chinese companies. It is strategically important to limit these practices and to take other steps to protect advanced technology and intellectual property in general.



*Many important indicators would be difficult to improve upon.*

Other factors warrant a more cautious stance toward equities, including rising odds that the Democratic Party will command a majority in the House of Representatives after the midterm elections. That could amplify the discord emanating from Washington. It's also important to note that Andres Manuel Lopez Obrador, the leading candidate in the Mexican presidential election to be held this summer, is from the extreme left. If he wins, it could destabilize a very important neighbor and trading

partner. Current polls put him 20% ahead of his rival.

As usual, the economic and political backdrop is fraught with uncertainty, making forecasts for the stock market a challenging undertaking. There is no doubt that this has been a very long and rewarding bull market. At the same time, the yields on short- and longer-term fixed income assets are slowly becoming more attractive. We maintain relatively conservative and, we believe,

realistic market assumptions, and will continue to diversify portfolios to protect and grow our clients' capital.

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**John Apruzzese** is the Chief Investment Officer at Evercore Wealth Management. He can be contacted at [apruzzeze@evercore.com](mailto:apruzzeze@evercore.com).

To view the Evercore Wealth Management white paper, *A Reality Check for Stock Valuations*, [contact us](#) to request a hard copy.

## Core Equity Portfolio by Charlie Ryan

Stock market volatility, long dormant but back in force recently, is probably here to stay due to a number of reversals in macroeconomic fundamentals. Our goal in times like this is often to review our rationale, rebalance, and possibly introduce new positions when attractive entry points present themselves.

It is important to remember that our approach is always to identify the primary factors underlying a company or stock: the key drivers of the business, the competitive landscape now and in the future, and what the business is worth, now and in the future. If we understand these components, market volatility can often make our fundamental decisions more straightforward.

We also describe our process as unconstrained. In our core portfolio, which is actively managed and accounts for the majority of our allocation to domestic equities, we consider investments in companies across the market capitalization spectrum from \$1 billion up. We also consider non-U.S. businesses, as we focus on where a company operates rather than where it is domiciled. This allows us to take advantage of volatile market conditions across different geographies and sectors that create unwarranted changes to equity prices.

Our strategy has a reliable and consistent philosophy of maintaining a limited number of holdings and minimizing turnover. The portfolio owns approximately 35 to 40 companies at any time. This allows individual names to

have a meaningful impact on returns, while curtailing the drawdown from mistakes. Limiting the number of holdings is also consistent with our belief in sustaining a high "active share" in the portfolio. Active share is a measure designed to determine the extent to which the holdings in a portfolio deviate from those in the index against which the managers compare the portfolio's performance. Maintaining 40 or fewer holdings, compared to the 500 in the benchmark index, the Standard & Poor's 500, helps to ensure a high active share in our core equity portfolio. This will present more variation from month to month or quarter to quarter, but with thoughtful execution it has outperformed the benchmark index on a total return basis since the strategy's inception in 2009, and we remain confident in our approach.

The equity markets have been more unnerving for investors in recent weeks than during the backdrop of lower volatility that prevailed for the previous several years. We view it as our mandate, as long-term fundamental investors, to sift through the daily noise and media rhetoric to identify solid businesses that our clients can invest in fruitfully for many years to come. We believe that sometimes volatility can be our ally in that cause.

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**Charlie Ryan** is a Partner and Portfolio Manager at Evercore Wealth Management, and Co-Manager of the Evercore Equity Fund (EWMCX). He can be contacted at [ryan@evercore.com](mailto:ryan@evercore.com).

# Tri-State Trouble: Investing in New York, New Jersey and Connecticut

By Howard Cure

*Editor's note:* This article is excerpted from the recent Evercore Wealth Management paper, *A Troubled Trio: Investing in New York, New Jersey and Connecticut*.

The tri-state area of New York, New Jersey and Connecticut is facing fiscal challenges derived from competitive economic forces, changes to long-established federal programs, and their own mismanagement. They need to create and maintain sustainable operating and capital budgets that provide stability and comfort to the owners of its debt.

The region is home to some of the most expensive real estate in the country and, as demonstrated in the chart below, some of the highest real estate tax rates.

The income tax system for all three states and for New York City is very progressive and becoming more so. In New York City, the top 1% of filers account for 45.5% of all income tax revenue. In New York State, the top 1% account for 40.9% of total revenue. New Jersey and Connecticut residents earning over \$1 million (0.7% in each state) generate 29.1% and 26.4% of total state income tax, respectively.

All three states continue to attract strong investor demand for municipal bonds from their own residents due to still relatively high wealth levels and income tax rates. The demand is further enhanced by the Tax Cuts and Jobs Act of 2017, which caps state and local tax deductions but not municipal bond interest. The potential for higher

income tax rates as part of the solution to structurally balance the states' budgets could further increase in-state demand for municipal bonds.

**40.9%**

New York income tax revenue accounted for by the top 1% of filers

We currently aim to avoid entities that are dependent upon Connecticut or New Jersey for a significant portion of their revenues, as they may be vulnerable to cuts. While we feel that these more vulnerable states will continue to pay debt service on their own general obligation and appropriation debt, spreads for these states may continue to widen until the market is convinced that budget, infrastructure and pension issues are addressed, and the economy regains some of its momentum.

**Howard Cure** is the Director of Municipal Bond Research at Evercore Wealth Management. He can be contacted at [cure@evercore.com](mailto:cure@evercore.com).

## 2017 PROPERTY TAXES BY STATE<sup>1</sup>

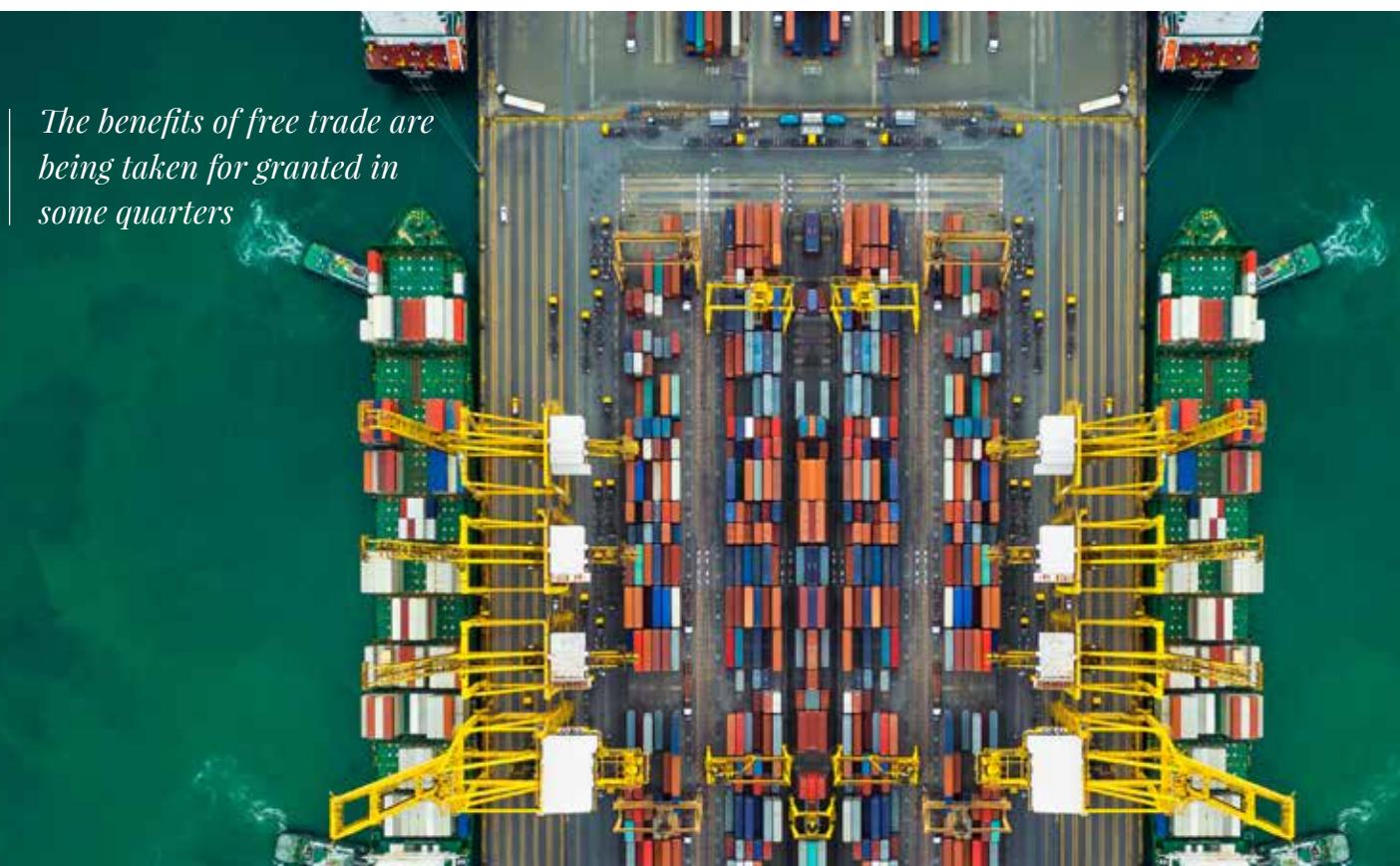
Rank	State	Effective Real Estate Tax Rate	Annual Taxes on \$178,600 Home*
1	New Jersey	2.35%	\$4,189
4	Connecticut	1.97%	\$3,517
11	New York	1.62%	\$2,899

<sup>1</sup> \$178,600 is the median home value in the U.S. as of 2015, the year of the most recent available data.

# Rationality and Rhetoric in U.S.-China Trade

By Brian Pollak

The United States has had a long history of trade protectionism, starting with the Embargo Act of 1807, when President Thomas Jefferson attempted to punish the French and British for attacks on American merchant ships.



Protectionism, as the concept is understood in modern times – using tariffs, subsidies and related measures to help make a nation's products more competitive on world markets – reached its apex with the Tariff Act of 1930, co-sponsored by Senator Reed Smoot and Representative Willis Hawley. Smoot-Hawley placed tariffs on more than 20,000 imported goods, and many economists hold it responsible for plunging the world into a trade war and deepening, if not causing, the Great Depression.

Almost all economists and political scientists in the West have since agreed that free trade worldwide is good, for two important reasons. First, it reduces the prospect of warfare. Two countries that rely on each other for goods and services are more likely to resolve differences in a peaceful manner. Second, it allows the economic principle of comparative advantage to be implemented with the widest possible scope. Comparative advantage is the idea that prosperity is enhanced when we all do what we do best and make it as widely available as possible, so that we benefit from others' expertise and productivity and let them benefit from ours. In the context of global trade, it means that if countries that excel at producing certain goods and services are free to sell them everywhere with no or limited barriers, it provides benefits everywhere, too, in the form of reduced prices and better quality for consumers and, of course, more wealth for the producers.

In the aftermath of the Depression and World War II, the trend toward free and open global trade persisted, fostered by landmark accords that exemplify a spirit of international cooperation, including the General Agreement on Tariffs and Trade, or GATT, signed by 23 countries in 1947, and, in 1994, and the creation of the World Trade Organization, or WTO, its much more inclusive successor framework. Both set standards for global free trade by encouraging lowering tariffs

through agreements between smaller groups of nations.

The benefits of free trade are being taken for granted in some quarters and its merits are once again being debated. Bickering between the United States and China is causing considerable market turbulence. The wide trade imbalance, \$300 billion including services, according to the U.S. Census Bureau's latest estimate, is a source of the dispute, but not the only one – and the focus by the Trump administration on using tariffs is, in our view, unlikely to correct the problem. As noted in the cover article in this issue, China is the main rival that the United States has for global influence. That rivalry is revealing a potential flaw in the theory of comparative advantage, or at least in the way the theory is being put into practice.

# \$300 Billion

Current U.S.-China trade imbalance including services

China's focus on developing technological expertise is only becoming more acute as it pursues its "Made in China 2025" program. Launched in 2015, it aims to focus the nation on 10 key technological endeavors, including robotics, aerospace, biomedicine, and electric vehicles. Perhaps the most strategically important technology in which China is furthest behind and working feverishly to make up ground is semiconductor design and manufacturing. Last year China imported \$200 billion of semiconductor chips, even as the country has increased manufacturing capacity at a very rapid rate. China has the capital to build the very latest expensive fabrication facilities, but it lacks the most advanced

technology. Some small acquisitions have been made, but attempts at acquiring major companies have failed.

There is broad agreement that WTO rules designed to enforce fairness in trade relations are minimally effective against China's state-led industrial base. When China entered the WTO in 2001, it accounted for less than 4% of global economic output. As a smaller and less developed country, China and its unfair trade practices were too insignificant for other countries to devote much attention to. There was also a widely shared view that developing economies needed the playing field tilted in their favor to permit them to catch up with their more mature counterparts. Catch up, China did. Today it represents nearly 15% of global output, having grown at more than double the rate of the rest of the world since entering the WTO. China's economic rise, combined with its goal of technological dominance, has forced the United States and other developed countries to rethink the nature of their trading partnerships with China.

Comprehensive negotiations between China and the developed world, led by the United States, are long overdue to rebalance trade and stop the improper acquisition of intellectual property. Despite the market's occasionally violent reactions to daily headlines, negotiations to turn rhetoric into policy will be a long process. There is evidence that China's leaders understand that the country has been getting a good deal on global trade, but significant concessions will require a solution that allows them to save face. There is hope that rationality on both sides can overcome aggressive rhetoric, but aggressive rhetoric does open the door for an unintended policy mistake, causing an escalation that could have a serious impact on global economic growth.

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**Brian Pollak** is a Partner and Portfolio Manager at Evercore Wealth Management. He can be contacted at [brian.pollak@evercore.com](mailto:brian.pollak@evercore.com).

# Evercore ISI on U.S. Corporate Sentiment

By Oscar Sloterbeck

Evercore ISI Company Surveys and U.S. real GDP growth have rarely diverged for long. While both are measures of current conditions, our company surveys are produced weekly, while GDP is assessed quarterly. At present, our company surveys show that U.S. growth is strong and foreign demand remains solid.

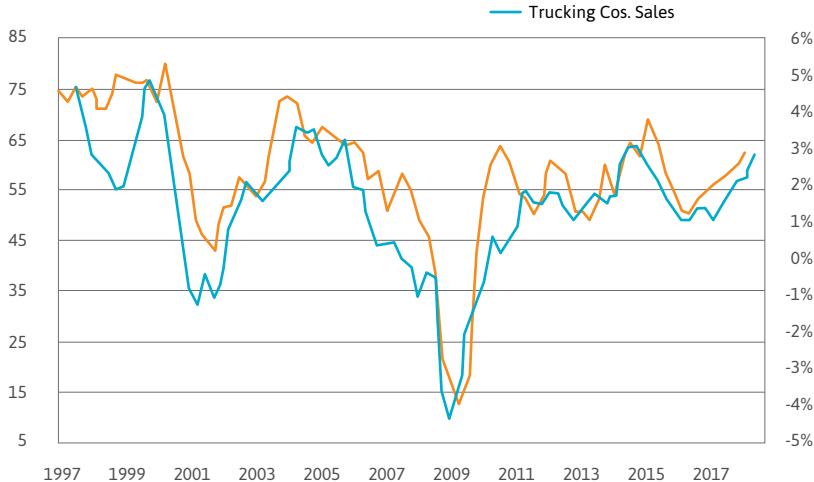
Although many government data points suggest that growth stalled in the first quarter of 2018, our index recently surpassed its prior peak in 2015 when U.S. real GDP year-on-year growth was +3.8%, suggesting that underlying growth is currently quite healthy.

The industrial and transport surveys' data are particular areas of strength. The improvement has come in part as

*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's macro and fundamental research teams to measure the evolving strengths and weaknesses of the U.S. economy. Executives, typically CFOs and Treasurers, at 340 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.

## Evercore ISI Trucking Cos. Sales Survey

0=Weak; 100=Strong



Source: Evercore ISI, BEA

U.S. capital spending has risen and the first of our semiannual surveys of capital expenditure, or CapEx, and hiring plans indicate continued strong growth. Much of current CapEx is focused on efficiency and productivity, enabling companies to remain competitive. As a result, spending in technology, automation, and on the Cloud are all priorities. In addition, spending in the energy and mining space has continued to recover from weakness in recent years.

The passage of the tax bill late last year will likely add further to CapEx plans, CFO respondents say, as additional funds are made available through repatriation, lower corporate tax rates, and the full expensing of capital equipment.

Our surveys of Europe sales and China sales at U.S. multinationals also improved noticeably over the last year, thanks in part to accommodative monetary policy around the globe, and they remain solid so far in 2018. While a number of respondents have expressed concerns over the prospect of tariffs and greater

friction to global trade, demand globally has so far remained quite healthy.

Consumer activity has strengthened over the last six months, with improvements in employment, wages, and consumer balance sheets contributing to more spending at retailers, home builders, airlines, and auto dealers.

What do companies worry about? CFOs most frequently listed higher material costs, compensation costs, and labor availability. Many companies experienced margin pressure last year amid strong increases in from energy and metals costs. In addition, with the unemployment rate at 3.9%, finding qualified workers for open positions is a big challenge in many industries, leading to rising wage pressures for new hires.

Many companies are currently trying to pass on those higher costs to customers. At the intermediate goods level, where energy or other commodity prices dominate the cost basis, such as chemicals, the price increases appear to be quite successful.

## Evercore ISI Company Surveys

What do you plan to do with funds made available from the reduction in corporate tax rates and repatriated funds?

	Total
Reinvest/CapEx	23%
Pay down debt	17%
Pay more dividends	12%
Hold cash	10%
Increase employee compensation	10%
Increase buybacks	7%
M&A	7%
Increase pension funding	4%
Return \$ to customers through rate cuts	2%
Cut prices to stimulate sales	1%
Nothing, don't expect better cash flows	7%

Source: Evercore ISI

At companies further down the chain, however, the price increases are harder to secure. In our pricing power surveys, we have seen some improvement, but price competition remains fierce in many industries, especially with the increase in price transparency from online shopping.

Additional sources of concern mentioned by CFOs revolve around regulatory and legislative changes as well as political instability, both in the United States and overseas. In most industries, the related issues have so far been manageable.

For information on Evercore ISI research, please contact Evercore Wealth Management Partner and Portfolio Manager **Charlie Ryan** at [ryan@evercore.com](mailto:ryan@evercore.com).

## Evercore ISI Pricing Power Surveys

Manufacturing Cos., Retailers, Consumer Staples Cos.



Source: Evercore ISI

# Q&A

*with GQG Partners  
on Emerging Markets*



*Rajiv Jain*

**Editor's note:** Evercore Wealth Management supplements its core investment capabilities with carefully selected outside funds across the range of the firm's asset classes. Here we discuss opportunities in emerging markets with Rajiv Jain, Chairman and Chief Investment Officer of GQG Partners and the sole portfolio manager of the firm's strategies. Please note that this represents the views of GQG and not necessarily the views of Evercore Wealth Management.

**Q: Headlines on trade between the United States and China are driving considerable market volatility. What is your perspective on the outcome and its likely impact on the markets?**

**A:** My impression is that China will open discussions and look to buy time, maybe making small concessions to show goodwill. Trade issues typically take years to resolve. I expect that the effects of the recent uptick in rhetoric will be small in the overall scheme of things, but the direction is certainly worrying.

Could this signal the beginning of the end of global trade growth, with countries and regions becoming more inward looking? I understand that the Trump administration owes some action on trade to its base. Still, U.S. labor markets are

tight, growth seems to be accelerating, and this hardly seems the appropriate time to push hard on trade.

**Q:** There has also been concern among investors about China's shadow banking system. Are these concerns valid or do they create opportunity?

**A:** These concerns create opportunity for investors. The shadow banking system is often seen as a risk to the financial system because it implies that banks and non-bank financial companies are operating in a nefarious manner, hence in the shadows. In reality, there are two important things to understand.

First, despite the nomenclature, regulators are very aware of what is taking place in these markets and are closely monitoring them. In fact, there have been several new reforms introduced to ensure that the system operates efficiently and that consumers are protected from potential bad actors. For example, peer-to-peer lenders that offer credit to consumers unable to access the traditional banking market are now subject to strict monitoring and licensing requirements.

Second, China's party leaders have rethought their economic priorities, opting for more sustainable and higher-quality growth, even if the new approach results in a slightly lower level of growth overall. That means shifting the economy to more consumption-led growth, which will require greater access to credit. Since banks traditionally do not lend to customers with no banking history, these peer-to-peer companies are filling a void by offering credit to these unserved consumers. Over time, as the system develops, this should enable more consumers to move "out of the shadows" and access the traditional banking market as their credit histories mature.

**Q:** You also invest in Russia. The country has a history of poor corporate governance. Has corporate governance improved? How were you able to get comfortable making investments in Russian companies?

**A:** We talk regularly about the mismatch that sometimes arises between perception and reality. We feel that Russia offers an example of that mismatch. Reality is that earnings growth is improving, along with economic growth, corporate governance, and accounting standards. Supporting this view, the World Bank ranked Russia much more favorably than China, India and Brazil in their 2017 "ease of doing business rankings." Most investors find it surprising that Russia has significantly outperformed the Emerging Markets Index over

the past 20 years, despite suffering major bear markets in 1998 and 2008. All that said, I don't want you to think that I'm blind to the risks regarding these companies. One thing I've learned in a long career is that every investment entails some degree of political and economic risk, and Russia is certainly no exception. On the heels of new sanctions that were announced on April 9, we are very cognizant of the macro environment and the potential impact on Russian companies.

**Q:** You have had a long career investing in emerging market countries. What has been the key to the longevity of your investment process?

**A:** I've invested through ten emerging market declines of greater than 20%, three of which resulted in a greater than 50% loss for the index. In my view, great investors must have a deeply rooted philosophy, with a process that adapts to varying market conditions. A fundamental pillar of GQG's philosophy is that our investment process must be adaptable and flexible, without compromising core tenets. While our commitment to investing in high-quality companies will never change, our views on market conditions, operating environments, systemic risks and relevance of certain factors or metrics evolve. What equals quality in one market environment doesn't necessarily equal quality in another market environment. I believe it's this flexibility embedded into our investment process that makes it one of its greatest strengths.

We have an investment horizon of at least five years and focus on the underlying quality of companies, investing in those that we believe can perform in adverse macro environments. It is our core belief that a company's underlying strength outweighs the macro environment in the long run, and we can only fully ascertain this strength through fundamental bottom-up analysis.

**Q:** You are known to be an investor in quality businesses. Hence, the name GQG for "Global Quality Growth." How do you define quality? What differentiates your emphasis on quality from funds and ETFs that use quality as a factor tilt?

**A:** Our aim is to exploit the long-term mispricing of assets in a market that is intensely focused on the short term and is less interested in a company's prospects for profitable growth over the next five years and beyond. In terms of how we are differentiated, we build our portfolios one stock at a time, a fact that distinguishes us from ETFs that buy stocks in order to gain "exposure" to some specific sector or factor (or country or region). Our positions reflect careful consideration of company-specific issues. We're not buying exposures; we're

buying companies. We evaluate risk at the company level and focus on absolute risk (i.e., permanent loss of capital) versus relative risk. This allows for building concentrated portfolios that are agnostic to the benchmark weights.

Emerging markets tend to have a greater number of large constituents that operate in commodity businesses and earn no more than their cost of capital. By being benchmark agnostic, I believe we have been able to avoid those inherently less attractive investments, which a passive strategy or benchmark aware manager would, by definition, be unable to avoid. We are also able to capture what we view as only the most attractive parts of the emerging economies and avoid the rest. We expect that this approach will achieve the dual objectives of achieving growth and protecting on the downside.

**Q:** What would you say to investors who are concerned that they missed the run-up in emerging markets last year?

**A:** The sharp rise in share prices last year was a direct result of improved earnings in markets around the world. Estimates were adjusted upward through much of the year as analysts digested the data coming in. There is still good reason to believe that 2018 will be another year of healthy economic activity around the globe. While markets have undoubtedly faced some headwinds in the first quarter of 2018, we still expect corporate earnings to continue their ascent, reflecting growth in corporate investment and in consumer spending.

Some of the larger financial and technology firms in emerging countries enjoy tremendous competitive advantages, strong growth potential, and are reasonably priced. We are aware that many things could cause us to temper our optimistic outlook, including political developments, trade disruption, natural disasters and the unanticipated consequences in the emerging markets of events in the developed markets. Our objective remains to compound at a reasonable rate over the longer run with less risk, and I feel very comfortable with the opportunity set that emerging markets present today.

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For further information about GQG Partners and about other funds on the Evercore Wealth Management investment platform, please contact **Judy Moses** at [moses@evercore.com](mailto:moses@evercore.com).

# Thoughtful Giving to Heirs

By Pam Lundell

How much? When? How, exactly? Families considering making gifts to heirs face some tough questions. Thinking strategically about taxes and trusts can help alleviate the pressure and prepare the beneficiaries.

Large gifts involve many considerations, whether they are philanthropic or for family. First and foremost is to fund current and future expenses, especially as longer life expectancies increase the likelihood of healthcare costs and other costs rising over time. Even families with considerable wealth should work with their advisors to set aside the proper sums if they expect to maintain their current lifestyle.

For families with substantially more than \$22.36 million, the total exemption now afforded a couple<sup>1</sup>, the overarching issue is just how much to pass on to children and grandchildren. Some say they wouldn't mind if their kids got all of the wealth. Many decide on a limit, with the excess designated for charities or a private family foundation. Warren Buffet's rule of

thumb about giving kids enough money that they could do anything, but not so much that they could do nothing, remains a benchmark for many wealthy families. However, even those who plan to leave all of their assets to their children want to do it in a thoughtful way. Their goal is to prepare heirs for the responsibility, without quashing their own goals and initiative.

**\$11.18** Million

Current lifetime exemption

Children in high net worth families usually are aware of their families' wealth, although not necessarily its extent.

This is where family discussions are crucial – early conversations around values, gratefulness and stewardship are a good starting point. Setting expectations is also important, especially in the context of limiting children's inheritance. Silence on this topic can cause confusion and resentment. Families where these discussions don't occur until much later can encounter real problems that may hinder wealth transfer.

As with anything, timing is everything. Many families realize that while they would prefer to see heirs embrace the family legacy, they also don't want to saddle children with the responsibility before the heirs are ready. Conversely, they don't want them to have the responsibility of inheritance come as an overwhelming surprise in the event of a premature death of a parent or parents. Some families decide to give their adult children a relatively modest amount of money to see how they handle it. If families see their children taking responsibility for their own lives and displaying healthy independence, they might gain the confidence to give more money over time. However, if the children act irresponsibly, families may change or restrict the amount and timing of any future wealth transfer.

<sup>1</sup>The previous issue of Independent Thinking explored potential strategies for the recently doubled lifetime estate, gift and generation-skipping tax exemptions, as well as related aspects of the Tax Cuts and Jobs Act of 2017. To view, [contact us](#) to request a hard copy.

It's worth noting that there may be better uses of the increased exemption (\$11.18 million free of federal estate tax, during a lifetime or at death, in 2018) than giving assets away outright. Forgiving large low-interest rate loans previously made to children or other family members could also be worthwhile.

Parents who want to utilize the increased exemption now, but worry that their children (who may be young, or not so young) are unprepared for the responsibility of such a large gift, could establish trusts rather than giving funds outright. By establishing and funding the trusts now, instead of at death, any appreciation on those funds is also removed from the donor's taxable estate. This strategy not only protects the assets, but depending on the language in the trust agreement, could allow for control over the distributions and use of the funds until the children become better stewards of wealth.

Trusts offer families ample flexibility in choosing how to transfer assets to heirs. For instance, a trust could include a provision stating that the trustee not disclose the trust's existence until a later date. Trusts could also be drafted to allow the donor to continue paying income tax on the activity in the trusts, which acts as an additional tax-free gift to beneficiaries. Further, trusts could be set up by both spouses for each other's benefit in the event they need financial support in the future. These spousal limited access trusts, or SLATs, require special care when drafting so as not to run afoul of the reciprocal trust doctrine, which applies to interrelated trusts that have not actually impacted the economic position of the donors.

While there is time to make decisions, the increased exemption amount of the 2017 Tax Act is slated to sunset at the end of 2025. That date will come more quickly



than anticipated for many families, and a change in the political landscape could bring about an earlier deadline.

In the meantime, at least one other gifting opportunity is worth remembering. The annual exclusion gift amount has increased to \$15,000 in 2018. This continues to be an efficient way to transfer wealth to family (or anyone else) without gift tax

consequences. Taking advantage of the annual exclusion gift amount may buy parents and grandparents time to decide how much is enough to give to heirs.

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#### HOW MUCH IS ENOUGH (OR TOO MUCH)?

Beginning Value	Investment Return	Gift Amount	Gross Estate	Estate Tax	Net To Heirs
\$11.18 MM	6%	\$11.18 MM	\$0	\$0	\$35.85 MM
\$11.18 MM	6%	\$0	\$35.85 MM	\$9.87 MM	\$25.98 MM

Example assumes an individual investor, value growing over 20 years with no withdrawals and no state estate tax. Return assumption is based on a balanced portfolio, pre-tax dollars. Investor's actual return will be reduced by advisory and any other expenses which may be incurred in the management of an investment advisory account. If \$11.18M is gifted in current year, entire gift and estate exemption will be used with none available in year of death.

# I Am a Trust Beneficiary – Now What?

By Helena Jonassen, Kate Mulvany and Ashley Ferriello

**Editor's note:** Each beneficiary of a trust is unique. However, beneficiaries do tend to share a number of questions and concerns. We asked our Wealth & Fiduciary Advisors to address some of the most frequently asked questions. Of course, many of these issues are quite complex, and the right solutions will be very specific to the goals and circumstances of the families and individuals involved.

**Q: I'm able to manage my own affairs. Why do I need a trust?**

**A:** Your parents (or grandparents) wanted to assist the next generations and be thoughtful about taxes and asset protection. Most trusts are very flexible and allow you, working with your trustee, to ensure that a portion of your financial needs will always be met. Trusts can often cover medical expenses and tuitions, provide for a down payment on

the house of your dreams, or help you start your own business. Assets placed into the trust may be protected from taxes on your estate, depending on the trust terms and length of time the assets are held. This means that your own children could inherit the entire amount instead of paying 40%-50%, depending on estate taxes. Importantly, these assets are generally protected from your creditors and from liabilities due to litigation or divorce.





#### Q: Is the trust considered part of my assets?

**A:** Irrevocable trusts can be complex, and a lot depends on the trust provisions, including age terminations and powers of appointment. While the assets are in trust, however, they are typically not considered assets of the beneficiary. When you are seeking to borrow money, a bank will generally consider your trust assets as part of your overall financial condition.

#### Q: Do I have to pay income tax on my trust distributions?

**A:** That depends on the type of trust and the trust's governing provisions. The trustee is responsible for understanding how trust taxation works and for planning distributions in the most tax-efficient manner possible.

#### Q: What does a corporate trustee do?

**A:** A corporate trustee can balance the goals of the grantors with your needs and those of your children and any other future beneficiaries. We are responsible for the management of the assets of the trust, distributions from the trusts, and the

preparation of tax returns and any other necessary filings. A corporate trustee is held to a higher standard than individuals in discharging these responsibilities.

#### Q: How much should I expect annually from the trust?

**A:** First, let's figure out your financial goals. We will then determine an appropriate asset allocation for the trust, balancing your spending requirements, your risk tolerance, and the long-term purpose of the trust. Based on our current capital market assumptions and the terms of the trust, annual distributions can range from 2.5%-4% of the trust's assets, or more if the trust is designed to terminate when beneficiaries reach a certain age.

#### Q: I'd like more income. Why can't we invest the trust wholly in bonds, to generate as much income as possible?

**A:** Investing only in bonds means that the principal of the trust will remain static and, over time, inflation will erode the purchasing power of the trust. We can demonstrate that taking a total-return approach to the trust should ultimately provide you with more in distributions than an income-only approach.

#### Q: I have greater needs than my sibling and/or less money. How can you help me?

**A:** The grantors of the trust usually determine the guidelines for making trust distributions. We generally recommend that trusts be created for each family member, thereby making distributions based on each beneficiary's needs. If the assets are concentrated in one trust, we, as the corporate trustee, have full discretion in terms of distribution. To the extent possible, we try to treat beneficiaries equally – but if you have a demonstrable need, we will consider an unequal distribution and engage your sibling in that conversation, if you are both comfortable with that approach.

#### Q: What rights do I have as a trust beneficiary? I know people with trusts managed at other firms or by relatives or friends of the grantor who have a really difficult time obtaining information or receiving distributions.

**A:** As your corporate trustee, we take very seriously our duties of loyalty and impartiality, and our duty to inform and account. It's important for you to understand that no trustee has absolute discretion. We must work in accordance with the terms and purposes of the trusts and the interests of the beneficiaries. We recommend that trust grantors include a provision in the trust that calls for the removal and replacement of trustees in the event that all beneficiaries believe the trustee is not carrying out their duties appropriately.

#### Q: How can I learn more?

**A:** Ask us. We work to educate trust beneficiaries, with individuals and, if appropriate, with families. The more you understand, the better your decisions, for yourself and succeeding generations. Again, these are only examples. The right solutions are always specific to the people involved. Please contact your Evercore Wealth Management Wealth & Fiduciary Advisor for further information.

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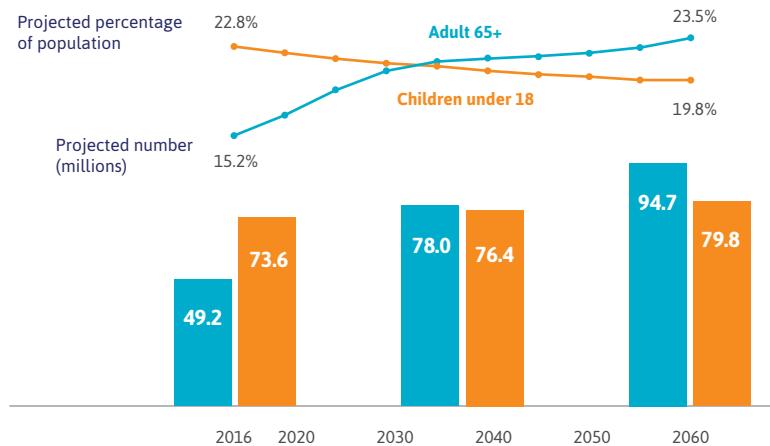
# Our Financial Journey

By Jeff Maurer

"Life's journey is not to arrive at the grave safely in a well-preserved body, but rather to skid in sideways, totally used up and worn out, shouting 'Man, what a ride!'" George Carlin, the stand-up comedian, actor, author, and irreverent social critic, died at just about the age I am now. And while I like to think that 70 is the new 50, I'm already on to some replacement body parts.

I have plenty of company. The youngest Baby Boomer will turn 65 in 2030, and by that time, one in every five Americans will be of traditional retirement age. Within another five years, according to U.S. Census Bureau projections, older adults will outnumber children for the first time in U.S. history. That has to – and indeed already is – forcing a sea change in how we think about aging, work and retirement.

For the first time in history older adults are projected to outnumber children by 2035



Source: U.S. Census Bureau

# 2030

The youngest Baby Boomer will turn 65

Although I am of retirement age, I have no plans to retire. My 50 years of experience in wealth management helps guide our firm and clients through ever-changing markets and monetary, fiscal and tax policies. Whether we think of it as a roadmap or a GPS, we all benefit from some guidance to enjoy the ride to the fullest.

As wealth managers, our guidance starts with a conversation. Where are you



*Where are you heading?  
How secure is your income?  
What is your tolerance for risk?*

heading? How secure is your income? What is your tolerance for risk? Do you have other constraints, such as a concentrated stock position or a closely held business? Are you planning to sell or transfer ownership of your business or other assets? Is your family experiencing change? Do you need to protect or manage assets in a trust, or to deepen your or your family's financial knowledge? What are your aspirations, for yourself, and for the people and organizations you care for?

Once we know the goals, we prepare a lifestyle and cash flow analysis. The analysis compiles sources of income, expenses, assets and liabilities into a customized projection of financial sustainability. We use this analysis to assess our clients' progress to providing for a safe retirement, determining the

amount of assets to transfer today to longer-term trusts for family members, and assessing the scope and timing of a charitable gift program.

For our younger clients, the analysis helps determine savings rates required for goals such as college education, vacation homes and ultimate retirement. For those considering retirement, we look at market drawdowns measured against spending.

A lot has been written about the advantages of robo advisors and artificial intelligence. We keep up with the technology and take full advantage of it, but we remain focused primarily on listening to and understanding our clients' concerns and objectives, now and as they evolve. My own financial journey is shaped by my family's goals and measured

against lifestyle analysis – and discussed by my wife and me with our Evercore Wealth Management advisors on a regular basis.

Don't get me wrong, I am a technology-savvy septuagenarian who appreciates the navigation system in my 2014 Corvette 7-speed stick-shift and loves the ride. But I am prepared to override the suggested circuitous route that saves a few minutes on a two-hour journey. I'm not going to arrive at my grave with a well-preserved body. But I am – as I hope all of our clients are too – going to arrive with my family's finances intact.

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# Love, Marriage and Money

By Ashley Ferriello

Financial harmony supports a happy marriage, but it's not necessarily a path of roses to get there. Most new couples have some adjustments to make.

It starts with a conversation. Every couple is unique, and discussing finances isn't always the most comfortable conversation, particularly if spouses have different financial circumstances. Survey results from the matchmaking service eHarmony found that the main breadwinner in a household reports the greatest amount of overall happiness in their relationship, and that 27% of respondents said they have argued with their partner about money.<sup>1</sup> Other polls discovered that more than a quarter of

young people in committed relationships keep their finances separate, and that 10% wait until marriage to reveal their income to their partner.<sup>2</sup>

Determine your short-term and long-term financial goals and talk about them with your partner. Identifying a plan and creating a budget will lay the groundwork for decisions like buying a home, changing careers or having children. Financial plans are meant to evolve as your life circumstances change. Open communication facilitates that.

Gaining an understanding of your annual income and expenses helps you save and contribute to retirement plans. This exercise may seem simple but can be eye-opening for a new couple. Becoming aware of all assets available to you – like investment accounts, trusts and insurance – improves your ability to make wise financial choices and feel comfortable with those choices. Give thought to how much you value having full financial transparency with your spouse regarding assets, income and how you spend your money. Identifying who will take care of paying bills, managing health insurance and filing joint tax returns can prevent misunderstandings.

Consider life insurance and disability insurance for each of you. Many young couples don't have insurance besides what

## FINANCIAL PLANNING CHECKLIST

- What are your financial goals five years from now?  
Ten years?
- Are you aware of all your sources of income, such as wages and investments?
- Do you have a sense of your annual expenses, including and excluding taxes?
- Have you created a budget or savings plan?
- Is your current investment allocation appropriate?  
Should you make changes?
- Are you taking full advantage of tax-deferred or tax-exempt retirement vehicles?
- Have you started building credit? Are you signed up for credit monitoring?
- Have you done a cost-benefit analysis on combining or separating health coverage?

their employers might offer as a benefit. What if you change jobs or your employer discontinues that benefit? Generally speaking, it makes financial sense to lock in these policies when you are young and healthy. Securing a life insurance policy on both spouses, or at least the higher income earner, would protect against a potential loss of income. If children come into the picture, factor in the financial costs of child care and other expenses should something happen to the primary caregiver or a working spouse. Disability insurance would help you avoid erosion of savings if you are hurt, can no longer work and require costly care.

### *Parents want to protect their children and the family legacy.*

Newlyweds who consider saving and investing a top priority ought to ponder how best to do so as a couple. Your investment philosophies and risk tolerances may differ. Some prefer to invest separately or

incorporate their individual investment preferences through an IRA or 401k, not their joint assets; other couples want a streamlined asset allocation. You might have different perspectives on liquidity, socially responsible investing or debt. It's normal for spouses to have different opinions, but it's important to communicate, monitor and update your financial plan on a regular basis to make sure you're meeting your individual and joint goals.

You might want to retitle your checking, savings and investment accounts to include both of your names as joint owners. It may instead be prudent for you to establish a joint living trust. Certain assets – like premarital assets not commingled with your spouse's assets, and irrevocable trusts – are protected in a divorce in many cases. If you require ironclad asset protection, consider a prenuptial or postnuptial agreement. Young couples and their parents often differ on this topic. Many parents want to protect their children and the family legacy from divorce, but it might not be the most romantic topic to

broach ahead of a wedding. Engaging wealth and fiduciary advisors to facilitate these conversations can help inform the decisions.

Updating legal documents – such as your wills, powers of attorney, healthcare proxies and advanced medical directives – plays a vital role for you in the case of incapacity or death. In the absence of these documents, the state will decide where certain assets will go and who will act on your behalf – and it's not always your spouse. It's important even for young, healthy couples to have these documents in place. It's also important to update retirement plan and life insurance beneficiary designations, as those assets pass according to the current designation, not according to your will.

Financial planning might not be the easiest or most exciting thing to check off the wedding planning list, but it's one of the smartest.

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<sup>1</sup> "The Happiness Index: Love and Relationships in America," eHarmony, Feb. 8, 2018.

<sup>2</sup> "The 'bizarre' money secret many Americans keep — even from their spouse," CNBC, March 12, 2018. "Why Some Millennials Are Opting To Keep Their Finances Separate," Forbes, Feb. 12, 2018.

- ☐ Have you updated all of your various types of insurance or considered combining policies?
- ☐ Have you updated beneficiary designations for your retirement vehicles and life insurance?
- ☐ Are you consolidating or establishing new financial accounts? How will you title them?
- ☐ Do you have basic estate planning and legal documents in order, in case of incapacity or death?
- ☐ Do you have a current and secure list of all online login credentials, in case of emergency?
- ☐ What software programs will you use to keep on track? Are they secure?
- ☐ Whose accountant will you use to prepare your joint tax returns?
- ☐ Will you consider using a financial advisor?

# An Afternoon in New York with Gloria Steinem, Ellen Kullman, and Evercore Wealth Management

Author and activist Gloria Steinem and former DuPont CEO Ellen Kullman were among the speakers at the Evercore Wealth Management April 19 *Wise Women* event, *How Can Women Leverage Their Personal, Professional and Financial Capital To Create Lasting Change?* Over one hundred women from a wide range of backgrounds came together to contribute to a lively and educational afternoon organized around five discussion panels, including:

## **Transformational Leadership:**

Evercore Executive Chairman John Weinberg interviewed Ellen Kullman on her career progression from engineering school to GE, to the leadership of DuPont. She stressed the benefits of a nontraditional career path and importance of self-awareness as a leadership quality, noting that she set career goals in three-to-five-year time frames, to adjust for changing interests. She is currently the co-chair of the nonprofit Paradigm for Parity, which she founded to help corporations level the playing field for women.

## **Reinventing Yourself:**

What's next? Changing careers and applying transferrable skills to other interests, including philanthropy, was the focus when Virginia Hill Worden, Founder of EL Education and former President of Randolph-Macon Woman's College, interviewed Katie Hood, CEO of One Love Foundation and the former CEO of the Michael J. Fox Foundation, and Jewelle Bickford, Partner and Financial Advisor, Evercore Wealth Management.

## **Social and Personal Disruption:**

Gloria Steinem was interviewed by financial journalist Stacey Tisdale on women's growing financial and political power and the potential stimulus of equal pay, as well as the challenges and opportunities afforded by longer lifespans.

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For further information about the *Wise Women* educational program and other events at Evercore Wealth Management, please contact **Jewelle Bickford** at [jewelle.bickford@evercore.com](mailto:jewelle.bickford@evercore.com).

## **Independent Thinking Panel Series:**

- Tri-State Troubles – and How to Avoid Them: Investing in New York, New Jersey and Connecticut  
Speakers: Gary Gildersleeve and Howard Cure
- The Sharing Economy and Its Implications  
Speaker: Tom Fisher
- Bitcoin, Blockchain and Cryptocurrencies  
Speaker: John Apruzzese

## **Wise Women Seminars:**

- "RBG": A Screening of the Ruth Bader Ginsburg Documentary & Reception
- How to Discuss Finances and Investments with Your Spouse
- Toasting the Holidays: A Mother/Daughter and Daughter-in-Law Champagne Tasting

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Please contact your Wealth & Fiduciary Advisor or **Jewelle Bickford** at [jewelle.bickford@evercore.com](mailto:jewelle.bickford@evercore.com) for further details on upcoming Evercore Wealth Management events in your region.

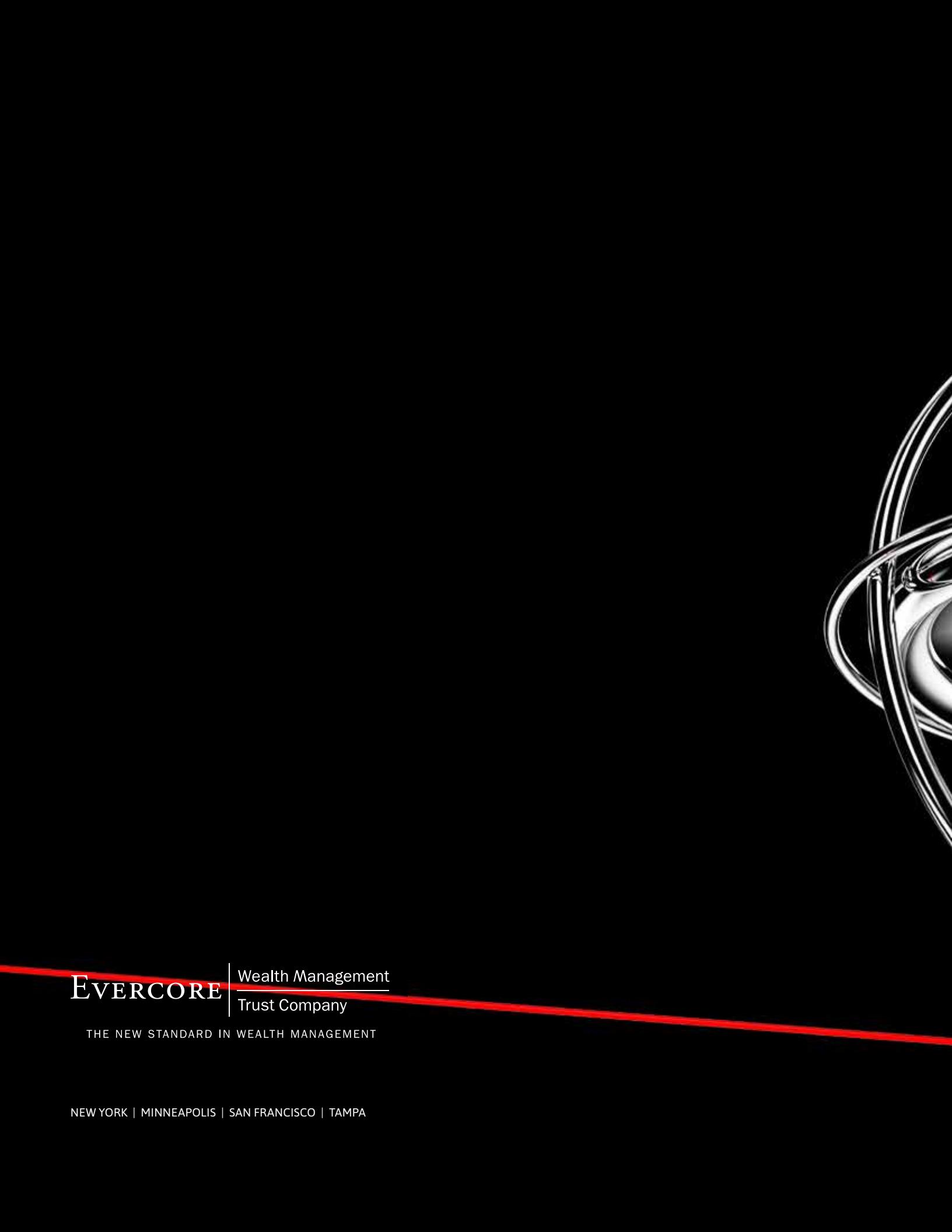
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