

# INDEPENDENT THINKING

EVERCORE

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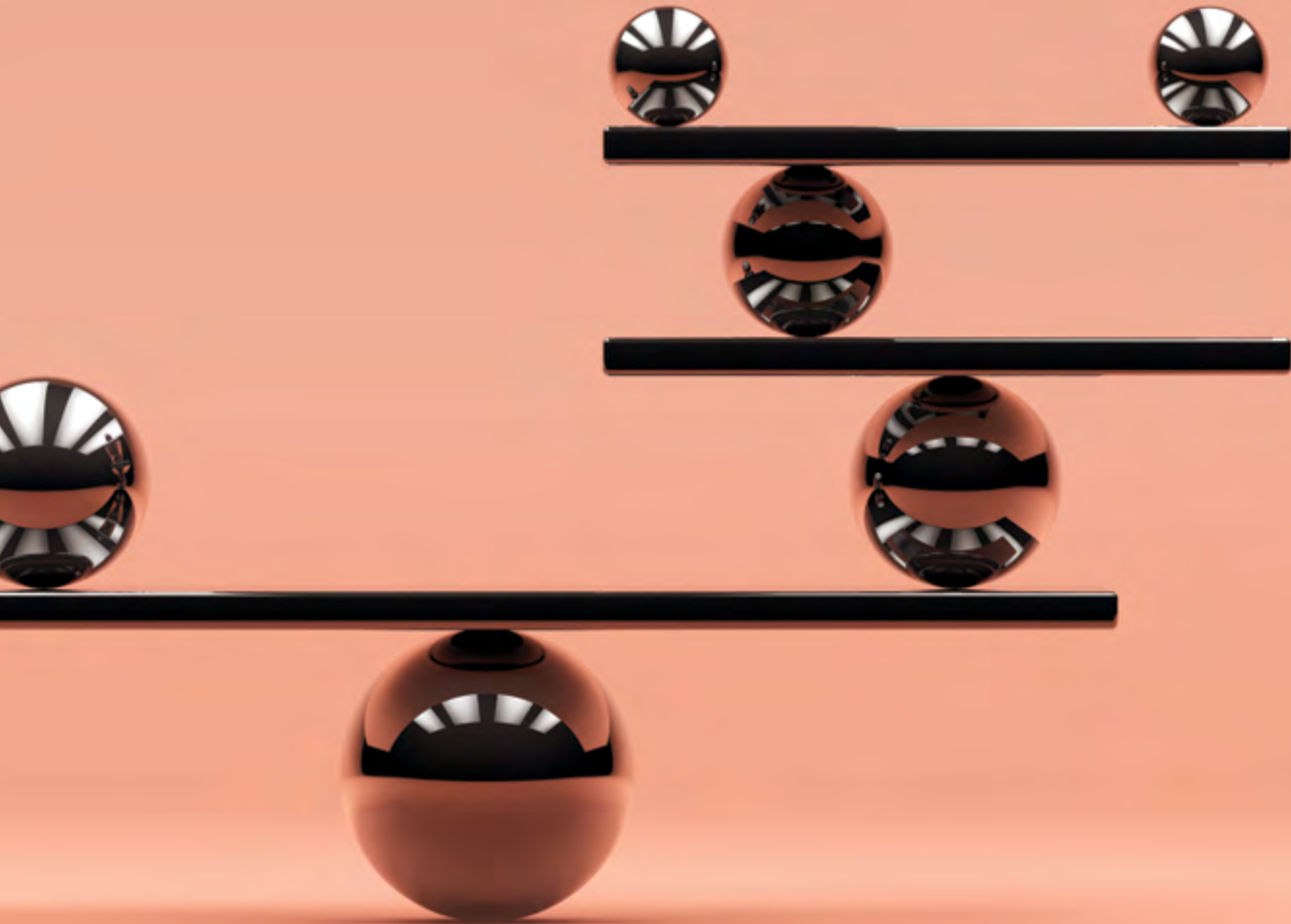
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# A Message from the CEO



The more uncertain the environment, the more close relationships – and a clear perspective – matter. Our clients should be able to count on us in good times and bad, and through everything in between.

The articles in this issue of *Independent Thinking* reflect that belief. Take the cover piece by John Apruzzese and Brian Pollak. The pace of change in AI is unprecedented, but the underlying investor challenge is familiar: how do families and related institutions allocate assets effectively when the future is genuinely unknowable? We are embracing technological advances as a firm. But we also know that resilient portfolios and wealth plans aren't built just with algorithms, and that they certainly aren't maintained that way. They are built for humans by humans.

Of course, humans have their own issues, as is all too much in evidence just now, on a global scale. In this issue, Brian also connects the dots between current geopolitical conflicts, from the Middle East to Ukraine to, of all places, Greenland, in the context of the ongoing economic rivalry between the United States and China. Patient investors have historically been rewarded in the aftermath of global shocks, as his article illustrates. That's worth remembering when the headlines seem like too much to take.

The families who will navigate this uncertainty best are the ones who have done the planning work, defined their

goals and set their course. The clients we see navigating change best are not necessarily those who have the most complex structures. They are the ones who have stayed engaged, asked hard questions, and kept their advisors close.

That work starts with a strategic wealth plan and includes a clear investment policy statement, as Jonathan Bergner describes in these pages; an estate plan that reflects current intentions and future governance considerations, and a giving strategy aligned with values. And it continues with honest family conversations about wealth that started early and evolve at the right cadence for each beneficiary.

This isn't a one-and-done exercise. Plans should be revisited as circumstances and families evolve. Ashley Ferriello's article on financial advice for new couples, and Jeff Maurer and Sean Brady's conversation across the generational divide, both speak to the importance of communication, preparation and thoughtful guidance at every stage of life.

Jon Kropf addresses one of the most common planning challenges we see right now: managing significant embedded gains in appreciated

portfolios. It is a good problem, as he notes, but it requires careful, integrated management to get right. And Alex Lyden offers a nuanced look at trust situs, a question that sounds purely technical but can turn out to be deeply personal, depending on a family's goals, structure and long-term vision.

The common thread is this: in periods like this one, rife with political, economic and market uncertainty, the conversation between clients and advisors is where the best work happens. We appreciate the trust you and your family place in our firm. And we want to know what you are thinking – and to share our best thinking – in the spirit of partnership that has always defined this firm.

I hope you find the articles in this edition of *Independent Thinking* helpful in informing those conversations.

Please don't hesitate to reach out. That's what we are here for.

A handwritten signature in black ink that reads "Chris". The signature is fluid and cursive.

**Chris Zander**  
President & Chief Executive Officer

# In the Balance: Investing Amid AI and Geopolitical Uncertainties

By John Apruzzese and Brian Pollak

It's not the change; it's the pace of change that is causing discomfort among investors. In these conditions, the best course of action can feel the most challenging – stay the course.

The social and economic questions around artificial intelligence are not yet answerable. Some AI experts predict great power by the next decade – a world in which computers represent the bulk of global intelligence. Others believe AI will never live up to its promise and that the massive capital spending on data centers will ultimately be wasted investment.

It is certainly reasonable to entertain an optimistic outlook. In the past, the creative destruction of new technology eliminated entire job categories and companies, but in the end, improved productivity and created more and better-paying jobs, more exciting businesses and higher living standards. We lost Kmart, Sears and JCPenney to the rise of the internet, along with a host of dot-com start-ups, but gained Amazon and eBay, while legacy powerhouses like Walmart, Home Depot and Costco thrived. We expect similar

outcomes this time around, with both the losers and long-term winners coming from the old economy and the new.

However, AI appears to be so powerful, so pervasive and improving so fast that it is also reasonable to consider pessimistic scenarios in which jobs are eliminated far more rapidly than new jobs are created. And the economic impact of job losses could be more negative if they are concentrated among higher-paid knowledge workers.

Speed is also a factor. For example, AI chatbots have already broken records for mass adoption, although most corporations and consumers so far appear to be using the technology in relatively limited cases. If adoption continues to deepen and broaden and the pace picks up, both the positive and negative impacts will intensify.

No one really knows how this is going to pan out, so the market is reacting with increasingly wild swings. As of writing, the aggregate level of the stock market has not been negatively affected for long by AI concerns, but under the surface there is unusual turmoil across individual stocks and sectors as various future scenarios are considered.

As for geopolitics, we are witnessing a seismic shift as China and the United States compete for economic supremacy – and the leadership of the United States redefines its role in the world and its relationships with longstanding allies. Proxy regional conflicts are breaking out (see the article on page 4), and trade relations are shifting.

The market has so far responded only in a limited and measured way to most of these events, apart from the plunge on

the so-called Liberation Day, and even that was short-lived. The resilience of the U.S. economy and corporate profit growth remain more significant to investors than the uncertainty caused by erratic foreign policy.

As fundamental investors, we continue to believe that assessing the current and long-term business prospects of companies is paramount. This includes understanding the depth and breadth of a business's economic moat, or

sustainable competitive advantage. This may be harder to assess than in the past, making an investor's view of the quality of management – their judgment and agility in decision-making, especially around capital allocation – more important than ever.

Pairing fundamental investing in public and private companies with tax-aware or tax-managed passive investing is also appropriate. Today's index investor is likely to eventually gain exposure

to both legacy company winners and new economy winners, including those private companies like Anthropic, OpenAI and SpaceX, which are expected to go public and be added to the S&P 500 in the coming years.

It is also important to make the necessary structural changes to portfolios without excessive trading. We are constantly reviewing our individual holdings and public equity, public credit and private market managers to assess management's ability to adapt to the rapid changes. We are rebalancing our international weightings to increase diversification and take advantage of the relatively lower valuations as the earnings outlook improves.

It's also important to note that we expect the earnings growth rate of the international markets to rival that of the United States for the first time in many years, and for the gap in valuations to narrow.

In this era of high uncertainty, it is essential that an investment portfolio be not just well diversified but also resilient. The two hallmarks of a resilient portfolio are an adequate level of cash equivalents to cover any spending requirements and low levels of debt both at the portfolio level and on the balance sheets of the various investments. Our goal is to create portfolios designed to withstand market stresses while positioned to benefit from the resulting opportunities.

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We are rebalancing our international weightings to increase diversification.

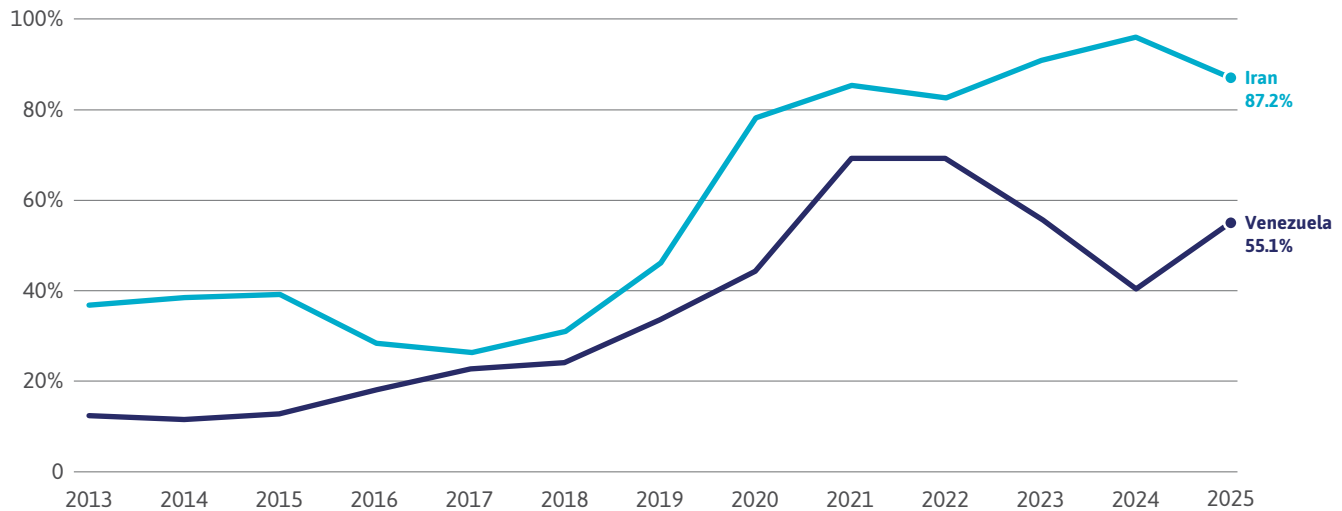
# Current Conflicts: Connecting the Dots

By Brian Pollak

The Thucydides Trap describes the likelihood of war when a rising power threatens to displace an established power. The rivalry between Sparta and Athens resulted in the Peloponnesian War, reshaping a region. The rivalry between China and the United States is global.

## Iran and Venezuela export most of their crude oil to China

Share of Iran and Venezuela's crude oil exports that go to China annually.



Note: Imports from Iran include cargoes listed with the origin as Eastern Outside Port Limit, which can be used to obscure vessel activity.  
Source: Kpler; Paroma Soni/POLITICO

Just about all the current and recent conflicts are between nations or groups economically allied with China (Russia, Hamas, Iran, Venezuela) and nations economically allied with the United States (Ukraine, Israel). It's reminiscent of the proxy hot wars in Korea, Vietnam and Afghanistan that were waged during the Cold War between the Soviet

Even Greenland finds itself in the news.

Union and the United States. Even Greenland, a Danish territory with a population of just 56,000 people, finds itself in the news. The real battle this time has little to do with ideology: It's for economic dominance.

The U.S. attack on Iran in February (the second in two years) and the removal of Venezuelan dictator Nicolás Maduro in January were both strategically significant for China. Nearly 17% of China's oil imports came from Iran and Venezuela in 2025 (see the chart on page 4). And

17%

of China's oil importation came from Iran and Venezuela in 2025.

Russia, which has become increasingly economically dependent on China since its 2022 invasion of Ukraine and the subsequent sanctions by the



United States, Europe and others, has significantly increased its exports of natural gas and oil to China.

The rise of artificial intelligence, as described in the cover article of this issue of *Independent Thinking*,

complicates matters. Indeed, it could be the single most important geopolitical factor in the coming decades, with important implications for military capability, economic productivity and cybersecurity. Both countries

are making massive investments to gain an advantage. At the same time, fear of the other side winning makes them afraid to apply any brakes, despite the clear danger signals that increasingly powerful AI could present for the human labor force.

### U.S. stock market returns post-geopolitical events

Event	Start date of geopolitical event	Length of drawdown in days	Maximum drawdown from start of event to market bottom	3-month total return
WWI (assassination of Archduke Ferdinand)*	6/28/1914	179	-33.23%	-10.73%
WWII (Germany invades Poland, France declares war)*	9/1/1939	263	-15.62%	8.35%
WWII (bombing of Pearl Harbor)*	12/7/1941	142	-18.65%	-11.90%
Korean War (North Korean army crosses 38th parallel)*	6/25/1950	18	-11.99%	0.76%
Cuban Missile Crisis	10/16/1962	7	-6.30%	14.41%
Vietnam War (U.S. involvement – Gulf of Tonkin incident)	8/2/1964	4	-2.23%	3.33%
Yom Kippur War	10/6/1973	363	-41.77%	-9.43%
Iranian Revolution (Khomeini overthrows Shah)	1/16/1979	42	-2.31%	3.02%
Tiananmen Square Massacre	6/4/1989	25	-1.60%	9.56%
Gulf War (U.S. invades Iraq)	1/17/1991	0	0.00%	20.00%
9/11	9/11/2001	10	-11.56%	4.71%
Iraq War (U.S. invades Iraq)	3/20/2003	11	-3.11%	14.18%
COVID virus (WHO declares public health emergency)	1/30/2020	53	-31.62%	-10.86%
Russia invades Ukraine	2/24/2022	218	-15.77%	-7.74%
Israel/Hamas War	10/7/2023	20	-4.40%	10.15%
U.S. and Israel attack Iran**	2/28/2026		-3.52%	
			<b>-12.72%</b>	<b>2.52%</b>
<b>S&amp;P 500 Index total return (March 4, 1957 to March 20, 2026)</b>	<b>10.66%</b>			
<b>Dow Jones Industrial Average total return (June 28, 1914 to March 20, 2026)</b>	<b>6.45%</b>			

\* Index returns based on Dow Jones Industrial Average.

\*\* Drawdown is through 3/16/2026.

Note: Returns are rolling returns starting at the date of geopolitical event.

Source: Evercore Wealth Management



# Setting a Course: Components of a Successful Investment Policy Statement

By Jonathan Bergner

Long before takeoff, a pilot sets the course, tracking the intended path over the ground, adjusting for wind, avoiding traffic and managing fuel. In a similar fashion, an advisor sets a discrete investment policy statement, or IPS, for each portfolio, to meet a family's financial goals. The plan, which is informed by a thorough financial planning analysis, provides structure, clarity and accountability along the way.



## Here are some key components of a successful IPS.

### **INFORMED GOAL SETTING**

Early discussions around financial planning should inform investment goals. For families and family offices, those discussions will cover lifestyle to legacy and everything in between. The goal is usually sustainable efficacy. There may be other desired outcomes, such as current income needs or just appreciation to provide for future generations. An IPS should include tax considerations and may reference outside holdings, privately held businesses, concentrated corporate stock positions and real estate that can influence the overall investment picture.

### **CLEAR INVESTMENT OBJECTIVES**

The investment objective, or mission, is the foundation of disciplined long-term investing. It's important to also look at the location of the assets. A multigenerational family may want an overall balanced approach, while establishing a different IPS for some or all of the individual portfolios. In some blended families, one side may have more funds or investment experience and would want to construct a portfolio IPS accordingly.

### **CONSIDERED RISK TOLERANCE**

What is an acceptable level of risk?  
How much volatility is too much?  
What is the maximum tolerable drawdown limit? These answers will depend on the nature of the individuals involved, investment time horizons and liquidity needs. A financial plan and lifestyle analysis is critical in assessing the degree of risk for families. As with the other components, risk tolerance can change with time and evolving circumstances, so it's important to keep the conversations going.

### **INVESTMENT GUIDELINES**

If the investment objectives are the "what," the investment guidelines and the risk parameters expand on the "how." They establish the types of portfolios – whether capital appreciation, balanced, or capital preservation – and the ranges for each asset class. Once the goals are established, appropriate benchmarks are set to measure success; any prohibited investments are defined (e.g., fossil fuels, armaments, and so on); and the appropriate use of leverage is determined.

### **PORTFOLIO CONSTRAINTS**

Are there additional requirements specific to the portfolio such as large future outlays? Is the portfolio held by a trust? Are there any regulatory or fiscal constraints? Perhaps the portfolio contains a stock concentration that needs to be managed. Perhaps it is designed to provide for a dependent with special needs who should also receive other benefits. There are as many possibilities as there are investors, so it's important to address all relevant constraints.

### **TAXES**

The IPS should identify the tax structure for the portfolio's IPS. Individuals and trusts have different tax consequences. As a result of the different tax statuses of the portfolios, asset location should be identified and considered; for example, certain tax-inefficient assets should be placed in tax-deferred portfolios like retirement accounts or charitable remainder trusts.

### **PORTFOLIO GOVERNANCE**

Roles need to be defined. The governance section identifies who is responsible for the day-to-day management of the portfolio, how often the investors and managers will meet, and how the portfolio will be measured and rebalanced as necessary.

### **FLEXIBILITY**

Although it sounds at odds with concept, a flexible IPS that is reviewed at every relationship meeting is stronger than a static document. The financial plan and, consequently, the IPS should be regularly reviewed and the IPS amended, if appropriate. For instance, if there is a period of low interest rates and the portfolio relies on dividends and interest for income, the IPS could change the asset allocation or could codify that assets could be sold to create income. An IPS is not going to improve performance directly, but it will create a process that will improve the chance of a positive outcome.

A well-drafted IPS, informed by a deep financial analysis and plan, enables both the investor and the manager to agree on a decision process – and to hold a steady course, no matter how choppy the markets. For families, as well as for foundations and endowments, an IPS enables those in charge to come to an agreement on the parameters of the management of the portfolio and offers guidance for new members who may join later.

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# Across the Generational Divide: A Baby Boomer and a Millennial Talk Money

By Jeff Maurer

Editor's note: The Great Wealth Transfer is already underway. With over \$100 trillion expected to change hands by 2050,<sup>1</sup> our founding partner and chairman, **Jeff Maurer**, and our newest partner, **Sean Brady**, discuss best practices for intergenerational family discussions around wealth.

<sup>1</sup> The Cerulli Report – U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2024.





**Jeff Maurer**  
Partner, Chairman

**Jeff:** My father served in the Army, and I arrived a few years after World War II ended, which puts me in the vanguard of the Baby Boomer generation. My wife and I both grew up in families that benefited from the stability and opportunity of post-war America. Our generation – through hard work, good fortune and powerful economic tailwinds – achieved financial success that greatly exceeded that of our parents.

The fortunate among us have benefited enormously, as ours is among the richest generations in history. Baby Boomers represent about 20% of the population but now control over half the nation’s personal wealth.<sup>2</sup> But I worry about the cost of aging, about the responsible transfer of wealth, about our society and about the future of the American Dream. And I know that many of our clients do too.

**Sean:** My generation is the most anxious ever, apparently, which makes sense. During my first internship in the summer of 2007, I witnessed the buildup to the financial crisis and the chaos that ensued. I then graduated college near the market bottom, too young to benefit from the subsequent asset price boom. Add in a global pandemic, unaffordable housing costs, soaring inflation and AI disrupting everything – who can blame us?

<sup>2</sup> Federal Reserve, Board of Governors.



**Sean Brady**  
Partner, Wealth & Fiduciary Advisor

**Jeff:** Every generation does have its challenges. Let’s talk about how our client families can bridge this generational divide, to help each other through the stages of life – from parents and grandparents guiding the very young, to adult children supporting their aging parents. There are no hard-and-fast rules, just as there are no typical Baby Boomers or Millennials, but there are some best practices.

#### **WHEN TO TALK ABOUT WEALTH**

**Sean:** My own children are very young, but I can already see that they are developing an awareness of the outside world and their place in it. Families with significant assets and corresponding lifestyles clearly need to start the discussion early. If we want the next generation to handle wealth well, they need to be fluent in money long before they inherit it.

It’s a difficult subject to raise, as many parents are concerned that their children will develop a sense of entitlement if they are made aware of the extent of their good fortune. But providing information to children incrementally over time, at key milestones, can thread the needle between giving them enough information to make sound decisions and supporting their ambition and work ethic.

In the earliest years, it starts with helping them understand basic concepts of money – what money is and why we can’t buy *whatever we want whenever we want*.

As they get older, we can introduce concepts such as taxes, compound interest and the importance of asset ownership.

**Jeff:** If children aren’t guided early by their parents and, I like to think, grandparents, then others – their friends and their community – will influence them. My grandchildren are far more sophisticated and exposed to outside influences than my children were, particularly through social media. The contrast to their parents’ childhood, let alone my own, is striking. If values are not instilled early, others will step in to shape them.

That makes the role of parents and grandparents more important than ever. Children may experience a level of affluence – whether through travel, lifestyle, or even exposure to private aviation – that can distort perspective if not grounded properly. They need to understand not only how fortunate they are but also the responsibility that comes with that privilege. They also need to understand that their family’s financial success may not be able to be replicated in their generation.

**Sean:** That conversation can evolve with maturity to include an appreciation of what money can do. For example, around college age, when they are deciding on a career path, discussions can focus on interests and passions – not on simply maximizing income (unless that is what truly motivates them). The next generation should understand that there may be enough support for education, starting a venture and meeting basic needs – but not enough to eliminate effort.

**Jeff:** That’s right. It can be very satisfying to encourage careers in medicine, teaching, or the arts. There’s a terrific quote by John Adams on this: “I must study politics and war, that our sons may have liberty to study mathematics and philosophy... in order to give their children a right to study painting, poetry, music, architecture...” Although, as Abigail Adams reminded him, he should have “remembered the ladies.”

**Sean:** We seem to have circled back to politics and war, but I take your point. Many of our clients feel that it's a joy to help their children pursue rich but not necessarily lucrative careers. That brings us to the next question: When do families "open the books" and fully share the asset base and overarching financial plan?

**Jeff:** This is a highly personal decision and depends on family dynamics. Most clients have this conversation once their children are well established and the older generation is comfortable with the path they are on. The benchmark could be a satisfying career, a strong family life, or simply a stable and happy existence.

It is generally important that grandparents allow parents to take the lead in communicating with grandchildren. In many cases, children are already beneficiaries of trusts and begin receiving financial support at an early stage, making thoughtful conversations essential.

**Sean:** It is vital to have a conversation about money before getting married. I find that younger generations are quite comfortable with this topic and willing

to sign prenuptial agreements. Perhaps the high divorce rate over the last several decades has affected them personally – whether in their own families or among close connections. They understand the importance of protecting themselves and avoiding potentially costly and draining legal disputes.

**Jeff:** I knew a couple years ago who didn't tell their daughter about her expected inheritance until her wedding, when they suggested that she and her fiancé sign a prenuptial agreement. That caused considerable difficulties before the ceremony – issues that could have been avoided with earlier and better communication.

On a brighter note, this stage of life may also be an appropriate time for parents to consider more substantial gifts, such as helping with a house purchase or funding educational trusts for grandchildren.

#### **WHEN TO TRANSFER WEALTH**

**Sean:** Maybe it reflects the relative hardships my generation has experienced, but I am a strong proponent of giving during life rather than waiting until death to transfer wealth. Assuming there are

more than sufficient assets to support lifestyle – even in less favorable market conditions – providing capital when it is most needed can be extremely meaningful.

To my mind, the earlier wealth can be transferred, the better.

Trusts are an excellent way to take advantage of the tax benefits of gifting without giving control of the assets to the next generation – allowing assets to grow and compound over time in a tax-efficient transfer structure.

A generation-skipping transfer (GST) exempt trust is an extremely powerful vehicle. For example, a married couple could fund GST-exempt trusts for children and grandchildren with the full combined gift and GST tax exemption of \$30 million today. Assuming assets double approximately every 10 years at a 7% return, the tax savings can be substantial, particularly as assets compound over multiple generations.

**Jeff:** Agreed, but the starting point for anyone of my generation considering that approach should be a rigorous financial analysis to ensure that their own lifestyle is secure. Protecting our future selves and our spouses comes first. Ideally, children and grandchildren understand that – and also support us in other ways as we age. But for those who are financially secure, intelligent gifting is a must to avoid paying unnecessary transfer taxes.

**Sean:** I believe Millennials want to be engaged, trusted, and relied on – and to model those values for our own children. The more families communicate, the better.

## **Additional resources**

Ready to learn more? Here are some recent articles by Jeff Maurer and other Evercore Wealth Management partners on discussing and transferring family wealth.

#### **The Great Wealth Transfer and Legacy Planning:**

<https://evercorewealthandtrust.com/the-great-wealth-transfer-best-practices/>

#### **Building a Strong Family Financial Planning Network:**

<https://evercorewealthandtrust.com/family-financial-planning-framework/>

#### **Intergenerational Wealth Transfer Planning:**

<https://evercorewealthandtrust.com/intergenerational-wealth-transfer-planning/>

#### **Engaging the Next Generation in Wealth Management:**

<https://evercorewealthandtrust.com/next-generation-wealth/>

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# Love and Marriage: Financial Advice for New Couples

By Ashley Ferriello

Opposites may attract, but financial opposites are generally happier on common ground.



One spouse may be a diligent saver; the other may value flexibility and spontaneity. One may carry significant assets; the other may arrive with debt or irregular income. Many couples admit to disagreements about spending and saving, and a surprising number delay fully disclosing income or assets until marriage. Even couples who feel deeply aligned in most areas of life often discover that money can require a lot of patience.

Financial harmony begins not with spreadsheets, but with conversation. What do the next five years look like? The next twenty? Are there plans to purchase a home, change careers, start a business, grow a family or relocate? Shared objectives provide context for financial decisions.

Plans evolve, of course. Careers shift, opportunities arise, and life rarely unfolds as expected. Regularly revisiting a financial strategy ensures that it reflects the current reality rather than outdated assumptions. When it is time for the spreadsheets, begin with a

straightforward review of income and expenses, then factor in investment accounts, insurance policies, trusts, real estate holdings and retirement vehicles, and private and business assets. Even couples who believe they have a clear picture are often surprised by what surfaces when everything is laid out in one place.

Couples should decide how financially integrated they intend to be. Some couples prefer complete transparency and fully joint accounts. Others maintain a hybrid approach – shared accounts for household expenses alongside individual accounts for personal discretion. Neither approach is inherently superior; what matters most is agreement, at each stage of life. Clarifying who will manage bill payments, insurance matters and tax filings can prevent unnecessary friction later.

Insurance planning is often overlooked in the early years of marriage, particularly if employer benefits feel sufficient. Yet employment circumstances can change without warning. Securing life and disability coverage while young and healthy is generally prudent and cost-effective. Life insurance policies protect against sudden income loss. Disability insurance can safeguard savings if illness or injury disrupts earning capacity. If children are in the future, planning for childcare and caregiving contingencies becomes essential.

Investing together introduces another layer of complexity. Differences in risk tolerance are common. One partner may be comfortable with market volatility; the other may prioritize stability. Some couples choose to align fully on a unified allocation strategy. Others maintain individual retirement accounts while coordinating on broader household objectives. Conversations about liquidity, debt and values-based investing are

## Date-night questions:

- Have you reviewed your insurance coverage, and does it still fit your needs?
- Are beneficiary designations up to date?
- Will you consolidate accounts or open new ones together – and how will they be titled?
- Do you have essential estate documents in place?
- Is there a secure record of important financial information in case of emergency?
- What system will you use to track spending and investments?
- Which accountant will prepare your joint return?

Taking the time to address these matters early can help ensure that your financial life supports, rather than complicates, your marriage.

worth having early. Ongoing review keeps the strategy aligned to the goals.

It's important to also consider how accounts are titled and structured. Joint ownership can simplify administration, but other structures, such as living trusts, may offer additional benefits. Premarital assets and certain irrevocable trusts are often treated differently in the event of divorce or death. In some cases, notably those with wide income disparity or family trusts, couples decide that a prenuptial or postnuptial agreement provides clarity and protection. While such discussions can feel delicate, they are ultimately about defining expectations. Experienced advisors can help guide these conversations.

Estate planning is another area that deserves attention, regardless of age. Wills, powers of attorney,

healthcare directives and beneficiary designations should reflect current intentions. Without these documents, state law will dictate certain outcomes. Retirement accounts and life insurance policies pass according to beneficiary designations, not according to the will; keeping them current is critical.

Financial planning may not feel romantic, yet few actions demonstrate partnership more clearly than building a thoughtful financial foundation together. When approached with honesty and mutual respect, these conversations can deepen trust and provide a sense of shared direction.

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# Long-Term Gains: A Good Problem, but a Problem Nonetheless

By Jon Kropf

Patient investors are rewarded with appreciation. That's great, but it introduces complicated questions, with financial, practical and emotional elements. Hold the embedded gains – or diversify and create a tax obligation?



Due to sustained positive U.S. equity market performance over the last three years, many investors have built up significant gains in taxable accounts. Additionally, diversified indices like the S&P 500 have become more concentrated, and certain sectors (e.g., information technology) now occupy a larger percentage of the index. A traditional U.S.-centric balanced portfolio of 60% stocks and 40% bonds at the start of 2023 is now approximately 70% equities and 30% bonds. While concentrated positions can magnify investment upside, they also create more drawdown risk.

Managing these gains deliberately – balancing tax efficiency, portfolio risk and long-term goals – requires integrated wealth management, a blend of wealth planning and investment management. Potential taxes shouldn't be viewed as a reason

to stand still but rather something to manage proactively, as a component in a broader plan to reach defined goals.

In practice, we rely on two sets of tools when advising clients navigating embedded gains: tax-aware investment strategies and long-term planning solutions that incorporate charitable and estate considerations.

### TAX-AWARE INVESTMENT STRATEGIES

One strategy to achieve desired diversification without taking any gains in taxable accounts is to diversify in tax-advantaged accounts like 401(k)s, IRAs and SEP IRAs within the same estate.

As for taxable accounts, rather than selling entire positions, portfolios can often be transitioned gradually, using lot-level accounting. By

selectively selling higher-basis shares and spreading gains across multiple tax years, investors can move toward target allocations while reducing concentration or other portfolio risks. This active approach to investment management is particularly effective when coordinated with known liquidity needs or changes in income.

Tax-loss harvesting, especially in passive investment vehicles, is another important tool, one that has evolved into a year-round discipline rather than a year-end exercise. By realizing losses during periods of market volatility, investors can offset gains elsewhere in the portfolio without materially changing investment exposure. When implemented consistently and with careful attention to wash sale rules, tax-loss harvesting can meaningfully improve after-tax outcomes.

## Age Matters

Concentrated holdings are arguably the greatest driver of wealth in the United States and the most risky form of investment. That's a risk many entrepreneurs and executives, notably **younger investors**, are willing to take, at least for a while. Managing around these positions, to provide balance, oversight and, with time, proper diversification, is an important wealth management capability.

All assets receive a step-up in basis upon death. As a result, **older investors** must weigh the risks of not selling against the certainty of avoiding capital gain taxes. Also, many older investors have created trusts for heirs that avoid estate taxes but allow the donor to pay the income tax on trust earnings. This extremely efficient technique can also allow donors to replace appreciated assets within the trusts with cash and to have the appreciated assets receive a step-up in basis upon the donor's death.

Deploying tax-managed separately managed accounts is also useful. Rather than owning a single pooled fund or a small number of individual stocks, investors hold many of the underlying individual securities of an index. This structure allows for loss harvesting at the individual security level over time, greater customization and more precise management of embedded gains, while maintaining index-like or customized exposure. Direct indexing is well suited for taxable portfolios and for clients interested in excluding specific industries or securities. It can be especially effective in international equity portfolios, where lower correlation among holdings may create more frequent opportunities to harvest and “bank” losses. Importantly, losses and gains are applied across the entire taxable portfolio, making tax-loss harvesting valuable even when gains are realized elsewhere in an estate.

### Deploying tax managed separately managed accounts is also useful.

Also worth exploring are solutions that reduce risk without triggering immediate taxation, notably for investors with highly appreciated single-stock positions. Exchange funds can provide diversification while deferring capital gains, though they come with meaningful drawbacks and limitations.

Other approaches, including options or derivative-based strategies, may offer partial liquidity or downside protection. These tools are used selectively due to their complexity

### Charitable planning remains one of the most effective ways to address long-term gains.

and are generally reserved for concentrated positions with limited alternatives.

#### PLANNING TOOLS FOR EMBEDDED GAINS

Charitable planning remains one of the most effective ways to address long-term gains. Donating appreciated securities held for more than one year can allow investors to deduct the fair market value of the asset while avoiding capital gains tax on the appreciation. For charitably inclined clients, this often replaces cash giving and simultaneously reduces exposure to low-basis or concentrated holdings.

Donor-advised funds are frequently used alongside appreciated asset donations. They allow clients to take an immediate charitable deduction while retaining flexibility over the timing and recipients of grants. Donor-advised funds are commonly used to bunch charitable contributions into high-income years or to structure ongoing philanthropy following a liquidity event.

More complex estate planning tools may also play a role. Charitable remainder trusts, or CRTs, can be effective for clients seeking to combine diversification, income and philanthropy. Appreciated assets can be contributed to the trust, sold without immediate taxation and reinvested, while providing an income stream to the investor or beneficiaries.

#### A LONG-TERM PERSPECTIVE

Managing long-term gains is rarely about eliminating taxes altogether. Instead, it is about aligning tax awareness with broader financial goals. Philanthropic intent, estate planning priorities, risk management and liquidity needs factor into the right solution. In some cases, continued deferral of gains, including consideration of a potential step-up in basis at death, may remain part of the strategy, though it is best viewed as one tool among many.

### Managing long-term gains is rarely about eliminating taxes altogether.

At Evercore Wealth Management, we emphasize disciplined, integrated planning and investment management. By combining tax-aware investment strategies with thoughtful charitable and estate planning, our clients can manage significant long-term gains in a way that preserves flexibility, reduces after-tax drag and supports long-term objectives across generations.

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# Trust Situs: Does Location Matter?

By Alex Lyden

In the competitive world of trust jurisdictions (yes, you read that right), it can seem that small differences – taxes, asset protection and flexibility – can make the choice clear. That framing is understandable, but it risks oversimplifying a decision that is inherently personal. The choice of trust situs can meaningfully affect outcomes, but whether those differences matter – and how much – depends on the goals of the settlor, the needs of the beneficiaries, the structure of the trust and the capabilities of the trustee administering it.

Here are the principal areas affected by trust situs:

## **1. INCOME TAX CONSIDERATIONS**

State income taxation is often the first factor cited in discussions of trust situs, and it frequently receives outsized attention. Some states impose no income tax on trusts administered there, while others may tax undistributed income, trust income sourced to the state, or income attributable to resident beneficiaries.

For many modern trusts, particularly those with diversified portfolios, multiple beneficiaries and sophisticated planning, state income tax exposure can often be managed through careful structuring, distribution provisions and trustee

selection. While certain states are well known for favorable tax regimes, other established trust jurisdictions can achieve similar results, depending on the facts. The key is less about selecting a “zero-tax” state in the abstract and more about aligning situs with the trust’s income profile and administration.

## **2. ASSET PROTECTION AND CREDITOR CONSIDERATIONS**

Asset protection – both for settlors and beneficiaries – is another frequently cited factor in situs selection. Much of the discussion centers on self-settled asset protection trusts, or DAPTs, which allow a settlor to be a discretionary beneficiary while still obtaining statutory creditor protection.

A growing number of states now authorize these structures, but meaningful differences remain in how the statutes operate. Factors such as seasoning periods, exceptions for certain creditor classes, interaction with federal law and the extent of judicial interpretation all shape how these regimes function in practice.

While some jurisdictions are noted for having fewer statutory exception creditors, those distinctions are often less central for most families than the overall reliability and clarity of the framework. In many cases, clients are focused on establishing durable, well-understood protections rather than testing the outer limits of creditor exclusion.

Beyond self-settled trusts, situs also affects creditor protection for beneficiaries more generally. Spendthrift provisions, statutes of limitations and judicial respect for trustee discretion all play a role.

Here, leading trust jurisdictions tend to converge, offering strong protections supported by clear statutory guidance and a history of enforcement.

As with many aspects of trust planning, the practical effectiveness of asset protection often turns less on headline statutory features and more on thoughtful drafting and consistent administration.

### 3. FLEXIBILITY AND MODERN TRUST ADMINISTRATION

Flexibility has become a defining feature of modern trust planning and a common point of comparison among jurisdictions. Key considerations include:

- Decanting statutes, which allow trustees to modify trust terms to address changing circumstances;
- Nonjudicial settlement agreements (NJSAs), enabling parties to resolve issues efficiently without court involvement;
- Silent or quiet trust provisions, permitting trustees to limit disclosures to beneficiaries for a period of time; and
- The ability to adapt administrative and distribution provisions, as laws, family dynamics and tax regimes evolve.

Certain jurisdictions are often highlighted for their permissive statutes in these areas. But comparable flexibility exists in other well-developed trust jurisdictions, where decades of trust law evolution have been paired with modern legislative updates. In many cases, the differences are more about emphasis and marketing than about meaningful capability.



### 4. LEGAL AND FIDUCIARY ENVIRONMENT

Finally, situs determines the broader legal and fiduciary environment in which a trust operates, including the sophistication of the local bar, the predictability of fiduciary law and the quality of the court system charged with resolving disputes.

This factor is sometimes overlooked in favor of more easily summarized statutory benefits, yet it can be among the most important. Jurisdictions with deep fiduciary expertise, well-developed case law and specialized courts provide a level of clarity and predictability that benefits trustees and beneficiaries alike. A consistent body of precedent can reduce uncertainty, guide fiduciary decision-making and facilitate efficient resolution when disputes arise – an attribute that becomes increasingly important as trusts grow in size, duration, and complexity.

### 5. BRINGING IT ALL TOGETHER

Much of what attracts planners and families to frequently cited trust jurisdictions can also be achieved in other established trust states through careful

design and experienced administration. However, for families with complicated estate planning needs, a more trust-friendly jurisdiction may be able to provide significant advantages and can serve as a valuable complement to traditional trusts as part of a comprehensive estate plan.

Rather than asking which state is “best,” a more productive question is: Which jurisdiction best aligns with the trust’s objectives and the trustee’s capabilities? A knowledgeable trustee operating within a familiar legal environment – supported by experienced counsel and a predictable court system – can often matter more than marginal statutory distinctions.

Trust situs is an important decision, but it is not a one-size-fits-all choice. Independent thinking in this area means looking beyond rankings and headlines to focus on what will work best for a particular family, structure and long-term vision.

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